S&P Global
Market Intelligence

Waste Connections, Inc.

NYSE:WCN

Earnings Call

Thursday, July 23, 2026 1:30 PM GMT

Call Participants

EXECUTIVES

Mary Anne Whitney
Executive VP & CFO

Ronald J. Mittelstaedt
Founder, CEO, President & Director

ANALYSTS

Aadit Lall Shrestha
Stifel, Nicolaus & Company, Incorporated, Research Division

Andrew Azzi
Wells Fargo Securities, LLC, Research Division

Bhaven Shah
RBC Capital Markets, Research Division

Bryan Nicholas Burgmeier
Citigroup Inc., Research Division

Christina Johanna Wefers Bettink
BNP Paribas, Research Division

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

Faiza Alwy
Deutsche Bank AG, Research Division

James Joseph Schumm
TD Cowen, Research Division

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

Jonathan Mark Windham
UBS Investment Bank, Research Division

Kevin Chiang
CIBC Capital Markets, Research Division

Konark Gupta
Scotiabank Global Banking and Markets, Research Division

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

Patrick Tyler Brown
Raymond James & Associates, Inc., Research Division

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

Tobey O'Brien Sommer
Truist Securities, Inc., Research Division

Toni Michele Kaplan
Morgan Stanley, Research Division

Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Waste Connections, Inc. Q2 2026 Earnings Call. [Operator Instructions] I will now hand the call over to Ron Mittelstaedt, President and CEO.

Ron, please go ahead.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Okay. Thank you, operator, and good morning, everyone. I'd like to welcome everyone to this conference call to discuss our second quarter results and increased outlook for 2026. I'm joined this morning by members of our senior management team, including our CFO, Mary Anne Whitney, who will first provide 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 in our July 22 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 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 Ron.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Okay. Thank you, Mary Anne. We are extremely pleased by the strength of our first half performance, which positioned us for an increase to our full year 2026 outlook with momentum for upside from improving trends in commodities and ongoing acquisition activity. Q2 growth of over 6% in both revenue and EBITDA exceeded our expectations in spite of the macroeconomic effects related to ongoing uncertainty in the geopolitical environment. Our results reflect continued benefits from both multiyear improvements in employee retention and record safety performance and more recent investments in AI technology, all underpinned by disciplined operational execution. Most notably, adjusted EBITDA margin expanded to 32.8% on a 70 basis points of underlying margin expansion, overcoming cost pressures primarily from rapidly spiking fuel and related costs in addition to ongoing drags from lower commodity values compared to last year's Q2.

Solid waste organic growth from total price of 6.7% in Q2 included core pricing of 5.6% plus fuel and material surcharges of 1.1%, which outpaced our expectations. On average yield of 4.6%, volumes were down 1.9% reflecting the ongoing macroeconomic uncertainty, which has limited growth in the solid waste activity. Further, recent elevated fuel costs have impacted the pace and magnitude of construction-related activity some of which was paused during Q2.

In addition, customer sensitivity to higher overall pricing resulting from fuel-related surcharges, likely exacerbated churn in certain markets. Acknowledging these dynamics, while special waste tons were down year-over-year in Q2, we have been impressed by activity in July, which may be an indication that the slowdown was temporary.

Additionally, we were encouraged to see C&D tons up year-over-year in Q2 for the first time in 10 quarters, with some projects continuing thus far in Q3.

Looking at other lines of business, we saw a slightly elevated seasonal ramp in E&P waste revenue in Q2, up 12% from Q1 and up 18% year-over-year. Organic E&P waste growth was led by the U.S., up 7%, following a nominal pickup in rig count. Activity in Canada while more production-oriented and, therefore, consider less sensitive to crude values was down nominally but about flat year-over-year with normalized for an outsized remediation project in the prior year.

Looking next at trends for other commodities in Q2. Recycled commodity revenues stepped up sequentially for the second consecutive quarter with the overall basket up 10% to 15% from year-end. Landfill gas sales have also improved, stepping up sequentially by 15% from Q1 as a result of both higher gas generation and higher values for renewable energy credits, or RINs.

Looking at our renewable natural gas projects we're pleased to report progress ahead of our expectations on the remaining development projects in 2026. Coming into the year with about 1/3 of our RNG portfolio already operational, we have come through start-up and ramp production at several other projects, including one owned facility brought online in July.

R&D capital outlays are on track to be essentially complete by year-end, and we expect that all plants will be operational by early next year. We're also tracking in line with our expectations with respect to the impact from managing the elevated temperature landfill or ETLF event at Chiquita Canyon landfill. As we described last quarter, we continue to make progress mitigating the reaction, which is stable, controlled and decelerating. There is no change to our projections regarding related free cash flow impacts to 2026 or our expectations for sequential decline in impact in '27.

