[WCN] - Waste Connections, Inc.,
Q3 2021 Earnings Conference Call
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Officers
Worthing Jackman, President, CEO
Mary Anne Whitney, EVP, CFO

Analysts
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Sean Eastman, KeyBanc
Hamzah Mazari, Jefferies
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Presentation

Operator: Greetings, and welcome to the Waste Connections Third Quarter 2021 Earnings Conference Call. (Operator Instructions). Afterwards, we will conduct a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded on Thursday, October 28, 2021.

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

Worthing Jackman: Thank you, operator, and good morning. I'd like to welcome everyone to this conference call to discuss our third quarter 2021 results, and provide a detailed outlook for the fourth quarter, an updated outlook for 2021, as well as some early thoughts about 2022.

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

As noted in our earnings release, we delivered another top-to-bottom beat in the period on continued strength in solid waste pricing, higher recycled commodity values and improving E&P waste activity, along with acquisitions closed during the period.

More importantly, quality of revenue drove both sequential margin improvement in the period and 60 basis points year-over-year adjusted EBITDA margin expansion in the quarter, overcoming an estimated 40 basis points impact from dilutive -- margin-dilutive

acquisitions and hurricanes. This puts us firmly on track to exceed the increased full year 2021 outlook we provided in August, and deliver year-over-year margin expansion again in Q4.

Strong execution, proactive acceleration to solid waste pricing to address inflationary pressures, and outside contributions from acquisitions already position us for double-digit growth, underlying solid waste margin expansion and strong free cash flow conversion in 2022.

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

Mary Anne Whitney: Thank you, Worthing, and good morning. The discussion during today's call includes forward-looking statements made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, including forward-looking information within the meaning of applicable Canadian securities laws.

Actual results could differ materially from those made in such forward-looking statements due to various risks and uncertainties. Factors that could cause actual results to differ are discussed both in the cautionary statement included in our October 27 earnings release, and in greater detail in Waste Connections' filings with the U.S. Securities and Exchange Commission and the securities commissions or similar regulatory authorities in Canada.

You should not place undue reliance on forward-looking statements, as there may be additional risks of which we are not presently aware, or that we currently believe are immaterial, which could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances that may change after today's date.

On the call, we will discuss non-GAAP measures such as adjusted EBITDA, adjusted net income attributable to Waste Connections on both a dollar basis and per diluted share and adjusted free cash flow. Please refer to our earnings releases for a reconciliation of such non-GAAP measures to the most comparable GAAP measures. Management uses certain non-GAAP measures to evaluate and monitor the ongoing financial performance of our operations. Other companies may calculate these non-GAAP measures differently.

I will now turn the call back over to Worthing.

Worthing Jackman: Great. Thank you, Mary Anne. We are extremely pleased by the broad-based strength of our business and solid execution in the quarter, with better-than-expected top line growth driven by all lines of business. Starting with solid waste, price plus volume growth of 7.3% reflects our proactive approach to managing through the current environment by implementing additional price increases to address wage and other cost pressures.

Total price was 5.1% in Q3, up 20 basis points sequentially and slightly better-than-expected, and ranged from 2.5% in our mostly exclusive market Western region to

between 4.8% and 7.3% in our more competitive regions.

Looking ahead, we are positioned for another sequential increase of pricing growth in Q4 to about 5.5% as the full impact of incremental price increases is realized.

Reported volume growth of 2.2% in the period was also slightly better than expected. We saw positive volumes in all of our regions except our Eastern region, which was essentially flat due to the tough year-over-year comparison from an outside special waste job in one market last year.

Of note in the East though, was the improvement that we're seeing in New York City, where volumes were up 11% as commercial activity has picked up, along with reopening activity.

Also noteworthy is our Western region, which had the strongest volumes going into the Covid-19 pandemic and continues to lead with volumes up 5% in the quarter. Companywide, all lines of business showed year-over-year improvement.

Looking at year-over-year results in the third quarter on a same-store basis, commercial collection revenue was up 12%. Roll-off revenue was up 11%. Pools increased by about 4.5% on increases in all regions on strong pricing, driving rates per pool up about 6.5% year-over-year. Landfill tons were up about 5% in MSW, special waste and in C&D waste.

Moving on to E&P waste, revenue was also up year-over-year and stepped up sequentially on higher activity levels in all of our major basins. We reported $35 million of E&P waste revenue in the third quarter, up $11 million year-over-year and up 12% sequentially from Q2 in spite of the disruption to drilling operations in the Gulf of Mexico as a result of Hurricane Ida. We are encouraged by increased rig counts and elevated crude pricing levels, which if sustained, could set up for increased activity in 2022.

Finally, looking at Q3 revenues from recovered commodities, that is recycled commodities, landfill gas and renewable energy credits or RINs, excluding acquisitions, collectively they were up about 110% year-over-year, primarily due to higher commodity values led by old corrugated containers or OCC, up 150% year-over-year. Prices for OCC averaged about $186 per ton in Q3 and our RIN pricing averaged about $2.70.

As noted earlier, all lines of business outperformed our outlook in the period, along with acquisition activity, which as expected, picked up in the third quarter. Year-to-date, we have closed acquisitions with approximately $240 million in annualized revenues with the potential for that amount to increase by another $100 million to $150 million as we go into next year. We had anticipated that this will be a big year for acquisition activity for all companies across the solid waste sector. And we continue to be selective and disciplined in our approach to acquisitions, as we recognize the importance of market selection and asset positioning, as well as value creation.

As anticipated, the strength of our operating performance, free cash flow generation and

balance sheet positioned us for another double-digit increase in our quarterly cash dividend. As announced yesterday, our Board of Directors authorized a 12.2% increase in our regularly quarterly cash dividend, our 11th consecutive double-digit percentage increase since commencing the dividend in 2010.

We continue to have tremendous flexibility to fund our differentiated growth strategy and outsized acquisition activity, along with an increase in return of capital to shareholders over the long term, including opportunistic share repurchases.

