[WCN] - Waste Connections, Inc., Q2 2019 Earnings Call
Tuesday, July 30, 2019, 8:30 AM Eastern

Officers
Worthing Jackman; President, CEO
Ron Mittelstaedt; Executive Chairman
Mary Anne Whitney; SVP, CFO

Analysts
Tyler Brown; Raymond James
Noah Kaye; Oppenheimer
Michael Hoffman; Stifel
Derek Spronck; RBC
Sean Eastman; KeyBanc Capital Markets
Mark Neville; Scotiabank

Presentation

Operator: Greetings, and welcome to the Waste Connections Second Quarter 2019 Earnings Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded Tuesday, July 30th, 2019.

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

Worthing Jackman: Thank you, and good morning. I'd like to welcome everyone to this conference call to discuss our second quarter 2019 results, an updated outlook for the full year, and to provide a detailed outlook for the third quarter. I'm joined this morning by Mary Anne Whitney, our CFO, and several other members of our senior management team.

In addition, we're all pleased to also be joined by Ron Mittelstaedt. As announced on Friday, Ron has returned from his temporary leave of absence and assumed the role of executive chairman. We're extremely pleased to have him back and to have him join us this morning.

Before discussing Q2 and our updated outlook, I'd like to hand the all over to Ron for a few remarks about last week's announcement.

Ron Mittelstaedt: Okay. Thank you, Worthing. First off, I'd like to thank our employees, everyone on today's call, and many others for the thousands of cards and expressions of support that my family and I have received over the past several months. I'm excited to be back and pleased to have been able to assume the role of executive chairman. I remain committed to the company and, as a continuing employee, look forward to assisting in several areas, including culture, strategy, and acquisition. Exiting the day-to-day responsibilities of CEO, provides sufficient time for me to continue to address health matters affecting my family. No matter who you are, regardless of your profession or title, family should always come first.

I look forward to continued success for the company under Worthing, who has been an integral part of the leadership team driving the success of Waste Connections for over 20 years. When I temporarily stepped aside earlier this year, Worthing assumed the role as our principal executive officer, consistent with the management succession plan approved by our board. He and our long-tenured team did not miss a beat, continuing to execute on our growth strategy and drive further improvements in safety, employee development and retention, while moving the company forward in many areas. Our board has great confidence in him as our new CEO, and we believe that he is the right person to lead the company.

There's so much more I could say about our team and the opportunities ahead. But since this is an earnings call, I'll turn the call back over to Worthing.

Worthing Jackman: Thank you, Ron. You know we've all had you and your family in our prayers over the past several months. It's great having you back, and I appreciate all the support.

Now on to our latest results. As noted in our earnings release, solid waste pricing growth of over 5%, along with a sequential 200 basis point increase in solid waste volumes, drove underlying solid waste collection, transfer and disposal margin expansion of approximately 70 basis points in the quarter. This helped offset a portion of the impact from lower-than-expected contributions, higher margin commodity-related activities, primarily recycling and renewable fuel, and the dilutive margin impact of acquisitions completed since the prior year period.

Our team delivered on the commitments within their control, but the ongoing erosion of recycled commodity value and a precipitous drop in the value of renewable fuel credits, impacted overall results. In spite of these commodity-related headwinds, we have already generated adjusted free cash flow of more than $500 million, putting us on track to meet our original expectation for underlying adjusted free cash flow for the full year.

As anticipated, we've already completed an outsized year of acquisition activity, with almost half of the year still ahead of us, as we have closed approximately $160 million in total annualized revenue.

We are particularly pleased with the approximate 65% average reduction in safety-related incidents in the three largest acquisitions completed over the last several months, and we look forward to continued improvement as we are accelerating the timing to automate the residential fleet in our largest acquired location.

In addition, new contract awards are trending above average and provide additional foundation for growth next year.

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

Mary Anne Whitney: Thank you, Worthing, 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, including forward-looking information within the meaning of applicable Canadian securities laws.

Actual results could differ materially from those made in such forward-looking statements due to various risks and uncertainties. Factors that could cause actual results to differ are discussed both in the cautionary statement on Page 3 of our July 29th earnings release and in greater detail in Waste Connections' filings 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 date.

On the call, we will discuss non-GAAP measures such as adjusted EBITDA, adjusted net income attributable to Waste Connections on both a dollar basis and per diluted share, and adjusted free cash flow. Please refer to our earnings releases for a reconciliation of such non-GAAP measures to the most comparable GAAP measure. Management uses certain non-GAAP measures to evaluate and monitor the ongoing financial performance of our operation. Other companies may calculate these non-GAAP measures differently.

I will now turn the call back over to Worthing.

