[WCN] - Waste Connections, Inc.,
Q1 2021 Earnings Call
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Officers
Worthing Jackman, President, CEO
Mary Anne Whitney, SVP, CFO

Analysts
Walter Spracklin, RBC Capital Markets
Kevin Chiang, CIBC
Jeff Goldstein, Morgan Stanley
Chris Murray, ATB Capital Markets
Tyler Brown, Raymond James
Adam Bubes, Goldman Sachs
Michael Hoffman, Stifel Nicolaus
Ryan Gunning, Jefferies
Stephanie Yee, JP Morgan
Noah Kaye, Oppenheimer

Presentation

Operator: Greetings, and welcome to the Waste Connections First Quarter 2021 Earnings Conference Call. (Operator Instructions). Afterwards, we will conduct a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded on Thursday, April 29, 2021.

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

Worthing Jackman: Thank you, operator, and good morning. I'd like to welcome everyone to this conference call to discuss our first quarter 2021 results and provide a detailed outlook for the second quarter.

I'm joined this morning by Mary Anne Whitney, our CFO.

As noted in our earnings release, strong solid waste pricing growth, accelerating solid waste volumes and increased resource recovery values drove better-than-expected first quarter results and an improving outlook for 2021. These tailwinds, bolstered by strong solid waste pricing retention, drove adjusted EBITDA margin in Q1 up 70 basis points higher than expected, and up 80 basis points year-over-year.

As Mary Anne will discuss shortly, a 210 basis points year-over-year solid waste margin

improvement in Q1 more than offset drags primarily from lower E&P waste activity and stock market-related deferred comp margin swings.

Adjusted free cash flow was $290 million in the period, positioning us to comfortably exceed our minimum outlook of $950 million for the full year.

Solid waste activity accelerated as we exited the first quarter, with volumes up 2.6% year-over-year in March in spite of a tough COVID-19 comp, positioning us for double-digit solid waste price plus volume growth in the second quarter.

Recovered commodity values also continued to improve. We knew that our differentiated response to the COVID-19 pandemic would leave us well positioned as local economies reopen. We are encouraged by the improving macro trends and our strong operating and financial performance as we anniversary the onset of the pandemic. COVID-19-related impacts to our business continue to abate, but most importantly, our commitment to, and support of, our employees and their families are unwavering.

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 disclosed both in the cautionary statement included in our April 28 earnings release and in greater detail in Waste Connections' filings with the U.S. Securities and Exchange Commission and the securities commissions or similar regulatory authorities in Canada.

You should not place undue reliance on forward-looking statements 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 releases for a reconciliation of such non-GAAP measures to the most comparable GAAP measures. 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 first quarter, solid waste pricing and

volume growth both exceeded our expectations, collectively up 100 basis points in the period in spite of the tough year-over-year comparisons from the strong start to 2020 that persisted up until mid-March of last year when the onset of the pandemic began to impact our results.

Core price in Q1 of 4.5%, plus about 30 basis points in fuel and material surcharges was above our outlook. Our Q1 pricing ranged from 2.7% in our mostly exclusive Western region to a range of 4% to 5.5% in our more competitive regions. Our pricing strength continues to reflect the differentiation of our market model and the consistency of our focus on execution and quality of revenue, both as volumes declined during the pandemic and as volumes have recovered. Pricing growth is expected to increase sequentially to above 4.5% in Q2.

Reported volume growth in Q1 was 80 basis points better-than-expected at negative 3.2% due to the faster-than-expected recovery in activity as local economies reopened. As expected, February volumes were impacted by the severe winter weather affecting operations in many markets, most notably in our Southern region. Adjusting for the weather-related impacts and normalizing for the extra leap year day in 2020, Q1 volumes improved sequentially by an estimated 110 basis points from Q4 and accelerated into quarter-end.

Volumes continue to be strongest in our Western region, which was up 3.8% year-over-year in Q1, similar to Q4, while sequential volume improvements were driven mostly in our Central and Eastern regions on improving trends during the quarter.

Solid waste volume growth turned positive in March, up 2.6% on inflecting landfill volumes, roll-off activity and commercial revenue, and is expected to exceed 5% in Q2.

Looking at year-over-year results in the first quarter on a same-store basis, we once again saw sequential improvements in all lines of business from the prior quarter. Commercial collection revenue improved about 200 basis points sequentially to up 1% year-over-year, with March revenue up 5%.

Roll-off pulls per day increased sequentially by about 100 basis points to down 3% year-over-year, with revenue per pull up 1%. March pulls were up 4% year-over-year.

Landfill tons improved sequentially by 400 basis points in Q1, but down 1% year-over-year due to continued strength in MSW tons, up 2%, along with sequential improvement in both C&D and special waste tons. In March, landfill tons were up 5% year-over-year with MSW and C&D tons each up 8%.

Looking at Q1 volumes from recovered commodities, that is recycled commodities, landfill gas and renewable energy credits, or RINs, excluding acquisitions, they collectively were up about 55% year-over-year due to higher values for both recycled commodities and RINs, resulting in a margin tailwind in the period of about 100 basis points.

Prices for OCC, or old corrugated containers, averaged about $108 per ton in Q1, above

the high end of our outlook. And RINs mostly stayed in the range of 2.25 to 2.50.

And finally, on to E&P waste activity. We reported $24.7 million of E&P waste revenue in the first quarter, in line with Q4 and our expectations. Q1 should be our toughest year-over-year comparison for the year, with E&P waste revenue down almost 60% in the period.

