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EDITED TRANSCRIPT

CCC - Q4 2016 Calgon Carbon Corp Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Calgon Carbon Corporation fourth-quarter 2016 earnings conference call. Today's call is being recorded. (Operator Instructions).

It is now my pleasure to turn the floor over to Dan Crookshank, Director of Investor Relations. You may begin.

Dan Crookshank - *Calgon Carbon Corporation - IR Director*

Thank you, Maria. Good morning, everyone, and thank you for joining us for today's conference call and webcast.

Our speakers for the prepared-remarks portion of today's call are Calgon Carbon's Chairman, President, and Chief Executive Officer, Randy Dearth, and Calgon Carbon's Senior Vice President and Chief Financial Officer, Bob Fortwangler.

Also on the call and available to take your questions are Executive Vice President and leader of our core carbon and services business, Jim Coccagno; and Executive Vice President and leader of our advanced materials manufacturing and equipment business, Steve Schott.

Management's prepared remarks today are accompanied by presentation slides. Those of you accessing the call via the webcast will find the presentation displayed in the webcast window. A stand-alone copy of the presentation is also available for download from our website at www.CalgonCarbon.com via the link to today's webcast that can be found on the investor homepage.

I'll now draw your attention to slide two. Statements made during today's call that are not historical facts are considered to be forward-looking statements and are made pursuant to the Safe Harbor provisions of federal securities laws. A list of factors that could affect actual results can be found in the news release we issued earlier this morning and are discussed more fully in the reports we file with the SEC, particularly those listed in our most recent annual report on Form 10-K. These filings, as well as this morning's news release, can also be found in the Investor Relations section of our website.

Now let me turn the call over to Randy.

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

Thanks, Dan and thank you, everyone, for joining us for our fourth-quarter and fiscal 2016 year-end earnings conference call this morning. I'm going to start my remarks with an overview of our fourth-quarter results on slide three.

About one-third of the way through the fourth quarter, on November 2, we closed on the acquisition of CECA's wood-activated carbon and filtration media businesses. For the purposes of external reporting and our discussion today, we are calling them the new business.

Sales rebounded from the third quarter to $137.5 million, a sequential increase of 11%. Legacy sales grew 1%, driven primarily by potable water sales from perfluorinated compounds, or PVC projects, and we're slightly under our expectations for 2% to 5% sequential growth, reflecting a stronger-than-anticipated dollar particularly against the euro and the pound sterling and continued weakness in the ballast water systems.

The negative impact from foreign currency translation for the quarter was $1.4 million, compared to the range of $500,000 to $1 million we had expected.

The new business contributed $12.1 million to our fourth-quarter sales. As is the case when a company completes a sizable acquisition, our fourth-quarter results include various accounting costs and charges, creating a fair amount of noise in the numbers and causing us to report a loss of $0.12 per share. On a pretax basis, we incurred acquisition and project-related expenses totaling $13.7 million, which is higher than the $5 million to $6 million estimate we gave you on the third-quarter call.

We completed our post-closing activities in November and December and we arrived at a final determination that certain French asset and business transfer tax payments we were expecting to make that totaled $6.5 million would have to be expensed immediately.

Closing the acquisition was a bright spot in an otherwise difficult year, with EPS weighed down by weak industrial sector demand; unfavorable market conditions for mercury removal sales, particularly earlier in the year; and continued delay in the formation of the market for ballast water equipment. While we held share, our industrial-sector customers were simply using and purchasing less activated carbon in 2016. As a reminder, these customers comprise approximately 30% of our sales. Significant acquisition and project-related costs were a burden on full-year results, and the strengthening of the US dollar also hurt us.

From a cash flow perspective, however, we had a good year. We generated close to $70 million in operating cash flow and returned a total of $18.8 million in capital to shareholders in the form of dividend and share repurchases.

In short, during the period of weak market conditions and demand for our products, we focused on the things we can control. We preserved our premium brand and maintained our leadership position for high-quality, high-performance activated carbon solutions, and we continue to focus on our model of providing products and services to the most hard-to-treat applications and saw notable success in quickly capitalizing on the PFC contamination issue in the US, and we continued to take cost out of our business and push for further operational efficiencies.

Still, I'm glad to have 2016 behind us. As you will hear in a moment, we have good reason to believe that the soft demand we faced in 2016 in the industrial sector, mercury removal, and the ballast water market areas may all represent areas of improvement for us in 2017.

