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CORPORATE PARTICIPANTS

Anshooman Aga *Harsco Corporation - Senior VP & CFO*

David Scott Martin *Harsco Corporation - Director of IR*

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

CONFERENCE CALL PARTICIPANTS

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

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

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

Mitchell Moore

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

PRESENTATION

Operator

Good morning. My name is Valerie, and I will be your conference facilitator. At this time, I would like to welcome everyone to the Harsco Corporation Fourth Quarter Release Conference Call. (Operator Instructions)

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

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

Thank you, Valerie, 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 Anshooman Aga, Harsco's Senior Vice President and CFO.

This morning, we will discuss our results for the fourth quarter of 2021 and our outlook for 2022. Before our presentation, however, let me mention a few items. First, the 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. 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 those forward-looking statements. For a discussion of such risks and uncertainties, see the Risk Factors section in our most recent 10-K and 10-Q.

The company undertakes no obligation to revise or update any forward-looking statements. Lastly, on this call, we may refer to adjusted financial results that are considered non-GAAP. A reconciliation to GAAP results is included in our 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. Thanks for joining us, especially in light of the events unfolding in Ukraine and the impact on the financial markets.

I would like to begin by expressing my appreciation to our employees for their remarkable efforts and contributions during 2021. Our team overcame the personal and professional challenges of the pandemic, including illness, remote work, staffing shortages and changing health and safety protocols.

Our leadership team takes great pride in the values and the culture of our company, perhaps never more so than over the past year. Our 2021 financial results reflect those efforts. Harsco's continuing operations, that is our Environmental and Clean Earth segments plus Corporate produced 20% growth in both revenue and adjusted EBITDA, and adjusted EPS increased by 2.5x.

Demand in most of our Environmental businesses improved following the COVID impact in 2020, although the effects of inflation, supply chain bottlenecks and labor shortages dampened our results to some degree, particularly in the second half of the year. Our Rail business, which is now reported as discontinued operations, face continuing demand weakness for its maintenance-of-way products and services, which impacted its financial results. Inflation and supply chain constraints also had an adverse effect on our Rail business, especially on our long-term contracts with major European rail customers.

However, we believe many of the challenges faced in 2021 in Rail were timing related, while the underlying business remains fundamentally strong. As evidenced, we are now seeing clear signs of strengthening demand in our core North American market, driven in part by the passage of the infrastructure bill. Anshooman will provide more detail on the results for the quarter and the year. So let me shift to a discussion about our strategic outlook for 2022.

As many of you may recall, a few years ago, we declared our ambition to become a single-thesis environmental solutions company, a company with improved growth prospects, a better cash flow profile and one providing services and products that meet an acute societal need. In this context, our top strategic objective this year is to divest our Rail business, thereby taking another significant step in achieving our ambition along with yielding a healthier balance sheet.

Our remaining 2 platforms, Harsco Environmental and Clean Earth, our each market leaders with compelling economic and environmental value propositions and meaningful growth prospects. Throughout the cycle, each segment should generate cash flow in excess of 10% of revenue after funding capital needs related to maintenance or contract renewals. As previously stated, Harsco Rail is not aligned with our long-term strategy to focus on and drive growth in businesses that provide environmental solutions to a broad mix of end markets. However, Rail is a unique business with the global reach and significant growth opportunities.

I noted earlier, the market dynamics in the Rail business have started to improve. And as a result, we expect 2022 EBITDA and cash flow to reach more normalized levels based on the recovering demand and a cost reduction program executed last quarter. In line with the plan we laid out on our last earnings call, we are on track to launch a formal sale process in the coming weeks, and we expect a very competitive process.

Our 2022 outlook for continuing operations reflects ongoing growth in both revenue and EBITDA and a significant increase in cash flow, particularly in Harsco Environmental.

In terms of revenue, demand drivers will remain strong and will be somewhat mitigated by the effects of a stronger U.S. dollar and the exits from a few major contracts. Pricing gains are expected to offset inflationary pressures. Earnings and margin growth will be robust in Clean Earth as we realize the full year effects of integration benefits and higher prices in addition to strong underlying demand.

