Waste Connections, Inc.
Waste Connections, Inc. Third Quarter 2016 Earnings Call
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Worthing Jackman; Waste Connections, Inc.; EVP & CFO

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Derek Spronck, RBC Capital Markets
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Chris Murray, AltaCorp Capital
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Barbara Noverini, Morningstar, Inc.

Presentation

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Waste Connections third-quarter 2016 earnings conference call. During the presentation, all participants will be in a listen-only mode. Afterwards we will conduct a question and answer session. (Operator instructions) As a reminder, this conference is being recorded, Thursday, October 27, 2016.

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

Ronald Mittelstaedt: Okay. Thank you, operator, and good morning. I would like to welcome everyone to this conference call to discuss our third-quarter 2016 results and provide our financial outlook for Q4. I'm joined this morning by Steve Bouch, our President, Worthing Jackman, our CFO, and several other members of our senior management team.

As noted in our earnings release, our financial results continue to track at or above the increased expectations we communicated in August. And we are extremely please that safety, pricing and operational improvements within recently acquired operations continue ahead of schedule.

Adjusted free cash flow remained notably strong at $205.8 million in the third quarter, which reflects our first full quarter of combined operations since completing the Progressive Waste acquisition.

Adjusted free cash flow on a year-to-date basis, which only includes four months of combined operations, was $440.3 million, or 18.9% of revenue. Our strong free cash flow profile following the Progressive merger positions us for an outsized 24% increase in our quarterly cash dividend while maintaining a payout ratio at less than 20% of expected annual free cash flows.

This financial strength and flexibility together with our expanded footprint following the merger keep us well-positioned to execute our growth strategy at a time when acquisition dialog is near record high levels, all while increasing our return of capital to shareholders.

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 the call today include forward-looking statements made pursuant to the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995 and applicable securities laws in Canada. 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 2 of our October 26 earnings release, and in greater detail in filings that have been made by Waste Connections, formally named Progressive Waste Solutions Limited, and Waste Connections US, Inc., with the Securities and Exchange Commission and the securities commissions or similar regulatory authorities in Canada.

You should not place undue reliance on forward-looking statements as there may be additional risks of which we are not presently aware or that we currently believe are immaterial, which could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances that may change after today's date.

On the call we will discuss non-GAAP measures such as adjusted EBITDA, adjusted net income and adjusted net income per diluted share, and adjusted free cash flow. Please refer to our earnings release for our 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, and other companies may calculate these non-GAAP measures differently.

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

I will now turn the call back over to Ron.

Ronald Mittelstaedt: Okay, thank you, Worthing. In the third quarter, solid waste, core price, and organic volume growth was 3.7%. Core price increases in the period were 2.6% year over year with total pricing growth net of surcharge reductions of 2.3%. Core price is on target to be about 2.7% for the full year.

Volume growth in Q3 was 1.1% driven primarily by the West Coast where we have seen strength for the past several quarters. A year-over-year decline in special waste activity in Minnesota was about a 70 basis point drag to volume growth in the period and is expected to continue in Q4 as certain projects in that market have been pushed into 2017.

For the full year, we expect our volume growth to be around 1.7% with core price growth plus volume of about 4.4%. We believe the volume growth environment remains in the range of about 1% to 2% under current economic conditions. It could run a little above that range in some periods due to the timing of special waste activity or items within a prior-year comparison.

As we've consistently communicated, we try to be conservative in guiding volume growth, particularly given that 2016 is the fourth year of strong MSW volumes. The deeper we get into this recovery, the tougher we expect our comparisons to be unless the economy shifts into a higher gear, which, with housing starts still running around 1 million units, we're not yet seeing or expecting.

As a reminder, until we anniversary the Progressive Waste acquisition, a 50 basis point change in volume is currently about $2.5 million of revenue in a quarter.

Volume growth in the third quarter was primarily driven by double-digit increases in MSW disposal volumes along with higher commercial collection and roll off activity. MSW tons increased 11% in Q3 with about 75% of our landfills reporting higher MSW tons year over year in the period.

Special waste and C&D tonnage were each down 6% due to the previously discussed decline in special waste activity in Minnesota and tough C&D comps at two landfills. Solid waste landfill tonnage overall on a same-store basis increased 3% year over year in the third quarter.

On a same-store basis, commercial collection revenue increased almost 7% year over year in Q3, and roll off pulls per day increased about 4%. All regions reported higher roll off activity as pulls per day increased about 8% in our Eastern region, 3% in our Western region, and 2% in our Central region. The increases were widespread with notable exceptions in both coal and E&P-influenced (inaudible).

Recycling revenue excluding acquisitions was $13.9 million in the third quarter, up almost $1.9 million, or about 15%, year over year due primarily to higher commodity values for fiber.

Prices for OCC, or old corrugated containers, averaged about $123 per ton during Q3, up 11% percent form the year-ago period, and up 18% sequentially from Q2. OCC prices currently are around $115 per ton, up about 8.5% from the level we averaged in last year's fourth quarter, but down off of Q3's highs.

Regarding E&P waste activity, we reported $30.1 million of E&P waste revenue in the second quarter, consistent with our guide for the period with segment EBITDA margins of about 30%. Monthly revenue was up as much as 20% from its low earlier this year with margins almost 500 basis points above the trough. As a landfill-oriented business, any revenue growth resulting from increases in drilling activity should flow through at high incremental margins.

Moving on to the Progressive Waste acquisition. As noted earlier and in our press release, results continue to track at or above the increased expectations we communicated in August, and we are extremely pleased that safety, pricing, and operational improvements continue ahead of schedule.

October's safety-related incident frequency for Progressive's legacy operations is currently trending about 40% lower than pre-acquisition levels. To put that in perspective, in September and October as a total company, we had fewer incidents than Progressive Waste had as a standalone company in many months throughout 2015.

Pricing improvement initiatives within Progressive's footprint are also well underway resulting in price increases within these markets expected to range between 2.5% and 3% in Q4, up from less than 1% in Q1.

Our focus remains on improving the quality of revenue within Progressive's operations to drive higher EBITDA from less revenue, reduce the CapEx intensity necessary to generate the EBITDA and, therefore, convert a higher percentage of EBITDA to free cash flow.

