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PRESENTATION

Operator

Good morning. My name is Shelby, and I'll be your conference facilitator. At this time, I would like to welcome everyone to the Harsco Corporation Fourth 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. No recordings or redistributions of this telephone conference by any other party are permitted with 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 your call.

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

Thank you, Shelby. Welcome to everyone joining us this morning, I'm Dave Martin of Harsco. With me today is Nick Grasberger, our Chairman and Chief Executive Officer; as well as Peter Minan, Harsco's Senior Vice President and Chief Financial Officer. This morning, we will discuss our results for the fourth quarter of 2020 and our outlook for 2021. We'll then take your questions. Before our presentation, however, let me mention a few items. First, our quarterly 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 that 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 and 10-Q.

The company undertakes no obligation to revise or update any forward-looking statements. 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 a slide presentation. Now I'll turn the call to Nick to begin his prepared remarks.

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

Good morning, everyone, and thanks for joining us today. Our fourth quarter results reflected the continued positive trends in our largest businesses. Harsco Environmental and the hazardous waste portion of our Clean Earth segment. Overall, Harsco delivered both sequential and year-over-year growth in Q4, and EBITDA was consistent with our expectations. With that said, we are very happy to have 2020 in our wake. Harsco, like many other companies, faced challenges in 2020 that required us to shift our focus, essentially overnight to keeping our employees safe, our businesses resilient and our liquidity position strong.

At the same time, we closed the largest acquisition in Harsco's history in terms of revenue, ESOL. Beyond its scale, ESOL required a complicated carve-out from its parent company, was in need of basic process discipline and was underperforming its market. Additionally, in 2020, we made a step change in our ESG journey as evidenced by significant ratings upgrades, external recognition and improved metrics in nearly all areas. It is clear that ESG is closely aligned with our strategy and central to the shifting identity of Harsco. Looking back on what the Harsco team accomplished, I could not be more proud about the effort and the results.

Turning to 2021. There are many reasons to be optimistic about the direction of our company. Most notably, the continued improvement in our end markets and the value creation potential of our environmental services businesses that represent about 80% of our revenue. Our strategic focus is clear, and we look forward to executing the next major steps of our portfolio transformation as conditions warrant.

We have 4 principal objectives this year. Apart from our primary objective of continuing to manage the impact of the pandemic on our people and on our businesses. The first objective is to realize the targeted benefits of the Clean Earth and ESOL integration and prepare for accelerated growth in this new platform. Second, enhancing the value proposition and the cash flow profile of Harsco Environmental by shifting the revenue mix further towards environmental solutions. Third, increasing the enterprise value of our rail business through further operational improvements and backlog growth; and fourth, reducing our financial leverage to a level much closer to our target of about 2.5x.

Regarding the Clean Earth platform, the benefits realized from the integration of ESOL were about twice what we expected in 2020. We anticipate incremental benefits of about $20 million this year, also or about double those realized in 2020. We still expect total benefits of $40 million to $50 million by the end of '22 on a run rate basis. Although external integration costs are behind us, we will incur about $10 million of cost this year for branding and IT initiatives that will not repeat in 2022. Overall, while the negative impact of the pandemic on the business could not have been predicted, I'm pleased with our execution and the foundation we are building in this new platform.

In Harsco Environmental, it's terrific to have following seas after 18 months of medicine head seas. I'm excited to see the development of the business this year, particularly in the areas of Altek, applied product sales and innovation. As previously discussed, a significant amount of maintenance capital was deferred from 2020 to this year, and capital spending on new contracts will also be higher than in future years. Nonetheless, the growth and cash flow trends in the business are favorable, and we are targeting free cash flow generation of 8% to 9% of revenue in '22 on a path to 10-plus percent in future years.

Our Rail business was set up to have a very strong year in 2020, based on operational improvements and a record backlog. The impact of COVID on capital spending in both the freight and transit sectors has been dramatic. Although the freight sector is recovering, spending on maintenance of way equipment will lag by a few quarters. And the transit sector remains particularly weak. Another challenge for our business is overcoming the margin loss associated with a large Chinese aftermarket program that is winding down. Fortunately, our backlog and the launch of new products and our global reach should enable us to outperform the market this year.

While our project SCOR met its objectives in terms of capacity and data analytics, it uncovered more opportunity to improve manufacturing costs than we had realized.

