[WCN] - Waste Connections, Inc.,
Q3 2019 Earnings Call
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Officers
Worthing Jackman; President, CEO
Mary Anne Whitney; SVP, CFO

Analysts
Tyler Brown, Raymond James
Sean Eastman, KeyBanc Capital Markets
Michael Hoffman, Stifel
Derek Spronck, RBC
Brian Maguire, Goldman Sachs
Noah Kaye, Oppenheimer
Mark Neville, Scotiabank

Presentation

Operator: Greetings, and welcome to the Waste Connections Third Quarter 2019 Earnings Conference Call. (Operator Instructions). Afterwards, we will conduct a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded Tuesday, October 29, 2019.

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

Worthing Jackman: Okay. Thank you, operator, and good morning, everyone. I'd like to welcome everyone to this conference call to discuss our third quarter 2019 results and provide a detailed outlook for the fourth quarter, as well as some early thoughts on 2020.

I'm joined this morning, the morning of Game 6 -- go Astros -- by Mary Anne Whitney, our CFO, and several other members of our senior management team.

As noted in our earnings release, strong organic growth in solid waste and a sequential increase in E&P waste activity enabled us to deliver better-than-expected results in the period.

Continued price led solid waste growth and a slight pull-forward of special waste activity drove underlying margin expansion in solid waste collection and transfer and disposal of an estimated 60 basis points in the quarter.

More importantly, adjusted free cash flow of $763 million year-to-date, or 18.9% of revenue went up almost 13% year-over-year, puts up firmly on track to meet or exceed the adjusted free cash flow outlook for the full year that we communicated in July.

Relatively consistent solid waste organic growth, plus the contribution from acquisitions closed year-to-date, already sets us up for overall revenue growth in the mid-to-high-single-digits and underlying margin expansion in solid waste collection, transfer and disposal in the upcoming year, with additional expect to continue above-average acquisition activity and any potential improvement commodity-related activities providing further growth.

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

Mary Anne Whitney: 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 October 28 earnings release and in greater detail in Waste Connections' filings with the U.S. Securities and Exchange Commission and the Securities Commission 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 operations. Other companies may calculate these non-GAAP measures differently.

I will now turn the call back over to Worthing.

Worthing Jackman: Thank you, Mary Anne. In the third quarter, solid waste price plus volume growth was 6.1%. Total price of 5.2% slightly exceeded our outlook for the quarter, with the strength once again reflecting additional price increases implemented in 2018 and 2019 to address accelerating cost pressures and provide, through collection pricing, further recovery of the much-discussed seismic change in the recycling market.

Pricing in Q3 ranged from about 3.5% in our more exclusive markets Western region to over 5.5% in our more competitive market regions.

We reported our strongest quarterly volume results in over 2 years in Q3, with volume growth better-than-expected at positive 90 basis points, due primarily to an outsized quarter of special waste activity. Some of that landfill activity had been expected to incur in Q4 when comparisons are tougher and therefore, doesn't change our outlook with respect to full year volumes.

Looking at year-over-year results by minor business on a same-store basis in the third quarter, commercial collection revenue increased approximately 6%, with the majority related to price increases, a portion of which were due to structural changes in the recycling market.

Looking at scheduled commercial business, which includes small and large container activity, net new business has increased in each quarter year-to-date.

In addition, service increases have outstripped service decreases in each quarter this year.

Rolloff revenue increased approximately 7%. In the U.S., pulls per day increased 2.3% and revenue per pull was up 2.9%. In Canada, pulls per day increased by about 4% and revenue per pull increased about 2.5%.

Solid waste landfill tonnage increased about 5% on increases in both MSW, up about 6%, and special waste, up 10%, while C&D tons were down 4% year-over-year. MSW tons were up in most regions, led by markets in our Western and Southern regions. Special waste volumes were up across all of our solid waste regions in the U.S., with notable activity in several states, including California, Florida, Illinois, Missouri and Minnesota.

C&D tons, by way of contrast, were down in every region except our Southern region due in some markets to tough year-over-year comparisons.

Recycling revenue, excluding acquisitions was almost $13 million in the third quarter, down $9.5 million year-over-year or approximately 43%, and down about 15% sequentially from Q2.

Old corrugated containers, or OCC, prices in Q3 averaged about $43 per ton, slightly lower than expected, down 51% from the year-ago period.

