

Waste Connections, Inc. NYSE:WCN

FQ3 2026 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ3 2026-			-FQ4 2026-	-FY 2026-		-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE	CONSENSUS
EPS Normalized	1.52	1.58	▲ 3.95	1.38	5.66	NA	NA
Revenue (mm)	2608.42	2638.08	▲ 1.14	2516.42	10061.81	NA	NA

Currency: USD
Consensus as of Oct-22-2026 10:07 AM GMT

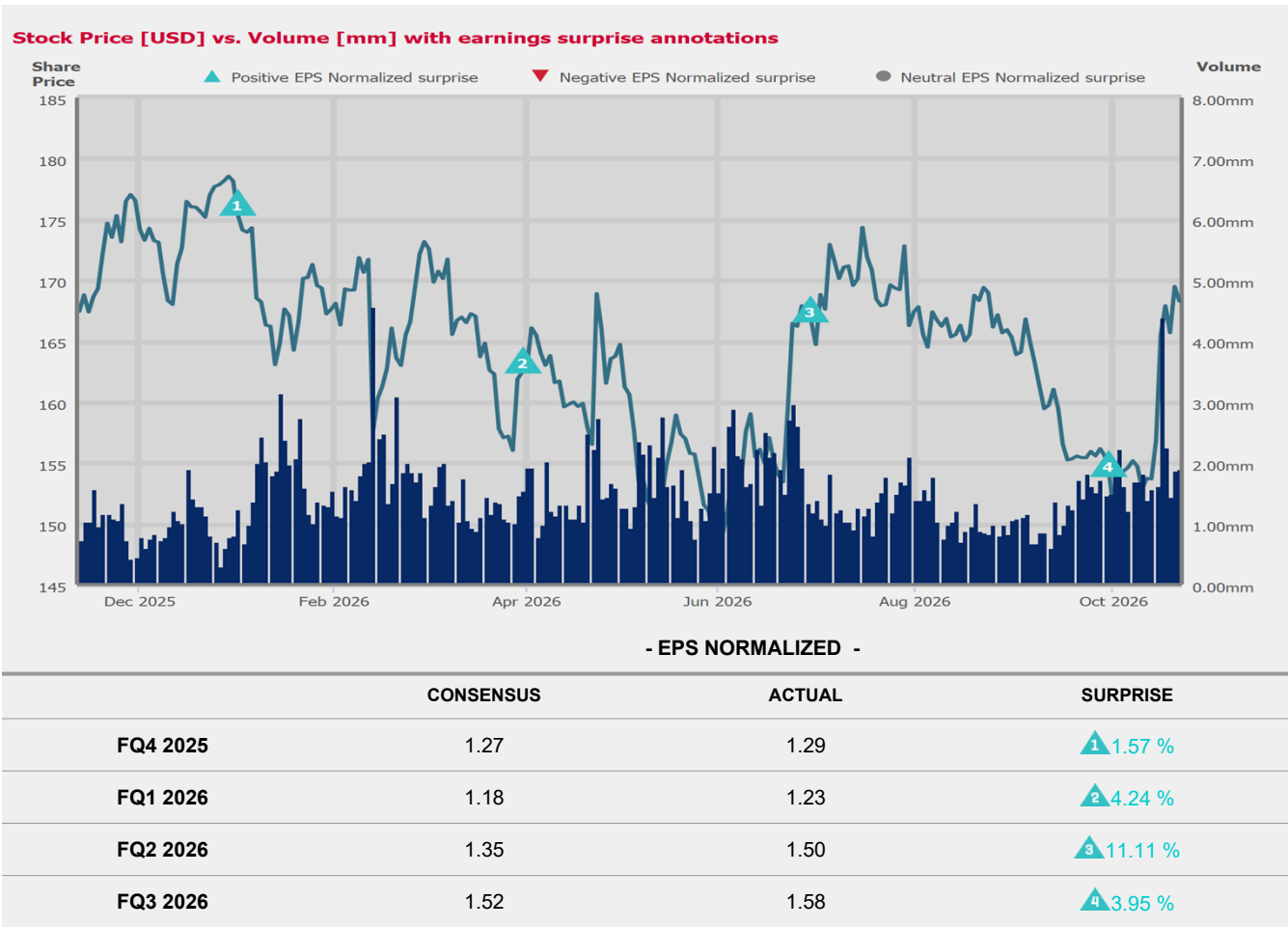


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Executive VP & CFO

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Founder, CEO, President & Director

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Waste Connections, Inc. Q3 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

Thank you, operator, and good morning. I would like to welcome everyone to this conference call to discuss our third quarter results and increased outlook for 2026, along with some thoughts about the setup for 2027. I am 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 included in our October 21 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

Thank you, Mary Anne. We are extremely pleased to deliver third quarter results above expectations, setting up another increase to our full year outlook and demonstrating once again the durability of our model regardless of the macroeconomic environment. Most notably, underlying margin expansion of 50 basis points drove adjusted EBITDA margin of 34% despite surging diesel costs late in the quarter.

Solid waste organic growth in Q3, including core pricing of 5.5% plus fuel and material surcharges of 1.3%. On average yield of 4.3%, unit volumes declines eased to 1.2%, a sequential improvement of 70 basis points from Q2, primarily as a result of a pickup in more cyclical landfill volumes, with Q3 special waste up 7% year-over-year and construction and demolition debris up 5%. We are also encouraged by trends in our other lines of business.

