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PRESENTATION

Operator

Good morning. My name is Jaye, I'll be your conference facilitator. At this time, I would like to welcome everyone to the Harsco Corporation First 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, Jay, and 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; and Anshooman Aga, Harsco's Senior Vice President and CFO.

This morning, we will discuss our results for the first quarter of '22 and our outlook. We'll then take your questions. Before our presentation, however, let me mention a few items. First, our 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 and are subject to certain risks that may cause actual results to differ from those forward-looking statements.

For a discussion of such risks, please see the risk factors section in our most recent 10-K. The company undertakes no obligation to revise or update any forward-looking statements.

Lastly, on this call, we 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 turn the call to Nick.

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

Good morning, everyone, and thanks for joining us today. Before I discuss our results, let me speak to the ongoing crisis in Ukraine.

The global steel market is in the process of rebalancing as a result of the Russia-Ukraine conflict and we anticipate limited impacts to our Harsco Environmental segment over time, given the diversity of our portfolio. Furthermore, Harsco has no direct exposure within either country and any related disruptions at customer sites were short-lived and minimal in the quarter.

Turning to our results. Harsco consolidated revenue was up 1% versus the first quarter of 2021 and adjusted EBITDA totaled $49 million. These adjusted results are consistent with our guidance. Much of the quarter, however, was characterized by unprecedented inflation in commodities and other input costs as well as tightness in our supply chains and labor markets, particularly in the U.S.

We expect these factors to remain a concern and are working aggressively to mitigate the impact on our businesses. That being said, underlying demand within most of our key markets remains firm, including the steel industry and in most of the markets served by Clean Earth.

We also remain confident in the outlook of our Rail business as the industry continues to recover from COVID-related impacts. For example, we have sold more tampers, the core of our product line in the first 100 days of this year than we did all of last year.

Now let me comment on each of our 2 core businesses. Harsco Environmental had a strong quarter despite these conditions as a result of strong execution. Looking forward, our steel industry outlook is largely unchanged as is our expectation for HE for the full year.

Any impacts from the conflict in Ukraine are expected to be muted longer term for our Environmental business. given the diversity of our customer portfolio and of our exposures. HE results are projected to strengthen in the coming quarters, reflecting better seasonal volumes and additional benefits from our growth investments.

These investments include ecoproducts or our SteelPhalt business recently introduced its first carbon-negative asphalt product. SteelPhalt is a compelling growth story within HE, which illustrates our innovation mindset and positions us as a strategic Environmental partner to the steel industry.

The outlook for our Altek business, which we acquired a few years ago, was also beginning to improve. We expect to sign at least 3 contracts this year to either sell directly or to build all you saw plants for customers that need a better environmental solution to process waste from the aluminum manufacturing process.

Looking at Clean Earth, in the first quarter, again, we were impacted by incremental cost inflation, particularly for fuel and price increases for steel containers. These effects were more pronounced late in the quarter and additionally, volumes continue to be affected by the ongoing shortage of drivers as well as weakness within certain retail customers where pandemic-related benefits have waned.

The onboarding of drivers has, however, improved significantly over the past few weeks. While these items will continue to weigh on Clean Earth in the second quarter, we've begun addressing these challenges proactively. Recently, we initiated a series of price increases and surcharges to offset significant increases in the cost of fuel, third-party transportation costs and containers. By and large, the responses from our customers have been favorable.

There are also some bright spots within Clean Earth. Our full-circle service is increasingly supporting sustainability goals for our customers and we'll continue to pursue avenues to expand some of our unique capabilities. In addition, the outlook for our soil and dredge business is quite promising with numerous large projects in the pipeline for later this year and into 2023.

Overall, for Clean Earth, we anticipate margins will recover in the second half of the year and our longer-term view on margins and growth potential remain unchanged. Turning to sustainability. Our strategic direction and environmental focus is quite clear. Harsco is uniquely positioned as the leading provider of recycling and reuse solutions within the industrial waste market.

