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PRESENTATION

Operator

Welcome to Calgon Carbon's first-quarter 2015 earnings results conference call. At this time, all participants have been placed on a listen-only mode and the floor will be opened for your questions following the presentation. If you would like to ask a question, (Operator Instructions) I would now like to turn the call over to Gail Gerono, Vice President of Investor Relations. Please go ahead.

Gail Gerono - Calgon Carbon Corporation - VP-IR and Communications

Good morning and thank you for joining us. As usual, our speakers today are Randy Dearth, Calgon Carbon's Chairman, President, and CEO, Bob O'Brien, our Chief Operating Officer, and Steve Schott, our CFO.

Before we begin, I would like to remind you that today's presentation or some of the comments that Calgon Carbon's executives make during the Q&A may contain statements that are forward-looking. Forward-looking statements are subject to risks and uncertainties and Calgon Carbon's actual results may differ materially from those expressed in the forward-looking statements. A list of factors that could affect Calgon Carbon's actual results can be found in the news release that we issued earlier this morning and are discussed more fully in the reports we filed with the Securities and Exchange Commission, particularly in our last Annual Report on Form 10-K.

These filings, as well as this morning's news release, can also be found on the Investor Relations page of our website. Randy will begin today's call with the summary of highlights in the first quarter. Randy?

Randy Dearth - Calgon Carbon Corporation - Chairman, President and CEO

Thanks, Gail, and good morning, everyone. Welcome to our first call of 2015.

We are off to a good start for the year. Our sales, gross margin before depreciation and amortization, our operating income, net income, and earnings-per-share all showed improvement over last year's first quarter. Let's review some other highlights of the quarter.



Sales to the mercury removal market were \$11.6 million, a 72% increase over the first quarter of 2014. Testing of our ballast water treatment system for US Coast Guard type approval has begun in the EPA certified testing facility. Despite production issues caused by severe winter weather in the US, there were no significant delays in shipment to customers in the quarter. Our three-year, \$19.5 million contract extension with a chemical manufacturer was successfully negotiated in the quarter.

Calgon Carbon paid its first quarterly cash dividend to shareholders in more than nine years. And the Company purchased more than 80,000 shares of Calgon Carbon stock on the open market and considerably more since the end of the first quarter.

Sales to the potable water industry in the first quarter increased in the Americas, Europe, and Asia versus the first quarter of 2014. Noteworthy activity in the first quarter of 2015 included delivery of 4.3 million pounds of granular-activated carbon to a potable water customer in South Korea. The award to Calgon Carbon of a three-year \$10 million contract to supply virgin carbon in term [key] reactivation services for drinking water treatment in the US, conversion of eight municipal accounts in the US to customer reactivation, and contract awards for potable water reactivation in Helsinki and Amsterdam valued at more than EUR1 million.

These were just a few of the accomplishments in the first quarter that contributed to our excitement of our Company's future in both our traditional as well as our regulation-driven markets.

Now I will ask Steve to review the first-quarter financials. Steve?

Steve Schott - *Calgon Carbon Corporation - SVP and CFO*

Thanks, Randy. Good morning, everyone.

Sales for the first quarter of 2015 were \$135.7 million versus \$131.6 million in the first quarter of 2014, an increase of \$4.1 million or 3.1%. Currency translation had a negative impact of \$6.3 million primarily on the activated carbon and service segment and their sales for the first quarter of 2015 due to the stronger US dollar.

Regarding our segments, sales in the activated carbon and service segment increased \$5 million or 4.3% for the first quarter of 2015 compared to 2014's first quarter, despite the \$6.1 million negative impact of foreign currency. The increase was principally due to higher demand in the potable water market in all geographic regions as a result of significant new orders for municipal drinking water. Sales to the Americas' portable water market included a large order for the treatment of disinfection byproducts.

Also contributing to the quarter-over-quarter increase was higher demand in the Americas' environmental air market as a result of customers complying with existing mercury removal regulations as well as new customers preparing to comply with the Mercury and Air Toxic Standards regulations, known as MATS, which became effective in April 2015.

Partially offsetting these increases was lower demand in the European food market as certain large orders in 2014 did not repeat in 2015. Sales in the Americas' specialty carbon market also declined, primarily as a result of lower demand for both respirator and metal recovery products.

Equipment sales increased \$200,000 or 2.3% in the first quarter of 2015 versus the comparable 2014 period. The increase was due to higher sales of ballast water treatment systems of \$1.9 million, which was partially offset by lower sales of traditional carbon absorption equipment of \$1.7 million.

Sales for the consumer segment decreased \$1.2 million or 34.7% as compared to the first quarter of 2014, due to higher demand from a single customer in 2014 that did not repeat in 2015, as well as a negative impact of the foreign currency translation which totaled \$200,000.

Consolidated gross profit before depreciation and amortization as a percent of net sales was 35.7% in the first quarter of 2015 compared to 33.6% in the first quarter of 2014, an increase of 2.1 percentage points. The increase was primarily in the activated carbon and service segment. Approximately

\$1.2 million of this improvement resulted from higher margin products sold, coupled with a decline in some volume of lower margin products, particularly in Asia.

Lower core cost of approximately \$500,000 and lower diesel fuel cost of approximately \$400,000 also contributed to the increase. In addition, the favorable impact from the Company's constant improvement programs, including increased carbon production volumes of 5.2% in 2015, contributed to margin improvement in all geographic regions.