We saw continued strength in E&P waste revenue, up another 6% sequentially and in certain recycled commodities, including OCC, where values have improved in each of the past 3 quarters to now up 35% from year-end levels.

Additionally, we are benefiting from increased renewable natural gas generation from the new facilities we have brought online as we have discussed earlier this year. Moving next to M&A. Year-to-date, acquisitions of \$130 million in annualized revenues include 2 West Coast solid waste collection franchises closed during Q3. The pipeline remains robust with dialogue ongoing that will result in the closing of additional transactions later this year or early in 2027. With liquidity of over \$1 billion and leverage remaining at about

2.75x debt to adjusted EBITDA, we continue to have capacity for outsized acquisition activity while funding our growth strategy, sustainability-related projects and expanding our return of capital to shareholders.

As announced yesterday, our Board of Directors authorized a 10% increase to our regular quarterly per share cash dividend, our 16th consecutive double-digit increase since the initiation of our dividend in 2010. Year-to-date, we have completed record levels of share repurchases totaling over \$1 billion or 2.5% of shares outstanding as we have and will continue to take an opportunistic approach to buybacks.

Additionally, as highlighted in our recently released 2026 sustainability report, we remain on track to achieve our long-term aspirational sustainability-related targets. Since 2018, we've invested over \$500 million in sustainability-related projects and are benefiting from the expansion of our network of renewable natural gas facilities and the introduction of enhanced automation in new and existing recycling facilities.

Moreover, we continue to enjoy the results from 3 years of improvement in employee retention and most importantly, record safety performance. Our continued progress and ongoing investments in sustainability-related projects reflect our commitment to the environment, our employees and the communities we are truly privileged to serve.

We consider these efforts an enduring part of our corporate culture rather than a program with a defined endpoint as we view sustainability as integral to our strategy for long-term value creation. And now I'd like to pass the call to Mary Anne to review more in depth the financial highlights of the third quarter, our increased full year 2026 outlook and what that implies for Q4. I will then provide some preliminary thoughts about 2027 before heading into Q&A.

Mary Anne Whitney
Executive VP & CFO

Thank you, Ron. Third quarter revenue of \$2.638 billion exceeded our expectations and was up \$180 million or 7.3% year-over-year. Contributions from acquisitions net of divestitures totaled \$53 million in the quarter. Organic growth in solid waste collection transfer and disposal was led by 5.5% core price, which ranged from below 4% in our mostly exclusive market Western region to above 6% in our competitive regions. Fuel and material surcharges of approximately \$30 million or 1.3% stepped up sequentially from Q2 by about 20%, reflecting higher diesel costs in Q3, and they will continue to be impacted by the pace and magnitude of changes in diesel pricing.

Yields of 4.3% on solid waste unit volumes down 1.2% reflect the following year-over-year results in the third quarter on a same-store basis. Roll-off pulls were down about 2.5% on rates per pull up 5.5%. Consistent with activity in recent quarters, pulls were down year-over-year in all regions, except in the Western U.S., where pulls were up 2.5%. Landfill tons were up 3% on rates per ton up about 4%.

Q3 reflects a step-up from Q2 when landfill tons were effectively flat year-over-year, and it represents the first quarter in the past 2 years during which all 3 waste types showed year-over-year improvement, MSW, C&D and special waste. Activity was led by strong special waste and C&D tons, along with a nominal increase in MSW. Special waste was up 7% in Q3 on multiple jobs across many geographies, ranging from New York and Pennsylvania in the Northeast to Oregon in our Western region. C&D tons were up 5% on similarly widespread increases, most notably in our Southern region, led by Texas and in California and the West.

Looking at other lines of business, as Ron noted, E&P waste revenue continued to ramp during Q3. Year-over-year organic growth of about 5% was led by a 9% increase in the U.S., most notably in the Permian, where rig count has increased by about 10% since early this year. Activity in Canada, while more production-oriented and therefore, considered less sensitive to crude values remained about flat year-over-year when normalized for an outsized remediation project in the prior year. Moving to other commodity-related revenues.

Recycling revenues were up about 12% year-over-year, driven by higher OCC values, particularly offset by ongoing weakness in plastics. Landfill gas sales were up 35% year-over-year due to the combination of higher volumes from new RNG facilities and higher values for RINs, up about 10% year-over-year to an average of about \$2.50. Adjusted EBITDA for Q3, as reconciled in our earnings release, was \$895.8 million, up 7.9% year-over-year. At 34% of revenue, our adjusted EBITDA margin was up 20 basis points year-over-year. Excluding a margin drag of about 30 basis points for higher fuel costs, underlying adjusted EBITDA margin was up 50 basis points.

Said another way, adjusted EBITDA margin would have been 34.3%, excluding fuel impacts. Once again, our outsized underlying solid waste margin expansion reflected favorable price/cost spread dynamics magnified by benefits from employee retention and

safety, most notably savings and risk management costs. And finally, year-to-date adjusted free cash flow of \$1.09 billion was in line with our expectations, and we remain on pace for full year 2026 outlook of at least \$1.4 billion.

