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PRESENTATION

Operator

Good morning. My name is Charles, and I will be your conference facilitator. At this time, I would like to welcome everyone to the Harsco Corporation First 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.

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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, Charles. Welcome to everyone joining us, and I hope you and your families are healthy and doing well. I'm Dave Martin, VP of Investor Relations for Harsco. With me today is Nick Grasberger, our Chairman and Chief Executive Officer; and Pete Minan, Harsco's Senior Vice President and Chief Financial Officer.

In line with social distancing practices as a result of the pandemic, we are doing this call from different locations today, so please bear with us as we transition between speakers and address your questions.

This morning, we will discuss our results for the first quarter and various initiatives at the company, including the integration of ESOL, Rail's SCOR program, interactions in response to COVID-19. We will then take your questions.

Before our presentation, however, let me mention a few items. First, our earnings release as well as the slide presentation for this call are on our website. Second, we will make statements today that are considered forward-looking within the meaning of the federal securities laws. These statements are based on our current knowledge and expectations, and are subject to certain risks and uncertainties that may cause actual results to differ materially from those forward-looking statements. For a discussion of such risks and uncertainties, please see our most recent 10-K. The company undertakes no obligation to revise or update any forward-looking statement. Lastly, on this call, we 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 a slide presentation.

I'll now turn the call over to Nick to begin his prepared remarks.

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

Thank you, Dave, and good morning, everyone. I appreciate you joining us today, especially in such a difficult environment, and I want to echo Dave's sentiment that I hope you and your families are safe and healthy and remain that way.

COVID-19 has certainly changed the landscape in which Harsco is operating, with continued demand for critical products and services, we recognize that Harsco has an important role to play in supporting essential industries. To that end, we've moved quickly to implement our COVID mitigation plan with 3 components: employee care, business continuity and liquidity. We've been laser-focused on monitoring, evaluating and responding to the pandemic and making business decisions to deliver against our plan.

Against this backdrop, I'm very pleased with our Q1 results, which were a good bit better than our guidance range due to the Rail and Clean Earth businesses. Performance in the Harsco Environmental segment was in line with our expectations despite a material decline in volume late in the quarter as many of our steel industry customers reduced production. Pete will provide details of Q1 performance and an in-depth review of our financial position in short order.

I'll comment in a minute on the current trends in our businesses and the status of our key initiatives, but let me first provide some perspective on our transformation into a single thesis company providing environmental solutions.

Since we declared this new strategy a year ago, we've taken several meaningful steps toward our goal. The current state of the energy industry bolsters the decision we made to exit our energy-related businesses and deploy that capital into businesses with better growth and cash flow profiles, along with a much lower degree of volatility. And 80% of our revenues are now derived from businesses providing environmental solutions. So I'm very pleased with our progress.

At this point, given the onset of COVID-19 and the significant operational changes that are now underway at Harsco, we are less focused on continued portfolio changes. Our immediate priorities are addressing the pandemic, preserving liquidity, capturing the value of the ESOL acquisition and executing the SCOR program in Rail. By narrowing our immediate focus to these initiatives, we believe Harsco will emerge from the pandemic as a stronger, more durable company that is well positioned to execute additional steps in our portfolio transformation in 2021.

I'd like to focus the remainder of my remarks on the trends we are seeing across our businesses and the actions we are taking to ensure that company is able to operate efficiently and perform well despite the downturn. As part of this, I will also outline progress we have made against 2 of our key initiatives: the integration of the ESOL acquisition in the Clean Earth segment, and the supply chain and operational recovery or SCOR program in the Rail business.

Starting with Harsco Environmental, while HE continues to support critical metal production in most countries in which it operates, the segment has experienced a greater impact from the COVID-19 pandemic than our other segments. A few weeks ago, several of HE's sites became inactive as steel mills around the world closed due to government-mandated health and safety measures. Since then, nearly all of those sites have resumed production. Nonetheless, about half of all customer sites are currently operating at lower levels of production due to weak demand for steel products. We have moved quickly to adjust the changes in demand by reducing employment levels as well as other operating and capital expenditures with a goal to support free -- to support positive free cash flow generation. While we expect these challenges in the steel industry to continue in the near term, we are confident that our healthy foundation and increased focus on environmental solutions will enable us to manage through this situation and emerge in an even stronger competitive position.