Moving next to M&A. As expected, year-to-date, we have completed acquisitions totaling approximately $100 million in annualized revenue, and we have another $30 million of exclusive model franchise transactions and anticipated to close very soon during Q3. With almost half the year still ahead of us and dialogue ongoing, we remain on pace for what we would call another above-average M&A year. We've also remained active buying back our own shares in what we consider an opportunistic environment. In our busiest year ever, we've deployed approximately 692 million year-to-date and bought back over 1.5% of shares outstanding pursuant to our normal course issuer bid, which authorizes the repurchase of up to 5% of shares annually at which we will be renewed in August.

Following an active first half of the year, our leverage remained virtually unchanged at 2.76x debt-to-EBITDA. As such, we retain flexibility for acquisitions and returning capital to shareholders through additional repurchases as well as another increase to our dividend, which we will consider when we undertake our annual review in October.

And now I'd like to pass the call to Mary Anne to review more in depth the financial highlights of the second quarter, to review the elements of our increased full year 2026 outlook and what that implies for the back half of the year. I will then wrap up before heading into Q&A.

Mary Anne Whitney
Executive VP & CFO

Thank you, Ron. In the second quarter, revenue of $2.562 billion exceeded our expectations and was up $155 million or 6.4% year-over-year. Contributions from acquisitions net of divestitures totaled $46 million in the quarter. Organic growth in solid waste collection, transfer and disposal was led by 5.6% core price, which range from about 4% in our mostly exclusive market Western region to 7% in our competitive regions.

Total price of 6.7% included 1.1% in fuel and material surcharges or approximately $25 million which represents the majority of the incremental direct costs in the quarter. We remain on track for full year core price at or above 5.5%, with pricing for 2026 largely complete or otherwise known. And expect to fully recover higher fuel costs over time through surcharges with the timing determined by the pace and magnitude of changes in diesel pricing.

Yields of 4.6% was consistent with Q1 levels and continues to reflect the benefits from our AI price optimization tool deployed late last year. And solid waste volumes were down about 1.9% reflecting the following year-over-year results in the second quarter on a same-store basis.

Roll-off pulls were down 2%, similar to recent quarters on rates per pull up 5%, which is about 150 basis points higher than in the past several quarters, primarily resulting from surcharges. With the exception of our Western region, pulls were down in all regions on sluggish construction activity and likely reflect some price volume trade-off following increased surcharge activity, a trade-off we're comfortable taking.

Landfill tons were essentially flat, reflecting flat MSW and special waste down nominally on tough comparisons with C&D tons up 1% halting the downward trends we've noted and led by a 10% increase in our central region, where we highlighted strong special waste activity in Q1.

Adjusted EBITDA for Q2, as reconciled in our earnings release, was $840.1 million, up 6.8% year-over-year. At 32.8% of revenue, our adjusted EBITDA margin exceeded our expectations and was up 10 basis points year-over-year, driven by 70 basis points underlying margin expansion offset by about a 40 basis point drag from fuel and another 20 basis points drag from lower commodity values.

Our outsized underlying solid waste margin expansion reflected favorable price/cost spread dynamics in spite of additional cost pressures indirectly related to fuel and was magnified by benefits from employee retention and safety, most notably savings in risk management costs, which accounted for about half of our underlying margin expansion.

And finally, year-to-date adjusted free cash flow of $703 million was in line with our expectations and consistent with our full year 2026 outlook for double-digit growth in adjusted free cash flow per share. Year-to-date capital expenditures of approximately $600 million, up more than $100 million year-over-year were also in line with our expectations.

CapEx outlays to date are following a more normalized cadence than last year when the pace of spending reflected slower progress on RNG projects and delayed fleet deliveries.

I will now review our updated outlook for the full year 2026 and provide some thoughts about what that implies for the back half of the year. 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 underlying economic trends. It 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.

Looking first at our updated outlook for the full year is provided for and reconciled in our earnings release. Given the strength of our performance in the first half of the year and updating for recent values for recycled commodities, RINs and fuel as well as acquisitions completed to date, we are increasing our full year 2026 outlook as provided in February as follows: Revenue is now estimated in the range of $10.02 billion to $10.05 billion, up $100 million to $120 million from February. Adjusted EBITDA for the full year is now estimated in the range of $3.33 billion to $3.34 billion, up from a range of $3.30 billion to $3.325 billion, putting full year margin in the range of 33.2% to 33.3%.

As Ron noted, there is no change to our expectations for adjusted free cash flow for 2026 in the range of $1.4 billion to $1.45 billion including impacts related to closure at Chiquita Canyon landfill in the range of $100 million to $150 million and capital expenditures of $1.25 billion. The closing of additional acquisitions would provide upside to our increased 2026 outlook as with further improvement in commodities and related activity.

