THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

HSC - Q3 2016 Harsco Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 03, 2016 / 1:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Dave Martin *Harsco Corporation - Director of IR*

Nick Grasberger *Harsco Corporation - President & CEO*

Pete Minan *Harsco Corporation - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Jeff Hammond *KeyBanc Capital Markets - Analyst*

Rob Brown *Lake Street Capital Markets - Analyst*

Bhupender Bohra *Jefferies & Co. - Analyst*

Rob Norfleet *Alembic Global Advisors - Analyst*

PRESENTATION

Operator

Good morning. My name is Bridget and I will be your conference facilitator. At this time, I would like to welcome everyone to the Harsco Corporation third-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 Mr. Dave Martin. You may begin your call.

Dave Martin - *Harsco Corporation - Director of IR*

Thank you, Bridget, and welcome to everyone joining us today. I'm Dave Martin, Director of Investor Relations for Harsco. With me today is Nick Grasberger, our President and Chief Executive Officer; as well as Pete Minan, our Senior Vice President and Chief Financial Officer. This morning, we will discuss our results for the third quarter of 2016, our outlook for the fourth quarter, and we'll also take your questions. Before our presentation, however, let me take care of a few administrative items. First, our Q3 earnings release was issued this morning, a PDF file of the news release, as well as a slide presentation for this call have been posted to the IR section of our website. Secondly, this call is being recorded and webcast. A replay will be available on our website later today.

Thirdly, 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 risks and uncertainties, see the risk factors section in our most recent 10-K as well as in our 10-Q for the period ended June 30, 2016. 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 US GAAP results is included in our earnings release today, as well as the slide presentation. Now, I'll now turn the call over to Nick to begin our prepared remarks.

Nick Grasberger - *Harsco Corporation - President & CEO*

Good morning, everyone, and thanks for joining us. The market trends that we experienced in the first half of the year largely continued this past quarter and our financial results were consistent with expectations. The exception was cash flow, which was stronger than expected. I'm very pleased to say that we've raised our cash flow guidance for the year. Over the past few months, we've also taken significant steps to improve our balance sheet and liquidity positions, further upgrade our executive leadership team, and also boost our operating leverage.

The highlight within Harsco continues to be Metals and Minerals. Despite weak steel production and low commodity prices, M&M margins have stabilized at their highest levels in over 10 years due to cost reduction and a much improved mix of contracts. Underperforming contracts have declined from about one-third of the portfolio two years ago to well under 10%. At the same time, working capital and capital spending efficiency are much improved driving cash flow this year to a level 2 to 3 times the average generated over the past five years. As we look ahead to 2017, we are hopeful some improvement in market conditions will fuel continued earnings growth, but in any case, we are excited about the growth opportunities through new contracts, add-on services at existing sites, and in Applied Products. And in terms of operational excellence, we continue to implement best practices across our sites to both reduce costs and boost our competitive position.

The Industrial segment continues to demonstrate its resilience at the bottom of its industry cycles. I have been very pleased with the cost reduction and working capital improvements that have enabled the segment to maintain a double-digit operating margin and solid cash flow despite a sizable drop in revenues. We believe we have seen the trough of these markets and look forward to some recovery in 2017, however modest it might be. The pipeline of project opportunities in heat exchangers, commercial boilers, and high security fencing for next year is also encouraging.

Volumes in our Rail business are at their lowest level since 2009, consistent with the reduction in capital spending for maintenance equipment by the Class I railways here in North America. In addition, the delivery dates on our equipment orders have been deferred to next year by our customer. Overall, equipment sales in the core North American market are expected to be 30% to 40% lower this year than the average annual shipments over the past five years. However, aftermarket sales have held up much better and are up about 10% compared to last year.

In terms of our contracts with the Swiss National Railway, the initial delivery of vehicles occurred during the quarter and the early test results are quite good. I met with the customer last week, and they are very pleased with the quality of the vehicles. So despite the recent challenges with the contract, I'm confident that our relationship with SBB will be both long lived and profitable. Finally and most importantly, Jeswant Gill joined us a few days ago as the new President of Harsco Rail. Jeswant brings the leadership, energy, and experience that we need to capture the opportunities available to us in the global maintenance-of-way market.