Moving forward, our objective is to maintain an attractive return on invested capital in HE and to be more selective on our growth investments. Our allocation of operating cash flow for the next several quarters, at least, will be weighted heavily towards reducing debt and less towards new capital-intensive contracts in this business.

Turning to our other businesses. Given the essential nature of their products, services and the industries they serve, both Harsco Rail and Clean Earth have maintained operations throughout the U.S. despite mandated closures of nonessential businesses in certain states. In Clean Earth, all 90 of our operating sites are operating, but many at reduced levels of volume. Across all waste streams, including industrial, retail, medical, contaminated soil and dredge material, volume is down about 15% to 20% versus the Q1 run rate. Volume changes are uneven due to the regional nature of the business. The mix of customers and waste streams in addition to state and local COVID-related restrictions lead to differing volume impacts among the states -- among the sites. We are reducing costs largely through furloughs at sites experiencing weaker volumes. There are indications that the business is at or near the bottom as some customers are reopening and project work is picking up.

With the acquisition of ESOL now complete, we are focused on integrating the business into Clean Earth. The integration is proceeding according to our plan through several commercial, operational and functional integration teams. Beyond the integration, the ESOL and Harsco teams have worked closely over the past month to evaluate the opportunities and refocus the business on its key value drivers. We remain highly confident that we can at least double the margins and earnings in this business in the next few years. I've had the opportunity to engage with several key ESOL customers over the past few weeks, and I'm encouraged by their support for ESOL in its combination into Harsco. There is a significant amount of enthusiasm around our new platform, both within our company and across the industry.

Turning to our Rail business. As we have discussed many times, the order backlog has grown dramatically over the past 2 years. We saw no order cancellations during the quarter, and our order book remains strong. However, we do expect some of the shorter-cycle opportunities to soften somewhat in the next few months. Ultimately, we believe that Harsco Rail should certainly produce a stronger year in 2020 than last year, which was impacted by operational challenges in the fourth quarter. We believe we are well on our way to addressing those challenges through our SCOR program. In fact, we are progressing at or ahead of schedule on each element of the program: capacity, culture, competency, data quality and governance. Our overall space and workforce capacity continues to increase in alignment with the demand profile included in our 2020 operating plan. We've also instituted new planning and inventory control processes that are resulting in lower inventory. Perhaps of greatest importance, I'm proud to see how the culture has shifted under new operational leadership, and that the team is highly engaged and has adopted the lean methodology of managing for daily improvement.

I'll now turn the call over to Pete.

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

Thanks, Nick, and good morning, everyone. To build on Nick's comments, let me again highlight that we are very pleased with the quarterly results. Over the past 5 years or so, with very few exceptions, we've consistently met or exceeded the guidance provided to you, and we are again happy to exceed our expectations this quarter. We've worked hard to capitalize on our strengths and improvement opportunities, and these Q1 results demonstrate that our continued focus on execution is paying off.

Now please turn to Slide 5, and our consolidated financial summary for the first quarter. Harsco's revenues totaled $399 million and adjusted EBITDA in the first quarter totaled $57 million. This EBITDA figure compares with an adjusted EBITDA figure of $54 million in the prior year quarter on a continuing business basis. It also places our Q1 performance well above the guidance range of $43 million to $48 million that we provided in February. As Nick mentioned, the better-than-anticipated result was driven by equally strong performances in our Clean Earth and Rail businesses. And Harsco Environmental was in line with our expectations.

During the quarter, Clean Earth benefited mainly from higher volumes for the processing of both dredge materials and hazardous waste in the New York area. We believe that at least some of this incremental volume may have accelerated from future periods, in part due to the mild weather in the northeast for much of the first quarter.

