Waste Connections, Inc.
Q2 2024 Earnings Conference Call
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Officers
Ron Mittelstaedt, President & Chief Executive Officer
Mary Anne Whitney, EVP & Chief Financial Officer

Analysts
Tyler Brown, Raymond James
Kevin Chiang, CIBC
Bryan Burgmeier, Citi
Noah Kaye, Oppenheimer
Toni Kaplan, Morgan Stanley
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Presentation

Operator: Good day, and welcome to the Waste Connections, Inc. Second Quarter 2024 Earnings Conference Call. (Operator Instructions) Please note, today's event is being recorded.

I would now like to turn the conference over to Ron Mittelstaedt, President and CEO. Please go ahead, sir.

Ron Mittelstaedt: Thank you, operator, and good morning. I would like to welcome everyone to this conference call to discuss our second quarter results and an updated outlook for 2024 and to provide a detailed outlook for the third quarter. I'm joined this morning by Mary Anne Whitney, our CFO, and several other members of our senior management.

As noted in our earnings release, solid operational execution supplemented by incremental acquisitions and increased commodity values drove an across-the-board beat in the second quarter, positioning us for an increase to our full-year outlook. Revenue and adjusted EBITDA increased in the quarter by 11.2% and 16.4%, respectively, as price led organic solid waste growth and 100 basis point sequential improvement in volume was augmented by accretive acquisitions. We are extremely pleased by the continued strength of our operational execution during the quarter, including sequential improvement in employee retention as we maintain the strategy that has served to differentiate our results and which positions us for continued outsized growth.

Given the strength of our performance in the first half of 2024, the momentum from continuing trends and contributions from recent acquisitions, we are raising our full-year 2024 outlook to approximately $8.85 billion in revenue and approximately $2.9 billion in adjusted EBITDA, or 32.8% adjusted EBITDA margin, exceeding our initial outlook and up 130 basis points as compared to the prior year.

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

Mary Anne Whitney: 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 discuss both in the cautionary statement included in our July 24 earnings release and in greater detail in Waste Connections' filings for the U.S. Securities and Exchange Commission and the Securities Commissions or similar regulatory authorities in Canada. You should not place undue reliance on forward-looking statements as there may be additional risks of which we are not presently aware or that we currently believe are immaterial which could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances that may change after today's date.

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

I will now turn the call back over to Ron.

Ron Mittelstaedt: Okay. Thank you, Mary Anne.

Revenue growth of over 11% in the second quarter was driven primarily by core solid waste pricing of 7%, which ranged from over 5% in our mostly exclusive market Western region to over 8% in our competitive market regions. Pricing is largely in place for the full year and continues to reflect the resilience of our market model with retention in line with historical levels.

Reported solid waste volumes of negative 2.8% in the quarter were up 100 basis points from Q1 and continue to reflect the ongoing purposeful shedding and price volume trade-offs that we have discussed in previous quarters. That sequential improvement was in line with our expectations despite a limited seasonal ramp impacting most notably special waste tons, which reflect the

more cyclical and event-driven aspects of the business. Special waste tons were down 13% year-over-year in Q2 on reduced or delayed project activity across most regions and are now down 20% from '22 levels, a reminder of the cyclical sensitivity of these speculative and event-driven waste streams.

In spite of these declines in underlying activity levels, we are encouraged by the pace of sequential improvement to reported volumes as we anniversary of the purposeful shedding and nonrenewal of certain contracts during previous quarters. Any pickup in the macro environment to drive incremental activity levels would be additive to that improvement.

Beyond solid waste, revenues also played out slightly better than expected in Q2 with recycled commodities, landfill gas and renewable energy credits, or RINs, collectively up about 40% year-over-year. Recycled commodity values were up around 20% from earlier this year on prices for OCC, or old corrugated containers, averaging about $140 per ton in Q2. RINs averaged slightly above $3, with higher values mitigating impacts from additional costs and delays in the commissioning and startup of the three renewable natural gas plants previously expected to commence operations in Q2. These benefits are now expected to begin during Q3.

Along with better than expected financial results, we saw continued improvement in trends for employee retention. In Q2, voluntary turnover once again stepped down sequentially, now marking our seventh consecutive quarter of improvement. At below 15%, voluntary turnover levels are now 35% below the peaks we saw during 2022, with open positions down 45% from related highs from two years ago. The wide-ranging benefits of reducing open positions include not only better safety incident rates, but also improved levels of service and customer satisfaction along with employee engagement.

To that end, as noted earlier this year, we've also expanded training, including through our two in-house driver academies, where we will be actively engaging both new hires and existing employees along with our Diesel Technician School Partnership, offering and emphasizing opportunities for family members of existing employees. We are already realizing the impact of these internal efforts on retention and continue to expect them to augment the improving dynamics we've seen in employee recruiting resulting from additional resources and targeted efforts.

The changes put in place today are investments to drive continued outside margin expansion from future savings in productivity and risk management along with continued and expected growing savings across several areas, including labor, maintenance and third-party services. We're also taking steps to address the evolving opportunities around PFAS capture and removal through leachate treatment, with the introduction of technology through partnerships at several of our landfills. Consistent with our sustainability-related priorities, we're positioning ourselves for decreased reliance on treatment by third parties as we develop and expand our internal capabilities.

Moreover, we're actively pursuing other investments in technology, focused on both customer experience and our operations, including the use of robotics in our recycling facilities, and through machine learning applications, using cameras in our trucks for safety, service and sales

opportunities. We see the benefits from these and other AI-driven applications as opportunities to drive both growth and value creation.

On the subject of value creation, moving next to acquisitions, another key driver of our growth. We are positioned for a record year of private company acquisition activity in 2024, having already completed 18 acquisitions with over $500 million in annualized revenue. Acquisitions during the second quarter included multiple tuck-ins to existing markets as well as the strategic acquisition of state-of-the-art recycling facilities in the Pacific Northwest, furthering our sustainability-related efforts and internalizing our recyclables in that market. In addition to the deals already closed this year, we have over $150 million in annualized revenue from solid waste acquisitions in franchise markets spread across multiple geographies that are under definitive agreement and expected to close later this year. To be clear, these have not been included in our updated full-year 2024 outlook.

