[WCN] - Waste Connections, Inc.,
Q1 2020 Earnings Call
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Officers
Worthing Jackman, President, CEO
Mary Anne Whitney, SVP, CFO

Analysts
Walter Spracklin, RBC Capital Markets
Kyle White, Deutsche Bank
Brian Maguire, Goldman Sachs
Tyler Brown, Raymond James
Michael Hoffman, Stifel Nicolaus
Noah Kaye, Oppenheimer
Stephanie Yee, JP Morgan

Presentation

Operator: Welcome to the Waste Connections First Quarter 2020 Earnings Conference Call. (Operator Instructions). As a reminder, this conference is being recorded Thursday, May 7, 2020.

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

Worthing Jackman: Okay. Thank you, operator, and good morning. I'd like to welcome everyone to this conference call to discuss our first quarter results and provide an update on the current operating environment.

We certainly hope everyone is doing well and staying safe during this unprecedented time.

I'll begin the call with an update on our response to Covid-19 and its impact on our business, focusing specifically on our efforts to take care of the health and welfare of our employees and communities.

Mary Anne Whitney, our CFO, will briefly review our Q1 results and strong financial position. I'll then wrap up with a few trends we are currently seeing in our business, and potential implications for the full year before heading to Q&A.

Let me first 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 in our May 6 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 measure.

Management uses certain non-GAAP measures to evaluate and monitor the ongoing financial performance of our operations. Other companies may calculate these non-GAAP measures differently.

I will now turn the call back over to Worthing.

Worthing Jackman: Thank you, Mary Anne. Understandably today, everyone's attention is very focused on the novel coronavirus pandemic and the Covid-19 outbreak. As noted in our earnings release, an extremely strong start to the year, which had put us firmly on track to exceed our outlook, was interrupted in March by measures taken across the U.S. and Canada to limit or control the spread of Covid-19.

In spite of the resulting significant slowdown in economic activity and impact to revenue, we exceeded our first quarter outlook for adjusted EBITDA, and delivered adjusted free cash flow of $235.7 million or 17.4% of revenue and 57.7% of adjusted EBITDA while also shifting our focus to one of preparedness.

As you would expect, our priority has been the health and welfare of our over 18,000 employees, as we maintain continuity of operations as the essential services provider across 42 states in the U.S. and 6 provinces in Canada where we operate.

So I want to start today by recognizing and thanking our outstanding team, both frontline and working remotely, for their efforts and dedication during this uncertain and chaotic period. I also want to thank the customers and communities we serve, whose flexibility with respect to health and safety consideration and whose outpouring of support and gratitude towards our employees, have been both overwhelming and inspiring.

At Waste Connections, we believe that our safety-focused server-leadership-based culture drives differentiated results. Therefore, investing in people, our greatest asset, is always our highest priority. We'd like to look back on this period 1, 5 or 20 years from now and know we did the right thing for our employees.

From the onset of this pandemic, we established protocols and implemented operational changes focused on health, hygiene and safe distancing. On the home front, we looked to provide a safety net for income and family health, and to that end, have already incurred or committed almost $20 million in such labor-related expenses.

Back in March, we began providing full wages for employees feeling ill, quarantined for any reason, or simply watching after a loved one, and up to 12 weeks for those with childcare issues. These accommodations put our employees in a position to make the right decisions about their own health and that of their colleagues, rather than feel compelled to show up for a paycheck or have to burn PTO. In addition, we have been providing supplemental wages for all hourly employees, whether union or nonunion, remote or onsite and any temporary workers.

We've also done the following: expanded our employee relief fund for those experiencing financial hardship; launched the Waste Connections' scholarship program to assist our employees' children to pursue and achieve their vocational, technical and university education goals; fully covered Covid-19-related testing and medical costs and extended access to medical benefits. Waste Connections is also stepping up in our communities through additional charitable contributions to assist food banks and families at risk, meals for healthcare workers and high-risk populations and donations of critical PPE.

From a business standpoint, the revenue impact is mostly attributed to decreases in demand for collection and disposal services resulting from the shelter-in-place, and other closure requirements imposed to limit or control the spread of Covid-19. As noted earlier, our Q1 results reflect the impacts that we started to see in March, as commercial collection activity slowed down due to service reductions or suspensions by customers whose business activity was curtailed by such measures, with third-party disposal volumes following similar patterns to hauling activity.

The impacts we have seen vary by geography, the size of customer mix in each market, and the timing and extent of shutdown requirements across markets. In general, our smaller, more suburban or rural markets have been less impacted than the larger, more densely-populated markets where we operate. Canada and the Northeast U.S. have been our hardest-hit areas.

In terms of operating costs, on the commercial side, the extent to which we can reroute, or otherwise adjust our operations to reflect lower activity levels, varies by market and depends on the pace and severity of reductions as well as the expected timing and shape of any recovery. That said, we are already realizing savings in many variable costs, including third-party brokerage and disposal, labor and fuel, along with reductions in discretionary and nonessential expenses.

