Waste Connections, Inc.

Q4 2024 Earnings Conference Call

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PRESENTATION

Operator

Good morning, everyone, and welcome to the Waste Connections, Inc. Q4 2024 Earnings Conference Call.

All participants will be in a listen-only mode.

Should you need assistance, please signal a conference specialist by pressing the * key, followed by 0.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press *, and then 1 on a touch-tone telephone. To withdraw your questions, you may press *, and 2.

Please also note today's event is being recorded.

At this time, I'd like to turn the floor over to Ron Mittelstaedt, President and CEO. Sir, please go ahead.

Ron Mittelstaedt — President and Chief Executive Officer, Waste Connections, Inc.

Thank you, Operator, and good morning. I would like to welcome everyone to this conference call to discuss fourth quarter results and our outlook for both the first quarter and full year 2025.

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, Q4 provided a solid finish to a year of extraordinary accomplishments for Waste Connections, both financially, with double-digit growth in both revenue and adjusted EBITDA, and operationally, with accelerating improvements in employee engagement and retention, along with the integration of record levels of private company acquisitions, which totalled approximately $750 million in annualized revenue in 2024.

Most importantly, our continued focus on human capital resulted in multiyear lows for employee turnover, now down over 1,000 basis points from 2022, with the associated improvements in operational execution providing momentum for another year of outsized margin expansion in 2025.

Price-led organic solid waste growth, along with improving commodities and ongoing acquisition activity, should position us at or above the high end of our range of potential outcomes, with normalized adjusted free cash flow in excess of $1.55 billion.

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

Mary Anne Whitney — Executive Vice President and Chief Financial Officer, Waste Connections, Inc.

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 US Private Securities Litigation Reform Act of 1995, including forward-looking information within the meaning of applicable Canadian securities laws. Actual results could differ materially from those made in such forward-looking statements due to various risks and uncertainties.

Factors that could cause actual results to differ are discussed both in the cautionary statement included in our February 12th earnings release, and in greater detail in Waste Connections' filings with the US 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

Thank you, Mary Anne.

As noted, 2024 was an extraordinary year at Waste Connections by any number of measures, including safety performance, employee engagement and retention, acquisition activity, financial results, and ultimately, value creation.

Solid waste core pricing of 7.1 percent was supported by strong operational execution and record levels of acquisition integration to drive industry-leading margins for the whole company—that is, not just solid waste—of 32.5 percent, up 100 basis points year over year despite significant commodity, RINs, and FX declines in Q4.

As we have indicated, we maintain that the best-leading indicator of performance is voluntary turnover, which has declined by 50 percent in less than two years to below 13 percent now. Over the same period, we have also seen a reduction of over 60 percent in open employee positions, with every region at or below targeted levels of 3 percent to 4 percent, down from 7.5 percent.

Additionally, our 2024 employee engagement scores showed continuous improvement from an already high base on record levels of employee participation.

We are seeing traction from higher staffing levels and expanded frontline training. We're sending more new and existing employees through our in-house commercial driver academies and realizing the benefits from that engagement in both improved retention and safety statistics.

We're also reducing overtime as well as reliance on third-party services, improving service levels, customer satisfaction, and employee morale, while also maximizing the integration benefits from new acquisitions and providing more avenues for growth.

In short, we've achieved the balance in service quality, pricing, retention, and acquisition integration that we've been working towards over the past 18 months.

The benefits of these improving trends were evident in Q4, when we delivered a 6.7 percent core price and overcame the effects of an additional half point of negative volume as a result of our decision to ramp down activity at Chiquita Canyon Landfill.

This reduction, along with the combined headwinds from the sequential decline in commodities, RINs, and FX rates during the quarter accounted for more than 60 basis points' margin impact relative to our Q4 guidance.

The good news is that RINs have already bounced back to about 250 and commodities have firmed up from recent lows.

For the full year 2024, we delivered better-than-expected adjusted free cash flow of $1.218 billion, converting over 50 percent of adjusted EBITDA to adjusted free cash flow, normalized for R&G project CapEx, and over $200 million in outlays associated with the site-specific impacts at our Chiquita Canyon Landfill in Southern California, reflecting adjusted free cash flow of over $1.4 billion in the base business, excluding Chiquita.

On the subject of Chiquita Canyon, we made the decision to close active waste disposal operations at the site as of year-end 2024. While we do have remaining airspace available at the site, we determined it was no longer feasible to continue operations due to the imposition of tonnage limits taking effect on January 1, 2025, and the final permit approval needed for Chiquita to access otherwise permitted and constructed airspace, along with incremental capital requirements.

Although not our preferred choice long term, closing Chiquita was within the range of potential outcomes contemplated when we provided a preliminary framework for 2025 back in October. And we have successfully redirected a significant portion of the waste throughput to another of our landfills in Central California. Put simply, the economics of operating no longer made financial sense.

We will, of course, continue to manage the site, including addressing the elevated-temperature landfill or ETLF event, as well as honouring our commitments with respect to closure and post-closure as and when appropriate.

Mary Anne will cover the impacts to our 2024 financial results and closure and post-closure liabilities in Q4 to address and mitigate the ETLF event impacts, which, as we've noted before, are site-specific and nonrecurring in nature.

Looking next at acquisitions.

In 2024, we closed approximately $750 million in annualized revenue from 24 acquisitions, with deals in E&P waste and across our footprint of solid waste franchises and competitive markets, including acquisitions that can be internalized into our disposal network, plus new market entries and a number of tuck-ins to existing operations.

We continue to have a robust pipeline. In fact, we already have over $75 million in annualized revenue either closed or signed and expected to close during Q2, bringing the 2025 expected revenue contribution from acquisitions to over $300 million as we sit here in early February.