Earnings growth will be more muted in Harsco Environmental owing to currency, commodity prices and tax benefits received last year. Free cash flow will increase by about $50 million due primarily to lower capital spending and working capital in Harsco Environmental and higher cash earnings in both segments. Our guidance also assumes the impacts of a tight labor market and supply chain disruptions will persist through the first half of the year.

Before I turn the call over to Anshooman, I'd like to spend a minute on our environmental, social and governance initiatives. We continue to make significant progress on our ESG journey and on integrating ESG into our strategic planning processes at Harsco. You can see some of our ESG highlights from 2021 on Slide 4. Clean Earth and Harsco Environmental improved their safety records in 2021, helping us achieve our company-wide goal of a Total Recordable Incident Rate below 1.

Our business brought a record number of new environmental solutions to market, in fact, 30% more than in 2020. We also successfully implemented the first year of our new annual incentive plan modifier that links Executive pay to a number of strategic objectives and ESG targets. We continue to see positive responses from our investors and ESG ratings groups, including most recently a 20% improvement in our ESG rating from Sustainalytics.

So in summary, we delivered a solid year. We are making meaningful progress on the execution of our strategic road map. And our outlook for this year provides us with confidence in our ability to drive shareholder value creation.

I'll now turn the call over to Anshooman.

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

Thanks, Nick, and good morning, everyone. Please turn to Slide 5. Harsco Q4 revenue from continuing operations increased 7% compared with the prior year quarter to $462 million and adjusted EBITDA totaled $58 million. This adjusted EBITDA is consistent with our Q4 guidance. Relative to our expectations, results were impacted by business mix and FX movements in Environmental. Clean Earth was impacted by continuing labor challenges, particularly for drivers or technicians and inflation. We offset these items with lower spending, including at Corporate.

Compared with the prior year quarter, our adjusted results were similar. Improved results at Clean Earth and lower Corporate spending were offset by the change in Environmental EBITDA as expected. Harsco's adjusted earnings per share from continuing operations for the fourth quarter was $0.22. This figure compares favorably to adjusted EPS of $0.09 in the prior year quarter as well as the guidance we provided at the beginning of the quarter.

Our tax rate in Q4 benefited from an adjustment to our deferred tax valuation allowance in Brazil. Lastly, our free cash flow for the quarter was a deficit of $8 million, which was modestly below our guidance. Our cash flow variance is mainly attributable to Clean Earth, where an Oracle implementation in the fourth quarter weighed on its cash performance.

Please turn to Slide 6 for our Environmental segment. Segment revenues totaled $268 million, and adjusted EBITDA was $49 million. Revenues increased 9% on higher volumes and commodity prices. Meanwhile, adjusted EBITDA decreased by $3 million year-on-year. This change reflects a less favorable mix of services and higher operating costs, including within ecoproducts as well as site exits and negative FX translation impacts.

Next, please turn to Slide 7 to discuss our Clean Earth segment. For the quarter, revenues totaled $194 million, and adjusted EBITDA was $16 million. Compared to the fourth quarter of 2020, revenues increased 5% with sold-dredge services as well as industrial and healthcare customers within hazardous materials contributing to the growth. Both volume and some price contributed to the higher revenues with our soil-dredge volumes reaching the highest level since the beginning of the pandemic. Meanwhile, segment EBITDA increased to just over $16 million in Q4 of this year. The increase relative to the fourth quarter of 2020 reflects the positive revenue trends offset partially by inflation and a less favorable business mix.

Now please turn to Slide 8. For the full year, revenues from continuing operations increased to $1.8 billion and adjusted EBITDA increased to $252 million. Our EBITDA margins were stable during the year at just under 14%. While there were a number of moving pieces for Harsco during the year, the overall results for continuing operations were consistent with our guidance provided at the beginning of 2021. Strong execution as well as cost management offset the impacts of inflation and supply chain pressures during the year. Meanwhile, free cash flow without Rail was essentially 0 during the year, with the change versus 2020 attributable to the $30-plus million increase in capital spending in 2021. Much of this CapEx was deferred from 2020.

Before I turn to the outlook, let me comment on a few items, including leverage, pension and Rail. First, on pension. Our funded status for year-end improved by $140 million from year-end 2020 to an underfunded position of $93 million; secondly, we ended the year with net leverage of 4.6x and net debt of $1.3 billion.

