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PRESENTATION

Operator

Good morning. My name is Misty, and I will be your conference facilitator. At this time, I would like to welcome everyone to the Harsco Corporation Second Quarter Release Conference Call. (Operator Instructions) Also, this telephone conference presentation and accompanying webcast made on behalf of Harsco Corporation are subject to copyright by Harsco Corporation, and all rights are reserved.

Harsco Corporation will be recording this teleconference. No recordings or redistributions of this telephone conference by any other party are permitted without the expressed written consent of Harsco Corporation. Your participation indicates your agreement. I would now introduce Dave Martin of Harsco Corporation. Mr. Martin, you may begin your call.

David Scott Martin - *Harsco Corporation - Director of IR*

Thank you, Misty, and welcome to everyone joining us today. I'm Dave Martin, VP of Investor Relations for Harsco. With me today is Nick Grasberger, our Chairman and Chief Executive Officer; and Pete Minan, Harsco's Senior Vice President and Chief Financial Officer.

This morning, we will discuss our results for the second quarter of 2021 and our outlook for the remainder of the year. We'll then take your questions. Before our presentation, however, let me mention a few items. First, our earnings release as well as a slide presentation for this call are available on our website. Second, we will make statements today that are considered forward-looking within the meaning of the federal securities laws. These statements are based on our current knowledge and expectations and are subject to certain risks and uncertainties that may cause actual results to differ from those forward-looking statements.

For a discussion of such risks and uncertainties, see the Risk Factors section in our most recent 10-K and 10-Q. The company undertakes no obligation to revise or update any forward-looking statement. Lastly, on this call, we may refer to adjusted financial results that are considered non-GAAP for SEC reporting purposes. A reconciliation to GAAP results is included in our earnings release as well as the slide presentation.

With that said, I'll turn the call to Nick.

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Good morning, everyone, and thanks for joining us. A few weeks ago, we announced the appointment of our new CFO Anshooman Aga. He will join us later this month. and I could not be more pleased with the outcome of our search process.

We look forward to introducing Anshooman to you once he is settled into the role. Again, I appreciate Pete's willingness to defer his retirement and remain with us through the transition over the next few months.

I'm also very pleased with our Q2 results. We delivered our highest quarterly revenue since 2013, and our adjusted EBITDA growth and margins were strong, both year-over-year and sequentially versus our first quarter. Our results reflect impressive execution by our team. And I'll highlight the ongoing integration of ESOL and Clean Earth, our high level of service to a booming steel industry and advances in operational excellence in the Rail business.

The Rail and Contaminated Materials segments had lagged the recovery of other sectors, and we are pleased with the way in which we've met the increased demand. In short, the business momentum is now more broad based than it was in Q1, and we are maintaining a positive outlook for the balance of the year.

I would like to thank our 12,000-plus employees for their continued commitment to Harsco and to our customers. I'll comment on each of the segments, beginning with Harsco Environmental. Capacity utilization of the steel mills that we support is approaching that of the first half of 2019 before the market began to turn down. And the outlook into next year includes further volume growth. When coupled with the shift towards an improved mix of environmental services and lower capital spending, HE's outlook for 2022 is as bright as ever.

From a macro perspective, the steel industry's heightened focus on sustainability fits well with our focus on ESG and the portfolio of environmental solutions in our innovation pipeline. Our business has never been better positioned as a true strategic partner to the steel industry, and we look forward to continuing the work with our customers to advance and expand their green steel initiatives.

Our Clean Earth segment continues to perform well. We are delivering on our commitment to maximize the value from last year's ESOL acquisition while also taking advantage of the benefits of a market recovery. After realizing more than $10 million of synergies last year, we anticipate at least another $20 million this year.

So while the recovery in the each of Clean Earth's end markets is firmly rooted, the business is experiencing some pressure from tightness in the labor market and with end disposal assets. We have factored these items into our outlook for the year and where possible, are taking action to mitigate the impact.

At the same time, we continue to recognize new growth opportunities in the hazardous waste industry supporting the initial steps we have taken to transform our portfolio of businesses. The Rail segment recorded its highest quarterly profit in 2 years, and we expect EBITDA growth to exceed 60% for the full year. The business has benefited from a recovery in domestic spending and also its global aftermarket platform. COVID challenges remain, particularly in Asia and Latin America, but this has been accounted for in our outlook.

