Waste Connections, Inc.
Q3 2024 Earnings Conference Call
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Officers
Ron Mittelstaedt, President & Chief Executive Officer
Mary Anne Whitney, EVP & Chief Financial Officer

Analysts
Kevin Chiang, CIBC
Noah Kaye, Oppenheimer
Adam Bubes, Goldman Sachs
Tyler Brown, Raymond James
Konark Gupta, Scotiabank
Chris Murray, ATB Capital Markets
James Schumm, TD Cowen
Sabahat Khan, RBC Capital Markets
Stephanie Yee, J.P. Morgan
Jamie Somerville, Eight Capital
Brian Butler, Stifel
Jasper Bibb, Truist Securities

Presentation

Operator: Good day, and welcome to the Waste Connections, Inc. Q3 2024 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

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

Ron Mittelstaedt: Thank you, Operator, and good morning.

I would like to welcome everyone to this conference call to discuss our third quarter results and to provide an update to our full year 2024 outlook, a detailed outlook for the fourth quarter as well as some early thoughts about 2025. I'm joined this morning by Mary Anne Whitney, our CFO; and other members of our leadership team.

As noted in our earnings release, we are extremely pleased by the strength of our operating and financial results in the period, positioning us for another increase to our full year 2024 outlook with momentum as we look ahead to 2025.

Solid waste growth, led by 6.8% core pricing, was supplemented by incremental acquisition contributions and 90-basis point sequential improvement in solid waste volumes during the period to drive results above expectations. Solid operational execution enabled us to deliver adjusted EBITDA margin of 33.7% in the third quarter as we expected, up to 120 basis points year-over-year, overcoming margin dilution from acquisitions closed during the quarter and

initial storm-related impacts at quarter-end.

Our results also reflect continued progress in employee retention, with voluntary turnover improving for the eighth consecutive quarter, bringing multiyear reductions to over 40% as we continue to invest in our most important asset, our people. Further, we anticipate that our innovative approaches to drive continued improvement in employee engagement and retention should position us in 2025 for another year of above-average underlying margin expansion in solid waste collection, transfer and disposal.

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 meeting and best 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 23 earnings release and in greater detail in Waste Connections' filings with the U.S. Securities and Exchange Commission and the securities commissions or similar regulatory authorities in Canada. You should not place undue reliance on forward-looking statements as there may be additional risks of which we are not presently aware or that we currently believe are immaterial which could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances that may change after today's date.

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

I will now turn the call back over to Ron.

Ron Mittelstaedt: Okay. Thank you, Mary Anne.

We are extremely pleased by our operational execution in Q3, driving financial results above expectations as we continue to see the benefits of our focus on quality of revenue and human capital while also delivering a record year of private company acquisition activity.

Beginning with solid waste organic growth. Core pricing of 6.8% was in line with our expectations. Reported volumes stepped up sequentially by 90 basis points as we began to

anniversary a portion of the purposeful shedding we've referenced in previous periods and also as a result of more special waste activity, including some Q4 projects which were pulled forward to Q3.

Additionally, our results reflect incremental acquisition contributions with better-than-expected performance from acquisitions we closed earlier in the year plus the impact of transactions closed during Q3. Most notably, we acquired Royal Waste Services, one of the preeminent haulers in New York City, with best-in-class collection, transfer and recycling facilities, not to be confused with Royal Carting, located further upstate.

Royal Waste is prominently located in New York City, where they were awarded five of the commercial zones as part of the Department of Sanitation's announced franchise system. As such, our acquisition of Royal Waste complements our already well-established operations in New York City, where we were originally awarded 12 commercial zones. We are now comfortably the largest and only fully integrated player in New York City.

On the subject of New York City and its transition to a franchise model, we are pleased to report that the initial phase is proceeding at or better than we expected. Based on our experience since September in the pilot zone, we believe that the opportunity for growth and operating efficiencies should exceed our initial expectations, particularly given our already well-established and now expanded footprint in the city.

What we recognized from the onset of this franchise process was the critical importance of the location of assets within the city and the advantages they provide. Additionally, we anticipated the benefit from the optionality that would be afforded by our strategic acquisition 14 months ago of the Arrowhead landfill in Alabama, providing rail access for markets in the Northeast. With recent peak days running at over twice our initial 3,500 ton per day throughput, activity at Arrowhead is also exceeding plan and benefiting several of our Northeast markets, including New York City, as we work to optimize waste flows and disposal capacity utilization within our own network of facilities.

Moreover, we continue to evaluate incremental acquisition opportunities in the East as a result of this important element in our integration strategy. The franchise model being rolled out in New York City has transformed what was already a very good market for us into one with outstanding long-term value creation potential.

Getting back to the broader topic of acquisitions. As anticipated, we are on track for a record amount of private company acquisitions in 2024, our biggest year since our founding in 1997. Today, we have signed or closed over $700 million in annualized private company revenue. This includes solid waste franchises, new competitive markets, E&P waste facilities and several tuck-ins of operations in or adjacent to our current footprint in solid waste. We continue to maintain our focus on solid waste with a proven market selection strategy and a track record for integrating and maximizing value. As we say, more important than completing acquisitions is their implementation. And as noted earlier regarding Q3, we're pleased to see performance at our acquired operations above our expectations. Additionally, acquisitions completed in 2024 should provide for approximately 2% or more in acquisition rollover contribution in 2025, with the

potential for that to grow from additional transactions in Q4 and next year.