Looking at acquisition activity, year-to-date, we closed a handful of small tuck-ins in 4 states. We are encouraged by the cadence of acquisition dialogue and the high quality of potential acquisitions, both of which suggest the potential for another outsized year of such activity. Our pipeline and level of dialogue with privately-held companies both feel like record levels for us, which is no surprise given the strong recovery in these family-owned businesses, potential seller lineage transition discussions and tax-driven activity.

We remain well positioned not only for strong organic growth as economies reopen, potential above-average acquisition activity, but also for a continuing increase in the return of capital to shareholders. To that end, we have already been active in the terms of share buybacks with almost 1% of outstanding shares repurchased year-to-date. We would expect to maintain our established decade-long practice of double-digit percentage annual per share dividend growth when we undertake our typical review in October.

Now I'd like to pass the call to Mary Anne to review more in depth the financial highlights of the first quarter and provide a detailed outlook for Q2. I'll then wrap up before heading into Q&A.

Mary Anne Whitney: Thank you, Worthing. In the first quarter, revenue was $1.396 billion, about $26 million above our outlook, due primarily to higher-than-expected solid waste growth and recovered commodity values. Revenue on a recorded basis was up $44 million or 3.2% year-over-year in spite of E&P waste activity down almost $35 million.

Acquisitions completed since the year-ago period contributed about $43.7 million of revenue in the quarter or about $40.5 million net of divestitures.

Adjusted EBITDA for Q1, as reconciled in our earnings release, was $433.2 million, about $18 million and 70 basis points above our outlook at 31% of revenue, up 80 basis points year-over-year.

Underlying solid waste collection, transfer and disposal margin expanded by 110 basis points with, as Worthing noted, another 100 basis points benefit from recovered commodities. This combined 210 basis points margin expansion more than offset an 80-basis point drag from lower E&P waste activity, a 40-basis point impact from stock market-related deferred comp margin swings when comparing stock market performance in the 2 year-over-year periods, and a 10 basis points margin dilutive impact from acquisitions completed since the year-ago period.

We delivered adjusted free cash flow of approximately $290 million or 20.8% in Q1, while maintaining the outsized working capital cushion we had established as we exited 2020. As such, we are positioned to comfortably exceed our minimum full year adjusted

free cash flow outlook of $950 million that we communicated in February.

I will now review our outlook for the second quarter of 2021. 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 significant change in underlying economic trends. It also excludes any impact from additional acquisitions that may close during the remainder of the year and expensing of transaction-related items during the period.

Revenue in Q2 is estimated to be approximately $1.49 billion. We expect solid waste price plus volume growth of approximately 10% in Q2, with volume growth of over 5%, reflecting the acceleration activity that started in late Q1 and is continuing in April. Recovered commodity values and E&P waste revenue are expected to remain in line with current levels.

Adjusted EBITDA in Q2 is estimated to be approximately $468 million or 31.4% of revenue, up 120 basis points year-over-year.

Depreciation and amortization expense for the second quarter is estimated at about 13.5% of revenue, including amortization of intangibles of about $32.6 million or $0.09 per diluted share net of taxes.

Interest expense, net of interest income, is estimated at approximately $42 million.

And finally, our effective tax rate in Q2 is estimated to be about 21.5%, subject to some variability.

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 are extremely pleased with our start to the year, strong solid waste pricing growth, accelerating solid waste volumes and increased resource recovery values drove better-than-expected drove better-than-expected first quarter results and an improving outlook for 2021.

We are well positioned to benefit from supportive factors in the macro environment, including stronger-than-expected pricing growth and price retention, given inflation levels, further improvement in recovered commodity values, increases in housing and infrastructure-related activity, plus volume growth from the ongoing reopening of COVID-19-impacted markets. We are already seeing these benefits in the increased activity that began broadly in March, and we anticipate communicating an increase to our full year outlook when we announce Q2 results.

Before heading into Q&A, we'd like to recognize and thank Don Slager for his over 40 years of commitment and leadership in this industry. And with that, we appreciate your time today.

And I'll now turn this call over to the operator to open the lines up for questions. Operator?

Questions and Answers

Operator: Thank you. (Operator Instructions). Walter Spracklin with RBC Capital Markets.

Walter Spracklin: So speaking to the quarter trends, I know you mentioned above 5% for Q2. When you look at your sequential here in the weeks to start the quarter, how would that volume growth of exceeding 5% compared to the quarter-to-date trends that you're seeing right now?

Mary Anne Whitney: Walter, I'd say that what we're describing for Q2 is pretty much in line with what we're seeing, the continued improvement we're seeing in April. And what I'd say there is if we look at the trends in March and really, last year, the comps really not easing until late March, right? What we saw is 2.6% volume in March, and you'd go from there and you say a full year quarter increase would be over 5% just based on those trends. And so I'd say we're continuing to see the trends improve.

April stats include seeing trends where volumes or landfill pulls and -- landfill volumes and roll-off pulls, which were up mid-single-digits in the month of March, we're seeing up mid-double-digits in the month of April, again in line with how we would think about the whole quarter.

Worthing Jackman: Yes, we're back -- Walter, we're back to at landfill volumes above pre-COVID levels. And we start seeing mid-teens and high-teens increases in a month year-over-year, you see the kind of a snapback as economies reopen.

Walter Spracklin: Okay. That's very encouraging and I find it -- so when I look at your outlook and your decision not to increase guidance here, I know certainly, you only said it a couple of months ago. But given how encouraging it looks and your language around potentially doing that next quarter, my question is what's causing you to wait? Is it the geographies you serve? I know Canada, sitting here in Toronto, we're still in a pretty heavy lockdown. Is that what's keeping you back in terms of increasing your guidance, or is there any other factors at play here?

