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# Waste Management, Inc. (WM)

## Q3 2024 Earnings Call

# CORPORATE PARTICIPANTS

**Ed Egl**
*Vice President-Investor Relations and Financial Analysis, Waste Management, Inc.*

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

# OTHER PARTICIPANTS

**Patrick Tyler Brown**
*Analyst, Raymond James & Associates, Inc.*

**Toni Kaplan**
*Analyst, Morgan Stanley & Co. LLC*

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

**Noah Kaye**
*Analyst, Oppenheimer & Co., Inc.*

**Kevin Chiang**
*Analyst, CIBC World Markets, Inc.*

**Trevor Romeo**
*Analyst, William Blair & Co. LLC*

**David John Manthey**
*Analyst, Robert W. Baird & Co., Inc.*

**Konark Gupta**
*Analyst, Scotiabank*

**James Schumm**
*Analyst, TD Cowen*

**Tobey Sommer**
*Analyst, Truist Securities, Inc.*

**Sabahat Khan**
*Analyst, RBC Capital Markets*

**Stephanie Moore**
*Analyst, Jefferies LLC*

**Brian Joseph Butler**
*Analyst, Stifel, Nicolaus & Co., Inc.*

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good day, and thank you for standing by. Welcome to WM Third Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please note that today's conference is being recorded.

I will now hand the conference over to your speaker host, Ed Egl, Vice President of Investor Relations. Please go ahead.

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## Ed Egl

*Vice President-Investor Relations and Financial Analysis, Waste Management, Inc.*

Thank you, Livia. Good morning, everyone, and thank you for joining us for our third quarter 2024 earnings conference call. With me this morning are Jim Fish, President and Chief Executive Officer; John Morris, Executive Vice President and Chief Operating Officer; and Devina Rankin, Executive Vice President and Chief Financial Officer. You will hear prepared comments from each of them today. Jim will cover high-level financials and provide a strategic update. John will cover an operating overview, and Devina will cover the details of the financials.

Before we get started, please note that we have filed a Form 8-K that includes the earnings press release and is available on our website at www.wm.com. The Form 8-K, the press release and the schedules for the press release include important information. During call, you will hear forward-looking statements, which are based on current expectations, projections or opinions about future periods. We'll also be providing an updated outlook for 2024. This outlook does not include transaction and advisory costs incurred in connection with the acquisition of Stericycle, nor post-closing financial contributions related to the planned acquisition of Stericycle. All forward-looking statements are subject to risks and uncertainties that could cause actual results differ materially. Some of these risks and uncertainties are discussed in today's press release and in our filings with the SEC, including our most recent Form 10-K and Form 10-Qs.

John will discuss our results in the areas of yield and volume, which, unless stated otherwise, are more specifically references to internal revenue growth or IRG from yield or volume. During the call, Jim, John and Devina will discuss operating EBITDA, which is income from operations before depreciation and amortization. Any comparisons, unless otherwise stated, will be with the prior year.

Net income, EPS and income from operations and margin, operating EBITDA and margin, and SG&A expense and margin results have been adjusted to enhance comparability by excluding certain items that management believes do not reflect our fundamental business performance or results of operations. These adjusted measures, in addition to free cash flow, are non-GAAP measures. Please refer to the earnings press release and tables, which can be found on the company's website at www.wm.com for reconciliations to the most comparable GAAP measures and additional information about our use of non-GAAP measures and non-GAAP projections.

This call is being recorded and will be available 24 hours a day, beginning approximately 1:00 PM Eastern Time today. To hear a replay of the call, accessed the WM website at www.investors.wm.com. Time-sensitive information provided during today's call, which is occurring on October 29, 2024, may no longer be accurate at the time of a replay. Any redistribution, retransmission, or rebroadcast of this call in any form without the express written consent of WM is prohibited.

Now, I'll turn the call over to WM's President and CEO, Jim Fish.

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**James C. Fish, Jr.**

*President, Chief Executive Officer & Director, Waste Management, Inc.*

Okay. Thanks, Ed, and thank you all for joining us. Our quarterly results once again reflect robust operational performance in our Collection and Disposal business as well as our success executing on our strategic priorities. We're pleased to report another quarter of double-digit operating EBITDA growth, positioning us well to deliver about $6.5 billion for the full year, near the upper end of our guidance.

Our cost optimization efforts and disciplined pricing programs together are increasing the spread between price growth and our cost to serve, and our sustainability investments are providing margin-accretive growth. As we'd anticipated, the third quarter set a new record for operating EBITDA margin at 30.5%, a year-over-year expansion of 90 basis points. This consistent growth underscores our commitment to delivering exceptional value to our shareholders.

We remain focused on furthering our cost optimization efforts in our Collection and Disposal business and improving frontline retention. And John will share more about the headway we're making here. Our teams are also hard at work integrating acquisitions in key markets and have closed nearly $800 million of solid waste acquisitions through the first nine months of the year with a strong pipeline of additional deals.

We continue to progress towards closing the acquisition of Stericycle, which will add a complementary medical waste platform to our business and expand our suite of service offerings. During the quarter, Stericycle shareholders approved the merger agreement. We received clearance from all international regulators, except for Canada, which is progressing. We're also advancing our integration planning, which has confirmed our confidence in the value of the Stericycle acquisition. We look forward to welcoming Stericycle team members to the WM team this quarter.

Turning to recycling, during the quarter, we completed eight projects across our network, including six automation upgrades and new facilities in New York and Florida. Our team's focus and execution has been excellent with two of the projects completed in the quarter, beginning operations ahead of plan. We've now completed 24 of the 39 projects in the growth program, which have added 1.5 million tons of annual recycling capacity across North America. Our automated recycling facilities are consistently delivering lower labor costs per ton and higher blended value on our commodity sales compared to our legacy plants, which translates into better operating EBITDA margins.

In the Renewable Energy business, we remain on track to commission four new renewable natural gas projects in the fourth quarter, adding to our DFW plant, which we brought online earlier this year. With these 5 projects, along with the 2 we completed prior to 2024, we will have 7 of the 20 planned projects online by year-end. There are an additional 12 projects in active construction, and the final plant will begin construction in early 2025. The seven projects are expected to contribute approximately 6 million MMBtus of annual production in 2025.

Next year is anticipated to be a pivotal year of contributions from renewable natural gas investments, and we're committed to scaling this unique opportunity to create long-term value for the environment and shareholders alike. We came into this year expecting strong execution across several fronts, and through the first nine months, we've delivered results that exceeded our own high expectations.

As we look ahead to 2025, we anticipate continued growth in our solid waste business, increased contributions from our sustainability growth investments, and the successful integration of the Stericycle business, to come together to create a significant step change in revenue, earnings, and free cash flow. I want to thank our dedicated team, whose hard work and commitment make all of this possible.

And now, I'll turn the call over to John, who will provide a deeper dive into our operational results for the quarter.

## John J. Morris

*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

Thanks, Jim, and good morning. Before we dive in our operational performance and financial metrics, I want to take a minute to acknowledge and thank our team for providing safe and reliable service to our customers, especially considering the severe weather events. Hurricanes Helene and Milton affected both our employees and the communities we serve. We are working hard to support those impacted, helping restore a sense of normalcy in these areas.

