Waste Connections, Inc.

Q1 2025 Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Waste Connections Q1 2025 Earnings Call.

All participants will be in 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 *, then 1, on a touch-tone phone. To withdraw your question, please press *, and then 2.

Please note this event is being recorded.

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

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

Okay. Thank you, Operator, and good morning. I would like to welcome everyone to this conference call to discuss our first quarter results and to provide a detailed outlook for the second quarter.

I'm joining this morning by Mary Anne Whitney, our CFO, and several other members of our senior management.

As noted in our earnings release, we're extremely pleased by the strong start to 2025 as price-led organic solid waste growth and continued acquisition activity drove a top-to-bottom beat in the quarter, positioning us well for the full year.

Exemplary operational execution supported core solid waste pricing of 6.9 percent and drove better-than-expected results as we overcame incremental volume weakness from protracted weather events across many markets to exceed our outlook and deliver adjusted EBITDA margin of 32 percent.

Our industry-leading results are indicative of the durability of our unique approach to market selection, our decentralized operating model, and the resulting projectability from our commitment to excellence.

To that end, we also saw continued improvement in employee retention for the 10th consecutive quarter, along with record safety performance during the period.

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 in our April 23rd 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

Okay. Thank you, Mary Anne.

We're off to a great start in 2025 in many respects, including pricing, employee retention and safety performance, and acquisition integration, all driving better-than-expected revenue and adjusted EBITDA in the quarter.

We delivered margins of 32 percent during the seasonally weakest quarter in what would arguably be characterized as an uncertain macro environment further complicated by extreme weather in many markets and without any relief from commodities or effects.

Said another way, we're delivering on multiple fronts, starting with price-led organic solid waste growth.

In the first quarter, core pricing was up sequentially to 6.9 percent and exceeded our outlook on the strength of pricing retention.

Volume, down 2.8 percent, was in line with recent quarters in spite of incremental impacts from weather-related events that were most pronounced in February and followed by a pickup in March.

To the inevitable question about how our business may have been affected by concerns about tariffs or other geopolitical elements impacting expectations or the economy more broadly, as is evidenced by our Q1 results, we didn't see any noteworthy impacts, including with respect to solid waste organic growth. In fact, we were impressed by favourable trends in volumes and pricing, both of which increased sequentially in the quarter, normalized for outside weather impacts.

To date, we have seen no incremental capital or expense increases associated with tariffs.

Moreover, we were and continue to be impressed by the quality of execution from our local leaders and further advances in key operating trends.

Notably, Q1 marked our 10th consecutive quarter of improvement in employee retention, with voluntary turnover down another 60 basis points sequentially in Q1 to below 12 percent and down over 50 percent from our peak. At less than 12 percent, our voluntary turnover is within our targeted range with momentum for further improvement.

Additionally, corresponding reductions in employee openings are allowing us to optimize staffing levels and focus on quality.

We would argue that voluntary turnover is the single most important metric to determine a company's overall health. As we have indicated would be the case, the benefits from improved employee engagement are spread throughout the P&L and position us for continued growth and margin expansion. We are seeing real-time benefits in reduced overtime, less reliance on third-party services, and lower vehicle wear and tear, as well as improved employee morale and engagement. That is translating to higher customer satisfaction levels, as seen in sales, pricing retention, and M&A integration, which, as noted earlier, are ahead of plan for 2025.

Most importantly, we see the value of employee engagement in safety, our number-one operating value and key performance indicator. Not only have we seen continuous improvement in company-wide incident rates over the past two years, but we have now achieved historic low levels. That is, we are experiencing safety incident rates that are lower than any other time in the Company's history with dramatically more employees and vehicles.

While acquiring and integrating in recent years record levels of acquisitions, which typically come on at much higher incident rates, we have also driven down the number of safety-related incidents across our expanding footprint, reducing year-over-year incident counts by as much as 40 percent in recent months.

This outsized improvement will unlock incremental cost savings in future periods from the lagging benefits of reduced severity and incidents, which continue to be headwinds being absorbed in the current period based on our prior year's performance.

Along with these achievements, our acquisition activity continues at outsized levels with annualized revenues closed to date already over $125 million, including a strategic, state-of-the-art recycling facility in New Jersey to complement our growing New York City commercial collection franchise business discussed the past several quarters.

Already approaching in four months what we used to consider an average year, we're on pace for another busy year with high levels of seller interest across our footprint. We should be well past an average M&A year by the midpoint of this year.

At debt-to-EBITDA leverage of 2.3 times, we remain well positioned for continued acquisition outlays in 2025 and, more importantly, their successful integration to drive value creation.

The strength of our balance sheet and the consistency of our results provide tremendous optionality to execute on our growth strategy along with increasing return of capital to shareholders.

And we're extremely proud to report our recent receipt of a rating upgrade from Moody's ratings to A3, reflecting that track record and providing even greater support for our continued growth.

Now I'd like to pass the call to Mary Anne to review more in-depth the financial highlights of the first quarter and provide a detailed outlook for Q2. I will then wrap up before heading into Q&A.

Mary Anne Whitney

Thank you, Ron.

In the first quarter, revenue of $2.228 billion was above the high end of our outlook and up $155 million or 7.5 percent year over year.

Adjusting for foreign exchange impacts from the decline in the Canadian dollar, year-over-year revenue was up 8.4 percent.

Contributions from acquisitions, net of divestitures and operations closed since the year-ago period, totalled $112 million in the quarter.

As Ron noted, solid waste organic growth was led by 6.9 percent core price, which ranged from about 4.5 percent in our mostly exclusive market, Western Region, to over 8.5 percent in our competitive markets.