Given our outperformance in Q3, along with higher fuel costs and expected recovery thereof as well as incremental contributions from acquisitions and commodities, we are increasing our full year 2026 outlook as reconciled in our earnings release to revenue of approximately \$10.09 billion and adjusted EBITDA of approximately \$3.345 billion or 33.2%. This implies Q4 revenue of about \$2.52 billion and adjusted EBITDA margin of 33.3%, up 20 basis points, excluding fuel, about as expected in what we knew would be our toughest quarterly comparison versus the prior year period. Our outlook assumes no change in underlying economic trends.

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. With that, I will turn the call back over to Ron to provide some preliminary thoughts about 2027 before we head into Q&A.

Ronald J. Mittelstaedt

Founder, CEO, President & Director

Thank you, Mary Anne. As we've said, we're extremely pleased once again to raise our outlook on the strength of our operating and financial results in spite of the magnitude of unexpected headwinds from record diesel rates and ongoing daily macroeconomic uncertainty.

The consistency and visibility of our results, most notably in a challenging year like this one are a validation of the differentiated market selection strategy that has guided Waste Connections since inception 29 years ago, along with our decentralized operating philosophy. We're most grateful for the commitment and dedication of our over 25,000 employees as we recognize that superior execution by empowered local leadership has been and will continue to be a true differentiator. Given the level of engagement of our workforce, we're excited by the early indications from AI-driven applications focused on our operations recognizing that these returns on these technology investments will be most fully realized by teams knowing how best to put them to use.

We're proud of the results we've delivered to date in 2026 and our positioning as we exit the year. In fact, from an operational standpoint, we feel about as good as ever. We've recovered higher fuel costs faster than expected and delivered outsized underlying margin expansion on record safety performance, while also managing the reaction at Chiquita as we expected, bringing new RNG facilities online and integrating another \$130 million in acquisitions year-to-date. We've also returned record amounts of capital to shareholders through opportunistic repurchases and continued double-digit per share dividend growth, all while maintaining low leverage, setting up for continued growth and free cash flow generation. In short, we've honored our commitments.

And regardless of market sentiment, we will maintain our focus on what ultimately drives value creation as we continue to lead the industry in adjusted EBITDA margin and true free cash flow generation. To that end, although we will not provide our formal outlook for 2027 until February, we are able to provide a high-level framework, assuming no change in the current economic environment.

On that basis, we should be positioned for mid- to high single-digit revenue growth in 2027 from the combination of about 1% combined rollover from acquisitions already completed and RNG facilities brought online in 2026, price-led organic growth in solid waste, ongoing fuel and material surcharges and higher commodity-related revenue from E&P waste and recycling along with acquisitions that we will complete during the remainder of '26 and throughout 2027.

Adjusted EBITDA margin expansion in what we would consider a normalized range from solid waste with outsized impacts from higher fuel costs at recent levels expected to be largely offset by increased commodity-related tailwinds depending on the timing and extent of surcharges and double-digit growth in adjusted free cash flow per share, reflecting the continued declining impact from spend on Chiquita and the substantial completion of our RNG CapEx outlays.

These expectations will be impacted by the pace and magnitude of ongoing acquisition activity in '26 and expected to grow during 2027 as we complete additional M&A. To the extent that we see further improvement in commodity values, those impacts would also be additive to these preliminary thoughts as would ongoing share repurchases. We look forward to providing more detail when we report Q4 and give our formal outlook for 2027 in February. 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 Kevin Chiang with CIBC. Please go ahead.

Kevin Chiang

CIBC Capital Markets, Research Division

Good results there. Thanks for the framework for 2027 there, Ron. I was wondering if we can get a little bit more color on how you think the cadence of free cash flow conversion trends as we look out maybe into '27 and beyond. You talked about some of the things that have burdened that free cash flow conversion in the last couple of years and some of that does get released in 2027. So if we look at the conversion in '26 is -- and ultimately getting to like a high 40% number, is there a way to frame kind of how 2027 might look as we progress along that journey?

Mary Anne Whitney

Executive VP & CFO

Kevin, it's Mary Anne. In terms of free cash flow, obviously, the piece that we haven't gotten specific on is the extent to which the Chiquita outlays decline, which, of course, we'll provide in our February outlook. But what we do know and made clear is that the RNG spend is substantially complete.

So if you think about that, we said we'd be spending about \$75 million this year. And so that largely doesn't repeat. That's one bucket. And then again, we'll get specific with Chiquita, but we're looking forward to being able to communicate what the expected decline is in '27 versus '26, the same way we communicated the decline in '26 versus '25. So stay tuned for that. As you said, we think longer term, we ultimately get back to that 48% to 50%. We're around 42%. So you start bridging that gap, but a little too early to get really specific about where we fall in that range.

Ronald J. Mittelstaedt

Founder, CEO, President & Director

Yes. And Kevin, the only thing I would add.

Kevin Chiang

CIBC Capital Markets, Research Division

That's helpful.

Ronald J. Mittelstaedt

Founder, CEO, President & Director

The only thing I would add is, look, I think the step down on Chiquita from 25 to 26 is exactly in line with as we guided. And I think you can expect a similar type step down for '27.

Kevin Chiang

CIBC Capital Markets, Research Division

That's helpful. And just a follow-up question. I noticed in your 10-Q this morning that the Eastern region had a higher risk management cost. It looked like every other region saw a decline in the prepared comments in the 10-Q. Just anything to call out on the Eastern region from a risk management cost perspective that made it an outlier in Q3?