Just a few comments on our portfolio. As noted previously, an aggressive slate of internal initiatives and our financial leverage will likely push the next major step in our portfolio transformation into next year. We also continue to focus on the best avenue to create shareholder value with our Rail business. But our strategic ambition remains clear, continuing our transformation to a pure-play environmental solutions company.

Now over to Pete.

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

Well, thanks, Nick, and good morning, everyone. So please turn to Slide 5 and our consolidated financial summary for the fourth quarter. Harsco's revenues totaled $508 million and adjusted EBITDA totaled $62 million in the fourth quarter. Our revenues increased 27% over the prior year quarter, with ESOL contributing most of the growth followed by revenue increases within both our Environmental and Rail segments. The revenue increase for Harsco Environmental is noteworthy as Q4 was the first year-on-year increase in revenues for the business in a number of quarters. This reflects both successful execution of our strategy and the positive trends in the underlying markets.

Relative to the third quarter, revenues were a little changed as continued growth from the Q2 lows for environmental and hazardous waste processing were offset by increasing market pressures related to COVID within our Contaminated Materials and Rail businesses. Our fourth quarter adjusted EBITDA of $62 million was near the high end of our previously disclosed guidance range. EBITDA for Q4 improved both sequentially and year-over-year, reflecting the business reasons I mentioned earlier and the actions we undertook in response to the pandemic in 2020. Harsco's adjusted earnings per share from continuing operations for the fourth quarter was $0.12, this adjusted figure excluded costs for the ESOL integration and the severance costs related to additional restructuring actions in environmental. The actions in HE supplement those taken in the first quarter of 2020 and illustrate our focus on continuous improvement and further strengthening the business results.

The ESOL integration process remains ongoing, but our related external costs are now essentially complete. For 2021, we don't expect to incur any significant external integration costs. However, there will be other internal integration costs, which I'll outline later in my remarks. Lastly, our free cash outflow was $8 million in the fourth quarter. This outcome, while below our expectations, was largely the result of higher-than-anticipated capital spending and the timing of receivables collections. With respect to receivables, some customers chose to manage payments at year-end, with this cash subsequently received by us in the first and second week of 2021. And these factors are considered in our cash flow guidance for the current year, which I'll discuss later.

Now please turn to Slide 6 in our Environmental segment. Revenues totaled $246 million and adjusted EBITDA was $52 million, representing a margin of 21%. This EBITDA figure of $52 million compared to $51 million in the prior year quarter and $40 million in the third quarter of 2020. Overall, these were very strong results for HE with attractive incremental margins against comparable periods. We're very pleased with these results as they demonstrate the increasing resilience of the segment despite the persistent impacts of the pandemic. Compared with the fourth quarter of 2019, the EBITDA change can be attributed to higher demand for Applied Products in North America and lower SG&A spending. And this lower administrative spending is the result of our actions linked to the pandemic deflects our costs as well as permanent reductions, some of which were taken in the fourth quarter, as I mentioned earlier.

Steel consumption and production at our customer sites continues to improve. The LST or steel production volume increase from the third quarter was strong, more than 10% sequentially. Relative to the prior year quarter, customer LST also improved incrementally. This marked our first positive year-on-year comp for LST since early 2019. The increase was, however, modest, and the benefit was largely offset by a less favorable mix of services, as shown in our bridge. It is encouraging nonetheless to see the market recovery accelerate and financial performance strengthen within the steel industry in recent months. I would also emphasize that the industry continues to operate well below its normal utilization rates, which for our customers, averaged just over 75% in Q4. So we look forward to further capitalizing on additional growth as the industry continues to recover.

Lastly, Harsco Environmental's free cash flow totaled $5 million in the quarter and totaled $69 million for the year. This full year figure compares with free cash flow of $13 million in the prior year, with the improvement during 2020 driven by lower CapEx and cash generated from working capital.

Next, please turn to Slide 7 to discuss our Clean Earth segment. For the quarter, revenues were $185 million, and adjusted EBITDA totaled $16 million. Growth compared to the fourth quarter of 2019 reflects the inclusion of ESOL in our hazardous waste line of business. This impact was offset by lower contributions from our contaminated materials business line, which continues to face pandemic-related impacts. The change in our contaminated materials performance also reflects a challenging comp to the fourth quarter of 2019, which was a very strong period for the business from a mix point of view, both for soil and dredged material processing.

