Waste Connections, Inc.
Q1 2024 Earnings Conference Call
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Officers
Ron Mittelstaedt, President & Chief Executive Officer
Mary Anne Whitney, EVP & Chief Financial Officer

Analysts
Tyler Brown, Raymond James
Sabahat Khan, RBC Capital Markets
Michael E. Hoffman, Stifel
Kevin Chiang, CIBC
Noah Kaye, Oppenheimer
Bryan Burgmeier, Citi
Hilary Lee, Morgan Stanley
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Jack Wilson, Truist Securities
James Schumm, TD Cowen

Presentation

Operator: Good morning, everyone, and welcome to the Waste Connections, Inc. Q1 2024 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please also note today's event is being recorded.

At this time, I'd like to turn the floor over to Ron Mittelstaedt, President and CEO. Please go ahead.

Ron Mittelstaedt: Okay. Thank you, Operator, and good morning. I would like to welcome everyone to this conference call to discuss our first quarter results and to provide a detailed outlook for the second quarter. I am joined this morning by Mary Anne Whitney, our CFO, and several other members of senior management.

We are extremely pleased by the strong start to the year, driving better-than-expected operating and financial results, which, along with recently-completed acquisitions, positions us well for the remainder of 2024.

Adjusted EBITDA margin expansion of 160 basis points to 31.4% in the seasonally weakest quarter of the year puts us on track to exceed our industry-leading full-year margin outlook of

32.7%, as continuing improvements in employee retention and safety trends, along with rising commodity values, provide momentum for continued performance.

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

Mary Anne Whitney: 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, including forward-looking information within the meaning of applicable Canadian securities laws. Actual results could differ materially from those made in such forward-looking statements due to various risks and uncertainties.

Factors that could cause actual results to differ are discussed both in the cautionary statement included in our April 24 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 Ron.

Ron Mittelstaedt: Okay. Thank you, Mary Anne. As noted earlier, we're off to a great start in 2024 by any number of measures, beginning with our financial results. Always set up for industry-leading outsized margin expansion during the year, we delivered a top-to-bottom beat in the quarter with adjusted EBITDA margin 20 basis points above our outlook, and momentum for continued outperformance from a number of drivers. And this was all achieved in spite of significant weather impacts in January and early March.

Along with better-than-expected financial results, we saw continued improvement in trends for employee retention and most importantly, safety. In Q1, voluntary turnover once again stepped down sequentially, making the sixth consecutive quarter of improvement to levels, which are now 30% below the peaks we saw in late 2022.

Similarly, we saw continued improvement in safety, with incidents rates declining for the seventh consecutive month. In fact, during Q1, we achieved some of our best safety performance in years, with monthly incidents down to 3-year lows in spite of outsized growth from acquisitions during that period. We believe these results reflect our commitment to a culture of accountability with an empowered and engaged employees.

To that end, we're excited about the steps we've taken to support employee growth and development with expanded training, including through our in-house driver academies, the second of which will open this summer, and our Diesel Technician School Partnership offering. We expect that these internal efforts will augment the improving dynamics we've seen in employee recruiting, resulting from additional resources and targeted efforts.

As noted previously, the progress in retention and safety we're seeing today, positions us to unlock future benefits from improving costs in risk management, along with continued and expected growing savings across several areas, including labor, maintenance, and third-party services, all of which we are seeing in the financials today.

Moving back to our financial results, starting with organic solid waste growth, in the first quarter, we delivered solid waste core pricing of 7.8%. And to be clear, our core price is what we actually retained, not what was implemented, which in other models, gets reduced by churn to calculate yield. Our price retention was in line with our expectations, and continues to reflect the resilience of our market model.

Similarly, reported volume growth of negative 3.8% was in line with our expectations following extreme weather events primarily during January, which we believe impacted reported volumes by about 100 basis points beyond what we would consider typical levels of ongoing purposeful shedding.

Looking ahead to Q2, we would expect a sequential step-up in reported volumes of about 100 basis points, assuming a typical seasonal ramp in activity. And as a reminder on volume calculations, our reported volumes are strictly solid waste volume changes, not RNG, E&P, recycled commodities, or acquisitions until after we've owned them for 12 months. Companies calculate volumes differently, and they may view them differently.

As discussed in previous quarters, our outsized growth over the past few years has created the opportunity for improving revenue quality and otherwise right-sizing newly-acquired locations. Depending on the market, purposeful shedding and contract non-renewals may provide multiyear tailwinds for margin expansion, along with improvements in asset utilization and operating efficiencies. We look forward to similar opportunities from acquisitions that fit our strategy and meet our financial criteria as we maintain our focus on long-term value creation.

We continue to see high levels of seller interest, and have a robust pipeline of solid waste opportunities across our regional footprint. As noted, acquisition activity has already contributed to our strong start to the year, with approximately $375 million in annualized revenue completed to date. In addition to the secure energy divestitures we acquired in February, we've completed acquisitions of over $150 million in annualized solid waste revenue, including a new market entry providing services to customers in Indiana and Southern Michigan.

The strength of our financial position and free cash flow generation provide flexibility for continued acquisition outlays in 2024 for what could be one of our busiest years ever, along with continuing to increase our capital to shareholders.