Our disciplined approach to acquisitions remains unchanged and relationship-driven, with our focus, as always, on market selection, the risk profiles we accept, and the valuations we determine to be appropriate.

As we say, what matters isn't closing deals, but integrating and delivering results to provide value creation and to maintain low leverage for continued growth.

To that end, in spite of outlays of $2.2 billion, our leverage was virtually unaffected during 2024, ending the year at 2.67 times debt to EBITDA, a reflection of the quality of the revenue acquired and our ability to delever dynamically.

That low leverage, plus liquidity approaching $1 billion, provides tremendous optionality for more of the same; that is, continued funding of outsized acquisition activity and investment in sustainability-related projects, along with an increasing return of capital to shareholders.

And now I'd like to pass the call to Mary Anne to review more in-depth the financial highlights of the fourth quarter and provide a detailed outlook for Q1 and full year 2025. I will then wrap up before we head into Q&A.

Mary Anne Whitney

Thank you, Ron.

In the fourth quarter, revenue of $2.26 billion was up $225 million or 11 percent year over year, bringing full year 2024 revenues to $8.92 billion, above our expectations and up 11.2 percent year over year.

Acquisitions completed since the year-ago period contributed about $169 million of revenue in Q4, net of divestitures, bringing full year net-acquisition contribution to $529 million.

Core pricing in Q4 of 6.7 percent ranged from about 5 percent in our mostly exclusive market Western region to about 7 percent in our competitive markets.

Fuel and material surcharges were negative 50 basis points in the quarter on lower fuel costs.

Solid waste volumes in Q4 were down 2.7 percent, excluding 50-basis point negative-volume impact at Chiquita, where we ramped down activity in advance of closing the site.

Elsewhere, volumes continued to reflect our focus on quality of revenue through shedding and a purposeful trade-off between price and volume, as well as the timing of special waste activity, some of which, as noted last quarter, was completed in Q3.

Looking at year-over-year results in the fourth quarter on a same-store day-adjusted basis, roll-off folds (phon) were down 4 percent and total landfill tons were about flat.

Adjusting for Chiquita, tons were up 3 percent year over year, on MSW up 6 percent, special waste up 2 percent, and C&D waste down about 6 percent.

Over half of the MSW increase was attributable to storm cleanup activity in Florida or the internalization of tons from our Northeast operations into our rail-served Arrowhead Landfill in Alabama.

Adjusted EBITDA for Q4, as reconciled in our earnings release, was up 11.6 percent year over year to $732 million or 32.4 percent of revenue.

As Ron noted, excluding the reduction in tons at Chiquita and the drop-off in commodity-driven revenues and FX rates during the quarter, adjusted EBITDA margin was over 33 percent.

Looking at the full year 2024 adjusted EBITDA of $2.902 billion was up 15 percent year over year, with adjusted EBITDA margin up 100 basis points to 32.5 percent. And as a reminder, that included a margin of 33.7 percent during Q3, our seasonally strongest quarter.

Given our decision to close Chiquita Canyon Landfill as of year-end, our Q4 results reflect our accounting for the related impacts, the write-down of $116.1 million in site costs, plus an adjustment of $480.8 million to increase our closure and post-closure liabilities.

This amount includes a full forward of what we would describe as the customary outlays associated with landfill closure and post-closure obligations, scheduled to occur over a 30-year period. It also reflects an update to projections for outlays to address the ETLF event, which totalled $224 million in 2024, and are expected to step down in subsequent periods to about $100 million to $150 million in '25 and down to about $50 million in 2026.

Total 2024 outlays outpaced original expectations primarily as a result of related regulatory, permitting, legal, consulting, and other indirect costs that were outside of the original scope, as well as incremental requirements driving up the direct costs associated with leachate treatment.

We continue to pursue strategies to mitigate these impacts and the related costs.

In spite of those incremental outlays, our 2024 adjusted free cash flow of $1.218 billion exceeded our expectations. Capital expenditures of $1.056 billion reflect ordinary-course CapEx in line with expectations and slower-than-expected R&G project spend totalling about $60 million.

As discussed on prior calls, our sustainability-related projects include about a dozen RNG facilities with a variety of ownership structures. We continue to expect projects to be online by 2026 and expect aggregate capital outlays to approach $250 million before any benefit from investment tax credits.

While RIN values will drive the payback period, our hybrid ownership approach insulates us from volatility on about half the economics of these projects.

RNG capital expenditures, $100 million to $150 million, have been factored into our 2025 outlook, which I will now review along with our outlook for Q1 2025.

Before I do, we'd like to remind everyone once again that actual results may vary significantly based on risk 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. Beyond the noted signed deals, our outlook also excludes any impact from additional acquisitions that may close during the remainder of the year and expensing of transaction-related items during the period.

Looking first at the full year 2025.

Revenue in 2025 is estimated in the range of $9.45 billion to $9.6 billion.

For solid waste, we expect price plus volume in the range of 4 percent to 5 percent, excluding about 0.5-point volume impact from closing Chiquita, which, by the way, is how we'll communicate organic growth in 2025, on pricing of about 6 percent.

Acquisition revenue contribution of about 3.5 percent includes deals signed and expected to close during Q2. And the range of outcomes includes the potential for some recovering commodity values and FX rates from recent levels.

On that basis, adjusted EBITDA of 2025 is reconciled in our earnings release is expected in the range of $3.12 billion to $3.2 billion, or adjusted EBITDA margin in the range of 33 percent to 33.3 percent, up 50 to 80 basis points year over year.

This positions us for peak quarterly margin in excess of 34 percent, consistent with what we've discussed in prior periods, in spite of lower commodity values, RINs, and FX rates.

