THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

HSC - Q1 2015 Harsco Corp Earnings Call

EVENT DATE/TIME: MAY 06, 2015 / 1:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Dave Martin *Harsco Corporation - Director of Investor Relations*

Nick Grasberger *Harsco Corporation - President and CEO*

Pete Minan *Harsco Corporation - SVP and CFO*

CONFERENCE CALL PARTICIPANTS

Jeff Hammond *KeyBanc Capital Markets - Analyst*

Scott Graham *Jefferies LLC - Analyst*

Glenn Wortman *Sidoti & Company - Analyst*

Richard Glass *Deutsche Bank - Analyst*

PRESENTATION

Operator

Good morning. My name is Crystal, and I will be your conference facilitator. At this time, I would like to welcome everyone to the Harsco Corporation first-quarter 2015 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 express written consent of Harsco Corporation. Your participation indicates your agreement.

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

Dave Martin - *Harsco Corporation - Director of Investor Relations*

Thank you, Crystal, and good morning. Welcome to everyone joining us.

As Crystal said, I'm Dave Martin, Director of Investor Relations for Harsco. With me in the room 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 plan to discuss our results for the first quarter of 2015, our outlook for the year, and update you on Project Orion. Then we will take your questions.

Before our presentation, however, let me take care of a few administrative items. First of all, our earnings news release was issued this morning. A PDF file of the news release, as well as a slide presentation for our 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.

Next, 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 our risks and uncertainties, see the risk factors section in our most recent 10-K and 10-Q, as well as in certain of our other SEC filings. 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 US GAAP results is included in our press release issued today, as well as the slide presentation, again, which are both posted to the IR section of our website.

Now I will turn the call over to Nick Grasberger to begin our prepared remarks.

Nick Grasberger - *Harsco Corporation - President and CEO*

Thank you, Dave. Good morning, everyone. I appreciate your joining our call.

I was pleased with our execution in the first quarter, and with our ability to deliver profit above our expectations. A favorable currency impact related to our Swiss rail contract more than offset the adverse impact of further weakening in steel demand, and commodity prices in the Metals and Minerals segment. Otherwise, our businesses and our Brand joint venture performed largely as anticipated.

As we look ahead to the remainder of 2015, we expect these macroeconomic challenges affecting our M&M business to be more severe than projected just a few months ago, although based on recent trends, perhaps easing somewhat. Therefore, we have reduced our guidance for earnings, but, importantly, remain committed to generating free cash flow consistent with our plan. Overall, we continue to expect notable improvements this year in the three financial metrics on which we are most focused: return on capital, EBITDA minus CapEx margin, and free cash flow.

I'll offer just a few brief comments on each division. In Metals and Minerals, our efforts to reduce costs, improve core processes, and address underperforming contracts are clearly building a much better business, although the cost-reduction benefits are, at least for now, being muted by the effects of a weak steel demand and commodity prices, and a strong US dollar. The more fundamental changes we are making to our operating model will lead to a much improved portfolio of contracts over time.

In addition, our deep dive into M&M's operations over the past year has identified further revenue and cost-reduction opportunities, and we are in the early stages of our planning to quantify and capture the benefits. A healthier core business, combined with an increased focus on applied or manufactured products, will enable M&M to make a step change in its financial performance over the next few years, and we remain committed to achieving the previously discussed 2017 targets. Pete will speak further about the progress of Project Orion in a minute.

Our Industrial division is doing a masterful job of reducing costs, and improving its market position, to offset the impact of energy CapEx reductions in its Air-X-Changers business. Therefore, even in the face of weaker-than-expected markets, we are not adjusting the profit outlook for the Industrial division.

The momentum in our Rail division continues to be a prominent highlight within our Company. The buildout of our global footprint, in terms of people, capabilities, and market reputation, is truly exciting. We're optimistic our backlog of large international orders will continue to grow throughout this year. We expect to bid on about $0.5 billion of foreign contracts this year, whereas a few years ago we would not have had the opportunity to bid on such contracts. We also remain focused on small- to medium-sized acquisitions to further add to our products and service capabilities, and global reach.

We've also been very pleased with the performance of our Brand joint venture. The benefits of a strong leadership team, and the increased scale and global reach created by the transaction, are combining to drive above-market performance in the Business. So, although the weak energy markets have dampened growth expectations for this year, the outlook remains very positive, and is unchanged.