Worthing Jackman: No, look, we don't believe in changing our guidance every other month. It's better to see the trends play out in July, we'll see more of the economies reopen. Let's not get into a quarter-to-quarter-to-quarter type of changing our guidance. But clearly, if you look back at where we guided the year, we guided the year up 50 basis points overall the margins, and here we are out of the gate, up 80 basis points just in Q1 and guiding 120 basis points in Q2.

So put simply, the 50 basis points of the full year is already in the bag through mid-year. And so as margins increase in the second half year-over-year, that will be additive to the way we guided margins for the full year. And obviously, with half the year done and with us guiding Q3 on our Q2 call, you'll have plenty enough visibility into revenue. So we don't have to -- kind of a guessing game around revenue.

Walter Spracklin: Yes, that makes sense. And so just to confirm, there's no regional disparity that's causing you to -- that's being a drag on your results here or causing you any undue concern?

Worthing Jackman: Nothing at all, I think as you can tell by the tone in the release and the tone on the call. But if you step back, even the way we guided Q2, we're back above where we were last unaffected, COVID-unaffected quarter was Q2 of 2019 when we're looking at second quarter comparisons. And adjusted for acquisitions, we're back on a total revenue basis above where we were in Q2 of 2019, but with higher margins and that much more cash flow than was generated before.

And so the business is, as we said before, kind of a totally different business, more profitable and higher cash flows as we exit the pandemic and you're seeing in the Q2 guide.

Walter Spracklin: That's great to hear. (Inaudible) --

Mary Anne Whitney: Just one other point to elaborate on in terms of the regional differences. I'd just make the point that if I look at the month of March, that all regions improved and every one, but for our Eastern region, actually turned positive. And the Eastern was only down nominally, and that all regions were projecting to continue that sequential improvement Q1 to Q2.

Worthing Jackman: And we're not going to make a guess here about whether or not COVID-related revenue that has not yet returned, ever returns. Obviously, as New York City and some of the major metro areas in Canada get further into their reopening, or eventually get back to reopening again, you'll see that be incremental to us. And again, that's why I think in July, we're in a much better position to know how that's come back, what the trends look like for Q3.

Walter Spracklin: That's great. I appreciate the added color. Thank you.

Operator: Kevin Chiang with CIBC.

Kevin Chiang: Congrats on a good quarter here. Maybe if I could turn to your M&A comment, Worthing and Mary Anne, it sounds like another outsized year. And I'm just wondering, incrementally, just given all the tax noise in the United States, and the potential increase in the corporate tax rate specifically, just given your tax structure and you being domiciled in Canada, do you think that gives you an incremental advantage on M&A versus maybe some of your U.S. peers who might bear the full burden for that potential tax increase?

Worthing Jackman: It's not something that gets factored into valuation, if that's your question. Look, clearly, if you're a private owner and you're looking to get ahead of what could become a mid-to-high 50% capital gains rate in some states, you're looking to get transactions done prior to year-end. And so with valuations at attractive levels with kind of the Tax Act, so to speak, hanging over, there's a lot of dialogue and activity and it pushed prior to year-end.

And obviously, the one thing that folks also get concerned about is areas where you've got market overlaps. And obviously, you've seen some companies take over a year to get through the DOJ. And so especially for transactions where we have no market overlap, there's a lot higher confidence level in not having that process impede the ability to get it done prior to year-end. So there are a lot of things at play, but our structure does not come into play as we think about acquisitions.

Kevin Chiang: Okay. That's helpful. And then you made a comment as well just on not trying to guess which small businesses come back, and who ends up ultimately surviving this unprecedented, I guess, environment we find ourselves in. But you've obviously seen a pretty strong reopening here, especially in the U.S.

Just wondering, as you think about the provisions you've taken for credit losses, how is that playing out versus maybe what you would have assumed, let's say, 9 months ago in terms of how these small businesses are coming back, especially as government support measures are removed, or is it surprising to the upside? It feels like it might be when I look at maybe the credit provision -- the credit loss allowances you took in the first quarter here.

Worthing Jackman: Well, again, I think the credit losses were a lot less than feared as the pandemic started because we were very proactive in ensuring that we weren't billing revenue that may not be collected. And so we haven't really seen anywhere near the magnitude of what credit losses could have been because of the way we've tightly managed what kind of revenues we are recording and invoicing.

Kevin Chiang: Okay. That's helpful. And maybe just a housekeeping question. I saw a nice sequential improvement in Canadian core price. Just wondering is that just the timing of when price increases will push through, or is there anything else you would point to there?

Mary Anne Whitney: No, we would say that Canada, as with all of our regions, has seen very strong pricing retention and that really has exceeded our expectations. And we're certainly mindful of the lockdown in Canada, but our business has performed remarkably well in spite of that. And really no change in how we think about pricing. But again, Canada, like all of our other regions, delivered a little more price than we would have anticipated.

Kevin Chiang: Great. Thank you for taking my questions.

Operator: Jeff Goldstein with Morgan Stanley.

Jeff Goldstein: I was hoping for an update on the environment in some of your more competitive markets. Just given all the dynamics around COVID and the recovery beginning now, are you starting to see any less discipline in the market when it comes to contract bids? It doesn't appear so based on your results so far, but just anything notable to call out on the competitive landscape?