Also, as we've discussed before, our corporate cost allocation to Clean Earth also impacted the year-on-year EBITDA comparison. Relative to the third quarter of 2020, revenues were approximately 5% lower, and adjusted EBITDA declined to $16 million. These changes reflect lower soil and dredge revenues in Q4 and again, a less favorable mix across all way streams relative to the sequential quarter. Hazardous waste volumes were modestly higher quarter-on-quarter. Next, Clean Earth's free cash flow was again very strong for the quarter. The segment's free cash flow totaled $17 million in the quarter and for the year, it totaled $55 million versus adjusted EBITDA of $58 million.

Lastly, on ESOL. We are pleased with its results in the second half, and we remain ahead of our plan on integration. ESOL contributed approximately $20 million of EBITDA in the second half of the year, which represents a meaningful improvement year-on-year. The benefits realized from synergy or improvement initiatives now total approximately $10 million, with the largest improvements coming from disposal optimization and commercial levers. This total was higher than our original goal for 2020.

Looking forward, we still have more work ahead of us to complete the ESOL integration this year. Areas of focus and investment in the coming quarter will be IT integration, logistics, procurement, site productivity and additional commercial opportunities to name a few. We remain confident that we will reach our improvement targets by year-end, and I'll discuss the anticipated 2021 benefits within our outlook in just a bit.

So now please turn to Slide 8 in our Rail business. Rail revenues reached $77 million while the segment's adjusted EBITDA totaled approximately $2.5 million in the fourth quarter. This EBITDA figure compares with a loss of $2 million in the prior year quarter. The improvement relative to the prior year can be principally attributed to lower manufacturing costs and higher contracting contributions from new contracts in North America and Europe. These positive factors were partially offset by lower short-cycle equipment and aftermarket results. Relative to the third quarter of 2020, the changes in our aftermarket business also led to the slight decrease in EBITDA sequentially.

Lastly, let me highlight that our rail backlog remains healthy at just over $440 million, representing a slight decrease from the prior quarter as we continued production under our long-term contracts. As we mentioned with our third quarter results, economic or business conditions within the rail maintenance-of-way market remained challenging. Many customers continue to defer required maintenance spending and equipment replacement or upgrade expenditures. This pandemic related trend continued throughout the entire fourth quarter. With that said, rail industry metrics are improving, and we expect that Harsco Rail will begin to see the benefits from this positive trend in mid-2021. For this reason, we are optimistic that business conditions will see improvement in '21 as it progresses, putting our business in the right direction to achieve some of the financial goals we've discussed in the past.

Turning to Slide 9, which is a high-level summary of our full year 2020 results. For the full year, revenues increased to $1.9 billion, and adjusted EBITDA totaled $238 million. Also, our free cash flow was $2 million. Let me start by saying that given the extremely difficult environment we all saw in 2020, I am very proud of the extent and depth of the actions and processes we put in place as a result of the pandemic to protect our people, continue serving our customers and support our financial health. From a financial point of view, we trimmed the capital spending by roughly $65 million and pushed out project spending. We took advantage of the CARES Act legislation and deferred other payments. We also took actions to reduce our cost structure by more than $20 million with some of these being permanent savings, as I mentioned earlier.

And secondly, the acquisition of ESOL accelerated our strategic transformation, and as I mentioned earlier, our integration work to date has exceeded our expectations. Also related to ESOL, you will recall that we successfully raised capital to fund this acquisition during a period of extreme market volatility. We ended the year with net debt of $1.2 billion, a leverage ratio of 4.6x and liquidity of more than $300 million. We are also now evaluating opportunities to take advantage of attractive credit markets to extend our debt maturities by another 3 years and provide even more financial flexibility.

Regarding our segment outlook on Slide 10. There is no need to remind everyone of the continuing volatility in the end markets caused by the pandemic. However, we believe we have enough visibility in our businesses to provide outlook commentary for 2021. Of course, this assumes there are no significant negative pandemic-related market developments from what we see presently. With that in mind, in summary, each business is expected to show improvement compared with 2020. Starting with Harsco Environmental, revenue is projected to increase 10% to 15%. Adjusted EBITDA is projected to increase approximately 20% at the guidance's midpoint. The business drivers for HE in the year will be higher customer output and related services demand, increased Applied Products volumes, growth initiatives and new contracts.