As mentioned already, this involves a heavy focus on price improvements, but an equally heavy focus on shedding unprofitable volumes. The adjusted EBITDA margin of Progressive's operations before corporate overhead was about 30% in the third quarter. And we are extremely pleased to have reported over $200 million of adjusted free cash flow in Q3, which was the first full quarter of combined operations since completing the Progressive Waste acquisition.

Regarding other potential M&A activity, acquisition dialog is at near record high levels. These opportunities include new market entries and tuck-ins, competitive and exclusive markets, integrated and non-integrated opportunities. In some instances, concerns over potential post-election tax laws are driving the timing.

Additional transactions in the pipeline that may get completed either later this year or early next year should easily surpass the $120 million of acquired annualized revenue we thought we would complete in an average year based on our expanded footprint following the progressive merger.

Similarly, interest in market divestitures or asset slots remains very high, and we will look to complete that process by Q1 of 2017. We currently expect to rationalize about $225 million in annual revenue, and through swaps, obtain approximately $100 million to $125 million of annual revenue in return, but with greater EBITDA coming in than what's going out. Once completed, this should add about 100 basis points to consolidated company margins and reduce our CapEx as a percentage of revenue driving even higher conversion of EBITDA to free cash flow. We currently have two to three options on each of the potential asset rationalizations.

Finally, as also announced yesterday, our Board of Directors authorized a 24.1% increase in our quarterly cash dividend, our sixth (technical difficulty) annual increase since commencing the dividend in 2010. Even with this increase, our dividend remains less than 20% of our expected annual free cash flow following the merger, providing tremendous flexibility to fund our growth strategy and further increase the return of capital to shareholders.

And now I'd like to pass the call to Worthing to review more in-depth the financial highlights of the third quarter and to provide you an outlook for Q4.

Worthing Jackman: Thank you, Ron. In the third quarter, revenue was $1.085 billion, or about $10 million above the upper end of our outlook for the period. Acquisitions completed since the year-ago period contributed about $538 million of revenue in quarter with Progressive Waste accounting for $513 million of that amount.

Adjusted EBITDA as reconciled in our earnings release was $342.3 million, or 31.6% of revenue, and in line with our margin outlook for Q3. Year over year, our adjusted EBITDA margin reported for the third quarter declined by almost 300 basis points primarily due to the comparative lower-margin profile of the Progressive Waste operations acquired since the year-ago period and, to a lesser extent, the impact of lower E&P activity.

Fuel expense in Q3 was about 3.7% of revenue, and we averaged approximately $2.33 per gallon for diesel, which was down about $0.46 per gallon from the year-ago period and $0.16 per gallon sequentially from Q2.

Depreciation and amortization expenses for the third quarter were 14.1% of revenue. The 155 basis point year-over-year increase as a percentage of revenue was primarily due to acquisitions completed since the year-ago period as D&A expense was about 15.6% of incremental revenue contributed from the Progressive Waste acquisition, or over 300 basis points higher than legacy Waste Connections.

Acquisition accounting typically increases our D&A as a percentage of revenue following a material transaction due primarily to the expensing of that portion of the purchase price allocated to both intangibles and landfills. But as we've noted before, while a higher D&A percentage impacts GAAP results, it has no impact on free cash flow generation.

Interest expense in the quarter increased $11.3 million over the prior-year period to $27.6 million due to the additional debt outstanding resulting from acquisitions completed since the year-ago period and higher interest rates associated with fix-rate notes issued since the prior-year period.

Debt outstanding at quarter end was about $3.66 billion, and our leverage ratio as defined in our credit facility decreased to less than 2.8 times debt to EBITDA.

GAAP and adjusted net income per diluted share in the third quarter were $0.50 and $0.72 respectively. Adjusted net income in Q3 excludes the impact of almost $38 million after tax of acquisition-related items such as amortization of intangibles and certain items related to the Progressive Waste acquisition, including severance-related costs, accrued synergy bonus, and professional fees.

Our effective tax rate for the third quarter was 32.3%, which included a $2 million impact to the provision associated with a change in deferred tax liabilities resulting from the Progressive merger. Excluding the acquisition-related deferred tax item, our effective tax rate was closer to 30.8% in the period. We still anticipate our effective tax rate to be between 30% and 31%, subject to some variability depending on the percentage of total profitability contributed by operations in the US versus Canada.

I'll now review our outlook for the fourth quarter. 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 and Waste Connections US, Inc. has made with the SEC and securities commissions or similar regulatory authorities in Canada. We encourage investors to review these factors carefully.

Our outlook assumes no change in the current economic and operating environment. It also excludes any remaining severance, integration 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 Q4 is estimated to be about $1.02 billion. We expect core price plus volume growth for solid waste to be between 3% and 3.5%. Adjusted EBITDA in Q4 is estimated to be almost $315 million, or about 30.8% of revenue.

Depreciation and amortization expense for the fourth quarter is estimated to be about 14.4% of revenue. Amortization of intangibles in the quarter is estimated to be about $27.4 million, or a little more than $0.10 per diluted share net of taxes.

Operating income for the fourth quarter is estimated to be almost 16.5% of revenue. Interest expense in Q4 is estimated to be about $27.1 million. As mentioned earlier, our effective tax rate in Q4 is estimated to be up to 31% subject to some variability.

Non-controlling interest is expected to reduce net income by about $200,000 in the fourth quarter. And finally, our fully diluted share count in Q4 is estimated to be about 176 million shares.

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

Ronald Mittelstaedt: Okay, thank you, Worthing. Again, we're quite pleased that our financial results continue to track at or above the increased expectations we communicated in August. And we're extremely pleased that safety, pricing, and operational improvements within recently acquired operations continue ahead of schedule.

Our adjusted free cash flow remains notable strong at over $200 million in Q3 alone, the first full-quarter combined operations following the Progressive merger. Our strong free cash flow profile enabled us to announce a record increase in our quarterly cash dividend while also maintaining tremendous flexibility to fund our growth strategy, particularly important given record M&A dialog.

In addition, our revenue and EBITDA outlook for Q4 is consistent with a sequential Q3 to Q4 expectations we provided back in August. And we have no reason at this point to alter the early thoughts for 2017 that we also had provided. We'll be better positioned in February when we provide our formal 2017 outlook to incorporate the impact of any acquisitions and divestitures either signed or completed by that date.