The team is also executing at a high level of managing our large contracts, dealing with COVID-related supply chain issues and as noted earlier, improving key operational metrics.

Finally, in May, we released our most comprehensive ESG report to date, highlighting our ESG accomplishments and providing a detailed look at our ESG strategy as well as focus areas, the governance structure to align with our business strategy and commitment to ESG with shareholder value creation.

Highlights of these are on Page 4 of the slide deck. We are particularly proud of our safety record last year and our contributions to the circular economy. Last year, Harsco recycled or repurposed over 75% of the material that we processed and we continue to see increases in our ESG ratings.

We are reinforcing our commitment to the environment and to social and governance matters by incorporating related goals into Harsco's annual incentive plan. I'll now turn the call over to Pete.

Peter Francis Minan - *Harsco Corporation - Senior VP & CFO*

Thanks, Nick, and good morning, everybody. So let me start by turning to our results for the quarter and our unchanged outlook for the year. As Nick mentioned, we are pleased with our Q2 results and our continued expectations for a strong year.

So please turn to Slide 5 and our consolidated financial summary for the second quarter. Harsco's revenues totaled $570 million and adjusted EBITDA reached $78 million in the second quarter outperforming the prior year and sequential quarters. Also, our Q2 EBITDA was at the top end of the guidance range we provided in May.

Importantly, each of our segments performed well in the quarter. Strong performance and execution in Environmental as well as the mix and timing of some shipments in Rail drove results to the higher end of our guidance. Clean Earth results were consistent with our expectations, and it was good to see the anticipated improvement in our Contaminated Materials business that we discussed on our May earnings call.

Both our Contaminated Materials business and Rail business which have been lagging as economic conditions strengthened over the past year are now experiencing positive momentum. And as Nick noted, these businesses are expected to further improve in the second half of the year. Harsco consolidated revenues increased 27% compared with the second quarter of 2020 and 8% compared with the first quarter of 2021. Each of our segments contributed to these increases.

Harsco's adjusted earnings per share from continuing operations for the second quarter was $0.28, and this figure compares favorably to adjusted EPS of $0.13 in the prior year quarter and is above the guidance range of $0.21 to $0.27 we provided in May.

Lastly, our free cash flow for the quarter of $6 million was consistent with our expectations. The change versus the comparable quarter in 2020 is principally driven by higher capital spending, much of which, as we've discussed before, had been deferred from the prior year. We did see a sequential improvement in cash flow from Q1, as anticipated, and we expect our cash performance to improve meaningfully for the remaining quarters of the year.

Now please turn to Slide 6 in our Environmental segment. Revenues totaled $273 million and adjusted EBITDA was $58 million. These results compare favorably to the prior year quarter when EBITDA totaled $40 million. Our quarterly margin improved to just over 21%. Compared with Q2 of 2020, the EBITDA improvement is primarily attributable to higher services and applied products demand globally. These impacts also include the benefit of higher nickel prices in the quarter.

These positives were partially offset by higher SG&A, including incentive compensation as well as a modest impact from site exits. Steel production at our customer sites continued to improve. Liquid steel tonnage, or LST, increased roughly 25% versus the prior year, and we expect to benefit from increased production as the global economy continues to improve. Our customers operated at less than 80% of capacity in Q2, which leaves room for further improvement in service levels in the future.

Next, please turn to Slide 7 to discuss our Clean Earth segment. For the quarter, revenues were $196 million, and adjusted EBITDA totaled $18 million. Compared to the second quarter of 2020, revenues increased 21% with both our contaminated and hazardous materials businesses contributing higher revenues.

The EBITDA increase year-on-year was mainly driven by higher hazardous waste volumes and our integration and value creation activities. Integration benefits totaled roughly $5 million in the quarter versus the prior year period. And overall, our integration efforts are progressing well with us on track to realize $20 million of benefits this year.

These positive impacts were partially offset by incentive comp and SG&A investments, including some rebranding and IT costs, which won't repeat next year. Lastly, on Clean Earth, I'd highlight that our year-to-date free cash flow now totals $24 million. This total represents more than 70% of its EBITDA and reflects the positive results and financial characteristics of this business.