Before I turn the call over to Pete, I would like to note another important development within our Company during the first quarter. As many of you know, there has been significant change within the leadership team at Harsco over the past several years. With these changes came a measure of internal uncertainty about the role of the corporate center, and the values that define our culture. Without question, this ambiguity has contributed to a lack of consistent focus, and poor execution.

So, during our global leadership conference several weeks ago, we declared the core processes at Harsco that will be led by the corporate center and applied consistently across each of our businesses. We also launched the values that will guide everything we do, and create the culture important to the new leadership team.

We recognize that most companies have such a business system, and its effect on execution and culture is heavily dependent upon the degree to which the leadership team embodies and reinforces its elements. In our case, with our new leadership team, I am confident that the Harsco business system will stand the test of time, and lead to a strong performance-oriented culture.

I will now turn the call over to Pete.

Pete Minan - *Harsco Corporation - SVP and CFO*

Thanks, Nick.

Let's turn to slide 4. Operating income in Q1 of $39 million was above our guidance range of $27 million to $32 million, and was also above adjusted operating income in the prior-year quarter. Versus the 2014 quarter, higher income within our Rail business was the primary driver for the improvement. A slight increase in Industrial earnings, and lower corporate cost, also helped; and in total, these positive changes were only partially offset by lower income in Metals and Minerals.

In Rail, it's appropriate to highlight at this point that in Q1 we benefited from a foreign exchange gain of $11 million, which resulted from the appreciation of foreign currency advances we received on future equipment sales. This gain was not included in our prior quarterly guidance, and I will talk more about Rail and other business units in a few minutes.

Revenues in the quarter declined, as expected, to $452 million, and this represented a decline of 12% year over year. This change resulted mainly from site exits and the impact of a stronger US dollar within our Metals and Minerals segment.

As a result, margins increased significantly, or 200 basis points from the prior-year period, to 8.6% in the just-completed quarter. Earnings per share was $0.20 in Q1 of 2015, and I'd highlight that there were no special items in this recent quarter. As you are aware, we had a large number of charges in 2014 as we worked our way through the initial phases of Project Orion. So, we are pleased to report a cleaner quarter.

Adjusted EPS in the quarter rose $0.04 versus the prior-year quarter to $0.20. And this result was also above our guidance range of $0.09 to $0.13 per share.

Equity income from our Brand Energy joint venture totaled $4 million in the quarter, which translates to an EPS impact of approximately $0.03 after tax. This impact compared to a loss of $1 million in the prior-year quarter. Also, as we stated in the past, the Brand P&L impact to Harsco was again impacted by non-cash foreign exchange losses on inter-company loans in the first quarter.

Overall, we remain pleased with the performance and progress within Brand. And in an effort to provide you with a few more financial details on the joint venture from 2014, I'd note that the business generated adjusted EBITDA of $100 million in the relevant quarter, which is their December quarter, and $360 million during the year, which is a sizable improvement over the preceding year. Also, the joint venture ended the year with net debt totaling $1.7 billion.

Free cash flow for Harsco was a deficit in the quarter, as is traditionally the case during the March quarter. A free cash flow use of $14 million compared to a use of $8 million in the first quarter of 2014, as lower capital expenditure, and improved receivable and payable trends, were offset by fewer customer advances. Also, versus our internal plan for the first quarter, free cash flow was better than expected, due primarily to the underspending of capital. Lastly, return on invested capital improved to 7.2% from 6.2% in 2014.

Let's switch over to slide 5. In Q1, Metals and Minerals generated operating income of $11 million, as compared to $23 million in the prior-year quarter. During the quarter, the organizational savings under Project Orion were offset by foreign-exchange rates; lower steel output in certain geographies; reduced scrap and nickel demand, prices and volumes; and site exits; as well as added maintenance consulting, temporary labor, and other systems implementation-related costs, mainly in Latin America. Each of these items had an impact of $2 million to $3 million in Q1 when compared with the prior-year quarter.

Customer LSTs in the quarter declined 4% year over year in absolute terms. This change reflects the fact that we have exited sites, and it also accounts for lower steel production in certain locations, such as North America, that impacted our Q1 results.

Free cash flow in Metals improved meaningfully during the quarter, as a result of lower capital spending and improved working capital performance. And as you know, working capital remains a key focus within M&M, and it was nice to see the improvement in the first quarter.