Customers are increasingly searching for more environmentally friendly solutions for their waste streams, consistent with their value proposition. We continue to drive initiatives internally to improve our carbon footprint across our logistics and processing plant operations.

Since 2019, our carbon intensity has declined 13.5%, putting us on track to deliver a 15% reduction goal by 2025. There is much more for us to do here and we'll have additional details to disclose regarding our sustainability achievements and goals within our next sustainability report to be published later this year.

Next, let me comment on Rail and our efforts to reduce our financial leverage. We're committed to a sustainable leverage ratio of under 3x, as we've discussed in the past. A Rail transaction is an important step for Harsco in this regard. Fundamentals within the Rail maintenance-of-way market have clearly improved in recent months, particularly in North America, where we've experienced a notable pickup in order activity.

The increase in our backlog during the quarter supports our return to a more normalized level of EBITDA in the business for this year, which is about $40 million. The process to divest Rail is continuing to progress as anticipated. There has been tremendous interest in this unique and valuable asset for more than 70 parties globally. We are now narrowing the list of potential buyers and expect to continue with a more detailed due diligence process with this smaller group within the next few weeks.

Our expectations remain unchanged for the sale of the Rail business in the second quarter with the closing of the transaction shortly thereafter.

I would like to conclude by acknowledging Harsco's 12,000 employees for their ongoing dedication to the company and commitment to satisfy our customers in a safe and compliant manner. The engagement of our employees is

(technical difficulty)

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

Thanks, Nick, and good morning, everyone. Please turn to Slide 5. Harsco Q1 revenues from continuing operations increased 1% compared with the prior year quarter to $453 million, including a 2% headwind from FX translation.

Adjusted EBITDA totaled $49 million, which was in line with our guidance. Relative to our expectations, Environmental performed strongly and corporate cost was slightly favorable. Meanwhile, Clean Earth results were impacted by increased inflation pressures related mainly to fuel with diesel increasing approximately 40%, driven by the Russia-Ukraine conflict, also driver availability, including the impact of Omicron earlier in the quarter impacted volume.

Each of these items impacted CE results by $1 million to $2 million. We are taking action to mitigate the spike in inflation due to the Russia-Ukraine conflict, including with respect to pricing, which I'll return to later.

Harsco's GAAP loss per share from continuing operations in Q1 was $0.09, while the adjusted loss was $0.01. This adjusted per-share figure in the quarter was outside of our guidance range due to the higher effective tax rate which was impacted by the geographic distribution of our income.

Lastly, our free cash flow for the quarter was a deficit of $29 million. This result was consistent with our expectation. As we've discussed in the past, Q1 is typically the low point for our cash flows during the year for various reasons, including the timing of interest and pension payments as well as incentive compensation payments. Our cash performance is expected to improve meaningfully for the remaining quarters of the year.

Please turn to Slide 6 and our Environmental segment. Segment revenues totaled $262 million and adjusted EBITDA was $48 million. Revenues increased 2% on higher volumes and commodity prices, partially offset by foreign exchange impacts.

Meanwhile, adjusted EBITDA decreased by $6 million year-on-year. The change reflects the expected less favorable mix of services and higher operating costs, mainly within ecoproducts. Also, FX and Brazil sales tax credits in the prior year combined impacted results by approximately $2 million.

On the Russia-Ukraine conflict, as Nick mentioned, we have not seen any material impact to date on Harsco Environmental. We did see a modest number of steel output disruptions at customer sites due to the high energy prices and the raw material availability. However, higher steel prices have since supported these operations and some production has likely moved elsewhere to offset these impacts. This illustrates the benefit of our global portfolio. Higher commodity prices have also helped Harsco.

Please turn to Slide 7 to discuss Clean Earth. For the quarter, revenues totaled $191 million and adjusted EBITDA was $10 million. Compared to the first quarter of 2021, revenues increased 1%. Meanwhile, adjusted EBITDA decreased $4 million year-on-year. This change primarily relates to hazardous materials line of business, where fewer drivers muted volume somewhat and high inflation following the Russia-Ukraine crisis impacted results.