Mary Anne Whitney: Sure. Really, as we've said for the past few quarters, we've been impressed by how rational pricing has continued to be in spite of the pandemic. And I would say, in fact, on some residential bids, I think people have seen the opportunity to push pricing higher and are disciplined. And so there are -- you're seeing again rational behavior there. You always have your isolated incidents where there can be markets where it's less so, but I think if you just look at the price that we reported in Q1, and the fact that retention is higher, it's an indication of how rational the markets are.

Jeff Goldstein: Okay. That makes sense. And then I'm curious if you're seeing any changes to the labor force in terms of retention, given last year at this time, the labor market was pretty soft, but it really kept improving ever since then. So have you seen anything meaningful that's worth calling out, or just anything at all notable to mention on the labor force right now?

Worthing Jackman: Well, I'd say first and foremost, you want to keep who you have, right? And to that end, turnover improved again sequentially Q4 into Q1. That said, look, as we talk about this growth environment, you put that growth environment on top of increased seasonal needs for labor in certain markets for yard waste and a typical increase in summer activity. We are actively hiring, right? We hired more people in the month of March than we had since the month -- any month since September of 2019. And again, it's being cognizant of as growth is occurring, cognizant of hours of service and make sure you're managing that and maintaining work-life balance for our folks. Again, it's the increased roll-off activity. That's something where as demand continues to increase, you're putting more trucks and more people on trucks to cover it.

So no, it's -- look, labor is always an issue, labor availability, it's going to get more acute. I think Waste Management mentioned the same thing. But the important thing is for our companies and others is to stay proactive and ahead of that curve. And as you know, it's not just about what you pay because we were very proactive last year in raising minimum wages, targeting wages to $15 an hour and other ancillary benefits and other things that make that economic package attractive. But it's also the culture of a company and most importantly, leadership. And so we want to make sure it's a great place for folks to work and pick us over other alternatives they might have.

Jeff Goldstein: All right. I appreciate the color.

Operator: Chris Murray with ATB Capital Markets.

Chris Murray: Maybe turning back to your free cash flow commentary, in the quarter, the conversion rate was pretty high, north of 20%. And I know we've had this discussion in the past, and I think, Worthing, you've sort of cautioned when we have these quarters to

maybe not get ahead of ourselves. But I'm just starting to think about the inputs and whether or not the quality of your revenue has changed in any way over the last year. And as we get reopening and maybe pick up some tailwinds from E&P and recycling, whether or not we should be thinking what used to be maybe 17% to 18% conversion is going to be a bit higher?

Mary Anne Whitney: Well, I'll start, and then to Worthing. To your observation or acknowledgment, Chris, that any individual quarter isn't necessarily indicative of the whole year, your reminder of the timing of interest and tax payments and why Q1 is always a very strong quarter. That being said, we did emphasize that that working capital cushion that we had talked about being outsized at year-end, really didn't dissipate and didn't abate in Q1. And so what that suggests is the strength of the underlying free cash flow.

And to Worthing's point about when we think about the full year and our ability to attain the level that we talked about in February, we feel very comfortable talking about that.

Worthing Jackman: And again, as you know, we talk about conversion percentages of EBITDA. For us to be converting north of 52%, 54% or so of EBITDA to free cash flow, that is a quality that no other company can attain, or has attained. But to your point about is there a different quality of revenue coming out of the pandemic, as I noted earlier, again, ex acquisitions, we're again back at or above where we were in Q2 of 2019 with higher margins and higher free cash flow generations, which shows you there's been a little improvement in the quality of revenue and the profitability and cash flow flowing from that as we come out of the pandemic.

Chris Murray: Okay. That's helpful. And then one other question for you. I know both in Canada and the U.S., there's been some discussion about maybe going back and looking at greenhouse gas emissions. And I know that's been changing back and forth with regulation. But how would you characterize your thoughts around landfill gas emissions and your approach to thinking about what you're doing today and what you might have to do in the future, just to address any changes in regulation or any tightening of it?

Mary Anne Whitney: Well, we'd start by saying, of course, this is a highly regulated industry, and typically, incremental regulation benefits well-capitalized companies. And we do a lot of things to make sure that we're performing at or above the standards that are out there. And as you know, we see it as an opportunity to continue utilizing the gas that's generated at our landfills and capturing that and monetizing it. And as we've all discussed in this environment, it's an ideal time to be doing that.

But frankly, we've all been doing that, and it's part of how we run our business. And to the extent we can do more landfill gas projects, the high-Btu gas projects, that's just an incremental opportunity.

Worthing Jackman: And look, I think us and other companies, look, we all try to reduce fugitive emissions coming off the site that [won't be] captured. And to that end, we increased use of temporary synthetic gas to again reduce the migration of gas out of the

landfill, other than what's being captured. And so -- and again, as folks may have read in our ESG report that we put out last year, reducing emissions and kind of the release from the landfills, is a key priority of ours.

Chris Murray: All right, folks. Thanks for the time.

Operator: Tyler Brown with Raymond James.

Tyler Brown: So I think both Waste and now you have talked about maybe slightly better pricing out of the gate. I think you mentioned it was retention. I thought you tended to allocate churn toward volume and not price, but I don't really want to go down that rabbit hole here. But what lines or types of markets are you starting to see this in, because I don't think it's CPI. That's actually probably a slight negative. So is it really the competitive side? And just any thoughts on the types of lines that you're seeing in that step-up?

Worthing Jackman: Right. It's obviously -- therefore, it is a competitive market. Look, it's not unusual for -- if a location may believe they're going to price or deliver 4% price to put 4.4% price or so on the Street, and expect some sort of rollbacks on the implementation for a piece of that price increase. And again, as we said before, price retention is at its highest because we're not seeing the amount of rollbacks we've typically seen. And so that's not a churn issue; that's just a retention of price being stronger than in prior periods.

