

Waste Connections, Inc.

Q2 2025 Earnings Call

Event Date/Time: July 24, 2025 — 8:30 a.m. E.T.

Length: 85 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommages ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

CORPORATE PARTICIPANTS

Ron Mittelstaedt

Waste Connections, Inc. — President and Chief Executive Officer

Mary Anne Whitney

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

CONFERENCE CALL PARTICIPANTS

Tyler Brown

Raymond James — Analyst

Toni Kaplan

Morgan Stanley — Analyst

Noah Kaye

Oppenheimer & Co. — Analyst

Kevin Chiang

CIBC — Analyst

Trevor Romeo

William Blair

Sabahat Khan

RBC Capital Markets — Analyst

Bryan Burgmeier

Citi — Analyst

Adam Bubes

Goldman Sachs — Analyst

Chris Murray

ATB Capital Markets — Analyst

Konark Gupta

Scotiabank — Analyst

Michael Doumet

National Bank — Analyst

Stephanie Moore

Jefferies — Analyst

James Schumm

TD Cowen — Analyst

Tami Zakaria

J.P. Morgan — Analyst

PRESENTATION

Operator

Good morning, everyone, and welcome to the Waste Connections, Inc. Q2 2025 Earnings Call.

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. For a question, you may press *, and then 1 on a touch-tone telephone. To withdraw your questions, you may press *, and 2.

Please note, this event is being recorded.

I'd now 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.

Okay. Thank you, Operator, and good morning. I would like to welcome everyone to this conference call to discuss our second quarter results and updated outlook for 2025 along with providing a framework for the back half of the year.

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

As noted in our release, we once again delivered results above the high end of our outlook for the quarter in spite of incremental headwinds in Q2 from lower-than-expected contributions from higher margin, commodity-related activities, and continued sluggishness in the economy along with tariff-induced uncertainties.

As anticipated, we have already completed an outsized year of acquisition activity at approximately \$200 million in annualized revenue with a robust pipeline and almost half the year still

ahead of us. The strength of our financial profile and free cash flow generation keeps us well positioned for additional acquisitions while maintaining the flexibility for increased return of capital to shareholders, including through opportunistic share repurchases, which are already underway.

Moreover, in spite of incremental and growing headwinds, our full year 2025 outlook remains within the ranges from February, providing for approximately 6 percent revenue growth and 50 basis points of adjusted EBITDA margin expansion to 33 percent. We remain well positioned for upside from contributions from additional acquisitions, improvements in commodity-related activity, and incremental solid waste volumes.

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 July 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 are extremely pleased with our second quarter results, which reflect the enduring strength and consistency of solid waste, regardless of the economic environment. Moreover, our operational execution was augmented by continued improvement in employee retention and safety to support pricing ahead of inflation and effectively manage costs.

Most notably, we overcame headwinds from incremental weakness in commodities, RINs, and cyclical volumes, and still delivered margins of 32.7 percent, consistent with our Q2 guidance. Remember, this also includes 20 basis points year-over-year headwinds from our decision to close Chiquita Canyon Landfill as of January 1st.

During the quarter, revenue growth of 7.1 percent was driven by 6.6 percent core solid waste pricing, comfortably exceeding our cost of inflation to drive 70 basis points of underlying adjusted EBITDA margin expansion in solid waste.

Reported volume declines of 2.6 percent reflected the purposeful price volume trade-off and ongoing shedding of underperforming contracts that we have described in previous periods. Beyond that, they reflect the trends we've noted over the past several quarters. That is, underlying flat-to-negative volumes from continued sluggishness in roll-off pulls and lower disposal volumes primarily from construction-oriented activity, both of which showed continued moderation during the quarter.

Most importantly, we saw continued improvement in operating trends and the associated benefits. In Q2, voluntary turnover once again stepped down sequentially, marking our 11th consecutive quarter of improvement. On total turnover now below 22 percent, our voluntary turnover of less than 11 percent is down almost 60 percent from mid 22 and has dropped below involuntary turnover for the first time in recent years.

And safety results, which are highly correlated to turnover, once again hit new historic lows. Incident rates were down 15 percent year over year with momentum for continued improvement. In fact, year-over-year monthly incidents were down over 20 percent in June on a 5 percent increase in total employees due largely to acquisitions, which typically come on at higher safety-related incident rates. As anticipated, these improving trends are translating into outside margin expansion.

Similar to Q1, underlying margins expanded by 70 basis points, about two times the more normalized margin expansion we would expect from price-led, organic solid waste growth. And this is without the benefit of positive volumes; a reminder that when volumes do recover, especially at landfills, they will be nicely accretive. And given our high market share model and broad footprint, we remain well positioned to benefit from any pickup in activity driven by construction or otherwise. In the meantime, we are focusing on controlling what we can, delivering industry-leading margins, and positioning ourselves for future growth.

We continue to reinvest in the business through CapEx at existing operations and new acquisitions, pursue new organic growth opportunities, and advance our sustainability-related projects. We're also focused on leveraging technology to highlight additional avenues for outsized margin expansion using AI-driven applications across multiple platforms from customer retention and pricing to forecasting through data analytics, all of which we will be expanding during '26 and '27 as we look to further digitize.

We continue to focus on customer experience and our operations, targeting quality of revenue on the top line and productivity and efficiency gains throughout our cost structure as we position ourselves for growth well beyond our current \$10 billion revenue run rate. To that end, acquisition activity is continuing at an above-average pace, resulting in approximately \$200 million in annualized revenues already closed to date.

Our balance sheet strength, along with a robust acquisition pipeline built on long-term relationships and a consistent, disciplined approach to market selection position us for additional activity. In fact, including signed LOIs, we expect to close another \$100 million to \$200 million in acquisitions later this year or by early 2026 with more to follow. Of course, contributions from any additional deals closing in 2025 would be additive to the outlook we've provided.

And finally, as noted, we've been in the market buying back shares. As we've consistently maintained, we take an opportunistic approach to share repurchases and look to capitalize when we see compelling dislocations across the market or within our sector. To date, we've bought back 1.3 million shares, or about half a percentage point of shares outstanding, pursuant to our normal course issuer bid, which we renew annually in August, providing for annual repurchases of up to 5 percent of shares outstanding.

And speaking of which, in June, we announced an additional listing and became a founding member of NYSE Texas, a recognition of our corporate presence here in The Woodlands, along with our operations across the state. We've enjoyed tremendous growth as a company since relocating our headquarters from California to Texas 13 years ago and appreciate the business-supportive environment Texas provides. We recognize the importance of strong community and appreciate the collaborative can-do spirit that Texas is famous for.

Shifting next to an update on our remediation efforts at Chiquita Canyon Landfill in Southern California. We continue to make progress managing the elevated-temperature landfill, or ETLF, event. At this time, there is no change to expectations regarding the cash flow or other impacts at the site. The most encouraging progress, however, is on the administrative front with the US EPA taking a more active leadership role in regulatory oversight of the facility. To that end, our team has been engaged in ongoing discussions with Region 9 of the US EPA.