While maintaining capacity for outsized acquisition activity, we continue to reinvest in the business and expand our return of capital to shareholders. As anticipated, the strength of our operating performance, free cash flow generation and balance sheet positioned us for another double-digit increase to our quarterly cash dividend, demonstrating once again the compatibility of funding our differentiated growth strategy and acquisition activity along with an increasing return of capitals to shareholders. To that end, our Board of Directors authorized a 10.5% increase to our regular quarterly cash dividend, our 14th consecutive annual double-digit increase since the initiation of the dividend in 2010.

While executing our growth strategy, we've demonstrated significant progress towards achievement of our sustainability-related targets, which are inextricably linked to our focus on value creation in our business as highlighted in our 2024 sustainability report being released today. In fact, with multiyear reductions of 40% in emissions intensity and 13% in absolute emission declines, our results demonstrate that outsized growth is compatible with the achievement of our long-term aspirational ESG targets.

I am particularly pleased by the notable momentum from reductions in voluntary turnover and the related impacts to safety-related metrics, both of which are showing ongoing improvement in 2024. In Q3, voluntary turnover was down for the eighth consecutive quarter for a total reduction of over 40% from the peak in 2022. And we have seen a corresponding reduction in open positions down over 50% in that period. Similarly, safety incident rates have shown continuous improvement, now down over 15% from 2022 levels as we reinforce our most important operating value and work every day to recognize and proactively address unsafe behaviors.

Our updated Sustainability Report also highlights our progress on increasing resources recovered through both the processing of recyclables and the recovery and beneficial use of landfill gas through renewable natural gas, or RNG, generation. We continue to make progress towards the development of our portfolio of new RNG facilities expected online in 2026.

Now I'd like to pass the call to Mary Anne to review more in depth the financial highlights of the third quarter and to provide our updated full year 2024 outlook and a detailed outlook for Q4. I will then wrap up with some thoughts about 2025 before heading into Q&A.

Mary Anne Whitney: Thank you, Ron.

In the third quarter, revenue of $2.338 billion was above our outlook and up $274 million, or 13.3% year-over-year. Acquisitions completed since the year-ago period contributed about $161 million of revenue in the quarter, net of divestitures. Core pricing of 6.8% ranged from over 5% in our primarily exclusive market Western region to up to approximately 7.5% in our competitive region.

Volumes improved sequentially by 90 basis points with gains across several geographies, most notably our Eastern region, where acquisition-related shedding and the nonrenewal of certain municipal contracts had impacted prior periods. Additionally, activity picked up in certain

markets, most notably in our Western region, where total volumes were up 3% year-over-year, which would be a strong quarter even in a high-growth environment. This outsized increase was led by special waste activity, up 20% year-over-year in our Western region.

Looking year-over-year at other lines of business. Roll-off pulls per day were down 3%, on revenue per pull up about 5%. September was the weakest month, down 5% year-over-year, and reflected the initial impact of Hurricane Helene in several markets in Florida, Georgia, North Carolina and Tennessee. And landfill tons were down nominally year-over-year, on higher MSW tons up 5%, offset by special waste down 10%, and C&D tons down 6%.

Special waste activity in Q3, while still down year-over-year, improved sequentially in what was the toughest comp from last year. This performance includes that outsized contribution from our Western region and reflects a few jobs getting pulled forward from Q4, a reminder of the event-driven nature and inherent lumpiness of these projects.

Moving next to revenues from recovered commodities. Landfill gas sales were up 15% in Q3, due primarily to higher volumes and higher values for renewable energy credits, or RINs. And recycled commodity revenues, up 55% year-over-year ex acquisitions, were down nominally on a sequential basis as prices weakened during the quarter. Moreover, since quarter-end, commodity values have dropped by approximately 15% as a result of recent slowdowns associated with the port strike and weaker demand, with the potential for another 5% to 10% near-term reduction in Q4.

Adjusted EBITDA for Q3 as reconciled in our earnings release increased by 17.3% year-over-year to $787.4 million. At 33.7% of revenue, our adjusted EBITDA margin was up 110 basis points sequentially from Q2 and up 120 basis points year-over-year. This outsized margin expansion was in line with the increased expectations we provided in July and reflects outperformance in our core solid waste business, where we overcame both the drag from additional acquisition contributions coming on at dilutive margins and incremental costs associated with hurricane preparation and related impacts.

Net interest expense of $80.2 million reflects a weighted average cost of debt of just over 4% on a mix of approximately 82% fixed and 18% variable rate debt, with an average tenor of almost 10 years. Leverage moved nominally in the quarter to about 2.71x debt to EBITDA. Our tax rate for Q3 was 23%, slightly lower than expected. And year-to-date adjusted free cash flow of $1.044 billion, or 15.7% of revenue, is on track for our full year adjusted free cash flow outlook of $1.2 billion.

