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HSC.N - Q1 2021 Harsco Corp Earnings Call

EVENT DATE/TIME: MAY 04, 2021 / 1:00PM GMT

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PRESENTATION

Operator

Good morning. My name is Laurie, and I'll be your conference facilitator. At this time, I would like to welcome everyone to the Harsco Corporation First Quarter 2021 Earnings 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. 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 like to introduce Dave Martin of Harsco Corporation. Mr. Martin, you may begin.

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

Thank you, Laurie, 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 CFO. This morning, we will discuss our results for the first quarter of 2021 and our updated outlook for the year. We'll then take your questions.

Before our presentation, however, let me mention a few items. First, our quarterly earnings release as well as the 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 and that may cause actual results to differ materially from those forward-looking statements. For a discussion of such risks and uncertainties, see the Risk Factors section in our most recent 10-K. 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 the earnings release today as well as the slide presentation. With that said, I'll turn it over to Nick.

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

Good morning, everyone, and thanks for joining us today. As Dave just noted, Pete Minan, is with us today. You may recall, Pete had discussed his retirement plans on the last earnings call. So let me start with a brief update on the search process for our new CFO.

I've been very happy with the degree of interest in the role of very highly qualified candidates. But due to timing factors related to certain candidates' current roles, we are not yet in the position to announce Pete's successor. Therefore, I have asked Pete to extend his tenure to ensure a smooth transition to the new CFO, and he has agreed to do so. So Pete, on behalf of the Board, I truly appreciate your ongoing commitment to our company.

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I would also like to welcome John Quinn to the Harsco Board of Directors. We announced John's appointment a few weeks ago. This addition demonstrates our ongoing focus on ensuring that we have the right balance of expertise and experience on our Board. John has the requisite financial and strategic acumen, as well as a deep understanding of the environmental services industry. He's a terrific fit with our Board and the management team, and we are thrilled to have him join the Harsco family.

I'm encouraged by Harsco's strong start to 2021 with performance exceeding our expectations across all 3 of our segments. Our results for the first quarter reflect the outstanding execution of our team as well as an improvement in the overall macroeconomic environment. When we reported our fourth quarter results, visibility into the year for our Rail segment and the Clean Earth contaminated materials business was limited due to the impact of the COVID pandemic. However, we saw a clear shift during the course of the first quarter, and today, each of the end markets that we serve is gaining momentum.

As a result, we have raised our outlook for the full year, And while the updated outlook reflects improvement in each segment, the most significant change is in our Rail business. I'll comment on each of our segments, beginning with Harsco Environmental.

We now expect HE's EBITDA in 2021 to exceed that of 2019 and perhaps even approach that of 2018, which was the highest in many years. Margins are also quite strong. Despite the higher capital spending this year, owing to deferrals from 2020, EBITDA minus CapEx margin should be about 10%, with EBITDA margins of 21% to 22%. I also believe the outlook for the business beyond this year to be very encouraging when we consider a return to more normal capital spending levels, the quality of our contracts and our ongoing shift to less capital-intensive environmental services.

In addition to this, steel mill utilization rates remain well below historical highs, with upside driven by a bullish outlook for infrastructure projects and consumer spending. I will also note promising developments related to our all AluSalt technology and other innovations aimed at valorizing steel slag. Such projects are critical to achieving HE's ambition of becoming a leader in environmental safety and governance in the global metals industry with a strong cash flow profile.

Our Clean Earth segment continues to perform well, and 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. The primary drivers relate to lower disposal and procurement costs, combined with increased operational efficiencies and sizable SG&A savings.

Hazardous waste volumes across our industrial, retail and health care customers were better than we anticipated in the quarter with nearly all categories now above pre-COVID levels. We are also winning more business in these markets and the pipeline of business opportunities continues to grow. Overall, the ESOL business is showing its resilience, stability and growth, which, along with its attractive cash flow and the synergies, support our investment thesis to combine the business with Clean Earth.