So, in summary, as we navigate the final few months of 2016, we look ahead to next year with a great deal of optimism. Each of our three principle end markets, steel, energy, and rail, likely touched bottom this year. And yet, cash flow and EBITDA-minus-CapEx margins will be at their highest levels in several years, while operating margins remain in the high-single digits. The balance sheet is also the healthiest in many years. Our financial leverage is nearing 2 times, and yesterday we secured committed financing for the next five to seven years. And with the recent appointment of new leadership in Metals and Minerals and Rail, we have a very strong committed executive team anxious to turn its focus to growing our Company.

Before I turn the call over to Pete, I want to take a moment to publicly thank our employees who have worked so hard and effectively in helping Harsco turn the corner. To be sure, we have more to accomplish, but I also know how far we have come. So I could not be more proud of the Harsco organization. I will now turn the call over to Pete.

Pete Minan - *Harsco Corporation - SVP & CFO*

Thanks, Nick. And good morning, everyone. Let me start on slide 4 of the materials. Operating income in the third quarter was $29 million, and this result was within our guidance range of $27 million to $32 million. As Nick said, our Metals and Minerals segment had another strong quarter due to a variety of positive factors. The regions that contributed to a better result included our Europe, Latin America, Middle East, and North American regions. The contributing factors in these regions varied and included drivers such as higher nickel volumes in the US, service volumes and mix in Europe and the Middle East, steel output in Latin America, and lower operating costs at some sites. But, again, no single variable helped the quarter, given the diversity of our M&M business.

Also, corporate costs were a bit lower than forecasted due to our continued reduction in staffing and other expenditures. Compared to the 2015 quarter, as was the case in recent quarters, Metals and Minerals realized an increase in operating income as a result of our internal initiatives or improvements, despite limited to no uplift from the external market. M&M's operating margin in Q3 was 9.7% compared with 7.7% in the prior-year quarter, which is certainly worth highlighting and is a result of our internal cost and operating improvement initiatives.

Also compared to the prior year, corporate spending was lower, and these positive factors were offset by lower profitability in our Industrial and Rail segments as a result of cycle pressures, which we believe either have bottomed or are nearing bottom.

Revenues in the quarter declined as expected to $368 million, which represented a decrease of 14% year over year. Lower demand in Industrial for heat exchangers and site exits in Metals accounted for the majority of this change.

Harsco's reported diluted loss per share was $0.41 in Q3, which included non-cash accounting items of $44 million related to the sale of our interest in Brand and a write-off of a portion of deferred financing costs related to our debt reduction.

Excluding these items, earnings per share would have been $0.14 in Q3, which was also within our guidance. These figures compare to a prior-year GAAP loss of $0.10 and adjusted earnings per share of $0.18.

Our equity income from our Brand Energy joint venture was $3 million or $0.03 per share in the quarter, which was comparable to the 2015 quarter and was modestly above the guidance range we provided for the quarter. Also as you know, starting in the current quarter, we will no longer report any equity income from Brand.

As Nick mentioned, free cash flow for Harsco in the third quarter was very strong, totaling approximately $60 million compared with $23 million in the prior-year quarter. As discussed in the past, free cash flow is a key financial measures for Harsco, and we've been keenly focused on a number of initiatives to strengthen our cash generation. Our progress here showed in the quarter and in the year-over-year growth in free cash flow was driven by working capital, as well as lower capital expenditures.

Year-to-date free cash flow is now $62 million. This total has surpassed our internal forecasts, principally due to actions within M&M, and as a result, we have raised our free cash flow outlook for the year.

Let's move to slide 5. In the third quarter, Metals and Minerals generated operating income of $24 million, which compares to adjusted operating income of $21 million in the prior-year quarter.

During the quarter, improved performance at previously underperforming sites and cost reductions were the primary drivers of the year-over-year improvement in adjusted operating income. And these benefits were partially offset by site exits.

The year-on-year negative impact of net site exits or contract churn on operating income was approximately $1.5 million for the quarter. This amount was consistent with our expectations. It is also lower than recent quarters and these impacts should continue to diminish in future quarters.

Customer liquid steel tonnage, or LST, declined 7% year over year in absolute terms and was unchanged on a continuing site basis, which was consistent with our expectation. I'd note that this quarter was the first quarter in over a year in which our LSTs at our continuing sites did not contract on a year-over-year basis. Also the change in our LSTs in Q3 was slightly better than the steel industry trends in the major regions where we operate.