I will now provide an updated full year 2024 outlook and a detailed outlook for the fourth 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 Commission or similar regulatory authorities in Canada. We encourage investors to review these factors carefully.

Our outlook assumes no significant change in 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 $8.9 billion, up $150 million from our original outlook. And adjusted EBITDA for the full year is now estimated at approximately $2.91 billion, up $50 million from our original outlook. Adjusted EBITDA margin of 32.7% reflects a 120-basis point year-over-year increase for 2024. And adjusted free cash flow of $1.2 billion is in line with our original outlook.

Looking next at Q4. Revenue is estimated to be approximately $2.24 billion. And adjusted EBITDA is estimated at approximately $740 million, or 33% of revenue. Normalized for the sequential decline in commodity values, special waste timing and incremental dilution from acquisitions completed during Q3, margin expansion is expected to be comparable to recent quarters. Any improvement in commodity-driven revenues or incremental volumes associated with hurricane-related cleanup activity would be additive to our outlook for Q4.

Depreciation and amortization expense for the fourth quarter is estimated at about 13.4% of revenue, including amortization of intangibles of about $55 million, or about $0.15 per diluted share net of taxes. Interest expense net of interest income in Q4 is estimated at approximately $82 million. And finally, our effective tax rate in Q4 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.

Again, we are quite pleased that our financial results continue to track above the increased expectations we communicated in July, setting us up for another increase to our full year outlook to revenue of $8.9 billion and adjusted EBITDA of $2.91 billion. That puts our 2024 year-over-year growth at over 10% in revenue and over 15% in adjusted EBITDA.

Additionally, we are encouraged by the ongoing improvements in employee retention and safety, which continue to provide for longer-term savings opportunities. We are also thrilled with the integration and performance of record levels of private company acquisition activity, positioning us for a strong start to 2025.

Although not providing our formal outlook for 2025 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 high single-digit adjusted EBITDA growth in 2025, on expected mid- to high single-digit revenue growth, including price-led organic growth in solid waste plus approximately 2% revenue carryover from the record levels of private company acquisition activity expected to be completed in 2024 with the potential for that amount to grow, depending on the pace of acquisitions.

Additionally, to the extent that we see improvement in commodity values or easing of cost pressures during the year, those impacts would be additive to these preliminary thoughts.

Adjusted free cash flow conversion would be expected to remain in the current range of 45% to 50% of adjusted EBITDA normalized for ongoing impacts of RNG-related CapEx and closure-related outlays. We look forward to having better visibility on the tone of the economy, including any implications from the upcoming election, as well as expected commodity-driven activity and hurricane-related impacts when we provide our formal outlook in February.

I want to conclude by recognizing our 24,000 employees who embody our core values and drive our results. Their actions speak louder than words and are a testament to the culture of accountability that we believe sets us apart. Specifically, I want to acknowledge the work of our teams to manage and address the challenges of recent severe weather, including two major hurricanes in the southeast over a two-week period.

I couldn't be prouder of their efforts to support our teams, putting safety and well-being first while also providing essential services to promote public health and welfare under challenging conditions. Their commitment, as demonstrated by preparedness and diligence, exemplifies servant leadership and truly changes lives. We're humbled by the commitment of all our frontline employees who strive for excellence every day. We also appreciate your time today.

And with that, I will now turn this call over to the operator to open up the lines for your questions. Operator?

Questions and Answers

Operator: Yes. Thank you. We will now begin the question-and-answer session. (Operator Instructions) And this morning's first question comes from Kevin Chiang with CIBC.

Kevin Chiang: Congrats on a good Q3 print there. Maybe if I could just start with the comments on, I guess, special waste. You saw some pull-forward from Q4 to Q3. Just broadly speaking, are you seeing any, I guess, changes in customer activity related to the election?

I'm wondering if some of this activity was pulled forward as maybe some people try to get some of this activity ahead of an election, I guess, in a couple of weeks here.

Mary Anne Whitney: Kevin, no. I don't think we'd say it's specifically related to elections. I mean, that can influence behavior more broadly. But we'd say specifically, the projects we referenced, it was things that we had expected. Maybe they'd gotten delayed a couple of times and we had them pegged for Q4 and they actually got done in Q3. It's as simple as that. And it was primarily on the West Coast as we mentioned.

Kevin Chiang: Okay. That's helpful. And then again, congrats on the Royal Waste deal. You noted you'll have, I guess, 17 zones in total. I believe when the commercial zone, those are initially pushed through and approved, I think the maximum was 15.

So just wondering, does that require you to divest of any zones? Or I guess because you acquired these other five through M&A that you can manage all 17, or you'll be allowed to oversee all 17 zones?

Ron Mittelstaedt: Yes. Kevin, okay. So to clarify, #1, the cap on any individual company is 15 as you rightly pointed out. However, if there is overlap, that does not necessarily count as a new incremental zone.

And there was overlap in some of the zones at Royal Waste and we had. It actually made us go to 16. And so there was one zone that we, in effect, are swapping out of because we would have been at 16. And that was part of the consent process with the BIC. So we are at the cap of 15 zones, not 17. And so that is how that works.

