Waste Connections, Inc.
Q4 2023 Earnings Conference Call
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Ron Mittelstaedt, President & Chief Executive Officer
Mary Anne Whitney, EVP & Chief Financial Officer

Analysts
Tyler Brown, Raymond James
Toni Kaplan, Morgan Stanley
Unidentified Analyst, Goldman Sachs
Noah Kaye, Oppenheimer
Kevin Chiang, CIBC World Markets
Bryan Burgmeier, Citi
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Michael Hoffman, Stifel
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James Schumm, TD Cowen
Stephanie Moore, Jefferies
Jack Wilson, Truist Securities

Presentation

Operator: Good morning, everyone, and welcome to the Waste Connections, Inc. Q4 2023 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please also note, today's event is being recorded.

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

Ron Mittelstaedt: Okay. Thank you, operator, and good morning. I would like to welcome everyone to this conference call to discuss fourth quarter results and our outlook for both the first quarter and full year 2024. I'm joined this morning by Mary Anne Whitney, our CFO, and several other members of senior management.

As noted in our earnings release, adjusted EBITDA margin expansion of 200 basis points in Q4 capped off a remarkable year for Waste Connections, driven by solid execution and continued improvement in operating trends.

Solid Waste organic growth, led by 8.7% core pricing, was bolstered by improvements in commodity-driven revenues during the quarter, providing momentum for 2024.

Acquisition activity also accelerated into year-end, as we announced the acquisition of the U.S. 225 million revenue E&P waste disposal-oriented assets of secure energy in Western Canada, which has closed as of February 1, bringing expected 2024 revenue contribution from acquisitions to approximately 325 million with incremental dialogue ongoing.

Looking at our differentiated results during the full year 2023, we delivered 70 basis points adjusted EBITDA margin expansion, after overcoming 60 basis points in headwinds from recovered commodity values, to report an industry-leading margin of 31.5%. Double-digit growth in both revenue and adjusted EBITDA from price led organic solid waste growth and outside acquisition contribution, along with disciplined execution and focus on the quality of revenue drove adjusted free cash flow of 1.224 billion or 15.3% of revenue, in line with our outlook.

Both employee turnover and safety incident rates exited 2023 at multiyear lows, setting up 2024 for continued improvement in trends, along with the opportunity for outsize margin expansion.

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 included in our February 13 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: Thank you, Mary Anne. 2023 was a remarkable way -- a remarkable year -- excuse me -- in many ways, and we recognize that there were some unanticipated changes. What didn't change, however, was the dedication and accountability of our local teams, who

consistently demonstrated their commitment to the customers and communities we have the privilege to serve. Similarly, we renewed our commitment to a decentralized operating philosophy and servant leadership culture, both of which have served to differentiate Waste Connections and drive industry-leading results.

As we have indicated, we are extremely pleased with our strong operating and financial performance throughout 2023, most notably driven by momentum in the second half of the year. When adjusted EBITDA margins expanded to an average of 32.4% with Q4 margin expansion of 200 basis points year-over-year.

During 2023, employee retention improved by over 20% with a reduction in open positions of over 40%. Most importantly, we also achieved a reduction of over 7% in safety incident rates, with over 60% of our operating locations showing improvement or zero safety-related incidents during the year. Virtually all of this improvement occurred in Q3 and Q4, providing momentum into 2024.

We delivered core pricing of 9.5% and expanded margins by 70 basis points to report adjusted EBITDA margin of 31.5% for the full year of 2023. Excluding 60 basis points margin drag from lower commodity values, underlying margins expanded by 130 basis points during the year, reflecting our focus on revenue quality, as well as the impact of abating cost pressures, and the improving trends and retention and safety, all of which contributed to the accelerating margin expansion in the second half of 2023.

Looking ahead, 2024 is set up for continued outsize margin expansion from reduced turnover and the unrealized cost benefits of improving risk along with moderating cost inflation.

We delivered adjusted free cash flow of 1.224 billion in 2023, converting over 48% of adjusted EBITDA to adjusted free cash flow, in line with the increased outlook we provided in August, and more than overcoming unanticipated site-specific closure-related impacts at our Chiquita Canyon landfill in Southern California.

Regarding the elevated temperature landfill event or ETLF at Chiquita Canyon that we have described on our last earnings call in October, we're encouraged by our ongoing progress. We continue to work with the community and other stakeholders as we manage the ongoing impacts from the underground reaction occurring in a closed portion of our landfill, including the associated leachate generation.

As indicated would be the case in the additional disclosure we provided in November, we reported an increase of approximately 160 million to our landfill closure and post-closure liabilities in Q4 to address and mitigate the ETLF impacts, which are site-specific and non-recurring in nature.

During 2023, we incurred approximately 21 million in related cost, slightly below our estimates due to the timing of outlays based on current engineering estimates and the projected timeline. With the expectation for leachate generation rates to peak later this year, the outlays for 2024 are expected to be approximately 75 million, which is included in our outlook for adjusted free cash flow, as Mary Anne will more fully describe.

Looking next at acquisitions, in 2023, we closed over 215 million in annualized revenue from 13 acquisitions, with activity across our footprint of franchises and competitive markets, including integrated markets, new market entries, and a number of tuck-ins to existing operations. Additionally, on February 1, we closed the previously-announced acquisition of Secure Energy's E&P waste disposal-oriented asset divestitures in Western Canada.

Together with the rollover contribution from deals completed during 2023, this already sets up expected 2024 acquisition contribution of over 325 million, with a robust pipeline of solid waste opportunities coming in ensuing quarters. On top of Secure, 2024 is setup for an outsized M&A year in our core solid waste business. Stay tuned for the next few quarters.

Additionally, we are encouraged by recent movement in the franchise process in New York City, where we have been awarded the right to compete in 12 commercial zones, plus citywide compactor service. We look forward to seeing continued progress this year beginning with a pilot project slated for Q4. As we've noted, recent acquisition activity in the northeast, including rail access to our Arrowhead landfill in Alabama, has created greater optionality for disposal in many markets and expanded the potentially addressable market for acquisitions for us.

That said, there is no change to our disciplined approach to acquisitions, our focus on market selection, the risk profiles we accept, and the valuations we determined to be appropriate.