These costs were greatest later in the quarter, particularly for fuel, third-party transportation and containers. We have instituted additional price increases and implemented surcharges, on top of the price increases we introduced in Q4 across a large percentage of our sales book to offset this inflation.

While most customers understand and support the price increases, it will take till late in Q2 for these impacts to be fully realized, so we are absorbing a cost price timing mismatch. We also continue to focus on cost controls to mitigate our risk here.

Lastly, on Clean Earth. The truck driver shortage is slowly improving. Turnover declined in the first quarter and March was a good month for recruiting drivers. Before turning to our outlook, let me comment briefly on Rail. During the first quarter, we recorded special items in Rail, which totaled $35 million. This amount for additional estimated future costs to complete fixed-price contracts with 3 large European customers.

These contract adjustments relate primarily to supply chain challenges and production delays that have increased anticipated costs and further delayed our progress on these projects, resulting in penalties. We are working with our suppliers and customers to mitigate some of the impacts that resulted in these charges.

And as Nick mentioned, our process to sell Rail is progressing according to plan and we are optimistic of our ability to complete a transaction this year. Selling Rail is important to reduce our leverage.

Now let's turn to our 2022 outlook on Slide 9. Our adjusted EBITDA is now expected to be within a range of $250 million to $265 million, with the change versus our February guidance entirely attributable to inflationary factors in Clean Earth, with the cost price timing mismatch in the first half.

This new EBITDA guidance translates to adjusted earnings per share of $0.35 to $0.44. Beyond the EBITDA change, the revised EPS guidance incorporates a change to our anticipated interest expense due to higher anticipated market rates and our effective tax rates.

Lastly, we are now targeting free cash flow excluding Rail of $25 million to $40 million. You can find our segment guidance within the appendix of the slide deck.

Let me conclude on Slide 10 with our second quarter guidance. Q2 adjusted EBITDA is expected to range from $59 million to $64 million. We expect Environmental adjusted earnings to be modestly lower due to business mix and FX impacts. Clean Earth adjusted EBITDA is anticipated to also modestly be lower due to the cost price timing mismatch. In addition, corporate costs should be within a range of $10 million to $11 million for the quarter.

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

QUESTIONS AND ANSWERS

Operator

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

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

Can we -- I'd like to start for Rail for 1 second and try and put something to bed. There is a perception that you can't sell this well enough to get a delevering event. And you've talked about the number of bidders, should we be concerned about these charges? How do you work that through a due diligence process? What does everybody need to understand why you can get net proceeds that will take a turn, turn and a half out of this business model?

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

Yes. Well, first of all, I think it's important to reiterate the strength of the process so far with a very large number of interested parties, a very large number of bidders that are really focused on the core of the business and its future growth potential, which, of course, we believe is quite high. The large European contracts where we have adjusted the future profitability will be looked at effectively along with excess working capital as debt-like items by the buyers.

And I will say that the charges we took in the first quarter, we believe there is a reasonable path to reversing all or a part of those as we continue to dialogue with our customers about the COVID-driven nature of those adjustments, whether it be for late delivery or for cost inflation.

So -- but I think it should be relatively straightforward for the buyers to look at those contracts and kind of assess what the future cash flow impact would be plus or minus and adjust in their valuation for the core. So that's, I guess, a long-winded way of saying that we do expect this to be a significant delevering events as we've said in the past.

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

Okay. Switching gears into the fundamentals. Cost issues aside, are you seeing an industrial -- North American industrial economic environment that is creating a favorable top line outlook and your ability to account for cost issues timely aside, that's good.

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

Yes. I think the volume trends in U.S. industrial market are quite good. We did see in the first quarter some softness with a few major retailers that we serve on a national basis, but we expect those to be somewhat short-lived. But the volumes in health care and industrial and other retail accounts are actually quite good.

