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Officers and Speakers
Ron Mittelstaedt; President and Chief Executive Officer
Mary Anne Whitney; Executive Vice President and Chief Financial Officer

Analysts
Toni Kaplan; Morgan Stanley
Sean Eastman; KeyBanc Capital Markets
Tyler Brown; Raymond James
Bryan Burgmeier; Citi
Michael E. Hoffman; Stifel
Kevin Chiang; CIBC World Markets
Jerry Revich; Goldman Sachs
Noah Kaye; Oppenheimer & Co.
Tobey Sommer; Truist
Stephanie Yee; JP Morgan
Harold Antor; Jefferies

Presentation

Operator: Good morning, and welcome to the Waste Connections, Inc., second quarter 2023 Earnings Conference Call.

[Operator Instructions]

Please note this event is being recorded.

I would now like to turn the conference 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 second quarter results and updated outlook for 2023, as well as to provide a detailed outlook for the third quarter.

I am joined this morning by Mary Anne Whitney, our CFO; I am also joined by Joe Box, our recently promoted Vice President of Investor Relations. Congratulations, Joe.

As noted in our earnings release, we are extremely pleased by the strength of our operational execution during the quarter for a solid beat on revenue and adjusted EBITDA to deliver margins 30 basis points above our outlook. Solid waste core pricing growth of 9.8% positioned us to expand underlying solid waste collection, transfer and disposal margins by 100 basis points in the period, largely overcoming the ongoing headwinds from year-over-year declines in recovered commodity values and continued inflationary pressures during the period. Our performance in the first half of 2023, along with recent acquisitions and reduced headwinds from fuel and other commodity-related impacts, positions us to increase our full year outlook for adjusted EBITDA to approximately $2.525 billion, expanding our adjusted EBITDA margin to 31.5% for the full year, up 40 basis points from our initial outlook and up 70 basis points as compared to the prior year.

Most importantly, we are encouraged by improving trends in safety and employee retention as we double down on human capital in our decentralized operating model, including through the realignment of our organizational structure with the addition of a sixth region and refinements to our corporate operational structure. We look forward to driving outsized margin expansion in the second half of 2023 and into 2024.

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, 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 in our August 2nd 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. Looking at Q2, our results begin with price-led organic solid waste growth from a core price of 9.8%, ranging from over 7% in our mostly exclusive-market Western Region to between 9% and 12% in our competitive regions. Total price of 9.1% includes a 70-basis-point decline in fuel and materials surcharges, reflecting lower diesel prices in the quarter, as projected. Reported volume growth of negative 1.9% reflects a degree of intentional shedding of lesser-quality accounts and purposeful non-renewals of certain municipal contracts, including, in some cases, at recently acquired operations where we've identified opportunities for improving revenue quality. We consider this pruning to be integral to our disciplined approach to growth and typical of the opportunities for margin improvement we see in acquisitions. Given the number of acquisitions over the past few years, this was fully anticipated.

Our volumes also reflect a muted seasonal ramp in activity levels, as we had anticipated, impacting collection, transfer and disposal volumes. Most notably, special waste tons, a good barometer of the more cyclical and event-driven aspects of the business, were down 7% year-over-year on reduced or delayed project activity across most regions. However, in July, special waste volumes were up 9% year-over-year, a reminder of how lumpy these project volumes can be and why it's tough to generalize about broader volume trends based on improvements in special waste or other event business.

Lastly, consistent with the constructive trade-off between price and volume we've described in prior periods, we're making a conscious choice of up to 1 point of volume reduction to achieve our price objectives. We're very comfortable with the trade-off and our improving EBITDA margins reflect the benefit.

Looking next at Q2 revenues from recovered commodities -- that is, recycled commodities, landfill gas and renewable energy credits, or RINs. Excluding acquisitions, collectively they were down about 40% year-over-year due to tough comparisons for values of both recycled commodities and RINs. OCC, or old corrugated containers, averaged about $75 per ton, and RINs averaged about $2.15 in Q2, starting lower and jumping to over $3 late in the quarter in response to a favorable EPA ruling establishing renewable volume obligations.

We are encouraged by the EPA ruling given our portfolio of renewable natural gas facilities under development, which remains on track to deliver the projected $200 million in incremental annual EBITDA by 2026 from over a dozen RNG projects with a range of ownership structures. Those benefits begin later this year when three facilities are expected to be operational and should ramp in 2024 when we are projecting the majority of capital expenditures. Beyond these projects, we continuously evaluate additional opportunities, including as we complete acquisitions.

Moving on to the subject of acquisitions. We recently closed on Arrowhead Environmental, a $100-million-revenue integrated transportation and disposal network with rail access from multiple transfers locations on the East Coast to Arrowhead landfill in Alabama. Operating locations include transload facilities in Connecticut, Massachusetts, New Jersey and Florida, all of which feed into Arrowhead, a 1,400-acre MSW landfill serviced directly by rail. This important strategic addition provides enhanced internalization opportunities to our operations across the Northeast, and has the potential both to reshape existing markets and to expand acquisition opportunities, given the internalization benefits afforded by leveraging this strategic disposal asset. In time, we expect this will be one of our most strategic assets in the company.

This year is on track to once again be what we consider above average in terms of activity, as we have already closed acquisitions with over $160 million in annualized revenue. In addition, dialogue remains very active, with a robust pipeline, all in solid waste, setting up the potential for additional rollover contribution into 2024 from any acquisitions completed later this year.

Our focus remains, as always, on value creation and replicating the success achieved over 25 years through disciplined capital allocation and consistency in market selection, along with an intentional culture. In short, there is no change to our strategy. Our decentralized operating philosophy has been and continues to be a point of differentiation for Waste Connections, along with our servant-leadership-oriented culture. To that end, we made a number of changes to reinforce this approach both in the field and within our corporate operational organization serving the field.

Among other things, we completed our segment realignment to accommodate continued growth across our footprint and maintain our field-focused, decentralized approach to decision-making and implementation. We expanded our regional structure through the addition of a [fifth] U.S. region we're calling the Mid-South. This serves to accommodate the growth we've enjoyed over the past several years, a portion of which was heavily concentrated in the Eastern U.S., including our just-announced acquisition of Arrowhead. With the addition of a regional office infrastructure in Charlotte, North Carolina, our regional leadership team is well positioned to maintain the relationships of local operations, which we believe ultimately drive the results in our model. Moreover, this additional bandwidth sets us up for continued growth across our footprint as we look ahead to revenue of $10 billion and more.

