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PRESENTATION

Operator

Good morning. My name is Shelby, and I'll be your conference facilitator. At this time, I would like to welcome everyone to the Harsco Corporation Third Quarter Release Conference Call. (Operator Instructions) Also, this telephone conference presentation and accompanying webcast made on behalf of Harsco Corporation are subject to copyright by Harsco Corporation, and all rights are reserved. No recordings or redistributions of this telephone conference by any party are permitted without the expressed written consent of Harsco Corporation. Your participation indicates your agreement.

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

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

Thank you, Shelby. Welcome to everyone joining us this morning, and I hope you are well. I'm Dave Martin of 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. This morning, we will discuss our results for the third quarter and our outlook for Q4 and as well as Harsco's key initiatives. We'll then take your questions.

Before our presentation, however, let me mention a few additional 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 materially from those forward-looking statements. For a discussion of such risks and uncertainties to the Risk Factors section in our most recent 10-K and 10-Q. The company undertakes no obligation to revise or update any forward-looking statement.

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

Now I'll turn the call to Nick.

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

Thank you, Dave, and good morning, everyone. Thanks for joining us today. The third quarter developed largely as we anticipated on a consolidated basis with our environmental businesses improving sequentially, while our rail business, which did not see a significant impact from COVID through Q2, was affected by weak demand and an unfavorable product mix.

Overall, EBITDA was consistent with our expectations, while cash flow was better. Revenues in our environmental businesses, which represent more than 80% of total Harsco revenue, were up 15% versus the second quarter. Volumes were up in all waste categories, led by hazardous medical waste. Retail and industrial waste volumes were also up by double digits, while steel waste or LST, was up high single digits.

Revenue was also up in the contaminated materials segment with strength in the dredge business, offsetting weakness in our high-margin soils business, which has been affected by softness in large nonresidential construction projects in the Mid-Atlantic and Northeast regions.

Our key priorities have remained consistent for most of 2020: Keeping our people safe during the pandemic, preserving liquidity, capturing the value of the ESOL acquisition and executing our operational recovery plan in rail.

I'm very pleased with the execution on each of these critical initiatives during the third quarter. The number of COVID cases across our employee population has remained steady at modest levels for several months. And we have not experienced any significant disruption to our operations related to employee health. The degree of employee compliance with our global COVID-related principles is quite high, and has served to counter the worrisome trends across the general populations of the more than 30 countries in which we operate.

Pete will comment on our liquidity position in a moment, but I would like to recognize Pete and his finance organization for their outstanding management of our cash flow and liquidity position over the last several months. Cash flow continues to be strong and is well above the 2019 level despite the impact of COVID on cash earnings. The integration and value capture of the ESOL acquisition continues at a brisk pace. The vast majority of our value actions have been launched and the corresponding benefits for the year will be ahead of our original plan.

These actions range from logistics and disposal optimization to various SG&A and commercial initiatives. This past week, David Stanton, the Clean Earth President and I visited a number of our sites across the U.S. was energizing to again see firsthand, the tremendous opportunities we have to grow the business and improve the efficiency of its operations. The operational recovery program at Rail is on track to deliver against its objectives by the end of the year. The backlog in Rail remains at record high levels, so the SCOR program is oriented towards ensuring we have the appropriate capacity, competency and governance principles in place, to deliver high-quality products to our customers on time.

In terms of next steps, we plan to establish and sustain the lean based operating model required for a best-in-class supply chain and fulfillment capability. Looking ahead, we expect our end markets to continue to improve throughout the quarter and into 2021, with recovery in our environmental businesses leading that of our Rail business. Our Q4 outlook reflects these positive trends in both Harsco Environmental and in Clean Earth.

We are not yet comfortable providing more specific guidance for next year given the current economic situation, and the potential impacts on our planning process. In terms of management focus, we will continue to execute our current programs and strengthen our balance sheet. Together with the expected improvements in our end markets, these actions should build on our foundation and enable us to take the meaningful next steps in our portfolio transformation.

I'll now turn the call over to Pete.

