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PRESENTATION

Operator

Good morning. My name is Chad, 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).

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I would now like to introduce Dave Martin of Harsco Corporation. Mr. Martin, you may begin your call.

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

Thank you, Chad, and welcome to everyone joining us this morning. I'm Dave Martin from Harsco. With me today is Nick Grasberger, our Chairman and Chief Executive Officer; and Anshooman Aga, Harsco's Senior Vice President and Chief Financial Officer. This morning, we will discuss our results for the second quarter and our outlook for the year. We'll then take your questions.

Before our presentation, let me mention a few items. First, our quarterly earnings release and slide presentation for this call are available on our website. Second, we will make statements today that are considered forward-looking within the meanings 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 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 statements. Lastly, on this call, we will 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 as well as the slide presentation.

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

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

Thank you, Dave, and good morning, everyone. Thanks for joining us today.

As you have seen, our adjusted Q2 results were consistent with the preliminary results we released a few weeks ago. The second quarter was a challenging quarter for us, especially in our Clean Earth segment. Inflation in energy, transportation and disposal costs in Clean Earth continued to accelerate beyond what we anticipated in our January and April price increases. Our July price increase was, by far, the largest and broadest increase ever implemented at Clean Earth. This was implemented successfully through coordination with our customers despite significant contractual limitations. Coupled with certain cost reduction actions, the impact on second half EBITDA should be $30 million to $35 million, roughly doubling the EBITDA margin compared to the first half of the year.

Over the past 4 quarters, the cumulative gap between inflation and price was a negative $25 million or so at Clean Earth, or about 3 points of EBITDA margin. We are committed to eliminating this gap moving forward through pricing and cost reduction actions. I've been running Clean Earth with the support of the corporate team over the past 3 months. The opportunity to leverage our asset base and our value proposition to customers is clear. Our targeted EBITDA margin of 15% remains achievable, and I'm excited to lead this business as it realizes its potential.

Before I discuss Harsco Environmental, I'll provide an update on the sale of our Rail segment. The sales process for Rail is ongoing, and we remain in discussions with certain strategic parties. However, a change in economic conditions, including in the M&A market, and business complexities with Rail's European contracts have slowed the divestiture process. Overall, as we've said before, Harsco Rail is a unique business with a very positive long-term fundamental outlook. The company remains committed to selling the business on a disciplined basis, thereby creating value for shareholders. Further updates will be provided as appropriate.

Turning to Harsco Environmental, the segment performed well during the quarter and revenues increased over the prior quarter due to increased demand. Anshooman will discuss the impact of foreign currency and inflation. Overall, the fundamental business is strong. We did see some pockets of weakness in steel volumes in Europe, which were offset by higher volumes in India and China. We've implemented price increases in most regions, and we expect HE to fully offset the impact of inflation through its annual price escalation mechanism early in 2023.

In summary, demand in each of our businesses remains healthy. Our businesses operate more or less under long-term contracts that were negotiated at a time when inflation was non-existent and our supply chains were strong. The labor market was also supportive of our needs. Times have certainly changed and we are adapting to this new reality, but fundamentally, our end markets, our competitive positions and our value propositions are well aligned to create shareholder value going forward.

I'll now turn the call over to Anshooman.

Anshooman Aga - *Harsco Corporation - Senior VP & CFO*

Thanks, Nick, and good morning, everyone. Please turn to Slide 4.

Harsco's second quarter revenues from continuing operations increased 3% compared with the prior year quarter to $481 million, including a 4% headwind from FX translation. This increase resulted from higher mill services and ecoproduct demand and price and environment, while Clean Earth's growth was mainly attributable to price. Adjusted EBITDA totaled $49 million, which is consistent with our July update. As we noted at that time, this result was below our May guidance mainly due to unprecedented inflation impacts in Clean Earth. The cost of third-party transportation, diesel, containers and disposals were all much higher than anticipated. These factors contributed to CE's EBITDA being approximately $12 million below our May outlook.

Meanwhile, Environmental was at the low end of our May guidance due to the strengthening of the U.S. dollar. This foreign exchange impact was approximately $3 million in the quarter. Harsco's GAAP loss per share from continuing operations in Q2 was $1.34, while adjusted earnings per share was $0.01.

In the quarter, our unusual items included the non-cash goodwill impairment of $105 million, and the total impact of the unusual items was $1.27 per share after tax. Lastly, our free cash flow for the quarter was $131 million (sic) [$132 million] including the impact of our accounts receivable securitization which was completed in June. We see this transaction as a prudent financing decision to lower our interest costs and leverage ratio. We ended the quarter with a leverage ratio of just under 5x against a covenant of 5.5x and liquidity of more than $130 million.