We believe that the flow-through from changes in recycling revenue in the third quarter was slightly worse than in Q2, with decremental margins of approximately 150% due to the combination of lower fiber values and higher third-party processing cost, which increased sequentially in the quarter, resulting in an impact of approximately $14 million in EBITDA or 80 basis points to reported margins and $0.04 per share of EPS in Q3.

OCC and mixed paper prices appear to have stabilized for the time being, which we had expected, given increased demand from certain domestic mills converted to allow for the use of recovered fiber and feedstock. Given capacity additions year-to-date and looking ahead into 2020, there are a number of additional mills and conversions scheduled to come online, which could increase demand for recycled fiber feedstock by over 1 million tons.

Landfill gas revenue decreased approximately $7 million or 40% year-over-year, due primarily to the lower value of renewable energy credits, or RINs, for which certain gas sales qualify. The average RIN price in Q3 was about $0.69, down 47% sequentially from Q2, and down 68% year-over-year with a high flow-through on the decline in revenue resulting in a 35-basis point impact to reported EBITDA margins and approximately $0.02 per share of EPS.

Looking at E&P waste activity, in the third quarter, we reported $66.4 million of E&P waste revenue, our highest such quarterly revenue in over 2 years, up 4% sequentially in spite of continued declines in rig count during the quarter, which are now down 23% since year-end 2018. Our quarterly results have held up year-to-date in spite of those declines due to our asset positioning and diversity of basins, including the Louisiana Gulf of Mexico where the rig count decline has not been as pronounced.

That said, we believe near-term E&P waste activity peaked in August, as it has since moderated to a run rate of approximately $60 million per quarter.

Given the typical seasonal decline in E&P activity in Q4 and moderation in the pace of activity we have seen over the past 2 months, we are cautious in our outlook and continue to be selective on new project developments.

In fact, we made a determination in Q3 to forego any future development efforts associated with the landfill in the Bakken for which we held a permit. And regarding the two remaining landfill projects in the Permian that we have discussed on previous calls, we continue to move forward with construction on one of them, and are holding off on the other for now.

Regarding the materials processing and recovery technology expansion and existing Permian facility, as noted in prior updates, we continue to expect that to be online by year-end.

Looking at acquisition activity, we have already closed what we would consider an above-average amount of acquired revenue in 2019. An acquisition dialogue has continued to increase over the past few months. Since our earnings call in July, we have extended offers totaling over $600 million in outlays, a portion of which could be completed by year-end.

In fact, we could potentially double our already-completed $160 million in annualized acquired revenue by year-end or early next year, starting 2020 off with above-average contribution from acquisitions, along with a continuing robust pipeline for further activity.

In addition, we closed on the acquisition of a greenfield solid waste landfill project in the period for which the final permit was received by the sellers. This landfill, which should be operational by early 2021, improves our asset positioning in a legacy progressive waste collection-only market where we currently utilize a third-party disposal site.

Finally, as announced yesterday, our Board of Directors authorized a 15.6% increase in

our regularly quarterly cash dividend, our 9th consecutive double-digit percentage increase since commencing the dividend in 2010.

In spite of these increases, our dividend remains at about 20% of our expected annual adjusted free cash flow, providing tremendous flexibility to fund expected above-average acquisition activity in the near term and increases in return of capital to shareholders over the long term, including opportunistic share repurchases. To that end, in August, we announced the annual renewal of our normal course issuer bid, which authorizes the repurchase of up to 5% of our outstanding shares.

Now, I'd like to pass the call to Mary Anne to review more in depth the financial highlights of the third quarter, and provide a detailed outlook for Q4. I will then wrap-up with a few early thoughts on 2020 before heading into Q&A.

Mary Anne Whitney: Thank you, Worthing. In the third quarter, revenue was $1.412 billion, up $131.3 million or 10.3% over the prior-year period and about $7 million above our outlook for the quarter.

Acquisitions completed since the year-ago period contributed $82.8 million of revenue in the quarter or $77.1 million net of divestitures.

Adjusted EBITDA for Q3, as reconciled in our earnings release, was $443.6 million or $1.6 million above our outlook for the period and up $26.8 million year-over-year.

Adjusted EBITDA as a percentage of revenue was 31.4% in Q3, down 110 basis points year-over-year due primarily to two factors: an estimated 115-basis point impact resulting from the year-over-year decrease in commodity-related recycling and landfill gas revenues noted earlier; and an estimated 55-basis point impact from lower margin acquisitions completed since the year-ago period.