As I said earlier, our Rail segment has improved its outlook for this year, with EBITDA now about 1/3 higher than our previous guidance. The primary driver is our aftermarket program in Asia, followed by stronger demand in our core North American market. And opportunities in the European utility vehicle market, which we lead, continue to advance. I'm also pleased with the trends in our operations and supply chain that are serving to reduce cost and improve customer service. Overall, the improved outlook and the high degree of strategic interest in the business provides us with increased strategic flexibility and opportunity to unlock value for our shareholders in the future.

I'll now turn the call over to Pete.

Peter Minan

Thanks, Nick, and good morning, everyone. So as Nick just mentioned, while I am still very much looking forward to retirement, I have pushed it out a bit. As I mentioned last quarter, I've committed to the Board and all Harsco stakeholders to help ensure a seamless transition to my successor. And I will continue to fully support Nick and the company as CFO until we have the successor in place and successfully on-boarded. So with that said, let me turn to our results for the quarter.

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Please turn to Slide 4 and our consolidated financial summary for the first quarter. As Nick noted, we are very encouraged by our strong start to the year. Harsco's revenues totaled $529 million, and adjusted EBITDA reached $66 million in the first quarter. These figures are higher than both the prior year quarter as well as Q4 of last year. Also, our Q1 EBITDA was above the high end of the guidance range we provided in February. Compared with guidance, each of our segments performed better than we'd expected, all contributing to our solid results.

Typically, we experienced seasonal impacts in the first quarter of the year, particularly in Clean Earth and Harsco Environmental. However, this year, the seasonality effect was not as evident as markets continue to recover from the pandemic effects. Harsco Environmental benefited from higher services and applied products demand in the quarter as well as favorable commodity prices and lower SG&A spending. At Clean Earth, we benefited from stronger demand in the haz waste management business and better margin performance. And at Rail, we benefited from higher aftermarket and contracting contributions. While some of these positive impacts in Rail were timing related, Rail nonetheless had a strong quarter, and we are increasingly optimistic that we're starting to see improvements in the rail market.

Compared with the first quarter of 2020, Harsco's consolidated revenues increased 33%. ESOL accounted for the majority of this growth, followed by revenue increases within both our Environmental and Rail segments. Harsco's adjusted earnings per share from continuing operations for the first quarter was $0.15, and this figure compares to adjusted EPS of $0.16 in the prior year quarter.

Now as you know, strengthening our balance sheet and financial foundation have been among our key priorities. And in early March, we completed a very successful refinancing, amending and extending our revolving credit facility and refinancing our existing term loans with a longer-term offering. Our term loan offering was significantly oversubscribed. And all told, this transaction enabled us to push out our debt maturities more than 2 years, provide increased financial flexibility and lower our financing costs. The annualized savings to us as a result will be approximately $3 million.

Our free cash outflow for the quarter was $32 million, consistent with our expectations and prior year performance. As we've discussed in the past, Q1 is typically the low point for our cash flows during the year for various reasons, including the timing of interest and pension payments as well as incentive compensation payments. Our cash performance is expected to improve meaningfully for the remaining quarters of the year.

Now please turn to Slide 5 in our Environmental segment. Revenues totaled $258 million and adjusted EBITDA was $54 million, representing a margin of 21%. These results compare favorably to the prior year quarter when EBITDA totaled $43 million, and our margin was 18%. Our incremental margins on the revenue change year-on-year were strong, and Q1 marked the second consecutive quarter that margins exceeded 20%. Compared with Q1 of 2020, the EBITDA improvement is primarily attributable to higher services and applied products demand globally and a more favorable mix of services.

Steel consumption and production at our customer sites continues to improve. LST or steel production increased roughly 4% versus the prior year. Relative to the prior year quarter, we also benefited from our ongoing efforts to control spending. These actions include the permanent personnel reductions that we discussed last year as well as other improvement measures implemented about a year ago in response to the pandemic. We also benefited from certain Brazilian sales and use tax credits totaling just under $2 million in the quarter, and these are presented in the other category in the bridge.

More broadly, the trends within the underlying metals industry remain positive. We've experienced solid growth in recent months, and we see room for further improvement ahead as we continue to execute against our portfolio rebalancing as well as from positive trends within the industry. The utilization rate for our customers averaged 78% in the first quarter, which remains well below normal operating rates.