Please turn to Slide 5 and our Environmental segment. Segment revenues totaled $278 million and adjusted EBITDA was $53 million. Revenues increased 2% on higher services and ecoproducts volume partially offset by exchange rate translation impacts of approximately $20 million. Meanwhile, adjusted EBITDA decreased by $5 million year-on-year. This change reflects the impact of FX translation and higher operating costs, mainly within ecoproduct. It also includes the impact of fewer asset sales relative to the second quarter of last year.

Let me also comment on the diversity of our customer base in HE and the related benefits given the energy and gas supply situation in Europe. First, we have limited exposure to certain countries that are most reliant on Russian gas such as Germany. Secondly, any disruptions to date have been offset by higher volumes in other countries or regions, and we'd expect this dynamic to continue and the overall impact to HE to remain limited as long as demand remains intact within Europe and elsewhere. Please turn to Slide 6 to discuss Clean Earth. For the quarter revenues total $204 million (sic) [$203 million] and adjusted EBITDA was $5 million. Compared to the second quarter of 2021, revenues increased 4% including the impact of price, while adjusted EBITDA decreased $14 million year-on-year. This change reflects inflation in the cost items I mentioned earlier, net of price.

As Nick mentioned, we've taken additional and aggressive actions to price and cost reductions to offset inflation. Price is the larger driver. Our customer discussions are going well, and a large part of these price increases are now effective. These efforts will boost margins in the second half, and we expect to recoup the inflation impacts by early 2023.

Now, let's turn to our 2022 outlook on Slide 7. Consistent with our update in July, Harsco's adjusted EBITDA is now expected to be within a range of $210 million to $220 million. Additionally, we now anticipate that free cash flow, excluding Rail, will be between $115 million to $125 million, which reflects the benefit of our AR securitization. You can find our full year segment guidance within the appendix of the slide deck.

Let me conclude on slide 8 it with our third quarter guidance. Q3 adjusted EBITDA is expected to range from $54 million to $59 million. We expect environmental adjusted earnings to be modestly below prior year results as FX and inflationary impacts will be partially offset by higher volumes and new contracts. Clean Earth will see good sequential improvement, but its adjusted EBITDA is anticipated to be below the prior year due to inflation pressures net of price. Lastly, corporate costs should be approximately $10 million for the third quarter.

Thanks, and I will now hand the call back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) And the first question will be from Michael Hoffman from Stifel.

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

Nick, Anshooman and David. I appreciate the candor, too, so lots of CEOs with duck and weave around bad news. You just stood up and took it.

On the Rail side, do you still believe you'll get a transaction announced in '22?

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

I do. I think that's more likely than not.

As we indicated, though, there are ongoing discussions and the -- I would say, apart from the weakness in the M&A market, the largest factor in the time line at the moment is kind of assessing the remaining risk on a few of our large European contracts. Our view of that risk is somewhat different than the view of those interested in the business, so we're working through a number of those issues now.

Third issue would be if you look at the expected EBITDA in the second half of this year for Rail, it's a bit, bit higher than it was in the first half. Now, much of that is in backlog. We talked earlier in the year about the pretty significant recovery in the North American market for our equipment, and so we took a lot of orders in early in the year. Those should be shipped in the latter half of the year. But in this economic environment, I think there's some concern among the buyer group as to whether or not we can realize that higher EBITDA in the second half.

So those are the issues that we're kind of navigating with buyers now. But to be clear, the level of interest in the business remains very, very high.

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

Okay. That's helpful.

We would take the observation that you don't have a demand issue. There's a cost issue. And so that's an easy sort of yes kind of response. But can we dig a little into and specifically in Clean Earth, the quality of the revenues that you're seeing. What's your view of that? And then in light of -- we're now officially in a recession, despite the government wanting to redefine it. What's your view of the sustainability of the trend on the demand side? We get what you're doing on the cost side. I'd just like to understand what your view is about the demand side.

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

Yes. Well, if in quality of revenue, you refer to kind of margin by customer, of course, that's heavily impacted now by price. And so we believe that the margins will return in the second half to where they were, by and large across our 3 segments, that being Industrial Waste, Retail Waste and Health Care Waste.

We've not yet seen, Michael, any indications that the volume demand will soften based on the overall economic situation. So we remain, I would say, fairly optimistic on our ability to grow volumes in each of those 3 segments in the coming quarters. We have seen some softness in Health Care. Retail and Industrial have been fine. In the case of Industrial, actually, I would say, somewhat strong. So we're working with our partner, Stericycle, to better understand what we can and should do to bring some of the health care volumes back.