The underlying adjusted EBITDA margin for solid waste collection, transfer and disposal revenue was up an estimated 60 basis points year-over-year.

Moreover, as noted in prior quarters, these results include about a 20-basis point impact from our increased 401k match, which will anniversary at year-end.

Fuel expense in Q3 was about 3.8% of revenue and we averaged approximately $2.61 for diesel in the quarter, which was down about $0.11 from the year-ago period and down about $0.05 sequentially from Q2.

Depreciation and amortization expense for the third quarter was 13.4% of revenue, down 30 basis points year-over-year and about 10 basis points below our outlook on higher-than-expected revenue in the period.

Interest expense in the quarter increased by $4.7 million over the prior-year period to $36.8 million due to the combination of higher total borrowings and higher interest rates as compared to the prior-year period.

Including higher interest income from invested cash balances, net interest expense increased by $4.1 million in the period to $34.7 million.

Debt outstanding at quarter-end was about $4 billion, about 90% of which was fixed rate, and our weighted average cost of debt was approximately 3.5%.

Our leverage ratio, as defined in our credit agreement, declined nominally in the quarter to less than 2.3 times debt to EBITDA.

Our effective tax rate for the third quarter was 21.2%, slightly lower than expected.

As we've 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 regulation still had yet to be finalized, but could impact our effective tax rate in the period enacted. We believe that if enacted in Q4, any impact would be limited to the current year, with our effective tax rate returning to about 22% in 2020.

GAAP and adjusted net income per diluted share were $0.60 and $0.73 respectively in the third quarter.

Adjusted net income in Q3 primarily excludes the impact of intangibles amortization and other acquisition-related items.

Adjusted free cash flow in the first 9 months of the year was $762.9 million or 18.9% of revenue, up 12.9% year-over-year.

I will now review our outlook for the fourth quarter of 2019. 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 or divestitures that may close during the remainder of the year and expensing of transaction-related items during the period.

Revenue in Q4 is estimated to range from $1.335 billion to $1.345 billion, with the range due primarily to our cautiousness around special waste and E&P waste activity.

We expect price growth for solid waste to remain around 5% in Q4, with volume down between 1% and 1.5%. And we expect revenue from E&P waste activity in the range of $55 million to $60 million. The expected decline in volumes primarily reflects the reduction in landfill volumes due to lower visibility on special waste jobs and tougher comps.

Relative to our run rate as of our July call, this outlook reflects an approximate $5 million decrease in potential special waste volumes, and an approximately $5 million to $10

million reduction in potential E&P waste activity.

Adjusted EBITDA in Q4 is estimated at approximately $405 million.

The margin impact from lower margin acquisitions completed since the year-ago period is expected to be approximately 45 basis points. And the commodity-driven impacts from recycling and RINs are expected to be similar to Q3.

High decrementals associated with an anticipated year-over-year decline in special waste and E&P waste activity also impact the period.

Depreciation and amortization expense for the fourth quarter is estimated to be about 13.8% of revenue. Of that amount, amortization of intangibles in the quarter is estimated to be about $32 million or over $0.09 per diluted share net of taxes.

Interest expense, net of interest income, in Q4 is estimated to be approximately $34.5 million.

And finally, our effective tax rate in Q4 is estimated to be about 21.5%. We estimate that the Q4 rate would increase to approximately 35% in the event that the proposed regulations, as originally drafted, were to be enacted during the period, which would result in an impact of approximately $0.10 per share in Q4, with the rate declining back to approximately 22% in 2020.

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

Worthing Jackman: Thank you, Mary Anne. We're extremely pleased with our year-to-date performance, particularly given the ongoing high margin headwinds from commodity-related activities. With our year-to-date adjusted free cash flow up almost 13% year-over-year, we are firmly on track to meet or exceed the updated full year adjusted free cash flow outlook we provided in July.

We just announced another double-digit percentage increase of our regularly quarterly cash dividend, and remain well-positioned for potential significant increase in acquisition outlays later this quarter or early next year.

Although we won't provide our formal outlook for 2020 until next February, we're able to provide some early thoughts assuming no change in the current economic environment.

In summary, we believe that we could enter 2020 in a similar position to the start of 2019 when we provided our outlook this past February, at which time, we had approximately $200 million in revenue contribution in place from acquisitions, plus the potential for additional contribution from an active pipeline.