Turning to our results, we continue to prioritize technology and automation to optimize our cost structure and enhance operational efficiency. This is evident in operating expenses of 60.6% of revenue in the third quarter, which improved 70 basis points and overcame a 30 basis point headwind from additional workdays in the quarter. This is the fourth consecutive quarter this measure has been below 61%.

This quarter's result is driven by continued benefits from cost optimization, pricing discipline, and easing inflation. We also benefited from lower fuel prices and stronger contributions from our Renewable Energy business, though these gains were offset by the impact of increased recycled commodity prices on the brokerage business.

Our operating expense performance was largely driven by our collection business, in particular in labor and repair and maintenance costs. Labor costs improved through a combination of retention, technology, and automation. We have automated more than 800 routes in our residential fleet since 2022, reducing our labor dependence, boosting efficiency, and improving safety performance. The continued adoption of scheduling and planning tools, advanced mapping systems and dynamic routing is also driving efficiency and reducing operating costs.

In the third quarter, our weighted average collection efficiency rose by 2%, with the residential line of business increasing more than 4%. Our intentional focus on making WM a great place to build a career is leading to reduced driver and technician turnover, improving about 19% annualized, a significant improvement over last year.

Repair and maintenance costs also improved as a percentage of revenue, driven by our ongoing implementation of technology-driven processes and improvements in our truck delivery schedule. Our focus and execution in these areas are leading to strong financial performance, as adjusted operating EBITDA in the Collection and Disposal business grew $181 million in the quarter, with margin expanding to 37.4%.

Finally, turning to our revenue growth, our pricing results continue to track well. Our team continues to leverage customer-specific data and insights to deliver pricing in line with inflation, alongside our margin expansion objectives. We're being purposeful in allocating our people and our assets to their best use. This approach is very evident in our residential line of business, where we've intentionally moved away from lower margin business, while at the same time significantly improving our safety performance, growing organic revenue, and expanding operating EBITDA margin. By maintaining and growing the right volumes, we're driving long-term value and enhancing overall returns.

Our volume results have trended consistently to what we saw in the first half of the year, with growth from commercial collection, MSW, and special waste. It is encouraging to see our key volumes continue to grow, particularly MSW, which was up 5.7% in the quarter. While the roll-off business remained soft, the declines in volume showed sequential improvement. Similar to the residential business, we're making the right volume trade-offs as organic revenue grew in the quarter and operating EBITDA margin expanded.

Churn was 9.2% in the quarter, which is similar to last year and validates the effectiveness of our customer lifetime value model. Service increases continue to outpace decreases, further reinforcing our execution. We remain confident that our data-driven business decisions and technology investments are leading to greater operational efficiency and improved return on capital, which is reflected in the growth and margin performance of our Collection and Disposal operations.

In closing, I want to thank the entire WM team, again, for their contributions. Their performance positions us for a strong year-end finish and sustained growth heading into 2025.

And now, I'll turn the call over to Devina to discuss our third quarter financial results in further detail.

## Devina A. Rankin

*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

Thanks, John, and good morning. Our results underscore the effectiveness of our strategy to maximize customer lifetime value and drive operating efficiency. Our success is, again, evident in operating EBITDA growth, which was 11% in the quarter, and operating EBITDA margin, which reached an all-time high of 30.5%. This result was at the low end of our projection of 30.5% to 31% for the quarter due to higher-than-expected recycling commodity prices.

When considering about 20 basis points of margin pressure from higher recycled commodity prices, we see the 90 basis points of margin expansion as a strong result that was right at the middle of our guidance range. This highlights that margin expansion from organic growth and cost optimization met our expectations.

Once again, margin expansion was driven by the Collection and Disposal business. Our disciplined pricing strategy, intentional shedding of low margin residential volume, improved employee retention, benefits from truck deliveries, and the use of technology to drive efficiency combined to deliver 140 basis points of margin growth in the third quarter. The 50 basis point offset relates to higher incentive compensation costs.

These results have been driven by robust operating – they have driven robust operating and free cash flow growth as well. We generated $3.88 billion of cash from operations through the first nine months of 2024, an increase of more than 16% compared to the same period in 2023.

With capital expenditures tracking according to plan across the business and proceeds from the divestiture of non-strategic assets a little ahead of our plan, we have grown free cash flow by 20%. Our outlook for the full year is strong with operating EBITDA toward the high end of expectations being the driver. Total capital expenditures are expected to be $3.15 billion to $3.25 billion for the year. The increase of about $50 million from our prior guidance relates to continued progress on the developments of our sustainability growth investments.

Additionally, we continue to expect $145 million of investment tax credits in 2024 from our renewable natural gas projects. Putting all of this together, we are on pace to achieve the high end of our full year free cash flow guidance for the year of $2.15 billion.

Our balance sheet remains strong and we're well positioned to fund the acquisition of Stericycle. As a reminder, we have suspended our share buyback program because of the current focus on M&A growth, including the pending Stericycle acquisition and the nearly $800 million of core solid waste acquisitions completed through the end of the third quarter.

We remain committed to a disciplined approach to allocating capital and we prioritize a strong investment grade credit rating, organic and inorganic long-term strategic growth and strong shareholder returns through dividends and prudent share repurchases.

With three quarters of the year complete, we're confident that we will meet or exceed the high end of our 2024 guidance for revenue and free cash flow, and we will deliver about $6.5 billion of operating EBITDA, representing a growth rate of about 10%. This strong finish to 2024 will create momentum that we expect to carry into our 2025 plan.

When you combine our solid waste growth with an increase in earnings contributions from sustainability projects and the expected benefits from adding the Stericycle business to our portfolio, we expect the year ahead to be one of standout performance.

Thanks to the efforts of the 48,000-plus team members across WM who are working hard to deliver on all of our strategic priorities, we're bullish about the future at WM. We want to thank the team for all they do. We look forward to delivering on our targets for 2024 as we close out the remainder of the year.

With that, Livia, let's open the line for questions.

# QUESTION AND ANSWER SECTION

**Operator**: Certainly. [Operator Instructions] And our first question, coming from the line of Tyler Brown with Raymond James. Your line is open.

**Patrick Tyler Brown**
*Analyst, Raymond James & Associates, Inc.*
Q

Hey. Good morning.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*
A

Morning, Tyler.

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*
A

Good morning.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*
A

Good morning, Tyler.

**Patrick Tyler Brown**
*Analyst, Raymond James & Associates, Inc.*
Q

Hey. Morning. So, hey, I think back in 2023, you guys did, call it, $40 million of renewable segment EBITDA. But do you guys still feel comfortable that you'll be run rating somewhere around $300 million in sustainability EBITDA here in Q4? And can you guys give us any color, just big picture on how much incremental EBITDA comes from that segment in 2025? I think you guys had mentioned that you would be run rating at maybe $0.5 billion by the end of 2025. Does that all still seem good, or has that been pushed a little bit to the right?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*
A

So, I can take this one. This is Tara Hemmer. You'll recall during our last call, $800 million is what we plan to deliver in 2027, and we had pushed that out. If you look at the earnings contribution for 2024 from the sustainability related businesses, we're expecting that to be in the $120 million to $130 million range for 2024. And you'll recall we had originally guided $115 million plus another $15 million coming from commodity prices in the recycling business.

