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PRESENTATION

Operator

Good morning. My name is Paige 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.

(Operator Instructions)

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

Dave Martin - *Harsco Corporation - Director of IR*

Thank you, Paige, and welcome to everyone joining us this morning. 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 CFO. This morning, we will discuss our results for the second quarter of 2016 and our outlook for the year. Then we will take your questions.

Before our presentation, however, let me take care of a few other administrative items. First, our Q2 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 webcast and recorded. 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 current knowledge and expectations and are subject to certain risks and uncertainties that may cause actual results to differ materially from those 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 certain of our other SEC filings. The Company undertakes no obligation to revise or update any forward-looking statement.

Lastly, on this call, we will refer to adjust 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, which again, have been posted to the IR section of the website.

With that being said, I will now turn the call over to Nick Grasberger to begin our prepared remarks.

Nick Grasberger - *Harsco Corporation - President and CEO*

Good morning, everyone. Thanks for joining the call. As indicated in our press release a few weeks ago, the second quarter was somewhat stronger than anticipated, both in terms of profit and cash flow, excluding the estimated loss we recorded on two rail contracts with the Swiss National Railway, or SBB. Therefore, we've increased our outlook for the remainder of the year, again, excluding the loss on the rail contracts.

The improved forecast is due to top-notch execution in our Metals and Minerals segment, together with a meaningful reduction in Corporate costs. The lift in our M&M business largely resulted to add-on services, lower costs and higher volume from applied products. Any economic benefit to Harsco from the steel market has been minimal to date.

I would like to expand a bit on what has been accomplished in Metals and Minerals since we launched Project Orion, which was our extensive program to reduce cost, improve process, change the organizational structure, and boost return on capital. We indicated two years ago it would be necessary to shrink M&M to a better business before turning our focus to growth. And that is exactly what has happened.

Our 2016 outlook for M&M anticipates the following compared to 2013 results: Revenue is down about 20%, EBITDA roughly unchanged, and cash flow three times higher. This translates into EBITDA margins about 400 basis points higher, EBITDA minus CapEx margins doubling to 13%, and return on capital improving 100 basis points. Returns on incremental capital invested over the past few years are well in excess of our cost of capital.

At the same time, legacy environmental and legal risks have been dramatically reduced. These results, coupled with an improved competitive position, give us confidence in our ability to produce attractive returns on future contracts, whether new contracts or renewals of existing contracts. We've also begun to increase our focus on the sales of applied products where we have unique access to raw materials and capital requirements are modest.

Reflecting the progress and stability in the business, I have recently promoted the Head of M&Ms Bid and Contract function, Chris Whistler, to the position of Chief Operating Officer of the M&M business. This will enable me to allocate more of my time to business development opportunities and managing global customer relationships.

In summary, I'm very pleased to say that Project Orion is finished and the changes have resulted in a much stronger foundation in the business. We could not be more excited about the future of Metals and Minerals.

Regarding the Industrial segment, the outlook for our energy driven business remains weak and the most recent slide in oil prices is a concern, although visibility into the balance of the year is good. We continue to focus on developing and launching new products in both IKG and Patterson Kelley and reducing production costs and developing our downstream business in Air-X-Changers. Of all the positive developments I could cite in the Industrial businesses, nothing is more impressive than our performance in safety, which has reached record levels and continues to be much better than industry benchmarks. Overall, the business is very highly leveraged to an up-turn in the energy markets based on our cost structure and the investments we've made over the past few years.

Without question, the rail business has been the biggest challenge for this year. Although our full-year profit outlook, excluding the SBB loss, has not changed since the beginning of the year, we've undertaken significant cost reduction activities to stem the impact of a much weaker North American market and improved performance in our aftermarket and contract services units has also helped to fill the profit gap. We've also recently announced a number project awards from our Protran unit with customers such as SEPTA. There are several other exciting initiatives underway in each of the rail units and we look forward to sharing them with our investors at the appropriate time.