With regard to capital expenditures, we've proactively cut approximately $110 million for the year, or about 20% of CapEx, in light of the slowdown in activity. However, we'll remain opportunistic during this period if presented attractive offers to purchase additional fleet, equipment or longer-term landfill expansion acreage.

Mary Anne will provide more details about our Q1 results and the strength of our balance sheet, which we pre-positioned for this period to provide optionality around capital deployment on M&A and share repurchases.

We remain disciplined in our approach to evaluating and pursuing strategic growth opportunities, whether in good economies or bad, and believe that free cash flow generation remains highly correlated to shareholder value creation. We take a long-term view and look forward to a recovery as this economy continues to restart.

Now, I'd like to pass the call to Mary Anne. I will then provide an update on the current environment and potential implications for the full year before we head into Q&A.

Mary Anne Whitney: Thank you, Worthing. In the first quarter, revenue was $1.352 billion, up $108 million over the prior year.

Acquisitions completed since the year-ago period contributed about $64 million of revenue in the quarter or about $59.6 million net of divestitures.

Results in the first 2 months of the quarter positioned us to easily exceed our Q1 revenue outlook, but Covid-19-related declines and solid waste activity in March impacted revenue in the period by an estimated $12 million or about 100 basis points of organic growth, primarily volume. As a result, solid waste price plus volume for the quarter was 5.2%, with price of 5.6% and volume a negative 40 basis points due primarily to lower commercial activity and third-party disposal volumes in regions where the Covid-19-related shelter-in-place orders and business closure requirements were imposed earlier in the quarter, or were more stringent than in other markets.

Our most affected regions include Canada, where province-wide closures and suspension of construction activity drove outsize slowdowns, and our Eastern region, which includes New York City, where commercial service reductions were over 4x the level of overall reductions across all of our markets.

On the other hand, volumes in our Western region, another geography impacted by earlier closures, were positive, up over 3.5% in the quarter due to a strong start to the year, including the addition of new contracts.

Looking at year-over-year results in the first quarter by line of business, commercial collection revenue increased approximately 5.4%, mostly due to price increases. Roll-off revenue increased approximately 6% on a combination of higher pulls, up about 2.5% and revenue per pull, up 3.5%.

Solid waste landfill tonnage increased about 6% on higher MSW tons, up about 3%, led by increases in Florida and on the West Coast and higher special waste, up 17%, with increases across our regions in the U.S. with our largest increases in the Northeast.

C&D tons were down about 2% in Q1, primarily due to reductions in Canada and the Northeast.

As noted earlier, trends started the quarter more favorably and deteriorated in March. Looking specifically at same-store day-adjusted results in March, commercial revenue was up about 2%, less than half the increase for the quarter; landfill tons were down 1%; and roll-off pulls were down 4%.

Looking at Q1 revenues from recycled commodities, landfill gas and renewable energy credits, or RINs, excluding acquisitions in the aggregate, they were down about $5.4 million or 16% year-over-year; on OCC, down about 30% at $53 per ton and RINs down 25%, averaging $1.34 in the quarter.

With decremental margins of approximately 130% on recycling due to the combination of lower commodity values and higher recycling processing costs at third-party facilities, the margin impact from recycling and RINs was a drag of about 40 basis points and $0.02 in EPS in Q1.

OCC prices have increased to over $100 per ton. In fact, some markets have seen prices of over $200 per ton. However, the collapse of oil prices has eroded the value of recycled plastics, such that the net effect on the current value of the basket of commodities is an estimated increase of approximately 20% from Q1, but down about 15% year-over-year.

RIN prices have also declined since quarter end, stepping down sequentially to about $1, due primarily to lower crude and resulting concerns about a potential slowdown in the demand for RINs.

Moving next to E&P waste activity, we reported $59.4 million of E&P waste revenue in the quarter, at the upper end of our outlook, as activity held up in spite of further rig count declines and the collapse in the price of crude during the period. That said, E&P waste revenue in Q1 was down about 6% year-over-year and down about 5% sequentially from Q4, due primarily to lower pricing and activity levels in the Permian and Gulf of Mexico. Since quarter-end, we have seen the monthly revenue run rate drop by over 45%.

Adjusted EBITDA for Q1, as reconciled in our earnings release, was $408.5 million, about $3.5 million above our outlook for the period. Adjusted EBITDA, as a percent of revenue in Q1, was 30.2%, down 80 basis points year-over-year, but exceeding our expectations by 40 basis points.

Margins reflect the 40 basis point impact from lower recycled commodity values and RINs noted earlier, as well as an estimated 20-basis point impact from lower-margin acquisitions completed since the year-ago period, and an estimated 50-basis point margin drag from the one additional day in the quarter due to leap year.