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

Well, thanks for the kind words, Nick, and good morning, everybody. So please turn to Slide 4 and our consolidated financial summary for the third quarter. In the third quarter, Harsco's revenues totaled $509 million, and adjusted EBITDA totaled $59 million. Our revenues increased 14% over the second quarter of this year with each of our businesses realizing a nice improvement in revenues from the second quarter when we believe the impacts of the pandemic peaked for most of our end markets. The sequential improvement in revenue ranged from a 20% increase at Clean Earth, to a 9% increase at Harsco Environmental. Our third quarter adjusted EBITDA of $59 million is consistent with our expectations in August and is comparable to our adjusted EBITDA result in Q2, despite the unfavorable timing impact of certain expenditures we discussed on our earnings call last quarter.

These incremental items consisting largely of the timing of insurance and compensation related amounts, negatively affected the quarter-on-quarter comps by approximately $10 million. Otherwise, underlying performance improved compared with Q2 as a result of volume growth driven by the ongoing economic recovery, and strong underlying operating performance within our businesses.

Including at ESOL, where margins improved considerably as our integration and operational improvement actions began to take hold. And as you may recall, Q3 was our first full quarter of owning ESOL after we acquired it in April.

Relative to our expectations at the beginning of the quarter, our results were aided by better top line and margin performance in Harsco Environmental and lower corporate spending as a result of our ongoing focus on managing costs.

Our EBITDA in the third quarter of 2019 totaled $87 million. The change year-on-year clearly reflects the ongoing impact of the pandemic on end market demand as well as the fact that the prior year quarter was particularly strong due to a favorable mix in both Rail and Clean Earth.

Harsco's adjusted earnings per share from continuing operations for the third quarter was $0.08. And lastly, our free cash flow totaled $18 million in Q3, a strong performance considering that this figure is net of approximately $14 million of tax-related outflows that we had deferred from the second quarter. This figure compares with free cash flow of $5 million in the third quarter of 2019.

And year-to-date, our free cash flow is now $10 million positive, significantly improved from 2019. Capital spending discipline and improved working capital performance have been the main drivers of the improvement this year and should continue to be so for the foreseeable future. Generating positive free cash flow is clearly an important focus for us and we expect to generate positive free cash flow in Q4 as well.

So now please turn to Slide 5 in our Environmental segment. Revenues totaled $223 million and adjusted EBITDA was $40 million, translating to a margin of 18%. This EBITDA figure compares to $60 million in the prior year with the change driven by pandemic effects on the demand for services and applied products as well as related impacts on new site ramp-ups. Steel output at our customer sites declined approximately 6% on a continuing site basis compared with the prior year quarter. Relative to the second quarter of this year, Harsco Environmental's revenues rose 9% on a similar improvement in steel volumes.

Adjusted EBITDA was unchanged quarter-on-quarter. However, as I mentioned earlier, the comp to Q2 was negatively impacted by the timing of expenses, which totaled approximately $5 million for HE. So I believe these results again illustrate strong performance by our Harsco Environmental team and their ongoing focus on operational excellence and financial discipline in controlling operating expenses.

Harsco Environmental's free cash flow totaled $32 million in the quarter and now totaled $64 million for the year. This year-to-date figure compares with free cash flow of $10 million in the prior year. The improvement during 2020 has largely been driven by lower capital spending and cash generated from working capital, as I mentioned earlier.

So next, please turn to Slide 6 to discuss our Clean Earth segments. For the quarter, revenues were $194 million, and adjusted EBITDA totaled $20 million. Compared to the third quarter of 2019, our dredged material processing business had a strong quarter. And the inclusion of ESOL offset the volume pressures linked to the pandemic in our legacy Clean Earth haz waste business.

Our soils business was impacted by less favorable mix and delays in nonresidential construction projects, again due to the pandemic. Relative to the second quarter of 2020, revenues increased roughly 20% with ESOL and legacy Clean Earth experiencing similar improvements. By line of business, the sequential revenue growth was most significant in medical and dredge material processing, followed by industrial and retail hazardous waste. ESOL contributed nearly $130 million of revenue in the quarter. And it's great to see the ESOL business bounce back from Q2 when many medical facilities and industrial plants as well as a good number of retail stores were closed. And I believe this illustrates the recurring and essential nature of its revenues and its resilience during atypical business cycles. Further, ESOL's margin performance improvement was also very positive in the quarter. Additional volume helped in the quarter, but I believe this result is more importantly, a direct positive reflection on the improvement initiatives that we've only begun to implement. ESOL's run rate EBITDA as a result is now above pre-acquisition levels despite the pandemic.