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As you are aware, reducing our debt is a key financial priority and we plan to use our 2022 cash flow and the proceeds from selling Rail to lower leverage. And thirdly, on Slide 9. Rail, as you are aware, is now reported under discontinued operations and we are optimistic on our ability to complete a transaction this year.

During the fourth quarter, we recorded 2 special items in Rail, which totaled $36 million. The first item was approximately $2 million for a cost-out program that will deliver $8 million of annualized savings. The second was a $33 million charge for estimated future costs to complete fixed price contracts with 3 European customers. These contract adjustments relate primarily to inflation and supply chain challenges that have materially increased the anticipated costs and delayed our progress on these projects.

We are required to record these losses upfront. Rail's adjusted EBITDA in 2021 totaled approximately $21 million, and we expect its performance to improve meaningfully in 2022. Our current expectation is that Rail EBITDA will be much closer to its normalized EBITDA of approximately $40 million.

Now let's turn to our 2022 outlook, starting with Slide 10. Here, you'll find our segment guidance. Both segments are expected to realize growth in adjusted earnings in 2022 after seeing strong growth in 2021. For Harsco Environmental, revenues are expected to grow at a low single-digit rate. The FX headwind is roughly 200 basis points using year-end 2021 rates. EBITDA margins for Environmental are expected to be similar to 2021 levels. The business drivers for HE in the year will be higher customer output and related service volumes and increased ecoproduct volumes, partially offset by FX and exits. For Clean Earth, revenues are anticipated to grow low to mid-single digits, with most of this growth from hazardous materials line of business.

Also, we expect CE EBITDA margins to increase approximately 100 to 200 basis points. Beyond higher revenues, EBITDA drivers for Clean Earth include the impact of price increases to offset inflation and a cost-out program with the goal of lowering SG&A. Lastly, Corporate costs are expected to be between $40 million and $42 million versus Corporate costs of $34 million in 2021. The change in Corporate cost can be attributed to compensation, including incentive compensation as well as IT spending, insurance, travel and other smaller items.

Turning to Slide 11, which is our consolidated 2022 outlook. Our adjusted EBITDA is expected to increase to within a range of $255 million to $275 million. This EBITDA guidance translates to adjusted earnings per share of $0.50 to $0.66. This EPS range contemplates net interest expense of $61 million to $63 million, and an assumed effective tax rate of 37% to 38% versus the 24% rate in 2021 when we benefited from the Brazil tax allowance adjustment.

Lastly, we are targeting free cash flow of $30 million to $50 million, excluding Rail. This forecast anticipates net capital spending will be within a range of $125 million to $130 million, which is lower than our net CapEx of $141 million in 2021. Improving our free cash flow is a critical priority for Harsco, along with lowering our leverage. The increase in cash flow for 2022 is a step in the right direction, and we are targeting better performance in the coming years.

Let me conclude on Slide 12 with our first quarter guidance. Q1 adjusted EBITDA is expected to range from $47 million to $52 million. Environmental adjusted earnings are expected to be lower due to exits, business mix and FX impacts. And I would remind you that our Q1 2021 results benefited from a Brazil sales and used tax credit of $2 million, which will not be repeated in 2022. Clean Earth adjusted EBITDA is anticipated to decline modestly on lower volumes from retail and industrial markets due to driver shortages as well as less favorable soil-dredge mix. In addition, Corporate costs should be modestly above the comparable figure in Q1 2021.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question will come from the line of Michael Hoffman of Stifel.

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

So Nick, I got to ask the strategic question because [minds] will get it off the table early. With US Ecology potentially being traded away, why does the market -- should the market not look at that as a missed opportunity for Harsco?

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

Well, the focus strategically for Clean Earth is going to be much more on repurposing and recycling waste than on putting it in the ground to be frank. And more than anything, U.S. Ecology is a hazardous landfill business. And that does not interest us strategically. So I think it's really that simple. As we look at acquisition opportunities going forward, we think the landscape is quite full of those opportunities for us, more in line with our strategic ambition for Clean Earth. So we don't -- at all view it as a must opportunity. It was not a fit for us.

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

Okay. Fair enough. That's what I think we just needed to get that off the table. And then I'm a street analyst. There's several of us on this phone call. We clearly didn't model '22 right. So what didn't we get right given where your guidance is? What are we missing? So we do this better because you don't need the headline that says you're missing guidance or you are missing consensus?