Tyler Brown: Yes. So right, that's a good clarification. So retention is more on rollbacks, churn is completely different. So that's helpful.

Worthing Jackman: Right.

Tyler Brown: Okay. So Mary Anne, you obviously do a great job on bridging the margins. I love it, it's very helpful. So how do we think about the commodity benefits for the rest of the year? So I think you got 100 basis points here in Q1, but if you were to baseline prices today, what would that be in Q2, 3 and 4 because if I'm not mistaken, OCC prices were a little bit wacky last year. I think they actually stepped up in Q2, came down in the back half.

Mary Anne Whitney: That's exactly right, Tyler, and that's a great observation. That will impact the behavior quarter-over-quarter or year-over-year in each quarter. And to your point, if I look at OCC, just starting there, it's the toughest comp in Q2. It's actually twice as high; Q1 to Q2 last year went from around $55 a ton to up to $110 a ton, so toughest comp in Q2 and then steps down over the course of the back half of the year.

RINs not quite as volatile, so that will smooth it a little bit. But if I look just at Q2 and where we are, even though recycled commodities and RINs have stepped up some Q1 to Q2, I think the impact would be similar in Q2 as it was in Q1.

Tyler Brown: Okay. So 100 basis points in Q2 is embedded in there. And then any thoughts about the back half just based on the current baseline?

Mary Anne Whitney: Sure. So it drops off -- as you'll recall, we guided to 60-basis point benefit starting with 80 in Q1. And so what this suggests is at the current baseline, it's a little better than that, but it drops off over the course of the year.

Tyler Brown: Okay. Okay. That's helpful. And then not to nitpick, but did the leap year last year, so was that actually a margin help this quarter? Was that like a 50-basis point help to solid waste margins?

Worthing Jackman: Yes, so I think it was 30 to 40, and that was incorporated in our guide, right? Because I think we all knew the leap year comparison was there when we guided in February.

Tyler Brown: Right. Okay. I just wanted to make sure I had that. And then the last one here -- so Worthing, it's interesting, I think both you and Waste Management, and frankly, I've even seen it out of some of my transports, they've had a really slow start to the year on the CapEx side. So I'm curious if you're having problems related to truck production issues with the semiconductor shortage. Basically, do you actually think you'll be able to spend the full $625 million this year?

Worthing Jackman: Oh, we'll spend it.

Tyler Brown: (Laughter). Okay.

Worthing Jackman: We've already -- the question will be is there's a mix shift a little bit. Obviously, we've had some opportunities to buy additional pieces of property. We've already gone in and for traditional yellow iron commitments and really got a head start on 2022 this year. We're anticipating some trucks to shift out of this year into next year just because of the timing of deliveries. Look, if you -- if someone were to start today and put a new order in, chances are you get the chassis in early Q4, and you get the full unit with the body sometime in Q2 next year, right? And so clearly, the lead times have stretched out.

But obviously, we were ahead of this year's requirements because we got a very early start last year in making our commitments for 2021, much like we've already done making our commitments for most of 2022.

Tyler Brown: Okay. So you'll spend it. All right.

Worthing Jackman: Oh, we'll spend it.

Tyler Brown: Yes, thank you.

Operator: Jerry Revich with Goldman Sachs.

Adam Bubes: This is Adam Bubes on for Jerry today. And congrats on a great quarter. I was wondering if you could help me think about potential to accelerate landfill gas development and put that in context of where you are today on that front?

Worthing Jackman: Sure. As we've said for a while now, we've got a handful of projects that we've been working on for 4 to 5 years by now. The first one -- or the next one, I should say, of any size will likely come online in late 2022 or early 2023. We've got -- beyond that one, we've got 3 or 4 other ones that are within the span of our sustainability report that we put out with our targets that we laid out. And so I think the number of opportunities that we talk about are 4 to 5 in total. That's not too dissimilar to what I heard coming out of Waste Management the other day, but you got to remember, we have about a third of the number of sites they have. And so, no, we've got a great opportunity ahead of us. These planning cycles take time. Sometimes you're timing the launch of a project based on permitting, landfill permit expansion conversations you're having with municipalities. And so it's not clear-cut as saying, all right, let's go build one tomorrow and put a shovel on the ground, right? And again, yes, the economics are attractive at these levels.

But you've got to remember, the economics are attractive at the lower RINs over the past couple of years as well. Instead of a 2 or 3-year payback, maybe it would have been a 6 or 7-year payback, but even a 6-year payback is attractive at the lows that you saw RINs hit a year or two ago.

Adam Bubes: Okay. Thank you. That color is really helpful. And then lastly, can you help calibrate me on where commercial industrial and residential volumes are versus pre-pandemic levels?

Mary Anne Whitney: Well, as we mentioned, when we look at data points like our roll-off pulls and our landfill tons, we're at or about close to or, in some cases, exceeding where we were pre-pandemic. So they've largely come back to those pre-pandemic levels. Commercial, probably not quite the same, a little slower because you don't get that real-time movement, but everything is trending positively.

Worthing Jackman: Yes, our most recent full-month data for the commercial sales side, I think we're running about 140% of budget. And so it just gives you a sense of what's happening on the small container side as well.

Adam Bubes: Great. Thanks so much.

Operator: Michael Hoffman with Stifel.

Michael Hoffman: So I start out with more of a comment. I think, Worthing, you've been at Connections for 17 years. And in that 17 years, you’ve set a policy you're going to do guidance at the middle of the year. And to be very clear, you're standing by that policy?