Related to what we expect to deliver in 2025, what we can tell you really qualitatively is a little bit of the pieces. We certainly expect higher EBITDA growth as these plants come online, not just on the RNG space, but also the recycling space. And we're going to expect lower CapEx in 2025. So when you put those pieces together, you'll expect greater flow-through. The other thing we should mention is we are expecting slightly higher CapEx for the program. Originally, we had said between $2.8 billion and $2.9 billion, and we're now expecting about $3 billion.

So, all in all, we do expect 2025 to be a significant year for our sustainability related investment. It's a bit premature for us to give you all the pieces for 2025 based on where things may shake out related to the completion of the plants in Q4 of 2024. And then also, of course, we're tracking closely commodity prices. So, we'll give more of an update in early 2025.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*
A

And Tyler, with regard to...

**Patrick Tyler Brown**
*Analyst, Raymond James & Associates, Inc.*
Q

Okay. Yeah.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*
A

...the segment reporting, the one thing I would just clarify is there's some additional details that we've provided in the current press release that will give color to some of the mechanics associated with the Collection and Disposal business and their contribution to the earnings growth of this sustainability investment portfolio that Tara has talked about. And I think it's important to look at those details to see the total picture.

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*
A

And if you look at those details, what you'll see is year-to-date, we've delivered $92 million in EBITDA.

**Patrick Tyler Brown**
*Analyst, Raymond James & Associates, Inc.*
Q

And then, Tara, just on the CapEx. So, I think if I take the $950 million and I think you've already spent, call it, $1.4 billion, so you're already, I think by the end of 2024, call it, $2.3 billion. So, that implies maybe another $700 million. Is that mostly in 2025? So, it steps down in 2025 and then a big step down in 2026? Or is that going to be maybe more pro rata between the two?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*
A

Absolutely. You have that right. You have the pieces right.

**Patrick Tyler Brown**
*Analyst, Raymond James & Associates, Inc.*
Q

Okay. Okay, perfect. And just my last one, Jim. So, I know you guys don't give a ton of color on the out year, but you did mention that, again, you're kind of set up for an outsized growth in 2025, and we're in the business of splitting hairs. So, I just want to kind of understand exactly what you mean by that. So, I think of you guys as a 5% to 7% organic EBITDA grower and then we add something for M&A and renewables. So when you say an outsized grower, is that in context to that 5% to 7% organically? Or are you just simply saying that that growth can be north of 5% to 7% with Stericycle and renewables? Just any additional color would be super helpful.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*
A

Yeah. So, the 5% to 7% is a number that we gave in 2019 with Investor Day, and we've actually, over the last couple of years, been outperforming that organically. But the reason we're as excited as we are about 2025, 2026, 2027 is that when you look at a couple of things. First of all, you look at – you just talked through, with Tara, the sustainability investments. As she said, CapEx, you had the numbers just about exactly right, we probably have about $700 million left in CapEx, maybe a little bit more than that. And most of that happens next year.

So, you can expect to see a pretty substantial uptick in the free cash flow component. And when I say most of that occurs next year, that is still lower in terms of CapEx than this year, because this year is going to be, call it, $900 million for those sustainability investments. Next year will be something lower than that. And then 2026 will be significantly lower than that in terms of CapEx. And at the same time, you see the EBITDA really, really kicking up.

We do have most of these plants, it seems, rolling on in the fourth quarter. So, we're not getting the impact of EBITDA in that year. This year is no exception to that, with four of the five coming online in the fourth quarter. Kind of the same thing for next year, a number of plants are coming online in the fourth quarter. But we do fully expect to see $800 million by the time we – the first full year of that will be 2027. You add to that Stericycle, we've had 4.5 months to look at it. We're even more enthusiastic about the strategic side of Stericycle than we were when we announced this 4.5 months ago. Rafa and his team have had a lot of opportunity to look into this.

In addition to looking at their core business, which we said four months ago was really just kind of a fourth line of business for us, and we now believe that even more after spending 4.5 months on it. The synergies piece, which we said initially we thought might be $125 million over three years, we now are pretty convinced that that's a conservative number. Don't know exactly what that number is going to be yet, and we'll give you more insight into that with guidance in 2025. But look, I mean, the best example is SG&A. We baked in about $40 million worth of SG&A synergies there in the original $125 million, and that takes their SG&A number from 22% of revenue down to 19%. We're reporting 8.9% ourselves today, so you can understand our optimism around synergies.

And then John talked a lot about the use of technology. It's something that we probably five years ago started recognizing that there was – particularly with these trade-type positions, there was kind of an impending shortage coming. And so, we started investing in technology to – when those positions would attrit away from us that we wouldn't have to replace them, that we would use technology, and hence the investments that we've made over the last five years in technology. And those have really all started to show up.

You've heard John talk a lot about – I think he said four consecutive quarters of sub-61% OpEx as a percent of revenue. That is largely driven by our pricing programs, but also by our cost improvement on the efficiency side. You combine all of those, plus still a pretty robust market out there for tuck-in acquisitions, and you can see why we're really, really optimistic. No matter what happens with the election, no matter what happens with the economy, barring a disastrous geopolitical event, we're very optimistic about 2025, 2026, 2027.

**Patrick Tyler Brown**
*Analyst, Raymond James & Associates, Inc.*
Q

Great color. Thank you.

**Operator**: Thank you. And our next question coming from the line of Toni Kaplan with Morgan Stanley. Your line is open.

**Toni Kaplan**
*Analyst, Morgan Stanley & Co. LLC*
Q

Thank you so much.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*
A

Hey, Toni.

**Toni Kaplan**
*Analyst, Morgan Stanley & Co. LLC*
Q

Good morning. Wanted to ask about the revenue guidance raise. I know you don't give guidance quarterly, but 3Q was a little bit stronger than, I guess, what I was expecting. And so, was the raise driven by 3Q performance? And why not – is there anything that leads you to expect the momentum you had in the quarter won't continue into 4Q? It doesn't sound like it, so I just wanted to understand what was going into the thought process there. Thanks.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*
A

So – and you're right that the third quarter was an outsized performance on the revenue line, and that really came from two things. It was recycled commodity prices and landfill volumes. We're optimistic that the landfill volume contribution continues into the fourth quarter. There wasn't anything specific or unusual about that growth. It's some strong market performance in kind of the Midwest part of our company and really good contribution margin from that business.

The recycling commodity price piece of it is recycling brokerage contribution. And with the port strike impacts that we saw late in the third quarter and some continuing uncertainty associated with those impacts going into the fourth quarter, we're less optimistic that you'll see upside to recycling commodity prices continue into the quarter ahead or into 2025. At this point, it's too early for us to say.

So, really happy with the core business performance and the contributors from Collection and Disposal specifically. A little more cautious with regard to the recycling commodity price piece. So, that is the lower flow-through part of the business, which is why we're still confident in the EBITDA contribution of that revenue growth.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*
A

I think, Devina, we had a little bit of an offset from lower electricity pricing that hit the top line for the quarter. So, that would tell you that it's part of why we were as pleased with the performance at 7.9% growth there on the top line. I think what it tells us as we look out to 2025 is that there aren't any storm clouds on the horizon there with respect to the economy. It's so hard to tell these days. Obviously, in an election year, it's really hard to tell because both sides are giving their own talking points, but we're not seeing anything that would indicate storm clouds on the horizon for us. We feel like the economy is on relatively good footing.