Please turn to slide four for an overview of our fourth-quarter performance by the end markets we serve. Starting with the left side of the slide, in industrial processes we saw initial signs of improving demand toward the end of the quarter, as well as some early indications of potentially improving conditions in the markets served by our industrial-sector customers. Measures of economic, manufacturing, and production activity appear to be moving off the lows that started earlier this year. Customer sentiment is leaning more positive and our funnel of opportunities is better now versus historical levels, all of which leads us to be cautiously optimistic about the potential for a recovery here.

Staying on the left side of the slide, in the environmental water market, while sales for industrial-sector projects were not as robust as last year's fourth quarter, we saw modest improvement over the third quarter, which was our lowest quarter for the year.

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With respect to our ballast water management systems, the pace of bid activity, which started to pick up in the third quarter following the ratification of the IMO convention last September, stayed robust during the fourth quarter. As long as the September 8 compliance date of the IMO convention stays on track in its current form, we should see some of these bids lead to sales toward the end of the year.

With respect to US Coast Guard type approval, we are set to begin testing our system under their protocols in March, which keeps us on track to submit our application for approval in the fourth quarter of this year.

In environmental air in the mercury removal market, higher natural gas prices resulted in a very good fourth quarter. As these conditions are holding and we continue adding new customers, we're off to a strong start to the year in terms of improved demand and volumes, bolstered by our technology expertise and continued success in marking up our high-value-add powdered activated carbon solutions for hard-to-treat situations.

Turning to the right side of the slide, in the potable water market, demand remains strong, particularly in the United States. During the quarter, we won awards for PFC remediation valued at approximately $2 million, bringing the total PFC projects won during 2016 to 20, valued in total at approximately $10 million. And we are currently actively engaged in more than double the 2016 awards, both in terms of number and value of additional PVC related project opportunities and active leads.

In addition, we are pursuing and gaining traction with opportunities to provide our solutions to military bases that have used PFC-containing firefighting foams for training and to provide food-use home water filters to consumers who get their drinking water from private wells where PFC contamination is present. As this market continues to develop, we believe the North American potable water business will see further growth in 2017.

Coal-based granular activated carbon, specifically our filters product range and our equipment offerings, continued to be the solution of choice for this emerging market opportunity. In Europe, with our Tifton reactivation facility successfully coming back online from a post-start-up outage in Q3, we expect to see improving utilization going forward.

Touching briefly on the two remaining market segments, in food and beverage we will see volumes pick up as a result of the addition of the customer base of the wood carbon and FILTRA products that came with the new business. In our specialty carbon market, we won new business in metals recovery and secured a new five-year contract for respirator carbon products with an existing customer that should generate approximately $6 million of sales per year.

While I only touched briefly on the activities of our acquired wood-activated carbon and filtration media businesses, if you turn to Slide 5 I'll give you an update on integration activities and financial impacts of the transaction. Since closing the transaction last November, I have visited the facilities and met our new employees, and I have to say I am very impressed and even more excited about the opportunities ahead to strengthen our premium brand and our high-end leadership position.

Like our legacy business, the new business has earned a reputation for technical expertise in solving customers' most demanding purification and separation problems and for providing high-quality products.

We are moving ahead smoothly with our integration plans. Through the completion of the debottlenecking project and synergy capture, we still expect to improve the new business's EBITDA by 40% by 2019, as envisioned when we announced the transaction last April.

The wood-based activated carbon facility currently has the capacity to manufacture roughly 22 million pounds of steam-activated, chemical-activated, and higher value-added washed wood carbons for food, industrial, and pharmaceutical customers, and the debottlenecking project underway is designed to expand capacity by more than 2 million pounds as we enter 2018.

We also remain on track to capture expected cost synergies by the end of 2019. And we have begun to capture incremental business to utilize the new business's available industrial and food reactivation facility in Italy to more effectively serve more customers in Europe.

In terms of operations, we continue to be sold out of wood-activated carbon products.

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Having owned the new business for nearly four months, we're in a position now to give you an update on the financial impact of the transaction. Purchase accounting adjustments on the inventories and intangible and fixed assets have been quantified at $0.04 per diluted share in 2017, and we still expect the transaction to be accretive to our 2017 diluted EPS.

So that completes my review of our fourth-quarter performance and I would now like to turn the call over to Bob, who will take you through our financial results for the last quarter and our thoughts from the first quarter. So, Bob?