For Rail, our equipment mix was more favorable than expected, and we saw some acceleration of aftermarket sales and contracting work. Rail's administrative costs were also lower-than-anticipated in the quarter.

Earlier, Nick spoke about our manufacturing improvement or SCOR initiatives in Rail. And I believe this first quarter performance illustrates the steady progress we are making at Rail and is a welcome positive development after a difficult end to 2019.

Harsco Environmental results were consistent with our guidance despite the fact that services demand slowed considerably late in March. Our environmental team managed well through the first quarter and has continued to do so in the second quarter. Relative to our guidance, corporate spending was also a few million dollars lower than we anticipated due to the active management of our central overhead costs.

Harsco's adjusted earnings per share from continuing operations for the first quarter was $0.16, and this figure compares with our guidance range of $0.01 to $0.04 per share, and it's adjusted for strategic and financing costs related to our ESOL acquisition as well as restructuring costs in Environmental.

Lastly, our free cash flow was a negative $26 million in the first quarter, which was also better than we expected in the quarter. Our cash flows in the first quarter, as you know, are traditionally negative, reflecting the seasonality of our businesses. It also reflects some large cash payments in the quarter, including more than $20 million for interest and $6 million of incremental contributions to our U.K. pension plan.

Now please turn to Slide 6, and our Environmental segment. Revenues totaled $242 million and EBITDA was $43 million. Compared with the 2019 quarter, revenues and profitability were as expected, impacted by lower services demand, including the impact of exited sites, foreign exchange translation and lower commodity prices. Steel output at our customer sites declined approximately 7% on a continuing site basis compared with the prior year quarter. This change was a bit worse than we anticipated and includes a significant falloff in activity late in the quarter as a result of the pandemic. The impact of exited sites that you see in the bridge is principally driven by the 2 sites we decided to exit early in 2019 and which we've discussed in the past. The impact of these exits as well as the ramp-up of our new sites are expected to improve results in the second half of the year.

Next, commodity prices negatively impacted results by approximately $3 million year-on-year. This impact is the result of lower stainless steel and carbon scrap prices and related scrap chemistry. These negative factors were partially offset by lower administrative and other expenditures.

Lastly, on Environmental, we incurred $5 million of severance costs related to a restructuring program in the quarter. These actions, which should achieve annualized cost savings of $7 million, were contemplated at the beginning of the year to offset market pressures and are independent of the actions we are now taking as a result of the pandemic. I'll come back to this in a few minutes.

Next, please turn to Slide 7, and Clean Earth. Clean Earth delivered another strong quarter with revenues up 24%, whilst profitability increased more than 40%. Its growth was all organic with each line of business contributing. Dredge material processing was the largest contributor to the year-on-year EBITDA improvement as a result of higher volumes. Dredge volumes rose approximately 130%, primarily due to increased maintenance dredging activity in the New York harbor. Secondly, contaminated soil related EBITDA increased $1 million. This change was again volume-driven, and this increase occurred despite one of our sites being offline for the quarter due to a fire, which is now back online. Thirdly, hazardous materials contributed $500,000 of incremental EBITDA.

Lastly, let me point out that Clean Earth's free cash flow totaled $15 million in the quarter, which is impressive in the context of its cash earnings. We are clearly quite pleased with the stability and strength of the Clean Earth's performance and look forward to building on this platform.

Now please turn to Slide 8, and our Rail business. Rail revenues were $78 million, up 14% over the prior year period due to higher revenues on long-duration equipment contracts. Meanwhile, EBITDA fell modestly due to a less favorable mix of equipment. And this impact was partially offset by additional services work with the Long Island Railroad and lower SG&A costs.

Lastly, our Rail backlog totaled $435 million at the end of the quarter, representing an increase of more than 40% from prior year levels. Our largest wins in the quarter were in India, where we sold a number of track renewal vehicles for approximately $20 million. India is a huge market opportunity for us, and this win again illustrates the growing global nature of Harsco Rail and its value creation opportunities.