Total price of 6.7 percent reflected a reduction of about 20 basis points in fuel and material surcharges primarily related to lower fuel rates.

With over 75 percent of our price increases already in place or contractually provided for, we have high visibility for full year 2025 core pricing of at least 6 percent.

Looking next at solid waste volumes, which, on a reported basis, are normalized for the impact of one less day in the quarter and our closing of Chiquita Canyon Landfill at year end 2024.

Q1 volumes of negative 2.8 percent were in line with Q4, including 50 basis points attributable to outsized weather events, most notably in February, that contributed to reported volume losses to varying degrees across all of our regions, except our Western Region.

Volumes also reflect ongoing purposeful shedding and nonrenewal of poor-quality contracts from acquisitions in recent years, similar to prior periods.

Looking at year-over-year results in the first quarter on a same-store, day-adjusted basis. Roll-off pulls were down 2 percent due primarily to February weather impacts, most notably to markets in the south and southeastern US. In fact, excluding February, pulls were about flat year over year.

Landfill tonnes were up 1 percent. Higher MSW tonnes, up 2 percent, and increased special waste tonnes, up 6 percent, were partially offset by weaker C&D tonnes, down 6 percent.

Increases in special waste activity reflect some benefit from an easy comparison to last year and were broad-based across a number of smaller jobs in most of our regions, except our central region.

Looking at landfill tonnage by month, similar to roll-off activity, February was the only negative month. Otherwise, tonnes were up 4 percent to 5 percent year over year.

Beyond solid waste, revenues played out largely as expected in Q1 with values for cardboard, or OCC, and renewable energy credits, or RINs (sic) [RECs], both down about 20 percent year-over-year and stable at those levels during the quarter, with offsets from increases in other commodities.

In Q1, prices for OCC averaged about $105 per tonne, and RINs averaged about $2.45 with little movement in either thus far in Q2.

And finally, E&P waste activity was about flat year over year, adjusted for acquisitions, with some declines associated with decreased rig counts in certain basins in the US, offset by drilling activity in other US basins and production-oriented activity in Canada.

Adjusted EBITDA for Q1, as reconciled in our earnings release, was $712.2 million, up 9.5 percent year over year.

At 32 percent of revenue, our adjusted EBITDA margin was above our outlook and up 60 basis points year over year. This increase was driven primarily by underlying solid waste margin expansion of 70 basis points, which, along with 20 basis points net benefit from accretive acquisitions offset by closed operations, more than overcame a combined 30 basis point margin drag from lower commodity-driven revenues and FX.

Net interest expense of $79.1 million reflects a weighted average cost of approximately 4 percent on quarter-end debt outstanding of about $8.4 billion, with a tenure of about nine years and a mix of 80 to 20 fixed-to-floating rate debt.

Liquidity was approximately $570 million, and our leverage ratio, as defined in our revolving credit agreement and as noted by Ron, was about 2.73 times debt to EBITDA.

Our effective tax rate for the first quarter was 22.8 percent, about as expected.

And finally, adjusted free cash flow of $332.1 million was in line with our expectations and our full year outlook of $1.3 billion to $1.35 billion, as provided in February.

I will now review our outlook for the second quarter of 2025. 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 securities commissions 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 second quarter and expensing of transaction-related items during the period.

Revenue in Q2 is estimated to be in the range of $2.375 billion to $2.4 billion.

Adjusted EBITDA margin in Q2 is estimated at approximately 32.7 percent.

Depreciation and amortization expense for the second quarter is estimated at approximately 13.1 percent of revenue, including amortization of intangibles of about $50 million or $0.14 per diluted share net of taxes.

Interest expense net of interest income is estimated at approximately $82 million.

And finally, our effective tax rate in Q2 is estimated at about 24.5 percent, subject to some variability.

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

Ron Mittelstaedt

Thank you, Mary Anne.

Our strong start to the year validates the disciplined approach to growth and value creation that we have employed since our founding.

With solid waste pricing largely in place and another busy start to acquisition activity, we are well positioned to build on that success in 2025, particularly given the benefits of employee engagement we're seeing today, which should continue to accrue to us in 2025 and beyond.

Looking at our outlook for the full year 2025 and acknowledging the broader macroeconomic uncertainty in the current environment as noted, we have thus far not seen significant changes to trends in activity or costs that would alter the outlook for 2025 that we provided in February.

On that basis, we are reiterating our full year 2025 outlook for revenue, adjusted EBITDA, and adjusted free cash flow, while acknowledging that uncertainty.

Of course, we will continue to monitor trends as tariffs and other drivers may impact our results, and we intend to review and provide any updates to our full year 2025 outlook in conjunction with our Q2 earnings release.

Regardless of the macro environment, we'll continue to focus on those aspects of the business that we can influence and position ourselves to address and mitigate the impacts outside of our control.

To that end, we're most grateful for the commitment of our 24,000 employees who drive these outcomes while putting safety first and making Waste Connections such a great place to work.

We appreciate your time today.

I will now turn the call over to the Operator to open up the lines for your questions. Operator?

Q&A

Operator

We will now begin the question-and-answer session. To ask a question, you may press *, then 1 on your touch-tone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press *, and then 2.

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

Tyler Brown — Raymond James

Hey. Good morning, guys.

Ron Mittelstaedt

Good morning, Tyler.

Tyler Brown

Hey, Ron. Thank you for all the colour on the tariffs, but in a similar vein, the financial markets are obviously up and down. Interest rates are moving. And I think the HSR process got a little more difficult maybe in the past month or so. So number one, can you just talk about how those HSR changes do or don't affect you regarding M&A?

And two, it doesn't sound like it, but is this uncertainty in the market having any material impact in getting deals over the line and closing them?