Worthing Jackman: In the second quarter, solid waste price plus volume growth was 6%, total price of 5.2% exceeded the high end of our outlook for the quarter and was in line with our Q1 pricing, and up 100 basis points year-over-year. Our pricing strength continues to reflect the rollover benefit of the additional price increases we implemented last year in response to accelerating cost pressures and lower recycled commodity value. In Q2, our pricing ranged from approximately 3.4% in our more exclusive markets in the Western Region to an average of over 5.5% in our more competitive regions.

Reported volume growth in Q2 was a positive 80 basis points, increasing 200 basis points sequentially from Q1. This step-up was in spite of winter weather that persisted in certain markets both through April and even into May. Moreover, as expected, reported volumes reflect about 50 basis points of negative volume drag for purposeful shedding of poor quality revenue, primarily the impact of the New York City Department of Sanitation Marine Terminal operations contract with a third party. As noted on prior calls, we expect to fully anniversary the impact of shedding by the end of this year.

Taking these impacts into consideration, we estimate that underlying volumes were up almost 1.5% in the period, and we saw trends improve during the quarter as activity picked up with improving weather in many markets. On the subject of increased volumes, we've also seen an above-average success rate on municipal contract bids year-to-date, which will supplement underlying volume growth in 2020 and, in some cases, should position us for additional growth opportunities in certain markets where we would not otherwise have a presence. We will have incremental CapEx this year associated with these wins, with the P&L and cash flow benefits beginning next year.

Looking at year-over-year results in the second quarter by line of business on a same-store basis, commercial collection revenue increased approximately 5.7%, primarily due to higher price, a portion of which was due to declines in recycled commodity values. Roll-off revenue increased approximately 4.4% on higher pulls and higher revenue per pull. In the U.S., pulls per day increased about 1%, and revenue per pull was up about 4%. In Canada, pulls per day were about flat on an increase in revenue per pull of about 6%.

Solid waste landfill tonnage increased about 6%, the strongest year-over-year increase we have reported since 2017, led by strength in both MSW and special waste. MSW was up 6%, on increases in all regions in the U.S., and also in Canada, led by both the east coast, most notably New York, and the west coast in California. Special waste was up 9%, with increases in all regions, except our Central Region, which includes Minnesota, Oklahoma, and Colorado, where weather continued to be a factor, driving a slower seasonal ramp in Q2. C&D tons were down about 1%, mostly on decline in Canada.

Recycling revenue excluding acquisitions, was about $15 million in the second quarter, down $7.2 million year-over-year, or approximately 33%, which was lower than originally expected on continued deterioration in pricing for fiber, included old corrugated containers, or OCC. OCC prices in Q2 averaged about $50 per ton, which was down 47% from the year ago period and down 36% sequentially from Q1. OCC prices exited Q2 at their lowest levels for the period, as the demand destruction from import restrictions in Asia has been further exacerbated by a slowdown in demand for cardboard from domestic mills.

The flow-through from changes in recycling revenue was more punitive in Q2 than in prior quarters, with decremental margins well over 100% due to the significant decrease in fiber values and higher fees paid to third-party recycling facilities, resulting in a combined year-over-year impact of approximately $10 million in EBITDA and about $0.03 per share in Q2.

OCC prices currently average about $45 per ton, down another 10% from Q2, and down about 50% from last year's average of $88 in the third quarter. At current rates, the full year impact of the decline in recycling is expected to total approximately $25 million to $30 million in revenue, and $35 million to $40 million in EBITDA.

Compared to some of our peers, our more punitive near-term impact from recycling is primarily due to both the higher percentage of our collection business under franchise or other long-term agreements, and the small percentage of third-party merchant recycling volumes represented in [indiscernible]. About 70% of the volume delivered to our recycling facilities comes off our own trucks, 20% is from third parties under contracts, and only 10% is merchant volume from third parties where we have the ability to and have implemented recycling fees similar to our peers. In many of our franchise agreements where we do have the ability to recover lower commodity values and higher cost, there can be a lag of up to 6 or 12 months, and, therefore, in some cases, such recovery will continue into 2020.

We take a long-term view to working with our customers through the seismic changes the industry has experienced in recycling, preferring not to close recycling facilities or claim force majeure to terminate contracts. So for us, recovering the full impact on that 90% of recycling volumes, takes both a multiyear approach of increased collection pricing, which we proactively started last year, and repricing contracts that expire in future periods.

Landfill gas sales are also commodity-driven, particularly the value of renewable identification numbers, or RINs, for which certain renewable gas sales qualify. Since year end, due primarily to decreased demand for renewable energy credits, RIN prices have declined from about $1.60 to approximately $0.70, with most of the drop off occurring during Q2, resulting in a decrease of approximately $3 million of EBITDA in the quarter, or about $0.01 per share. With RINs at current levels, we estimate that a full quarter impact would be approximately $5 million in EBITDA, or about $0.015 per quarter in EPS, during the remainder of the year.