Thus, underlying solid waste collection, transfer and disposal margins were up around 30 basis points, in spite of an estimated 20-basis point impact from the high-margin decrementals on Covid-19-related revenue losses and additional Covid-19-related expenses.

Fuel expense in Q1 was about 3.7% of revenue, down about 20 basis points due partly to a CNG credit of approximately $900,000. We averaged approximately $2.57 per gallon for diesel in the quarter, down $0.02 from the year-ago period and down $0.12 sequentially from Q4.

Interest expense, net of interest earnings in the quarter, increased by $1.8 million over the prior-year period to $35.8 million, due to a combination of higher total borrowings as compared to the prior-year period, and lower interest earnings from invested cash balances.

Our effective tax rate for first quarter was 16.7%, slightly lower than expected due to a higher credit related to divesting of equity grants in the period.

GAAP and adjusted net income per diluted share in Q1, as reconciled in our earnings release, were $0.54 and $0.65, respectively. Results in the current period reflect the previously noted $0.02 per share impact from year-over-year reductions in recycling and RINs, plus an additional $0.02 per share impact from the high decrementals on the estimated Covid-19-related revenue impact and incremental Covid-19-related expense.

Adjusted free cash flow in Q1 was $235.7 million or 17.4% of revenue.

Capital expenditures were $137.8 million, up $23.6 million and 20.7% year-over-year.

In addition, we resumed our share repurchase program in the quarter, and deployed about $106 million to repurchase approximately 1.27 million shares.

We completed 2 public debt offerings during the quarter, totaling $1.1 billion; $600 million of 2.6% 10-year senior notes in January and $500 million of 3.05% 30-year senior notes in February, which further diversified our debt sources, extended the average tenure and lowered our all-in average cost of debt to approximately 3.1%.

Debt outstanding at quarter-end was about $5.2 billion. And our leverage ratio, as defined in our credit agreement, ended the quarter at approximately 2.9x debt to EBITDA, with cash balances of approximately $1.2 billion.

We accumulated cash during March to maximize our flexibility during a period of heightened Covid-19-related concerns in the banking and capital markets. Since that time, we have paid down $500 million on our revolver, bringing down cash balances to approximately $725 million and compliance leverage to approximately 2.6x debt to EBITDA. Regardless, on a net debt basis, our leverage is approximately 2.3x net debt to EBITDA with liquidity of approximately $2 billion and no near-term debt maturities.

And now, let me turn the call back over to Worthing to discuss the current environment and trends in the business.

Worthing Jackman: Thank you, Mary Anne. There's still a good deal of uncertainty around the trajectory of the pandemic, its resulting macroeconomic impact and the duration of that impact. The severity and continuation of varying impacts across markets, the pace and shape of any economic recovery and any additional acquisitions completed during the year, will influence the extent to which our results are impacted.

As such, rather than providing outlook as we usually do based on current economic conditions, we believe it is appropriate to suspend the original outlook we provided for 2020. And we intend to update our full year 2020 outlook when we report our second quarter results.

That being said, we think it's helpful to look at April, as that month should reflect the depths of any Covid-19-related impact. As noted in our earnings release, we are encouraged by our results in April, as revenue on a reported basis was down approximately 6% year-over-year or 1.4%, excluding Canada and the Northeast U.S., which were hardest hit.

Solid waste collection, transfer and disposal revenue on a same-store basis declined about 6.9% or down just 3.1%, excluding Canada and the Northeast. E&P waste revenue was down about 33%.

In the aggregate, adjusted EBITDA margins decreased by an estimated 200 basis points year-over-year in the month, primarily due to incremental costs related to Covid-19 and to a lesser extent, the reduction in E&P waste activity. Any economic recovery should reduce this impact going forward, and our daily tracker suggests that the worst may in fact be behind us.

Our data indicates that the pace of declines in solid waste in our most affected markets peaked in late March, and slowed considerably during April. In late April, we saw mid-to-high-single-digit percentage upticks off of weekly lows and solid waste landfill volumes and roll-off activity, with over 70% of locations showing improvement.

Additionally, about 12% of commercial customers and 9% of associated revenue in competitive markets we track that had suspended or reduced service during -- due to Covid-19 have since reached out for either resumption of service or an increase in frequency. New business track the competitor markets outweighed losses earlier this week; increases outweighed decreases and net new business turned positive again.

Of course, we recognize that our data is limited and the trajectory of any recovery is unpredictable. That said, we are encouraged by the improving trends we are seeing, and look forward to gaining greater clarity as more states either begin or continue to relax restrictions when deemed prudent.

As Covid-19-related revenue losses recover, so too should the estimated margin impact we saw in April. Recent revenue margin trends, along with reductions in capital

expenditures, all of which were outlined in our earnings release and discussed today, should enable analysts and investors to better calibrate expectations for the full year. We believe these recent trends could result in revenue of about $5.25 billion for the full year, with margins down about 200 basis points year-over-year, and about a 50% conversion of adjusted EBITDA to adjusted free cash flow.