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

Question-and-Answer Session

Operator: Thank you. (Operator instructions)

Tyler Brown, Raymond James.

Tyler Brown: Hey. Good morning, guys. Hey, nice quarter. Hey, Ron, I believe post the deal, you guys had talked about getting back to, call it, a 32% EBITDA margin by maybe 2018 or so. But I mean, this quarter you guys posted about a 31.6%. I get it that Q3 is probably one of the better quarters.

But it sounds like you have 100 basis points of margin uplift potential from divestitures. You got some additional opportunity from heres and theres with insurance and safety. And it really doesn't even contemplate E&P or even a full round of pricing at Progressive.

I guess my question is, why shouldn't we start to think about 2017 margins coming in closer to that 32% and maybe even 33% into 2018?

Ronald Mittelstaedt: Well, Tyler, I mean, you just laid out what we believe is achievable. You laid the building blocks out properly. It's hard to argue since we did just do 31.6%. We did just say there's another 100 basis points through the rationalization. So that takes you to 32.6%. We said there's about 50 basis points in safety. We're on track for that. That takes you to 33.1%. And that's before we really improve pricing and other operating things.

Now, that also takes you to that in the best seasonal quarter of the year too. So in fairness, I think we now believe cautiously that we can get 2017 to a 32% type EBITDA margin where we thought that would take us fully into 2018. And I think it's reasonable to think that we can get well beyond that, probably approaching 33% 2018. And that's without E&P help. If we get E&P help, then that number's north of 34% pretty quickly.

So -- which is where we were, as you know, before the deal and before some declines in E&P. So it's a long way around the bend to say we thought ultimately post-deal, because of the lower-margin profile of Progressive overall, that if we got back to 32%, we'd be happy. We now see a pathway to get to 33% to 34%. (multiple speakers)

Tyler Brown^ All right. Yes, no, very, very helpful. And then Worthing, maybe just one follow-up here. Just hoping to kind of deconstruct free cash flow next year. But if we start with, call it, that [$1.365 billion] or so in EBITDA, and you take out, I don't know, maybe mid-$400 millions for CapEx, you've got some cash interest, some cash taxes. I mean, is it crazy to think about free cash approaching that $700 million mark sometime next year for the full year next year?

Ronald Mittelstaedt: No, there's math that gets you at least $700 million for calendar year 2017.

Tyler Brown: Okay. All right, prefect. Thanks, guys.

Operator: Derek Spronck, RBC Capital Markets.

Derek Spronck: Great, thanks for taking my question. On the acquisition front, is the environment and opportunity lending itself more towards tuck-ins, or are there more material acquisitions that could develop?

Ronald Mittelstaedt: Well, Derek, again, as we said in the call, we've got all of the above. We've got standalone platform transactions. We've got tuck-ins. We've got integrated opportunities. We've got franchise opportunities. We're really seeing a variety of things come available in part due to a potential fear of tax raises depending on who wins the White House this year in November. And so it's a combination.

Now, again, I would caution, materials -- and everybody defines material differently -- but what we said is we thought an average year would be $100 million to $120 million in our new platform a year, and we're saying that the number ought to be well north of that. So there obviously is some reasonable size in our model standalone transactions to get to those kind of numbers.

Derek Spronck: Is that partly why you weren't really that active with your NCIB the past few months after announcing the $8 million share buyback?

Worthing Jackman: No, that's right. As we've always said, we think properly priced, strategically consistent acquisitions are our highest and best use of excess capital. And given what we see in the pipeline, we stayed out of the market during Q3 while we see what deals actually do get across the finish line.

Derek Spronck: Yes, that makes sense. And can you do more material acquisitions or larger-scale acquisitions as you're currently in the midst of integrating the BIN assets?

Worthing Jackman: Well, people forget that we already did $2 billion-plus of revenue this year.

Ronald Mittelstaedt: Yes, Derek, I mean, again, we're not sitting here saying we're doing -- as you know, we're not sitting here saying we're doing something the size of a Progressive because that doesn't exist. But can we do numbers north of our $120 million by 1.5 to 2.5 times? Yes, we can.

I mean, that level, that speaks to our divisional and our regional field infrastructure. They can absorb those types of things, especially as it's spread out. Whereas the Progressive merger has put obviously tremendous resources constrained on the corporate group because of the size of it. But our field infrastructure can do several hundred million dollars and continue to still deal with the integration of Progressive.

Derek Spronck: That's great. And just one more quickly. Are you able to leverage -- being now domiciled in Canada, are you able to leverage that better for US acquisitions?

Worthing Jackman: Look, we do that evaluation on every deal we do. And so to the extent there is some planning we can do, we'll pursue it. So it's really on a case-by-case basis.

Derek Spronck: Okay, that's great. Thanks a lot, guys.

Operator: Al Kaschalk, Wedbush Securities.

Al Kaschalk: Hey. Good morning, guys. Looks like you set the new benchmark for free cash flow as well as the conversion of EBITDA to free cash flow for not only yourself, but for the industry. So keep up the good work.

Ron, I (inaudible) a question on your M&A comments and portfolio commentary. It sounds like you're, without putting words into your mouth, exiting the New York area based on the commentary. But you also said that there are some competitive markets that you're looking at from an M&A perspective, which is slightly different than the legacy Waste Connections, but I'm sure still very focused on the right return. So if you could add a little more commentary around those comments?

Worthing Jackman: Well, Al, are you exiting the securities research industry? No, we haven't publicly mentioned any markets at all. So I wouldn't put words in our mouth with regards to New York City.

Ronald Mittelstaedt: Yes, I was going to say, I don't think we said that we're leaving New York. People may draw that conclusion because obviously it's a heavily urban-centric market. But I will tell you that the margins in New York are up over 2.5 times since April. So just as a cautionary word there on people guessing what we are or aren't doing --

Worthing Jackman: And the safety performance has been nothing short of exceptional.

Ronald Mittelstaedt: Yes. So again, we don't talk about any markets that we may or may not be in until we're not there or we are there. But I will tell you that our New York team has just done an incredible job since before the close.

But having said that, Al, as you know, we have always tried to do a couple of different things in our market model. And that is, enter markets where we can ultimately have the business perform less like a commodity than it might otherwise, where we can create a greater sustainable pricing platform and a more predictable volume platform and, therefore, a margin profile and, therefore, a free cash flow profile. That's ultimately what we do.