Continued balance strength provides the flexibility to fund outsized acquisition activity along with an increasing return of capital to shareholders. We continue to see high levels of seller interest and have a robust pipeline of solid waste opportunities across our footprint, positioning us for over $700 million in acquired revenue by the end of 2024, which would set an all-time annual record for us in private company acquired revenue. And to be clear, this is $700 million of acquired revenue in acquisition, not $700 million in acquisition spend as has recently been communicated by others.

With over 1% rollover contribution in 2025 already in hand from acquisitions closed, we are well positioned for up to 3% or more rollover, including incremental contribution from other deals as well as those noted under definitive agreement and based on our ongoing elevated activity levels, clearly a great way to already be positioning for continued outside growth as we look ahead to 2025.

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 our increased full-year 2024 outlook and provide a detailed outlook for Q3. I will then wrap up before we head into Q&A.

Mary Anne Whitney: Thank you, Ron.

In the second quarter, revenue of $2.248 billion was $23 million above the high end of our outlook, due primarily to incremental acquisition contributions and higher recovered commodity values. Revenue on a reported basis was up $227 million, or 11.2% year-over-year. Acquisitions completed since the year-ago period contributed about $123 million of revenue in the quarter, or about $121 million net of divestitures.

As Ron noted, core pricing was 7% in Q2, with price stepping down sequentially as a result of the typical cadence of seasonality on reported price. Fuel and material surcharges of negative 20 basis points in the quarter primarily reflect the benefit of improving diesel costs. As Ron also noted, volumes were down 2.8% as expected, up 100 basis points sequentially in spite of underlying volume declines.

Here are the stats looking at year-over-year results in Q2 on a same-store basis. Daily roll-off pulls were down 3%, driven by declines in all regions except the western U.S., where pulls were up about 2%. And daily landfill tons were down 2%, on special waste activity down 13% year-over-year and down over 20% from 2022. Similarly, C&D tons were down 4% year-over-year while MSW tons were up 3% in Q2. The declines in both special waste and C&D were most notable in our Central and mid-South regions.

Adjusted EBITDA for Q2 as reconciled in our earnings release was $731.8 million, up 16.4% year-over-year, and about $10 million above the high end of our outlook. At 32.6% of revenue, our adjusted EBITDA margin was 10 basis points above our outlook and up 150 basis points year-over-year, including about 20 basis point drag from the decline in special waste tons referenced earlier. Adjusting for that impact, underlying solid waste margins were up 80 to 90 basis points, reflecting benefits from reductions in certain third-party costs as retention improves and as some cost pressures abate. Other key margin contributors include combined commodity-related impacts of 50 to 60 basis points and about 30 basis points' benefit from acquisitions.

Net interest expense in the quarter of $78.4 million reflects the benefits of both our Q1 public offering of $750 million of senior notes in the U.S. and our $500 million Canadian dollar inaugural senior notes offering in Canada completed in June.

Our current weighted average cost of debt is approximately 4%, with an average tenor of about 10 years. We ended the quarter with debt outstanding of about $7.71 billion, about 13% of which was floating rate, and liquidity of approximately $1.26 billion. In spite of acquisition outlays of $1.5 billion through Q2, our leverage ratio as defined in our credit facility declined in the quarter to 2.67x debt to adjusted EBITDA.

Our effective tax rate for the second quarter was 22.6%, slightly below our outlook on lower foreign exchange rates. And finally, year-to-date, we have delivered adjusted free cash flow of $727.4 million, or 16.8% of revenue, up 15% year-over-year.

I will now review our updated outlook for the full year and provide our outlook for the third quarter of 2024. Before I do, we'd like to remind everyone once again that actual results may vary significantly based on risks and uncertainties outlined in our Safe Harbor statement and filings we've made with the SEC and the Securities Commissions or similar regulatory authorities in Canada. We encourage investors to review these factors carefully.

Our outlook assumes no change in the current economic environment or 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 as provided for and reconciled in our earnings release. Revenue is now estimated at approximately $8.85 billion, up $100 million from our initial outlook, primarily as a result of contributions from acquisitions completed since that time plus updated values for recycled commodities with volumes reflecting recent trends. Adjusted EBITDA for the full year is now estimated at approximately $2.9 billion, or 32.8% of

revenue, up $40 million and 10 basis points above our initial outlook for a 130 basis point year-over-year increase in adjusted EBITDA margin for 2024.

Our adjusted free cash flow outlook for 2024 remains unchanged at approximately $1.2 billion on CapEx of approximately $1.15 billion.

Turning next to our outlook for Q3. Revenue in Q3 is estimated to be in the range of $2.275 billion to $2.3 billion. And adjusted EBITDA margin in Q3 is estimated at approximately 33.7%, up 120 basis points year-over-year. Depreciation and amortization expense for the third quarter is estimated at approximately 12.7% of revenue, including amortization of intangibles of about $44 million, or $0.13 per diluted share net of taxes.

Interest expense net of interest income is estimated at approximately $82 million for the third quarter. And finally, our effective tax rate in Q3 is estimated at about 23.5%, subject to some variability.

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

Ron Mittelstaedt: Okay. Thank you, Mary Anne.

We're extremely grateful to our teams for once again driving better than expected results while prioritizing our most important assets, our people, and positioning ourselves for continued growth. On double-digit top line growth, we further expanded our already industry-leading margins during the quarter while implementing and integrating record amounts of acquisition activity. And as indicated by our increased outlook for revenue, adjusted EBITDA and EBITDA margin for the full year, we remain well positioned for continued outside margin expansion throughout 2024.

In fact, as provided in our updated outlook for 2024, our Q3 outlook reflects margins approaching the 34% threshold we've referenced in recent quarters. And that's in spite of a slower seasonal ramp thus far and ongoing cost pressures in many areas. Our results reflect our consistent focus on revenue quality as we shed less profitable activities and maintain a disciplined approach to acquisitions, a strategy that has served us well. Moreover, our results in 2024 should set up another year of outsized growth in 2025, expected to be driven once again by price-led organic growth along with rollover contributions from acquisitions already completed and under agreement.