Also, nickel prices were little changed compared with the 2015 quarter.

Free cash flow year to date in Metals has more than doubled to $108 million as compared to $47 million in the prior year, with this improvement is mainly attributable to changes in working capital and capital spending.

Slide 6, the storyline in Industrial is similar to recent quarters in that we've experienced a year-over-year decrease in revenues and operating income as a result of lower demand for heat exchangers from US energy customers.

We also experienced a decline in demand for industrial grating compared with the prior year, which is also partially attributable to the energy market.

Operating income was $6 million in Q3 compared with operating income of $14 million in the third quarter of 2015. And despite a 30% revenue decline, Industrial was able to maintain a 10% margin in the quarter as a result of prior cost reduction efforts.

Looking forward, we expect the weakness in our industrial grating business to persist, but we are encouraged by the recent customer activity within our Air-X-Changers business. The stability within Air-X has likely resulted from a stability in energy prices. Here, our orders and bookings appear to have bottomed in the early part of Q2, and we've since seen steady improvement. Absolute volumes remain at a low level, certainly, but our bookings improved quarter over quarter and also modestly year over year. And as a result, our Air-X backlogs grew slightly against the sequential quarter, for the first time in seven quarters.

Let's move to slide 7. Operating income in Rail was $5 million in the third quarter versus $8 million in the prior-year quarter.

This change was mainly attributable to lower contributions from contract services, and overall, our rail results in the quarter were a bit disappointing. Some of this was timing and the remainder was largely driven by continued demand weakness in the domestic market for maintenance-of-way equipment.

Meanwhile, a positive in Rail's quarter was free cash flow. Despite remaining negative for the year, free cash flow was positive in the third quarter with much of the year-over-year and quarter-over-quarter improvement attributable to working capital, including contract advances.

On our August call, we stated that Rail free cash flow was to improve considerably in the second half of this year, and we expect Rail free cash flow to be also positive in the fourth quarter.

Lastly, on our SBB contracts, as Nick mentioned, recent developments have been positive. We did receive cash advances from SBB in the third quarter, and we delivered our first base vehicle to the customer during the quarter for testing and commissioning. Also as Nick mentioned, feedback from the customer on product quality and our service are very positive, and we remain optimistic that we can profitably grow our relationship with SBB over time.

Moving to slide 8, which includes our key outlook items for the remainder of the year. Many of these variables were narrowed around the midpoint of our previous ranges. The exception is free cash flow where we raised our outlook, as mentioned earlier.

Reported or GAAP operating income is expected to be within a range of $60 million to $69 million including the unusual items recorded year to date.

Excluding these unusual items, adjusted operating income is now projected to be between $108 million and $117 million as compared with $105 million to $120 million previously.

Also, we now expect adjusted earnings per share to be within a range of $0.36 and $0.45.

This outlook reflects that our expectations for Industrial are unchanged, while we've trimmed our earnings view in Rail in the short term due to continued pressures within the domestic market. And this impact is partially offset by the M&M outlook and lower corporate spending.

Moving on to free cash flow, our guidance for free cash flow has increased to a current range of $75 million to $85 million for the year versus a prior range of $65 million to $80 million. Working capital improvements and lower capital expenditures within M&M are driving this higher range. And this range now includes net capital investments of approximately $70 million in 2016.

Before I turn to the fourth quarter, let me comment briefly on our financial position including our recent refinancing.

As we announced yesterday, we just completed a very successful refinancing of our entire capital structure. Our term loan offering was well oversubscribed, and the final terms of this facility were more favorable than our original expectations as a result.

We are also very pleased with and grateful for the continued support from our relationship banks.

Our pending maturity has arguably been an overhang on Harsco for some time, and as you know, we've been keenly focused on our balance sheet over the past year. This transaction extends the maturity profile of our debt obligations and significantly strengthens our financial flexibility. So clearly, we were pleased to complete this financing and also with the progress we have had to date in reducing debt.

During the quarter, our net debt position declined more than $200 million to less than $600 million. And we have now surpassed our stated debt reduction goal for the year. Strong free cash flow and the sale of our Brand interest drove this change in the quarter. Also, our net leverage position declined to 2.2 times, and we ended the quarter with more than $340 million of liquidity.