Mary Anne Whitney

Executive VP & CFO

No, there's nothing to call out. What happens is episodically when a claim gets paid out, it actually hits the region. And so you might -- you see that dynamic in the quarter when that happens.

Operator

Your next question comes from the line of Noah Kaye with Oppenheimer & Co. Inc. Your line is open. Please go ahead.

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

Maybe just looking at 4Q, it looks like in the guide, the revenue growth would decelerate sequentially by about 1 point. And so I guess between the higher surcharges, better commodities and other trends, maybe just understand why 4Q top line growth wouldn't be comparable to 3Q? Any offsets we should be thinking about, just conservatism?

Mary Anne Whitney*Executive VP & CFO*

Yes. I'd say, Noah, we enjoyed the benefits of that sequential improvement in volumes and all waste streams at our landfills being positive for the first time in several quarters. So a little too early to assume that, that continues. So that would just, I guess, to your word, maybe a little conservatism there. You also know that there's always anomalous differences year-over-year. And although you didn't specifically ask about margin, a reminder that last year's Q4 was our -- it will be the toughest quarterly comparison, and it was strong on a relative basis.

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

Okay. Just a quick follow-up to that. Any sign of slowing from the trends in October versus some of the pickup that you saw in the third quarter?

Mary Anne Whitney*Executive VP & CFO*

The only observation would be that while special waste has continued to be positive, and we never generalize from a few weeks of data, but it's good to see that special waste continued to be positive in October, we didn't see a similar increase in C&D. Reminder that these projects are sensitive to things like interest rates and fuel costs, and they're lumpy.

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

Yes. Just a quick one on '27 margin expansion. I think Ron normalized for solid waste, and of course, for perspective, I mean, the solid waste margin expansion in the business on an underlying basis has been outstanding the last several years. A lot of that has been driven by the safety gains, the retention improvements.

You've talked about the AI initiatives, providing some additional fuel for better margins going forward. And so I'm just wondering how much is baked in for margin expansion underlying in '27 from AI versus sort of normal course WCM blueprint?

Ronald J. Mittelstaedt*Founder, CEO, President & Director*

Sure. Yes. Noah, I mean, in that commentary on normalized underlying, we have assumed no benefit or no incremental benefit in '27 is baked in from AI at this point. That's not saying some cannot happen. As you know, we experienced some in '25 and '26 from our initial initiative, which was a pricing initiative, and that has exceeded our expectations. We will -- the main 3 initiatives that tie together that we are working on throughout this year and in through next year will really not be fully deployed, a couple of them until the end of '27 and one of them until the middle of '28. So the real beginning impact of the AI initiatives margin-wise, we'll start to see in '28 and not really realize fully until probably '29.

Operator

Your next question comes from the line of Faiza Alwy with Deutsche Bank. Your line is open. Please go ahead.

Faiza Alwy*Deutsche Bank AG, Research Division*

I wanted to ask a little bit more about how you're thinking about 2027 volume and pricing trends. I know that you're probably assuming that fuel prices stay where they are. But just curious how we should think about core price versus volume? And if you're assuming that volume trends sort of normalize, stay flat or still potentially decline in '27?

Mary Anne Whitney*Executive VP & CFO*

Faiza, we're really not getting granular on all the moving pieces. But clearly, it's cost pressures that inform our thinking about how much price is needed. So we will certainly continue to look at what we're seeing in the business and we know where we've been this past year. And to the extent that there's not a material change, it feels like the right ballpark for the way to think about pricing. And we certainly are encouraged by the -- what our tools have done for us in terms of retention, but we're mindful of the pressure on consumers. So all of those things will go into our thinking, but we're generally would think of that 150 basis point spread between price and cost. So that's why I started with cost. And we'll go from there. But early days to get too granular.

Operator

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

Adam Samuel Bubes

Goldman Sachs Group, Inc., Research Division

On the M&A front, I think you've acquired \$130 million of revenue year-to-date. More broadly, if we look at years prior to 2026, say the 5 years prior, it's characterized by really outsized acquisition activity. Is this sort of \$100 million, \$200 million annual acquired revenue contribution a more reasonable assumption going forward? Or do you see potential to return to the higher levels of activity seen in prior years?

Ronald J. Mittelstaedt

Founder, CEO, President & Director

Yes, Adam. Well, historically, number one, as you know, we don't guide to acquisition revenue and haven't for 2 decades now. But \$150 million to \$200 million was sort of a historical probably 5 to 10 year ago average. We have stepped that up as the size of the company and the geography has changed in 2 countries, et cetera. So I would tell you that \$200 million is sort of probably a more normalized low watermark now, whereas before, it might have been more of a high watermark.

And no, you're going to -- there's -- nothing's changed in the strategy or the opportunity. Acquisitions are opportunistic and timing and sellers really control that, not us as acquirers. So it will be very likely as you look out over a 3- to 5-year period that it will look much more similar to the -- pick it the '22 through '25 time frame than different from that.

Adam Samuel Bubes

Goldman Sachs Group, Inc., Research Division

Great. And then on Chiquita, it's nice to hear that it's trending as expected. Are you able to provide any color on sort of the key remediation processes that still need to occur through 2026 and 2027. Just trying to get a sense from an operational standpoint, what needs to happen at the landfill for the liability to be resolved?