In an effort to further streamline ongoing regulatory oversight and approvals at the facility and in line with President Trump's and Administrator Zeldin's stated goals of focusing efforts on powering the great American comeback, Chiquita's requested Region 9's further assistance in minimizing regulatory indecision and inaction by taking a more active role at the site. To be very clear, this is good news and something we requested and will drive continued improvements in the management of the reaction and any impacts to the local communities. We expect the results will be a more effective and efficient and, ultimately, less costly process.

And now I'd like to pass the call to Mary Anne to review more in depth the financial highlights of the second quarter, to review the elements of our updated full year 2025 outlook, and what that implies for the back half of the year. I will then wrap up before heading into Q&A.

Mary Anne Whitney

Thank you, Ron. In the second quarter, revenue of \$2.407 billion exceeded the high end of our outlook and was up \$159 million, or 7.1 percent, year over year.

Acquisitions completed since the year-ago period contributed about \$113 million net of divestitures.

Core pricing of 6.6 percent was as expected in Q2 and reflected the typical cadence of seasonality. For the full year, core pricing of over 6 percent is now effectively complete or contractually provided for.

Volume down 2.6 percent reflects the following year-over-year results in Q2 on a same-store basis.

Roll-off revenue was down about 1 percent, on pulls down 3 percent, and rates per pull up 2 percent. Looking at regional variances, pulls ranged from down high single digits in our southern region to up mid-single digits in our Western region with most regions down slightly.

Activity levels during the quarter, which would typically reflect a seasonal ramp of as much as 5 percent, showed only about a 1 percent sequential improvement between April and June. We would note the constantly changing tariff schedules during this period, which we believe contributed to uncertainty for customers.

Landfill revenue was up about 4 percent on tons up 1.5 percent. Looking by waste type, MSW tons were up 3 percent, special waste was up 7 percent, and C&D tons were down 9 percent, slightly below recent quarters and indicative of limited construction activity.

Values for recycled commodities, already down year over year coming into the quarter, declined another 10 percent to 15 percent during Q2.

Renewable energy credits, or RINs, also stepped down by about 15 percent during Q2.

And our US EPA waste activity, which is highly correlated to crude prices and related drilling activity, was down about 10 percent year over year, most notably in June as crude volatility was magnified by ever-changing policies.

By way of contrast, we did not see a corresponding decline in Canada where our business is more production oriented.

In fact, our R360 Canada revenue was up year over year on both price and volume, in line with our expectations; a reinforcing reminder of our rationale for pursuing this business in 2024 with ongoing growth since then to shift the balance of our E&P waste mix from drilling towards production.

Adjusted EBITDA for Q2, as reconciled in our earnings release, was \$786.4 million, up 7.5 percent year over year and slightly above the high end of our outlook. At 32.7 percent, our adjusted EBITDA margin was in line with our outlook and up 10 basis points year over year in spite of an extra 20-basis-point drag from commodities, which declined during the quarter. In total, commodity-driven revenues were a drag of about 60 basis points in the quarter in addition to Chiquita, which was another 20-basis-point drag.

Underlying solid waste margins were up 70 basis points, similar to last quarter, as Ron described. Similar to Q1, we saw margin improvement across a range of cost categories related to third-party services, labour, and maintenance, as we are seeing the benefits of improved employee retention and reduced openings.

In contrast, risk management cost reductions continued to lag and remained a headwind in the quarter, providing opportunity for continued outsized underlying margin expansion as we look ahead.

Net interest in the quarter was \$80.4 million, and our effective tax rate for the second quarter was 25.4 percent, about 100 basis points above our outlook on higher foreign exchange rates.

And finally, year to date, we've delivered adjusted free cash flow of \$699 million on capital expenditures, up over \$110 million year over year. As such, we're well on our way to deliver adjusted free cash flow of \$1.3 billion as guided.

During the quarter, we completed a public offering of \$500 million in senior notes to further diversify our funding sources and maintain optionality for capital allocation. Our weighted average cost of debt is about 4 percent, with an average tenor of over 9 years. We ended the quarter with debt outstanding of about \$8.35 billion, about 15 percent of which was floating rate, and liquidity of over \$1.1 billion.

In spite of acquisition outlays of \$582 million through Q2, our leverage ratio as defined in our credit facility has increased only nominally since year-end to 2.69 times debt-to-adjusted EBITDA.

As Ron noted, we have a lot of optionality in terms of capital outlays, including opportunistic share repurchases, which, year to date, have totalled over \$240 million. In addition, we look forward to another increase to our dividend, which we'll consider when we undertake our annual review in October.

I will now review our updated outlook for the full year 2025 and provide some thoughts about what that implies for the back half of the year. Before I do, we'd like to remind everyone, once again, that actual results may vary significantly based on risks and uncertainties outlined in our safe harbor statement and filings we've made with the SEC and the securities commissions or similar regulatory authorities in Canada. We encourage investors to review these factors carefully.

Our outlook assumes no change in the current economic environment or underlying economic trends. It also excludes any impact from additional acquisitions that may close during the remainder of the year and expensing of transaction-related items during the period. Additionally, our outlook does not

anticipate material impacts to our effective tax rate or cash flows as a result of the recent tax bill, except as noted.

Looking first at our updated outlook for the full year as provided for and reconciled in our earnings release. Given the strength of our performance in the first half of the year and updating for recent commodity values and RINs and acquisitions completed to date, we are maintaining our full year 2025 outlook as provided in February as follows.

Revenue is estimated at approximately \$9.45 billion. While within the range of our February outlook, this reflects a different mix of revenue. Incremental acquisition contributions are offset by reductions in commodity-related revenues based on recent values and US E&P waste and solid waste volumes based on recent trends.

Adjusted EBITDA is estimated at approximately \$3.12 billion, or 33 percent, again, within the range of our February outlook in spite of that mixed shift. This reflects 30 basis points higher underlying solid waste margins overcoming the margin-dilutive impact of acquisitions and lower commodity-related revenue and disposal volumes. On a year-over-year basis, adjusted EBITDA margin up 50 basis points reflects over 100 basis points underlying margin expansion.

And finally, in the case of adjusted free cash flow at approximately \$1.3 billion, within the range of our February outlook, we expect that incremental bonus depreciation associated with the recent tax bill, which we estimate may increase cash flow from operations by about \$25 million, would be put to work through a corresponding increase in capital expenditures. We are considering opportunistic fleet and equipment purchases to de-risk potential tariff-related increases as well as CapEx for growth projects, both related to recent acquisitions and at existing operations.

The closing of any additional acquisitions would provide upside to our updated 2025 outlook as would improvement in commodities and related activity and any pickup in volumes.

Next, looking ahead to Q3 and Q4. As implied by our full year 2025 outlook, the adjusted EBITDA margin is expected to average 33.6 percent in the back half of the year, up about 60 basis points year over year, driven by outsized margin expansion in Q4 from easing comparisons to the prior year for Chiquita and commodities. By quarter, adjusted EBITDA margin is expected to be roughly comparable across Q3 and Q4 due to a limited seasonal ramp in Q3.