Further movement in fuel prices and the timing of recovery of higher fuel costs will also continue to impact results.

Looking next at the quarterly margin cadence. Adjusted EBITDA margin in the second half of the year is expected to average about 33.7% as implied by our full year outlook and could exceed 34% in Q3 depending on fuel and other commodities in the quarter. As noted earlier this year, the toughest quarterly comparisons during Q4 when we would expect a more typical seasonal step down in margin than we experienced in 2025.

And now let me turn the call back over to Ron for some final remarks before Q&A.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Thank you, Mary Anne. As we have said, we're extremely pleased with our first half results and our increased outlook for the year. We believe the most challenging quarter for fuel recovery is behind us, and we see potential foresight ahead from improving commodity related trends and incremental acquisitions. Along with the benefits we've enjoyed from improved employee retention and record safety performance, we've already seen the potential to unlock opportunities in AI-driven projects impacting our operations. And we're reaching the inflection point on the outlays impacting our free cash flow conversion, most notably our RNG facilities moving from a CapEx headwind this year to a tailwind from contributions from operations next year along with a continued decline in cash closure outflows at Chiquita Canyon landfill.

In short, we're set up for double-digit adjusted free cash flow per share growth in 2026 and already looking ahead for more of the same in 2027. The consistency and projectability of our industry-leading results despite the macroeconomic backdrop reflects our differentiated approach is ultimately a testament to operational excellence and fundamentals that define us.

Safety, integrity and customer service, all make Waste Connections, a great place to work. And we are most grateful for the dedication of our 25,000-plus employees, which is what truly sets us apart. We 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 Tyler Brown with Raymond James.

Patrick Tyler Brown
Raymond James & Associates, Inc., Research Division

Ron, I want to maybe pack a couple of questions into one. But first, I just want to kind of come back to the competitive landscape. So I'm just curious, is the move in fuel causing some increases in churn? And what I mean by that are the smaller haulers who maybe don't have sophisticated surcharge mechanisms using your move in surcharges maybe as a pathway into new customers? And is that, frankly, different than what you've seen in the past? Or is there any bigger changes in the competitive landscape?

And then two, Mary Anne, just what is the rollover impact from M&A in '26? And would there be any lingering left over in '27 based on what's closed?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

So Tyler, I'll take the first part. Tyler, number one, I would say that we're not seeing anything different than historical with regard to fuel surcharges and churn activity. There's probably some nominal increase in the competitive activity because of the pace of this increase in fuel. We went from $60 to over $120 a barrel in a very short period of time, time that would typically take 6 to 8 months, took 4 to 6 weeks. And so the strategic -- the public companies reacted very quickly, as I think you see and we'll see. And the private companies were at lower. They'll take 3 to 9 months and eat it. And use that as some competitive inroad.

So I would say it's just that this was such a fast spike is what probably makes it look a little different. Longer this wears on, the less difference between those public and private companies will happen. So it's not anything material, but it probably accounted for an additional 10 to 15 basis points of volume churn in the quarter related to that.

Mary Anne Whitney
Executive VP & CFO

And then in response to the second question, even though you're violating the rules Tyler, I'll be brief. But acquisition contribution, the rollover contribution to next year would be about $30 million. The increase to our full year outlook included an increase of about $50 million associated with '26.

Operator

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

Kevin Chiang
CIBC Capital Markets, Research Division

Just one on -- we're hearing a lot more on -- in Canada, nation building projects more energy infrastructure projects. And I guess when I think of your R360 Canada operations, just how you think that might benefit from this increased CapEx? And maybe how many auto facilities do you have today that maybe could be reopened if activity does pick up in Western Canada here?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Sure. Well, Kevin, to the second part of your question first, there's still 2 to 3 idle facilities that can be reopened of the original 5 from when we acquired the secure divested assets up there. And in February 24. We -- and so that would be the first part.

And look, we -- there's a lot of discussion, as you know, better than we, in Canada of increased energy production, various export pipeline construction from the country and throughout the country. And obviously, we think we're extremely well positioned to benefit from that if and when it happens, And from all the operations that we've got there. But we have not yet seen that. As we said in our comments, it's been -- Canada was relatively flat but coming off a very strong comp in Q2 of last year.

Operator

Your next question comes from the line of Faiza Alwy with Deutsche Bank.

Faiza Alwy
Deutsche Bank AG, Research Division

Ron, you made some comments around the macro environment and the fact that you've been impressed with activity in July indicating that the slowdown is temporary. So maybe talk a little bit more about that is that did you see a broad-based pickup? Did the competitive environment improve? So just give us a little bit more perspective on what you saw a difference -- what you're seeing differently in July versus what you saw in 2Q?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. Well, first off, Faiza, I mean, we don't want to overgeneralize. We had 3 weeks or so of July so far. But we have seen some continued pickup in both special ways and in several of our regions of C&D, MSW has been up nominally so far for the last 4 consecutive weeks, which is an improvement relative to the May, June time frame. Some of that can be timing, it's hard to understand.