Incremental acquisition activity and further improvements in commodity-driven revenues would provide upside to our 2025 outlook.

Adjusted free cash flow in 2025 is also reconciled in our earnings release. It's expected in the range of $1.3 billion to $1.35 billion.

Estimated CapEx of $1.2 billion to $1.225 billion includes $100 million to $150 million for RNG projects.

And our adjusted free cash flow outlook also reflects $100 million to $150 million for outlays associated with the Chiquita Canyon ETLF.

Adjusting for these discrete items, 2025 adjusted free cash flow of over $1.55 billion is indicative of the jumping-off point for growth going into '26, when we expect to revert to our more normalized conversion rate of 48 percent to 50 percent of adjusted EBITDA or more.

Turning now to our outlook for Q1 2025.

Revenue in Q1 is estimated in the range of $2.2 billion to $2.225 billion.

And adjusted EBITDA is estimated at $700 million to $710 million or 31.8 percent to 31.9 percent of revenue.

Depreciation and amortization for the first quarter is estimated to be about 13.4 percent of revenue, including amortization of intangibles of about $48 million or about $0.13 per diluted share, net of taxes.

Q1 interest expense net of interest income is estimated at about $80 million, and the tax rate for the first quarter is estimated at approximately 23 percent.

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.

Coming into 2024, we emphasize the interconnectivity of relationships and results. And our performance reflects the importance of both, with financial excellence and record acquisition activity supported by notable improvement in operational statistics and employee engagement.

Even more importantly, they positioned us for continued outsized growth in 2025. In fact, we believe we're better positioned than ever.

In 2025, we're focused on delivering excellence with humility. We're sticking to a model that has served us well for over 27 years and which guides us as we grow to revenue of $10 billion and more, while acknowledging the benefits of innovation and new ideas to ensure that the Company is well positioned for the future.

Along these lines, we're excited to be working with partners to provide solutions for PFAS treatment and expand renewable natural gas generation in our landfills.

We're introducing electric trucks as we build out our newest franchise market, New York City.

And we're further digitizing the employee and customer experience to bring people closer together through technology. We are already seeing the benefits of the use of AI: higher productivity and output quality from robotics in our recycling facilities, improved safety outcomes and routing efficiencies across our fleet, along with opportunities to drive sales and augment revenue quality, just to name a few of the applications.

We'll always maintain a human-centred design to inform and direct our approach to the use of technology, but we'll also focus on opportunities to leverage and maximize the utility of our resources.

We're also humbled by the trust of many stakeholders from the communities we have the privilege to serve to the private sellers entrusting us with their legacy.

And we're most grateful for the dedication of our 24,000 employees who embody the enduring values of Waste Connections and whose efforts truly set us apart.

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

Q&A

Operator

Ladies and gentlemen, we will now begin that question-and-answer session.

To ask a question, you may press *, and then 1 on your touch-tone phones.

If you are using a speakerphone, we do ask that you please pick up your handset before pressing the keys.

To withdraw your questions, you may press *, and 2.

Once again, that is *, and then 1 to join the question queue.

We'll pause momentarily to assemble the roster.

Our first question today comes from Tyler Brown from Raymond James. Please go ahead with your question.

Tyler Brown — Raymond James

Hey. Good morning, guys.

Ron Mittelstaedt

Morning, Tyler

Mary Anne Whitney

Tyler.

Tyler Brown

Hey. Lots of good detail, as usual. But can we go back over some of the moving pieces on cash flow? Maybe can we start with green CapEx? So I just want to make sure that I've got it. So I think in '23, you spent maybe $40 million. It sounds like in '24, you spent $60 million. That's going to step up to about $125 million at the midpoint in '25. Is all that basically right?

And then based on what we know, shouldn't that basically sunset and that'll be more or less done in '26?

Mary Anne Whitney

Yes. You're correct. Everything you said, we'd agree with. The bulk of the spending will get done in '25. As you said, we've had those outlays already and we'll basically be done by '26.

What's unknown would be the benefits from incremental tax credits. And so to the extent there's any good news there, that would just make the net impact smaller.

Tyler Brown

Okay. And then the EBITDA contribution, that kind of really ramps in '26 and '27.

Mary Anne Whitney

That's right. As we've said to this point, there's just been nominal increases from the facilities that have come online. The bulk of them will be online during '26 and so you'll see it ramped during '26 for the full year in '27. And we've said that's around $200 million in incremental EBITDA. So the revenue is north of that, but it's very high flow-through and, of course, very high conversion of EBITDA to free cash flow.

Tyler Brown

Right. Okay. Perfect. And then on Chiquita, again, just to kind of make sure I've got all this.

So I think, again, you spent $23 million in '23. It sounds like you had a really large spend in '24 at $224 million. That number steps down, call it to $125 million, and then it steps down again in '26. And then by the time we get to '27, that should be kind of zeroed out. Is that about right?

Ron Mittelstaedt

Yeah. Tyler, I don't know if it will be zero, but it should be in that zero to $15 million to $20 million range is what we believe by then, sort of just a maintenance level at most. It could be zero, but I would say zero to $20 million.

Tyler Brown

Okay. But big picture, I mean, as we build through the end of this decade, I mean, the free cash conversion on a reported basis will materially step up. And I think you said 48 percent to 50 percent maybe in '26, I think is what you said, on a "normalized basis". But that's not even including the benefits of the high flow-through RNG. So I mean, it could be pretty good as we get to '27. I know it's a long way, but that's the idea.