Looking at E&P waste activity, we reported $64 million of E&P waste revenue in the second quarter, up about 6.5% year-over-year and up nominally from Q1, in spite of a small year-over-year sequential decrease in the Permian Basin. These results reflect a modest contribution from our new E&P landfill in the Wyoming Powder Basin where activity continues to ramp after opening in late Q1. Given the 13% decrease in rig count in the U.S. since year end and an increasing focus on returns by many of our E&P customers, we do not expect a near-term increase in the current run rate, and continue to be selective as they move forward on new projects.

Looking at acquisition activity, we've already closed of what we will consider an above average amount of acquisitions for the year, and continue to see an elevated amount of seller interest. Year-to-date, our acquisitions total approximately $160 million in annualized revenue, including most recently a new integrated market in Texas, plus a significant expansion to our footprint we established last year in Rhode Island. In addition, we recently completed tuck-ins in California, Kentucky, New York, Texas, and Quebec.

Now I'd like to pass the call to Mary Anne to review more in depth the financial highlights of the second quarter, provide a detailed outlook for Q3, and discuss our updated outlook for the year. I'll then wrap up before heading into Q&A.

Mary Anne Whitney: Thank you, Worthing. In the second quarter, revenue was $1.37 billion, about $10 million above our outlook and up $129.7 million or 10.5% over the prior year period. Acquisitions completed since the year ago period contributed about $84.3 million of revenue in the quarter, or about $77.4 million net of divestitures.

Adjusted EBITDA for Q2, as reconciled in our earnings release, was $425.3 million. This is consistent with the update we provided in early June, but about $8.5 million below our original outlook for the period due to the decline in commodity-related revenues and the associated EBITDA impact. Adjusted EBITDA as a percentage of revenue was 31.1% in Q2, down 80 basis points year-over-year, due primarily to two factors, an estimated 80 basis points resulting from the year-over-year decrease in commodity-related revenues and an estimate 50 basis points impact from lower margin acquisitions completed since the year ago period. Excluding these impacts, underlying adjusted EBITDA margins for solid waste collection, transfer, and disposal, as a percentage of revenue were up approximately 50 basis points year-over-year. In addition and as expected, the year-over-year impact of our increased 401(k) match, which anniversaries at the end of the year, was about 20 basis points in the period.

Fuel expense in Q2 was about 3.9% of revenue, and we averaged approximately $2.66 per gallon for diesel in the quarter, which was down about $0.09 from the year ago period and up $0.07 sequentially from Q1 2019.

Depreciation and amortization expense for the second quarter was 13.7% of revenue, up 10 basis points year-over-year due to a 15 basis point increase in amortization expenses associated with acquisitions completed since the year ago period.

Interest expense in the quarter increased $4.8 million over the prior year period, to $37.2 million due to higher outstanding debt and increased interest rates as compared to the prior year period. Net of interest income from invested cash balances, interest expense increased $4.1 million year-over-year.

Debt outstanding at quarter end was about $4.1 billion, and our leverage ratio as defined in our credit agreement was about 2.3x debt to EBITDA with cash balances of approximately $209 million. Our current weighted average cost of debt is approximately 3.5%, with about 90% of our debt at fixed rates.

Our effective tax rate for the second quarter was 21.1%. As we had noted on previous calls, the IRS released proposed regulations late last year associated with the Tax Act that could impact our current effective tax rate. The proposed regulations have yet to be finalized, but could impact our effective rate for 2019, beginning in the period enacted. We believe any impact would be limited to the current year, with our effective tax rate returning to about 22% again in 2020.

GAAP and adjusted net income per diluted share were $0.56 and $0.69, respectively, in the second quarter. Adjusted net income in Q2 primarily excludes the impact of intangibles amortization and other acquisition-related items.

Adjusted free cash flow in the first half of the year was $503.9 million, or 19.3% of revenue, putting us well on our way to meeting our original expectation for underlying adjusted free cash flow for the full year.

I will now review our outlook for the third quarter 2019, and updated outlook for the full year. Before I do, we'd like to remind everyone once again that actual results may vary significantly based on risks and uncertainties outlined in our safe harbor statement and filings we've made with the SEC and the securities commissions or similar regulatory authorities in Canada. We encourage investors to review these factors carefully. Our outlook assumes no change in the current economic and operating environment. It also excludes any impact from additional acquisitions that may close during the remainder of the year and expensing of transaction-related items during the period.

Looking first at Q3. Revenue in Q3 is estimated to be approximately $1.405 billion. We expect price growth for solid waste of approximately 5% in Q3, along with volume growth of approximately 50 basis points, which incorporates the estimated 50 basis point drag from the impact of the New York City Department of Sanitation Marine Terminal operations contract with a third party.