**Toni Kaplan**
*Analyst, Morgan Stanley & Co. LLC*
Q

Yeah. That sounds great. Wanted to ask also on an update on the price/cost spread and how you're thinking about how that progresses in the next few quarters. Thanks.

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*
A

Yeah, Toni, I think, certainly, we're pleased. As I said in my prepared remarks, we remain on track with regard to our pricing objectives for the year. A few things I would point out is, when you look at the spread to your – you see that CPI is down, again, about 120 basis points for the quarter and 160 basis points year-to-date. And if you compare that to our core price and yield numbers, I think it tells a good story. And then, to the comments you heard from Jim and Devina and I, it's shown up certainly in the margins. So long story short, we feel good about the kind of disciplined approach we're taking to pricing, the customer value lifetime model we're using from a data and analytics standpoint, and when you look at – as I mentioned, when you look at the spread, it continues to show up in OpEx and in margin.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*
A

And I think, too, John, we've talked, Toni, a lot about 5,000 to 7,000 jobs kind of attritting away from us, I mentioned it just briefly in response to Tyler's question. We're at about 2,200, a little bit more than that, 2,241, to be precise, since 2022, positions that we have chosen to not refill, that left us via attrition, and we've chosen not to refill those. And we think, John, another potentially 3,000...

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*
A

Yeah.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*
A

So, call it, fourth or fifth inning, to use the baseball analogy, is about where we are now. Most of those are coming out through recycling automation and then through this conversion from traditional rear load to automated side load.

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

Toni, the one final point I might make is, while inflation is generally coming down, we're not seeing that with our frontline wages. And that's part of the reason why you hear so much conviction about the continued investments in automation and technology, whether it's the core business, whether it's recycling facilities. We're still seeing, 4.5% to 5.5% on general wage inflation with those frontline roles. In fact, we heard from one of our AVPs during the quarterly reviews that we're hiring technicians, and that number starts with a four now, and it's going to start with a five in terms of the rate per hour. So when you look at the investments we're making to try to be a little less labor-dependent through attrition, as Jim mentioned, it kind of gives us that much more conviction about those investments.

**Toni Kaplan**
*Analyst, Morgan Stanley & Co. LLC*

Q

Terrific. Thanks for the color. Congrats on the quarter.

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

Thank you.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

Thank you.

**Operator**: Thank you. And our next question, coming from the line of Jerry Revich with Goldman Sachs. Your line is open.

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

Yes. Hi. Good morning, everyone. For those of us New Yorkers on the line, we'll ask for no more baseball analogies, please.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

[ph] You can learn it (00:29:57), come on. You're not – it's not over.

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

Yeah, it is. It's over.

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

So, congratulations on the strong results. I just wanted to talk about the returns that we're seeing on the recycling investments. Is it possible just to get a sense for the savings per plant that we're budgeting in the program? What are we seeing as the plants are coming online? Typically, when you folks make these automation moves, we've seen the results [ph] surprise (00:30:32) to the upside. I'm wondering, is that starting to play out? And how should we be thinking about the per plant economics versus what you folks underwrote at the beginning of the program?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

Well, what we can tell you is we're tracking a couple of key metrics. The first, and we've said this consistently, the labor cost per ton is really in that 30% improvement range. And that is consistent across all of our plants. The other thing that we're seeing is roughly 17% higher blended value on the commodities we sell, we're creating a cleaner product. And this is really important if you think about the commodity prices that we're at today and we're expecting to end the year around $90 a ton. Our investment thesis was $125. So, getting a higher blended value on our commodities is very important, and that's been proven out.

The other thing that we track is our gross operating expenses, and those are also 17% improvement across the portfolio of automation plants. And then the other point that we don't talk about as much is volume. And we are seeing a volume growth story coming out of these investments, which was a pivotal piece of what we were going to be really offering to the communities that we have these investments in. And Q3 was one of the first quarters where we've seen that volume growth because we've had some impacts related to shutdowns. So, we'll see that transfer across each year. So when you stack those together, we're seeing strong margin improvement on our recycling plants across the portfolio.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

And that volume, Tara, is really a function of the plant processing faster, correct?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

Exactly. So, plants processing faster. We're also expanding the size of some of these plants as we're building them. And it's been a great story when we look at one of the markets John's going to be visiting later today in Minneapolis, where we've seen really, really strong volume growth in that market and then also EBITDA performance.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

I think it's really important to pull all of that together. Tara outlined all of the contributing factors. When we look at the thing that made us so confident in this investment strategy, it really was the payback period of the recycling investments relative to investments we make in our traditional Collection and Disposal assets. And we've always talked about the recycling investments being one of the best return on invested capitals that we have across our portfolio. And we are seeing that not just hold, but accelerate.

So, we're really happy to see payback periods in that six- to seven-year range. And we've got confidence that with some of the outsized performance, particularly on throughput and volume, as Tara outlined, it's actually going to be better than what we had planned when we built the strategy despite the lower commodity price values.

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

Super. And then, in terms of the landfill gas facilities that are coming online, roughly speaking of spot market economics, I think that would imply roughly $150 million to $200 million in incremental EBITDA, 2025 versus

2024, from these plants. Anything we should keep in mind in terms of your contracting strategy or any other moving pieces as we think about that 2025 versus 2024 bridge on that part of the investment?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

Sure. I'm glad you brought that up, because I think there's a tendency to look at the spot market prices for RINs. And just a reminder, we are taking a portfolio-based view of our RNG that we're producing. And one of the things that we outlined was to really work on contracting more of our volume. So, today, we are at about 40% for 2025, and we expect to expand that over the balance of Q4 going into early 2025.

And that is a mix of long-term offtake in the voluntary market with utilities and also our ability to forward sell 2025 RINs, and we've been able to do that successfully. So, that gives us confidence in really any political environment, whether or not Trump or Harris gets elected, we're seeing strong forward selling on 2025 RINs.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

It's probably also worth mentioning that, just for everyone's kind of clarification, on the plants themselves, we tend to think that once the CapEx stops and once the construction is complete, that all of a sudden these are starting to produce revenue and EBITDA. And there are multiple steps afterwards that are largely outside of our control: the commissioning of the plant, in many cases, the testing of the gas coming out of the plant; and then the final step, which is EPA approval of that plant.

And while we'd like to think that all of those move efficiently, it is government, so – in many cases, so it doesn't always move as efficiently as we would – or as quickly as we would like, which I think is a credit, Tara, to your team that we're able to get the – as many plants as we have, 20 plants, and still stay relatively close to the timelines that we've broadcast. But there are multiple steps beyond just the construction phase.

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

That's right.

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

Super. And Jim, can I ask you just one last one just to pull the thread on the Stericycle comments that you made earlier on the call? Can you just talk about, over the course of diligence, what you folks think about the ability to implement waste management-type pricing on that business and the ability to cross-sell? So, very interesting to hear about the additional opportunity on the cost side. What do you think, based on the diligence on the pricing part of the equation?

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

So, as Jim mentioned earlier, all of our diligence and integration planning processes have really spoken to our bullishness with regard to the long-term strategic outlook of this business. With regard to pricing, what I would tell you, Jerry, is this integration planning hasn't been customer-oriented. It's been more about bringing the two teams together, bringing our systems and processes together, and thinking about how we can use the WM Way of using technology to optimize our fleet, using technology to optimize the back office in order to reduce the cost of serving in that business.