Next, please turn to Slide 6 to discuss our Clean Earth segments. For the quarter, revenues were $189 million and adjusted EBITDA totaled $15 million. Growth compared to the first quarter of 2020 primarily reflects the inclusion of ESOL in our haz waste line of business. While we don't report ESOL separately, given the integration of the business, we are pleased to see that ESOL and our haz waste business performed very well in the quarter. ESOL revenues are now above pre-pandemic levels, with ESOL in Q1 seeing its highest quarterly revenue and margins since we've owned the business.

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Also, our integration efforts remain at or ahead of our plan. We're very optimistic about the margin improvement opportunities in the coming quarters, and we're on track to realize the $20 million of integration benefits this year.

The positive impact from our haz waste business was partially offset by lower contributions from our contaminated materials business, as well as the personnel investments and nonrecurring expenditures for IT and rebranding that we discussed last quarter. The contaminated materials business within Clean Earth continues to lag as we had expected. This dynamic reflects limited nonresidential construction activity and constraints on governmental infrastructure investments during the first quarter in the metro areas where we operate.

Now with that said, the business did improve sequentially through the quarter, and we expect this trend to continue throughout the year. More specifically, March was the best month for our contaminated materials business since last summer, and there have been indications in some locations, including New York City, that previously halted spending on infrastructure will restart. Our outlook contemplates that our contaminated materials business will strengthen for the remainder of the year beginning in Q2.

Now please turn to Slide 7 and our Rail business. Rail revenues totaled $82 million, while the segment's adjusted EBITDA totaled approximately $6 million in the first quarter. The EBITDA figure compares with $8 million in the prior year quarter. The change relative to the prior year quarter can be principally attributed to lower aftermarket sales and earnings in Asia. This impact was partially offset by higher contributions from equipment and contracting services business lines.

Rail's aftermarket sales into Asia were particularly strong in Q1 of last year. And this year, as you recall, in February, we discussed our reduced visibility on Asia aftermarket sales, and this dynamic is apparent in our Q1 results. But with that said, we've recently become more optimistic about our Asia aftermarket business for the year based on recent market developments and new orders from key customers. Our revised 2021 outlook for Rail, which I'll discuss shortly, reflects this positive development.

Lastly, let me highlight that our Rail backlog remains healthy at approximately $420 million, representing a slight decrease from the prior quarter as we continue machine development work and production under our long-term contracts. And while not apparent from the sequential change in our backlog, we have experienced an improvement in order and inquiry rates over the past couple of months, including from our major customers in North America.

We had a few nice wins internationally as well, and bidding activity globally has picked up. And we hope to have at least a couple of significant wins in the upcoming quarters of this year. These positive developments are also reflected on our revised and improved 2021 outlook for Rail.

So turning to Slide 8, which is our consolidated 2021 outlook. Our adjusted EBITDA is now expected to be within a range of $295 million to $310 million, up from our prior guidance of $275 million to $295 million. And our adjusted earnings per share is now expected to be within a range of $0.82 and $0.96 per share versus $0.59 and $0.76 per share previously. These positive revisions reflect favorable trends at each of our businesses, as I outlined earlier.

For Environmental, the improved outlook reflects higher anticipated volumes and commodities price as well as a better mix and lower spending. For Clean Earth, the improved outlook is principally driven by haz waste volumes and margins. And for Rail, our guidance now considers a more favorable outlook for aftermarket outside of North America, including in Asia, and also for domestic equipment sales, as I mentioned earlier.

Our corporate costs for the year are now expected to range from $36 million to $37 million, up modestly from our prior guidance, largely to reflect higher incentive compensation expense. Meanwhile, lower interest expense and a lower effective tax rate positively impact our EPS outlook.

Also, we continue to target free cash flow before growth capital spending of more than $100 million, and we expect total free cash flow of between $35 million and $55 million for the year. Our capital spending for the year is anticipated to be near $160 million, which is higher than normal due to the deferred 2020 spending in Harsco Environmental. And as I mentioned last quarter, I expect that our capital spending beyond 2021 will normalize to levels well below our current year forecast.

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Lastly, it's worth highlighting that this outlook strengthens our leverage position. In the coming quarters, our net leverage ratio is expected to improve, and we anticipate that this ratio will fall below 4x at year-end.