But to answer your question, overall, we're not really seeing any signs that the volume will soften due to the economy.

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

Okay. And my view of quality also is the recurring nature of revenues as opposed to discretionary. So you feel pretty good about -- there's pretty good, consistent recurring aspect of these volumes?

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

Yes. Certainly, on the Hazardous Waste side, as you know, in our Soil business, a healthy amount of their volume is, in fact, recurring. But I'd say 1/3 or so is based on projects that generally do not recur. And so, yes.

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

And then the Health Care piece, just to dig just a little bit. I mean, visitations were down. It looks like electrosurgeries are slow. Basically, the health care system is overloaded with demand and not enough people. That appears from our perspective, is that consistent from your perspective?

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

Yes, it is.

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

Yes. Okay.

I'm assuming on the securitization, I get the move to help shore up anybody's concerns about the balance sheet. Just so we're clear. This is a one-time, you get the benefit of it. And then the next year, I'm back to an operating-driven cash flow story. So, we should be modeling it down year-over-year in '23, is that correct?

Anshooman Aga - *Harsco Corporation - Senior VP & CFO*

Michael, the total facility is $150 million. We drew down $120 million in June. So there's another $30 million left, and that's our ongoing facility. So there won't be a reduction in the amount that we will securitize. It makes economic sense to do it, and so there will be a continuation of the securitization going forward at the current levels or slightly higher even.

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

Okay. So let's say, just for sake of argument, pulled down $150 million so I'm going into next year with a 150 base plus, whatever you do operationally. So whatever incremental improvements in cash generation from the 2 segments. That's the way to think about it?

Anshooman Aga - *Harsco Corporation - Senior VP & CFO*

That's correct. The $150 million is pulled forward, and then it's a continuation of ongoing operating cash flow that would drive our free cash flow next year.

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

Okay. And what did you do with the cash? Did you pay down debt?

Anshooman Aga - *Harsco Corporation - Senior VP & CFO*

We did.

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

Okay. Great. That was what I had for now.

Operator

And the next question is from Larry Solow from CJS Securities.

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

Maybe just sticking with the Clean Earth theme. And Nick, you mentioned you're kind of taking over the business. I know that -- I think David said last, I think it was right after your call, so I don't know if you actually publicly commented on that before this.

But maybe you could just sort of look back. I know you had a -- when you came into the company, you did a lot with the Environmental business, turned that around a lot. Maybe you can sort of from a high level, I know there are somewhat different businesses, but sort of compare and contrast some of the issues at Clean Earth and what you did in Environmental, and how maybe you can bring some of that experience over to the Clean Earth side?

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

Well, clearly, the predominant issue now is inflation, right? And over the past couple of years, I think we have received a healthy degree of benefit from combining our legacy Clean Earth business and the ESOL business that we acquired from Stericycle and we saw margins increase 2 or 3 points as a result of that. But of course, that is all being masked by inflation now. And this July price increase will, in large part, remedy that situation.

But I would say in general, the opportunities in Clean Earth evolve around process, change and execution. There are a number of, I'll say, best practices that we have in Clean Earth, in certain facilities and regions that aren't replicated elsewhere. There are significant cost reduction opportunities available to us when we implement the pricing change -- the process changes and the associated IT tools to accommodate those. In logistics, more efficient routing, in-sourcing certain lanes that we outsource today at 2 or 3x the cost.

So, there are just a number of things that we're doing now. Then to be honest, have been underway, but the execution has been a bit lacking. So we are driving that execution and that discipline and the process change very hard, just as we did in the case of Harsco Environmental years ago.

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

Got you. Okay. I appreciate the color.

Just a couple of specifics on the cleaners and the Q2 results. I know you mentioned I think revenue was up 4%. I just -- I would think it would have been more, I guess, you weren't getting much price yet, which just kind of takes me back to -- it seems like the misses quarter qualitatively is very explainable, but it's not like prices started to rise last -- I know they really accelerated over the last couple of months. But I think if I take if you go back to Q1 call, you spoke about sort of putting in a lot of price increases during the second quarter.

Is it just somewhat of a lag? Even in the second quarter, I know you're sort of doubling up on that or maybe not quite doubling down, but putting a lot more price increases in the back half. But it seems to me like it was a little bit slow to come when we kind of saw fuel and other things rising for the last 12 months, even with the acceleration lately.

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

Well, the price increase that was effective April 1, was really in advance of that significant acceleration in inflation, both in terms of transportation costs and diesel fuel and disposal costs and those types of things.