In addition, we expect revenue from E&P waste activity to continue to range between $60 million and $65 million.

Adjusted EBITDA in Q3 is estimated to be approximately 31.5% of revenue, or about $442 million.

The margin impact from acquisitions completed since the year ago period is expected to be similar to Q2 at about 50 basis points, and the commodity-driven impacts are expected to be sequentially higher than in Q2.

Depreciation and amortization expense for the third quarter is estimated to be about 13.5% of revenue. Of that amount, amortization of intangibles in the quarter is estimated to be about $31.5 million, or $0.09 per diluted share net of taxes.

Interest expense net of interest income in Q3 is estimated to be approximately $36 million. Our effective tax rate in Q3 is estimated to be about 22%. We estimate that the Q3 rate would increase to approximately 30.5% in the event that the proposed regulation as originally drafted are enacted during the period, which would result in an impact of approximately $0.07 per share in Q3. With the rate declining sequentially in Q4, and, as noted earlier, returning to about 22% in 2020.

Turning now to our updated outlook for the full year as provided and reconciled in our earnings release. Revenue for 2019 is now estimated to be approximately $5.375 billion, up $65 million from our original outlook, due primarily to higher-than-anticipated contributions from acquisitions, partially offset by greater-than-expected declines in recycling revenue and in the value of renewable energy credits from qualifying landfill gas sales.

Adjusted EBITDA for the full year is now estimated to be approximately $1.675 billion, or about 31.2% of revenue. We believe that this conservatively reflects the high decrementals associated with the previously discussed decreases in commodity-related activity.

Capital expenditures are now projected to be approximately $600 million, up from $575 million on an increase of approximately $35 million from the new contract wins and higher acquisition-related CapEx, partially offset by an approximate $10 million reduction in other areas.

Estimated underlying adjusted free cash flow remains in line with our original outlook of $950 million. But with about $35 million of incremental capital expenditures from recent contract awards and acquisitions, our updated estimated recorded adjusted free cash flow is $915 million, for approximately 17% of revenue and 55% of EBITDA.

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

Worthing Jackman: Thank you, Mary Anne. And, Ron, once again, welcome back. As noted in our release and discussed on this call, the underlying fundamentals of our solid waste business remain strong, and we are extremely pleased with our year-to-date performance.

We'd especially like to commend our team's effort to deliver on their commitment in terms of what they control and in implementing the changes necessary to further recover the now more punitive impacts of commodity-related activity. Improving trends in safety, including those noted at recent acquisitions and turnover, which trended lower in Q2, are indicative of our local leadership accountability and the dedication of our 18,000 employees who work tireless each and every day to drive our results.

Strength in solid waste pricing, positive volume trend, and underlying EBITDA margin expansion in solid waste collection, transfer, and disposal, position us well for the remainder of the year, and, as noted earlier, underlying adjusted free cash flow has trended solidly on track to achieve our original $950 million outlook for the full year.

We've already completed a typical year of acquisition activity, and we are well-positioned for additional acquisition and organic growth opportunities, while maintaining flexibility to increase the return of capital to shareholders. We anticipate announcing another double-digit percentage increase in our quarterly cash dividend in October, and we are completing the annual renewal of our normal course issuer bid, which authorizes a repurchase of up to 5% of our outstanding shares.

We appreciate your time today, and I'll now turn the call over to the operator to open up the lines for your questions. Operator?

Questions and Answers

Operator: Thank you. (Operator Instructions) Tyler Brown with Raymond James.

Tyler Brown: Ron, nice to hear from you. We continue to send our best your way.

Mary Anne, I was hoping to maybe bridge the original $1,705 billion in EBITDA guide to today's $1.675 billion guidance. So it feels that maybe the core trends are actually a touch stronger, E&P seems to be pretty steady, M&A's actually a good guy. But then maybe OCC and rent prices are working against you, particularly late into Q2. But are those the key pieces? And then, if so, can you help maybe size the delta in those buckets, again maybe in the new guidance versus the old guidance?

Mary Anne Whitney: Sure, glad to do so. And you did hit on the key buckets, Tyler. I would start with revenue to give context. So if you start with the $5.310 billion of the original guide, and say the acquisition contribution's about $100 million, and, as you said, the underlying business is doing a little better, but you have offsets from lower recycled commodity revenues of about $30 million, and the lower RINs, the renewable energy credits of another $10 million to $15 million. So if you say, again, up $100 million, underlying strength a little better and then back out the $35 million to $40 million in commodities, you get your $5.375 billion at the revenue line.

And if you look at the incremental margin condition from acquisitions in that 20% to 25%, and you look at the decrementals on those commodities coming up, so it's more like $50 million, that's how you net down to down $30 million to the $1.675 billion from your $1.705 billion.