Similarly, on organic growth, we believe that we remain in a price-led solid waste organic growth range of between 4% and 6%, which should continue to drive underlying margin expansion in solid waste collection, transfer and disposal in the upcoming year.

Price is expected to remain around 5%, and our volumes should reflect underlying trends in the macro economy.

We are mindful of the protracted nature of the economic recovery, which has driven increasingly challenging year-over-year volume comparisons. And therefore, we believe it is prudent to remain guarded in our outlook for volume growth.

All-in, this could result in a potential top line growth for 2020 of between 8% and 10% from solid waste organic growth and acquisition contribution that could already be in place early in the new year.

At current recycled commodity and landfill gas values, the 2020 headwinds would be less than half of what we experienced in 2019 with any recovery in such values reducing that impact.

We expect to have better visibility on the tone of the economy and expected acquisition contribution, E&P waste activity and commodity-driven revenue in February when we provide our formal outlook for the upcoming year.

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

Question and Answers

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

Tyler Brown: Hey, Worthing, so I appreciate the color on the landfill tonnage, but I was wondering how pricing has been trending at the landfill, specifically MSW financial pricing. It just feels like there's some industry-wide momentum there.

Worthing Jackman: Yes, obviously, the pricing varies by region in the country, right? Some regions are seeing what I would call 2x the average [technical difficulty] because our average right now is running about 3%; and in some parts of the country, you see that running as high as 5% or 6%.

Tyler Brown: Okay. That’s great. And then, just I'm a little unclear on the landfill purchase. So will there be some CapEx associated with that landfill buildout in 2020? And then would it be an EBITDA contributor in 2021? Is that the right way to think about it?

Worthing Jackman: Yes, first, I agree with the confusion around it because in the old days, that was treated as an acquisition outlay. But GAAP changed in 2018 to require us to book it as CapEx for acquisitions. So while the nomenclature has changed, the purpose of the outlay was to acquire new landfill.

We'll commence construction of that in the second half of next year, and we'll probably spend about $5 million or so in the calendar year next year, and a little bit the following year to get it going. We expect that to be up and running in the first half of 2021.

Tyler Brown: Okay. That's very helpful. And then Mary Anne, so I appreciate the color on 2020, but to put a finer point on it, just based on the M&A that you've done to date, how should we plus-mark the rollover benefit to revenue next year from M&A?

Mary Anne Whitney: Sure. So on the M&A done to date, the $160 million acquired revenue in 2019 is about a 1% rollover into next year, so about $55 million. And that's -- about two-thirds of it in Q1 with the balance in Q2. So the drag to margins is about 10 basis points.

Tyler Brown: Right. Okay, great. And then just if you base line the commodities, where they are today in the RIN prices, would that be maybe a collective $25 million drag to EBITDA next year? Is that too much or too little?

Mary Anne Whitney: No, that's a good way to think about it. I'd say about $20 million in revenue and about $25 million in EBITDA.

Worthing Jackman: For the combination of recycling and RINs.

Mary Anne Whitney: That's correct.

Tyler Brown: Okay.

Worthing Jackman: And most of that (inaudible).

Mary Anne Whitney: And again, heavily weighted in the first half of the year.

Tyler Brown: Right. Right. Okay. All right. I appreciate the time. Thanks.

Operator: of Sean Eastman with KeyBanc Capital Markets.

Sean Eastman: First one for me is just on the E&P side. You guys have provided this $55 million to $60 million quarterly revenue run rate for the fourth quarter, I believe you said. I'm just wondering how we're looking into 2020 relative to that run rate. I guess just assuming rig counts don't continue to dribble down, is that kind of a number that should be sustainable into next year?

Worthing Jackman: Yes, we may be settling into that $55 million to $60 million if crude stays around that $55 to $57 barrel. I've always thought we were one [missile] away from crude hitting $80 but, what, two dozen missiles flied a few months ago and crude went down. So it's hard to call the trajectory of crude oil these days. But we do seem to be in that $55 million to $60 million range for the time being.

Sean Eastman: And then maybe with the EBITDA implication around moving down into that $55 million to $60 million run rate on the revenue into next year?

Mary Anne Whitney: Sure. Well, Sean, as you know, the very high incrementals, and therefore, decrementals in E&P, the way to think about it would be about a 70% EBITDA impact.

