

WCN - Waste Connections, Inc. Q2 2018 Earnings Call
Wednesday, July 25, 2018, 8:30 AM ET

Company Participants:

Ronald Mittelstaedt; Chairman and Chief Executive Officer
Worthing Jackman; President
Mary Anne Whitney; Senior Vice President and Chief Financial Officer

Analysts:

Brian Maguire; Goldman Sachs
Tyler Brown; Raymond James
Hamzah Mazari; Macquarie Capital
Corey Greendale; First Analysis
Michael Hoffman; Stifel
Noah Kaye; Oppenheimer
Chris Murray; AltaCorp Capital
Derek Spronck; RBC Capital
Michael Feniger; Bank of America

Presentation:

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Waste Connections Second Quarter 2018 Earnings Conference Call.

(Operator Instructions)

As a reminder, this call is being recorded Wednesday, July 25, 2018.

I would now like to turn the call over to Mr. Ron Mittelstaedt, Chairman and CEO of Waste Connections. Please go ahead, sir.

Ronald Mittelstaedt: Okay, thank you, operator, and good morning. I'd like to welcome everyone to this conference call to discuss our second quarter 2018 results and updated outlook for the full year, as well as provide a detailed outlook for the third quarter. I'm joined this morning by Worthing Jackman, our President; Mary Anne Whitney, our CFO; and several other members of our senior management team.

As noted in our earnings release, continued strength in solid waste pricing growth, E&P waste activity and acquisition contribution enabled us to exceed our outlook for the second quarter, overcoming increased headwinds from recycling and a weather-delayed ramp in special waste activity across many markets. We are especially pleased with our year-to-date adjusted EBITDA margin expansion and adjusted free cash flow generation in spite of these headwinds, as well as our upwardly revised revenue, adjusted EBITDA and adjusted free cash flow outlooks for the full year.

As we look ahead to 2019, we believe we should be well positioned for above-average revenue growth and margin expansion as current favorable trends for solid waste pricing, E&P waste activity and acquisition contribution should remain in place, and the current negative impact from recycling headwinds and reported negative volume growth primarily associated with our purposeful shedding of lower-quality solid waste revenue should abate.

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 on Page 3 of our July 24 earnings release and in greater detail in Waste Connections' filings with the U.S. Securities and Exchange Commission and the securities commissions or similar regulatory authorities in Canada.

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

On the call, we will discuss non-GAAP measures such as adjusted EBITDA, adjusted net income attributable to Waste Connections on both a dollar basis and per diluted share, and adjusted free cash flow. Please refer to our earnings releases for a reconciliation of such non-GAAP measures to the most comparable GAAP 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 Ron.

Ronald Mittelstaedt: Okay, thank you, Mary Anne. In the second quarter, solid waste pricing growth was 4.2%, in line with our expectations and up 110 basis points year-over-year. This increase reflects not only our disciplined execution to overcome recycling headwinds and certain cost pressures, but also the strength of the underlying economy. Pricing ranged between 3% in the mostly exclusive markets of our Western region to upwards of 4.5% and 5% in our more competitive regions.

Reported volume growth in Q2 was negative 1.5%, due primarily to our purposeful shedding of less attractive revenue across the former Progressive Waste footprint, particularly in Canada and the Northeast, which accounted for an estimated 85 basis points of reported negative volume growth in the period, most of which should abate by the end of Q3. An additional estimated 35 basis points' impact to volume growth can be attributed to the permitted volume limitations

imposed by the new conditional use permit at our Southern California Chiquita Canyon Landfill in Q3 of last year. And finally, a decrease in volumes at our New York City transfer stations reduced reported volumes by almost 25 basis points as a result of the ramp-up of the Department of Sanitation's marine terminal operations contract with a third party.

Net of these items' overall volumes in Q2 were about flat, largely as a result of what we view as weather-related impacts across many markets, which delayed the more typical seasonal uptick in higher-margin landfill volumes, most notably special waste. As will be noted later in our Q3 outlook, we expect volume growth to improve sequentially by between 50 and 100 basis points Q2 to Q3.