Tyler Brown: Okay. Yes. No, that's perfect. That's very, very helpful. So just want to come back to something you talked about. So you noted that the franchise nature of your business, so in recycling, there's a lag in your ability to maybe recoup some of the lower fiber prices. But I think you noted that there's going to be some pressure obviously into the second half, but maybe even into early 2020, but longer term. So if commodity prices were to remain the same, would recycling actually be a positive EBITDA tailwind over time, even without a rebound in price as you readdress contracts? Am I reading that the right way?

Worthing Jackman: Absolutely. I mean, if you look at what we've done in incremental pricing, which, as we've talked about on prior calls, is about 0.5 point incremental related to recycling, that gives you a sense of how we are recouping the majority of that through our collection business. You know 50 basis points is, I'm going to round here, about $25 million. And if you look at the all-in impact over the last two years, you'd get numbers approaching $120 million of EBITDA once you exit this year, comparing 2017 to 2019. So if we're getting an incremental $25 million or so in pricing on the collection side of the business, what it's telling you is it takes us between four and five years to recoup that. And to your point, that means it's upside as we go year-to-year, looking ahead.

Tyler Brown: Okay. Yes. No, that's very helpful. And then maybe, somewhat a little behind on the RIN. But just at a high level, what exactly is driving this reduction in the RIN pricing?

Worthing Jackman: Well, you've had the -- obviously, EPA plays a major portion of it and what goes on at the White House plays a portion of this as well. Refineries have been major buyers in the marketplace to offset emissions with refiners and need to blend fuels. As refiners are getting more and more exemptions from the EPA as they've been lobbying to help their business, because it's a very expensive line item at the refinery level, you've seen more exemptions being issued by the EPA, which has impacted [sand], which is driven down the near-term price of the RINs.

Tyler Brown: Okay. I see. And then maybe my last one kind of related to that. So just looking at the big picture, if current RIN prices remain, what would be that specific full year impact to EBITDA in full year 2019 versus full year 2018, if I was thinking about a year-over-year bridge?

Mary Anne Whitney: Sure. So in our guidance, we had taken RINs down slightly, because we knew that they were down year-over-year. The incremental impact is about $15 million. In the aggregate, it's $20 million to $25 million.

Tyler Brown: $20 million to $25 million, okay. Yes. Okay. Thank you.

Operator: Brian Maguire with Goldman Sachs.

Brian Maguire: Ron, great to hear you again. Worthing, just a question on the CapEx changes. I guess the additional $35 million, it's always great to win some new business, seems like it was just more an issue of timing, spending the money today to get the earnings tomorrow.

Just trying to think about what benefit that might have on volumes earnings next year. Will we assume a typical sort of mid-teens pretax return on that capital? And if that's the case, does that imply maybe $5 million of EBITDA, $20 million of sales and something like 0.5 point of volume improvement for next year just from that alone?

Worthing Jackman: Yes. You about nailed it. About 0.5 point in volume, if [it's] more collection-oriented. So if you put an average collection margin on that, you're spot-on at thinking about $25 million in revenue, $5 million to $6 million of EBITDA, and [for] that with the capital outlay, you're looking at roughly 5x to 6x EBITDA for the capital outlay. And obviously, that's a better return on capital than paying high multiple down on M&A.

Brian Maguire: Yes. And I guess another way to think of it is, if you had done M&A, then we wouldn't be talking about raising the CapEx or [cutting] the free cash flow. It's just sort of a decision between which one is better, and this one clearly a better return than the M&A?

Worthing Jackman: Yes, absolutely. And if you look at just the overall, it's just there's an increased level of bidding activity. We're not changing how we bid. But I look back over the past six or seven months, and we've submitted a little over 70 proposals, and there's still about 1/3 of those that are outstanding and we're waiting to hear from for the balance of the year. I know the other 2/3, we've won about half and we've missed about half. But the half that we've won is what you're seeing the more positive impact from.

Brian Maguire: And I know we're talking about 2020 too much yet. But if that's going to give you maybe a supplemental 40 or 50 basis points of volume improvement and the underlying trends are 1.5 points, could we be thinking about sort of the high end of that 1% to 2% volume growth range you've talked about historically?

Worthing Jackman: Yes, it definitely helped move the needle within that range, that's right.

Brian Maguire: And just last on this. Any early thoughts on 2020 CapEx? Is this $600 million, this range sort of a new normal for next year? Or does some of the landfill spending come off, given the outlook there, and maybe the $35 million doesn't recur next year?

Worthing Jackman: Yes. I mean if you look at the underlying volume [environment] being in that 1% to 2%, obviously, these wins move it a little bit higher, but that's CapEx we're spending this year. We'd always say as a rule of thumb, to think about an upcoming year as about 10.5% of revenue. And as we get into February, we'll refine that further.