To that end, we also implemented leadership changes with an emphasis on coaching and developing our next generation of leaders as we position ourselves for the future. In conjunction with a purposeful evaluation of corporate resources to serve the field, we made some changes to the roles of certain of our long-tenured senior regional leaders to broaden their experiences and perspectives. While not necessarily significant from an outsider's point of view, these changes are expected to impactful internally, as they will influence the next generation of leaders to drive operating and financial results.

These changes are also designed to streamline decision-making to support the field in two ways: first, to further enhance local economy on operational matters as appropriate, and second, to prioritize resource utilization from corporate support directed toward the achievement of the local objectives. We have always maintained that this is a local business, and regardless of our size, we are committed to ensuring that we are set up to manage it that way, as we believe human capital is critical to our success.

To that end, we are also focused on addressing the challenges of employee retention and what we still see as a tight labor environment. As noted earlier, we are encouraged by the progress we have seen year-to-date, with voluntary turnover levels down 15% and open headcount requisitions down 25% from the peak seen during '22 and early '23, and we look forward to driving further improvements through a variety of approaches. We're adding resources, expanding our use of technology, and we're exploring alternative approaches to improving the flow of qualified candidates, including through driver and technician training facilities in which we have ownership interests, or other involvement. Given the high correlation between retention and safety, we're mindful of the potential to accelerate improvements in safety incident rates, along with retention. We're also leveraging the recent investments we've made in updated camera technology and telematics to drive continuous improvements in safety and customer service, including at our newest acquisitions, where the opportunities are the greatest.

And now I would like to pass the call to Mary Anne to review more in depth the financial highlights of the second quarter and our increased outlook for 2023, and to provide a detailed outlook for Q3. I will then wrap up before heading into Q&A.

Mary Anne Whitney: Thank you, Ron. In the second quarter, revenue of $2.021 billion was $21 million above our outlook and up $205 million, or 11.3%, year-over-year. Acquisitions completed since the year-ago period contributed about $122 million of revenue in the quarter, or about $121 million net of divestitures.

As Ron noted, core pricing was 9.8% in Q2, with the vast majority of pricing done for the year. As we've described in prior quarters, total pricing steps down on a reported basis over the course of the year as a result of the combined impact of negative fuel surcharges from improving diesel costs, the anniversarying of outside price increases in 2022, and the typical cadence of seasonality on reported price.

With respect to volumes, Ron already described the dynamics and the key drivers; here are the stats looking at year-over-year results on a same-store basis. Commercial revenue was up about 10%; on pricing, up about 11%. Daily roll-off pulls were up nominally on rate-per-pull up about 7%, and landfill tons were down nominally on flattish MSW tons with special waste tons down 7%, as noted, and C&D tons up about 7%.

Adjusted EBITDA for Q2, as reconciled in our earnings release, increased by 11% to $628.9 million, or 31.1% of revenue, 30 basis points above our margin guidance. Underlying solid waste margins expanded by 100 basis points year-over-year, largely offsetting 110 basis points in combined headwinds from tough year-over-year comparisons for recycled commodities, a 90-basis-point drag, and RINs, a 20-basis-point drag. Other year-over-year margin drivers included 30 basis points' combined benefits from higher E&P waste activity and acquisitions completed since the year-ago period, with offsets from a 30-basis-point impact to deferred compensation related to stock market movements during the period.

Our Q2 tax rate stepped up to 24.7% as a result of two factors: first, the impact of nonrecurring executive severance payments, most of which were nondeductible, and second, higher foreign exchange rates for the Canadian dollar. Normalizing for the severance yields an adjusted rate of 23.6%. Year-to-date, we've delivered adjusted free cash flow of $630 million, or 16.1% of revenue, leaving us well positioned to meet our full year outlook for $1.225 billion in adjusted free cash flow.

During the quarter, we opportunistically paid down about $240 million in debt, taking leverage down to 2.75x debt to EBITDA and resulting in a mix of about 15% variable-rate debt and a weighted-average cost of about 3.8%. The strength of our balance sheet and free cash flow generation affords the flexibility to reinvest in our business and execute on our growth strategy while also returning capital to shareholders, including, as we've demonstrated over the last dozen years, through double-digit-percentage per-share annual increases to our cash dividend, which we will revisit again later this year.

I will now review our updated outlook for the full year and provide our outlook for the third quarter of 2023. 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.

Looking first at our updated outlook for the full year, as provided for and reconciled in our earnings release. Adjusted EBITDA for the full year is now estimated at approximately $2.525 billion, or about 31.5% of revenue, up $25 million and 40 basis points from our initial outlook, for a 70-basis-point year-over-year increase in adjusted EBITDA margin for 2023. Our updated revenue outlook of approximately $8.025 billion reflects a $35-million reduction in fuel and material surcharges related to declining fuel costs since providing our initial outlook in February. Net of this adjustment, our revenue outlook is up $10 million from February, on updated value to recycled commodities and RINs, plus contributions from acquisitions completed since that time, with solid waste volumes reflecting Q2 trends. Our adjusted free cash flow outlook of $1.225 billion reflects an increase to net capital expenditures of $25 million. Said another way, we increased our outlook for adjusted cash flow from operations by $25 million, in line with our EBITDA raise, and took up capital expenditures as well.

Turning next to our outlook for Q3. Revenue in Q3 is estimated to be approximately $2.06 billion. We expect core price of approximately 9% and total price plus volume of 5.5% to 6%. Recycled commodity values are projected in line with recent levels, down sequentially from Q2 on lower values for plastics, with RINs in the range of $2.50 to $3. Adjusted EBITDA in Q3 is estimated at approximately $670 million, or 32.5% of revenue. Depreciation and amortization expense for the third quarter is estimated at about 12.5% of revenue, including amortization of intangibles of about $39.5 million, or about $0.11 per diluted share, net of taxes. Interest expense net of interest income in Q3 is estimated at approximately $68 million, and finally, our effective tax rate in Q3 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. Once again, we are extremely pleased by our results today and encouraged by the factors driving our increased margin outlook for the full year, particularly given the realities of ongoing inflationary impacts. As provided in our updated outlook for 2023 and the back half of the year, we are set to exit 2023 at close to 32.5% adjusted EBITDA margin as the jumping-off point for 2024. Normalized for recycled commodities, this puts our adjusted EBITDA margin well north of 33%, and yes, this is our total company EBITDA margin, not just solid waste. And it translates to year-over-year margin expansion of over 150 basis points in the back half of the year, demonstrating the power of price-led organic growth, along with a disciplined approach to acquisitions and the avoidance of margin-dilutive activities away from that core strategy.