Next, I want to build on the comments Nick made during his opening remarks regarding COVID-19 and our business continuity actions. Also in this context, I'll comment on our financial situation and balance sheet. So please turn to Slide 9. First, it's important to emphasize what Nick indicated earlier. All of our businesses are operational, given that we operate in and serve critical or essential industries. Also, as Nick discussed, since early March, we've taken significant action to protect our employees while we continue to serve our customers. And at the same time, we've moved aggressively on the financial front, taking a number of actions to reduce costs, increase cash flow and improve our balance sheet and liquidity position. In early March, each business unit and the corporate function began taking cost reduction actions, including hiring freezes, travel restrictions and deferring discretionary spending. We also began evaluating planned capital expenditures, deferring or eliminating some previously planned spending. Specifically, we committed to lowering our original capital budget by $75 million. The majority of the CapEx reduction will occur within

Harsco Environmental and largely reflects that we pulled back on growth spending in this business. This total also reflects a decrease in maintenance as well as renewal capital spending in Environmental.

We then closed a new term loan for $280 million to partly finance the ESOL acquisition at very attractive rates. And we modified our credit facility to increase covenant headroom under our net leverage test from 4x to 5x. We very much appreciate the strong support from our relationship banks. Since then, we began executing on a number of other cost reduction and cash flow improvement actions. These actions will reduce costs by $15 million over the next 2 quarters or by $30 million on an annual basis, and exclude any incentive comp changes.

Among our other cash flow improvement actions, we plan to defer certain cash payments for taxes and pension contributions as allowed by legislation in the U.S. and around the world. The amounts deferred into 2021 will likely approximate $20 million. Our objective here is to maintain positive cash flow and improve our full year cash flow compared to our expectation at the beginning of the year.

Our net leverage position was 2.6x at the end of the quarter or roughly 3.8x on a pro forma basis for the new term loan and the acquisition of ESOL on April 6. These ratios compared to our revised leverage covenant of 5x. We presently have significant room under our covenant. Moreover, we do not have any material debt maturities until 2024.

Our liquidity position also remains strong. At the end of Q1, our liquidity was roughly $660 million, which includes cash and available revolver capacity. Pro forma for the ESOL acquisition, our liquidity totaled approximately $400 million at the quarter end. As you would expect, we have stress tested our leverage position in a number of ways and still see compliance with our covenants and adequate liquidity. Nonetheless, we continuously monitor customer and market conditions, and have identified and are ready to affect additional more aggressive actions if and when needed.

As is the case with most industrial companies of late and as we discussed earlier, given the volatility of the effects of the pandemic, our forward visibility is quite limited. As a result, we are not in a position to provide guidance on Q2 or the full year. Although we aren't discussing forward-looking information, Nick provided a few high-level comments on what we've seen in recent weeks. It shouldn't be a surprise to you that business activity has slowed in April, particularly for Harsco Environmental as our customers reduced production indoor, temporarily shut down sites. Our other businesses also experienced headwinds in April, but to a lesser extent.

At this point, we see indicators which point to Q2 as being the low watermark for results in 2020, with April appearing to have been the most challenging month for Environmental.

Let me close by saying that we are very pleased with how the Harsco team across the globe has proactively responded to this pandemic and are confident we have the financial capacity to manage through this downturn. We have a solid balance sheet, and importantly, we expect to be free cash flow positive. Also, even though we are taking a number of significant and prudent actions to improve liquidity and preserve capital, we believe we are well positioned and poised to benefit as and when a recovery materializes.

And that concludes our prepared remarks. So I'll turn the call back to the operator, Charles, for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have a question on the line from Jeff Hammond.

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

So I want to get back -- get into the April trends a little bit more, some good color certainly on Clean Earth. But can you talk about what you saw in LST volumes in April for your sites? And maybe an expectation for LST volumes based on that for 2Q? And then just in Rail, kind of where you're seeing potential risk for slowdown or deferrals given such a good backlog there?