Ron Mittelstaedt

Yeah. Yeah. That's why we said this year, if you take what we've guided and you assume we didn't do RNG or have Chiquita—which you can't do, I understand—it would be $1.55 billion would be the '25 free cash flow or right at about 50 percent. And that is before RNG EBITDA contribution, as you just outlined.

Tyler Brown

Right. Okay. Last one here. I continue to get a lot of questions around volume. It sounds like '25, even if I kind of take away Chiquita, it's going to be maybe the fourth year in a row of down volume.

Can you just kind of help us, Ron, think about that? Could that go positive into '26? Is there still some intentional shedding? Do we just need a better industrial backdrop or a better housing backdrop to get there? Just any big picture thoughts on that. I get a lot of questions on that. Thanks, guys.

Ron Mittelstaedt

Sure. Tyler, first off, what I would point out that for analysts and investors, you have to understand that not all companies report volumes similarly. And that doesn't mean any way is right or wrong. You can't really compare them to each other.

We only report solid waste in our volume. We don't report changes in recycling and other business lines that we don't view as core or significant but influence the volume reported. So ours is just solid waste. So let's start with that. Number one.

Number two, we had a record year of M&A in '24. We think that's a good thing. We would love to have and plan to have a very strong year again in '25. Again, that's a good thing.

But as we have said, maybe 10 percent to up to 15 percent of the M&A revenue you acquire, you look to shed over a one-to-three-year period as contracts come up that are unprofitable. So again, like we say, follow the margin, not volume, because we are purposely shedding volume and redeploying capital into more profitable contracts we can bid.

So for shedding to stop, M&A would have to decelerate dramatically. And we don't view that as something we're looking to do or see happening.

The other thing we have said is that, look, there's somewhere probably between a half and maybe up to a point of conscious trade-off between price and volume. Again, others are talking about

achieving 4 percent, 4.5 percent yield, which is really our price. And we're achieving, have guided today, to 6 percent plus price. That's yield. Okay? So very material difference in the pricing achieved.

That comes along with some trade-off. We think in this environment that that trade-off is very necessary, as it was in '23 and '24. While inflation is certainly coming down, as we've recently seen, it's not fully down yet. And so we always focus on having 150-to-200 basis-point spread, not necessarily to the CPI, but to what we see our cost structure doing. And so, that's where we focus on price.

So it's a long way around the barn to say it's conscious between purposeful shedding, it's conscious of the trade-off of price volume, and then it's also that we just report solid waste in our volume calc.

And so, in that, we have been in basically a flat to almost negative economic environment for two-and-a-half full years now, really since the beginning of '22 in our numbers. You bounce around between zero and 1 percent or 2 percent MSW growth. I think that reflects. And then C&D and special waste, which are tied to construction event activity, bounce around between negative 10 percent and positive 10 percent in any given quarter. Of course, those are the smaller piece of things.

So yes. There is a little bit of a need for improved economic activity, which we are optimistic is coming, but we have not yet seen that.

Tyler Brown

Perfect. Thank you so much, Ron.

Operator

Our next question comes from Kevin Chiang from CIBC. Please go ahead with your question.

Kevin Chiang — CIBC

Hi. Thanks for taking my question. Maybe I'll start off with congrats on a lot of the effort here on turnover and some of the posting numbers you've supplied.

I guess on the back of record M&A, I guess any colour on what you're seeing from an employee retention or turnover perspective in the acquired businesses, just given the record amount of deal flow you've seen over the last year and even the past few years here?

Ron Mittelstaedt

Yeah, Kevin. I mean, I think that's a very good question, particularly with someone who's as active as we are.

Look. And that's something we're very pleased with. To achieve a under 13 percent voluntary turnover number, you have to understand that it is significantly higher in acquired M&A companies. It is not uncommon for that in the first year to be in that 30 percent-to-35 percent level because of our really rigorous safety standard. And many tenured employees coming through private companies on the front line, that's a very hard adjustment for them behaviorally to make. So that's captured even in that. So it tells you our core company number is even lower.

So we focus very heavily on safety. It is not uncommon for us to drop the safety incident rate on an acquired stand-alone private company by 3x in the first 12 months. But that does come along with having to make some frontline and supervision-level changes at acquired companies.

Kevin Chiang

That's great colour. Maybe just turning to your margin outlook, the 50 to 80 basis points of margin expansion. Is there a way to think about what, I guess, R360 Canada might be contributing to that? Because you have a full year of Secure and I think you were evaluating opening up some facilities there. Is that one of the, I guess, foundational pieces to driving that outside margin expansion in 2025?

Mary Anne Whitney

So, Kevin, really, it's the strength of the underlying business is what's driving the outsized margin expansion. We are enjoying the benefits of a terrific acquisition of Secure, but as you'll recall, we had 11 months of it last year. So the rollover contribution is just one month.

And yes, as we've said, the performance there has resulted in incremental activity and looking at opening mothball (phon) facilities, but to the extent that were to contribute, it would be very late in the year and nominal.

So really going back to the 50 to 80 basis points of margin expansion is in spite of the drag from commodities, RINs, and FX, which think of that as down 20 to 50 basis points. So it implies underlying margins up as much as 100 basis points.

And again, that really speaks to all the things that Ron outlined that are working for us in the underlying business. And yes, we're enjoying the benefits of a very solid E&P waste business, but not a huge driver of incremental margins in '25.

Kevin Chiang

Okay. That's very helpful. And maybe just last one for me. You noted how your leverage ratio really didn't change despite the record M&A. And you have incremental growth CapEx, which starts to roll off in the next couple of years.