We also capitalize on opportunities to invest in our business, and didn't allow for any slowdown in our replacement or growth CapEx in spite of supply chain challenges, which have hindered investment for many companies. In fact, we increased fleet purchases during the year and accelerated our preorder process for 2022 to position ourselves for continued growth.

In addition, as noted earlier, we proactively addressed labor constraints through wage adjustments covered by incremental price increases.

Moreover, throughout 2021, we have maintained and expanded upon our commitment to the health, welfare and development of our employees, environmental stewardship, and the support of our local communities as detailed in our updated 2021 sustainability report released earlier this week. The report outlines progress we have made on the long-term aspirational sustainability targets we established in 2020, demonstrating year-over-year improvement in all areas, including an 8% reduction in operational greenhouse gas emissions to further improve our already net negative carbon footprint of over 3.2x.

We also highlight our investments in renewable fuel facilities and state-of-the-art greenfield recycling facilities, as well as upgraded safety features across our fleet and engagement tools for our employees and customers. Not only did we demonstrate considerable progress toward all of our objectives; we also incorporated sustainability metrics into our long-term incentive compensation targets to provide increased transparency and accountability.

Moreover, we have maintained our focus on and support of our frontline employees, whose efforts throughout the Covid-19 pandemic have been an inspiration for all of us. Our outlay of over $40 million since the onset of Covid-19 pandemic, primarily to support frontline employees, is indicative of our values, priorities and focus as we run our business day-to-day. Given our safety-focused servant leadership-driven culture at Waste Connections, sustainability initiatives are consistent with our strategy and focused on long-term value creation for our shareholders as we grow our business.

Now, I'd like to pass the call to Mary Anne to review more in depth the financial highlights of the third quarter, and to provide a detailed outlook for Q4 and updated full year 2021 outlook. I'll then wrap with a few early thoughts about 2022 before heading into Q&A.

Mary Anne Whitney: Thank you, Worthing. In the third quarter, revenue was $1.597 billion, about $37 million above our outlook as a result of continued strength in solid

waste, higher-than-expected recycled commodity values, increasing E&P waste activity and contribution from acquisitions closed during the quarter.

Revenue on a reported basis was up $207 million or 14.9% year-over-year, including organic growth of approximately 11.3% plus 3.6% from acquisitions completed since the year-ago period, which in total contributed about $54.1 million of revenue in the quarter or about $51.4 million net of divestitures.

Adjusted EBITDA for Q3, as reconciled in our earnings release, was $505.6 million, about $11 million above our outlook. Our adjusted EBITDA margin of 31.7%, up sequentially from Q2 and up 60 basis points year-over-year, includes approximately 40 basis points combined margin impact from hurricane Ida and margin dilution associated with acquisitions in the quarter. Excluding these impacts would result in an underlying adjusted EBITDA margin of 32.1% in the period, up 100 basis points year-over-year.

Looking at margin drivers in the quarter, commodity-driven impacts accounted for about 160 basis points of margin expansion net of a 30-basis point impact from higher fuel on diesel rates up 19% year-over-year. And increased E&P waste activity drove an additional 40 basis points of margin expansion. These tailwinds, buoyed by the incremental price increases we put in place during the quarter, more than offset inflationary impacts on the business, as well as the return of about 60 basis points in discretionary spending during the period, as our in-person training meetings, employee and community-focused activities and benefits costs continued to normalize.

We delivered adjusted free cash flow through Q3 of $825.8 million or 18.2% of revenue, putting us on track for another upward revision to our adjusted free cash flow outlook for 2021 in spite of continued increases to CapEx. As Worthing mentioned, we have been intentional and proactive about capital expenditures, already up almost 15% year-over-year, and now projected at $700 million, up from $625 million in our original outlook for the year, and with the potential for that number to grow, as we continue to pursue opportunities to stay ahead on fleet and equipment purchases where possible.

During the quarter, we also refinanced $1.5 billion in legacy privately-placed senior notes with higher interest rates and more restrictive covenants to take advantage of the historically low interest rate environment and extend maturities through the issuance of 10-year and 30-year registered notes.

Our leverage ratio, as defined in our credit agreement, remained about 2.6x debt to EBITDA, with leverage on a net debt to EBITDA basis of about 2.4x at end of Q3. Our current weighted average cost of debt is less than 3% with about 90% of our debt at fixed rates.

I will now review our outlook for the fourth quarter 2021 and our updated outlook for the full year. Before I do, we'd like to remind everyone once again, that actual results may vary significantly based on risks and certainties 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, including as a result of, or related to, impacts from the Covid-19 pandemic. 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 Q4, revenue in Q4 is estimated to be approximately $1.58 billion. We expect solid waste price plus volume growth of approximately 6% in Q4, with pricing of about 5.5%. And recovered commodity values and E&P waste revenue are expected to remain about in line with Q3 levels.

Adjusted EBITDA in Q4 is estimated at 30.8% or approximately $486 million, up 50 basis points year-over-year, excluding the impact of about $70 million in acquisition contribution in the quarter, driving over 20 basis points of margin dilution, and in spite of tougher comparisons, recovered commodity values and E&P waste activity, both of which picked up in late 2020 with the reopening of the economy.

Depreciation and amortization expense for the fourth quarter is estimated at 13.3% of revenue, including amortization of intangibles of about $38.5 million or about $0.11 per diluted share net of taxes.

Interest expense net of interest income is estimated at approximately $40 million.

And finally, our effective tax rating Q4 is estimated at about 21.5%, subject to some variability.

Now, looking at the full year, revenue for 2021 is now estimated to be approximately $6.11 billion, up over $130 million from our recently-updated outlook, with about half of that increase from broad-based contributions from the Q3 organic growth drivers in solid waste and recovered commodity values, plus about $65 million from acquisitions completed since our last update.