I mean, as you're hearing from other industrial service providers and equipment providers, there does seem to be an accelerating pickup in rental equipment and construction-related equipment demand and activity, which would indicate that, that is coming we tend to probably lag because it takes time for that to happen to start generating waste. But we're cautiously optimistic, but we have not baked any of that into our guidance that was just provided for the second half of the year.

Operator

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

James Joseph Schumm
TD Cowen, Research Division

Could you just help me with the Chiquita accounting. You had a $58 million impairment there. Is that -- like I thought Q1 was sort of a true up. And then -- so is that impairment reflective of the 2Q spend? And could you just give us an update on where you are in the Chiquita spend year-to-date versus your guidance?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Okay. So I'd be happy to take that, Jim. So first off, no, that is not indicative of the Q2 spend. What this is, is the matching of the closure accrual liability to the projected run rate cash flow outflows, okay? So as we move along, we true that up but there is no change at all to our $100 million to $150 million of cash outflows in 2026 and the stepping down of those in '27 and again into '28. This is purely the matching of the liability to the run rate is what that is. It's the difference between cash and GAAP accrual accounting.

James Joseph Schumm
TD Cowen, Research Division

Got it. Okay. And Ron, would you be able to say where you're tracking year-to-date versus the $100 million to $150 million guidance?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Well, we're tracking probably somewhere between the middle, $125 million and $150 million at this point in time, but comfortable in that range for the full year.

Operator

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

Konark Gupta
Scotiabank Global Banking and Markets, Research Division

Mary Anne, just wanted to dig into the underlying margin trends for you guys. I understand obviously the comps are changing every quarter. But just seeing this trend where your underlying margin, I think, expanded about 150 basis points in Q4 of last year. And then we saw 110 in Q1 now '17 Q2. Is this deceleration in underlying margin expansion purely on the comps? Or is there something else we should be thinking about as well as we look into the second half?

Mary Anne Whitney
Executive VP & CFO

Sure. It really is about comps and what we've communicated with respect to the benefits from the employee retention and safety-related margin drivers that we said there would be about 100 basis points, and then we came back around and said it's probably even north of that. And that the final piece would be the risk component, which would lag and you've now seen 3 quarters of 30 to 40 basis points benefit from risk. In addition, you saw the benefits from internalization -- last year, we talked about the benefits at Arrowhead. For instance, we were internalizing more tons than our disposal costs were going down.

So it really is just that we are now lapping or anniversary-ing those -- and as you point out, Q4, I would argue, was analytic because you had such had 100 basis points benefit just from between disposal and risk in Q4 last year. And so that's why when we described the more typical step down, it really is with seasonality, and that will impact Q4 as we expected when we gave our guidance at the beginning of this year, we're just reminding folks of that sequential decline that you'll see.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

And also last year in Q4, you anniversaried the closure of the Chiquita landfill. So that was a sequential step as well. So again, it is just comps, as Mary Anne said.

Operator

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

Toni Michele Kaplan
Morgan Stanley, Research Division

I was hoping you could talk about free cash flow and the investments that you're making into fleet and landfills, R&D and also, whether the Chiquita outlays are relatively straight line across the quarters or if there's more sort of seasonality in some of the quarters versus others?

Mary Anne Whitney
Executive VP & CFO

I would say, first of all, with respect to the second part, I wouldn't place too much emphasis on exactly what outlays are in a given quarter, it can be lumpy for a variety of reasons. For modeling purposes, probably fine to do it kind of straight line with respect to the Chiquita piece.

More broadly, to your question about CapEx. As we noted in our prepared remarks, our spending is kind of in line with our expectations in terms of CapEx. We just pointed out that it's up year-over-year largely because of delays last year. And I'd say it's really ordinary course where you'd expect us to be -- you'd expect us to be investing in fleet and building out our landfills, which always the bulk of CapEx in any given year.

Beyond that RNG, which you asked about, we've mentioned that there were $75 million in R&D that we expected this year and the update is we expect to spend that amount. And therefore, we expect that what's left on RNG in '27 would be de minimis. We're essentially done with those CapEx outlays that we've talked about over a multiyear period. And it is one of the drivers for the inflection in free cash flow in '27, the absence of continued CapEx in R&D and the benefits from those projects coming online, which we've mentioned, we've already started to see this year which we factored some of that into our expectations coming into the year, and it's exceeded that, which is, again, one of the other drivers for the pickup in EBITDA over -- from our previous guidance.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

And Toni, I would just add that look, you're always going to have in the second and third quarter, you're going to have your landfill construction projects, capital and your facility construction project capital because you cannot do that in the winter months. And so we're going to put more truck purchases in the first, second and beginning of the third quarter to offset and manage that flow more evenly and to get the trucks delivered early in the year to our field to impact the P&L in variable and safety. So that's sort of how we think through how CapEx flows.