I guess when you look forward, how do buybacks, I guess, play a role in your free cash flow allocation? I mean, it seems like you could probably add that to your—or be more aggressive there, just given where your balance sheet is and your free cash flow generation and the fact that even on the back of a record year, your leverage didn't really move that much. I'm just wondering if that's something that's

being contemplated, especially as free cash flow does start to step up even more in the next kind of 12 to 18 months.

Mary Anne Whitney

We absolutely agree, Kevin. And the beauty of the sitting at 267 with, as we said, approaching $1 billion in liquidity, is we have tremendous optionality.

I mean, to put it all in context, you've seen us continue to grow our dividends, as we have every year, double digits at a 14 percent CAGR over the last 15 years. And you've seen us renew our NCIB, that normal course issuer bid. So we have the flexibility to buy back up to 5 percent to preserve that optionality.

We always say, at some point, M&A slows down. But I think to your point, M&A doesn't even need to slow down for us to use that other sort of arrow in the quiver. And we agree with you and opportunistically, that is something we'll look at.

Kevin Chiang

Excellent. That's it for me. Congrats on a good quarter here and a solid outlook for '25.

Ron Mittelstaedt

Thank you, Kevin.

Mary Anne Whitney

Thank you.

Operator

Our next question comes from Toni Kaplan from Morgan Stanley. Please go ahead with your question.

Toni Kaplan — Morgan Stanley

Thank you so much. Wanted to first ask on price. We've seen core price continue to moderate over the past few quarters but still holding up very nicely. Where do you see price bottoming out?

And what are you thinking for trajectory into 2025 in terms of how that looks? Thanks.

Mary Anne Whitney

Sure. So the way to think about price, we said at about 6 percent is the way to think about price. Of course, you have the two pieces where you've got the CPI-linked markets, which were, in 2024, were about 5 percent. Those stepped down to about 4 percent. And of course, what CPI does will inform how that proceeds going forward, so whatever your view is of that. But for '25, that's a good placeholder. And so then that implies 7 percent, 7.5 percent in the competitive markets to deliver that 6 percent or north of it.

In terms of the cadence, you should expect sort of our typical cadence where on a reported basis, it would start higher than that and move down over the course of the year, just the math of it.

And also, as is pretty typical for us, we do the majority of our price increases in the competitive markets early in the year. And so by the time we report Q1 a couple months from now, we'll be able to speak about the visibility we have really for the full year. Because this year is really unlike any other where we'll have 70 percent, 75 percent of the price increases either known because we're contractually—they're provided for, and we know what the numbers are, or implemented and we'll have a sense of rollback.

Early reads are that pricing retention is as strong as usual. And again, I reference the things that Ron raised about the strength of the underlying business and the benefits of full employment, if you will, and lower turnover to help with price retention.

Toni Kaplan

Great. And, Ron, you mentioned working with partners on solutions for PFAS treatment. Just wanted to hear the latest on the topic and what you're doing there.

Ron Mittelstaedt

Well, we're doing a number of things, Toni.

I would tell you, there's probably no less than a half a dozen providers that have real solutions. Most of it is a foam fractionation process that treats and by basically gathering the PFAS and then solidifying it and then that is disposed of separately.

And so these are both portable and permanent treatment facilities that are built or moved on site. And depending on the amount of leachate that a landfill generates, we are running it through that.

We are using different technologies at different sites to determine which we think performs best. We have them performing in Minnesota, in Pennsylvania, in New York, as examples, and other places. And the early results are very, very good, a reasonable capital allocation for the benefit and a very low cost per gallon treatment cost overall.

As you may know, many of the POTWs in the nation are looking to require some form of pretreatment for PFAS if they're going to continue to accept landfill leachate. So where we are treating it, we are not having any issues of getting into POTWs. So it is working as planned.

So I would tell you that I think there's very real and reasonably economical solutions available today, which we believe will continue to improve over time.

Toni Kaplan

Thanks so much.

Operator

Our next question comes from Bryan Burgmeier from Citi. Please go ahead with your question.

Bryan Burgmeier — Citi

Morning. Thank you for taking the question. Mary Anne, sorry if I missed this in Tyler's question.

How much did RNG contribute to EBITDA in 2024?

And then, what do you assume for RNG for 2025 guidance?

And then is there going to be maybe an opportunity to lock in RIN prices? Or do we expect to be using the spot market this year?

Mary Anne Whitney

Sure. So landfill gas sales and the incremental contribution from facilities that came online really didn't change dramatically. We're still running at that point to a point and a quarter of revenue or $100 million or around there, $100 million, $110 million. There was some nominal incremental contribution in '24.

And basically, that's the way you should think about it in '25. The real pickup for us is when the facilities that we own come online in '26, given the fact that we have this hybrid structure, so.

And then, sorry. You had a second piece. Oh. And you asked if we could lock—yeah. Yeah. Sorry about that. Thank you.

We will opportunistically look to lock, as we have. We had a portion of our RIMs locked for most of 2024 at around $3. And when those opportunities present themselves, you should expect that we'll look to continue to de-risk that aspect of the business as and when we can.

Bryan Burgmeier

Got it. Got it. Thank you. And then, Ron, maybe just on M&A. The 2024 spending obviously blew past the kind of normalized target that Waste Connections provides. And you've been in this business a long time.

So I'm just curious if you think there's maybe greater urgency for sellers right now versus the last five or ten years. Do you think maybe persistently high interest rates are deterring some of the smaller players? Just curious maybe what drove the outside selling in '24 and your thoughts on '25. Thank you. And I'll turn it over.

Ron Mittelstaedt

Sure. Thanks, Bryan.

Well, as we've always said, there are, at least certainly in our model, seven or eight out of every ten deals are driven by sort of lineage transition, estate planning matters that happen in the natural course of the private ownership of family-run companies. And so in that regard, external catalysts don't move things too much.