We are certainly disappointed with the developments on the SBB contracts but remain committed to delivering high-quality vehicles for our customer and further penetrating the European maintenance of way market. To that end, a great deal of activity is underway to strengthen our project management function in terms of both structure and process.

I'd be remiss if I did not mention the efforts of our Corporate Team. As you've seen, Corporate costs are down significantly this year and less than half their level just a few years ago, despite a greater level of support provided to the business units, especially to M&M. Simply put, the talent level and execution capability of the Corporate staff have improved dramatically.

I will now turn the call over to Pete.

Pete Minan - *Harsco Corporation - SVP and CFO*

Thanks, Nick, and good morning, everyone. I'll be starting on slide 4 of the presentation. Reported operating income was $1 million in the second quarter and this included a previously disclosed loss provision of $40 million related to our contracts in Rail with SBB. Excluding this item, operating income in Q2 was $41 million, which was above our guidance range of $22 million to $27 million.

As compared to our expectations for the quarter, results in our Metals and Minerals segment were better than anticipated due to a variety of positive factors. The largest contributor was lower operating costs, which can be attributed to our cost-of-sales and operational improvement initiatives. Also, our applied products business performed better due to stronger demand for high-value metallics and higher contributions from our Reed Minerals' operation.

Lastly, in Metals, we benefited from higher steel production and an improved service mix in North America and Europe and we realized some asset sale gains of approximately $2 million that were not anticipated this quarter. Meanwhile, corporate costs were also lower than forecasted by a few million dollars due to our continued reduction of staffing, travel and other expenditures, and some timing.

Compared to the 2015 quarter, the improvement in adjusted operating income was also driven by Metals and Minerals as well as Corporate spending. Also, it's worth highlighting that M&M achieved its highest level of profitability in some time and its operating margin in the quarter surpassed 12%. We believe these trends reflect the improvements made in Metals over the past two years and only begin to show the segment's earnings leverage to an improving global market.

Revenues in the quarter declined, as expected, to $370 million, which represented a decrease of 19% year over year. Site exits in Metals and reduced demand for heat exchangers and rail equipment accounted for the majority of this change.

Harsco's reported diluted loss per share was $0.35 in the second quarter and excluding the rail loss provision, earnings per share would have been $0.15 in Q2, which was also favorable to our guidance given our operating results. And these figures compare with prior-year quarter EPS of $0.08.

This EPS comparison was helped by lower losses from our Brand Energy joint venture and I'd note that our second quarter includes what is normally the weakest seasonal quarter for the joint venture.

Specifically, the just-completed quarter included an equity loss for Brand of less than $1 million as compared with a loss of $8 million in the prior-year quarter.

Free cash flow for Harsco in the second quarter was $19 million, which was higher than we forecasted internally, primarily due to the under spending of capital and better cash earnings. Also free cash flow increased $9 million versus the second quarter of 2015, as improved cash flow from Metals and Corporate were only partially offset by lower cash flow from Rail.

So let me move to slide 5. In the second quarter, Metals and Minerals generated operating income of $31 million, which again, was better than we anticipated, and compares to operating income of $19 million in the prior-year quarter. During the quarter, improved performance at previously underperforming sites, workforce reductions, and other cost reductions were the primary drivers of the year-over-year improvement in operating earnings.

Also as was the case in the first quarter this year, our roofing granules business within Reed Minerals performed well versus the prior-year quarter due to favorable market and weather conditions. These benefits were only partially offset by employee termination costs and site exits. The year-on-year negative impact of net site exits, or our contract churn, on operating income was approximately $3 million for the quarter.

Now, this amount was consistent with our expectations, and is mainly the result of the customer shut down in Europe that we incurred in the second half of 2015. Customer liquid steel tonnage, or LST, declined 14% year over year in absolute terms and 3% on a continuing site basis, which in total, was modestly better than we have expected. This trend was slightly better than steel industry trends in the major regions where we operate.

Free cash flow year to date in Metals totaled $61 million as compared $22 million in the prior year, with this improvement attributable to changes in cash earnings, working capital, and capital spending improvements. As mentioned in the recent past, we are keenly focused on working capital and we encourage that working capital has been a meaningful contributor to Metal's free cash flow so far this year.