Sean Eastman: Okay, thanks. Okay. And then on the acquisition contribution, I think you guys said you could get to an 8% to 10% top line all-in by the time you give formal guidance in 4Q. I think you guys have pretty much got 1% acquisition growth locked in for next year at this point.

So I'm just wondering maybe if you can parse out that 8% to 10% a little bit between the organic piece and the acquisitions, and maybe between price and volume. As much color as you give would be great.

Mary Anne Whitney: Sure. As we said, we're in a 5% type of range on price and again, absent any other changes, we don't see why it wouldn't be similar to that. And then, as you know, our volumes will reflect the tone of the underlying economy and activity level as we said. So we consider ourselves in the band of call it plus or minus 1 there gets you to the 4% to 6% organic growth rate that we talked about. So that's what's implied by that.

On top of that, as you said, we have 1% rollover contributions from acquisitions already in place. So that implies, as Worthing said, if we came into the year similar to last year, we could see another 3% in acquisition contribution potentially as we enter the year. We'll certainly know more in February, Sean, when we give our formal guidance.

Worthing Jackman: Yes, but as we also said in our prepared remarks, there's a higher probability that would be in place by the time we give our guidance in February. So (inaudible) any additional acquisition activity for the remainder of the year, which is most of the year, we'll provide further upside to that.

Sean Eastman: Okay. Thanks very much. I appreciate it.

Operator: Michael Hoffman with Stifel.

Michael Hoffman: On free cash flow, am I thinking about this correctly? So you're reaffirming the $915 million, but it includes $35 million for a contract win. So the base run rate is $950 million? So I think about your next year as starting on a $950 million and then whatever the opportunity is?

Worthing Jackman: That's the way to do the math on the baseline year, that's right.

Michael Hoffman: Okay. And then I get the noise around the RINs recycling and the prudence on E&P. And then technically, you gave new guidance of $1.675 billion for EBITDA, and now we're looking at probably $1.660 billion is sort of the way to think of the year based on the fourth quarter?

Worthing Jackman: Well, if you look at the -- taking the context of the entire half of the year, the second half of the year, yes, that would be on that guided EBITDA. That's 1%,

1.5% below the guided EBITDA, implied guided EBITDA, for the second half of the year. And obviously, you've seen us beat prior quarters this year, and so to the extent we beat this current outlook, you see us close the gap that you are inferring.

Michael Hoffman: Okay. And then what is it that you can do around pricing that gives confidence to the market that 5% is a sustainable number? What would help everybody remember what it is you can do about your business and why 5% is a good number?

Worthing Jackman: Well, the first thing I'd point to is the fact that within our exclusive market model, there alone, we're [putting] 3.5%, right? And that's a market where you have effectively no churn and 100% stickiness. And so just right off the bat right there, we reported kind of comparably better pricing than our peers, just in that exclusive market portion.

If you look at our competitive market portion, you have a very high percentage of that being well over contribution from what we've already done year-to-date in 2019. And so that puts you probably 70%, 60% to 70%, on the way to delivering all the price between our exclusive markets, as well as the rollover before the year even starts.

And the majority of the balance of what we do, we do early in the year. And so by the time we get to the February call, more likely 80%, 85% of what we're going to do for the full year is already done. And with remaining pricing for the year, at least that's scheduled, based on the contracts rollover or adjust. And obviously, you've seen us in prior years, to the extent that something surprises us and we have go out and get it, you've seen our folks with a discipline and a focus on execution to go and get it.

We're not anticipating much of a seismic change in price and to the extent you saw us go to 5.2% in the most recent quarter. So we've been holding sort of around the 5% now for the past almost 2 years.

Michael Hoffman: Okay. Thank you on that. And then on volume, you made a point of drawing out some specific data about trends in commercial, which I think are important, that if you're getting service interval upgrades, that's an underlying volume driver. You pointed out the MSW strength.

So the -- when you talk about a negative one to positive one for the fourth quarter, or for next year as a range, underlying MSW is still stable and in line with the economy, indicative of what you said in your small container business. And the variability is around C&D and special waste is what I'm assuming?

Worthing Jackman: Well, I think you just answered your own question. That's right, that's what the data shows us and that's what we called out for Q3.

Michael Hoffman: Okay. I just want to make sure the market's not grasping ahold of the possible negative volume going, oh, my gosh, there's an economic indicator here when underlying MSW, which is driven by the consumer staple.