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

Yes. First of all, in terms of HE, the LST decline in April was probably around 20%, maybe a little bit more. As I indicated, I think Pete did as well, we expect that to improve or that decline to lessen over the balance of the quarter. I don't have a solid estimate of what that might be for Q2, but we do believe that it will improve from what we've seen in the month of April.

On Rail, to date, we really haven't seen any significant impact on the business. We're anticipating that some of the shorter-cycle opportunities may be impacted. But again, we've not seen that yet. So I mentioned that we've had no order cancellations on any equipment. Some of the aftermarket business could be impacted. But again, through 4 months, we're very happy with the way the business has performed and with the -- and where the market is. We have seen and you've probably seen the Class 1s have all reduced CapEx estimates for the balance of the year, which affects our business, probably not to the extent that we fear they would. So that's also perhaps a little more positive than we have been thinking.

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

Okay, great. And then Rail definitely much better profitability, I think, than you were kind of guiding to and maybe some of the SCOR initiatives are tracking better. But if you can just give us a sense of how much of that upside was timing? And what we should think of in terms of margin rates on a sequential basis as you make more progress on these SCOR initiatives?

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

Got it. Yes. Well, I think there was a bit of timing late in Q1 that helped us a bit, but certainly not nearly to the extent of the beat versus expectations in the Rail business. I think that if you look throughout the year, we would expect margins to improve sequentially each quarter and probably be in that 12% to 14% EBITDA margins, 12% to 14% range for the full year, absent the significant falloff due to the pandemic.

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

Okay. Perfect. And then just last one. Just any early observations on ESOL in terms of where you're seeing the most substantial near-term opportunities for profitability improvement? And then just on the kind of longer term, how the pandemic and some of these short-term impacts impact your ability to kind of really get going on some of those structural improvements?

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

Yes. Well, I'll take the second question first. And I think we feel highly confident and very encouraged by the execution of the integration and all of the process improvements and discipline that's been installed in the business in a very short period of time. So I really do not see any impact of the pandemic on our ability to achieve our financial and operational targets that we've set for the business. So I think, I stated earlier that we've not relaxed our very strong view that EBITDA and margins will at least double in that business in the next few years. So I've really been very happy with how that's been executed despite the fact that we're all working remotely. We are right on plan in terms of all of our integration-related activities.

In the shorter term, there's been a real mix in the business. Some retailers have volumes that are much higher, as you might expect, some are much lower. On the industrial side, it's the same. Some of our customers that produce personal and the household hygiene products, the waste that we're processing for them is way up. Others, such as retail paint are way down. So I -- it's a real mix. But I think in the short term -- and I think we've commented on this before, Jeff, that the lack of process discipline in ESOL, frankly, was a bit stunning to us. And -- but these are kind of basic processes in the industry that we're highly confident that we can fix relatively quickly, and we're doing that as we speak. So I would say this -- overall, while volumes are down in the short-term in ESOL, as I mentioned, I do think that the second quarter will also be the low point for ESOL and Clean Earth, and the ongoing benefits of the integration will be realized on a full year basis.

Operator

(Operator Instructions) We have a question from Larry Solow.

Lawrence Scott Solow - *CJS Securities, Inc. - MD*

I hope you and your families are healthy, hanging in there. Just a couple of sort of longer-term questions because, obviously, I think the -- we can beat the pandemic over the head, and it's kind of hard to figure out exactly what's going to happen during it. But how do you guys feel on the environmental side as you come out of this -- as we come out of this and it may be -- we may be marred in it for quite some time even on the economic impacts of it? Will customers be looking to you to -- maybe you can add customers as you actually provide a savings benefit and drive maybe more outsourcing or outside of the U.S., and maybe -- I know we're in sort of a mature stage in terms of outsourcing in the U.S., but not in terms of the amount of services you guys provide, so maybe an expansion on services in the U.S. How do you sort of view that longer term opportunity?