Ronald J. Mittelstaedt

Founder, CEO, President & Director

Yes. I mean, number one, Adam, the remediation at Chiquita is following what we would tell you and I think experts in the field would tell you, including the EPA, a typical curve of a decelerating ETLF okay? And there's a lot of statistics that support that. And those go into what we know about the cost structure. Obviously, as the reaction cools with time, you get less leachate generation.

Therefore, you have less leachate disposal cost. And you have less infrastructure such as wells to do cover to put down over the reaction area, et cetera. So we began by covering some 41 acres with a geosynthetic membrane. We've expanded that and buffered what we call the west toe of the landfill this year.

That doesn't repeat as an example, going into '27. So that's an example. We don't drill additional wells per se. We've drilled some 300 wells I'm not saying that can't go up 5%, but it's not going to go up 100. So those are the things that inform our thinking about why it continues to decelerate. So really, the main costs are related to leakage management. And as that continues to come down in volume, the costs come down, put very simply. And that has happened in '26 over '25, and it will continue to step down in '27.

Operator

Your next question comes from the line of Toni Kaplan with Morgan Stanley. Your line is open. Please go ahead.

Toni Michele Kaplan

Morgan Stanley, Research Division

I was hoping you could talk about volumes in special waste and C&D and maybe also in the past, you've had some shedding of contracts more in the resi space and want -- just wondering if you could provide an update there.

Ronald J. Mittelstaedt

Founder, CEO, President & Director

Sure. I'll start with the second part of your question, Toni. There -- we continue to see some decline in the amount of shedding. As was a previous question asked, I believe, by Adam, we had quite a bit of M&A activity in '23, '24 and '25. And so it takes multiple years to come up upon contracts that you may not want to renew. So I'm not saying shedding is certainly that's always happening, but that is declining. And I think Mary Anne will give some color on the first part of your question.

Mary Anne Whitney

Executive VP & CFO

Sure. So special waste, I mentioned in the prepared remarks that they were broad-based and called out the Northeast, Oregon, Texas, California in terms of volumes more broadly. And looking -- digging into the types of projects we've been seeing, it's not one particular thing. It's everything that ranges by geography but what's going on there. So you've seen highway projects, infrastructure projects, remediation, data center and chip plants, yes, in some markets like in Texas and commercial projects.

So it really, really runs the gamut. What's encouraging is that broad-based nature of it and the fact that, for instance, 60% of our locations had positive special waste tons in Q3 and 4 of 6 of our regions were up. And that's in comparison or in contrast to last quarter, only 2 of 6 were up. So that's the way I would characterize it. That's the incremental color I can provide, Toni.

Ronald J. Mittelstaedt

Founder, CEO, President & Director

Yes. And Toni, the only last thing I'd say on that is on the C&D front and the commercial front, look, historically, in our industry, it's taken about 1.5 million to 1.8 million new housing starts to create organic volume in that business, which then converts to permanent volumes.

As you know, this week, that number has been announced. It stepped down to 1.2 million new housing starts and expect it to go lower with current interest rates into '27. So I think there is one economy going on with things like Mary Anne just outlined, infrastructure, data center, et cetera. And then there's a residential construction that is just really is sort of struggling with what's going on with interest rates and fuel costs and the other thing that affect consumers and contractors.

Toni Michele Kaplan

Morgan Stanley, Research Division

And then on E&P, just high energy prices for a little while now. How are you thinking about the upside there maybe going into year-end as well as potentially next year as well?

Ronald J. Mittelstaedt

Founder, CEO, President & Director

Yes. Well, look, I mean, as we said, E&P continued to step up sequentially once again after stepping up in the second quarter again. So it has continued to improve in both the U.S. and Canada, more so in the U.S. because it is more drilling oriented in the business versus production in Canada.

But I think you have to understand that producers are not going to react to what they believe is a short-term stimulus. And we have an on again, off again hourly war in Iran and the Strait, and that is a short-term believed phenomenon. So you've seen about a 10% increase in drilling activity this year. Some people would think with a 70% increase in crude, you'd see a like increase in drilling. You would, if it was believed that was a permanent scenario. That is not the belief of most of the producers at this point in time. If it becomes 6 months from now, it's sustained, now it's going on 1.5 years, that could change that dynamic.

Mary Anne Whitney

Executive VP & CFO

And Toni, what -- the way I would frame it is when we think about next year, we think that there should be a higher correlation between the pickup in activity in E&P and crude. So said another way, to the extent that crude remains at these elevated levels, we would expect to see more. We'd say what we've seen year-to-date, even though it's ramped sequentially, really doesn't reflect \$100 crude.

That's just rig counts are still down. They started declining in the first quarter of '24 and have stepped down, and they're still down about 50. It's only up 10% since earlier this year. So that's how we think about it, and that's what we are communicating with those broad strokes about next year.

Operator

[Operator Instructions] Your next question comes from the line of Jerry Revich with Wells Fargo. Your line is open. Please go ahead.

Jerry David Revich

Wells Fargo Securities, LLC, Research Division

I'm wondering if you could just talk about the internalization rates and nice to see that 58% in the quarter. You've made good progress on Arrowhead. Can you just update us on where volumes are tracking on rail for you now and looking ahead over the next 12 months as we exit '27, obviously, a range of possible outcomes, but can you talk about where volumes for the landfill could head to and what that means for your internalization rate 12 months from now?