Last quarter, I mentioned that we expect to realize approximately $5 million of benefits in 2020 from our initiatives. Today, I'm confident we will exceed this target. And as a reminder, the major improvement levers we're pursuing are our disposal optimization, site productivity, inbound and outbound logistics, procurement and commercial initiatives. Although we still have some work to do in order to achieve our goal of doubling ESOL's EBITDA within 3 years, we're off to a great start.

Lastly, on the Clean Earth segment, free cash flow and cash conversion remains impressive. The segment's free cash flow totaled $17 million in the quarter and year-to-date, it now stands at $38 million versus adjusted EBITDA of $42 million.

So now please turn to Slide 7 in our Rail business. Rail revenues increased to $93 million, while the segment's adjusted EBITDA declined to $5 million in the third quarter. The change in EBITDA relative to the prior year quarter can be principally attributed to a less favorable mix across all product categories and lower aftermarket and Protran volumes due to the pandemic headwinds affecting our customers, which became more pronounced during the quarter.

These impacts were partially offset by lower SG&A spending. While economic conditions related to the pandemic clearly hit the low point in Q2 for Clean Earth and Environmental, that wasn't the case for Rail, as the end markets continue to feel pressures from pandemic-related headwinds on freight and passenger rail demand. As we started to see early this quarter, this has created some deferrals of our customers' capital spending versus their original plans. And accordingly, the demand for short-cycle products across all business lines in Rail was soft.

While Rail traffic and ridership has started to improve, the outlook is still fairly volatile given the pandemic headwinds. Furthermore, our business generally lags leading indicators such as traffic and ridership by a few quarters. We have some important customer discussions in the coming weeks about their forthcoming capital spending plans and are cautiously optimistic that we will see some further improvements late in the year and early 2021.

Now bright spot continues to be business development in our backlog, where we continue to see opportunities to bid on larger, longer-term contracts despite softness in the short-cycle market, and we've had a number of notable sizable wins during the quarter. These wins included a follow-on option contract with the New York City Transit Authority to supply them with additional vehicles and a new contract with the Chicago Transit Authority to supply them with snow removal vehicles. As a result, Rail's backlog remains robust, totaling more than $450 million at the end of the quarter.

So before moving to our outlook on Slide 8, let me comment on our balance sheet. Our financial flexibility remains strong. Our leverage, as expected stood at 4.5x and our liquidity totaled $325 million at the end of the quarter. Reducing our leverage is a top priority for us and our goal remains to reduce our leverage to below 2.5x within a couple of years.

Now let me turn to the outlook on Slide 8. With the exception of our Rail business, our visibility and confidence has continued to improve in recent months. And as a result, we believe we're in a position to provide some quantitative guidance for the fourth quarter. As you all know, the current economic environment continues to be fluid, and recent COVID infection trends are not favorable. However, with this in mind and based on the current market environment, we see fourth quarter total Harsco adjusted EBITDA ranging from $58 million to $63 million. Business conditions are expected to improve modestly for Clean Earth and Harsco Environmental during Q4 relative to the third quarter. For these 2 segments, Q4 margins are projected to be stable versus the third quarter.

Rail results in the fourth quarter are currently expected to be similar to the third quarter performance, and corporate costs are expected to be modestly above Q3 levels. Also, we expect our free cash flow to be between $20 million and $25 million in the fourth quarter. And this outcome would place our free cash flow for the full year north of $30 million.

Now as I mentioned earlier, this outlook does not contemplate any meaningful impact to our business from any new lockdowns or restrictions, which may be implemented by state or national governments as a result of negative COVID developments. Nonetheless, despite the unusual conditions we've all experienced these past few months, I'm very pleased with the performance, discipline and focus on execution by each of our businesses and keeping our people safe while delivering our strong results to date. And I expect this to continue into the fourth quarter and into 2021.