But as previously noted, we are waiting until our second quarter results to update our official 2020 outlook, as we'll be 3 months smarter about the pace of any recovery.

In summary, we are extremely pleased with our results for the first quarter of 2020, and we are encouraged by recent solid waste trends. We recognized early on going into this period of uncertainty that our communities would count on us as an essential services provider and lean on each other to honor our commitments.

Protecting the health, safety and welfare of our employees has guided every decision we've made, knowing that reducing employee concerns regarding income, healthcare and family obligations is critical to providing exceptional service. Our operating performance during this period reflects the benefit of that focus, and is a testament to the dedication and tireless efforts of every Waste Connections employee, whether in the field or working remotely, which have been truly inspirational.

Our frontline employees' attendance has been near-perfect these past several weeks, and we saw sequential improvement in monthly safety-related incidents, which decreased by approximately 24% in April.

Waste Connections is well positioned to navigate this unprecedented period. We remain disciplined in executing our growth strategy, and believe the strengths of our culture, our people and our financial profile will continue to differentiate our execution and financial performance.

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

Questions and Answers

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

Walter Spracklin: Hope everyone is safe and keeping well. My first question here is on the overall impact and insights you provided, Worthing, here into April. And judging by what we're seeing in the rest of the industry, certainly, the peers that have reported, it sounds like your impact is less onerous in April; you're hitting higher lows than peers. I know at least one of your peers said that the end market is not really a determining factor, but your opening comments suggest that it did. Could you give us some clarity as to why

you think you're -- if indeed you feel you're doing better than the industry and what would be some of the reasons?

Worthing Jackman: Well, again, I think it goes back to our original strategy, right? We do believe longer-term that franchise markets and rural and suburban markets outperform larger, more competitive, more fragmented markets. I think when you strip out, again, the impact of Canada, which was a national shutdown, and the Northeast, I think you see by revenue, on a dollar basis, being down as low as it is, and the peak of the pandemic in its worst month proved that. And obviously, the volume growth that Mary Anne discussed in Q1 coming off the West Coast and leading our Company in volume growth also is indicative of that.

So no, I think the strategy is right in good times and bad times. I would say that, look, when the other companies talk about trends and changes in landfill volumes or collection activity, hours, etc., but I'd say generally, the broader you get in geographic reach, in some areas, the trends are similar by company. It's just that we probably have less revenue on an overall basis exposed to that, which differentiates the consolidated results that we report.

Walter Spracklin: Makes sense. My follow-up here is on acquisitions. Perhaps you could give us some insight as to how the tenor is proceeding here. Is it similar to your volumes where April, things go very quiet? And are you seeing any signs of life, either from a seller standpoint and multiples there? Talk a bit about how just logistically, you go about enacting a transaction in this environment, or do you think that transactions will ultimately hold off here until later in the year?

Worthing Jackman: Look, the level of activity really hasn't changed for us. Obviously, the pace of getting to signing has slowed a little bit. In situations where you need government consents to get contracts novated, that has slowed down obviously, based on how things have slowed down in City Halls. The ability to register real estate and things like that have slowed down. Obviously, the back-and-forth is a little bit different between attorneys. Diligence rooms are already digital, and so from that standpoint, the information flow has still been strong.

Look, quality companies are quality companies before a pandemic, during a pandemic and after a pandemic. And so the dialogue we're having, companies that we are pursuing, again, it hasn't slowed down; I just think the pace of signing and closing is likely pushed 2 to 3 months at a minimum. Things that we thought would've signed or closed by this call are likely looking at late Q2 at the earliest.

Walter Spracklin: Okay. Appreciate the time, as always. Hope everyone keeps safe. Thank you.

Operator: Hamzah Mazari with Jefferies.

Unidentified Analyst: It's John filling in for Hamzah. Could you just talk about commercial container, what they look like in early May or late April and how relative the weights are in the first week of April?

Worthing Jackman: I think that when people throw around stats like yards, weights, etc., I think it's hard for you guys to calibrate that towards how do I fill the model in, right? And so I've always thought the best source is just looking at the actual dollars on a -- in revenue, right? If you look at commercial on the small container side, and if you look at what we would call kind of month-to-month or year-over-year, if you look at April, as an example, April month-to-month was down about 9% over March. If you look at the permanent roll-off side, it was down almost 12% month-to-month, and so it's calibrating around that 10% or so number.

And again, as you're exiting April and moving into May -- and we already talked about the net new business trends that we're seeing early this week and those numbers turning positive -- I'd expect the month-to-month trends to start improving as you look at May compared to April.

Unidentified Analyst: Great, thank you. That's very helpful. And for my last question, could you just give us a sense of landfill pricing and how to think about that figure going [technical difficulty] volumes continue to drop.