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

Yes. Well, that's right. You just stated the value proposition that we offer our customers all over the world. I do believe very strongly that coming out of the pandemic, we will see a flood of opportunities for us to grow, in part because we'll be in a better competitive position. But also because that value proposition continues to strengthen, mostly around environmental and cost benefits that we can provide. So I think we will be much more focused on securing the very best of those opportunities. We're not going to -- as I mentioned, we need to really focus on debt reduction for the next several quarters. So my view is we will likely be passing on investing in many of those more capital-intensive growth opportunities. But I really believe, as I said, with the foundation that we've built, the leadership team, all the investments we've made in innovation and Applied Products that our competitive position will just continue to strengthen and that, that value proposition will be more compelling to customers than it has been in the past.

Lawrence Scott Solow - *CJS Securities, Inc. - MD*

Okay. Great. And then just on the Rail side. How about -- similarly -- hopefully, in the short term, obviously, we're all focused on operational improvements. How about -- does the long-term -- if we're in sort of a multiyear, not depression, but -- we'll drop a lot the next whatever couple of quarters and then hopefully improve off that. But if we're again moderate in sort of a sluggish economy, is there potential chances that some of these multiyear Rail initiatives from your customers get pushed out due to funding or any -- obviously, maybe a hard question to answer today, but any thoughts on that?

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

Yes. Yes, I think that unlikely, the large projects are really funded by the state-owned or government-owned railroads. And these are critical infrastructure projects for them where the rail industry in those countries is more critical perhaps than we view Rail sometimes in the U.S. So I think that it's unlikely. These were projects when an awful lot of time has been put in by us and the customer. And I'd be shocked if they pulled back their commitment to completing those projects.

Lawrence Scott Solow - *CJS Securities, Inc. - MD*

Okay. Great. And then just last question on Clean Earth, just a couple here. I assume that they come into the year with a pretty big backlog on the hazardous waste side, right? So even if you get some declines operationally from your customers, just -- probably covering a couple of other waste companies, you should have sort of somewhat of a buffer that you could obviously chew through over the next couple of quarters. But is that a good way to assess that? And how about on the dredging side? Are there still opportunities and -- maybe in the near term?

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

Yes. Yes. It's less of a backlog issue in Clean Earth and ESOL than it is just a steadily recurring stream that's produced by the customers, and we are their solution provider, right? So I think in that sense, there's a very large backlog, but it's not backlog like you might think of in the Rail business, for example. But that, again, speaks to the rather steady nature of the Environmental Solutions business overall in the U.S. And it's quite unusual to see a 15% to 20% decline in volume in a month in this business, and that's probably unprecedented. So that's why, in part, we really believe that April is at the bottom and that we're going to -- and we've already seen signs, as I mentioned, of those volumes picking back up.

On the Rail side, again, I think the very large order backlog that we have, I think, really underpins a floor of good earnings in that business.

Operator

(Operator Instructions) We have a question from Rob Brown.

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

Good morning. I know you said that you feel good about the initial ESOL progress, but what sort of your thoughts on getting the margins there back to -- or up to the Clean Earth level? Do you still see that as a goal? Do you see that as possible now that you've sort of gotten in there and kind of view on it?

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

Yes. Well, it certainly is a goal. And just to restate, the Clean Earth margins are about 3x. These are EBITDA margins, what they are in ESOL. So to get the targeted return on the acquisition, we really only need to kind of double the ESOL margins. But again, we believe over time, there's no good reason why we can't get the ESOL margins up into that 20% range where the Clean Earth margins are. And so we're talking about doubling margins, but our internal targets and expectations are beyond that.

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

Okay. Okay, great. Still a lot of discussion about the Environmental business. But as things sort of stabilize and improve there, how -- what's sort of the time line between your customers getting back running and volumes sort of recovering before you start to see revenue flow is sort of one-to-one? Or is there a delayed impact for you there?