Looking ahead, we would expect our financial results to reflect more of the benefits from improving operating results and retention and safety along with the potential for underlying volume improvement and easing of cost pressures not fully captured by headline CPI in the current environment.

As we reflect on the success to date and our positioning for 2025, I want to conclude by thanking our nearly 24,000 employees whose dedication is truly our greatest asset. Our differentiated results are driven by their commitment to our operating values, safety, integrity and customer service as we strive every day to be the premier service provider in North America and a great

place to work. With solid waste pricing largely in place, higher commodity values and record M&A activity driving better than expected results, we're off to a great start for 2024 and well positioned for continued success.

And for those of you in New York City, you've probably seen our EV trucks in action picking up recyclables. We're excited to expand our presence across the city, beginning with the first commercial pilot zone this fall as well as additional expansion we expect. We'll keep you posted on this and other developments.

We appreciate your time today. And I will now turn this call over to the operator to open up the lines for your questions. Operator?

Questions and Answers

Operator: Thank you. (Operator Instructions) And today's first question comes from Tyler Brown at Raymond James.

Tyler Brown: I just want to make sure I have it. So what are the expectations around volume in the second half? Is maybe Q3 still under pretty good pressure and it eases in Q4 as you anniversary that purposeful shedding? Or would Q4 also remain under pretty good pressure?

Mary Anne Whitney: Well, Tyler, if you think about the way we came into the year, our expectation was that volumes would be most negative early in the year and sequentially improve as we anniversary the shedding and the purposeful nonrenewal of contracts. We also expected that there would be some contribution from underlying volume generation, which we haven't seen yet, which is why in the updated guidance, you can see the impact to volumes that's implied by that. And so I would say the trajectory, the pace, is a little different. But we would still see sequential improvement Q3 versus Q2 and then about the same or a little better in Q4, again, as we anniversary known losses, very purposeful losses.

The upside, of course, would come from any pickup in that activity as at this point, as we've mentioned on the call, Q2, we didn't see the seasonal ramp in special waste. And as you know, Q3 is the strongest seasonal quarter. And so we'd be looking for that to come back and haven't seen it yet.

Tyler Brown: Right. And that kind of plays into my second question. I don't want to necessarily get out of my skis here. But it seems that you have a pretty easy special waste, maybe even C&D comp in the next year. It feels like housing is maybe a coiled spring if mortgage rates could move lower. Infrastructure spending should be pretty good next year.

I guess, do you think roll off and maybe just volumes more broadly could stabilize into '25, maybe '26 after three years of negative volumes? Or will that [coiling] still pressure that?

Ron Mittelstaedt: Yes. I mean, obviously, Tyler, we can't predict the total macro economy. But I would agree with you. As you know, special waste in particular, 90-plus percent of special waste that this industry speaks about is the cleanup of generally contaminated soils for speculative real

estate development residentially, commercially or industrially. What we are seeing is that many municipalities across the U.S. are saying they are cash strapped in their current budgets and are delaying the completion or the starting of their larger projects within their communities.

At some point, that just ends. And so there's a natural bounce back of that. And so we've seen these cycles before. They're generally a year, up to maybe a year and a half long. We feel like we've been in this for the last 18 months. So I would I would concur with you that at some point in '25, and certainly as we go into '26, that should improve.

I would also note, Tyler, that we have historically seen in national election years, presidential election years, we've seen just a stall of activity as things become unknown leading up to an election and then a releasing of it once the results are known. So for all those reasons, I would concur with that, your statement.

Tyler Brown: Yes. Interesting. Okay. And then Ron, on the labor front, it sounds like turnover continues to trend lower. I know that there are lag benefits there. So as we look at the margin performance this year, how much is attributable -- and maybe this is difficult. But how much is attributable to idiosyncratic labor benefits? And how much of it is just solid execution, positive price-to-cost spread? And I guess what I'm getting at is, won't some of that labor benefit really trickle more into '25?

Ron Mittelstaedt: Yes. So first off, Tyler, as you know and others, we have said that as we get turnover to our targeted levels, we're not there, but we're getting closer, that as we come through '25, we should see approximately 100 basis points of margin expansion due to these efforts. Today, we've captured about 25 to 30 basis points of that. So it implies there's another 70 to 75 to go. And we still are fully confident in capturing that.

As we've said all along, it doesn't just come in the labor line. It comes in six or seven areas, 15 to 20 basis points in an area, labor, labor overtime, variable third-party, repairs, outside repairs. All of these things are affected by what your downtime is on your routes and what your route times are due to your head count. So yes. It's a long-winded answer to say we think we're a little more than a quarter of a way there. And that's why we've made comment of outside margin expansion continuing in '25.

Ron Mittelstaedt: Right. And the other element associated with that, Tyler, is really what hasn't abated to date where we still see the runway for opportunity. We made reference to the fact that we had outsize underlying margin expansion in solid waste in Q2.

And I would note that that's in the face of still seeing same employee wage increases above 5.5%. And as you may recall coming into the year, we thought the 6% we were seeing would abate to sub-5% as we move through the year. So we're still looking forward to that. And that's the point about headline CPI not necessarily capturing the reality of all the cost pressures that still continue.

Operator: And our next question today comes from Kevin Chiang with CIBC.

Kevin Chiang: You noted in the prepared remarks just you still see strong seller interest. But I guess if I look at maybe what's happening both in Canada and the U.S., we did have a change in capital gains legislation up here. We also could have an election next year. And obviously, you guys are going through an election with a potential change in administration later this year.

Just wondering if you're seeing any changes in that seller expectation or maybe how sellers might be trying to time deals just based on what's happening both in Canada and the U.S.

Ron Mittelstaedt: Yes. Well, I mean, very intuitive question, Kevin. So we would tell you that historically, and we do not believe this is any different, that potential increases in capital gains tax have a very material impact on seller psychology and timing. And as we currently know, the former Trump tax cuts that were put in place are currently set to expire at the end of '25 if they're not acted on prior in either direction. So if there is -- depending on who wins in the U.S. in the presidential election and, of course, the House and Senate, if there was a belief that sometime in '25 or beginning in '26 capital gains rates would be going up, I think you would see quite a bit of accelerated seller activity throughout the back half of '24 and throughout '25.