On slide 6, our Industrial business generated operating income of $17 million in the first quarter, which represented a slight increase year over year, despite lower revenues. As a result, margins improved 100 basis points.

Better product mix with our heat exchanger business and cost-reduction initiatives helped during the quarter. And as expected, we did sell a property in the first quarter, with the gain offsetting moving and transition costs related to our new CenterPoint facility in Tulsa.

The cost efforts that I referenced above are related to organization changes within our grating and heat exchanger businesses, and these efforts have accelerated in recent months, given the trend in US energy spending. Since late 2014, for example, our workforce at Air-X-Changers has now been reduced by more than 20%.

During the quarter, our backlogs declined, as can be expected. With that said, these backlogs remain healthy by historical standards, which will continue to benefit us in the coming quarters. Also, as implied earlier, our focus is on achieving certain operating efficiencies in Industrial to meet the financial expectations for this Business.

On slide 7, operating income in Rail was $22 million, as compared to $5 million in the prior-year period. The foreign exchange item that I mentioned earlier was the primary factor leading to the year-over-year increase in operating income. Additionally though, the Business benefited from a favorable mix of equipment sales during the quarter.

As you all know, we have a healthy backlog of business within Rail. A portion of this backlog is attributable to our growing international business, which includes our contracts with the Swiss rail company, SBB, in Switzerland. Under the SBB contracts, product engineering and development has progressed well. We're poised to begin shipment of equipment and recognizing revenue under these contracts later in the year.

Additionally, the global market for maintenance of way equipment remains extremely active, and we are thrilled with the opportunity to further expand our Business. There are a number of sizable tenders in the coming quarters that total more than a few hundred million dollars. We plan to participate in these bids, and we are confident in our ability to win and execute on some of these potential contracts.

Moving to slide 8: Before I highlight some of the changes in our 2015 outlook, let me again highlight, as on our prior call, some of the external pressures that we are facing that should not be a surprise to you. Lower energy prices remain a challenge for our Industrial business. In Metals and Minerals, the challenges also include reduced steel production, lower demand and prices for nickel and scrap, and a stronger US dollar.

Many of these external pressures have certainly intensified in recent months, and our outlook reflects these changes. Overall, these items have an incremental impact of at least $15 million in M&M versus our prior outlook, and an impact of more than $30 million as compared to the prior year.

In addition to these amounts, our Industrial business is facing external headwinds of $5 million to $10 million. Given these factors, we believe that our key financial targets for the year reflect the underlying progress we're making in Metals and Minerals, along with the positive support initiatives under way within Industrial and the strength of our Rail franchise.

Also, we are optimistic that some of these pressures are beginning to ease. The recent improvements in nickel prices and in the US steel market are some positive indicators.

In total, we now expect 2015 operating income of $145 million to $160 million. And at the midpoint of this range, operating income is forecasted to be essentially little changed versus 2014. As compared to our prior 2015 outlook, this range assumes that lower expected income in Metals and Minerals will be partially offset by higher earnings in Rail.

Another metric, EBITDA minus CapEx guidance, is also trimmed to $135 million to $150 million, although it is important to note that the comparison to 2014 remains positive, given that the decline in cash income is expected to be more than offset by lower capital spending. Our capital budget for 2015 is now $165 million to $175 million, and our expectation for free cash flow is, importantly, unchanged.

We continue to forecast that free cash flow will improve year over year to between $75 million and $100 million. As compared to our prior outlook, a reduction in cash income is offset by our revised CapEx and working capital forecasts. Lastly, earnings per share is now expected to be within a range of $0.68 to $0.82 per share.

On slide 9, you'll find our business unit and other guidance details. And the changes to this slide are mainly related to the Metals and Rail comments I just made, so let's turn to the next slide, slide 10.

Before I comment on Q2, let me highlight the success we had renegotiating our credit agreement during March. The credit amendment was very positive for us, as a net debt covenant was introduced, and certain financial items were clarified. Overall, the modifications greatly improved our financial flexibility, and we are now in a position to extend the agreement for more than two years. At the end of the quarter, our net-debt-to-EBITDA ratio was 2.6 times, and we expect that ratio to be reasonably consistent throughout the year, thus providing us considerable liquidity.