Bob Fortwangler - *Calgon Carbon Corporation - SVP, CFO*

Thank you, Randy, and good morning, everyone. I'll begin with the income statement on slide six.

The waterfall chart at the top of the slide displays the bridge from last year to this year's fourth-quarter gross margin before depreciation and amortization. You will notice that we are showing variances for our legacy business separate from the new business and the related transaction and purchase accounting impacts.

Starting from the left side of the chart, our legacy business was impacted by unfavorable customer and product mix, as well as the loss of a higher-margin mercury removal contract, both of which impacted third-quarter gross margin and were expected. However, solid operational performance at our Big Sandy and Pearl River urgent activated carbon production facilities led to our achieving gross margin before depreciation and amortization for the legacy business of 33.2%, slightly above the upper end of our guidance range of 31% to 33%.

With respect to the new business, purchase accounting adjustments to inventory led to a $1.5 million charge in the quarter, or 1.1 percentage points of margin. We expect a final charge of approximately $700,000 in the first quarter as we complete one inventory turn and fully recognize the inventory step-up adjustment.

In addition, the new business results contributed a negative 1.1 percentage point, of which 0.7 percentage points was due to scheduled plant maintenance outages at two facilities. The remaining 0.4 percentage points reflected new business's lower gross margin profile relative to Calgon Carbon's legacy business.

The waterfall chart on the bottom of the slide displays the bridge from last year's operating income of $10.7 million to this year's operating loss of $5.4 million. The gross margin dollar impact in the chart above was $1.4 million. Our legacy business operating expenses were essentially flat. However, incremental costs, comprised of two months of new business depreciation and amortization and operating expenses and the significant amount of acquisition of project-related costs, totaled $14.5 million and put us into a loss position for the quarter.

Of note, the new business's selling, general, and administrative costs tend to run at a lower percent of sales than the legacy business.

Before turning to reveal our cash flow for the year, I want to call your attention to a couple of additional fourth-quarter income statement line items. First, our effective tax rate was approximately 28% versus our expectation of 33.5% to 34.5%, due to nondeductible transaction costs and lower earnings. Second, interest expense was $1.3 million for the quarter, which was in line with our expectations.

Moving to slide seven, we show a comparison of our operating cash flow for 2016 to 2015. Although the end result in both years is roughly the same, with operating cash flow of approximately $70 million, our focus on working capital management was a positive contributor in 2016, while net income was driven by acquisition of project-related costs.

On slide eight, we display uses of our cash in 2016 compared to 2015. In 2016, the two largest components were the acquisition associated increase in our net borrowings. Solid cash flow contributed to our paying down approximately $40 million of the initial borrowings drawn to complete the acquisition.

Capital expenditures for 2016 came to $32.5 million, within our expected range of $30 million to $35 million and compared to $62 million in 2015. In terms of enhancing shareholder value, we paid $10.1 million in dividends to shareholders and $8.7 million in share repurchases.

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Moving to our outlook, starting with sales on the left side of the slide, we expect first-quarter 2017 to be 18% to 20% higher than last year's first quarter. This includes approximately $21 million to $24 million in sales from the new business. For the legacy Calgon Carbon business, we're anticipating sales to be flat with last year, reflecting improved mercury removal product sales and higher potable water and respirator carbon sales, with offsets coming from expected declines from our Japan entity and lower UV equipment sales.

We expect industrial-sector sales to be comparable to last year's first quarter. This is a positive sign as we began to see the slowdown in this sector beginning in Q2 2016. Built into our legacy sales outlook is the negative impact from currency translation of approximately $2 million, namely from the strong dollar versus the euro and pound sterling.

The right side of this slide details our outlook for other income statement line items. Including the results in the new business for a complete quarter, which, for now, comes with a generally lower margin profile and including the final inventory purchase accounting charge, we are expecting consolidated gross margins to be in the range of 31% to 32%.

Depreciation and amortization is expected to approximate $11.5 million, slightly higher than Q4, due to a full quarter of new business depreciation and amortization expense.

Selling, general, administrative, and research expenses as a percent of sales are expected to be 17.5% to 18.5%. During the quarter, we expect to spend roughly $1.4 million on integration activities. We expect to complete these integration activities in the third quarter and spend another $1.5 million to $2 million, mostly in the second quarter. In total, we expect to spend $3 million to $3.5 million on integration projects in 2017.