Conversely, if -- again, depending on that, if there was a belief that it was going to be where it is today or lower, I think that just perpetuates where things are. So obviously, if it got much higher here, at least in the U.S., that would be a negative after '25 on seller psychology.

Now the contrary to that is that when that occurs, multiples generally come down if there was a negative on that. So we've succeeded in M&A in both environments and both political administrations. But certainly lower capital gains rate is an incentive to sellers looking to do something. No question about it.

Kevin Chiang: That makes sense. And maybe just a couple of housekeeping questions. There's these wildfires in Alberta. Just wondering, are your assets that you acquired from Secure, are they impacted at all by those wildfires?

Ron Mittelstaedt: No. Our assets that were acquired from Secure are not at this time impacted. But we do have solid waste assets that are in proximity to some of the fires for the second summer in a row. We had complete evacuation of some operations last summer. We have not yet had an evacuation this summer. But it has been getting close, but not on the Secure side, but on the solid waste side.

Operator: And our next question today comes from Bryan Burgmeier with Citi.

Bryan Burgmeier: If I heard correctly in the prepared remarks, you got into 3Q, EBITDA margin is like 33.7%. Just how should we think about the drivers of that? Is it accurate to say that underlying net price trends are the same or maybe a touch better? And then I guess you have less help from commodities, maybe a little bit of dilution from M&A. Is that directionally accurate?

Mary Anne Whitney: Yes. That's the right way to think about it. When I think about what's different in the back half of the year than the first half of the year, a couple of things. The incremental deal contribution changes the mix a little bit. I'd say that that lack of special waste

becomes more of a headwind. So that implies that underlying solid waste continues to expand, getting a little granular.

There is an extra day of expenses in the quarter. And so that impacts the year-over-year and takes it down 30 to 40 basis points. And then, as you said, the commodity tailwinds are smaller in the back half of the year than they were, of course, in the first half of the year.

Bryan Burgmeier: Got it. Got it. Thanks for that detail. And then I was just wondering if maybe you can touch on just some of the acquisitions you made in the quarter. Is anything particularly noteworthy? Are these focusing on that rural-exclusive market that Waste Connections is in? And these all collection businesses?

Ron Mittelstaedt: Yes. Thanks, Bryan. In the quarter, we had a variety of acquisitions close. Probably the largest was the recycling facilities we acquired in the Pacific Northwest. One was a company which had a recycling facility just outside of Tacoma and one just outside of Portland. We were one of the larger customers of both of those facilities. So it became an internalized recycling operation, very important in these two states who have recently adopted ERP legislation and very critical for us there with our very large footprint.

So that was a very strategic transaction. Did a number of tuck-ins throughout our footprint on the solid waste side. We also did a smaller E&P deal in Canada in our R360 Canada footprint to bolt on to the secure transaction that we had done in Q1 to continue to expand the presence there. So it was really -- we did deals throughout the U.S. and in Canada. So it was a very solid quarter. And we signed some much larger deals yet to be closed that you'll be hearing on next quarter's call in both the West and the East Coast that are franchise in nature. So that was part of the 150 we said was signed but not yet closed.

Operator: And our next question today comes from Noah Kaye with Oppenheimer.

Noah Kaye: I'll just pick up right there, Ron. And that's to think about the actual return profile for all these deals in aggregate. I think your point well taken about looking at the revenue profile. And then Mary Anne, you mentioned some of the margin implications from what's already been closed.

But how do we think about the returns that you're seeing now on these acquisitions? You've always had a pretty disciplined underwriting process, very standardized. Where are your returns penciling out these days on the acquisitions? And can you comment at all directionally on multiples?

Ron Mittelstaedt: Sure. Well first off, let's start with the latter part of your question. I would tell you that I think overall, multiples have drifted down about 1.5 to two turns over the last two-plus quarters. So that's #1. And of course, that reflects, you know, a rising cost of debt capital in large part for most private companies and public companies.

Our returns, Noah, really have not changed. And what I mean by that is we don't look at an EBITDA multiple. An EBITDA multiple is an outcome of a return on invested capital model.

We are looking for, generally depending on the risk, the size and the risk of the investment on an acquisition, we're looking for an IRR between sort of 11% and 15%. And we're looking for an NPV on invested capital throughout the life of that transaction of -- net present value being not only positive, but positive in relationship to the size and scope and the risk of the investment.

So that's how we look at it. And then an EBITDA multiple is just an easy way to talk about it. So obviously, asset quality, margin, necessary CapEx, replacement CapEx, investment risk, permitting risk, all of those are looked at in the scope of the transaction to determine what we think we can pay and get the acceptable returns.

So I would say, if anything, that over time that will continue to improve. And why do I say that? Because we have 115 to 120 landfills. The ability to continue to acquire and develop landfills is very difficult today relative to 10 and 15 and 20 years ago. So you will see more collection and transfer as we develop the network of those landfills both in the U.S. and Canada going forward. And that will bring the aggregate returns, continue to give upward bias to the aggregate returns.

Noah Kaye: Very helpful, Ron. I want to touch briefly on the RNG sustainability investments because while you mentioned the higher commodities as a tailwind, it sounds like you along with the industries are seeing some timing startup delays. So can you just refresh us on the expected contribution from those incremental investments to EBITDA this year and then possibly how you see it for next year? Because obviously these should be a lever to support margin expansion as they layer in over time.

Mary Anne Whitney: Sure. So no. We had talked about an expectation of $15 million to $20 million in contribution. And in our revised guidance, that was taken down by about $10 million with very high flow through. And we mentioned that in Q2, in essence, we just had cost, not the benefit. And so that mitigated some of the benefit from higher RIN.

And when we think more broadly about what's driving the delays, in this case, it's really the last mile, if you will. It's the interconnect with electric utilities and just getting the projects up and going. So it's tough to generalize on project development on all the other projects we have. But what we do know is that across the industry, the projects are taking longer and the costs are running higher. And so we remain committed to the plans that we have. And we would say during 2026, we still expect those projects to come online that we've described, the about $200 million in EBITDA contribution. So that's how we're thinking about it.