Regarding Q2 -- the current quarter -- we expect operating income to be between $30 million and $35 million, and earnings per share of $0.06 to $0.12. In Metals and Minerals, operating income will increase as cost reductions, new sites and lower bad debt costs offset the impacts from foreign exchange and exits, as well as nickel and scrap prices.

For Industrial, operating income is expected to decrease from a very strong Q2 2014. And in total, reduced demand and CenterPoint moving costs will offset lower SG&A.

In Rail, operating income is expected to also decline from a strong 2014 quarter, as a result of lower parts and contract services revenues. Corporate costs are forecasted to decline a bit year over year. Lastly, on Brand, we are expecting to record a loss of approximately $5 million in Q2, which, again, is driven by the non-cash foreign exchange impact on its balance sheet, predominantly from inter-company loans.

Let's move over to slide 11. The major work streams at Project Orion continue to progress nicely. These efforts include further rollout of our Harsco Way operating standards across our global footprint, along with our increasingly active bid and contract management process.

These initiatives are improving how we do business, and how we are compensated for our value proposition. There is real progress being made here. Unfortunately though, it's difficult for us to quantify the impacts of some of these initiatives in the short term.

Regarding Simplification, roughly 75% of the workforce changes anticipated under Orion have not, in fact, been implemented. We realized nearly $5 million of savings in the first quarter, and we still anticipate approximately $20 million of savings in 2015, and we expect to hit a run-rate savings of $35 million to $40 million by year end.

On slide 12, regarding underperforming contracts or sites, we had finalized solutions at 50% of the UPCs -- underperforming contracts -- as of the end of the quarter. This means four were finalized since our last call in February. And I was very pleased to hear late last week that we had essentially finalized terms at two additional very important sites in Latin America, which were not incorporated in this slide. These wins continue to give us added confidence. The improvement and financial performance at our finalized sites speaks for itself.

Of the remaining 34 underperforming sites, 10 are in progress, and we will continue to drive for improved commercial terms and financial performance at our remaining underperforming sites over the next year. Otherwise, we'll choose to exit, although we prefer to stay and build more productive relationships with our customers.

That concludes our prepared remarks. And at this point, we'd be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Hammond, KeyBanc Capital Markets.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

So I just want to parse out in Metals and Minerals where your savings are coming in versus some of these headwinds. Because clearly I think the headwinds kind of add up to really take away what seemingly is Project Orion that seems largely on track.

So maybe can you walk us through what the savings were in 1Q for Project Orion? And just kind of how that flows through the year?

Pete Minan - *Harsco Corporation - SVP and CFO*

Sure, Jeff. This is Pete. Looking at year over year for Metals, the headwinds we're talking about, the stronger US dollar, the nickel and scrap pricing, and demand issues and some LST declines particularly in North America, we look at totaling about $7 million of the year-on-year change.

You couple that with some slight exit impact with about $3 million, some of those additional cost matters I mentioned to you earlier and you see that that pretty much offsets entirely the Orion benefit that we said was just under $5 million during the quarter. And by the way, the Orion benefit kind of flows through more or less half SG&A half in cost of sales.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay. And then is there a reason the FX headwind is kind of reflects a 10% margin? I would have thought that would be carrying a lower margin. Is there FX transaction or is there something else in this other category?

Pete Minan - *Harsco Corporation - SVP and CFO*

The FX is all translation, or substantially all translation. There's a little bit of transaction but not worth commenting on. But the FX in the other columns, $3 million of that $3.9 million is FX, or $3.5 million of that $3.9 million is FX. The rest of it is just a lot of puts and takes.

Nick Grasberger - *Harsco Corporation - President and CEO*

So Jeff, on a full-year basis, the way to look at it with respect to M&M is $30 million year-over-year impact of FX, nickel scrap prices, and volume offset by $20 million of incremental Orion benefits, which is consistent with what we've been saying.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay. And then just to be clear on the comment about trends or some of the headwinds easing. Can you maybe just elaborate on that? And what's reflected in your guidance?

Nick Grasberger - *Harsco Corporation - President and CEO*

So we set this forecast a few weeks ago, and as you know currency and nickel prices have begun to improve a bit as has oil. Scrap prices have not moved much; in fact I think they've moved a little downward.

So I think there might be a little bit of benefit here over the past couple of weeks. But it's I would say at this point not material.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay. If I could just sneak one more in on Metals. What was the revenue impact from contracts you exited?