Kevin Chiang: Oh, thank you for the clarification there. And then maybe just last one for me. And I know this is tough to predict. But RIN prices have been north of $3 pretty consistently here. When I look at D3 pricing, it's basically at the upper end of where we've seen this trend over the past few years here. I guess the volume targets go out to 2025. Just wondering what your thoughts are as the EPA might reset these targets.

Do you see risk to RIN pricing? Do you think they lower the volume targets in the next three-year batch? Just any, I guess, preliminary thoughts here as we head into 2025.

Mary Anne Whitney: Sure. Well, as a reminder, RINs are a commodity. Not only a commodity, they're subsidized. So there's inherent uncertainty, which, from our perspective, really underscores the importance of the hybrid strategy we've chosen and taking the opportunity to hedge opportunistically as we have this year at about $3 because there is that uncertainty.

So we don't have a crystal ball any better than anyone else's. But as I said, I think the way we've approached RNG more broadly in mitigating the risk of movement in RINs through the structures and then opportunistic hedges is a way to address that uncertainty.

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

Noah Kaye: I want to pick up on the comment around the outlook for cost inflation. I think in our seat, looking at maybe a little bit hotter CPI and inflationary trends, a little bit of potential reacceleration. What are you seeing in the business around the current pace of unit cost inflation? And how does that inform your thinking about pricing as we get ready for next year?

Mary Anne Whitney: Sure. So what we see, Noah, is pretty similar to what we've seen in recent quarters, which is that cost inflation in our business continues to be in that 4% to 5% range and that wage inflation, which, of course, labor being the most important driver for our numbers, sits at the high end or even above the high end of that range.

So I think the read-through on that is to continue to have the need for outsized spread between price and headline CPI, is what we think that means. And that's certainly what we think about as we prepare ourselves for '25.

Noah Kaye: Okay. Great. And then just a little bit of housekeeping on, I guess, a combination of 3Q and 4Q. Mary Anne, I think you mentioned that margin expansion in 4Q would be similar to

the 120 BPS directionally that you saw in 3Q, but for a couple of factors. So those aggregate factors, roughly around 30 BPS, 40 BPS of margin impact, the commodities, the storms and, I guess, a little bit more M&A, is that the right way to think about it?

Mary Anne Whitney: Yes. I'd say it's arguably even a little north of that because if you think about what underlying margins really did in Q3, I mean, we adjusted for those factors that we mentioned. We really delivered 34%, if you think about it, so up 150 basis points because we overcame the incremental margin dilution. You actually had commodities weaken a little in Q3, not the big drop we saw in Q4. So you had a little movement there.

And so then when I think about Q4, I'd say in the aggregate, those factors that you mentioned are even north of that. They're closer to 60 basis points, which really gets you back up to that same type of level.

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

Adam Bubes: This is Adam Bubes on for Jerry Revich. Wondering if you can just update us on how landfill gas investments are tracking. And how much is that set to contribute in 2024? What could be the possible incremental step-up next year?

Ron Mittelstaedt: Yes. So I think good news, bad news on this, Adam. We have brought on three new facilities in '24 at this point, and a fourth is just going through its initiation phase to be certified. So we will get four online this year. And that was our expectation.

There has been certainly delays in those projects, which seemingly is happening in most of them, both from a logistics standpoint and a permitting standpoint. But they are getting done.

The four we are bringing on this year are some of our smaller ones. We will be bringing on -- so it's a pretty de minimis impact to '24. The impact to '25 is a little greater, but still fairly low. And most of our large projects don't come on until the very end of '25 and throughout '26. So they really begin construction in '25.

So you are going to see a little step up improvement in '25 over '24, and then quite a step up in '26 and then a full impact as '27 comes through on a run rate basis coming out of '26.

Adam Bubes: And then how should we be thinking about growth CapEx next year compared to 2024? And is there potential for a free cash flow conversion inflection just on a higher margin base as these landfill gas investments start to ramp?

Mary Anne Whitney: Well, we gave our preliminary framework. We typically give the detailed guidance in February as you know. And we talked about the fact that on a normalized basis, the conversion we'd expect to be similar at this point in time. I can appreciate what you're asking, is there an opportunity from those incremental RNG contributions, which as Ron said, we don't think are particularly meaningful next year given the timing of the young projects coming online.

But the other factor, of course, I'd remind you of is we also know that commodities, based on

where they are right now, would be a slight drag year-over-year next year. And so right now, very high level, I think, of maybe one offsetting the other, which is why when we gave our preliminary thoughts for the year we didn't mention either.

Ron Mittelstaedt: Obviously, Adam, the only thing I would add is, as I said, we have full contribution of the full year in '27 as of RNG, meaning you're effectively done with your CapEx by the end of '26 on those. And at that point, you have the full EBITDA contribution and no real CapEx contribution. And that certainly is an inflection point to a higher level of conversion.

Operator: And the next question comes from Tyler Brown with Raymond James.

Tyler Brown: Mary Anne, real quick. I think you may have actually answered my question a second ago. But on the margins, just in Q3, I think they were up 120 basis points. But it sounds like M&A and storms were maybe 30 basis points of a drag. Is that right? Just basically getting to the fact that core margins were, let's call it, very, very solid this quarter.