Adjusted EBITDA for the full year is now estimated at approximately $1.91 billion or 31.3% of revenue, up to 80 basis points year-over-year with about a 20-basis point margin drag from acquisitions. This puts us on track for year-over-year margin expansion in every quarter of 2021, in spite of escalating wage and inflationary pressures in 2021, and the sequential ramp in 2020, driving increasingly difficult comparisons.

Adjusted free cash in 2021 is now expected at $1.025 billion or about 54% of EBITDA, an increase of $25 million from our previous outlook in spite of a corresponding $25 million increase to CapEx since then, now estimated at $700 million.

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

Worthing Jackman: Thank you, Mary Anne. We are extremely pleased with our year-to-date performance, especially given the pandemic widespread cost pressures, labor constraints, supply chain, disruptions, and other challenges. We've not only navigated through these challenges to deliver strong growth and margin expansion; we've also increased our outlook for the second time this year, and are on track for adjusted free

cash flow of approximately $1.025 billion in spite of proactively accelerating truck and equipment purchases.

We've already implemented price increases to address inflationary pressures, with pricing growth increasing throughout the year and further accelerating into next year. We've completed about 2x the typical amount of acquisition activity for the year and expect the pace of activity to remain elevated.

We just announced now the double-digit percentage increase of our regular quarterly cash dividend, and have derisked our balance sheet, reducing our annual interest expense while locking in up to 30-year debt at favorable terms.

In short we're already well positioned for next year. And although we won't provide our formal outlook for 2022 until next February, we're able to share some early thoughts, assuming no change in the current economic environment.

Solid waste pricing growth should ramp to between 5.5% and 6% in 2022. Acquisition contribution is already at about 2.5% growth, potentially reaching 4% to 5% by year-end or early next year. And solid waste volumes should reflect underlying trends in the macro activity, with a caveat that trade-off of price over volume is more important than ever in an inflationary labor constrained-environment.

In addition to potential double-digit top line growth, we also expect continuing underlying solid waste margin expansion and strong adjusted free cash flow conversion next year with double-digit per-share growth. We expect to have better visibility on the tone of the economy and expected acquisition contribution, E&P waste activity and commodity-driven revenue in February, when we provide our formal outlook for the upcoming year.

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

Questions and Answers

Operator: Thank you. (Operator Instructions). Jerry Revich with Goldman Sachs.

Adam Bubes: This is Adam Bubes on for Jerry today. I was wondering if you could talk about the level of open market prices that you folks are putting in through October? And if you're able to put up 5.5% core price in Q4, do you see that potentially accelerating above the 6% range in Q1 of next year?

Worthing Jackman: Well, I'd look at next year first. As we said in my closing remarks, we expect pricing next year overall to average between 5.5% to 6%. And so we'll see how the macro performs as it moves through next year and respond accordingly, if need

be; above 6%, yes, but we don't see the need for that right now. And as we said, also, obviously in our open markets, we said before, pricing range anywhere between I'm rounding 5% and 7% on average in the competitive markets. And again, as you look, if that just stays like that going into next year, and again, we've got about 40% of our business that's franchise, that's doing 2.5% price this year, that alone will go up about at least 100 basis points next year.

And so just 100-basis point incremental contribution from those franchise markets and weight that 40%, that's 40 basis points it adds to the total pricing. So effectively, we're already in that 5.5% to 6% run rate right now as we look to next year.

Adam Bubes: Great, thanks a lot. That's helpful. And then in your sustainability report, you talk about opportunities to pursue greenfield recycling projects. When you think about targets to get to I think $2.3 million targeted tons by 2033, how much of that ramp is going to be achieved from greenfield projects versus investments in existing plants?

Worthing Jackman: Well, the biggest capacity jumps would be a combination of new facilities; where we're targeting new facilities is where we already have the tons on our own trucks to make the facilities economic to pursue. In other words, these aren't just greenfield speculative facilities where we drove [dump patrol] volumes. This isn't a build it and they will come type attitude. And so you'll see us build a couple facilities in existing markets, that will be one jump in, in the recycling numbers. And obviously, as we continue to pursue acquisitions and bring on new facilities in additional markets, you'll see those numbers can continue to move up again.

Adam Bubes: Great, thanks so much.

Operator: Sean Eastman with KeyBanc.

Sean Eastman: Excellent update here. Maybe just zoning in on the margins, could you just bridge the implied margin expansion for us in the fourth quarter? I feel like that's pretty notable considering that the comps are tougher. Just some context there for what you guys have been able to do in the fourth quarter would be helpful as a start.

Mary Anne Whitney: Sure. I think that's a great question because a lot does change -- did change last year between Q3 and Q4. And if I look at those tailwinds of, call it, 230 in Q3, those step down by about 70 basis points in Q4. And so to your point, when you see that we're still increasing margins by 30 basis points in spite of that, it tells you that you're seeing more of the benefits of those incremental price increases, which are already impacting margins this quarter and that will step up in Q4. So I'd say that's the biggest mover, Sean.

Worthing Jackman: Yes, because the underlying is actually 50 basis points or more. But then you take the 20-plus basis points dilutive back from acquisitions, which gets you to the 30.

Mary Anne Whitney: Right.

Worthing Jackman: And so it's even more pronounced than the cover shows.

Sean Eastman: Okay. That's really helpful. And then as we look out to 2022, are there any headwinds in that bridge that we need to consider? Should we see a normative level of operating leverage in the solid waste business, and then maybe a little juice from E&P if this revenue run rate holds and continues to pick up perhaps? Is that the right way to think about it?

Mary Anne Whitney: Sure. I'd say of course, it's early days and we'll give our formal guidance in February. But to Worthing's earlier remarks, when we think about the pieces that are already in place for next year, yes, we think that we'd have sort of the typical underlying solid waste margin expansion. And then as you know, of course, that with acquisition contribution, that would to the extent that you layer those in, that would come in at the lower margins and have an impact.

And then, to your observation, if E&P were to remain at current levels and recycling and RINs, there would be some tailwinds associated with that.

