[WCN] - Waste Connections, Inc., Q4 2016 Earnings Conference Call
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Officers
Ron Mittelstaedt; Chairman, CEO
Worthing Jackman; EVP, CFO

Analysts
Michael Hoffman; Stifel
Hamzah Mazari; Macquarie Capital
Tyler Brown; Raymond James
Derek Spronck; RBC Capital Markets
Noah Kaye; Oppenheimer
Corey Greendale; First Analyst
Chris Murray; AltaCorp Capital
Derrick Layton; Goldman Sachs

Presentation

Operator: Ladies and gentlemen, thank you for standing by, welcome to the Waste Connections fourth quarter 2016 earnings conference call. (Operator Instructions)

As a reminder, this conference is being recorded Wednesday, February 22nd, 2017.

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

Ron Mittelstaedt: Thank you, Operator, and good morning. I'd like to welcome everyone to this conference call to discuss our fourth quarter 2016 results and provide our financial outlook for both the first quarter and the full year 2017.

I'm joined this morning by Worthing Jackman, our CFO, as well as several other members of our senior management team.

As noted in our earnings release, our acquisition of Progressive Waste made 2016 a transformational year for Waste Connections. More importantly, our culture and operating playbook enabled us to drive significant improvements in safety, quality of revenue, and operating performance within the acquired operations, all pacing 12 to 18 months ahead of our original expectations.

This was evident in Q4, as revenue, adjusted EBITDA, and margins once again exceeded expectation. This underlying strength, together with continuing improvements in recycled commodity values and E&P waste activity should position us well for 2017.

In addition, having already announced the acquisition of Groot Industries, we are on track for another above average year in M&A.

We believe free cash flow generation is synonymous with our name. Waste Connections' industry-leading, 50-plus percent conversion of EBITDA to free cash flow should drive a more than 15% year-over-year increase in free cash flow per share in 2017.

And our strong financial profile provides us the flexibility to fund a continuing, above average amount of expected acquisition activity, while increasing the 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 today's call includes forward-looking statements made pursuant to the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, and 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 3 of our February 21st earnings release, and in greater detail in filings that have been made by Waste Connections, formerly named Progressive Waste Solutions, Limited, and Progressive Waste U.S., 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 attributable to Waste Connections on both a dollar basis and per diluted share, and adjusted free cash flow.

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

Management uses certain non-GAAP measures to evaluate and monitor the ongoing financial performance of our operations. Other companies may calculate these non-GAAP measures differently.

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

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

Ron Mittelstaedt: Thank you, Worthing. In the fourth quarter, solid waste core price plus volume growth was 3.7%. Core price increases in the period were 2.7% year over year, with total pricing net of surcharge reduction of 2.6%, up 30 basis points sequentially from Q3.

Volume growth of 1% in the fourth quarter was primarily driven by high single-digit increases in disposal volumes, commercial collection revenue, and roll-off activity, and, most notable, in our western and eastern regions.

Solid waste landfill tonnages overall on a same-store basis increased 8% year over year in Q4, with all lines up year over year in the period.

MSW tons rose 13%, special waste increased 2%, and C&D was up slightly.

On a same-store basis, commercial collection and roll-off revenue in Q4 increased about 7% and 8%, respectively, from the prior-year period. Roll-off totals per day increased a little more than 3%, with all regions reporting high roll-off activity compared to the year-ago period, primarily due to milder weather in many markets during the first two months of the quarter.

Looking at the full year, core price was 2.8% and volume growth was 1.9%, or 10 and 20 basis points respectively, above the expectations we had communicated on our last call.

As Worthing noted earlier, price and volume growth from acquired operations are not reflective in our reported organic growth calculations until the anniversary date of the related transaction, which, for the Progressive Waste acquisition will not be until June 1st.

However, we're extremely pleased to report that these recently acquired operations delivered over 3% pricing growth in Q4 and volumes in the period were slightly negative, as expected since we're well underway in our efforts to shed low-quality and unsafe to service revenue.

Recycling revenue, excluding acquisitions, was $13.2 million in the fourth quarter, up almost $1.8 million, or about 16% year over year, due primarily to higher commodity values for fiber.

Prices for OCC, or old corrugated containers, averaged about $125 per ton during Q4, up 18% from the year-ago period and up 2% sequentially from Q3.

OCC prices currently exceed $150 per ton, up over 50% from the level we averaged in last year's first quarter.

Regarding E&P waste activity, we reported $32.2 million of E&P waste revenue in the fourth quarter, up 7% sequentially from Q3 and slightly above our outlook for the period, with segment EBITDA margins well off their lows and now exceeding our corporate average.

The rig count is now twice the level of last year's trough and drilling activity is picking up in additional basins beyond just the Permian. As a result, we continue to see month-to-month revenue growth at high incremental flow-through in our E&P waste operations.

With year-over-year declines in 2015 and 2016 now behind us and macro industry trends in our favor, we believe 2017 and 2018, are setting up for strong double-digit increases in E&P waste activity.