Mary Anne Whitney: Yes. What I'd say is 30 basis points for those two factors you said. And then as I mentioned, there was some incremental weakness in commodities, which also influenced it. But in the aggregate, 30.

Tyler Brown: Okay. Aggregate 30. Did you give an OCC price? Can you update us on what OCC is for Q3, maybe where it is today?

Mary Anne Whitney: Yes.

Tyler Brown: And then any updated on your commodity sensitivity to OCC?

Mary Anne Whitney: Sure. So the average for Q3 was $139. And my point about the weakness coming into the quarter, we'd expected $145. That's where it was in July. And they've now stepped down. And about a 10% move on the basket more broadly is about $25 million.

Tyler Brown: Okay. Perfect. And then, Ron, I was hoping if we could get an update on Chiquita. We're about a year removed from that event escalating. There's some chatter in the markets and some articles in the news. Can you just help us understand the latest there? And then maybe any update on your spending plans for Chiquita here in '24 and then into '25? Just any broad color. I appreciate it.

Ron Mittelstaedt: Sure. No problem. The short version, Tyler, is Chiquita is proceeding basically along the same plan that we originally thought. The reaction area is an area of about 39 to 40 acres. We've made substantial progress on the reaction throughout the course of '24.

I'll give you some statistics. We have drilled 240 wells in and around the reaction area. That is complete. We have put submersible pumps in about 55% to 60% of our wells. We will finish the remaining submersible pumps through the course of Q4, maybe a little trickle into Q1. We believe that the leachate level has effectively peaked in Q3, as we thought it would, and started to come back down by about 10% to 15% recently. Now as we add pumps, that will go up a little

bit before it really starts to drop as we get out of the first quarter of '25.

In addition to that, we have the reaction area of about 40 acres. We have capped with a geosynthetic cap over 99% of that at this point, with only about 0.3 acres remaining to be done. And that will be done over the next three to four weeks. And then it will be fully sealed from a cap standpoint.

And I think most importantly, there was a unified regulatory agency oversight committee led by the EPA along with various California state regulatory agencies and local regulatory agencies that were all involved in the reaction very diligently on a day-to-day basis, along with our teams and our outside teams. And that committee was abandoned by the direction of the EPA two weeks ago and returned to normal local regulatory oversight. So I think that's an indication of the agency's view of where things are at, that everything that is known to be done and working and proceeding along their expectations.

So I would tell you that we're about where we thought we would be. This is L.A. This is an election year, a very contested local and state election in and around the Southern California basin, with two weeks to go in the political process. And I would say that 95% of what you read in the media is political posturing one day to the next as people are scraping for votes at the final hours. I think actually, the reality of the agency's response speaks to the truth. And the other is much like most political messages.

Tyler Brown: Okay. Perfect. And then just big picture, though, there should be -- I know you guys will put a finer point on it come January, February, but the spend should step down just directionally?

Mary Anne Whitney: Oh, sure. Tyler, with respect to as compared to '24, yes, the spend should step down. And yes. We will update our models and have firmer numbers. But if you were looking for a placeholder for how to think about '25, based on what we know today, we'd estimate that to be in the range of $50 million to $75 million.

Operator: And the next question comes from Konark Gupta with Scotiabank.

Konark Gupta: Just on the M&A. Ron, you guys have done a lot of M&A this year. Obviously, it's an outsized year, clearly. And you're seeing the benefits in 2025.

But as we look out, obviously in your space right now, the solid waste market has consolidated to a large degree. Obviously, you still have a lot of opportunities you've mentioned. And then your competitors are obviously involved in some sort of nonsolid waste M&A processes right now.

When we look out to 2025, what are some of the opportunities that you'd be looking at which may be in solid waste or outside of solid waste? And what's really the focus here? Are you looking at more from an ROIC perspective or more from a strategic perspective? Where do you need more density?

Ron Mittelstaedt: Yes. Well, I mean, a lot of things within that question. The M&A market is unchanged. It remains robust. We continue to focus on the core solid waste opportunities. I think some of our larger competitors have focused on some areas outside of solid waste for individual reasons. The HSR process remains difficult, I think, particularly in the more concentrated urban areas where some of our larger competitors sit more broadly. And that makes that a little more challenging on some solid waste acquisitions for them.

In our more suburban and franchised markets, that is less, generally, of an issue. And so that has provided us, I'd say, a little more of a pathway in solid waste.

So we have no plans to pivot from the solid waste approach. Obviously, we have done some E&P stuff, which we've been doing since 2012. That's nothing new. And we'll continue to stick to our knitting. We see a lot of opportunity there.

There's still $4.5 billion or so of private company opportunities in markets that we are in or that are analogous to markets that we are in. We look at everything on a strategic basis first, to answer your question. And then we look to an IRR, ROIC-type model, no matter the size of the transaction we're looking at.

So what you're going to see from us is more of the same, is the way I would say it. I mean, I can't sit here and tell you we're going to have a $700 million a year next year because that was a record year. But I can tell you we feel comfortable with exceeding our traditional $150 million to $250 million. And it'd probably be somewhere in between. So I think we're set up for a very good year.