When we can get into -- we do that through contract markets, which is a hallmark of the Western US. And off of that, outside of the Western US, we go into competitive markets. They may not all be urban centered, and in fact aren't, but competitive markets we can get large collection positions and an integrated disposal position. And those are the things that we look for in competitive markets.

The transactions we are looking at doing continue to fit that profile. We are not deviating. We've said all along, the larger footprint profile of Progressive, that 85%-plus of it was consistent with our market platforms. The 15% that wasn't, we would take a hard look at, and we're doing that.

But we're not changing our market strategy or our return strategy because we have a bigger profile footprint now. So I guess that's a long way around the barn to tell you, nothing's changed in our M&A thought process. What's changed is we have a larger platform, and we have less competitors competing for that M&A opportunity. That's what's changed.

Al Kaschalk: That's very helpful. And I didn't mean to imply maybe what you'd heard. But on the follow-up question, Worthing, in the tax rate, I know it's obviously about jurisdiction and where revenue's coming in or income, but 31% seems a little bit above maybe what thoughts were. Is that still something you're working on? Is that where we'll be level setting going forward? What are the thoughts there?

Worthing Jackman: Yes, well, at the range of 30% to 31% is still consistent with what we said in our last call. But we also have reminded people since the day we announced the transaction really is that the more improvement we get into the US operations in Progressive and raise the profitability in the US, that tax rate will click up a little bit. And for us to have already gotten Progressive to a 30% EBITDA margin, you're starting to see us move that tax rate to the upper end of that. It's a good problem to have, not a bad problem.

Al Kaschalk: I agree. All right. We'll watch. Good luck, guys. Thank you.

Operator: Bert Powell, [BMW] Capital Markets.

Bert Powell: Guess I must have said that wrong. It's actually BMO. Hi. Good morning, guys. Just on the CapEx number for the quarter, if I think about the seasonality of it, usually Q4's a little heavier. This quarter, it looked a little lighter. Can you help us understand that a little bit better? Is there a bit of a CapEx holiday, or is this just really timing? And how should we think about CapEx in the fourth quarter?

Worthing Jackman: Yes, it's more of a timing issue. Last call, we had laid out an expected CapEx spending for the second half of the year of about $225 million or so. The fact that about $95 million of it got done in Q3 just tells you that Q4 will be a little heavier than that at about $120 million, $125 million. So purely timing.

Bert Powell: Okay. Okay, that's helpful, Worthing. And then when you think about next year in terms of overall cash flow, you're still thinking about CapEx as a percentage of revenue in that 10%, 10.5% range?

Worthing Jackman: Correct.

Bert Powell: Okay. And then the volumes, the specialty waste or C&D volumes that you mentioned that got pushed off or will be more of a 2017 impact, can you just give us a sense of magnitude? Like, how material is that?

Worthing Jackman: Well, again, in the quarter, it was about $3.5 million of revenue in Minnesota alone. That was 70 basis points. And we've been highlighting this kind of election malaise, so to speak, within some state government spending, especially on infrastructure projects. And the timing is curious, but there's a cover piece in the Wall Street Journal that just covers that specific topic of how states have cut back dramatically on infrastructure spending. And we didn't place that article the same day as our call. It's just coincidence, by the way.

Bert Powell: Okay. And just last question, just – Worthing, I know we chatted about this a bit, but I wanted to just revisit leachate. It was mentioned on the Waste Management call. It seemed to be indicated a little bit more problematic for the whole industry. Just wondering how you would position your leachate relative to peers based on where your footprint is?

Ronald Mittelstaedt: Well, Bert, look, we're now in 40 states. So relative to our peers -- Waste Management, Republic obviously are complete national companies, as are we being in 40 states now, so there's no really geographic differences in any of our companies -- there's no real change in leachate.

What there are changes to is the enforcement standards of the various POTWs or treatment facilities throughout the US that are happening because of various localized or state reasons requiring lower particulate and other concentration matters in leachate to meet the discharge standards. And that comes at a greater cost.

So if you were to take an example, a state like Washington has a very high standard for the discharge into the POTWs of leachate compared to other states perhaps not on the West Coast or not on the East Coast. So the coasts tend to be concentrated in population. They tend to be concentrated with a lot of development. And they have higher discharge standards. So you tend to have more costs where you have landfills on the coast. If you get into the central part of the country where there's more space available and it's not quite as concentrated, you tend to have lower cost.

So this is really an evolutionary issue. There's no real change in what's going on with leachate other than you have larger landfills now in the US that are more regionalized with greater waste footprints. And therefore, when rain falls on them, you have a greater amount of leachate coming off. It's just a geometry issue. But there's no real change going on.

Bert Powell: Okay, yes, I think the positioning or at least the indications were that it was a little bit of a step change, and you're not saying that's the case.

Ronald Mittelstaedt: Yes, again, that's a geographic issue and a landfill-specific issue. I think overall, the step change is that you're seeing greater enforcement activity and, therefore, more stringent, self-policed treatment standards that we must put. And that does come at a nominally higher cost. But this has been going on for several years.

Bert Powell: Okay, that's perfect. Okay. Thanks, Ron. Thanks, Worthing.

Operator: Noah Kay, Oppenheimer.

Noah Kay: Good morning. And as a New Yorker, thank you to your New York team for the improved safety performance. Much appreciated.

I'd like to ask about -- sticking with special waste -- I'd like to ask about the coal ash opportunity. I think it's been a minute since we talked about this. But just wondering how you're seeing that kind of opportunity set heading into 2017. Can that be a tailwind for you at this point?

Worthing Jackman: Well, look, any coal ash we get's a tailwind because we have very little to none of it right now. But look, we've consistently said, for us, we view this as something that is two to three years out. The utilities are first trying to address this in critical ponds asap. And longer term, they're trying to figure out what's the best way to either minimize the cost themselves or ship as much to the rate base as possible.

When certain areas get addressed that are proximate to our landfills, I'm sure we'll get our share of that waste stream. But those actions are not going on right now at proximate locations. So for us, I don't see it as a 2017 opportunity. If it happens, that's great. We've always viewed this as kind of an 2018, 2019, 2020 opportunity for us. Look, North Carolina's ground zero for a lot of this, and our assumption is that the mandated date of which these things need to be addressed will ultimately get pushed out as most of these sorts of things do over time. And I'm sure this will be no different.