Operator

Your next question comes from the line of Bryan Burgmeier with Citi.

Bryan Nicholas Burgmeier
Citigroup Inc., Research Division

Just on the updated outlook for 2026. I was just wondering if you can maybe frame your expectations for cost inflation just for wages, maintenance repair, other items. Just maybe what do you expect now versus the original guide in February? Just kind of thinking about that net price driven margin expansion and how we should be modeling that in the second half?

Mary Anne Whitney
Executive VP & CFO

Sure. The observation that I'd make -- first of all, in our guidance, we've maintained the underlying solid waste margin expansion in the range of 50 to 70 basis points. There's no change to that expectation. Really all that changed is we're acknowledging that fuel is a little more punitive than certainly we knew coming in, in February, it's down 20 to 30 basis points. And commodities are offsetting a portion of that because they've improved. So what that tells you about the underlying margin expansion is I would say that we're actually outperforming our original expectations because we'd acknowledge that there's cost creep in a number of areas indirectly related to fuel, anything that's being delivered to us is more expensive than it was before you saw that spike in fuel.

So broadly speaking, we came into the year thinking that cost pressures are kind of in that 3.5% to 4% range. And the primary driver, of course, is wages, but these other pressures have creeped a little. And I'd say wages have behaved in line with our expectations, which is that the year-over-year increases. We're moderating slightly as we move through the year.

Operator

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

Andrew Azzi
Wells Fargo Securities, LLC, Research Division

This is Andrew Azzi on for Jerry. I just wanted to start off maybe with if we could outline some of the AI initiatives that are running through '27. Would you be able to walk us through where each of the initiatives are kind of sitting in their life cycle now and the EBITDA contribution captured to date?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. Well, I'll take them in some broad buckets for you, Andrew. In '25, we fully deployed our AI linked what we call pro pricing -- commercial pricing tool, and that is fully deployed by the fourth quarter of '25 and has yielded about $20 million of EBITDA improvement on a run rate basis at this point through '26. So that's number one.

We are putting in what I would call a dynamic, real-time AI-driven algorithm for routing. And we began beta testing or pilot testing that in late Q2 of '26 and that is not set to be fully deployed until the end of '27. So really not impactful to the P&L until '28. And as we go through '28 and '29, we expect roughly $40 million, maybe up to $50 million of route-related savings from that initiative as we come through '28 and '29.

And then we are beginning in the end of Q3, beginning in Q4 of this year, '26 what we -- is some AI technology we are putting in some angentic AI into our customer service approach and a mobile application for customers, particularly residential customers, and that will not be, again, being deployed until the second quarter of '27 and will be fully deployed as we come through the early part to the mid part of '28.

And again, we're expecting probably somewhere in that $20 million to $35 million initial cut is the impact from EBITDA. As we said, we're investing about $100 million in the AI-related technologies across 7 programs. And we expect about $100 million or 100 basis points, which is about the same of improvement in EBITDA as we come through '28 into '29.

Andrew Azzi
Wells Fargo Securities, LLC, Research Division

I really appreciate all the quantitative breakout. That's great to hear. I guess, secondly, on special waste tons. We've seen a lot of improvement as of late. Can you talk about some of the verticals that are driving that strength? And how you think about the durability of the contribution to both volume and margin into '27?

Mary Anne Whitney
Executive VP & CFO

Well, what I'd say is that we mentioned last quarter that we saw a pickup in special waste. We mentioned this quarter that there was actually a slowdown, which is a reminder that it can be lumpy. And that, as we've said, perhaps that the spike in fuel put a little pause on some projects, but that the demand is out there. And ultimately, it will come to market.

I'd say keep in mind that it's a very small piece, a couple of points of revenue is what special waste is, but it's more about the indication of the underlying economy and the fact that there's some cyclical growth, which we just really haven't seen.

And then similarly, C&D tons, as we said, they were positive really for the first time in a couple of years, and that's encouraging. And it's not a surprise that it's in our central region where we saw high special waste in Q1, which should be an indicator of construction and demolition debris in subsequent periods.

Operator

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

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

Maybe just taking a stab and thinking about cash flow conversion as we go into 2027. And you've referenced the fact that you've got some normalized spending coming lower RNG, maybe Chiquita rolls off. How should we be thinking about between the margin improvement that it will start to develop and some of these things coming off. How do we think about the cash flow conversion? Is there anything unusual to be thinking about as we start entering that period?