This concludes my prepared remarks, and we'll turn the call back to Shelby to open the line for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Maybe just on the environmental piece. Can you maybe just discuss sort of sequentially through the quarter or what your customers are seeing in terms of steel production, utilization? And obviously, it remains down, but has it does it still continue to steadily improve? And about -- on the cost side, do you have any more anticipated cost-cutting measures or other offsetting things to offset some of this impact?

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

Yes. Yes. So overall, I think we did see a fairly steady improvement in production levels at our steel companies really around the world, some regions, of course, stronger than others. Capacity utilization, which was down around 60% earlier in the year, I think, is probably up around 70% or so at this point.

So that was a bit better than we anticipated in the third quarter. We don't expect that type of lift of that magnitude in Q4, but nonetheless, a continued improvement.

In terms of cost reduction, Larry, we do actually, in Environmental, expect to continue to take out cost. And we'll be talking about that more as we provide full guidance for 2021, but we believe there is further opportunity, both in terms of at the site costs as well as SG&A.

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

Okay. And then just switching gears real quick on the rail side. I know directionally, not a surprise in terms of and where the impact is coming from on the North American side. Just a little bit surprised on the magnitude or less improvement year-over-year. With the SCOR program advancing and seemingly international piece of the business remaining pretty much intact. So I'm just trying to -- it sounds like we're not going to get much improvement in Q4. So is the drag on that, Is it purely North American side, or have some of the deliveries that were scheduled in the back half of this year on the international side also been delayed a little bit?

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

Yes. It's both, Larry. Clearly, the core U.S. market is down for our higher-margin equipment and also some of the shorter-cycle aftermarket type opportunities. But we've been tracking and assuming throughout the year that some high-margin technology transactions would take place outside the U.S. and this looking as though those will be deferred into 2021. With respect to SCOR, I think the big negative impact from a manufacturing standpoint, last year was in Q4. And we certainly expect to see in Q4 an EBITDA on a level consistent with Q3 and much above Q4 of last year.

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

Right. Okay. And then just switching gears real quick. Just on the ESOL. It sounds like on Clean Earth, ESOL, it sounds like maybe a little bit -- at least from my expectations, maybe integration a little bit faster than expected. Just to confirm, did you say that actually we're -- we are above the pre-pandemic level. So in other words, we're sort of pacing, I don't know, $10 million a quarter in EBITDA, $9, $10 million a quarter, is that correct already on ESOL?

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

Yes, that's correct. I mean that's the run rate. We're actually doing better than the pre COVID levels at the EBITDA level, and that's the appropriate run rate there, Larry.

Operator

Your next question is from Jeff Hammond of KeyBanc.

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

Okay. So just on Clean Earth, I think you said you ESOL was $130 million in revenue contribution. Is that right?

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

Yes, that's correct.

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

Okay. So if I look at the base business, it looks like it was still down like mid-20s, the base Clean Earth. I'm just wondering what the big drags are? Is it simply the soil business? Or what's going on with the hazardous side of Clean Earth?

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

Well, it's a combination of both. By far, the biggest piece is the soil business, Jeff, and it's related to the construction starts and delays that we experienced from the pandemic. But certainly, to some degree, the haz waste business, which is largely equivalent to the ESOL manufacturing and industrial businesses had felt, particularly during the second quarter, the headwinds associated with the pandemic.

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

Okay. And then what's the trend in the Clean Earth hazardous business kind of into fourth quarter?

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

Trending upward. Just consistent with the rest of the ESOL business and all lines of businesses are trending steadily upward from where they were in Q2. This soil business, albeit much slower, but the haz waste business more robust, more pronounced.

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

Okay. So as we kind of frame 4Q, it seems like Environmental gets a little bit better sequentially. You're kind of flattish on EBITDA for Rail? And then how should we think about Clean Earth sequentially?

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

Should be modestly better as well. The combined Clean Earth ESOL businesses will be modestly improving in Q4 versus Q3.

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

Okay. Great. And then -- so just back on the Rail margins, it sounds like you're happy with the SCOR progress. It's just more a parts and service mix issue in the near term?