Noah Kay: Thank you. And then just maybe a question about the volume growth mix. You had another nice 7% growth in roll offs. But as you talked before about the 1% to 2% type volume growth, how do you think about the mix of that sort of on a sector basis? And is the type of volume growth that you're expecting -- how would you think about sort of the relative margin profile of where you're expecting the growth? Thanks.

Worthing Jackman: Look, first and foremost, I know you talked about volume growth, but obviously our focus has been on price, price, and price. Many of the markets, given our market shares that we have, the numbers you see on volume growth are purely a reflection of the underlying economy and how well or not it's doing.

And obviously as we've talked about the Progressive Waste operations, we're trying to shed some $50 million to $70 million of unprofitable or unsafe or broker-related business. As Progressive comes into the volume mixture and calculations starting June 1, you will see that negative volume be incorporated into our reported volume growth. And so that'll give a cloudy picture on volume growth and potentially some incorrect takeaways as to what's really going on. But first and foremost, focused on the price.

I'll tell you, with regards to flow-through, again, our business is no different than others in our sector. Flow-through that's coming in at the landfill is coming in at 60% to 70-plus% type incremental margins. If it's coming off the front-load commercial system, it's coming in at as much as 40% incremental margins. If it's coming in on residential, it could be at 20% to 25% incremental. If it's roll off on the collection side, it's going to be about 10% or 15% incremental. So it really depends on where you see the economy kind of firing next year.

Noah Kay: Yes, sure. I mean, I think we'd love to get your views on that at this point. I mean, we did have a competitor talking about it yesterday. Just kind of curious. This is really a macro question.

Ronald Mittelstaedt: Noah, you mean a macro question about where the economy's going?

Noah Kay: Well, what you're seeing right now. I mean, we had folks talking yesterday about still lagging on housing starts versus kind of a steady run rate, and the idea that that could drive growth, and the idea that commercial could follow. So I'm just curious for your views at this point. That's right.

Ronald Mittelstaedt: Yes, okay. Thank you. Sorry for the clarification. Look, we said today on the script that we see the economy in sort of a 1% to 2% volume range. And that's not coincidental that that approximates what GDP is. And everything we've seen, it's been running about 1% to 2%. Sometimes it's higher, but then it's re-corrected downward.

And so at -- I'm going to call it this -- at 750,000 to a 1 million housing starts, that's about a 1.5% to 2% type volume environment on a historical basis for our industry. To get into that sort of 2.5%-plus, we need to be, as an industry, as a nation, doing about 1.5 million to 1.7 million annual housing starts.

And if you go back to when that happened last, which was back in 2006 to 2008, we ran that -- the sector was actually getting 3%-plus volume growth. And the reason is is because at those levels of housing, that leads to new infrastructure requirement development, and it leads to new commercial retail development.

And ultimately, we're getting that across our system. We're getting construction, which feeds our roll off system and our landfill. We're getting commercial starts, and we're getting new residential starts. So every leg is getting fed there and outpacing competitive poaching.

So there is a step change that happens if we get another 500,000 to 750,000 homes a year being built. It does take up probably to that 2.5% to 3% volume growth as a sector and us as a company. But we're just not -- we're not seeing that at this point in time. We're seeing half of that.

Noah Kay: Yes, great. Thank you very much. Appreciate it.

Operator: Joe Box, KeyBanc Capital Markets.

Joe Box: Yes. Hey, guys. Can we just go back to the comment on volume at BIN? Can you maybe just give us a little bit of color on the $50 million to $70 million that you said needs to be replaced? I'm curious, is that just going away altogether, or is that a repricing opportunity?

Ultimately what I'm trying to understand here is just how much of their book should be repriced, so a nice positive there? And how we should think about maybe the volume declines over the next couple of years as you go through and update that book?

Ronald Mittelstaedt: Yes. Well, Joe, look, I think, as Worthing said, there's probably ultimately $50 million to $75 million of business. So if you take that off a $2 billion footprint, that's 3% to 4%, or 3% to 3.5% of business that needs to go away.

And what I mean by that is, unless we materially can change the price, we're not going to do business for 0% to 10% EBITDA margins that's not going to our landfill. That's a waste of time. It's a waste of capital. It's a waste of risk allocation. And it's a waste of overhead. So we're happy to give that to somebody else.

So there's brokerage business that we are actively shedding or giving notice to that, upon expiration, we're done doing it unless it's materially repriced. There are unsafe stops that we have directed the field that they are free to get rid of and allocate to another competitor. And there is non-integrated business that the margins are unacceptable, and we've said either materially raise the price, or do the same.

That is an active process that's going on right now. It is not something that happens overnight. It's going to take time. It's going to take us couple of years to get through that. I think we'll probably shed -- I'm going to round -- $30 million to $50 million of that business between now and the end of 2017.

And to do that, we'll probably -- there's double that business that we will look at shedding, and we will improve it through price or another service mechanism and get it to an acceptable return. So that means we'll probably attack $100 million to get to $30 million to $50 million that we ultimately shed.

So this should be -- when we say replace it, as we've said all along, we believe within Progressive that we're going to take what was a $480 million EBITDA business that closed on $1.95 billion of revenue, and we're going to turn it into a $600 million EBITDA business on $1.8

billion of revenue or less by the end of 2017. So we don't really look at it as replacing. We look at it as there's some very good business within there that was being clouded by some very poor business.

Joe Box: Got it. Got it. And then maybe just to clarify on that on the volume front then. So once you do work through that, and I get that it's going to take time, should we think about the BIN volume backdrop kind of migrating toward a market growth type backdrop, or will it still be maybe a little bit light just because you'll be pushing price higher?

Ronald Mittelstaedt: Yes, I think -- look, I think that you should think of it as a market type volume growth. It's going to be our sales force. It's going to be the approaches that have generated what Waste Connections has done over time. And I do not think that that's going to change.

Look, when we start shedding business, we will obviously report what real reported volume is, but we'll give you what underlying volume is and what the business we drove out purposely is so that you really know what's happening in the underlying volume environment. So said another way, if we come through and we report a negative half in a quarter on the total footprint, but we drove out 2.5%, we're going to tell you, here's what volume really was.