Mary Anne Whitney: Sure, John. So I would say high-level on pricing because, as you know, we always talk about pricing in the aggregate, given that half the waste at our landfills comes off of our own trucks, similar to everyone in the industry. And so we think about it in the aggregate and as you know, we guided to about 5% price for the year, and said it would start higher and decrease over the course of the year.

And the way we look at pricing, that hasn't changed much. There may be some instances where you don't push quite as hard in the depth of the pandemic in a market with a shutdown, certainly. And so maybe there's a few PIs that get delayed or pushed off to the subsequent quarter.

But in general, as we think about pricing for the full year, maybe 5% ends up more like 4.5% for the full year, so down nominally -- no real change in our outlook on how we think about pricing. And as you may recall, we weren't emphasizing an opportunity in landfill pricing. We are always price-led in terms of our organic growth strategy, and this year is no different from others.

Worthing Jackman: Well, I think there's been a consistent theme throughout the industry in recognition of the cost to operate a landfill and expand the landfill that generally, the pricing trends are moving higher, and we don't see that abating.

Unidentified Analyst: Great, thank you.

Operator: Kyle White with Deutsche Bank.

Kyle White: I hope everyone is doing well. I know it's relatively early in the pandemic, and obviously, companies are focused on more important things in terms of stabilizing the business. But just curious, have you seen any material change in pricing behavior among competitors that is any kind of cause for concern for you guys?

Worthing Jackman: No, if you -- again, from our standpoint, I think as we've consistently said, our pricing is mostly done for the year already. So look at the competition, frankly, look, they've been hit really hard in this pandemic. I'm not surprised that probably many smaller companies are reaching out to the PPP loans and helping to subsidize their payroll.

Look, for those that do operate in commercial, obviously, those folks have been hit on the commercial side. Residential, remember, many competitors on the residential side do not own landfills, and so as weights have shifted to the residential side and heavier loads up 20% or 30%, that's pressured the cost structure within those companies on their P&L based on rising disposal costs. And so there's nothing from a cost standpoint for those companies that is moving down that should suggest they should be lowering prices.

This is almost the second wave of pricing requirements in this industry, the first wave being the change in recycling recently. This is a second-wave effect of the pressures that many companies are having on the cost side with the need to stay disciplined on the price side. So we have not seen any degradation in the discipline and the behavior of people really because of the macro.

Kyle White: That's helpful. And then obviously, on the commercial side, it's more of a wild card in terms of when businesses reopen. But curious if you can provide some more details on what you're seeing within temporary roll-off, particularly in regards to kind of construction activity and housing and just general expectations there going forward?

Mary Anne Whitney: Sure. So if we look at roll-off, for instance, and look at the trough and how we've recovered since then, we saw pulls down 17% at the trough. They've recovered up 9% from there, so still down 10% from the peak, and over 70% of our locations have shown improvement.

Interestingly, pretty broad-based in terms of the return, including markets in Canada, for instance, which were hardest hit. We are seeing construction start up again and I would expect to see more in places like Québec, where construction activity would begin again. And of course, there's some seasonal impact as well from that. But so that's an indication of pulls.

If I look at April pulls specifically, they're down about 16% and revenues around -- down around 20%, which would be consistent with your rate per pull declining on lower weight. So that all hangs together and roll-off revenue in the aggregate down over about 20% year-over-year in April and down about 11% from March.

Kyle White: Got it. Thank you. Good luck in the balance of the year.

Operator: (Operator Instructions). Brian Maguire with Goldman Sachs.

Brian Maguire: I hope you're all doing well. I just wanted to come back to the regional differences in April and the outlook. It just seems like some of it was in the more competitive legacy, maybe progressive markets, just by chance. But just wondering if you think there's anything to that other than the government restrictions and lockdowns

and kind of where the virus was more acute.

And kind of back to the pricing question, these I think are more competitive markets in general; if you think that as businesses come back, if there will be any dislocations, or the fact that these are more competitive, that could be more challenging for pricing the way that the volumes have kind of hit those markets?

Mary Anne Whitney: Sure. Well, if you look -- a way to look at it is to focus on the volume activity and if you look at those, our Eastern region and Canada, which include these hardest-hit markets, you'll see volumes down 20% on average. And you contrast that with our Central region, our Western region and Southern region, again, kind of highlighting the differences in the types of markets, those are all down in the 6% to 8% range.

And so it's very consistent with what we're seeing in that customer activity, where, as I mentioned, for instance, in New York, the reductions were 4x the overall impact that we've seen, suggesting with volumes, if you assume volume is down kind of 12% in April, 4x that amount, meaning it's down 50%. That's the impact of that dramatic a shutdown in a place like New York City. So I think that those trends are consistent with the other data we've given you about where we're seeing those reductions.