Next, for Clean Earth, we are guiding to adjusted EBITDA of $72 million to $78 million for the year on revenues of approximately $790 million. We anticipate that CE's pro forma revenue growth will be within a range of 3% to 5%, while we expect double-digit pro forma EBITDA growth for the business. Higher revenues will support the EBITDA growth, but the primary earnings driver for CE in 2021 will be integration or operational improvement benefits. We expect to realize an uplift of roughly $20 million from our actions taken to date and those contemplated in 2021. Most of these efficiencies will be operationally driven, including lower disposal and transportation costs. We also anticipate some commercial benefits as well. And as I alluded to earlier, these benefits will be partially offset by additional support costs and investments. And it's important to note, a portion of these expenses, approximately $6 million to $8 million, comprising largely duplicative costs for IT integration and branding will not recur in 2022. We've also allocated an additional $3 million of corporate costs to Clean Earth. This allocation and the nonrecurring expenditures will total approximately $10 million for the year.

Lastly, for Rail, we project top line growth of 15% to 20% and adjusted EBITDA growth of 25% at the guidance's midpoint. For the year, higher equipment, technology and contracting sales will offset the impact of a weaker parts mix, reduced Asian aftermarket demand and investments, including R&D. And lastly, corporate costs are anticipated to be within a range of $33 million to $34 million.

Turning to our consolidated 2021 outlook on Slide 11. Our adjusted EBITDA is expected to increase to within a range of $275 million to $295 million. This guidance translates to adjusted earnings per share of $0.59 to $0.76. The EPS range contemplates interest expense of $63 million to $66 million and an assumed effective tax rate of 36% to 38%. Lastly, we are targeting free cash flow before growth capital spending of $100 million. And after considering all CapEx, our full year free cash flow should range from $30 million to $50 million. This forecast anticipates net capital spending will be within a range of $155 million to $175 million. And this amount compares with net CapEx of $114 million in 2020, with most of the increase attributable to growth and renewal expenditures in environmental that were deferred in 2020.

While capital spending will increase year-on-year, we will continue to employ strict spending discipline. As in 2020, CapEx remains an important lever to support free cash flow. Also at this point, I expect that our capital spending beyond '21 will normalize to levels below our current year forecast. Also note that our projected free cash flow ranges include cash payment deferrals from 2020, including those related to the CARES act of roughly $12 million to $15 million. But looking past 2021, our cash flow generation will increase as CapEx normalizes and the cash payment deferrals from 2020 are behind us. We expect to see consolidated run rate free cash flow generation in excess of 6% to 8% of revenue by the end of '22.

So let me move to Slide 12 with our first quarter guidance. Q1 adjusted EBITDA is expected to range from $52 million to $58 million. Compared with the first quarter of 2020, we expect HE results to improve due to lower administrative spending and a more favorable service mix. Clean Earth results are projected to be modestly higher as ESOL contributions will offset the impact of lower contaminated soil and dredge volumes and the nonrecurring expenses I mentioned earlier. We also assume that we'll be able to make up in March, some volume that was lost in January and February, due to weather conditions in the Northeast and in Texas. Rail results are anticipated to be lower year-on-year as a result of lower aftermarket volumes and mix. Also, corporate costs are expected to be modestly higher due to timing of expenditures and some normalization of costs.

Lastly, let me comment on this year's phasing. As you'll likely conclude, we expect our results to strengthen as the year progresses. And the factors to consider regarding this phasing include the seasonality of HE and Clean Earth, the impact of growth investments in the maturing of new sites in environmental, the timing of synergies at Clean Earth and the conversion of our rail backlog and anticipated improvements in the rail maintenance-of-way market.

So before I hand it back to the operator for questions and seeing as this will be my last Harsco annual earnings call before my retirement next month, I'd like to make a few brief comments. While my wife and I are extremely excited about it and very much looking forward to my retirement and entering the next stage of our lives, it is hard not to have mixed emotions. I look back fondly and proudly at my time here at Harsco, and there is so much I will miss. Above all, Nick's excellent leadership, counsel and friendship these past 6 years, which I value immensely, for which I'm extremely grateful. I will also greatly miss my colleagues on the executive leadership team who are far more than just colleagues. And finally, I will miss the world-class global finance and IT organizations I've had the privilege to lead and the countless members of the Harsco team I've met and worked with, each of whom clearly reflects the values and culture of this exceptional organization. Thank you all for your friendship and support.