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

Yes. That's correct, Jeff. I mean, clearly, as I highlighted in my remarks that the follow-on to the SCOR program will be building that lean operating model that will serve to sustain the improvements made in the SCOR program. And that's where, in my view, the Rail business operationally has fallen down in the past, where we've made improvements, but they've not been sustained. So I think we're very happy with the SCOR program. But at this point, shifting our focus more to how best to sustain those improvements that we've made.

Operator

(Operator Instructions) Your next question is from Rob Brown of Lake Street Capital.

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

First question is on the Rail business. I think you talked about aftermarket being a little weaker. How does that business perform typically in downturns. Does that shut off kind of quickly and then turn on quickly? Or what have you seen in the past about how quickly that can come back?

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

Yes. Certainly not to the extent that the equipment business does. The aftermarket challenge now is actually, I'll say, somewhat less than it is in our technology business, which is another short-cycle segment within the Rail business and tends to be quite high-margin as well. So while aftermarket is a bit softer, the change relative to previous expectations has really been the pushout of some of these higher-margin technology projects that we expected in Q3 and Q4.

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

Okay. Okay. And then on the ESOL business, you talked about kind of tracking -- you're starting on your early in your journey, but tracking to that 2x the margin in a few years. Could you just summarize again kind of what you think that margin can get to in the, I guess, overall Clean Earth business? And kind of what are the -- how does that ramp? Is it sort of an even ramp? Or is it in the back-end loaded in terms of seeing results from these efforts?

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

Yes. I think we're going to see a fairly accelerated rate in terms of margin improvements. I mean, we were very pleased with the results this quarter just in one quarter's worth of activities in terms of the margin lift. But we expect to see that continue on through 2021. And when we talk about doubling the EBITDA in the 3 years, we're really talking about getting to that run rate by the end of the second year, which would imply margins 300, 400 basis points higher than what we've experienced this year.

Operator

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

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

Most of my questions have been taken here, but just following up on some of the comments regarding the ESOL integration. Things are going very well to plan, ahead of plan. As we look at the performance to date, what is attributable to perhaps a pull forward of expectations versus an acceleration? You mentioned an accelerating rate of margin improvement here. What specifically is tracking ahead of plan in regard to this integration?

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

Yes. I think it's both an acceleration as well as, as we've commented on before, a view that the opportunities might be somewhat greater than we felt originally. What we've seen thus far is probably more of an acceleration. But I think as we look out for the next 2 or 3 years, our expectation on the benefits of the transaction, if anything, improved.

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

That's great. Yes. It seems that at the time of the ESOL acquisition, there were some concerns over some of the different parts of the business in regard to cyclicality, but it's held up well in this environment, tracking ahead of plan. As we look outside of that to the legacy business, which has been more impacted by this pandemic environment, how do you anticipate that mix being sustained? Who knows with this virus. But as we look into the early part of next year, how this could change eventually to your benefits as we move into the latter part of fiscal year '21.

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

I think as Pete commented, the portion of the legacy Clean Earth business that is really most concerning now is the soils or contaminated materials business, which includes dredging. Dredging is improving at a pretty fast pace. Those projects have been approved. And I think the backlog there for us is very attractive. But much less so on the soil side. And we have a kind of a baseload of volume that we process in each plant. But above that, we typically see good volumes from large non-res kind of infrastructure projects in our core markets of Mid-Atlantic and Northeast. And those generally are publicly funded, and many of those have just been put on hold. And so that's, that's been the most concerning component of the Clean Earth business. But we would expect those to come back online, moving into 2021.

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

Okay. Understanding now -- this is my last question. Understanding now that the priorities, debt reduction, maintaining your cash flow generation levels. As we look in the Clean Earth markets, anything there as far as the fragmentation within the market that could be a near-term opportunity, understanding capital allocation and priorities are the utmost importance now. But is there anything on the M&A side where you can pick up a little tuck-in here in this kind of environment that's impacting the legacy Clean Earth?