Looking ahead, we anticipate another year of price-led organic solid waste growth, positioning us for underlying margin expansion in 2024, along with benefits from continued improvements in retention, abating inflationary pressures and purposeful shedding. Moreover, ongoing acquisition activity, contributions from new RNG facilities, and improvements to commodity-driven revenue could potentially produce further growth, which we will lay out when we provide our formal outlook for '24 in February.

I want to conclude by thanking our 23,000 employees, whose dedication and hard work has driven our performance in the first half of the year and set us up for outside margin expansion in the second half. Their efforts and these results, including continuous improvement in our industry-leading safety metrics, once again validate our market selection strategy and the role of local decision-making in driving results. Our focus is on maintaining a strategy that has served us well, executing on our playbook and delivering on our commitments.

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

Questions & Answers

Operator: [Operator Instructions]

This first question is from Toni Kaplan of Morgan Stanley.

Toni Kaplan: I wanted to start with the contracts that were shedded. I guess first, any common themes between them? Were they in particular geographies or verticals? And is this sort of a -- are we finished with the shedding, or is there more to go? Just trying to think about volume over -- I know you mentioned the negative 1%. Was that cumulative or incremental? Thanks.

Ron Mittelstaedt: Sure. Well, first off, Toni, the contracts that were shed are throughout our footprint, but I would say there was a greater amount in the eastern seaboard, where we've had a lot of growth through M&A over the last three years. There were also some in the South, actually, that were still a continued part of our reviewing of contracts from the Progressive transaction that we did seven-plus years ago. The common theme was that these are municipal contracts that are low-margin, with -- or that we've priced to either make an acceptable margin of return on capital or we're happy to let somebody else take, and often the volumes will still come to our landfills, so in our mind it's a win-win. So no specific geography.

As far as your question regarding shedding, look; any time you're in a high M&A period, which we have been, as you know, for the last three-plus years, doing over $1 billion in M&A, you're going to have, in private M&A transactions, anywhere from 10% to 20% -- so let's take an average of 15% -- of the revenue that you acquire that is probably zero to negative margin. You know that going in and you identify that, and as those contracts come up, you work to re-price them or to exit them. So there has always been, in our model, always, for 25 years, intentional shedding. You're seeing it more now because of the large amount of M&A done over three years, and also in a flat -- effectively a flat economy over the last year from a GDP standpoint. So you've got a little softer economy, so that with a larger amount of M&A, you see a little bit more of it in the volume numbers. Again, so in a normalized economy, whatever that is, 2%, 3% GDP, and a slower acquisition pace, we're still doing it; you just don't see it on a quarter-in, quarter-out basis.

So I would expect that number to come down because we haven't done $1 billion this year in M&A, but this is a -- this part of a normal running the business the way we do with a focus on returns. Again, I think if you look at the peers that have reported in the quarter, who have also had some pretty heavy M&A over the last several years, you basically saw the exact same thing. As they acquire companies, they inherit the same situation. So that is -- that's really the story around municipal contracts.

Mary Anne Whitney: And just the one thing I would add to that, Ron touched on a couple of the regions -- the other I would add would be Canada, where you saw purposeful shedding of certain residential, some municipal contracts, and I mention that because to Ron's point about the impact of acquisitions, of course, that feeds back to Progressive from seven years ago. It tells you you're still refining the portfolio opportunistically as contracts still roll off multiple years after the acquisition is completed. And frankly, the other point I'd make is, then follow the margins, because if you look at our regional reporting in our Q, you'll see the margin improvement that really stands out in our Eastern Region and Canada, both of which we mentioned as having shedding going on.

Ron Mittelstaedt: Yes, and lastly, Toni, I would say obviously, as I mentioned, you have a number between 10% and 20% of that acquired revenue that you ultimately may reprice or shed, you know, you're not seeing that level of it. Why? Because there's also municipal contracts we're winning all along as well. So again, this is sort of a net number of that, and as Mary Anne said, follow the margin, because that tells you whether we're making the right decision on repricing or not.

Toni Kaplan: Perfect. And for my follow-up, I wanted to go to the margin. So you mentioned second half and third quarter expected to be 32.5%; even just staying at that level in '24 would be 100 basis points of expansion year-over-year over this year. It seems like all that's higher than typical, and then you have inflation moderating and then maybe even some normal operating leverage on top of that; like, I guess, why shouldn't we be modeling 100-plus, even, basis points of expansion for next year? What would be the factors to offset some of that? Or is that your expectation? Thanks.

Ron Mittelstaedt: Well, first off, remember -- and I'm going to let Mary Anne take parts of this as well, Toni -- first off, remember the second half of the year is your seasonally higher-margin period, so the second half of the year, Q3 being a guidance of 32.5%, if you do the math, I think Q4 comes in around 32.3%, so 32.4% blend, you're going to naturally have a step down in Q1 and Q2 seasonally, so your total margin isn't quite at 32.5% yet, as we have guided. This year is at 31.5%, so you're somewhat below that as you enter.

But look; I think it's too early yet to make any projections for next year's margin. We generally say, as you know, with price-led growth, we get around 30 to 40 basis points of margin expansion. Yes, I think the number will be north of that next year. I'm not ready to commit to what that will be. And there's certainly a number of moving things. That also depends on the level of M&A over the balance of this year, because as you know, that can come in margin-dilutive, so we want to be cautionary in what we're guiding to, but what we are saying is the second half of this year, on a normalized basis, and depending on what you want to assume for commodities, is at that 33% number. So I would be cautious telling you 100. I'm not saying that can't happen, but there are things outside our control which influence that.

