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CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 8

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Waste Connections Q4 2025 Earnings Call. [Operator Instructions].

I will now hand the call over to Ron Mittelstaedt, President and CEO. Please go ahead, Ron.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Okay. Thank you, operator, and good morning. I would like to welcome everyone to this conference call to discuss our fourth quarter 2025 results and our outlook for 2026. I'm joined this morning by Mary Anne Whitney, our CFO; and several other members of our senior management.

As noted in our earnings release, adjusted EBITDA margin expanded by 110 basis points in Q4, capping a strong year for Waste Connections, driven by price-led organic growth, solid waste and continued operating improvements. For full year 2025, we delivered an industry-leading adjusted EBITDA margin of 33%, up 100 basis points year-over-year, excluding lower commodities. We also completed approximately $330 million of acquired annualized revenue and returned over $830 million to shareholders through share repurchases and dividends while preserving flexibility for continued growth and return of capital.

Before we get into much more detail, let me turn the call over to Mary Anne for our forward-looking disclaimer and other housekeeping items.

Mary Anne Whitney
Executive VP & CFO

Thank you, Ron, and good morning. The discussion during today's call includes forward-looking statements made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, including forward-looking information within the meaning of applicable Canadian securities laws. Actual results could differ materially from those made in such forward-looking statements due to various risks and uncertainties. Factors that could cause actual results to differ are discussed both in the cautionary statement included in our February 11 earnings release and in greater detail in Waste Connections' filings with the U.S. Securities and Exchange Commission and the Securities Commissions or similar regulatory authorities in Canada.

You should not place undue reliance on forward-looking statements as there may be additional risks of which we are not presently aware or that we currently believe are immaterial, which could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances that may change after today's date.

On the call, we will discuss non-GAAP measures such as adjusted EBITDA, adjusted net income attributable to Waste Connections on both a dollar basis and per diluted share and adjusted free cash flow. Please refer to our earnings releases for a reconciliation of such non-GAAP measures to the most comparable GAAP measures. Management uses certain non-GAAP measures to evaluate and monitor the ongoing financial performance of our operations. Other companies may calculate these non-GAAP measures differently.

I will now turn the call back over to Rob.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Okay. Thank you, Mary Anne. We're extremely proud of our accomplishments in 2025, led by disciplined execution to deliver better-than-expected operating and financial results. For the third consecutive year, employee turnover and safety incidents rates declined, exiting 2025 at multiyear lows. In fact, building on a well-established track record for better than industry average performance, in 2025, we reached historic company record levels in safety, our most important and impactful operating value.

Moreover, that momentum has continued into January when safety-related incidents were down almost 20% year-over-year to another record low. Additionally, we saw a multiyear improvement in employee retention to achieve our 2025 targeted voluntary turnover level of 10%, and we're continuing to raise or, in this case, lower the bar as we see momentum for continued gains. As expected, these ongoing improvements have driven cost savings, productivity gains and improved customer service.

As we had indicated would be the case, we are realizing related reductions in operating costs throughout the P&L, most notably in labor, repairs and maintenance and most recently, risk management. Moreover, we've seen incremental benefits from pricing retention as a result of the enhanced employee retention and customer satisfaction. In fact, solid waste core pricing of 6.5% in 2025 exceeded our original expectations for the full year, further expanding an outsized price/cost spread and contributing to underlying margin expansion of 100 basis points in solid waste.

This outperformance enabled us to overcome incremental pressure on reported margins related to a second consecutive year of declines in value for recycled commodities and renewable energy credits associated with landfill gas sales as well as continued sluggishness in underlying solid waste volumes. Not only did we report our expected adjusted EBITDA margin expansion to an industry-leading 33%, but we did so in spite of recycled commodity values at multiyear lows and without contribution from operations at Chiquita Canyon landfill, which we closed at the end of 2024.

On the subject of Chiquita and the closure-related outlays, we continue to make progress on managing the elevated temperature landfill or ETLF event. The technical aspects of that process are moving forward, largely as expected, subject to some timing differences on outlays as we have made better-than-expected progress in some areas. On the other hand, the political challenges of resolving this situation continue to exceed our updated expectations primarily because of related regulatory, permitting, legal, consulting and other unanticipated requirements that have dragged out an inflated an already burdensome and dysfunctional process.

As we have indicated previously, to address these regulatory challenges, we have sought out and we welcome the involvement of the US EPA and constructive efforts to streamline processes, remove regulatory impediments and enable a more effective and efficient response. We are encouraged by recent meetings we have had with top officials at the US EPA about their further engagement at the site. US EPA has indicated they are finalizing next steps for both short- and long-term solutions to assist Chiquita in further mitigating and managing the reaction and streamlining the regulatory oversight at the landfill.

Moving next to acquisitions. During 2025, we closed approximately $330 million in annualized revenue from 19 acquisitions, ranging from West Coast franchises to competitive markets including integrated businesses, new market entries and a number of tuck-ins to existing operations. Our expected 2026 rollover revenue contribution of approximately $125 million reflects a few additional deals already completed this year and is expected to grow with our active pipeline.

As always, we'll stay selective about the markets we enter and disciplined about the amounts we pay and we would consider any additional deals as upside to our full year 2026 outlook. Our focus has been and will continue to be a solid waste, and we look forward to building on a model that has consistently delivered value creation. Following multiple years of outsized acquisition activity, we remain well positioned for future growth. With leverage of 2.75x debt-to-EBITDA, our strong balance sheet and free cash flow generation allow for continued investment in acquisitions, along with other opportunities, including growing shareholder returns.

To that end, during 2025, we increased our quarterly per share dividend by 11.1% to return a record amount to shareholders, including over $330 million in dividends and over $500 million in share repurchases. We have taken an opportunistic approach to share buybacks and intend to continue to do so. We recognize that market sentiment and capital flows may shift over time, but that doesn't change the fundamentals of our business or the durability of our model, which makes buybacks compelling in the current environment.

Additionally, we are reinvesting in the business and positioning ourselves for further growth and value creation through both sustainability-related projects and artificial intelligence or AI technology-driven initiatives.

Looking first at sustainability. We continue to make progress developing our portfolio of renewable gas or RNG facilities, including 5 already online, with the remainder expected to be operational around year-end. We have also broken ground on an additional state-of-the-art recycling facility expected online in '27.

Looking next to AI and our multiyear rollout, which began in 2025, these investments are aimed at enhancing efficiency and boosting productivity by further digitizing and automating our operations and improving forecasting through data analytics. At the same time, we're focused on service and customer experience for improved transparency and mobile connectivity. What's exciting is that we're just getting started and are already seeing positive outcomes as we expand the utilization of AI and data analytics across multiple platforms.

For instance, we've enhanced our dynamic routing platform to further optimize asset utilization and performance. Promising early indications show direct and indirect benefits beyond cost reductions, ranging from improvements in safety and employee engagement to enhance customer satisfaction and retention. We're excited to build upon these efforts as we deploy additional applications and expand our development in 2026 and 2027.

And now I'd like to pass the call to Mary Anne to review more in depth the financial highlights of the fourth quarter as well as provide a detailed outlook for the full year 2026. I will then wrap up before heading into Q&A.

Mary Anne Whitney
Executive VP & CFO

Thank you, Ron. In the fourth quarter, we delivered revenue of $2.373 billion. Acquisitions completed since the year ago period contributed about $58 million of revenue in Q4, net of divestitures, bringing full year net acquisition contribution to $377 million. Q4 pricing accelerated sequentially to 6.4% and range from about 3.7% in our mostly exclusive market Western region to over 7% in our competitive markets.