In addition, we expect to incur costs of about $1 million related to a subsidiary reorganization project. We have been working on a single integrated plan to create coherence across the organization and more efficient worldwide treasury functions, which will allow for both efficient growth and future changes in the Company's corporate structure. We expect to complete the subsidiary reorganization project by the end of the first quarter of 2017.

Together, expenses related to integration activities and the subsidiary reorganization plan should represent approximately 1.7 percentage points of our forecasted SG&A and research expenses as a percent of sales. As a reminder, the first quarter is typically our lowest sales-generating quarter.

Interest and other expenses net are expected to total approximately $2.5 million.

Moving to taxes, our expected effective tax rate for the quarter is 33.5% to 34.5%. In addition, and as a result of the subsidiary reorganization project I just described, we expect to incur a discrete tax charge of approximately $2 million during the quarter.

One full-year cash flow metric that we typically provide is our expected annual capital expenditure. In 2017, we are expecting to spend in the range of $70 million to $80 million, with a large part of this spend related to the Neville Island refurbishment and expansion project that was delayed from last year's original capital plan, as well as continued spending on new business projects, including the debottlenecking project at our wood-activated carbon facility and regular ongoing maintenance capital spend.

I'll now turn the call back to Randy for closing remarks.

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

Thanks, Bob.

So during 2017, our key priority will be integrating the new business and extracting expected synergies. We expect the new business will contribute approximately $100 million in sales.

In our legacy business, we expect to deliver revenue increases from potable water market projects in the US and Europe and from mercury removal contracts won during 2016, while benefiting from elevated natural gas prices. We also expect to see an increase in ballast water treatment equipment

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sales late in the year, the ultimate timing and pace of which will be dependent upon the IMO remaining on track with the enforcement of its regulation on September 8, 2017, and in its current form.

As we've mentioned on the call today, we are starting to see early indications of increasing demand from our industrial-sector customers, which gives us cautious optimism that they are moving into a recovery period. As the recovery builds during 2017, our goal is to maintain, if not expand, our margins, and we currently have our sights set on generating EBITDA of more than $100 million, in spite of the approximately $5 million of cost that we expect to incur during the first three quarters of 2017 related to the subsidiary reorganization project, acquisition integration, and the inventory-related purchase accounting adjustments, as Bob just detailed for you.

Helping us achieve these goals will be the capture of expected synergies and benefits from projects in the new business and our billable commitment to controlling cost and on improving operational and manufacturing processes in our legacy business, including cost improvements from previously announced programs. These initiatives place us in a strong position to realize greater operating leverage when volumes from our industrial-sector customers improve.

In closing, a rebound in industrial-sector demand, along with our continued success in winning municipal drinking water business and mercury removal contracts, plays to our strengths and competitive advantages in high-end segments of the markets, grounded in our premium brand, our customer stickiness, and our technical expertise, all of which points to better results in 2017.

So with that, we'll turn it over to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). [Marcus David Ketter], Baird.

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

Hi, guys. It's Tyler Frank from Baird. Thanks for taking the question. Could you give a little bit more color on where you stand in terms of (inaudible) approval for your ballast water system and what needs to occur as you look over the next six to 12 months?

And then, going beyond that, can you talk a little bit about market demand here in the US? Do you think that demand, based on expectations for potential regulatory changes or other factors, will fill the capacity here in the US, given yourselves and the other two major players [that sits] here?

Steve Schott - *Calgon Carbon Corporation - EVP Advanced Materials Manufacturing & Equipment*

David, this is Steve. With respect to our US Coast Guard type approval endeavor, we expect to conduct the first phase of that testing in March. It will be followed -- and that's our land-based testing, and then it will be followed by the other tests necessary. We expect to wrap all of that up before the end of the year and submit our filing to the Coast Guard during the fourth quarter.

As it relates to demand, what I'll say is that we have seen since the low point in Q3 of last year a dramatic increase in the number of bids that we're being asked to submit. To frame that, it's probably four times the activity that we had only six months ago, so we're quite encouraged by the bid activity. We feel like so long as the compliance schedules remain as set forth currently, and including the Coast Guard's recent compliance action taken in a vessel here at the US coast in the state of Washington, that these things all point favorably to a year with good results for us to the extent these things stay as they are.

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

Great. And what are your expectations for the overall market demand here in the US for activated carbon? And do you think the mercury market will expand more, given the current administration, or what are your thoughts going forward for mercury?