Mary Anne Whitney: I would just reiterate what Ron said, which is of course that we're not providing guidance right now. We think it's instructive to talk about the dynamics resulting in the sequential improvement we're expecting to see in the back half of the year, and the reality is, we really haven't seen the cost pressures abate in the first half of the year, and that's part of what's setting up -- as the comps get easier on things like wages increases, et cetera, from last year, it sets up the back half of this year to be a little stronger. And then, of course, we'll comp that again next year, so that'll influence the cadence of margin expansion next year, which would be the other reason to be cautious about your jumping-off point and going up from there.

Operator: The next question is from Sean Eastman of KeyBanc Capital Markets.

Sean Eastman: I just wanted to come back to the margins. The 33% comment, just for clarity, is that where we're run-rating on an annualized basis in the second half at sort of a longer-term average commodity input level? Just some clarity there would be helpful.

Mary Anne Whitney: So I think the point we were trying to communicate was, as you exit the year at 32.5%, you say, look; commodities are really up about only 20% from where they exited last year, which was down 70% from the highs last July, right? So it says there's a long way to go to get back to last July's levels, and so that was Ron's point. Just layer on, it's more than 50 basis points; it's probably 70 basis points, and so he's saying well north of 33% if we're exiting at around 32.5%.

Sean Eastman: Okay, understood. And then are there any sort of KPIs or margin-enhancement targets that you could share or quantify around the big employee retention cultural programs that you're kicking off here, Ron?

Ron Mittelstaedt: Sure. Well, Sean, as I -- there's a number of things we look at, but as I've mentioned in previous investor meetings and analyst conferences, look; there is not some 100-basis-point lever that we are missing here at Waste Connections. The company has always been a very cost-focused and well-run company, but with turnover where it had been, there is no question that there is up to 100 basis points that we can take out of our cost structure over the next 18 to 24 months in seven or eight line items as retention improves. As we drive turnover from the -- what was in the mid-30% level down -- I'm going to call that 10 points, so into the mid-20% level, you're going to see seven or eight line items improve 10 to 15 basis points each. And that is -- you know, that's going to come in labor, it's going to come in labor overtime, it's going to come in our variable account, it's going to come on our outside repairs, it's going to come in risk, it's going to come in SG&A. It comes in volume. Because everything gets better when you're fully staffed and people's workloads are balanced and you're not running both your people and your equipment at max level.

And so there's things we're looking at in each of those categories that we monitor, but the #1 thing is, as I've said, just focus on turnover, and as turnover comes down, you'll see these line items as a percentage of revenue continue to improve. And I think we'll demonstrate that throughout the balance of this year, and we'll demonstrate that throughout next year. So those are the things -- and Sean, if you accept what I said, exiting the year at approaching 32.5% for the back half and normalizing commodities, that getting us to north of 33%, if I'm correct in that 100 basis points, that's how you triangulate to a 34%-type EBITDA margin or above in the -- as we look out 18 to 24 months.

Operator: The next question is from Tyler Brown of Raymond James.

Tyler Brown: Ron, curious if we could get some more details on the Arrowhead deal. This asset seems very interesting to me. I just am curious if you could talk about how that fits in the northeastern disposal strategy. And basically, does it give you more confidence in acquiring collection in that market, or even other rail-served transfer stations along the East Coast? And then, does this move have anything to do with Seneca? Basically, is it an alternative if that site were to shut down?

Ron Mittelstaedt: Sure. Let's attack the last part of that question first regarding Seneca. So first off, it has nothing to do with Seneca; Seneca is doing very well. We're very confident in our position and our expansion there. And no, no real change to that. We have grown quite a bit along the eastern seaboard, as you know, and there was just really a need to have incremental connectivity to disposal options to integrate many of those markets that up till now had been non-integrated. We had been looking at this for the last year and a half to two, and having internally committed that we were going to be able to integrate the eastern seaboard.

So to your first part of your question, absolutely, this opens up additional market opportunities for M&A. This opens up additional opportunities to integrate markets we have that are currently not integrated. And yes, this is an asset that's very strategic, and we're very excited about. It's a large landfill, as we mentioned in the release, 1,300-acre MSW site, where today that asset is taking around 3,500 tons a day in, and we can handle, in time, a multiple of that or more and have permitted capacity to do so for quite some period of time. So I think you'll continue to see us, over ensuing quarters and into next year, talk about the development that we have planned. As you know, we think of -- we try to think about these things multi-years out, and that is how we are looking at this asset. It does open up other rail transfer options from an acquisition standpoint, so yes, it is very strategic in our mind.

Tyler Brown: Yes, okay, very interesting. And then Mary Anne, just from a modeling perspective, just based on the acquisitions to date, how much contribution from M&A is kind of implied in the full year guide?

Mary Anne Whitney: Yes, for the full year, the original guide was about $360 million, and we're now at, like, $405 million to $410 million. And then the rollover for next year is around $70 million.

Tyler Brown: Okay. And then my last one here, Ron: Just a bigger-picture question. So I think it's already been 100 days back in the seat. I know that you never really left, but you have been interfacing investors pretty actively, and I'm just curious what your impressions have been there with all the new investors. What do you think the market still seems to miss about you or the story, if anything?

Ron Mittelstaedt: Well, thanks, Tyler. It's 100 days today, to answer your question. And I have appreciated getting back in touch with many investors who have known us, but a tremendous amount of investors who are newer to the industry and our story that I hadn't had the opportunity to meet.

Look; I think the investment community is very well informed. We've got a very well-followed, from an analyst community, space. And I think that all helps in transparency. But look; I think the thing that is -- and I think it's topical and top-of-mind right now, is I think there's a misplaced and misunderstood issue regarding volumes. I think there's this conception that all volume is good volume, and that's just completely inaccurate. There's a lot of volume that structurally, the public companies shouldn't have. The public companies can't operate at 25% to 35% EBITDA margin with volume that is intrinsically, structurally low because of the nature of the market or the contract or the positioning in that market. So I don't think people should read into negative volumes as something that should be concerning whatsoever. It should be concerning if margins and cash flow are going the other direction, but if they're accreting, I think that tells you why people are doing it. So that would be the -- I would just reiterate that just because it's topical right now more than anything.

Operator: The next question is from Bryan Burgmeier of Citi.