Reported volume down 2.7% was in line with prior quarters and continued to reflect the combined impacts of intentional shedding, price volume trade-off and ongoing weakness in the more cyclically driven elements of the business. Looking at year-over-year results in the fourth quarter on a same-store basis, roll-off pulls were down 2% and total landfill tons were up 3% on MSW and special waste both up 4%, while construction and demolition debris or C&D was down 4%.

For the full year, C&D tons were down 5% year-over-year, bringing tons down about 15% from 2023. Special waste on the other hand was up 7% for the full year 2025, following declines in 2 of the last 3 years. And finally, full year 2025 MSW tons were up 3%, in part as a result of our purposeful increase internalization in the Northeast and in certain Texas markets.

We are encouraged by the consistency of results in 2025 and macro indicators that suggest improving underlying dynamics in the broader economy, but haven't factored in a material pickup in our expectations for 2026. Adjusted EBITDA for Q4, as reconciled in our earnings release, was up 8.7% year-over-year to $796 million or 33.5% of revenue, up 110 basis points year-over-year. In Q4, we lapped the initial wind down of operations at Chiquita Canyon landfill as well as the toughest year-over-year commodity comparisons, both of which had masked the strength of underlying margin expansion on a reported basis.

As anticipated, the outside benefits from operational improvements that had been contributing all year were more visible in Q4. Along those lines, we are encouraged to see benefit from risk management costs which up until Q4 had been a headwind to reported results. Looking at the full year 2025, adjusted EBITDA of $3.125 billion was up 7.7% year-over-year with adjusted EBITDA margin of 33%, up 50 basis points.

Normalizing for Chiquita and lower commodities, adjusted EBITDA margin exceeded 33.6% as expected. Moving next to adjusted free cash flow. Our 2025 adjusted free cash flow of $1.26 billion was largely in line with our expectations and reflects underlying conversion of adjusted EBITDA of approximately 50%. The strength of our free cash flow generation largely overcame higher-than-expected cash flow impacts from Chiquita, which totaled approximately $200 million.

Capital expenditures of $1.194 billion were in line with our expectations, including R&D project spend of about $100 million. Our R&D spend for the projects noted will be completed in 2026, and Chiquita outlays are expected to step down, setting up higher free cash flow conversion, which has been factored into our 2026 outlook, which I will now review.

Before I do, we'd like to remind everyone once again that actual results may vary significantly based on risks and uncertainties outlined in our safe harbor statement and filings we've made with the SEC and the Securities Commissions or similar regulatory authorities in Canada. We encourage investors to review these factors carefully. Our outlook assumes no change in the current economic environment. Our outlook also excludes any impact from additional acquisitions that may close during the remainder of the year and expensing of transaction-related items during the period.

Revenue in 2026 is estimated in the range of $9.9 billion to $9.950 billion. For solid waste collection, hauling and disposal, we expect organic growth in the range of 3.5% to 4%, driven by core pricing of 5% to 5.5% with expected yields of approximately 4%, implying volumes flat to down about 0.5 percentage point. Acquisition revenue contribution of about $125 million reflects deals closed to date. Commodity-related revenue reflects recent values and E&P waste revenues are expected to be flattish year-over-year.

On that basis, adjusted EBITDA in 2026 as reconciled in our earnings release is expected in the range of $3.30 billion to $3.325 billion. Adjusted EBITDA margin in the range of 33.3% to 33.4%, up 30 to 40 basis points year-over-year reflects the commodity-related drag of 20 to 30 basis points. As noted, incremental acquisition activity, any improvement in the underlying economy or increase in commodities would provide upside to our 2026 outlook.

Depreciation and amortization expense in '26 is estimated at about 13.1% of revenue, including amortization of intangibles of about $195 million or $0.57 per share -- per diluted share net of taxes. Interest expense is estimated at approximately $330 million, and our effective tax rate for 2026 is estimated to be approximately 24.5% with some quarterly variability. Adjusted free cash flow in 2026, as reconciled in our earnings release, is expected to increase by double-digit percentages to a range of $1.4 billion to $1.45 billion.

CapEx estimated at $1.25 billion includes an aggregate of about $100 million for RNG and recycling projects. And our adjusted free cash flow outlook also reflects $100 million to $150 million impact from closure-related outlays at Chiquita Canyon. Normalizing for both noncore impacts, 2026 adjusted free cash flow reflects conversion of approximately 50% of EBITDA or approximately $1.7 billion. While not providing specific expectations for revenue and EBITDA by quarter, we would offer the following high-level framework.

In solid waste, we would expect a typical seasonal cadence and related margin progression in 2026, keeping in mind the recent outsized weather events across several geographies impacting Q1. Looking specifically at Q4, we would note the toughest year-over-year comparisons given our outperformance in 2025. And finally, for recycled commodities, a reminder that the toughest comparison would be in the first half of the year.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Thank you, Mary Anne. Coming into 2025, we emphasized excellence with humility, recognizing our ongoing commitment to a proven strategy for delivering industry-leading results while acknowledging the benefits of new ideas, innovation and technology. We're excited about our progress in 2025 and the momentum in 2026 for another year of outsized solid waste margin expansion along with double-digit adjusted free cash flow growth. Moreover, we're positioned for upside from any pickup in the economy or commodities as well as additional acquisitions.

We're excited to win from within in 2026 and are grateful for the dedication of our 25,000 employees who set us apart by putting our values into action every day. We also appreciate your time today.
I will now turn this call over to the operator to open up the lines for your questions. Operator?

Question and Answer

Operator

[Operator Instructions]. Your first question comes from the line of Saba Khan with RBC Capital Markets.

Sabahat Khan
RBC Capital Markets, Research Division

Maybe just starting with, Mary Anne, the free cash flow commentary that you shared. Just wondering if you can just delve a little bit more into sort of the sustainability CapEx, where that's going? And then just on the Chiquita as well, it sounds like $100 million to $150 million. If you can just talk about the cadence of that spend? And then more importantly, as we think about free cash conversion in this year into '27, just how should we directionally expect those 2 incremental amounts to evolve through '26 and more so into '27?

Mary Anne Whitney
Executive VP & CFO

Sure. Well, high level, to be clear, we'd expect them both to step down '26 to '27. So first of all, in terms of sustainability-related outlays, the $100 million includes the final $75 million that we've been talking about for the large slug that dozen or so RNG facilities which, as Ron mentioned in his remarks, almost half of which are online and the balance are expected by around year-end. So that's done there.

And then the incremental $25 million that we mentioned is part of our efforts longer term, as we've described, to really derisk recycling and take advantage of the incremental technology that provides benefits, as I said, of derisking, reducing our cost to third parties and also improving the quality of the recyclables coming. So that's just -- you should think of that as there is this opportunity. It's a little outsized slug. We're always spending a little, but it's part of the $100 million this year. And again, I wouldn't say that repeats going forward.

With respect to Chiquita Canyon outlays, as we described, some of what was the outlays in 2025 reflect getting more done than we had anticipated. So there's some of that, that continues to decrease as we move through that process. And then there are other pieces that we hadn't expected the pace or the type of outlays that we're seeing. And so we certainly -- when you say the cadence during the year, I wouldn't put too much premium on how quickly those outlays are. Just as you know, CapEx and free cash flow, in general, is always lumpy during the course of the year. So I'd encourage you to just think about it in totality for '26.