On a same-store basis in the second quarter, commercial collection revenue and roll-off revenue each increased approximately 5% from the prior year period. In the U.S., roll-off pulls per day increased 2.9% and revenue per pull rose about 3.1%. In Canada, pulls per day decreased by 7.9%, which was primarily related to the purposeful shedding of lower-quality revenue and lingering winter weather conditions, but was largely offset by a 4.9% increase in revenue per pull.

Solid waste landfill tonnage in Q2 on a same-store basis decreased 4% over the prior year period, but was essentially flat year-over-year excluding the impact of limitations imposed by the new conditional use permit at our Chiquita Canyon Landfill in Southern California. MSW tons were flat, C&D tons increased 6% and special waste tons decreased 18%, or about 5% net of Chiquita Canyon's new limitations, which, as we have noted on earlier calls, anniversary at the end of this month.

The remaining reduction in special waste volumes is attributable to both difficult prior year comparisons and, we believe, weather-related delays that might shift the timing of projects into the second half of the year. As expected, we're already seeing a ramp in such activity at certain sites as this quarter begins.

Recycling revenue excluding acquisitions was about \$21 million in the second quarter, down \$19 million, or almost 48%, year-over-year due to the continued declines in both the value of and the demand for recycled fiber, especially recovered mixed paper. Prices for OCC, or old corrugated containers, in Q2 averaged about \$95 per ton, which was down 45% from the year-ago period and down 8% sequentially from Q1. Mixed paper revenue declined almost 80% year-over-year. We believe that decrements related to the reduction in recycling revenue increased from about 85% in Q1 to 95% in Q2 due to higher year-over-year declines in fiber values in the period and increased recycling processing costs. As such, we estimate the revenue reduction to have impacted the EBITDA by approximately \$18 million and earnings per share by \$0.05 in Q2 compared to the year-ago period.

Looking at E&P waste activity, we reported \$60.2 million of E&P waste revenue in the second quarter, up 28% year-over-year and 8% sequentially from Q1. We expect our current revenue run rate to continue at this approximate level unless we see a significant shift in crude oil prices, an increase in drilling activity in other basins or until new additional facilities come online.

We've commenced construction on three new projects, two of which further expand our asset positioning within the West Texas Permian and one of which expands capacity at an existing facility. In addition, we expect to commence construction on another new project later this quarter. These four projects should provide additional growth opportunities beginning in the second half of 2019.

Looking at our acquisition activity. We've already closed on what we would consider an above-average amount of acquisitions for the year, and the pipeline for potential additional transactions remains at an elevated level. Year-to-date, we have acquired approximately \$175 million of annualized revenue, including three \$45-million- to \$60-million-revenue new-market entries in Arizona, Rhode Island and Virginia, and tuck-ins in Arizona, Florida, Idaho, Nebraska, North Carolina, New York, South Carolina, Texas and Alberta. As additional transactions in our pipeline may begin to close later this year or early next, 2019 is setting up to be another year of above-average M&A contribution.

Our strong financial profile and great cash flow generation provide us the flexibility to not only invest in new growth projects and fund expected continuing above-average acquisition activity, but to also increase our return of capital to shareholders through double-digit percentage increases in our quarterly dividend each October and opportunistic share repurchases.

Now I'd like to pass the call to Worthing to review more in depth the financial highlights of the second quarter. Mary Anne will then provide a detailed outlook for Q3 and discuss our increased outlook for 2018. I will then wrap up before heading into Q&A.

Worthing Jackman: Thank you, Ron. Good morning. In the second quarter, revenue was \$1.24 billion, up \$64.4 million over the prior year period. Acquisitions completed since the year-ago period contributed about \$55.8 million of revenue in the quarter, or about \$33.3 million net of divestitures.

Adjusted EBITDA for Q2 as reconciled in our earnings release was \$395.5 million, or slightly above our outlook for the period, due to higher-than-expected revenue. In spite of the high-margin, negative-flowthrough impact from increased recycling headwinds and difficult year-over-year special waste comparisons, adjusted EBITDA in the period increased almost \$22 million year-over-year, or about a 34% flowthrough on the change in revenue. Adjusted EBITDA as a percentage of revenue was 31.9% in Q2, up 10 basis points year-over-year, but 30 basis points below our margin outlook. Put simply, it took more revenue in the period to overcome higher-than-expected headwinds from recycling and the weather-related delay in the seasonal ramp in higher-margin special waste activity.

