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PRESENTATION

Operator

Good morning. My name is Debbie, and I will be your conference facilitator. At this time, I would like to welcome everyone to the Harsco Corporation Third 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, Debbie, and welcome to everyone joining us this morning. 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, our Senior Vice President and CFO. This morning, we will discuss our results for the third quarter as well as our outlook. We'll then take your questions.

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

Lastly, on this call, we may refer to adjusted financial results that are considered non-GAAP for SEC reporting purposes. A reconciliation to GAAP results is included in the earnings release as well as the slide presentation.

With that said, I'll now turn it over to Nick.

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

Thank you, Dave, and good morning, everyone. Thanks for joining us today. The third quarter was above our expectations as adjusted EBITDA improved both year-over-year and sequentially. These results reflect our leading position in the environmental waste markets and strong execution in our Clean Earth segment as implementation of new operational initiatives began to deliver results. In fact, Clean Earth recorded its best quarter under Harsco ownership and EBITDA margins improved significantly.

Harsco Environmental was challenged by softening industry fundamentals, although its competitive position has never been stronger. And we see opportunity to gain further market share in the coming quarters following the bankruptcy of a major competitor. Looking ahead to the fourth quarter, which is seasonally our slowest quarter, we expect these trends in both segments to continue and have accordingly raised our full year profit guidance.

Pete will provide further details on our financial results and projections in a few minutes. But before he does that, I'd like to take a moment to discuss our corporate strategy and the actions we're taking to position Harsco for value creation both in the near and long term. We remain committed to our ongoing efforts to reshape our portfolio and focus exclusively on providing environmental solutions to a broad range of end markets. Our progress has not always come in a straight line. However, this leadership team has become accustomed to moving decisively to address macroeconomic challenges and to fix businesses where we have discovered underlying problems. A good example of this is our mill services business within Harsco Environmental.

A few years ago, the business was saddled with a large number of underperforming contracts, poor returns on capital and was lacking process discipline. As a result, we were losing market share and our margins declined. We refocused the business, reduced costs and improved our capital allocation process and discipline. And the business is now a much more solid business with a deep and talented leadership team and a strong position relative to our competition.

The challenges we face today in mill services are largely external and we expect the effects of the recent downturn in the steel industry to be at least partially mitigated in 2023 by price increases, cost reduction and new business.

A similar process is underway within our Clean Earth segment, which was augmented through the acquisition of ESOL in February of 2020 just prior to the COVID outbreak and is now dealing with the impacts of inflation, a shortage of disposal capacity and a tight labor market. We believe in the value Clean Earth delivers to Harsco and to our customers, and we're implementing a revised plan to help it achieve its potential. We've refocused the business on executing operational initiatives related to pricing, disposal costs, transportation efficiency and reduction in headcount. We've also made several leadership changes in Clean Earth over the past several months, and we've streamlined the organization and have become much more aligned and decisive.

Our third quarter results reflect these changes and I believe that business is better positioned to strengthen margins and become less volatile in the future as a result of these changes.

In the second half of this year, EBITDA and EBITDA margins at Clean Earth should be nearly 3x those of the first half of the year. Price increases to offset inflation had been a large contributor as of numerous cost reduction programs. For the year, the inflation impact net of price will be about $10 million in Clean Earth, but we anticipate this gap to reverse and to become a positive contributor to margins next year.

Our success in executing price increases demonstrates the value of our asset base and the value proposition of our reuse and recycling services. Our customers have been extremely supportive of our price increases with the notable exception of Stericycle despite the fact that our contract with them provides us ratability to recover increases in costs. So after several discussions with Stericycle and providing evidence of the extraordinary inflation in transportation and disposal cost, we have filed a lawsuit against Stericycle in Delaware court. We will nonetheless continue to provide Stericycle outstanding service under our contract, and this dispute does not give Stericycle the ability to terminate or alter our contract.

Looking ahead to next year, I fully expect Clean Earth to deliver significant growth in revenue, EBITDA and margins. Specifically, revenue should increased high single digits and EBITDA margin should be a few hundred basis points higher than this year. Much of this will be driven by the already executed price increases and our continued cost reduction actions related to transportation, disposal, containers and SG&A. In addition, we are seeing positive momentum with new business due to our much improved customer service levels and upgraded IT interfaces with our customers.