Now moving on to the Progressive Waste acquisition. As noted earlier and in our press release, we believe the integration of our culture and execution on our operating playbook have enabled us to drive significant improvements in safety, quality of revenue, and operating performance, all of which are pacing 12 to 18 months ahead of our initial expectations within these acquired operations.

This success is a direct result of our employees embracing our safety focus, servant leadership-driven culture, honoring commitments, and accepting accountability at the local level.

The Progressive legacy operations exited 2016 with almost a 50% reduction in safety-related incident frequency as compared to pre-acquisition levels of the earlier months in 2016. This is a run rate reduction of almost 3,000 fewer accidents and injuries in their platform alone in the year.

Employee turnover at these operations is down from 42% in Q2 of 2016, to 26% in Q4 of 2016, a nearly 39% reduction in employee turnover thus far.

Quality of revenue also continues to improve, with pricing growth, as noted earlier, now above 3%.

In addition, the shedding of about $50 million of low-margin revenue across numerous markets is well underway, and we are seeing continuing momentum within our divestiture program. Just last week, we exited the Washington, DC, market, which had an annual revenue run rate of about $50 million at a negative operating margin in 2016.

As a reminder, our playbook focuses 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.

This playbook will reduce 2017 revenue generated by operations acquired in the Progressive acquisition by about 10% when compared to 2015, but increase EBITDA by 25% and free cash flow by 100% over the same period.

We've already been able to more than double Progressive's free cash flow margin from less than 8% in 2015, to are 16%-plus corporate average, and drive a company-wide 50%-plus conversion of EBITDA to free cash flow.

Looking at other acquisition activity, we're extremely pleased to have already announced our acquisition of Groot Industries earlier this year. Founded over a century ago, Groot was the largest privately owned solid waste services company in Illinois, with total annual revenue of approximately $200 million. Groot serves approximately 300,000 customers, primarily in northern and western Illinois from a network of six collection operations, six transfer stations, and two recycling facilities.

With the majority of its operations contiguous to the Rock River assets we acquired in November 20 of 2015, and already bringing a substantial portion of its tonnage to our landfills, Groot solidifies our leading position in these markets, increases potential internalization benefits of additional disposal volumes into our landfills, and further expands our platform for additional growth opportunities.

We are very honored the Groot shareholders chose Waste Connections purposely when deciding who would be the best steward of their fourth-generation 100-plus-year-old company.

Groot is arguably one of the top five solid waste companies in the U.S., when viewed in terms of asset quality, market positioning, management depth, and community involvement.

We congratulate Larry Groot and Lee Brandsma on all of their accomplishments over the past nearly 40 years. And we welcome John Groot and Ryan Brandsma, along with all of the leaders and employees of Groot, to Waste Connections.

As a reminder, Groot was an outsized deal. In fact, it was the third-largest in the Company's history. Acquisition dialogue remains quite active, but with our more traditional, smaller-sized opportunities. For example, we've also signed an agreement to acquire an approximately $15 million revenue franchise operation on the West Coast, that, due to a lengthy regulatory review process, should close in late Q2 or early Q3.

Some potential sellers who may have been sidelined over the past several years due to high tax rates and low reinvestment rates, are now testing the waters, given current expectations for lower taxes and higher interest rates.

With our strong free cash flow generation and recently committed $400 million note offering, we are well-positioned to fund the continuing above-average amount of acquisition activity, while also increasing 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 fourth quarter and to provide a detailed outlook for Q1 and the full year of 2017. I will then wrap up before heading into Q&A.

Worthing Jackman: Thank you, Ron. In the fourth quarter, revenue was $1.049 billion, or almost $30 million above our outlook for the period.

Acquisitions completed since the year-ago period contributed about $507 million of revenue in the quarter, with Progressive Waste accounting for $498 million of that amount.

Adjusted EBITDA as reconciled in our earnings release, was $325.4 million, or 31% of revenue, and slightly above our margin outlook for Q4.

Year over year, our adjusted EBITDA margin reported for the fourth quarter declined by 200 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 low E&P waste activity.

Fuel expense in Q4 was about 3.85% of revenue, and we averaged approximately $2.42 per gallon for diesel, which was down about $0.14 per gallon from the year-ago period and up about $0.09 per gallon sequentially from Q3.

Depreciation and amortization expenses for the fourth quarter were 13.8% of revenue, up 70 basis points year over year, primarily due to acquisitions completed since the year-ago period.

For the quarter, this was 60 basis points below our outlook due to $5.5 million lower than expected amortization of intangibles expense as we finalize the fair value of intangible assets during Q4 for the Progressive Waste acquisition.

This lower than expected expense has no impact to adjusted EPS, as we exclude this item in the calculation.

Interest expense in the quarter increased $10.6 million over the prior-year period to $27.4 million, due to the additional debt outstanding resulting from acquisitions completed since the year-ago period and higher interest rates compared to the prior year period.

Debt outstanding at quarter end was about $3.6 billion, and our leverage ratio as defined in our credit facility, decreased to less than 2.7 times debt to EBITDA.