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

Yes. Well, certainly, one of the many factors that attracted us to the hazardous waste segment and the purchase of Clean Earth and ESOL was the fragmentation in the market and the opportunity to continue to scale a platform to some size over time, certainly well over $1 billion. And that's still very much our intent. We think it's the availability of such businesses will be there when we're ready. But again, if you look at our capital allocation priorities, and I think the need to see some of these markets bounce back. I think it's unlikely in 2021 that we would execute anything of size. Could there be a tuck-in or 2 that might be attractive and actionable? Perhaps.

But I think generally, our mindset is 2021 is another year of executing on the internal programs. And reducing debt.

Operator

Your final question is from Michael Hoffman of Stifel.

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

Nick, Pete, Dave, I hope everybody is well. On leverage for the -- based on the EBITDA you've given us, how do you -- how would you frame what your leverage would land if we're at the midpoint of your EBITDA, by inference, you basically have given us of FY '20 because it just picked the first 9 months and had the fourth quarter?

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

Yes. We'll be about the same level we are at the end of this Q3, Michael, which is about 4.5x. I think we've talked about that just because -- well below the covenants, right. But the expectation is to move that steadily downward, as you know, over the next years, right.

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

And then, Nick, one of your strategic objectives in the steel side is to eventually wean your business from the logistics revenues, and with a variety of strategies approaching that. How is that progressing as far as your efforts to engage both your customer and potential outsourcing of that work?

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

Well, I think we're still very early in that, Michael. It's difficult to execute on individual contracts in advance of them -- in advance of the renewal process. So it's -- but it's early. I think the most important accomplishments on that front is the changing mindset amongst our leaders in that business and the commitment to the business generating a cash flow margin every year that is much more akin to a true environmental business. That's the focus. And there are different paths to get there. One of them is what you mentioned, shifting our focus over time more to the less capital intensive, truly environmental services for our steel customers.

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

So if I followed up on that, what do you think that target margin, say, as a percentage of revenue should be?

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

Well, so today, it's about 70% environmental, 30% not environmental. I think our long-range plan would get that to 85% or 90% in the next few years.

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

Okay. And then regarding steel, in 2Q, you thought the year ex-China would be down about 12%, 15%. Do we still think that, that's sort of a path?

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

It's about right. I think it's down about 10%.

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

Yes. A little less than what we thought about at that time, Michael. It's probably 10% to 12%.

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

So clearly, the environment is being held by the return of auto production and some global level of construction activity and what have you.

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

Right.

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

Okay. Great. And on Clean Earth, if I take soils out and I get that you need these infrastructure projects to start back up. But if I take soils out of this conversation and focus on industrial waste, hazardous waste, both the retail medical side as well as the industrial side. Does the plan, as you've laid out your EBITDA, suggest you're back to -- I'm saying this very badly. Would 4Qx soils be back to pre-COVID levels of activity given the level of improvement in industrial production that's going on in the economy?

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

Yes, not quite, Michael. It's certainly working towards that, but we're not quite there in Q4. I think it's going to -- we won't see that probably until maybe the end of the first quarter in '21 or second quarter.

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

Okay. And then your free cash flow year-to-date of the segments is about $80 million, but the guidance -- or the year-to-date actual report is about $10 million. So I'm looking at about $70 million of corporate is the sort of cash spend and curious about sort of opportunities to improve that number?

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

Yes. Well, it's interest in taxes, of course, and corporate costs. But we're looking at all opportunities. In fact, we have some opportunities that we're looking now in terms of pension payments that we have the opportunity to defer into future periods. So there's a number of things that we're pursuing to help with that, Michael.

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

Okay. And then lastly, on the soil side. So some of the things like the ABI data are starting to improve, which suggests that non-res construction may have found a floor is -- are you getting any sense of that even from your customers from a standpoint of at least talking about the possibilities of schedules?

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

Yes, I think so. I think that's absolutely the case, Michael, that the worst is behind us here and that the restart of some of those projects is just around the corner.

Operator

There are no further questions in queue. Mr. Martin, do you have any closing remarks?

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

Thanks, Shelby, and thank you for everyone for joining this call. Feel free to contact me with any follow-up questions that you may have using the contact details provided at the top of today's earnings release. And lastly, 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 your participation. You may now disconnect.