Let's move to slide 6. Our Industrial business generated operating income of $7 million in the second quarter, which was in line with our expectation. And this result compares with operating income of $14 million in the second quarter of 2015. As was the case in other recent quarters, this change in earnings can be primarily attributed to softer market demand for heat exchangers from our US energy customers.

This impact, which led to a nearly 30% decline in revenues, was partially offset by lower SG&A costs. As a result, we're pleased that Industrial was able to maintain operating margins above 10% in the quarter.

Outside of the heat exchanger business, our steel grating and boiler businesses performed well in the most recent quarter compared with prior year and sequential periods. These businesses have benefited from technology and product introductions such as in our grating business, where we began delivering our fencing product to support the security of the Mexico City airport.

We sre also pleased with our cash flow performance in Industrial year to date. Despite a roughly 50% decrease in operating income and cash earnings, the business has contributed positive cash free flow of $15 million to the Company.

So now to slide 7. Rail incurred a reported operating loss of $32 million, which includes the $40 million loss provision on our Swiss rail contracts. Second-quarter operating income would've been $8 million when we exclude this loss provision. These figures compare with operating income of $11 million in the prior-year period. So excluding the loss provision, the Q2 result was in line with our expectations. The year-on-year change in adjusted earnings resulted from lower equipment sales versus the prior-year period.

Meanwhile, free cash flow for the year continues to be a challenge due to fewer customer advances and higher inventories to support our growth plans as well as lower cash earnings. With that said, we expect these impacts to largely reverse in the second half of the year and that Rail will generate positive free cash flow for the balance of the year.

Regarding the loss provision on our SBB contracts, this anticipated result is an unfortunate outcome, as Nick mentioned. The incremental cost that we now expect to incur are related to the subcontractor support, design adjustments, equipment testing, customer payments and other items. We still anticipate that we begin recognizing revenue under these contracts in 2017, with no expected margin or profit impact to our P&L.

Slide 8 includes our key outlook items for the year, which generally increase from the full-year guidance that we provided last May. Reported, or GAAP, operating income is expected within a range of $57 million to $72 million and these estimates include the unusual items in the first quarter and the rail-loss provision in this just-completed quarter.

Excluding these unusual items, our adjusted operating income is now projected to be between $105 million and $120 million as compared with $80 million to $100 million previously. We expect a GAAP loss per share of between $0.17 and $0.32. Adjusted earnings per share is now forecasted to be within a range of $0.33 and $0.49.

This outlook reflects higher expectations for our Metals and Minerals segment, driven by lower operating costs and improved market fundamentals. It also reflects lower Corporate costs for the year compared to our prior guidance. With that said, our current outlook contemplates that Corporate costs will be higher in the second half of the year and that some of the positive factors which benefited Metals in Q2, such as service mix and applied products profitability, will not be sustained at those levels for the balance of the year.

Moving on to free cash flow, our guidance for free cash flow was also increased to a current range of $65 million to $80 million for the year versus a prior range of $50 million to $70 million. And this new range assumes that our net capital investments will be between $75 million and $85 million in 2016.

Regarding Brand Energy, we now expect our equity income for the year to be within a range of $6 million to $8 million as compared with a prior range of $3 million to $6 million. This increase reflects our latest assumptions for the joint ventures' cash earnings, which are now expected to increase slightly year over year, as well as currency and restructuring impacts.

Overall, we're very encouraged by the improvements in our business and those seen within the global steel market. The current economic environment has certainly reduced certain risks that were apparent in our business only a quarter or two ago. Looking forward, however, we are mindful of the volatility typically experienced within the steel industry with our current outlook. And in this context, we remain focused on cash generation and reducing debt.

Before I turn it over to the Q3 results, or the Q3 guidance, let me comment briefly on our financial position. During the quarter, our net debt position declined to approximately $809 million and we ended the second quarter with liquidity of more than $220 million. Further, we remain committed to reducing our net debt by $75 million to $100 million during the year and we now expect to end the year with a net leverage ratio of less than 3 times.