Ron Mittelstaedt

Sure. Thanks, Tyler. So first off, I'm sure many on the call are aware that the HSR filing application process and timing changed effective February 8th of 2025. The process, the application became probably three to four times more lengthy, and the cost to prepare became probably three to five times more expensive.

The FTC and the DOJ are now saying that typical deals that might get reviewed in a 30- to 60-day process, people should now expect more like a 90- to 150-day process. So, it is expected to lengthen out those deals that require HSR.

Now, having said that, listeners should understand that 99 percent of our deals do not require an HSR filing because we are acquiring smaller privately held companies, almost exclusively under $125 million in purchase price. And so we have very, very few HSR filings. In fact, we currently have no deals slated for HSR filings, and we have not had any year to date.

So I am not looking for any delays in any of our M&A, but I can understand how, if you're acquiring public companies or doing very large transactions, there could be a slowing due to the change in the HSR process this past February.

Tyler Brown

Interesting. Okay. Yep. That's very, very helpful.

Mary Anne, just so I have it, but the 2.8 volume decline, that excludes the workday impact. Right? Was that maybe something like 40 or 60 basis points give or take?

Mary Anne Whitney

That's right, Tyler. It's about 60 basis points would be that one day in the quarter.

Tyler Brown

Okay. But it does include the 50 basis points from weather. So, if you kind of look at it somewhat cleaned up, I mean maybe the rate of volume decline has actually improved a bit sequentially, if you take out weather. And Chiquita is obviously taken out in the workday.

Mary Anne Whitney

That's correct. And that's the point I think Ron made that, not only did we see sequential improvement in price, but we saw it in volumes when you normalize for that. And that 2 3 would be lower than most of the quarters last year except one, where we had really lumpy outsized special waste contributions.

Tyler Brown

Okay. And then, Ron, just on landfill tonnes, I know those are probably your most kind of real-time indicator, if you will. Just I know you gave the monthly through March. But anything in April since all of this seemed to happen in April. Just anything month-to-date on the landfill tonnes?

Ron Mittelstaedt

Yeah. I can provide that. I actually received it last night on our flash, Tyler. So the last four-week average total tonnes are up 4.5 percent. And year to date, they're up exactly 3 percent.

Tyler Brown

Hmm. Okay. Excellent. My last one here. I just thought I was very interested in the comments about incidents. I think you said record lows.

Ron Mittelstaedt

Yeah.

Tyler Brown

I'm curious what's driving that. Yeah. Is that just cultural change? Or is technology helping? Just any colour on what's driving that.

And then maybe you can just help us understand how the insurance markets work. I mean I know that not having an accident is good in real time, but it does take a while for it to show up in insurance premiums. Can you just maybe give us some colour there? Thank you, guys.

Ron Mittelstaedt

Yeah. Sure, Tyler. All right. Multiple parts to that question I'll try to answer.

So first off, what is driving that is culture, number one, more than technology. We have had very robust onboard technology for a very long period of time. We have used onboard cameras for over 20 years now. And, of course, they have improved, and the amount of views are improved.

But our coaching effectiveness on risky drivers has improved company-wide to approaching 90 percent of all incidents that are detected on a daily basis via our technology. And that is a dramatic improvement for us. It's a huge cultural focus for us.

To give you a perspective, I mean we would typically—two years ago in the month of March, we had about 400 and some incidents, which can be as little as tapping a mailbox. So let me clarify that. And this year, in the month of March, we were in the 200s with dramatically more vehicles on the road and employees.

So I would tell you that technology is part of it, but I would tell you it's 90 percent behavioural change through coaching, and that's a cultural issue for us.

As far as the insurance market, you are right. Safety is a leading indicator, or incidence is a leading indicator of performance, but risk insurance is a lagging indicator. So we reset our premiums every August to September with third-party for our umbrella coverages on our risk for both workers' comp and third-party liability.

And your severity in the prior two years really determines what's happening in your forward period. So last August, we priced our insurance for the '25 calendar year, and that was based on the '23 and part of '24 performance. And that performance was not as good. We did have some serious losses in that period, and so that risk premium went up quite dramatically. In fact, our five-year CAGR on insurance premium is about a 17 percent to 18 percent increase per year.

We are projecting with our current performance, if we hold that and continue this line, we'll begin dropping with the renewal this September. So we think we will start seeing some benefit in the P&L from our current performance throughout '26.

Mary Anne Whitney

Yeah. And the only other thing that I would add to that is that one observation, as Ron said, claims take multiple years to develop. And so as we describe it, the risk is actually a lagging indicator, and that's what we tried to describe.

The one observation would be is that lag is a little longer, arguably, coming out of the pandemic when you had a couple of things happen. You had a whole slowdown in the processing of claims and, therefore, the development, but then you also had outsized inflation.

And so that has prolonged seeing the benefit in our P&L from our perspective. And as Ron said, we're looking forward to seeing that in the years ahead.

Tyler Brown

Yeah. Perfect. Great colour as usual. Thank you.

Operator

And the next question comes from Konark Gupta with Scotiabank. Please go ahead.

Eli — Scotiabank

Hi. This is Eli (phon) filling in for Konark. Good morning, everyone. Thanks for taking my question.

Ron Mittelstaedt

Good morning.

Eli

Just one question. Are you seeing any meaningful changes in the R&G landscape, be it demand or pricing or competition, due to a more pro-carbon administration?

Mary Anne Whitney

I would say that we really haven't, but if you think about where we are in the process of developing new facilities, bringing them online, and existing facilities, we basically are—this is a year of CapEx, and the new facilities will be coming online in late '26. And so we might not be the best indicator of anything real time that might be developing there.