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

No, it's pretty much one-to-one. Once their production picks up and their utilization rates pick up, we see the immediate benefit through the volumes that we process.

Operator

(Operator Instructions) We have a question from Chris Howe.

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

I had a few questions left here. Just following up on some of the great comments that you had earlier. As far as -- on a segment level basis, as far as exposure to COVID-19 and less exposure to COVID 19, you went through some of the puts and takes within the ESOL business that we're seeing. As it relates to the other segments, Clean Earth, how should we think about parts of the business that perhaps have a little bit more exposure in this quarter ending June? And as I look at your comments for ESOL, is it safe to assume that your goals of doubling the EBITDA margin in the next few years here or so is a relatively conservative target and given what we're going through right now?

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

Yes. Yes, I will agree with that. I think that doubling of margins is a bit conservative. I think we'll do better than that. And certainly, what we've seen over the past month would validate that.

Back to the first part of your question, Chris, actually the so-called M&I, the manufacturing and industrial volumes relative to, say, retail and medical and contaminated soil would be the most effective because they're drawn from industrial production. And of course, we've all seen those rates decline precipitously. So we have some customers that have simply shut their manufacturing and the volumes have gone to 0. We've had others that are producing products that are in very high demand right now and their volumes are up. So it really varies. But overall, the industrial portion of the business would be the weakest. Medical probably the least affected, probably up even a little bit versus expectations, as you might imagine. Retail is a mixed bag, right? You've got some of the large retailers, Amazon, for example, where volume is up substantially, right? Whereas you can think of cosmetics and sporting goods and other retailers where their volume is way down. So it's just a mix. But overall, the industrial volumes would be the most exposed to COVID. And -- but as I mentioned, I think Pete did as well, we are seeing some of those industrial customers beginning to reopen, and that's one thing that gives us confidence in saying that we believe that the month of April may be the bottom.

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

That's great and very helpful. And I wanted to shift the focus to the Rail segment. You mentioned you saw some acceleration in aftermarket in the quarter. You saw some impacts as it relates to capital equipment. As we focus on the profitability of the segment and what that looks like out of this recovery, has there been any change to the runway that you see or the potential that you see for this business? And should we expect on a full year basis that aftermarket still continues on its growth trend and its contribution to profitability in the segment?

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

Yes, I think that's absolutely right. Again, the aftermarket is the shorter-cycle business. It's difficult to project at this point what the impact might be on aftermarket. I think we're more positive on equipment in this market given that it's in backlog, and it's very much needed by the customers. But coming out of this, and I've said it before, I am just very optimistic about our Rail business. If you look at the innovations that we've introduced and the uptake on those innovations, if you consider new segments of the business and technology, for example, the global footprint in Rail has expanded dramatically. And we've won contracts for bidding on contracts that we never even would have been aware of a few years ago. And the Harsco Rail brand has never been stronger all around the world. So I -- yes, we had a very challenging Q4. It was a significant miss for us, but it was production related. It was not demand related. And we are well on our way towards resolving those challenges and getting back on track to this business being a significant growth component for our company.

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

That's great. And lastly, just following up on those comments, you mentioned how it's progressing well in Q1 in regard to the South Carolina facility. If we look at that moving slightly ahead of plan, in combination with some of the receivable issues that impacted timing in Q4, what type of contribution to the positive free cash flow expectation could that potentially be?

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

Yes, Pete, I'll let you comment on that.

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

Yes. Yes, thanks. We're already starting to see some significant improvements in working capital. Yes, we knew they were coming because we had some issues at the end of fourth quarter. But there's been some positive developments, not only in terms of receivables and collections, but also in terms of the way we manage our payables as well as advances. So across all of the businesses, I think the working capital improvements that we're going to see benefit us north of $60 million this year. And I think Rail is going to be a very, very significant part of that growth.

Operator

(Operator Instructions) Thank you again for joining us today. This concludes today's conference call. You may now all disconnect. Have a great day.