Worthing Jackman: Right. But look, we're always cautious. Look, we were cautious

about the trajectory of the economy when we were 4 and 5 years into the recovery. Now, rate [year is] in the recovery and our cautiousness hasn't changed. We just believe it's always prudent to run a business not assuming certain growth factors, and if we do get those factors, let that all be upside.

Michael Hoffman: Okay. Thanks for taking my questions.

Operator: (Operator Instructions). Derek Spronck with RBC.

Derek Spronck: Worthing, pricing in Canada at 6.6% was pretty strong; U.S. 4.8%. Any differences in the two regional dynamics there?

Worthing Jackman: I'd say in Canada, we're through what I would call kind of repricing the book that we inherited 3 years ago. I would certainly expect the pricing strength in Canada to moderate somewhat as we look at the upcoming year. It's similar to what we see in the competitive markets within the U.S. was moved that pricing closer to 5%.

Again, hats off to our guys for making the effort over the past 3 years for really getting the quality of revenue in line with the cost structure and the capital needs of the business.

Derek Spronck: Okay. And acquisition multiples, are you seeing any movement around seller expectations around the acquisition multiples they're looking for?

Worthing Jackman: Well, I think we've been consistent over the past couple of years, saying without a doubt, multiples have moved up about a turn to a turn and a half. And so if high-quality acquisitions, whether it be franchise or larger integrated, were running 2 and 3 years ago in that 8 to 8.5 times range.

When you look at the quality of the assets that are now being bought because many purchasers have been reinvesting in -- many sellers have been reinvesting at a high clip in their business. So the quality of assets has moved multiples up for those companies that do have high- quality assets, about a half a turn. I'd say tax law change has probably moved it up another turn as well.

And so that gets you that kind of 10 times plus or minus a half a turn for high-quality operations. Tuck-ins, really no change in that marketplace; those still run between 4 and 6 times. So the overall multiple that will pay on any kind of portfolio of outlays really dependent upon the profile of what's done in the year.

Derek Spronck: Okay. That's helpful. And then --

Worthing Jackman: Folks have -- it's hard to deliver meaningful value creation as you see multiples creep much higher than that. And so you get kind of indifferent on buying back stock relative to the outlays above those kind of multiples.

Derek Spronck: Great, that's good color. Thanks, Worthing. And just a couple more quickly for me -- there was a $12 million impairment charge. Maybe provide a little color on that; and then special waste, maybe talk a little bit about the visibility you have and

why you think it was a bit of a pull-forward here in the third quarter?

Mary Anne Whitney: Sure. So starting with the impairment charges, as you note, Derek, as Worthing said in his prepared remarks, we decided to forego the opportunity to continue pursuing an E&P project in the Bakken. So that was the majority of that write-off. That was a permit we had held for a while, and it made the determination not to move forward on it in the quarter. So that's the impairment.

And then to your question on special waste, as you know, special waste can be lumpy; it's market dependent. We saw several markets in Q3 where you had outsized activity. In Q2, we talked about outsized special waste that may have been pent up from earlier in the year. When you come through a few quarters like that, where you don't see additional project backfilling, that's when you tend to be more cautious and that's what we're facing right now.

And so when we look at tougher comps year-over-year in several markets, and as I said, just having come through some increases in activity in those markets that Worthing mentioned, included in the Midwest and Minneapolis and the Colorado market, where we've had strong special waste for several quarters, we're just cautious entering Q4 until we see the additional activity come.

Derek Spronck: Okay. Makes sense. Thanks, Worthing, and thanks, Mary Anne. I'll turn it over.

Operator: Brian Maguire with Goldman Sachs.

Brian Maguire: Worthing, I was hoping to get an update on the progress on onboarding some of those new contract wins you talked about last quarter. I know you spent some CapEx on it this year. I just wondered how that progress is going. And would you still expect that to be -- I think you talked about a 40-basis point to 50-basis point benefit for volumes next year.

Would that number be additive to the comments you made earlier about kind of the overall volumes next year being in line with the overall economy? Is those new business wins added into that, or is that kind of included in that volume comment?

Worthing Jackman Yes, that's first off, looking at next year when we say overall 4% to 6%, and organic growth in the price plus volume with 5 of that being price. The good news is to your point, you're right; we've already spotted 40 basis points or 50 basis points of volume growth because of those contract wins. And so kind of that encourages me to think that we're at the midpoint or better of that 4% to 6% range. But again, we're not in 2020 yet.

