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HSC - Q2 2014 Harsco Corp Earnings Call

EVENT DATE/TIME: AUGUST 07, 2014 / 2:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good afternoon. My name is Ryan, and I will be your conference facilitator. At this time, I would like to welcome everyone to the Harsco Corporation second quarter release conference call. All lines have been placed on mute to avoid any background noise. After the speakers remarks, there will be a question and answer period.

(Operator Instructions)

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

David Martin - *Harsco Corporation - Director of IR*

Thank you, Ryan, and welcome to everyone joining us today. I'm Dave Martin, Director of Investor Relations for Harsco. With me today on the phone are Dave Everitt, our Chairman and Nick Grasberger, our President and Chief Executive Officer. This morning, we will discuss our results for the second quarter of 2014, and our outlook for the remainder of the year, as well as provide an update on Project Orion and our strategic priorities. Then we will take your questions.

Before our presentation, however, let me take care of a few administrative items. First, our earnings release was issued this morning before the market opened. A PDF file of the news release as well as a slide presentation that supplements our remarks for this call have been posted to the IR section of our website. Second, this call is being recorded and webcast. A replay will be available on our website later this afternoon. 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 currents 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 sections of our most recent 10-K and 10-Q, as well as in certain other SEC filings of the Company. The Company undertakes no obligation to revise or update any forward-looking statements. 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 press release today as well as our slide presentation. With that being said, I'll now turn the call over to Dave Everitt, our Board Chairman.

David Everitt - *Harsco Corporation - Chairman*

Thank you, Dave, and I appreciate the opportunity to make a few comments about the business before our new CEO reviews the second quarter performance. On behalf of the Board, let me first say that we're very pleased to have Nick assume the President and CEO roll at Harsco as previously announced at the end of July. I can tell you that from my time working with him during the past five months, I can tell you he has the passion and the commitment to help Harsco achieve our longer term vision, and more importantly, he has the complete support of the broader organization as well as the Board to establish the disciplined focus needed to achieve our current strategy.

During my tenure as interim CEO, we talked a lot about executing the plan, and I believe the report today indicates that we are continuing that theme. I have to say I'm pretty gratified to see the speed with which our metals and minerals team has embraced the Project Orion initiatives, and the progress being made to achieve those results, in many cases ahead of plan. And the continued progress being made in our industrial and rail businesses as they look for opportunities to grow is also very satisfying, but again, consistent with the plan. With those comments, Nick, I guess I'd turn it over to you and let you review the details of the quarter.

Nick Grasberger - *Harsco Corporation - President, CEO*

Thank you, Dave, and good morning, everyone. Before discussing the trends in our business, I'd like to acknowledge the exceptional leadership and counsel that Dave Everitt has provided to the Harsco employees, and to me personally, during his tenure as interim CEO. The support of Dave and the rest of the Harsco Board throughout this transition has been the model of good corporate governance, and the senior management team is very excited to continue our active engagement with Dave in his new role as Chairman of our Board.

So turning to the highlights of the quarter on slide 2 in the deck, overall, we made solid progress in addressing the underperforming contracts in Metals & Minerals under Project Orion, and we continue to see positive underlying trends in our businesses. The results for Q2 generally met our expectations and our outlook continues to be favorable as we project operating income to improve 10% to 20% on a full-year basis. Regarding Project Orion, we acknowledge the sizable exit costs and asset impairments recorded during the quarter.

On the one hand, we are pleased with the aggressive approach to dealing with the underperforming contracts. This has not been the case in the past, and addressing these contracts head on is an important part of changing the culture within the business. At the same time, we recognize the charges may be somewhat higher than our investors expected, but with that said, we are very confident we are taking the necessary steps to position Metals & Minerals for a step change improvement in cash flow and return on capital. Our plan is to address, either through contract renegotiations or exit, about a dozen very low return contracts by year-end. And as we've noted, really, the core Project Orion is the process and structure changes we are implementing that are aimed at avoiding such low return contracts in the future, while also improving customer service.