Overall, our line of sight to the targeted 15% EBITDA margin over the next few years is clear today than it was in the past. Importantly, I should note that this 15% target does not include the potential benefits of processing PFAS contaminated soils in response to the EPA's recently announced proposals nor does it reflect the benefits of growth in other targeted markets, such as lab pack, hospitality and health care.

Turning now to Harsco Environmental. The record high energy prices in Europe and the weakening demand for steel has led to a significant reduction in steel production at many of the European sites that we support. Pockets of weakness also exist elsewhere, including in North America. Inflation and the strong U.S. dollar are further pressuring results. We expect these headwinds to be mitigated in 2023 by cost reduction actions we are putting in place and the impact of annual price escalators next year, which together, we believe, may lead to EBITDA cash flow and margin growth even in a mild recessionary environment.

Our value proposition in Harsco Environmental linked to high service levels, innovation and safety is allowing us to be selective in choosing the most attractive growth opportunities.

For Harsco, sustainability is not only embedded in the services that we provide to our customers, but it's critical to how we manage the business and we view the mission of our company. Highlighting the internal progress we are making, we recently published our annual ESG report. We continue to see improvement in our safety performance, especially in Harsco Environmental and in Rail. And we are very focused on reducing our incident rate in Clean Earth to match the industry-leading levels in our other businesses.

Harsco Environmental and Clean Earth together launched 38 new environmental solutions last year, a 30% increase compared to the prior year and we are on track to reduce our carbon emissions by 15% in 2025 from a 2019 baseline. And finally, as always, we're committed to continuing to engage with shareholders and other stakeholders on ESG matters.

Our financial priorities remain unchanged with a primary focus on reducing our financial leverage to around 3x through divesting the Rail business, improving earnings and boosting cash flow. Progress towards this goal has been affected by supply chain and inflationary pressures in our Rail business and higher working capital levels in Harsco Environmental's China business. Nevertheless, we fully expect the cash flow and balance sheet profile of Harsco to improve over the next few years, driven by EBITDA to cash flow conversion in Clean Earth, modest capital spending, improved working capital in Harsco Environmental, lower cash interest as leverage falls and declining pension costs.

I'd like to address the sale of the Rail business directly just for a moment. The core Rail business, which we have operated for decades, is an excellent well-respected business throughout the world and is an ideal platform upon which a buyer could build or used to complement an existing platform. As we have disclosed and discussed in prior periods, we have a few large mainly European contracts, which are more complex in nature and as a result of a variety of issues have been delayed.

For example, we have seen supplier issues resulting in extraordinary inflation and delivery delays, in turn resulting in these contracts being unprofitable in the short term and delaying the associated cash flow. We've been actively working with the customers and with our suppliers to find ways to address the operational and contractual issues. The good news is that with the passage of time and the actions that we've taken, the future financial and operational risks associated with these contracts have been greatly reduced. We expect buyers to be able to look past these isolated issues and recognize that with governments poised to invest heavily into public transportation infrastructure that Harsco Rail remains a very attractive asset.

I'll now turn the call over to Pete.

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

Thanks, Nick, and good morning, everybody. So let's start by turning to Slide 6.

Compared to the prior year, Harsco's third quarter revenues from continuing operations increased 4% to $487 million despite a 5% headwind from foreign exchange translation. The increase was primarily driven by the success of higher services pricing and cost actions in Clean Earth, which we discussed as part of our improvement initiatives on the August earnings call and as Nick mentioned earlier.

Clean Earth saw revenue growth of 11% in the quarter, and revenues in our Environmental segment increased 7% before the impact of foreign exchange translation. Adjusted EBITDA totaled $70 million, which is above our prior guidance and represents an improvement both sequentially and year-over-year. The stronger performance can again be largely attributed to margins in Clean Earth where we push price to offset cost inflation and successfully began executing on a restructuring program and other cost reduction initiatives in the quarter. These benefits were partially offset by weaker-than-anticipated performance in Environmental resulting in part from lower volumes in Europe and North America as steel producers have reduced production in response to rising energy and other costs.