Now having said that, certainly the trajectory of interest rates over the last few years have helped private companies who have a lot of sort of floating rate or lease-rate debt are more impacted with rising interest rates than certainly the public companies. And so that affects them.

I think the fear at least of what election outcomes are and the threat of rising tax rates, I think certainly affects things. That probably is, maybe at least for a period of time, a little more stable right now than it had been in the run-up to the election, depending on the outcome. So that, I would say, is neutral.

Certainly, economic activity. Private sellers want to sell their business when the economy is strong, and they believe their business is fully valued. And so I'd say, again, that has sort of been neutral to negative. So as the economy, if and when the economy continues to improve, I think that is a bit of an accelerant for M&A.

And then you have a group of sellers who, after living through a pandemic and hyperinflation, just sort of said, yeah, I don't want to do that anymore going forward. Those are risks I never thought I'd see. So again, that one's a little harder to predict.

But I would tell you, we remain in, I would consider, a very good M&A market. Our pipeline is very full of all different types of transactions, standalones, franchises, competitive markets, some E&P—some E&P tuck-ins, I should say. So we remain very bullish. We're not going to sit here and say, hey, we're going to repeat our best year ever, which was last year at $750 million. But I think we are very comfortable sitting here saying we expect an above-average year as we sit here in the early part of February.

Operator

And our next question comes from Jerry Revich from Goldman Sachs. Please go ahead with your question.

Jerry Revich — Goldman Sachs

Yes. Hi. Good morning, everyone.

Ron Mittelstaedt

Morning, Jerry.

Mary Anne Whitney

Hi, Jerry.

Jerry Revich

Ron, I'm wondering if you could just expand on the progress that you folks are making ramping up the rail shipments, and where do you expect volumes to get to exiting '25.

And what are you seeing in terms of the actual shipping costs versus what you folks were modelling at the beginning of the ramp?

Ron Mittelstaedt

Yeah. Sure, Jerry.

So for those that are not familiar, let's take you back. Our Arrowhead transaction, which we did August of '23, so we've now owned about 15, 16 months thereabouts, when we acquired that set of assets, that set of assets was doing about 2,500 tons up to maybe 2,700 tons a day into the landfill. We are now at 7,000 tons a day pretty consistently. So we have not quite tripled it, but we're getting closer.

The largest amount of that is coming from internalized markets on the Northeast that we used to go externally or may have gone to one of our East Coast landfills, which freed up airspace to market to third parties.

Now, we believe as we come through 2025, we will get into that 8,000 to 9,000 ton-a-day range. And so we will achieve in the 24 months after ownership a tripling of the volumes that came through that site relative to when we acquired it, which is, I think, what we said. And we believe, long-term, we will achieve 10,000 tons a day or more over a multiyear period. Again, a very high amount of this will come through our internalizing network on the East Coast predominantly.

As far as the cost structure, Jerry, it has remained very stable.

One of the great assets that came along with this was a very long-term contract with Norfolk Southern. And that was something we spent a lot of time with to look at what the volatility could be in the cost structure because the transport of volumes from the East Coast to the Southeast is obviously the largest cost of things. And we feel very good about that, indexing it to effectively a national CPI. So very good there; good cost structure at our intermodal facilities along the Eastern seaboard.

So that asset is performing as or better than expected, I would say.

Jerry Revich

And, Ron, thank you for that update. And in terms of the M&A opportunity, now that you have that logistics runway and we're seeing more and more landfill closures in the Northeast, how optimistic are you folks about significant M&A opportunity where you have a lot of value to add via the rail network in the Northeast as you look at your pipeline for '25?

Ron Mittelstaedt

I would say, Jerry we're very, very optimistic. I mean, obviously, we had a very big year in '24 and we had a big year in New York in '24. And I can tell you that in the transactions that are signed, definitive agreements that haven't yet closed, there are more transactions in New York that we have done, and you will hear about as we come through Q1. All of those are being internalized.

So it is providing us, I would say, multiple bites out of the revenue dollar relative to what we had before, potentially, doing that transaction. So yes. It certainly has created greater white space, so to speak, on the Eastern seaboard of markets that we are looking at and have entered in '24 and will continue to do in parts of '25 and beyond. So no question about that.

It also helps remove or protect against volatility of permitting time frames and things that happen, particularly as you get along the Eastern seaboard, which can be as challenging as the West Coast in permitting time frames. So it does provide us a lot of optionality.

Jerry Revich

Super. And lastly, just conceptually, as we look at the volatility in recycled cardboard and plastic prices, and good to see the stabilization. But if they were to take a leg down, would you folks think about pushing pricing in the baseline waste business to offset the headwind to earnings this year? If that were to happen, just conceptually, how are you thinking about that given the lack of control on that part of the pricing stream?

Ron Mittelstaedt

Yeah. I don't know that we would necessarily—by the way, what I'm about to say, you get to the same point of your question. But I don't know that we necessarily look to push our solid waste or other customers to offset or subsidize the decline in recycling. What we would look to do is raise the processing cost per ton through our recycled facilities. Now that, obviously, when you do it on third party, you recover. You also have to do it internally. So you, in effect, get to what you said.

But that is really, I think, the entire industry has moved to much more of a model of reliance for returns in recycling being based on a processing cost per ton for itself and for its third-party customers. And the commodities being—I'm going to use the word an upside or a float factor or something that there's a rebate structure on above certain levels to a customer if they're willing to live with the volatility.

Jerry Revich

Appreciate the conversation. Thank you.

Ron Mittelstaedt

Thank you, Jerry.

Operator

Our next question comes from Noah Kaye from Oppenheimer & Company. Please go ahead with your question.