So yes. I mean, that price increase clearly was not sufficient to cover that. We had underestimated what the inflation would be in Q2.

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

Right. Okay. That's fair enough.

Just switching gears real quickly on the environmental piece. Just to clarify, so the $20 million impact was a revenue impact. The revenue ex-currency on the currency event would have actually been 9% plus, right? And then that's because -- and that kind of pretty strong growth is -- some of that, I imagine, it's -- a lot of these contracts are sort of cost plus. So as costs are rising, so you get some payback on that. Is that right?

Anshooman Aga - *Harsco Corporation - Senior VP & CFO*

Yes. So revenue growth would have been stronger without the currency impact. We have growth in our mill services revenue. We have growth in our ecoproducts revenue and also, we had benefited from price increases. We have annual escalations built into our contracts and in a lot of contracts, diesel is a pass-through, so as the price of diesel went up, we got some benefit of that also.

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

Right, that $3 million number you referenced that is EBITDA impact from currency, I guess, right?

Anshooman Aga - *Harsco Corporation - Senior VP & CFO*

That's correct, $3 million to our expectations in our last guidance and for the quarter and $4 million year-on-year roughly.

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

Got it. Okay. Great. Also, I appreciate the color.

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

But for the full year, the impact of FX on HE's EBITDA is [9] to [10].

Anshooman Aga - *Harsco Corporation - Senior VP & CFO*

[9] to [10], yeah.

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

Yes. And then the price inflation gap in HE that would be analogous to the $25 million in Clean Earth is about [10] on a full year basis.

Operator

The next question will be from Rob Brown from Lake Street Capital Markets.

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

Just wanted to clarify (inaudible) pricing increases that you've had, are the new contracts sort of (inaudible) do they have more protections in there for inflation or these sort of repriced annually, and then if inflation changes you've got some risk on margins or how much risk now is in those contracts compared to what you've had?

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

Yes. Well, that's certainly been a significant challenge for us that I believe we've now overcome. And that challenge was many or, I'll say, most of the contracts did not allow for price increases at the magnitude that were required to offset inflation.

So we've been working very closely with our customers, helping them understand the inflation that we've been subject to. And it's actually been a good process in that there's not a single case to date where a customer has refused the price increase or chosen to take their business elsewhere. So the realization on what we were targeting is actually quite high. But it took a bit of time because again, in many cases, the contracts that did not allow for price increases of that size.

Of course these contracts will be changed in the future, right, to accommodate this type of inflationary environment perhaps recurring at some point.

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

Okay. Good to hear.

And then on the Soils business, you touched on it a little bit, but how is the demand environment in that segment? Are you seeing kind of project activity? I think this is the seasonal period where you see a lot of activity, but how is the sales business demand right now?

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

Yes. Demand on the hazardous side is fairly steady, I would say. And we have a number of bids outstanding now for new business and hazardous waste with a number of large retailers, and the trends there for us have been positive. You may refer in our Soils and Dredge business, we do expect the second half of this year to be a good bit stronger than the first half because many of these projects that we've been tracking are being released, and so we're processing a lot of that material as we speak.

Operator

The next question will be from Devin Dodge from BMO Capital Markets.

Devin Dodge - *BMO Capital Markets Equity Research - Analyst*

Just maybe to start off with, can you help us to understand that more than $30 million of profit improvement that you've targeted, how much is price and how much is cost improvement? And then how much incremental pricing actions remain to be taken, given some of the contract restrictions that you talked about?

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

Yes. So of that $30 million, say, $25 million or so is price. The remaining $5 million is cost. And that $5 million, of course, is larger on an annualized basis, so we'll get the benefit of the annualized effect in 2023. So think of the cost as more kind of $10 million to $15 million on an annualized basis.

Devin Dodge - *BMO Capital Markets Equity Research - Analyst*

Okay. Okay.

And maybe just in the CE division, can you give us an update on the consolidation of driver checking systems? I'm just trying to get a sense of this initiative was positive or negative to the margin pressures that you saw in Q2.

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

Well, it's certainly been positive. And in fact, I was on a truck last week, looking at the new software and how it operates and how it leads to efficiency, and so it's probably difficult to quantify exactly what the benefit is. There's certainly a compliance or a risk mitigation component to the value of it also.

But at this point, it's largely rolled out in every one of our trucks.

Devin Dodge - *BMO Capital Markets Equity Research - Analyst*

Okay. Okay. And then just one last one here.

Look, I think we recognize it's still pretty early here, probably more focused on the second half of this year. But are you able to frame what that Clean Earth financial performance could be like in 2023, or at least identify kind of the moving buckets or targets that you think you can achieve?