Depreciation and amortization expense was \$8.7 million in the first quarter of 2015 compared to \$7 million in the first quarter of 2014. The increase was primarily due to higher depreciation expense of approximately \$900,000 related to the improvements to the Company's Catlettsburg, Kentucky virgin carbon manufacturing facility and the addition of the north part of [London] New York reactivation facility that was placed into service in the second quarter of 2014.

Also contributing to the increase was accelerated depreciation expense of approximately \$800,000 related to certain assets that will be replaced later in the year as a result of new projects, including the Company's SAP reimplementation projects.

Selling, administrative, and research expenses were \$22.5 million during the first quarter of 2015 versus \$21.6 million in 2014, an increase of \$900,000 or 3.9%. The increase was principally due to higher costs related to the Company's SAP reimplementation project of approximately \$500,000, as well as the timing of certain employee-related costs of approximately \$400,000. The income tax rate for the first quarter of 2015 was 33.5% versus 34.4% for the first quarter of 2014.

In summary, net income for the first quarter of 2015 was \$11.1 million versus net income of \$9.8 million for the first quarter of 2014, an increase of \$1.3 million or 12.8%.

On a fully diluted share basis, earnings per common share were \$0.21 for the first quarter of 2015 as compared to \$0.18 for the first quarter of 2014, an increase of 15.3%.

Turning again briefly to our Company's business segments, the activated carbon and service segment recognized \$25.9 million in operating income before depreciation and amortization in the first quarter of 2015 compared to \$22.8 million in the first quarter of 2014. This increase was primarily due to the previously mentioned favorable mix with lower coal and fuel costs as well as favorable production volumes.

The equipment segment recognized a \$400,000 operating loss before depreciation and amortization in the first quarter of 2015 compared to a \$1 million operating loss for the first quarter of 2014. The \$600,000 improvement was primarily due to cost improvements as well as higher sales volume I previously discussed. Backlog for the equipment segment was \$18.3 million as of March 31.

The consumer segment recognized \$500,000 in operating income before depreciation and amortization in the first quarter of 2015 compared to \$800,000 in the first quarter of 2014. The decrease was related to (inaudible) sales volumes for activated carbon [clock].

Regarding our balance sheet, at March 31, we had approximately \$48 million of cash. Neither receivables nor inventories changed significantly from the end of the year. As of March 31, the Company had total debt outstanding of \$79.8 million which represents an increase of \$8.5 million from year end and primarily relates to borrowings under our US credit facility for capital expenditures which totaled \$16.1 million during the first quarter. Also, the Company spent \$1.7 million during the first quarter to repurchase 80,500 shares under its share repurchase program at an average price of \$20.88 per share.

Through April 27 of 2015, our repurchases were approximately 231,000 shares at a total cost of approximately \$5 million. Operating cash flow was \$8.9 million for the first quarter of 2015, a decrease of \$1.3 million as compared to the first quarter of 2014. This decrease was primarily due to a net unfavorable working capital change, partially offset by improved operating results.

Capital expenditures totaled \$16.1 million for the first quarter of 2015 and are primarily for improvements to the Company's Catlettsburg, Kentucky facility, along with expenditures related to the Company's new headquarters facility, which included \$3.6 million for construction of the research and development center and \$1.7 million for our SAP reimplementation project.

Gail Gerono - *Calgon Carbon Corporation - VP-IR and Communications*

Thank you, Steve. Let's go to Bob now for the operations review.

Bob O'Brien - *Calgon Carbon Corporation - EVP and COO*

Thanks, Gail, and good morning, everyone. The extremely cold weather in February negatively affected production of virgin carbon at our big Sandy, Kentucky plant. Our [wall-water] intake to the plant was also damaged by ice and runaway barges.

Losses from this winter storm event are still being tallied and likely to be in excess of \$1 million. The cold weather also impacted our reactivation facilities in Pittsburgh, Columbus, and North Tonawanda, New York. As Randy mentioned, however, through the period, we were able to meet all our customer needs.

In the US, our two main current capital projects, to debottleneck production line at big Sandy and to refurbish our Neville Island reactivation facility are moving forward. The environmental permitting process for both projects, however, is taking longer than we projected.

As a result, our capital expenditures for 2015 will be reduced by \$10 million from our original estimate. We now expect to spend between \$70 million and \$75 million in 2015 on capital projects.

In Europe, work on the refurbishment of our potable water reactivation facility at Tipton in the UK continues. We now project starting the facility in August. It will be capable of handling the needs of all of our potable customers in the UK.

In China, we have had success in developing the market for reactivation of spent industrial carbons. As a result, we continue to pursue approval from the local environmental authorities to utilize both of our kilns at our Suzhou facility to serve the industrial market. Currently, one of our kilns is designated for the reactivation of potable and foodgrade carbons. We expect this improvement approval before the end of Q2.

Moving on to some regulatory matters, last week the US Department of Commerce announced preliminary tariffs on steam-activated carbon that was manufactured in China and entered the US between April 1, 2013 and March 31, 2014. The preliminary average tariff rate is \$0.24 per pound as compared to the current average rate of approximately \$0.02 per pound. Please keep in mind, however, that this rate is preliminary. There can be a large discrepancy between the preliminary and final rates, which will be announced in the fall.