Brian Maguire: Okay. I appreciate it. Thanks.

Operator: Noah Kaye with Oppenheimer.

Noah Kaye: Worthing, I guess just following up on the subject of these new contract bids. As you say, you're not changing the way that you bid. So just curious, what, in your view, is driving this above average success rate? Does it have to do with your asset footprint changes that need change in kind of the competitive dynamic that you see in the industry? Just wondering if this is something more structural.

Worthing Jackman: No. Look, I think maybe it's just the cycle of when these contracts are coming up for bid. Obviously, in some cases there are relationship advantages. In other cases incumbents may have had service issues that have put them sideways with a municipality. In other cases, it could be politics that have gone wrong against the incumbent. Whatever the case may be, it just so happened that right now, the stars have aligned to make this an outsized year. I would never assume that this kind of outsize year continues year-in/year-out. It's just episodic.

Noah Kaye: Okay. That's helpful. And then just to go back to your commentary earlier on some of the regional volume trends. So I would take it then, that just based on the weather, the Central Region had sort of a later-than-normal seasonal ramp because of that poor weather. So does that presumably provide some runway into 3Q? And I guess, with that and the rest of the commentary that you provided, how should we think about kind of bias towards prior guidance for volume for the year?

Worthing Jackman: I mean it provides runway for Q3. But obviously in the Central Region, especially in the states we highlighted, such as a Minnesota as an example or an Oklahoma or a Colorado, obviously, you still have elements of special waste that exists in those markets that you typically see a pronounced seasonal ramping as you move through Q3. But obviously, the timing of those, whether they start as anticipated, whether they get delayed, I mean, some of these projects, as you know, you can be waiting for them to start, and you're sitting there waiting at the scales for two month until they finally cross the scales, right?

And so while we're seeing a nice seasonal tone, I mean the timing of when those projects come through the gate across the scale is going to really determine a look back, how much did it ramp?

Mary Anne Whitney: I would echo that and just add that important to remember that last year we had a stronger special waste quarter in Q3, so the comps are a little tougher as well. So if you're thinking about year-over-year increases like we saw this year, it gets a little tougher in Q3.

Noah Kaye: Okay. That's very helpful. If I could sneak one more in. You mentioned some selectivity around further CapEx investments and E&P, just given the activity you're seeing. But of course, we've also had, I guess a bit more consolidation, maybe even a bit more rationalization in terms of disposal pricing, just hopefully that starts to come through. So how does that impact kind of your thoughts around capital allocation? Just trying to understand how to put [indiscernible] of the thinking.

Worthing Jackman: Sure. I mean our thoughts really haven't changed, right? I mean as you know, we talked already, we opened up our new landfill up in Wyoming. We talked about another investment we're making to expand the services at one of our existing landfills in the Permian. That project ought to come on later this year, early next. We're also looking at additional landfill within the Permian. We've worked with the regulators for many years now and just continuing to redesign that site to match the realities of the current market, right? I mean, if one has a choice of investing 10 to 15 in a site versus investing 25 to 30, I would always, in this environment, want to take the lower side of that and make sure I work with regulators to do that.

And so how we approach this from an asset positioning and serving our customers hasn't changed. Obviously, we want to be prudent how much capital we're laying out to address this going forward.

Noah Kaye: Very helpful. Thanks so much.

Operator: Michael Hoffman with Stifel.

Michael Hoffman: Ron, welcome back into the hot seat. So I'm adding all the numbers up as fast as I can count them on my fingers and toes. And I think I'm looking at 12 months July 1 to June 30, about $65 million of headwind we're dealing with between the recycling and the RIN credit, little bit more and then half of it in the second half of 2019, and there's a tail -- there's a full quarter of it in 1Q and then there's a tail in 2Q, if that's the right way to think about plotting all that out, all things being equal.

Worthing Jackman: Well, look, I mean I think we deal in terms of calendar years, not LTMs. But obviously last year, on same-store basis, recycling overall was about a $65 million revenue impact. This year on a same-store basis, what we're on a collide path to do, what, about -- what's that?

Mary Anne Whitney: 25 to 30.

Worthing Jackman: -- yes, 25 to 30 total.

Mary Anne Whitney: And EBITDA is greater.

Worthing Jackman: Yes. I mean, basically recycling is down for us about $120 million or more over that two-year period. And you put the decrementals above that, it means EBITDA impact is north of $120 million. So just leaving all else out of it, we look at the business, I mean you could ask us back in 2016, hey, if we could think about a five-year trend, where do you think the business could be in five years, and we talked about a 6-2-1 plan, if you remember that, that had us doing about $1 billion of free cash flow by 2021, but simply adjusted for recycling, we would have done it this year, or two years earlier. And so, no. We've done the same math you've done, but we do it calendar year, not LTM.