But what I can say is, for the existing facilities we have, as we noted in our remarks, that RINs are made very stable in that kind of 2 45-type of level. And we've seen them there really since the initial drop off right after the election and the adjustment to the RVO last year, but they've pretty much stabilized at current levels for most of Q1, and we haven't seen any change in Q2 to date.

Eli

That's helpful. Thank you. That's all my questions.

Ron Mittelstaedt

Thank you.

Mary Anne Whitney

Thank you.

Operator

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

Adam Bubes — Goldman Sachs

Hi. Good morning. This is Adam on for Jerry.

Mary Anne Whitney

Hey.

Adam Bubes

Really strong core price of 6.9 percent, and it seems pretty robust in context of the guide initially put out of around 6 percent. Have your price plans changed at all since the start of the year? And it sounds like some of that has been driven by pricing retention. Are you seeing any change in pricing retention trends year over year or sequentially?

Ron Mittelstaedt

Yeah. So number one, nothing has changed, Adam. I think we originally guided that our price guidance was 6 percent to 6.5 percent. It was the range that we thought we would target for the full year.

Remember, Q1 because of a lower seasonal denominator weather-wise and seasonality is always sort of the highest point of your price, and then it will step down sequentially. It doesn't step down, it's just that the denominator in the math changes. So it gives that appearance. The price is already input for the year. So no, there has been no change.

I would tell you that the retention of the price has been better so far year to date than at this point last year or in '23. So that, I think, is very favourable overall.

I think we've been a little more surgical about it, or we're certainly attempting to be. I think that is helping somewhat, too.

I also believe our staffing levels and being fully staffed the way we are helps assisting both in our service quality as well as our customer service response.

So it all sort of feeds holistically to why we would hopefully retain more of that price. So that's really—but there has been no change in our approach from the beginning of the year.

Adam Bubes

And then can you remind us how many different suppliers you use for your truck fleet? And it sounds like your visibility on capital is pretty locked in there for the year. But can you just update us on conversations you're having with suppliers in context of tariff-related inflation?

Ron Mittelstaedt

Yeah. So first off, I mean we predominantly use about four chassis manufacturers and four or so body manufacturers. Obviously, it depends on the type of the fleet, meaning front load, rear load, side load, et cetera. So four and four.

As of today, we only have 10 remaining chassis for ‘25 to be built that could even potentially be subjective to tariffs. And we are being told that there is up to perhaps a $3,500 per chassis. So when we say there’s virtually no exposure, that’s what we mean by that.

Body-wise, we have not as of yet been told by a manufacturer there will be any incremental tariffs or impacts to that now. So we really have no concern about tariffs for our ‘25 CapEx to speak of.

Now that could certainly change for ’26 depending on what transpires with tariffs and what is included and excluded. But for this year, we do not have any impacts, and we are not hearing any.

On the parts side, we are making a move in some of our locations where some of our parts were coming from various countries that would be subjected to tariffs, we are moving some of that parts inventory to domestic American manufacturers to avoid any potential there.

Adam Bubes

Great. Thanks so much.

Operator

And the next question comes from Trevor Romeo with William Blair. Please go ahead.

Trevor Romeo — William Blair

Hi. Good morning. I really appreciate you taking the questions.

First one I had was on the incremental M&A that you’ve kind of announced this quarter. I think you specifically called out the state-of-the-art recycling facility in New Jersey. Just wondering if you could talk about that asset a little bit more. Why was it up for sale? Why did it look attractive to you from a strategic perspective? Just any more colour on that would be great.

Ron Mittelstaedt

Sure. Happy to, Trevor.

So the asset was a very large, as I said, state-of-the-art, built within the last—finished being built within the last 24 months, facility in the Hoboken, New Jersey area just outside New York City. As you know, we have a very large presence in New York City and have been awarded 12 of the franchise areas in the city that will be rolled out over the course of the next two to three years and have just been started rolling out at the end of '24.

Along with that becomes a large amount of recycling, recycling that we're doing today and that we will need to be doing. This facility can process up to 20,000 tonnes per month so 0.25 million tonnes a year. It is a highly, highly automated facility, as I said, state-of-the-art using AI technology from an optical sorting, from an air classification, et cetera. The facility is processing about 13,000 to 14,000 tonnes a month right now as it speaks, and we have not begun to bring any of ours into it.

So a multigenerational company, very well-known company that had been in business in the New Jersey area for 70-plus years, had actually had a facility fire several years ago, about three-and-a-half years ago, and they ended up rebuilding this state-of-the-art facility.

So a company that we have been tracking for many years, and as we continued to grow there and knew we needed incremental processing after we acquired the Royal Waste Transaction last year, we had been working on this.

The Royal Waste Transaction in New York City came along in Queens with a fantastic recycling facility as well, but we are literally bursting at the seams at that facility and needed incremental processing capacity to continue our expansion in New York City.

Trevor Romeo

Okay. Thank you, Ron. That's great colour.

And then maybe one for Mary Anne, I guess, on the Q2 guidance. I think the margins of 32.7, if I heard you right. I think that's maybe a little less year-over-year expansion than what you've kind of seen lately. So are there any kind of headwinds to margin you'd call out in Q2? Or could you just kind of talk through some of the upside or downside to that Q2 margin?

Mary Anne Whitney

Sure. It's important to keep in mind, really, the drivers of last year's margins and the impact that commodities and acquisitions have on reported margins.

And so when I think about what changes year over year in Q2 versus Q1, there's about 40 basis points more drag in Q2, specifically from the fact that, for commodities, Q2 was the highest level last year, and so the headwind is greater. And then you have less benefit from the rollover impact of acquisitions. Last year, of course, you had the benefit of Secure, and that dissipates over the course of this year, and that becomes a drag.