Now please turn to Slide 8 in our Rail business. Rail revenues totaled $101 million, up 24% from the prior year quarter and the segment's adjusted EBITDA totaled $10 million in the second quarter. The revenue increase versus the prior year quarter is attributable to higher equipment sales, including our work progress under a number of long-term contracts. Meanwhile, EBITDA was essentially unchanged year-on-year. Here, the benefit of higher equipment contributions was offset by a less favorable aftermarket mix, mainly in Asia, timing of certain contracting services and higher selling-related costs.

With this said, our Q2 results in Rail improved sequentially and were slightly better than anticipated. Again, this reflects the positive market developments and improved outlook we discussed on our May earnings call. So now turning to Slide 9, which is our consolidated 2021 outlook. As I mentioned earlier, our outlook details are unchanged from those communicated in May.

Adjusted EBITDA is expected to be within a range of $295 million to $310 million. Adjusted earnings per share is expected to be within a range of $0.82 and $0.96 and we expect free cash flow of $35 million to $55 million for the year. Our Q2 results support this guidance. Underlying market performance was consistent with expectations in recent months, and our outlook for the relevant end markets is unchanged.

With that said, our implied outlook range for the second half of the year also contemplates some modest potential headwinds largely comprising labor availability and inflation related to our trucking fleet at Clean Earth. Also, the tightness and availability of end disposal options in the industry, including incineration capacity remains a potential headwind in the coming months. We are, however, anticipating end disposal markets to loosen later in the year.

Let me conclude on Slide 10 with our third quarter guidance. Q3 adjusted EBITDA is expected to range from $75 million to $81 million. Each segment is expected to see improvement relative to the prior year quarter, given favorable market conditions as well as internal improvements and investments. Sequentially, Q3 results are expected to be comparable with the second quarter at the midpoint of the range, reflecting some improvements in Clean Earth and Rail. In Environmental, we expect that services mix will be slightly less favorable in Q3 versus the second quarter.

So before I conclude my prepared remarks and turn the call over to the operator for questions, let me make some final comments. First, I want to personally welcome Anshooman to Harsco as the new CFO. I've met him I spoke with him. He will be a fantastic addition to the leadership team of this company, a company that I've had the privilege to be part of for 7 years. Since this will be my last earnings call, let me once again say that while my wife and I are very excited about starting the retirement phase of our lives, there is much I will miss about Harsco. Most importantly, the great people I've been proud to work with. Nick, my colleagues on the executive leadership team and my global finance and IT teams, I will miss them greatly. However, rest assured, I will enjoy watching and sharing in the continued successes of Harsco on the sidelines as an investor for years to come.

Thanks, and I'll now hand the call back to Misty for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Michael Hoffman with Stifel.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Good luck, Pete with the retirement.

Peter Francis Minan - *Harsco Corporation - Senior VP & CFO*

Thanks, Mike.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

The free cash flow outlook, it's a $70 million swing in the second half. It seems like it's very heavily weighted around working capital. Can you help us understand where that's going to come from?

Peter Francis Minan - *Harsco Corporation - Senior VP & CFO*

Yes. It's typical for us, Michael, that the second half is typically higher weighted in terms of free cash flow. It is coming largely from working capital and EBITDA performance, particularly. You see it in Rail for sure, but across all 3 of the business units, we'll continue to see the trend that we've already experienced which is an improvement in our working capital metrics. So we'll see that be the primary driver for the free cash for the rest of the year, Michael.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Okay. And then within the line of business, and there's -- this sort of got an A and a B to it. So the A is how I think about the second half, but the B is the longer view of these trends you're picking up. Can you talk about what you're seeing that gives you confidence about the comment that you made about '22 in Steel, Clean Earth, Rail? So the A is the short-term view; the long-term view is what else are you seeing that gives you the confidence that this carries into '22?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Well, I'll start with the B, Michael. And I think if you simply look at consensus estimates for volume growth in steel to begin with, but also with the industries that we serve in the U.S. that the source of the Clean Earth volumes, so Medical, Retail, Industrial and so forth, everything that we've seen and heard, the commentary around those markets suggest that this recovery is going to extend well into 2022. That's the base. Of course, beyond that in our own business, the growth opportunities that we're seeing in Clean Earth and also the ramp-up of some large new contracts in HE should be additive to that. And as we've mentioned, many times before, capital spending in 2022 should be a good bit less, $50-plus million less than it will be in 2021. So you put all of that together, coupled with what should be an improving mix in HE and Clean Earth, and we're pretty optimistic about 2022.