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

Yes. Yes. Well, I think I'll start with Harsco Environmental. And I do want to acknowledge that if you look at the cash flow performance of HE and the EBITDA minus CapEx margins, which I would argue, are the largest drivers of value in that business. Those are all trending quite well, higher than the EBITDA increase year-over-year. So as we think about value creation drivers in HE from a financial standpoint, we think much more about cash flow and EBITDA minus CapEx margins. And so we're quite pleased with the 3 or 4-point increase that we expect year-over-year in 2022 versus 2021.

In terms of revenue and EBITDA, there are a number of factors that are holding the growth back. One is currency. And unfortunately, we're seeing today an even stronger dollar in reaction to the invasion of Ukraine, we'll see where that settles out. But of course, that is adverse to our business from a translation perspective. Secondly, with the very high energy prices in Europe right now in some geographies, 3 and 4x what they had been. Some of our customers are cutting back on production. And of course, we're leveraged to volume. And so as they cut back production, that affects our revenue and profit. It's difficult to say at this point where that's going, but we've modeled that in as an adverse impact throughout 2022.

I'll also say that with respect to revenue, there was a large contract in the U.K., one of our largest in the world, where the site was purchased from its U.K. owner by a Chinese steel company whose model is to in-source what we do. And so that happened and the impact in 2021 was somewhat muted because we had a gain on the sale of the assets as we exited. But that lost revenue and profit is certainly affecting the business in 2022. So those are, I'll say, the drivers of revenue and EBITDA performance in HE, perhaps being a bit less than what the market expected.

I will say that I'm very happy with how our team is executing on the things that we can control. Those factors that I just mentioned are largely outside of our control. We're doing everything we can from a cost standpoint to mitigate the impact of those. And in fact, we have a number of new contracts that will come online later in the year. So the trends that we're seeing in the first quarter in HE year-over-year will certainly reverse later in the year as some of these major contracts come online.

So as we look at the revenue growth in HE on kind of a like-for-like basis year-over-year, we're up 4%, 5%, which is, I think, roughly in line with what you would expect given where the steel market is at the -- and we've also modeled in some slightly lower commodity prices, which, of course, are proving very difficult to predict, but many of those commodity prices that affect our margins are at historic highs or near historic highs. So we've been a little more conservative in our assumptions on commodity costs.

So turning to HE -- I'm sorry, Clean Earth. I'll start by saying that I have no doubt that we are building a better business every single day in Clean Earth. I think you know, Michael and others, that the Environmental Solutions business that we bought from Stericycle was very poorly run business. We're extracting benefits of that integration every day. In fact, the targeted benefits on a net basis in 2021, we're in line with our plan. And there were a lot of kind of offsetting items there, but I think we're very happy with the integration benefits.

We did not anticipate hopefully coming out of the worst impacts of the pandemic that we'd have this tightness in the labor market. And there's also a lag in our ability to cover and price the inflation that we saw. So I think that impact in the second half of the year in Clean Earth was upwards of $10 million on a net basis to earnings. As I mentioned, we do expect in 2022 for those inflationary pressures to be offset by price. But we're taking, perhaps, I'd like to think a very conservative or cautious view on our ability to get back to full staffing levels. We're down 15% to 20% in the truck drivers that we need to collect and therefore, allow us to process the waste in our facilities. So that is clearly hurting us. It's something that we're focused on every single day, and we're making a number of changes and how we hire and onboard truck drivers to remedy the situation, but it affects, again, both revenue and profit.

So one could accuse us of being a bit overly cautious, but that's the stance that we're taking in our guidance. But again, I would point our investors to the progress we're making in cash flow and the balance sheet and an EBITDA minus CapEx margins, which in a capital-intensive business like ours, those, I think, are the fundamental drivers.

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

So one last piece out then on Clean Earth. If you could get the labor, what would the difference be in your guidance on Clean Earth?

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

Anshooman, you want to...

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

Yes. Just when you -- if we could have, say, 10% more drivers, we would have been above consensus that existed for us for Clean Earth, we would have been a few million higher in EBITDA.

Operator

And the next question will come from the line of Larry Solow of SJS (sic) [CJS] Securities.