Bryan Burgmeier: Your guide and your comments point to fairly balanced cap allocation for the year. You increased the CapEx guide just a little bit this quarter. Maybe just from a big-picture perspective, can you expand on where you see the best returns for Waste Connections right now? And can you remind me what you think Waste Connections' optimal leverage [points]?

Mary Anne Whitney: Sure. I'll start with leverage first. So we feel very comfortable sitting in the 2.5x to 3x range, and what we like about that is it provides a lot of optionality. If there is an opportunity for a large outlay, which there isn't in the current environment, to take -- you'd take leverage higher -- I mean, mathematically, it takes a lot to drive our leverage above 3x, so it would have to be a really big deal, but it's nice to have optionality. And in the meantime, we maintain access to low-cost capital but retaining our investment grade rating, which we want to adhere to. So that's just one data point regarding leverage, and we sit right in the middle of that range at 2.75x right now.

With respect to capital deployment and the best returns, if you think about it, with over $1 billion in free cash flow after paying a dividend which has grown double digits for the last dozen years, we have a tremendous amount of flexibility to not only reinvest in the business, which is what most of our CapEx is, and across this industry, you're running 10%, 11% just in replacement capital and building out your landfill, and then of course we're also investing in -- opportunistically in projects like RNG, which, when we think about the best returns, we'd say those are great returns. Certainly we're in an environment where we can be opportunistic given tax credits, and so when we look ahead, next year will be a big year for CapEx; we mentioned that in the prepared remarks, about $120 million in CapEx is what we'd expect for RNG, and we'll continue to make those outlays opportunistically. We're really not limited, and so that's why I started with where we sit on leverage and how much of our CapEx is reinvesting in the business. We feel really good about where we sit and continue to have a lot of optionality.

Ron Mittelstaedt: And Bryan, I would just add that, as Mary Anne said it without stating it directly, look; our best return of discretionary capital is in appropriately priced strategic M&A that meets our market, our financial and our operating criteria. I mean, that is how we have built the valuation we have over 25 years. That's how we'll continue to build it going forward. And so that's what, I think, you've seen from us and you'll continue to see from us.

Bryan Burgmeier: Got it. Thanks for that detail. And if I can maybe just follow up on the M&A outlook, can you just provide a little bit of detail on where your pipeline maybe stands right now? Would you say it's as full, less full, more full than it was, maybe, one or two years ago? I know you're targeting a fairly kind of niche market, but you've always been able to find deals. Just a little bit of detail on the pipeline and the outlook, and I'll turn it over. Thank you.

Ron Mittelstaedt: Sure. Yes, as you may or may not know, Bryan, we obviously don't provide -- for, obviously, sensitivity and proprietary reasons, any real great detail on the M&A pipeline, but what I will tell you is the pipeline is very full. There's a lot of LOIs in an offer stage. There's a number of LOIs in a final negotiating stage. And we feel very comfortable about -- as we look out over the next several quarters, what our M&A cadence will be. Look; relative to -- just using a year ago, year and a quarter ago, we're lower than that in the pipeline, but you have to understand that was a very unique period. You were coming out of two years of a pandemic, coming off of hyperinflation, there was a number of -- you had very low interest rates -- a number of catalysts that made more than normal private sellers who had sort of pent-up demand from the pandemic look at doing something with their business because they had been on the sidelines.

So I think you have to look at sort of '22 as a little bit of an anomaly, so it would be misleading our pipeline is equitable to where it was in '22, but relative to sort of historical norms, it is above those and continues to be. So -- and it's a broad-based mix of collection and disposal, all solid waste opportunities, across our footprint in both the U.S. and Canada.

Operator: The next question is from Michael Hoffman of Stifel.

Michael E. Hoffman: Can we talk about price and trend? So inferred in the full year guidance is you're maintaining the 9.5%, and if I follow the trend on restricted 7% in 2Q, aren't we resetting a higher number on restricted in the second half given 2022's inflation was 8.9%? And so that sets up -- you don't need a big reach on open market to hit the 9% that you're getting in the 3Q outlook. Am I thinking about that correctly?

Mary Anne Whitney: The way I'd encourage you to think about it, Mike, was that coming into the year, we basically know what the price increases will be on the 40% of our business that you're referring to, where there's those contract resets, and that's been factored into what we're communicating for our full year numbers. And most of those price increases -- yes, there's some that reset in middle of the year, and that influences those numbers, but the majority of our price increases more broadly happen early in the year. And so that really determines the overall number. There's a little movement over the course of the year.

The bigger factor in driving the cadence on a reported basis was, as we mentioned in prepared remarks, you've got a few things happening. One is the rolling off of outside price increases that we did last year in the face of accelerating inflationary pressures earlier in the year, and then also just the math -- the denominator getting bigger. Which is why on a reported basis, our core price steps down, and then of course you've got kind of the noise of the good news on fuel, having fuel surcharges come down. So that's how I'd encourage you to think about it. It's around 7% in those contracts, those CPI-linked markets; it doesn't move dramatically in the back half of the year. And again, the denominator gets bigger, and so the number comes down a little bit.

Michael E. Hoffman: Okay, fair enough, but you've trended ahead of your budget on open market -- you've retained better.

Mary Anne Whitney: Yes.

Michael E. Hoffman: So is there any --

Mary Anne Whitney: Again, we --

Michael E. Hoffman: Okay, go ahead.

Mary Anne Whitney: We'd say pricing is playing out about as we expected, Michael. We feel really good about the visibility we had on pricing coming into the year. We said last quarter we already had about 85% of it locked up, done or known, and we're even above that now. So we'd encourage people that 9.5% is a pretty good number for the full year.

Michael E. Hoffman: Okay. What's the -- OCC at $75 in your model is above RISI, which is at $50, and so there's two questions here: What are you able to do differently than the underlying RISI? But more importantly, you made a comment that normal recycling -- what OCC price equals normal when we think about normal recycling and margins?

Mary Anne Whitney: Well, so a couple of things. I think we all talk about what we see in our book of business, which is influenced by geography and other dynamics. And so when we talk about lows of maybe $50, that might have been [lift] or RISI pricing in the high 30s. So it's tough to compare, but we're always running above.