Fuel expense in Q2 was about 4% of revenue, up 35 basis points year-over-year. We averaged approximately \$2.75 per gallon for diesel in the quarter, which is up about \$0.31 and \$0.07 per gallon respectively from the year-ago period and sequentially from Q1.

Depreciation and amortization expense for the second quarter was 13.6% of revenue, up 20 basis points year-over-year due to increased appreciation expense from capital expenditure outlays since the year-ago period.

Interest expense in the quarter increased \$1.3 million over the prior year period to \$32.4 million due to higher interest rates as compared to the prior year period. Net of interest income from invested cash balances, interest expense in the period was \$31.4 million.

Debt outstanding at quarter-end was about \$3.8 billion, approximately 27% of which was floating rate, and our leverage ratio as defined in our credit agreement declined to below 2.4x debt to EBITDA as we continue to cash-fund acquisitions.

Our effective tax rate for the second quarter 23.5%, or 22% net of certain items in the period, primarily related to both internal financial restructuring and a reduction in our deferred tax liabilities resulting from changes in state legislation and acquisition impacts.

Looking at the remainder of 2018, we now expect our effective tax rate to be approximately 22.5%, subject to some variability quarter to quarter. GAAP and adjusted net income per diluted share were \$0.52 and \$0.65 respectively in the second quarter. Adjusted net income in Q2 primarily excludes the impact of a tangibles amortization and other acquisition-related items, as well as impairments associated with the termination of certain contracts assumed in the Progressive Waste acquisition, primarily in conjunction with purposeful shedding. Adjusted free cash flow in the first half of the year was \$472.7 million, or 19.9% of revenue, and up 20% year-over-year.

Now let me pass the call to Mary Anne.

Mary Anne Whitney: Thank you, Worthing. I will now review our outlook for the third quarter 2018 and updated outlook for the full year. Before I do, we'd like to remind everyone once again that actual results may vary significantly based on risks and 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 and operating environments. It also excludes any impact from additional acquisitions or divestitures that may close during the remainder of the year and expensing of transaction-related items during the period.

Looking first at Q3. Revenue in Q3 is estimated to be approximately \$1.27 billion. We expect price growth for solid waste to be between 4% and 4.5% in Q3, with volume losses improving sequentially to between negative 0.5% and negative 1%, reflecting up to a 100-basis-points improvement over Q2. We expect continuing sequentially quarterly improvements in volume growth as we anniversary the much-discussed purposeful shedding of lower-quality revenue and the volume limitations imposed at Chiquita Canyon that commenced last August. Adjusted EBITDA in Q3 is estimated to be approximately 32.5% of revenue, or about \$413 million.

Q3 is likely our most difficult year-over-year margin comparison due to both recycling, where values peaked during the prior year period, and E&P waste activity, where we begin to anniversary more difficult comparisons given the quarter-to-quarter sequential ramp in that activity last year. Margins should expand again beginning in Q4 as recycling headwinds begin to

ease somewhat. To provide context for everyone, this guidance for Q3 of 32.5% would equate to approximately 33.5% adjusted EBITDA margin at last year's commodity values.

Depreciation and amortization expense for the third quarter is estimated to be about 13.6% of revenue. Of that amount, amortization of intangibles in the quarter is estimated to be about \$26.6 million, or about \$0.07 per diluted share net of taxes. Interest expense, net of interest income, in Q3 is estimated to be approximately \$32 million. Finally, our effective tax rate in Q3, as noted earlier, is estimated to be about 22.5%, subject to some variability.

Turning now to our updated outlook for the full year as provided and reconciled in our earnings release. Revenue for 2018 is now estimated to be approximately \$4.88 billion, or \$55 million above our initial outlook, due primarily to higher-than-expected contributions from acquisitions, E&P waste activity and solid waste pricing, being somewhat offset by greater-than-anticipated declines in recycling revenue, the weather-delayed seasonal ramp in special waste activity and, to a lesser extent, current weakness in the Canadian dollar.