So let me conclude on Slide 9 with our second quarter guidance. Q2 adjusted EBITDA is expected to range from $73 million to $79 million. Results in each segment are anticipated to improve sequentially. Environmental and Clean Earth will also see improved performance compared to the prior year quarter.

More specifically, compared with Q2 of 2020, we expect HE results to improve meaningfully due to increased services and applied products demand, higher commodities price and lower SG&A spending. Clean Earth results are also projected to increase significantly as higher contributions from each business line is expected to offset the impact of investments and higher spending. And lastly, Rail EBITDA in Q2 is anticipated to be similar to the comparable quarter of 2020 as higher equipment and technology contributions will be offset by lower aftermarket and a less favorable mix.

So let me close by saying that despite the unusual conditions we've all experienced this past year, I'm very pleased with the performance, discipline and focus on execution by our teams at each of our businesses. Through it all, we've remained steadfast in keeping our people safe while delivering strong results. Harsco is off to a strong start in 2021, delivering solid operational and financial performance in the first quarter and exceeding our expectations in each of our businesses. We are confident in the strength of each of our businesses and the direction of our strategic transformation. That concludes our prepared remarks, and I'll turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

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

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

And Pete, welcome back. That could have been a little bit longer. I would like to focus on free cash flow, if we could, for a moment. And can you -- I mean it's not -- this isn't meant to be a criticism, I just want to understand what's going on. You have a pretty good incremental improvement in the EBITDA at the midpoint, and the free cash conversion that EBITDA is better than the whole company. But I'm confused why it isn't more given that the capital spending at the midpoint is unchanged. So what's eating up some of that EBITDA transferring into cash in the revised guidance?

Peter Minan

Yes, Michael, it's Pete. So as we talked about before, we do have a number of headwinds in 2021 from a cash perspective, including some things that are carryovers from the CARES Act. As you know, there's some pension payments that we have to make, some sales tax and/or payroll taxes that need to be made. We also had the other things we talked about last quarter, insurance costs and some increase in corporate costs. But in addition, some of the growth that we're talking about in the revised guidance, Michael, is going to be occurring later in the year. And as we grow the business, particularly in Rails, that will have a little bit of a drag on working capital. Some of the revenue that we'll generate in the second half of the year will be realized into cash until the following year. So that's part of the driver.

In addition, as you know, in Q1, we had a few drags as well. Q1 is a typical low point for us from a cash flow perspective, it has been for every year I've been here. The biggest elements are interest payments that we have to make, pension payments that we have to make. We also pay our incentive comp from the previous year in the first quarter. All of those have a drag.

And I guess the final point I'll make is seeming to be a consistent trend. We end up having a number of fairly significant cash collections in the early weeks of the subsequent month that we normally intend and would normally collect at the end of the quarter months, last month of the quarter,

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and those carried over into the next quarter. In the case of Q1, those totaled about $10 million to $15 million of receivables that we had slated to collect in March, ended up coming in the week or 2 -- early week or 2 of April.

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

Okay. So to -- if I'm offsetting a negative in 1Q, are we positive in every quarter and it's more so in 2, and then it tempers in 3 and then tempers in 4 because of the working capital drag? Is that the way to think about it?

Peter Minan

The second half of the year is our big cash periods, Michael. So it's going to increasingly get better, but the third and fourth quarter tend to be our biggest quarters from a cash flow perspective. We also have levers to pull as you know...

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

Your capital drag -- okay, go ahead, sorry.

Peter Minan

Sorry, we also have the typical levers. We have some capital spend in Q4 that sometimes gets deferred into the following quarter. So we have a couple of levers to pull as well. But by and large, the cash flow tends to be back half weighted.

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

And I'm focused on cash because I think, ultimately, that's the true barometer of the transformation of this company, is the ability to really sort of meaningful change the cash conversion ratio. So in '22, you mentioned in your prepared remarks this time and you did in 4Q, that '22 would have a less capital spending. Do I just take out the $60 million in growth as the starting place plus the working capital, the timing on the order to cash cycle related to the second half on Rail?