Harsco's GAAP earnings per share from continuing operations in Q3 was $0.01, while adjusted earnings per share was $0.10. Our free cash flow for the quarter was a net usage of $31 million. For Harsco Environmental, the primary factors affecting our free cash flow performance included lower cash earnings, coupled with delays in collecting certain customer balances, mostly in Asia.

For Clean Earth, free cash flow was impacted by growth and working capital timing items. This quarter also included our semiannual interest payment on our bonds. Please note that we also utilized another $25 million under our accounts receivable securitization facility. As a result, we ended the quarter with a leverage ratio of 5x against our bank covenant of 5.5x. As we previously announced, we amended our credit agreement and related financial covenants this quarter to provide us additional flexibility if the global economy weakens. I am pleased with and very grateful for the ongoing support of our banks.

Now please turn to Slide 7 and our Environmental segment. Segment revenues totaled $265 million, and adjusted EBITDA was $51 million for the quarter. Adjusted EBITDA decreased by $5 million year-on-year. And this change reflects the impact of foreign exchange translation as well as lower volumes, particularly in Europe and lower commodity prices. It also reflects the impact of fewer asset sales relative to the third quarter of last year.

Next, please turn to Slide 8 to discuss Clean Earth. For the quarter, revenues totaled $222 million and adjusted EBITDA was $28 million. Compared to the third quarter of 2021, revenues increased 11%, including the impact of price, as I mentioned earlier. Hazardous Materials revenues reached $183 million, up 13% year-over-year with our growth led by industrial markets, followed by retail. Meanwhile, soil and dredge revenues totaled $40 million representing an increase of 4% over the prior year quarter.

Adjusted EBITDA for the segment increased $8 million year-on-year. And this change reflects the benefits of our price and cost initiatives within our hazardous waste line of business as well as overhead reductions. And these positives were partially offset by cost inflation in our soil and dredge business.

As Nick mentioned and as reflected in the Clean Earth results, price and cost actions have been very successful and partially offsetting inflation for the full year. The impact of price on revenues in the quarter exceeded $20 million year-on-year and the benefit of these price increases will continue into future periods. Additionally, in August, we implemented a cost reduction program, including SG&A in Clean Earth. The benefits from these programs are expected to exceed $10 million in 2023. And we benefited from our cost reduction and operating initiatives that will deliver additional financial benefits going forward.

Let's turn to our 2022 outlook on Slide 9. Harsco's full year adjusted EBITDA is now expected to be within a range of $216 million to $223 million and detailed segment guidance can be found in the appendix. Our guidance increase reflects an improved outlook for Clean Earth, resulting from our price and cost savings initiatives. Our guidance also incorporates a more cautious outlook in [HE] due to U.S. dollar strength as well as lower expected services volumes in Europe and elsewhere as a result of the higher energy and other costs affecting steel production. Additionally, we now anticipate that free cash flow, excluding Rail, will be between $90 million to $100 million.

Before moving to our Q4 outlook, let me comment on capital allocation. Deleveraging continues to be our highest priority, coupled with very limited disciplined capital spending. And as a result, we anticipate reducing our leverage at year-end and in subsequent periods.

Let me conclude on Slide 10 with our fourth quarter guidance. Q4 adjusted EBITDA is expected to range from $47 million to $54 million. We expect Clean Earth adjusted earnings to be above prior year results due to higher contributions from our hazardous waste services business. Sequentially from Q3 and as is typical in the fourth quarter, Clean Earth results are anticipated to be negatively impacted by fewer operating days and seasonality leading to lower volumes.

The quarter will also be impacted by the timing of certain expenses, including incentive compensation and professional fees. Meanwhile, Environmental's adjusted earnings is expected to be below the prior year quarter. And here, the primary drivers of foreign exchange translation, Brazilian tax credits and lower volumes, including commodities and Eco products. Lastly, corporate costs should be $9 million to $10 million for the fourth quarter.