So moving to slide 9. Regarding our fourth-quarter outlook, we expect operating income to be between $20 million and $29 million as compared to adjusted operating income of $26 million in the fourth quarter of 2015.

Operating income in Metals is expected to increase over the prior year as cost improvements will offset site exits. Industrial operating income is forecasted to fall on lower demand for heat exchangers and industrial grating as well as mix. Rail income will be similar to the fourth quarter of 2015 as higher international equipment sales will be offset by lower contract services work and continued softening of North America equipment market. And corporate costs are anticipated to be slightly lower than prior-year levels.

Compared with the just completed quarter, you should expect some seasonal impact with our M&M and industrial grating businesses and an improvement in Rail earnings. So, that concludes our prepared remarks, and at this point, we would be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Hammond, KeyBanc Capital Markets.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Good morning, guys.

Nick Grasberger - *Harsco Corporation - President & CEO*

Hello, Jeff.

Pete Minan - *Harsco Corporation - SVP & CFO*

How you doing?

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Doing well. So, I guess with the financing and the balance sheet certainly in solid shape, M&M performing well, and looks very stable and encouraging, just maybe update us on how you're thinking about the portfolio discussion and your announcement a little while back about splitting the businesses or looking at strategic alternatives.

Nick Grasberger - *Harsco Corporation - President & CEO*

Yes, sure, Jeff. Good question. We certainly are as committed to a separation process as we were about a year ago when we announced our intent to do so. Of course, though, we're very focused on getting the highest value for shareholders possible and therefore, with the markets remaining quite weak, we simply don't believe that the timing has been ideal to do that. So, we're still focused on it. We're still watching the markets, of course, very, very carefully. But it's really a matter of timing.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay. And then, just as we -- can you hear me?

Nick Grasberger - *Harsco Corporation - President & CEO*

Yes.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Just as we kind of peek into 2017, can you just talk about what you're seeing from a visibility standpoint in Rail outside of SBB, and just kind of the confidence level with kind of stable M&M markets, kind of how you're feeling about sustaining these margins that have been much better in 2Q, 3Q. Thanks.

Nick Grasberger - *Harsco Corporation - President & CEO*

I will start with that, Jeff, with M&M. I think we're all quite confident that these margins that we've achieved the last few quarters in M&M are sustainable. As you know, we have long-term contracts. We're quite confident that the contracts that are maturing next year will be renewed, so I think we feel quite good about the cost structure, and also the ongoing opportunities to boost operational excellence. They're still many, many things that we are doing as part of the former Orion project, which are now I'll say part of our business system, that will continue to yield benefits to us.

So we're quite confident in M&M, less confident of course in where the industry is going and whether or not we'll see higher production levels that would lead to further earnings growth for us. But margins I think are stable at this high level and if anything, there's probably some upside opportunity even without the lift from the market. In terms of Rail, the visibility into 2017 is not good. As you know, it's a long cycle business. If we look back at the previous trough in 2009, it was followed by a reasonable recovery in 2010. We've seen no evidence that this cycle will be similar to that.

We're of course hopeful and a bit optimistic but we've not really seen any data that would suggest that the rail market will improve next year. On the short cycle end of the business, that being aftermarket, we continue to take share in aftermarket as we further penetrate that market. So I would expect further growth in aftermarket next year even without a recovery on the equipment side.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay. Thanks, guys.

Operator

Rob Brown, Lake Street Capital Markets.

Rob Brown - *Lake Street Capital Markets - Analyst*

Good morning, thanks for taking my call.

Nick Grasberger - *Harsco Corporation - President & CEO*

Hello, Rob.

Rob Brown - *Lake Street Capital Markets - Analyst*

On the Industrial segment, you talked about some signs of recovery, and maybe the first kind of backlog stability and growth in a number of quarters. How does that sort of line you up for 2017? Should that be a -- could that be a growth year or how does 2017 look in Industrial?

Nick Grasberger - *Harsco Corporation - President & CEO*

It could be. But I think as it is, it's going to be fairly modest, at least based on what we are seeing at the moment. Yes, backlogs are increasing, order rates have improved, but not a dramatic bounce. So, yes, we're optimistic and I think we have good reason to expect some growth next year in the Air-X-Changers business.