So back to the underlying trends in our three businesses, in Metals & Minerals, global LST volume was up about 6% in the quarter, nickel prices were up 25% from Q2 of last year, and we have increased our expected savings from Project Orion further supporting our confidence in achieving the financial targets that we have set for the business by 2017. Importantly, the contract turn, or the contract gains net of exits, produced positive operating income for the third consecutive quarter. On the other side of the ledger, the need to increase our bad debt reserve by $3.5 million was disappointing, but we are confident that our reserves are now adequate.

In the industrial segment, backlogs are near record levels, up about 15% versus Q2 of last year, in both the Air-X-Changer and the commercial boiler businesses. And the integration of the Hammco acquisition is ahead of our plan.

In the Rail segment, we recently announced the award of a second $100 million-plus contract with the Swiss National Railway. We expect to receive a sizable cash advance on this contract later this year, which will provide a significant lift to cash flow for the full-year. We've also recently won new orders in India, Singapore, and Kazakhstan and the pipeline for large sovereign contracts is robust. Finally, in the Rail business, the growth in our high-margin after-market parts business has boosted margins.

Concerning the Brand joint venture, the business remains on plan in terms of EBITDA and cash flow, and we expect the business to report healthy net income over the balance of the year. So we're now comfortable with the projection of net income and have provided EPS guidance for Harsco for the balance of the year.

Before I turn the call over to Dave Martin to review the financial results, just a few comments on the build-out of our senior management team. I think we've made very good progress in this regard. First, I'm pleased with the talent at the Divisional President level. Each is doing an exceptional job. And we've also recently hired a Corporate Controller and a Chief Human Resource Officer, and we're very excited about these additions to our team. We have an ongoing search for a CFO, and have been very pleased with the quality of the candidates that Harsco is attracting, and believe we will fill this important role in the very near term.

So I'll now turn the call over to Dave, who will step through the financial results for the quarter, and our outlook for the balance of the year.

David Martin - *Harsco Corporation - Director of IR*

Thanks, Nick, and if you would turn to page 3, that's where I'll begin my comments. On page 3, you'll see the second quarter highlights and challenges. First of all, our adjusted operating income in the quarter was within our guidance range. We reported $41 million of adjusted income versus guidance of $40 million to $45 million.

The performance in our Rail and Industrial business was quite strong in the quarter, and was above plan in both cases. And this was driven mainly by mix and organic growth. In Rail specifically, we benefited mainly from mix and a higher margin mix, and as Nick noted earlier, this was mainly attributed to higher parts and service revenue in the quarter. And then in Industrial, we benefited both from volume and mix, and the strength was mainly seen at our Air-X-Changers and Patterson-Kelley businesses in North America where we benefit from general market trends as well as product introductions.

Secondly, as Nick mentioned, net contract outcomes for M&M were positive for the third consecutive quarter, which means operating income from new contracts was greater than the operating income from exited and contracts we did not renew. Hammco's contributions to the business increased during the quarter. Hammco contributed operating income of about $1 million. And overall, the integration of Hammco is going quite well, and the results to date have met our expectations.

On Infrastructure, we did settle the working capital in the quarter. We did receive $12 million via that settlement and this helped free cash flow, and this was the final post closing adjustment on this transaction. On Brand cash earnings, as Nick indicated, were consistent with our expectations and we remain optimistic about this business and our investment in Brand. With that being said, the JV did contribute a loss of $3 million to our results in the second quarter.

This was mainly the result of foreign exchange losses and restructuring costs which totaled $15 million in total. And I would note that during the second quarter, we reported their January to March period, or the first quarter, which is traditionally a very weak period for this business, and we do expect improved results in the third quarter and through the balance of the year, and we think Brand is on track to generate EBITDA of approximately $350 million during the year, which is a figure we have noted in the past.