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

QUESTIONS AND ANSWERS

Operator

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

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

Yes, we get called lots of things. So Pete, I got to say it out loud. Do you not like being retired?

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

It's great to be back, Michael, and great to talk to you again.

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

You too. So on Harsco Environmental -- I'm pivoting right to '23 folks. On Harsco Environmental, can '23 be basically what the original '22 was?

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

Yes, Michael, as you can appreciate, there are so many under these now that affect that business, whether it's gas prices in Europe, demand for automobiles, currency rates, ongoing inflation. It's just difficult to say. What I can say is that I feel very good about what we're doing to remove cost from the business. What we're doing to pursue new contracts that would not require a lot of capital investments.

And also, we have strong contractual protections against inflation on a somewhat lagged basis. So in January, we'll be executing those price escalators in our contracts and getting price to cover a good bit or, say, most of the inflation that we saw, which was about $15 million of inflation in 2022. So I -- all of those collectively will really help the business, whether that's enough to offset a recessionary scenario in the steel industry, we just don't know at this point.

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

Okay. And fair enough. I had to ask it that way. One of your competitors did go bankrupt. I think you all are structured very differently, contract structure, terms and the like. Could you talk a little bit about those so people understand you're not looking down the barrel of a similar rifle?

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

Yes. Yes. Well, it's a great question. And back in 2008 to 2012, when the company that went bankrupt was taking business away from our business in mill services. They were doing so largely on contractual terms that we wouldn't accept and pricing that we wouldn't agree to. And so here we are. We've become much more disciplined on our contractual protections. We have fixed fees or minimum billings in our contracts. We have the ability to recover inflation. All kinds of other protections that have served us well, and it put us in a very strong, not only financial position, but competitive position.

And so we'll see what happens with those contracts in the U.S. that are now under a bankruptcy situation. But clearly, we're having discussions with many of those customers now. And I think they're beginning to understand the value proposition that we offer relative to others. So it's difficult to estimate at this point, but I do believe that we'll have several million of additional earnings in Harsco Environmental next year as a result of new business that stems from that.

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

Okay. That's great. And then one last one on HE, is there any visibility at least in the U.S. about the money is supposed to be spent from the 2021 legislation that added $0.5 billion to infrastructure spending?

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

I'm sorry, you're saying in HE?

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

Yes. Well, and it would lead to buying steel, like a lot of this infrastructure that might get done would drive steel activity. Is there -- is there any visibility around any of that bridges, I'm thinking more like bridges, repair and maintenance around bridges?

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

Yes. Well, we don't have good visibility to that. You're absolutely correct, and that should produce a bit of a tailwind. Most analysts now continue to expect steel production in the U.S. next year to be flat to up a little bit. But of course, that risk of a recession continues to rise, that would affect that. So I would assume that those infrastructure opportunities that would lead to demand for steel would be contained within those analyst projections.

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

All right. And then switching gears to Clean Earth. The good news about 3Q and then asking going into '23 is you did it the old fashioned way without much help from a soils uptick. And yet you've talked about 4 big projects that should start seeing some dirt move plus what your own efforts. Can -- so we're double digit, something 12% to 15% kind of margins is the way to think about '23? Or is it -- or I mean, you framed it by a percent change, but I'm trying to land where the margin kind of falls?

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

Yes. For all of Clean Earth, you mean, Michael?

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

Yes.

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

Yes. I think you're going to have to stay tuned on that until we provide our official guidance for next year. I mean, clearly, the margins you saw in the first half of the year were an aberration. What we're seeing in the second half of the year and Q3 and Q4 is much more akin to what we're going to do. And of course, when you consider the annualized benefits of the things that we're doing, we clearly should add a few hundred basis points, as I noted, to our EBITDA margin. But I'm not yet prepared to kind of put a hard range out there yet.

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

And then the last one would be on Rail. Based on 3Q, what's the -- what would the document room have in and about what the EBITDA of that business is now?

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

The EBITDA in the Rail business is $20 million-ish.

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

For '22?

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

Yes.

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

Okay. But it gets better in '23 as some of this contract backlog starts to convert the short cycle in '23?

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

Absolutely.