Brian Maguire: And the areas where you've seen a little bit of a sequential pickup late in the month, are those more of the harder-hit areas like New York and then the more milder areas like the central states? Are you seeing any degradation, any further degradation, there? I guess I'm starting to wonder if there's -- maybe some of the regions that have held up better, maybe it's just a delayed reaction versus the markets that were worse off coming back a little bit.

Worthing Jackman: No, I'd tell you the most confident folks we have with regards to the current activity and the outlook on the activity, we're in that 70% of the bucket that we've talked about before, meaning West Coast, Plain states, the South, the Coastal Atlantic states. Really, it's just again, the kind of what we call the Northeast, which in our mind is New York City, Rhode Island and Hudson Valley area and Canada. That's where the lag is still happening. And that's where frankly, the volumes are off, as Mary Anne said, 30% to 50% on average from a revenue dollar standpoint across those 3 areas.

And so as those recover, that will be a nice tailwind for us. But with regards to where it's been ticking up away from there, the expectation is it's still very strong. Obviously, special waste will still have some volatility here and there, but again, it's just a nice, gradual increase in activity.

Brian Maguire: Okay, great. I'll turn it over. Thanks.

Operator: Tyler Brown, Raymond James.

Tyler Brown: Worthing, I just want to start with a big-picture question on the franchises. So I know resi container weights have been a problem and there's maybe some stream shift going on. But aren't the franchises kind of governed by some sort of return on

capital mechanism? So in theory, even if the complexion and the cost structure of the business inside of the franchise maybe changes, shouldn't you effectively be made whole over time?

Worthing Jackman: Yes, and you'll see that -- it's a good question, Tyler. You'll see that in pricing next year, right? We incur the cost this year and we're tracking that. We have a pretty good sense of what that is, and that will get submitted within our rate reviews in the upcoming year.

Tyler Brown: Okay. Okay. So forward, okay, that helps. And then Mary Anne, so really appreciate the margin help in April. But at a high level, can you unpack the 200 basis points? Maybe how much of it was E&P? And then within solid waste, I think there's still a couple of moving pieces. We've got M&A dilution, recycling, the incremental labor, maybe even fuel. But just any big pictures on how you build up to the 200 basis points?

Mary Anne Whitney: Sure. So I would say stay with 2 big buckets, and have E&P and then solid waste; E&P in the 50 to 70 basis point range for the drag, and therefore, what's left is solid waste in, call it, 130 to 140-basis point drag. Within that, you're right, there's a drag from acquisition contribution, which will be similar to Q1, down a little bit, so maybe 15 basis points there, and a little drag from recycled commodities and RINs.

Worthing Jackman: But Tyler, I think if you step back a little further and really gauge how well are we doing, how well is the frontline doing with regards to flexing the cost model here, given the decrementals, on the solid waste side, that 130 or so basis points that Mary Anne's referencing, that's all of the Covid-related costs that we have elected to put into our business to help the front line, that accounts for all of that. In other words, if you really wanted to get down beneath it and say, how did we flex our business down on a year-over-year basis, solid waste, we've overcome all this.

Now we're not going to add back Covid-related costs as we communicate the business because obviously, there are other costs that are gone from the business. And so as we get to anniversarying Covid-related costs in the upcoming year, those costs would like likely be backfilled by other things coming into the P&L. And so we think it would be disingenuous for us, as we think about it, to cherry pick what's in an adjusted number, what's out an adjusted number. And so we're just communicating this thing on an all-in basis.

Tyler Brown: Okay. And then -- yes, go ahead.

Mary Anne Whitney: And Tyler, I was just going to add that when Worthing talked high-level about talking about margins for the full year, you could envision that that breakdown of that 200 basis points could shift during the course of the year. As we mentioned, we gave you an E&P number for April, for instance, but we also said that current run rate is down 45% from what we saw in Q1. So that implies we've stepped down in May from, call it, $14 million to the $10 million to $11 million range.

So you could see how during the course of Q2, you might have similar decrementals in the aggregate as April, but the mix shift. And you could see that moving over the course

of the year and E&P accounting for a larger component of the 200.

Tyler Brown: Okay. That's helpful. And then my last one, I'm going to give this a try because Worthing, I'm trying to calibrate. So if I take Q1 and I look at Q2, we've got, let's just call it, mid-single-digit decline in revenue, a couple of hundred basis points of decline in EBITDA. That could hypothetically pan you out around $375 million of EBITDA. And then if we just assume maybe some less bad trends in 3 and 4, both on revenue and margins, is it crazy to think that you possibly pan out in the [1.5, 1.6] range for the year hypothetically?

Worthing Jackman: Well, Tyler, I'm an operating guy, so I'm going to hand this over to Mary Anne.

Mary Anne Whitney: So I would say that that's consistent with Worthing's high-level suggestion of a calibration to the $5.25 billion with margins down 200 basis points. And the way I would think about it would be from a volume perspective. As I mentioned, you can see E&P declining over the course of the year and you could see if we start Q2 with volumes in that negative 12% to 13%, could what was implied be a step up to maybe it's negative 10% in Q3 and negative 8% in Q4. I think that's similar math that would get you to that same place.