Joe Box: Got it. That'd be helpful. Thanks, Ron.

Operator: Michael Hoffman, Stifel.

Michael Hoffman: Hey, Ron, Steve, Worthing. Thanks for taking my questions. In 2Q in August, you were asked about sort of the free cash flow trend for the second half of 2016, and you responded it was about $300 million. So my sense is we're now more in a $330 million to $350 million range for the second half. Is that an accurate conclusion?

Worthing Jackman: It really depends on some timing of a few things at the end of December or late December. So you probably -- at the low end, $315 million or so for the second half of the year. And at the upper end, you can get to the kind of number you just laid out. So it's more of the timing, late December versus early January on a couple items.

Michael Hoffman: And that's timing meaning capital spending and acquisition stuff?

Worthing Jackman: Capital spending, timing of some working capital payments, timing of tax payments, and inbound tax payments in December -- things like that.

Michael Hoffman: Okay. Then you got asked earlier and did say, yes, 2017 should be $700 million or better. But you've also talked about getting to a $4.50 to $4.75 a share type free cash flow number, which if you assume normal -- go back to some level of normal buyback, call it 2% a year, that puts you in a $780 million to $800 million kind of number by 2018.

Is that sort -- we're going to have this sort of step up from where we are to $700 million, then towards the $800 million, and then settle into a long-term growth rate, you add in the buyback, and we're a low-double-digit per share growth in free cash? Is that the right conclusion?

Worthing Jackman: It sounds like a leading question, but that's right. But no, you're right (multiple speakers) --

Michael Hoffman: I wasn't trying to be that obvious.

Worthing Jackman: We've always talked about kind of $4.50 to $4.75 or so in free cash flow per share target internally here in 2018. Obviously if we can do at least $700 million next year, we've got a $4.00 a share number assuming no buybacks next year in 2017. So that kind of puts us well on track to that kind of number for 2018.

Michael Hoffman: Okay. And then on all of the deal stuff, both selling and buying, how do you think about where valuations are today? Are people being rational? Is it a buyer's market for what you want to buy, but it's a seller market for what you want to sell? How do you see that?

Ronald Mittelstaedt: Well, I think, Michael, that when we -- let's break it into two buckets -- I mean, as we've said, on divestitures or rationalizations that we're looking at, much of that we're doing in swaps. So I mean, that's really an EBITDA before EBITDA type swap. Perhaps if there's some CapEx or other differences, that's trued up. So there's really not a multiple, and that's happening between public companies and large regional companies. And so I would just say that that doesn't really affect the swap.

On the acquisition environment, look, I would tell you that you've typically seen out of Waste Connections that we've probably been a -- I'm going to round -- a 5 to 7.5 times EBITDA buyer between sort of tuck-ins and a highly integrated or franchised standalone at the end. And what you've seen is that upper end is probably moved up a turn or a little more than a turn over the course of the last several years.

Why? Well, because market multiples have moved up. Public company multiples have moved up. Interest rates have come down. A variety of reasons. And the long-term cost of debt capital allows it to move up that much and still get get the same type returns on capital.

So there are sellers out there that think they ought to get our multiples. We've told them, go public. And that tends to end that conversation. But for the most part, I think you would find that we're going to be right in line on sort of a historical basis with where we've been on a multiple. Less some of those larger transactions might be a turn to turn and a half higher.

Michael Hoffman: Okay, that's great. And then the last one for me. You've accrued about $5.5 million for bonus. So if I double that, that says you're doing $105 million to $110 million for the synergies in the July program you rolled out. Is that the right conclusion?

Worthing Jackman: It says we're trending above $100 million. Obviously we need to wait to see how Q4 plays out, but we're clearly trending above $100 million.

Ronald Mittelstaedt: And Michael, I would remind -- I know you're aware of this -- just for those listening -- when you say synergies, that's synergies and cash tax benefit.

Worthing Jackman: And it's just the SG&A portion because, remember, pricing improvement's not in the number, operational improvements, safety improvements. So this is, again, just (multiple speakers) SG&A and cash tax savings.

Michael Hoffman: Right. It's juxtaposed against the $85 million that you told us in June when you closed the deal?

Ronald Mittelstaedt: That's correct.

Michael Hoffman: Okay. And then the one last on the vine just to try and bring some clarity, you're looking at structural same-store volume trends in BIN assets that are priced correctly versus Waste Connections, they're doing the same things. They're participating in market volume in the same manner?

Worthing Jackman: Yes, if you look at, for instance, at the underlying Progressive operations as an example in Q3 and Q4, you've heard that their pricing is now trending towards ours in that mid-2% or better range. And we've seen their volume, again, in that low 1% range. So they're trending in that 1% to 2%. And remember, that low-1% range includes some impact, as Ron talked about, about turning away some existing revenue. So the trends are very similar.

Also I'll tell you where -- again, we talked about weakness in the E&P-influenced economies or coal-influenced economies. Again, Alberta's no different in Canada. They see similar sorts of weakness up there until you see the crude economy recover.

Ronald Mittelstaedt: And Michael, just as a comparison, again, if we look at where Progressive was running prior to the deal, they were running between 0.7% and 1% price, and 2.5%-plus volume. We've completely inverted that. (Multiple speakers) We've driven the price to 2.5%-plus and the volume down to about 1%, and we want that trade-off. We said from day one, we'll take that trade-off all day long.

Worthing Jackman: Remember their Q1, they were 4%-plus volume and sub-1% price. And that's (inaudible).

Michael Hoffman: Right, which all comes back to how you'll do $700 million or better in free cash and almost $800 million in 2018. That's one of the drivers?

Ronald Mittelstaedt: That is a material driver. Getting greater profitability through price, servicing customers that we can be safe at and cost-effective at, and driving down the CapEx as a percentage of revenue so all three of those flow to free cash.

Michael Hoffman: Great. Thanks for taking my questions.

Operator: Hamzah Mazari, Macquarie Capital.

Hamzah Mazari: Good morning, thank you. Ron, you mentioned a lot of comments around sort of drivers for volume. I was wondering if you could sort of just frame for us where we sit in today's cycle. You talked about fourth year of positive MSW volume.