Pete Minan - *Harsco Corporation - SVP and CFO*

For the quarter the revenue impact is roughly $21 million. And the -- this is year on year. And the operating income impact was just under $4 million.

Operator

The next question comes from the line of Scott Graham from Jefferies.

Scott Graham - *Jefferies LLC - Analyst*

So I guess now with that last piece of information that you gave us there, Pete, it looks like the core business of Metals and Minerals sales were almost flat. Is that jiving with what you guys are showing? I mean you take out the FX, right? It looks to me like the organic was kind of flattish, right?

Pete Minan - *Harsco Corporation - SVP and CFO*

Right. In the original guidance we anticipated the revenues would come down year on year as we continue to exit contracts and other things, yes.

Nick Grasberger - *Harsco Corporation - President and CEO*

We certainly have seen new sites ramp up year-over-year. So that's a bit of a favorable offset to the exits.

Pete Minan - *Harsco Corporation - SVP and CFO*

The only thing that I would add there is essentially if you look at our revenue guidance in the Metals business, we're pointing to revenue declines this year in the mid-teens. Two-thirds of that is FX. The rest of that is site exits, and you see that impact on our LSTs in the quarter.

Scott Graham - *Jefferies LLC - Analyst*

So you're expecting steady state from here even though you are saying that conditions kind of weakened as the quarter progressed?

Pete Minan - *Harsco Corporation - SVP and CFO*

In the second half of the year we're certainly anticipating to get the additional benefits of the full year of the Orion benefits that we're starting to see in the first quarter. Certainly we're going to see the ramp up and the full effect of our startups this year as well. So we expect the second half of the year to be better because there certainly this operating income for metals.

Nick Grasberger - *Harsco Corporation - President and CEO*

And on an earnings basis we expect the last nine months of the year to be roughly consistent with the last nine months of 2014.

Scott Graham - *Jefferies LLC - Analyst*

All right. And that kind of dovetails into this question, which I think for the most part you may have just answered. The second quarter earnings guidance, that's a bit different than what I think general expectations were.

Which even if you ex that out, it still looks like it is at the midpoint that the second half looks a little weaker than general expectations. But actually not that much weaker at all.

In fact probably I think the same as street expectations at the high-end of your EPS guidance. My question is how do we get to that high-end? Why would you put that number out there? I know for a reason, could you tell us what has to coalesce to get there?

Pete Minan - *Harsco Corporation - SVP and CFO*

Certainly one aspect of it would be the positive indicators like Nick mentioned earlier, changes in some of those macroeconomic factors. So that's certainly a large part of it that has an impact.

Certainly to the extent we are continuing to deliver maybe even exceed some of the benefits that we're expecting from the initiatives under Project Orion, the estimates with respect to new sites and ramp ups or increases at existing sites and renewals, they all impact it. So there are enough moving parts that can get us to that high end if things click in the right direction.

Nick Grasberger - *Harsco Corporation - President and CEO*

We had a sizable bad debt write off last year that we don't expect to be repeating.

Scott Graham - *Jefferies LLC - Analyst*

Okay. Fair enough. And I guess lastly, if I kind of toed up your working capital uses this year versus last year, they were about the same on -- you guys are trying to do it then you can't on return on invested capital. Why would operating working capital have been same use as last year?

Pete Minan - *Harsco Corporation - SVP and CFO*

Over what period, Scott?

Scott Graham - *Jefferies LLC - Analyst*

First quarter only. First quarter versus first quarter.

Pete Minan - *Harsco Corporation - SVP and CFO*

We've taken some initiatives to fit the working capital. So we have seen some working capital improvements. That's in Metals.

Now you also recognize that we had some advances in Rail that were not replicated this quarter. And you couple that with getting out of the working capital side of it, the cash was also impacted by the reduction in underspending and capital expenditure, predominately at Metals. Not sure if that gets you --

Scott Graham - *Jefferies LLC - Analyst*

That does get there. Thank you.

Operator

Glenn Wortman, Sidoti & Company.

Glenn Wortman - *Sidoti & Company - Analyst*

Just a clarification. Did you say the one-time gain in Rail added $0.03 to EPS in the quarter?

Pete Minan - *Harsco Corporation - SVP and CFO*

No. It's -- I don't know the per share amount. It's $11 million after taxes.

Glenn Wortman - *Sidoti & Company - Analyst*

$0.06 or $0.07.