Sabahat Khan
RBC Capital Markets, Research Division

Great. And then maybe just stepping back on the broader guidance. I think the commentary indicates not a lot of aggressive assumptions, at least on the macro and the commodity prices. Maybe you can just share some thoughts around sort of what you baked in, in terms of the macro environment? We're hearing some commentary on some of the sector calls around green shoots. If you can just comment on where you see potential sources of upside, whether that's on maybe the cyclical volumes getting a little bit better, whether that's maybe another above-average year of M&A? Just what have you baked in? And where do you think upside could come from if there is for the rest of the year?

Mary Anne Whitney
Executive VP & CFO

Sure. So as we've said, I mean, I'd say there's 3 key things that we haven't baked in. One is any improvement in commodity values. And so you see that, that headwind over the course of the year, which, as I noted, in terms of quarterly cadence is strongest, the largest headwinds are a lot like Q4 when it was 40 basis points headwind, that's how to think about the first half of the year and then those abate just as comps get easier. So to the extent that there's any pickup in commodity values, you'd see a benefit there.

Next, you heard us talk about with yield of about 4% that margins are kind of in that flat to down 0.5 point, that's not materially different from what we've been seeing in terms of that piece of the business that's somewhat cyclically exposed where you've had lower roll-off in C&D tons. And so to the extent that those improve or that there's incremental improvement in special waste, which we described being up year-over-year, that would be incremental.

And we certainly agree with the characterization that others have made about green shoots in the economy from certain macro indicators, we'd point to within our business, we see the special waste pipeline firming. I'd note that, that was -- Q4 is our fifth consecutive quarter of improvement. And I look at the recent trends just in January and weekly trends, I continue to see those up in the most recent weeks.

Next, commercial service increases are outpacing decreases with overall net new business up. So that's encouraging. And while C&D is still down over the year, we have seen the declines moderating. You look back earlier in the year, in Q2, we were down about 9% year-over-year, and we exited the year down more like 3.5% to 4%. So no improvement overall is factored in there.

And then the final piece you asked about was M&A, and I'll turn it to Ron. But of course, as is our approach, we don't bake expected M&A into our outlook. What we've provided you are deals that have already closed.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. And Saba, I would say that when we -- at the third quarter call, I think we had told -- reported that we had closed about $250 million by then that we expected to close some $75 million to $100 million thereabout. You see we closed about another $80 million that brought that number to $330 million. In fact, today, we've closed -- and last week, closed about on the other $20 million of that. So that brings you right to that $100 million that we talked about what was out there that could occur during the fourth quarter or the very beginning of the year. So that has occurred.

So there's no real change to M&A, as Mary Anne said. Look, I know you haven't followed the space for forever, Saba. But if you go back, there's a pattern by multiple companies within the space that tend to go out and put out guidance at the beginning of the year and make all kinds of improvement assumptions in the economy and then come back around in the third quarter or the fourth and back all those off.

We don't believe that's a prudent way of providing guidance. We're providing guidance with what is known today and assuming it doesn't improve and that if it does improve, it will be upside. So we just think that's a more conservative approach, not saying there's anything wrong with the other approach, but this is a very consistent pattern for us and actually for others in the space, taking the approach they have.

Operator

Your next question comes from the line of Tami Zakaria with JPM.

Tami Zakaria
JPMorgan Chase & Co, Research Division

I think your pricing is moderating versus last year as some of the cost pressures are also waning. I was curious, could you elaborate on which buckets of expenses you're seeing moderation and you believe are sustainably trending downward for the next few years?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes, Tami, I mean, number one, you are correct, prices moderating, and that's a good thing. We're happy about that. Remember, we don't always -- we don't focus on the ultimate amount of the dollar amount or percentage of the price increase. We try to focus on maintaining the spread of 150 to 200 basis points spread to what we believe our cost is going up.

So if you look at our guidance for price, core price of that 5% to 5.5% and say that's 100 basis points down from 2025, it would indicate to you that we believe our cost is down about 100 basis points relative to 2025 on an increased basis, and it is. We began 2025 with labor rates approaching 5% year-over-year, and we exited Q4 with labor rates up about 3.9% year-over-year and trending down towards 3% to 3.5% throughout 2026.

We had other costs within the P&L in 2025 that began the year probably closer to 4.5% and moved throughout the year closer to more in that 2.5% to 3%. So it's just about the spread. We look forward to not having to put as much dollar amount or percentage rate increase on our customers. They're feeling the same effects from the economy as everyone else. But the spread has maintained the same or approximately the same, and that's what we focus on.

Tami Zakaria
JPMorgan Chase & Co, Research Division

Understood. That's very helpful. And I think we love hearing about all the tech and AI investments you're making to improve the efficiency in your business. Any exciting initiatives you want to call out specifically that's due for implementation this year that we can look forward to?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Well, yes, there are. And we're actually excited about them, too. whoever thought in an old-line industrial waste company that we would understand what AI even was. But this year, we're focused heavily on 2 incremental initiatives of 7 that we've agreed to do between '25 and '27. This year's 2 are moving the company into more of a dynamic, real-time customer routing opportunity.

We have very good routing today, but it is what I'd call static. It has no ability to read incoming data. So you run the route sort of the night before or the week before, where we're moving to is sort of a real-time routing that takes into effect things just like I said on another call would be like ways for your car.

It takes in road closures, it takes in traffic conditions, it takes in accidents, it takes in third-party data fees to allow us to react real-time and resequence with the utilization of AI doing the resequencing, not somebody doing it in another way. So that's one.

And the second one is we're developing a dramatically more robust mobile connectivity platform and working towards trying to eliminate inbound calls to our customer service groups locally by as much as 30% to 50% over a multiyear period. We take over 1.5 million calls from customers per month right now. And our objective is to get that down somewhere between 700,000 to 1 million over the next couple of years by being able to push out information mobily to customers for the 5 to 6 most common things.

We know what the 5 to 6 most common things customers are asking. And it's mostly because they're not receiving that information in real-time, such as I think your driver is not -- didn't pick me up today because he usually picks me up between 7 and 8 a.m. And in reality, he's going to pick them up that day and -- but the road has been closed due to snow. And so we're able to push out. They're able to see mobily when their driver will arrive and where the driver is on the route, much like you do with your Uber, if you order an Uber today, you know where they're at and how far away they are.

Those kinds of things are dramatic changes in efficiency and customer service quality for us. So those are 2 things that we're working to bring online in '26.

Operator

Your next question comes from the line of Noah Kaye with Oppenheimer & Co.

Noah Duke Kaye
Oppenheimer & Co. Inc., Research Division

Ron, in years past on M&A, you've talked about the potential for an outsized year. How do you assess based off of the pipeline, the potential coming into this year? And then on the same subject of capital allocation. I know you said you'll be opportunistic with the buyback. But just given where the stock price and the valuations sit today, just how opportunistic are you being here to start the year?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Well, let's tackle the first part of that, which was your M&A question. Look, as you know, M&A can be lumpy. We've had 3 very strong years in a row. No reason to expect that '26 looks any different. There's nothing that has changed in the underlying opportunity basket, nothing has changed in our appetite to complete deals or our ability to complete deals, our financial flexibility. So I think it's very fair that you and others should expect another sort of outsized year.

Now how much of an outsized relative to a normal $150 million to $200 million year? The year needs to play out to see that. But I think hopefully, you look back at the last 3 years' track record, and we're not seeing something that would make us think that this year looks differently. And we certainly have the capacity, as we said in our script, to do both whatever comes along at M&A and as much buyback and return of capital as we think is prudent based on the fundamentals of our business and what is driving those opportunities in the buyback. So we don't see any limitations on any of those.