Beyond M&A, we continue to make progress on our development of multiple renewable gas or RNG facilities, three of which are scheduled to be operational this year. In spite of industry-wide delays related to equipment and utility installations, we continue to anticipate an incremental $200 million of annual EBITDA beginning in 2026 from the projects in development on a commensurate capital outlay. As noted previously, $150 million of that CapEx will be deployed in 2024, and has been factored into our full year free cash flow outlook.

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 will then wrap up before heading into Q&A.

Mary Anne Whitney: Thank you, Ron. In the first quarter, revenue of $2.073 billion was about $23 million above our outlook, due primarily to incremental acquisition contributions and higher recovered commodity values. Revenue on a reported basis was up $172 million or 9.1% year-over-year.

Acquisitions completed since the year-ago period contributed about $81 million of revenue in the quarter, or about $78 million net of divestitures.

Solid waste organic growth was led by 7.8% core price, which ranged from over 5% in our mostly-exclusive market Western region, to up to 9% in our competitive markets. Total price of 7.1% reflected a reduction of about 70 basis points in fuel and material surcharges, primarily related to lower fuel rates.

We have high visibility for full year 2024 total price in the range of 6% to 7%, with 75% of our core price either already in place or specified by contract, and is pretty typical for us by this point in the year.

Solid waste volume losses of 3.8% in Q1 include about 1% from January's storm-related closures and other weather impacts that resulted in volume losses to varying degrees across all of our geographic regions beyond the ongoing purposeful shedding and price volume trade-off.

Looking at year-over-year results in the first quarter on a same-store basis, daily roll-off pulls were down 3%, driven by outside declines in our most weather-impacted markets in our Mid-South and Eastern regions. And daily landfill tons were down 6% on lower special waste activity and C&D tons, both of which were down about 15%, while MSW tons were flat in spite of the weather impacts noted.

Looking at special waste and C&D, the year-over-year slowdown in Q1 was widespread, but most notable in our Central region and Canada, both of which benefited from outsized activity in prior-year periods.

We saw improving trends in both roll-off pulls and MSW tons during the quarter, beginning with January activity down high-single-digits due to severe weather, and ending with March about flat or up nominally on a year-over-year basis. And in our Western regions, the best barometer of underlying activity, given the nature of franchises, reported volumes were positive in Q1 in spite of the weather impacts in January.

Beyond solid waste, revenues played out slightly better than expected in Q1, with recycled commodities, landfill gas, and renewable energy credits, or RINs, collectively up about 50% year-over-year, on recycled commodity values up around 15% from earlier this year. Prices for

OCC, or old corrugated containers, averaged about $130 per ton in Q1 and RINs averaged about $3.10.

Adjusted EBITDA for Q1, as reconciled in our earnings release, was $650.7 million, up 14.8% year-over-year, and about $10 million above our outlook. At 31.4% of revenue, our adjusted EBITDA margin was up 160 basis points year-over-year and 20 basis points above our outlook. These results include an estimated 40-basis point margin drag related primarily to the extreme weather-related impacts noted. Therefore, on a normalized basis, margins were up 200 basis points year-over-year.

Net interest expense in the quarter increased by $10.8 million over the prior-year period to $76.4 million, due to higher outstanding debt and increased interest rates as compared to the prior-year period.

During Q1, we completed a public offering of $750 million of senior notes, with proceeds directed to floating rate debt repayment, reducing borrowing costs by over 100 basis points. Our current weighted average cost of debt is approximately 4.15%, with an average tenor of over 10 years.

We ended the quarter with debt outstanding of about $7.9 billion, about 19% of which was floating rate, liquidity of approximately $830 million. And our leverage ratio, as defined in our credit agreement, was about 2.8x debt to EBITDA.

Our effective tax rate for the first quarter was just under 21%. The Q1 rate, as expected, included a benefit to the provision related to excess tax benefits associated with equity-based compensation. In addition, it reflected the impact of an investment tax credit associated with an RNG facility expected to begin service during the year, which has about a 70-basis point benefit to our effective tax rate for 2024.

And finally, adjusted free cash flow of approximately $325 million was in line with our expectations and our full year outlook of $1.2 billion, as provided in February.

I will now review our outlook for the second quarter of 2024. 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 in the range of $2.2 billion to $2.225 billion. This includes solid waste price plus volume growth of approximately 4%, from total price of 6.5% to 7%, on core price of 7% to 7.5%, and volume down 2.5% to 3%.

Adjusted EBITDA margin in Q2 is estimated at approximately 32.5%, up 140 basis points year-over-year.

Depreciation and amortization expense for the second quarter is estimated at approximately 12.8% of revenue, including amortization of intangibles of about $44 million, or $0.13 per diluted share net of taxes.

Interest expense and net interest income is estimated at approximately $82 million for the second quarter. And finally, our effective tax rate in Q2 is estimated at about 23.5%, subject to some variability.

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

Ron Mittelstaedt: Thank you, Mary Anne. When I returned to this seat 1 year ago this week, I emphasized the importance of the decentralized operating model and culture of accountability that has served to drive differentiated results since our beginnings as a company. Reflecting on the progress that has been achieved over the past 12 months, I could not be prouder of our local teams. Although we've added to the playbook and made some organizational changes, we've mostly reinforced our vision and values, and as we say, doubling-down on human capital.

