WCN - Waste Connections, Inc. Q1 2017 Earnings Conference Call
Thursday, April 27, 2017
830amET

Presentation

Operator: Ladies and gentlemen, thank you for standing by. And welcome to the Waste Connections First Quarter 2017 Earnings Conference Call. [Operator Instructions]. As a reminder, the conference is being recorded today, Thursday, April 27, 2017.

And now, it's my pleasure to turn the conference over to Ronald Mittelstaedt, Chairman of the Board and CEO. Please go ahead, sir.

Ronald Mittelstaedt: Okay. Thank you, operator, and good morning. I'd like to welcome everyone to this conference call to discuss our first quarter 2017 results and provide our financial outlook for Q2. I am joined this morning by Worthing Jackman, our CFO; as well as several other members of our senior management team.

As noted in our earnings release, 2017 is off to a great start, with 15% same-store landfill tonnage increases, better-than-expected contribution from recent acquisitions, increased E&P waste activity, and higher recycled commodity prices; all driving results above our outlook for the first quarter.

Increased contribution from these higher-margin activities resulted in adjusted EBITDA margin being 50 basis points above our expectations. In addition, adjusted free cash flow in Q1 was $237.5 million, putting us well on our way to our full year adjusted free cash flow outlook of $725 million.

We are extremely pleased with our first quarter performance and encouraged by both continuing strong solid waste fundamentals and the notable ramping of E&P waste activity and related margins. In addition, we are proud of our proposed 3-for-2 stock split meant to broaden our shareholder base and increase liquidity for investors. If approved by shareholders, this will be the fourth such split in our almost-20-year history.

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

Worthing Jackman: Thank you, Ron, and good morning.

The discussion during today's call includes forward-looking statements made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995 and forward-looking information within the meaning of applicable Canadian securities laws. Actual results could differ materially from those made in such forward-looking statements and information due to various risks and uncertainties.

Factors that could cause actual results to differ are discussed both in the cautionary statement on Page 2 of our April 26 earnings release and in greater detail in filings that have been made by Waste Connections with the U.S. Securities and Exchange Commission and the securities commissions or similar regulatory authorities in Canada.

You should not place undue reliance on forward-looking statements and information, 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 and information in order to reflect events or circumstances that may change after today's call.

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 release for a reconciliation of such non-GAAP measures to the most comparable GAAP measure.

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.

Finally, reported results reflect the impact of our Progressive Waste acquisition on June 1, 2016. Contributions from this combination will be treated as acquired revenue and will not be incorporated into organic growth statistics until 12 months from the closing date.

I'll now turn the call back over to Ron.

Ronald Mittelstaedt: Okay, thank you, Worthing.

In the first quarter, solid waste core price plus volume growth was 4.7%, exceeding our 3% to 3.5% outlook for the period due to higher-than-expected volume growth. Core price, as expected, was 2.6% in Q1. And in spite of benefitting from mild weather and an extra Leap Year day in the prior year, making a very tough comp, volume growth was 2.1% in this year's first quarter. This strength in volume growth was primarily driven by double-digit increases in [disposable] volumes and continuing improvement in collection activity, most notably in our Western and our Eastern regions.

As a reminder, price and volume growth from acquired operations are not reflected in our reported organic growth calculation until the anniversary date of the related transaction. That said, we are pleased to note that operations acquired in the Progressive Waste acquisition delivered approximately 4% pricing growth in Q1. This means that once we anniversary the Progressive Waste closing on June 1, reported pricing growth for Waste Connections should approach or exceed 3%.

First quarter volumes were down about 2.5% in the former Progressive Waste footprint, again as expected, due to our efforts to shed low-quality and unsafe-to-service revenue. This is a purposeful price volume trade-up in the near term as we improve quality of revenue in many of these markets.

We're also pleased to note continuing improvement in financial results and a dramatic improvement in safety in these operations. Accidents and injuries are now down over 60% in the former Progressive Waste footprint.

Solid waste landfill tonnage overall in Q1 on a same-store basis increased 15% over the prior year period. MSW tons rose 15%, special waste increased 19%, and C&D was up 7%. On a same-store basis, commercial collection and roll-up revenue in Q1 increased about 6% and 5% respectively from the prior year period.

Roll-up pulls per day increased a little more and 4%, driven primarily by our Central and Eastern regions. Our Western region was also positive, despite record rain and snow in Q1.

Recycling revenue excluding acquisitions was $17.1 million in the first quarter, up about $7.1 million or over 70% year-over-year, due primarily to higher-commodity values for fiber. Prices for OCC, or Old Corrugated Containers, averaged about $165 per ton during Q1, up 68% from the year-ago period and up 32% sequentially from Q4. OCC prices currently average about $140 per ton, up about 35% from the level we averaged in last year's second quarter. However, it's important to note that current OCC prices, despite the strong year-over-year improvement, are currently down about 25% from March's high.

Regarding E&P waste activity, we reported $36.9 million of E&P waste revenue in the first quarter, up 21% year-over-year and up 14% sequentially from Q4, with each month increasing throughout the period. The base in driving these results and currently showing the strongest improvement compared to monthly lows of last year is the Permian, where revenue is currently running over 2x its monthly low in 2016, outpacing the percentage increase in rig count within our market area during the comparable period.

Given the high incremental flow-through accompanying such revenue increases, margins also improved notably throughout the period, providing a nice entry point into Q2. Margins are now once again solidly above our corporate average. As highlighted on our February call, we believe 2017 and 2018 are setting up for strong double-digit increases in E&P waste activity, given sector trends.

Looking at acquisition activity -- the first quarter was quite active, with transactions totaling over $225 million of annualized revenue. The approximate $200 million revenue Groot transaction completed in early January solidified our leading position in Northern and Western Illinois, increased potential internalization benefits of additional disposal volumes into our landfills there and further expanded our platform for additional growth acquisitions.

We also completed four tuck-ins during the quarter across three states, with total revenues of about $10 million. And we remain under regulatory review for the previously announced acquisition [of] an approximate $15 million revenue franchise operation on the West Coast. That should close in late Q2 or early Q3.