Ron Mittelstaedt: Yes. And the other thing I would note, Noah, is that while projects are running a little more expensive, that does not include in our analysis the offset of ITC tax credits because we've never included that. And that, while it can create a timing mismatch between the project and that, when you net that against the increased CapEx, you should still be net about what we thought.

Noah Kaye: Okay. So all very helpful color. And just to reflect back and make sure I get it, still committed to the $200 million EBITDA, at least as a run rate by '26, maybe just more of a ramp to get there as we move through the next year and change. Is that a fair characterization?

Mary Anne Whitney: Yes. That's how we're thinking about it. And to that point, we're still committed to spending the capital primarily this year. But maybe some will flow into next year.

Operator: And our next question today comes from Toni Kaplan with Morgan Stanley.

Toni Kaplan: Strong free cash flow quarter, but looks like you kept the guidance unchanged for now despite raising the EBITDA guide. Just anything that might warrant higher than normal spending or more than you thought before? Or is this just conservatism? And how should we think about potential sources of free cash flow upside for the year?

Mary Anne Whitney: Sure. So Toni, the reason for keeping free cash flow the same in spite of the increased EBITDA would be that CFFO would be largely unchanged given the incremental interest expense associated with the $1.5 billion in acquisition outlays we've already made. So that's how we think about it.

The other observation would be we didn't adjust CapEx in spite of the fact that we did all that M&A. And very often or in some cases, M&A can come along with the CapEx needs right up front. And so I actually think of it that there's underlying upside, outperformance, and we're absorbing that incremental CapEx and not changing our free cash flow guidance at $1.2 billion.

Toni Kaplan: Yep. Okay. Great. And I was hoping you could provide an update on any technology opportunities or productivity initiatives. I think you mentioned the cameras in the prepared remarks. But maybe expand on that opportunity or any other opportunities you think could move the needle for you in the next year or so.

Ron Mittelstaedt: Sure. Well, there's a number of them we're working on, Toni, that affect revenue, that affect productivity, that affect safety, that affect MRF productivity and quality. But just to touch on a few that we are definitely seeing in real time, we have -- I think we are the largest user right now on a percentage basis, certainly, of robotics and AI in our MRFs.

We have just opened another MRF this quarter, meaning Q2, in Illinois that we completely rebuilt and with the use of both robotics and AI, optical sorting. And that is taking down headcount significantly in these MRFs; drastically increasing productivity on a per-hour basis, tons per-hour basis; and most importantly, improving quality, material quality, that we are producing and shipping to market quite dramatically. And so that is happening in real time.

There are MRFs where we have rebuilt. And we went from 80 to 100 employees down into the high 20s on the same or more volume with the use of robotics and air classifiers and optical sorting. We are looking at bringing another one online in early '25 that is under development right now. So that's an example.

Camera technology, new camera technology, we've had camera technology on our trucks for risk forever, but now using AI generative technology to measure commercial overloads in bins and create automatic billing for commercial customers that have overloads rather than relying solely on driver interpretation. We believe that this is a very good opportunity for improvement of

commercial revenue, which will be reflective in both volumes and price going forward as we come out of '24 and go into '25, a very large push for us going forward.

So those are just two examples. We are using new routing technology that allows, literally, routing on the fly as we as our operating people come into a district in the morning and recognize that they may have either vehicles or drivers down for some reason. And they can reroute dynamically where before that was much more of a manual process. So those are three examples for you.

Operator: And our next question today comes from Jerry Revich with Goldman Sachs.

Jerry Revich: I'm wondering if we could trouble you for an update on the Northeast rail development. How's the ramp going? And can you give us an update on when do you expect to be fully operational at full volume levels?

Ron Mittelstaedt: Well, sure, Jerry. So I'll give you a couple updates. So #1, when we -- so we are not quite at the first year anniversary of acquiring Arrowhead, which is what you're referring to, or what we refer to it as, Arrowhead. That is the name of the landfill, not the rail infrastructure. But we're coming up -- we're a little more than a month away from when we acquired that.

And when we did, it was just a little less than 3,000 tons a day. It was about 2,700 tons a day. We are now -- and we said that we would double it by the end of '24. Well, here we are at the midpoint in '24. And we're at 6,000 tons a day. So we have more than doubled it. There are days we're pushing 7,000-plus tons right now. But we have more than doubled it in less than the time we committed.

Now ultimately, we have said that we believe we will get that site to 10,000 tons a day plus. And we have said that that will take into 2026. The site's permitted tonnage is 15,000 tons a day. We're not saying that can never happen. But that is obviously somewhere down the horizon.

So those have all been very positive. Most all of that incremental improvement from 2,700 tons a day to 6,000 has been internal tons. So that's one reason you don't see revenue growth from it as great, because it is not third-party tons. It's internal tons from our northeastern operations. And so it gets eliminated in the accounting and in the volume reports. So that is one other thing to keep in mind.

Those are all the positives. On the negatives, and they were more short-term, Norfolk Southern had been going through some, I would just say, some operating difficulties when they were going through some potential leadership upheaval during Q2 with an activist challenge. And that certainly affected their ability to deliver all of our volumes on a regular basis. That has improved and has gotten back to normal over the course of the last 30 to 40 days. And we're more encouraged now than we've been about the ability to push through more volume.

We are putting down more track at our Arrowhead facility to be able to keep more -- to take more volume in a day and store more cars. We are doing the same at our rail sites in the northeast at our transfer facilities. So a lot going on with that right now.

Jerry Revich: Super. Thank you. In terms of free cash flow conversion, obviously these investments, you mentioned the recycling upgrades, the landfill gas investments as well. Can you just talk about the puts and takes around free cash flow conversion three years out once the landfill gas facilities are online? How much higher could your already strong free cash conversion move as you look at the puts and takes, including bonus depreciation et cetera?

Mary Anne Whitney: Sure. As we said when we gave our guidance at the beginning of this year, if you normalize the free cash flow this year, it was closer to historical levels of that 48% to 50%. So we'd say that's the right way to think about the underlying conversion. And that's in spite of the fact that we do have bonus depreciation sunsetting unless or until some other change is put in place. And so we still think that's the right way to think about it.