During the second half of the year, the majority of our free cash flow will be used to reduce debt and we continue to pursue a number of initiatives to improve free cash flow and generate cash to further strengthen our balance sheet.

So let me move to slide 9. Regarding our third-quarter outlook, we expect operating income to be between $27 million and $32 million as compared to adjusted operating income of $35 million in the third quarter of 2015. This year-over-year change is expected to be mainly driven by our Industrial business as a result of lower demand for heat exchangers.

Operating income in Metals is expected to be consistent with the prior year as cost improvements will offset site exits, service mix and commodity price changes. In Rail, operating income is expected to be unchanged versus the prior-year quarter, reflecting market conditions, and Corporate costs are anticipated to be slightly down from the prior-year quarter.

Lastly, we expect equity income of between $1 million and $2 million from our Brand Energy joint venture in the third quarter.

That concludes our prepared remarks. At this point, we would happy to take your questions.

QUESTIONS AND ANSWERS

Dave Martin - *Harsco Corporation - Director of IR*

Paige, can we have the first question, please?

Operator

Jeff Hammond, KeyBanc Capital.

James Picariello - *KeyBanc Capital Markets - Analyst*

Hello, guys. This is James Picariello. Nice quarter. I guess just starting with the Metals and Minerals business, can you guys talk about what you're global LST volume and price assumption are? Just some context with respect to the year-over-year headwind that you still see for that.

Pete Minan - *Harsco Corporation - SVP and CFO*

Let me start. This is Pete. As I mentioned in my notes, year-over-year, LST change is about 14% in absolute terms, that is a decrease. If you look at it on a same-store basis, it's roughly 3%. That'll roughly continue into the next quarters for the year, that change.

Nick Grasberger - *Harsco Corporation - President and CEO*

I think relative to our previous guidance, on a full-year basis, we are looking for LST volumes to be about a point better, still down year-over-year on the same site basis, but about a point better than we had been thinking.

James Picariello - *KeyBanc Capital Markets - Analyst*

Okay. That's helpful. And then how about for nickel and scrap prices?

Nick Grasberger - *Harsco Corporation - President and CEO*

Commodity prices will be increasing a little bit in the second half of the year from where they were in the first half, but still down from the prior years.

Dave Martin - *Harsco Corporation - Director of IR*

James, we're using a nickel price assumption of $4.50 for the back half of the year.

Nick Grasberger - *Harsco Corporation - President and CEO*

I think last year, the average was around $6.

Pete Minan - *Harsco Corporation - SVP and CFO*

Yes, between $5.50 and $6, yes.

James Picariello - *KeyBanc Capital Markets - Analyst*

Got it. All right. That's helpful. Can we just talk about, obviously, the Project Orion improvements are showing through in the margins. Can you just maybe quantify what the year-to-date savings have been and what you expect to generate for the full year in terms of incremental cost saves?

Pete Minan - *Harsco Corporation - SVP and CFO*

Looking at a year-on-year comparison, I think the cost improvement initiatives and the operational initiatives are about $40 million improvement. That's for the full year. This quarter, we had about a $5 million or so incremental benefit and that will roughly continue for the rest of the year.

James Picariello - *KeyBanc Capital Markets - Analyst*

Okay. And then my last question on the Metals business, you guys do note improvement in the applied markets business, specifically Reed Minerals. You called out favorable market and weather conditions. I was just wondering if you could provide the color as to what's actually driving the demand there?

Pete Minan - *Harsco Corporation - SVP and CFO*

It's related to our granules business. Just the conditions for, in the first half of the year, were favorable from a weather perspective, so that a lot of work was brought forward. There were a lot of advanced, what turned out, what we think are advanced orders for our products and services. And we experienced the benefit of that in the first half of the year. Now, we don't expect that to be sustained for the remainder of the year in the Reed business.

James Picariello - *KeyBanc Capital Markets - Analyst*

Okay. I'll get back in queue. Thanks, guys.