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

And the retail issue is a timing one? Or did they see a reduction in foot traffic and it led to less activity?

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

Yes, it's the latter. These are a few retailers that in particular benefited from the buying patterns of consumers during the pandemic.

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

Got it. Okay. And then Anshooman, on the free cash in the press release, you have a line item that's a pension income number. So one is that cash; and two, how is that -- how do I think about that in the context of the 30 to 50 being revised down to 25 to 40?

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

The pension income is a noncash item and that doesn't impact 25 to 40. If you really think of a free cash flow change in guidance, there were 2 items. One, our cash interest cost is going up as the new projections for interest rates are 7 to 8 hikes this year.

And the second, we did reduce our EBITDA guidance slightly for the year. Combined, those are about $14 million and we've reduced cash at midpoint by about $7 million. So we've compensated for part of the decline.

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

Okay. And when you think about in the HE business, are you expecting the rest of the world to make up the 30 million tons of Russian steel that's exported and therefore, you could see increased level of production across your customer base? Or you're still sticking with we're 1% to 2% production growth net of China year-over-year?

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

Yes. Yes, it's a good question. I -- Michael, I -- we're sticking with our original guidance on volume growth in HE. But to answer the first part of your question, yes, given the demand trends in the global steel industry, we would expect that production gap in Russia and Ukraine to be made up elsewhere.

Operator

Next question comes from the line of Larry Solow of CJS Securities.

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

Sorry, I was doing the core a little late. Just a couple of questions on Clean Earth, which and you may have addressed some of the stuff. It was a little bit -- I think that was the sore spot for me in the quarter. In terms of revenue shortages and whatnot, is that a driver shortages, as -- is that improving?

And do you make up -- what happens if you don't pick up some of this waste and stuff, do you make that up? Does that accumulate? Are you losing share to other companies? How does that -- on the hazardous side on the retail side? Is that -- or is that just loss revenue that you can't get back?

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

Yes. Well, first of all, clearly, our competitors move the material by truck as well. And I think we're all in the same situation here. No. We do think as the situation improves, and I think as I mentioned, maybe Anshooman did as well, we do expect and we have seen the last several weeks the trends improving in terms of the hiring of drivers.

So we do see the situation improving in the second quarter, clearly should be better than the first, which was better than the fourth of last year. With that said, I think it probably would be a bit aggressive to assume that we can simply recover all of that lost volume. I think there's certainly an element of that, that we're confident will recover, but I wouldn't expect to fully recover that volume.

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

And how about on the soil side. I can't -- I don't know if you guys addressed this. I know that's been down considerably the last couple of years, hasn't come back. It went down coming into COVID in terms of construction activities and infrastructure and hopefully, this starts to move forward. Do you see any visibility light at the end of the tunnel on that side of the business and the dredging side as well? I know that kind of dry and wet soils, I guess, are kind of combined now. But any comments on that, color on that?

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

Yes, Larry, we are, for the first time in some time, we do have visibility into a more robust pipeline of projects. And so I would kind of tend to view that as a bit of upside for the year for us. We have relatively modest volumes built into our guidance, but we're hoping that some of these projects to break loose and generate revenue for us later this year.

But we've been frustrated before on that front. So we're perhaps taking a bit of a cautious view in our guidance, but we are seeing improved visibility for the first time in a couple of years.

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

A lot of talk on the PFAS side. And I know Clean Earth, I think, had one -- I think maybe right before you acquired them a couple of quarters before had a couple of projects, all the stars aligned, I think they did a few million of EBITDA in one quarter, maybe one half a year on the PFAS side.

And I don't expect you probably have much visibility for this year or putting any numbers in your guidance, but a lot of talk about it. Do you see Clean Earth being at least an incremental provider for PFAS cleanup as we look out over the next few years?