Worthing Jackman: Yes, look, we did, what, 31% margins on rounding last year, so 200 down is 29%, and that's simple math that gets you to that zip code. And obviously, the pace of recovery improves, you've got fewer and fewer months in the year to benefit from that. And so the volatility around a $5.25 billion number, maybe it's within 1% or 1.5% on the other side, but it's fairly tight.

Tyler Brown: Okay. Okay. And then just lastly on the CapEx, how much of that is E&P versus solid waste? I'm assuming E&P is basically in hibernation.

Worthing Jackman: $20 million of that.

Tyler Brown: Okay. Okay.

Worthing Jackman: And we expect -- I made sure I noted the fact that, look, this isn't a period of time where you just hunker down and don't take advantage of opportunities on the capital side. And so obviously, we flexed it down. We will look during the course of the year optimistically. We've already got a chance about a week ago to acquire a very nice piece of property for long-term expansion of one of our landfills. We will continue to look for that; this is an interesting time to be putting offers on the table for that.

And frankly, I think given the amount of cancellations of fleet throughout this industry, as well as weakness in yellow iron demand from the Caterpillars of the world, etc., I suspect we'll get an opportunity to look to put some of that back in and pull some of 2021 into this year at some potentially attractive pricing, or we won't. But obviously, if we do get those opportunities, we won't be shy, and we'll make sure you know about it.

Tyler Brown: Okay. Appreciate it. Thank you.

Operator: Michael Hoffman with Stifel.

Michael Hoffman: Let's talk about what Waste Connections looks like going forward because what I'm hearing is a lot of quick reaction, do the right thing by the people, but as we recover, I may actually end up with a better incremental. I doubt you add costs back at the pace you took them out. Is that the right way to think about who you are going forward?

Worthing Jackman: Yes, that's absolutely right, Mike. First off, what I'd tell you is there's a lot of discussion about hours, reducing OT, total hours, etc.. That's in the rearview mirror. We know our cost structure. Hours have clicked up 2 consecutive weeks on a nominal basis, consistent with the inflection on the revenue side. Like any, call it, correction, all companies typically come out of that with a slightly different cost structure in the way back up within the costs that were embedded when you previously got to that level, right?

And so I definitely expect that the incrementals that come through on this revenue increase should be very attractive, and our folks are focused on that.

Michael Hoffman: Okay. And then I want to follow up on one question about the behavior of the competitors. Is it a fair observation over the last 10 years, the whole industry has learned the power of price, public and private, little, big, medium; and therefore, more of the smalls understand they'd be better off 80% full at 100% price, than 100% full at 80% price?

Worthing Jackman: Well, again, I think the -- a couple of things on price. Obviously, the great recession taught many companies that you can't fight the tide of volume, right? And so retaining price -- because costs will go up -- retaining price is very important. Obviously, as we talked earlier, what happened, the reset on recycling also hit a lot of smaller companies who are dependent on recycling as a source of revenue to avoid a tip fee, right?

And as recycling inflected on a cost standpoint, and all of a sudden, tip fees that recycling facilities were 2x and 3x or more a tip fee at a landfill, that created pricing pressures again and obviously, what we all have already talked about with the pandemic. So I think it's human nature to understand that price is needed when costs go up, construction costs, equipment costs, operating costs, etc.

Now that said, look, there are always folks that live on a lower margin, will run close to the edge. That will always happen in a fragmented industry like this. Still, there's $17 billion or more revenue in private company hands, and that will always create some level of price check in various markets. But without a doubt, when the tide goes out on volumes from an economic contraction, all you have left is price because it's not like costs are going down significantly.

Michael Hoffman: Right. And then last one for me -- what is Canada saying about when they start reopening, given they did it on a national basis?

Worthing Jackman: So far, Québec has been earlier to the table with regards to phasing in this reopening. We saw, for instance, construction started being allowed in Québec again, and our business on the roll-off side was probably down 40% to 50% in number of pulls. And the early days of that being turned back on, we've gotten half of that reduction back recently. And so the snap-back quickly to kind of only down 20% or 25% was the first reaction. And obviously, as that market continues to reopen, so to recovery in revenue.

Ontario, which is also affected severely, I believe most people estimate that the early phasing of a reopening is going to happen the middle of this month. Similar expectations around British Columbia. Calgary and the whole kind of Alberta Province area, that's still going to be probably a little bit slower. And obviously, there are other economic factors impacting that province, as we all know, due to the oil and gas industry.

Michael Hoffman: Okay. Thanks very much. Stay safe and healthy.

Operator: (Operator Instructions). Noah Kaye, Oppenheimer.