Adjusted EBITDA for the full year is now estimated to be approximately \$1.555 billion, or about 31.9% of revenue, and up about \$5 million over our initial outlook. We believe this conservatively reflects current high decrements associated with year-over-year headwinds in both recycling and special waste activity. Adjusted free cash flow in 2018 is now expected to be approximately \$860 million, or more than 55% of EBITDA, and up \$10 million from our initial outlook. This outlook assumes an estimated \$30-million increase in gross-related CapEx, primarily associated with the four new E&P waste projects discussed earlier, raising our total estimated CapEx for the year to approximately \$530 million.

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

Ronald Mittelstaedt: Okay, thank you, Mary Anne. Again, the underlying fundamentals of our business remain strong, and we are extremely pleased with our year-to-date performance. We'd especially like to recognize and thank our folks for their development and implementation of action plan to address the increased headwinds previously discussed.

Although the quarter-over-quarter margin comparisons this year are somewhat atypical given the magnitude and timing of these headwinds, we are pleased to have raised our outlook for 2018 with continuing expectations for full year margin expansion. Pricing growth of 4%-plus has driven margin expansion for us in 2018, as we do not have the beneficial margin expansion optics others may have from either a change in accounting or significant revenue declines in very low-margin recycled-brokering business.

More importantly, as noted earlier, we believe we should be well positioned for above-average revenue growth and margin expansion in 2019, as current favorable trends for solid waste pricing, E&P waste activity and acquisition contributions should continue, and the current recycling headwind and reported negative volume growth primarily associated with purposeful shedding of lower-quality solid waste revenues should abate. This should result next year in price-led organic growth of between 4% and 6%, an additional 3% to 4% revenue growth from acquisitions, at least a 50- to 75-basis-point adjusted EBITDA margin expansion, excluding the

impact of such additional acquisitions, and another double-digit annual increase in free cash flow per share.

We appreciate your time today. I will 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)

And our first question comes from the line of Brian Maguire of Goldman Sachs. Please proceed with your question.

Brian Maguire: Hey, good morning, guys.

Ronald Mittelstaedt: Good morning, Brian.

Brian Maguire: Ron, I think you slipped in some comments on the 2019 outlook and bridge there at the end. Just wondered if you could repeat those, quickly, and kind of tie it in with that -- around the volumes, maybe a little bit weak around the quarter due to some of the special waste timing. I think you kind of provided a nice bridge for the rest of the year. Just sort of wondering when we could back to that historical 1% to 2% growth range that you've put in in prior years.

Ronald Mittelstaedt: Sure, sure. Okay, several questions there, Brian. So what we said on 2019 is that we expect price and volume to be in the 4% to 6% range with pricing being the majority of that. So pricing probably in that 3.5% to 4%, maybe even just a little north of that 4% potentially next year. So obviously, volume being the differential bridge between 4% and 6%.

We said that, based on deals done already, deals that we expect to do over the balance of the year, that that rollover impact should -- could be up to 3% to 4%. So it sort of gives you between 7% and up to 9% to 10% top line growth before contributions from any deals maybe done in '19.

And we said from that, with recycling anniversarying, as well as purposeful shedding anniversarying, as at the end of the third quarter, that we see margin expansion of 50 to 75 basis points going into -- for '19, as we sit here today. So I think that was what we said on '19.

What we said was that volume growth will improve Q2 to Q3 this year by 50 to 100 basis points, and most of that is just the anniversarying of shedding that we began well over a year ago, that is now finally, in the period, ending from a reported standpoint. Again, I think it's important to note that this is not volume loss that's occurring on a real-time basis; this is volume loss that occurred as we shed that volume a year ago, three to four quarters ago, now coming into the fourth quarter, in this third quarter, and is just in the reported number, which is why we give that number and said what the underlying volumes are doing.

We do think that there was probably -- we're going to round 30 to 40 basis points of lighter-than-expected volume in Q2 that was due to special waste projects that were delayed. I know it seems a while ago sitting here in July, but we were having severe snow events throughout many parts of the U.S. all the way up into May, and certainly in Canada into late May. So we did not really -- we only really got about one month contribution of special waste, that we would typically see more like a full two months beginning in May. And so, we said that that should improve in Q3, and we are seeing that already in July. And that's part of why we said 50 to 100 basis points of volume improvement as we move from Q2 into Q3.