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

Just I'm following up on Michael's questions there on Clean Earth. So is it basically just -- is this -- you're not able to meet demand? Is demand above I guess, obviously, what you're able to serve, so it's really just a labor shortage. But I'm really just a little surprised on the revenue guidance, [there's money]. I would actually think with inflation, you're getting pricing -- so it sounds like your volume growth or the lack thereof in '22 is minimal? And is that really just -- are you basically saying it's a shortage, not either to meet demand? Or is it a demand issue as well?

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

Yes. No, it's not an underlying demand issue. We simply are not able to serve and process the demand that we're seeing in the business because of the shortage. Now another dynamic early in the year and affects the first quarter, therefore, is some of our account churn. So on the retail side, in particular, it's quite common where you win new accounts and you also lose accounts. And if you look at the impact of that churn that is adverse to us in the first quarter in particular, and then if it comes to switch to a positive later in the year. So if you're just considering the first quarter revenue, that's another factor that's affecting our guidance.

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

Right. What about -- I know you had a little bit of -- there was some hold up, you had some waste you have inability - you couldn't pass on to process, so is being held in your facility basically impacting all the stuff from moving in. Has that logjam begun to clear up? Or is that still also in place?

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

Yes, good question. No, it has begun to clear up, but it's not yet where we'd like it to be, where, let's say, the incineration capacity was earlier last year. So no, we're not back to more normalized levels. You may know there's a lot of incineration capacity coming online in the next year or 2, so we think this is all going to flip around. But for now, it continues to be a bit of a challenge. I mean it's not as material as it was to our business in quarters 3 and 4. But it's still an effect.

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

And the issues, is this more on the hazardous in terms of labor and stuff, more on the hazardous side, how about the soil side? What's the outlook there? Is that also impacted by labor shortages and is there -- you return to growth there. That's another thing that I thought that would be growing this year a little bit more and so kind of surprised to see the overall top line low singles.

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

Yes. Yes. No, the labor shortage is affecting that -- the soils or the contaminated materials segment as well and more of an indirect as many of these large non-res projects have been delayed because of labor shortages. We received most of our contaminated material through third-party logistics, not our own, but of course, they're facing the same challenges that we are. But the -- so the underlying demand, unlike on the hazardous side in contaminated continues to be relatively weak, certainly not back to pre-pandemic levels. And that is to remind you, the highest margin business we have within our cleaner segment is the processing of those contaminated materials.

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

Right. Okay. And then my last question is just on the Rail business. So it sounds like you're still pretty optimistic you'll have a sale completed this year, if not by midyear. That's I think what I heard, right?

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

Yes. No, that's right, Larry. Again, we're frustrated, disappointed with the demand situation in the second half of the year in '21 relative to what we expected. But I noted that there are some clear signs of that improving. And we have 15, 20 different potential buyers that continue to express very strong interest. It will be part of our process. So we expect it to be quite competitive and therefore, give us the ability to move the process along at a relatively fast (inaudible).

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

And you're not concerned that the last few quarters have kind of been disappointing in terms of -- I get it's a longer-term business. The backlog is very strong. And certainly, the long-term picture looks very good, but if I'm a buyer, am I concerned that the last few quarters have been disappointing and maybe not step in right say or maybe want to get a little bit less -- pay a little bit less because of that.

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

Yes. Well, it's certainly a data point that they will look at. But again, I think we have pretty good visibility to demand returning. And we certainly can. As we kind of normalize what happened in the second half of the year for the demand increases that we're seeing, we think as Anshooman noted that we'll be able to successfully position the business as one with EBITDA around $40 million. If you look over, let's say, the last 5 years, taking 2020 out for obvious reasons, the business has averaged EBITDA of $35 million to $40 million.

And again, we're not relying simply on strengthening demand to get to that $40 million. We took out $7.5 million, $8 million of cost in the fourth quarter that we'll get mostly a full year benefit of and is in the run rate for the business. So I think between the benefits of the cost reduction and clear signs of higher demand.

And again, the infrastructure bill allocated $66 billion to the market that we serve just in the U.S., right? And a lot of that's to passenger rail. Passenger rail has been by far the weakest part of our business, and we have some of the highest margins in passenger rail. And so we need that to come back and the infrastructure bill aimed at passenger rail will be a big help to the business.