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

Yes. There's no question. We view that as probably one of the top 3 to 5 growth drivers in the business over the next few years. And in fact, this summer, we'll be starting a project on Cape Cod at the joint base on Cape Cod with our mobile technology processing PFAS contaminated soils. And so that should be a very critical project for us, and we believe that if that is as successful as we expect it to be that many more opportunities, similar opportunities should become available to us.

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

Okay. Then just last question. Just on ESOL. And I realized you did this acquisition, it was over 2 years ago. So it's now part of Clean Earth and it's not separate. But just in terms of -- I know when you guys acquired it, there were some pricing issues there and just inefficiencies and excess storage facilities. Just on those couple of items. And I know now you're raising pricing across the business. So is there still a server discrepancy if it's on the ESOL units and then what -- your legacy business there or the Clean Earth legacy side, if you will.

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

Yes. I think we've largely addressed that issue. We've stopped, I guess, tracking directly the integration benefits we set a target for and we achieved that in, I don't know, maybe 1/3 of those benefits were related to pricing.

Operator

Next question comes from the line of Rob Brown of Lake Street Capital.

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

Just wanted to follow up on the price increases in CE. What sort of the percentage of price increases that you're deeming to take? And how -- maybe just how again does that sort of go through into the year?

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

Yes. Well, it's quite a mix across the various customer types, retail, industrial and health care. And there are surcharges, there are also price increases depending upon the nature of the contract or the customer. So it's a real mix. I think the easiest way to look at it is that relative to our original budget for this year, inflation in Clean Earth is about $20 million higher than we expected. And the price realization that we expect to offset that is only about $10 million.

So that kind of drives the delta and the guidance for Clean Earth that you would mention. Now certainly, as we roll into next year and have the full year impact of those price increases and continue to adjust our contracts to give us the flexibility in the future, if needed, to address surprises, I'll call them, in cost inflation, that should be a nice enhancement to margins. But the gap this year is in terms of EBITDA, about $10 million.

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

Okay. Great. That's very helpful. And then Anshooman, maybe on the interest expense line, what do you sort of expect for interest expense in '22?

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

So -- we're somewhere between $68 million and $70 million of interest expense this year. From our prior guidance at that stage, the expectations were for 3 to 4 interest rate hikes this year now, the expectations built in is 7 to 8 interest rate hikes this year. Sorry, just one additional clarification. This doesn't -- the interest expense doesn't include any benefits from reduction in debt after the sale of Rail and the corresponding interest reduction then.

Operator

Next question comes from the line of Chris Howe of Barrington Research.

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

I wanted to follow up on the soil and dredge business. You had mentioned that there are projects for later this year. As we think about that, along with some other buckets, such as pricing increases, which will benefit later in Q2? And perhaps future price increases, how should we look at these different channels as it relates to the margin recovery in the second half for Clean Earth or even beyond that.

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

Go ahead Anshooman.

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

Yes. So if you really start thinking of price increases, the $10 million that Nick mentioned that was uncovered is really in the first half of the year. So there's a cost price mismatch during the first half of the year. The second half of the year, our price increases are covering inflation.

And as Nick was mentioning, we put in place, has a lot of surcharges stop fees, which really is going to be tightening strength of diesel, which has been one of the big contributing factors for inflation for us. So our margins will recover from that.

The soil and dredged business is, from a guidance perspective, relatively flat to last year. That business has a very high contribution margin as incremental volume would come in. So if we were able to pull in some work into this year, there could be good margin upside, as Nick mentioned.

Now a lot of the projects, the pipeline is developing for later this year into 2023. So as you start thinking margins '23, '24 in we see a recovery in the soil dredged business, which really could be a couple of points of margin expansion into our long-term targets. And then on top of that, as you factor in our efficiency program through the digitalization effort through our logistics, improvements and continued growth in the business, that's how we get to our midterm margin targets of the 15%.

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

Got it. That's perfect. And no specific order here. If we go to the driver shortage in Clean Earth, you mentioned March was a little bit better for recruitment. Can you give a sense of the current magnitude of shortage versus where you hope to be?