Pete Minan - *Harsco Corporation - SVP and CFO*

$0.07, sorry.

Glenn Wortman - *Sidoti & Company - Analyst*

Okay. And then your margins for Metals and Minerals have been tracking well below expectations. But it does sound like your 2017 targets are still intact.

And you should see some improvement over the next several quarters. Do still think that the M&M margins are going to be up this year? Just any commentary.

Pete Minan - *Harsco Corporation - SVP and CFO*

So on a full year -- in revised guidance the full-year expectation is that margins will increase year on year for Metals. That's really part of our expectation.

Glenn Wortman - *Sidoti & Company - Analyst*

Okay. And then the margins for Industrial, do you know what that number was if you pull out those asset sales? And how should we think about that figure going forward?

Pete Minan - *Harsco Corporation - SVP and CFO*

Mid-teens.

Glenn Wortman - *Sidoti & Company - Analyst*

Okay. And then if you could just update us on any thoughts around the dividend? If business conditions worsen would you anticipate any changes?

Would you pull other levers first? Any commentary there would be helpful.

Nick Grasberger - *Harsco Corporation - President and CEO*

No. As we've indicated, Glenn, we expect cash flow to improve notably this year relative to last year. And certainly going forward that is our expectation. We remain as committed to the dividend as we have been in the past at the current level.

Glenn Wortman - *Sidoti & Company - Analyst*

Okay. Then on the tax rate, it was 51% in the quarter. Looks like you're still projecting 35% to 37% for the full year which would imply about 33% to 34% per quarter going forward. Is that right?

Pete Minan - *Harsco Corporation - SVP and CFO*

There's some timing issues there, but the full year expected tax rate -- effective tax rate is expected to be between 35% to 37% again, depending on the ins and outs it could vary in any particular quarter. But overall for the full year the expectation is still consistent.

Glenn Wortman - *Sidoti & Company - Analyst*

All right. Thanks for taking my questions.

Operator

Richard Glass, Deutsche Bank.

Richard Glass - *Deutsche Bank - Analyst*

Hi you guys, nice quarter. I want to talk a little bit more forward-looking than we've been doing here.

But first of all, can you talk about when the Metals process will be done in terms of running through those contracts and that whole remediation sort of end of things? Not fixing but just running through the contracts from the customer end of things.

Pete Minan - *Harsco Corporation - SVP and CFO*

Yes. So a year ago we identified some 68 or 70 contracts that were identified for what we refer to as contract triage. We had planned to and we still believe we will be substantially complete with that by the end of the year.

There may be a couple that carry over into next year. But by and large we're going to be complete at the end of this. And in fact what we've seen and what I mentioned during my comments since the last call is exactly on progress, on track.

Nick Grasberger - *Harsco Corporation - President and CEO*

That's important to keep in mind though, Rich, that even though we finalize the outcome of many of these oftentimes the have a tail to them. So when you agree to exit or you agree to renegotiate the effective date of that, oftentimes it is six, nine months in the future.

So you see the financial benefits of that a bit later than you finalize the outcome

Richard Glass - *Deutsche Bank - Analyst*

Right, no, I get that. I guess what I'm working towards, Nick, is I'm wondering about whether there's any new business you've won from any of these people. Just trying to get at whether the relationships with the customers are positive, negative, or how you might characterize those. Or you're in discussions for new sites where you haven't previously been and things like that.

Nick Grasberger - *Harsco Corporation - President and CEO*

That's certainly the case. As you know we have reduced the amount of growth capital that we have allocated to M&M.

So we're being much more selective which opportunities we're pursuing. But we absolutely have. We're in discussions now on a number of opportunities that would be new.

Richard Glass - *Deutsche Bank - Analyst*

Okay. And those would ramp up theoretically probably next year, not this year?

Nick Grasberger - *Harsco Corporation - President and CEO*

That's right.

Richard Glass - *Deutsche Bank - Analyst*

Okay. And the Rail bidding that you are doing on these contracts, can you give us any feeling for is this two contracts, four contracts, 8 contracts? And would these be layered in, in 2016, in 2017?

Or are these further out than that? When might these, if you were to be successful, when might these hit?

Nick Grasberger - *Harsco Corporation - President and CEO*

So that $0.5 billion or so that I referenced would be across five or six different contracts over the next five or so years. Most of them likely would not begin until late 2016 or 2017 and carry through 2020.