In the legal challenge to the EPA's Mercury and Air Toxics Standards, oral arguments were held before the US Supreme Court in March. A ruling on whether the EPA and reasonably refused to consider the electric utilities cost to comply with MATS is expected to be rendered by the court by the end of June.

Continuing with the mercury market, we have remain focused on providing products to electric utilities which will permit them who haven't the lowest cost of compliance with state and federal mercury regulations. Since 2006, we have invested over \$7 million in R&D to enable us to achieve this objective. In recent tests at utility sites and in full-scale operation, our products continue to demonstrate their value. This is particularly true where utilities face a challenging flue gas environment such as with the presence of SO₃ or the need to inject dry sorbents to also control acid gas emissions.

We are pleased with our success to date in the mercury market and expect our sales for 2015 to be \$50 million to \$60 million versus approximately \$29 million in 2014. We continue and believe that we will capture at least 30% of the value of the total mercury market, which we estimate at \$300 million per year by 2017.



Through our recent commercial success with utilities, operating in states which have their own mercury regulations, we expect that our sales in 2015 will increase by approximately 50% over our 2014 level regardless of the ruling of the US Supreme Court.

Next, let's move onto ballast water treatment. There were no new approvals of the International Maritime Organization ballast water treatment convention in the first quarter. In order for the convention to be ratified and go into force, [fragnations] that account for 2.16% of the world's shipping tonnage -- ship tonnage must approve it. The IMO's Marine Environmental Protection Committee, which in the past has provided a platform for flag nations to announce approval of the convention, is scheduled to meet later this month.

As to Hyde's performance in the first quarter of 2015, revenue increased as compared to last year's first quarter. However, orders for new systems were soft, especially for offshore service vessels, a market in which Hyde has had excellent success. The softness in this market reflects the downturn in global demand for oil.

Also, the strong dollar is a disadvantage to Hyde in global competition as most new ships are being built in Asia. Nevertheless, Hyde was awarded its first orders from Singapore in the first quarter, to provide ballast water treatment systems for offshore service vessels.

In another positive development, we began testing our ballast water treatment systems to obtain US Coast Guard type approval. The testing should be completed in early 2016 and, assuming the Coast Guard's US test protocol has been finalized, we will then send our results to the Coast Guard. The test results should also be used to apply for an updated type of approval from the IMO.

On municipal drinking water, treatment of drinking water is a consistent major source of revenue for Calgon Carbon, typically accounting for about 25% of our sales in any given year. In recent years, we have deployed additional resources to further the understanding and adoption of activated carbon in water treatment. This includes developing a closer working relationship with key federal and state government agencies, as well as federal and state elected officials.

For example, Calgon Carbon provided input on the [MATA] bill which was recently approved by the US House of Representatives. The bill includes language to ensure that technology providers such as Calgon Carbon are [consolid] by the EPA when it prepares its strategic plan to protect US public from harmful algae blooms. The Senate companion bill contains identical language.

In the first quarter of 2015, Calgon Carbon was awarded significant contracts or completed contractual obligations for traditional applications in drinking water treatment. For example, Randy mentioned in his opening remarks that we were awarded a three-year, \$10 million contract for drinking water treatment in the US. The completion of one contract in South Korea for a large carbon fill to treat drinking water drove sales both in the entire Asia region versus the comparable period in 2014.

In the first quarter, we also provided an initial fill of 2.2 million pounds of granular activated carbon for disinfection byproduct control in Texas. (technical difficulty) control treatment to prevent formation of disinfection byproducts and groundwater purification will remain the foundation of our municipal business in the short term. Each of these opportunities can include custom reactivation.

We have also identified other opportunities in the US municipal market that could generate significant sales over the long term. I would like to mention a few of these opportunities.

They are the use of activated carbon as a barrier defense against algae blooms and chemical spills.

The creation of federal regulations restricting use of chloramines is a means to control disinfection byproducts. The return to use of contaminated wells, which require treatment, necessitated by drought conditions, including the removal of 1,2,3-trichloropropane carcinogenic solvent present in some California wells. Next, the direct conversion of municipal wastewater into potable drinking water and, lastly, the control of endocrine disruptive in pharmaceutical and personal care products. You'll hear more about these opportunities in the future.

We are beginning to see activity in the U.S. for several of these new applications, especially those that are driven by the drought in the West. Others should emerge within the 2017 to 2020 timeframe. Demand for these applications in the U.S. and the rest of the world could result in a step change in the size of our municipal business.

That concludes the operations review.

Gail Gerono - *Calgon Carbon Corporation - VP-IR and Communications*

Thanks, Bob. Now Steve will talk about the outlook for the second quarter. Steve?

Steve Schott - *Calgon Carbon Corporation - SVP and CFO*

Thanks, Gail. Let me begin by discussing the impacts of foreign exchange. As we mentioned earlier, the impact of foreign exchange on our first-quarter 2015 revenue was \$6.3 million. And we currently expect the second-quarter impact to also be approximately \$6 million.

During the second quarter of 2015, we are also seeing some softness in the corn sweetener and respirator markets. These negative impacts on revenue are expected to offset growth in other areas including our FLUEPAC sales from mercury removal that we expect to grow by over \$7.5 million or 120% as compared to our second quarter of last year. In total, we believe 2015 second-quarter revenue will approximate 2014 second-quarter revenue of approximately \$145 million.