Operator

The next question is from Jeffrey Hammond with KeyBanc Capital Markets.

Mitchell Brian Moore ***KeyBanc Capital Markets Inc., Research Division - Research Analyst***

This is Mitch Moore on for Jeff. I guess my first question is kind of -- you mentioned the competitor going bankrupt. I was just wondering where you see the greatest opportunity for Environmental to gain share? And have you already started that process and taking over some of those contracts?

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

Well, we haven't taken any contracts over yet, but we're in conversations with many customers that are served by that vendor to do so, to take over contracts. I think in the short term, the greatest opportunity would be here in the U.S., of course, that's where they filed for bankruptcy. And so we're hopeful that by the end of this year, we will have -- will be on the threshold of stepping into a handful of contracts here in the U.S.

Mitchell Brian Moore ***KeyBanc Capital Markets Inc., Research Division - Research Analyst***

Okay. Great. That's helpful. And just kind of in Clean Earth, it seems like you guys have done a really good job in rates this quarter. Do you have any sense of how sticky that price is kind of going into next year?

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

Yes. Well, first of all, I'd say that we've also done a very good job at managing and reducing cost. We have several initiatives that were put in place 3 or 4 months ago that are really yielding a lot of benefit to the third quarter and of course, going forward. And so as encouraged as we are about the price increases and virtually every customer has agreed to our price increase, we're also very, very excited about, and I'm very happy the way the organization responded to myself and others taking a much more hands-on approach to the business.

So -- but yes, I think those price increases are sticky. If you look back historically in this industry, that's been the case. And even though some of our input costs declined a little bit in the third quarter relative to what we thought, most of the benefit that we saw and the reason we really beat our guidance was because of cost. We fell a little bit short on price versus what we were targeting, most of that being Stericycle, as I mentioned in my remarks. But yes, to answer your question directly, I do expect the price increases to stick.

Mitchell Brian Moore ***KeyBanc Capital Markets Inc., Research Division - Research Analyst***

Okay. Great. And then just -- maybe last one, just on the Rail divestiture. What's kind of the gating factor kind of getting those international contracts wrapped up? And do you have any line of sight into maybe timing around that?

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

Yes. Yes. Well, there are 3 contracts primarily. There's not a single gating factor to any of them. Well, the exception of the German contract where one of the major suppliers to us and to many others filed for bankruptcy, and we're dealing with that situation. Yes, I firmly believe by the end of this year, those contracts -- let's say, the outcome of those contracts and the risk around those outcomes will be much, much better defined. And look, I think we're willing for the right deal to maybe retain a degree of that risk perhaps. So -- but I think that in the next few months, those contracts will be in a much less risky situation.

Operator

The next question is from Larry Solow with CJS Securities.

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

First, welcome back, Peter. I guess to welcome back, but always a pleasure.

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

Thanks, Larry.

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

Absolutely. Yes, sure. So first question for Nick, just on the steel on the environmental piece. It sounds like you mentioned lots of -- certainly some levers, hopefully, to pull over the next few quarters. Obviously, it's a challenging environment. But it sounds like you guys -- you've done a good job in the past. So what about just -- you mentioned new customers and growth opportunities, you're being somewhat selective there. Can you just speak to sort of -- are there -- obviously, you mean those bankruptcy competitor will hopefully get you some new business. But are there opportunities out there for new business for you even in a sort of where you can grab a bigger piece of a shrinking pie maybe in the short term?

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

Yes. There's no question about that. I believe I've commented the last few quarters on how we believe that the demand for what we do is greater than what we're willing to supply given the upfront capital that's required to move into these new contracts. So we believe that with respect to these contracts that were looking to step into here in the U.S. over the next few months, those will not require much capital from us.

And the contracts that we're looking at -- the growth opportunities that we're looking at elsewhere were very, very mindful of our balance sheet situation and looking for contracts that certainly don't require as much upfront capital relative to the cash flow potential. So we're being very selective. And a lot of it, of course, has to do with our balance sheet and where we see opportunities elsewhere.