And you've seen the results in our most important operating value. As reported in March, the lowest number of safety incidents that we've seen for 3 years, in spite of adding over 3,000 employees during that same period. So I want to conclude by thanking our 23,000 employees who put safety first every day, and whose commitment to accountability is evident in not only what they say, but what they do, as demonstrated by delivering such a strong start to 2024.

With solid waste pricing largely in place, improving operating trends, higher commodity values, and the benefit of what could be a record year of M&A, we are well positioned. That all said, we believe it's appropriate, as in the prior years, to wait until our Q2 earnings release to consider updating our outlook for the full year.

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: Ladies and gentlemen, we'll now begin the question-and-answer session. (Operator Instructions). Tyler Brown from Raymond James.

Tyler Brown: Obviously, margins up 160 basis points, a great start to the year, particularly given the drag from weather. But I was just hoping we could get a little bit more detail maybe on some of the puts and takes in the quarter because I do assume that maybe fuel and recycling, M&A, were all slight tailwinds, but just any additional color would be helpful.

Mary Anne Whitney: Sure, Tyler. So the way we think about it, as we said in the remarks, think of it as 200 basis points, excluding those outsized impacts from weather, which resulted in lower volumes. So when I think about those 200 basis points, I split it into two large buckets, one being commodity-driven, recycling and RINS being combined, close to about 100 basis points and the remainder, the rest of the business. So that's really primarily underlying solid waste.

E&P was a good guy, acquisitions are accretive. And so in the aggregate, that's another 100 basis points. And within there, you're seeing the benefits of that price-cost spread and the improving trends on the operating side. For instance, when you look within wages, where we had said we'd been looking at same-employee increases that last year went from 8% to about 6%, you're down sub-6, between 5.5% and 6% in Q1, so an example of where you're seeing that leverage from price-cost, and then similarly, on some of those third-party costs, as we bring down turnover and improved safety.

Tyler Brown: Yes, excellent. Okay, yes, at a very core level, good improvement. Hey, Ron, I'm sure there's going to be some additional questions about this, but maybe I'll just kind of kick it off, the discussion about it. But obviously, the U.S. government, EPA, made some changes on the regulatory side on PFAS in the last couple weeks. And I was just hoping you could give us some high-level thoughts about that broadly, what it means for Waste Connections. But specifically, I was wondering to get your thoughts on what this may mean for landfill leachate costs just in the near-to-intermediate term. And what are the prospects to recoup any additional costs, whether it be operating or capital costs?

Ron Mittelstaedt: Sure. Well, first off, Tyler, let me say that I think what transpired with the legislation was effectively totally as expected, number one. This is not some surprise to us or to the greater industry by any means. Number two, I think, step back. Traditionally, and we can point to several examples of this, but traditionally, uniform, new, incremental federal regulation, such as this, is very good in both the short and long term for the well-capitalized public companies. It creates a uniform playing field.

It creates a playing field where those with the access to capital and the infrastructure to take advantage of it are able to do so. And it creates a price opportunity that generally, quite exceeds the cost to comply both operating and capital-wise. It also traditionally has created sort of an M&A catalyst, so I don't think the public companies in any way are concerned or fear this change in federal regulation.

The other thing I would tell you is there's a lot of activity going on within the legislature, and particularly, of course, at the staff level, that things get passed, and then really, the work begins of amending and modifying that regulation. And I think from everything we're hearing, there will be changes to the regulation, or really a codification of the regulation further, that gives the intended -- the intention of the regulation, which was not so to be punitive to passive receivers, such as landfills, okay?

Landfill is passive receivers. It's taking this material as required by law and permit on behalf of the producers and the consumers of it. This legislation is really targeted, if there's a word, at producers of the material, not passive receivers. So I think you're going to see the language of -- that the law amended and changed to reflect more of that. So as I said, and I think the EPA has been very clear that they've said that it's not meant to create liability for those that are passive receivers, and that's what our landfills are.

So a long-winded answer to you, Tyler, but the devil's ultimately in the details of how this gets implemented. We're still a ways from that. Look, there are relatively low-cost capital opportunities for treatment, such as foam fractionation and others, for PFAS that we are doing already proactively at several of our landfills over the last year and a half to 2 in anticipation of this. So we have a good idea of what works and what may not. And what I would tell you is it's not going to really move the needle, I don't think, for the industry on the capital costs. And it will present an incremental pricing cost to price through it and recover it. At least I can speak for us on that.

As far as the cost of leachate, again, if you go with the low-cost capital costs and do some onsite treatment, Tyler, it won't change the cost of leachate. Now, there are some POTWs that may not opt to take it, even treated for just fear, but in most markets, there are options. If that does raise the cost of leachate, again, that will be a local pricing opportunity through that customer base where there are less options. So that's a long-winded answer, but I think that's how we holistically think about this.

Tyler Brown: Yes, no, perfect, extremely good color, and very much appreciate it. One quick housekeeping -- Mary Anne, based on what we know today, what's the M&A benefit to 2024 revenue based on what we know as of right now?

Mary Anne Whitney: So when I think about the incremental deal activity that was done, that would add 80 million to 90 million for the full year on top of what we already had, which I think was 325 [million].

Tyler Brown: Excellent, perfect. Thank you.

Operator: Sabahat Khan from RBC Capital Markets.