One of the contracts that's in that, we're in a startup period right now on that. Again, our folks in that marketplace have done a fantastic job going from no presence in the market and a cold start, to get in the trucks, get in the containers, on-boarding a whole new set of employees and successfully rolling out that contract.

And the first quarter is always the most challenging quarter in that, so we're cautious about that. But I'd tell you, when that thing turned on, our guys did a phenomenal job in that marketplace and so you're already seeing the benefit of one of those starting off here in Q4.

Brian Maguire: Okay, great. I appreciate the color on volume and pricing for 2020. Any thoughts on where cost inflation might go, or maybe kind of an exit rate as we're leaving 2019 on cost inflation?

Worthing Jackman: We're still seeing -- first, I'd say the all-in wage escalation in 2020 should not be as heavy as we're seeing in 2019 because part of wage escalation we're seeing in 2019 is our 100% match in the 401k, right? And that's been about a 20-basis point drag on the overall margins of the Company this year as we went to a 100% match this year on 401k contributions.

But if you strip that away for a second, because that will be a tailwind in 2020, on the actual wage escalations alone, there's still -- it can be ranging between 3% and 6% depending upon the profile, the position within the Company or the region or the country it's operating in.

So barring -- unless something changes in the macro that -- or an immigration law, which I don't expect next year, I don't see any foreseeable change in the pressures on wages themselves.

Brian Maguire: Okay. Just last one for me -- based on the comments about the acquisitions being like a 55-basis point drag on margins, it looks like those acquisitions are coming in at about a 23.5% EBITDA margin. Assuming that sounds about right, is that sort of representative of what we should expect on acquisitions in the current environment? And are the deals you're doing today any different or better or worse than the deals you've done historically?

Worthing Jackman: Yes, it really depends on the profile. First off, you're right on what we've bought because the vast majority of what's in the current numbers is collection-oriented; and as you know, collections can run in that 22% to 25% range depending upon the part of the country. In some parts of the country, collection only can run up 30%-plus. So it also depends on where we're getting those collection deals done.

As Mary Anne said, we're already going into the year with about 1% top line growth on deals done to date. That's about a 10-basis point drag as you look at next year's numbers from a margin standpoint.

The pipeline right now is across the board. There's collection-only that runs in the low-to-mid 20s; there's some integrateds that run 30-plus; there's some collection-only that runs 30-plus as well. And so again, it's not uncommon though if you think about acquisitions in general, for acquisitions to come in at margins that are lower than our integrated profile. And we generally move those margins up a little bit over time.

But the entry -- it's hard to bring a 24% company to a 31% company, right? Maybe a

24% becomes 26% in 2 or 3 years, but again, the impact on margins next year will depend on the profile of what we announce in February.

Brian Maguire: All right. Thanks for the color. Go (inaudible).

Operator: Noah Kaye with Oppenheimer.

Noah Kaye: Hey, Worthing, just to follow up on that last point; you gave good [color] on the acquisition pipeline. But just so we understand, no super-large targets, I would imagine, in there, right, in terms of potential acquired revenues? Imagine this is a fairly diversified mix that you have the $600 million in offers out to?

Worthing Jackman: Yes, you've got companies as small as $10 million to $15 million excluding a couple of small traditional tuck-ins. You've got some new market entries that are $30 million to $40 million and a couple of them that we're looking at that are potentially larger than that, but nothing like in American that's 200 -- $180 million or $200 million in revenue that we're looking at right now.

And again, look, and we've talked about things that we're looking at. Obviously, we don't control anything that's happening with advanced disposal; and so nothing we talked about from a pipeline, or from anything else like that would ever include anything Advanced.

Noah Kaye: Yes, yes, thanks for clarifying that for us. And then that kind of feeds into this next question around capital allocation. You mentioned it earlier, but I think even if you continue to spend this robust level on M&A that you're talking about, your leverage is still going to be kind of on the lower end of what it's been historically.

And I know you're not really constrained or dictated by leverage, but at what point do you feel it's going to make sense to at least resume some share buybacks, just given your comments earlier?

Worthing Jackman: Sure. We've been consistent over the past couple of years noting that we thought 2017 through 2020 would be periods of outsized M&A activity. And obviously, it's uncertain how much we lay out, but we've been laying out, in some cases, $1 billion a year. And so we feel fortunate in that we're able to make those outlays and still drive leverage lower, number one.