Operator

Andrew Casello, Deutsche Bank.

Andrew Casello - *Deutsche Bank - Analyst*

Thank for taking the question. Can you talk at a high level just on, as we've gone through the year, clearly some risks have been mitigated on the steel side. Can you talk about how you're looking at your customer portfolio? I know in the prior quarters you had mentioned what you think are high-risk clients, how that view has changed and then also if you could address any types of increased risk around Brexit and kind of what you're seeing in the UK steel market.

Nick Grasberger - *Harsco Corporation - President and CEO*

That is a good question; happy to take it. Certainly, as steel prices were bottoming earlier in the year, our internal process of assessing the risk of our customer sites indicated that there was a lot of risk at probably a dozen or so different sites because of the industries they served, were weak, or their geography, or of course, their cost position relative to the price of steel.

So as we've updated that recently, with the increased steel prices and other factors, we feel much better about that risk. There have been some fairly high profile situations in Australia and in the UK, there was one in Spain. And these are sites where we currently operate. And as we look at the risk on those sites today, we think it's greatly diminished from where it was as recently as three months ago. So we continue to track those sites very closely, and of course, are in close contact with our customers.

But the assessment is yielding a much better outcome than it did recently. In terms of Brexit, as you know, we have a sizable presence in the UK. We've not seen, since the Brexit result was announced, we've not seen any production being shifted out of the UK. We have not seen any customers announce significant reductions in output in the UK. So I think it's simply too soon to tell what the impact might be. There really has been little, if any, to this point.

Clearly, as the pound has weakened, one might expect that to impact our translated earnings. But given that we have a headquarters operation for M&M in the UK, the cost of that effectively offset the profit from our site. So there's not a lot of translation risk in terms of our P&L.

Andrew Casello - *Deutsche Bank - Analyst*

Okay, that's helpful. And then switching to the Industrials business, can you talk a little bit about the upstream side of the house? Just how what you're seeing on the ground in terms of, we've seen an inflection point over at accounts, if that's leading to improved expectations on the upstream side. And then if you could also talk a little bit about the Hammco business. I think you had signed some big orders over the last few months, so any color there would be helpful.

Nick Grasberger - *Harsco Corporation - President and CEO*

You are right to point out the tick-up, however modest, in the rig count. We have not seen that for some time, as you know, and we had actually reached an all-time low just a few months ago. So that clearly is a positive. We have seen increased quoting activity, not orders, but quoting activities, which historically at least, as you might imagine, is a leading indicator for that business. With the lead times that we have, any new orders would mostly be related to shipments in 2017.

So as I said, looking at the order book today, we feel pretty good about our projections for the balance of the year. And we've had some optimism, some cause for optimism, mostly the rig count, into 2017. But we don't yet have a strong view on the direction of that business in 2017.

Nick Grasberger - *Harsco Corporation - President and CEO*

In terms of Hammco, as you might know, that was an acquisition we made a couple of years ago, similar product line, but more oriented towards the downstream and midstream portions of the supply change in oil. That segment of the industry, as you know, has held up better.

We believe that Hammco not only has done well for that reason, but also with the increased capacity at our facility in Tulsa. We have been able to quote on and we have won a number of larger projects. And so we believe that we've picked up significant market share. Year-to-date, the revenues from the Hammco product line are up 30% or so. So we feel quite good about the traction that we're gaining in that portion of the market.

Andrew Casello - *Deutsche Bank - Analyst*

Okay, that's good color. And then on the Rail segment, can you talk about some of the flows we should expect with the Swiss contract? Clearly, you're still going through with the contract and you're going to be recognizing revenue. Can you talk about how that's going to flow into the numbers? And then also, I think there's a big working capital swing that's related to the contract. If you could just address that, that'd be helpful.

Pete Minan - *Harsco Corporation - SVP and CFO*

This is Pete. To date, our costs, our expenditures have been roughly equal to the cash received in advances. So it's reasonable to expect over the next say two to three years, that the net cash outflow will more or less equate to approximately what the loss was recorded. And that'll occur over the next three years, actually next four years, as deliveries under the two contracts materialize.