Ending 2023 with leverage of approximately 2.6x debt to EBITDA and liquidity of over 1.5 billion, our balance sheet strength and free cash flow profile provides flexibility for continuing elevated levels of investments in our organic solid waste growth story, along with renewable energy projects and solid waste acquisitions, while also increasing our return of capital to shareholders. To that end, during 2023, we increased our quarterly per share dividend by 11.8% to return over 270 million to shareholders through dividends, and we invested approximately 1.7 billion in capital expenditures and acquisitions to reinvest in our business, and position ourselves for future growth.

And now I'd like to pass the call to Mary Anne to review more in depth the financial highlights of the fourth quarter and provide a detailed outlook for Q1 and full year 2024. I will then wrap up before heading in to Q&A.

Mary Anne Whitney: Thank you, Ron. In the fourth quarter, revenue of 2.036 billion was up $166 million, or 8.9% year-over-year, bringing full year 2023 revenues to 8.022 billion in line with our expectations, and up 11.2% year-over-year.

Acquisitions completed since the year-ago period contributed about $53 million of revenue in Q4, or about 51 million net of divestitures, bringing full year net acquisition contribution to 407 million.

Core pricing in Q4 was 8.7% and ranged from about 7% in our mostly exclusive market Western region to between about 8.5% and over 10% in our competitive markets.

Fuel and material surcharges were negative 80 basis points in the quarter on lower fuel costs.

Solid waste volumes in Q4 were down 2.3% and continue to reflect our shedding of poor-quality revenues and the nonrenewal of municipal contracts, as well as a purposeful tradeoff between price and volume in some markets. Additionally, in Q4, they reflect tough comparison to the prior year's hurricane-related activity in Florida; and in Texas, the diversion of waste from our Seabreeze landfill where we imposed temporary operating limitations while completing certain repairs. Those diversions concluded at the end of January.

Looking at year-over-year results in the fourth quarter on a same-store basis, roll up pulls per day were about flat, and total landfill tons were down about 1% with MSW flat, special waste up 2% and C&D waste down 9% due primarily to last year's hurricane-related volumes as noted. Adjusting for those impacts and Seabreeze, total tons were up nominally year-over-year.

Adjusted EBITDA for Q4, as reconciled in our earnings release, was up 16.4% year-over-year to 656 million or 32.2% of revenue, and included an impact of about $5 million from the waste diversion and repairs at Seabreeze noted earlier. Excluding this 20 basis point impact, our adjusted EBITDA margin was up 220 basis points year-over-year, primarily from underlying solid waste margin expansion.

As Ron noted earlier, our Q4 results reflect an adjustment of approximately $160 million to increase our closure and post-closure liabilities for the expected outlays to address the ETLF impacts at Chiquita Canyon, rejected primarily during 2023 to 2025. Therefore, while there was no impact to adjusted EBITDA, our 2023 adjusted free cash flow reflects outlays for site-specific operating and capital outlays to address the ETLF impacts totaling over $21 million. In spite of those incremental outlays, our adjusted free cash flow of 1.224 billion or 15.3% of revenue was in line with our expectations for the year, and reflects 48% conversion of adjusted EBITDA.

Capital expenditures of $934 million reflect a similar amount of fleet purchases slipping to 2024, as we saw in the prior year. Additionally, they include about $40 million associated with renewable natural gas or RNG facilities under development.

As discussed on prior calls, our sustainability-related projects include about a dozen RNG facilities, strategic investments with a variety of ownership structures, aggregate capital outlays through 2025 of approximately $200 million are expected to generate an estimated $200 million of incremental EBITDA by 2026, or about $1 of EBITDA per dollar of CapEx. The outlays for R&D projects step up in 2024 to approximately $150 million, which has been factored into our 2024 outlook, which I will now review, along with our outlook for Q1 2024.

Before I do, we'd like to remind everyone once again that actual results may vary significantly based on risks and uncertainties outlined in our Safe Harbor statement and filings we've made with the SEC and the Securities Commissions or similar regulatory authorities in Canada. We encourage investors to review these factors carefully.

Our outlook assumes no change in the current economic environment. 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 the full year 2024, revenue in 2024 is estimated to increase by over 9% to $8.75 billion. For solid waste, we expect price plus volume of approximately 4.5% to 5.5% driven by pricing of 6% to 7% on core pricing of about 7%.

About $325 million of estimated revenue in 2024 is from acquisitions closed to date, and commodity-driven revenues reflect values in line with recent levels plus nominal contribution from RNG facilities expected to come online during 2024.

Adjusted EBITDA in 2024, as reconciled in our earnings release, is expected at approximately $2.86 billion or adjusted EBITDA margin of 32.7%, up 120 basis points year-over-year. Continued moderation in inflationary trends, additional acquisitions closed during the year, or increases in the values for recovered commodities or in E&P waste activity would provide upside to our 2024 outlook.

Depreciation and amortization expense in 2024 is estimated to be about 12.8% of revenue, including amortization of intangibles of about $172 million, or $0.49 cents per diluted share net of taxes.

Interest expense in 2024 is estimated at approximately $280 million, and our effective tax rate for 2024 is expected in the range of 23% to 23.5% with some quarter-to-quarter variability.

Adjusted free cash flow in 2024, as reconciled in our earnings release, is expected at approximately $1.2 billion on CapEx of approximately 1.15 billion, including base CapEx of $1 billion plus $150 million for RNG project development.

As Ron noted earlier, our adjusted free cash flow outlook also reflects $75 million for outlays associated with the Chiquita Canyon ETLF. Normalizing for the outlays for Chiquita and the RNG facilities, 2024 adjusted free cash flow of $1.425 billion reflects conversion of EBITDA of approximately 50%. This level is consistent with longer-term trends and in line with our expectations for underlying growth in 2025, when we anticipate outlays for both RNG facilities and Chiquita closure will declined by $170 million.

Incremental tax credits for RNG are not factored into our outlook and would therefore be additive. Similarly, any restoration of bonus depreciation benefits on a retroactive or prospective basis, including through a tax bill currently under consideration, would be additive to the outlook we have provided.

Turning now to our outlook for Q1 2024, revenue in Q1 is estimated to be approximately 2.05 billion, on expected solid waste price plus volume growth of 3.5% driven by pricing of about 7%.

Volume expectations reflect about 1% in incremental temporary volume losses associated with the widespread weather-driven closures during January across many markets, particularly on the West Coast.