Margins. Our gross margins pre-depreciation and amortization are expected to improve sequentially and be approximately 36% for the second quarter of 2015, reflecting ongoing cost improvement and an ongoing favorable sales mix.

Depreciation and amortization. We expect depreciation and amortization to increase by approximately \$1.3 million versus the second quarter of 2014. Of this increase, \$700,000 results from an acceleration of depreciation, primarily related to certain other of our information technology assets that are going to become obsolete upon the completion of our SAP implementation that is now scheduled to go live in early July. This incremental \$700,000 of depreciation will end in June and not burden the second half of 2015.

Operating expense. Operating expense expressed as a percent of revenue will increase over the second quarter of 2014 by at least 1 full percentage point, due primarily to the ongoing SAP reimplementation project. Second-quarter expense for this project in 2015 is estimated to be \$1.6 million as compared to \$1.1 million in the second quarter of 2014, a \$500,000 increase. The operating expense burden associated with this project should end after the third quarter of 2015.

Finally, we expect our effective tax rate to be approximately 34%. And I will now turn it over to Randy.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

Thanks, Steve. Before we take your questions, I would like to briefly comment on the status of our cost improvement program, the outlook for sales growth, and how we intend to utilize our balance sheet to create additional shareholder value going forward.

The goal of our cost improvement program, which as you recall, was initiated in 2012, was \$30 million of savings on an annualized basis beginning in 2016. This was later increased in 2013 to \$40 million. Let me say we are on track to meet that goal, both the dollar amount and the timing.

In our last call, I announced that we were beginning a new initiative to realize additional annualized savings of \$10 million beginning in 2016 and being fully realized in 2017. One of the sources of those savings will be generated by the completion of the SAP reimplementation project that was initiated in 2013. This was an ambitious project that consumed financial resources as well as the time of many Calgon Carbon employees for extended periods. The many benefits derived from this project will have a significant impact in the way we do business around the world.



For example, the new system will provide real-time information which is essential for global business. It will generate consistent and integrated processes across regions which should improve business performance and promote information sharing to support product development as well as customers [supplier] management.

It will provide a platform for e-business which in the future could account for more than 30% of the total sales. The improved ERP system will manage and mitigate risk by eliminating nonintegrated systems. And it will simplify future integration other information systems. We expect the new system to go live in July.

Along with the cost improvement initiatives, we have also, as you know, set a goal to realize new sales growth of 5% for 2015. Given the headwinds of foreign exchange, increased competition in Japan, and continuing softness in the respirator and sweetener markets, this may prove, however, to be a challenge. We do expect sales to grow in the second half due to stronger sales to the mercury market, increased demand for outsourced carbon, additional sales for disinfection byproduct control, and additional sales from emerging markets such as Brazil, in the Latam region, as well as India.

Some of the applications that Bob mentioned in his remarks could also contribute to growth in the municipal market this year. Both in the equipment growth segment will be dependent on sales of ballast water treatment which could pick up at the IMO convention as ratified. With respect to utilizing our balance sheet, we intend to continue our stock repurchase program and subject to Board approval, to continue to pay quarterly dividends and we expect to have significant borrowing capacity should we decide to expand virgin capacity or undertake one or more acquisitions.

So before we wrap up, I have one more item on the agenda.

Some of you may know that Gail Gerono will be retiring this month. This is really hard for me because I consider Gail a dear friend and a wonderful teacher. For almost 25 years, Gail has kept Calgon Carbon investors educated and engaged in the Company stock. And during her tenure, she has seen the Company evolve. She has worked with seven different CEOs and has been involved with the production of 24 Annual Reports.

From all of us, I want to sincerely thank you, Gail, for your contribution to Calgon Carbon. And we wish you all the best in your retirement.

Gail Gerono - *Calgon Carbon Corporation - VP-IR and Communications*

Thank you. Thank you very much.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

Well, there's no replacing Gail, I think we all agree that. We have hired someone we believe will be a great fit for Kalman Calgon Carbon in our investor community. Dan Cruickshank will join us as Director of Investor Relations starting next week. Dan most recently served as a Director of Investor Relations at RTI International Metals. And prior to that, he was the Vice President of Global Investor Relations at Myron Inc. He has a lot of great experience and we are excited for you to meet him. An official announcement will go out this afternoon.

So with that, that concludes my remarks and we will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tyler Frank, Robert Baird.



Tyler Frank - *Robert W. Baird & Company, Inc. - Analyst*

Gail, congratulations on the retirement. I just wanted to touch on [for flow] and what you are seeing in terms of [acumenic] carbon demand for the mercury market. Are orders being delayed due to the Supreme Court's ruling and how are things shaping up there?

Bob O'Brien - *Calgon Carbon Corporation - EVP and COO*

We don't see orders being delayed because of the impending Supreme Court ruling. In our opinion, those utilities that have a April 2015 deadline to be in compliance are, in fact, working or in place to meet their treatment goals. Those utilities that have the one-year extension, obviously, they have been delayed until April of 2016, but we haven't seen any impact of the impending court ruling.

Tyler Frank - *Robert W. Baird & Company, Inc. - Analyst*

Great. And then, is there any update on the potential capacity expansion at Pearl River?