Our effective tax rate for the fourth quarter was 24.2%, which included an approximate $4.1 million benefit to the tax provision related to our review of the deductibility of certain items from earlier in the year related to the Progressive Waste acquisition. Excluding these items, our effective tax rate was closer to 28% in the period.

For full year of 2016, our effective rate was 31.6%, which included a 2.3 percentage point impact from certain non-deductible items related to the Progressive Waste acquisition, as that 2.3% impact was unique to 2016.

As we look ahead, we expect our effective tax rate to be about 29%, subject to some variability, depending on the percentage of total profitability contributed by operations in the U.S. versus Canada and discrete items in certain periods.

GAAP and adjusted net income per diluted share in the fourth quarter were $0.49 and $0.68, respectively. Adjusted net income in Q4 excludes the impact of three items, $24.5 million after tax of acquisition-related items such as amortization of intangibles and certain items related to the Progressive Waste acquisition, including severance-related cost, accrued synergy bonus, and professional fees.

$14.3 million after-tax for impairments and other operating losses primarily associated with a write-down of certain assets held for sale in connection with our previously discussed divestiture program. And finally, the previously mentioned, the $4.1 million benefit to our tax provision.

Adjusted free cash flow in 2016 was $550.9 million, or 16.3% of revenue. As a percentage of adjusted EBITDA, this represents a conversion rate of over 51% in the year.

I will now review our outlook for the first quarter and full-year 2017.

Before I do that, 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 U.S., Inc., has 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 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 respective periods.

Looking first at the full year 2017, revenue in 2017 is estimated to be approximately $4.45 billion. We expect price plus underlying volume growth for solid waste to be between 4% and 4.5% in the U.S., less about 1% for the previously discussed low-quality and unsafe to service revenue we are shedding in the U.S.

In Canada, we expect price plus underlying volume growth for solid waste of about 4% on a constant currency basis, less about 2% for the previously discussed low-quality and unsafe to service revenue we are shedding in Canada.

Recycling and E&P waste-related revenue should each increase double digits on higher commodity values and drilling activity respectively.

As a reminder, Progressive's operations will be included in our organic growth statistics beginning June 1st.

Adjusted EBITDA in 2017, as reconciled in our earnings release, is estimated to be approximately $1.41 billion, or about 31.7% of revenue.

Margins for the year were trending above 32% before the impact of the comparably lower margin Groot transaction.

I'd like to note that the timing of divestitures and the shedding of low-quality revenue could impact revenue and reported margins, but is not expected to impact EBITDA on a dollar basis.

Adjusted free cash flow in 2017, as reconciled in our earnings release, is expected to be approximately $725 million, or about 16.3% of revenue and more than 50% of EBITDA.

We're off to a good start towards our target, having already generated more than $100 million of free cash flow in the month of January alone.

Turning now to our outlook for Q1 2017, revenue in Q1 is estimated to be approximately $1.075 billion. We expect core price plus volume growth for solid waste to be between 3% and 3.5%.

As a reminder, we have a tough comp against the prior-year period in which we reported volume growth of 3.2%, due partially to the benefits of an extra leap year day, ramping of a recently opened landfill, and comparably milder weather.

Adjusted EBITDA in Q1 is estimated to be approximately $322.5 million, or about 30% of revenue.

Depreciation and amortization expense for the first quarter is estimated to be about 14.1% of revenue. Amortization of intangibles in the quarter is estimated to be about $26.5 million, or about $0.10 per diluted share, net of taxes.

Operating income for the first quarter is estimated to be about 15.8% of revenue. Interest expense in Q1 is estimated to be approximately $29 million.

Our effective tax rate in Q1 is estimated to be about 25%, subject to some variability. The effective rate for the period includes about a $6 million benefit to the provision due to a new accounting pronouncement that reclassifies excess tax benefits associated with equity-based compensation arrangements from the cash flow statement to the income tax provision.

Finally, non-controlling interest is expected to reduce net income by about $225,000 in the first quarter.

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

Ron Mittelstaedt: Thank you, Worthing. Again, 2016 was a transformational year for Waste Connections, and our 13th consecutive year of positive returns for shareholders.

We are quite pleased that our financial results continue to track above expectations. Moreover, 2017 is already setting up to be another exceptional year, given the strong momentum with which we exited 2016, the recently announced Groot acquisition, and increasing recycle commodity values and E&P waste activity, all driving a more than 15% expected growth in adjusted free cash flow per share.

Sustainability of current commodity values or any additional acquisitions could provide further upside.

Culture is a major contributor to our success and safety is a key component of our culture. At Waste Connections, we believe that safety is the responsibility of each and every employee. It is engrained in everything we do, and it is the best indicator of organizational health.

We're especially proud to report that the accident, the incident rate at [former] Progressive Operations has already fallen by about 50% since our combination. I'd like to recognize the tremendous efforts of all our employees in their tireless pursuit of zero incidents.

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

Questions and Answers

Operator: Thank you. (Operator Instructions) one moment, please, for the first question. Michael Hoffman with Stifel.

Michael Hoffman: Ron, Worthing, can we dig a little bit into the full-year guidance and just frame a little more narrowly what your underlying assumptions are for recycling and R360?