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

Ron Mittelstaedt

Thank you, Mary Anne. As we have described, we are extremely pleased with our first-half results, which highlight the strength and resilience of our business and, specifically, the outperformance of our core solid waste operations in what is arguably a volatile economic backdrop. In fact, in a more normalized environment, our strong first-half performance and operating trends would have prompted us to raise our full year guidance.

However, given the uncertainty of today's environment and the impact of lower commodities, we view maintaining our 2025 guidance as prudent and as a win. And while the macro environment remains dynamic, we are well positioned to navigate that uncertainty as our Q2 results demonstrate.

As we have consistently maintained, our greatest differentiator is human capital and a purposeful approach to a culture of accountability. We're most grateful for and extremely proud of the dedication of our over 25,000 employees and the local leadership teams responsible for the consistency of operational execution.

We will continue to focus on operational excellence, building on a proven track record and legacy of outsized value creation while also recognizing the value of innovation and the opportunities from leveraging technology and new ideas.

Before going into Q&A, I'd like to take a moment to thank and acknowledge my Waste Connections co-founder, our executive vice president and chief operating officer of nearly 28 years and one of my closest friends ever, Darrell Chambliss.

Darrell has announced his retirement from his role as COO effective August 8, 2025. While we're not making any other announcements at this time, they will be forthcoming over the next few weeks.

Darrell can never truly be replaced. He's been the heartbeat of Waste Connections for 28 years. Our Board of Directors, our leadership team at every level, and all of our 25,000 employees owe an enormous debt of gratitude to Darrell. He will be missed every day and will never be forgotten.

There's not enough time on this call for me to adequately express all that Darrell has meant to everyone within the Waste Connections family or across the broader solid waste industry. I wish Darrell, his beautiful wife, Andrea, and their son, Nate, a wonderful, healthy, fun next chapter that is so richly deserved. We'll all miss you terribly, Darrell, and we all love you.

Now, getting back to all of you. We appreciate all 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, at this time, we will begin that question-and-answer session. To ask a question, you may press *, and then 1. To withdraw your questions, you may press *, and 2. If you are

using a speakerphone, we do ask that you please pick up the handset prior to pressing the keys to ensure the best sound quality. Once again, that is *, and then 1 to join the question queue.

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

Tyler Brown — Raymond James

Hey. Good morning. Can you guys hear me?

Ron Mittelstaedt

Yeah, Tyler. Good morning. We can.

Tyler Brown

Yeah. Hey. First, congrats, Darrell. Incredible career. See you on an Arkansas lake one day.

But curious if maybe if we could double-click a little bit on capital allocation. Ron, just it sounds like the M&A pipeline is solid, but you also restarted the buyback. And I just want to make sure that I have the message right here because I think \$235 million in a quarter is maybe the second largest repo in your history, and we're only 24 days in. So just to be clear, is this you being more opportunistic versus a change in the M&A opportunities out there?

Ron Mittelstaedt

Yeah, Tyler. I mean number one, it absolutely is. As we tried to say in our remarks, we try to be opportunistic when we think that there are abnormal dislocations in either our or our sector's stock. And we feel that as there's been recent pullback for a variety of reasons in the sector, and in us as well.

We have tremendous firepower both through free cash flow and available capital, as we've demonstrated. We've done a record amount of acquisitions last year. We're on pace to have an enormous year this year, and we've kept leverage flat to down.

So it is not a change in capital allocation strategy whatsoever. It's just that we have the capacity to do both, and we believe the combination creates, in this environment, a even better performance alternative going forward.

Tyler Brown

Okay. Perfect. And then just a little clarification. So I think you said that there was something like \$100 million to \$200 million under LOI that could close in the second half. But was that a revenue number or an outlay number?

Ron Mittelstaedt

That was a revenue number.

Tyler Brown

Okay. Okay. Perfect. And then just quick modelling, Mary Anne, just so we have it, but what is the expected M&A impact in '25 just basically based on what's in the guide?

Mary Anne Whitney

So coming into the year, the original guidance included \$300 million. We closed about \$75 million in deals, and so the acquisition contribution from the previous year's rollover and deals done had been \$300, and that's stepped up by \$75 million, with the incremental closing of \$125 million during the course of the first two quarters.

Tyler Brown

Okay. Perfect. And then my last one, just can we talk a little bit about E&P? I know it doesn't get a ton of airtime, but, actually, if I look at the numbers, it did something like call it \$180 million in revenue this quarter, which was really good. It was up something like \$50 million year over year. But that is kind of counter to the cautious rig count.

So one, was that secured? Because I thought that we had already lapped that. So I could be wrong there. Was there another acquisition?

And then, two, just given where the rig count is and your US drilling exposure, should we assume that that hangs around this \$180 million per quarter just for a little help on the model?

Mary Anne Whitney

Yes. So a couple things there, Tyler. Yes. I think that's a fair way to think about the run rate, and it reflects, to your point, not only secure, but the subsequent acquisitions we did last year. We mentioned that we've done a couple in Canada, and we've also done some in the US. And so you're seeing the rollover contribution from those deals.

And as we said on the call, what stood out in Q2 was the step down in activity in the US, but that it had been more than offset by the increases in Canada, where, at the legacy secure business, for instance, we saw growth both in price and volume during the quarter on a year-over-year basis.

Tyler Brown

Okay. So \$180 million, though, roughly is a good place marker?

Mary Anne Whitney

Yeah. I think it's between \$160 million and \$170 million. I mean depending on seasonality, I think you've got to meter that a little bit.

Tyler Brown

Okay. All right. Cool. Thank you.

Operator

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

Toni Kaplan — Morgan Stanley

Thanks so much. I wanted to drill down a little bit into the volume on shedding. So last quarter, you had called out a large contract from Progressive that you didn't renew in October. So I was wondering if it's fair to assume a similar drag in volume in 3Q, similar to 2Q, but then maybe 4Q just gets back to sort of more normal shedding.

And I know Chiquita is also sort of a factor in here. So like maybe there's still a little bit below normal volume in 4Q, and then maybe the normal starts in 1Q of '26. Like just wanted to understand the dynamics of how you think about the volume. Thanks.

Mary Anne Whitney

Sure. Sure, Toni. So as you know, we think in terms of we have the shedding. Of course, we have Chiquita, which we kind of bucket separately, and that does anniversary at the end of the year, but we started diverting tons in Q4. So the impact is smaller in Q4.

But when I think about the ongoing impacts, you're right. Some of the shedding does anniversary. I think the way to think about it is the most negative quarter would therefore be Q3 because you have the combined impact of those ongoing impacts plus what we talked about, that lower seasonal ramp impacting the revenue growth Q3 versus Q2. So most negative in Q3, getting back to more like Q2 in Q4. And yes. I agree with your expectation that some of those pieces anniversary as we look ahead to '26.

Ron Mittelstaedt

Yeah. And, Toni, the one specific contract we did call out last year, former Progressive contract, actually in North Texas, it does anniversary on October 1, as you pointed out.

Toni Kaplan

Great. And I guess maybe just longer term, when you think about volumes, Ron, like I guess you made the comment that when volumes do recover, that will be accretive. Do you expect that volumes recover in '26? Or when does that happen? Or because of all the M&A, maybe it's even pushed out further than that. Just wanted to sort of get a longer-term picture.