Adjusted EBITDA in Q1 is estimated to be up 140 basis points year-over-year to 31.2% of revenue, or approximately $640 million.

Depreciation and amortization expense for the first quarter is estimated to be about 12.8% of revenue, including amortization of intangibles of about $40 million, or about $0.11 cents per diluted share net of taxes.

Interest expense in Q1, net of interest income, is estimated at approximately $76 million. And the tax rate for the first quarter is estimated at about 23%.

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

Ron Mittelstaedt: Thank you, Mary Anne. We're extremely pleased by our 2023 results and our positioning for outsize growth in 2024. With 120 basis points of adjusted EBITDA margin expansion expected as a minimum, along with upside from continued improvement in recovered commodity values or inflationary pressures, as well as any additional activity, we're well on our way towards exceeding the near-term 34% EBITDA target we've discussed widely.

2023 was a year of renewal for Waste Connections with the return to our leadership routes to reinforce our decentralized operating model supported by a servant leadership driven culture. We doubled-down on human capital, getting back to the basics that are fundamental to implementing the differentiated strategy that has driven our exemplary track record of value creation for 26 years.

We enter 2024 with continued momentum and well positioned for outsized growth, along with a renewed commitment to sustaining the model that has set us apart. At Waste Connections, we recognize the importance of both relationships and results. Moreover, we believe that not only are they both achievable, but they are necessarily interrelated. We're proud of our results and applaud the local teams who embody the enduring operating values of the company.

I want to conclude by thanking our 23,000 employees who work tirelessly to make us better every day. In addition, I'd like to officially welcome the approximately 300 employees who are now part of our R360 Canada team, who previously were with Secure Energy. We also appreciate your time today.

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

Questions and Answers

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

Tyler Brown: Hey, Mary Anne, actually, thank you for all the detail. Like margins here, both in Q4 and the outlook, are quite strong. I was just hoping if you can maybe walk us through the 200-basis point improvement for Q4, maybe walk through the expected improvement for 2024 as well, just kind of what some of those key pieces are?

Mary Anne Whitney: Sure, happy to do so. So as I said in the prepared remarks, Q4 was primarily the underlying solid waste business. The way to think about is about 75% of the improvement was there, and the balance in hierarchy would be recycled commodities, and then RINs and then a nominal contribution from E&P with a small offset from M&A. So that's Q4.

And then looking at the full year, as we said, there were three factors that would drive the opportunity for outsize margin expansion, the first one being the underlying business and the opportunity for outside price-cost spread and improving retention. And so about half of the 120 basis point margin expansion would be driven by the underlying business. And then the two other pieces would be the creative benefit of acquisitions with the addition of Secure.

So if you think 30 to 40 basis points, including Secure and the other acquisitions, which have had mildly diluted impact, and then the balance being the tailwinds from recycled commodities and RINs, which would be the smallest piece, but on the order of, say, 20 to 30 basis points.

Tyler Brown: Okay. And then Ron, appreciate the update on turnover and safety. So in that core improvement in 2024, are you assuming that that turnover in safety renumerates margins? It sounds like yes, because I think you said last quarter, it takes a few months for that to kind of show up in the margins. I'm trying to be clear if that is in the expectation or not?

Ron Mittelstaedt: Yes, so we've got to separate them a little bit, Tyler. So I would say that certainly, turnover at this point, is impacting our cost structure, and we're starting to see -- favorably impacting our cost structure, and we're starting to see some of the costs come out of the 100 basis points we've talked about in areas of labor, variable, other operating, etc.

There is a lag effect on seeing the cost benefit from the risk reductions. So that actually is not factored into 2024. So as we continue to have risk reductions, we will get that benefit as we come through 2024 into 2025, but that is not in the 2024 guidance. So, this margin improvement is without seeing the benefit of that risk in the actuarial tables at this point.

Tyler Brown: Okay. That is very helpful. And then I know that there was a lot of moving around in free cash flow, that is very clear. Mary Anne, did you say that in 2023, you spent 40 million on RNG? So if I add that to the 150, that would imply that maybe your RNG spend next year will drop to something like 10 million, and then maybe to zero in 2026?

Mary Anne Whitney: That's right, yes, and that's why the point I made, the $170 million reduction between the two pieces where Chiquita steps down, and the RNG steps down.

Tyler Brown: Okay. And then my last one here, so it sounds like there's a nominal EBITDA contribution from RNG in 2024. But how will that schedule look in 2025 and 2026? And then, Ron, sorry, just to be clear, when you talk about 34, is that 34% margins? Does that include any benefit from RNG?

Ron Mittelstaedt: Okay. So let's tackle the first part of your question first. Let's start with 2026. We said that for full year 2026, we would achieve 200 million of EBITDA on 200 million of CapEx investment for RNG. A very nominal amount of that contribution, as you've noted, we only outlaid 40 million in 2023 in RNG.

So a nominal amount of that will contribute in 2024. Use a number of 15 million, 20 million of EBITDA for 2024. That will -- obviously, with the CapEx spend in 2024, that will ramp some in 2025, and you'll start to see some more contribution. But the bulk of that doesn't come online till the end of the third quarter or so in 2025. That's why the largest amount is -- why the full amount is in 2026.

We also are going to be somewhat cautious in guiding RMG. as you are seeing across the board, you have to build headroom in these projects. These local utilities are extremely backed up. There are still supply chain issues for things like transformers, generators, etc., that they need. And they give us a commitment of X, and 4 to 6 months later, we're still talking about a hookup. So you have to build a little headroom in there.

So that's why I feel comfortable telling you full contribution by 2026, and with some more amount coming in 2025, then of course, the 20 million or so in 2024. So that's a long way around the Venn to say very little to no RNG contribution in that 34%. That's why we said there are multiple ways to get there, and none of them had RNG in it.

Tyler Brown: Perfect, yes. Thank you for the answer on the double question. Thank you, guys.

Operator: Toni Kaplan from Morgan Stanley.

Toni Kaplan: Pricing this quarter continued to be strong, and you'll lock in most of it by April and you'll have the cost inflation moderating. So as we look at margins through the year, should we look at it more as sort of better -- well, I guess, [one each] is probably also helped by the safety and turnover benefits that you've been seeing. But like basically, you'll also see that inflation coming down through the end of the year. So I guess in terms of just trajectory of margins, what are your thoughts on that?