Peter Minan

Part of the growth cap. There's still be some growth capital spend, but it won't be anywhere in the neighborhood of $60 million. Plus there's another, say, $20 million or so that was a carryover of maintenance cap expenditures from last year that we were incurring this year. So there's that. There's the working capital matters you mentioned. But we are -- as you know, nothing has really changed. Actually, it's gotten a little bit better in terms of our targeting of the 10% of revenue free cash flow figure in the '22 time frame. That's still our target, and we're on track for that. So there's a couple of blips and timing issues in the quarters during the year here. But by and large, we're still heading solidly towards that conversion rate.

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

Okay. And then a quick question, just on segment and then I'll pass it on. The soils business, how big of a deal is Blasio saying New York is going to be fully reopened July 1, even if the governor decided he's going to fight that at the moment. But is that a meaningful difference in what could be the activity on the soil side in the second half?

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

Yes. I would say it is. We have already, Michael, as Pete noted, built in a good bit of recovery in that business throughout the balance of the year. And as you intimate, New York is, by some margin, our largest region. So yes, and that's built into our -- the outlook that we just shared with you.

Operator

Our next question comes from the line of Jeff Hammond of KeyBanc Capital Markets.

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

Are you able to give us ESOL revenue in the quarter or what the core was and FX contribution in environmental?

Peter Minan

The FX -- I'll take the last one first. The FX is negligible during the quarter, virtually immaterial. ESOL revenues in the quarter were about $190 million. We don't...

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

That's total Clean Earth, right?

Peter Minan

$135 million, sorry, I give you total Clean Earth numbers, $135 million.

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

Okay, $135 million, that's helpful. And then so Rail, you upped the outlook. And I know like the last couple of years, you've kind of had a high outlook and then some stuff got pushed to the right. So just maybe talk about the cadence of Rail, how back-end loaded is the growth? And then how you see the shape of this kind of parts recovery or China recovery.

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

Yes. Well, Jeff, as in previous years, the Rail revenue and EBITDA split is second half weighted, maybe a little more this year than in previous years. Although the updated and very positive assumption on aftermarket -- the aftermarket business in Asia will be in Qs 2 and 3 and maybe some in Q4. And as you know, the margins on that are quite high. But through the first 2 months of the year, we really had not seen much lift in the business. And that was reflected in the original guidance that we provided. But March was a very strong month, not only in terms of bookings, but also opportunities that came on the radar screen that had previously not been on the radar screen. So it's really a pretty substantial change in our outlook for the Rail business. It's primarily on the freight side and the aftermarket side. We're not yet seeing much of a recovery even in the outlook on the metro or the passenger part of the business. But nonetheless, it's really broad-based geographically and -- with both aftermarket and equipment.

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

Okay. So 2Q, I think you said comparable. Is that both top and bottom line for Rail?

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

Comparable. Yes, Q2 should be -- should look quite good this year versus last year in Q2.

Peter Minan

Yes. Top line, we'll see growth. The EBITDA figure should be comparable, maybe slightly better than that.

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

Okay. And then it looks like your guide for Clean Earth is for kind of at the midpoint EBITDA to be up kind of $20 million. But I think you said ESOL savings is $20 million. So maybe just walk through the other moving pieces. I know there's some additional spend, and then maybe just how you think underlying incrementals are on the base growth.

Peter Minan

Yes. So I'll start, and then, Nick, you can add your commentary as well. But the incremental costs we talked about before, those are significant. If you recall, we mentioned that we had expected in Clean Earth to have about a $6-or-so million of more or less nonrecurring costs that would be occurring in '21 related to some IT investment as well as some rebranding activities. There's also some corporate -- some central costs in Clean Earth that were being added to, basically, support the larger business. And then as you recall, there was a $3 million additional corporate allocation that was made to the Clean Earth business. So we're talking about all of those factors more or less going away or staying consistent in '22. Well, the $6 million will go away. The rest of it will stay within the business. And we'll see growth in terms of the haz waste business in the kind of the mid-single digits area and the -- I guess that's really pretty much it at this stage.

Operator

Your next question comes from the line of Larry Solow of CJS Securities.