Konark Gupta: That's very clear. Thanks. And in terms of the storms and the opportunities around them, can you size them up for us, maybe, in terms of what are you looking for from a cleanup perspective as well as some of these communities will all obviously be rebuilding. So there might be some construction activity required there. So any thoughts on the opportunity there in the next few months?

Ron Mittelstaedt: Yes. I think we're only less than a couple of weeks into the aftermath of two pretty devastating hurricanes, between Helene and Milton, as you know. And I think to -- let's say -- as we said in our comments, initially, in that first month to two months after the hurricane, it initially impacts you a little negatively on some of your cost structure. And just the market has to settle down and people have to get back to -- and figure out what their insurance opportunities are, et cetera.

But then what we see in the, generally, three to four quarters following that is we see, if our landfills are positioned well, that we see reasonable opportunity. Now I'm not saying this is the case because we don't know. It's too early, right? But Hurricane Ian, which was the last major hurricane that hit at the end of '22, you may or may not know, but we reported about $15 million in incremental revenue at our landfill in western Florida on the following four quarters of the hurricane.

Now in the case of Hurricane Ian, we really only had one landfill in the area of impact. This

time, we've got two, arguably three. So if it's similar, we should see probably something north of that. But it's really too early to tell you. But that gives you an idea of the type of impacts that a major hurricane can have, depending on your asset positioning.

Operator: And the next question comes from Chris Murray with ATB Capital Markets.

Chris Murray: Ron, maybe can you spend some time talking a little bit about the E&P business, not only the conventional business, but maybe if we get some color, maybe, on how the integration with secured assets are going.

And I think you also made comment in your script that you actually had maybe done some small E&P acquisition. So any color on how you're seeing the business evolving and that [integration going] will be helpful.

Ron Mittelstaedt: Sure. Thank you, Chris. Our E&P business right now is performing very well. I'd say we're firing on all cylinders. Within our legacy business in the U.S., it's up about 10% year-over-year despite rig activity being down. That is led by a strong activity in the Permian.

Our R360 Canada business, which is what we call the former secure business you referenced, is in line and actually better in revenue and EBITDA than our original expectations that we provided on that transaction. We have done an additional bolt-on acquisition to R360 Canada this year. We have done another additional bolt-on acquisition in the Permian to solidify our position.

So our E&P business is a disposal and transfer business. That is what it has always been. And that is why it's such a high-margin business. We're not in any logistics component business or transportation business within an E&P. We are really just purely a disposal business for solids and some piped water.

Right now, I would tell you that that business is about a run rate of $550 million. It's about $300 million in the U.S., about $250 million in Canada. So I think that puts it probably about 5.8% to 6% of total REVs, about 8.2% of EBITDA. We're very comfortable with those numbers and those percentages. But I think if you stick to the disposal piece of this business, that's a 50% type business, like our disposal businesses and our normal solid waste as well.

So that's how we think of the business. And we'll continue to do some more there opportunistically. I don't ever see it becoming more than it is as a percentage, but it's a good business.

Chris Murray: Okay. That's helpful. My other question, and it goes a bit to the people and culture piece of it. So I think you made the comment that turnover is down about 40%. So maybe a little bit of color around what that means. I'm assuming that would take your turnover number into the low double digits, but maybe if you want to clarify that.

But the other piece of that, and when I think about doing such large numbers of acquisitions in a year -- and I appreciate that it's not a massive number of folks relative to the rest of the

organization. But any thoughts around the kind of efforts that you have to go through in terms of integrating all of these businesses in terms of either servant leadership or the cultural attributes or connections that are maybe a little bit unique? And how do you preserve that culture as you continue to get bigger, especially if you keep on this pace of acquisitions?

Ron Mittelstaedt: Yes. Well, very good question. And #1, I think you're actually hitting on, arguably, the most important thing that we do and the greatest differentiator of our model and culture, to be quite honest. And I'll tell you why.

But let me answer your question first. We reduced total turnover on a run rate basis in Q3 to about 24% total. But our voluntary turnover, which is what we focus on the most, is down in the 13.5% to 14% range. And that is a quite dramatic drop over the last five or six quarters. Our target is to get that total turnover down from 24% down into the 19% to 20% level in 2025 and get that voluntary and down into the 10% level from the 13.5% or so it is now. So we believe those are, again, value drivers that will help outsize margin growth in 2025.

Secondly, although we have a record amount of transactions, $700 million in revenue, it'll end up being about 30 to 35 deals, when you think about it in that way, your average deal is $20 million to $25 million, the largest one being about $200 million, many being sub-$10 million.

And so we operate from 570 locations with over 350 P&L managers. The bite size of our acquisition transactions allows for very fast assimilation. And our decentralized operating structure puts that responsibility for cultural integration at a local level with our district management team along with support from our divisional and regional and corporate teams.

So we view speed of integration as a huge cultural issue to changing trajectory of margin performance of a deal, safety performance of a deal, turnover performance of a deal, pricing performance of a deal. Traditionally, those are not real strengths of private companies. Sometimes they are, such as in the case of Royal Waste that I mentioned. But they're somewhat unique.