Mary Anne Whitney: Sure. So the way to think about it, Toni, is pretty similar margin expansion over the course of the year. We've already given you Q1 at 140 basis points; we give you 120 for the full year. But if you modeled in somewhere around 120 for each quarter, a little less obviously, in one quarter, since we've given you a little more in one, it's the right way to think about it, because just to the point you raised, you have a couple of different factors driving it, some of which will lag and some of which will get in the first half of the year -- for instance, the tail from commodities is greater early than it will be later. But the ability to realize some of those savings and benefits from turnover, for instance, might be further back-loaded. And so that's why I think about it as consistent margin expansion over the course of the year.

Toni Kaplan: Perfect. And then I guess when you think about the labor turnover initiatives that you've been doing, and you mentioned the turnover at multiyear lows. When you think about the rate continuing, are you benefiting from market conditions, or is it the initiatives that you were putting in place last year, or a combination of the two, and just trying to get at sustainability of the labor turnover level?

Ron Mittelstaedt: Yes, sure, Toni. Well, so let's start with a little bit of a cadence. So coming out of 2022, we experienced total turnover in the low 30s, which was a high for us forever. As we came through into Q2 of 2023, that number dropped to about 30%, and as we came through the

end of the year, that number dropped to about 27%. These are total turnover numbers, and the voluntary turnover number reduced to about 17%.

I would tell you that up through probably midyear, most of the help was the labor market improvement, and sort of the second half of the year, particularly the end of the third quarter and the fourth quarter, the programs and changes we've made, were the incremental part. So I would call it sort of 50-50. Now, as we go through 2024, and we plan to drive this number from 27% down to, say, 22% or below, as we sit here from a year from now, that will be 100% driven by what we are doing.

And so we've made significant changes in how we recruit; we've made significant changes in how we onboard. We've made significant changes in sort of the first year experience of an employee, supervisor development. There's a whole litany of changes that we've made to improve voluntary turnover. We are always going to want to have about 10% to 12% involuntary turnover. That means we are being proactive on people who might not be the best fit, particularly with regard to safety.

So to get to that 20%, 22% number over the next year or so, it's telling you that voluntary turnover will get down to 10% to 12%. And we feel very confident in achieving that number. We've been there before, but definitely, we still have some work to do.

Toni Kaplan: Super, thanks so much. Congrats on the quarter.

Operator: Jerry Revich from Goldman Sachs.

Unidentified Analyst: This is Adam on for Jerry today. I believe Q1 margin guidance of 31.2% translates to margins down 100 basis points sequentially. If we just look at normal seasonality based off recent historical averages, it's usually around 9 basis points sequentially Q1 versus 4Q. Can you just help us understand the puts and takes versus normal seasonality in Q1? I know weather was one item mentioned.

Mary Anne Whitney: Yes, I'd say that's where I would start. There are always idiosyncratic factors that drive the comparability across quarters. And also just keep in mind, this is guidance as opposed to what we've reported. And so it's always a little more difficult to get granular to tell you what the specific drivers are. But weather is a factor, as we said, it's contributing to outsize negative volumes in the quarter. And so I would start there, and just that's one consideration that would drive that difference.

Unidentified Analyst: Okay, great. And I was just wondering if we could dive in a little further into the M&A pipeline from here. How active is the opportunity set in the northeast specifically? And what's a good way to think about potential allocation to M&A this year?

Ron Mittelstaedt: Well, Adam, we never comment on anything that's not done or completed, or provide any specifics on what's in our pipeline. And we don't have an allocation to M&A; we sort of have an unlimited finance capacity for M&A that meets our strategic and our financial guidelines. A historical strong year is 150 million to 200 million of acquired revenue. We've already done Secure and that's 225.

And in my comments, I said on top of that, you can assume an outsize year on top of that. So it sort of implies that we would do comfortably 150 million to 200 million in acquired revenue minimally on top of Secure. So I think you can figure out from there in your mind what an allocation would be based on historical valuations, etc.

Unidentified Analyst: Great, thanks so much.

Operator: Noah Kaye from Oppenheimer.

Noah Kaye: Here on the New York commercial zoning strikes home for me literally, since I'm in the first pilot zone. So as you move through that, I think you commented during prepared remarks, that plus the rail acquisitions seems to be expanding your addressable market opportunity in and around the Northeast. I was wondering if you could just expand on that a little bit, and take us through in more detail how both of those moving pieces increase your addressable opportunity?

Ron Mittelstaedt: Well, what the New York City franchise opportunity provides is a number of things. Number one, it provides certainty and sustainability and projectability of the business model in and around New York City, which has had sort of an uncertain competitive footprint for decades. So it really changes the operating and financial metrics of that market for us, where we have been more quiet, waiting to see if this platform came through, and waiting to see whether we were successful in it and achieving it. So now that there's clarity, I think it produces growth opportunities, both organically and acquisition-wise in and around the market area, number one.

Two, the disposal capacity in the Northeast is constrained, as everyone knows. We have some great assets, disposal assets, in New York and up and along the Eastern seaboard. But we are effectively at capacity in many of those assets. So we were shipping waste to third-party locations, and we were not able to take incremental volumes into our sites. What the Arrowhead acquisition did for us is it allowed us to internalize volumes that were going to third parties. It also allowed us to pull volumes out of our Northeastern facilities, and attract and contract with new volumes that are pricing in the Northeast for us. So it did that.

It also opened up M&A opportunities along the Eastern seaboard that we otherwise would not have looked at. We are not prone to go in particularly to a more urbanized market and acquire something that is non-integratable, that's not part of our model. So this allowed us to achieve that. So it's done a number of things for us currently and forward looking.

Noah Kaye: Great color. And then on RNG, Mary Anne, you said the guide does not include any benefit from ITC tax credits in 2024, that is just pure optionality. If Treasury were to finalize guidance in a way that is consistent with the law, meaning allowing companies to claim the credit on what is essentially the major pieces of equipment, what could that possibly do in terms of incremental cash tax benefits to the company? That's something you've sized and feel comfortable sharing?

Mary Anne Whitney: Sure. Well, given the fact, Noah, that as you know, only a small percentage of our projects, we will own outright in 2024, it's pretty nominal. It's about $10 million in incremental benefit that we'd expect.

Noah Kaye: And on the full portfolio, once it's built out?