Ronald J. Mittelstaedt

Founder, CEO, President & Director

Sure. I mean you're referring, Jerry, I believe, fully to our Arrowhead infrastructure, Arrowhead landfill and our rail infrastructure. Look, we're peaking right now between 7,000 and 7,500 tonnes a day. which is triple where we started less than 3 years ago, 2.5 years ago. So we're very, very pleased with that. We have continued to work on infrastructure at our intermodal facilities, which is some of what's required to step that up again. We believe that as we look out over the next 24 months, it's reasonable for us to step Arrowhead up to 8,500 to 9,000 tons and ultimately, at some point, get that number higher.

But that's obviously -- that takes incremental track and other facility enhancements at both the transfer station and intermodal end and the landfill. So -- and then as we mentioned, we began a rail project in the end of the second quarter in the Miami-Dade County area, going into one of our Florida landfills. That stepped up in the quarter nicely and will continue to ramp into '27.

So we definitely have more volume moving on rail in the third quarter than we've ever had, and we expect that to make incremental improvements as we go forward. Again, as we've mentioned, rail is a sort of a unique geographical modality. It's not something I think you're going to see in most parts of the U.S., but in the upper Northeast and a few places like Southern Florida, that's where you're going to see this grow.

Mary Anne Whitney

Executive VP & CFO

And Jerry, if I could just add one more comment about internalization because you started there, just more broadly. You should think in terms of -- we're at 58%. I know last quarter, we were at 60%. The difference there is just the mix of business. And so you should expect us to stay in this 58% to 60% range. That's really no change in internalization. And to that point, our Eastern region has actually increased its internalization. So it's not -- there's nothing else going on there.

Operator

Your next question comes from the line of Konark Gupta with Scotia Capital. Your line is open. Please go ahead.

Konark Gupta

Scotiabank Global Banking and Markets, Research Division

Just wanted to get back to the 2027 margin outlook. I understand you'll probably provide some more color in February on that. But directionally, Mary Anne, if I'm thinking this right or wrong, let me know, please. So for '27, I mean, usually, you guys see 20 to 40 bps of underlying you've talked about in the past. And this year, we have seen that trend to the low end on a net basis because of fuel, I think, probably, though we saw some commodity price rebound.

But next year, I mean, if the expectation from the market is let's say, fuel to kind of normalize to some degree, should that be a small tailwind maybe and then commodity prices, the way they are tracking up now, should that also be a tailwind? And then your RNG EBITDA dollars will likely ramp up, which are higher margin. So I'm just thinking the 20 to 40 is your standard normal range of margin expansion. Should we be thinking more towards the higher end of the range? Or should we be somewhere in between because of some other factors?

Mary Anne Whitney

Executive VP & CFO

Sure. So it's early days, but we would consider fuel continuing to be a headwind. And that's why we're saying, look, underlying cost pressures, we feel comfortable thinking in terms of ex fuel that 20 to 40, as you said, is the right way to think about it, but we continue to see headwinds from fuel and the expectation is that to the extent they do persist, that there should be some correlation between those commodity-driven revenues, which would absorb some of those incremental pressures. If fuel breaks and it's lower, then it could be a tailwind. But again, what do those other commodities do? So that's why we framed it this way that the expectation that one would support the other.

Operator

Your next question comes from the line of Jim Schumm with TD Securities. Your line is open. Please go ahead.

James Joseph Schumm
TD Cowen, Research Division

So I was -- just wanted to talk about the M&A a little bit more. So it sort of slowed down relative to obviously last year's pace. And I'm just kind of curious, is that -- obviously, you're at the mercy of when sellers are willing to sell, right? So I was just curious whether -- is it a function of there's not a lot for sale in 2026? Or does it have more to do with like uses of capital where you feel like your stock price is very depressed and you just want to allocate more capital to buying back stock? Like how are you thinking about that?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. First off, let's break that apart. It has nothing to do with any change or approach to uses of capital. We have adequate, plenty of capital access and liquidity to do both to almost any degree we want. So no one should read into stepping on the buyback with the stock dislocation as a reason that M&A is slower because that is inaccurate. Look, the reality is we are disciplined buyers. It would be great if all the strategics and nonstrategics were that way, but that's not necessarily the case.

So look, not all solid waste is created equal, not all EBITDA is created equal. There's all kinds of what we would consider poor assets that some companies are scooping up. That's not something we're interested in. And we're not out trying to outpay private equity who has more money to put to work on any deal, so they don't have to return it to LPs and continues to be undisciplined.

So when we spend -- when we do less M&A, the market should be happy because that means we were disciplined in that period when others were not. So there's no change to the strategy. The opportunity remains significant. There are timings, M&A ebbs and flows. And you can be sitting here in a quarter or 2, and we're on track for what could be a record '27, and you wonder what happened. What happened was just timing and opportunities and discipline. So that is what I'd tell you. But we have ample capital to do everything we've said we're doing.

James Joseph Schumm
TD Cowen, Research Division

Okay. That's clear. Just a quick clarification question. I know that you guys never guide and include future M&A, as you said. But when you gave the guidance for 2027 revenues, mid- to high single-digit revenue growth next year, I believe you also said that it included future M&A or you said something about future M&A. Can you just clarify, does the mid- to high single-digit revenue growth include any future M&A?

Mary Anne Whitney
Executive VP & CFO

Yes. So just to clarify, we didn't give guidance. What we gave was a framework for thinking about how next year we'd expect it to play out. And so I think thinking about a normalized amount of acquisition contribution is included in that. So yes, if you think of it as kind of that 1% to 2%, which would be normalized amount of contribution. That's in that number.