Mary Anne Whitney
Executive VP & CFO

Chris, obviously, it's early days to be talking with any specificity about '27. We'll look forward to giving guidance. But what we know now is that we have visibility on the RNG spend, and so that's $75 million. And so that informs our thinking. And we also have reiterated that the Chiquita outlays will be less in '27 than they were in '26. So again, those 2 pieces on their own certainly take us north of the 41% to 42% free cash flow conversion you see in the current period and gets us more in the direction of where we'd expect to land, which would be in that 48% to 50%, which is historically where we've been, but for some periods where we were anomalistically higher we've gotten as high as 52% or 53%, but we would encourage people to think of more normalized being 48% to 50%.

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

Okay. And so there's no real expectation for special spend or anything like that. In fact, kind of it feels like '27 is shaping up to be the first of a normal year and maybe a few in a row, is that the right way to kind of frame it or think about it?

Mary Anne Whitney
Executive VP & CFO

That's fair. I mean we've mentioned the AI spend continues. Again, that's not a big number, but ongoing spending there. But no, I think your observation that the lumpier piece, which was specifically RNG is behind us.

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

I just had one on PFAS. I think there was a recent announcement about a new treatment facility you're working on at one of your landfills in North Carolina. I think you have a few other treatment plants that are other land folks do. So question is, how are you thinking about being proactive and getting ahead of regulations versus being reactive?

And can you just talk about the economics of building an on-site treatment plant versus sending leachate elsewhere and kind of the return on that capital?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. Well, Trevor, I mean, I think the opening of a treatment plant in the Carolinas that we talked about and that you're referencing is an example of trying to be proactive versus reactive. It is an example of rising leachate costs at POTW related to PFAS and other requirements that are being put on by state and federal regulators. And so knowing that, this is something we've been doing for 4 to 5 years, quite honestly, we deploy multiple mobile relatively inexpensive technologies that depends on which one we use basically separates the PFAS and solidifies it through a foam fractionation process allowing us to ultimately bury it in the landfill and clean the leachate to a point of acceptable discharge.

So this is an internal -- these are internal projects. We're not out there marketing the third parties that we will send landfills in surrounding areas that we have to this one and use it sort of the hub to treat PFAS.

And it's ultimately sort of a hedge against a rapidly rising leachate treatment costs at POTWs that is going on everywhere.

We recognized this many years ago and started investigating and investing and deploying these technologies. So we have these at several of our sites, you'll see them continue to come at several more. There's sort of a normal course of CapEx at this point in time for us, and they drop that treatment cost relative to third party quite significantly.

Operator

Your next question comes from the line of Saba Khan with RBC Capital Markets.

Bhaven Shah
RBC Capital Markets, Research Division

This is Bhaven on the line for Saba. My question was more related to M&A activity. You already noted that you're going to have an outsized year. Can you talk a little bit about the type of assets that are in your pipeline, kind of what's in the market today and what the cadence is for the back half of the year?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Sure. Happy to. I mean, obviously, the cadence will be determined by seller timing and getting through consents and the other typical closing procedures. But I think if you imagine that we've already talked about, there's an additional $30 million that we'll be closing here over the next few weeks of exclusive franchises, there'll be additional that close throughout Q3 and then a normal course that will close in Q4, getting us to north of our sort of outsized year or minimum year, I would say. These are all typical singles and doubles, Waste Connections, deals in solid waste.

There may be some 1 or 2 small E&P deals in there in either Canada or the U.S., but these are traditional solid waste steels, nothing varying from that. They are in both our competitive and our exclusive footprint, they are collection and transfer and processing and in some cases, disposal. So what I would just sort of call down the middle of the fairway, M&A deals for Waste Connections that is, we believe, compounds and creates the most value over time.

So nothing abnormal coming in the pipeline, the balance of this year or in the foreseeable future.

Operator

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

Tobey O'Brien Sommer
Truist Securities, Inc., Research Division

I wanted to get your perspective on rail opportunities and how that integrates into the network. You've got experience in that arena. And I wanted to get sort of your nearer-term and longer-term perspectives for how much that is going to grow as a component of your business?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Sure. Happy to, Tobey. Well, first off, as we've said for quite some time, rail is today a fairly geographic-centric modality that is being used predominantly off the upper northeastern seaboard due to both limitations of available landfill capacity and expansion and the economics of higher tip fees in that region.

So that continues to be the primary driver. We've grown our Arrowhead landfill rail network over the last 2 years by effectively 300% now, and all of that is moving off the eastern seaboard from sort of New Jersey north through our intermodal facilities, and we'll continue to grow that as we go forward.