Worthing Jackman: Well, we'll confirm that once this call ends, right, you won't hear anything from us. Yes, we're going to update it on our Q2 call. Obviously, people can -- it doesn't take a genius to knit together what's going on the margin side and what's going on the revenue exceedance. And we'll have better insight on that, and we'll do one update in July for the balance of the year.

Michael Hoffman: Which you've done for 17 years. So people should read through

particularly --

Worthing Jackman: That's been 18 years, but -- it's been 18 years, but I'll give -- COVID was, I guess, a non-year, so we'll skip COVID year.

Michael Hoffman: (Laughter). And just to help frame this a little bit, typically, your first half is 48% of the full year EBITDA and the second half is 52%. And based on adding 1 and 2 together, you're at 50% of the current guide. So read through as you choose.

Worthing Jackman: Yes, it's tough to know kind of the sequencing quarter-to-quarter this year, just given the quirkiness of the pandemic and reopening and things like that. But look, you saw the revenue be relative to our expectations in Q1. If you annualize just that, that's what, about $100 million or so in revenue. We'll see if that still stays the case when we re-guide in July. And obviously, the margins, as I said before, we guided 50 basis points up for the full year. We're already at that point by midyear and so there's likely margin upside too to how we guided.

Michael Hoffman: On inflation, have your vendors been able to push through any of it yet, or is this something that probably shows up in the 2022 capital spending?

Worthing Jackman: It depends. On the capital side, the trucks that we had, as I talked earlier about getting a head start on the orders in 2020 for 2021, we had already locked in much of the pricing for the fleet that was in production this year. But to the extent that we put new orders in after the surcharges got implemented, those will be subject to that. But for the bulk of our CapEx, at least in the fleet side this year, we had the pricing already locked in ahead of that.

Michael Hoffman: And in 2018, the industry saw 3 points of inflation happen real-time and you particularly led the way with an incremental open market pricing. Do you see any need to do that based on inflation issues, or is the fact that your retention is so good, you're covering it anyway?

Worthing Jackman: Well, if you look back, we talked about -- second half of last year, we talked about pricing being kind of 3.5% to 4% this year with a bias for 4%, and here we are sitting at, call it, 4.5%. And so the way this year is playing out, we're already attaining higher-than-expected pricing because in some cases, we're also anticipatory of some inflation pressures out there, some likely wage pressures because again, we started -- we had a huge head start on wages last year, the way we pushed up wages and other support for the field. And so, no, to the extent that we continue to see an increase above and beyond what we have currently anticipated, and we're already anticipating above-average wage pressures, obviously, it suggests the market is bearing it. Look no further than a P&G or other consumer product companies that have already telegraphed an 8% or 10% price increase in their business this year. And so again, at 4% -- people look at 4%, 4.5% and say, wow, that's so attractive. But you start looking around at the landscape, and that doesn't look so big anymore.

But I also note, look, we're also cognizant of the power of volume when it comes to margin flow-through, right? Because you can't just look at price and say, hey, I can't -- I

don't have the ability to recover the volume. You're seeing the high flow-through in the recovery. We look no further than our Western region, which, as Mary Ann said, had positive volume in Q1. You just look at our 10-Q and see that the region -- the margin performance year-over-year in our Western region was up over 200 basis points in EBITDA margins, again, on the lowest price.

And so it's always not just about price. It's about again, quality of revenue and the flow-through and the pricing of that flow-through on incremental volumes.

Michael Hoffman: And just to remind everybody, the lowest price is because a lot of that business was indexed. So it's leverage --

Worthing Jackman: Correct, on a lagging basis. And so obviously, if inflation increases this year, you'll get the higher indexed pricing for next year.

Michael Hoffman: And then Mary Anne, switching gears to the guide for 2Q, if I think about the mix between countries on volumes, are you expecting Canada to turn positive, one, off of the negative in 1, 2Q? And then it would suggest even if it was marginally positive, the U.S. will be nicely positive, like 6% to get to a 5 (inaudible)?

Mary Anne Whitney: Sure. So what we're expecting, Michael, is sequential improvement in all of our regions. And I tend to think of the more impacted regions being Eastern and Canada, both still lagging the overall reported volumes. And just off the top of my head, just trying to remember if it actually is positive.

Worthing Jackman: Well, it's positive. Canada was positive in March.

Mary Anne Whitney: Yes, positive in March. So yes, you're right, positive for the full Q2. That would be the expectation. And taking a step back, the strongest sequential improvement we're expecting Q1 to Q2 is actually in those lagging markets, so between the Northeast of the U.S. and also in Canada.

Michael Hoffman: Okay. And then back in the market that's doing renewable gases, and it's making a big deal about this opportunity in landfill gas. And I'm just curious, you all are developing your own. Waste is going to develop its own, and I expect the others do too. So are they trying to horn in on something here? Is there an opportunity maybe to offload some of the volatility by letting an outsider develop it and capture royalties? How do you think about all that in the mosaic of developing these projects?

Worthing Jackman: Sure. Well, again, as you know, landfill gas has been captured for a long time. And going back in the old days, look, gas had been captured. In many cases, we may have JV'ed already with a third party to come in who wanted to [build] back then this thing called a power plant and generate electricity, right? And so we had a revenue share agreement in place with those folks. And so we already have the gas in those sites already committed to on the contracts. Now when those contracts expire, we have a chance to reevaluate either the revenue share or what we want to do with the gas, right? And so I'm not surprised at the number of opportunities when people talk about what can be done, you're not hearing about 80 new plants can be built for each company because

so many projects have already been committed to. And so it's landfills where you either have existing contracts waning, or you've got landfills that are finally generating enough gas that it makes sense to do a renewable plant.