How much of the upside versus the average in 2016, for instance in recycling is baked into the outlook? And, therefore, what do we have left if the prices stay where they are?

Worthing Jackman: Yes. Michael, we've only baked the current prices into the current quarter's outlook. We have not baked it in beyond Q1.

And so to the extent that those prices remain, that's likely between another $5 million and $7 million of revenue per quarter in Qs 2, 3, and 4, with about a 70% flow-through to pretax.

With regards to the E&P activity, we've seen continuing ramping month to month as we've kind of moved away from March and April of last year.
As we noted already, Q4 was the second quarter in a row where sequential activity quarter over quarter increased about 7%. We're trending about that same percentage higher Q1 versus Q4 this year.

And so to the extent that that trend continues throughout the year, that could be about $10 million or $15 million of top-line growth within E&P, above current expectations.

But again, we're not going to put out guidance for a full year, including items we don't control, and have to come back and take things down. We'd rather those kind of things all be upside to (inaudible).

Michael Hoffman: Fair enough. Yes, fair enough.

Ron Mittelstaedt: And, Michael, just for the record, for Q2 last year, commodity values were $104, Q3 they were $123, and Q4 they were $125.

Michael Hoffman: Okay.

Ron Mittelstaedt: So those are numbers you have to compare against whatever your assumptions are.

Michael Hoffman: Great. That's very helpful. And then in June when you closed Progressive, you talked about an opportunity for maybe about $50 million of op savings. There's $25 million at risk and the other $25 million's for productivity and price.

How would you frame where you are in that cycle now, and is it bigger and faster? And how much of that's in 2017?

Ron Mittelstaedt: Well, yes. I mean, I think generally you framed it accurately, Michael. I mean, look, we expected originally about $50 million of what I'll call SG&A savings. We achieved a little bit more than that, about $54 million to be exact, by yearend.

We expected $20 million to $25 million of initial safety improvements or risk improvements. And I would tell you, we're ahead of that track, without question.

We have already reduced incidents more than we thought we would reduce by the end of 2017. So we're north of that $25 million in savings.

And then on price and operating, look, if you take an approximate $1.9 billion in revenue and you assume almost a 2% to 2.5% improvement in price, let's just take 2%, that's $38 million.

Of course, we've also added costs and other things against that. But you're clearly ahead of the $25 million.

So, I mean, that's how I would frame each of those buckets right now.

So, it's a long way -- and obviously, if you go back to when we announced the transaction, we started by saying $1.25 million to $1.3 million of EBITDA, and now we just endorse $1.41, take out Groot, and you get to $50 million to $100 million above the initial guidance.

So obviously, a lot of those improvements, and then some, are in there.

Michael Hoffman: Got it. Okay. That helps. And then, I notice in your volumes, the MSW, wasn't that beginning -- not beginning, but there's a continued acceleration of MSW, which is clearly higher margin.

How do you frame where you think you are in the cycle of that MSW mix shift?

Ron Mittelstaedt: Well, every time we think you got to be closer to the end, another quarter or year comes around. I mean, I'm sitting here looking that really, since 2011, so we're entering our seventh year of double-digit increases now in MSW, and I would have thought that that would have lasted five years, maybe six years.

But obviously, there's no mystery that we had a slower recovery for a variety of reasons. But I think that recovery has been strong and it's going to last longer because it took longer to come out of. And that's what we're seeing pretty much across all geographies now.

Michael Hoffman: Okay. And then, Worthing, the cash flow from ops for 2017 framed at 26 percent's a pretty healthy upside to the previous year, your 23%, 24%.

Is that a permanent shift or is that working capital moving between 2016 in 2017?

Worthing Jackman: No, it's not a shift at all. Actually, if you adjust the 2016 numbers for all the deal costs, you get about 26.3%, 26.4% for 2016, on an adjusted basis.

So it's really no change relative to 2016 adjusted for the transaction items.

Michael Hoffman: Okay. So this, we can model 26% kind of going forward then?

Worthing Jackman: We can model it in 2017, that's right, Michael. Nice try.

Michael Hoffman: Just trying to reach a little bit. All right. Thanks for taking my questions. I appreciate it.

Operator: Hamzah Mazari with Macquarie Capital.

Hamzah Mazari: Just had a question on how much of your business right now is truly franchise markets? And how should we think about the adjustment of higher inflation, specifically within those franchise markets?

Just trying to get a sense of how the Company's different versus prior cycles when we saw inflation and what the impact could be.

Ron Mittelstaedt: Sure. Hamzah, as you know, prior to the merger with Progressive, we ran about 51%, 52%, what we call exclusive markets, which are, obviously, more indexed to a CPI or other metric that's similar.

Post-combination, we're about 43%, 44% what we call exclusive markets. So still very high, comfortably the highest in the sector by over 2x.

And as you know, it depends on the state. It depends on the indices. These are local indices that we operate off of. They trail 6 to 12 months.

So if we get into a higher CPA environment over the course of 2017 into 2018, that just would bode for higher pricing in 2018, 2019, and beyond, for that segment of the business.