Michael Hoffman: Okay. So you've opened the window I was going to ask next. Is the right way to -- and again, we're not doing 2020 guidance. But the right way to think about 2020, is it starts with $1 billion as the free cash?

Worthing Jackman: Well, you're right, we're not doing 2020 guidance.

Michael Hoffman: Okay. But given --

Worthing Jackman: You do this to everyone, Michael?

Michael Hoffman: What's that?

Worthing Jackman: You do this to everyone.

Michael Hoffman: I know. I know. But I have to try. Deal pipeline, what's it look like going into the second half as far as the opportunity of maybe something else gets added to the $160 million?

Worthing Jackman: Look, as we said, the seller activity and dialogue remains robust. I'd say there's nothing in the pipeline right now that's north of $50 million or $60 million in revenue. And so there's not one individual needle mover, but, obviously, if you do knock down a couple of these, they all add up to nice rollover growth into 2020.

Michael Hoffman: And you would anticipate that there would be more closes, it's just not in the guidance?

Worthing Jackman: Well, we don't guide what's not closed, right, because I don't control the timing of what we get done or timing [indiscernible]. But obviously, as you move into the year, I mean, anything that we're in dialogue right now would end up contributing very little to this calendar year, if we do close it. And most of it is a rollover contribution for 2020 growth.

Michael Hoffman: Okay. And then last question would be, I guess I'm back into 2020. But your efforts to drive an incremental increase around the recycling side and open market, plus what you can do in open market general, suggests that 4.5, 5's, the right way to think about how price continues to trend, 1 to 2 in volume. That's the sort of way to think?

Worthing Jackman: That's the way we think about it.

Michael Hoffman: Okay. Great. Thank you so much.

Operator: Derek Spronck with RBC.

Derek Spronck: It's good to have you back, Ron. Just my first question, just could you provide a little bit more color around some of the acquisitions you did do this quarter? Were they tuck-ins? Any new markets? Are they more collection, disposal heavy?   Any color would be . . .

Worthing Jackman: Sure. We did an integrated new market in north Texas. We did a sizeable expansion to our footprint in Rhode Island. I mean, those were the two most notable ones from a revenue standpoint. And other than that, we did several tuck-ins, in the various states, and one in Quebec as well, in the period.

Derek Spronck: Would you say that your addressable market is still -- I believe you've commented before around $3 million -- or $3 [billion] to $4 [billion] of your addressable market. Is that being maintained? And I know addressable market isn't a black-and-white science. But can you open up your addressable market at all in the future? And if so, are some of your peers opening up their addressable market? And are you starting to see a little bit of overlap around addressable markets or potential acquisition and addressable market relative to your peers on a historical basis?

Worthing Jackman: Look, our addressable market hasn't changed. Obviously, as we go into new states and new parts of states, we can expand that addressable market. Look, our peers are getting transactions done that we're not involved in, because we don't overlap them in their markets. Most of the transactions we're doing, 9 out of 10 are sole source, sole dialogue.

Without a doubt, though, when you have a banker involved, those are transactions that are more [wildly] shopped. That's why we rarely do transactions that bankers are on the sell side of. But look, and you also see some of our peers that are just diversifying away from solid waste and doing various and sundry services. So they don't see us in those opportunities, right?

So look, I don't think the landscape has changed. Clearly, it's a frothier time from a dialogue standpoint. I think you're seeing everyone benefit from that, not just any one company in particular.

Derek Spronck: Outside of the E&P waste, would you ever consider moving into a soil remediation or a liquid waste?

Worthing Jackman: No.

Derek Spronck: Okay. All right. Thanks for taking my questions.

Operator: Sean Eastman with KeyBanc Capital Markets.

Sean Eastman: Ron, welcome back. And Worthing, congrats on your CEO appointment. My first question's just on the price momentum. It sounds like recycling is kind of an incremental tailwind for price for the out year. So I'm just wondering whether that means we can kind of look at this 5% that we're trending to in 2019, and keep that as sort of a reasonable assumption for the out year or whether there's some other puts and takes we should keep into consideration in terms of how the pace of that price growth continues.

Mary Anne Whitney: Sure. And yes, I think is the short answer, Sean. I think 5% is a fair way to think about it. And as you point out, we did, as Worthing mentioned, we say in the 5.2% that we reported this quarter, about 50 basis points of that is from the incremental [PIs] we've gotten associated with recovering the decline in recycle commodities. So the underlying price is around 4.5%, 50 basis points of recycling and 20 basis points of fuel surcharges. And that's a fair way to think about it going forward.

Sean Eastman: Okay. Thanks. And I thought maybe you guys could comment on the behavior you're seeing from the smaller players in your market. I know around this time last year, the sort of initial wave of recycled commodity price pressure kind of prompted some action from some of the more marginal players in the market. And I'm just wondering if maybe this next wave of pressure is potentially driving them to another breaking point in terms of maybe rolling out some price increases or being more inclined to sell. Any comments around that dynamic would be great.