So think of it as 40 basis points different, and that gets you very close to the year-over-year margin we just demonstrated in Q1.

Trevor Romeo

Okay. That all makes sense. Thank you very much.

Ron Mittelstaedt

Thank you.

Operator

And the next question comes from Toni Kaplan with Morgan Stanley. Please go ahead.

Yehuda Silverman — Morgan Stanley

Hi. Good morning. This is Yehuda Silverman on for Toni Kaplan.

Just a quick question on margin. What is your expectation embedded in the guide regarding inflation? Like, how should we think about margins in 2025 if, let's say, inflation lingers rather than moderates?

Mary Anne Whitney

Yeah. So coming into the year, we certainly were mindful of the fact that CPI prints were lower, but we think in terms of our own cost inflation and not so much headline inflation as what's driving the pricing and how we think about that.

So as we've said, we're delivering 6 percent core price, and what we would say is that our cost inflation is running in the 4 percent to 4.5 percent. So that comfortably gives you that 150-basis point spread between costs and price that we typically look for or think in terms of and certainly feel very comfortable. Because what we've seen in terms of our major cost pressures, led by labour specifically, is that those pressures have mitigated and so that spread is actually widening. So if, in your example, if things were to pick up a little, we would absorb it with the pricing we've already done.

Yehuda Silverman

Great. And just one more question regarding volume. So especially given the slowdown years recently that have become more rampant, can you remind us which areas would get hit the most or impacted the most both negatively and potentially positively during the slowdown?

Mary Anne Whitney

Sure. So if you think about what is the most cyclically exposed piece of the solid waste business, that would be the roll-off side of collection, so construction levered. And then, of course, construction and demolition debris at our landfills.

To give you some context, in the aggregate, it's about 10 percent of our revenue, which is more cyclically exposed.

And on the collection side, the way that you adjust to that is you dynamically adjust. That is a point-to-point business. It's not route based. So you have the opportunity to—it's not only the lowest-margin piece of the collection business, but you're able to dynamically adjust to activity levels.

And so that's where you would expect to see it, primarily in those areas.

Yehuda Silverman

Great. Thank you.

Operator

And the next question comes from James Schumm with TD Cowen. Please go ahead.

James Schumm — TD Cowen

Hey. Good morning, guys. Thanks for taking my questions.

Maybe, Mary Anne, just sort of following on to your point about price-cost spread, you kind of you priced at 6.9 percent in the first quarter. Your inflation is 4.5 percent. So the spread looks a lot wider here. Was there any thoughts to raising the 2025 guidance? Are you being a little conservative because we're so early in the year and the macro is uncertain, or? But it seems like that spread, you've got a lot of wiggle room there. Can you just talk to that a little bit?

Mary Anne Whitney

Sure. Happy to address that and important to clarify.

So coming into any year, our reported price, as Ron made reference to earlier, is it would typically be highest in Q1. And that's really just a function of the math of how you calculate the dollar contribution from price as the denominator gets bigger over the course of the year.

So one shouldn't generalize from 6.9 percent in Q1. We said it's a little better than expected, and it gives us incremental conviction on 6 percent-plus pricing for the full year. But you should fully expect that number on a reported basis to step down over the course of the year.

So that tells you that you'd step down from 6.9 percent to numbers that are lower than that, and optically you'd go below 6 percent as you move through the year to average 6 percent. Right? So that's all in line with our expectations. Retention a little better in Q1. So that's the math on reported pricing.

The second point regarding adjusting our outlook after what we've described as a very strong Q1, the short answer is, we typically don't review our outlook until the midpoint of the year when we have two quarters under our belt.

If you think about it, we give quarterly guidance, so we give a lot of information each quarter, and even though Ron did take the opportunity to reiterate the full year, that was really within the context of recognizing the macro uncertainty that was impacting other people's view of their numbers for the full year.

So what people should expect is, as is customary, we will make the adjustments reflecting any of the changes we've seen, whether they're acquisitions or commodity values or other things that impact the full year. We'll do that in July.

James Schumm

Got it. Great. Thanks for that. Maybe I could squeeze two more quick ones in, if possible.

The volume progression throughout the year, can you give us a sense of how that trends and maybe what the exit rate is?

And then lastly, SG&A was up 13 percent year over year in the first quarter. Just curious what's driving that, and what are your expectations for the rest of the year.

Mary Anne Whitney

Sure. So starting with the SG&A, first, you need to normalize for the expensing of acquisition-related expenses that we adjust for and so that comes out of SG&A. I think that was almost $13 million in the quarter, and that was up $2 million or $3 million from last year. So that's one observation.

And then the other would just be that sometimes there's lumpy moves, and one of them is incentive comp. And so it's a good thing when it increases your numbers in a current year. And so I'd say that the single largest increase would be there.

And then, Ron—

Ron Mittelstaedt

Yeah. With regard to the volume progression, James, so as we pointed out on the call, I think if you normalize for weather, you would see that the–and at Chiquita, which we have said we have normalized for, which we closed on January 1, you would be at about a negative 2.3 in that range. About 100 basis points of that is conscious price volume trade-off. And so that will continue. We will continue to make that trade-off.

And then about 100 basis points of that is contracts that we have shed. So, again, that will continue because those contracts have been cancelled by us or not renewed. So that puts you at about a negative 2 as a starting point.

So the delta to that will be what happens in special waste and what happens in C&D, which are somewhat, as you know, economically driven. If those are, as we said in the first quarter, special waste was up, C&D was down a little. Taken together, they were about flat. So if that continues to improve, then

you will eat away against that negative 2 percent number. If that were to decrease because of economic activity, it would get a little worse. But there is nothing going on within that other than those two things.