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

As we have said in previous calls, it is on the table. We have looked at that. But, obviously, we are going to be looking at the Supreme Court decision and how that will play into our decision. We're obviously going to be looking at the 2016 MATS demand and we are still working on that. We are actively out there looking at what that market size will be and how we will participate. And we will also -- and we mentioned this in the call. We are also looking very hard at new strategies for outsourced carbons. Really thinking outside of the box in how we could perhaps, through that strategy, be able to be more profitable and to reach new markets.

Tyler Frank - *Robert W. Baird & Company, Inc. - Analyst*

Great. Thanks. And then final question, and I will jump back in queue. Just for the 5% sales growth for 2015, I'm sorry if I misheard it. Are you still expecting for sales to grow 5% this year or -- with the potential headwinds of foreign exchange and the competition in Japan, are you sort of backing away from that?

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

Well, I think the three things that are really going to play into that -- obviously, mercury is a big part of that and the outcome of the Supreme Court decision, but that would be obviously a big factor in second half of the year for 5% growth. This new strategy that I just alluded to as well should provide us with a chance to be more competitive in some different markets. And also, as we mentioned on the call, we are putting a considerable effort in looking at the Latam region, especially Brazil, as well as India. And we are hoping the second half of the year to see our results of our efforts there. So all three of those contribute significantly to what we believe is still an achievable 5% goal.

Tyler Frank - *Robert W. Baird & Company, Inc. - Analyst*

Thank you.

Operator

Kevin Maczka, BBT Capital.

Kevin Maczka - *BB&T Capital Markets - Analyst*

I would first start by echoing the comment about Gail. We will all miss her for sure. On mercury. Can I just ask, I think one year a big competitor there recently (technical difficulty) they made a comment about more like 300 million pounds to 350 million pounds, when all is said and done here, to potentially seeing something on the order of 70% of utilities now deferring until next year.

Bob, I think I may have missed your comments. But did you change your view at all about the overall opportunity for this margin?

Bob O'Brien - *Calgon Carbon Corporation - EVP and COO*

We remain pretty consistent. I think where we sometimes -- there is confusion because sometimes there is confusion in our organization, sometimes as new products are developed as we went from our first-generation to now our third-generation products, depending on a particular site, they are working much more efficiently. And so, the amount of carbon that could be projected to be used in the market is declining because the carbon is getting more efficient.

That does not mean that the overall market size in terms of dollars is decreasing significantly at all. Because the third-generation products that we are making, the more expensive to make, we are selling them for considerably more money. But, overall, they provide benefit to the customer. So the overall market size isn't shrinking.

What we have tried to do when we say how many pounds are going to be used in the market, we have tried to focus on a standard of our first-generation products, so that we are not trying to provide an analysis that says how many first-generation products would be used in the market, how many second- and third-generation, we can get confusing. So we have tended to say the pounds range from 350 million to 550 million -- 550 million pounds a year -- based on first-generation products.

The actual usage may be lower as utilities adopt third-generation products, but the overall dollar size of the market really won't decline even if significantly -- even if the amount of pounds of product that are used declines. So, hopefully, that gives you a little flavor.

We, again, I think in our last call we tended to say we divided that mercury market up in terms of [thirds]. The historical market over the last number of years that was set in place by state regulations and Canadian regulations, the amount of market that was going to be set as a result of utilities complying with an April 2015 deadline date, those utilities that received an extension to April 2016. So roughly, we thought the market would be in thirds and I think that is still our view. That a third of the market will in fact develop as a result of the April regulations and the next third will come in 2016. So we are not saying -- I think as I mentioned earlier, we are not seeing a massive -- we don't believe there is a massive delay into 2016.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Okay. Got it. Very helpful. And then, if we come to June and we get an adverse ruling from the court, how should we think about how the mercury market in your sales to that market will progress after that? Will we just at that point see all these customers that are now complying April 15 kind of burn off their stockpiles and then your sales would sort of drift back down to what they were a year or two ago to be the first third of the market, if you will? So how should we think about that scenario?

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

Well, obviously, part of that will depend on what the Supreme Court actually says, relative to mercury. So we will see what that is when the time comes.



What I mentioned in my portion of the script was, we are having success with our third-generation products and in other utilities that are in states that have recurrent regulations. So for 2015, we would project that our sales would -- in mercury would go grow by 50% over what we did in 2014, even if the Supreme Court basically made an announcement that did not require the continued federal implementation of the regulation.

So again, we have been successful in the states where there are current regulations. So we expect in 2015 our business to grow again, regardless of the Supreme Court. Long term, obviously a negative ruling would affect the timing and the ability to grow and that would be dependent on what the Supreme Court actually says.

Bob O'Brien - *Calgon Carbon Corporation - EVP and COO*

And as we said before, as you know, there is 19 states today that do require or have made this their regulation. Could more states do it? I just don't have an answer to that. That is also a possibility.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Just one more question on that, Bob, and I will get back into queue. But your \$50 million to \$60 million outlook for mercury this year implies a little bit of an acceleration from what we did in Q1. So you are saying you can do that even with an adverse ruling, but why would that business accelerate if there is an adverse ruling and even more uncertainty? (multiple speakers) (inaudible).

Bob O'Brien - *Calgon Carbon Corporation - EVP and COO*

First of all, during the first quarter, we saw our business ramping up month by month as the utilities were preparing to meet the April regulations. And what I am saying is, if the mercury regulations stays in place, we expect our sales to be \$50 million to \$60 million a year. If the mercury regulation -- federal regulation would be struck down, we would not expect to achieve \$50 million to \$60 million, but we would expect to achieve approximately \$45 million or in that range, which would be a 50% increase over 2014.