On the divestiture front -- we signed a definitive agreement last week for an approximate $10 million revenue market-for-market swap to further the Progressive Waste divestiture program, and we expect the remaining divestitures to be signed or closed during Q2. We currently have all planned divestitures under letters of intent for swaps or sales and are conducting reciprocal due diligence on the assets involved. We believe these should all move to binding definitive agreements by the end of Q2 and close after receiving consents in late Q2 or Q3.

Put simply, M&A dialogue remains active. And, as indicated by our strong reported results in Q1, performance from recent acquisitions remains consistent with or ahead of our expectations.

Regarding the status of our Chiquita Canyon landfill permit extension in Southern California -- we do not anticipate another update on that matter until a final vote in June or July, as we noted in our April 20 press release. This is a very fluid process currently.

Finally, we look forward to hosting our Investor and Analyst Day on June 20, our second such event in our 20-year history. The first one was held during our 10th anniversary year. We expect

this upcoming event to be more conversational and interactive than presentation-oriented. And we plan to highlight our safety-focused, servant leadership-driven culture, the nuts-and-bolts of the Progressive Waste integration; and a few deep-dives into areas of continuous improvement including leadership development, quality of revenue, maintenance and IT. Speakers will include a variety of our field, region and corporate personnel.

Unlike at most of these events, we won't be laying out multiyear targets, as we are quite proud to discuss the present. Moreover, there is no change to the differentiated strategy we have executed for the past 20 years to deliver differentiated results on a go-forward basis. Investors or analysts interested in attending will need to preregister for the event by contacting Mary Anne Whitney.

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

Worthing Jackman: Thank you, Ron.

In the first quarter, revenue was $1.091 billion or $16 million above our outlook for the period. Acquisitions completed since the year-ago period contributed about $540 million of revenue in the quarter, with Progressive Waste accounting for $490 million of that.

Adjusted EBITDA for Q1, as reconciled in our earnings release, was $332.8 million or 30.5% of revenue and about 50 basis points above our margin outlook. The margin beat is attributed to better-than-expected increases in higher-margin flow-through activity, such as solid waste landfill and E&P revenue, and higher recycled commodity values.

Year-over-year adjusted EBITDA margin reported for the first quarter declined by 250 basis points due primarily to the comparative lower-margin Progressive Waste and Groot acquisitions completed since the year-ago period. Fuel expense in Q1 was about 3.9% of revenue, and we averaged approximately $2.48 per gallon for diesel, which is up about $0.06 per gallon from the year-ago period and up about $0.07 per gallon sequentially from Q4.

Depreciation and amortization expenses for the first quarter were 13.8% of revenue, up 50 basis points year-over-year due to higher intangible amortization expense related to acquisitions completed since the year-ago period. For the quarter, this was 30 basis points below our outlook, primarily due to higher-than-expected reported revenue.

Interest expense in the quarter increased $11.9 million over the prior year period to $29.1 million, due to the additional debt outstanding resulting from acquisitions completed since the year-ago period and higher interest rates compared to the prior year period. Debt outstanding at quarter end was about $3.97 billion, and our leverage ratio as defined in our credit facility was slightly less than 2.8x debt to EBITDA.

In the first quarter, we reported a $77.3 million charge for goodwill impairment in our E&P segment, resulting from the early adoption of a new accounting pronouncement promulgated by FASB in January, meant to simplify such calculations as discussed in our most recent 10-K. It's somewhat ironic, given the vagaries of acquisition accounting, that despite the improving performance within E&P waste our early adoption of this January pronouncement eliminates all remaining goodwill in that segment.

In addition, we reported a charge of $53.5 million for an expected loss of assets held for sale related to the remaining Progressive Waste divestitures and $11.3 million for an adjustment to a contingent earnout related to an acquisition completed by Progressive Waste in 2015 due to that operation's strong financial performance this year. That acquisition is the only preexisting earnout obligation assumed in the Progressive Waste acquisition.

Excluding the impairment and loss on assets held for sale items, our effective tax rate for the quarter was about 24%, which is about in line with the 25% rate expected for the period. As communicated on our February call, our effective tax rate for the period was expected to be lower than our estimated full year rate, as Q1 now includes a benefit to the provision resulting from a new accounting pronouncement that reclassifies excess tax benefits associated with equity-based compensation arrangements on their vesting dates from the cash flow statement to the income tax provisions.

GAAP and adjusted net income per diluted share in the first quarter were $0.08 and $0.74 respectively. Adjusted net income in Q1 primarily excludes the impact of the previously discussed discrete charges, amortization of intangibles; and other acquisition-related items, including mark-to-market accounting for share-based awards assumed at the Progressive Waste acquisition, certain rebranding costs, and the remaining severance and professional fees.

Adjusted free cash flow in Q1 was $237.5 million or 21.8% of revenue. As Ron noted earlier, we're well on our way to meeting our original full year adjusted free cash flow outlook of $725 million.

I will now review our outlook for the second quarter of 2017. 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 Securities and Exchange Commission and the securities commissions of similar regulatory authorities in Canada. We encourage investors to review these factors carefully.

Our outlook assumes no change in the current economic and operating environment. It also excludes any rebranding costs or other items resulting from the Progressive Waste acquisition and any additional acquisitions or potential divestitures that may close during the period.

Revenue in Q2 is estimated to be between $1.145 billion and $1.15 billion. We expect core price plus volume growth for solid waste to be between 3% and 3.5%, reflecting a one-month contribution for June from the Progressive Waste operations.

Adjusted EBITDA in Q2 as reconciled in an 8-K we're filing contemporaneously with this call is estimated to approximately 31.5% of revenue or about $362 million. Depreciation and amortization expense for the second quarter is estimated to be about 13.7% of revenue. Of that amount, amortization of intangibles in the quarter is estimated to be about $24.5 million or about $0.09 per diluted share net of taxes.

Interest expense in Q2 is estimated to be approximately $30.5 million. Effective tax rate in Q2 is estimated to be about 28.5% subject to some variability. Finally, [non-controlling interest] is expected to reduce net income by about $275,000 in the second quarter.