As we have said, we have been effectively—and I say we, I mean the economic environment—in a flat, no-growth, economic environment for 10 consecutive quarters now. Roll-off pulls have been plus 1 percent to 2 percent, down 1 percent to 2 percent. Landfill volumes have been plus 1 percent to 2 percent, down 1 percent to 2 percent for 10 straight quarters now.

Covering 45 states and 7 provinces in Canada with over 10 million customers, if volume's there, we get it. It's just that simple. We've just been in a no-growth environment. I know the government would report close to 2 percent GDP, but if you take out federal government spending, it's negative. We don't do business with the federal government. So when volume happens in the economy, we will have it.

James Schumm

Mm-hmm. Okay. Great. Well, that's very helpful, guys. Thank you very much.

Operator

And the next question comes from Sabahat Khan with RBC Capital Markets. Please go ahead.

Sabahat Khan — RBC Capital Markets

Great. Thanks and good morning.

Maybe just following along that line of commentary with Ron, and you both shared some comments around the special waste. Maybe if you can just help us think through what are some of the leading indicators you might be keeping an eye on to see where the special waste, some of the more C&D cyclical units might be trending. And within this flat environment, volumes have been call it flat to negative, at what point in a typical economic cycle would those turn materially negative just based on your history with the Company? Thanks.

Ron Mittelstaedt

Yeah. Go ahead, Mary Anne.

Mary Anne Whitney

So I'd start by just the observation that special waste in C&D can be very lumpy. Right? So the main driver of volumes is, of course, MSW, which, as we said, was up 2 percent. We made the point that special waste, while it was up 6 percent, first quarter last year, it was down 15 percent. This is—so, again, the lumpiness.

So when we think about what the leading indicators are, the signs that special waste jobs are coming or maybe why they aren't or maybe why there's weakness, sometimes it can be things like interest rates staying higher for longer, which discovers, for instance, speculative real estate development, which would lead to clearing a site, which is what we would describe as special waste, when soil jobs come to the landfill.

In the current environment, in one particular market, I can think of where there's been a slowdown; it's that the state money that would go to those projects hasn't been authorized, because a budget hasn't been passed. So it can be dynamics like that, that slow down jobs.

What we've observed to date is that there haven't been the really big, the outsized infrastructure types of jobs. Instead, there have been smaller jobs spread across several markets that contributed, for instance, to the 6 percent increase year over year.

And similarly, on the C&D side, where it's down, it wasn't one big job. It was several smaller jobs that didn't repeat, so small decreases across several markets.

So those are just some observations about what we're seeing. And so, really, what needs to change for the pickup is more an economic activity pickup and, as Ron said, which we just really haven't seen.

Ron Mittelstaedt

Yeah. And I would add, we did a review with our field of our regional locations last Thursday, and we are not seeing a decrease in backlog of jobs that are in the pipeline to be released. In fact, it is actually quite robust.

What we're seeing is a delay, in some cases, of the starting of the jobs, and that is state and local government reacting in large part to uncertainty at the federal level. And so, they are just holding back in many cases right now, I think waiting for greater clarity on what's going to transpire from a regulatory enforcement standpoint, as an example, from a budgetary standpoint, as another example.

So we're not seeing anything underlying that says there's anything unhealthy going on out there, but there definitely uncertainty is leading to delays. That's what I would say.

Sabahat Khan

Great. That's great colour. And then maybe just one quick follow-up on that. How do you think about, given the lumpy nature of that business at times, just managing the costs? How do you think about labour versus just other fixed costs in that business? And how nimble could some of those costs be just through the cycle? Just some perspective on that, please.

Ron Mittelstaedt

Well, I mean I think I would point to this quarter. I mean we delivered in the seasonally weakest quarter a 32 percent adjusted EBITDA margin. And I don't know that we noted it in the call, but labour

was down approaching 50 basis points from prior-year period as a percentage of revenue. So we are managing it, I think, very closely.

Our field does an exceptional job of managing all expense lines, labour included, as a percentage of net revenue, which is how we look at the business. And so that's a dynamic thing that we are doing on a daily basis at every one of our locations.

The special waste business, as you were asking the question, that's a landfill business. So it's a high fixed cost, low variable cost business. So it certainly is somewhat volume dependent. But I don't think you will find us in any environment hiding behind expense management or lack of expense management as an area of margin concern. That's not how we run the business, and we will deliver on the margin irrespective of what's transpiring in the revenue line.

Sabahat Khan

Great. Thanks very much. And then just one quick last one.

I guess, at a high level, I think over the last couple of years, a lot of Progressive volumes still were being shed. Maybe is there any larger chunks remaining from past acquisitions? Or would you say it's more sort of just a run rate shedding that'll happen? I just want to get perspective on that aspect of the volume. Thanks.

Ron Mittelstaedt

Yeah. First off, I would tell you that I believe, finally, that the shedding from volumes that we did not want to renew from Progressive is actually finally very close to done. The largest contract that was remaining, we gave up or did not renew October 1 of '24. So that is part of what's in the negative volume right now that will anniversary September 30th of this year. And that was the largest one I know remaining there that we did not renew.

Now, we have had a very busy M&A for the last three to four years, as you're aware, certainly at least the last three years. And so there is some remain—there is some shedding that goes with that, but it is not in nearly as large of pieces as some of the stuff that we had consciously not renewed from the Progressive transaction we did in '16.

Sabahat Khan

Great. Thanks very much for the colour.

Operator

And the next question comes from Noah Kay with Oppenheimer & Co. Please go ahead.

Noah Kaye — Oppenheimer & Co.