We'll know more once the Stericycle team is part of WM about the runway and projections on revenue growth. But we still think that the overall investment thesis holds because we think that long-term medical waste is one of those parts of the US economy where we're going to see outsized growth.

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

Yeah, Jerry, Devina touched on it, but I do think when you step back a little bit from it, there's elements of that business that fit very nicely over top of WM. And if you kind of consider it a fourth line of collection business, right, in terms of trucks and maintenance and repair and labor and efficiency and all the things that we've talked to you folks about over the last couple of years, we think there's benefits down the road where we can overlay those investments and processes to drive some – drive improvement on the operating side.

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

Appreciate the discussion. Thank you.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

Thank you.

**Operator**: Thank you. And our next question, coming from the line of Noah Kaye with Oppenheimer. Your line is open.

**Noah Kaye**
*Analyst, Oppenheimer & Co., Inc.*

Q

Thanks very much. So in addition to Stericycle pending, you spent a lot on solid waste M&A this year. Can we talk a little bit about that, the types of businesses you're picking up, and then from a housekeeping standpoint, what the rollover contribution is on revenue for 2025?

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

Yeah, certainly. Yeah, so we've had a strong year. We closed almost $800 million of acquisitions. I think on the last call we mentioned that we probably could be in the range of $1 billion, and we still feel good about the pipeline. Whether that closes in Q4, rolls a little bit into Q1 is yet to be determined, but we feel good about the pipeline and the deals that we have teed up.

I think important to note, we said this on the last call, there's a handful of markets we mentioned, Arizona, the Carolinas, Florida, and now the most recent acquisition of Winters Bros in Long Island. Those are both – represent not only good deals for us, but in strategic markets for a host of different reasons. So feel really good about that. They're all performing very well to-date. And we're focused on trying to get the next handful of deals closed here in the next few months. [ph] But Devina (00:39:37)...

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

And then, Noah, from a rollover perspective, we see about $150 million of rollover benefit to the revenue line, which we think will translate to about $35 million of EBITDA in 2025.

**Noah Kaye**
*Analyst, Oppenheimer & Co., Inc.*

Q

Okay. Very helpful there. And then, you know what, I'll just stick with short-term modeling housekeeping. So, sort of 5% total revenue growth implied for 4Q. Your yield trends should probably continue to be pretty healthy. You've got probably, what, close to 1 point here on the M&A side. So, it sounds like almost you think the volume could be kind of flattish. I know you had a tough comp, because I think you had some cleanup volumes last year, but we also had some storms this year that might provide some opportunity. So, just kind of baseline for us how you're thinking about organic trends for 4Q and whether there would be any upside to the volume side.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

So, the volume story for 2024 has been one for us where the commercial collection business and MSW, which really speak to us about the general health of the overall economy, have been really strong over the course of a year and consistent with expectations. The one soft spot for us has been those industrial hauls, and they've been lighter than we expected. And certainly, something that we hear in the marketplace about just a little more reservation on industrial investment in this environment, we think some of that could loosen up in the fourth quarter after there's clarity in the election, but yet to be determined and certainly not something that we're creating guidance outlook on.

With respect to the revenue guide for the fourth quarter, it really isn't a volume story where we were reserved on a top line relative to Q3. It was commodity price. And so, I would tell you the expectation is take those Q3 volumes that we saw and carry them into Q4 and early 2025 is what our outlook includes.

**Noah Kaye**
*Analyst, Oppenheimer & Co., Inc.*

Q

All right. Very helpful. Thank you.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

Thank you.

**Operator**: Thank you. And our next question, coming from the line of Kevin Chiang with CIBC. Your line is open.

**Kevin Chiang**
*Analyst, CIBC World Markets, Inc.*

Q

Hi. Thanks for taking my question, and congrats on a good Q3 print there. I was wondering if you could maybe provide any more color on the Canadian Competition Bureau review. It looks like it's the last one before you close on Stericycle. You've noted you feel comfortable you'll get that done in Q4 here. But just any color in terms of what they're looking at since they filed this or – I think you do overlap on pharmaceutical destruction, but correct me if I'm wrong. Any color there would be helpful.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

So, I would say it's typical competition reviews in the Canada market. Specifically, nothing that concerns us with regard to the pathway to getting to close. And I just have to say thank you to all of our team members who have been working really diligently, both the legal team and the Canada operations leadership, in order to work through these processes. And we're optimistic that we're going to be able to get that clearance here yet in the fourth quarter and move quickly to close.

**Kevin Chiang**
*Analyst, CIBC World Markets, Inc.*

Q

That's helpful. And maybe my second one here. Good progress on these cost initiatives. If I look at your OpEx line items, a lot of them – if I look at it from an intensity perspective, let's say as a percentage of revenue, a lot of them are kind of back to where they were prior to this inflationary environment. Maybe the one thing that does stand out to me is maintenance and repairs, tracking kind of mid- to high-9% as a percentage of revenue. I think we've seen that below 9% prior to the move in inflation. Just wondering if there's an opportunity to move that lower. Is there something structural there that keeps that a little bit more elevated in this new cost environment?

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

Yeah, Kevin, I think that's fair. And you're starting to see, I think this quarter was a 40 basis point improvement in terms of maintenance and repairs. There's two sides to that. There's the fleet side and the non-fleet side. On the fleet side, we continue to – a couple of things are benefiting us. One is truck deliveries have been more consistent now than they've really been since sort of pre-COVID. So, it's allowing us to plan more strategically for assets coming into the system and going out of the system.

I will add, when we talk about – and this is a big part of our strategy, we talk about residential automation. The configuration of that vehicle replacing a rear loader can – that truck, day one, is going to be more expensive to run than a traditional rear loader. But what's important to take away from that is we look at it both from an M&R perspective, but we also look at it from a total cost of operation on a per unit basis.

So when you double plus the efficiency, we may be willing to pay more to maintain a more complicated vehicle with different technology in it if it's driving overall CPU performance, which you are seeing. And you're clearly seeing it in the margins, in residential, I think I'm going off the top of my head here, but we were up about 300-plus basis points for the quarter on 2.9% less volume. And so when you wrap all that together, you're right, there are still opportunities in maintenance and repairs, but we do backstop that against sort of our overall total cost of operation goals.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

And year-to-date, our maintenance and repairs costs in this environment are flat effectively on a dollar basis. So, it's a good indication of getting leverage off of the truck deliveries, and we expect that momentum to continue into the year ahead.

**Kevin Chiang**
*Analyst, CIBC World Markets, Inc.*

Q

That's great color. Thank you very much for taking my questions.

**Operator**: Thank you. Our next question coming from the line of Trevor Romeo with William Blair. Your line is open.

**Trevor Romeo**
*Analyst, William Blair & Co. LLC*

Q

Hi. Good morning. Thanks so much for taking the questions here. I thought maybe it was worth going back to the strong landfill volume growth in the quarter. Total depletable tons up 4%, the MSW up almost 6%, I think that was the strongest we've seen in a while. Devina, I think you mentioned there was some strength in the Midwest. But I was just wondering if you could talk about those landfill dynamics a bit more. Was there anything kind of unusual or one-time in the quarter?