In past cycles, is there generally a trend to look at? Is it six years of positive volume? Or are we in the eighth inning or the fifth inning of the waste cycle, if one wants to call there being a cycle in waste? Any sort of color around that? I realize sort of what the drivers of volume growth are.

Ronald Mittelstaedt: Yes, Hamzah, good to talk to you. Well, look, I mean, Hamzah, I would generally tell you that historical past cycles, sort of the volume increases run four to six years. And then you tend to see some sort of economic change. And as you know, we're a laggard in that effect. We tend to still have positive volumes a year, year and a half into a contraction.

But I don't know that that's a good indicator, Hamzah. I mean, we also thought interest rates would rise six to seven years ago. And they've gone the other way, and there's no indication that that's going to change. So as long as the government's going to continue to print money and make things free, you're going to continue to see this slow growth train just continue along.

Worthing Jackman: It's not about what inning we're in. It's just these innings are longer innings.

Ronald Mittelstaedt: Yes, I mean, in that way, I would tell you we're in the fifth or sixth inning, not the eighth.

Hamzah Mazari: Got it. Yes, no, that's helpful. And then on the divestitures and rationalization, I think you mentioned there are a couple of options around asset rationalization. I was wondering if you could walk through those. And then also, how should investors think about the risk to that 100 BPS of margin expansion? I realize one of the risk is a deal doesn't get done. But any sort of confidence level around that margin expansion? Thank you.

Ronald Mittelstaedt: Yes. Thank you, Hamzah. Well, look, as far as more color on divestitures, rationalizations, we're not going to provide specifics on that, a, because of the competitive nature of that, and b, the sensitivity of that both on our side as well as those that we're discussing this with. So we really just are not at liberty to do that at this point in time.

But what I will tell you is that what I meant by, there are two options, I meant that in each of our potential rationalizations, we are talking to several players or have talked to several players and had discussions of what those options look like that they may or may not be interested in. We've identified sort of a lead option for each of our rationalizations and swaps, and we're going to work through that. And if that doesn't work, we're going to go to option two.

So how confident am I in the 100 basis points? I'm very confident in the 100 basis points. We're going to get that done either through swaps, or we're going to get it done through exiting that business in some manner or another. Either way, the 100 basis points is going to happen. But I'm highly confident that it will happen in the manner that we've outlined.

Worthing Jackman: But Hamzah, remember, the 100 basis points, if you go through the math of what Ron laid out before, it is just math. If we are getting the same or slightly higher EBITDA dollars, but being able to do that on $100 million to $125 million of less revenue, the math is you've got 100 basis point margin expansion. So it's not like margins go up 100 on the same revenue or higher.

But the key is obviously if you can keep that same dollar of EBITDA and actually shrink that revenue by $100 million, $125 million, you're pulling off $10 million to $12 million of CapEx related to that EBITDA and dramatically improving the EBITDA minus CapEx conversion of that free cash flow. And so the 100 basis points to consolidate margins is just the output of math. The key thing is more of the free cash flow profile.

Ronald Mittelstaedt: And again, I want to emphasize, Hamzah, the whole key in these, what I'll call rationalizations or swaps, is these are not bad businesses or markets; these are markets where our position isn't good. And so the whole opportunity here is, can we get something where one and one equals three? And whoever's getting what we have, one and one equals three for them?

And so we're fixing market positions -- meaning improving the market position -- for our self and for our competitor. That's the challenge. These are not bad markets. These are just positions that aren't optimal for whoever owns the asset; in this case, us on these assets.

Hamzah Mazari: Great. That's very helpful. Good talking to you as well, guys. Thank you.

Operator: Corey Greendale, First Analysis.

Corey Greendale: Hey, good morning. Most of my questions have been answered, so I'll just ask a quick one. The Q4 guidance implies less seasonality and EBITDA margin than you've seen before. I'm assuming that's because you've [ramped up] some of the things you've been working on with Progressive. And once all the moving pieces anniversary, you'd expect more traditional seasonality. But just looking for some thoughts on how to model seasonality kind of once everything normalizes?

Worthing Jackman: Yes, the seasonality that we're expecting is really the same seasonality we laid out in the August call with regards to the sequential change Q3 to Q4. Any comparison to kind of what I call old Waste Connections, obviously Progressive is less landfill revenue as a percentage of the total. And obviously the landfill side of the business is where you see more of a seasonal dip Q3 to Q4. So the extent that the mix of our P&L looks different now post combination, that might be what's influencing some of the outcome here.

Corey Greendale: Great. Since the (inaudible), I'll turn it over. And thanks. Nice work.

Operator: Chris Murray, AltaCorp Capital.

Chris Murray: Thanks, guys. Good morning. On the E&P business, I guess a couple pieces of this: one, you've talked in the past about the fact that the margin comes back pretty strong, high double digits definitely. Can you give us some idea of what the guys are seeing in the field right now?

I mean, I know it's sort of on an almost daily basis that we're seeing changes in rig counts and some activity levels coming back. Any thoughts around that? And then I guess if we think into 2017, if for whatever reason that we do see some stabilization and improvement, is there a scenario where you guys would look to more acquisitions, or you think you've got enough for what you have right now?

Worthing Jackman: Yes, first on the activities side, just as the rig count data might suggest, we're seeing the most improvement in the West Texas Permian. We're seeing a few things, a few rigs click into the New Mexico side. And obviously when it gets into the Mexico side, it's kind of a bigger impact on us because there the state regulation requires all the volume to go to a landfill.

Louisiana is seeing some improvement as well. We're looking at potential improvements, believe it or not, in Eagle Ford in South Texas as kind of some gas drilling has come back into play. We've actually seen return of a rig or two in Oklahoma and in Fayetteville. I'd say the Bakken is probably the least active for the obvious reasons right now.

But no, so we are seeing it. But again, the Permian is where we are seeing the most activity. Look, our asset positioning is still what we believe is the best in the industry. From an M&A standpoint, while we have looked at a couple of one-off assets that might expand our geographic footprint, a lot of our efforts have been historically on just greenfield permitting, and we are still pursuing four to five new greenfield permits to try to expand our footprint because where we want to be, there are no assets right now. So you got to work heavily on the permitting side.