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

Ronald Mittelstaedt: Okay, thank you, Worthing.

Again, 2017 is off to a great start. And the tailwinds that drove our outperformance in Q1 should make for another exceptional year in 2017. Solid waste fundamentals remain strong. E&P waste activity and related margins continue to ramp. And we remain on pace to grow adjusted free cash flow per share more than 15% in the year.

With over $250 million of cash on the balance sheet at quarter end and three quarters of the year of cash flow generation ahead of us, we have tremendous flexibility to fund potential acquisitions while significantly increasing our return of capital to shareholders.

Regarding the latter, we expect to resume share repurchases opportunistically through our normal-course issuer bid during this quarter or next and to implement another double-digit increase of our regular quarterly cash dividend in October.

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

Questions and Answers

Operator: [Operator Instructions]. And our first question is from Tyler Brown from Raymond James.

Tyler Brown: Hey, Ron, you noted in your remarks that once Progressive has [lapsed], you're expecting to see roughly 3% pricing, which is obviously very strong. But I'm curious -- number one, what was Progressive's organic volume in this quarter? And two, how should we think about volume in the second half once all the revenue is in the base?

Ronald Mittelstaedt: Yes. Well, what we said in the comments was that their volume in Q1 was a negative 2.5, which was as expected. If you recall, we'd said that there was approximately $50 million of revenue that we looked to shed. Not divestiture revenue, but revenue that was unsafe or unprofessional to service. So if you take $50 million over $1.9 billion, you get just about 2.5%. So it was bang-on what we planned. So that will continue, it will slowly abate. As the year goes on, it'll improve, meaning as the year goes on. So if you take that, it says that with approximately 4% price that we said on our footprint, negative 2.5 on the volume, you're talking about somewhere in the 1.5% core price and volume growth. And that should improve, because volumes will continue to improve as we continue to replace revenue that we've shed with sales growth.

Worthing Jackman: And anniversary the loss.

Ronald Mittelstaedt: And anniversary the loss as well. So that's what you should expect there.

Worthing Jackman: Yes. So Tyler, if we strip down the 3% to 3.5%, obviously with the Q1 results, you see the legacy Waste Connections is running higher than that. But again, once the progressive numbers come in at June 1, we have one-month influence, what Ron netted out, about the 1.5% reported, price plus volume for Progressive Waste, which pulls down the average for June and gives you the 3% to 3.5% for the quarter. Now of course, net of the business we're shedding, as we've said all along, the underlying trends are stronger than that.

Tyler Brown: Okay, yes. Sorry, I missed the negative 2.5% in the remarks, sorry about that. But --

Worthing Jackman: No problem.

Tyler Brown: Yes, sorry. And then, Ron, you noted that virtually all your divestitures are under LOI, which I'm assuming [were on] the balance sheet, saw the asset held-for-sale spike. But can you remind us maybe how much annualized revenue you're looking to divest, and maybe what the EBITDA or free cash flow contribution are from those revenues today?

Ronald Mittelstaedt: Yes. Well, what we've said was that there was approximately $200 million of revenue that we identified that we would divest, either through swaps or sales in one manner or another. We announced, as you know, in Q1 that we completed $50 million of that. So that left approximately $150 million. We've said today that there's another $10 million that was a signed or definitive agreement in Q1 as well, at the end of Q1. So that left $140 million. And if you used a -- I'm going to approximate -- if you use somewhere between $15 million and $20 million of EBITDA on that remaining $140 million, that would be a fair number. And so that tells you that that's running 10% to 15% EBITDA and that on a free cash flow basis, on a standalone basis right now, it's probably negligible.

Tyler Brown: All right, perfect. And then, just lastly, I had one quick question on the proxy. So I think in the proxy, you guys made some changes to the compensation program that puts, let's call it, more weight on PSUs. You also added a free cash flow, maybe a TSR, metric to drive those PSUs. I'm just curious if -- one, you can talk about the board's thought process there; and two, it's a little unclear in the proxy -- what is the watermark on that free cash flow per share CAGR needed to fully participate in those PSUs? Thanks.

Worthing Jackman: Sure. That's a good question. It's nice to see someone actually reads the proxy, after all the time we put in that thing. Anyway, the metrics -- you're right, we increased the PSU component from 20% of the aggregate grant to 35% of the aggregate grant. And by the way, we do have financial performances hurdles on both elements of that. In the typical RSU, or what people think about as a time-vested, there is a 1-year performance metric of our free cash flow margin in that before the vesting period starts. But that's a separate item. In the PSUs, you're right, we're at a free cash flow per-share CAGR over the 3-year period. And we're at an absolute ROIC period over the 3-year period. The ROIC improvement for target payout is 150 basis points over that 3-year period, so again about 50 basis points a year on average. And then, the free cash flow CAGR for target payout, it's about 10%. Again, we target minimum double-digit free cash flow per-share target growth, and PSUs align with that target. Then, overarching everything is kind of a relative TSR modifier to the extent that we're above the median against the S&P 500. There's additional benefit on the calculation. And to the extent we're in the upper quartile as we've been for several periods, there's additional modifier as well.

Tyler Brown: All right. Thank you very much.

Ronald Mittelstaedt: Thanks, Tyler.

Operator: And our next question is from Hamzah Mazari with Macquarie.

Hamzah Mazari: The first question is just around capital allocation. Ron, you mentioned you may resume buybacks. Maybe in light of that comment, maybe speak to the M&A pipeline a little more. Is it different versus prior years in terms of size of deals? Are sellers more willing to sell with potential tax reform down the line? Just any color around the pipeline and your comments around resuming buybacks?