Good morning, guys. Thanks for taking the questions. Sort of a housekeeping question that then plays into the 2Q outlook.

Mary Anne, I think you had called out on the margin bridge for 2Q being up 10 bps, just a greater headwind sequentially from commodities. If I look at 1Q it looked like the recycling commodities were only about a $2 million headwind to internal growth and so it's about mid-single digits versus recycling OCC prices being down close to 20 percent, as you said.

So just trying to understand the disconnect there. I thought recycling would be down more and kind of what you're sort of expecting for 2Q. I guess the other component of that is RIN. So maybe just help us understand what we saw in the quarter on the recycling side and how we should be thinking about 2Q.

Mary Anne Whitney

A great question, Noah.

So in Q1, while OCC was down 20 percent, you had other commodities which were up year over year, for instance, other grades of fibre and plastics and metals. And so that mitigated the year-over-year impact.

Now that was in line with our expectations, but the overall margin headwind that that created year over year was only about 10 basis points. So I look at that, I look at RINs, which were effectively no impact, again, because not because of RINs, but for instance, natural gas was up year over year and so that offset the margin headwind there.

And so when I look ahead Q2 versus Q1, there are incremental headwinds, since I don't have those same dynamics, and the comp is harder because OCC increased by 10 basis points last year between Q1 and Q2.

So those are the dynamics I was referring to that create the incremental headwinds on the commodity-driven piece of the business.

Noah Kaye

Okay. That makes sense. Thanks. And then Ron had mentioned M&A being potentially at the midpoint of the year already above kind of historical—at or above historical average. For everyone's reference, I assume that's still kind of roughly in the $200 million range. Maybe talk a little bit about, Ron, I think you alluded to the size before when we talked about HSR but just talk a little bit about the mix of deals you see potentially coming into the business.

Ron Mittelstaedt

Sure. Yeah. And to clarify, as you did, Noah, yeah, I was referring to that $200 million was sort of a historically average year and that I expected us to be already at that number by the midpoint of the

year. You are correct. That is what I was referencing. So, obviously, this would be well north of a historically average year.

Our mix of deals is across the board. We have deals going on in all five of our US regions and our Canadian region. It is a mix of, I'd just say, historical, consistent solid waste deals. This is nothing outside of historical solid waste. There are a few smaller E&P deals in there in both Canada and the United States, in the Permian as well, but they're smaller relative to the solid waste side.

These are tuck-ins, these are stand-alones. There are franchise deals. There are competitive market deals there.

So I think—but yes, I did say that there was no large singular deal requiring an HSR filing that is sitting there that is in that mix today. There are several deals in our pipeline that would require HSR filings, but I'm not expecting those to close by midyear. So that's what the mix is.

Mary Anne Whitney

And if you think about it, Noah, since 125 is already done, this implies somewhere in the order of maybe it's $50 million to $100 million gets done between now and July. That's how you get to the, hey, we'll be at an average rate by the time we report Q2.

Ron Mittelstaedt

That's right.

Noah Kaye

Thanks so much. I'll turn it over.

Operator

And the next question comes from Bryan Bergmeier with Citi. Please go ahead.

Bryan Burgmeier — Citi

Good morning. Thank you for taking the question.

Maybe just following up on some of the volume questions from earlier. Can you just remind us about how much visibility you typically have into the special waste or kind of event-driven disposal pipeline? Would you say 2Q projects are kind of like locked in at this point? Or are projects kind of being added or moved right up until the last minute? Just trying to think about how that pipeline kind of evolves as the macro environment changes this year.

Mary Anne Whitney

So, Bryan, I'd say in a typical year, we would talk in terms of 90 days. We typically, as Ron said, we're talking to all of our regions. At any point, we're looking at the quarter, and we have good visibility. And we'd say this year that's a little stretched out, right, because we've seen these delays that Ron referred to.

Ron Mittelstaedt

Yeah. And I would also say, Bryan, that it's important to understand that special waste comes in all different types and sizes. You have special waste that comes from manufacturing and industrial production. I mean that's a very predictable waste stream because it's a by-product of their operations. That is probably 60 percent to 70 percent of the special waste that we get, and that is very projectable and recurring.

The event-driven special waste is the larger projects that are, as Mary Anne alluded to earlier, they are infrastructure-developed. That's where you're tearing up roads. You're taking down bridges. You're taking down and rebuilding a stadium. You're cleaning up real estate for speculative development. That, obviously, is a little less predictable on the timing. You know it's going to happen because people pull permits. They're permitting these projects for years in advance. And then they have a window to

complete the next phase of that permitting. But that window can be a couple of years long. So the start and finish dates are a little more speculative in that piece. But that's probably about 30 percent of what we reference as special waste.

So if you look at special waste as a total for the Company, well less than 10 percent of total revenue and then you say that 30 percent of that 10 percent has—you're talking about a couple, 2 percent to 3 percent that really has, quote, less visibility in it.

Bryan Burgmeier

Got it. Got it. Thanks for that detail. And then just the last question for me just on kind of Chiquita Canyon.

I guess, first, are we still kind of using that $100 million, $150 million cost estimate for this year?

And then second, can you maybe just provide sort of a general update on the status there? Are you satisfied with the progress you're making on the ETLF with temperatures, odour complaints, et cetera? Just sort of a general update on Chiquita. And thanks. I'll turn it over.

Ron Mittelstaedt

Yeah. First off, to your first part of your question, we do believe that that $100 million to $150 million is the right bandwidth for the projected outlay for this year, to answer your question. That starts higher in the beginning of the year because of the timing to the what we believe was the peak of the reaction, which was probably the late third, early fourth quarter of last year. And volume levels, production levels of leachate have come down by about 30 percent almost from that peak. So that would track with that.