As far as the P&L impact, going forward, we'll start recognizing revenue probably in 2017 on the first contract, 2018 on the second contract. And under the accounting rules, there will be no P&L impact. There'll be zero margin activities for the duration of the contract period. We would only adjust the accrued loss provision should significant estimates change between now and ultimate completion.

Andrew Casello - *Deutsche Bank - Analyst*

And is there a possibility that you could incur further cost overruns related to the projects or is that fully baked into that provision you took?

Pete Minan - *Harsco Corporation - SVP and CFO*

The provision is intended to cover all of our expected losses, costs and future revenues associated with all the contracts for the duration of the contract. At this point, we'd say no, we don't expect any additional cost to be recorded. Naturally, in these types of contracts, and with, they're complex, they cover a long term, there's always the potential that there could be events that could affect that conclusion, but at this point, we think this is it.

Andrew Casello - *Deutsche Bank - Analyst*

Okay. And then just a final question. As we look here in the capital structure, it has a couple maturities coming up in early 2018 and they go current probably over the next 6 to 12 months. Any thoughts about how to address that? And then I guess that also leads into my next follow-up, which is when you think about your business portfolio and potential asset sales or how you think about the business, what your strategy is as we stand today.

Pete Minan - *Harsco Corporation - SVP and CFO*

You're right. Our next major maturity tower is in 2018 and it's the $450 million of bonds that we have outstanding publicly now. So we're actively looking. The credit markets have improved over the last quarter or so in the high yield area and we're looking at all of our alternatives as we speak. I think we're planning to pursue a refinancing over the course of the, in the third quarter or fourth quarter this year.

Nick Grasberger - *Harsco Corporation - President and CEO*

In terms of the portfolio, Andrew, we remain as committed now as were nine months ago when we announced the separation of our businesses, and are quite focused on the ideal kind of form and timing of that separation. So, we continue to do a lot of work around that but really nothing further to add at this point.

Andrew Casello - *Deutsche Bank - Analyst*

All right, great. Thanks for all the color and I'll get back in the queue.

Operator

Rob Norfleet, Alembic Global Advisors.

Rob Norfleet - *Alembic Global Advisors - Analyst*

A follow-up question on M&M. If we look at i2016, what do you estimate the impact of site exit expenses and underperforming contracts has been on operating income in that business that won't be recurring in 2017?

Pete Minan - *Harsco Corporation - SVP and CFO*

So the year-on-year site exits, let's say compared to 2015 is about $10 million. That is the impact.

Nick Grasberger - *Harsco Corporation - President and CEO*

But the exits were really in 2015.

Pete Minan - *Harsco Corporation - SVP and CFO*

Correct.

Nick Grasberger - *Harsco Corporation - President and CEO*

Not this year. So there really shouldn't be any impact on 2017 on the year-over-year basis.

Pete Minan - *Harsco Corporation - SVP and CFO*

Right.

Rob Norfleet - *Alembic Global Advisors - Analyst*

Okay. And again, I know you guys typically would give guidance. I know Orion has basically gone its course, but where are we in terms of underperforming contracts? That there was that kind of triage system. What are we left with now as we enter the back half of the year?

Nick Grasberger - *Harsco Corporation - President and CEO*

As you might imagine, as the market ebbs and flows, we have contracts that are moving out of triage and into triage. Those are the underperforming contracts that are not meeting our capital return thresholds. And so at this point, there are about half a dozen that, most of which are actually losing money on the GP line, gross profit line, that are in our triage process.

And it's difficult at this point to kind of predict what the outcome of that process might be, whether we exit or we find a way to improve them. It is unclear. But at this point, we are highly focused on about half a dozen.

Rob Norfleet - *Alembic Global Advisors - Analyst*

Okay, great. And Pete, you had mentioned obviously, continuing to look at ways to improve cash flow. Can you just discuss some of the initiatives across, I guess, improvements of working capital, whether it's DSOs or tour reduction. I just want to kind of understand what aspects you're looking at, or levers to further improve cash from these levels.