Ronald Mittelstaedt: Sure. Thank you, Hamzah. Well, first off, capital allocation has not changed. What we've always said is that our first and best use of capital is strategic, appropriately priced M&A activity. Secondly is our commitment to our dividend. Third would be our buyback. And then, of course, fourth would be debt repayment. The M&A environment in the pipeline I would consider very robust. There's a lot of people, I would say, looking at the possibility of doing something. As you know, we've said for quite some time that the impediment to deals is high taxes and low interest rates. Well, we still have that. But there is a belief that there could be, particularly after yesterday, a change in the tax component of that. I think you're going to see a lot of people sort of line up and look to get values on their company, and then wait to see what occurs with taxes, whether that is a retroactive -- whether anything happens, number one; and number two, is it retroactive; and then, number three, what is it? Most people will not be doing something, I would say, prior to understanding that. Because they want to have clarity on what their after-tax proceeds are going to be. And I believe, and we've said since the presidential change and a potential tax change, that there is going to be a window of opportunity if tax change occurs that is going to be, I think, an M&A bonanza, not just in our industry but in many. M&A has been somewhat muted over the last 8 years because of obvious reasons of high taxes and low interest rate. And if you lower the taxes, there's a pent-up demand. And people are going to believe there's a window to run through before a potential next presidential change, and it could reverse the other way. So we're cautiously optimistic in that way. But the pipeline remains, as we said in the comments, pretty robust. I would expect things to be more -- a little backend loaded because of the potential tax changes being expected to happen perhaps by the August congressional recess. But we're very busy, no question.

Worthing Jackman: Course, we've already had our third most active year, doing $225 million to date.

Ronald Mittelstaedt: That helps.

Hamzah Mazari: Right. Great, that's very helpful. And then, just on pricing, you mentioned 4% on Progressive. Any color as to how that splits between Canada and the US business, and anything to be aware of in that pricing number regionally?

Ronald Mittelstaedt: No, it's very consistent. I would tell you that Canada is at or above that average. And so it tells you that both the US and Canada in the form of footprint is very similar. And I would say that it is reflective of our heavy focus on price. I would say that the former Progressive was more focused on volume and not as much on price. So there's probably a little bit of a pent-up price lag in some of their markets that we knew was there and we've been able to take advantage of. So I wouldn't tell you that you should expect 4% out of that footprint on successive years going forward. But I would tell you that we're confident it will be consistent with what Waste Connections has historically done and dramatically higher than what was done in their prior footprint.

Hamzah Mazari: Great. Just last question, I'll turn it over. As you head into next quarter, anything you guys are looking for around seasonality of volumes. And the question is really, you've seen normal seasonality the last year or two, and then volumes are coming in better than expected. What indicators lead to stronger seasonality and volumes for you guys? Thanks.

Worthing Jackman: Well, again, if you look at our guide, our guide Q1 to Q2 sequentially, if you kind of work through the [divestiture] impact of Q1, is about a 6% seasonal bump in revenue, which is about average for what we expect right now.

Hamzah Mazari: Got you. Thank you.

Operator: Now our next question is from Michael Hoffman with Stifel.

Michael Hoffman: Thank you, Ron, Worthing, for taking my questions. And Ron, congratulations on the Hall of Fame.

Ronald Mittelstaedt: Thank you, Michael, I appreciate that.

Michael Hoffman: On the volume story, can you help with thinking about what's in it and what's permanent, and where we are in the cycle of that, what's permanent, the trends in it? I have this belief that the solid waste business cycle this time has been much more ratable and metered and not rapid like historic ones. And so there's a lot more volume to come. Not a hockey stick, [that] permanent volume, so commercial collection, [first D&D and spesh voice]. So I'm trying to understand, in that 15% landfill growth, how much of that was permanent? And how can you correlate that, your own commercial collection trends?

Ronald Mittelstaedt: Yes. Okay, well, from the comments, Michael, we said that commercial grew approximately 6% in revenue, and roll-up grew approximately 5%. So if you take that, and you assume that in your revenue stream of $1 billion that collection is approximately 2/3, and disposal and transfer are probably 1/3; and that disposal runs approximately 1/3 of your collection revenue -- if you're getting 5% to 6% growth on what is 67%, then mathematically, the disposal is growing on your own collection at 10% to 12%. And so what it says is you're getting a little bit of a pickup on your third party, which is also -- their business is probably growing at approximately 3% to 4%. So it's not really -- it's a way to say that while 15% in MSW or a 7% in C&D sounds very high, you got to think about what it is as a percentage of the dollar of reported revenue that we have, and that we're just really getting the share that we have on our trucks and that our customers bring to us. So it's not really that we're taking any share. So I would -- so that sort of frames 15% for you. I would tell you that, obviously, for our third-party business to be growing at that rate, it tells you that there is still significant organic growth coming into the solid waste sector across all regions. Because the growth and the comps that he had was broad-based across all five regions. There wasn't anything that jumped out in particular, other than our [rust] was late to the recession party, has been late to the recovery party, and is having a very strong housing recovery. So the rust was a little outsized in that way. But I would say we agree with you that it has been a more staggered and prolonged recovery. And we are not seeing evidence that that is letting up. We were cautious in February in our commentary, as we've headed into our sixth year of double-digit landfill volume growth. We feel like we're sort of busting at the seams in our disposal system. We've been surprised at the magnitude of the continued recovery, quite honestly. So to answer your question, I don't know exactly where we are. But we're not seeing a sign that we're necessarily near the end of it. It's just that we're comping higher and higher numbers. And so that gets more difficult to do. We are, for the first time over the last two quarters -- meaning the fourth and now the first quarter and into April -- we are adding routes in many markets in the nation on the commercial side both residentially and commercially for the first time since the downturn. We are adding headcount fairly rapidly to stay up with this growth now. It had really been absorbed up until probably the third quarter of '16. And so that would tell you that the system is probably, on the collection side, nearing full capacity when you look at it in that way.

Worthing Jackman: But also, Michael, if you look at this year being the fifth year for pretty strong recovery within our numbers on the volume side, to the extent that tax law changes or

infrastructure plans or something that gets implemented in DC, that does actually drive GDP above that 1.5% to 2% -- it's something closer to the 3% -- well, that just puts the economy in another gear and just further prolongs this period of recovery.

Michael Hoffman: Okay. So then, one number that I grabbed onto was the third party at 3% to 4%, which is still better than what would be the structural volume of a GDP-related volume growth, which means --

Ronald Mittelstaedt: Yes.