Mary Anne Whitney: Yes, that whole portfolio, I'm not in a position to give that yet, just looking at what's qualifying equipment and what the actual outlays are for the projects (inaudible).

Noah Kaye: All right. We'll stay tuned for that. Thank you very much.

Operator: Kevin Chiang from CIBC.

Kevin Chiang: Maybe just on -- well, congratulations on closing on the Secure deal. I know this came out through a Competition Bureau tribunal. My understanding is that Secure wasn't necessarily running these Tervita assets to their full capabilities. Just wondering how that might change under your ownership? And the revenue guide you provided related to that acquisition, is that the run rate Secure was achieving? So any upside you'd see, or is that the revenue you think you can achieve as you own these assets?

Ron Mittelstaedt: Okay. A couple of pieces there, Kevin. So first off, there were 29 assets required to be divested by the tribunal, of which 22 were operating at the time of close. And I would say they were operating at full throttle. Secure is a very good operator and they had optimized the facilities. So the 22 were running of the 29 and the guidance we have provided for 2024 in Secure includes those 22 facilities.

There are seven incremental facilities that we will be reopening over a period of time; perhaps some of those in 2024, but certainly into 2025. We're looking at that right now. That is not in what we have guided, okay? And we would we make those assumptions that that would be anything material in 2024. But it certainly could be incremental to 2905 and beyond. So that's how I think you should think of what is in the guidance and what is available beyond that.

Kevin Chiang: That's helpful. And then just maybe on to like congratulations, again, on winning the zones in New York. Obviously, there are a number of bidders that came up short here. Just wondered, does that create M&A opportunity for you to maybe pick up assets in that market from haulers that that might look at New York differently because they want fewer zones, or maybe don't want any zones after the bidding process?

Ron Mittelstaedt: Well, I would say, Kevin, generally, the answer is yes to everything you said, but it is a complex situation. So remember that while this is a franchise area, there are three nonexclusive franchisees awarded to each zone. You certainly can acquire, potentially acquire, someone within zones you have or other zones.

But first, you must get the city and the Business Council's approval of such, and they have to determine what their comfort is on reducing competitors in a zone. And then that could add a third competitor back if it was an overlapping zone. So there are a number of complexities.

There are also caps on how many zones one can own right now. So they have to decide their comfort level if someone goes beyond that cap, or do they then have to divest another zone or trade it? So it's a complex situation, but generally, I would say it improves our optionality and M&A opportunities in the city.

Kevin Chiang: Perfect. That's all my questions. Congrats on a strong end of the year there.

Operator: Brian Burgmeier from Citi.

Brian Burgmeier: I think on the last call, you talked about wage growth kind of moderating to maybe 6%, 6.5%, maybe the exit rate for 2023 being 5%, 5.5%. I'm just wondering, are those still good numbers? Is there any view on what that wage growth could look like in 2024? I'm just trying to be cognizant of kind of ongoing inflation, some changes in your portfolio versus that strong margin expansion that you did see in 4Q.

Mary Anne Whitney: Sure. So with respect to wage growth, you're right, we talked about in 2023 of the moderation from a starting point of about 8% coming into the year, to the exit of about 6%, which is what we saw in Q4, I think to one of your questions, that it did get to that level. So as we think about continued moderation and the non-repeating about size increase uses or last year's level of increases, we would think about further moderation. And as we talked about underlying solid waste margin expansion, one of the drivers being cost moderation as we move through the year.

So I think about it, we saw 8 to 6 in 2023; 6 may be the rate of slowing down slows, and so maybe it's 6 to 5 or sub-5 as we move through the year. That's probably a realistic way to think about some of those cost pressures moderating, specifically wages.

Bryan Burgmeier: Got it. Got it. Thanks for that detail. And can you just help size maybe the revenue impact from M&A in 1Q? I know the E&P deal closed mid-quarter. I'm not sure if there's some seasonality to be mindful of. And then just the smaller item, as you talked about, Arrowhead maybe being slightly dilutive to margins at the beginning. Do you think that kind of flips to a slight positive in 2024, especially with this new New York City business?

Mary Anne Whitney: Sure. So with respect to the contribution from acquisitions in Q1, and how to think about that, about $65 million in Q1, and you should think about some seasonality as we head into Q2, even for the E&P business. So it's a little different from the underlying business, what drives the timing there.

But so I would have overall acquisitions ramping a little bit as we move through the year, and then dropping down toward the end of the year, just as we anniversary some coming online. But 65 for Q1 is a good way to think about it.

Unidentified Company Representative: And then with regard to Arrowhead, I would tell you that as we move throughout 2024, you are correct that initially, because of the rail component of transportation in the model, Arrowhead was nominally dilutive to margins. It will be accretive to margins by midyear as volumes continue to ramp there, and as a disproportionate amount of those volumes are our internal volumes.

So you have you have an elimination, an inter-company elimination, which raises the margin profile of the asset relative to volumes coming third party, which dilutes the margin profile of the assets. So there's semantics there that are important on the margin.

Bryan Burgmeier: Got it. Thanks a lot. I'll turn it over. Good luck in the quarter.

Operator: John Mazzoni from Wells Fargo.

John Mazzoni: Congratulations on the strong results. Maybe asked in a very different way, could you talk to the competitive backdrop with your peers focusing more on sustainability projects, and more about kind of what changes you're expecting in terms of kind of markets exiting 2024, what you've seen -- or in 2023, excuse me -- into 2024? And has there been any uptake from kind of sponsors?

I think private equity dry powder is kind of in the trillion mark now; some kind of like say 4 trillion. But how do we balance kind of the competitive backdrop as well as frame that within the M&A commentary?

Ron Mittelstaedt: Okay. John, thanks. I think that's a complex question that you asked there was several parts. I'll try our best to answer it. So first off, look, sustainability is core to what we do, and quite honestly, always has been. We have taken what I would consider a balanced approach, a moderated approach, to RNG as a specific and sustainability. And as you've seen, we've said we'll do 200 million in EBITDA for 200 million in investment. And that's for our initial 12 projects that we'll bring online fully by 2026.

We have projects beyond that, okay, number one, that we have not yet talked about, and nor do we plan to for some period of time. We are not betting the entirety of our future on sustainability, okay? It is one aspect of our strategy and our growth strategy. We have ample to do in the core solid waste business from an organic and an M&A standpoint. And you're going to continue to see that happen throughout 2024 and 2025 and beyond.