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

Trevor, I would tell you, we saw a pretty consistent landfill performance through most of the organization. We pointed out there was three or four areas sort of in the middle of the country, if you will, that were the ones that drove the [ph] outsized (00:46:17) performance. One in particular is now a rail served operation that we got open last year, and we're starting to see continued volume growth there. And that was a chunk of it that really speaks to sort of the network planning aspect of what we do with our post collection sites. And you folks have heard us talk about that a good bit.

So, one of the slugs, if you will, volume that helped us in the last couple of quarters is us opening up another intermodal facility in the Midwest. I think Jim commented, too, our special waste volumes were strong, and a good part of that volume was flowing through a handful of those same regions in the middle of the country.

**Trevor Romeo**
*Analyst, William Blair & Co. LLC*

Q

Got it. Thank you. That's helpful. And then just one quick follow-up on the sustainability CapEx. Sounds like that's going to come in a little bit higher than you anticipated earlier this year, the $950 million this year and then the $3 billion total. Just wondering, is the increase mostly related to cost inflation or something else there? Just any more details on what's driving that? Thank you.

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

It's a mix primarily on the renewable natural gas side related to cost inflation on the construction of the plants, and then also some higher costs on utility interconnects. And those utility interconnects are for our electrical interconnects and our natural gas interconnects. So, it's really those two categories.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

And then I would say, the 2024 increase specifically relates to our intentional acceleration in some of the spending into Q4 as we complete these projects and accelerate the ongoing capital investment at the remaining portfolio. So, that is really timing related. It's not an indication of the inflation that Tara spoke to.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

But we're still on track, though, to – we said last quarter we expected by the end of this year we would have spent about 75% of the total capital. That is still the case, almost right at 75%. And then because of the lag, of course, we won't have realized the EBITDA. We will only have realized about 15%, a little bit more, about 15% or 16% of the EBITDA of that $800 million. So, that's part of why we're so encouraged about 2025, 2026 and 2027 is that you really start to see not only the EBITDA growth, but also the free cash flow growth because the CapEx really goes away after – for the most part goes away after next year. And the EBITDA really ticks up, and free cash flow.

**Trevor Romeo**
*Analyst, William Blair & Co. LLC*

Q

Yeah. Makes a lot of sense. All right. Thank you, everyone. Appreciate it.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

Thank you.

**Operator**: Thank you. Our next question coming from the line of David Manthey with Baird. Your line is open.

**David John Manthey**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Thank you. Good morning. It was asked earlier, and I'm not sure if I caught it, but did you quantify your expectations for the net impact from hurricanes in the fourth quarter and into 2025, or could you?

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

Yeah, David. There's nothing right now that we've quantified for the balance of the year or obviously 2025. These storms were obviously historic in a lot of ways, but first and foremost, our people are safe. Our assets were largely untouched, first and foremost. In terms of the cleanup, we continue to talk to the teams across the Southeast and specifically Florida. There may be some benefit down the road here, but I don't think it's going to be similar to anything we saw with Hurricane Ian, for example. But there's nothing in our outlook right now regarding any volume we would potentially get from those events.

**David John Manthey**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Okay. Thank you. And second, is the industrial vertical a potential source of upside for you as we get into next year? So if industrial production starts growing low single digits, like maybe we saw in 2012 or 2018 coming out of a downturn, would you expect industrial volume growth to turn positive in that type of environment?

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

It's hard to say whether it would turn positive, but certainly this quarter we reported negative 4.1% for the roll-off line of business. And we've been pretty consistently in that negative 3.5% to negative 4.5% range. It does tell us that while the overall economy has been pretty healthy, the industrial economy, not so much. And that's a good – that's been a – not a good, but certainly has been a sign of that. I think you can expect to start to see that come back.

Now, will it go positive? Don't know. That's a big number to make up. But I would expect that we'll start to see industrial come back. And by the time we get through the election cycle, the uncertainty is kind of out of the system, then I think we could start to see the industrial economy pick back up.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*
A

And from a macro perspective, I do think some of the interest rate environment will be an interesting watch point for us with things like housing starts lagging recently, and if you could start to see some momentum there, although news out this morning isn't all that favorable. So, it's one of the things that we have our eye on because this really is about the temporary side of the industrial part of the business rather than the permanent side.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*
A

On the other line of business...

**David John Manthey**
*Analyst, Robert W. Baird & Co., Inc.*
Q

Got it.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*
A

...of course, that's been negative has been residential. And that's more by design, and that was down 2.9% for the quarter. It's been down in that range for, I don't know, John, two...

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*
A

[ph] Eight quarters (00:51:48).

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*
A

Yeah, two years. And I think John's been asked the question before, when do you expect that to get back to more of a breakeven? If that is by design, he even mentioned it in his script that some of the – we're letting some of the business go that has been underperforming business. That's been ongoing for two or three years now. John, it's probably safe to say that we could expect to get back to flat maybe in the end of 2025, early 2026. Is that fair?

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*
A

Yeah, I mean, the team has done a great job. We've got a really healthy inventory of contracts that are not performing up to par. And I think we'll continue to see – it moderated a bit if you look at year-to-date and quarter-over-quarter a bit. But when you look, Jim, at the benefits from efficiency, safety, and overall margin improvement, we're going to stay on this path until that line of business competes with the other collection lines, which has been kind of our mission since day one.

**David John Manthey**
*Analyst, Robert W. Baird & Co., Inc.*
Q

All right. Thanks very much.

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*
A

You bet.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

Thank you.

**Operator**: Thank you. And our next question, coming from the line of Konark Gupta with Scotiabank. Your line is open.

**Konark Gupta**
*Analyst, Scotiabank*

Q

Thanks for taking my question, and I echo my congratulations on a good quarter. Wanted to follow up on sustainability CapEx. So just like two parts maybe there. I think if I remember correctly, your original $2.2 billion CapEx envelope was having 50/50 RNG and recycling. Today that's about $3 billion total. What's the split like between RNG and recycling there? And then I think you mentioned that 75% of the CapEx would be done by the end of this year. Is 75% of the $3 billion that's a new number, or that's $2.2 billion?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

Yeah. So, the original number, the breakdown was roughly $1.2 billion from renewable energy and $1 billion from recycling. And so, today, we increased number to $3 billion, the 75% is based on the $3 billion, and the split is roughly $1.4 billion for recycling and $1.6 billion for renewable energy.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

I think...

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

Portion of that difference, though, Tara, is – some of it's inflation, but a portion of it is, for example, in Ontario, right? I mean, it's new plants. So, it's not really an apples-to-apples when you compare the $3 billion to the $2.2 billion. A piece of it is that's related to inflation, but a piece of it is adding new facilities.

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

Adding new facilities, that's a great point, Jim. And also, we changed the plants within the renewable energy portfolio, so the plant mix was slightly different. And that's one of the reasons, if you go back to the Investor Day deck, we were projecting $740 million in EBITDA, and that got moved to $800 million. So, it's one of the reasons why that was more context setting, if you go back to the Investor Day, but the numbers that we've outlined and the mix of plants on both sides are different.