Sean Eastman: Okay, terrific. Very helpful, thanks.

Operator: Hamzah Mazari with Jefferies.

Hamzah Mazari: My first question is just on the volume side. I understand the price over volume strategy makes a lot of sense. But just looking further just into volume, could you maybe talk about what was weaker? I know you mentioned New York was up 11%, Western volume leads. Overall volumes, I guess, were up slightly above 2%, which was better than your expectation, which maybe was conservative.

But anything on the volume side that you would call out that was below 2% growth? And then also as part of that, are you actively walking away from low-margin business today in this environment?

Worthing Jackman: Sure. The 2 regions that had sub-2% volume growth are all due to special waste comps in the prior year, right? And as you know, that can be lumpy, can move from one period to the next, and so that's just a timing issue with regards to comparisons, right? Everything else was 2.5% to 5% on the volume growth side by region.

When it comes to walking away, what I would say is what we're seeing more is that companies that have pursued a low-margin revenue growth strategy, which because of low margins, you're basically underpaying people. So you're infected with high turnover. Companies like that are failing. This is not the environment that provides a lifeline or oxygen to those companies.

And so what we see more of is people approaching us in certain markets saying, can you cover us? And the answer is sure, we can cover you, but the pricing's going to be 20% and 30% higher than what you're paying right now. And depending on the market, probably that's the right pricing point to be in order to satisfy the inflationary

environments you have to attract the drivers, safe operators, folks that you want to keep long term that like the benefits, etc.

And so the reality is that those are the companies that have to walk away because they can't afford to stay in business. And that's the fault of a strategy that was pursued. And so look, pricing is higher. That's in response to the current environment. Talking 5.5% or 6% price is nothing compared to the 8s, the 10s, the 20% increases you see all around you, consumer products, construction materials, utility bills; autos are up significantly. It's rampant in the economy.

And so before we think that 5.5% to 6% sounds high, in the scheme of things, in the context of things, it's not that high. Would we walk away from volume at low price? Absolutely. We've had 2 rebids; these were legacy contracts that we got progressive transaction. We said all along early in the process, that we repriced the bulk of those contracts. And there were 2 to 3, that still had 5 years left to run on them. And guess what? 5 years is up, and in both those cases, we have rebid to acceptable margins. And it's almost comical what people took them at and because they took them at rates well below us and prior to the inflationary run-up, and so we'll see how they perform on those.

But to your point, Hamzah, we don't do this for practice. Labor is not plentiful and available. So the labor that we have, we're going to make sure we pay them well and that we get paid a fair rate for that.

Hamzah Mazari: Got you. And then just pricing, shouldn't pricing be higher than 6%? Because in 2008, your pricing was 5.6%. Inflation's a lot higher today. I know your business mix is a bit different, but shouldn't pricing be higher, or you're just being conservative in your sort of pricing figures?

Worthing Jackman: Well, you've got to remember that 40% of the business is tied to some kind of local CPI that lags or rate of return. We don't -- we're not begrudging that because what we know is that volume almost acts like price, right? The incrementals from volume in those exclusive markets because it's coming on at scale is accretive to margins. And so when you still tag 2.5% to 3.5% type price, as you look at those markets this year and look ahead next year, and put 5% volume on top of that, we're still running 7% to 8% price plus volume in the current environment; and price and volume is acting as a quasi-price.

And so the element is a little bit different, where it gets accounted for is different. But the reality is, look, if everyone's printing 7% to 8% or so organic growth right now in this environment or price plus volume, if you're expanding margins -- forget about the breakdown. If you're expanding margins, chances are you're getting more price than that. If you're not, chances are, you're not. And so it's not as much the headline, but it's the components of where you're not getting as much price, but that's okay because what's happening in the volume side.

Hamzah Mazari: Got it. Last question and I'll turn it over. Just on the labor line, it looks like your op leverage was better than one of your larger peers who reported earlier.

Maybe just talk about what are you doing on the labor line to manage through labor availability issues? Your inflation, it seems like you were ahead of that in adjusting wages. But just walk us through what your strategy is on the labor line that's helping you today, relative to maybe some of your larger peers. And I realize not everybody's reported yet, but just any flavor there.

Worthing Jackman: Look, I would say if you step back and look at the -- whatever they call this period, the Great Resignation, the Great Stay-Home period, whatever you want to call it. But the pressures in our markets are no different than other companies. We're all up significantly in overtime year-over-year; our openings are up. Now, our openings have stabilized over the past few months.

We're hiring a record number of people every month. We're focused on retention and making sure we can keep more of those people longer to get them to their first year anniversary, because that's where there's a critical hinge point. So I'd say we're all afflicted by similar pressures.

So I think as we said in the script and we said since formation, quality of revenue matters, right? And so you've got to focus on -- you’ve got to accept the realities of what it takes to try to keep a workforce, pay them well, have gold-plated benefits, etc., care about hours of service, care about the equipment that they're running in, they're driving in, that's their office. But you’ve got to recognize the reality that -- and then price your way through it.

And so I think some of the leverage you might be referring to is the fact that when we see it, we respond to it. And we talked about this on our last call. We were early to doing that this year, early to double-down on wage growth and to go out and recover it.

Mary Anne Whitney: And I would just add, Hamzah, that to your observation, that other people have talked more about the cost pressures, the numbers aren't different from what we've heard other companies say, the double-digit impact to the labor line, everything with a labor component, which you're now relying on third parties to do. You have those same kind of increases, whether it's brokerage or outside repairs, etc. I guess the distinction is that because we have more revenue because we went out and, among other things, did those incremental price increases, that masked the impact of those outside cost pressures.

And what's remarkable perhaps is that the performance of the underlying solid waste business, we recovered so much of what those headwinds translate to. If you just take the simple math of a 10% increase on your cost, it would've suggested you'd be down 200 basis points, which is why we can understand how other people's numbers were different, and it shows how much we've offset with the underlying performance of the business.

Hamzah Mazari: Thank you.