Turning to slide 4, these are our KPIs, if you would. Starting with revenues, we reported revenues of $535 million in the quarter. This was an increase of $26 million year-over-year. The primary drivers here were, first of all, our Industrial business and Hammco specifically, which added nearly $10 million of revenue. And then M&M benefited from higher LSTs, or volumes, the nickel price gains that Nick mentioned, and FX also helped M&M in the quarter.

These positive contributions, however, were offset partially by lower Rail revenues, which resulted from fewer equipment sales into China, versus the prior-year, and that's something we have talked about quite a bit in the past. Adjusted operating income was $31 million in the second quarter, that's compared to $49 million in the prior-year quarter. And the changes there, were mainly first, the Industrial business reported an increase in OI of about $2 million, which was the result of the addition of Hammco, first of all, and secondly, increased volume at both Patterson-Kelley and Air-X-Changers, which I mentioned earlier. This was then offset by lower profitability at rail that resulted, again, from the Chinese equipment sales in the prior-year, and M&M income declined about $5 million, which resulted from bad debt expense, which was $3.6 million in the quarter, lost OI, if you would, from exited contracts, and our corporate costs.

Adjusted earnings per share in the quarter was $0.17. This compared to $0.29 in the prior-year. And I would note that the EPS impact of Brand was a negative $0.02 in the quarter. And lastly, on free cash flow, free cash flow was $20 million in the quarter. This was a sizable increase year-over-year, and the primary drivers there were the cash received on the Infrastructure transaction, and lower capital spending, mainly in the M&M business.

If you would turn to slide 5, this is some details on the special items in the quarter which clearly complicated our reported results. These had a net impact of about $30 million after tax in the quarter, and let me just note a few of those. The first one was $3 million. This was, again, for the true-up, and settlement of the Infrastructure sale. The second was $8.5 million tied to severance costs and work force changes within the M&M Project Orion, and this was essentially in line with our guidance of between $7 million and $10 million. Thirdly, there were about $12 million of contract termination charges, which were asset impairments, and bad debt reserves for a former European customer, now in receivership, and this is a particular issue we've talked about in the past. And then the last meaningful amount was $11 million, mostly for impairments at about a half dozen sites that are underperforming, or sites that we have decided to exit.

So in total, these special items amounted to about $0.36, and I would note that excluding the severance and workforce cost items tied to Project Orion, these were largely non-cash items. And we accept that there are an exceptionally large number of charges in the quarter, unfortunately, but as we continue our efforts and accelerate our efforts to address poor performing sites under Project Orion, you can expect to see more of these types of items in the quarter ahead.

If you would turn to slide 6 next. Here's the highlights of our outlook for the full-year, or the balance of the year. Let me touch on a few of these, again, our Industrial business is performing quite well, and continues to benefit from volume growth. The result of this is that our expectations for both revenue and operating income in this business are modestly higher than they were three or four months ago. In Rail, that business also continues to do quite well, performing in line with expectations, and overall our outlook for that business is unchanged.

On M&M, LST volumes and nickel prices are benefiting revenues in that business, and we've upped our Project Orion benefits for the year to $5 million to $7 million, from $3 million to $5 million previously, but those positive impacts are being offset mostly by the ramp-up of -- the slower ramp-up of a number of new sites, lost operating income from contracts that we're deciding to exit, and the bad debt expense that I referred to earlier. The net of this in Metals & Minerals is that we still expect operating income to increase year-over-year, but the upper end of our operating income expectations for the business is a bit tempered over the short term versus what we thought a few months ago.

On free cash flow, free cash flow is improved. Really, driven by two things: These are the Rail advances that Nick mentioned earlier, as well as reduced capital spending. The midpoint of our updated guidance for the year is that free cash flow will be a positive, roughly $50 million, versus essentially zero in the past. The changes there are, first of all, lower capital spending by about $10 million to $15 million.

Our capital spending to date has been roughly $80 million versus a forecast of $240 million to $250 million, and we do expect spending to accelerate in the second half, but overall, our capital spending forecast for the year is down modestly. And the balance of the improvement in the free cash flow forecast for the year is largely due to the Rail advances tied to the second SBB contract that was announced in early July.