Sabahat Khan: Just on the Q2 guidance that you provided around volume being down 2.5% to 3%, I was just hoping if you can maybe detail that out a little bit in terms of shedding versus some of the other factors, please?

Ron Mittelstaedt: Yes, so I would say, if anything, what I think you should read into that is it suggests more margin opportunity, and really reflects sort of an increased amount of M&A over certainly already the start of this year, and the second half of last year. So I would tell you that that's probably about 50 basis points more of the increase, which is basically all of that based on the guidance. And what we would expect you to see is roughly a 50 to 75-basis point incremental continuous improvement throughout this year; 100 basis points just on weather, as we said, Q1 to Q2; and then continuing Q2 to Q3, Q3 to Q4, stepping up another 50 to 75 basis points per quarter. Again, that can change a little bit due to incremental shedding, but that's really the delta.

Sabahat Khan: Okay, great. And then maybe just continuing the margin discussion from the last question, I think we're looking at another, I think, 100-plus bps of margin improvement in Q2. Seems like the Q1 margin improvement was split between kind of core business and recycling, RINs, etc. Maybe just walk us through kind of the confidence around that 120 bps in Q2, what is that coming from, maybe the split there? And how much of a tailwind from sort of commodities and RINs are you baking into that improvement into the next quarter?

Mary Anne Whitney: Sure. So the way to think about it is that the greatest margin contribution from recycled commodities and RINs would be in the first quarter. It would decrease over the course of the year, all other things being equal, just because the comparisons get tougher, right, because you had commodities ramp last year. And so if, by way of example, you started with 100 in Q1, you could see that stepping down to 60 or 50 basis points in Q2. So that really tells you that the tailwinds are coming from the underlying business and that is growing.

And as we said, coming into the year, we had talked about that outsized opportunity between that price-cost spread that I described we're already seeing in Q1, and we expect that to continue. And also the operating leverage we're getting from those improving dynamics around retention and turnover, where we've said that we'd see it in a number of different areas. And as we've indicated, we're starting to see that, whether it's the relationship between overtime and straight time, even as we have more heads in place, but seeing overall improvement, and the reduction or the slower growth in third-party costs, providing some more margin expansion on things like outside repairs.

So those are the types of dynamics that would contribute to a growing operating leverage as we move through the year. And that's what gives us the conviction for Q2 is that we're already seeing it in the numbers in our operating statistics. And we know that the dynamic is that the savings follow after you see those quarter after quarter of improvement.

Ron Mittelstaedt: And one other thing I would note that you didn't ask it, but just to get it even more granular, as you know, we closed the Secure E&P transaction in the first quarter, and we noted that it's margin accretive for the full year. I would note that, different than our solid waste business, Q2 is actually the lowest seasonal quarter for revenue, EBITDA, and margin in that business due to the thaw breakup period that goes on in Canada from April through mid-June. So unlike our solid waste business where Q1 is the seasonally weakest quarter, in that business, Q2 is comfortably the seasonally weakest quarter. So the point being, that is not what is driving margins in Q2. It's our underlying solid waste business.

Sabahat Khan: That's super helpful. And maybe just a quick follow-up, Ron, around your answer in the earlier question about the new PFAS regulation potentially adding to the M&A opportunity set. Presumably, this is going to take a while to play out, but maybe from a philosophical perspective, how big of an addition could that be to the M&A set in terms of how many more folks could come to market? And over what period of time do you think that plays out in terms of the benefit to the larger acquirers?

Ron Mittelstaedt: Yes, well, number one, I would tell you it's too early to -- understanding and all that. I think it depends on ultimately what the regulation is and how private folks decide to comply with it. Obviously, it has the most effect on disposal-related assets directly, and of course, there are far less of those today than there were in previous cycles of incremental federal regulation change. But without question, it has traditionally been a macro driver. It does take time for that to happen, so it's not something that's going to be a 2024 or maybe even an early 2025 thing. But over time, it does -- it tends to drive M&A.

Sabahat Khan: Thanks very much for the color.

Operator: Michael E. Hoffman from Stifel.

Michael E. Hoffman: Ron, how would you think about where open positions are versus year-over-year? And then sort of second to that is at the point you get fully loaded with your in-house training, how do you feel about what the proportion of your fill rate will be driven by the things you actually own and control in the training?

Ron Mittelstaedt: Okay. So Michael, we have historically, meaning for let's just call it 15, 20 years through various cycles, we've always targeted running the company at about a 3.5% to 4% open headcount at all times, given through some natural attrition and then, of course, involuntary turnover that we're being proactive on. At our worst time, as we came through into 2022 into 2023, we actually peaked at approaching 7.5% open headcount positions. We have reduced that throughout 2023 to present to where we are now down right to about 4%, maybe even 3.9% on a run rate basis. So we're really at where we have historically run.

We have a few regions that are down in the 2.5% level, and we're very comfortable with that. So we've reduced open headcounts year-over-year to date by 46%, that is the number. We've reduced voluntary turnover by where it peaked. We are now down to about 15.7% as of April 1, with a target of getting to between 10% and 12% by year-end and entering 2025. So we're well more than halfway to our target from where we were 12 months ago.

Now to the second part of your question, I would say that our objective as we come through what we believe will be mid-25, so call it a year from this summer, our objective is to get to sort of a third or more of those that we hire coming through our in-house, what I'll call our in-house development and academies. That would be the target. Now it could be more beyond that, but that's our target, 1 and 3, of getting to that.