Ron Mittelstaedt

Yeah. Well, I think you've got to break apart the components, Toni, of the negative volume. And again, I'm just rounding here. We've said there's been about 100. If you take a negative 2.5—I'm rounding for the quarter; it was a little more than that—you've got about 100-point price volume trade-off that's been conscious. So depending on how the economy is and how hard we want to push that and where inflationary indexes are, that can get better.

You have about 100 points from purposeful shedding. We just outlined that a lot of that will get better, specifically Chiquita and a large contract we did not renew, purposely, in North Texas. However, we have done a lot of M&A in '24 and continue in '25. So some of that will continue, obviously.

And then right now, I'd say you got about 50, 60 basis points of just underlying economic activity that is soft, particularly in construction-linked activities. So it affects roll off, and it affects C&D, which you saw down 9 percent in the quarter. So that is tough to say.

We would hope, now that the bill has been passed in Congress, that, maybe, as interest rates potentially decrease some over the second half of the year into next year, these are somewhat fuel for construction activity at all levels, and then that, you know, we see a corresponding real-time benefit from that, but we're not, obviously, sitting here trying to predict that.

So we've been in, effectively, a flat-to-negative, you know, take out government spending, take out federal government spending, we've been in a flat-to-negative GDP environment for approaching three years now. And so is '26 going to break that? Well, I would hope so. But we don't know.

Toni Kaplan

Super. Thank you.

Operator

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

Noah, is it possible that you're on mute?

Noah Kaye — Oppenheimer & Co.

Good morning. Can you hear me?

Mary Anne Whitney

Yeah. No. We—

Ron Mittelstaedt

Yeah. Now we—

Noah Kaye

All right. Thank you. Yeah. We just didn't hear our name called. So I appreciate everyone taking the question.

Mary Anne, just maybe trying to bridge from the 9.45 that you saw in 4Q on the revenue side to how you see it now, because you pointed out the mix has changed; you got the \$75 million higher M&A revenues. Maybe give us the other kind of moving pieces here because I think that'll help us and investors kind of understand some of the mix shift a little bit better.

I mean, how much more is the impact from commodities and, potentially, kind of underlying volumes versus what you thought?

Mary Anne Whitney

Sure. So as you pointed out, so \$75 million incremental in acquisition contribution; a little bit of a good guy from FX because it's, in our view, improved by about a point, which is about \$20 million. And then the offsets are primarily those commodity-driven reductions where you've got recycled commodities down about \$25 million, RINs down another \$5 million. And then we have about half a point less in terms of overall solid waste volume.

And so those are the moving pieces that effectively net to neutral, but the really important part of that is the differences in the margin contributions from each of those and the fact that what that really requires is that the underlying business improves by 30 basis points in order to offset the fact that there's a little margin dilution, sub 10 basis points, sub 10 basis points from the incremental M&A, but it's primarily the 30 basis points incremental headwinds from those lower recycled commodities and RINs.

Ron Mittelstaedt

And, Noah, I would add that you also have about another approximately \$20 million to \$25 million in E&P volumes lower in the second half based on current rig count in the US versus Canada, meaning that's not happening in Canada. It is happening in the Permian and the Louisiana on and offshore.

Mary Anne Whitney

Yup. Thanks, Ron. Yup.

Noah Kaye

Yeah. So \$20 million to \$25 million lower versus what you thought in February, just to clarify.

Mary Anne Whitney

Previous guidance.

Ron Mittelstaedt

Right. Right. \$50 million annualized; \$25 million in the second half.

Mary Anne Whitney

Yep.

Noah Kaye

Okay. And then, again, for our models, appreciate you giving us sort of the margin expectations for 3Q. You did also comment not much of a sort of sequential ramp expected in kind of underlying macro. So just some rough guideposts on how to think about the revenue step-up because typically it is a seasonally strong quarter. But between the commodities step-down and some of the other headwinds you mentioned, perhaps we don't see as big of a step-up as usual.

Mary Anne Whitney

Yep. That's the right way to think about it because the typical seasonal ramp could be as much as 3 percent to 4 percent. And so this would be muted and there would be that step-down in commodities. So you could certainly work your way to more like 1.5 percent in terms of the step-up Q3 versus Q2.

Noah Kaye

Thank you. And just one last one. I mean Tyler, I think, as always, asked a great question earlier around capital allocation. I just want to follow up on the buybacks.

Should we think about additional buyback activity in any way to dimension that over the back half of the year? I understand that you're being opportunistic here, but kind of given where the stock is and your view on the multiyear growth opportunity, fair to think about additional buyback activity in any way to dimension it?

Mary Anne Whitney

Yeah. We always think in terms of being opportunistic, Noah, and it's—rather than being programmatic. And so the way we approach it is that we have tremendous optionality given the magnitude of our free cash flow and where our leverage sits, and we'll continue to evaluate all the alternatives for capital allocation.

Ron Mittelstaedt

Yeah. And the only thing I would add, Noah, is look. You saw us in a very short period of time, as we thought there was a disproportionate dislocation, spend close to a \$0.25 billion.

Noah Kaye

Yep.

Ron Mittelstaedt

And so we remain positioned to do that in the same manner.

Noah Kaye

Very helpful. Thank you, all.

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. Good morning and congratulations, Darrell, echoing what others have said already.

Maybe just two quick ones for me. You're obviously making great progress on your voluntary turnover and safety incident metrics and trends. If memory serves me correct, I think that was a 100 basis point in margin opportunity. I think you've achieved about two-thirds of that. Just given the trends you're

seeing, should we expect that additional one-third, or let's call it 33, 34 basis points. Does that fully materialize in 2026 just given the trends you're seeing through '25 here?

Mary Anne Whitney

Sure. So you're right, Kevin. We've talked a lot about, as we described it, there was about 100 basis points of margin that we thought we'd get unlocked by these improving trends. And then we actually revisited that and said it's probably a little north of that given the magnitude of the headwinds we're still absorbing from those lagging improvements associated with risk management costs.

And I think last quarter, we said we're about halfway through the 100 basis points; we'd realized about 50. And the update is now we're north of that, maybe 60 to 70 basis points in terms of good guys that we're seeing.

It's interesting. We look across about 10 different cost items every quarter, and I can't remember a time where they'd all been green up until now, meaning that margin, the cost as a percentage of revenue, was improving. And so many of them are related to third-party costs, whether it's subcontracting, contract labour, whether it's overtime compared to straight time, all the benefits, third-party repairs, et cetera, all the benefits that we thought over time should start to accrue to us.

So what we haven't seen yet, as I said, is that risk costs, while they're abating, meaning it's been less of a bad guy, less of a headwind on a year-over-year basis, it hasn't become a tailwind.

So to answer your question, there's still more to come. Tough to say that we would get it all in '26 because of the way that the risk costs lag, but we expect to continue to realize the benefits. And the trends we've seen make us bullish about seeing more by the end of the year than we're seeing right now.

Kevin Chiang

That's super helpful. Maybe just my second question here. Ron, you talked about the EPA taking a more active role at Chiquita, and you think that's a favourable outcome or development. Just if you can maybe just provide a little bit of detail in terms of how that benefits your remediation efforts and maybe some of the challenges you have been facing, I suspect, dealing with multiple agencies in trying to deal with the ETLF issue at Chiquita?