**Konark Gupta**
*Analyst, Scotiabank*

Q

Okay. That's great. Thanks. And if I can quickly follow up on – housekeeping on margin side of things, so 3.5% was a great number for Q3. Obviously, your implied Q4 is about 30%, call it. Maybe you can do a little bit better there. But exiting 2024, you're looking at 30-ish kind of margin right now. Like knowing what you know today and like post-election clarity, et cetera, is it fair to expect that your margins can trend sort of in line with what you have seen historically in terms of expansion in 2025 organically, excluding Stericycle?

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**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

Yeah, it's a great question. And thank you for excluding Stericycle, because it's too early for us to say. So, what I would tell you is, over the long term, we targeted 50 to 100 basis points of margin expansion in the Collection and Disposal business. And when we look ahead, all the conversation about the strong execution on efficiency and retention that have driven the best operating expense as a percentage of revenue really that we've seen in our company's history, we expect that to continue and we expect that to be a driver of continued growth in the year ahead.

The one caveat that I have to that, and it is an important one because it's larger for us than it is for our competitors, is there is the expiration of the alternative fuel tax credit in 2025. That's about $60 million of EBITDA and a 30 basis point headwind to margin in the year ahead. So, the 50 to 100 basis point, I would tell you, bring down by that 30 basis points for the range. But we're targeting that same execution for 2025.

And then when we look at the sustainability businesses, that's incremental upside for us. And we see the sustainability businesses – the renewable energy business provided 30 basis points of margin expansion for us in the third quarter of 2024. And we think when we look ahead to a full year contribution from the five facilities that Jim and Tara have talked about bringing online by the end of 2024, we see another 30 basis points of expansion from this level.

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**Konark Gupta**
*Analyst, Scotiabank*

Q

That's a great color. I'll leave it there. Thank you.

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**Operator**: Thank you. Our next question coming from the line of James Schumm with TD Cowen. Your line is open.

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**James Schumm**
*Analyst, TD Cowen*

Q

Hey, good morning. Thanks, guys. So, you touched on this, but now that you've had some more time to spend on Stericycle, I'm wondering if there's a reason why this business might require a structurally higher SG&A cost structure as a percentage of sales relative to WM.

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**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

So, I think it's really a great point and it's one that we're not taking for granted. And I think it's their ERP journey is one that has gotten a lot of attention, rightfully so both internally and externally. And bringing all of their disparate businesses onto a single platform has been a significant undertaking. And we're commending them for all of that hard work in that effort.

What I would tell you is that when you have that kind of an undertaking for, call it, a $2.5 billion to $3 billion revenue business, and you compare that to a similar undertaking for a $20 billion-plus business, that's one of the things that will be structurally different between the two. And we anticipated that when we evaluated the acquisition opportunity. That really is the one that we think stands out. The rest of it we think there's tremendous opportunity and upside to use the WM Way, so to speak, in order to optimize SG&A as a percentage of revenue long term.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

Well, as you said before, Devina, that's really the ultimate comparison. Once you get past the ERP rollout, the ultimate comparison would be to one of our areas as opposed to our corporate SG&A, which came in at 8.9%. And our areas, James, operated 5%. So, it's why we're enthusiastic about what SG&A as a percentage of revenue can look like for us and what the synergies are associated with that.

I think Tara makes the right point about – not Tara. Devina makes the right point about the ERP and that having to get fully rolled out and there being costs associated with that. But once that is complete, then there's no reason that we wouldn't start to think about the Stericycle arm of our business looking more like one of our areas.

**James Schumm**
*Analyst, TD Cowen*

Q

With respect to OCC, can you update us on the portion of the value that that makes up in your recycling revenues? And has that changed at all with your new recycling facility upgrades?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

So, it represents about 55% to 60% of our overall blended value. And what has changed over time with our automated investments is we're able to capture a bit more OCC through some of the quality improvements that we've made in our [ph] plants (01:00:10) and move really more of our mixed paper to a higher value product. So, that's been a real bright spot for us when you think about our automation investments.

**James Schumm**
*Analyst, TD Cowen*

Q

Thank you, Tara. And just to clarify, so OCC and mixed paper sorted office paper, that all sort of – are you saying like the fiber-based is 55% to 60% of the value or just OCC?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

Yes. OCC...

**James Schumm**
*Analyst, TD Cowen*

Q

All together?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

Yes...

**James Schumm**
*Analyst, TD Cowen*

Q

Oh, just OCC specifically. Okay. Great. Thank you very much. Appreciate it.

**Operator**: Thank you. And our next question coming from the line of Tobey Sommer with Truist Securities. Your line is open.

**Tobey Sommer**
*Analyst, Truist Securities, Inc.*

Q

Thank you. If the normalization process for fleet supply chain and employee retention has normally played out, do you think there is an incremental opportunity for retention to improve further in the next year? And I was hoping you could contrast the company's experience with what you're seeing in fleet supply chain and employee retention and sort of labor expense in the potential acquisition targets that you look at.

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

Yeah, that's a good point. I think, as I mentioned earlier, the fact that we, frankly, have a stability in our fleet delivery schedule we haven't had in a number of years is really paying dividends, not just on total M&R as a percentage or CPU, but also in our ability to really manage our asset base better and make sure that we're optimizing the number of assets we have, in this case vehicles.

I mentioned the one area of pressure we still see, specific to M&R and really across labor, is still wage pressure that's probably in the 4.5% to 5.5%, maybe 6% in some markets. So, we continue to obviously make the necessary adjustments there. And I think the punch line is our retention for drivers and technicians is around 19%. It's a little lower for drivers, a little higher for technicians. But even in that environment, we're still bringing the defection of our employees down, which is obviously having a big benefit.

And then lastly, with respect to some of the operations we've purchased, I mentioned a few that we've done this year. While they've been really, really well-run companies, I think one of the places we get leverage out of is what you've heard Jim and Devina, [ph] I, all (01:02:38) reference, which is sort of our WM Way playbook. And we see that as a way to capture additional value when we go into even a well-run operation. But we put the strength of our supply chain, our operating team, and all the tools and technology they come with, that's one of the areas we continue to see upside.

**Tobey Sommer**
*Analyst, Truist Securities, Inc.*

Q

Thanks. And what are your thoughts about incremental investments in the harvesting the remaining [ph] MBtus (01:03:02) in the company's portfolio, understanding that, near term, you've got cash uses related to acquisition-led growth that may mean it's not sort of a near-term choice?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

So, we've actively looked at and we have a bead on how much certain landfill gas that we have that we could really convert into RNG through new investment. And it's important to note the first 20 that we built, they tend to be larger plants where we had more landfill gas. So, we're taking a much more prescriptive approach on the next tranche and really evaluating whether or not we should be developing them ourselves or perhaps leveraging a partner for those. That's something we'll likely make a decision on in 2025.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

I think it's really important to make a statement about the cash flow generation power of this business. While we're going to see a step change in our leverage with the closing of the Stericycle acquisition, we expect to return to target leverage ratios within 18 to 24 months of closing the transaction. And really, when you step back and look at the fact that before adding Stericycle to WM and before the step change that we're talking about coming in 2027 in free cash flow associated with the sustainability businesses, we're generating over $3 billion annually in free cash flow.

And so, that indicates that our ability to use, call it, $6 billion over a two-year period in order to meet the dividend and then have substantial free cash flow for the benefit of growth, for the benefit of balance sheet rationalization, it just speaks to the strong fundamentals of this business and our ability to have strategic runway in the sustainability business if we continue to see the return profile of those opportunities present themselves at the highest and best use of our funds.