As far as every now and then, you pointed out that a larger deal comes along. And we looked at several things that made that we didn't pursue or weren't successful on in '25. And we had one of those in '24. We had one of those in '23. I mean certainly, there's a good chance that happens in '26. But we don't bank on any of that or forecast any of that because that just leads to overpaying and pushing to do something that you might not otherwise have done.

So we continue to look at everything and be very active, but we're going to continue to be very disciplined in our approach to what we think is a quality asset for long-term value creation.

Noah Duke Kaye
Oppenheimer & Co. Inc., Research Division

Very helpful. We can table the buybacks until we see the results, I guess. I really want to get after, because I think it's just so important for a lot of investors, the underlying free cash flow conversion becoming the headline free cash flow conversion to be doing 50% underlying is really impressive. So on these moving pieces, the sustainability CapEx in Chiquita, I guess with sustainability CapEx, is 2026 really kind of the last big slug that you envision and we go from $100 million down to almost nothing on RNG in 2027. Is that the right way to think about it?

And then on Chiquita...

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Go ahead, but ask the Chiquita, we'll get you -- we'll answer you both. No problem.

Noah Duke Kaye
Oppenheimer & Co. Inc., Research Division

I think just to help us understand kind of your level of confidence that 2026 is really kind of the last big chunk of spend there. Maybe help us understand a little bit better how it's played out and why that might be the case? And where kind of pending any big regulatory change you could see this kind of winding down in 2027?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Sure. Okay. Well, let's address the -- you made a comment about the buyback. First off, look, we don't communicate at any time whatever the stock price is, what our intentions are. We have, obviously, our view of underlying fundamental value that we are running at all times and we're going to be active, that's what I can tell you, okay? And so I think that speaks for itself. You saw what we did in the third and the fourth quarters when there was dislocation.

On RNG, there's actually a 2-point inflection that you need to think about here for this conversion moving back. And you're right, 50% is impressive. But I would remind you, we've been as high as 53%, 54% at one point in time. So getting back to 50% for us is actually very average of where we've been.

But next year in '27, you lose the CapEx that has been associated with this RNG, these 12 projects, and you now begin most of the full contribution of the EBITDA and free cash flow. So it's sort of a double whammy for '27 in that vein. Now will there be incremental RNG or sustainability in future years? Well, certainly, there could be. But that would be for new projects that represent incremental cash flow and growth opportunities, not related to the 12 original and the 3 to 4 big recycling facilities we've talked about. That piece will be done this year.

We expected the outlay for RNG to be done in '25. But the reality is we don't control all the timing on that outlay because of the permitting and the local utility interconnect that we have to respond to. And I think you're seeing that in everybody's RNG that it's taking a little longer to get online than original thoughts. But we're very confident in that $100 million, to answer your question, being done in '26 and then the contribution being there for '27 in the EBITDA and cash flow.

Next to Chiquita. Look, what I would tell you is this: First off, I think you and other investors need to think through this, this way. First off, an ETLF is nothing new in this industry. There are 10 to 15 going on right now across the U.S. in many states. Your large public companies have between 3 and 5 each going on today, that were going on last year, that were going on the year before. The difference is they don't have them in California.

If this had happened in 49 other states, you and no one else would have ever known about it, which is why you don't know about the other 10 to 15 occurring because they're not in California. One is by one of our large competitors, but be thankful for them, it's not in Los Angeles County. It's adjacent. The reason the EPA is involved at our request is because they are having an extremely difficult time understanding the dysfunctionality of California's inability to resolve its own regulations. That is the issue, okay?

And so what we know is -- your question was, is '26 the last year of outlay for Chiquita and how confident? What we're confident is, this is stepping down and continues to step down, and will step down fairly meaningfully in '26 as the year goes on because of the involvement and the streamlining that is coming along. Will there be some in '27? Yes, but it will be quite lower again than '26.

So we should begin to approach those approximate 50% conversion levels as we come through '27. So we can't sit here and tell you what would be exactly that in '27 without knowing where we'll end with things on Chiquita in '26? No, but all those things are triangulating to that direction.

Operator

Your next question comes from the line of Jerry Revich with Wells Fargo.

Jerry David Revich
Wells Fargo Securities, LLC, Research Division

Ron, I'm wondering if you could just give us an update on how the Northeast corridor, rail corridor build-out is going? Update us, if you don't mind, on your expectations on shipments over the course of this year and the densification on the collection side as well, where do we stand on that initiative?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Sure, Jerry. And I think most of what you're referring to is where we are in our Arrowhead Landfill in Alabama and our intermodal facilities along the Eastern Seaboard in Mass, Connecticut and New Jersey, New York. Again, to remind everybody, in August '23 when we acquired this network, it was doing about 2,300 to 2,500 tons a day through the network into the landfill. We're now doing 7,500 tons a day sort of at the peak period.

We have built out incremental rail, storage and track capacity in our New York, New Jersey intermodal facility. We have incremental track build-out that we must do at our Arrowhead Landfill, which we are in the process of. We believe as we come through '26, we will be in the 9,000 to 9,500 tons a day into our Arrowhead Landfill. So we basically almost, not quite, almost quadrupling what was there 2.5 years ago right now.

So I would tell you that I think that's going fairly well, as is our continued densification, to use your word, in the Northeast. We did multiple tuck-ins in our New York franchise market area in '25. We acquired, at the end of the year, a large transfer station as well in New York, in Queens. We acquired a large recycling facility in Hoboken in '25. So we have, I'd say, put a lot of effort into building sort of our leading position, certainly, at least in the New York City metro area. So I would tell you, overall, Jerry, that continues to be a focus and continues to be -- there's opportunity there, but we have made good headway.

Mary Anne Whitney
Executive VP & CFO

And Jerry, the only thing I would add to Ron's remarks would be just to clarify that where you've seen that increase in activity at Arrowhead, as we've talked about throughout '25, it's really from internal tons as opposed to incremental third-party tons. And we had seen that as an opportunity. And so two things, you see that in our internalization rates, which I mentioned in the prepared remarks, which are now up to almost 60%; and secondly, you see the margin contributions, and you see the outsized margin performance in '25, decreased third-party disposal was a component of that, and that's really the impact of Arrowhead.

Jerry David Revich
Wells Fargo Securities, LLC, Research Division

Okay. Super. I appreciate the update. And then can we shift gears and talk about just to expand on the landfill gas part of the conversation. So in terms of the timing getting pushed out, obviously, everybody is working through that, so that's clear. What we're seeing from some others is the initial plant ramp-up and productivity and profitability has generally been lower for a number of operations. Can you just talk about how that's going for your plants that are coming online versus initial expectations in terms of efficiency rates and profitability ramp based on what's the most recent vintage that's come online?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Sure. Well, Jerry, I would say that your characterization that others are experiencing are very similar to ours in many ways. Look, these things are taking a little longer to get online due to mostly permitting and start-up issues, but they get there. We get them there as a company and as an industry. There are multi-months, if not up to a year, to work out and get the flow accurate and really work through the start-up issues of the plant. So you probably start up at somewhere maybe in a 40% to 50% efficiency and you work up over time to approaching 100%.

You're not at 100% efficiency until well after a year plus being online and getting your flows increase and everything dialed in. So the ramp is somewhat slow. Of course, profitability is affected by both revenue values. And as you know, that is that RINs have come off a high of $3.40-ish down to a low of $2 and now sit in that $2.40-ish range. So they're down 1/3, and that certainly has an impact depending on your structure of the RNG ownership facility.