Operator

Your next question comes from the line of Chris Murray with ATB Cormack Capital Markets. Your line is open. Please go ahead.

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

Maybe just turning back to the energy business and thinking about this a little bit broadly. Ron, you made the comment that there's still a little uncertainty about what the path of energy prices is going to be like. But there is some discussion around the fact that there's been a lot of infrastructure broken in the Gulf, which could see this be kind of longer. I'm wondering, as you're thinking about the energy business and maybe taking half a step back and your positioning in it, I know in recent years, you've added to Canada.

You've got the traditional more landfill-oriented business in the U.S. South. You've added RNG. I'm just kind of thinking about -- as we think over the next 2 to 3 years, what's your perspective on either growing the energy business or changing the mix in the portfolio? And how do you think about the opportunity set around that? Because while it's a smaller piece of revenue, it is a pretty high incremental and decremental margin.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes. Well, look, Chris, I think, look, first and foremost, in both the U.S. and Canada, we are a disposal-oriented E&P company. We don't do transportation. We don't do field services. We're not interested in low-margin, highly competitive pieces of the business. We're predominantly a landfill and processing company in both countries. Canada is production oriented. The U.S. is drilling oriented.

The reason we did that 2 years ago was to balance that portfolio. Right now, E&P is -- again, I'm rounding is going to be 6% to 7% of revenue, a little higher than that because of the margins in EBITDA.

That will continue to grow. We'll continue to do tuck-in deals in both the U.S. and Canada, but it will actually come down over time as a percentage of revenue because the corpus of the other 93% is so large and there's so much opportunity there that it will just naturally come down. And look, we are comfortable with the size of it. If it didn't come down, below 6%, 7%, we're also okay with that. It is a great business, as you said, it's an excellent cash-on-cash return business.

But look, while it's great on the margins, it does have volatility. We acknowledge that. That's why we think that's the right size for it, right? And it can move with crude. So it's again why we like balancing it to 50-50 with the Canadian business we did on the production side. So it's a long-winded answer to your question. I'm sorry, but we're not out there looking for some outsized deal in E&P, and we're not looking to diversify what we do in E&P at this point.

Operator

Your next question comes from the line of Trevor Romeo with William Blair. Your line is open. Please go ahead.

Trevor Romeo

I was hoping that you could maybe go back to volume for a second and dig into the data center opportunity just because I think, Mary Anne, you called it out as being a boost in areas like Texas. But just curious, I mean, is there any way to think about maybe quantitatively how much of a boost data center construction is giving you at this stage? And then just thinking about the growth of data centers that could happen in the next several years, maybe how meaningful that could be for volume growth in the future?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Yes, Trevor. First off, whatever we would tell you, it would be a guess, and it's probably best not to do that. I mean, as you know, while a data center is a huge capital investment, no matter what the size, and has a lot of activity during construction. Once it's actually constructed, they probably produce an 8 yard or a trash a week as they got 10 people. So it's not something that converts into some big commercial or industrial waste or recycling opportunity.

It's more of a front-end construction opportunity. So in markets like Texas, in markets like Virginia, Utah, which we're actually not in, where we're seeing Oklahoma, Tennessee, we're seeing some of this construction of these sites. It is a boost. It comes in sometimes as some special waste, but more as C&D waste on the construction side. But we would just be guessing to try and tell you what that could be. Could it be 20 bps of volume or something? I mean we don't want to sit here and say it's 1% of volume growth or something. If it is, that would be great. But I'd expect it to be more 20 to 40 bps of volume growth.

Operator

Your next question comes from the line of Jon Windham with UBS. Your line is open. Please go ahead.

Jonathan Mark Windham
UBS Investment Bank, Research Division

Congratulations on the results. You touched on interest rates a little bit earlier. Maybe Mary Anne or Ron, at least on my numbers, you don't have a lot of refinancing in 2027. But can you talk about the debt maturity profile and just your approach to refinancing on the debt side?

Mary Anne Whitney
Executive VP & CFO

Sure. So we're about 80-20 fixed to floating with a weighted average tenor of about 8 years and an average cost of debt of about 4%. And no near-term maturities. We'll continue to look -- I mean, we had good timing this year, last year when we put issued notes, and we'll continue to try to be opportunistic, but don't have a lot of exposure.

Operator

Your next question comes from the line of Shlomo Rosenbaum with Stifel. Your line is open. Please go ahead.

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

I want to think -- ask you to think through a little bit and help us out in terms of your expectations for diesel cost generated inflation going into 2027. And -- how are you thinking about that? Are you expecting labor costs to go up because of that, because of the cost of living going up? How are you thinking about potential for customers to push back on pricing because of this? And then just kind of the internal inflation, kind of the second derivative where companies will start to charge you more for the things that they're sending you because of the cost of diesel. If you can just kind of walk us through that and how we should think about that in '27?

Mary Anne Whitney
Executive VP & CFO

Sure. So we're certainly sensitive to the fact that we've talked about the direct impacts of higher fuel that we are buying and third-party fuel surcharges like third-party brokerage. But Shlomo, we're certainly watching carefully and have seen some cost creep that we believe is related to higher fuel. I mean everything that's delivered to us has a slightly higher sticker price now, whether it's parts and materials, building and property, or CapEx, repairs, we are seeing that. I mean the good news is we came into the year well positioned for outsized underlying margin expansion.