The only other challenges that I would note are in the Industrial business where market trends and a tight labor market is pressuring our operating capacity at Air-X-Changers, and then market challenges or conditions -- or challenges persist outside of the US, particularly in Mexico and Australia for certain products that we sell into those markets.

Turning to slide 7, you'll see the details in our outlook. The net result of what I just walked through is that we've narrowed the adjusted operating income range for the year to $170 million to $180 million from $170 million to $185 million previously. Also, I want to again highlight that we are introducing EPS guidance as we have added clarity on the Brand joint venture contributions now. Our adjusted EPS guidance for the year is a range of between $0.92 on the low-end, and $1.04 per share on the high-end, and this compares to a 2013 outcome of $0.87. And I would also note that this forecast includes a small positive contribution from the Brand JV, and there we would guide you to a positive contribution of between $5 million and $10 million in the year.

Then, on slide 8, just a few details on the third quarter specifically. Our outlook is for adjusted operating income in the quarter of between $43 million and $48 million. This compares favorably to the $41 million in the prior-year quarter. And we're guiding to adjusted earnings per share of between $0.26 and $0.31, which again compares favorably to the $0.20 we reported in the prior-year quarter.

The contributors to the growth are really four-fold. The first would be positive net contract changes as well as higher nickel prices within Metals & Minerals. We expect Project Orion benefits to be between $2 million and $3 million in the third quarter. In Industrial, we expect some incremental accretion from Hammco as well as some benefits from volume growth year-over-year. And then lastly, we expect improved mix within our Rail business, which will result mostly from additional equipment sales versus the prior-year third quarter.

And then turning to page 9, please. These are some details on our full-year outlook. Most of this I've covered and there's very few changes on this slide versus what we presented in the past. The only changes I would note would be some of the details within M&M where we've, again, tempered our operating income expectations, albeit modestly, to the upper end of our previous forecast. And as I said earlier in the Industrial business, we've done the exact opposite, if you would, and our revenue and operating income expectations for that business are modestly higher versus what they were three months ago. With that being said, I'll turn the call back over to Nick to give a bit of an update on Project Orion, and then provide some summary thoughts before we take your questions.

Nick Grasberger - *Harsco Corporation - President, CEO*

Thank you, Dave. I'm on slide 10. As discussed when we launched Project Orion in April, there are four work steams that we are focused on, and we're planning to execute the project in two phases. Phase I, the charge of $8.5 million in Q2 related to headcount reductions, both above the site and at the site, and the new organization is now in place, and the revised operational standards, which we call the Harsco way, are being validated and applied at select sites globally.

As we've previously stated, we expected Phase I benefits to be at the high-end of the original range of estimates. Phase II will be announced later this year, or early next year, and will address the further headcount reductions and operational improvements, and at the same time, we've moved quickly to change the process and structure of the bidding contract management function.

We now have a single global team in place to manage this function, allowing the commercial team to focus on identifying new business opportunities. This should lead to much improved contract outcomes in the future. We mentioned an acceleration of addressing underperforming contracts, now on slide 11. We formed two, what we call triage teams, that have now moved well beyond the initial pilot sites, and are focused on finding the optimal commercial and financial solutions to our least attractive contracts. This is a challenging process where it's difficult to predict the outcomes, but we're confident in the approach and its favorable impact on future cash flow and return on capital.

So in summary, our areas of focus and our financial outlook remain consistent over the past six months. Executing Project Orion, growing the Industrial and Rail segments, and completing the build out of our new management team remain paramount. From a financial standpoint, we continue to believe that our return on capital and EBITDA less CapEx will double over the next few years.

So, Dave Martin and I are happy to respond to any questions that you may have. We'll open up the line, operator?

QUESTIONS AND ANSWERS

Operator

Your first question comes from Scott Graham, from Jefferies, your line is open.

Scott Graham - *Jefferies & Company - Analyst*

Good morning, Nick, Dave. So, tell us a little bit more, if you could, on the M&M contracts, both the revenues and the costs? For the second quarter, can you quantify what the revenues that you exited and the costs that were incurred to exit those revenues?