Ron Mittelstaedt

Sure. Well, we have been dealing with approximately 12 to 13 state and local agencies in California. Each of those have their own staff. Each of those have their own elected boards. And each of those have their own objectives.

There is, literally, no coordination amongst those agencies at any level, and the objectives from them are often at crosscurrents with the other agencies. So trying to navigate, for anyone, that morass is extremely difficult and complex and slow at best.

You are talking about agencies who would politically and through the media like to describe things as a crisis but have difficulty responding to an email in under a 90-day period. I think that indicates to you what real crisis they think it is.

So we really sort of need an adult in the room, and that's what the EPA will bring. One of the reasons we wanted their involvement is an ETLF is not a new phenomenon in the waste industry, by any means. And the EPA has quite an advanced depth of knowledge on best practices to mitigate, remediate, and move forward in the ETLF relative to any other government agency out there. And so it was something that we look forward to and request.

We believe that it will, as we said, streamline the process and help determine the prioritization of issues and allow us to make even faster progress that, quite honestly, just, I don't think I have to explain,

the California bureaucracy just disallows, to be very honest. I mean, take no look further than the 4,000 homes burned down in Pacific Palisades, and 95 percent of those that have applied for a rebuilding permit are nowhere. And that's a housing situation. So imagine their response to a landfill-type crisis.

So yeah. This is something we have been seeking for quite some time. The California politicians and tremendous media out there will probably spin that as a negative to bolster their political position. But it is, we can tell you, we are strongly encouraged by it.

Kevin Chiang

That's great colour, Ron. Thank you. And that's it for me. Thank you very much.

Operator

Our next question comes from Trevor Romeo from William Blair. Please go ahead with your question.

Trevor Romeo — William Blair,

Good morning, Ron and Mary Anne. Thanks so much for taking the questions.

Mary Anne Whitney

Morning.

Trevor Romeo

I wanted to hit on price first for solid waste. So still kind of call it upper sixes range to start the first half. Anything from a regional or line-of-business perspective that you'd call it as kind of stronger than you expected?

And then any thoughts on the trajectory or the cadence for the second half? Seems like maybe you're trending above 6 percent for the full year, even if you do see some deceleration, but maybe any specific thoughts on that would be great.

Mary Anne Whitney

Sure. So, Trevor, as we said it, coming into the year, we got it to about 6 percent price. And then following our Q1 results, we talked about the fact that price retention had been a little better than we anticipated and, therefore, pricing in Q1 at 6.9 percent was a little bit higher. We've now since said that pricing's effectively done for the year and, maintained, that it'll be above 6 percent. So really nothing to point out.

Of course, we have our CPI-linked markets, and then we've got our competitive markets. But as I said, we're trending to better than we originally anticipated. We attributed that, at least a portion of it, to better pricing retention and the fact that all those trends in employee retention and open positions had all improved so well that we're not surprised that retention was a little better than expected.

As we move through the year, in general, the cadence of our pricing and, really, the math around what the denominator is that we're measuring the dollar amount of price increases on, by math, by definition, that does step down sequentially through the course of the year. And that's why you start at 6.9, we did 6.6. You're right; it implies that it steps down a little bit between now. If you were modelling it, and you put it somewhere between the 6.6 and the 6.0 over the course of the rest of the year, that's probably the right way to think about it.

Trevor Romeo

Okay. Thanks, Mary Anne. That is helpful. And then for my follow-up, just wanted to touch on I think you mentioned, with the bonus depreciation comments, maybe some opportunistic fleet or equipment purchases to get ahead of maybe potential changes with the tariffs. Could you maybe just give a little bit more colour or detail on your latest thoughts Maybe on what your suppliers are telling you what the potential impact could be with the latest deals and guidance in place.

Ron Mittelstaedt

Yes, Trevor. Well, as you know, first off, that's dynamic and could change by the end of this call. But the reality is, is that, right now, our suppliers, particularly on the truck body and chassis side, which is, obviously, the largest part of our capital, they are expecting about a 2 percent to a 3 percent price increase related to the tariffs for '26 and an overall increase of 4 percent to 5 percent, so meaning just a little bit more in addition to the tariff. So 4 percent to 5 percent total increase in fleet cost is what they're telling us with about half of that, not quite half, being the tariff impact as they know it today.

So that is not, by any means, you know, I think we said last quarter we would expect it to be relatively de minimis in '25. That is the case. But knowing the uncertainty that still exists or potentially exists with things not yet being finalized in many places, we have looked to accelerate some fleet, as Mary Anne mentioned, which that will offset some of that bonus depreciation that we otherwise would have seen in the free cash flow line, in order to sort of hedge and blend down our '25, '26 overall cost to something, hopefully, below that 4 percent to 5 percent we would have otherwise expected from the manufacturers. So a number we're very comfortable with.

And you have to remember, there was also somewhat of—there were delays in fleet in '23 and '24 that happened. And so there's still not a catchup, but there was a little bit of a backlog that we were still taking delivery of in '25 too. So it's a combination of those things.

Trevor Romeo

Okay. That's all very helpful. I appreciate it.

Operator

Our next question comes from Sabahat Khan from RBC Capital Markets. Please go ahead with your question.

Great. Thanks, and good morning. Just wanted to revisit the discussion earlier around some of the components around volume. I think before some of the Chiquita volume drag, I think we were talking about the progress or the historical sort of volume shedding largely getting to the tail end.

Can you just help us think through as you get into '26 and beyond, putting the GDP or the economic growth aside, how's sort of the leftover shedding volumes going to look like in the next couple of years from your vantage point? Thanks.

Ron Mittelstaedt

Well, it's obviously a little bit hard to say because that, to an extent, depends on the pace of M&A. As I have said, or as we have said, look. You should want us to have a little bit of a higher shedding number because it means that the implied pace of M&A is higher. Right? We have said that when we do private company M&A on the solid waste side, somewhere around 10 percent, maybe up to 15 percent, 20 percent of that revenue over the first one to three years post M&A, we will look to either rebid and at a price we make money or walk away. And that is what that shedding is.

So I would tell you it has been larger, to your exact point, because of legacy Progressive contracts, which we do believe we are effectively at the end of as of October of '24, the one we mentioned earlier in this call that will anniversary this year. And so that has been the largest piece, to answer the question. So I would tell you I would expect it to come down some 30 percent to 50 percent on a go-forward basis because that was the largest piece.

That still probably leaves it in that 50 to 75 basis points on a normalized basis if we're doing quite a bit of M&A.

Sabahat Khan

Got it. And then just going up on the E&P side of the business a little bit, as you think about that sort of the volume trends and things like that there, sort of maybe just talk us through sort of the flexibility on the cost structure there.

Obviously, just a small blip here this year, but just over the long run, how do you think about the cost structure there? How much of that is variable? And just the ability to sort of tweak that over more of a multiyear basis, not just in reaction to the short-term blip we might see in H2 this year. Just wanted to understand sort of how you think about that business. Thanks.