Noah Kaye — Oppenheimer & Company

Okay. Good morning. Thanks for taking the questions.

Ron Mittelstaedt

Thanks, Noah.

Mary Anne Whitney

Morning.

Noah Kaye

Quick housekeeping one to start, for our models. So volumes, I think it implies down 1 percent to 2 percent, but actually there's another 50 bips from Chiquita.

So just so we all understand, is it accurate that reported volumes you're expecting down 1.5 percent to 2.5 percent? Do I have that right?

Mary Anne Whitney

That's correct. You're saying including Chiquita. Yes.

Noah Kaye

Okay. All right. And then ITC, it sounds like you're clearly not baking that in any benefits. Obviously, there was a peer that did. The guidance has been kind of clarified from Treasury around what's eligible.

So I guess first making sure, do you expect to be able to at least qualify for ITC benefits based on timing of start of construction?

And is it possible then to kind of give a rough range of estimates, at least for the portion of CapEx that is for facilities you're owning?

Mary Anne Whitney

What we'd say is yes to the first point, that we believe we qualify. And to that point, we benefitted from a $10 million tax credit last year. And so we certainly understand the process and the dynamics. It'd be premature, not knowing what the qualifying equipment is precisely and the content. But we look to maximize those benefits through making the decisions about the equipment and labour. And we'll certainly keep you posted.

But our view is, we communicate the outlays excluding any of that benefit, and let it be upside to anything we've told you.

Noah Kaye

Yeah. And presumably, just at a point, the claiming of this would really be coinciding with when facilities come online. Right?

Mary Anne Whitney

That's correct.

Noah Kaye

So I understand there's not that much for this year. Okay.

Mary Anne Whitney

Yep.

Noah Kaye

And then the last one, and it's partly a modelling question, but really, I think, trying to understand or underscore the pace of operating improvements is the margin bridge. Right? So you gave us the impact of commodities and FX. Would love to understand how M&A factors into the margin bridge.

But what I'd really love to get to here is kind of, apples to apples, what underlying solid waste margin expansion was in '24, where you expect it'll be in '25, and what drives that pace of improvement.

Ron Mittelstaedt

Yeah. So, Noah, we would tell you that M&A was sort of flat to—margin contribution-wise—was sort of flat to maybe down about 10 basis points.

Now, I will also tell you that that is generally better than normal and that was based on a mix of deals. We would tell you in any given year, if we're doing an above-average amount of deals, you probably got about a 15 to 20 basis-point margin headwind from the deals.

So if you accept the 10 basis points, you know we reported 100 basis-point improvement for the year. Mathematically, right there, you're at 110. We took some decline, as we said, in the fourth quarter, up to 60 basis points between FX, RINs, commodities, and Chiquita. So we would tell you the underlying was probably about 120-plus basis points of margin expansion in the base business.

If you look at the '25 guidance of 50 to 80, we've given you the impacts of those other items. I think you'll obviously get to a number just a little lower than that.

So part of this is being led by, driven by price-led organic growth, as we've always said, and that's why we focus on the spread to the cost structure. But clearly, part of it, we would tell you, we have achieved effectively closing in on our 100 basis-point target of improvement to the operating cost structure in all but one area. And that is sort of insurance cost, which has been a headwind, again, that we've actually overcome some.

So I look to Mary Anne to put more detail on that.

Mary Anne Whitney

Yeah. Yeah. And just to clarify a little bit on how the RINs and recycling, the interplay. What Ron described, that is really sort of toward the end of the year and we'd had the benefit early in the year. So we did have a benefit from recycling and RINs for full year 2024.

And I would say, if you attributed about 30 basis points benefit there, then it says the remainder, to Ron's point, is primarily underlying solid waste to get you to that 100.

And as I said earlier, if you think about what we're talking about this year, that recycling and RINs, that flips to a headwind. Right? So in what we've guided to, it's down 20 to 50 basis points. So being a good guy, up 30 to down 20 to 50; along with FX, which I think is sometimes underappreciated what it does to—every penny of FX, just translation is almost $20 million in revenue. And it's high flow through. Right? Because that's a 45 percent margin piece of the business.

So it really speaks to the strength of the underlying business for all those reasons that Ron was describing. And, again, as we've talked about, think of that as 100 basis points, up to 100 basis points margin expansion is what we're guiding to in '25.

Mary Anne Whitney

Yeah. So really a very consistent pace of improvement here. Thank you for all the detail.

Operator

Our next question comes from Konark Gupta from Scotiabank. Please go ahead with your question.

Konark Gupta — Scotiabank

Thanks for taking my question. Just wanted to follow up on this margin question recently.

So the margin expansion for Q1, I think you guys are expecting half a point. And for the full year, it's 50 to 80 bips at least. So in this sense, I know Q3 is usually the biggest quarter. But just from sort of the moving-parts perspective between the commodities and Chiquita, et cetera, is there a quarter where you expect more sort of above-average margin expansion in particular?

Mary Anne Whitney

Well, here's the way to think about it. So we guided to 50 to 80 basis points. And then we're giving you Q1 at arguably the low end of that range.

If you think of what the dynamics are that would move us to the higher end of the range, they would include things like improvement in recycled commodities, RINs, FX. And now look at Q1 where, of course, we're not assuming that. And you've got, for instance, on FX, the toughest comp. It was $0.74 last year. We're $0.69 now. So that's just one item. Tough comps also on recycled commodities, RINs.

And so as you can see, you can put the pieces together to understand how much of a drag there is in Q1 from those comps and that there's the opportunity over the course of the year for any improvement in any of those metrics to ease the comparison, which would, over time, get you to the higher end of the range.