Nick Grasberger - *Harsco Corporation - President, CEO*

I'll take that one, Scott. Just focusing on the contracts that we've exited and the contracts that we're not renewing, the revenue impact was almost $13 million on the negative. The operating income, or what we are referring to on the exit, is more lost income from exits as opposed to cost to exit. And the operating income from exited and non-renewals is about $2 million.

Scott Graham - *Jefferies & Company - Analyst*

That's really, really helpful. Brand, kind of a rough start this year, and you've got guidance for the full-year that suggests a pretty strong second half for the accretion from that JV. Were there restructuring costs in the number that was reported this quarter?

Nick Grasberger - *Harsco Corporation - President, CEO*

There were. In fact, the larger driver though, Scott, was Q1, which as you know, we recorded in our Q2, is a very weak quarter seasonally in the business, only 15% of their expected EBITDA for the year was generated in Q1, and given all the financial leverage in the business, plus the restructuring costs and the FX losses, you saw the results. But as we look to their Q2, and Q3, which will book in our Q3 and Q4, we should see a pretty significant turnaround in their net income, and therefore, the equity income that we book. So, I think Dave mentioned, we would expect our equity income pick up on a full-year basis to be between $5 million and $10 million.

Scott Graham - *Jefferies & Company - Analyst*

I'm with you. I remember the 1Q infrastructure situation all too well. The costs themselves, without them, would you still have been in a loss?

Nick Grasberger - *Harsco Corporation - President, CEO*

No. It would have been a gain.

Scott Graham - *Jefferies & Company - Analyst*

That's great, thank you. The last question is, could you talk about the trend of LSTs as the quarter progressed? In fact, really hoping for more color on what I think was a plus-5, particularly given that the data we're seeing out of Europe, which is a large market for that business, not at plus-5. Could you tell us a little bit about the plus-5, how it progressed as the quarter went forward? And maybe a little bit on what you're thinking going forward, from your customers, what they're saying?

David Martin - *Harsco Corporation - Director of IR*

Yes, Scott, this is Dave. We continue to forecast essentially no growth in LSTs for the balance of the year, but coming back to our LSTs volume growth for the year, I'm sorry, for the second quarter, that increase was largely attributable to China on a year-over-year basis. India, the Middle East and a select few countries in Europe.

Scott Graham - *Jefferies & Company - Analyst*

Okay. But you're expecting LST to be flat for the second half of the year?

David Martin - *Harsco Corporation - Director of IR*

That's right.

Nick Grasberger - *Harsco Corporation - President, CEO*

And just a bit of additional color on that, you'll recall the large joint venture we have with TISCO in China. Up until the beginning of this year, the ramp was slower than we'd like, than what we'd planned on. Through the first six months of the year, we have processed a good bit more product than we had expected. And so that is certainly contributing to Harsco's growth in LST volume in the quarter being somewhat higher than what you'd think on a global basis for the whole market.

Scott Graham - *Jefferies & Company - Analyst*

Yes. I get it. Last question from me. The delta in the free cash flow guidance, could you tell us how much of that was -- will be attributable to the Rail cash coming in?

Nick Grasberger - *Harsco Corporation - President, CEO*

It's about, I'm going to say, 2/3 to 3/4 of the increase in the guidance is due to a large advance we expect in Q3 or Q4. The balance would be under spend on capital in M&M.

Scott Graham - *Jefferies & Company - Analyst*

Thanks a lot, guys.

Nick Grasberger - *Harsco Corporation - President, CEO*

Thank you.

David Martin - *Harsco Corporation - Director of IR*

Thanks.

Operator

Your next question comes from the line of Jeff Hammond from KeyBanc Capital Markets. Your line is open.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Good morning, guys.