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

Pete, good to hear your voice again. Hopefully, your replacement is not too far away, but everybody appreciates you staying on. I guess my first questions are sort of on the Rail segment. And Nick, you made some comments about strategic interest. I know you guys have -- not hidden the fact that eventually you'll look to sell this asset. Obviously, we would think you would look to improve performance a little bit. I think it's been a struggle the last couple of years. But hopefully, with the strong backlog and things starting to clear, things should get better.

Can you maybe just discuss your thoughts on timing? Would you actually be able to complete a sale where EBITDA is at $25 million? Or we were thinking more along the lines of you probably wouldn't be able to do something until you sort of progress towards maybe not that $100 million EBITDA goal that you have 3 to 5 years from now, but somewhere significantly higher than where we are now. Can you maybe discuss from a high level thoughts on that?

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

Yes. Well, first of all, Larry, with respect to looking back versus forward on EBITDA, we would expect the buyer universe to be focused on the forward number. Again, our backlog is quite strong. We have a lot of visibility to a significant lift in EBITDA year-over-year, not to mention the benefits from additional infrastructure spending and a gradual return in the passenger or metro market, which is about half of our business. So I think that the

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visibility to a much better performance is there, and we would certainly expect the ultimate value for the Rail business to reflect that as opposed to looking back at the, as you say, $25 million of EBITDA in 2020.

I'll also say that the maintenance-of-way sector continues to be viewed as a very attractive sector by a number of strategic players that either have a modest presence or a limited presence in that space. So we're, as we said before, but perhaps even more so now, quite confident that the interest from strategic buyers is extraordinarily high. So if you match that with the improving outlook in the business and the strong backlog, we think that process, if we were to undertake one to divest the business, would yield a very good outcome for shareholders.

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

Fair enough. And the only reason why I asked is just because I know, I think recently, I know Nordco is a different company than you, obviously, but I think they were being offered about 10x EBITDA or -- so I just struggle a little bit as to why an acquirer might want to be willing to pay 20x past EBITDA or 10, 12x future without the confidence that EBITDA is going to -- maybe they need a little more confidence. Because if we look back, I think 2 years ago, we were at $25 million EBITDA and thought we would be double that by now. And we're -- obviously had some issues, but we're still at that $25 million number. So I thought maybe you'd have more leverage when you actually are demonstrating improvement versus hoping for improvement. And I don't mean to say that in a bad way, but...

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

No, that's fine. Back in 2018, EBITDA in the business was about $50 million. And we had clearly an operational challenge on one hand and then the impact of COVID on the other. So I think we have pretty good visibility, and we can demonstrate historically, relatively recent history, that the EBITDA was in that $50 million range. And again, I think you need to look at backlog, as any buyer would, and get comfortable that the backlog supports that type of EBITDA lift, and I'm confident that it does.

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

And what -- to stick with that, what is sort of -- is it just COVID? I understand COVID has certainly hurt your aftermarket sales in the U.S. and there was certainly a blip there in China and Asia, which hopefully seems like you're getting a little bit better recovery there than you had thought or some sales back from that part of the globe. But in terms of the big piece of backlog, I know that's mostly international, multiyear big contracts on new equipment. Has that just been -- has there just been delays on delivery because of COVID? Has that hampered your ability in the last 12, 18 months to actually realize some of this backlog into sales?

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

Yes. Some of it, certainly, is driven by COVID. As you know, during the pandemic, the supply chains kind of froze up in some areas. Customers were unable to accept product in some cases. We had COVID challenges with respect to production. So there's no question that COVID had a pretty significant impact on our ability to grow the business and achieve our EBITDA ambitions in 2020. And -- but again, based on the month of March and what we've seen in April, we're pretty confident that's behind us.

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

Okay. And then just last question on Clean Earth, if you can just -- just for clarification or maybe just frame the picture a little bit better for us. Between the hazardous waste side, you had the hazardous waste side of the Clean Earth and then you combined with ESOL. And then there's this whole other piece of Clean Earth, which before -- with the dredging and the soils piece, I think that the dredging and soils piece, by itself, was down like a 50% number or something last year. I don't think you break that out exactly, but can you -- and while hazardous waste did okay and it's coming back faster, can you just maybe break out the different pieces so we get an understanding of what you -- how much that dredging, and more importantly, the soils piece dropped last year and potentially could recover over the next couple of years?