Richard Glass - *Deutsche Bank - Analyst*

Okay. And meanwhile in the Rail business can you give us any feeling for any progress you've been making in increasing your aftermarket exposure there? Or does that have to come more through M&A potentially? Has there been any success there or lack of movement?

Nick Grasberger - *Harsco Corporation - President and CEO*

Well that business continues to grow quite nicely. Just a few years ago it was $25 million or $30 million, now it will be over $100 million this year in aftermarket.

And clearly that is one of the areas of focus in M&A. We've made a few small acquisitions that help us in the aftermarket space through more product capability as opposed to geography. So we have a dedicated team focused on aftermarket and we've been very happy with the progress they've made.

Richard Glass - *Deutsche Bank - Analyst*

Okay. Switching once again to another area. In the Brand JV can you give us any insight as to what's going on there, what's gone on and how much progress they have made versus have to make?

And given the nature of how it's owned we get limited insight. So I don't know if anything you could tell us might be helpful to at least people knowing it exists. Let's put it that way.

Nick Grasberger - *Harsco Corporation - President and CEO*

Well the integration of the Harsco business and the Brand business is complete. They achieved their plan last year both in terms of EBITDA growth, which was 8% to 10%, as well as the debt reduction, the free cash flow.

This year they'll be down a bit in EBITDA, but they've taken out an awful lot of cost to mitigate the impact of their rather sizable exposure to the energy space. And the cash flow this year, the expectation is for it to be even a bit better than the original acquisition plan.

We continue to look at small to midsize tuck-in acquisitions that expand the service capability of the business. And we feel now with a $3 billion-plus global business that's really unmatched by any of their competitors that they continue to do somewhat better in the marketplace than the competition. I'm on the Board and attend the meetings and speak often with the team there and continue to be very impressed with the leadership there and what they are focused on.

Richard Glass - *Deutsche Bank - Analyst*

All right. Finally, maybe my last question here is on the Harsco businesses that you mentioned. But can you talk about who you're -- are you benchmarking that with any outside companies?

Or how should we think about that? Is this maybe going to result in actual cost savings or down the line could it just be operating leverage and give you the ability to grow without the cost increasing as fast? How should we think about this overall?

Nick Grasberger - *Harsco Corporation - President and CEO*

Well we certainly looked at many different businesses doing this. And most of us on the senior team here have worked at companies that had their business systems. So we certainly have experience with them ourselves. I would not say we benchmarked against any given business system.

We certainly brought all of our different experiences to bear on it and we really put this together since Pete and Tracey McKenzie, our new head of HR, have joined within the past six months. So we were kind of waiting to complete the executive leadership team to put the final touches on it and roll it out.

I would say it's really focused on talent development, health and safety, and execution around cost. So continuous improvement for example is not nearly as well embedded in our culture and our processes as it needs to be.

So that's a clear area of focus. And then also on strategic planning. I think that we don't do that consistently well across the Company and that's something that Pete and I are going to lead.

So it's not benchmarked per se. We were very thoughtful in choosing what the five components should be in our business system. And we've assigned accountability to each of those -- to various executive team members and we're driving them.

Richard Glass - *Deutsche Bank - Analyst*

Thanks guys. Best of luck.

Operator

Jeff Hammond, KeyBanc Capital Markets.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Hey guys, just wanted to come back to the Metals bridge on 5. Because it just seems like you've got a mid-single low digit margin and your contract churn on the $21 million is kind of a 10% plus margin. Your FX is a 10% plus margin.

Your existing contracts, you have a headwind on flat volumes or revenues. I just want to understand why you're seeing the magnitude of these headwinds from a margin perspective versus your reported margin.

Pete Minan - *Harsco Corporation - SVP and CFO*

I'll walk through the bridge again. So if you look, and I'm not sure, Jeff, I completely follow your question.

But if we look at the composition of the change, if you factor in the stronger dollar, the depressed nickel scrap, some LST mix issues and some reduction issues, that total is about $7 million year on year. And that's in a couple of different captions on that side, which I can tell you where that is.

But there is an element in the FX and other piece, there's an element in net contract, or in existing contracts and the NI and applied products piece. In addition as I said there's some other cost aspects that I mentioned in my remarks that also impact the year-on-year comparison including some unscheduled maintenance and some costs related to systems implementation in a couple of our sites in Latin America.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

So of this overall bridge or decline you've got like $3 million or $4 million that is kind of unplanned headwinds? Are those what you'd consider to be one time in nature?