As you know, we and most others have sort of 1 of 3 types of a structure, fully owned to some sort of hybrid, to a royalty arrangement. And it also is affected by inputs on the cost side, such as the cost of electricity. And of course, that has had some waxing and waning. So I would tell you that the returns, while lower than probably -- and then certainly, when run at $3 and $3.25, are still very good, extremely good returns at the $2.20 to $2.50 range, not a RIN value and current electricity cost, not as great as they were at an obviously higher commodity value, but still very attractive and well worth the investment that we're making.

Mary Anne Whitney

Executive VP & CFO

And Jerry, when we look at our full year outlook, we didn't assume that facilities were necessarily contributing. They may have some incremental costs during the course of the year or that they were going through testing. And as Ron described, at these lower run rates or efficiency rates, so there'd be upside to the extent that moves along more quickly. And then, of course, any improvement in RINs as well would be upside to our guidance.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. And to give you an example, Jerry, a real-life example, I mean, we're -- we have one of the largest -- we have the largest facility in Canada outside of Montreal that we've owned a long time, it's very effective. We started another one. It was supposed to be online in April of '25. It came online in December of '25, and it only began running at sort of close to full capacity in the last couple of weeks. So they do -- they can take a little longer, but they -- definitely the performance is still attractive.

Operator

Your next question comes from the line of James Schumm with TD Cowen.

James Joseph Schumm
TD Cowen, Research Division

I have a multipart question on Chiquita. Last quarter, you gave daily leachate production figures and like how that was dropping. Can you update us there? And is it fair to assume that leachate costs make up, I don't know, 50% to 60% of your total Chiquita spend? And then also, like what is the cost per gallon for disposal there? And do you see any opportunity to lower that cost with evaporation or any other potential help from the EPA?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

So James, I'll give you some high-level stuff on this because a lot of this changes fluidly quite frequently. But -- so at the peak of the reaction, which we believe the peak was somewhere between June and August of '24, we were generating as much as 400,000 gallons of leachate per day, okay? As of the end of the fourth quarter, we were generating most days between 200,000 and 225,000 gallons.

So that number, as you can see, is at least from the peak down approaching 50%. We have other things such as wellhead temperatures that are cooling. So we have every reason to believe that the statistics point to that we are on the downward slope or the backside of the curve of the slope of the reaction as it is starting to cool and wane. What the slope of that trajectory line is? Obviously, it's too early to tell, but the indicators are that we're over the hump and on the other side. So that's number one.

The cost per gallon varies. It can be as low as about $0.50 to $0.60 to as high as $1.50 to $2.50 depending on what treatment facilities are available and what constituents they can take, okay? Some facilities cannot take various things that are within leachate and so you have to transport further to a more complex treatment facility. And yes, to answer your question, I would say that the leachate treatment is not 50% to 60%, but I would characterize it more as about 40% to 45% of the cost. Certainly, the large majority.

And then lastly, I would tell you that I'm not sure that evaporation is necessarily going to happen. This still resides within the state of California. But it's interesting you bring that up, and a large one of these going on in Nevada right now. There, you can purchase acreage and go out and aerate this in the desert for $0.02 a gallon. So it is quite interesting how one state handles this compared to a state like California.

So I doubt we'll get to evaporation. But yes, we do believe that the involvement of EPA can lead to some streamlining of treatment facility opportunities, and that ultimately leads to a more cost-efficient process.

James Joseph Schumm

TD Cowen, Research Division

That's great. And then maybe just moving to Seneca Meadows. Can you provide an update there? I think you guys had said you're pretty confident that this moves forward, but I don't think we've gotten resolution on that yet. And I was just curious if that landfill were forced to close, what kind of impact would that have on your EBITDA?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Well, first off, again, it's a very good question, two-part. Hopefully, both things we're going to answer here gives you some comfort in this. First off, we absolutely do believe that, that expansion will go forward. That is expected to happen here over the course of the next several months. There is a -- we are in the technical review piece of the expansion with the state and generally in the state of New York and other states the technical review is really what the design, the final design and contours will be relative to whether it's a go or no go. The go or no go is a separate process, and that has effectively been decided in our favor.

So we have quite a very high degree of confidence that Seneca will succeed in its expansion and go forward. But in order to have enough airspace to honor our commitments, we have been throttling back volumes consciously at Seneca, our choice, over the last 18 months. And so -- and we have taken that to other landfills that we own throughout our network, both in New York and Pennsylvania and some to our Arrowhead network that we mentioned earlier, intermodal.

We have also had to push out some third party to do that. And so we've overcome that as well in our results. But to answer your question, I would tell you that the -- if Seneca were to close, as you said, if that is a worst-case scenario, the impact to us is far less than what we absorbed at Chiquita closing, okay? So without [indiscernible], it's far less, and you've seen us overcome the impact to EBITDA revenue and margin of Chiquita, and this would be far -- so it would be something I'm not even sure you would notice.

Operator

Your next question comes from the line of Adam Bubes with Goldman Sachs.

Adam Samuel Bubes
Goldman Sachs Group, Inc., Research Division

I think the outlook implies an improvement in the rate of change of volumes around 150 basis points, at least on an apples-to-apples basis with how you traditionally report. And it doesn't sound like that embeds macro improvement. So what are some of the moving pieces driving the rate of change improvement in volumes year-over-year?

Mary Anne Whitney
Executive VP & CFO

Sure. As we've talked about volumes, historically, the way we've communicated it, you had what we would characterize as that price volume trade-off or I'd argue there's a piece of mix in there and churn. We also talked about shedding and then we've talked about the underlying economy that price volume trade-off what -- the way we'll be communicating it is embodied in the yield calculation, just the same way our peers do.

And so I'd say that hasn't moved materially, although we look forward to seeing certainly the churn element of that continue to decline as we use better tools, and we've talked about the visibility we have there with our price increases. So then I'd observe that the shedding has decreased. We talked about anniversarying one of those last contracts last year in Q4. So that's behind us, so I'd expect that to be more de minimis.

And then as we said, we still expect that there's some from those more cyclically driven pieces of the business and that's why we said maybe that's flat to down about 0.5 point. That's essentially what you're seeing there. And again, that doesn't mean that things are getting better. It's just that we're anniversarying these low rates and the comps are easier. And as we've said, we have already seen some pickup in special waste, and we're continuing to see our pipeline, our visibility on special waste projects improve. But again, no macro pickup, that's all upside.

Adam Samuel Bubes
Goldman Sachs Group, Inc., Research Division

And then, Ron, you talked about the technology initiatives, specifically the real-time routing sounds really interesting. It sounds like you're in the early innings. But to what extent is that rolled out across the fleet today? And what type of initial savings or productivity are you seeing?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

That is not yet rolled out to the fleet today, Adam. So it'd be misleading to tell you that it is and what we think those savings will be. We have beta-tested what we've done in probably what would equate to maybe up to 5% of our locations, but not at all of the routes on those 5%. So that's a smaller test. So -- but I do expect that we will have this rolled out fairly broadly by the third and fourth quarter of this year and then really more fully deployed throughout '27, but have a good impact or a good understanding of the potential impact in the second half of this year at some point.

Operator

Your next question comes from the line of Chris Murray with ATB Capital Markets.