Nick Grasberger - *Harsco Corporation - President, CEO*

Hey, Jeff.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

First, just wanted to applaud you for taking these actions and certainly accelerating some of these tough moves in Metals & Minerals. Just on -- one thing I wanted to get into on the quarter, if you ex out all of these one timers -- the $31 million, you are still looking at 6% core growth, and a couple hundred basis points decline in margin, I think you called out, Dave, the $2 million from the exited contracts, but what's going on with the margin degradation, ex all the noise?

Nick Grasberger - *Harsco Corporation - President, CEO*

I'll take part of that, and Dave can jump in. There are a hand full of things, first of all, we mentioned the bad debt expense that -- Metals in the quarter, we also have a phasing of corporate costs that will become much more favorable in the second half of the year, so that situation will flip. Part of that, we've talked about the consulting cost we've incurred, at corporate, to support the Project Orion. And also, the ramp of some of the newer contracts in M&M with higher margins are really expected to have a larger impact on the second half of the year.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay. So were there additional bad debt expenses outside of the charges?

Nick Grasberger - *Harsco Corporation - President, CEO*

Yes. The contract with Lucchini, in Italy, that we've disclosed before, that contract was actually terminated because they're liquidating the business, so we wrote off the balance of the pre-petition receivable, about $4 million, and the balance then was a write down of some of the fixed assets at that facility. But in addition to that, and we viewed that as a special item, a contract termination.

The Metals business also recorded $3.6 million of a reserve against a particular customer. And we've not highlighted that as a special item. That's affecting the adjusted operating margin as well.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay. So really, you had another $3.6 million of bad debt, which is one-time, and then you had some of these corporate costs which start to go away in the second half?

Nick Grasberger - *Harsco Corporation - President, CEO*

That's right. And if you also look at, for example, the income we expect to realize from the Hammco acquisition, that's more heavily weighted in the second half of the year, and of course, in the Rail business we had the challenge of the comparison to Q2 of last year with the wind down of the China rail contract.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Right. Right. Okay. So as we look into the second half for Metals & Minerals, some of these one-time items, which you didn't call out, go away, your corporate costs ramp down, you start to get a ramp from some of these international contracts, and then you start to get the cost savings. In the back half, I think you're implied guidance would kind of put you in 9% -- 8.5%, 9% out margin run rate for Metals?

Nick Grasberger - *Harsco Corporation - President, CEO*

That sounds about right. Yes.

David Martin - *Harsco Corporation - Director of IR*

I don't have the number in front of me.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Is there any reason to think that that doesn't continue into 2015 as a run rate?

Nick Grasberger - *Harsco Corporation - President, CEO*

I think it will, if anything, will increase into 2015 as we start to realize the full-year of the Orion benefits.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay. And then just on the long term targets, I noticed your 2017 targets aren't changed, but it sounds like, one, your savings from Orion are ahead, and two, taking these actions from exiting contracts, I'm assuming that that would be additive to the long-term targets over time?

Nick Grasberger - *Harsco Corporation - President, CEO*

Well, we assumed in those targets that we would exit a certain number of underperforming contracts, right? So I'd say at this point that the numbers -- the projections for 2017 are still valid.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay. Okay. Great. And just final question on rail. You think you can make up the full China as you look at visibility into the second half?

Nick Grasberger - *Harsco Corporation - President, CEO*

Yes, we do.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay. And the margins were very good there. What's the outlook into the second half for parts/service mix and how the margin looks for the balance of the year in Rail?

David Martin - *Harsco Corporation - Director of IR*

Hey, Jeff, Dave. Margins in the Rail business, I would say, were exceptionally high in the second quarter and the contributions, which we noted earlier, from parts and service. For the balance of the year, I think you should expect margins to be quite a bit lower than they were in the second quarter, and more in line with what we have traditionally said would be a normalized margin for that business.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Okay. And if I could just slip one more in. Corporate expense for the year, how should we think about that number? Obviously a little higher in Q2, but how are you thinking about the quarterly run rate there?