So I would expect -- the last part of your question was a more typical 1% to 2% volume growth, Brian. I would expect that in this GDP environment, and as you look at a full year, that we should return to that as we go into '19 and certainly as we get into the second half of '19. There are still some nominal lingering effects of some of the contracts that we have opted to walk away from, but the underlying should be in that 1% to 2% range even at a 4%-type price. Obviously, as you push pricing you start to get up into that range. There is some offset to volume, so that mutes it a little bit, but I think that's where we would expect to be.

Brian Maguire: Yes, that's a very detailed answer, and thanks for that. Just the end of that sort of tied into my follow-on question, which was just the price assumptions in that 2019 bridge seemed a little bit higher than I would have thought, staying closer to that 4% level than historically. Just wondered if that's indicative of you seeing more opportunities to push price over volume in some areas, or are you just sort of expecting some of the CPI flowthroughs and inflationary elements of the contracts to kind of kick in there?

Ronald Mittelstaedt: Yes. It's a little bit of both, Brian. I mean, as we just said on this call, we reported approximately 3% price in our mostly exclusive markets of the Western U.S., and so recall that we do those rate increases really in the first half of the year. Those are being priced off of the CPI that ended in July of '18, and in -- '17, excuse me, and January of '18. So now, as we move forward and we look at '19, we will be using the July of '18 CPI for the '19 rate increase, and that has moved up between 25 and 100 basis points in certain markets. So that's going to lift that exclusive piece for next year, so that's sort of already locked in. And so even if we stayed at the same competitive market rate, it would lift our average price. And if the economic environment stays as it is, we would expect our competitive price to continue to move up. So I think it's pretty comfortable to say we feel comfortable at the upper end of that 3.5% to 4%, and likely north of that 4%-type price, as we sit here today looking at next year.

Mary Anne Whitney: And the one thing I would add to that is, if you look at our reported numbers for Q2, 4.2% price, you'll -- just to remind folks that we do the majority of our price increases in Q1, and over the course of the year on a reported basis, the math works out that we typically report slightly declining price, slightly lower at each quarter, because of the math, the denominator getting larger. And what you'll see this year is it's pretty flat, given the strength of our pricing. So just -- that sets us up nicely for next year to stay in that 4% range.

Brian Maguire: Okay. Thanks very much.

Ronald Mittelstaedt: Thank you.

Operator: Our next question comes from the line of Tyler Brown of Raymond James. Please proceed.

Tyler Brown: Hey, good morning, everyone.

Ronald Mittelstaedt: Good morning, Tyler.

Tyler Brown: Hey, Ron, so thanks for the '19 comments. I don't want to split hairs here, but just based on the deals that have been done and announced today, how much would that rollover benefit kind of be expected next year? I think that 3% to 4% you talked about included some stuff that maybe not -- hasn't been done yet; is that right?

Ronald Mittelstaedt: Yes, I think they -- that -- when I said the 3% to 4%, Tyler, I mean, obviously you can do the math. That implies \$150 million to \$200 million of rollover revenue into next year. Obviously we've done \$175 million going into the fifth month, so not even half of that would roll over. So that's implying that we expect to do other things over the balance of this year that could approximate what we've done or a little less, and that would get you to that number.

Tyler Brown: Okay. Okay, perfect. And then I know this is a bit of a detailed question, but have you guys seen or heard any -- hello?

Operator: We do apologize for the inconvenience. Ladies and gentlemen, please stand by.

Okay, please resume, and Mr. Brown, your line is still open.

Tyler Brown: Okay. Can you guys hear me?

Ronald Mittelstaedt: Tyler, sorry. We don't know what happened here. We're -- our whole line (inaudible) apologize to everyone on the call. Go ahead, Tyler.

Tyler Brown: Yes, no problem, no problem. Okay, so I -- this is a bit of a detailed question on the E&P side, but have you guys seen or heard any potential slowdown in the Permian drilling activity just as a result of the lack of pipe takeaway capacity? I think you've seen a blowout in those Midland differentials.