Christopher Allan Murray
ATB Cormark Capital Markets Inc., Research Division

Maybe turning back to the margin expansion that you saw in Q4. And then we start looking at, at least what you're proposing to see in 2026. Ron, I mean you alluded to the fact that a lot of this was attributable to -- there's some price/cost spread gains, but it was also kind of the underlying improvement in things like turnover and risk.

Thinking that, that stuff is not going to change, can you just maybe kind of square the circle on why you wouldn't think that those trends would extend a little bit more into the year and you're kind of looking at a lower year-over-year kind of growth rate?

Mary Anne Whitney
Executive VP & CFO

Sure. So I guess what you're referring to is that we've guided to 70 basis points at the high end of underlying margin expansion after exiting the year at -- which, by the way, is about what we've seen through the course of the year and then exiting the year at over 100 basis points margin expansion. And I'd say that we recognize that the trends are still in the right direction. So there's certainly continued opportunity, and we factored that into our expectations for what we would characterize as above average margin expansion from that price/cost spread driven in part, as you note, by the employee retention and safety-driven benefits.

Just remember, we had talked about 100 basis points of margin expansion coming from that improvement over a multiyear period and we're really 2 years through that multiyear period. And we mentioned that the final piece, the risk, is the largest contributor in the final pieces. So it's just an acknowledgment that as those metrics continue to improve, we look forward to seeing continued opportunity. Obviously, it's gets harder the further down you go with improving these numbers and hitting record lows. But we'll certainly look forward to continuing to driving those savings.

And Chris, I also think in terms of pricing retention and the improvement in churn that we've already seen from our pricing tools. So I think there's opportunity, which is why we're guiding to 50 to 70 basis points of underlying margin expansion when, as you know, that number would historically or typically be 20 to 40 in February.

Christopher Allan Murray
ATB Cormark Capital Markets Inc., Research Division

Okay. Fair enough. Another quick one just for me. The Canadian government changed its -- or is introducing new regulations around methane emissions for landfills. Just wondering if you guys have any thoughts on how that could impact the Canadian landscape, either creating some opportunities or some costs for you and how you think that it will actually impact the industry over the next few years?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. I would tell you, Chris, that it's probably too early for us to make any real educated response to that. But I can tell you in speaking with our Canadian leadership team, we were just in Canada this week at our Canadian region office on Monday and Tuesday. And they -- it was not something they were concerned about based on everything they understood at this point.

Operator

Your next question comes from the line of Trevor Romeo with William Blair.

John Trevor Romeo
William Blair & Company L.L.C., Research Division

Just a couple of quick ones for me. I think first on the E&P business. Would love to know if you could kind of talk about in the quarter, I think you had some M&A deals contributing, but maybe talk about the organic growth you saw in Q4? And then as you think about modeling E&P for 2026, I think, Mary Anne, you said maybe flattish for the year. Maybe you could talk about what you're expecting in U.S. versus Canada? Is anything to call out on a seasonal basis or anything else on that topic?

Mary Anne Whitney
Executive VP & CFO

Sure. So looking at Q4, I'd say we outperformed in Q4 that is the seasonally weakest quarter. And what we saw was that there were some benefits in the U.S. from some remediation work, which that is episodic or lumpy, and so that was a nice add. And we saw continued outperformance in Canada. So both of those markets, even normalizing for acquisitions, were up year-over-year.

And that's in spite of lower rig count and lower values for crude. So I'd say that the business is arguably outperforming sort of the macro environment and I think that the concerns that have been expressed looking forward, we're certainly mindful but we've seen no indication of a slowdown. And as I said, we think in terms of how the year plays out, at this point, we'd say flattish is the right way to think about it and let it be upside because, again, things like remediation jobs, those don't necessarily repeat every quarter. And so that's kind of the approach to the business. But generally speaking, I'm very pleased that as we've said before, the thesis on the Canadian business being more production-oriented played out last year, and it's your expectation that it continues to play out with the steadiness, the [predictability] of that business, which has not shown any signs of change.

John Trevor Romeo
William Blair & Company L.L.C., Research Division

[Technical Difficulty]

Mary Anne Whitney
Executive VP & CFO

Sorry, you're cutting out.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

You're cutting out. We couldn't hear you, Trevor.

John Trevor Romeo
William Blair & Company L.L.C., Research Division

[Technical Difficulty]

Mary Anne Whitney
Executive VP & CFO

No, it's not better.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

No, it's not better.

Operator

Your next question comes from the line of Seth Weber with BNP.

Seth Robert Weber
BNP Paribas, Research Division

Just going back to the RNG business, sorry if I missed it, but is $100 million of EBITDA still kind of the right way to think about the contribution for 2027 or run rate it's fully operational? Is that still a good number to talk to?

Mary Anne Whitney
Executive VP & CFO

Yes. I think that's a fair way to think about it based on what we know right now. And I'd just remind you that there's -- almost half of the projects are online and so the incremental contribution would be what remains after that.

Seth Robert Weber
BNP Paribas, Research Division

Sorry. So you mean half your projects are online today, so the year-over-year '27 versus '26 won't be $100 million. Is that what you're saying?

Mary Anne Whitney
Executive VP & CFO

Correct. Yes.

Seth Robert Weber
BNP Paribas, Research Division

Okay. But $100 million in aggregate is the right way to think about the return on that overall investment.

Mary Anne Whitney
Executive VP & CFO

That's right. Maybe a little higher, $100 million, $120 million, something like that.

Seth Robert Weber
BNP Paribas, Research Division

Okay. And then just lastly, I think in prior calls, you called out Florida and Texas as being kind of weak or softer end markets. Is that still the case? Are you seeing -- and then kind of related to that, did you see any weather impact in the quarter just broadly around some of the cold snap and stuff like that?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

In the first quarter -- in the fourth quarter are you referring to Trevor or in the -- the quarter we're now sitting in? We really didn't see any weather impact in the fourth quarter. I mean, weather was somewhat mild, but nothing to note. Of course, in the month of January, there was a fairly significant cold snap that I think affected our business in up to 30 states. And certainly, there is some impact, but nothing material by any means.

Mary Anne Whitney
Executive VP & CFO

Yes. Just on Q4, it really wasn't -- you're right, we've mentioned those markets on the construction-driven activity. I'd say those stayed about the same, and there was a little incremental weakness in the Northeast that may have been some minor weather during Q4.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

And to your question on Texas and Florida, that -- and to the -- I think you asked a question on Texas and Florida.

Mary Anne Whitney
Executive VP & CFO

I think we covered it. That was the construction driven slowdown...

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Okay.

Operator

Your next question comes from the line of Shlomo Rosenbaum with Stifel.

Shlomo H. Rosenbaum
Stifel, Nicolaus & Company, Incorporated, Research Division

Ron, I want to go back to the things you touched on earlier in the call about the ability to improve your operations and technology, and you're talking about routing and dynamic routing and other things. I want to ask, when you kind of sequenced some of these things that you were looking at, did you go after the biggest opportunities first?

And like what should we be thinking about for subsequent years of things that you're going to attack? And just is there a way to use technology that you're seeing that maybe could squeeze more out of the assets, maybe trucks, maybe not have to have so many trucks on reserve in terms of proactively being able to [fix] them using technology. I'm just trying to get at other things that might be out there that might be able to squeeze more efficiency out of the system, both operationally and then frankly, from a capital perspective?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. Well, look, we -- to start with, when we looked at this, we actually identified up to 40 areas that we could potentially look at the utilization of AI in some way or another. We prioritized the 7 things over a 3-year period that we thought had the biggest opportunity for impact to the business positively, whether that be from an operating, a financial, customer service, et cetera, efficiency. So those are the things we attack.