Worthing Jackman: Sure. I mean if you think they were impacted last year, the vice has tightened this year. And so, no, we're still seeing very good structural support for pricing in this industry, right? A lot of the privates have been impacted by recycling, and that's gotten more punitive for them. Labor pressures have not abated. Cost to move volumes to landfills have not abated. And so really, if you saw last year, many [privates] were doing double-digit price increases in order to overcome that. That same pressure has reemerged this year. And so, no, I think you've seen everyone in the industry report stronger price because the underlying tone is better. Our price retention has been -- it's approaching 98% on price increases reporting on the street. And so structurally, it continues to be a favorable environment. And put simply, folks need to be pushing price in order to recover their cost.

Sean Eastman: Okay. That makes sense. And last quick one from me is just on this RIN credit dynamic.   The price of those RINs, that move's been pretty eye-popping. So I'm just wondering if -- maybe this is difficult to answer. But I'm wondering if you think we've found a floor here in the price for those RINs and whether there's kind of a clear catalyst on the horizon for those prices to stabilize or potentially go back up.

Worthing Jackman: Yes. Look, at $0.70 right now, we're $0.70 away from the [bar]. I guess you can look at it that way. But, no. Look, obviously you got to see what's happening in Washington, right? If there's an administration change, as an example -- look, I go back a year or two, RINs prices were in the mid-twos, not $0.70. They were almost 4x what they are right now. And so I think as you see kind of the underlying tone in D.C., for clean energy, for renewable credits, et cetera, that'll really set the tone for the marketplace and the clearing price of that.

Sean Eastman: Okay. Thanks very much. Appreciate the time.

Operator: (Operator Instructions) Mark Neville with Scotiabank.

Mark Neville: I just to follow up on that recycling conversation. The 6- to 12-month lag on the pricing, I guess I'm just curious how negotiated is that process versus sort of our automatic? How easy, I guess, is it sort of to recapture some of that price?

Worthing Jackman: Well, it depends on what type of contract we're talking about. If it's a return space contract, we need to eat the cost first and then go in for a rate increase. In the case of a contract that's not return space, it's a negotiation with the municipality. And municipalities have been receptive to, because they understand the plight of what's happening right now, and if they want to encourage recycling and continue it, right now it costs more money. Now, we don't get that success everywhere. But for instance, I mean, we just had one jurisdiction where we've just started bearing about a $200,000 a month [weight] on recycling that we didn't have before. And that negotiation with the city will probably last between three and five months, and we'll probably recapture 70% or 80% of that by the time the negotiation's done, if not 100%. And so it really depends on the type of contract and where we're at in dialogue with the city or the municipality.

Mark Neville: Okay. But sort of the way you've talked out it or guided and talked to us, it's been $120 million impact, sort of four to five years maybe to recapture that, as you negotiate all this?

Worthing Jackman: Right. And last year was year one. This year is year two. And so we're two years into that four- to five-year journey.

Mark Neville: Okay. And then just on the renewable energy credits, there's a few numbers thrown around. I just want to make sure I've got it right. At current levels, it's about a $5 million per Q EBITDA impact. Is that right?

Mary Anne Whitney: That's correct.

Worthing Jackman: For the second half of the year.

Mary Anne Whitney: Looking at the second half of the year.

Mark Neville: Yes.

Mary Anne Whitney: And that's factored into our updated outlook.

Mark Neville: Okay. And in terms of just on the recycling, what price for the OCC have you assumed into the guidance? I'm just curious if there's some risk to the number in the second half just at current levels.

Mary Anne Whitney: Sure. So it's about $45 a ton, which is where we're seeing pricing right now, the OCC.

Mark Neville: Yes. Okay. And maybe just one last one then on the M&A. Of that $160 million to $165 million that you've acquired thus far, Mary, I think you said about $100 million of that hits the P&L this year? Or $100 million of that's in the guide?

Mary Anne Whitney: That's correct. In the current year, there's about $100 million, so that implies there's rollover contribution for 2020 of about $60 million.

Mark Neville: Okay. Thanks for taking my questions.

Operator: (Operator Instructions) Mr. Jackman, there are no further questions at this time. I will turn the call back over to you.

Worthing Jackman: Thank you. Well, if there are no further questions, on behalf of our entire management team, we appreciate your listening to and interest in the call today. Mary Anne and I are available today to answer any of your questions that we did not cover, that we're allowed to answer under Reg FD, Reg G, and applicable securities laws in Canada. Thank you again, and we look forward to speaking with you at upcoming investor conferences or on our next earnings call.

Operator: That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.