Pete Minan - *Harsco Corporation - SVP & CFO*

Rob, it's Pete. To give you a little color on the backlog figures for Air-X-Changers, we are seeing a modest increase quarter on quarter but they are still down 30%-plus year on year in terms of backlog. So we're cautiously optimistic we are moving in the right direction but it's not going to get back to 2014 levels quickly.

Rob Brown - *Lake Street Capital Markets - Analyst*

Okay. And then in terms of margins, can you still see margin expansion in a stabilized environment or is this sort of where you are at until the revenue line improves?

Pete Minan - *Harsco Corporation - SVP & CFO*

You're speaking about Industrial?

Rob Brown - *Lake Street Capital Markets - Analyst*

Yes, correct.

Pete Minan - *Harsco Corporation - SVP & CFO*

I think that there is margin opportunity in next year in Industrial for sure.

Rob Brown - *Lake Street Capital Markets - Analyst*

All right, thank you. I'll turn it over.

Operator

Bhupender Bohra, Jefferies.

Bhupender Bohra - *Jefferies & Co. - Analyst*

Good morning, guys.

Pete Minan - *Harsco Corporation - SVP & CFO*

Hello, Bhupender.

Bhupender Bohra - *Jefferies & Co. - Analyst*

Just a question on M&M here on the exit revenue. I think, Pete, you mentioned about you gave the number on exit, the impact of exit revenue on operating income. Can I have the exit revenue?

Pete Minan - *Harsco Corporation - SVP & CFO*

Yes, for the quarter, Bhupender, it's about $20 million year on year. It translates to $1.5 million at the operating income level. And for the full year, we are looking about $80 million of revenue, which is consistent with about $10 million of operating income effect.

Bhupender Bohra - *Jefferies & Co. - Analyst*

And how should we think about that number going into 2017? I think Nick talked about some of the contracts coming up for renewal next year. Can you give us some color in terms of like any contracts which will not be renewed or the risk is higher or lower?

Nick Grasberger - *Harsco Corporation - President & CEO*

As we've looked at each of those contracts, we are fairly confident that each will be renewed. So, I do not see any significant impact on site exits of the revenue next year.

Pete Minan - *Harsco Corporation - SVP & CFO*

This impact has been diminishing, ebbing the last couple of quarters, Bhupender, and next year we are not expecting there to be any real significant effect of contract churn.

Bhupender Bohra - *Jefferies & Co. - Analyst*

Okay, got it. And the second question on Industrial. I think, Nick, you mentioned about some opportunities over there and as you are looking at heat exchanger business, the Hammco business. If you can give us how that business is doing. And from the fencing site, I think that was one of the opportunities you have talked in the prior calls, too, if you can update us on that. Thank you.

Nick Grasberger - *Harsco Corporation - President & CEO*

In terms of Air-X-Changers, the team there has done a tremendous job continuing to take cost out of the product and find additional operating cost reduction opportunities. So I think, and I alluded to in my prepared remarks, the operating leverage in Air-X-Changer has really never been higher. The new facility that we're in and its ability to really produce much higher volumes is something that's really going to benefit the business over the next couple of years as the market recovers.

So very optimistic about the Air-X-Changer business. In terms of security fencing, we've had an awful lot of both positive press and potential customer inquiries into the product, and it has received very high praise for its uniqueness and its value proposition. It's just a matter of how the budgets for 2017 for these large products are being constructed. As we look into 2017, we certainly are optimistic that some of these projects, similar to the one in Mexico at the Mexico City airport, which we were awarded this year.

Bhupender Bohra - *Jefferies & Co. - Analyst*

Okay. And lastly, on the Rail side, I know you guys have talked about some decent opportunities like SBB, which you are bidding for. Any updates on those like in Europe, Asia, and some other geographies you've been bidding for those contracts?

Nick Grasberger - *Harsco Corporation - President & CEO*

None of those opportunities have been awarded. They continue to be pushed out but they remain active. And we're very involved whether it's in Europe or in Asia. So I think given the learnings of the SBB contract and the much stronger team that we have in place, we look forward to future opportunities like SBB.

Bhupender Bohra - *Jefferies & Co. - Analyst*

Okay. And lastly on the Hammco, do you have that number like how much that business grew in this quarter?

Nick Grasberger - *Harsco Corporation - President & CEO*

It was double digits, for sure. I'm going to say it was 20%-plus.