Now, I do think in addition we benefit from doing some things to make sure we're maximizing the value of our commodities. By the way, we have a national marketing agreement where we're taking advantage of volumes and consolidating, and also we're seeing the benefit of the improved quality coming out of our facilities. We're using robotics, and therefore decreasing contamination coming out the back end of recycling facilities. So I would say those influence what we communicate as what the numbers are. I think -- so it's all relative to expectations early in the year, and we're about 20% above where we were when we exited last year, and that's what's factored into what we've guided for the full year.

Ron Mittelstaedt: And Michael, I would --

Michael E. Hoffman: Right, and -- oh, go ahead, Ron. Sorry. Go ahead.

Ron Mittelstaedt: No, no, I -- yes, I mean, everything Mary Anne said is spot on. I would tell you, what do we think? We think somewhere in that $110 to $120 is sort of a -- you asked what is a normalized. I'd call that a normalized OCC pricing. And that's how you get to what we're saying we're down year-over-year. Obviously it peaked well above those numbers in the $160 to $200 range, so we're not saying that, but we are -- that's sort of what we're calling more normalized. And also, you have to recognize, Michael, so much of our commodities in our model comes off of one of the two coasts. I know most people do, but there you've got transportation advantages to markets that you don't have when you've got a lot of your volume in the Midwest and the South. And so that gives you some spread to the RISI pricing as well.

Michael E. Hoffman: Okay. And then, big improvement in labor turnover from your end to now; your best-in-class periods were sub-20%. In the challenges of the current labor world, can -- is that possible again?

Ron Mittelstaedt: Yes. You know, I think it is, Michael. Obviously that's a high goal, a high bar, but we're going to hold ourselves to that high bar. I think certainly getting into the mid-20s first and then working our way down from the mid-20s down to that 20% or below level is the goal. Our goal is to get it into the mid-20s by the early part of next year or the mid-part of next year and then work it down from there. There's a lot of components that go along to that, from sourcing to onboarding to supervision to equipment to everything. There's just so many things that you have to fine-tune to get those numbers down a point at a time once you get down to that 23% number or so. But yes, it is achievable, and we're going to hold ourselves to that.

I would also say, Michael, what we really focus on is, look; if you're at 23% -- just pick a number -- how much of that is involuntary versus voluntary? As long as that involuntary number is somewhere in that 40%, 50% range, we're not as hung up on what turnover is, because that means we're making proactive decisions, most likely about safety, on employees who are not going to make it and are going to cause a bigger issue. We could bring turnover reported down to 23% today if we backed off the involuntary. So you've got to understand that as long as we're going to hold our standard to where almost half of that we're making proactive decisions, really that voluntary number is dropping to 10% to 13% when you get to 23%.

Michael E. Hoffman: Got it. And then you've shared with us a couple of self help things, like price volume equals 30, 40 basis points; labor spread over two years is -- this is what we just talked about, is another 40, 50; what about repair and maintenance and fleet age and getting fleet replacement? What's that opportunity?

Ron Mittelstaedt: Yes, I mean, that is clearly an opportunity, Michael, and that's a function of several things. Look; part of the turnover issue is also in technicians, and when you're down technicians, just use the same percentage, 20% to 25%, you're sending a lot of repairs outside that you don't have the manpower to do inside. Instead of something being a $10,000 to $12,000 internal cost, you're turning it into a $30,000 to $40,000 external repair. So when you're properly staffed, you're going to see improvements in repairs and maintenance, particularly outside repairs. You're also going to see less breakdown maintenance because you're more proactive on your PM maintenance. And breakdown maintenance is always two to three times more expensive than preventative maintenance.

So look; I think there is a -- pick a number, a 20 to 40 basis point, in the whole variable, repair and maintenance equation, between outside repairs and internal repairs. And that's also a function, Michael, of your CapEx replacement schedule happening on schedule, which is continuing to improve but will probably continue to be delayed some units throughout, probably, mid- to late '24 from what we're hearing from manufacturers as this point.

Operator: The next question is from Kevin Chiang of CIBC.

Kevin Chiang: Congratulations, Joe, on the new title there. Maybe if I could ask the Arrowhead question this way: If I look at your segmented results, your lower-margin segments on the Eastern and Mid-South [indiscernible] on the new Mid-South segments that you've started to disclose, does Arrowhead dramatically change how you look at the profitability of those two segments over time? Does this asset help -- result in some convergence between those two segments versus what you see in some of the other markets?

Ron Mittelstaedt: Yes. I mean, obviously if you can integrate a market, Kevin, you're going to pick up that internalized margin on disposal that was going external. So it obviously is going to help improve the margin without question. It also, more importantly, improves your competitive positioning and sustainability of margins in a market area over a longer period of time, so that's why it is so important.

You've got to also remember, Kevin, when you look at this, that the Northeast in particular is always, for the most part, taken as a whole, going to be a lower-margin-profile business because of the pricing of disposal. You're talking about a market that is $80 to $130 a ton. Pick $100, $110 as a midpoint, comparing that to a Midwest or a South that might be $30 to $45 a ton. So you've got an inflated revenue number because of disposal in your collection system, in your revenue, and therefore, obtaining the same EBITDA margin is that much more difficult. So if you look at a company based in the Northeast like Casella, you've seen a historically lower than someone not based in the Northeast public company margin, and that's a reflection of the market area as much as anything else. So are we going to raise the Northeast margins to the Canadian or the West Coast margins? Well, most likely not, because it's not structurally possible. But it is structurally possible to raise it from where it is. And Arrowhead will absolutely help that.

Kevin Chiang: That's great color. And again, you kind of noted this in your previous response; just the constituents of what's in revenue, impacts the segmented revenue in terms of the cost structure of those individual regions, but if I look at it simplistically with the new Mid-South segment -- let's say you're running, at least if I look at the most recent quarter, roughly $100 million in revenue quarterly below, maybe, the second smallest region in the U.S., so excluding Canada here. So let's call it $400 million of annualized revenue. Is the argument, or is the perception here that the Mid-South can grow to the size of some of your other U.S. segments, so that's kind of the opportunity in front of the Mid-South, whether it's through M&A or outsized organic growth, that you can close the gap from an overall top line perspective here, and we should see --

Ron Mittelstaedt: Yes.

Kevin Chiang: -- I guess [indiscernible].