Others, because of various reasons, have differential amounts focused on sustainability, some of that size and an inability to do as much M&A in the current HSR requirements. So there's a great window of opportunity for us in that way and those are excellent strategies for their companies as well. We are in a little bit different niche profile.

As far as private equity, look, private equity has always been active in this space, yes, maybe a little more so right now, just because there's more dollars in private equity than there are deals to do. So that that yields more involvement. But to be very honest, we do not butt heads that often with private equity in our M&A platform. Most private equity is focused on urban America because they are able to consolidate large amounts of revenue in short periods of time and flip it, which fits their model.

We're only 15% urban, so 85% of the time, we're in suburban or rural America. That's not a market strategy, that $2 million to $5 million of deals at a time, you can consolidate a lot of revenue. So we're not too negatively impacted by private equity. Ultimately, we also have the opportunity, as private equity exits theirs, to take a look at those platforms.

Arrowhead was such a platform, and we were successful there. So we are not using or seeing private equity as an excuse for not being able to get deals done, okay. We've always competed against them and we'll continue to be successful doing so. They'll get their share, but we'll get ours and then some. So I believe that's what you were hinting at, but if I didn't address the core of your question, maybe you could clarify it for me.

John Mazzoni: No, that's exactly what we were looking for. Great color, thank you. And maybe a quick segue into kind of the 34% EBITDA margin target, it seems like you could come to that sooner than expected. Could you just help us kind of frame what the puts and takes are there? And anything we should be cognizant of as we model 2024, and looking to kind of the back half of the year, the exit rates?

Ron Mittelstaedt: I'll take just a comment on that, John, and then I'll have Mary Anne provide more details. Look, if you look at our Q3, which granted, is the best seasonal quarter of the year, we reported 32.5% EBITDA margin. And we swallowed almost 50 basis points of headwinds that we didn't expect.

But just take the 32.5% that we did, you heard Mary Anne say relatively balanced on the 120 basis points of margin improvement, let's just say that it's 120 for Q3, well, now you're at 33.7% or above in Q3 of 2024. So that's what gives us confidence in achieving 34% in some of our quarters throughout 2024 as we ramp into 25. It's the math on where we are.

So with that, I'll let Mary Anne comment.

Mary Anne Whitney: Sure. I guess the other point, just the math behind it, if you look at the fact that we're guiding to 120 basis points, margin expansion in 2024, it says we're halfway there since we just delivered 31.5. And so there are various ways to get there and Ron ran through the opportunities. But if you just use look at 2024 as an example, and the outsize margin expansion in the underlying business, it gives you a sense of what's possible.

And so then the question just becomes not so much is it 34? It was never meant to be an end point; it was just illustrative of the ability to get back to prior peak margins. And we feel now well positioned to do even north of that.

John Mazzoni: Thank you. Congratulations again on the strong results.

Operator: Michael Hoffman from Stifel.

Michael Hoffman: Happy Valentine's Day, everybody.

Ron Mittelstaedt: We were going to start that way, but thank you.

Michael Hoffman: I thought you would, but okay. Anyway, so can we get back to operations for a minute and talk about fleet? Am I correct you'd like to buy 10% of your direct fleet, your routed trucks? We've been below that. What do you think is the outcome in 2024, and correspondingly, how that sort of works its way through repair and maintenance cost?

Ron Mittelstaedt: Yes, so first off, Michael, I think your first comment about percentages is accurate. Look, I've been around; we've gotten approximately, if you look at 2022 and 2023, around 90%, maybe a hair below of our fleet in one way or another, delivered. So we're running about 1 in 10 short, okay? We're being told that that number should compress a little bit in 2024, but there will still be some fleet push from 2024 into 2025.

We're being told that that should be closer to 5% to 8% than maybe 10%, so you see improvement. And then we're being told that it normalizes in 2025. So we believe by 2025, we'll be back on track with the normal fleet replacement.

As far as the maintenance side, look, the good news is, it's in the numbers and it's in the guidance. And it's not one of the key drivers to delivering 34%. Quite honestly, you don't want accelerated fleet at a time when your turnover is highest, and you're doing the most damage to new equipment. So we wanted to bring turnover down quite dramatically before we focused on any sort of movement upwards in fleet replacement because it's just not going to show up in the maintenance when you've got so many new employees. So it actually has been somewhat of a blessing, to be honest. And we feel good about the timing of how the fleet will -- allocation will improve as we go through 2024 into 2025.

Michael Hoffman: Okay. Switching gears to Arrowhead, it has a pretty big ton-per-day capacity. Where are we in maximizing that utilization? You alluded in your comments, you've been redirecting your own volume. So what's the trend look like?

Ron Mittelstaedt: Well, what I would tell you, Michael, so as you know, maybe not everyone does, Arrowhead has a 15,000 ton per-day permit. When we acquired Arrowhead, it was handling just under or around 3,000 tons a day. We have improved that by 35% or more already. I believe we will exit 2024 at doubling where it was originally. And I think longer term, longer term is 2025 into 2026, these things take some time. I think you'll see us approaching triple what we originally acquired to that.

Michael Hoffman: Okay. And then as you think about the Secure business, you're dependent on production. And if I remember correctly, even in Covid, the Canadian production didn't go down that low, given all the disruptions. So what's the sensitivity to shut it? Help everybody get comfortable that this is really stable.

Ron Mittelstaedt: Yes, so as you said, Michael, the Canadian E&P market is very different than the U.S. Again, just to reiterate, the U.S., our R360 business is about 80% drilling oriented. So it is highly sensitive to rig count and crude price. The Canadian market is really inverted because they do not do a lot of fracking, so their market is 80% to 85% production oriented.

We looked back over a 5-year period during diligence that the assets we would be acquiring, and crude moved -- the Western Canadian crude moved from a high of about $80 a barrel to around $32, so that's a pretty significant swing. And revenue changed 8% peak to trough and EBITDA changed 12% peak to trough. So I think that shows the significant difference between a production-oriented model and a drilling-oriented model. And that's quite honestly one of the things we loved about the assets is it derisked our combined portfolio and brought it more to a 50-50 balance.

Michael Hoffman: Got it. And then Canada, specifically, Ontario, which you have a nice business, is rolling out an EPR program. Were you one of the beneficiaries of their contract award?