Michael Hoffman: -- there's an incremental driver. And what I'm hearing is you're saying you're seeing that driver in your own commercial collection business as well, either service interval upgrades or new business adds.

Ronald Mittelstaedt: That's correct.

Worthing Jackman: And also remember, Michael, geography plays a role in this too.

Ronald Mittelstaedt: Yes.

Worthing Jackman: Remember, we've got a quarter of our total revenue on rounding, sitting on the West Coast. We have another quarter sitting in the Southeast from kind of the Gulf Coast states up in the Carolinas. You've got growth pockets in Colorado, and other areas up the East Coast. There are that kind of [smile a crook down] around the US is comparably higher growth than some other geographies within the US.

Ronald Mittelstaedt: Yes. And as you know, where we're not -- just because of where Waste Connections wasn't by our model and where Progressive wasn't, we're not in and around the Great Lakes, and we're not ending up in the upper Northeast. And I would tend to argue those are the geographies that have had a more difficult struggle from the recovery standpoint.

Michael Hoffman: Okay. Switch gears to E&P -- given where the rate count is in the counties you're located, could we anticipate that a 10% sequential improvement is a reasonable way to think about the past?

Worthing Jackman: Well, if you think about how we've guided Q2, we've guided another 8% to 10% sequential increase from Q1 to Q2. And again, let's just take this one quarter at the time. But again, if those trends continue, and the rig count continues to recover, you could see further sequential improvement beyond Q2.

Ronald Mittelstaedt: And one thing I would comment on, Michael, with regard to that -- one thing that we are seeing and we have talked at length to our legacy E&P guys have been around a long time, to confirm whether they agree or not with what I'm about to say -- through this contraction that happened from '13 into '16 in the oilfields, we are seeing tremendous decision-making changes with speed in the E&P business that are very price sensitive. So at $53 to $55 and above, we see a rapid deployment of rigs rapidly, and an acceleration of drilling. And at $48, we see a rapid deceleration. And our E&P guys have said that they have never seen such a sensitivity around $5 to $7 swings. The drillers have very much figured out what that return point is with their new cost structure. And the technology is allowing them faster stop and start times and bringing on these rigs. So that's the only thing I would caution. So you tell me what price of

oil you want to assume, and I'll tell you whether it's going to be 8%, 10% or 15% rough. But there's a lot of sensitivity around where we're sitting right now.

Michael Hoffman: And that's mostly about your Texas and midcontinent exposure? Because [indiscernible] --

Ronald Mittelstaedt: Yes, I would say --

Michael Hoffman: -- be relevant to the Bakken?

Ronald Mittelstaedt: That's right. The Bakken is still very quiet. And I would say that the Bakken's turn-on point is probably $10 north of where things have been.

Michael Hoffman: Okay. That's very helpful. And then, I know it was asked a different way, but if I'm reading through your comments, 3% is the right price trend for the second half. The volume trend in the second half, though, is somewhere between 0 and 1, not between 1 and 2. Is that the right way to think about it [indiscernible] --

Ronald Mittelstaedt: Yes. Well, the reports --

Worthing Jackman: The underlying is between [indiscernible] --

Ronald Mittelstaedt: The underlying [indiscernible] reported, because of the conscious shedding of the 2.5% at the former Progressive, which will now come into it. Yes, Michael. And what we will do -- obviously, we'll report it, but we will provide what the underlying is doing relative to -- with consideration to what we've shed in that period, too.

Worthing Jackman: And it's also possible, again, on the pricing side, as you get into Q4 this year, [stuck] anniversary some of the price increases from '16, that you could see reported price dip slightly below 3%.

Ronald Mittelstaedt: Yes. It will be at that upper end of 2.5% to 3%.

Ronald Mittelstaedt: Yes.

Michael Hoffman: Okay. And then, Worthing, this is a minutia question, but what's the rollover of [bin] in 2Q?

Worthing Jackman: Well, in 2Q, if you look at Q1, and Q1 again was, what, about $490, divide that by 3 and multiply that by 2. So 2/3 of that $490. And take it up a little bit for seasonality.

Michael Hoffman: Okay. So do the same, 6% incremental sequential, divide by 3, multiply by 2.

Worthing Jackman: Then you get in the zip code.

Ronald Mittelstaedt: Yes. And Michael, this is Ron. I'm saying in the $320 range.

Michael Hoffman: Okay. Then I got that right. Okay. Great. Thanks a lot. See you at Waste Expo.

Ronald Mittelstaedt: Thank you.

Operator: And our next question is from Derek Spronck, RBC Capital Markets.

Derek Spronck: CapEx as a percent of revenue was around 8.3% for the quarter. I know that there's some lumpiness in CapEx on a quarter-over-quarter basis. But for the full year, should we assume CapEx comes in at around 10% of revenue? Or do you think you'll be able to get that ratio below 10% on a sustainable basis?

Worthing Jackman: Yes, Derek, we guided about $450 million of CapEx for the full year, and our guidance remains unchanged on that. As you know, Q1 has less construction in it related to landfills buildout. Q3 has that construction element in it, so Q3 is typically the peak. Q1 is typically probably the lowest level. And so we're still on target for that $450 of CapEx for the year. And then, quarter-to-quarter patterns are as expected.

Ronald Mittelstaedt: Yes. And Derek, the same goes on the truck and heavy equipment side. We wait to see sort of how things are coming out and projected to come out on a performance basis and a cash flow basis in the first quarter, before placing a substantial amount of our orders. So you'd see a higher flow in Q3 and Q4 of our equipment and truck capital than you do in Q1 and Q2. So it's just a timing issue.

Derek Spronck: Yes, okay, makes sense. Just moving on to your landfill portfolio -- are there any major landfills that are reaching the end-of-life and/or requiring any sort of major investment to cap it or expand airspace?

Ronald Mittelstaedt: Other than our disclosure and commentary around our Chiquita landfill, which was a bit of an expansion process for almost 14 years, the answer to your question is no. There are no material landfills that are -- over the next 5 to 7 years that have expected closure or expansions that if not achieved would lead to something in that period. So depends on what your horizon is. But I just defined, over the next 5 to 7 years, nothing.

