The prospect of cleaning up the nation's toxic waste sites sent pollution control stocks skyrocketing. But for companies like OHM Corp. the payoff has yet to come.

Down in the dumps

By Ruth Simon

CLEANING UP the nation's toxic waste sites was hailed as one of the most promising businesses of the late 1980s. The need is certainly there, but nine years after Congress created the Environmental Protection Agency's Superfund program, cleanup companies—and their investors—are still waiting for the payoff.

Take industry-leading OHM Corp. (1988 net revenues, $132 million). With earnings last year of just $7.9 million, or 20% below earlier analysts' forecasts, the company recently traded at just 10½ per share, less than one-third its 1987 high. Sighs company Chairman James Kirk, 39, "Wall Street has some very high expectations. We had some very high expectations. It's been very discouraging."

An industry pioneer, OHM started out in the Sixties cleaning up after train derailments and oil spills. Today it is one of the largest companies in the industry, providing on-site cleanup of contaminated soil and water for the government and for companies such as Lockheed, General Electric and Du Pont.

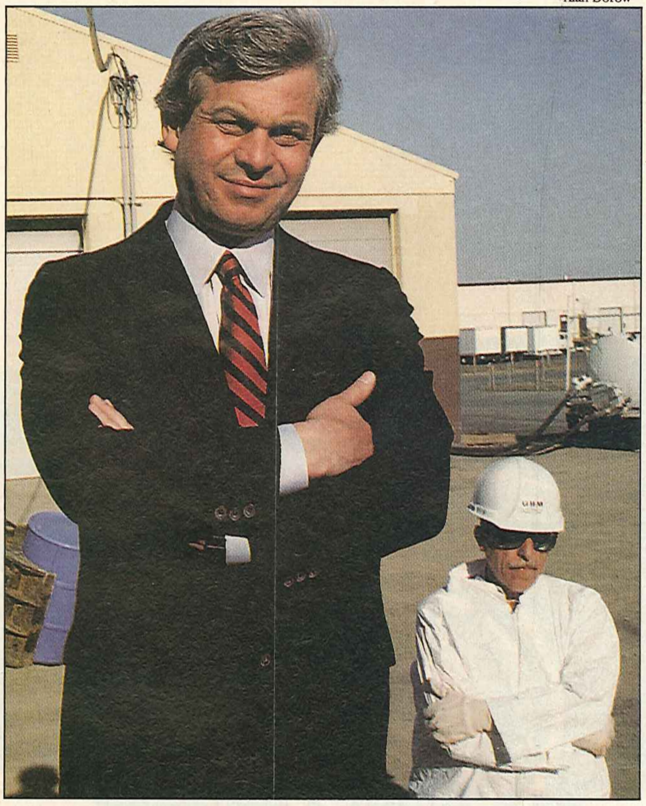
OHM's services don't come cheap, but it does offer some of the best technology and equipment available. The company's 1,100 pieces of equipment range from mobile incinerators to PCB extractors.

OHM's expertise proved critical to Ashland Oil last year when a holding tank collapsed, spewing 700,000 gallons of diesel fuel into the Monongahela River. OHM successfully used vacuums to pull 30% of the fuel from the icy river. The company also supplied fresh water to local towns and industries.

But OHM's financial performance has been less impressive. Net profit margins have fluctuated wildly, from 9% in the third quarter of 1988 to 3.9% just one quarter later. Return on assets for the year: a mere 5.4%.

Part of the problem is the unpredictability of OHM's emergency response business, which accounts for roughly 15% of sales and requires that trucks and equipment be on call at a moment's notice. But return on assets is also low because OHM, like many cleanup companies, overestimated its market.

Alan Dorow



OHM Corp. Chairman James Kirk
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One big mistake the industry made was to gear up for a boom in cleanup spending that has yet to materialize. Hopes had been raised as a result of mid-1980s estimates that the nation faced a toxic waste cleanup bill that could exceed $300 billion. Lately, estimates have lifted that cost to $500 billion. But as Joel Hirschhorn, head of toxic research for the Congressional Office of Technology Assessment, points out, that $500 billion, in fact, is "over roughly a 50-year time frame." Current spending, says Hirschhorn, ranges between $3 billion and $5 billion annually.

Of that spending, some 25% is coming from the EPA's Superfund. But much of the money is going for testing, consulting and engineering work. Actual cleanup work has been completed on just 48 of the nation's 1,211 Superfund priority sites. "The first $1.6 billion of Superfund has been used to study, study, study," complains Kirk.

Nonetheless, thousands of companies have flocked into the cleanup industry, lured by that $500 billion in prospective business. That is making it tough for OHM to build market share and to attract engineers and other workers. Most of these companies are what is known in the trade as "suck and truck" operations. They dig up contaminated soil and cart it to a nearby landfill. This may not eliminate the polluters' liability, but as a stopgap measure it at least puts off the day of reckoning—and short term can also be a lot cheaper. "Our biggest competition is a hole in the ground," says Kirk.

OHM has also been hurt by efforts to expand its laboratory business, now 20% of sales. The company began boosting volume at its main lab in Edison, N.J. in 1986, creating backlogs that swelled processing time for samples from 35 to 140 days, driving customers away. Kirk says the problems are over, but volume is still off 25%.

OHM is also expanding by moving into engineering

services and asbestos removal and adding cleanup services on the West Coast. "We want to make it more convenient for the client," says Kirk. "We're trying to offer more of a turnkey solution."

In fact, one-stop shopping may not pay off the way Kirk expects. In an emergency—a sudden toxic waste leak, say—the cleanup company that can do everything has the edge. But as Glenn Nestel, GE's manager of Remedial Projects & Engineering, points out, for routine cleanup jobs customers are going to shop for the best solution, which usually means parceling out the work to several subcontractors. What's more, such companies as Ashland Oil are now actually tackling smaller jobs themselves, though they continue to contract out larger cleanup projects.

What one-stop shopping may in fact mean is more competition. Westinghouse, for instance, has bought two cleanup firms in the past two years, and engineering firms like Roy F. Weston are also edging into OHM's market.

Kirk says he isn't worried. "It's a big industry," he says. Translating the demand into profits, however, is proving harder than anyone figured. ■