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

Let me talk a little bit about 2017 again in terms of demand and where we see it going. Again, 2016, we're not happy with. It was a bad year.

But as we noted in our remarks and I'll just review those again, we're cautiously optimistic that the industrial sector indeed will start coming back in 2017 and we can benefit from that. Absent of those high-end products, we tend in our plants to replace those with lower-margin products, which we did last year and hence that put some pressure on the margins. But, again, we are looking forward to that market coming back simply because it's big for us. It's 30% of our share, and also these are markets we know well and the customers prefer us as their partners in that area.

But when you add to that the opportunities we see in PFC removal and we're very excited about that, mercury removal, as you heard us talk about and the contracts we won last year, but even the ballast water, as Steve just talked, come September 8 we believe that that's going to have a significant improvement on our sales going forward. It's yet difficult to quantify, but bid activity would indicate that that will be the case.

So all of that will help fill up the capacity that we have and do it with the highest margin possible.

Operator

Gerry Sweeney, ROTH Capital.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

(inaudible) what is driving that? Is that just general hiccups in US industrial demand from an economic standpoint? Any sort of view on that?

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

Gerry, can you repeat the beginning of the question? I don't know if you are on a cell phone; it's coming in a little bit garbled.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

I apologize. Could you -- I want to stay on the industrial side of the question, the Q&A (multiple speakers). But I just wanted to see [less] was (inaudible) optimism on that side. Is general pickup in US industrial demand (inaudible). Just wanted to see if you could provide a little bit more detail?

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

Most of the customers in the sector for us are chemical companies and refineries, and they use our product in three ways. They use it as part of their processing, so when they make their products. They use it as part of their wastewater treatment, and in some cases they use our products when they have remediation projects that they have to complete.

And so, when you look at 2016 and look at the chemical industry, you can see a direct correlation with a downturn in demand for chemical products, and when you look now going into 2017, you see that there is some optimism on that front that 2017 will be a better year for them and hence for

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us as well. We do sense their pessimism, cautious pessimism -- or cautious optimism, I should say, like ours and we'll see again how that turns out over the next few quarters. But, again, data for us would indicate that things could be looking up.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

Okay. That's helpful. And speaking on, I guess, the potable water side, I know if my numbers are correct, some of the demand, there was some extension of sales. There was, I guess, some puts and takes all through that and it seemed to have bottomed out. Is that picking up or is that stabilized? How does that play into the entire equation?

Jim Coccagno - *Calgon Carbon Corporation - EVP Core Carbon & Services*

Gerry, it's Jim Coccagno. I'll take a shot at that question.

So our potable water sales, we're actually pleased with those. They've grown year over year and we expect that to continue into 2017. It's really across all of the drivers, but the one area that we're really happy about is PFC demand. So, in our portable water sales, as we look at it, there is the carbon and service side and equip. I would say that one thing that has occurred is the ratio between carbon and service and equipment has shifted a little bit more on the equipment as a lot of the PFC jobs require a large (multiple speakers) equipment investment up front, and we continue to see that or expect that to continue in 2017.

But we're actually excited about the potable water segment sector and what that could bring, what it has brought in 2016 and what it will bring in 2017.

Bob Fortwangler - *Calgon Carbon Corporation - SVP, CFO*

Tyler asked earlier about some of Trump's policies, and I failed to answer that, but I would like to comment because I think it adds to what Jim just said, and Trump has been very clear that looking at the infrastructure across the country and trying to bring that back to some normal standard is one of his priorities.

And I was just in Washington, DC, a few weeks ago and the water infrastructure is one of those areas that Congress is really interested in hearing more about and what our thoughts are. And, of course, we think this could be a strong area for activated carbon as we try to clean both large municipalities, but also small rural communities that need clean drinking water.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

Sure. And that PFC business, it started picking up earlier this year. Can you remind us maybe how big of an opportunity or market it potentially could be?

Jim Coccagno - *Calgon Carbon Corporation - EVP Core Carbon & Services*

We haven't given that number. The market is evolving, so I can tell you the market is kind of split into a drinking water market, which is really the opportunities that we're seeing today. It's the most urgent side of the opportunity, and then for the more longer term, there are remediation opportunities.

I was with a large consulting engineer company two weeks ago and asked the question about size and length, and from a length, they see this market being around for a long time, 10-plus years. There is a lot of contamination, specifically at DOD sites, so drinking water first, but this opportunity is going to be around for activated carbon and Calgon Carbon for a long time on the remediation side.