Pete Minan - *Harsco Corporation - SVP and CFO*

So we're looking at both working capital improvements as well as things that are outside of working capital. So obviously, some of the actions we've taken to date have an impact on our net debt position, such as M&A, the dividend and not making our payment to our Brand joint venture partner for the rest of the year. Those had pretty significant impacts.

Plus we monetized a cross currency interest rate swap last quarter which had a very positive impact on cash as well. In addition, when you get to the individual businesses, we're focusing on all aspects of working capital improvements, so it's the basic stuff. We're looking at our systems related to the cash collections, we're looking at our inventory management, all of the traditional focus point for working capital improvements. And we're starting to see the benefits of that activity.

Nick Grasberger - *Harsco Corporation - President and CEO*

I would just add with respect to the capital spending, you've seen the trends in the Metals and Minerals business. I'll say we've been very pleasantly surprised at the impact of our centralized global asset management group and its ability to redeploy idle assets and reduce maintenance costs and extend the life of mobile equipment, therefore, leading to a less than expected capital spending. So that's also been a focus of Project Orion and we're now seeing really solid benefits from that.

Rob Norfleet - *Alembic Global Advisors - Analyst*

Great. And my last question just revolves around M&A. I mean, clearly, I know the focus right now is to pay down debt, and obviously focus on liquidity and improvements in cash flow, but can you discuss any small, just what you're seeing in the market and whether there are some attractive assets that makes sense at some point in time?

Nick Grasberger - *Harsco Corporation - President and CEO*

As you say, it's really not been a focus. We certainly have resources in each business who keep an eye out for attractive opportunities. They exist, I would say at this point, primarily, in the Rail business. That would be the focus.

Rob Norfleet - *Alembic Global Advisors - Analyst*

Great, thanks for your time.

Operator

(Operator Instructions)

Bhupender Bohra, Jeffries.

Bhupender Bohra - *Jefferies & Company - Analyst*

Good morning, guys.

Nick Grasberger - *Harsco Corporation - President and CEO*

Good morning.

Bhupender Bohra - *Jefferies & Company - Analyst*

Sorry. I had a few other conference calls here, so I don't know if this question was already asked, but on the corporate cost here, how should we think about that in the second half? It's been coming down pretty significantly here.

Pete Minan - *Harsco Corporation - SVP and CFO*

Second half, you should see, the Corporate costs will be slightly higher in the second half mostly related to timing type of activities, but not far off the mark from the first half.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay. And secondly, on the Industrial business, the Hammco acquisition, if you want to give some color on that, like what kind of progress or growth we had in Hammco in this pretty good quarter. What we have heard from multiple companies now have been reporting that projects have been delayed, but we kind of see the North America rig count pretty stabilized here or inching up a bit. How does that play out for the Hammco business?

Nick Grasberger - *Harsco Corporation - President and CEO*

Hammco is performing quite well this year. The revenues are up about 30%. Some of that would be the market, but the vast majority of it, we believe, is just our ability to further penetrate the market with a product that's now produced in our facility that has much higher capacity. So we're able to bid on and therefore, in a few cases, win some large projects that Hammco was not able to in the past.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay. So you're saying, the second half, the assumptions in the third quarter, basically going through the second half, will be pretty decent for the Hammco?

Nick Grasberger - *Harsco Corporation - President and CEO*

For Hammco, yes. Again, Hammco is a smaller product line for us than the core Air-X-Changer business which is more oriented towards the upstream. I think that we're probably seeing, in Q3 and Q4, the bottom of our volume in the core Air-X-Changer business.

Pete Minan - *Harsco Corporation - SVP and CFO*

So for the whole Industrial segment, Bhupender, the second half will be lower, as expected, due to the other factors that Nick just mentioned.

Bhupender Bohra - *Jefferies & Company - Analyst*

Okay. And lastly, as we're looking to divest Metals and Minerals, are you guys looking to do some bolt-ons like on the Rail or Industrials? That was the thinking like a year-and-a-half back. Metals and Minerals initially divestiture, any thinking behind that?