In the Rail business, we've commented before that about half of our revenues are derived from transits and metros. And of course, that has not yet begun to bounce back. We've seen recovery, as you know, on the freight side, both within the U.S. and in the global markets that we serve. But we've not seen a recovery in transits, and that's going to come as people return to office. And so that gives us optimism in Rail together with, I think we've talked about before, some new products that we're introducing in the Rail sector that had been trialed with test vehicles and with really very good feedback from potential customers. So across all 3 segments, HE, CE and Rail, there's a good bit of optimism not only beyond this year, but as implicit in our guidance for this year, the HE business, as you know, is a bit more stable.

The volumes -- we have decent visibility to the volumes of material that we'll process for the balance of the year. And in Clean Earth and Rail, of course Rail has a substantial backlog and Clean Earth, we continue to see growth in each of its end markets.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

And if I tease a little bit out on Clean Earth, the infrastructure-related part of that volume, any visibility there?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Well, there's great visibility to a number of large projects that are coming online. Many of them have not yet come out for bid. And so there would be -- the question is the timing, although we're somewhat confident that we would be involved if not as a sole provider, at least in part. So there's visibility to the pipeline of products. It's really more a question of timing. And of course, you add on to that, the projects that will be created by the infrastructure bill that was passed a couple of days ago. Again, it's difficult to quantify the impact of that on the business. But clearly, in Clean Earth with respect to a cleanup of Superfund sites, a large number of new infrastructure projects that should create material that we would process, not to mention opportunities with respect to wastewater and PFAS. So a lot of optimism on Clean Earth also.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

You're alluding to the $30 billion of increased circular funding and the $10 billion for PFAS work? That's what's in that infrastructure bill?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Yes, in part. Of course, there are other components of the infrastructure bill that are oriented towards infrastructure that should support both Harsco Environmental and also Clean Earth.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Last 1 for me. You never made any secret your business is in a transformation that Rail eventually isn't part of the portfolio. Is business good enough that you can start a process of that transition now?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Well, that's a very good question, Michael, and I'll -- let me start by saying as we noted -- both Pete and myself noted in our commentary, we're very happy with the performance of the business and the outlook, not just for the balance of this year, but in 2022 and beyond. And of course, we're trying to balance the creation of shareholder value as a result of the disposition with the benefits of sooner being better than later. And so that's the balance. And of course, with respect to shareholder value, we are expecting, given the outlook for the business for that outlook to be manifest in the sale price. And so that's the question really at the moment. And of course, the second half, we expect to be stronger than the first and 2022 to be a good bit stronger than 2021. And so we'll just have to wait and see if we can capture some of that value now or if we need to wait and execute a process a bit later.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Okay. And lastly, the incineration issue is they're just full. It's just that busy, so it supports your every other statement, Clean Earth sees great fundamentals and the incinerator capacity in North America is just full and that's the problem?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Yes, it is. It's not what I would term a major problem for us. We certainly send -- we process and repurpose and recycle a lot more material than we send to incineration. And so we're managing through that as best we can. And it's -- sure, I mean, it is holding back revenue and profit a bit in the second half. It's likely only a timing issue. But it's not material to us, and it's embedded in our guidance.

Operator

Your next question is from Larry Solow with CJS Securities.

Lawrence Scott Solow - *CJS Securities, Inc. - Senior Research Analyst*

Just a couple of follow-ups. Maybe, Nick, you mentioned sort of the improving mix of services as you head out into '22 and beyond, particularly in Environmental. Could you just speak to that more? Is that sort of a culmination? I know you guys have walked away from several contracts over the few years. And sounds like some contracts are now -- or new contracts are ramping up. Is that driving the improved mix? Is it contract based? Is it more actual services base? What is driving that?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Yes. Well, it's partially a contract churn. But I would say the larger impact is from the mix shifting more towards applied products than to the mill service contracts. Now with all that said, I think we really need to focus more on kind of the EBITDA minus CapEx kind of trends, of course, applied products being less capital intensive and also the environmental services that we provide also are less capital intensive than the more traditional logistics services that we provide. So we need to look beyond simply EBITDA margin or gross profit margin and also focus on EBITDA minus CapEx margins, and you'll see a pretty notable jump in those in 2022.