Operator

And the next question will come from the line of Jeffrey Hammond of KeyBanc Cap Markets.

Mitchell Moore

This is Mitchell Moore on for Jeff. So I was just curious if you guys could maybe just give a bit of detail on how Rail performed in the quarter maybe relative to your internal expectations? And maybe talk about the signs of early momentum in the first quarter here so far.

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

Yes. Yes. So the weakness in the Rail business is mostly on the equipment side. And of course, that's a fairly lumpy business. And at any given point, we're looking at 25 to 50 different opportunities to sell Harsco Rail equipment. And of course, we assign probabilities to the success of those within a given quarter. And that's an inexact science at best. And so as we came into the second half of the year, our judgment was that most of those orders would, in fact, be placed, many of them weren't. It's not an issue of having lost the orders. I can't think of a single equipment sale that we've been tracking that has gone elsewhere, to be honest, things just continue to get pushed out. A lot of it was related to customers in the U.S. waiting for clarity on the infrastructure bill, which, of course, now we have.

And so I can't really, I don't think, overstate the importance of the passage of that bill and the effect it will have on our business here in North America. And in Asia as well, we do global business. We're tracking a number of opportunities in Asia that largely because of COVID continued to get pushed out. So they're still on the radar. We still think the orders will be placed. It's a question more of when, not if.

Mitchell Moore

Okay. That's helpful. And then I was wondering if you could talk about maybe just the implied cadence through the year on the top and bottom line. It seems like you're expecting a pretty big pickup kind of in the back half of the year. Is that from infrastructure spending? Or is that kind of a combination of labor and supply headwinds falling off?

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

Just -- I assume you're talking about continuing operations now. So from a continuing operations perspective, keep in mind, there's seasonality in the business with Q1 usually being the weakest quarter of the 4 for both Harsco Environmental and for Clean Earth. Q2 and Q3 are usually our strongest quarters, so there's just natural seasonality in the business. The second thing is, as we -- Nick mentioned, as we go forward, we looked at a few changes to onboarding and bringing on new drivers. So we have assumptions of that shortage improving during the course of the year, which will definitely help us, so that definitely improves the business. And we also talked about some cost-out and efficiency that also would start kicking in later part of the year. So for 2022, we expect the second half to be weighted slightly higher from a seasonality perspective than the previous year.

Operator

And the next question will come from the line of Rob Brown of Lake Street Capital Markets.

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

Kind of getting back to the Clean Earth business, I know there's some moving pieces right now, but what's sort of the growth rate in that business that you see over the next sort of 5 years? I think your guidance was in the high single digit, but I think in the past, you've said sort of low to mid-single digits growth in that business. But what should that business see in terms of revenue growth rate over a few year period here? And has that changed from your prior thinking?

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

Yes. I think over a cycle, you would expect volume growth to be kind of GDP plus a few points. Pricing, of course, we think, should always at least cover inflation. So you tell me what the inflation number is and I can increase revenue by that amount at least. But I think volume growth, again, over a cycle is probably GDP plus a few points. And as we think of our business and our model of increasingly focused on recycling and repurposing. And that -- we hear that often from many of our big customers that that's what they're looking for as opposed to burning it or burying it. We think, over time, that's going to enable us to do a bit better than the market, to be honest.

So what that translates into in terms of incremental volume is difficult to say. We just finished our long-range planning process for Clean Earth. And we really believe, based on all of those factors, I just mentioned, and our ability to leverage a relatively high cost base that will be declining over time as some of our IT investments enable us to become more efficient on the labor side. We think we'll double EBITDA in the business over the next 3 years. And so that's roughly getting close to $1 billion business with $150 million of EBITDA, that's what we're targeting. And that's organic. And so -- if you look at the -- those revenue components that I mentioned, plus leveraging and reducing that cost base, that's how you get there.

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

Okay. Great. That's a great target. And then on the -- I know it's maybe a little early, but the acquisition activity in that market, you sort of alluded to a couple of strategic directions you want to go and have a pretty good landscape there to do it. What's sort of your thinking about acquisitions when your balance sheet could support them? And how does that add to what you're thinking?