So certainly, our sales would be impacted by a negative Supreme Court ruling. But we would not revert back to 2014 sales level because the success our products have had with utilities that are in the states that have regulations.

Operator

Gerry Sweeney, ROTH Capital.

Gerry Sweeney - *Boenning & Scattergood Inc. - Analyst*

Just to echo everyone else prior to me and probably (inaudible), but, Gail, congratulations on your retirement. I just wanted to say that.

Second, talking about the -- not to beat a dead horse, but on the mercury market, you are talking about let's say the Supreme Court ruling -- I'm sorry. If it were to go away, the Supreme Court would say a negative ruling, you expect the market to -- your percentage of the market to increase. This implies that you were getting a lot more traction, I believe, with your newer generation products over competition. Correct?

Bob O'Brien - *Calgon Carbon Corporation - EVP and COO*

I think that is certainly part of it. We think that our products are being well-received in the market. Some of the utilities that are in regulated states -- or states that have their own regulations -- also are being required to control acid gases.

So some of the utilities that traditionally were just not injecting activated carbon in these states, now also have to inject dry sorbents to control acid gases. And what they have found and what we have believed is, when they are forced to inject these dry sorbents, it makes it more difficult for the activated carbon to remove the mercury so that it takes a better product in order to actually allow them to not only control the acid gases, but achieve the mercury regulations that they have to meet.

So there are a couple of drivers that are affecting our business in the states, again, with existing regulations. Our products are performing very well at those utilities that are also forced to inject dry sorbents.

Gerry Sweeney - *Boenning & Scattergood Inc. - Analyst*

When you -- that is in a currently regulated state. As we go on to the next step in [2016], and if you want to look out to 2016, do you have an idea of how many plants or boilers or situations that face those similar challenges with the acid gases? Obviously what I am starting to get at, is there that 30% market that you say you want to at least get -- could that increase the [carbonless regions], these regions going forward?

Bob O'Brien - *Calgon Carbon Corporation - EVP and COO*

It is certainly a potential that could increase. I think it is really difficult for us at this moment to have a clear picture as exactly how many utilities in the future are going to face the same situation. Because they have a few other levels that they can potentially look to pull such as they're -- what's the coal they are burning.

So they have a couple of other things that they may think about before they make a decision on how best to solve the problem. But those who have realized that they have to solve their mercury problem and acid gas emission problems with injection of sorbents, have taken favorably to our third-generation products. So what we certainly are trying to understand as time goes on -- the rest of this year and next year -- but it is not a -- extremely clear picture right now.

Operator

Dan Mannes, Avondale Partners.

Dan Mannes - *Avondale Partners - Analyst*

Again, my congrats to Gail as well. I am going to belabor carbon mercury one more time. Just because I don't think you have got enough questions about it. So --

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

Thank you for that, Dan.

Dan Mannes - *Avondale Partners - Analyst*

Maybe we will just -- yes. Maybe we will just focus on mercury and avoid the rest of the Company. So just as I kind of parse through your comments, I think you were up roughly \$11 million in the first quarter as things ramped, but at least as it relates to your tone on the second quarter, it sounded like it was actually going to be down sequential. Was that due to kind of early fill activity. Is that seasonality or did I mishear that?



Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

It is not because of mercury, Dan. We are going to be up even more attractively in mercury in Q2 than we were in Q1. So, that is not the issue. I mentioned in my remarks that we are seeing some softness in the sweetener market, the respirator market remains an ongoing challenge, particularly as it relates to sales to the US government and military, so just some softness in other markets that hopefully won't continue, but that particularly in Q2 are going to have a bearing on our results.

Also, the Japan business looks to be done, as we move forward, perhaps 2% or so. That has -- while it has hurt the top line, it is part of the mix story. So as Japan decreases and in volume, we are selling more US products and holding them in the US and that has aided in the overall margin outcome.

Dan Mannes - *Avondale Partners - Analyst*

Got it. Then the other question on mercury is, you talk about the state markets. One of the complicating factors here is you have a lot of states that have been performing for a while, but the federal regs required increase in the reduction in mercury from those same states. So, is there a challenge perhaps in assessing what even the state level demand is going to be if the federals go away?

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

As we tease ourselves here, it's complicated.

Dan Mannes - *Avondale Partners - Analyst*

Clearly.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

And it is complicated. We try to take all those things into consideration and the team that we have working in that mercury market tries to put forth their best estimates, taking these things into account and so right now, again, as I mentioned, they're projecting, they're -- based on their knowledge of the customers and how they would react to various scenarios with Supreme Court rulings and the like, we think we are still going to be up by that 50%. And that is about the best we can put forth at this time.

Dan Mannes - *Avondale Partners - Analyst*

And hopefully, we won't find out the answer. Hopefully the Supreme Court will uphold the rule.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

Yes. We agree with that.

Dan Mannes - *Avondale Partners - Analyst*

The last question I have is on the expansion plan. Obviously, it is something you have been looking out for a while. Given what you are looking at on outsourcing side and given the continued improvement in efficiency, especially in the mercury market, is that maybe a little bit more back burner now? And I want to kind of correlate those comments by Cabot Norit to -- I mean, they seem to think about, based on their current view of the mercury markets, that there was probably going to be adequate capacity to meet it.