Recall that in our highest, our peak years, it was 53% to 54% absent the benefits from bonus depreciation and outsized M&A and the expensing of qualifying equipment, the writing off. So that was outsized benefits during that period. We don't see getting back to those levels in the current environment with the sunsetting of bonus depreciation. But certainly, the 48% to 50% is the way we think about it on a more normalized basis.

Ron Mittelstaedt: And, Jerry, I would just add, as we continue to -- there is no theoretical ceiling on conversion, just like there's no theoretical ceiling on margins. As we move margins up over time and all things staying even, you will continue to see that conversion move up naturally over time.

Jerry Revich: Super. And Ron, can I ask just one last one? You spoke about to the automated truck cameras. I think they're coming from a supplier that just changed ownership. Please correct me if I'm wrong. I'm wondering if you could just talk about your views on that potential change in ownership. And can you just talk about where you stand in receiving truck deliveries today versus replacement levels, if you don't mind?

Ron Mittelstaedt: Sure. Well, I think the transaction you're referencing, unless I'm wrong, Jerry, is Terex's acquisition of Environmental Solutions Group from Dover. And if I'm right in that assumption, yes. We are acquiring cameras and have for many years, although this is a different technology on the AI for commercial overages. But yes. That is through one of the ESG subsidiaries, 3rd Eye.

We've had a very longstanding relationship with ESG on a number of their products. As you know, they've got seven or eight different product lines for solid waste, from containers to truck bodies to onboard safety technology to compaction equipment. So we are a user of all of it. As I said, I've had a very good relationship, think very highly of the folks at ESG, think they've done a very nice job on their products and services.

As far as the transaction itself, we don't know much about it, never had much interaction with Dover as a parent, just dealt with ESG corporate. And as I understand, they're going to continue to be a standalone entity within Terex. And I think they feel good about that from everything we've heard. And as long as we continue to deal with the folks we've dealt with, we think it's excellent for both companies, really excellent for ESG and for Terex. They're getting a quality company. And we have some relationship with Terex on some of our heavy equipment stuff in our field. And so we know them, not as well as we do ESG, but think highly of both of them.

Operator: And our next question today comes from Tobey Sommer with Truist Securities.

Jasper Bibb: This is Jasper Bibb on for Tobey. I think you mentioned earlier price-cost spread still being elevated in 2025. Based on your pricing visibility and what you're seeing on the inflation side, is there any way to frame where that spread is now? And where you think that might be in 2025?

Mary Anne Whitney: Sure. So the point I had made is that the wage pressures hadn't abated to the extent that might have otherwise been suggested by the lower CPI and that we were delivering the underlying margin expansion, approaching 100 basis points in spite of that fact. And so in our view, that creates opportunity ahead to the extent that those wage pressures we expect would or should continue to abate. We also acknowledge that that price-cost spread is something we'll be very mindful of as we think about what pricing is necessary as we go into 2025.

We certainly know that CPI-linked markets would be expected to step down, meaning the price increase in '25 would be lower than it is in '24. And in those markets, we're getting a little over 5%. So those are the pieces that start informing us. And of course, we'll have better visibility on that by October, when we typically start talking about the pieces of our guidance.

Ron Mittelstaedt: Yes. Josh, what I would say is for 20-plus years now, our approach hasn't changed. We target getting 150 to 200 basis point spread minimally relative to the ongoing not only CPI, but what we believe our cost structure is doing, which often reflects CPI. Sometimes there's some minor dislocations. So you tell us what you think the CPI is and layer on 200 basis points. And that's what we'll be likely targeting and achieving in our reported net pricing next year.

And that is -- at 200 basis points, that's just below, to answer, what we're getting right now. And of course, we target beating what we guide. So we would tell you we would expect it to be relatively the same. The dollar amount may be a little different because CPI comes down. But the spread of price to cost should be about the same as current.

Jasper Bibb: Thanks. All that makes sense. And then hoping to get an update on the secure energy assets. How's the integration progressed there? Any expectations for the E&P waste business over the balance of the year?

Ron Mittelstaedt: Sure. Well first off, I appreciate the question because that gives me an opportunity to thank our R360 Canada group. Their first real full quarter was Q2, which we just

came out of. They had an exceptional quarter delivering in both revenue and in EBITDA at or above our expectations. Outstanding group of assets there. Outstanding group of employees that we were fortunate to hire up there and that we have added to since then. Exceptional leadership team that we've developed up there. And they're performing very, very well.

We have not yet reopened any of the seven incremental E&P assets that came along with that transaction that were shuttered at the time. We're getting closer to reopening one of our first of those. And over time, we'll evaluate. We think over time, probably four or five of those make sense to reopen. So that's some incremental opportunity there.

As I mentioned, we did a tuck-in transaction outside of the Alberta market in the E&P space in Canada in Q2. Excellent company. Excellent leadership team that has joined our R360 Canada team. So long way around the boat to tell you I think we're performing well. We're very pleased with the assets and asset quality and have an exceptional team in place to drive things up there.

Mary Anne Whitney: And the only thing I would add to that with respect to the E&P waste trends that we're seeing, we also saw sequential improvement in the U.S. in that business. And I'd say that's in spite of rig count continuing to decline. So I would point out that there was remediation activity that contributed to the Q2 beat of our expectations. And we never assume that that continues because those are one-off jobs.

Operator: And our next question today comes from James Schumm with TD Cowen.

James Schumm: There's a third-party survey noting landfill pricing declined year-over-year with the exception of maybe the Northeast. I was just curious, what do you think drove that? And what's your expectation going forward?

Mary Anne Whitney: #1, I'm looking, James. I'm not aware of that survey, so I apologize. I can tell you that is not the case for us. All three lines of disposal business price per unit increased in '24. It was up almost 6%, just under 6%, between all three of our lines on price per ton basis year-over-year. So I'm not certain what that is.

One thing that does affect that, and it did hurt our volume somewhat in Q1 more than in Q2, and this would be what I would guess, is in the winter, the incinerators on the Eastern seaboard dropped their price from the $100 a ton rate down as low as the teens to keep volume and attract volume. And many landfills along the Eastern seaboard chased price down to keep volumes when that happened. And that would be what I would guess it was.

We did not play that game. And that did have a volume effect. But others did. And I'm imagining that's what it is.