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

Yes, it's a good question. Certainly, Rob, we're not focused on acquisitions this year, right? We're all aware of our balance sheet. There's on a relative basis, more value to be created by what we're doing organically in the business to increase revenue and profit than what acquisitions would do to create value. So that's really the focus. The focus is to execute that plan that I just referenced to double EBITDA and take this to a $1 billion business organically. But absolutely, over time, our ambition is to increase the platform through acquisition. I think it more likely will be bolt-on type acquisitions as opposed to anything of real size, at least as we look across the landscape today. And we think that's where we can create the most value.

Operator

(Operator Instructions) And the next question will come from the line of Chris Howe of Barrington Research.

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

With the formality of the sale process of Rail already underway and over the next few weeks, we'll make some progress on that as we head towards midyear. You already [asked] a question about how the business has been faring versus your internal expectations. So I wanted to follow up on that and ask about the Rail backlog. And can you talk about the evolution of the Rail backlog over the next 6 to 12 months? Indirectly what I'm getting at is although it will be challenged from quarter-to-quarter and may be volatile, perhaps the outlook is unchanged from a demand perspective. And can you talk just more about the mix of the backlog and your level of confidence in that as you head towards the sale?

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

Well, we certainly expect the backlog to increase throughout the sale process period. In particular, on the technology side, which is an aftermarket side, which are a bit more oriented to passenger rail in the U.S. Those are very high-margin products. I also think on the equipment side, kind of the heart of the range for Harsco, the grinders and the tampers here in North America and also in Asia. I think we'll see a nice pickup in the backlog there. But I think the mix should be a richer mix than typical, given the focus of the infrastructure bill on passenger rail and the products that we have that are sold into that market.

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

Okay. That's helpful. And the infrastructure bill here in the U.S. is of benefits to the Rail segment. What about outside the U.S.? Can you talk about other programs or funding like programs that may benefit the Rail segment?

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

Yes. Well, I think the European market has remained fairly strong. We were all disappointed in ultimately the profit that we will earn on these large contracts, but the fact is we'll have over 100 new high-tech machines installed throughout Europe with the who's who in the rail industry in Europe, Deutsche Bahn and the Swiss National Railway and Network Rail in the U.K. And so those markets have stayed strong and the aftermarket potential in our business on those 100-plus machines is significant, and that will certainly play into the valuation of our business. In Asia, not aware of any stimulus or infrastructure-like programs that have been introduced, again, the challenge for all of us that serve the Asia rail market has been -- those projects have just been delayed. So we really don't need a stimulus type package or program in Asia. We just need that logjam to break and then to get back to a more normalized level of order flow.

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

Okay. That's helpful. And just one last question here for me, and then I'll hop off the queue. Applied Products. Can you just give us an update on Applied Products and kind of what your outlook is within the strategic outlook you provided?

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

Yes. Yes. Well, that's a good question. Thanks for asking about Applied Products. And by the way, we now call them ecoproducts, no longer Applied Products. So we have a few million of revenues in our ecoproduct area. Volume trends have been quite good in ecoproducts. The challenge has been in a few of them, inflation on the input costs. So we have a business called SteelPhalt that we're expanding that takes steel slag and effectively energy and bitumen and other things and makes a road-based material. That is a very environmentally friendly process and product, but with energy prices and bitumen prices being where they are, the margins have suffered.

Now again, volumes have been good, and we're actually going to bring online in 2022, 2 new SteelPhalt plants, and we're actually hoping to move forward on the first in the U.S. So a lot to be excited about from a volume standpoint. We just need to recover in price. And again, there's a bit of a lag there, the challenges that we faced on the input side.

Operator

(Operator Instructions) And we do have a follow-up from the line of Michael Hoffman of Stifel.

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

Nick, clearly, questions around Rail as everybody is trying to figure out, can you get paid well enough to delever the balance sheet. So help us understand what the bankers are doing in the document room? So when these 20 sellers look, the implied EBITDA number is going to be big enough between aftermarket -- discounting back the aftermarket potential, the size of the backlog and the run rate. Because we all know these assets have sold basically something around 10x, the last 3 or 4 of them. So if we're starting at 10x, how do we get everybody comfortable the buyers are going to see a number that gets you delevered?