Lawrence Scott Solow - *CJS Securities, Inc. - Senior Research Analyst*

And you mentioned the applied products, which actually obviously had a very strong quarter this quarter, I think, and you mentioned a little bit of a benefit from nickel prices. But do you see this sort of uptick as a sustainable uptick without -- at least on the volume side, probably harder to forecast pricing on commodities?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Yes, it's a good point, good point, Larry. We certainly have benefited from higher commodity prices this year, as you note. So I'll put that to the side, given that, of course, they're very difficult to predict. But on the volume side, absolutely. Our Reed Minerals business, as we transform its source material from coal to steel slag is a very bright outlook, I'll say. The SteelPhalt business, which is the road-based material that we provide largely in the U.K., although we are planning to commission some new plants here over the next year or so. That business is a very good business for us and should see nice growth. ALTEK as well, right? We talked about ALTEK, we've been challenged with during COVID from inking contracts on processing waste from the aluminum industry. I certainly expect that to pick up quite nicely in 2022 and also in the second half here this year.

So yes, there's good reason for optimism in terms of volume growth in Applied Products. And again, the margins are good, but even more important, the capital intensity is relatively low.

Lawrence Scott Solow - *CJS Securities, Inc. - Senior Research Analyst*

Okay. Can you just give us -- I realize some -- there's a little bit of a churn between your clients. But I imagine the base is pretty similar, the same over the last few years. So I know you mentioned utilization of your steel mills is just about -- maybe a little bit over 80% in the quarter. And that's sort of back to where we were early '19 before things started to go -- slide downwards. Over the last 5 years, is that sort of low 80 number close to the high watermark or have we been higher at your customers?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Well, first of all, yes, we're -- I think as Pete mentioned, I said approaching and Pete indicated that there's still room, and there is. We're kind of at that 80% level in our mills and a high watermark would be closer to the mid-80s or so. Historically, the average is 80% to low 80s. And of course, with all the stimulus spending, not just here, but in other markets where we provide services to steel mills, we think there's opportunity beyond that because of the stimulus spending beyond the historical highs even. So -- and of course, a lot of capacity has been taken out in mills that we don't serve. So that should lead to higher utilization of the mills that we do.

Lawrence Scott Solow - *CJS Securities, Inc. - Senior Research Analyst*

Right. Okay. Fair enough. Just last question on the Clean Earth outlook. It sounds like things are certainly improving across segments within Clean Earth. I would have thought maybe sequentially, you would have a better revenue improvement. Usually, Q1 is a little bit slower seasonally. And it sounds like dredging may be coming back a little bit or maybe that's more in the back half of the year or the Contaminated Materials side. So are some of these limiting factors, is it just the -- more the employment labor issue and perhaps the incinerator issue you mentioned? Or is it -- maybe I'm splitting here just a little bit. Just any thoughts on that?

Peter Francis Minan - *Harsco Corporation - Senior VP & CFO*

Yes, it's a combination. This is Pete. It's a combination of a bunch of things. In the Soils business, yes, we did see the momentum this quarter, which is great, but it's still -- it's not a rapid uptick. It's going to be building up each quarter a little bit better than the preceding quarters. So we're going to see that trend continue, but it's not a hockey stick by any stretch. So at the top line, that's probably the big driver.

At the EBITDA line, it's a combination of things. It's the cost headwinds, the labor shortage headwinds we pointed out during our earlier comments, but also the investments we're making on the G&A side. So we've talked about this before. We're making some investments in the G&A front. We've got some IT and rebranding costs, which we'll be incurring the second half -- continue to occur in the second half of this year that won't repeat in '22. So it's a combination of all of those factors that kind of mute the otherwise high-growth top line there.

Operator

Your next question is from Rob Brown with Lake Street Capital.

Robert Duncan Brown - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Just wanted to follow up on those labor issues and cost issues in Clean Earth. Can you offset those with pricing? Or do you see those working out as maybe the labor market stabilizes?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Yes. Well, first of all, the labor challenge is primarily for us with truck drivers. We have a rather large fleet of trucks that span the U.S. So that's where the labor shortage is crimping us the most. Of course, there's also inflation in labor costs with respect to truck drivers and others as well. So -- but to answer your direct question, yes, we do expect to be in a position to raise price to offset the impact of that inflation.