Yes, I will certainly miss much, but rest assured I'll be watching eagerly and optimistically as a shareholder as Harsco continues to achieve success. So thanks for bearing with me, and I'll now turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Larry Solow of CJS Securities.

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

And Peter, I haven't worked with you very long, but I enjoyed it and wish you the best of luck. A couple questions maybe on -- I'll start with Clean Earth. So a little bit surprised a little bit of a sequential drop from the performance in Q3. And then sort of if we look at what the Q3 run rate was, which I realize was -- you had ESOL under your belt by that. If you sort of take that Q3 run rate, your 2021 guidance is sort of in line even, maybe even a little bit below that. So I'm just trying to parse some of the moving parts out there, I would assume it would be going up a little bit as COVID hopefully starts to wane and your integration starts to advance. So maybe you can give me a little color on that.

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

Yes. Thanks, Larry. This is Pete. So the biggest driver by far, of course, relates to the contaminated materials, the soil-related business that I mentioned earlier. And if you recall, that business was hit pretty substantially in the early days of COVID as construction was ceased on many projects for a period of time, and that kind of set us back in the Q2 and early Q3 time frame. And that's how things are going to get better. But if you recall, the resurgence occurred of the pandemic kind of in the fall, and that had another impact, particularly in Regional Northeast, where most of our business is located.

There were additional projects that were being deferred, there was nonresidential construction that was pushed back and then there were just off and on projects that were stopped. Now the good news about this, if there is, the bright spot, I guess, I should say, is that the backlog for that business in terms of the volume of soil that will be excavated and remediated it remains very strong. So we see this as very much of a deferral as opposed to an elimination. These revenues will come back for the most part, in 2021, Larry.

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

Okay. Okay. And then how about on the Rail segment. Obviously, the backlog remained very high. It sounds like in terms of operating efficiencies and getting the plant up to full speed and through the consolidation, is that completely behind you now? And obviously, you're looking for an increase this year, but we've kind of expected this sort of 15% to 20% increase the last couple of years and haven't seen it. So I'm just kind of getting concerned a little bit, things keep getting pushed to the right in terms of the backlog, and do you still sort of see that you had an ultimate goal of sort of reaching $500 million in revenue and $100 million EBITDA? Do you still feel that this division can do that in maybe a 3-year period?

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

Larry, first of all, as I noted, I believe the rail business was really in a position to have a very strong 2020 if not for the impact of COVID. The backlog continued to grow. We're launching new products. The footprint was expanding into -- continues to expand into new geographic markets that are attractive and the operational benefits of the so-called project SCOR were favorable as well. So clearly, the big impact this year was COVID.

On the freight side and about half of our business serves the freight sector and the other half, the transit sector. And we're seeing some recovery in the freight sector, really nothing to speak of on the freight side. And that affects both equipment aftermarket as well as some of our high-margin technology sales to those sectors. So the issue really is a front-end issue for us. With that said, there certainly is further to go on the operation and supply chain side. While we achieve the project SCOR objectives, there clearly is further efficiency to gain and through operations based on the learnings of project SCOR.

So yes, it's frustrating because we, to your point, have continued to be optimistic about this business in 2020, COVID really knock us off the track, so to speak. Looking forward, we have not at all diminished our optimism and our expectations for this business over time. And I continue to believe there's really good evidence of this, again, based on the backlog and the number of large contract opportunities that remain available to us, and the operational upside to achieve those figures of $500 million and $100 million of EBITDA. I remain quite confident we can do that. But to your point, it's certainly been pushed to the right.

Operator

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

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

Sticking with Rail, as it pushes to the right, when does the visibility sort of improve? Is it really COVID-driven? Or how much visibility do you have in that business? And when do you sort of start to see an uptick? And how long does that take to hit the revenue?