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

Well, I'd like to think about it relative to 2019, of course, which was pre-COVID. And if you look at the sum of the soils business and the dredge business, which we kind of view as a segment within Clean Earth, we expect that segment, if you will, to be down relative to 2019 by 15% to 20% in 2021. Now we -- and it was a good bit down in Q1. We're seeing signs of that coming back, as I think Pete and I alluded to. So that is about 20% of the -- in terms of revenue, the Clean Earth segment overall, that soils and dredge component. Within -- so the other 80% of the Clean Earth segment is hazardous waste. And as you know, the majority of that being in the ESOL portion.

And we do expect, on a full year basis for 2021, the revenue and volume in the ESOL hazardous waste to be back in line with or maybe a little bit better than what we saw in 2019. What's lagging a bit is the legacy Clean Earth hazardous waste. And most of that volume that we process, unlike that in ESOL where we collect the waste directly from our customers, most of the legacy Clean Earth haz waste comes from brokers. And that waste is generated predominantly from much smaller businesses, many of which have not come back from the COVID impact, as have the larger accounts that ESOL serves. So that business, we do not expect on a full year 2021 basis to be quite back to where it was in 2019. So that's kind of how I think about it. I think about 20% of the business being the contaminated and the dredge business. And that remains down and will likely, relative to pre-pandemic levels, be down 15% to 20% on a full year basis this year. The other 80% is hazardous waste, most of that being ESOL.

Operator

(Operator Instructions) Our next question comes from the line of Rob Brown of Lake Street Capital.

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

Sticking with Clean Earth, you talked about margin expectations of improvement. How much of that is dependent on volume? And how much of that's within your own control? And maybe you could talk to the kind of ultimate goal of margins in that business, where do you see that being over the next couple of years?

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

Yes, yes. Well, let's start with ESOL. I'm very happy to say that the margins in ESOL, since we acquired the business, have nearly doubled from about 5% to 10%. A lot of that is the self-help work that we've done that we've mentioned, the $10 million of benefits that we realized last year and then an incremental $20 million or so that we expect to realize this year. So we certainly expect those ESOL margins, over time, to get up in the 15% to 20% range. As I've said, there's a good bit more benefit to be created this year through the self-help initiatives. Plus as we look into 2022, the ability to take out a significant amount of SG&A across Clean Earth and ESOL will further boost margins. Because up to this point, we've been very focused on building the foundation in that business. And so we've not yet reached the point where we feel comfortable taking out the SG&A that we know we can once that foundation is in place, which we think will be later in the year. So ESOL margins are certainly trending in a very, very strong direction.

On the legacy Clean Earth side, the contaminated materials business is a pretty good margin business, and a lot of that margin is driven by filling up the plants, filling up the facilities. And that's what's been soft through COVID. So when that begins to come back and the -- our processing facilities again approach capacity where they were in 2019, that really provides a nice lift to those margins. But I continue to believe, overall, that the segment Clean Earth plus ESOL in 2022 and 2023 is going to return back to kind of the high teens, maybe even 20% level of EBITDA margin.

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

Okay. Great. And maybe in the Environmental business, you talked about the commodity price environment, how that helped in the quarter and how you see that during the year.

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

Yes. I think that benefit was a couple of million dollars.

Peter Minan

It was less than $2 million.

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

Mostly due to nickel prices.

Peter Minan

Correct.

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

And that's kind of the ebb and the flow that we see year in, year out. You may pick up a couple of million of benefit. You may lose a couple of million of benefit. But at the moment, those prices are a bit higher than they were at this time last year.

Operator

Our next question comes from the line of Chris Howe of Barrington Research.

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

Welcome back, Pete. Following up on some of Rob's questions. I wanted to talk about ESOL. You mentioned the synergistic improvements that continue to flow through with your self-help work. As we think about ESOL, more so on a top line perspective relative to its end markets through the remaining balance of this year and into fiscal year '22, can you talk about how that is anticipated to benefit ESOL margin? And now that you've had it under your ownership for a period of time, how are these contributing factors, whether top line or from a cost standpoint, improving your outlook for margin potential within ESOL?