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

Got it. Okay. Just one question on rail. I wasn't going to bring it up. But just on the $20 million EBITDA number you referenced for this year. Again, if you had your crystal ball and if these 3 contract is maybe a big if. But if these 3 sort of international contracts that are settled in, let's say, down the middle there in some fashion. And the business sort of normalizes on the domestic side, it seems like it's doing better there. Is this -- can you still sell this business as -- is it a $30 million EBITDA business in '23? Is that a good place to start? Just trying to -- are you able to sort of give us a number there?

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

Yes. Well, I'll go back to the comment I made to Michael about all the uncertainties. But I will say that we're not yet in that business where we typically would be in the middle of the cycle. And that business, historically, mid-cycle has been in that $30 million, $35 million range of EBITDA. So whether we'll get there in 2023, just so I'm clear, given the economic environment.

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

Got it. Okay. And then just switching gears real fast on Clean Earth. First of all, congrats there. I know, Nick, I'm not saying it's all you took over that business a few months ago. So perhaps yes, very good start. And clearly, you beat your expectations. Would you say that the price increases, cost cuts, operating efficiencies, are they -- do they just come faster than expected? Do you think you actually have more potential, you're more confident of getting to that 15% margin over the next few years?

I assume that would help to have dredge and the soil business kicking in as well. But does this one quarter give you more confidence? Or is it just sort of you executed great this quarter after a slower start to the year and let's just move -- and you're happy for your sales, but not necessarily doesn't get you necessarily overall a better longer-term outlook?

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

Yes. I know, we have a much higher degree of confidence now in the opportunities that we can execute in that business. And we've taken a lot of steps to improve execution and focus. And with the new leadership team that's in place, it's just a very different business right now in terms of what we're focused on and our ability to execute. So -- and as much as we've done, there's much more to do on the cost side.

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

Awesome. Can you just remind us -- I join the call a little bit late too, just on the agreement with Stericycle, the contract agreement when you took over the business, you bought the business from them? And I guess the holdup -- I missed the first of minutes. I apologize, the holdup now they're bulking on the price increases? Or what's sort of the issue there?

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

Yes, we have the right in our contract to increase prices to cover costs that are in excess of what the annual PPI-based formula would indicate. And clearly, the inflation that we've seen in the cost to serve Stericycle, be they transportation or disposal costs, any number of things, collectively, you're well above kind of PPI.

And so we have the contractual rights. And again, virtually every other customer has accepted that price increase, Stericycle has not. And so obviously, our shareholders deserve that, and we're fighting for the shareholders on this. We're not a litigious company. We've never fought -- never sued a customer before. So you can understand how seriously we take this and how strong our position must be to take that step.

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

And just remind me. When you acquired the assets from Stericycle, there's some type of an agreement, is it right? It's not your normal -- not a normal customer, right? There's some kind of a pass-through there or something or...

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

We service their hospitals and doctors' offices and so forth and the process that type of waste that they cannot internally themselves. And so they're our largest customer, $90 million to $100 million a year.

Operator

The next question is from Rob Brown with Lake Street Capital Markets.

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

On the environmental business, you talked -- you talked about the mitigation efforts to try to deal with the kind of the macro environment. Could you just give us some color on -- further color on what those are? And maybe historically, what you've done to mitigate recessionary environments?

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

Yes. Yes. Well, one thing that's unique this time is that in 2022, we've, like everyone, been subject to inflation in our cost to serve our customers. And most of our contracts do not allow for intra-year price increases generally. So in January and early in 2023, those price escalators will kick in and enable us to to offset a good bit of that inflation that we saw in 2022. So that's -- we've not had in the past the opportunity that we have in 2023. But that will certainly serve to mitigate the impact of a recession on that business.

And as we always do and we have in the past, when the business begins to turn down, we remove cost and this time will be no different. And then I think the other unique factor that should enable us to mitigate the impact was these new contracts that we hope to step into here in the U.S. and perhaps elsewhere that are the result of a major competitor filing for bankruptcy. So I -- we don't know yet, but we'd like to think that the sum of those 3 activities will enable us to mitigate a good bit of, if not all of the impact of a recession next year on the business.