Ron Mittelstaedt: No, and that was quite intentional, to be honest with you. So first off, let us say this. We think the EPR opportunities in Canada are nice opportunities, okay? They are nice

opportunities for providers whose business is predominantly a residential platform, we have purposely tapped away from since acquiring Progressive, and have shed most of the residential business in Canada purposely. And we are much more of a commercial and disposal platform company in Canada. And you can see our segment margins in our filings, and that is reflective of what we have done. If you look at that relative to our peers, our margins are almost double.

So we are not looking to move heavily into the residential muni contract business in Canada; that business tends to be a 5-year type business. Those are very short-term contracts. And if you have assets, particularly, [Merf] assets that are underutilized, and you are able to add a relatively nominal amount of capital, those investments make a lot of sense. That's not our asset platform in Canada. So I think it's a great opportunity, but it's not an opportunity that we are really pursuing because of asset mix.

Michael Hoffman: Got it. Last one for me -- so RNG comes with some incremental volatility potentially because of the credit. What is your strategy around defusing that risk?

Mary Anne Whitney: Well, sure. Michael, as you know, and for anyone who doesn't know, that's just fundamental to the way we approached RNG with the portfolio approach and the variety of ownership structures, and the fact that we will own outright about a third of the projects that we ultimately participate in. So right there, that's one element of derisking. The other is hedging RINs, and we opportunistically put those hedges in place. We have done it in the past. So that's how we think about it fundamentally, and that's the way to derisk it.

Michael Hoffman: Perfect. Thanks for taking the questions.

Operator: Walter Spracklin from RBC Capital Markets.

Walter Spracklin: Just wanted to – hopefully quick ones here. First, on the rail side, the waste rail side, Ron, you alluded to it a number of times here on the call and especially when you did the deal. How much can you scale that up, do you think, if you were to -- if the economics appear to be quite attractive on this? To what extent, if fully utilized in every way, do you think you could scale this up, or is this more surgical, tactical type of option for you that won't really move the dial in your total numbers, but are nice on an incremental basis?

Ron Mittelstaedt: So I have got to dissect it a little bit, Walter. So first off, as I mentioned earlier, that landfill has the capacity to take 15,000 tons a day; when we acquired it, it was taking 3,000. So it was, quote, "20% utilized," if you will, right? And I mentioned that I thought by the time we exit 2024, we will double that, so that it would be 40% utilized; and that as we come through 2025 and into 2026, we think we can get that up to 3x where we were, so in that scenario, 60% utilized.

There really is no rail constraint on utilization; it's just incremental cars and loading and track. So that is not a scalability issue. So look, in the size of our corpus, is this going to be something that moves the needle 100 basis points on its own? No, and we have never said that. But here is how it moves the needle. It moves the needle on what our growth can be M&A-wise because of the market areas that we can now integrate that we never looked at before. So in that way, I do consider it a needle mover.

Put it at a point or more in M&A growth per year for a while, I think it could, and I think the compounding of that is something. So that's where I would say -- and that's one of the reasons I gave commentary that we are fairly bullish on the M&A environment for 2024 as we sit here 45 days into the year. So hopefully, that gives you some color on our thoughts on that opportunity.

Walter Spracklin: Yes, that's great color, Ron, appreciate that. And my second question here is on volume. I know I have had some inbounds on the negative volume that you have had through the course of 2023, and the negative volume you are now projecting for 2024. And some are comparing that to your peers, which are in the positive territory. Two aspects, I know Mary and I have talked about this before, but I just wanted to flag it. There is not really an apples-to-oranges -- there is an apples-to-oranges compare there, I think, and perhaps you can elaborate on that.

And then second is on how much of the volume is really purposeful shedding that you completed in 2023 that's just carrying forward to 2024, as opposed to a projection for a persistent negative volume outlook for your company?

Mary Anne Whitney: Sure. So happy to address those questions. So first of all, to your point, I do think that different companies communicate both price and volume differently. And ours is strictly solid waste volumes without the benefit of incremental RNG or recycling facilities coming online, which would be additive, I believe, to other people's volume calculation.

So just with that as a starting point -- and then of course, what also goes along with it is how we communicate price. And when some people talk about core price, it's not what they ultimately report, but it's what they put on the Street. When we give you price, those are the numbers we expect to report; that's how we guide and that's what we talk about with respect to price. So necessarily or understandably, it means that the way we -- we're talking about price one way; it's going to drive how we talk about volume. And so again, the calculations are probably a little different.

But here is what we do now. We know that as we exited 2023, we had purposeful shedding. So if we were at a run rate of negative 2.5% volume, we said about a point of that is purposeful shedding from contracts that we walked away from, or rebid in such a way that we knew we wouldn't ultimately hold on to it. And that was okay because they were poor-quality revenue contracts or customers.

Additionally, we have acknowledged that in our pricing strategy, we acknowledge that there is a price volume trade-off, which we think is an acceptable trade-off. And we encourage people to look at where margins go when you make that trade-off. And so if you look at our exit rate of about a point for each of those two things, and then I'd say quarter-specific drivers, like difficult comparisons or weather, would be additive to that.

So then that's why, as we said in Q1, coming in, the exit rate was around 2.5%. And we know that we had not only tough comparisons in Q1 to last year because of hurricane-related disposal, but we also have the weather we have already seen. And so that's how we think about coming into the year, most negative in Q1 for that reason, and then improving over the course of the year as we anniversary some of those purposeful losses.

Walter Spracklin: That's great color and (inaudible) --

Ron Mittelstaedt: And Walter, I would add, again, we talked about this on the last call. But so number one, the purposeful shedding by us in our model is not new. We have done this for decades, okay? Others who are not really very active at this point in M&A don't have that in their model to do, okay, so that is a difference. When we are acquiring -- use a number -- $200 million, $300 million a year of revenue year-in, year-out, year-in, year-out, some years double that, a la 2022, we have said there is maybe 15% to 20% of private company revenue that when you acquire it, you know you are going to either price it to improve it or lose it. So the difference of why that shows up now is that the underlying economy is effectively dead flat.

And you heard our largest competitor in the nation, who would be the greatest proxy for the economy on volume, say it's zero to 1%, oh, and that's with RNG making up the 1%. So they said it was zero. That's what -- so if it's zero, organic volume growth at zero to 1%, and you do shedding, you are negative, it's just that simple.