Michael E. Hoffman: Okay. That's terrific. And then everybody's going to wring their hands about PFAS for a while, until this all plays itself out. But putting it in perspective, leachate costs are 1% to 2% of revenues; it's not 5% to 10%.

Ron Mittelstaedt: No, it's actually even lower, Michael.

Michael E. Hoffman; Yes.

Ron Mittelstaedt: One is a fair average, it actually is just below.

Michael E. Hoffman: Okay. And the treatment technologies that you mentioned, we're 15 billion to 20 billion gallons a year of leachate; as an industry, it's $0.05 to $0.20 a gallon is the range. But the treatment technologies are inside that range, so it's not like you're quadrupling or whatever if you had to add those technologies to pre-treat and take the PFAS out before managing.

Ron Mittelstaedt: No, Michael, basically, as you know, there's great variability in the size of landfills and the amount of leachate based on how old they are, and how much waste mass is in place, and of course, what the weather conditions are in that geography. But you're talking about $1 million to $4 million for the capital costs to do treatment of most landfills in the U.S. and that will then lower the leachate cost to what it is today.

Michael E. Hoffman: Got it. Okay. And then my understanding, the senate had a meeting about a month ago that proactively, the Environmental Public Works Committee, proactively sought to discuss what that intervention language should look like, where the real objective is trying to get something passed in 2024. Are you hearing anything different than that?

Ron Mittelstaedt: I have heard the same thing through Industry Association Council and lobbyists, but I do not have any better information than that, Michael.

Michael E. Hoffman: Okay, great. Thank you.

Operator: Kevin Chiang from CIBC.

Kevin Chiang: Congrats on a good quarter here and start to the year. Maybe if I could just start with the marginal performance, if I look at your full year guide, which I know you haven't updated at this point in time, full year, 120 basis points. If I think back to how we thought that would play through the year, maybe a little bit of performance in H1, maybe a little bit below the 120 in H2, but broadly speaking, pretty even throughout. Just given the outperformance in H1, should we think about performance carrying through H2? I know you are not officially updating your guide, but anything that maybe you'd push back on that kind of simple math, just given the H1 performance so far?

Mary Anne Whitney: Sure. So just to reiterate or underscore what you have talked about in terms of what expectations we laid out for the year. You are right, we said that it was pretty evenly distributed with our expectation for that 120 basis points margin expansion. We also said, as I mentioned earlier, that the contribution from recycled commodities and RINs would be greater in the first half and abate over the course of the year. So just be mindful of the fact that as we have noted, some of the benefit in Q1 was from commodities. And so the expectation would have to be that if you are marking to market here, then we'd continue to have that benefit.

The other thing to keep in mind is some of our outside performance on the top line was M&A. And so as we continue to do M&A, which is typically a little dilutive if it's the typical collection company, you would want to factor that into your expectations, which is why as we think about it, updating in July, or considering taking a look at that in July, as we always do, feels appropriate, given all those dynamics.

Kevin Chiang: Okay. That is helpful. And maybe just my second question, and maybe it's a bigger-picture question on some of the in-house development you are doing, and you talked about a target of one-third. And I am not sure if you have enough granularity on this, but I would be interested in knowing. I suspect you are pulling a lot of people -- or people move back and forth between, let's say, working for the broader transportation sector, so truck drivers and maintenance workers in that field versus those that might enter the waste sector. We are in the midst of a very long freight recession here, so I suspect that is a tailwind for people that are looking to join your firm.

I guess as you think about that freight recession eventually exiting, just how much volatility do you think that adds to your in-house development? Do you think it ends up being pretty steady through a freight cycle, just because you offer a different work-life balance? Or do you think it becomes more challenging if the freight economy starts to really move up here, and compensation for long-haul trucking becomes a little bit more favorable than it is today?

Ron Mittelstaedt: Yes, well, so let's take a step back, Kevin, I will answer it in a little bit different way, but I think it will get to what you are asking. So traditionally for us, and I would say most of the industry, remember, our largest two employee bases are, of course, CDL drivers and diesel technician or mechanics. When we have had, as a company and an industry, an opening for that, we have sought to pursue somebody who is a CDL driver, or somebody who is a certified diesel technician, which means that we either have to find them unemployed, or we have to steal them from another employer, usually by a better compensation and or structure for that. That, in a tight economy, is a vicious cycle.

What we are doing by opening these academies that we are doing is we are actually pursuing a different type of employee. This is an employee who we are up-skilling quite dramatically from where they are. So we are not bringing in somebody who has a CDL into our CDL driving academies. We are not bringing someone in to our Diesel Technician Partnership School for somebody that has a maintenance background. So this is a longer approach; it is a dynamic, positive change to the impact of that type of employee.

It's often an employee who has been with us for a period of time, so we know their character that we are making an investment in. We are also doing it from people on the outside. So an example would be instead of hiring somebody with a CDL, and taking them from another waste company or a trucking company, we are hiring someone who has been with Home Depot for 2 years as a forklift operator that has a great track record and safety culture. But it's another $10-an-hour opportunity if we can get them their CDL, and it totally changes their life, and I'd say the commitment to us.