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

Yes. Well, first of all, our expectation would be a little beyond 10x. If you look at maintenance-of-way assets in particular, historically. So -- and again, there have been other businesses that have traded, but not nearly the profile of ours, right? The breadth of our business, the geographic reach of our business, our new product pipeline our installed base, as I mentioned, in Europe and elsewhere. It's a very unique asset and those that want to build a platform and maintenance-of-way and there are a handful of strategics that very much want to do that. This is a very, very scarce asset. So that's why I think there's -- we have data points around the performance of the business over the past 6, 9, 12 months, but the strategic value of this business also needs to -- and it will be very, very much a consideration for the value that we receive, but we've been putting a lot of effort into preparing for a a very robust process.

So we've commissioned a very detailed market study on the maintenance-of-way sector as an example, which will help speed up the process. And I think it's fair to say that there are a number of interested buyers that probably need to better understand the maintenance-of-way space. So there will be some education along the way. But we're really setting up our process in terms of what we're doing in advance to prepare for it and also with the outreach that we've received for it to be highly competitive and for us to have a good bit of leverage throughout the process to keep it on track.

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

Okay. That's terrific. I think that helps bring clarity to that. And then back to Clean Earth. So thank you for saying the $1 billion and the $150 million in 3 years. There might be some pushback in that original Clean Earth higher margins. Obviously, you saw virtually had none, but the expectation is diesel might (inaudible) to mid-teens on its own. So the blended theoretically should be better than 15%. What's different today versus when this all started in the first deal on Clean Earth in 2019?

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

Yes. Well, I think it's fundamentally around the contaminated materials business and us assuming a relatively lower growth rate in that business than on the hazardous side. And we also -- we believe that one of the real strategic choices that we've made around digitizing the business and therefore, improving the transparency, the data flow, the analytics, improving the customer experience, all of those things we're going to be investing in pretty consistently over the next 2 or 3 years. We think that will help the top line, but certainly, those investments over the next few years as we implement them, will have a bit of a dampening effect on margins. But that's a strategic choice that we've made. We've already received an awful lot of positive feedback from our customer base, not only in what we've done in that arena, but the commitment that we're making to it going forward. So that's a real strategic differentiator that we're investing in, in the business.

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

And just to be clear for everybody, digitizing is connecting the customer with [real] data, the KPIs that need to be [tied on] sustainability issues, but all the (inaudible) selling and all that. That's what you're getting to?

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

Yes, absolutely. And even in our trucks, let's say. So being more efficient in our routing and the data flow and usage of it to our drivers and others in the field. So it's both an efficiency goal as well as a kind of a customer intimacy satisfaction type objective.

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

Okay. Last question for me. Given your emphasis, and I appreciate the point you're making, recycle, repurpose. But as you and I are both aware, there's a certain amount of the waste is prescriptively directed to have to go (inaudible). So when you think about the $10 billion that's (inaudible) waste and the $14 billion that's industrial services, of which I think about 5 are applicable to customers and markets you want to tackle. So we're playing the sort of $15 billion is the addressable market. Inside the 10, what's your piece of that, that you can convince the customer you have the option to do an A or B as opposed to it has to go to an incinerator or it has to go into a fuels' processing operation or something of that nature. Help everybody understand that addressable market, given how you want to position this?

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

Yes. Michael, I don't have that estimate offhand. I certainly can get back to you. But the fact is we hear every day from customers that are, I'll say, kind of defaulting to landfilling and incinerating that they would love another option. And so yes, there will always be, I would think, always is a strong term, but some types of waste that will be required to be disposed off in landfills and incinerators. But we believe there's a real trend towards recycle and repurpose. And so we think there's on a relative basis volume growth and share, if you will, of the hazardous waste market for us to win over time following that approach. But you're right, it's never going to go away. It's never going to go away.

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

No, no. There's a certain amount of its prescriptively has to go because the regulation says, you got to do this with it but there's certain amount of...

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

There's a lot of it that shows there today that doesn't have to go there if there's a better answer, and that's what we're focused on, that better answer.

Operator

And at this time, there are no further questions in the queue. I will now turn the call over to Mr. Martin for follow-up comments.

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

Thanks, Valerie, and thank you for everyone that joined us this morning. Please feel free to contact me with any follow-up questions. And again, we appreciate your interest in Harsco, and have a great day. Take care.

Operator

Thank you for your participation in today's conference call. You may now disconnect.