Last year, we worked heavily, '25, on commercial pricing and a couple of other initiatives in AI. This year, as I said, it will be on routing and mobile customer engagement. Without question, these initiatives should and I think will lead to improved efficiency, improved margin performance and improved asset utilization. No question.

Dynamic real-time routing allows you to move assets with information that today you don't really have or you have only reactively, not proactively. And therefore, you have to have a little bit higher spare factors in your fleet at locations, those kinds of things. You end up with a little higher over time because you are reactive versus proactive. So it's not one of these things that moves the dial in one area 40 or 50 basis points, it's one of these things that moves 7 or 8 dials 10 to 20 basis points throughout your P&L over time.

And so that's how what we see and what we are seeing. And ultimately, look, it provides a better service quality, a more proactive communication with your customer, greater efficiency for your physical and your human assets and greater projectability in your business. Those are the things we're expecting and we're seeing. So it just makes it better for all of our shareholders, our customers, our employees and ultimately, our shareholders.

So we're excited about it. I think it's still early innings and not prepared to put a marker out there of what does this mean. But I can tell you that these investments, the payback is very quick. The payback is months to maybe a year to 1.5 years. So these are very solid investments for the business.

Shlomo H. Rosenbaum
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And then just more on a tactical perspective. Mary Anne, can you talk a little bit about like what a change in commodities prices would do to revenue and EBITDA in '26 versus the baseline that you're using right now?

Mary Anne Whitney
Executive VP & CFO

Yes. So when I look at overall what our recycled commodities sales are of about $250 million, that tells you a 10% moves around $25 million. And so what we factored into our outlook is a 15% decline overall year-over-year, which translates to meaning based on current prices as compared to last year, and that translates to that 20 to 30 basis points of margin drag, which starts off probably a multiple of that in Q1 and drops down to over the course of the year.

Operator

Your next question comes from the line of William Grippin with Barclays.

William Spencer Grippin
Barclays Bank PLC, Research Division

Appreciate you squeezing me in here. Just another one here on commodity prices. I know you're not baking in a recovery into the forecast, but just curious if you could maybe elaborate a little bit on what you're seeing in that market today? And maybe what developments you're watching that could potentially signal or support an improvement in commodities prices off these cyclical lows?

Mary Anne Whitney
Executive VP & CFO

Sure. So we saw some incremental weakness early in the fourth quarter, then there was stabilization and what we saw most recently was a little uptick in OCC, which was encouraging. The reality is though that was offset by incremental weakness in plastics. So I'd say, overall, the basket really hasn't moved, which again, that informs our thinking for how we guide.

So then what we're watching for and looking forward to would really be the uptick, which is driven by underlying economic activity, which ultimately drives the demand, most importantly, for fiber, which as you'll recall is the majority of the value in a ton of recyclables. So cardboard, so commerce, right, demand, consumer confidence, all those things that are the engines of driving consumption, which ultimately is what drives our business and recycled commodity values.

William Spencer Grippin

Barclays Bank PLC, Research Division

Appreciate that. And then just coming back to RNG and obviously, the EPA widely expected to release the '26-'27 biofuels RVO here, hopefully in the first quarter. Anything you're watching there that could cause you to maybe change your approach to RNG offtake or capital deployment for those projects?

Mary Anne Whitney
Executive VP & CFO

Really, just to be clear, these are terrific projects at a whole range of outcomes for RINs. And we've talked about delayed start-up or the whole project development. If it goes to a couple of year payback or 4 or 5 years versus 2 or 3, it's still very compelling. And as we remind folks, we have $6 billion sunk into our landfills. Of course, we're looking to monetize the value as that gas -- the waste breaks down and generates gas.

So you should expect us to continue to opportunistically pursue these projects. And of course, we're completing the projects we have underway, and we look forward to delivering those returns. In terms of what we're watching, we're encouraged. We don't know exactly where the RVOs come out or what RIN values do, but we've recently seen some improvement in the D5 RINs, which are a good indicator for D3 because that can be a substitute. And again, we've seen stability in RIN values in that kind of $2.40 level. And we're encouraged by what we're seeing out there.

So no change in the philosophy. As you know, we've done -- we've taken a portfolio approach of not having outright risk on all of the RINs through a variety of ownership structures. We'll continue to evaluate those opportunities over time and continue to own the most attractive in our network. But -- so again, no change in the thinking. As we've said, the largest outlays are behind us for this -- getting through '26 for this large group of facilities, but we'll continue to have the one-off facilities over time, again, as our landfills mature and the opportunities present themselves.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

And one other thing I would say, William, that I think we weren't going to talk about this, but since you raised the question. Look, we have gone out and purposely recruited one of what we believe is the top RNG experts anywhere in the industry and this person is an executive officer of one of the finest RNG companies. We work with all of them, and we have more regard for this company than anywhere else and they have built and operated some of our facilities. And we have been laser-focused on figuring out how to have him join us, and he starts Monday morning.

And we are very, very excited about that. We're not going to release that name right now because that's not appropriate for him or his company, but that I think shows you our commitment to RNG and our acknowledgment that we can continue to get better there. And like any area, just like we're doing in AI and others, if you got to go out and get the talent, we're going to go out and get the best talent we can find to drive what we may not be as good in as we are in some of our core competencies. So I think we'll just continue to get better as we go forward in RNG starting Monday morning.

William Spencer Grippin
Barclays Bank PLC, Research Division

Great to hear that sounds like a nice win and a great resource. I appreciate the color.

Operator

Your next question comes from the line of Konark Gupta with Scotia Capital.

Konark Gupta
Scotiabank Global Banking and Markets, Research Division

Just maybe on free cash. I wanted to understand, Mary Anne, besides earnings growth that you expect this year and lesser outlays on RNG and Chiquita, is there anything else in terms of major swing factors embedded in guidance? Or any wildcards to watch for, for free cash?

Mary Anne Whitney
Executive VP & CFO

No. I think when you think about the free cash flow drivers, you've got that incremental $200 million in EBITDA, the decline in Chiquita. We gave you the CapEx number that steps up a little bit. Cash taxes step up a little bit because they were so suppressed this year. But no, I'd say those are the major moving pieces that you've probably already observed.

Konark Gupta
Scotiabank Global Banking and Markets, Research Division

Okay. And just a clarification on the margin [bridge] side of things. I mean, you said 50 to 70 bps of underlying expansion before commodities. But are there any headwinds that are embedded in that 50 to 70 bps like from Chiquita maybe or is there any like tax offsets that are swinging in the direction?

Mary Anne Whitney
Executive VP & CFO

No. We're talking about EBITDA margin drivers. No, there's no anomalistic headwinds that are out there. As I said, we've lapped some of the outsized improvements that drove even greater underlying margin expansion, and we continue to work on all the same things, so we'd look forward to unlocking even more margin expansion, but I think this is the right way to guide.

Operator

Your next question comes from the line of Toni Kaplan with Morgan Stanley.

Yehuda Silverman
Morgan Stanley, Research Division

This is Yehuda Silverman on for Toni. Just a quick question on strategy. So the comments you made about how Chiquita is being affected by being in Los Angeles and California being the difference between that and other ETLF events. Does that change your strategy at all of where you might want to operate in terms of more politically friendly areas? Is that something that's already factored in? Or is this just sort of a one-off situation?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. Well, it's clear, we'd rather operate only in jurisdictions that have a more friendly business environment, but we are obviously in 45 states, so that bed is already decided. I certainly wouldn't pursue owning an additional landfill in California in the next 200 years. But other than that, no, it doesn't change anything.