Chris Murray: Okay, great. And then moving -- one of the things that I know I've always been focusing on is sort of the safety performance. I mean, you've got the human impact of what that does in the environment, but there's also then the cost impact. And I think when we go back to pre the announcement, I think the comment that you made was that BIN was running roughly 3 to 4 times your absolute safety cost.

I mean, we've heard some good stats on incident rates and things like that. And I think that's a great leading indicator. You made the comment that you're a little ahead of plan in terms of safety performance. How would you actually -- how should we start thinking about where you are along this journey to get what the BIN rate was in terms of a cost back down to where Waste Connections was historically?

Ronald Mittelstaedt: Yes, well, I'll give you some actual numbers and hopefully that puts it in perspective. So at the closing, Waste Connections had what, in our industry, we look at as an incident rate. And that effectively measures how many of your employees per year are going to have an accident or an injury statistically based on what is actually occurring.

And ours was about one in eight or an incident rate of 12 to 13. BIN was one in two, so an incident rate of 50. Okay? We have the combined company back down into the mid-20s, and we will have the combined company by the anniversary date under 20. To put that in perspective, that will yield a 60-plus% reduction in incidents in the first 12 months at BIN.

Chris Murray: Okay. And then if you were to put a number on it, I mean, I think your safety cost was running something in the 1%-plus range of revenues pre the acquisition. So you're thinking that you just sort of use that -- is that a fair way to think, just dimensionalizing off the incident rate would be a good proxy?

Worthing Jackman: Well, it's a little different. I mean, obviously in the US where we have worker's comp and auto, BIN was running about 220 basis points higher than us as a percentage of revenue. And so that's why we've always targeted at least a $25 million savings as we've thought about the overall reduction. Could it hit a number closer to $30 million if we're truly successful across all markets? Sure. But $25 million is still the bogie we've targeted as a cost reduction.

Ronald Mittelstaedt: And understand that part of this also, while we believe the safety reduction was we get the I rate down into the low teens, you can do math and get to a number that's closer to $40 million. Part of our program, we give back safety improvements to those driving it, meaning the front-line employees. They share a greater percentage as we improve. So you can't just look at the pure savings and say, we're going to take all that because we're going to give part of that back to the employees driving it.

Chris Murray: Okay, great. But you feel like you're well on track to hit that number?

Ronald Mittelstaedt: Oh, we're well ahead. Yes, we were hoping by year end to get to a 20% to 25% reduction, and we're at 40% in October. We're on track to approach a 50% reduction by year end. That's almost double where we thought we'd be.

Worthing Jackman: But again, as we've talked about in the past, how it comes through is more of a timing issue. You get more of a cash flow savings immediate because we're not hitting things or people aren't hitting us. And so with high-deductible programs, we're going out of pocket with less frequency because we're not having as many incidents.

From an actuarial standpoint, because we still have legacy Progressive in the trailing analysis, you don't really see the flow-through yet on the actuarial analysis coming through the P&L accruals until you get beyond the anniversary of the closing and we start anniversarying these improvements. And so we've always said the GAAP benefit is more of a second half 2017 timing, where the cash benefit is immediate.

Chris Murray: Okay, great. Thanks, guys.

Operator: Andrew Buscaglia, Credit Suisse.

Andrew Buscaglia: Hey, guys. Just a quick one for me. Can you talk a little bit about just BIN operationally in the quarter? Just on a standalone basis, how did they do? I know you talked about some pricing and volume stuff for them, but can you just talk about sort of what the margins would have been or how they would have done?

Worthing Jackman: Yes, we laid it out in the prepared remarks that the Progressive operations did about 30% EBITDA margin in the period. And that's obviously before any incremental corporate overhead allocation from this office.

Andrew Buscaglia: Okay, can you talk a little bit about – I mean, it sounds like they actually were doing fairly well or are a little bit more on track to improve. As you've now seen them for a full quarter, how much of their operations have they started to turn around and that you're kind of benefiting from as well at this point?

Ronald Mittelstaedt: Yes, I mean, I think --

Worthing Jackman: All hands on deck.

Ronald Mittelstaedt: Yes, I mean, look, Canada had an exceptional quarter. They didn't have turnaround per se to worry about because they've been performing well for a long time. But they, even on their standard, had a very good quarter. We've seen very nice improvement in the East Coast of Progressive's operations really dating back to the beginning of the merger.

And then where the laggard had been, which is the Southern region, which is the largest piece of the Progressive footprint in the United States, we've seen nice improvements in Florida. We've seen nice improvements in parts of Texas. We've seen nice improvements in parts of Louisiana. Arkansas has continued to be strong, and Missouri has continued to be strong. So there's really not a part of the US footprint that has declined performance-wise. All of the operations in the macro or market areas in the macro in the US are improved since the closing.

Andrew Buscaglia: All right, that's helpful. Nothing else for me. Thanks, guys.

Operator: (Operator instructions)

Barbara Noverini, Morningstar.

Barbara Noverini: Hey, good morning, everybody. Jumping off the comments that there is some improving activity in North American oil and gas areas, are you starting to see any signs of life on the MSW waste side in the communities that surround that oil and gas regions? Or would you say that it's really too early to really see that? And is there any difference in the activity you see in the communities near the US-based oil and gas areas versus the Canadian-based areas?

Ronald Mittelstaedt: Yes, so Barbara, we have. We have started to see the US, particularly when you look at North Dakota, you look at parts of New Mexico, parts of South Texas, parts of the Gulf Coast in Louisiana, and then really large parts of Oklahoma, those are the areas that took the crude decline hard in their local communities. Large losses of jobs and large impact on the commercial and the retail front in those markets.

We saw that really bottom in Q1 and start to show some signs of improvement in Texas, New Mexico, and Louisiana in Q2 and step up again in Q3. We have not really yet seen those improvements flow through in, for example, North Dakota or in Oklahoma. Those markets still have been, on the MSW side, pretty impacted. But in the others, we are starting to see the MSW -- as jobs come back and some small businesses are able to come back, we're starting to see some of that flow through.

Barbara Noverini: Excellent. Thanks for that, and nice quarter.

Operator: And there appears to be no further questions on the phone lines at this time.

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. We thank you again, and we'll look forward to speaking with you at upcoming investor conferences or on our next earnings call.

Operator: Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.