Noah Kaye: I guess just to be done a little bit here, it looks like if I just sort of take that 6% April revenue decline and carry it forward for every quarter, then I can get to -- I do kind of get to that $5.25 billion for the year. But I just want to make sure we're thinking about a few trends within that, right? So illustratively -- and this is all hypothetical -- a little bit lower E&P, maybe a little bit of improvement on solid waste volumes. But there's probably another variable in there, right, which is M&A contribution.

So I guess just as it stands today, can you help us understand how you're thinking about those different levers? And can you confirm maybe M&A contributions that start to weigh in in the back half unless you're closing new deals?

Mary Anne Whitney: Sure. So M&A, as you know, it was around $60 million in Q1. That drops to $40 million, $30 million, $20 million each sequential quarter there.

Worthing Jackman: But there's no additional acquisitions yet to close that are in that estimate. That's just what's already in place as we entered this year, right?

Mary Anne Whitney: Right, so that's correct. So where I think you were going, Noah, was then even though perhaps it's uniform, what the year-over-year revenue is, the contribution, the buckets are different. And so there's less acquisition contribution, which means that there would be more of an impact to solid waste or E&P, for instance. And as I've said, what you could envision is that E&P gets sequentially worse in terms of the year-over-year declines, and that solid waste could, in a scenario, get sequentially better, meaning be less negative.

Noah Kaye: So I guess -- that's really helpful -- and I guess the question that follows from that is if there's less contribution from dilutive acquisitions over the course of the year, and solid waste is getting better, shouldn't that potentially overwhelm the E&P impact in terms of -- shouldn't there be a setup for margins to get better over the course of the year versus the 200 bps you saw in April; or is it just that there's really no kind of significant structural cost to strip out of E&P, and that is going to be a bigger drag? Just

trying to think about it.

Worthing Jackman: Yes, but you do have the growing drag of E&P, as you pointed out, Mary Anne pointed out. But look, I think right now, we're trying to calibrate folks' expectations. And frankly, once we know better around the trajectory of margins and the pace of the recovery, we'll know more when we give our formal outlook. And that would be the best time to kind of compare that formal outlook to what we tried to triangulate on today.

Noah Kaye: Yes, I appreciate that. Thanks very much.

Operator: Stephanie Yee, JPMorgan.

Stephanie Yee: I'm just wondering what kind of assumptions are you assuming about what the recovery might look like. So are you expecting customers to resume service kind of the prior levels they were at in, let's say, February pre-Covid; or are you seeing customers kind of come back at a lower service rate?

Worthing Jackman: No, remember that -- I think as Mary Anne laid out earlier, if you look at the volume reductions just in April alone, April was down 11% or 12% or so in volume. And as we said, look, maybe the quarter plays out in that same range, and perhaps that improves to down 10% or so, or down 9% or so, and then maybe it improves a little bit more in Q4 to down 9% or down 8%. So no, that kind of assumption is not assuming anything about getting back to prior levels.

My personal view has always been that this is going to be a longer versus shorter recovery. Obviously, some storefronts won't reopen; 35 million unemployed does impact the economy. And so I never would assume a V-recovery, and I think the way we've laid out our current thoughts to be as transparent as possible, reflect that.

Stephanie Yee: Okay. No, that's helpful. And then, I guess on recycling, so it's kind of along a similar vein. So if there are social distancing measures in place as kind of being the new normal, do you think we're seeing another structural change in that recycling business with maybe higher processing costs, but then also maybe higher OCC prices with less supply going forward?

Worthing Jackman: Yes, I think there's a couple of observations on that. Obviously, as the current environment, you've got two things working against the supply of recycled materials and therefore, pushing the value of them higher. And that is obviously, as you've had more remote working, you've had a lot less of what I would call a clean stream coming out of the commercial customers, right, office buildings, etc.

And that combined with the shift in volumes to the home -- by the way, you look at our MSW volumes; our MSW volumes are flat, meaning the volume is still out there. The problem is that more people are jamming contaminated waste streams into their recycling bins because they need more bin capacity.

So a long way of saying that you've got less of a clean stream, you've got more of a

comingled stream coming out of residential. And so that has increased the contamination at much higher levels on the inbound stream. Oh, and then you distance more and that causes some facilities -- for the contamination to go up even more relative to what they got as a finished product before.

And so without a doubt, recycling is having its impact; it varies by market. Obviously, different types of facilities are better equipped for social distancing or safe distancing than others, so that also has an impact. So no, recycling overall, it's got many challenges as we sit here today. And again, for us, that's a very small part of our revenue stream.

Stephanie Yee: Okay. No, thank you. Appreciate that.

Operator: There are no further questions registered at this time. (Operator Instructions).

Worthing Jackman: Okay. Thank you. So 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 I 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 miss being able to meet with you all in-person, and look forward to speaking with you at upcoming virtual investor conferences or on our next earnings call. Thank you.

Operator: That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.