Ron Mittelstaedt

We think of it as a very high, fixed-cost business. The reality is is that that is a relatively high, fixed-asset business, low variable business. And it is a volume throughput business, in the US, certainly, as it is drilling linked, much less so in Canada where it is 85-plus percent production linked.

So I wouldn't—it would be misleading to tell you or anyone that in that 6 percent of our total revenue, which is E&P, that we are expecting margin expansion to come from cost reduction in E&P. That would be misleading. But as that volume improves, whether it's because of crude price and drilling activity or increased production in Canada, you've, obviously, you see the margin contribution in that business. So that's how we do think about the cost in the E&P business.

Mary Anne Whitney

And just to be clear, when we think about that business, as I mentioned earlier, that's part of the rationale for de-risking the business more broadly because only about half of that 6 percent or 6.5 percent is drilling oriented. It's the US piece of the business. And as we mentioned, the Canadian business is

holding up fine, and, in fact, was up year over, really in line with our expectations. We haven't seen an impact there.

Sabahat Khan

Great. Thanks very much.

Operator

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

Bryan Burgmeier — Citi

Good morning. Thank you for taking the question. Maybe just on the volume headwinds that are impacting your '25 guidance. Is it accurate to say that's sort of really concentrated in a 3Q event just kind of focused on construction activity? Or did you start to see slowdown in 2Q? And would you say there's any sort of meaningful difference between the activity in US and Canada? Or is it just kind of the same everywhere?

Mary Anne Whitney

Well, to give you some context, if you look at C&D tons, so that piece of our business year over year, Q2 was the seventh quarter in a row for those being down year over year. And it's averaged between 7 percent and 8 percent Q1 to Q2. Q1 was down 6 percent. Q2 was down 8.5 percent. So there was some incremental weakness. But the point is, even though the comps are easy, we're not seeing increases year over year.

So we did see what we called out as being a little different in Q2, where for that activity and also for our roll-off activity, which, again, if I just look at pulls down, this was the sixth quarter in a row where pulls were down. And those have been down on the order of kind of an average of about 3 percent year over year in each of those quarters.

So we wouldn't say this is a new trend, but what we saw during the quarter was some continued moderation, as we would say, some incremental weakness meaning June was tougher than April was. And we called out the fact that ordinarily, between April and June, you would see more of a seasonal ramp. And the fact that that was missing is what informed our expectations for the back half of the year, specifically Q3, which is typically your seasonally strongest quarter. These are the pieces of the business where you see it because they're more construction driven.

Bryan Burgmeier

Got it. Got it. Thank you. And just to follow up, would you say there's any sort of difference between activity in between US and Canada? Or just kind of the same everywhere?

And then just as a follow-up, just kind of for modelling purposes, are you able to share sort of the recycled commodity price assumption that you started the year with and then what you're kind of assuming now for the back half, given the recent decline?

Ron Mittelstaedt

Yeah. Let's take the second part of that first, Bryan. We assumed, when we started in February, we assumed a basket of about 105 to 110 on OCC, which is the largest piece of our basket. And we're now seeing that more in that 85 to 90, closer to 90 as I look down, in sort of the second half in real time right now.

Mary Anne Whitney

And shifting to your question about differences across Canada or other regions, I'd say, if I look across, again, these more cyclically exposed pieces, the markets that are holding up a little better on a relative basis do include Canada actually being a little better and our West Coast markets. And the softest,

the greatest weakness we saw in our Southern region, which includes like Florida, Texas, Louisiana, and then also our Eastern region, which includes the Northeast and then some of the Southeastern markets.

Bryan Burgmeier

Got it. Thanks a lot for that detail. I'll turn it over.

Operator

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

Adam Bubes — Goldman Sachs,

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

I think the 2025 margin guidance implies over 100 basis points underlying margin expansion compared to 70 basis points in the first half of the year. What are some of the moving pieces driving that accelerating underlying margin expansion in the balance of the year? Is that the improvements in voluntary turnover? Any colour there?

Mary Anne Whitney

Yes. And thanks for pointing that out. Yes. We are bullish based on the trends we've seen, and, as I described, all of those indicators trending positive for us as we move through Q2, that we see acceleration there and see the increased margin expansion.

Then, of course, the more broadly, you'll see a bigger increase in Q4 because the comps in other areas get easier. And so the headwinds abate. But looking sequentially, we'd expect margin to continue to improve as we move through the year, primarily because of those improving trends.

Adam Bubes

Great. And then you closed on the \$75 million of annualized revenues incremental in the quarter and then expect potential to close on the \$100 million to \$200 million later this or early next year. Can you just comment on the mix and margin profile of these acquisitions? And how we should think about the incremental in-year EBITDA associated with the \$75 million in incremental revenues acquired in 2Q.

Ron Mittelstaedt

Sure. Let's take the first part of that first, if we could. So the \$100 million to \$200 million that we have, I'm very confident in our closing components of that in Q3 and Q4, is all traditional solid waste. There's no E&P in that, or anything else. It is a mix of transactions through several of our geographies. So relatively well dispersed. You have franchises in there on the West Coast. You have competitive markets in the South, the Midwest, and the East.

And, typically, the margin profile of that comes on nominally dilutive to our corporate average, obviously. We typically tell people to think of that as about 25 percent as a guideline, as an EBITDA margin. You got a few that will be higher. You have some that, based on perhaps if they're on the Eastern Seaboard with very high tip fees, they are just structurally a little lower on a margin basis. And we have a mix of all of those in there. So I think that was the first part of your question at least.

I think the second part was the incremental \$75 million that has been closed since we reported Q1. And what we would tell you is we, again, same commentary on margin. We had a smaller, although very nice, E&P acquisition in Canada that we did in that \$75 million. So that was a little accretive to margins, but it was the smallest component of the \$75 million.

So, again, I would tell you, if you use 25 percent to 30 percent for that basket because of that E&P acquisition, that would be a fair assumption on that \$75 million.

Mary Anne Whitney

Yeah. If you assume some dilution on the order of 10 to 15 basis points from incremental M&A, given our size and the relative contribution, that's probably the right way to think about it.

Adam Bubes

Great. Thanks so much.

Operator

Our next question comes from Chris Murray from ATB Markets. Please go ahead with your question.

Chris Murray — ATB Capital Markets

Yeah. Thanks, folks. Good morning. Maybe I don't know who wants to take this one, but we've had a lot of discussion about volumes. But one of the things that, at least we've been seeing, is a bit of a split between kind of the construction/manufacturing world of services.

Just wondering if you have any thoughts about what you're seeing from some of the end markets, if you're seeing kind of some of the volume decline in the services. Like I'm thinking like restaurants, different things that we're seeing just on consumer behaviour, versus what you've been calling out for like C&D and manufacturing.

Ron Mittelstaedt

Yeah, Chris. It's actually inverse of that question from what we're seeing. We have fairly nicely positive commercial yardage across our system, commercial yardage growth, commercial customer growth on a net basis and fairly nice revenue growth on the commercial side. So we're not seeing it there.