Derek Spronck: Okay. That's great. And just one last one for me -- what are you assuming for OCC pricing in your Q2 guidance?

Worthing Jackman: Yes, when we give guidance for any quarter, we assume current conditions. So it's about $140 a ton right now for OCC.

Derek Spronck: Okay. Thanks so much.

Ronald Mittelstaedt: Thank you.

Operator: And our next question is from Al Kaschalk of the Wedbush Securities.

Albert Kaschalk: Congratulations on a very strong quarter. Ron and Worthing, I was wondering if you could parcel out a little bit more the details on this 50 basis points of better margin expansion than planned. I know you've shared a lot of commentaries broadly. But is there anything in particular, whether it be the commodity prices in the quarter -- what were the major factors to that performance?

Ronald Mittelstaedt: Yes. Al, I would say the following -- number one, achieving the 2.6% price in the prior historical Waste Connections footprint, but also achieving a 4% price in the Progressive footprint, obviously blending together, a 3%-plus price. That's a material margin

driver. As long as your costs start running up more than that 3%, you're getting 20 to 30 basis points expansion, it's on price-led leverage right there. So that certainly -- price would probably be number one. Number two, double-digit landfill volume growth, at a business that is structurally a higher-margin business in collection. So that would be just about an equal contributor. Obviously, we said that E&P waste had accelerated -- it was a small percent of revenue in the quarter, obviously. But it did come in in higher-than-average corporate margins. So that's a contributor. And then certainly, commodities, as you pointed out. It was probably a quarter of the contribution as well, if I had to break it down. So that says 10 to 15 basis points, because it's obviously all price. Not all, but a high percentage of price, so it flows through. So it was a combination of those four. The reality is those four give you more than 50 basis points. And of course in any period, you have things that go the other way, too. So those four things probably led to about 80 to 85 basis points of margin expansion, and then there were another 30 to 35 points, some of which Worthing detailed, going the other direction, to give you a net yield of 50 basis points.

Worthing Jackman: Yes, [indiscernible] back to where we were in February, when we gave our outlook for the period. Again, as Ron said, this higher-margin flow-through of recycling commodity prices in March and slightly higher E&P waste revenue, as well as landfill volumes -- of the $16 million revenue beat, that was a little over half of that revenue beat, and, given high-margin flow-through, that you expect to see an expansion of the margins relative to the 30% that we guided.

Albert Kaschalk: All right. It's nice to have all of the levers working, but more importantly having the operating leverage that you guys continue to focus on. Ron, I want to just maybe spend a little bit -- I know you said you're not really going to be making too many comments, or any further comments, on the LA County situation. But maybe just more broadly speaking, given the strength that you're seeing in the landfill volumes, and particularly in the continued [citing] on the West Coast, is there any -- are there things you're thinking about that you're willing to share, at least on other disposal opportunities or sourcing of landfills that could further leverage what you're doing on the West Coast?

Ronald Mittelstaedt: Well, I think what our experience on the West Coast has shown us is how valuable and how critical strategic landfill assets -- particularly on the West Coast, but that goes for many places -- really are. Because the permitting process is so elongated and so difficult. And you are not seeing a decrease in population, you are not seeing -- you're seeing robust economic times right now on the West Coast. And you're seeing waste generation at virtually all-time highs in many markets throughout the West. So we would love to have incremental disposal or handling assets in the West. We are always working on that, we have things in the works. I think it's important to note that we have really a half-dozen major landfills in California. We have expanded every single one of those over the last 10 years successfully and have 30- to 50-year-length assets in all of our California landfills right now, except the current Los Angeles asset. And actually, we have a permit that has been recommended that gives us a 30-plus-year asset. We have to work through the details of that. But we have been very successful on our permit activity in the West Coast. But it is very difficult. And I just think that points to the value. I think there is a long-term, relatively strong upward price-led increase that is coming in West Coast disposal volumes, because of the volumes that exist there and the difficulty with which it is department facilities.

Albert Kaschalk: Right. That's very helpful, because I was just wondering if we're short landfill on the West Coast or if there's a lot more power in that location than, say, across other parts of the

country. So good, we'll look forward to watching and monitoring what happens there. Thanks, and good luck.

Ronald Mittelstaedt: Thank you. Thank you very much, Al.

Operator: Chris Murray, AltaCorp Capital.

Chris Murray: Just thinking about the volume trends, and certainly the discussion around GDP growth -- I guess what I'm trying to understand, and just thinking forward, is just as the demand for your services continues to increase -- you talked about adding routes and adding collection -- I guess a couple things. One, is there a constraint on going to be your ability, either finding people or assets in order to service that stuff? And then, can you just talk a little bit about whether or not this is sort of keeping your share of a growing pie? Or are you guys actually being able to take market share away from other competitors?

Ronald Mittelstaedt: Yes. Well, Chris, I think you obviously asked a few questions, and let me try to take each one. First off, is there an ability, is there a constraint on getting access was one of your questions, to service the growing volume. The answer to that is no. Obviously, we have ample CapEx. And truck and equipment manufacturers are more than always willing to take it, and they are ramping their productions up. So on the physical asset side that is not a constraint. On the human asset side, you've zeroed in on something that I think is not real well understood by a lot of the public and investment community. And that is that we are in a tight, tight labor market, especially for skilled labor in the United States. And depending on what happens with immigration reform that will not necessarily help that situation. Because it is difficult to find quality drivers, mechanics, equipment operators, people that -- that is a tight -- especially for skilled labor, it is a very tight market. It is out there, but it is difficult. And so we are not, as of today, constrained on the physical resource side, on the human resource side. It's something that we pound on nonstop of trying to be out in front of. But it is definitely a difficulty. As I'm sure you're probably aware, in the month of March, there were over 325,000 unfilled commercial driving positions in the United States alone in the month of March. So that tells you right there how many people are out going for what is a limited supply of personnel. But this is something that we do and deal with, and we'll get through. To the last part of your question, which was about taking share -- where I would say this is far more of a rising tide. Waste Connections has always been a price-focused company. And by default, you're not necessarily a volume-focused company. Our model is one where we get volume because of structural contract and geography, not reliance on price-led volume growth. So to say that, we can't take share in a lot of our market. Because in 43% to 44% of the market, we have 100% share by contract. And so it would be misleading to say it's anything more than a rising tide for a lot of what, at least in our model, delivers. But I think at some of our landfills, we are the benefactors of some private companies that take share, who tend to be more price-aggressive. We'd rather have them be more price-aggressive and bring it into our landfills, and us have to go get that on our trucks, per se. So that's how I would frame the pieces of your question.