Ronald Mittelstaedt: Yes, we have not seen a slowdown, Tyler. And we've spent quite a bit of time looking at this with our guys. We have not seen a slowdown. We would tell you that we sort of think that the Permian's at the level it's going to be. I don't want to say it's capped, but it's probably at the level that we've seen in Q2. That's what we're expecting in Q3 and go-forward, until there is incremental capacity, and that was why we said we sort of think E&P waste activity stays at the current level unless there was a substantial bump in crude prices or other basins begin to come online, and again, until some of the projects that we've got under development come online that attack alternate parts of that basin over '19.

Tyler Brown: Okay. And then just my last one here: So the \$30-million increase in CapEx, that is all attributable to those three or four E&P projects; is that correct?

Ronald Mittelstaedt: That is correct.

Tyler Brown: Okay. And they do increase addressable market, and you expect them to be done in the second half of '19; is that correct?

Ronald Mittelstaedt: Yes. We expect them to be contributing in the second half of '19. We will finish them probably in the -- I'm rounding -- March through June time frame, and therefore be contributing in the second half of '19.

Tyler Brown: Okay. And then just maybe lastly, any kind of thought about once completed and fully ramped, how much EBITDA that \$30 million of deployment could produce?

Ronald Mittelstaedt: Yes, I think it's in the -- probably the \$10-million-plus EBITDA range. That's generally what we would expect for that deployment on an internal development project. That's what we've received, so -- on others. So that implies that \$20-million to \$25-million revenue range because we're going to run that, ultimately, at almost a 50% or even north of a 50% EBITDA margin.

Tyler Brown: Okay, perfect. Thanks, guys.

Ronald Mittelstaedt: Thank you.

Operator: Our next question comes from the line of Hamzah Mazari of Macquarie Capital. Please proceed.

Hamzah Mazari: Hey, good morning. The first question is just on the volume side. Any thoughts as to what customer churn is running today? I know you're shedding Progressive Waste business, so however you want to look at that, what the underlying customer churn is, and whether that's maxed out or you think we can go lower here as well?

Ronald Mittelstaedt: Yes. I mean, customer churn is really, when you exclude the purposeful shedding that's been done, and again, that was done a year ago, but customer churn is quite low, which is why price is sticking so well in the competitive markets, I think not only by ourselves but most industry participants, public and private. And so, and that also implies everybody is also very full from a deployment of their existing routes of capital as well. But customer churn is running very low. I would tell you it's probably in the high single digits in competitive markets. There are some that it is higher than that, but overall it's a single-digit number now. Can it go lower? It certainly could go somewhat lower, Hamzah, but I mean, it's probably the lowest we've seen in -- maybe ever, but certainly in more than a decade.

Hamzah Mazari: Great. And then just on pricing, Ron, you touched on 4% to 5% competitive pricing, and you think that that can go higher. Maybe could you frame for us -- can it go higher? Is that just cyclical? And maybe just compare to past cycles what you've seen, or is there

anything structural that's helping you in these competitive markets versus history? I know your business was a lot more franchised when you look in the past, so maybe that's not as relevant, and the portfolio's different with Progressive. But just a confidence level on pushing that price. Is it all just a cyclical play or is there anything structural going on in these markets that we should sort of be aware of?

Ronald Mittelstaedt: Well, I think it's a little -- a combination of everything, Hamzah. First off, I think if you're not getting 3.5% to 4% price, you're not going to get margin expansion unless you have accounting changes in this type of economic environment. I mean, the reality is, is the cost pressures that are out there are probably in that 4% to 5% range. So you need a solid 3.5% to 4% price. I mean, we reported 10% -- excuse me, 10% -- 10-basis-point margin expansion with overcoming a 100-basis-point recycling headwind. So said another way, 110 basis point, had we not had the recycling. I mean, you're going to need that type of pricing in this cost environment. So part of it is, we are pushing it hard because of the current environment. The current environment being a strong GDP environment, low unemployment environment, strong growth environment also allows that. It also allows it because your competitors, both public and private, are under the same pressures, so they're having to do the same thing. So you do have a pricing umbrella that's lifting for everyone in those competitive markets.