Bhupender Bohra - *Jefferies & Co. - Analyst*

Okay, got it. Thanks a lot.

Operator

Rob Norfleet, Alembic Global Advisors.

Rob Norfleet - *Alembic Global Advisors - Analyst*

Close enough. How are you all doing this morning?

Nick Grasberger - *Harsco Corporation - President & CEO*

How are you doing?

Rob Norfleet - *Alembic Global Advisors - Analyst*

Fine. So just a question for Pete and Nick, with the recent refinancing of the balance sheet and the debt reduction as well as the improving free cash flow, how should we look at capital allocation prior to 2017? You guys have been clearly playing defense with debt maturities being an issue. Clearly you've gotten flexibility to do some other things. Should we expect you guys to look at M&A and buybacks with a little more enthusiasm as we move into 2017 or is it still about debt reduction?

Nick Grasberger - *Harsco Corporation - President & CEO*

Well, I think it's primarily debt reduction. We certainly do have the ability now to focus on bolt-on M&A and also putting some growth capital back into M&M. And as we look at growth opportunities in M&M, there's some that are quite compelling. So I think you will see us invest in growth in M&M and new contracts next year. In terms of M&A, any M&A would be similar to a Hammco or a Protran, two acquisitions we have made in the past few years that have been highly successful. Very much bolt-on type opportunities and kind of below $100 million type probably price tags.

Pete Minan - *Harsco Corporation - SVP & CFO*

So, Rob, it's Pete. The pro forma leverage ratio after the refinancing is going to be in the 2.2 to 2.3 range, and we feel pretty comfortable operating at that level or at that leverage ratio. So, anything that Nick was referring to in terms of growth, whether it's an investment in additional capital in Metals or in bolt-on acquisitions, we'll still be targeting to be in that leverage range.

Rob Norfleet - *Alembic Global Advisors - Analyst*

Okay, perfect. And just quickly, Pete, in terms of the free cash flow, obviously, great improvements this year. As we look into next year, looking at working capital where your CapEx levels are supposed to be. Any reason we shouldn't assume a similar conversion of net income to free cash flow?

Pete Minan - *Harsco Corporation - SVP & CFO*

I think that's a reasonable assumption and certainly we're keeping our eyes on it, but the initiatives we put in place in terms of working capital and the discipline we put around capital spend certainly are going to sustain in the future

---

Rob Norfleet - *Alembic Global Advisors - Analyst*

Okay, great. And my last question just on M&M, I know you all talked about some of the exit revenues and the impact on operating income. Based on what you said, Pete, should I -- should we assume there are no longer any contacts in a loss position or are there still some exits we should expect going into 2017?

Pete Minan - *Harsco Corporation - SVP & CFO*

We're not anticipating any exits of any magnitude in 2017.

Rob Norfleet - *Alembic Global Advisors - Analyst*

Great, that's all I have. Thanks.

Nick Grasberger - *Harsco Corporation - President & CEO*

Thank you.

Operator

(Operator Instructions)

Jeff Hammond, KeyBanc Capital Markets.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Hello, guys. Just a couple housekeeping items. So, versus the $50 million to $51 million interest expense, how are you thinking about in 2017 with the new financing? And just with the JV gone, what's kind of the normal ongoing tax rate?

Pete Minan - *Harsco Corporation - SVP & CFO*

Yes, so, the first question in terms of interest, with the average debt levels coming down significantly, and with the terms we've gotten on the financing, we should expect a modest decline in interest expense year on year. As far as the -- what was your other question?

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

The tax rate.

Pete Minan - *Harsco Corporation - SVP & CFO*

Cash taxes should be under 20% and the GAAP tax rate should be 40%-plus, roughly consistent with the current year.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay, thanks guys.

Operator

We have no further questions at this time, and I would now like to turn the call back over to Dave Martin for closing remarks.

Dave Martin - *Harsco Corporation - Director of IR*

Thank you, Bridget, and to those that joined the call this morning. A replay of this call will be available later today through November 17, and the replay details are included at the top of our earnings release. I'm sorry, the back of our earnings release. If you have any follow-up questions, please do contact me. My details are also on the release, and again, thank you for joining and have a great day.

Operator

And thank you, this does conclude today's conference call. You may now disconnect your lines.