So speed in the insertion, generally, of a historical Waste Connections, operating manager, financial manager, marketing manager is critical. And I think we avoid cultural dilution by that approach because otherwise, M&A is something that can affect cultural dilution very quickly. And our servant leadership-led culture, as we define it, puts the auspice on our people to bring that team that we acquired up to our standard and help them be successful as quick as possible. So it's somewhat, to be honest, a secret sauce of what we do.

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

James Schumm: My first one, just what are you seeing in terms of your churn rates in your nonfranchise markets and your ability to maintain price increases at these levels?

Ron Mittelstaedt: Yes. I mean, what I would tell you, James, is that it continues to improve. We were looking at this, obviously, in preparation for our budgeting process for 2025, in preparation for this call, seeing how we're doing year-to-date in all of our areas. And it continues to improve.

Our churn rate now is lower than it was in 2021 coming out of the pandemic, and definitely lower than hyperinflation of '22 and '23. We are back to a pre-2020 level or thereabout. And obviously, when you have hyperinflation and you're putting in double-digit type rate increases, you're going to see maximum churn rates. So that's expected.

But we are seeing that continuing to improve. We target a retention of our price increases of north of 85% to 90%. We still remain comfortable with those numbers. And that's what we're getting.

And again, you also saw our volume step up 90 basis points. Some of that is less impact anniversarying of contracts we shed. But some of it is also some improvement in churn.

James Schumm: Okay. Great. Thank you. And then just regarding Arrowhead, are you diverting such large volumes of waste from the northeast such that it could impact pricing at northeast landfills? Or do you believe that your Arrowhead volumes will have a de minimis impact there?

Ron Mittelstaedt: I believe in aggregate, it would have a de minimis. I think the reality is much of what we're diverting, to use that term, I'd say it's internalizing, is volumes of ours that were going to a third party until we got the capacity at Arrowhead and other sites to be able to do it. So no. I do not believe so.

And in fact, in some cases, we're diverting our own volume to be able to take higher-priced volume from the third party markets in local areas where they don't have as much choice. So if anything, I think it actually is a boost to disposal pricing in the northeast on a sustained basis.

Operator: And the next question is from Sabahat Khan with RBC Capital Markets.

Sabahat Khan: We talked a little bit about this last quarter as the macro is evolving. But just wondering, as you talk about 5% pricing-led growth into 2025, how are your perspectives evolving on the macro, some of the cyclical units and just volumes in general? And maybe some of the puts and takes, if you can share on the volume front.

Mary Anne Whitney: Sure. So just to clarify, in that preliminary framework we provided for '25, that would imply mid-single digits price plus volume. And so really, where that ultimately shakes out how much is price, what volumes ultimately look like, we'll be providing when we do give guidance in February.

What we can say is what we're seeing out there now and what the impacts of our continued shedding and the contract on renewal that we've done, which is what's driving the negative volumes. We're encouraged that we did see the improvement in our western region, but we'd acknowledge, as I said in prepared remarks, 3% volume growth would be very strong even in a strong economy. That tells you it's anomalistic. A piece of that is just timing of special waste.

But again, still encouraged. If I look back to last quarter, that same western region had volumes of 1.5%. So underlying volumes are positive. That's a good thing. But the continued shedding, or

the continued impacts of that shedding, would persist until we've anniversaried all of them. And so that will dictate the pace of the volume recovery on a reported basis in '25. So again, we'll look forward to giving you that color when we give guidance in February.

Sabahat Khan: Okay. Great. And then Ron provided a bit of color on how you think about integration of M&A. Just I guess in a high-volume year like this, sounds like the next year maybe not as big, but still a big one. How are you guys thinking about the integration of these? And obviously a lot of them are maybe smaller deals, but just if you can just talk about the capacity to integrate these assets and also maybe maintain maybe a bit of an above-normal elevated pace into 2025 on the M&A front.

Ron Mittelstaedt: Yes. Well, first off, just to clarify again, I just said that, hey, I'm not sure that we can have another record year. It doesn't mean we won't. But as we sit here today, it's probably too early to say that. But what I did say is that we continue to believe that M&A will be elevated and that we feel very comfortable with something in excess of our maybe historical $150 million to $250 million, which is more of that couple 2%, 3% type years is what we said. So I want to clarify that.

If anything, I think we're better set up now because we've reduced open headcount by over 50% through the reduction of turnover and other initiatives. And continuing to drive that lower into next year, we're better positioned to integrate more M&A than we have been maybe ever. So it won't be -- there will not be any excuse of an inability to integrate and oversee M&A as a reason there wouldn't be a record year. It would just be that that's opportunistic. I think from an ability to handle it, we're in actually very, very good shape right now.

Operator: And the next question comes from Stephanie Yee with J.P. Morgan.

Stephanie Yee: I want to ask if there's anything you're worried about as we're heading into the election. Any potential changes that you might anticipate for the waste industry?

Ron Mittelstaedt: Well, I mean, Stephanie, #1, we have no better crystal ball than you or any poll that's done every day that changes by the hour. We have operated under both a Democratic or Republican presidency as well as a Democratic or Republican houses of Congress. And it's our responsibility to react to what comes and to excel and do so. And we've done that. And we're confident we will continue to be.