But I would also tell you that I think structurally, again, whether it is -- yes, we inherited a somewhat different footprint of business in the Progressive transaction. We have culled a lot of that. We have swapped markets, we have sold markets and we have shedded revenue. So we've made the Progressive footprint 80%-plus in Canada and the U.S. look more like the traditional Waste Connections footprint, and that is, we tend to still be a larger player in a smaller pond, often have the only or one of the only landfills for our markets, and that asset positioning does provide incremental barriers for and protection for pricing. So it is somewhat -- it is always asset positioning. We believe very strongly that that's what drives your sustained pricing growth. But there is also cyclical things at play here as well.

Worthing Jackman: And I would also add, from a structural standpoint, any collection-oriented and recycling company that was subsidizing collection pricing based on recycling, that paradigm has changed. And so if you were trying to subsidize your collection business and now recycling's rolled over, as you've seen, those companies have to go back to the pricing well to help make up for that recycling.

Ronald Mittelstaedt: Yes. And I think that's an excellent point, Worthing. I mean, look, Hamzah, we all know that private-company independent operators are able to live very well on lower EBITDA margins than public companies and still have very solid companies, but many of them have built a lot of their EBITDA margin on commodity value. So right now, they are just crushed. So the independent companies, more so than the public companies, are having to substantially raise price in this environment, in many cases for their survival, to be quite honest. So that's another driver in this situation.

Hamzah Mazari: That's very helpful. Just last question and I'll turn it over. Recycling's a small part of your business, but obviously their decrementals are very high, so any views or thoughts on China banning all recovered paper imports? I know there's sort of a feedback expected in

August. Just any thoughts as to, you see OCC going lower off of that, and then just anything on what you're hearing specifically, because you have that West Coast presence? Thanks.

Ronald Mittelstaedt: Yes. I mean, Hamzah, we are hearing just what you're hearing, that that decision will be made in the latter part of the third, beginning of the fourth quarter of this year, and that that is the -- certainly one thing China is considering. Again, we won't beat this, because we spoke about it recently quite publicly.

Look, I mean, selfishly, I would prefer that China does ban this permanently and that that puts a final stake in the ground that forces us as an industry, public and private and municipal, to re-look at this whole recycling model and create a model that is sustainable on its own indefinitely. That is how recycling will become a successful business for everybody involved with it. Right now, it is a completely broken model. That is the industry's fault because nobody else set it up this way and priced it this way. We as an industry did. And it took 30 years to get there and it's going to take a while to undo it. Not 30 years, but it's going to take two to three years to get it to where we all want it. If China comes back and says, game's back on, everybody will just go back to doing what they're doing and we'll kick this can down the road. That's just human nature and certainly Americans' nature.

So them banning it, there's not enough international depth of market to absorb the commodities out there from the U.S., let alone anywhere else in the world, so you're going to see the development of more mills and markets domestically. That's good. That's good for the business, it's good for the cost structure of the business. And you're going to see a repricing and a restructuring of how contracts are serviced by the providers on a go-forward basis, which shifts more of the commodity value to the user, be it commercial or be it municipal customer or individual customer. It's their commodity, and the industry, I think, will move to where we're not taking all of or the majority of the risk of what that commodity does and get paid more for the collection and processing and a return on that.

So it's a long-winded way around the barn, Hamzah, to say I actually think I hope they stand their guns and they ban it. It'll -- that would -- will cause pain for the industry but it will fix the problem once and for all.

Hamzah Mazari: Great. That's very helpful color, thank you.

Operator: Our next question comes from the line of Corey Greendale of First Analysis. Please proceed.

Corey Greendale: Hi, good morning. Thanks for taking my questions. On the -- Ron, you were mentioning the underlying inflationary cost environment. You said, like, 4% to 5% increase. Can you just dig into that a little bit? Like, are you seeing a 4% to 5% increase in labor costs, and what kind of pressure are you seeing in terms of availability, just churning drivers up? Just give us a sense of that environment.