Ron Mittelstaedt: Yes, so -- yes, good question, Kevin. So first off, let me explain how we think of our regional alignment, okay? So we think about it not just in terms of revenue size; we think about it in terms of employee size. We think of it in terms of geography and our ability to get within that geography either over the road or via other mechanisms, because our regional staff has to travel and cover that. We think of it in terms of waste flows, how it flows within a geography, and then we think of it in terms of forward-looking M&A opportunity and growth.

So you can't look at a region and say, well, this region's annualizing at $1 billion and another one's at $2 billion, so they must think that region can go from $1 billion to $2 billion. That would be a misleading way to characterize the way to think about it because that is only one factor. We may have close to the same number of employees that are in a $1-billion to $1.2-billion region, that are in a $2-billion region, because of the price of disposal, because of other things. So we -- in the Mid-South, if you look at Tennessee, Kentucky, Alabama, more rural states, you're covering a lot of geography and so you have more people. You also have a lot more residential business, so you've got more people employed through that.

So it's a complex way to tell you how we think about what goes within a region. Does the Mid-South have tremendous growth opportunity? Absolutely. We believe it does. Just look at those states. But should you think about it as getting to the size of the Southern or the Eastern Region in time? That might be a little misleading.

Operator: The next question is from Jerry Revich of Goldman Sachs.

Jerry Revich: I'm wondering if you -- hi. Ron, I'm wondering if you would talk about how much the Alabama acquisition expands your potential M&A pipeline with companies that fit the Waste Connections mold given how much that asset can be scaled?

Ron Mittelstaedt: Yes. I mean, Jerry, again, it would just be a guess, and I would hate to -- I don't want to do that, for you or anyone, because I don't know that exactly. We don't know that exactly. But look; if you look at our Massachusetts and our Rhode Island market, as an example, prior to yesterday's announcement, those were non-integrated markets for us. They are now integrated, okay? We can take -- well, most of our Mass and our Rhode Island market to the Arrowhead landfill through our network as of today. So that gives you an idea that there's opportunities within those states, surrounding states, that we are not in, and some we are in, where there's more M&A opportunity today than there was a few days ago. What that exact number is, is -- I don't know yet, Jerry. I think as we go forward in a couple of quarters and have greater understanding, we can give you something more clarified.

But suffice it to say that it gives us opportunity that -- some of which we had passed on, okay? Because we weren't sure if we could become integrated. Remember, our whole model is, we're either going to be in an exclusive market where we have a franchise or similar agreement, or we're going to try to create a de facto asset franchise through asset positioning within a market. And in a competitive market, if you're at long-term disposal disadvantage, you're not going to create that de facto asset franchise. So there were markets that we were sort of self-shutting out of consciously that we now can revisit. So that's how -- why we say it is strategic.

Jerry Revich: Super. And can I trouble you just to expand on the point of becoming vertically integrated in the existing markets? I mean, in some of those areas, there's local disposal options that you're currently flowing through that are just more efficient than shipping it all the way to Alabama by rail, so can you just expand on that point in terms of the plan? So is this really taking a view of disposal capacity five years out in those markets? Can you just expand on that? Because I know you folks aren't running railcars for practice. You want to make sure you're getting really good returns on those investments.

Ron Mittelstaedt: Yes, absolutely, Jerry. And look; we have not said this is going to -- we're going to take all of our Northeast market to Arrowhead by any means. There are -- each of our markets within a market area are niches that some of them have local municipal disposal, some of them are flowed to local municipal disposal -- therefore, we can't do anything. That's always going to go there -- some of them, disposal makes more sense economically and return basis to go there. We're going to look at that.

But to your point in your comment, understand that many parts of the Northeast are an $80 to $130 market. Pick $100 as a midpoint just for conversation. You can move waste on rail a long ways at $100 a ton, okay? So unless there's a contraction in disposal pricing along the Northeast, which we don't project, by the way -- if it happened, it doesn't hurt us. That helps us on a collection basis -- you're going to continue to see us move waste to where it makes the most economical return basis. And so we've taken a very hard look at this. You've got diminishing disposal capacity along the Northeast. You're going to continue to have an upward bias on price throughout the Northeast as disposal lives contract. So I think if anything, you're going to see waste continue to move outside of the Northeast and longer distances.

Jerry Revich: Super. Appreciate the detail. And on -- can I trouble you just to update us how the landfill gas developments are tracking? And as we think about when they start flowing through and obviously contributing to margins, any update on the timing and the cadence given the moving pieces in the industry, not only from project timing but getting EPA-certified and other moving pieces that are essentially delaying some players in ramping up capacity utilization?

Mary Anne Whitney:  Yes, Jerry, we'd say the update is our projects are on track. They're in line with our expectations. We said there were a couple that should be online by the end of this year and that they would then layer in over the next couple of years, and we've talked about that $200 million in annual EBITDA by '26, and there's no change to that outlook.

Operator:  The next question is from Noah Kaye of Oppenheimer.

Noah Kaye:  Appreciate the thoughtful responses today. And I just want to do a little bit of housekeeping to clean these up. First, just to level-set on where we sit today on turnover, and if you can desegregate into voluntary versus involuntary?

Ron Mittelstaedt:  Sure. I can do so. So we peaked in turnover at the end of Q4 of '22 at about 35%. We brought that down by the middle of Q2 to about 30% and we have decreased that further to just under 29% at the end of Q2. We are tracking below that as we head into Q3 of '23, and I would project that to be, by the end of Q3, a point or two lower at the end of Q3 than where we ended Q2. We peaked at the end of Q4 of '22 at about 1,900 open positions, or about 8% of headcount. We are currently -- we ended June at about 1,200 open positions, or about 5% of headcount. And I would project by Q3 we would get that into the 1,100, maybe just below, range, getting that into the 4.5% range. The 4.5% is a very comfortable number; optimal in my mind is 3.5%. You're always going to have some. You're going to want some. That's your involuntary, that you're making decisions on. But if we can get to that 3.5% open positions over the course of the next six, eight months, we'd be very happy. There's a material difference running 7%, 8% of open headcount versus 3.5% or 4%.

Noah Kaye:  Very helpful, thanks. And then just remind us how much you're spending this year in CapEx on RNG and new recycling facilities? And did that number change at all in the $25-million-higher CapEx guide?