So that is why it won't be 100% to my response to Michael Hoffman, but I think it will ultimately be a third. So I am less concerned as we go into a tight economy, if and when we do, which of course, we will, with us having this approach to help buffer that. It's another reason we are actually doing it.

Kevin Chiang: That's great color. Thank you very much.

Operator: Noah Kay from Oppenheimer.

Noah Kaye: Ron, we talked last quarter about the $5 billion or so now fitting the market model for M&A, and the internalization opportunities around the Northeast. And maybe just given your comments around this year potentially being one of the busiest ever, and in recognition of what you have done already, I was wondering if we could get some more color either around the regional mix that you see those opportunities in, and kind of the profile of the types of acquisitions you are looking at?

Ron Mittelstaedt: Sure. Well, I would say first off, Noah, we've have got opportunities in all of our solid waste regions. We have five regions in the US. and one in Canada, as you know, and we have active LOIs signed and discussions going in all of those regions. They are all what I would consider our traditional solid waste companies, collection companies, integrated companies, companies with transfer stations, etc. So I am not necessarily saying there is an incremental weighting to some [geography] or the other; it's probably a little bit more in our competitive footprint right now. Of course, our competitive footprint is a little larger. Franchise transactions and the exclusive models take a little longer, although we have several signed as well. So it's pretty balanced, which is what gives us the confidence to say that we have an opportunity at perhaps a record year other than the year we did a public merger. So this is, as I said, all core key solid waste business.

Certainly, we are focused on improving our utilization of our Arrowhead asset and incremental tonnage through that asset that we acquired in August of 2023, and there are definitely transactions that will boost that, but those can come from sort of the mid-South all the way up through the Eastern seaboard. So we have a busy plate, a lot going on. And I think over the next couple of quarters, hopefully, some of that will become clearer for everyone.

Noah Kaye: Thanks, Ron. I was just reflecting on your comments to start the call about where you and the business sit a year later since you're coming back. And I guess the question is, too soon to declare victory, but you've made a lot of progress already on things like employee retention and turnover reduction. So where are your incremental focus areas at this point for operational improvement within the business?

Ron Mittelstaedt: Well, first off, thank you. I would say all our local teams and our regions have made the improvements; we just get to talk about them. But look, we're going to continue doing -- when I first got back, I said, I think on this call 1 year ago this week, if you're going to follow one thing, follow turnover because it drives everything. It drives incremental improvement in cost, it drives safety, it drives customer satisfaction. It drives our ability to pursue incremental volumes of all types that we otherwise might not be able to if headcount is too open. So it will help us get better across the board.

So that's going to continue to be a huge focus and continuing to maintain and drive down particularly voluntary turnover. So that's a focus. We have a huge focus on risk, as you know, we've always had a huge focus on price, that's not going to change. And as we continue to get, I'll call it, healthier in how we're performing both operating-wise and financially, then we've got the ability to step on the pedal on growth, both organically and inorganically. I would tell you that a year ago, we really couldn't afford to do that because we were just trying to get through the quarters with the amount of open positions, etc. And that just puts strain on the entire organization at every level.

So the focus isn't going to change, other than I think you'll continue to see us have more opportunity for growth. We've got -- we don't talk about it, that's not our style -- we've got all kinds of different things we're working on, utilization of AI in a number of different areas, but we don't come out and put benchmarks to that. We'll let the margin talk about that when we complete them. So certainly, we have room for technology improvement in our operating platform over the next several years.

Noah Kaye: Appreciate that color, thank you.

Operator: Bryan Burgmeier from Citi.

Bryan Burgmeier: Ron, I know it's only been 3 months since you've closed the Secure acquisition. I think on the last call, you mentioned the company is running about 22 of the 29 acquired facilities and some of them maybe come back online this year. Is there any update there? I guess I'm just curious what exactly is being assumed in guidance now? And if it's too soon to say, I totally understand, maybe that's a better item for July or October.

Ron Mittelstaedt: Yes, okay. Well, thanks, Bryan. So number one, the guidance does not assume any incremental opening of those seven shuttered facilities. I believe that prior to year-end, we will open up to two of those. I think we'll understand that better come July, but I think we will open potentially two of the seven that are shuttered right now before year-end, or maybe right at year-end, so maybe not contributing anything to 2024, but certainly some rollover into 2025. And then we will continue to evaluate the other five of the seven, and you'll see various openings occur throughout 2025 and into 2026. I ultimately believe that we will probably open six of the seven incremental ones that we acquired.

Bryan Burgmeier: Got it. Thanks for that detail. And last question for me, maybe just for Mary Anne, and apologies if I missed this. Can you remind us what your guidance is assuming right now for recycled commodity prices and RIN prices, and then where Waste Connections stood with those items in 1Q?

Mary Anne Whitney: Sure. So for 1Q, OCC was $130 a ton and RINs averaged $3.10. You did see OCC tick up a little higher over the course of the quarter, and it ended closer to $140. So we always mark to market, so basically, the assumption is they're around current levels. That's what is included in the guidance for Q2.

Operator: Tony Kaplan from Morgan Stanley.

Hilary Lee: This is Hilary Lee on for Tony. Great quarter, congrats. Just wanted to talk about margin a little bit, kind of going back to Kevin's question. It looks like with the rest of the year potentially being evenly distributed, it could possibly reach 34% by the back half of the year. So just wondering, what would need to happen for you guys to get to that threshold or, what could hold you back?