And to answer your question, yes. Everything we see from an engineering and an environmental monitoring, both internally and through third-party experts, shows that the reaction is contained and

stable. We have completely sealed the area with approximately 50 acres of synthetic to contain odour. Odour complaints are down over 90 percent from their peak, and the volumes produced from the reaction are down, as I mentioned earlier, probably about 30 percent from their peak of sort of last July through September.

So we continue to believe that it is moving in the trajectory that was expected when this began.

Operator

And our next question comes from Stephanie Moore with Jefferies. Please go ahead.

Stephanie Moore — Jefferies

Hi. Good morning. Thank you.

Ron Mittelstaedt

Good morning.

Mary Anne Whitney

Good morning, Stephanie.

Stephanie Moore

Morning. I wanted to circle back on maybe the potential deregulation questions. If you could maybe touch on the potential to see some changes at the EPA and what this could mean for regulations as it relates to PFAS and any other landfill-related regulations that you have dealt with over the last several years. Thanks.

Ron Mittelstaedt

Sure. Well, first off, I would say, Stephanie, that obviously it's relatively recent. And we have not seen decrease in regulation at this point through the EPA that would affect our business or bring any material change to our business from a reduction, if you will, in regulation.

As you may know, the EPA is expected, perhaps by June, to clarify their position on PFAS. They have not done so. There have been some discussions by staff within the EPA. The industry has taken the position, and the EPA has taken the position overall that the industry is a passive receiver. And so that is, I think, an important distinction, and one we believe, and hope will stay at that and have reason to believe it will stay at that from conversations with the administration.

But we are prepared to and are handling PFAS. We have been beta testing multiple technologies for the last actually two-plus years at multiple of our sites. We have installed them at multiple of our sites. They work very efficiently to, I'm going to use the word, solidify PFAS, and then that solidification can be landfilled.

So whatever the outcome of the EPA's regulation in this, we are not overly concerned. We have the technology. The technology exists out there to fully comply with whatever they may do. And, again, if they take a more aggressive stance, we see this as advantageous for the public companies who have the ability to comply and the ability to pass on a greater price than the cost of the compliance for that.

So it's an opportunity either direction, in our mind.

Stephanie Moore

Absolutely. And then one follow-up.

If you could provide an update on your Arrowhead landfill, maybe an update on the ramping of the rail shipments to that site, and then maybe an appetite for bringing external volumes to the location. Thank you.

Ron Mittelstaedt

Sure. Yeah. As I'm sure you and others who followed us, we acquired the Arrowhead site, as you know, in August of '23. So we anniversaried it this past August.

When we acquired it, that site was doing about 2,700 tonnes a day through a series of three intermodal transfer networks along the Eastern Seaboard in Massachusetts, Connecticut, and New Jersey. We now have that up on peak days to 7,500 to 8,000 tonnes a day. Those would be peak days that happen in the peak period sort of in that August to September time frame. Down a little seasonally from that at this time of the year.

But we will approach 2 million tonnes there this year. And we believe as we come through '26 and beyond, that number will push quite north of that 2 million tonnes per year, which would get you closer to that 9,000-plus tonnes a day. So it is ramping.

A large part of that has been internal redirection of waste from sites that we have on the Eastern Seaboard so that we can open up those sites under their permitted caps to third-party volumes.

And the last part of your question, our appetite for third-party volumes at Arrowhead is very high. And we are actively out there pursuing that through the intermodal networks along the Eastern Seaboard.

Mary Anne Whitney

Yeah. And in the meantime, Stephanie, what you see is the increase in internalization, which you saw in our numbers and the benefits and third-party disposal and brokerage costs. So it's a very strategic, purposeful move to internalize more of our tonnes.

Stephanie Moore

Great. Thank you guys very much.

Operator

And the next question comes from Tyler Brown with Raymond James. Please go ahead.

Tyler Brown

Hey, Thank you for the follow-up. Mary Anne, I have a quick one here, maybe a few numbers, but I want to try to get this.

So I think last quarter, you said that we should model about $300 million in incremental M&A in '25. I think, at that time, you had closed $75 million. And now you've closed $125 million of annualized reps. But I also think, if I think back, you also said that some of the deals that were under LOI that had not been closed were in that $300 million, if I'm not mistaken. So, basically, my question is, given the incremental $50 million, should we change that $300 million number? Sorry for all the numbers. I know that's risky on a call. But any colour there?

Mary Anne Whitney

No problem. If you added about $25 million to $30 million, that would probably cover the incremental. When I think about what the increase was during the quarter in Q1, it was, I think, $8 million. So that's probably a fair way to think about it, annualize that.

Tyler Brown

Okay. And then you netted (phon) M&A versus Chiquita today on the call. So, sorry. Just to clarify.

Mary Anne Whitney

Yep.

Tyler Brown

Should we think about the $300 million net of Chiquita? Or are those two separate numbers?

Mary Anne Whitney

No. Fair question. Think about it—think of them as separate numbers. So the number for acquisitions net of divestitures is $129 million, and Chiquita was $17 million.

Tyler Brown

Okay.

Mary Anne Whitney

Make it (phon) $17 million.

Tyler Brown

Yeah. Perfect. Thank you for the clarification. Thanks.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Ron Mittelstaedt for any closing remarks.

Ron Mittelstaedt

Okay. Well, if there are no further questions, on behalf of our entire management team, we appreciate your listening to and interest in the call today.

Mary Anne and Joe Box are available today to answer any direct questions that we did not cover that we are allowed to answer under Regulation FD, Regulation G, and applicable securities laws in Canada.

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

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.