And it pretty much correlated exactly. I mean if you use the CPI and assume a little buffer north of the CPI, that's a good estimate. So whatever your assumption is on that, you could apply it to that 43%, 44% of revenue.

Hamzah Mazari: Okay, great. And then just a follow-up question maybe for Worthing.

Do you guys have a sense of what pro forma cash taxes are for the business after Progressive? I know you did the inversion. Some of your peers have been pretty vocal on quantifying a cash tax savings number off of potential tax reform in the U.S.

So anything you could maybe provide for us or frame relative to obviously there's some noise with the pro forma, and then the inversion? Thank you.

Worthing Jackman: Yes. With regards to the reverse merger, we look at our cash tax to our GAAP provision for 2017, to be about 70% or so.

If you think about potential tax law changes that bring the corporate tax rate down, likely doesn't change our -- it depends on the final outcome. We'll get some cash-back savings to the extent that they obviously look to do 100% bonus appreciation. That will flow through some benefit.

Our debt sits outside of the U.S., so it sits in Canada. So to the extent that remove interest rate deductibility, we retain the deductibility up in Canada.

And obviously, any shift with regards to potential phasing out of interest deductibility in the U.S., is more than offset by the reduction in the effective tax rate.

And so while the 70% you see us paying cash tax against the GAAP accrual in 2017, once tax law changes come through, if they do, you'll see a reduction in the dollar of cash taxes. But because the provision will come down dramatically, you'll see an increase in the cash tax as a percentage of the provision.

From a total dollar basis, we should be set up to save some money.

Ron Mittelstaedt: Yes. And, Hamzah, I mean, if you think about it, I think there is a -- the way I think about it, look, in the U.S., we are approximately a 39.4% GAAP taxpayer still, because that hasn't changed due to the structure. We pay the maximum 35% corporate rate in the U.S.

So there's been discussions that that could go to 20% or 25% or whatever it goes to. Everybody makes their own assumptions.

For every 1,000 basis point change in that [rate], there's approximately an incremental $50 million of tax savings. So make your own assumption from what you assume the tax rate would move to in the U.S.

Ron Mittelstaedt: Then again, depending upon the final makeup, with regard to [interest deductibility], et cetera. But anyway you cut it, again, our cash tax on a dollar basis should decline if it comes out the way we think it comes out. But our percentage of the cash [access] to the GAAP accrual will go up because the GAAP accrual will come down a good size.

Hamzah Mazari: Got you. Thank you. Appreciate it.

Operator: Tyler Brown with Raymond James.

Tyler Brown: Very nice quarter. Worthing, just a quick one here. But should we see a working capital outflow of cash here in Q1 from the payment of the incentive plan? Is that in the guidance?

Worthing Jackman: Well, the $10 million to $11 million of synergy bonus will be adjusted back into free cash flow for the year just like it was adjusted back into EBITDA for the year last year. But again, that's a small number relative to the $725 million.

Tyler Brown: Okay.

Worthing Jackman: Again, in January alone, we already you did as much cash flow as we did in all of Q4 of last year.

Tyler Brown: Okay. Okay, good. And then I'm just interested in the 8-K regarding the master note agreement.

So I think, Ron, you even mentioned that you're looking to maybe sell 400 million of pretty nicely priced fixed rate notes, I think in April.

But should we think about that as incremental debt to pay for Groot or is that just to fix some of the floating debt?

And then, Worthing, can you give us kind of thoughts on full-year interest expense?

Worthing Jackman: Sure. That's baked into our numbers already, Tyler, because we [signed] that commitment already. We're just delaying the funding of that and taking down that money in April.

And that's purely just a fixed versus floating look at the world. We priced 10-year money at Treasuries plus 100. We priced 7-year money at Treasuries plus 95. And so we thought it was a good environment to lock in some long-term money and take some floating rate debt to fixed.

Again, the outflows associated with those notes are baked into all of our outlooks for interest expense.

Tyler Brown: Okay. And then just maybe lastly, just, Ron, I'm curious, but you guys are running 12 to 18 months ahead of schedule with Progressive, and you've only owned it for, let's just call it six months or so.

But I'm just curious, I mean, why do you think you're getting such quick buy-in, if you will, from everybody? What is it about this acquisition that's really, again, allowing you to get that buy-in?

Ron Mittelstaedt: Well, I think the reality is, is that we had assumed Progressive was a better run company than they ended up being.

There was a lot more opportunity in basic blocking and cackling that we had just assumed was there, and it just wasn't.

And so while there was a lot more work to do initially and still, the opportunity was much greater. When you have a 42% to 44% employee turnover, something unhealthy is going on. And we had to stop that.

And you see, and we've seen it in our own company, because at one time we had that kind of turnover 9, 10 years ago, there's an exponential benefit in risk and other things by the reduction of turnover.

Said another way, if you reduce turnover 15%, you'll see a multiple of that in risk, productivity, variable, and other things come through every time. And that's what we're seeing. We have over a 50% reduction in risk on a 35% to 40% improvement in turnover already.

So we knew that Progressive had very good assets with good asset positioning in markets that predominantly, 85%, were similar to ours.