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

Yes. So we're probably about 60 to 70 drivers short and March was a good month for us in both the number of drivers we onboarded, but also we, in the first quarter, saw a reduction in the turnover so actual people leaving -- drivers leaving the business. So net positive on both ends for us. Additionally, as we've mentioned earlier, during the last quarter, we basically took into effect certain new procedures on onboarding to cut the time for onboarding of our drivers and getting them productive and about half, all of that is starting to help us.

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

Okay. And then my last question, just going back to these ongoing challenges of inflation, supply chain, labor, doesn't seem at this point, things are getting much better, but more of the duration is being extended. How are you factoring in future price increases to perhaps overcompensate for these challenges to not be on the short end?

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

Yes. Well, I think a lot of the work comes down to the structure of our contracts. Of course, this business had not experienced inflation of this magnitude in the past, certainly not as quickly as it developed.

And so the contracts were written at a time when accommodating that was not even a thought. So a lot of the work will be done through giving us the avenue to make appropriate adjustments for the contract going forward.

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

Okay. And then likewise, I would assume that these price increases somewhat stick with us for a while to account for the challenges that are occurring and have occurred?

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

Yes. That's certainly what we're anticipating.

Operator

(Operator Instructions) Next question comes from the line of Zane Karimi of D.A. Davidson.

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

So first off, you're on Clean Earth, can you speak a little bit more to your previously announced 2024 Clean Earth expectations? And what has changed between initial announcements and today? And in particular, what changes, if any, need to be worked on to hit those targets?

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

Yes. I assume you're referring to the EBITDA margin targets of 15% that we've discussed.

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

Yes and/or top line.

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

Yes, yes. Yes. So I think Anshooman mentioned a key component of that bridge to get from where we are today to the 15%, at least 2 points of that will be the soil and dredge business returning to pre-pandemic volume levels.

So that would be a few points I would expect, we do expect an incremental 1 to 2 points in margin from the leverage that we'll receive from incremental volume. And then I think on Anshooman also mentioned a lot of the IT initiatives that are underway, which will serve to both improve the customer experience, but also to help the back office operations become more effective likely leading to a reduction in G&A costs.

So those are the principal components of let's call it, that 5-point gap been normalized current margins, adjusting for inflation and the 15% target that we have.

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

Okay. And maybe -- I know we've discussed a lot of the Clean Earth potential near-term headwinds, but I was hoping to talk a little bit about what you're seeing for as best you can, the 2023 and 2024 opportunities there?

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

Well, I think those opportunities are consistent with kind of the investment thesis that we stated when we bought the business. There are significant opportunities in areas like PFAS, there are opportunities with our front-end work that we're doing to improve the customer experience to take what has been kind of negative churn in large accounts to one that's positive.

And of course, the ongoing opportunity to expand permit capabilities at our federally permitted sites to process different kinds of waste. So -- there are many, many opportunities that are consistent with those that we mentioned when we bought the business a few years ago.

And we indicated that we think that the volume opportunity in this business on an annual basis is kind of mid-single digits, plus, of course, any benefits of price. So we still believe that's achievable.

Operator

Next question comes from the line of Jeff Hammond of KeyBanc.

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

Sorry, if I jumped on a little late. I don't know if you gave EBITDA for the quarter for Rail even though it's disk ops or what it is trailing. I know you're talking about the $40 million go forward.

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

We didn't give the EBITDA, but really the results were impacted by the $35 million charge that I referenced during the call. But really going forward, as Nick mentioned during the call, we've seen a very strong recovery into Q1 and the early parts of Q2 in the Rail business.

The number of tampers we sold in the first 100 days. Our core product this year is more than we did all year last year. We've received another order this -- early in this quarter. Q2 that will help continue to show good growth in the base business of this Rail segment. And as a result, we feel pretty comfortable that as buyers are looking at this business, they should be looking at the near-term earnings potential, which is around the $40 million mark.