David Martin - *Harsco Corporation - Director of IR*

Yes, I think Nick partially addressed this earlier, but you're right, the corporate line was a little higher in the second quarter, and that was driven by a number of what I would call small-ish things. What we have said in the past, or back in May, is that the corporate costs would be higher in the first half than the second half. That continues to be the case, and you should expect a number of about $40 million for the year.

Jeff Hammond - *KeyBanc Capital Markets - Analyst*

Thanks, guys.

Nick Grasberger - *Harsco Corporation - President, CEO*

Thank you.

Operator

Your next question comes from the line of Glenn Wortman, from Sidoti & Company.

Glenn Wortman - *Sidoti & Company - Analyst*

Good morning, guys. How should we think about real margins, looking at 2015 or 2016 when some of these larger equipment orders start contributing to results?

Nick Grasberger - *Harsco Corporation - President, CEO*

Well, the large equipment order tend to have more modest gross margins than some of the after-market parts, and some of equipment in the US, but we don't have much SG&A associated with them so they falter. I think you should look at the Rail business as operating margins in the mid-teens.

Glenn Wortman - *Sidoti & Company - Analyst*

Okay. And then --

David Martin - *Harsco Corporation - Director of IR*

Glenn, the other thing I would mention is what we have said before, you really shouldn't expect any contribution from them until later next year.

Glenn Wortman - *Sidoti & Company - Analyst*

Sure, sure. And then looking at Metals & Minerals and your heavy exposure to Europe there, are you starting see any slow-down or affects just from the recent geopolitical developments in the region?

David Martin - *Harsco Corporation - Director of IR*

No, we are not, Glenn.

Glenn Wortman - *Sidoti & Company - Analyst*

Okay. And then just lastly, looking out to 2015 with the equity income from Brand, the restructuring behind you, hopefully you get a little end-market improvement, any early read on where you think the contribution could possibly jump to next year?

Nick Grasberger - *Harsco Corporation - President, CEO*

I'm reluctant to go there, honestly, Glenn. We'll be talking about 2015 at the next Board meeting in October.

Glenn Wortman - *Sidoti & Company - Analyst*

Fair enough. All right, thank you for taking my questions.

Nick Grasberger - *Harsco Corporation - President, CEO*

Thank you.

Operator

(Operator Instructions) Your next question comes from the line of Rich Glass, from Deutsch bank.

Rich Glass - *Deutsche Bank - Analyst*

Hi, guys, glad to see you're making some progress here.

Nick Grasberger - *Harsco Corporation - President, CEO*

Hi, Rich. Thank you.

Rich Glass - *Deutsche Bank - Analyst*

A couple questions. Can you help me understand, maybe Jeff got at this before, but maybe a little more explicitly. Is the bad debt -- are those charges tied into the restructuring in the sense that -- did you look at the contracts and basically people were forced to true-up, or was there any sort of relationship there or was this really just exogenous to that whole process?

Nick Grasberger - *Harsco Corporation - President, CEO*

It's independent of Orion. In fact, the customer -- that contract is not an underperforming contract. We're just a bit concerned about the credit profile of the customer, so we felt it prudent to take a reserve. It's a single customer, and it's not an underperforming contract.

Rich Glass - *Deutsche Bank - Analyst*

Okay. So you would expect your bad debt expense to come down to a normal trend line after this?

Nick Grasberger - *Harsco Corporation - President, CEO*

Yes. Yes.

Rich Glass - *Deutsche Bank - Analyst*

And the second question is just, you mentioned the CFO process, but when can we expect that to get done? What is the timing? You've mentioned that you've seen a lot of good candidates, but where -- is there a reason it won't get done this quarter?

Nick Grasberger - *Harsco Corporation - President, CEO*

I expect it to be done this quarter. Obviously, there are things that can happen that would prevent that from being the case, but I expect it to be announced and in place this quarter.

Rich Glass - *Deutsche Bank - Analyst*

Thanks. Good luck.

Nick Grasberger - *Harsco Corporation - President, CEO*

Thank you.

Operator

Your next question comes from the line of Bryan Carlson, from Atlantic Investment. Your line is open.