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It's a good opportunity. We continue to win the lion's share of the business. Our products are proving out to be the best in the business, and we expect to continue to win our share of that going forward. There's a lot of activity.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

Got it. I appreciate it. That's very helpful. Thanks. I'll jump back in line.

Operator

(Operator Instructions). [Jim Coles], [Lumbar Securities].

Jim Coles - *Lumbar Securities - Analyst*

Thanks for taking my question. I was just curious. Across all divisions, how many salespersons do you have and are they salaried or commissioned or both?

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

Let me explain that first in the US and then I'll go globally. In the US, we're pretty much structured by business units, so we have sales reps who focus on the municipal business. We have sales reps who focus on the industrial business. We have sales reps that focus on ballast water and our specialty carbons business, so they are trained in these areas and go after that.

They are salaried employees, but they do have bonus programs that we offer them, incentives based on various metrics that we deem is in the best interest of shareholders. So here in the United States from a number perspective, because we do have some hybrids as well that do both marketing and sales, but I would say 30 to 40 in the US, roughly, and that's complemented by distribution.

Around the world, we treat our organizations more like distributors in the sense that they multi-sell across all the various businesses, and in Europe we probably have over 20 and we just added some new additional sales reps with the new business to the tune of probably about 10. And in Asia, I would say we have a lot of agent -- agent and distribution network. We have our own sales reps that total probably about 20. Again, all of which are salaried employees.

Jim Coles - *Lumbar Securities - Analyst*

Okay. Could you just comment on the share repurchase? Is that suspended? And if so, is that dependent on share price?

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

First, let me just say that returning capital to shareholders is a topic that the Board of Directors each and every Board meeting discusses in how that's used. Again, we mentioned to you that we spent $18.1 million on dividends -- (multiple speakers) excuse me, $10 million on dividends and $8 million share repurchase. Bob, do you want to comment further?

Bob Fortwangler - *Calgon Carbon Corporation - SVP, CFO*

For now, the share repurchase program is suspended. Our focus at this point is to continue looking at the -- continuing our dividend to give back value to our shareholders and looking at our capital allocation in more detail to try and balance our capital spending versus debt versus share

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repurchases. So even though it's suspended at this time, it's still open to further actions, but at this point, due to the acquisition, it is suspended for the near future.

Jim Coles - *Lumbar Securities - Analyst*

Okay. Thank you. That's very helpful. I appreciate it.

Operator

Michael Gaugler, Janney Montgomery Scott.

Michael Gaugler - *Janney Montgomery Scott - Analyst*

A few questions on your main segments. On the legacy carbon and service business margin degradation the last two quarters, just wondering if you can give us some guidance on what we should be looking for in 2017 (inaudible)

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

Mike, let me talk a little bit about some of the challenges in the margins and we'll go from there. Obviously, the global competitive market was very evident in 2016 and even as we go into 2017, so that's still there and forces us to act accordingly.

Product mix, in terms of the fact, and I mentioned earlier that with the softening of the high-end markets require high-end products, we supplement that with lower-margin products and that indeed was the case in 2016, which had an impact on our margins. The industrial sector is big for us, again with 30% of our sales and with the downturn we saw, that again was a high-margin area that just wasn't as big in 2016 as we would like and we hope to come back.

The other factor to bring into it with the PFC market and particularly in the ballast water, the more of the equipment we sell, we've traditionally said that those come with a lower margin and we did have a lot of equipment that accompanied our PFC carbon sales last year, so that played a factor in it as well.

Michael Gaugler - *Janney Montgomery Scott - Analyst*

(inaudible) segment (inaudible)

Steve Schott - *Calgon Carbon Corporation - EVP Advanced Materials Manufacturing & Equipment*

Mike, this is Steve. You broke up, but I think I understand your question to be what drove the fourth-quarter losses in the equipment business.

And in that regard, I would mention a couple of factors. One, obviously our sales levels remained low, owing to the ballast water slowdown, and we expect that to improve. That said, in the fourth quarter we also -- and for the full year, we had some warranty charges in several of our businesses in the equipment segment. Those totaled for the year just over $1 million, and a good bit of that, over half, was in the fourth quarter, so that was one of the driving factors to the loss for the year.