**Tobey Sommer**
*Analyst, Truist Securities, Inc.*

Q

Thank you.

**Operator**: Thank you. And our next question coming from the line of Sabahat Khan with RBC Capital. Your line is open.

**Sabahat Khan**
*Analyst, RBC Capital Markets*

Q

Great. Thanks and good morning. Just a quick question on the investment tax credits related to a lot of these investments. I think our understanding is these are sort of being accrued. Is there any risk to those with a change in administration or just kind of if you can highlight the process to getting those paid or just guaranteed? Thanks.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

Yeah. So, we're not thinking about there being risk associated with a change in administration, but that certainly is something that could be on the table, but it's very difficult for us to be able to project. But with regard to what we've been accruing, there's $145 million in 2024, and that's showing up both as a reduction in cash taxes and a reduction in our provision on the income statement. We see the downside risk associated with really two things.

One is solely timing, and if we saw one of our projects slip into 2025 in the first quarter, we wouldn't get that [audio gap] (01:06:22-01:06:31) the complexity of the IRA and specifically the applicability of the domestic content rules. We've evaluated those, and we think that the team's doing all of the right work, but the devil is in the details when it comes to tax legislation. And so while we think we've done the right thing, it will come down to interpretation. We've taken that into account as well in providing our guidance, but that won't be finalized within year. That will be something that continues as we have the IRS review our findings.

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

And just as a reminder, that last part that Devina mentioned, it's the difference between 30% and 40%, and so we're confident we would get the 30%. It's really just the difference between 30% and 40% on ITC.

**Sabahat Khan**
*Analyst, RBC Capital Markets*

Q

Great. No, I appreciate that color. And then just a question as a follow-up to the earlier discussion around base business margin improvement and the offsetting impact from Stericycle. I guess, as you get a closer look at the business, would you come back maybe after it closes, potentially Q4 reporting, and maybe give a path towards how long it may take to get consolidated margin sort of back in positive territory? Or is that something that may evolve over a few years? Just trying to get an understanding of how you think about consolidated margins and the journey over the next couple or two to three years, or however you look at it. Thanks.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

Yeah. I think what we'll do is – I mean there – I believe the last I looked, their margins are kind of in the 16%, 17% range, something like that. And when you start looking at the opportunities we have with synergies, we have not, as Devina said earlier, had a chance to look at their customer base at all. So, we don't know what that means in terms of cross-selling or any of the top line. But we do think that we can improve it from where it is today – their margins are today, because of those things. I think it'll take us at least until February to be able to assess what Stericycle, we think, will look like for – obviously, for 2025, but into 2026, 2027.

When we'll be able to get back to kind of 30% on a combined basis is a little hard to say. As Devina said, you do have something working in our favor, which is the sustainability businesses and then our own improvement through the use of technology, and John's gone through a lot of the operating improvements. So, you've got things working in both directions. I think it's very hard to say what the margin will be right now, but I think when we get to February and we give guidance, we can give you a better idea of that.

**Sabahat Khan**
*Analyst, RBC Capital Markets*

Q

Great. Thanks very much for that.

**Operator**: Thank you. And our next question coming from the line of Stephanie Moore with Jefferies. Your line is open.

**Stephanie Moore**
*Analyst, Jefferies LLC*

Q

Hi. Good morning. Thank you. One maybe...

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

Good morning.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

Stephanie.

**Stephanie Moore**
*Analyst, Jefferies LLC*

Q

One high-level strategic question for me. I appreciate maybe the incremental commentary provided about the updated productivity at your new recycling facilities, whether it's productivity or throughput or the like. Is there any way you could then frame what some of these facilities are doing from a margin standpoint? Obviously, it wouldn't be completely apples-to-apples given [ph] seasonality (01:09:55) in corporate costs, but just so we can think about truly what the margin differential is kind of pre- and post-upgrades. Thank you.

**Devina A. Rankin**
*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*
A

So rather than give you specific margins on the business, what I think is important is that we bring it all together and say, from a return on invested capital perspective and a margin expansion perspective, we've effectively seen a 10 percentage point increase in the margin of the business post automation, and that's a really strong indication of the power of the technology. And whether that be top line growth or middle of the P&L management cost reduction, we're seeing the benefits on each part of the model, and that's about a 10 percentage point lift in margin.

**Stephanie Moore**
*Analyst, Jefferies LLC*
Q

Great. That's helpful. And then just one quick follow-up. On OCC pricing expectations for the fourth quarter, what are your underlying assumptions embedded in those?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*
A

Our underlying assumptions for our blended commodity basket in Q4 is $85 a ton.

**Stephanie Moore**
*Analyst, Jefferies LLC*
Q

Got it. All right. Thanks so much.

**Operator**: Thank you. Last question coming from the line of Brian Butler with Stifel. Your line is open.

**Brian Joseph Butler**
*Analyst, Stifel, Nicolaus & Co., Inc.*
Q

Hey. Good morning, Waste Management. Thanks for fitting me in.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*
A

Good morning.

**Brian Joseph Butler**
*Analyst, Stifel, Nicolaus & Co., Inc.*
Q

Just one last quick one, I guess, on the commodities side. Now that you've kind of improved the facilities and automation, do you have a sensitivity to commodity price? So if that $85 changes, how should we think about the impact on maybe an annualized EBITDA?

**Tara J. Hemmer**
*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

Well, the way to think about it, and we've said this previously, is about 60% of the benefit related to our automation plants is really independent of commodity prices, and that's the labor costs. That's the uplift that we get on blended value because we're producing a higher quality product, and we're definitely seeing those flow through when we bring these automated plants online. So, there's less of a sensitivity to commodity prices, but there still is a sensitivity that exists in the business.

**Brian Joseph Butler**
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. And then, I guess, on the automation side, on the automated routes, you talked about 800 routes over the last couple of years being automated. Can you put that in perspective? How many more routes could be automated? And how long would something like that take?

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

I think we've got about [ph] eleven-more-hundred (01:12:26) routes that are eligible to be automated. And I would tell you it's at least two years and probably into the third year before we cycle through all of them. But as I mentioned, from an efficiency margin safety standpoint, go down the list, even though we're trading off a little bit of volume, it's obviously, from an investment perspective, been a fantastic effort by the team.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

Some of it, John, is a function of the contract itself. It's not necessarily getting the truck, but it's the contract expiration.

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

Yeah, that's a good...

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

If you've got a contract that is a three-year contract that is a pick-up-everything contract, and you're going to transition to an ASL contract, that has to be negotiated by the public sector team and – at the end of the existing...

**John J. Morris**
*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

It's a good point.

**James C. Fish, Jr.**
*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

...contract.

**Operator**: Thank you. And I will now turn the call back over to Mr. Jim Fish, President and CEO, for any closing remarks.

## James C. Fish, Jr.

*President, Chief Executive Officer & Director, Waste Management, Inc.*

Okay. Well, thank you so much for your great questions today. We feel very good about the quarter, feel very optimistic about the remainder of the year and into 2025, 2026, 2027. We're excited to be in this business at this point, but thank you very much. We will talk to you soon and talk to you next quarter.

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**Operator**: Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. And you may now disconnect.