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

Well, we certainly have decent visibility on the equipment side, and that's manifest in the backlog. I think it's the aftermarket and what we call Protran or technology sector of the business that are shorter cycle and the visibility is, therefore, much less. And even on the equipment side, the core of the range is really the North American tamper market. And those are shorter lead time items than some of the other equipment. And we're really expecting that to bounce back in the second half of the year. And I think based on the chatter and the conversations with our Class I customers, we believe that will be the case.

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

Okay. And I just want to clarify, you talked a little bit about weakness in the aftermarket in Asia. Is that a market timing weakness? Or was there a change in the market there that says that will continue?

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

Yes. So we've had a multiyear program to supply what we call upgrade kits to the grinding fleet -- our grinding fleet in China. That program is largely winding down because, for the most part, the machines have been upgraded. And secondly, China Rail is the large ultimate customer has really been hit hard by the pandemic. So that was a very high-margin program. We certainly have a pipeline of aftermarket opportunities in China to replace the grinder kits over time, but that's not all going to be replaced this year. And so there is a gap in EBITDA in rail this year because of the winding down of 1 program and the timing of the restart of the next series of programs.

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

Okay. Great. And then last question on Clean Earth. You gave an adjusted EBITDA number. Did that include -- you said net of $3 million of corporate allocations, but the, I guess, $72 million to $78 million of adjusted EBITDA, that includes the corporate allocations. Is that correct?

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

Yes, that's correct.

Operator

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

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

Pete, and best of wishes on your retirement and definitely enjoyed the relationship we've had thus far. Following up on some of the questions we've been getting on the Rail segments. As we move from the first half to the second half of FY '21, I assume things will become incrementally better as technology starts to come back. And you start to gain some more aftermarket business. But perhaps you can comment on those 2 pieces, specifically technology and aftermarket. And what your expectations are for those as a part of the mix as things improve? And when you expect those 2 pieces to kind of get back to or more towards where we were pre-COVID.

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

Well, you're correct. In terms of the sequential lift in the business, which we expect from half 1 to half 2. And certainly, part of that is the technology in the aftermarket and a good bit of the shortfall in EBITDA expectations in 2020 was in those 2 areas. And for the most part, those programs have not been canceled. They've certainly been deferred, based on budgetary constraints and lack of visibility in the freight, and in particular, in the transit arena. So that's the expectation that the second half is going to be stronger really across all 3 of our segments, equipment, aftermarket and technology. But from a margin standpoint, the lift that we're expecting in the second half is weighted towards the higher-margin aftermarket and technology platforms.

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

That makes sense. And another question on the rail segment. You had mentioned you're still have your sights, and you still believe in the long-term potential of the rail segments previously, $100 million of EBITDA and $500 million of revenue. But as we kind of look forward to the right for the business, the backlog has remained consistently strong. How do you balance the backlog strength and the realization of its growth potential with the timing of your strategic initiatives as we kind of move out into FY '22 and even FY '23, given your movement towards a pure-play environmental services company.

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

Yes. So Chris, that's a very good question and very much top of mind for Pete, myself and others in the organization. And it's a difficult balance because, on one hand, we're, as I mentioned, quite optimistic about the prospects of our Rail business over time. There are also benefits to timing potentially of a transaction. So we're very much thinking through how to balance those two. We do believe that when we undertake a process for the Rail business, that it will be a very competitive process. There are a number of buyers that have expressed interest and that would drive significant strategic benefits from it when you consider our pipeline, the footprints, new products, growing installed base that will yield good aftermarket opportunities going forward. So there's an awful lot to like about the business. And so we're quite confident that a process would be quite successful and that we will receive a strategic multiple for it. But I really can't indicate at this point what that best timing will be, but it is very much top of mind.

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

That's helpful. Thanks for that color. And one last question, just to shift gears away from Rail. You commented about the ESG performance of the business, perhaps you could share some more granular detail into the E, the S, the G and how that's being received? It seems to be a more common question these days.

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

Well, I appreciate the question. We have allocated an awful lot of resource to our ESG journey initiative here over the past 18 months or so. And when you look at the S and the G, the social and governance issues, I think Harsco is for some time now, had very strong programs in place as evidenced by our performance on safety and the engagement of our employees and the governance processes, where I believe we are kind of best-in-class. But nonetheless, we continue to focus on the S and the G, and there's always room for improvement. It's really on the E, the environmental side, where we've really seen some significant improvements. Honestly, based on focus and communication, I think we've had a good environmental story to tell at Harsco for some time, we just hadn't been telling it.