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

Okay. Perfect. And then just on HE, can you just talk about kind of how -- if there's any moving pieces within the guide, it seems unchanged, but it seems like certainly nickel scrap should be kind of a tailwind. I don't know if there's offsetting headwinds?

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

Yes, there are a number of moving parts, as you noted, in our ecoproducts group, some of the input costs to producing those products, the costs have increased. So we've recovering that in price as we speak, but there was a bit of a headwind in the quarter and probably some of the second quarter as well due to that, as you point out, some other commodity prices, which tend to benefit the business have remained a bit higher than we thought. But overall, the volume in the business is consistent with our original thoughts. Yes, we're quite comfortable with the original guidance that we provided for the full year.

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

Okay. Great. And then last one, just on -- I know when you bought ESOL, you were talking about I guess, restructuring some of the transfer facilities in the transportation business. And I'm just wondering kind of where you are in that evolution and kind of how you maybe think about it the same or differently given all this kind of driver shortage inflation, et cetera.

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

Well, we've made a number of changes already to our route planning and so forth. So a lot of that has already been addressed, although as you can imagine, in this market, it certainly is prompting us to look a level deeper and to continue trying to find efficiencies in our route planning. So that's -- it's an ongoing initiative, I'd say, Jeff.

Operator

Next question comes from the line of Michael Hoffman of Stifel.

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

I just wanted to get a point of clarity. So $20 million of headwind, $10 million offset in its contract structural limitations that are preventing you from doing that faster. So is that what I think I heard?

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

Yes. In effect, that's correct. And that, of course, is something we're addressing now if and when this sudden and severe inflationary environment, whatever recur. But yes, I think that's taken us a bit more time to work through the appropriate mechanisms to increase prices given the structure of the contracts.

Again, whether they be surcharges or price increases and temporary versus permanent and it's quite a mixed bag of contracts. So it has taken a bit of time to work through that. But quite pleased with the effort of our Clean Earth team to get where we are today and certainly have confidence that we'll be in a better position to mitigate this going forward.

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

And I get -- and I appreciate that these businesses are all being run as one, but they're now underlying segment. So is this an industrial issue, a retail issue, a health care issue, which is it more of something and that's why there's some timing here?

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

Yes. It's more retail and industrial. It's not a health care issue. It's really not a legacy Clean Earth issue. It's more of an ESOL issue with respect to industrial and retail customers.

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

All right. And then what are the plans to term out the debt? Is it something that's tied to you get Rail sold, you delever and then try and term out and get out from under some of this variable versus fixed issue?

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

We -- currently, we're 50-50 from a variable versus fixed. And as we get the Rail proceeds, obviously, we'll be paying down some of the variable debt. So our percentage for the rest of this year goes a little bit higher towards fixed. At this stage, interest rates are up, so taking out the high yield and then replacing that probably isn't a strategy given the current interest rates, but we'll continue to monitor interest rates and look at mechanisms to further reduce our interest costs as we continue to delever and have a stronger balance sheet.

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

Okay. And then lastly, Nick, I wanted to ask about the 15% margin. My recollection was Clean Earth legacy was very high margin because soils and dredge was such high incrementals. You saw it was virtually 0. But the combined was meant to be better than '15 because of the benefit of Clean Earth.

Now we're only getting to 15% because of soils and dredge. I thought 15 was without soils and dredge recovering.

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

Well, we're talking just over the next few years. We really haven't looked out beyond a few years and where the margins can develop to. I think to pick up 5 or so points of margin in the next few years is an aggressive, but reasonable target for the team. And that's what we're asking them to do when we have a pretty good road map on how to get there where the margins can go beyond 15%. We'll discuss that later.

Operator

There are no further questions at this time, and I would like to turn the call back to Dave Martin for closing remarks.

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

Thank you for joining the call, and I apologize for the technical issues with Nick at the very end of his prepared remarks. Feel free to contact me with any follow-up questions. And again, we appreciate your interest in Harsco and look forward to speaking with you in the future. Have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Have a great day.