But again, this is not something new. Everyone's got a different portfolio. But obviously, as the revenues increase, and the value of royalties in those locations increase. So no, it's not like again, oh, let's go capture gas because it has value. That's already in the system.

Michael Hoffman: And to put this in context, you have a lot of landfill gas operations; you have very few high-Btu, and it's the high-Btu that is drawing all this attention because that's where the RIN comes. The traditional pull it off, low-Btu, turn it into electrons, put it into the grid, doesn't have a RIN play in it.

Worthing Jackman: That's correct. That's a good way to think about it.

Michael Hoffman: Right. And that's the difference that everybody ought to be paying attention. Okay. In the free cash flow upside, how much is going to be from operations on solid waste versus resources?

Worthing Jackman: We haven't broken out the different components because again, even on resource recovery, for instance, we're looking at building a new recycling facility that we'll break ground on during -- probably in the next few months. And again, how do you allocate that CapEx to just resource recovery, right? And so we look at it holistically with regards to where the cash flow is coming from.

Michael Hoffman: Okay, nice start. Thanks.

Operator: (Operator Instructions). Hamzah Mazari with Jefferies.

Ryan Gunning: This is actually Ryan Gunning on for Hamzah. Could you talk a little bit more about the ESG goals and the investment you highlighted, and what might be misunderstood by some aggregators that you think other constituents like ESG fund managers should be more aware of?

Mary Anne Whitney: Sure, happy to do so. And I would say, in general, we're really encouraged by the amount of dialogue and focus there is on ESG, and the targets that we laid out in October in our updated sustainability report because we think that as a -- not just for us, but for the industry as a whole, the recognition of the fact that we're doing things like landfill gas projects in the ordinary course of business -- and we have been for years -- is probably the single-most misunderstood or under-appreciated aspect of what landfills do and what we're already incentivized to monetize to capture. Worthing talked about increasing that capture. Those are all good things for us because they create more value. And so we're -- I would say that is one aspect that's probably less appreciated, or was, and is now more appreciated.

So that's one of our goals, to your point, was to increase that biogas recovery by 40% and these are long-term 15-year goals. Another was increasing our resource recovery capacity and processing. As Worthing mentioned, we look at those projects, whether it's buying

recycling facilities, which we bought a couple of over the past couple of years, to internalize more of our own recycling and structure the business to be able to derisk that aspect of the business in terms of processing fees. So that's a good thing for us as a company, and we're happy to do -- we have more recycling capacity and provide that service for our customers. So increasing that by 50% and then also increasing the processing of our leachate onsite where we talked about getting it to 50% onsite, we think that's a prudent thing to do. It makes sense financially, environmentally, getting trucks off the road, trucking leachate to third-party facilities, and it derisks that aspect of the business as we move forward.

So those are the types of things we're doing in conjunction with also on the social side, the importance of safety. We've been focused on all of these things for years. We're happy to outline them and talk about continuous improvement in our safety metrics and how we think about the employee engagement with our service leadership scores and the importance of culture. Again, we're happy to describe them as being part of an ESG platform. We really view them as part of running a good business and things that we would be doing regardless of the focus on ESG.

Worthing Jackman: Yes, and we applaud the sell-side in getting out the message. When you say what's misunderstood, the aggregators, probably a lot because aggregators don't talk to us.

Ryan Gunning: Got it. Thank you. That's all super-helpful. And then switching over to the E&P business, and it's a different backdrop in energy since you purchased that business. Can you just talk about like what large margin impact is there, and what the synergies of that asset are with the rest of the portfolio?

Worthing Jackman: Yes, look, it's a landfill-based business, right? We said it from day one. We're not in the liquid side, we're not in the rig side, top side. We are a disposal-oriented company and so it's -- we take E&P waste at several of our traditional MSW sites as well. And so from an operations standpoint, it's no different from moving people around between different types of landfills, it's no difference. Look, when E&P dropped last year, we were able to just reassign and relocate many folks from the E&P business to backfill openings within our landfill network.

And so no, it's -- again, we talk about it. It's more just the landfills. I think of it as a special waste stream that can swing a little bit more than others. But no, it's right down the center of the fairway with regards to landfill and disposal.

Ryan Gunning: Got it. Thank you guys so much.

Operator: Stephanie Yee with JPMorgan.

Stephanie Yee: I just wanted to follow up on that E&P question. I guess your guidance is saying that you're expecting E&P levels to be in line with where things are currently, but I think rig counts have been moving up. So I was just wondering if you're seeing any green shoots in E&P waste activity in your business, or you're expecting that to come through kind of maybe in the back half of this year?

Worthing Jackman: Yes, we think it may come through in the back half of the year. Our guys are confident about that, but we would never guide that. I'd rather see it happen versus provide that in any sort of outlook. And so the volumes in the site are actually up, but as we saw in the last downturn -- or the prior downturn, the price per ton is down. We saw about a -- last downturn, if you go back several years ago, I think pricing compressed some 15% or 20%. And we've seen a similar compression on that side in this latest downturn. But then as the rigs continue to come online, as more and more volume gets out there, you see both the recovery of price as intersecting with that higher ton coming into the site. And so we expect an improvement in the second half. Again, we would never factor that in our guidance.

The other important thing though is from a margin standpoint, as we've guided the business and operated in this downturn, we actually brought the business to margins that are at or above reported margins for the full company. And so our folks have been very proactive at managing in this latest cycle.