Nick Grasberger - *Harsco Corporation - President and CEO*

That certainly could be the case, Bhupender. It's just simply premature to talk about that or speculate on what might actually happen.

Bhupender Bohra - *Jefferies & Company - Analyst*

Oh, okay. Got it. Thank you.

Nick Grasberger - *Harsco Corporation - President and CEO*

Thank you.

Operator

Jeff Hammond, KeyBanc Capital Markets.

James Picariello - *KeyBanc Capital Markets - Analyst*

Hello, guys. This is James again. You allude to the second-quarter margins for Metals and Minerals are not sustainable in the second half. Just wondering if you could tighten up that comment as to how we should be thinking about the trajectory in the second half for Metals margins?

Pete Minan - *Harsco Corporation - SVP and CFO*

As I mentioned, there's a couple of items that occurred in the second quarter for Metals and some asset sale gains coupled with some, as I mentioned, some very positive results from our applied products, in particular, Reed Minerals businesses, which we don't expect to be retained. I think the margins should be, they should be consistent with the preceding quarter, previous year's quarter, a little better, and slightly down sequentially from where we saw in the second quarter.

James Picariello - *KeyBanc Capital Markets - Analyst*

So flattish, year-over-year is how we should be thinking about it?

Pete Minan - *Harsco Corporation - SVP and CFO*

Improved margins over -- there's going to be improvement year-over-year, but it will be more or less down from the sequential quarter in this year in the matters I just mentioned.

James Picariello - *KeyBanc Capital Markets - Analyst*

Got it. Okay. Helpful. For Rail, it looks like you guys are stepping up the focus in terms of costs, improvements, operational improvements given the incremental weakness in the US markets. Can you quantify any specific target that you have there for the year? And then also, how sustainable is the lift in aftermarket activity that we saw in this quarter?

Nick Grasberger - *Harsco Corporation - President and CEO*

I think we've, over the past couple of years, shown that the aftermarket business has continued to exceed our expectations. My view and expectation is that the aftermarket business continues to grow.

In terms of cost reduction, as you know, we've largely built the global Rail business internally, as opposed through M&A. So we have had some pretty significant expectations for further investment this year that we're just dialing back a bit. It's a few million dollars.

Pete Minan - *Harsco Corporation - SVP and CFO*

To put it in context, so if you compare the prior year, the improvement in SG&A is roughly $2 million, about a similar amount in the quarter year-on-year in the aftermarket improvement as well.

James Picariello - *KeyBanc Capital Markets - Analyst*

Got it. And you recently mentioned that you had outstanding bids on some international projects, particularly in Europe. Is there any update on any of those bids?

Nick Grasberger - *Harsco Corporation - President and CEO*

No, there is not, only to say, one of them was brought back in and relaunched. So that process is effectively starting over. Another one, we would expect to hear probably in the next six months or so. And then another one could be much sooner than that.

James Picariello - *KeyBanc Capital Markets - Analyst*

Okay. And just my last question would be on the Brand JV. Last quarter, you did mention that you're going to, or that you intended to, dilute your equity stake by the 2.5%, I believe. I'm just wondering if that is still the case. And then the incremental improvement in your full-year forecast for the JV income that flows through, does that account for that dilution or not?

Pete Minan - *Harsco Corporation - SVP and CFO*

Yes. The guidance we put forth, and I mentioned earlier, for Brand, the equity income pick-up is reflective of the dilution that we've already talked about. That's assuming we don't make any more payments for the rest of the year, which is what our plan was to be.

James Picariello - *KeyBanc Capital Markets - Analyst*

Okay. Thanks, guys.

Operator

At this time, we have no further questions.

Dave Martin - *Harsco Corporation - Director of IR*

Thank you, operator, and to those that participated in our call this morning. A replay of the call will be available later today through August 18 and the replay details are included in our earnings release. Lastly, if you have any follow-up questions, please contact me and also my contact details are included at the top of today's release. Have a great day. Thanks.

Operator

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