And when you add to that, a stepped-up focus in each business, led by the corporate, I'll call it, ESG function. We've seen -- we've really seen very good leverage on those results. And as we have seen the metrics move in the right direction and have communicated those, the various agencies have taken notes, the industry press has as well. Newsweek magazine put us on a prestigious list for the first time ever. So we like where we're going. And of course, it's very closely linked into where we're headed strategically. You really can't separate the ambition to be a top-tier environmental solutions company from being a top-tier ESG company. They're one and the same, and they complement each other very well. And I look forward to continuing to progress on ESG at the same pace we did in 2020, which was quite notable.

Operator

Your next question is from Jeff Hammond of KeyBanc.

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

Best of luck to you, Pete. It's been great working with you over these years. So just on Clean Earth, or I think what you're implying is basically the pro forma, the kind of the organic growth for both of the businesses is kind of in the low to mid-single digits, which seems kind of low just given the easy comps and the improving macro. So I don't know if it's just the soil piece being a headwind in the first part of the year? Or are you seeing kind of more modest sequential improvements in the hazardous side as well?

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

Yes. I think it's both. It is primarily in the contaminated materials or soils business, as Pete indicated, in Q4 was actually the low point, surprisingly, even weaker than Qs 2 and 3, in terms of non-res construction in the Northeast, the Mid-Atlantic, where we're focused. So that business is primarily what's holding back, what should be more of a mid- to high single-digit volume lift year-over-year. The hazardous business, the expectations are, I think, in line with expectations, both ours and the broader market. And we simply don't have the visibility yet on a contaminated materials side to be a bit more aggressive. We certainly expect it to bounce back. We just don't know when.

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

Okay. And then just -- I'm just trying to work through the bridge on EBITDA for Clean Earth. So you had some corporate costs coming in. And then it sounds like some branding and other investments. Is there a way to talk about what the incremental integration savings are and what you think the underlying incremental margins are on that 3% to 5% pro forma growth.

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

Yes. So it's -- I'll try to take it in bits and pieces, Jeff, and we can see -- you can ask more kind of questions if you like. The -- first of all, the duplicative costs I mentioned earlier and the corporate allocation, they total about $10 million or so, would be a little more than $10 million in 2021. That's what we expect to incur. And those costs, as I mentioned earlier, are nonrecurring, so they should go away in starting in '22. The allocation won't go away, but the incremental duplicative costs will go away.

At the same time, we are expecting to achieve and realize about $20 million of benefits from the integration and optimization efforts that we've got underway. So when I quoted the $20 million net realized anticipated benefits, that was net of the cost incurred.

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

Just the underlying incremental on the growth?

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

Yes. So the incremental margins there should be 30% to 35% on the growth going forward for the combined business.

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

Okay. And then just last one on corporate. So the corporate cost line is going from 20 to 33, 34. And it seems like you've been kind of allocating some of the corporate costs back into Clean Earth, what's driving the big increase there?

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

Yes. So it's really 3 components that make up the total. It's what I can refer to as normalization. So there's some compensation and travel and that type of T&E type of expense normalization, which probably accounts for about half of that $11 million or so, $11 million to $12 million delta. Then we've got increase in professional fees, things like audit fees, for example, are increasing. And there's the insurance costs for some of our policies, which I mentioned back in Q3 that are increasing year-on-year as well. That's the bulk of it. The additional cost allocated to ESOL represents incremental costs that are related to specifically ESOL, which is why we're increasing the allocation to the Clean Earth segment.

Operator

Our final question is from Brian Butler of Stifel.

Unidentified Analyst

Just first, at kind of a high level, can you give some color on what the magnitude of the revenues that were displaced kind of related to the pandemic and then maybe how much is expected in 2021 guidance coming back.

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

Well, it varies by segment. The actual quantification, I can't tell you, but it's steel production, which, of course, affects the AP business was down 12% year-on-year, and that had a pretty substantial impact. Those -- in the hazardous waste business, there was probably a 15% year-on-year impact in the early part of the year. And as I mentioned earlier, we see that coming back to some degree in 2021, and with the exception of the soils business, which was down at a much greater percentage, and that will come back a lot slower over 2021. And the Rail business was even more dramatic still, and most of it occurred in the second half of 2020.