Stephanie Yee: Okay. Okay. That's helpful. And I was just wondering if you're baking into your guidance any costs coming back? I know we've talked about labor, but just any routing efficiencies or productivity or cost cuts that you made during the pandemic? Are you baking any of that coming back in the second quarter? And maybe that's being offset by the benefits from recycling and RIN prices on the margin front?

Mary Anne Whitney: No, when we think about margin expansion in the underlying business, we would say that some of those costs are coming back in. We've had -- if you look at Q1, there were so many line items that were down year-over-year as a percentage that helped to drive that margin expansion. And there are some things that are coming back in and one that we've talked about is medical expenses, for instance, where we've seen that, that run rate, which declined, those costs declined pretty dramatically during the pandemic, and we've talked about it for the past few quarters. They continue to come back. So that's one example. I'd say there's some discretionary costs, travel, meetings, a little bit, that's coming back in. And we look forward to those costs coming back in, which is why when we talked about communicating our full year expectations, we said we factored in some of those costs coming back in. So we'd expect that to increase over the course of the year.

Stephanie Yee: Okay. Okay, great. Thank you.

Operator: Noah Kaye with Oppenheimer.

Noah Kaye: Worthing, when you say the M&A pipeline and level of dialogue with privates feel like they're at record levels, and we have the context of what M&A has been for this company in its history, I pay attention. And so I want to spend a little bit more time on that, if you don't mind.

First, kind of to better understand how you might think of the cadence of some of these M&A opportunities getting signed over the course of the year, does it feel kind of back-half weighted? Do you think there will be some considerations again around potential tax

law changes that impact the timing of when they get done, 4Q versus 1Q? Just what's your sense in terms of cadence for the year?

Worthing Jackman: Yes, I think the cadence is consistent with what we said in February and earlier on the call today, which is, look, it's back-half weighted from a closing standpoint, which actually means more contribution rollover into 2022 versus contributing this year. But again, to your point, the potential tax law changes, especially with regards to cap gains, is a driver for folks to get in the queue. And so again, when I look at the number of opportunities that we continue to speak with, when I see the conversion of those to letters of intent in order to get into diligence, again, it's just a -- it continues to increase month to month to month as you move through the year.

But again, look, as we've always said, we'll [lock] down our typical $125 million and $175 million or so of acquired revenue to start chunking it up to $250 million, $300 million or $400 million, you've got to get a handful of companies that are in that $50-plus million range in order to start chunking it up like that. And so that's a big swing. It's going to be how many of those ultimately do get done versus don't get done. And so again, the range of likely to possible is probably also as wide as it's ever been.

Noah Kaye: And your confidence level at this point in some of those chunk years getting done this year, where would you put it at?

Worthing Jackman: Again, I would never -- we always say, never assume we get deals done; many things can happen along the way, right? But clearly, things are quite active.

Noah Kaye: Yes, maybe any question is easier to answer. I think we've certainly seen over the past couple of years, some of the larger deals in the space take a longer time in terms of the regulatory process, DOJ reviews, things like that. Since you have a little bit of a different market footprint than some peers, can you just comment on how you might see that more or less impacting the pace of some of these deals that you're looking at?

Worthing Jackman: If you look at both the transactions I think you're referring to, those were multi-market, multi-state acquisitions, where given who the acquirers were, there were natural overlaps across a handful of states, right? And so the level of review was protracted. And obviously, you put COVID on top of that and changes now with the DOJ with a changed administration, things just got dragged out in those cases. And so what our bread and butter are doing, primarily doing, again $20 million to $40 million revenue transactions episodically, companies that are north of $100 million.

But if you step back, those are companies that are primarily in singular markets and singular geographies and so -- and in those cases, we've not overlapped in those geographies, right? And so it's from a DOJ, getting through the deals, we don't control their timing of how quickly they'll pick up a call and review it. But hopefully, the process to get through the DOJ is not as cumbersome as what I would call these multi-state -- larger multi-state transactions that our few larger peers did.

Noah Kaye: Okay. And I guess just a last kind of related one around capital allocation flexibility. We've always thought M&A after the dividend was kind of the first and best

use of capital for this company. If there's not a meaningful increase in M&A or buybacks, the leverage is going to be well below what it's historically been, which is kind of a credit to the cash flow performance of the company.

So I guess, in general, we don't want to hold necessarily any specific leverage target, but might we see maybe a little bit lower leverage trend than usual just to give yourself some flexibility around the uncertainty of the timing of some of these deals closing? Is that a fair way to think about it as we look to the back half of the year?

Worthing Jackman: No, as we said on the call, we've already repurchased about 1% of our shares this year. And so those who do the math on that outlay, when you put the dividend on top of that, and then you look at the -- again, when I said the range of likely to possible is wide. When you go to the possible side, it's over $1 billion in outlays, right, and so on M&A. And so it's just -- it's a hard number to peg right now, but the good news is we can do all the above. Even if we did what's possible, which again, low probability, but what's possible, our leverage still probably doesn't even touch 2.5x on that basis. And so again, we've got great flexibility. We're not trying to take leverage down near term, and we've deployed a lot of capital, return the capital to shareholders already. And again, the M&A outflows are still ahead of us. And again, cash is still building into this.

Noah Kaye: Great. Well, thanks very much for the color. Take care, everyone.

Operator: Mr. Jackman, there no further questions at this time. Please continue with your presentation or closing remarks.

Worthing Jackman: Okay. Well, if there are no further questions, on behalf of our entire management team, we appreciate your listening to and interest in the call today. Mary Anne and Joe Box 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 applicable securities laws in Canada.

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

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