I think there's puts and takes no matter what happens within the White House or within Congress. There's nothing that we're afraid of from either. Maybe one way you could say there's incremental regulation and some people say, well, that's more difficult. Well, that provides us greater pricing leverage, to be quite honest. The other way says, well, there will be less regulation. Well, that provides us faster M&A track record.

So I think there's benefits that you can derive from either. They look a little different. But we're not overly concerned about the outcome of the election other than rhetoric that it bleeds into the business in question. So you'll hear us have a plan either way to excel next year.

Stephanie Yee: Okay. I appreciate that. And just a clarification question. I think there were comments that in 2025, you're still expecting above average underlying margin expansion. I know on a reported basis there are some headwinds, like with the commodity price, maybe dilution from the M&A.

But in terms of the underlying margin expansion, would you say it's similar, or you expect it to be similar in '25 to what you anticipate you'll do in '24? Or will it be a little less just because the pricing and cost environment is changing?

Ron Mittelstaedt: I think what you said is accurate. I think you would see the underlying approximate close to what you saw in 2024, which was extremely strong.

But to your comment, the reported might be a little less because you have some headwinds, particularly right now, as you said, such as commodities, such as some margin dilution from typical M&A and a high level of M&A that we've done. So it will still be, I think on a reported basis, quite above normal, but maybe not quite as high as '24 because of those headwinds only.

Operator: And the next question comes from Jamie Somerville with Eight Capital.

Jamie Somerville: I was going to ask about M&A, but you've answered that quite clearly already in terms of you expect to exceed the $150 million to $250 million of deals. So I'll maybe just ask, presumably that's gross without the impact of shedding. Can you maybe give an indication of the net or the shedding impact that's reasonable to expect going forward? Is shedding going to continue at a similar rate to what we've seen?

Ron Mittelstaedt: Well, #1, yes. The M&A that we report is a gross dollar of run rate acquired revenue achieved. You are correct. We give it in each period what its contribution is in the quarters and in the year on an actual basis.

The shedding is a function of underwater or contracts that we elect not to renew based on either the service and safety concerns or financial return concerns. And obviously, we've done a lot of M&A over the last three years. And so you would expect it to excel a little higher than normal, which is what you've seen. And it gets called out because we've been in a flat to almost -- less than 1% type growth market.

Historically, when we've been in a stronger GDP market where there's real underlying nongovernment growth of 2% to 3%, it's not called out because you're still having flat to positive volumes. So that's really just more of a what's going on in the macro economy than anything.

So we have anniversaried a lot of the larger things that we've shed, but they'll continue to be shedding. I would expect it to come down as we go forward, but it'll still be there. But this is just really more a function of what's going on in the macro economy.

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

Brian Butler: Just a quick one maybe on service intervals. Can you maybe just give some

additional color on just the service interval trend you saw on the third quarter and maybe year-to-date and how that might play out as we get into the fourth and 2025?

Ron Mittelstaedt: Yes. Brian, I would tell you that on a small container basis in our competitive markets, that continues to improve, particularly when you take out service decreases that are really affiliated with price change. So you got to look at what is happening in service decreases that are solely related to economic versus are you decreasing the level of service or frequency because someone's trying to reduce somewhat of the impact of their price increase? So those are two ways of looking at it. And they're very different.

And I think on the economic piece and the price piece, actually, both those continue to improve from where they were. So we would tell you that that is less of a headwind than each of the previous four to five quarters.

Operator: And the next question comes from Tobey Sommer of Truist Securities.

Jasper Bibb: This is Jasper Bibb on for Tobey. Just wanted to follow up on a prior question. How are you thinking about the core margin drivers in 2025 underlying your EBITDA growth expectation? I think the last year has seen pretty good price-cost spread. You also mentioned the ongoing decline in employee turnover. Do you see those key margin drivers changing at all as we turn the calendar into '25?

Mary Anne Whitney: No, we really don't. Basically, when we give those preliminary thoughts and we say we should be positioned for above average underlying solid waste margin expansion, it's for just those reasons you described, that we'll be looking forward to having price-led organic growth and we should continue to see some of those benefits from improving retention and safety metrics over the longer term. And so we believe that would impact '25. And that's the kind of color we'll be able to provide more of in February when we give our guidance.

Jasper Bibb: Thanks. Understood. And then maybe following up on Royal Waste. Historically, I think Northeast has been your lowest margin geography. Do you see an opportunity to more materially change that margin profile for the Northeast region over the next couple of years with New York ramping up and also your rail development?

Mary Anne Whitney: Well, certainly, as Ron described, we think there's a lot of opportunity within the New York market, specifically in the benefits of the franchise model providing greater efficiencies and densities locally.

One observation about the Northeast in general would be the disposal cost, the transfer and disposal cost, which influences total margins in any market. But that at a higher level is why you see slightly different dynamics in the Northeast than you do, say, in our central region or other regions where those dynamics are different.

Operator: And that does conclude the Q&A session, so I would like to turn it over to Ron Mittelstaedt for any closing comments.

Ron Mittelstaedt: Okay. Thank you.

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, Regulation 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. The conference is now concluded. Thank you for attending today's presentation, and you may now disconnect your lines.