What we didn't really know fully is how they ran the business relative to how we do, and it's a very, very different approach.

Tyler Brown: Okay. No, that's great color. And good job, guys. Thanks.

Operator: Derek Spronck with RBC Capital Markets.

Derek Spronck: There's been discussions in the waste industry around changing towards a franchise-type model in Los Angeles, New York City, and some areas in Illinois.

But I'd be interested to get your thoughts on these potential developments. And does it change the way you're looking at the Progressive assets in the U.S. Northeast?

Ron Mittelstaedt: Well, and, Derek, very good question. I mean, yes, in a way it does. I mean, some municipalities, as you've mentioned two large ones or three large ones there, Los Angeles and New York City certainly, Los Angeles being the first one, for varying recycling and diversion requirements and legislation in those municipalities have moved to or are moving to a franchise model.

We were a participant in the Los Angeles process. We did not have collection or transfer assets in southern California, but we had a landfill asset.

And what that process showed us is those with assets, very difficult to replicate assets, transfer stations, recycleries, hauling companies, at the end of the day, they won the franchises. We did not have those assets and we didn't win a franchise in Los Angeles. Those were one by Waste Management and Republic and five very strong independents, all had great assets.

Now, we are going to get some substantial disposal volumes through the franchises into our southern California Chiquita Canyon landfill.

So as we look at New York, who is looking at a similar process -- they haven't decided that. The former Progressive and now us, comfortably has the best assets in two of the five boroughs in New York City between transfer stations and collection operations.

So we have made a decision on New York for a couple of reasons. One is that we've seen a change in performance from low single-digit EBITDA margins when we close the transaction to high double-digit EBITDA margin. To be honest, almost a 300% improvement in operating performance in seven months.

So that was one reason, and that we found that the market wasn't broken the way we assumed it was.

And then the second thing is, is what you pointed out. I mean, the potential of the franchising of the business, what we learned in the LA process may or may not play out in New York. But if it does, we think we're positioned in some of the boroughs, certainly better than anyone else at this point.

So, and I'm not exactly sure where you're speaking about in Illinois. It depends where that would be. But, obviously, if it's anywhere north or west of the city, we now have the number one position there as well.

And many of the western and northern markets in Illinois are already exclusive in some nature or another. But, so that would be the answer on those, Derek.

Derek Spronck: No, that's great color. Thanks, Ron. Appreciate that.

Just quickly with guidance now for 2017, coming in at $725 million for free cash flow, last quarter you were indicating that it was trending toward $700 million in 2017 and towards, I believe $800 million in 2018.

Is that incremental, I guess it's from Groot, part of it is from Groot and some other tailwinds that you're seeing with the Progressive integration. Should we assume that 2018 now is trending towards $825 million in free cash flow?

Worthing Jackman: Yes, let's be very clear about this. When we talked in terms of $700 million for calendar 2017, that was before the Groot transaction. We mentioned Groot was about 3% accretive to that, so $21 million or so. So we round that to $725 million for calendar 2017.

With regards to 2018, we've been consistent all along, pre-Groot, to say that our target for 2017 were between [$4.50] a share and [$4.75] a share. And so to the extent that Groot, at 3% of sort of that number, that's kind of a revised target for the Groot transaction.

We've shied away from putting a dollar out on 2018, because it's too far out in the distance. But again, our per-share basis, our guidance has been consistent at $4.50 to $4.75 a share for 2018, prior to the Groot uptick.

Derek Spronck: Okay, great. Thanks very much for taking my questions.

Operator: Noah Kaye with Oppenheimer.

Noah Kaye: First just wanted to clarify some of the cost reduction benefits from the significant lowering in incident rates at Progressive.

Understanding that, I believe you're likely seeing the cash benefits of that now, how do we think about that from a modeling perspective becoming more evident in the P&L? What's sort of the cadence of that? And how do you think about kind of a margin expansion benefit from that in 2017, as you can kind of recognize the effects of these improvements?

Worthing Jackman: Well, again, that margin benefit's baked in their outlook for 2017. You'll start seeing that come in second half of the year as we anniversary Progressive, because that way the actuary has more data points to see a trend being established versus kind of the successes being an anomaly.

And so again, you've seen the cash benefits already trickling through the cash flow. You'll see the P&L benefits trickling in the second half of this year. But again, that's baked into our outlook.

Ron Mittelstaedt: Yes. No, I would also tell you that the P&L benefits trail the cash benefits, because the reality is, is that we're working off a historical severity level and it takes the actuaries time for those severity levels to run out.

I remind you that in the prior four years, Progressive had 31 fatalities. And in 2016, in the first five months, they had 6.

So we've had zero since the close, thankfully. So we're running out on 31 fatalities in the severity for the actuaries that is baked into our P&L for some time.

So you're really going to see a tail on this for some period of time if we continue the improvement as severity decline and the tail's able to run out on historical performance.

Noah Kaye: That's very helpful clarification. Thanks. And then maybe just one more from me, first wanted to clarify whether that potential $15 million franchise collection revenue acquisition is in the guidance already. And then I guess just generally for you, Ron, as you pointed out, as it regards M&A, we don't really know what tax reform is going to look like. You know, pick your own assumptions.