James Schumm: Okay. Interesting. Thank you. And Ron, you mentioned cost pressures in many areas. Mary Anne, you mentioned maybe labor expenses not declining or decelerating as fast as maybe thought. Is there anything incremental? Are you seeing anything on the repair and maintenance side? Are you seeing any reacceleration of inflation elsewhere? Just any color you could give there.

Mary Anne Whitney: No. The point we were trying to make was that cost pressures haven't necessarily abated to the extent that headline numbers might suggest. And so we are still seeing, for instance, improving trends in things like third-party maintenance costs and parts and materials. Those are getting better. But they're still above the 3%, for instance, headline number.

So if that's your proxy for cost escalation, we're still north of that, which is why our overall cost inflation is more like 4.5%, because it's driven by those higher numbers. We are seeing them improve. They're just not improving as quickly as we had expected. And so when you think about our 80 to 90 basis points of underlying margin expansion, it tells you those retention-related efforts, which Ron said are 25 to 30 basis points, are helping to decrease our reliance on third parties whose costs aren't escalating quite as quickly as they were before but are still escalating.

Operator: And our next question today comes from Sabahat Khan with RBC Capital Markets.

Sabahat Khan There was some discussion earlier around just the outlook for maybe some of the more cyclical volumes in the system and some of the shedding. But I guess maybe if you sit back and look at it high level, if we think about the moderation in volumes over the last little while, has more of that been macro versus shedding?

And as you look forward, would a macro recovery mean volumes [would directionally] be positive even with some shedding? Just trying to think about as we look at those two buckets, is one more dominant in the volume story than the other in terms of the shedding?

Ron Mittelstaedt: Yes. I mean, I think -- a very insightful question. When we talk about special waste volumes, as an example, being down in Q2 20% relative to '22, that's macro. I mean, that is not any shedding whatsoever. And that was -- so that certainly, macro, helps drive that. Roll-off volume being down 3% in the quarter, that's construction and event oriented. That's macro.

So to your question, a macro improvement would drive both of those positive very quickly and historically always has. Where you see the shedding, the intentional shedding, is generally in the commercial and residential lines of our business because when we're acquiring companies who have underperforming contracts as a part of what they do, that's what we are shedding. That and broker work that comes along with commercial business that we acquire, we often end up shedding all or a piece of that broker work.

So the greater macro economy -- because again, shedding is not anything new for Waste Connections. We've done this forever. What you had in the past is you had a macro environment that gave enough underlying volume that you didn't see it in negative volume. With real volume being closer to 0, any shedding you do, that's why it goes to a negative. So that would be the answer.

Sabahat Khan Okay. That's great color. And then one of the topics, obviously, out there that you probably hear a lot is, how do you control pricing as inflation heads lower?

But I guess if we think more specifically about the price-cost spread, one line of thinking is as inflation heads lower, the absolute level of pricing moves lower. Maybe there is a better or stronger ability to maybe capture a bigger price-cost spread because the absolute numbers are lower. From your seat, how would you comment on that line of thinking that's out there?

Ron Mittelstaedt: Not to disagree, I would actually say it's inverse of that. And what I mean by that is it's easier -- and see, this is why it's so critical to understand strategic differences and mix differences of business model, because it is far easier to capture a greater price-cost spread in a rising inflationary and a higher inflationary environment. Okay? It is harder in a lower inflationary environment.

I know that may seem a little counterintuitive. But look, if people are seeing 7%, 8%, I'm using that inflation, they expect 10% or 11% price. They expect a 200 or 300 basis point differential. If they're seeing 3%, getting that differential of 2% to 3% and going to 6% is much harder. It's much more of a perception issue with customers.

So it's just a percentage differential, right? One's 20% differential or 30%. And the other is 50% differential. And so that's why it's harder. That's why we like our business mix with low 40% in franchise, where we get a guaranteed CPI or return, which allows us to focus our energy on that 60% that is competitive, which tends to be more rural, which allows us to drive higher competitive market pricing there.

So we're very comfortable. The bottom line is I think it is misplaced, very misplaced, for people to be saying pricing is decelerating. No. Absolute dollar percentage is decelerating. The spread is all that really matters. And so that's what the focus should be, not the total percentage number.

Sabahat Khan Great. And if I could just squeeze in one little one. I just want to make sure I heard correctly earlier in the call when you talked about some of the M&A you undertook. Was it noted that some of the acquisitions were in new franchise markets?

Mary Anne Whitney: What we said is $150 million in deals that have been signed but not yet closed, those included franchise markets. So we're looking forward to closing them in the back half of the year.

Operator: And our next question today comes from Brian Butler with Stifel.

Brian Butler: Most of my questions have been answered. But just two quick ones, hopefully. On the R&G, just wanted to clarify, that $200 million of EBITDA that's out there in maybe 2026, that assumption was made with RIN prices closer to $2. Is that correct? And there's potentially some upside if RIN stays for the next 24 months at a higher level. I just want to make sure we get that assumption correct.

Ron Mittelstaedt: Yes. We actually -- that $200 million was made with RIN pricing of $2.50 to $2.60, Brian. So no, not $2. So there certainly is some upside at $3. But it's not 50% because it wasn't made at -- the assumption wasn't made at $2.

What we have said is that the investment thesis worked down to $2 without an ITC tax credit. It worked below $2 with an ITC tax credit. So that may be a little bit of the confusion. But the $200 million was based on $2.50 to $2.60 RINs, to answer the question.

Brian Butler: Perfect. Thank you for that clarification. And then you talked about a partnership on PFAS. And obviously, this is an emerging issue that's out there. How should we think about that partnership, and maybe from a management of leachate, what that cost might look like out into the future? I mean, obviously, it's early days. But where's a good starting point?

Ron Mittelstaedt: Well, it is early days, Brian. I mean, I would say a couple things. #1, this type of federal regulation that is uniform for at least all of the competitors we compete with has historically been a very positive development for our industry. The public companies have the capital depth to comply with the legislation. And it is a pricing opportunity to recover not only the investment, but some incremental margin on top of that. And so we don't view this opportunity any differently. It is a different cost impact by market depending on how much PFAS you may have to treat and what your outlet levels and options are. And so it's a bit of a, you know, it's a logistics issue.