Walter Spracklin: Yes, that makes total sense. I appreciate the time.

Operator: James Schumm from TD Cowen.

James Schumm: Just a high-level question, and you touched on it a little bit. But historically, you haven't had a lot of exposure to recycling maybe relative to your peers. But I am wondering if that will change in the near future, given recent advancements in technology, or perhaps EPR legislation. And again, you touched on it in Canada, but maybe talk about the U.S., if you could.

Ron Mittelstaedt: Yes, well, number one, I think part of it has been a model difference, James. As I mentioned, we have substantially less urban exposure than some of our larger peers in our model. And a lot of recycling in the U.S. has occurred in the coastal areas, which tend to be more urbanized, okay. So we just have a little bit less exposure to it. There is no question that technology will aid and is making recycling a better business model every day, every year, and can produce some very acceptable returns with the right market and the right technology.

So yes, you will see recycling over time grow as a percentage. There is also push for diversion legislation and recycling in many states that up to this point, there had not been as much of a push. So it will ultimately continue to develop, and we are good with that. That extends life of our landfills, which are a non-replicable asset. It limits the timing on capital for landfills for expansion, and so it's a process, it's evolutionary, that we feel very comfortable with overall.

Mary Anne Whitney: And I would just add to that, James, that of course, increasing the recyclables we process ourselves is one of our sustainability objectives. And we have been seeing growth every year, and we have built two new facilities. And you added the latest technology and have 50 robotics units in operation at our facilities and continue to make investments -- to Ron's point, to make it an even better business and to derisk it for ourselves because it's a service we provide, but not in all cases, do we use our own recycling facilities. And so we have been advancing and improving that.

James Schumm: Okay, great. Thanks. And then I am just wondering if landfill costs will rise at your other 100-plus landfills in 2024 to prevent another ETLF? Like is there a change in strategy in the wake of events at the Chiquita landfill, or should we not expect much change here?

Ron Mittelstaedt: Well, number one, I don't think you should expect an incremental or step-change increase in costs on our landfills because of what happened at Chiquita. What happened at Chiquita is, as we have said, ETLFs are very, very rare; they are a natural organic reaction that occurs under very unique circumstances. Can they happen elsewhere? They certainly can, but what I think is more important is what are we doing post-Chiquita that we have learned that would help to minimize the impact earlier on relative if one were to occur?

And so we have made some engineering protocol changes of some more centralized landfill, well temperature monitoring, on a more frequent basis. We have decided if we experience that, that we will drill wells to alleviate temperature earlier. And then as a company, over 5 years ago, we stopped taking much of the material that we believe can cause ETLFs, which tend to be some sort of aluminum production material or untreated auto shredder fluff. So yes, there are things we are doing, but they are not things that you should see rippling through the P&L.

James Schumm: Okay, great. Thanks. Thanks for the answers guys. I appreciate it.

Operator: Stephanie Moore from Jefferies.

Stephanie Moore: I wanted to touch back on some of the pricing color. I think outside of your index contracts, maybe touch a little bit on how your conversations have been going with customers on pricing, and maybe how this is compared to any prior years. That would be helpful.

Mary Anne Whitney: Sure. I would say that things are playing out really pretty much as we have expected. Coming into the year, we knew that we were coming off of 2 years of outsized price increases, and we were looking forward to not needing that same level of pricing, right? Doing 9.5% in each of the last 2 years implied that in our competitive markets, those increases were well north of that. And we talked about that, 11%, 13%, 14%. So it's a relief to be down in more of the 7% and 8.5% type of range on price increases.

I would say that in terms of those conversations, retention is pretty similar to historic levels. You come in kind of expecting that 85% type of level. We have had periods when there was hyperinflation where it was stickier than that. And I would say we have reverted back to more normalized levels, and that's the way those conversations are playing out.

Stephanie Moore: Great, that's helpful. And then maybe just a follow-up on some prior questions on the Arrowhead deal. As you think about future M&A, do you see similar opportunities, maybe similar to Arrowhead, on the horizon, those that provide greater rail access, or transfer footprint outside of your traditional core markets?

Ron Mittelstaedt: Well, I would tell you, Stephanie, that Arrowhead was a unique asset, and we are not currently looking at anything that is analogous to it. But I will also say that, look, as landfill prices continue to move upwards over time and aerospace and markets contract, it is a natural modality that more waste will move by rail over time, and in geographies perhaps that it doesn't today. So I do believe that there will be opportunities for incremental Arrowhead type acquisitions, but I don't feel that that is imminent, but it will occur over time.

Stephanie Moore: Okay. Got it. Thank you, guys, so much.

Operator: Tobey Sommer from Truist Securities.

Jack Wilson: This is Jack Wilson on for Tobey. So specifically in 2024, is there going to be any sort of quarters that are especially heavy with capital expenditures or given the Chiquita and RNG spend?

Mary Anne Whitney: No, there is nothing that stands out as being unique in any quarter. But just a reminder that free cash flow generation in any year, the quarters can be lumpy for a variety of reasons outside of CapEx, for instance, interest and taxes. So I wouldn't get too hung up on activity in one individual quarter.

Jack Wilson: Okay. Thanks for that color there. And then sort of just in regards to the new wins in New York, and sort of the intentional shedding, does that change sort of your thinking around market exposure at all, or sort of how you are waiting sort of franchise secondary and urban?

Mary Anne Whitney: No, we are opportunistic in terms of acquisition opportunities. As we always say, sellers drive the timing of deals, but as Ron said in his remarks, our strategy hasn't changed. We know the types of markets we are interested in and a lot of these deals are the outcome of quarters or even years of dialogue. And so there is no change in thinking about that at all.

Jack Wilson: Perfect. Thanks for the time.

Operator: And ladies and gentlemen, with that being our final question today, I would like to turn the floor back over to management for any closing remarks.

Ron Mittelstaedt: Okay. Well, if there are no further questions, on behalf of our entire management team, we appreciate your listening to, and interest in, our call today. Mary Anne and Joe Box are available today to answer any direct questions that we did not cover that we are allowed to answer under Regulation FD, Reg G and applicable securities laws in Canada.

Thank you again. We look forward to seeing you at upcoming investor conferences or on our next earnings call.

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