So I'm wondering if -- I don't want to say rethinking, but maybe it is a little bit less of a near-term item, the bigger expansion.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

You know, Dan, as we look further out, we are looking at all of the things you mentioned and we're going to play our decision based on how those evolve. So if you want to say it is on the back burner, it is perhaps a little bit on the back burner at this moment in time. But we'd very quickly make it a big issue. Once again, when you see what happens with our outsource strategy, what happens with the Supreme Court decision.

Bob O'Brien - *Calgon Carbon Corporation - EVP and COO*

And I think we talked -- other markets, too, and the growth of other markets will play a key role in to our expansion requirements. So it is not just only based on mercury, although that is certainly important. It is the growth in our other markets including municipal.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

Yes. I think our prudence is actually something that I think is well-warranted at this moment, given the fact that we have.

Dan Mannes - *Avondale Partners - Analyst*

Yes. It is kind of tough to make decisions when the feds are potentially moving things around on you. So I get it. Thanks, guys.

Operator

David Rose, Wedbush Securities.

David Rose - *Wedbush Securities - Analyst*

Thanks again, for everything, and good luck in the next chapter. I'm hoping maybe we can switch over to a little different [now] because of the mercury removal. Maybe we can talk a little bit about the equipment sales, particularly ballast water as well as some of the unique technology for water reuse. You seem to be a bit encouraged by the opportunities in California. So maybe starting with the notion of water reuse, of the \$1.6 billion in projects that are requesting funding under the state water revolving fund, how much are you spec'd in for that?

Bob O'Brien - *Calgon Carbon Corporation - EVP and COO*

I don't really have that information available to me, Dave. Certainly, we are tied in not only with UV, we are tied in -- or we are trying to be tied, I should say, with our activated carbon. Because we are very much aware that with the drought conditions, the municipalities and water authorities are looking for various sources of water; and there are a lot of wells that are shut down in California as a result of contamination with various organic chemicals. And so, probably our short-term -- most likely, short-term benefit is with water providers looking to start up the contaminated wells as another source of water. And so, we are actively discussing and involved with projects.

We're also actively involved with a couple of research projects, probably a little bit more longer term, that are looking for ways to convert wastewater into potable water directly, using activated carbon technology. And that is something that I think most people believe is certainly going to come. It is just a matter of timing, but we are trying to actively be involved in those projects and testing because we believe activated carbon is a base technology, if you would, for that type of upgrade.

So I can't answer your question directly, but we are active in the California market. That is for sure.



David Rose - *Wedbush Securities - Analyst*

Okay. And that is helpful at least from the activated carbon side. Maybe if we can go to the ballast water numbers. I didn't quite get the number for number of units sold in the quarter and your backlog.

Steve Schott - *Calgon Carbon Corporation - SVP and CFO*

We don't give backlog discreetly for that portion of our equipment segment. In total, our backlog was down from year-end perhaps by a little more than \$1 million. The backlog --

David Rose - *Wedbush Securities - Analyst*

(multiple speakers) units sold.

Steve Schott - *Calgon Carbon Corporation - SVP and CFO*

Yes. And, you know what? I don't have that and I didn't bring it with me. So I will just apologize. We are going to look, because we -- Gail might have it. So I will continue to address your question just for a little bit.

We are seeing some softness in that market, currently, particularly as it relates to offshore service vessels with the decline in oil price. That is an important market to us and one that we have seen slow. So clearly, for our success over the balance of this year, we're going to need movement on the IMO front, probably to have a significant change in our year-over-year sales. So it is --

David Rose - *Wedbush Securities - Analyst*

(multiple speakers). Sorry, Steve. Go ahead. I didn't want to interrupt you.

Steve Schott - *Calgon Carbon Corporation - SVP and CFO*

No. I probably have said as much as I can. It is a little slow at the moment. I don't think we saw an increase in the number of sales. We saw a good revenue outcome for the first quarter from ballast water but that was, to a certain extent, working through backlog and I think the backlog is down a little bit. And, again, I think that is largely beyond [short service vessel] market slowing, at least temporarily.

David Rose - *Wedbush Securities - Analyst*

So on that note, Steve, last quarter I was pleased with your progress on the operating profit margins. You were kind of close to breakeven and I asked you if you thought you would be profitable for 2015, and the implication was it was a good chance of profitability, but you expected to be profitable.

Now, sequentially, you have almost doubled the losses. And you are saying that you are probably not going to see much growth on the top line year-over-year. So how do I think about profitability for the equipment segment? Can you be profitable? I am assuming Q2 is going to look something like Q1. Maybe even worse. So how do I get comfortable with profitability?

Steve Schott - *Calgon Carbon Corporation - SVP and CFO*

There is a lot of elements to the equipment business and, first, I would at least highlight that as we compare back to the first quarter of last year, many of the cost improvement programs we put in place were taking effect and we were more profitable than we were in the first quarter a year

ago. Certainly, putting ballast water aside, there is a number of other components to our equipment business, some of which we certainly have aspirations to grow over the last three quarters. And a lot of that could be second half-oriented.