Mary Anne Whitney: Well, first of all, I'd say in the guidance we gave for the full year, we acknowledged that in Q3, the seasonally strongest quarter, we would be approaching those levels, because if you just put 120 basis points on top of each of the 4 quarters, I think that brought you up to 33.7, right? So, basically we said we've outperformed. As I noted, some of that's commodities, some of it's the underlying business and some is acquisition contribution. And so those three variables, I would say, will dictate the extent to which we get to that level or somewhere around there. But I don't disagree with your setup. And again, if things play out in subsequent quarters the way they did in Q1, meaning the outperformance we saw from all of those various drivers, that certainly is in striking distance.

Hilary Lee: Got it, thank you. And because the 34% is well within sight, I guess do you guys have another target in mind, or anything that you guys are kind of reaching towards after that? I know it might be a little early to comment on that though.

Mary Anne Whitney: Well, we never meant for 34% to be a limiting factor. It was just almost more conversational because we've certainly been there before. But as you may recall, or some folks on the call may recall, we said that before we had closed the Secure transaction, and we said that Secure would be about 50 basis points accretive to overall margins. And so I think that tells you we already have our sights set well north of 34%.

Ron Mittelstaedt: And I would also say, Hilary, that remember, that does not include $200 million of EBITDA from proposed and planned RNG facility openings in 2026, our contribution that we've [set], so it also did not include that.

Hilary Lee: Great, thanks. And just lastly, I just want to know if you guys have an update regarding the New York City franchise process, anything going on there, any updates?

Ron Mittelstaedt: No real updates. Everything's moving incrementally forward positive. We start September 4, or whatever the day is right after Labor Day. That Tuesday is the first operating day of the beta pilot for several of the zones that the city is going to run for 90 days, basically till almost year-end. I would tell you the other update is the City asked us a while back to demo some electric vehicles. And we have taken delivery of some of those in the month of April, and have begun operating those for the City to see how that works performance-wise in all areas. So these are just little anecdotal updates, but those are really the updates right now.

Hilary Lee: Great, thank you. And if we could get invited to the New York demo, that'd be great. But thanks again, great quarter.

Operator: Jerry Revich from Goldman Sachs.

Adam Bubes: This is Adam on for Jerry today. Really strong M&A activity to date. I was just hoping to better understand the makeup of solid waste acquisitions here today. So I think you referenced -- the acquisitions included a new market entry in Indiana, Michigan. Was that one deal or multiple deals, and how large of the 150 million did that represent? Just trying to understand the makeup a little bit better.

Ron Mittelstaedt: Sure. Yes, Adam. So the transaction we acquired was a company out of Elkhart, Indiana, which is in North Indiana, approaching the Southern Michigan border, named WasteAway, a phenomenal -- nearing third term, third generation company, really very, very well known in our industry; phenomenal family ownership that was retiring, had an incredible management team in place that we have taken with us. And that represented more than half of the total revenue of that incremental 150 that we reported, a large acquisition by any stretch, and certainly in our platform.

About 300 employees out of 3 locations, and I would tell you that -- and we closed that, obviously, in the quarter. I would tell you that we are already in the process of closing our first acquisition in that area as well in the middle of Q2.

Adam Bubes: Great, appreciate the color. And then you folks have achieved a really strong improvement in employee retention and turnover for the last 4 quarters or so. Can you just update us on where we are in seeing the benefits of lower turnover flow through the cost structure, given there's a lag there?

Mary Anne Whitney: Sure. So what we've talked about is that there's an incremental 100 basis points associated with improvement in several different line items. And as I mentioned earlier, we're starting to see those, for instance, in overtime and some of our third-party costs like subcontracting business. And so if I were to think about it in terms of that 100 in the aggregate, I'd say we're down at that maybe in the 10 to 20 basis points of the improvement is what we've started to see.

Of course, we know that there are pieces of it that will lag even longer, most notably, the cost of risk, which is, as we've described it, you can bring down your incidents in the current period, but you're still paying for incidents in prior periods. And so we're not surprised. But that certainly continues to be a headwind rather than a tailwind, and anticipate that that takes multiple periods to start being recognized.

Adam Bubes: Great, thanks so much.

Operator: Tony Bancroft from Genco Investors.

Tony Bancroft: Congratulations, Ron and team on the great quarter. Maybe as to more of a long-term question, you've made the large acquisition with Secure Energy. I know that you look more into additional solid waste as sort of where you're focused, but any other opportunities there or maybe even longer term? There's the large regionals that they've always talked about. Is there ever going to be opportunity to do something more transformational there or how do -- or maybe even not on the municipal side, have you seen anything incremental with maybe higher costs to towns and municipalities, transfer those to private operators?

Ron Mittelstaedt: Well, so let's break that apart a little bit. So on the Secure side, as you know, we had been in the E&P business strongly since 2012 in the U.S., mostly on the drilling side. The beauty of the Secure transaction was about the exact same size as what we had in the U.S., but it was completely inverse, it was 85% production. And so we like that balance, and we like the size that the combination of those are. And as we continue to grow our core solid waste, that will become a smaller percentage just naturally in the company.