But somewhere between $2 million and $10 million of capital at a landfill will generally handle purchasing treatment units, from a capital standpoint. And it's probably more than the $2 million to $4 million, to be honest. And that will allow you to use the technology to, in effect, solidify the PFAS that is within your leachate, allowing the solidified to go back into the landfill permanently encapsulated and the liquid to be treated at a POTW or an industrial wastewater treatment plant at no greater real cost than it was before. And that's going to probably be a $0.02 to a $0.04 cents a gallon type impact.

So we will be pricing through this, both the capital and the incremental operating cost. But it is early days, as you've said.

Operator: And our next question today comes from Timna Tanners with Wolfe Research.

Timna Tanners: I just have a few quick ones that I think will be pretty high level. But I wanted to just ask for any updated thoughts on a desire, if any, to stray away from your solid waste focus given a competitor doing so. Any updated thoughts there?

Ron Mittelstaedt: Timna, no. I mean, well, yes, updated thoughts. No intention to do so. We have for 27 years been what I call a pure solid waste play. 12 years ago, we entered the E&P disposal business. And we've -- at one point that was 15% of our business. It's now 5.5% to 6% with what we did earlier this year. So it's well less than it was back in 2012.

But we see ample opportunity in the core solid waste and recycling side and in our E&P disposal and treatment side. And we really see no reason, I'd use your word, to stray from that at this point in time. We've got ample opportunity in front of us. And while we look at other things, we just have not found them to be attractive relative to our alternative uses of capital.

So I can't speak to what others are doing. I'm assuming it makes great sense for them. But it's just not strategically something we're looking to do.

Timna Tanners: That's helpful. And then similarly, in the past you've said the elections and politics aren't necessarily that important for you all. But seems to me like President Trump could try to deemphasize, if you will, the EVs, if nothing else. And I'm just wondering, does that change your strategy at all? Or is it too late to put that genie back in the lamp?

Ron Mittelstaedt: Well, I don't know who -- none of us know who will win the election and what they will ultimately do. Depending on what they say, it could always be different anyway. But we have not by any means gone "all in" on EV. We are doing it in markets that are asking us to or demanding us to, asking in the bidding process to, such as New York City has done in parts of the franchising, such as parts of California have done. And we are complying or planning on complying.

But no. I don't think that there's anything out there investment-wise irrespective of who wins the election and has control of Congress. I don't think we've made any decisions solely based on one regulatory policy or another. These investment decisions are made based on strategic decision. They are made based on what's best environmentally and sustainability-wise. And they are made with an economic focus on each return. If something changes in any of those equations, we always reserve the right to back up some. But we're not seeing that from anything that we're hearing on either side right now.

Timna Tanners: Okay. Got it. And then final one. Can you just remind us of what it would take to revisit the dividend at this point? Is it just a question of alternatives and acquisition opportunities? Or just if you can remind us of your thinking there.

Mary Anne Whitney: So I'd remind you that since the initiation of the dividend in 2010, we've raised it double digits every year on a per share basis. And we continue to think about looking at it every year in Q3. And we have no differing expectations at this point in time.

Timna Tanners: I'm sorry. I misspoke. I meant the buybacks. I'm sorry about that.

Mary Anne Whitney: Oh, the buybacks. Yes. We'd say the same philosophy that we've always had, which we view M&A as our highest and best use to drive incremental growth. Of course, it would be depending on valuations and strategic fit. But that always comes first.

I've already mentioned our philosophy on the dividend. So what that implies is that in years when we're not seeing an outsized amount of M&A like we are this year, whereas we've said we've already had outlays of over $1.5 billion on deals and continue to have more to do between now and year-end, years when it's not like that, it certainly could be ample free cash flow available. And we would absolutely consider stepping on the buyback opportunity opportunistically. That's how we continue to think about it.

Operator: And our final question today comes from Stephanie Moore with Jefferies.

Stephanie Moore: I will keep it to one quick one here, more to just a clarification question. You talked about labor open positions being down. I think you said about 40%. How much more is there to go on that labor front?

And then if you think about maybe the reduction in open positions, is this -- maybe if you could talk a little bit about if this is a function of better retention and lower turnover versus maybe the reduced need for incremental labor either due to productivity, or maybe you're seeing more other tailwinds come in. Any color there?

Ron Mittelstaedt: Sure. Well, so first off, Stephanie, when we really -- our open positions, that was your question, that peaked at about 7.2% back in '22, actually, the mid- to the end of '22. That was the peak.

We had traditionally -- prepandemic, let's just use that, we had traditionally always tried to run the company about 3% to maybe up to 4% open head count. And that's a sweet spot for us naturally. That brought us about 18% to 21% total turnover with about half of it being voluntary and half of it being involuntary, where we're being very proactive on potential, usually, unsafe driver activity.

So we are now sitting right at about dead on 4%. Four of our six regions are under 4%. So we're getting closer to our target. In this environment, we want to run this about 3.5% to 3.8% open head count, would be optimal.

We've reduced voluntary turnover from the mid-20% level, like 25%, down to 14.6%. And our involuntary turnover is running around 11.5% to 12%. So we've probably got about another four points, optimally, to go on the voluntary. I'd like to get that down into that 10% to 11% level. We're comfortable with our involuntary where it is. It will also naturally drop as everything stabilizes.

So we're getting closer, is the answer to your question. It is almost -- other than the MRF side that I commented on, which is a small piece when I talked about robotics, it is all due to our conscious improvement in turnover, and versus "productivity", was your question. That is, as you get fully staffed everywhere, then you are able to focus on incremental productivity improvements. And you do that both through incremental growth per route, which actually drives productivity the best without adding head count. But it has all been from the turnover improvement at this point, to answer the question.

Operator: And this concludes our question and answer session. I'd like to turn the conference back over to Mr. Mittelstaedt for closing remarks.

Ron Mittelstaedt: Okay. Well, if there are no further questions, on behalf of our entire management team, we appreciate your listening to and interest in the call today. Mary Anne and Joe Box are available today 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. We look forward to connecting with you at upcoming investor conferences or on our next earnings call.

Operator: Thank you, sir. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.