Robert Duncan Brown - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Okay. Okay. Good. And then on the Rail business, you talked about kind of a transit or metro improvement. What sort of drives that improvement? Is that really an economic reopening? Or are there government actions that need to happen to get that business going?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Well, it's both. I think you probably noted that in the infrastructure bill, there's a rather large allocation of stimulus funding to Amtrak. That will certainly help. But yes, ridership levels have to go up. And I think as I kind of span many of our peer companies and talk to others, it seems as though many are pointing towards after the Labor Day holiday for return to office, which certainly should stimulate ridership improvements. So it's -- there's really nothing baked into our second half forecast around a recovery in transit. That would be more of a 2022 phenomenon. But at a macro level, some of the shifts are taking place that would suggest that, that will happen.

Operator

(Operator Instructions) Your next question is from Chris Howe with Barrington Research.

Huang Howe - *Barrington Research Associates, Inc., Research Division - Senior Investment Analyst & Research Analyst*

Best wishes, Pete on your retirement.

Peter Francis Minan - *Harsco Corporation - Senior VP & CFO*

Thanks, Chris.

Huang Howe - *Barrington Research Associates, Inc., Research Division - Senior Investment Analyst & Research Analyst*

Yes. Just some of the topics or concerns in the quarter. I guess, starting with the supply chain issues. And then you also -- we've been talking about the labor market as it relates to Clean Earth and some other challenges in the quarter. Can you kind of put these in context, whether that's for the company as a whole or on a segment level basis as to what kind of impact they had on quarterly results? I know results came in good versus expectations. But just wanted to see kind of what your thoughts were on how these constraints impacted the financials?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Yes, yes. Well, first of all, I'll say that individually and even collectively, I would say that these challenges are not material to our results. In order of impact, it's probably impacting Harsco Rail the most. And then I would say Clean Earth and to a lesser extent, on Harsco Environmental. So I'd hesitate to quantify it. I would just again say that it's not material. And it's -- it is labor. As we mentioned, it's also inflation. But in Rail, we have a very global supply chain. And many countries, as we all know, continue to be in the depths of the COVID pandemic and impacting their economies.

So both on the supply chain side as well as on the revenue side in terms of bookings that we expected in parts of Asia and Latin America are just not happening. And we certainly view all of that to be temporary. We're hearing the right things from our potential customers and suppliers that this will pass, but it hasn't yet. So yes, it's holding us back. Again, I hesitate to quantify it, but again, it's not material.

Huang Howe - *Barrington Research Associates, Inc., Research Division - Senior Investment Analyst & Research Analyst*

Okay. And then just going off those last comments surrounding the Rail segment. Certainly, the positive part of my thesis on Harsco is the trains and metros have yet to come back. You mentioned that is a 50% approximate mix of the Rail segment. As we think about that portion of your business versus freight, can you talk about or compare and contrast the mix of business within those 2 buckets? And once trains and metros starts to show some level of recovery, how that would change your mix of business as we look further out into fiscal year '22?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Well, in transit, we have a -- generally speaking, a richer mix because a good chunk of the revenue is derived from our technology products, which have a very healthy margin. In fact, I would imagine that within the allocation and the infrastructure bill to Amtrak that we see opportunities for our safety and measurement and diagnostic technology products, which have very healthy margins. So I would think that -- and of course, the balance piece of that is the aftermarket in Asia, which is freight in China, right? But I'd say, in general, as the transits begin to pick up, that the mix for us should improve.

Huang Howe - *Barrington Research Associates, Inc., Research Division - Senior Investment Analyst & Research Analyst*

Excellent -- That's perfect. And then -- okay. And then 1 last question just to wrap things up. You talked about the improvement. It wasn't a rapid improvement in contaminated soils, whether it's contaminated or other parts of the business that are recovering. As we look at now versus 3 or 4 months ago, you did well versus expectations. But could you perhaps talk about something that maybe been a little bit better than you expected 3 to 4 months ago as we kind of dig into what comprised the results?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Yes. Well, certainly, in Harsco Environmental, volumes probably surprised a bit on the upside, I would say. I think the -- and I'll speak more on the EBITDA line here for a moment. I think the ongoing benefits from the integration of Clean Earth into ESOL have probably been a little stronger than we anticipated. And that, of course, is helping the EBITDA margins as well in Clean Earth. But I would say in terms of volume, on hazardous waste, probably pretty close to our expectations, I would say. And we've continued to await the bounce back in contaminated soil volume. And so that's held us back a bit and was -- although it's again higher than it was in the first quarter, still probably a little bit weaker than we would have hoped.