Bryan Carlson - *Atlantic Investment - Analyst*

Good morning, guys. Can you hear me okay?

David Martin - *Harsco Corporation - Director of IR*

Yes.

Nick Grasberger - *Harsco Corporation - President, CEO*

Hi, Brian.

Bryan Carlson - *Atlantic Investment - Analyst*

Just a couple of quick questions. While we're not going to talk about the incremental benefit from Brand in 2015, maybe we can talk a little about how much of that 2014 number is being impacted by restructuring charges. It seems like if it would have been positive this quarter, and instead, it was a negative $3 million, so there's at least $3 million that's occurring just in Q2. 2014 will have incurred how much in restructuring?

Nick Grasberger - *Harsco Corporation - President, CEO*

I would say that year-to-date, if not for the restructuring, the equity income would have been break-even to slightly positive.

Bryan Carlson - *Atlantic Investment - Analyst*

Okay.

Nick Grasberger - *Harsco Corporation - President, CEO*

And we're minus what, $4 million, Dave, or so? Year-to-date on equity income?

David Martin - *Harsco Corporation - Director of IR*

Yes

Bryan Carlson - *Atlantic Investment - Analyst*

Okay. Does the restructuring drag continue in the second at the same rate? And, also does it continue into 2015?

Nick Grasberger - *Harsco Corporation - President, CEO*

No, it's beginning to diminish. They're well over halfway through the restructuring plan.

Bryan Carlson - *Atlantic Investment - Analyst*

Okay. And secondly, just on the exited contracts. I think that in your prepared script, you talked about 12 sites that you would seek to address this year. I think there was also a comment that charges were made for six sites. Are there an equal amount of charges that need to be made for the remaining six? Is that the right way to think about it? And, also, the revenue impact, that $13 million, and the EBITDA impact of $2 million, does that need to double over the next couple of quarters as we address the other six sites?

Nick Grasberger - *Harsco Corporation - President, CEO*

No, it's just simply difficult to provide guidance on that, because, of course, we go into these discussions hoping to renegotiate the contract under terms that would enable us to stay, and earn a reasonable return. You simply don't know what the outcome is going to be of that discussion. So in this past quarter, the outcome was tilted more towards choosing to exit because we couldn't get the economics to work. On the remaining contracts that we're addressing, it might be the other way. It's simply difficult to predict that outcome.

Bryan Carlson - *Atlantic Investment - Analyst*

Am I right in thinking though that there's six contracts that are still to be somehow decided in the second half?

Nick Grasberger - *Harsco Corporation - President, CEO*

No, it's more. It's closer to a dozen.

Bryan Carlson - *Atlantic Investment - Analyst*

Okay. And then lastly just on your outlook for liquid steel tons. You're expecting flat growth in the second half after pretty robust growth, frankly, in the first half. Are you just now at the point where you've had four quarters of growth and now we're at the right level, or is there something that's incrementally stepping down, or is this just conservatism?

David Martin - *Harsco Corporation - Director of IR*

Hey, Brian, it's Dave. I think it's just a bit of conservatism, if you would, and again, coming back to the comments that I made earlier, a meaningful amount of the growth that we're seeing is in some of these emerging markets where we have newer and ramping contracts. Outside of that, our expectations for LST growth is pretty modest.

Bryan Carlson - *Atlantic Investment - Analyst*

Okay. Thank you.

Nick Grasberger - *Harsco Corporation - President, CEO*

Thank you.

Operator

We have no further questions in the queue. I would now like to turn our call back over to our presenters.

David Martin - *Harsco Corporation - Director of IR*

Thanks, Ryan, and those that have listened to and participated in our call today. We appreciate your interest in Harsco. A replay of this call will be available later today through August 21, and the replay details are included in our press release issued this morning. Lastly, if anyone has any follow-up questions, please contact me and my e-mail address and phone number are included at the top of today's earnings release. We look forward to speaking with you in the future, and have a great day.

Operator

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