It is the larger manufacturing industry and more cyclical construction activity, both commercially and residentially, that the slowing is happening in. We marked it. We noted that special waste, which can

be cyclical, was up in the quarter. But, again, don't get let that mislead you. That can be one or two big jobs that skew things. We are seeing states that are trying to get budgets passed that have put holds on projects that had been going. So some of that's just a temporary thing.

But it's more related to larger projects stalling or not getting released than it is the, what I'd call, Main Street, America commercial business.

Chris Murray

So I guess the reason I ask the question is if I think about kind of a volume recovery, it feels like we're kind of in a period of we get by the uncertainty the whole bit. But the underlying majority of the economy still feels like it's doing okay. Is that the right way to approach it? Or how you guys are seeing how this happens so that the volume recovery could happen maybe faster than we expect?

Ron Mittelstaedt

Yeah. I mean, again, we have said for quite some time now, as we pointed out on a few of the comments on the call, it has just been flat sort of up 1 percent, down 1 percent for 10 to 11 consecutive quarters with really the economy sort of in neutral. And that continues to be. We aren't saying there's any difference than that. Maybe it's down 1.5 percent instead of 1 percent. But that can also be we've had pretty significant weather in the South, as an example. And we pointed out that the South was weaker in an area, I would tell you, which has been very strong.

So we're hesitant to make a call on what ... Look. We have never guided. Okay? We have never guided saying, well, our guidance assumes a dramatic recovery in the economy. We don't do that. Well, we're sort of telling you what we're seeing in real time and assuming it marches forward and that, if it improves, that's all upside.

Chris Murray

Okay. Okay.

Ron Mittelstaedt

And so I think we're cautious after 11 quarters of flat line.

Chris Murray

All right. Sounds good. Maybe one more question, if you don't mind. As I listen to the call, and I listen to some of the things you talk about in terms of turnover, in terms of technology, we really haven't talked about RNG development and things like that. But you go back a few calls, and we've been talking about outsized margin expansion as we went into '26, '27.

Given where you're sitting, and I appreciate volume's maybe going to hurt, but I think, as you pointed out, second-half margin expansion is already kind of aiming at 100 basis points, which probably carries you into the early part of '26. How should we be thinking about that margin cadence as we go into sort of the later years, as you get some of the benefit of some of the investments you've made over the last little while and some of the new initiatives that you're implementing?

Mary Anne Whitney

Well, we certainly think about setting ourselves to have tailwinds that would be incremental to the typical 20 to 40 basis points of price-led organic growth when you look at this year delivering 50 basis points in spite of the fact that there are incremental headwinds from commodities. And so we talked about that opportunity for just when that normalizes for another, in this case, 50 basis points from commodities alone.

So look. That is certainly the thought behind making the investments we're making now, Chris, and we do look forward to, in subsequent periods, continuing to realize those benefits. And so we're certainly bullish about being north of that 20 to 40 basis point.

Chris Murray

Okay. I'll leave it there. Thanks, folks.

Ron Mittelstaedt

Thank you.

Operator

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

Konark Gupta — Scotiabank

Thanks, Operator. Good morning, everyone. Maybe on the price cost spread, it seems like you guys are still hitting, as an industry, maybe near the high end of the typical ranges, or maybe above, with the 6.5 percent pricing and whatnot.

Heading into '26, like exiting '25, do you feel like the price cost spread can potentially come down or normalize to sort of the normal levels? Or that's still kind of like a far-fetched idea? And if at all this spread narrows or stays the same, would it be more driven by the price? Or the cost?

Ron Mittelstaedt

Well, I think it would be driven by both to answer the question. I mean, look. If you go back 15 years, so all different types of economic cycles that have happened in that, we've averaged about 150 basis points spread of our price to at least the CPI, if you want to use that as a proxy for cost. Some years costs have been a little higher than CPI, some maybe right at, but that's a fair proxy.

So as the CPI continues to step down, which it has been and is projected to continue to do so or maybe flatten out in the 2.5 percent to 3 percent level coming down from 9 percent 24 to 30 months ago, you will see the aggregate price or reported price come down accordingly, as you have been, but I think you will see that spread continue because that's what we target as a company, and have for long periods.

Now, I think the higher the CPI, that does help a little bit on the margin to increase that spread a bit that you have. So, but I think that's pretty de minimis, to be honest. We are seeing our costs aggregately fall in total each quarter for the last year and a half. We saw it step down again in aggregate.

We saw our labour cost go to the sort of 4.2 percent, 4.3 percent level, and our total cost come in about 3.4 percent to 3.5 percent. So still a little bit above the CPI but coming down.

So if you use that as a proxy, 150 to 200 basis points on top of that would get you sort of 5 percent, 5.5-type percent price to get you the same performance that 6.5 percent had been getting in 2025.

Konark Gupta

That's great colour, Ron. Thanks. And just to follow up, Chiquita, just kind of like understanding here, you said having the EPA as the adult in the room should help, obviously. Do you see an opportunity to reduce your cost obligation for the next several years with the EPA involved here? Or that's pretty much a given?

Ron Mittelstaedt

Well, look. I think what we said is that we don't have any changes to the cost assumptions and the cash outflow assumptions and closure assumptions that we have provided.

We do a multiyear model on that. There are quarters that are higher. There are quarters that are lower. But none of the assumptions have materially changed. We just believe that—look, a lot of these

costs are legal and consulting, and a lot of that is driven by regulatory framework in California. So if that alone is streamlined through the EPA, that'll get better right there, irregardless of mediation cost.

So look. I would tell you we're cautiously optimistic on doing better, but we're going to fulfill whatever our regulatory, legal requirements are to whatever agency is over us, and we have been doing that and will continue to do that. So it's a little bit hard to predict, but I would tell you we feel incrementally better.

Konark Gupta

Yeah. That's glad to hear it. Thanks so much for the time.

Operator

Our next question comes from Michael Doumet from National Bank. Please go ahead with your question.

Michael Doumet — National Bank

Hey. Good morning, guys. So, obviously, nice job on the employee retention improvement. I wonder, Ron, if you'd characterize that improvement is largely complete, obviously understanding the impact of margins is lagged. And if that's the case, what are your thoughts on some of the other, call it, buckets of potential efficiencies that you can drive incremental price cost spread going forward, I think such as the AI initiative you mentioned at the top of the call?

Ron Mittelstaedt

Yeah. Well, first, thank you for your comments there. I appreciate it. Well, first, I'd tell you that when you talk about the turnover and the employee piece, it's never done. Obviously, you do get to a point of diminishing returns, but our objective is to drive total turnover below 20 percent by year-end and

into '26 and total voluntary to well under 10 percent as we go into '26. So we're not done, but we're getting close.

Look. I would tell you that the opportunities that we see that are the largest impact going forward are the use of technology, and specifically AI. And I wouldn't say that it's necessarily the ability to increase the price cost spread. I think it's the ability to maintain the price cost spread and reduce churn and, therefore, impacts to reported volumes. That is the opportunity. And that is, we believe, can be fairly significant based on the pilots that we've been doing for the last several quarters. And so that will start to play out fully in '26 as we will be fully using it by the fourth quarter of this year.