I can take the percentages, Brian.

Unidentified Analyst

That's helpful. Just on just kind of the high level, is this 2021 guidance, expecting that the business that was lost is coming back to half to where it was or it's not fully coming back, I'm assuming. I mean, that's what's included in guidance. But there's some amount. I was just trying to get a feel if that's very little coming back in that expectation of guidance or the majority of it?

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

Yes. So let me just take the question by business, as Pete did. So in Harsco Environmental, the guidance anticipates that really all of the COVID-related impact on revenue In total will be recovered by the end of 2021. In the Clean Earth segments, that's true for hazardous waste as well, but not for soil. So I would say there's probably $50 million or so, maybe a little more of revenue and contaminated materials that -- where we'll be short versus kind of the pre-COVID run rate on the contaminated materials side. In Rail, there are a number of puts and takes when you think about this aftermarket program in China. That, of course, was somewhat linked to COVID, but mostly not. And so that will not be replaced this year, and that's probably $10 million to $15 million of margin on that China aftermarket program.

In terms of equipment and other aftermarket and technology, we certainly will be a good bit ahead by the end of '21 compared to what we -- the volume that we sold in 2020.

Unidentified Analyst

Perfect. That's very helpful. Because then I look at Clean Earth and just kind of think about the baseline margin as we get through kind of the noise of '20 and '21 coming back post integration, how should we think about that margin progression getting into '22 and what that baseline level should be?

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

Yes. So I would expect -- and I think, Pete, even I alluded to it a bit. There's an SG&A investment in the business, that's needed to sustain the integration efforts that will be coming out in '22. Not to mention the -- I think we mentioned the incremental $20 million of integration benefits this year. And as we see that then on a full year basis in 2022, we would expect a few hundred basis point lift in the EBITDA margin in the consolidated Clean Earth platform, legacy Clean Earth plus ESOL. And then I would say, over the next 2 years, we expect between 100 to 200 basis points lift each year in the margin of the business. So we'd be looking at probably a 5 to 6-point lift in EBITDA margins over the next few years with a good chunk of that coming in 2022.

Unidentified Analyst

Okay. Great. And then one last one. Just when you think about the growth CapEx they're spending, can you give a little color on kind of what the -- what you guys look at internally on a return basis, kind of what the IRR is on that money? And maybe a thought on where that is versus your cost of capital?

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

Yes. Yes. So the return that we target is generally 18-plus percent. And depending upon the type of service, the geography, the profile of the customer, that can vary. Oftentimes, it's over 20%. And the payback period, importantly, is generally 2.5 to 3.5 years. So these investments that we're making this year, while we expect as we do, good returns over time, the payback is not, of course, immediate. The -- we've -- as we noted, as we change the focus of that business to being more environmental, which brings with it a less capital-intensive profile, we expect that growth capital and even the maintenance capital to decline over time. So we would expect our total capital in Harsco Environmental to be $100 million or so in 2022 versus the $160 million or so this year. And that's how we then get to that 8% to 9% free cash flow to revenue in 2022 and, again, the target over time. And we have a lot of initiatives in place to do this -- would be 10% -- plus free cash flow to revenue.

Operator

There are no further questions in queue. I'd like to turn the call back to Nick for any closing remarks.

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

Okay. Thank you, Shelby. I'd also like to make a few comments about Pete here in closing. I'd certainly like to thank Pete for his -- I'll use the word innumerable contributions that he's made to our company over the past 6 years, certainly to our financial and IT organization, certainly to our businesses. But I think, more importantly, to our value-based culture. I mean he's been a terrific fit into this organization with me and the rest of the team, and he's highly, highly respected across the company.

At the same time, he's been a very close partner to both me and the executive team. And I hear this every day how much Pete will be missed by his colleagues, again, across the company, not just his organization but his impact on the business relationships that he's formed. There are -- many, many of his colleagues will greatly miss Pete. So I'd like to wish Pete, his wife Bianca and his, happy to say, growing family, only the best in his retirement, and we'll really miss Pete. But I know Pete will always be available to us, and he's a big part of who we are, and he'll remain in many ways, committed to this company for some period of time. So thank you, Pete.

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

Thank you, Nick.

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

Okay. So I'd like to thank all of you for joining today, and I wish you a good day.

Operator

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