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

Yes. Well, I think when you consider the annualized effect of what we're doing with respect to price and cost and look at where the run rate will be coming out of the year into 2023, clearly, we expect at this point for the EBITDA in Clean Earth in 2023 to be substantially higher than this year.

Operator

And the next question will be from Jeff Hammond from KeyBanc.

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

Just 2 on Clean Earth.

One, I guess, just update us on kind of project activity and visibility in Soil, Dredge? It still seems like it's running negative, just visibility for that turning the corner?

And then just on this $30 million savings, just wondering like, is this all incremental? Or was some of this kind of contemplated the pre-announcement, et cetera?

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

Well, the $30 million is all incremental. The price increase kind of began in terms of our planning and coordination of it kind of middle of Q2, again, and effective July, July 1. The cost reduction, I would say, has developed over the last several weeks, and it will be executed within a few weeks.

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

And Soil, Dredge?

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

Yes. So on Soil and Dredge, a couple of the major projects that you would be aware of on the East Coast have recently started. And so they're providing a significant lift to volume in the second half.

One of the challenges that we're having in that business, though, is also the shortage of trucks to bring in inbound material. And so that is -- and that's, of course, implicit in our guidance here for the second half, but that's something that we don't have a lot of control over. We're working very hard to find ways to get that material into our facilities to process, but it's been a challenge.

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

Okay.

And then I know, Nick, you talked about execution can be better, but just if we can level set kind of your view of kind of the Clean Earth business around competitive dynamics, cyclicality, pricing power and just structurally, how you're thinking about the business?

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

Yes. I think we've learned recently that in terms of pricing power, we're in a very strong competitive position. And again, we have a very valuable set of federally-permitted hazardous waste processing facilities that only one other can match. So when you're looking at some of these major retailers or major industrial companies that have a nationwide footprint, that's a great value to them. So our pricing leverage, I think, is quite high.

I'll say competitively, you may recall that in our business model, we do not own disposal assets. We do not own incinerators. We do not own hazardous landfills. And that, of course, is part of our value proposition to customers is over time, we work to reduce the amount of material that needs to flow to disposal.

In this environment, though, with there being extreme capacity limitations on incineration, and therefore, much higher prices. And also, in some cases, simply having to forego revenue because we cannot gain access to incineration, that's affecting the business. It's never been an issue in this business before. There's always been plenty of capacity, and with the volume of material that we have, we've been able to use that to leverage price or cost to us.

So it's a very unique environment. And there's a lot of capacity coming online over the next couple of years, but it's continuing in the short term, for sure.

I think in terms of the overhead structure, there's still an awful lot of opportunity and work to be done to bring the overhead structure down to where it can be. And the first step of that we're taking here in the next few weeks, but there will be second and third phases of that.

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

Okay. And then if we kind of exclude the securitization, is the lower free cash flow just a function of kind of the lower profitability? Or is there anything else in there?

Anshooman Aga - *Harsco Corporation - Senior VP & CFO*

That's correct. It's lower profitability.

If you remember, our Clean Earth segment, it works between 70% and 80% of its EBITDA into free cash flow. So as the EBITDA outlook came down, it had a corresponding knock-on effect on cash that we're trying to minimize.

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

Okay.

Operator

(Operator Instructions) The next question is from Zane Karimi from D.A. Davidson.

Zane Adam Karimi - *D.A. Davidson & Co., Research Division - AVP & Research Analyst*

Gentlemen.

So hearing that the second half have improved dynamics, particularly for the soil and dredging business, can you speak to the differences in contract structures between that and the hazardous waste contracts? And while margins are historically stronger in that Soil and Dredge business, to what degree are those contracts being updated as well?

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

Yes. Well, they're all in the process of being updated. In the Soil and Dredge business, there's a mixed component there in terms of the type of material that we process. And at the moment, that's having a larger impact on margins than inflation.

Zane Adam Karimi - *D.A. Davidson & Co., Research Division - AVP & Research Analyst*

Okay.

And then just one nitpicking thing here. Can you speak to the difference in the GAAP operating income provided today compared to that updated about 2 weeks ago? I think there was about a $2 million difference.

Anshooman Aga - *Harsco Corporation - Senior VP & CFO*

Yes, that was mainly in goodwill. If you go back to a pre-release, we'd estimated goodwill impact to be approximately $100 million as we finalized our goodwill impairment model, went through our internal controls and testing, the final goodwill impairment was $105 million.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to David Martin for any closing remarks.

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

Thank you, Chad, and thank you for everyone that joined us this morning. Please 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.

Operator

Thank you, sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