Operator

Your next question comes from the line of Kevin Chiang with CIBC.

Kevin Chiang
CIBC Capital Markets, Research Division

Maybe just one here on your Eastern region. A lot of good color on what you're doing with Arrowhead. You're rolling out the franchises in the New York zone. Does that change the structural margin profile of the Eastern region? Those seem like there would be tailwinds to profitability? And then just broadly on Arrowhead, does the potential merger of UNP or Union Pacific and Norfolk Southern, does that change how you think about the growth opportunities within Arrowhead if you're partnering up with a much bigger railroad there?

Mary Anne Whitney
Executive VP & CFO

I'll start with the margin commentary regarding our Eastern region. Certainly, around the edges, as I mentioned, increased internalization does help margins, but more broadly, the Eastern regions margins are dictated by the high transfer and disposal expenses that are just inherent in that market. So that will never change.

You can improve around the edges and look for ways to optimize within that market, and you've seen us do acquisitions that help on that front in terms of optionality. But no, I wouldn't encourage you to think about a major step change in the margins of the Eastern region beyond that.

And then, Ron, I think...

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. What I would say, Kevin, no, I do not necessarily believe that the franchise of New York City or the franchising model of the New York City market becomes necessarily a tailwind. What I do think, however, is it becomes a much more stable, less volatile market because it is a very competitive market up until now. And so you have large swings. So I think it becomes a much more stable projectable investable market than it has been in the past where you can have a swing of a collection margin that goes from 10% to 6% to 20% in a 3-year period.

And now I think what you have is you have a very tight bandwidth of margin performance for the most part at very good margins at sort of company average type margins on an integrated basis.

Mary Anne Whitney
Executive VP & CFO

And I think Kevin had also asked about the Norfolk Southern merger.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. And look, I don't think -- I mean, I think it's too early to tell what will happen in the UP NS merger. I think we're quite a ways away from understanding whether that will happen and if it will happen, what will be the guardrails put around that. We have a very long-term agreement with Norfolk Southern that the combined company would be honoring. So we're not concerned about it in that way. Could it open up additional opportunity because of the connectivity between those two? Well, that's certainly a possibility, but not something we've yet explored.

Operator

Your next question comes from the line of Tony Bancroft with Gabelli Funds.

George Anthony Bancroft
Gabelli Funds, LLC

Congratulations on doing great work, Ron and Mary Anne. My question, maybe you could opine a little bit here, Ron, on -- you talked about automation and AI, but maybe a little further down the road thought of self-driving. Obviously, your largest part of your cost structure is -- a very large part is your labor and all the driver tightness and your focus -- the industry's focus on safety.

You've seen, obviously, some recent reports about the improvements and safety on self-driving. Have you ever talked to -- ever thought about it, tested, done anything, maybe having either doing like a leasing self-driving. It seems it could be a great market for taking people off the truck and more safety even if the person stays on the truck and then you just have that added safety and technology there. Just want to get your thoughts on that.

Ronald J. Mittelstaedt

Founder, CEO, President & Director

Yes. I mean, Tony, number one, I mean just to say that we've done anything in that arena, I mean, would be misleading because we have not. Do I think it is something that could potentially occur in the waste industry? Absolutely. I think it is potentially there. As you know, there's mixed views depending on where you are and what you look at on the self-driving vehicles. It's obviously happening in some markets today. So the technology is certainly there.

But I will tell you, Tony, as you know, I'm on the board of a publicly traded airline, and I can tell you that you can -- for the last 7 to 8 years, you can push a jet back from the jetway, taxi to the runway, take off, fly to your destination city, land and open the door with no one in the cockpit. I'm not sure anyone is getting on that plane.

So there's still pilots in every day. So there's this theoretical could this occur? And then the reality of when a car gets in an accident, that's bad. But when a garbage truck hits something, it's catastrophic. And so even if it could, I still think you would have professionals in the cab there for those reactionary scenarios that occur if something malfunctions, exactly the reason airlines have pilots today.

It's not because they can't do it without it. It's because of the 1/10 of 1% that happens that they protect everyone from. And I think garbage truck would be the same way. But it's certainly something we will look at as the technology evolves. We're always, as are our peers always looking for ways to improve the safety aspect of the business, the efficiency, the customer improvement. So -- but I think it's quite a ways out. And we look forward to the day if that opportunity arises where we can improve it, but it's not there today.

Operator

Your next question comes from the line of Tobey Sommer with Truist.

Henry Stephen Roberts
Truist Securities, Inc., Research Division

It's Henry on for Tobey. Great to hear the labor turnover numbers and where those are to start the year. Could you just give us an update on the driver academies? What percentage of new driver hires you expect to pass through those in the coming year? And how much of an incremental benefit that could have on labor turnover throughout the year?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. Thank you for asking that question. So when we opened our academies one at the beginning of '24 and one at the end of '24, we felt that if we could get to approximately 35% of our driver need per year being internally developed at our academies, we would consider that a tremendous success. We achieved that number in '25. And for '26, we are forecasting that 60-plus percent of our driver need will go through 1 of our 2 academies, so far exceeding our expectations.

Now that's a twofold function. That's because we've reduced turnover quite dramatically. So the need for new drivers isn't as high. But the second, and more important thing, is the retention rate through our academies is almost double the retention rate of those that don't go through our academies. And we also thought that would happen. But we didn't think it would be quite as good as it has been, however.

So we're getting a double sort of whammy, and that's what's helped decelerate improved turnover so quickly. Do we ever think that gets to 100%? Probably not. But if it could stay in this above 50% range per year, sort of what we call being internally developed and trained, we'd be very happy.

And as I said, we believe that number will be north of 60% this year. So, so far, that -- and again, what is that yielding and we're working through getting the statistics to support this. But we believe that the drivers that go through our academies, number one, the turnover is lower, we know those little direct linkage between turnover and tenure and safety. And so we think as we look out through this year into next year, the linkage will show that those drivers we internally develop tend to have better safety performance statistics as well. So that's sort of where we are there.

Henry Stephen Roberts
Truist Securities, Inc., Research Division

Great. That's great to hear. And then just if we could just quickly circle back to core pricing cadence over the course of the year. You expect a pretty steady step down kind of sequentially during 2026. And how much visibility do you guys have at this point in the year on the full year guidance for pricing?

Mary Anne Whitney
Executive VP & CFO

Sure. So as is typical, you should expect pricing to step down sequentially. So obviously, if we've talked about 5% to 5.5%, you'd start north of that, maybe 6% and drop down over the course of the quarter to something less than that to average that number in the middle. And in terms of visibility, as is typical in our model, by the time we're through -- by the time we report Q1, we'll have visibility on 65% or 70% of our price increases. Most of the competitive piece will be done. And then we'll have known amounts for our CPI-linked markets. So pretty typical for us in terms of the visibility. We're a company that stops talking about price really after April.

Operator

There are no further questions at this time. I will now turn the call back to Ron Mittelstaedt for closing remarks.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Okay. Well, if there are no further questions, on behalf of our entire management team, we appreciate your listening to and interest in the call today. Mary Anne and Joe Box are available today and to answer any direct questions that we did not cover that we are allowed to answer under Regulation FD, Regulation G and applicable securities laws in Canada.

Thank you, again, and we look forward to seeing you at upcoming investor conferences or on our next earnings call.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.