Chris Murray: All right, that's great, thank you. And then, just one last question, maybe Worthing -- you guys made the decision to do some rebranding work. I know you said at the top of your script all your guidance excludes those rebranding costs. But any idea on magnitude, or is that sort of already built into your CapEx plan, and so it's already there?

Ronald Mittelstaedt: Yes, Chris, this is Ron, I know you said Worthing. But rebranding is not -- we do not capitalize rebranding. So, number one, you should know that, so it's not in our CapEx, which is why we call it out. Because we run it through the P&Ls as a [directorate] expense.

That branding should run about $10 million to $15 million over the balance of this year and probably into the first quarter of '18. So that's what our expectations are currently.

Chris Murray: Okay. Thanks, guys.

Operator: And the next question is from Noah Kaye, Oppenheimer.

Noah Kaye: Just wanted to follow up on legacy Progressive margins. Between the price increase implementations and the operational improvements, I think at the ending of 2016, you talked about margins being up 500 BPS. Where were those margins tracking in 1Q? And then, maybe if you could talk about upside from here, both considering the planned divestitures and then separating that out, just talking about kind of organic improvements, and really where you see those improvements coming from? Thanks.

Ronald Mittelstaedt: Sure, Noah. Well, in Q1, those margins were up approximately 550 basis points on the former -- and again, it depends on how much of the corporate synergy you allocate to that versus something else. But assuming that everything we took out of the former Progressive was all allocated to those, you would get the around 550 number, to answer your question. We have said, as you know, that when the divestitures are complete, that that will be approximately 100 basis points across the entire platform. So we're not complete with that yet. But we've done, let's call it, 30%. So you should expect that there is 50 to 75 basis points of margin lift when we're complete with the divestitures on a go-forward basis. So that would take the margins up 600 to 625 basis points on the former Progressive platform. And from there, it's a continued improvement process, through pricing, through risk, through shedding of low-margin customers. And let's just say that's another 50 basis points. So we expect that we'll be coming into '18 approaching probably a 700-margin-point improvement on their original platform.

Noah Kaye: Fantastic. See you at Waste Expo, thanks.

Ronald Mittelstaedt: Thank you.

Operator: And the next question is from Joe Box with KeyBanc Capital Markets.

Joe Box: So maybe just to round out that question -- can you actually give us what the realized synergy number was for [bin] in 1Q, and maybe where the run rate is currently?

Worthing Jackman: Yes, Joe, we're not tracking that anymore. As we said back in our first call since closing, back in August of last year, we laid out the buckets, we laid out the numbers. We'd rather communicate this business on an integrated basis versus trying to layer-cake certain synergies. What we can tell you is that, again, the SG&A was mostly in place at year-end, the operating improvements on a run rate basis, ex safety, were mostly in place by year-end. Safety, again, that we've targeted $25 million, we're probably running in that $25 million to $30 million on a kind of run rate basis actuarially. That'll probably allow us to have about $18 million to $20 million of that at the high end in this year's number, and then roll over to next year's number, although the cash benefit from that is earlier. And obviously, you've seen the additive benefit being out of the gate pretty strong on price. And so again, I think it's more important to talk about this on an integrated basis, rather than kind of continue a legacy this or legacy that.

Ronald Mittelstaedt: Yes. If you estimated it, Joe, from everything Worthing just said, we probably get to $25 million to $27 million of synergized benefits, synergized meaning what

Worthing just said -- SG&A, safety and price margin impact on the legacy. I'm going to estimate that that, all in, is $110 million to $120 million; $25 million to $28 million in Q1.

Joe Box: Got it, thanks, that's helpful. And last one for me -- Ron, I think it's an interesting comment that you made that you guys have been busting at the seams on disposal, and you're kind of closer to capacity on the collection network. I'm curious if that implies any change to the incremental margin profile, if there's some sort of reinvestment need. And then maybe to Derek's question earlier -- I get that there's no huge risk from facility closures. But could we theoretically see any sort of risk to disposal growth rates, if you guys are maybe bumping up against daily tonnage caps?

Ronald Mittelstaedt: Let me take the last part of that first. There's only a couple of facilities -- and Chiquita Canyon is one of those, and we're discussed that, I think -- that we have daily tonnage caps. So just beware of that. And our largest facilities, for the most part, there is two in Canada and two in the United States that we have daily tonnage caps. So there's not a real risk of that. That is not something I think anyone should focus on as something that would inhibit us. I think as far as, to your commentary and ours of, quote, busting at the seams, meaning we're very full, and we're running sort of full throttle at the disposal, we can continue to handle more. All my point is is that you're cycling on larger and larger denominators, your percentages just naturally come down. That's what that commentary was referring to, Joe, and nothing more than that. And was there another part in there? I apologize.

Joe Box: Yes, just the incremental margin profile, I guess maybe more on the collection network, then, since you've addressed disposal.

Ronald Mittelstaedt: Yes. No, Joe, look, there's always some -- there's some nominal margin compression when you add routes, obviously, because it takes them time to get full. But also, if you do that right, you'll pulling down overtime on other routes, you're pulling down variable on other routes.

Worthing Jackman: And that doesn't happen across all markets at any time.