So those are the projects like that, projects like real-time routing, which think of it as sort of Waze for garbage trucks, which we really don't have the ability to do in our system today in the manner that we want, to avoid traffic, to avoid construction, to reroute dynamically to affect productivity and incremental new stops. So those are the type things.

Complete digitization of our maintenance program and systems, which I think allows for greater inventory control, greater projectability in preventative maintenance and scheduled maintenance, and a flexing of costs with projectability. These are all things we are rolling out in real time over '26 and '27 that I think may not individually be the margin drivers 100 basis points that turnover reduction has, but combined, they're significant.

Michael Doumet

Really interesting comments on the price optimization. I mean, Ron, just to follow up on that, does that, in your opinion, could that change the calculus for the typical price-cost spread that you guys have historically had?

Ron Mittelstaedt

Again, I would want to say if we could maintain the typical price spread we have had and we could reduce by 20 to 40 percent the churn impact of that, meaning you have to sell 20 to 50 percent less customers to stay neutral, I'll take that all day long.

Michael Doumet

Got it. Thanks for the comments, Ron.

Operator

Our next question comes from Stephanie Moore from Jefferies. Please go ahead with your question.

Stephanie Moore — Jefferies

Hi. Good morning. Just one question for me. It does appear that this current administration could potentially be a little bit more lenient in terms of large M&A than at least the prior administration. So I wanted to maybe ask a higher-level thought and if the current, I guess, backdrop would make you a bit more amenable to doing maybe larger deals or anything that might be outside of kind of the core average deals that you look at on an annual basis? Thank you.

Ron Mittelstaedt

Yeah. No. Thank you, Stephanie, for the question. Look. The first thing I would tell you is that in the course of 28 years, we have never been through a second request with the Department of Justice or the Antitrust Division, and I think that's indicative of our market model, number one. There is nothing that we are looking at or have been looking at that we have shied away because of fears of Justice Department clearance, concentration, et cetera.

So I wouldn't want to say that I believe for us that a more lenient justice process is an accelerant to M&A because it hasn't been an inhibition to M&A. Now, I will say that I think, in general, that probably broadens the scope of things in some markets for us.

You have to remember that the filing requirement is about \$125 million of purchase price, not revenue. Remember, in our sector, that could be \$40 million of revenue, okay, depending on profitability of a deal. So that's what you got to remember as far as where does this HSR requirement apply to. That's how low it—that's what it goes down to.

But I would not tell you that it has been an inhibition for us, but it's certainly we welcome the more favourable regulatory environment, I would say.

Stephanie Moore

Great. Thank you.

Operator

Our next question comes from James Schumm from TD Cowen. Please go ahead with your question.

James Schumm — TD Cowen

Hey, good morning. Thanks. With respect to free cash flow, you mentioned you're on track to hit your Chiquita Canyon spending guidance, but can you update on your best estimate for next year's spending on Chiquita? Was that \$50 million? Was that the last update?

And can the EPA give you some relief on leachate disposal? Or does that have to come from the state? And maybe just give us a sense of the \$100 million to \$150 million that you spend this year. Give us a sense, like, how much is leachate. Or if you could bucket some of the costs, that would be super helpful.

Ron Mittelstaedt

Sure. Well, what I would tell you is I think it's too early to make any changes up or down to our '26, '27 estimates because it is a dynamic situation, and we are looking at this potential sort of lead coordination change. Okay? And so it'd be speculative, I think, to do that.

To the part of your question regarding how much is leachate, that's about 70 percent of the cost. Okay? The cost of treatment and disposal and transportation. So, obviously, any impacts that we can make operationally or outlet-wise or transit-wise help that.

We have made some changes that have recently reduced that in real time that we will begin seeing throughout this third quarter as a somewhat of a step change for us.

Mary Anne Whitney

And they were contemplated by—

Ron Mittelstaedt

And yes. And they were contemplated. And that is not a result of anything new. That's a result of ongoing efforts. So that is what we can tell you about that, James.

James Schumm

And then, Ron, just I mean, as you look for different options to sort of ameliorate those costs, like will you be appealing to the EPA? Or would that still have to go through the state in terms of getting some (unintelligible).

Ron Mittelstaedt

I think the answer depends on what that cost is, James. I mean, the EPA is not going to come in and direct the state to do things that are against state laws or regulations or objectives. That is not what they are intended to do. Okay? So we will still have to and still are in compliance with all of those things.

But there are things that reside under the EPA's purview that I would say it's not clear whether it is a federal, state, or local issue on some decisions. And in those areas, I think the clarity, the EPA can be helpful to us. So stay tuned for how that plays itself out.

James Schumm

Okay. Very good. And then just lastly, for recycling, what does your overall book of business look like right now? Is it majority fee for service? Or are you assuming the full commodity price risk? What does the book look like currently?

Mary Anne Whitney

Yeah. Most of the recycling we do is part of a broader service provision. And so we have the exposure, which is why we communicate what the sensitivity is on the total recycling basket. And you see that move through our numbers every quarter.

James Schumm

Okay. Thank you.

Operator

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

Analyst — Truist

Hi, all. It's Henry on for Tobey here. Thanks for squeezing me in. I just have a quick one on M&A. You touched on this briefly before, but what's the typical timeline we should look at for tuck-ins to reach kind of company average margins? And then has that average timeline changed here as you've stepped up after these acquisitions? Thank you. Yeah.

Ron Mittelstaedt

Yeah. Yeah. So I would tell you everybody's definition of a tuck-in's a little different. So a little bit of commentary there. But typically, a tuck-in, we're going to be able to bring up to company margin average within a 12- to 18-month period. It's a relatively quick time frame because you're shutting down a facility that exists. You're consolidating routes. You're doing things that happen in relatively quick order.

Now, again, that was a tend to be your very small transactions where you're just densifying a market area. When you're talking about something that is more of a stand-alone, and that could be something \$20 million, \$30 million in revenue, and you're going to build out around, that's a longer time frame. Right? You're probably talking a probably more of like a three- to four-year type period to move that closer to the Company average.

Now remember. If we're buying a company that's a 23 percent, 24 percent EBITDA margin, that's 1,000 basis points below our margin. So even if you're moving it 200 basis points a year, you're mathematically four-and-a-half to five years. So it somewhat depends on, Henry, on your definition of what a tuck-in is.

Operator

And our next question comes from Tami Zakaria from J.P. Morgan. Please go ahead with your question.

Tami Zakaria — J.P. Morgan

Hi. Good morning. Thank you so much for fitting me in. I just have one quick clarification question about the opportunistic buyback. So if the \$100 million to \$200 million M&A in the pipeline closes this year, could we still expect some opportunistic repo? Or will it be sort of an either/or outcome?

Mary Anne Whitney

We view ourselves as having the optionality to continue to do all aspects of capital allocation. So no. We don't see it as either/or.

Tami Zakaria

Got it. Perfect. Thank you.

Operator

And, ladies and gentlemen, with that, we'll be concluding today's question-and-answer session. I'd like to turn the floor back over to Ron Mittelstaedt for any closing remarks.

Ron Mittelstaedt

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

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

Thank you again. We look forward to connecting with you at upcoming investor conferences or on our next earnings call.

Operator

And, ladies and gentlemen, with that, we'll conclude today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.