Number two, it's still not clear to us whether we spend $0.5 billion in the next 12 months, or spend $1.5 billion in the next 12 months. And so we like the flexibility we have around deploying our capital for [properly] priced and strategically consistent M&A, and that remains no different. But obviously, we recognize that stock markets doesn't always go up and to the right. There's even chatter this morning of the all -- what happens if the fed doesn't increase or decrease rates this coming week and what does that mean in the stock market?

And so by the way, just put simply, it means that we like to step in and buy our stock when there is blood on the screen, and stocks dislocate. And we'll just be patient around

that. We're the ultimate long-term holder of our stock and we can pick our spots around that.

But we do agree, as we say in the press release and in our prepared remarks, that you'll see us increase the majority of capital to shareholders and that will be through [opportunistic] share repurchases. And obviously, at our low leverage, we can easily spend $1 billion to $1.5 billion on acquisitions and still spend $1 billion-plus on stock repurchase if we wanted to, and stay comfortably within any leverage targets that we have. So we're very fortunate in our flexibility.

Noah Kaye: Thanks very much for the color.

Operator: (Operator Instructions). Mark Neville with Scotiabank.

Mark Neville: I apologize, I just -- there was a few numbers I missed. I think you hit on a few in the prior question, but in terms of the M&A outlay, there was -- I think you said $600 million of potential or outlays or offers made currently, which if hits, would be sort of 3% revenue accretive for next year. Do I have those numbers right?

Mary Anne Whitney: Right. What we said was already in place about a 1% rollover contribution from deals that we closed.

Mark Neville: Right.

Mary Anne Whitney: And then we said there's a potential for that much more. That's the right way to think about it, yes.

Mark Neville: Okay. And that's tied to the $600 million, which again, the diversified mix and none of the Advanced in there in terms of the pipeline?

Mary Anne Whitney: That's correct.

Mark Neville: Yes, okay. Okay. Maybe just on the margin for next year, again, you've said underlying expansion. So when I think about it, a 20-basis point sort of bump from the absence of the 401 match, a 10-basis point hit from rollover of M&A. So you start at 10 and you add whatever you get; sort of pricing volume sort of lands wherever we may land. So is that, again, that's how to think about it?

Mary Anne Whitney: Sure, that's a fair way to think about it. And I'd remind you that for instance, in Q3, we said the underlying margins in solid waste collection, transfer and disposal were up about 60 basis points. Then of course, you'd want to layer in whatever your view is on RINs and recycle commodities and what that does at current levels, or whether -- whatever you're forecasting. And then of course, your E&P expectations would also impact margins, but those are the pieces, yes.

Mark Neville: Got it. And the recycling this quarter was an 80-basis point hit?

Mary Anne Whitney: That's correct. Remember as we said, that it's not only the decrease

in the revenue associated with the sale of recycle commodities, but then we actually have incremental expenses on top of that associated with third-party fees and the cost to get rid of some of the commodities. And that’s why you saw the decrementals of about 150% on that $9 million or $10 million decrease year-over-year in recycle commodities.

Worthing Jackman: And we said that next year, the headwind is less than half of that for the full year, which means it's probably all of that for the first half of the year or thereabouts, because of the rollover. And then assuming zero drag in the second half of the year, they were slightly positive.

Mark Neville: Okay. I can go back and check my numbers, but what would be sort of the half sort of headwind? What would be sort of the anticipated full year hit this year from sort of recycling and the RIN?

Mary Anne Whitney: Sure. So if I were just to look at recycling and RINs at current levels, the headwind for next year is about $20 million to $25 million; so that’s revenue and EBITDA, again, the EBITDA being a little worse than the revenue as I described.

Mark Neville: Right.

Worthing Jackman: And this year’s headwind was more than twice that.

Mary Anne Whitney: That’s correct.

Mark Neville: Okay. I’m sorry, I also missed the Q4 adjusted EBITDA guide.

Mary Anne Whitney: That’s $405 million.

Mark Neville: Okay. All right. Thank you for taking my questions.

Operator: And Mr. Jackman, there are no other questions at this time. I will turn the call back over to you.

Worthing Jackman: Terrific. 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 direct questions that we did not cover that we’re allowed to answer under Reg FD, Reg G and the applicable securities laws in Canada.

We thank you again for your interest, and we look forward to speaking with you at an upcoming investor conference or on our next earnings call. Thank you.

Operator: Thank you. That does conclude the call for today. We thank you for your participation and ask that you please disconnect your lines. Have a great day.