Pete Minan - *Harsco Corporation - SVP and CFO*

We are anticipated that those -- we'll be able to deal with them in the second half. They're not timing issues per se, but we expect improvement scenarios that are going to offset that in the rest of the year, second half of the year.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

And then as we model FX we should continue to model a 10% margin on the FX headwind? Or is that too high? I don't know if your businesses, are they more profitable in some of these markets hit by FX?

Dave Martin - *Harsco Corporation - Director of Investor Relations*

Jeff, this is Dave. Just wanted to clarify a bit on your FX comment. I know you said that the margin on FX was something in the teens. I think you need to look at the details within each of the business units.

In some regards that comment is impacted by rounding to be honest. So for example the FX revenue impact in M&M was about $40 million. The OI impact on M&M was $3 million.

So that's a little less than 10%. So there was some FX impact in the other businesses which gets you to the $4 million for the quarter. There was a small impact in Industrial and a small impact at corporate too.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Then just last one on Brand, I think you called out the loss in 2Q will relay the FX. Is that a one-time headwind and then we see more normal progression into the second half?

Pete Minan - *Harsco Corporation - SVP and CFO*

Yes. We're still -- our guidance for Brand is that we're going to see $4 million to $6 million of equity income for the year. Of course we've got $4 million this quarter. So we expect that to be reversing the following quarter. So at the end of the year we're going to still hold tight to the guidance of $4 million to $6 million equity earnings.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay great. Thanks guys.

Operator

(Operator Instructions)

Scott Graham, Jefferies. Your line is open.

Scott Graham - *Jefferies LLC - Analyst*

A follow-up on revenues in Metals and Minerals as well as in Rail. Can you kind of compare and contrast for us, particularly in M&M?

How did you do in the US? How did you do in Europe, rest of world? Could you give us some ideas?

Dave Martin - *Harsco Corporation - Director of Investor Relations*

Yes. Scott, in that regard I'd probably address that from a steel production point of view. Pete mentioned that one of the challenges in the first quarter was lower steel production in North America. That is probably where we saw the most degradation.

There were certain markets in Europe where that was true also. If you look at specific regions or countries where we outperformed those regions or outperformed the steel industry broadly in the first quarter, I would highlight China first of all.

But that is simply a function of some of the new sites that we have. And secondly we outperformed the market just a touch in Brazil.

Scott Graham - *Jefferies LLC - Analyst*

Okay. Could you do the same for Rail there, Dave?

Dave Martin - *Harsco Corporation - Director of Investor Relations*

What was the question in Rail? Sure. So the revenue in the business was up 7%. I'm assuming that there was a little FX negative in that. So looking like Rail sales were up nearly 10% in that territory.

Pete Minan - *Harsco Corporation - SVP and CFO*

In Rail I would go back to our comments even a couple of months ago about the mix shift in the Rail business. Last year was one that benefited from a large number of part kit sales into Asia.

This year that earnings, if you would, is being offset by more equipment sales where margins are lower. So that is driving a sizable increase in revenues and that will have an impact on margins. So the revenue comparison you were referring to is the equipment and parts mix.

Dave Martin - *Harsco Corporation - Director of Investor Relations*

And as I mentioned we start deliveries, we're expected to start deliveries for the SBB contract in the fourth quarter of this year as well.

Nick Grasberger - *Harsco Corporation - President and CEO*

Just to be clear, that's not to say that the volume in aftermarket parts is declining, it's actually growing year over year but the mix. There were a few very sizable aftermarket part kit shipments last year at extraordinary margins. So the volume is still growing.

Scott Graham - *Jefferies LLC - Analyst*

Got you. Thank you.

Operator

There are no further questions at this time. I turn the call back over to the presenters.

Dave Martin - *Harsco Corporation - Director of Investor Relations*

Thank you, Crystal. And to those that listened to and participated in our call this morning, a replay of this call will be available later today through May 20. And the replay details are included in our earnings release this morning.

Lastly, if anyone has any follow-up questions feel free to contact me. My email address and phone number are included at the top of our earnings release today. We look forward to speaking with you in the future and have a good day. Thank you.

Operator

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