So that hasn't been an issue we've highlighted. But it certainly informs our thinking about how much price we need going into next year. And that's why over the next few months, that will really crystallize for us. And then to your question about sensitivity, we've talked about that.

Depending on the market, we believe there is some sensitivity, especially given the fact that smaller players may not have imposed fuel surcharges, for instance. And the good news is we've seen better-than-expected retention and lower rollbacks as a result of our pricing tools. So it's helpful to have smart and more selective price increases that can make a difference as well. But we're absolutely mindful of the incremental pressure that's out there.

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

Okay. And then just if you don't mind, how are you dealing with that in terms of your forward contracts? Because I think historically, you future buy, you use forwards for maybe 50% of diesel, given where prices are, does that still make sense for next year? Or does that kind of lock you into something where it might go down?

Mary Anne Whitney
Executive VP & CFO

Well, there we try to be opportunistic on hedging. And clearly, the past year hasn't given us much opportunity to get locks on for '27. So that's another thing we'll watch and observe because to your point, does it make sense at these levels? Or is there an opportunity to remain floating to take advantage of lower fuel. So we'll continue to evaluate that.

Operator

Your next question comes from the line of [Tammi Sakarya] with JPMorgan India Private LTD. Your line is open. Please go ahead.

Unknown Analyst

So a 2-part question. I think I heard Marianne say that maybe next year, E&P growth could -- should correlate with increased drilling activity. So should we expect E&P to outgrow the mid- to high single-digit enterprise growth framework you mentioned for next year? And then related to RNG, given most of the investments will be largely done by this year, could you remind us what revenue and EBITDA accretion you would expect incrementally in 2027?

Mary Anne Whitney
Executive VP & CFO

So as you can appreciate, Tammi, we've provided a framework for next year. So we're really not getting specific on that. The comment about the correlation to higher fuel was really to make 2 points. One is even though E&P has been up this year, we'd say it doesn't reflect \$100 crude. We've seen some increase in rig count. But again, whatever the reason that there's an expectation that it's not sustained or whatever that reason is, we would argue that we really haven't seen a material increase.

And the observation would be that as we think about next year, we don't know exactly what fuel is going to do, but what we're saying is that we would expect when we gave that framework, it has an expectation that there is a higher correlation. But again, I wouldn't read through that to say that runs contrary to expectations about what percentage of the overall mix it is, et cetera. It's just too early for any of that discussion.

Unknown Analyst

And about RNG related revenue and EBITDA for next year?

Mary Anne Whitney
Executive VP & CFO

Again, what we said was that there would be about a 1 point associated with the rollover contribution from acquisitions and those new RNG facilities. So that implies somewhere around the \$40 million type of range on RNG. And I'd say the margin contribution will be a function of where we really are in start-up and shakedown on any of those newer facilities and to the extent to which costs have normalized. But again, early days to be getting too granular on outlook we haven't yet provided.

Operator

Your next question comes from the line of Tobey Sommer with Truist. Your line is open. Please go ahead.

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

I wanted to ask you a question about Chiquita, but not sort of the near term. But with your experience that you've gained over the last 3-plus years, how would a future event perhaps be different in scope and/or cost as a result of changes you put in place and the learnings that you've accumulated?

Ronald J. Mittelstaedt
Founder, CEO, President & Director

Well, first, I think the answer to that is 2 different things. Number one, it would be different in a material way because it would not be in California. And so that will drop the scope and cost 90% to 95% -- so let's just full stop with that. That's why you don't hear about these anywhere else in the country through the public companies while they're going on in real time in many locations because they're not material.

So this is material because of where it's at. Now what did we learn through this? That would also help drive down the cost of any future ETLF should we have them wherever they would be because we've learned things through this 3-plus year process that we have put in place through centralized well monitoring, incremental more rapid leachate extraction, incremental gas well installation as temperatures rise to a lower level.

And by the way, temperatures rise at landfills for dozens and dozens of reasons that have nothing to do with an ETLF. So the reality is the learnings would drive down the future. But the main driver, if anyone were to happen anywhere, it would be de minimis relative to Chiquita because it wouldn't be in California.

Operator

Your next question comes from the line of Bryan Burgmeier with Citi. Your line is open. Please go ahead.

Bryan Nicholas Burgmeier
Citigroup Inc., Research Division

Mary Anne, maybe just on guidance for '26. So EBITDA guidance, I think, is up maybe \$30 million or so since the start of the year, but free cash flow guidance, I think, is mostly unchanged. Is there just an easy way to kind of explain maybe some of the moving pieces around cash that prevented that flow through? I'm not sure if there's some bigger items or some kind of smaller nickels and dimes along the way.

Mary Anne Whitney
Executive VP & CFO

Yes. I mean, certainly, the biggest change would be interest since we bought \$1 billion -- I spent \$1 billion on share repurchases. So our interest expense has gone up by about \$40 million.

Operator

We have reached the end of the Q&A session. I will now turn the call back to Ron Mittelstaedt for closing remarks.

Ronald J. Mittelstaedt
Founder, CEO, President & Director

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 are allowed to answer under Regulation FD, Reg G and applicable securities laws in Canada. Thank you again, and we look forward to connecting with 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.

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