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

Okay. Great. And then on the Clean Earth side, how much sort of latent price increases will -- what you see in '23 that sort of have been implemented, but you haven't really seen yet in the numbers? What's your sense of sort of pricing impact next year?

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

Yes. Well, we're going through that now. Clearly, we will increase prices again in 2023. What that amount is relative to what we expect inflation to be. We've not yet quantified that. Our approach in 2022 was really just to pass on that extraordinary level of inflation to customers, not to use it to increase margins. What the impact of the price increases will be in 2023? I just don't know yet, but it certainly should be -- should help our margins.

Operator

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

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

Congrats on the strong quarter. First off here, a little bit more on the Clean Earth side of things, but you guys had strong results there. To what degree do you see this as more of a normalization of operations and operational efficiencies? Essentially, how should we consider the base margin profile for this business moving forward?

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

Well, there's no doubt that the actions that we've taken in the third quarter, and they'll continue to be executed is in the base. Now these are not onetime actions. But we've said many times and I acknowledge again on -- in my remarks that this 15% EBITDA margin target that we have, we have a very high degree of confidence in achieving over the next few years.

And the -- what we did in this third quarter, I think, is -- I think, is a good reflection of that. And it's not as though the well is dry on additional actions we can take. And -- and even the -- so for example, when you look at everything we're doing on transportation and logistics, I think we've just begun to see the benefits of what we're doing. And the opportunity there is significant. The opportunity in how we manage the mix and care of our containers is significant.

How we manage our disposal costs is a significant opportunity. There are any number of things. There's certainly more SG&A to be removed. There are a number of IT initiatives underway that we'll accommodate that. So the bridge to get to 15%, I think, is becoming much more clear. But we certainly should be in that double-digit EBITDA margin range in 2023.

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

Okay. Okay. And I believe on the prior quarters, you guys did mention about $30 million in pricing and cost-cutting initiatives that were underway and expected through to the second half. To what degree have those been completed? And what really remains from those initial initiatives?

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

Yes. The price increases -- the price increase component of that $30 million is largely done. Again, I'll say one more time with the exception of Stericycle. The cost actions were actually ahead of where we thought we were going to be. And so the price cost actions together are above that $30 million, and that's why we're ahead of our previous guidance for the full year.

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

Okay. And then last one for me. But it does sound like disposal costs seem to be continue to pressure peers. And looking at the industry as a whole, it continues to appear as though pricing increases should continue. How are you continuing to protect yourselves from outsized inflation pressures?

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

Yes. Well, that's absolutely right. Your comment about ongoing inflation and disposal costs. And clearly, we're managing that through price, passing on that inflation to our customers. But yes, we expect that to continue as well. But there are also actions that we're taking to reduce the amount of material that we need to send to incineration and to hazardous landfills. So that's as part of the exercise as well. It's not just price. It's further processing different types of processing of the material at our facilities that would allow us to avoid and disposal costs.

Operator

The next question is from Devin Dodge with BMO Capital Markets.

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

Yes, good to see the improved results at Clean Earth. I know there's been a lot of work there, so it's good to see that kind of materialize in the results. So congrats for that. Just a couple of questions, maybe a clarification questions on free cash flow. I think it was mentioned. I just want to make sure I got it right. Was there -- I think there's $25 million that you guys essentially added from that AR securitization facility? And is that in the free cash flow number that you reported in Q3?

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

Yes, Devin, this is Pete. Yes, that $25 million of additional securitization benefit is included in the net free cash usage for the quarter.

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

Okay. And then it doesn't look like there's much of a recovery there on that working capital usage that we saw in Q3. Should we be expecting that to flow back to Harsco in 2023? Is that a reasonable assumption?

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

Yes. A good portion of that is going to come turnaround. Like, for example, on the Clean Earth piece, which is a working capital growth that's associated really with the growth in the results, that largely will come in Q4. The HE piece will largely come a combination of Q4 and in 2023.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Dave Martin for any closing remarks.

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

Yes. Thank you, Debbie, and thanks, everyone, for joining the call this morning. Feel free to contact me with any follow-up questions using the contact details at the top of our earnings release today. And as always, we appreciate your interest in Harsco, and have a great day. Thank you.

Operator

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