We don't think that those are events that will repeat. We have remedied those situations, and I'll take the opportunity to mention that our backlog as we ended the year was pretty low, but we have won almost $20 million of equipment project bids. We haven't entered into the contracts yet

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for those wins. When we do, they will be reflected in backlog. So we expect this business to definitely improve in 2017, owing in part to the number of recent bid wins that we've had.

Michael Gaugler - *Janney Montgomery Scott - Analyst*

I apologize. I'm not sure if the problem is on your side or mine on the line. The reason I ask is I look back over the last couple years and you've pretty much run at a breakeven to a slight loss in the equipment segment. I was just wondering if you were gearing up ahead of September and anticipated better sales in the back half of the year and maybe that would drive higher expenses.

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

We geared up for the September expectation many years ago. We maintained our workforce in large part to remain prepared for the opportunity because, as you know, when the opportunity comes, it will be here for a limited period of years and we wanted to be prepared at the offset to capture as much of the market as we could.

So, the business has been burdened. The losses that we've suffered over the past several years, however modest, were as a result in part of our having a workforce ready for this opportunity, and that continues.

Michael Gaugler - *Janney Montgomery Scott - Analyst*

Okay. That's all I had, gentlemen. Thank you.

Operator

(Operator Instructions). Gerry Sweeney, ROTH Capital.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

I assume -- you were just mentioning on the PFC side, a lot of it was related to equipment. I assume the more equipment you get out there, the continued follow-on sales of activated carbon will continue, so it's -- equipment leads to sales and then activated carbon continues to follow it. Is that a fair assumption?

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

So Gerry, that's absolutely right, and with PFCs in particular. So we get our equipment out there with our carbon in it, and one of the things that is driving our success in PFCs is the future reactivation potential.

People want the contaminant gone. They want it remediated and there's not a lot of technologies out there, except for activated carbon, that you can destroy the contaminant through reactivation. So, we would expect in the long term that this initial PFC opportunity will lead to longer-term reactivation sales.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

Okay. I don't know if you want to get into it, but I imagine that $20 million, I'm not sure exactly how much is all equipment or how much is activated carbon, but is this -- for the sake of argument, if it was $20 million worth of equipment, what's sort of the follow-through on activated carbon product sales? On an annual basis?

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

Gerry, that $20 million I referenced crossed a number of different lines in our equipment business, some of which won't have anything to do with activated carbon. But we had said previously, and I think this holds, as we look at equipment sales for the PFC market, they probably comprise 75% of the total initial value, with carbon being the other 25%. But as Jim mentioned, the reactivation that occurs is an ongoing opportunity that's carbon only.

Jim Coccagno - *Calgon Carbon Corporation - EVP Core Carbon & Services*

And the changeout frequency of the carbon is really yet to be determined and will depend on the amount of contaminant in the waste stream, so it's really hard to tell at this point in time.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

Okay. I figured it was going to be variable (inaudible). Got it. And then just on ballast water, how is that market competition sort of heating up?

And then, you had also mentioned if the timeline stays in place. I know there is some grumblings of extension, moving things around, et cetera, and that really won't come into play. I believe there is going to be a meeting held in July, but what's the opportunity like? What are you hearing on the extension front? Anything that you can provide a little bit more granularity would be great.

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

So, Gerry, I'll first address competition. I actually think it's probably not heating up; it's cooling down. I think a number of companies, and I think we talked about 60 competitors being type approved, perhaps there's one-third or less of them that will be viable long term. That's what our intel is telling us.

It's been a long wait. It's been a financial burden for many, many competitors who don't have the financial backing to be able to stay in the market, and so on that front, it's a positive. And on the [iowa] implementation front, there will be meetings this year where I would expect there will be a discussion about a deferral. For now, there's no provision for it, so we will be watching it closely and certainly hope that the regulation stays in place.

We were really encouraged by the Coast Guard's enforcement action in late January. I think that's a good sign, and we know also that the Coast Guard is less receptive to granting extensions without good reason, so I think we see some positive market forces there occurring as well.

Gerry Sweeney - *ROTH Capital Partners - Analyst*

Okay. Great. I really appreciate it. Thank you.

Operator

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

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

Thank you, Maria. Thank you, everybody, for joining us on the call today. I just want to let you know that our Form 10-K will be filed sometime next week, and the management team here will be available for follow-up questions if you would like to call in. Thank you. Back to you, Maria.

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Operator

Thank you, ladies and gentlemen. This does conclude Calgon Carbon Corporation's fourth-quarter 2016 earnings conference call. You may now disconnect.

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