Operator

The next question is from Jeff Hammond with KeyBanc.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Just trying to get a sense of what's precluding you from getting more positive, like within the guide on Environmental. It just seems like great momentum into 2Q, and it seems like production is moving higher into the second half?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Yes. Part of it, Jeff, is that, as you know, we've been, for a handful of years now, really focusing on exiting contracts that are -- don't provide the returns and then investing in new contracts that do. Some of those new contracts have been slower to ramp up based on permitting issues and customer issues, I am thinking in China, for example, and some other geographies.

So that has held us back a bit. Again, that's a timing-related matter. So that's what I'd probably point to is as the largest kind of challenge and not having a stronger outlook for the second half. It's still, of course, quite strong sequentially and year-over-year and even by historical standards. Our EBITDA in HE will be approaching that of 2018, which was a multiyear high. We probably won't get quite there. We'll likely meet or beat the 2019 EBITDA and volume. But now I'm overall happy with what we're seeing in the market and how we're executing. Do I wish that some of these new contracts were ramping up more quickly? Absolutely. But again, it's a timing issue, and we'll see the benefit of that in 2022.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Okay. Great. And then just on Clean Earth, I mean, clearly, a lot of inflation, you talked about some of the issues. Just maybe talk about what you're doing on price. It seems like this is a price-taking market. And then just dovetailing that into ESOL, I think 1 of the issues they had was not pushing price, and I think you're going to go after kind of strategic pricing initiatives. So just update us on those 2 things.

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Well, certainly, a portion of the $30 million or so of benefits that we've received upon integration has been price. I mean it's not the largest component, but we have certainly taken advantage of some of what you mentioned with respect to previous ESOL practices on pricing. And so there is some benefit that we've derived to date over the last 18 months or so from that. Going forward, we really haven't yet built in probably to the extent that

I might like to see some pricing benefits. But you're right, this is a market that should enable us to see more benefit from pricing. And those discussions are on the table as we speak, but not necessarily built into our outlook for the second half.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

What's -- within Clean Earth, what's typically like the transition timing to get a price increase through if you're doing a follow-on or something like that?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Yes. I don't have a good sense of that, Jeff. I don't know, Pete, if you -- no. It's obviously -- it's not an across-the-board exercise that affects everyone the same amount. But I can say historically, looking back over the last 5 years in Clean Earth, price has exceeded inflation. And so that dynamic has been accretive to margins.

Operator

We have a follow-up question from Michael Hoffman with Stifel.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Yes. Just to check on the last bit, I mean, just so everybody is clear, Clean Earth's pricing issue is because it gets down to waste codes. It's not quite like you can just say I'm going to raise price broadly on all chemical companies, it's really a waste code issue. That's why you're -- I think why you're being reserved in your comment there. My question is, this is a market that keeps looking for a momentum commentary or actions by companies, and I think you have a momentum aspect of your story and the sequential improvement. You raised guidance in 1Q, so you did it. But where's the bias in your guidance? Is it solidly at the midpoint? Or is it an upper half perspective, given that it's been raised?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Okay. Well, I'll say what you expect me to say, solidly at the midpoint.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

I was hoping you're going to say upper half, but that's right.

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Nice try, yes.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Okay. And what would cause it to be upper half then? What has to happen?

F. Nicholas Grasberger - *Harsco Corporation - Chairman, President & CEO*

Yes. I would say some of these COVID-related challenges in Rail and Clean Earth in particular, would need to abate. I think that would be one. We talked about pricing a bit clearly. Commodity prices staying robust in HE would help us. The faster-than-anticipated ramp-up of new contracts in HE, of course, would be a good thing for us. And then some of these large contaminated materials projects that I mentioned are in a pipeline, but the visibility on timing is poor. We're not expecting a significant lift from those in the second half of the year. Of course, that could happen.

Operator

I will now turn the call back over to Dave Martin for closing remarks.

David Scott Martin - *Harsco Corporation - Director of IR*

Thanks, Misty, and thanks, everyone, for joining us this morning. Feel free to contact me with any follow-up questions. And as always, we appreciate your interest in Harsco and look forward to speaking with you soon. Take care. Bye.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participating. You may now disconnect.