Operator: Walter Spracklin with RBC Capital Markets.

Walter Spracklin: So just the initial question here is just your assumptions underlying the

guidance that you provided for the fourth quarter and into next year, Worthing, typically you're quite conservative in terms of how you forecast and where there is a lot of markets that are not entirely reopened yet -- I think I'm sitting in one of them -- is your guide therefore based on kind of business conditions staying the way they are, or do you assume when you look into next year, that pretty much everything is back to normal, all markets are reopened and your guidance is based on that? Just trying to get a sense of how conservative the assumptions are underlying your guidance for next year.

Worthing Jackman: Yes, we don't assume what we don't control, and so no, any additional reopening activity that might be beneficial to commercial collection in particular, just like we referenced what we saw in New York in Q3, that would be additive. So it's really -- it's why we haven't really pegged the volume number yet. And again, in February, we'll have more visibility into that to comment on that.

Walter Spracklin: Okay. That's great. And then turning to your acquisition strategy, any change in approach in how you're looking at companies at all? And specifically, are you looking at or focusing more specifically on certain geographies and types of business?

As more and more acquisitions happen, solid waste becomes less and less opportunities here. How do you look at liquids, special waste, that kind of thing? Is that something you just inherit when you do a solid waste acquisition, or is this something that you could, as solid waste opportunities become less prevailing, you start to shift your focus into more ancillary areas for on wayside? Just curious on the type of acquisition you're looking at going into next year.

Worthing Jackman: No, our runway still exceeds $4 billion in private company revenue, core solid waste that fits our model. Again, that's within a context of about a $18 billion or $20 billion private company revenue basket. And so we still have a lot of runway ahead of us for the kind deals we do; sellers pick the timing of that. Right now, we have easily over 15 LOIs in place, we'll see how much of that converts into signed transactions. That's coast to coast, that's in the U.S. and Canada.

And so again, it's maintain flexibility, be there when those sellers decide now it's time. There's been rush to exit this year. They'll be continued folks that are looking to sell next year as well. But when it comes to kind of adjunct low-margin commoditized poor quality free cash flow type, quote, "environmental services," that's not us. In this environment, where there's no near-term implications or repercussions for overpaying, you see companies like that that I just described still trying to trade for 10x to 12x.

And solid waste is a much better return profile, traditional solid waste, than any of that. And so now we'll stay the company that you know and continue to do what's driven our past success as we look ahead.

Walter Spracklin: Okay. That's great color. Appreciate the time and congrats on the good quarter.

Operator: (Operator Instructions). Jeff Goldstein with Morgan Stanley.

Jeff Goldstein: So you mentioned in the prepared marks seeing prices ranging from 4.8% to 7.3% in your competitive regions. So I'm curious in those -price regions, where is that exactly occurring? And is that largely because of the higher rate of labor inflation in those markets, or is there some other dynamic in play there? Mainly I'm curious if other regions could tick up to that higher level as well?

Worthing Jackman: Yes, it's really -- I hate to use the word mix, but in some of the regions where you saw kind of the 5-ish percent, while they're called competitive regions, what they have in there is a mix of shorter-term municipal contracts. We think of that as competitive because those typically go out to rebid. And so you've got contracts in place that may be tied to CPI as a piece of the business within those quote competitive regions. And that's what generally averages down the comparative price. So it's really a mix issue of how much of those municipal contracts or within those, quote, "competitive regions," and that's what generally averages down the comparative price. So it's really a mix issue of how much of those [missile] contracts are within each of those, quote, "competitive regions."

Mary Anne Whitney: The other thing I would add is that also with respect to mix, the more heavily commercial markets are where you see the greater proportion of higher PIs.

Jeff Goldstein: Okay. Okay. That makes sense. And then with volumes continuing to be positive year-over-year, are you able to comment on overtime hours specifically? Have these hours increased significantly given the uptick we're seeing in volumes, or do you feel you still have that under or control just given the pricing that you've been able to do? How should we think about the give-and-take there?

Worthing Jackman: Yes, look, it's overtime's up. I think you heard a company peer earlier this week talk about overtime dollars being up 30% year-over-year. We're no different. You got to manage through it. When openings are higher, hours of service can go up and that'll drive overtime. Do I wish we could hire more drivers and reduce that? Absolutely. Are we trying? Absolutely. If we hired more recruiters to address it, absolutely. Are we distributing more recruiters into the field versus regional offices? Yes.

So at least will act -- this will naturally correct itself, as again, as we make further inroads into the number of openings, as we get into kind of upcoming seasonality in the business. Upcoming seasonality is a little lighter on the business and so we can see improvement in that as you look ahead too.

Jeff Goldstein: Okay. Appreciate it.

Operator: Tyler Brown with Raymond James.

Tyler Brown: I just want to go back a little bit to kind of Hamzah's question. So in 2022, just based on the CPI mechanics, wouldn't the second half pricing accelerate from the first half, just on the CPI rollover strengthening through the year? And doesn't that actually give you maybe a little bit of line of sight into 2023 already?

Worthing Jackman: Yes and yes. But let's get to February, we'll give you the exact math.

But no, you're right, look, to average 5.5% to 6%, it means you're starting at the lower end probably of that, and exiting the high end or better, right, as you look at next year. So the entry point into 2023 is higher.

Tyler Brown: Okay. And then you sound very optimistic again on M&A, even as we close out the year. But if we hard to think about next year a little bit, and again, you've kind of got this specter of something happening on the tax side, which I think is kind of driving all these deals maybe here in 2021. How should we think about deal flow in 2022? Do you think that could be a below-normal year, or do you think that that is likely not the case?

Worthing Jackman: No, again, as we said earlier, we could start the year with 4% to 5% contribution already in place, right? So that's a high number going into the year. Next year, there's no reason why we shouldn't do at least the averages, which again is about $150 million of acquired revenue in the year. Look, people still go through lineage transition issues, health issues, estate planning, etc. That's a natural. We won't sit here today and, and predict an outsized year next year, but let's see how the year plays out.