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

Well, as I noted, we've been very happy with the roughly doubling of margins that we've realized in the first year of ownership. And the expectation and our ambition is to roughly double margins again over the next couple of years. Again, a lot of that driven by self-help. Certainly, volume is a part of that. As we've looked at the ESOL business and better understood the drivers of that top line, of the volume growth, we think there's a significant amount of opportunity for us to kind of increase that volume growth in the business kind of beyond where the market would be over the next year or 2. And so we're quite focused on that. A lot of work has gone into the commercial organization, our commercial practices, all the white space that we see out there by better executing on the front end of the business. And so there's a very high degree of confidence and optimism in both Clean Earth and ESOL on the top line potential over the next few years.

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

That's great. I appreciate the color. And as we look at opportunities within Clean Earth, whether as it relates to ESOL or outside of ESOL, are you seeing any change in competitive dynamics that may open a window of opportunity for Harsco on an inorganic basis within Clean Earth that would, in a sense, offset the legacy Clean Earth as that recovers?

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

I'm sorry, did you say organic or inorganic?

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

Inorganic .

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

Inorganic. Yes. Well, as we've indicated, previously, we have an ambition to grow the Clean Earth segment, both organically and inorganically, and we would expect to have a balance sheet to begin to do that later this year and into early '22. And we're very focused on identifying those opportunities inside and outside of our business. And so I think it's quite clear that you will see us doing just that. As an industry that remains somewhat fragmented, we have pretty good visibility to the availability of businesses that we think would fit well with what we're trying to do. At the moment, we are quite busy internally, focusing on the self-help initiatives, and as we discussed, in IT and rebranding and new organizational structure, all of those kinds of things. But I see, late this year, early into '22, both our internal capacity as well as our balance sheet capacity to invest in inorganic growth opportunities to be aligned. And that's the expectation.

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

Perfect. And my last question, or should I say my first question, prior to the follow-up inclination was on the Rail segment. You talked about Asia aftermarket improving. As it relates to Asian aftermarket and some of the other buckets like Protran technology and some of the other aftermarket geographic regions, can we talk about mix in the context of the remaining balance of this year? Perhaps we could see a different seasonal shift when comparing the first half to the second half as we move into fiscal year '22, should aftermarket come back stronger than expected combined with technology?

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

Yes. I think that is certainly implicit in our updated guidance. We came into the year, and it was part of our initial guidance, with much less visibility to the aftermarket programs in Asia, which, as you know, are quite attractive from a margin standpoint. So relative to the original guidance, we have seen a mix shift in the updated outlook more towards aftermarket and technology, and that's certainly helping margins and providing a nice lift to EBITDA.

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

Great. And one last quick one, if I may. The outlook for environmental continues to improve. Can you perhaps add some more color into the different positives that you're seeing within Applied Products as we start to move through the balance of the year and kind of what your long-term picture is for Applied Products, given its positive contribution to the segment.

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

Yes. Well, it's a great question. And of course, it's a major area of focus for us given that it's less capital intensive and provides a very clear environmental solution to the waste streams that we process. And of course, our Applied Products platform now is broader than it's ever been because we're now serving the aluminum industry as well as the steel industry. And so all I can say is that if you look at the innovation pipeline and the various stages of opportunities that we're pursuing, where those are now relative to where they were, say, a year ago, we are really very pleased with the outlook in Applied Products. I think you'll see a much larger revenue and EBITDA impact of Applied Products in 2022 than 2021, although 2021 certainly is up a very solid double digits in terms of top line and EBITDA relative to 2020. But nearly all of the innovation that we're focused on in that -- in HE right now is related to Applied Products.

Operator

That was our final question for today. I will now return the call to Dave Martin for any closing comments.

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

I'd like to thank everyone for joining the call. And also, please feel free to contact me with any further follow-up questions. And as always, we appreciate your interest in Harsco and look forward to speaking with you in the future. Have a great day.

Operator

Thank you for participating in the Harsco Corporation First Quarter 2021 Earnings Conference Call. You may now disconnect.

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