I mentioned on last quarter's earnings call that we would begin a rail project in the Southeast. It is specific to Florida. It's specific to some disposal incineration issues that happened down in Miami-Dade County and us and one of our public peers have been awarded long-term agreements to take volumes north of Miami in True North Central Florida on rail at our landfills. We began that in mid- to late Q2 and it's continuing to start to ramp in Q3 as we speak, and we'll continue to do so throughout the balance of the year as that operation becomes smoother and the customer receives more and more railcars from the supplier.

So it's an opportunity that's now in the lower Southeast due to a unique situation. You don't really see it being an opportunity in other geographies today. It has been an opportunity in the Pacific Northwest for a long time for about 25 years now, 1/3 of the Waste in the upper Northwest moves via rail. That will continue to expand over time. So this is never going to grow to be an enormous portion of our business, but it certainly is a small portion that is growing nicely at this time.

Operator

Your next question comes from the line of Aadit Shrestha with Stifel.

Aadit Lall Shrestha
Stifel, Nicolaus & Company, Incorporated, Research Division

Just on the core pricing yield spread, I think that improved again like sort of 30 bps from 1Q. 1Q was around 130 bps. This quarter, it was around 100 bps I understand there could be a mix kind of factor impacting that. But could you just talk about maybe like the spread going forward, if this is sort of a reasonable expectation. And what makes your business so unique that so -- and the spread being so much about some of your peers, which we usually report closer 200 bps?

Mary Anne Whitney
Executive VP & CFO

Sure. So with respect to the sequential differences, I would attribute those to mix. I would say that what you have always in the -- of course, the difference between core price and yield. Will be mixed and not just mix by line of business but also mix by geography, dramatically different wins and losses in different markets, for instance, in the eastern part of the country versus the Southeast.

The other point being churn, which we said churn is an impact, and so I wouldn't encourage you to think that something improved in Q2 versus Q1. In fact, we pointed out that we think the introduction or the increase in fuel surcharges has probably increased or exacerbated the churn we were seeing in the business. And I really can't speak to our peers and what they see in their business. But we would always remind folks that our strategy is purposeful in thinking about the competitive intensity of markets and the ability to retain price. And so you would expect that as it has historically to impact how much price we keep which is what you see in yields.

Operator

Your next question comes from the line of Christina Bettink with BNP Paribas.

Christina Johanna Wefers Bettink
BNP Paribas, Research Division

This is Christina on for Seth Weber. So just one quick one for you guys. Could you update us on the Seneca Meadows expansion that was filed recently earlier this month? And where you guys kind of see the permitting time line from here? And how you guys are thinking of managing the aerospace and volumes at this site in the meantime, whether it be by rail or truck?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Sure. Let's take the second part of that first. We are managing the air space there to make certain that we have adequate airspace for customers, external as well as internal until we are able to get the expansion permit and construct the first expansion airspace. We are doing that both by rail and truck. We're moving some of our volumes out of Seneca down by rail through our network to Arrowhead and elsewhere to help manage those time lines.

And so most of the volume into Seneca, of course, is all by truck.

Secondly, the process is moving along well. We've had some very important recent legal victories and rulings and regulatory rulings in our favor. In fact, all of them at this point in time. And so we feel very good about it. But we're still working our way through a state technical process on the permit. And we would expect that relatively soon. but you're probably looking at somewhere closer to the end of this year or thereabouts for final achievement of that is our current expectations.

There can be nothing guaranteed about this. This is a technical process. It is also -- there's a political process involved in it. But the vast majority of the political and legal process we are through at this point in time.

Operator

Your next question comes from the line of Jon Windham with Union Bank of Switzerland.

Jonathan Mark Windham
UBS Investment Bank, Research Division

Nice result, nice raise on the guidance. My question is around interest rates. The 10-year has been sort of steadily trending upwards. The way I've thought of a rising interest rate in the past, is it further enhances your funding advantage compared to private players, which could be helpful about pricing and to M&A. Ron and Mary Anne, I would love your thoughts on the impact of a rising rate environment.

Mary Anne Whitney
Executive VP & CFO

Jon, yes, I wouldn't disagree with you that we always feel good about being well positioned with respect to our balance sheet, our access to low-cost capital. We do think it is a differentiator. And certainly, as between public and private, privates are more impacted when you see rates rise. And so I would agree with that. So it is a competitive advantage to us.

But the other factor that I'd point out is what interest rates do, for instance, to the more cyclical component of the business and the fact that, that could be something discouraging growth and development, which leads to more volume. So there, we'd be like everyone else and that the overall macro is arguably impacted by interest rates as well. So a double-edged sword.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. And I would say, Jon, to your comment, you are accurate. Look, we have always talked about there are at least 3 factors outside our control that help improve or decelerate external M&A from private companies. Rising interest rates help but they help for reasons different than you might think. They help because sellers perceive they can take their after-tax proceeds and reinvest in low volatility investments and derive the same or better lifestyle than taking it from their company. They can't do that in a low interest rate environment.