But you did mention that it is certainly part of the driving factor in the conversation.

So I guess I'd just like to get a better sense of how it's impacted the conversations, how we think about the puts and takes of, well, we still have some uncertainty on the tax reform picture, but, clearly, there seems to be a prospect for lower tax rates and for sellers to keep more of their profits.

Worthing Jackman: Well, with regards to the first question on the $15 million signed transaction that is not in our outlook, because, again, we don't bake anything into our outlook until the transaction closes. And so once that closes, we'll update the numbers to reflect that.

I'll start and I'll let Ron finish on your second part. We always think about an average year being about $125 million, plus or minus, of acquired revenue.

So to the extent we've already done $200 million, it's my guess that we'll beat the $125 million.

Ron Mittelstaedt: Yes, we better, or we got an issue.

To the second part of your question, no, I mean, look, we have said over time that low interest rates for reinvestment and high tax rates have been an inhibition to deals and they certainly slow things.

Well, the prospects for each of those looking different in the future, potentially lower tax rates and higher interest rates, those help deals, pure and simple.

And we have seen an increase in activity since the November 9th, and, certainly, inquiries of potential activity. We're busier now than we've been in quite some time in years.

And, obviously, some people want to see what the clarity is on that tax law change. But I don't think there's anyone that assumes it would be any worse. The assumption is universal, that it will be better.

And we've had some tightening, although pretty nominal, but there is, if the economy continues to improve, we will see further tightening.

So those are good for transactions overall. I mean, sellers keep more of their after-tax proceeds and they can earn more in the fixed income market on reinvestment. That helps sellers who have a single asset for their family think about weather it's the right time or not to do something.

And we have said we believe there is going to be a period here, and I believe this very strongly, that for certainly 2018 and 2019, and probably once tax law is clarified in 2017, there will be a flurry of acquisition and M&A activity. I don't just believe in our industry. I believe in most, because there will be a fear that come the next election, those tax laws could be reversed.

So people will view this as a window after sitting on the sidelines for up to eight years because of what's been going on, on the other direction for eight years.

Ron Mittelstaedt: That is great color. Thank you very much. And congrats on the quarter and the outlook.

Ron Mittelstaedt: Thank you.

Operator: Corey Greendale with First Analysis.

Corey Greendale: Congratulations on the good year. So, Worthing, just a housekeeping question. You're saying that $200 million is a bigger number than $125 million?

Worthing Jackman: Let me pull out my calculator. Yes, U.S. dollars it is. That's right.

Corey Greendale: So, I just had a couple of actually real housekeeping questions.

Could use your help on how to model internal growth after Progressive anniversaries. So did you start the cycle of kind of raising price and pushing away undesirable volumes immediately?

So in other words, once that's in the organic growth comp, do you still have this kind of 3% plus price and drag on volume? Or what is the timing around that?

Ron Mittelstaedt: Yes, first off, Corey, to answer your question, we did start it immediate. But I would say, certainly, by the end of last year's third quarter and in the fourth quarter, we were heavily into it.

Worthing Jackman: Because the volumes turned negative slightly in Q4.

Ron Mittelstaedt: That's right. But I would tell you that that will continue through 2017, Corey. Do I believe we'll get most of it done in the first two quarters? Yes.

But a lot of this takes time. You have contracts you need to honor until expiration or whatever the case. We're not going to walk away from commitments to customers.

So the way to think about the growth, we just told you, we said earlier what our price was running. We told you that Progressive's is running north of 3%. So as that comes into the growth calculation, you would expect price to elevate somewhat just adding those two numbers together and dividing.

And then you would expect volumes on a reported basis to come down somewhat because, again, we've given you guidance for Waste Connections, we've told you that

Progressive is running slightly negative. I think most of that, the negative will come out by about the beginning of the third quarter.

So you would probably see that volume, it could be flat to slightly positive, it could be nominally negative.

We will break out for people a reported growth number. And then what was in that underlying growth, meaning how much did we consciously shed to drive negative volume in the Progressive footprint, therefore, what was the underlying volume?

So we plan to do that for 2017. And then I would expect the culling to become by the end of 2017.

Corey Greendale: Okay. And once the culling is done, Ron, at that point do you think those operations are kind of a 3% price going forward or does that come down once you're past the shedding?

Ron Mittelstaedt: Well, look, what we said is that we -- it depends on what the macroeconomic environment is, the GDP environment is, Corey.

But what we've said is that we don't see a reason that price in the competitive piece of the Progressive footprint should look materially different than Waste Connections' over time.

Worthing Jackman: And because you have a higher percentage in that competitive piece versus exclusive --

Ron Mittelstaedt: Yes.

Worthing Jackman: -- on a combined basis, it's pricing relative to legacy Waste Connections' should be slightly higher.

Ron Mittelstaedt: Yes.

Corey Greendale: Okay. Thanks.

Worthing Jackman: The 3% is not a one-time correction in price, no. It's a new shift in the overall strategy and pursuit of quality of revenue.