Konark Gupta

Okay. That makes sense. Thanks. And then on the volume side, thanks for providing the pricing guidance. But just on the volume side, understanding the 1.5 percent, 2.5 percent decline, let's say, for the full year, I guess half a point is from Chiquita.

But is it more skewed, the decline is more skewed to the first half versus the second half as you kind of start to lap some of those shedding comps?

Mary Anne Whitney

Yes. That's the right way to think about it. I mean, you think about the exit speed in Q4. Right? So even 27 (phon) ex Chiquita, that doesn't go away immediately because you're working through that shedding.

And so, I would say, I would sort of take the inverse if I were modelling it, that price goes high to low and I'd say volume goes low to high.

Konark Gupta

Okay. Great. Thanks. And last one for me (unintelligible). On the E&P side, I think the quarters recently at least were pretty strong from revenue standpoint. I know Secure has obviously contributed there, but even your underlying business seems like it's doing pretty well. How should we think about the growth in this business this year?

Mary Anne Whitney

Sure. So you'll continue to see the rollover contributions not only from the Secure deal, which is one-month rollover, but then we did a follow-on acquisition in the second quarter in Canada and we've done some additional activity in the US.

And so I think you saw a total of $140 million in reported revenue in Q4. And that number continues to grow and probably approaches a run rate of more like 150 per quarter. And so again, it's really primarily rollover contribution from facilities we put in place last year.

Konark Gupta

Yeah. That's great. Thanks for taking the time.

Ron Mittelstaedt

Thank you.

Operator

Our next question comes from Brian Butler from Stifel. Please go ahead with your question.

Brian Butler — Stifel

Hey. Good morning. Thank you for taking my questions.

Ron Mittelstaedt

Thank you, Brian.

Brian Butler

Just on the first one, maybe when you talk about internal inflation, I mean, you have pricing kind of running at 6 percent. So if you think about the 50 to 80 basis points of margin expansion you're looking at, where is internal inflation in your estimates for 2025?

Mary Anne Whitney

Yeah. So right about 4.5 percent is a good way to think about it. And not just because that nicely ties to our 150 basis-point spread by doing 6 percent price, but what we're really seeing in the business primarily led by the abating of the inflation in labour rates. And as you'll recall, we've been talking about this for the past couple of years, the step down from 8 percent two years ago. We came down in Q4 to about 4.5 percent, which is really the way to think about it, we think, for 2025.

And so that that's the primary mover there. And that is what's contributing to that price-cost spread that helps to drive the margin expansion in '25.

Brian Butler

Okay. Great. And then we already touched on M&A, but I thought just I'd revisit it.

When you look at the pipeline, how does it compare to where we were maybe a year ago? And how does the competitive environment for deals compare?

And is there anything under the current administration that actually could get done now that maybe over the last four years could not?

Ron Mittelstaedt

Let's take the second part of that first.

We have never had, fortunately, gone through a second request on an HSR, and part of that's our model focus. So we have not had an issue of deal flow under the prior administration, so I would not

want to tell you that that should improve because we have had no restriction. I know others, based on their footprint, may have. So I don't think that is any incremental improvement for us whatsoever.

I would tell you that I think the pipeline is very good, as I've said. The only difference is, remember, that we came into early last year, having announced at the end of December of '23 that we would be closing the Secure acquisition in the first quarter. And that was a couple hundred million dollars of revenue.

So we're not sitting here today with telling you that there's a Secure to do in the first quarter. But I will tell you within our pipeline of discussions and LOIs, there are deals approaching that size in that pipeline. So that would be the only delta between as we sit here today and one year ago.

Brian Butler

Okay. Great. Thanks for taking my questions.

Operator

And our next question comes from Tobey Sommer from Truist. Please go ahead with your question.

Tobey Sommer — Truist

Thanks. I'm going to follow up on the change in administration. You touched on taxes and now you've commented on whether the M&A regulatory regime matters for you.

Are there any other elements of the change in administration that you have your eye on for your business? And maybe comment on what it could do to your acquisition targets?

Ron Mittelstaedt

Look. I think it's obviously early days, Tobey, and there's a lot of moving pieces, as you know. There's nothing that I am at least, or we are at least hearing that I think is a negative for acquisition activity.

I think most everything we have seen and heard would be a positive, if it's implemented or moves forward. So nothing that would be a negative.

I can't really speak necessarily for private sellers. But if there is a improvement in tax rates, that's an accelerant for M&A. If there is a decrease in interest rates, I would tell you that's an accelerant. If there's an improving economy, that is a benefit. If there is tariffs that affect CapEx for private sellers, that's a benefit.

So again, there's really nothing … If there's a decreased maybe regulatory or enforcement environment, I'd say, for private sellers, that's probably neutral. I would say that probably is a benefit to us overall, so.

And if there ends up being immigration reform of some form, I don't know if that will happen, but if it does, that's a benefit to us as well because there's been really no path to immigration, as you know. And despite a large amount of people coming through the Southern border, really us, as a public company, we can't hire those people. They don't have the ability to work in the US legally. So if there was an ability for them to work in the US legally through immigration reform, that would be a benefit, I think, to the whole sector and service sectors in general.

So again, we're not aware of anything that would be a negative at this point at least.

Tobey Sommer

Thank you very much.

Operator

And, ladies and gentlemen, with that, we'll be ending today's question-and-answer session.

I'd like to turn the floor back over to Ron Mittelstaedt for any closing remarks.

Ron Mittelstaedt

Okay. Thank you, Operator.

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 security laws in Canada.

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

Operator

And thank you, everyone, for joining today's conference call and presentation. It has now concluded.

Once again, we do thank you for joining. Have a pleasant day.