However, having said that, we have some incremental opportunities, we believe, in that space. They're smaller, but they're nice and they're additive, and we'll continue to pursue those as we have over the last many years in the U.S. Now we have the Canadian market to look at for this space as well.

As far as anything transformational, Tony, look, I guess you never say never because then you regret it if you do something. But it's as close to never as I think I can come in saying. Look, we are a core solid waste company, that's what we are and that's what we want to be and that's our competency. And we've got a lot of runway in that space. We know it well and I think we know how to perform fairly well in it, and that's going to be what we do for the indefinite and sustaining future.

We'll look at things, and certainly if regulation or something drives local governments to look to exit certain things and those are good assets, absolutely we'll entertain that. This is a business, as I said, we know well, but we're not looking to pivot into something differential due to lack of opportunity in our core business. It would only be because we thought it had similar characteristics in terms of financial performance and defensibility and a growth opportunity. And if we saw that, we'd take a hard look at it.

Tony Bancroft: Perfect, great answer. Thank you.

Operator: Toby Summers from Truist Securities.

Jack Wilson: This is Jack Wilson on for Toby. Can we maybe dig into those weather headwinds you were seeing, and sort of what distinguished those from normal seasonal weather patterns?

Ron Mittelstaedt: Sure. I'll start. So look, weather's nothing new, it occurs every year whether we like it or not. It occurs most harshly in the first quarter, of course, here in North America. But we had in January, in both the West Coast and parts of what we call the Mid-South and the Southeast, very extreme weather and particularly very high -- very low, frigid temperatures that shut down our ability to run. We had markets that we could not operate in for 1 to 2 weeks at all.

Facilities completely shuttered, employees home, and nobody could run because the Department of Transportation within those states and areas, such as Oregon is a great example, disallowed transportation. That was not deemed something safety, fire or police or other. That is abnormal, okay? We can handle cold weather, we can handle snow. But when we're told by authorities that we're not to be on the road, that's not something we violate.

In Alaska, we're the largest player in Alaska, and if you would think anywhere is used to significant weather, it's Alaska. And we had over 60 inches of snow in a 5-day period in Alaska, shut down Alaska for 12 days that we could not run. So those are examples of what we're referring to that the weather was prohibitive in that it just closed geographic areas.

Jack Wilson: Okay. Thank you for that color there. And then just one quick follow-up. If you do achieve that one-third of sort of in-house up-skilled [role] fills, is it possible to quantify sort of the margin impact that might have?

Ron Mittelstaedt: No, I would say no. The answer is I don't think it is. What I would say is it's part of how we believe there's 100 basis points-plus, as we've said, in incremental margin improvement from these employee initiatives. And then I think there's just things that are too difficult to quantify in your consistency of your service quality, your ability to price and retain more price, your ability to pursue event jobs because you're fully staffed that right now you can't pursue. There's just a lot of it, of those kinds of things; and just the ability to have a stronger overall company because of a balance in everybody's life. So what that exact margin impact is, we would only be guessing right now.

Jack Wilson: Thanks very much.

Operator: James Schumm from TD Cowen.

James Schumm: Nice quarter. Could you give an update on the Chiquita Canyon landfill? How are expenses tracking relative to your expectations? And do you expect to have to revise cost estimates higher, perhaps due to relocation or other ancillary charges?

Ron Mittelstaedt: Yes, so I would tell you that Chiquita is tracking about where we would think at this point. It may be a little ahead, but that's actually a good thing in a way because it means we're perhaps making more headway a little faster than we had planned. We don't believe right now that there -- what we've presented and accrued in terms of the $160 million is going to change or change significantly. What we do, just so you're aware -- and this is not something new, we've done it every year for 26 years -- is once a year, we review our closure and post-closure accruals based on engineering estimates. And as we have told you, this is a closure cost to our Chiquita landfill because it's in a closed section of the landfill.

So we will review that cost once a year, and if there are changes to it, we will make them. If they're material, we'll communicate them; we don't expect they would be material. And that is not anything different than we do at every one of our landfills and have for 26 years. So it's just a larger, more public issue that is more well-known because of everything surrounding Southern California and this type of event. But Chiquita is tracking about where we thought it would be at this point in time.

James Schumm: Okay, great. Thanks, Ron. And I recognize that we're only a few weeks into April, but wanted to know how Q2 is tracking relative to normal seasonal expectations thus far. Is there any color you can provide there?

Mary Anne Whitney: As we said, the way we've guided serves that sort of normal seasonal ramp. And probably too early to say, but nothing to suggest it's outside of anything extraordinary. It certainly hasn't been weather or anything else that would cause us to change our thinking on the quarter. But we'll look forward to letting you see how the quarter plays out.

James Schumm: Okay, great. Thanks a lot, guys.

Operator: And ladies and gentlemen, with that, we'll conclude today's question-and-answer session. I'd like to now turn the floor back over to Ron Mittelstaedt for any closing remarks.

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 the call today. Mary Anne and Joe Box are available today to answer any direct questions that we did not cover that we are allowed to answer under Regulation FD, Regulation G, and applicable securities laws in Canada. Thank you again. We look forward to connecting with you at Waste Expo, upcoming investment conferences, or on our next earnings call.

Operator: And ladies and gentlemen, with that, we'll conclude today's conference call and presentation. We thank you for joining. You may now disconnect your lines.