But look, there's enough momentum in place and kind of momentum to get that to the average size of transactions done next year. And so if it's just the midpoint of that, that's another $75 million of contribution of the year, which adds another 1%-plus, right? So that's potentially a 6%-plus contribution in the full year.

Tyler Brown: Right. Okay. That's helpful. And then my last one here. It is impressive on the CapEx side, even most of my truckers are struggling to get their full spend in. So number one, can you talk about how you plan for that?

And then number two, Mary Anne, can you just give us any preliminary thoughts on CapEx trends next year? Do you expect them to rise, or is there maybe a pre-buy this year? Just any dynamics there.

Worthing Jackman: Well, I'll start and Mary Anne, you can -- look, our planning for 2021 -- excuse me -- for 2020 and 2021 started when the pandemic hit. Look, we knew when factories shut down or when they cut back staff or distancing and capacity was basically cut, we stepped on the accelerator. We actually, in some cases, offered financial lifelines to some of our vendors to make sure that they would be fine during the pandemic. We never -- we didn't -- it wasn't necessarily in the in, but we certainly reached out early on, just out of concern for folks. When you think about how dark the dark days were, as people speculated early in the pandemic.

But look, we got ahead on things last year, as you know. This year, we were already expecting fleet for 2022 back in early Q1. And we had half our units spec'ed already. And what we decided to do was to say, look along the way, if we could find those units now, let's just put them in the fleet now; let's take maintenance pressure off, let's get the age down. There's some -- we probably got about 120 to 140 more units this year on the fleet side than we had budgeted. Some of that's growth, a lot of that's getting a head start to 2022.

You all are in the same thing. We put another $10 million to $20 million at work above budget, contain our capital. Again, given the growth in the area in some markets, they were out of container capital budgeted by March. And so we don't say no to growth and so we were very aggressive on container capital as well, some land purchases. It's an all-of-the-above approach to capital. It's almost like being Santa Claus all year, right? And whenever someone approached and said, hey, I can get my hands on these 20 units for this or that, what do you think? Go get it.

And again, these units that fit our specs and we had always anticipated doing it. So yes, CapEx is up $75 million or more relative to original guidance. And I'm sure Mary Anne's going to say that means CapEx next year ought to be down year-over-year. But I won't put those words in her mouth.

Mary Anne Whitney: And you would be right, Worthing. So Tyler, of course, to your question, what we sought to avoid was having an air pocket in 2022 to all Worthing's observations.

Worthing Jackman: Right.

Mary Anne Whitney: And that's how we've positioned ourselves. And so, yes, certainly as a percentage of revenue, it's down and absolute dollars, it should be down. And I would say to the extent that we get more done, as we both mentioned in prepared remarks, between now and year-end, we think of those as pull forwards, further pull forwards from 2022. So that's the way to think about it.

Tyler Brown: Okay, perfect. Very helpful as usual. Thank you.

Operator: Kevin Chiang with CIBC.

Kevin Chiang: Congrats on a good quarter there. I saw something come across my screen this morning, actually just the impact of a lot of these vaccination mandates and a lot of local, I guess, federal government and the impact that's having on labor availability. I'm just wondering, are you seeing any of that? Labor is already pretty tight. Is that a growing issue for you or not in the sense that you might not be under that umbrella of kind of having a vaccination mandate in your labor force?

Worthing Jackman: Well, look, in any labor-constrained environment, anything that might put further pressures on that is concerning. Look, our employee base reflects the private vaccination levels similar to the country or the race or ethnicity within the countries; and their beliefs and positions about the vaccines go both ways, right? And so look, you can't call frontline employees essential and heroes one year, and then chase them off, try to chase them off and force them to do things another year, right?

And so look, being inclusive means inclusive in everything we do, not just what's convenient, right? And so we value the input and the differing views of all employees and that extends to the vaccine. And that's what servant leadership is, is listening to your folks and understanding it. And so by all means, we're watching it. But I don't think the profile of our employee base is any different than other large frontline organizations.

And the government, if they want to get this economy back going and get supply chain bottlenecks taken care of and all that kind of stuff, we'll probably see delays in this kind of stuff as you look ahead because it's not something that -- this is not a time when the government needs to exert additional pressures within an already-constrained environment.

Kevin Chiang: No, that makes sense. And I think that it's a sentiment echoed by many frontline companies there. Maybe my second question, I know it's early days and just in your sustainability report, you again highlighted beta testing electric vehicles. But if I kind of just pull up the timeframe here, I'm wondering does this have a, call it, a near-term or medium-term impact on how you think about -- or how you see capital intensity just given the higher upfront cost for these vehicles? Does that materially change kind of how your typical capital intensity run rate looks?

And then just how that flows into margins because you do get the benefit of I'd say obviously no fuel costs and lower maintenance? Just do you see a point where that structurally starts to impact your margins positively from kind of the range it's been at in recent years?

Worthing Jackman: I'd say eventually, yes, but we can't even -- we only have a line of sight on that right now because again, we're now, what, almost over a year delayed in getting the first 2 units. That's not -- obviously, that's a manufacturing issue, right, and inspection issues and crossing the border issues in a pandemic. And so, look, a year ago, we would've thought we'd have 8 units on the road fully electric, meaning electric chassis and electric body. We thought we'd have 8 units on the road by the end of this year, and we're still waiting for the first 2 to later this year, early next.

And so, look, by all means when first year, we'll beta test them, make sure to prove them out, right? But eventually, when the manufacturing capacity escalates, absolutely, you'll be turning OpEx and the CapEx, which means operating margins go up. As you said, you nailed it, maintenance ought to be down, right, fuel ought to be down; a host of things ought to be down that we would hope will get us a 6 or 7-year payback on the incremental CapEx at most.

And so we need to prove it, but that's not going to happen in the foreseeable future. We're probably 5 to 10 years away from having enough manufacture capacity where you'd see a notable change in this trade-off of OpEx for CapEx.