We are not giving up on the hope, if not expectation, that we can be breakeven in this segment. It will remain a challenge for this year, we will certainly need to get topline growth. We are not going to achieve breakeven, I don't believe, if we don't grow sales. And I think at the onset of the year, we had hoped we could grow equipment sales by \$10 million. I think clearly there is an element of ballast water growth in that and we will need activity to improve for that to occur.

So we will see. It is still too early to tell. We are not giving up. We certainly don't want to have a business segment that doesn't make money. Certainly, we do have an ongoing large investment in our capabilities as it relates to the Hyde Marine business. That is not going to stop. So, keep you apprised.

Operator

Christopher Butler, Sidoti & Company.

Christopher Butler - *Sidoti & Company - Analyst*

Just staying on ballast water for a minute, going back a few months or I guess the end of last year, there was a lot of optimism that we might see gratification relatively quickly. Since then, we have had both industry group move in favor of ratification and we have seen oil prices fall significantly.

Where do we stand now? Does any of that really help us move towards that final goal?

Bob O'Brien - *Calgon Carbon Corporation - EVP and COO*

The things I read, perhaps the same things you see, continue to make it look like there is less opposition from the shipping industry to approve the ratified IMO convention, continuing appreciation for the fact that ballast water treatment is something that is required to protect the planet. So I personally am getting more optimistic that the adoption of the IMO regulation will be sooner rather than later.

I keep on pointing out that we have made this call before. And it hasn't happened. But, everything I'm reading and hearing tends to say we are moving closer and closer in the right direction.

So, I think there is an expectation that it certainly would be before the end of the year. Again, we have said that before, but I think the tea leaves are now that it is much more realistic than perhaps in the past.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

The reason being, Chris, coming up in two weeks, I believe, Gail?

Gail Gerono - *Calgon Carbon Corporation - VP-IR and Communications*

The beginning of May 11.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

May 11. So this topic, again, will be on the docket. So we will see what comes out of that.



Christopher Butler - *Sidoti & Company - Analyst*

Okay. Shifting back to the mercury market for a second, as I think through the next few months with the Supreme Court ruling in June, I can't imagine that your customers, while complying with the regulation, are going above and beyond that to build any inventory. If MATS gets okayed by the Supreme Court, do you see an influx of new demand as some of your customers try to create a [safety stock]?

Bob O'Brien - *Calgon Carbon Corporation - EVP and COO*

I don't necessarily think there is going to be a huge ramp-up strictly from building up inventory on their sites. Users here have storage tanks in bulk. They would take shipments involved and they have storage tanks where the carbon is delivered into. I don't necessarily think they are running them at the minimum right now. So, I don't think an increase in the on-site inventory held by utilities is going to be much of a factor in sales in the second quarter or third quarter.

Christopher Butler - *Sidoti & Company - Analyst*

And just finally, with the change in tariffs, I don't recall that the change in tariffs really has that big of an impact on your business. That, in general, the tariffs are doing their job and things haven't -- don't change that much, regardless of where the rates are set at. Anything different this time around?

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

I think you are correct. Obviously, higher tariffs probably would be more favorable to the business, but the fact that there are tariffs in place, I think, has been successful in maintaining fair pricing in the marketplace. So probably not much change expected based on these preliminary tariff rulings of \$.24 per pound.

Christopher Butler - *Sidoti & Company - Analyst*

Thank you for your time.

Gail Gerono - *Calgon Carbon Corporation - VP-IR and Communications*

Excuse me. I found the Hyde number. There were 18 systems sold in the first quarter. We can take the next question now.

Operator

(Operator Instructions) Steven Yang, Alger Management.

Steven Yang - *Alger Management - Analyst*

Congratulations and thank you for all your help, Gail. A question for Steve. What was the impact of foreign exchange to your operating income this quarter? And how should we think about the (multiple speakers) impact for the rest of the year?

Steve Schott - *Calgon Carbon Corporation - SVP and CFO*

Yes. It looks like it is shaping up to be about a \$6 million impact per quarter on revenue, and I don't think we will see that being a whole lot different over the balance of the year, depending of course on where foreign exchange rates move. On the bottom line, that is a former difficult computation given hedges we have in place, but, in general, it is a \$0.01 to \$0.02 impact per quarter. Probably a little closer to \$0.02. But it is in that range. So it is about \$0.01, maybe \$0.02 for any given quarter and we just have to watch the rates as we go forward.

Operator

I'm showing no further questions at this time. I would now like to turn the floor back over to management for any additional or closing remarks.

Randy Dearth - *Calgon Carbon Corporation - Chairman, President and CEO*

Thank you very much and thank you all for listening today. Let me just conclude by saying in terms of strategies, the strategy for mercury, I truly believe we have found the right strategy for success and I do want to thank Bob O'Brien and his leadership as well as the excellent team that we have both from the marketing and sales as well as R&D. They have done a phenomenal job and I think that is evidenced in today's results.

Secondly, our strategy that we have implemented for improving costs, I am very pleased that it appears that our gross margins have proved to be sustainable and as we have said all along our goal will continue to be to drive that even for higher numbers. And the focus on sales and growing our sales globally, we spent a lot of time today talking about that. I am absolutely convinced that the strategy that we have outlined for you today will indeed provide a basis for a stronger Calgon Carbon going forward.

So with that, I will conclude our remarks. Thank you again, all, for listening and have a great day.

Operator

Thank you, ladies and gentlemen. This does conclude today's call. You may now disconnect.

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