Mary Anne Whitney:  No change in the higher guide. So this year, total for '23, the expectation is around $45 million for RNG and another $25 million for our recycling facilities, for a total of about $70 million. And I mentioned earlier it steps up -- the expectation is the RNG spending steps up in '24, probably $125 million, somewhere thereabouts.

Noah Kaye:  Okay. So you -- so there's an $80-million step up on RNG, and recycling, is that kind of flattish for next year, or you're just -- or are those investments rolling off?

Mary Anne Whitney:  I think those are rolling off next year. Or maybe a nominal amount in '24.

Noah Kaye:  Okay. So net-net, that's like a $55-million, $60-million increase in total CapEx above and beyond what you normally spend?

Mary Anne Whitney:  Yes, that's fair.

Noah Kaye: That's helpful. And then on Arrowhead, look; I don't know if transformative is the right word, but this is extremely significant for your operations east of the Mississippi, and there are a lot of the peers with Northeast and East Coast operations I imagine this network would be valuable to, so can you maybe just talk a little bit about how these assets came to you? Why Waste Connections?

Ron Mittelstaedt: Well, sure. We can certainly try. Obviously somewhat of that rests in the answer from the sellers, but we can tell you what we understand. First off, these assets came to us because we went after these assets. This was not a shopped transaction. This was not a marketed or brokered or auctioned transaction. We began pursuing over a year, almost a year and a half ago, intimate discussions with the ownership. And we accelerated those throughout the course of this year heading into Q2. So this was something that was targeted, sort of a rifle shot, I would say, by us. And it was proactively taken off the market by us in that manner. So that's how it happened.

Why us? I think the sellers would tell you, obviously they felt there was a fair economic transaction, but I think they felt our ability to develop and really turn the entire network into their dream of what it can become was -- they had a high degree of confidence in our ability to execute on that. And I believe that's why they would tell you that they chose us, as well as what they felt was a cultural fit for their employees and their leadership, who is staying with us. So I think those would be the major reasons.

Operator: The next question is from Tobey Sommer of Truist.

Tobey Sommer: I'm just wondering if you see the decline in open reqs and voluntary turnover as attributable to sort of changes in the labor market, external market-related changes, or your own internal actions? Like, I'm not sure if your internal actions have already yielded results or are sort of more on the come.

Ron Mittelstaedt: Yes, I mean, that's a fair question, Tobey. I would tell you that I think our internal actions are more on the come. I think we've had some impact, but that would be misleading to take 50% or more of the credit internally. That would be inaccurate. I think as we get six months out from now, that will be much more impactful internally. And I do think it is a function of the labor market easing somewhat, although as we've said, that continues to remain tight, but definitely is not where it was in Q4 of last year or Q1 of this year. We've definitely seen that.

So if I had to put a number, I'd say it's 75% the market, 25% us. I mean, I'm just estimating at that. But it's clearly more external than internal right now. That will pretty rapidly flip.

Tobey Sommer: Great. I appreciate that color. Just one other question on pricing and then I'll be done. Do you expect the difference in relative price increase in your sort of West Coast markets versus competitive markets -- do you think that's spread to be relatively stable, or do you have an expectation for a widening or contracting in that difference?

Mary Anne Whitney: Well, that community will be a function of where inflation ultimately settles out, which dictates real-time, or even forward-looking, what price increases happen in the competitive markets, and influences that spread. And of course, in the CPI-linked markets, it's a look back, right? So those dynamics will dictate that. We know that we'll continue to get the benefit of higher CPI [prints] coming into this year in the pricing for next year as we look ahead in those CPI-linked markets.

Operator: The next question is from Stephanie Yee of JP Morgan.

Stephanie Yee: Thanks for all the color on the employee retention. I was wondering if you can provide some color on the customer side, just given the price increases that have been put forth, and yes, what you're seeing from your customers from a retention standpoint.

Ron Mittelstaedt: Sure. Well, what I would tell you is that our retention continues to be good. We continue to hold sort of in that 85%-plus of our price increases that we did early in the year. Any time we can get into that range, we're -- it tells us our retention is good, and that we haven't "exceeded the market," if you will. There are markets where that's not true, but overall, it is.

Customers, they are experiencing, have experienced, significant inflation in their business, and we tend to be a very small part of a business', and of course a household's, monthly expenses. So although 10%, 12% is a big number, when you're talking about it on a $30 residential bill or a $200 commercial bill, you're talking about smaller numbers, $3, $4 numbers on a residential a month or $15, $20 on a commercial bill. That pales in comparison to the increases that they get on their large expenses that are going up at that same 10%, 12%.

So I would tell you, customers are seeing input costs from all sectors that have been very high, and so we are, if you will, in line with what they're seeing from their service providers. So customers never want to see -- which is understandable -- their rates increase, and that always drives some tension in that relationship, until you can get beyond the immediacy of it, and again, if you're providing service quality, then that makes the acceptance of that rate increase a lot easier, where you're -- if you have service quality issues, then obviously a customer has a very legitimate reason to push back on your rate increase. So we have a heavy focus on service quality; that's a never-ending battle, but the better our service quality -- again, a reason to drive down retention and turnover, improve retention and drive down turnover -- the easier it is to retain price.

Operator: The next question is from Harold Antor of Jefferies.

Harold Antor: This is Harold Antor on for Stephanie Moore. I just wanted to ask if you could talk about any type of software automation investments that the company made -- making, or areas you think [indiscernible] as you look into the back half for the rest of the year?

Ron Mittelstaedt: Sure. I think it was a little hard to hear. I apologize. But I think your question was about investments in software the company is making in the back half of the year, and Harold, we are -- we have made an investment in our entire recruiting platform software that we brought online in July, which is a significant enhancement to what we had been doing up until then, and that is probably most significant. We are also -- have made significant investments in the telematics that are coming out of our truck into -- for both real-time safety, productivity and customer satisfaction. So -- but these are all -- the way we think about these, these are all normal-course investments that we make year in and year out sort of in a continuous improvement process. There is nothing that is significant that we're calling out in our expense or our CapEx about this, because it's just all normal course.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Ron Mittelstaedt for closing remarks.

Ron Mittelstaedt: Okay. 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 are available today to answer any direct questions 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 seeing you at upcoming investor conferences or hearing from you on our next earnings call.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.