Kevin Chiang: Okay. And let me just -- I'm not aware of one, but there's so many out there, are refuse electric vehicles subject to a lot of the grants you see for some other commercial vehicles out there? Is that something you can tap into, or is this something you'd have to self-fund without any real direct government support?

Worthing Jackman: Yes, don't have the answer for that because we haven't factored that in. If there are available, that'll help to pay back.

Kevin Chiang: For sure. Okay. No, that's it for me. Thanks again and a great quarter there.

Operator: Noah Kaye with Oppenheimer.

Noah Kaye: Just thinking about the tightness in the labor market, there's been tightness in this labor market for a long time. But just giving where it is right now, I wanted to ask you about your investment priorities. Obviously, Waste is a people- first business and the way you run business reflects that. But wondering how you think about technology as a lever to alleviate some of these labor constraints over time.

Obviously, there's a lot of conversation on a competitor call about automation, whether it's at the MRFs or other functions. But I would just propose the question to you more broadly, where do you see technology having great potential to help manage labor pressures in your business?

Worthing Jackman: Sure. Again, I'll start and Mary Anne will chime in. Look, it's an all of the above, right? There's no one specific thing you do and say that's the secret solution, right? Across the board, are we looking to automate manual routes where possible? Yes. Are we putting robotics in, in the MRFs to take out on average 1 to 2 people per robot per shift? Yes. I think we'll have over 42 robots or so that we would've bought in the past 16 months or 18 months as you get to the end of this year. So we do that as well.

Are we looking, or have we already deployed engagement tools and technology, basically, our own Instagram in-house to better engage employees? Look, engagement and retention are critical, because if you want to help solve your labor constraints, keep the people you got. Now, there's always going to be involuntary turnover for folks that exhibit risky behavior or other things, but on the voluntary side, if we're stepping up and improving our processes on recruiting, if we're stepping up and improving our onboarding and training, and stay interviews and engagement following, not only with the employee, but their families, I would hope more people that we're hiring lately will stay with us longer and give us a chance.

This is a hard industry to work in. We recognize that and we have to do all we can to engage our people and make for a work-life balance for our drivers. So if we can do all that, that's our answer to trying to solve it because if we -- look, we can hire 450 to 500 people a month; that's not the -- we have the machine to do that. If we can keep our people more, and we'll only need to hire 300, that'd be a whole lot easier, right?

But anyway, so there's no one answer. We don't spotlight technology, but we're doing all the investments you'd expect from not only on the employee engagement side, but the digital connectivity with our customers and our ability to improve the customer experience with regards to engagement with our CSRs locally.

So it's you never rest. There are always dozens of initiatives we have, including just the click order where folks can order online and it goes right to dispatch. CSRs never touch the customer with regards to setting themselves up for service. So it's again all the above approach.

Mary Anne Whitney: And the only thing I would add is, of course, from a safety standpoint. And as you may recall, we were working, have been working, on an upgraded

camera technology that we're working through our whole fleet in passing that out to. And again, that's with a focus on our people and our number one priority, which is the safety of our employees.

Noah Kaye: Perfect. Thanks for that answer. And I just want to ask a quick clarifying question. You commented the expectations for underlying solid waste margin expansion next year. Just want to make sure that that comment on underlying, the caveat there would be the dilutive impact of acquisitions, or is there any other factor we should be considering that might contribute to the movement in top of waste margins?

Mary Anne Whitney: No. To your point, we are referring to the margin dilutive impact of acquisitions.

Noah Kaye: Right. So it's not like further discretionary costs or anything like that coming back?

Mary Anne Whitney: No, again, we think it's a more normalized environment.

Noah Kaye: Okay, perfect. Thank you so much.

Operator: Michael Hoffman with Stifel.

Michael Hoffman: So I want to talk about the business just in general. So are you seeing new business formation? Are we getting service interval upgrades? Are we in that sort of part of the cycle?

Worthing Jackman: Yes, increases are well in excess of decreases. We look at our gross and our net new business relative to budget on the competitive sales side and that's trending well ahead of budget. So the short answer, yes.

Michael Hoffman: Okay. And that momentum was building to the second half, so it carries through the first half. And I know we're not talking about absolute volume guides, but price as much as you want, but we've got some macro things that are favorable around buying?

Worthing Jackman: Well, macro things that are favorable. And then as I referenced before, some contracts again, that we rebid where they should be and have not renewed. That's fine for us because those are EBITDA dollar and margin accretive for us.

Michael Hoffman: Yes, yes, I get that. I have been at a couple of different trade group meetings. And hearing from vendors that they're hearing small market muni is having so much trouble with labor, that they're willing to start privatizing, right? Is there a little bit of a small wave event out there as well?

Worthing Jackman: Well, it's clearly a pressure. Again, whether it be municipal providers, or as I talked before, revenue-focused, low-margin private companies that, look, when wages are moving as much as they are; when external pressures start all adding up to 10% or 12% pressures in their P&L, that's called 100% of their margin. And

so clearly, whether it be privates looking to surrender, or municipalities saying I'm down 40% of my drivers, how do I -- they weren't ready to dynamically respond with regards to required wages to do it. And so I wouldn't be surprised, to your question, that we'll see a little bit of that, but that's incremental, that's not a needle mover.

Michael Hoffman: No, I get that. And then on the M&A side, when we think of most of the year-to-date being primarily tuck-ins, so as you anniversary the integration, well, may have [initial] dilution, it's pretty healthy leverage to it?

Worthing Jackman: Well, yes, we talk about the impact of acquisitions, obviously, it's talking about standalones. These are the major standalone transactions where you're keeping a separate P&L. And you can look at just the impact of those on the business. And as you know, a heavy collection-oriented, it was running in the mid-20s to high-20% margin. And if you throw something that's got more recycling or resource recovery in this environment, it can approach 30%.