So it helps in that way. Secondly, a rising tax rate helps because sellers fear of sitting and neutral on a net basis even after they grow their business several years. So that's an accelerant dropping -- lowering taxes is the reverse. And then the third is the macro economy. -- sellers want to sell in a rising macroeconomic environment when they believe their business has a fair and full value. So those are 3 things outside our control, and that's how it affects M&A.

Operator

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

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

Ron, Mary Anne, Joe and team. Just going back to capital allocation. You spent, I think, $51 million on undeveloped land in your existing facilities. That's the first time in 6 years. Anything strategic associated with that, that you could help us understand that for landfill expansion or something else? Maybe just give a little color there. And then the follow-on was just the incremental RNG contribution next year since you're already pacing ahead of your expectations for this year?

Mary Anne Whitney
Executive VP & CFO

Sure. So I'll start with the undeveloped land. No, that is strategic and it's opportunistic. -- episodically, we have the opportunity to buy something for future development. And it's an example, in this case, of future development for facilities as opposed to landfills in a market in Florida that's been growing as a result of acquisition and other impacts. And there's a unique opportunity real estate-wise. So an expensive real estate market with limited opportunities. And so that's what you saw in the $51 million purchase there.

Secondly, with respect to R&D, the way I think about it is we've talked about this $100 million to $150 million in contribution and kind of bucketed in third and that we're on the second of the third. So kind of 2/3 of the way in this year is what we're expecting. And so when we communicated in our outlook for the full year, we stepped it up partly because we're getting a little more call it, in the order of $15 million to $20 million more in contribution from RNG this year, then we had factored into our full year guidance.

And so the way we think about it, it leaves the final 1/3 next year. And I would also say final third with a little better margin contribution because PAUSE we're absorbing a lot of the start-up costs this year, and so it's less impactful from a margin standpoint.

Operator

Your next question comes from the line of Stephanie Moore with Jefferies.

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

Sorry about that, I was indeed muted and then my headphones died. Welcome to the beginning of earnings season, I think one question, I think we keep getting quite a bit would just be on underlying volume performance. I think there's a lot of moving pieces when you think about just what the overall healthy the economy is doing, maybe even just industrial economy and then also I think, what is the industry's actions to be really concerted about which type of volumes you bring on.

So maybe just to level set, how should we think about just the underlying volume growth of the industry with all those things and taking into account as you think over the next several years?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Sure. Well, I mean, there's a lot of parts to that question you answered. As I'll try to answer them. As clear as we can. First off, historically, Stephanie, I would tell you that, look. There's only 2 things that affect the underlying volume growth since everybody has what our industry does, whether they be commercial, residential or otherwise. And that is true GDP spending nonfederal government spending in GDP and population growth. So where are we in that cycle right now?

Population growth is effectively 0, actually perhaps negative. And GDP in Q2, non-government spending was about 1.3%. So you start with -- you can't be much better than 1% in total volumes if you're -- with that, if there's a little bit negative population growth. If you look at our Western region. Remember, that's 100% exclusive. We get every drop of waste in our franchise. And a customer cannot use anyone else residentially, commercially, industrial, manufacturing and construction. We had 1% volume growth in Q1. So that's about as good as it gets in this economic environment.

Last year, that range had growth of 2.5 to 3. So it did step down some at least as that as an indicator from last year at this point. That region typically runs between 2% and 3.5%. So if you're getting everything, which doesn't happen in competitive markets, that's where your cap is. The public companies, the strategic companies have been very consistent on price/cost spread and not being all things to all people. There are segments of this business that the private are very good in. They live on a 5% to 10% EBITDA margin. That is not a margin the public companies are looking at.

And so the public companies are not pursuing a residential subscription. They're not pursuing low-priced HOAs and municipal residential contracts. That's where the privates are getting a lot of their growth, both small privates and private equity companies. And we're happy to let them have that. That's not a business that we could convert to a 30% to 35% EBITDA business.

So you're going to see that volumes are going to be somewhat flat to negative unless there's a macro change. And I think the market would see that's okay. If margins are moving up and volumes are nominally negative, you should be happy. If margins are moving backwards when volumes are negative, will then there are some trade-off happening that's not worth it. That's not where we're at as a company or as an industry on the publicly traded side, I would argue. So again, not all EBITDA is created equally and not all volumes are created equally, and we don't want all volumes. And I think that's really important to understand.

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

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 to answer any direct questions that we did not cover that we're able to cover under Regulation FD, Regulation G and applicable securities laws in Canada. Thank you again, and we look forward to connecting with you at an upcoming investor conference or on our next earnings call.

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