Corey Greendale: Great. That helps. And then on DC, the language was that you exited that market. Was that a divestiture or a swap?

Ron Mittelstaedt: It was a divestiture, but, I mean, it had some components of that. We took back a long-term disposal agreement for the market through transfer stations and landfills we have in the area.

And so, effectively, we divested the collection and transfer operation and we took back a long-term disposal agreement as part of the consideration to keep us, what I would call EBITDA neutral without the $50 million of revenue associated to do so.

Corey Greendale: Okay. And is the target still about [$225] million in acquired revenue that you think you're going to shed?

Ron Mittelstaedt: I think it's come down a little, Corey.

Worthing Jackman: We've been saying $200 million.

Ron Mittelstaedt: Yes, I mean, we've been saying, I think we said $200 million on the last call. And I think that number's $175 million to $200 million.

And so when you say, well, why was it come down, we have been able to make improvements or identify other assets in some markets that we thought we would divest, that make those markets attractive. And that has been somewhat of a surprise to us.

And so (inaudible). But we started with sort of six market areas that we weren't sure fit us strategically, an asset positioning. And we've already taken two of those off the table and said, no, we can make them fit through asset positioning improvements and performance improvements, and those are happening.

So I would tell you that number's $175 million to $200 million and we've just done $50 million of it.

And you should expect that you'll see more done in the first quarter announced as we complete that. And I would expect that the balance of what we do will be signed and/or closed by the end of the second quarter.

Corey Greendale: Great. Thanks. I will turn it over.

Operator: Chris Murray with AltaCorp Capital.

Chris Murray: Just on the E&P waste, so kind of running the 7% sequential number, so I guess that kind of gives us at least a runway into the double-digit.

But one of the things just curious about, any changes at the federal level in terms of environmental regulation? How do you think that would play into maybe slowing down that growth rate?

Ron Mittelstaedt: Well, number one, so let's back up, Chris. First off, in the E&P waste, E&P waste is the one waste stream in the United States that there is not federal regulations on.

And so each state has its own regulations with regard to E&P, and those vary from very stringent like in New Mexico or Louisiana, to less stringent like a Texas, as an example, or an Oklahoma.

So there isn't federal regulation. So in the current administration with the belief, by some, is that there'll be less stringent regulation, there already isn't federal regulation in E&P.

So I don't think there would be any slowing of that growth rate due to regulation change as it regards E&P.

Now, conversely, if you want to call it reduced regulation, accelerates the development of things like pipelines and others, which are positive drivers in the E&P space, as well as other types of permits for new development of facilities.

So I believe with regard to, certainly, E&P, that the environment is an improving one, at least regulatorily.

Worthing Jackman: Yes, we've even seen a tightening of some regulations in Louisiana with regards to folks that bring waste in from offshore.

Ron Mittelstaedt: Yes.

Worthing Jackman: And that's, again, a further driver of activity in that area. But again, this is all at the state level within the U.S., versus the federal level.

Ron Mittelstaedt: Yes. In Canada, there is federal regulation in Canada, but we do not do a lot of E&P waste in Canada.

Chris Murray: That's fine. Great, guys. Thanks. I'll leave it there.

Operator: (Operator Instructions) Brian Maguire with Goldman Sachs.

Derrick Layton: It's [Derrick Layton] on for Brian. Just a quick one for me, kind of higher level. So you'd mentioned, obviously, getting over $200 million in CapEx -- or sorry -- M&A so far in first quarter.

Could you maybe just give us your thoughts higher level on how the M&A market's looking? And then how that's kind of trending versus your expectations as you expect to see a pipeline increase from M&A opportunities from the larger Progressive footprint?

Ron Mittelstaedt: Sure. Well, for those that have followed us on a historical basis prior to the Progressive transaction, we always sort of said that, you know, $60 million to $80 million of acquired revenue was sort of a normalized year.

If you look at that, that was a 3% to 4% organic or external growth.

Worthing Jackman: And the footprint we had then, that was targeting about a $2 billion to $2.5 billion of identified opportunities.

Ron Mittelstaedt: That's right. And now what we're saying is that we've increased that to sort of $125 million plus annualized. Again, that gets you to 3-plus percent external growth.

And we've now identified about $3.5 billion of potentially available acquisition candidates that fit our profile in both the U.S. and Canada.

So we, as Worthing said, we've done $200 million in the Groot transaction. We've already signed -- we just told you about another $15 million franchise. We've signed other transactions beyond that.

I mean, obviously, we would hope and expect that this is going to end up being a strong year. We should do another, I would hope to do another $125 million-plus on top of the Groot transaction this year. But, obviously, time will tell on that.

Derrick Layton: Deal of great. That's really helpful. I'll go ahead and turn it over.

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

Ron Mittelstaedt: Okay. Well, if there are no further questions, on behalf of our entire management team, we appreciate your listening to and interest in our call today.

Both Worthing and Mary Anne Whitney are available to answer any direct questions that we did not cover, that we are allowed to answer under Regulation FD and Regulation G.

Thank you again, and we look forward to speaking with you at upcoming investment 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 line.