And so to the extent that -- and again, that's in the mix. Obviously, tuck-ins are here in the mix as well and tuck-ins themselves don't move the needle because, right, if we just -- if we're already down 100 and what, 240 million of acquired revenue already, the vast majority of that were standalone transactions, new market entries versus tuck-ins

Michael Hoffman: Okay. That's what I was trying to get at. And then when we think about where the RINs are, what are you able to do to protect the downside risk there because part of this, you can't control, if they wake up beside the RBO, it's a different number next year. So what are you doing to try and help protect the down side?

Mary Anne Whitney: Well, what you saw us do this year, Michael, was to put some hedges in place, some locks in place. And so about 60% for instance this year has been locked. And so as we look ahead, we will consider doing the same thing going forward.

Michael Hoffman: Okay. And then lastly for me, can you frame what the current run rate of is on the internal cost of inflation?

Mary Anne Whitney: Well, what we can look at are specific line items, and we can, say, look at labor for instance. And as Worthing mentioned, I think we'd really echo what we've heard other people say, and our experience is very similar, that we're seeing double-digit, 10%-plus increase if I look at all the labor lines. And then as I mentioned --

Worthing Jackman: Yes, the total cost of labor, whether it be wages, overtime benefits, temp, subcontract, whatever the case may be.

Mary Anne Whitney: Right, not just the wages base --

Worthing Jackman: Yes, not just our (inaudible).

Mary Anne Whitney: -- that's just year-over-year, but the all-in increase. And then as you know, Michael, and as I made reference earlier, there's several other line items which capture those from a third-party standpoint. And so we have several of the buckets where

they are up 10%, again, which is why it's so important. Even if it's just recovering it on a dollar basis on the top line to be getting the incremental price increases.

Worthing Jackman: And then discretionary on top of that, we were quick to flip the switch last year, as many companies were, to pare back on discretionary in the teeth of the pandemic. We kept on saying we want those costs back in the business, that's an important element of who we are in our culture. And as quickly as we turned them off, we turned them back on. So you saw that impact the quarter. So that's on top of those inflationary pressures.

Michael Hoffman: All right. So if we could, off the top of my head, that's put you in a 4-plus something internal cost inflation, you're pricing at 5. Therefore, people should be happy?

Worthing Jackman: Again, so far, we just have one peer to compare ourselves to, and again, given sequential improvement in the business Q2 to Q3 on margins and what we did year-over-year, it stands in contrast.

Michael Hoffman: Yes, okay. Thank you.

Operator: Chris Murray with ATB Capital Markets.

Chris Murray: Just going back to think about the recycled business, today certainly commodities are moving in your favor and it's making it a lot better. But we've gone through a couple of cycles now, and some of the discussion is around just how you price that business or how we structure it. Just wondering if maybe improved pricing, you start looking at maybe more aggressively restructuring contracts as we go forward, or is this something that you're maybe looking at differently than maybe you were a year ago when prices were a lot lower?

Mary Anne Whitney: Sure. I would say that it's important to remember how we're set up for recycling, and the fact that about 70% of the recyclables that we process come off of our own trucks. And many of them are in markets were long-duration contracts. And so as we've framed it, there really wasn't an opportunity to derisk the business or restructure contracts, but the way we've approached it is, as Worthing mentioned earlier, in some cases, internalizing the recycling by bringing them to our own facilities. We've bought up a couple of distressed facilities, we've done acquisitions that came with recycling facilities and we're working on some Greenfield projects.

So we think about making sure that it's a rational market and we think that overall, the industry has moved in that direction, and it's a good thing specific to our customers and how we're set up, that's how we're addressing and improving the business on the areas we control.

Chris Murray: Okay. But is there any further opportunity, maybe getting some more interest in folks wanting to look at the commodity piece of it in this environment and maybe laying off some of that risk?

Mary Anne Whitney: As I said, given the longer -- the protracted duration of a lot of the contracts where this revenue sits, think West Coast and the value of those franchises. When we look at those contracts in the aggregate, we're very pleased with the way they're structured, we wouldn't consider at this time changing that.

Worthing Jackman: Yes, we considered commodity hedges in the past and we haven't done them. And I'm glad because I would've been wrong 100% of the time.

Chris Murray: Fair enough. And then moving on just to the E&P business, just this business comes on and off like a light switch and with where we're at right now. And you did talk about the fact that, next year, the E&P business could really step up. Can you just remind us, you had started making some investments in some landfills at one point, like some new capacity. And then I think maybe paused that a little bit as the commodity price dropped and activity levels dropped.

Where do you really stand today in turn of your capacity? And at one point, we're running, call it 50 million a quarter-plus type revenue numbers. Is that something that we should be thinking about would be kind of peak for you guys at this point, or is there maybe a different way to think about the profile?

Worthing Jackman: No, we do not have capacity constraints and so more it's a function of drilling activity, and yet [grossed] back above 80, and it's probably heading higher than that. But it seems like the CapEx noose has been slipped around so many of these drillers to not drill for fossil fuels, that there's the dependency right there. Is crude going up? Yes, will continue to go up most likely. Now you got to answer the question of what will capital spending patterns be of our customers.

But we don't have capacity constraint that says we can only do 50 a quarter or do 70 a quarter, etc. That's not the issue, and again, if as I think right now, we're still sitting less than 500 rigs or still less than a third of 2 cycle to go peak. And we're not going to get back to that, or we're still less than half of the most late cycle peak. But if the rigs show up, oh, by the way they need labor. There is this issue called getting labor and getting crews to do this and they're constrained as well.

But to your reference to still are we mostly built out to the extent that the demand is there, we'll finish that facility, it's a pretty quick thing to do. And we'll open it up for additional capacity, but there's no constraints right now.

Chris Murray: All right. That's helpful. Thanks folks,

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

Worthing Jackman: 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 Reg FD, Reg G and applicable securities laws in Canada.

Thank you again. We look forward to speaking with you at upcoming investor conferences, Zooms or our next earnings call.

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