Ronald Mittelstaedt: That's right, doesn't happen across all markets at the same time. And if you're at a point you're doing that, you'd better be pushing price hard, if it's a competitive area, to justify it, to offset as much of that margin compression from the additional capital as possible. And if it's not a competitive market, and it's in our 43% of our footprint that's [fixed], you're getting the full benefit of adding that capital. So I wouldn't want to hide behind that. We're also 60% internalized. So all that flows through at the landfills that run at 50%, so it helps offset it. So I wouldn't expect any margin compression from that.

Joe Box: Got it. Thank you, guys.

Operator: And our next question is from Brian Maguire at Goldman Sachs.

Brian Maguire: Really strong volumes in the quarter, more than 2%. Just wondering if -- it seemed like maybe it could've been even stronger if not for the days and the weather. Just wondered if you had a thought on what kind of an impact that might've had, in thinking about the rains in the West Coast and [indiscernible] Leap Day?

Worthing Jackman: Yes, again, the rains on the West Coast probably hit us for a couple million dollars on the volume side. Again, March recovered. And that was kind of -- [still] thinking

about it, through February-March rebounded pretty strongly in the West Coast. And so we may've recovered some of that in the month of March. Frankly, we don't call things like that out, given the scale of the company right now, and given how isolated it was just in the West Coast.

Brian Maguire: Okay. Great. And then, just thinking about the 2Q outlook for 3% to 3.5% price and volume -- I think the price part of it you've probably got pretty well implemented at this point, should be pretty consistent. So that maybe implied a little bit of conservatism on the volume part of it. Just wondered if there any inter-quarter trends that would make you a little bit more cautious about it. Or are you just being a little conservative because you hit the law of large numbers, and you're comping tougher numbers there?

Worthing Jackman: No, we're really hitting the introduction of Progressive Waste on the volume side into our reported numbers, right? Because as we laid out on the February call, the underlying trends in the US seem to be around that 1.5% to 2% on the volume side. The underlying trends in Canada seem to be around that 1% side. But again, based on the $50 million of revenue that we're shedding within the Progressive footprint, that causes Canada to be about a negative 2% impact on reported volumes, such that their reported volumes are negative 1% plus or minus. And in the US, if you're running in that 1.5% to 2%, you take 1% out of that, based on what we're shedding in the US. That means the optics on a reported basis become 1/2 a point to 1%. And so we just don't have as much of an impact in Q2, because it's just one month of Progressive. But again, as we've noted, as you bring more months of Progressive's operations into reported numbers, the purposeful shedding of some of that revenue will make the optics of reported volume to be lower than the underlying trends. And that's all a good thing.

Brian Maguire: Just one last one for me -- now that you've owned Groot for a couple of months, just wondering about any -- if you found any positive or negative surprises in it, anything unusual? Or maybe it's just going as expected?

Ronald Mittelstaedt: I would tell you that it's been mostly all positive. Groot we knew was an exceptional company, one of the best private operators in the nation for many decades, tremendous market, tremendous assets, tremendous people. And if anything, they've exceeded expectations. They have shown -- we have pushed our safety culture, they have reduced incidents over 30% in three months. They have increased the internalization to our disposal network. They've just done an exceptional job. Ryan Brandsma and Jon Groot were running that for us, have done a really nice job of assimilating into a public company after being in a private company life so long, as well as I've almost ever seen it done. And we're not surprised by that, but we're very, very happy about it. And we're thrilled to have them. And they've got a variety of growth things that we're working on. So we're very encouraged by Groot.

Brian Maguire: Great, thanks.

Operator: And our next question is from Andrew Buscaglia, Credit Suisse.

Andrew Buscaglia: Congrats on a good question.

Ronald Mittelstaedt: Thank you, Andrew.

Andrew Buscaglia: Can you just talk about, on your recycling -- I know some of your competitors seem to sort of de-risk those similar contracts, it seems. You guys really benefitted from [indiscernible] pull-through in the quarter. Can you just talk about how are your contracts

structured? And then, just as a check on the way down, do you guys really eat it if we get a pullback here in recycled commodities?

Worthing Jackman: Yes. Andrew, if you look back over time, we've been very consistent about changes in commodity values flow through at about a 70% clip, on the way up and on the way down. And while some folks talk about changes of contracts, I think you really -- you're seeing a similar kind of flow-through in other companies as well. So I'm not sure how the contracts have changed, or maybe if they've really been able to influence the vast majority of their contracts. But I'd tell you the flow-through at most companies throughout the space related to changes of price around 70%.

Andrew Buscaglia: Yes, okay. And then, just one last one, on free cash flow -- you've got about 1/3 of it now, of your targeted $725 million range. How are you feeling about that for the full year? It seems like at this point it's definitely well within reach.

Worthing Jackman: Again, it's not uncommon for us to always have a strong start to the year. We've typically always been at a point where if you annualize what we've reported to date, you always get something higher than our full year target. It's too early in the year to think about changing our full year target. But it's obviously nice to know that there are no -- that we're not a company that relies on some back-half performance that we can't control in order to make a full year number.

Ronald Mittelstaedt: Yes. And Andrew, the only thing I would add to that is, as Derek pointed out earlier in his question, Q1 is a low-CapEx quarter for us by cycle. So you're not going to have that in other quarters. We also do not have US cash taxes paid in Q1. Material cash taxes are paid in Qs 2, 3 and 4. So as Worthing noted, this is a normal flow cycle for us. But for those two reasons, you cannot take Q1 and annualize it. I think it gives us great visibility and great confidence. But we wouldn't want people to normalize it because of those two outflows that didn't occur.

Andrew Buscaglia: Right, okay. All right, thanks, guys.

Operator: And we have no other questions at this moment. I will turn the call back over to you.

Ronald Mittelstaedt: Okay. Well, if there are no further questions, on behalf of our entire management team, we appreciate your listening to and interest in the call today. Both Worthing and Mary Anne Whitney are available today to answer any direct questions that we did not cover, that we are allowed to answer under Regulation FD and Regulation G.

Thank you again. We look forward to speaking with you at upcoming investor conferences or at our June 20 Investor and Analyst Meeting, and, if not then, on our next earnings call. Thank you very much.

Operator: And ladies and gentlemen, that does conclude our conference call for today. We thank you for your participation, everyone. You may disconnect your line.