Ronald Mittelstaedt: Yes. I mean, Corey, I think, I mean, the labor environment, I think, for all service-related industries, not just ours but anybody's that has a heavy labor component, is

obviously extremely tight. There are niches where it is incredibly tight and there are markets where it's not quite as much, but it's a very tight labor market, certainly the tightest I've ever seen in 30-plus years through varying cycles. I know there's reported unemployment of 3.6% or 3.7%; tell you we're probably at zero in reality.

And so that creates wage pressure. That wage pressure is probably in that 4% to 5% arena, and if you look at someone like us, if you got us under wage pressure of 5%, but we've got a turnover rate of -- in the low 20s, and that comes on at maybe 90% to 95% of your normalized rate, that still yields you a labor cost increase overall year-over-year of about 3.

And so we're doing fine with it, but certainly, most inputs into business today, whether it is labor at any level, but more particularly frontline labor, whether it is third-party trucking and brokerage costs who are trying to get labor, whether it is medical, whether it is input costs for things like steel and containers and trucks, I mean, all of that is going up at something that is north of the reported inflationary index in the country. And so that's why we believe that you've got to be getting in that -- again, I'm going to say around 3.5% plus price, or you're going to take margin compression, again, unless you have some sort of one-time accounting change that affected things. And I think you'll see that in others' numbers, that without that, there would be margin degradation in this environment.

Corey Greendale: Thanks, really helpful. Then one other, and I apologize if you addressed this already and I missed it, but you didn't -- it looked like you didn't repurchase any shares in the quarter? Obviously your leverage is at a very comfortable level. Just can you give us a little bit more on kind of how you're thinking about that, and are you just preserving dry powder for larger M&A at this point?

Ronald Mittelstaedt: Yes. I mean, the first part of your assumption was correct on the share repurchase. We are opportunistic in the share repurchase. Obviously we -- our prioritization of capital deployment has not changed. We still believe that the first and best use of capital is appropriately priced, strategic transactions. We remain in what I would argue is the best environment for that in perhaps 20-plus years, or approaching that. We are incredibly busy at all size of potential transactions, and we believe that that deployment will be, as it has already been in the first five months of this year, it will be elevated over the balance this year and into '19. And so that's what we're preserving incremental capital for and excess cash capital for.

From that, we then would look at, obviously, the commitment to our dividend, which we've -- as we said on this call, we've increased double digits. We'll revisit that again in this October, and that should increase double digits again in October.

And then of course, share repurchases opportunistically. I think on any rolling 12-month basis, it's -- our shareholders should expect between 2% and 4% of our shares to be repurchased, and we remain committed to that, and you will see that as well.

Corey Greendale: Great. I'll turn it over. Thank you.

Ronald Mittelstaedt: Thanks, Corey.

Operator: Our next question comes from the line of Michael Hoffman of Stifel. Please proceed.

Michael Hoffman: Thank you very much for taking the questions. Bear with me; this has a little bit of a windup, the first one, but I think it's important, because -- to show the power of the solid waste. So your original guidance at \$4.825 billion revs implied, I think, about \$4.7 billion was solid waste and the rest was recycling. What I'm not as absolutely certain about is the \$1.55 billion on EBITDA, how much had -- was solid waste versus recycling, and then comparing that.

So what I think's happened is you're going to go to \$4.88 billion, but that's a \$100-million uptick in solid waste revenues between organic growth and deals, and my guess is, is that a \$5-million increase in the EBITDA is overshadowing that there's a heck of a lot of solid waste upside in that EBITDA, and there's a negative swing in recycling.

Ronald Mittelstaedt: Yes. That -- I mean, first off, your first assumptions, Michael, on the approximate breakdown were about right. I mean, again, I'm going to round for you. If you look at 2017, recycling represented about 3.5% of reported revenues, and coming into this year, knowing what we knew in February, we thought it would represent -- we thought it would be down about 1%, about \$40 million to \$50 million in revenue, at about a 75% to 80% decremental, and that was what was in our guidance. It has now moved to it's only about 2% or less in revenue, so it dropped another 35% from what we thought in February. So it's now on the first three quarters of this year, it will be on a run rate of being down about \$60 million in revenue and by as much as up to \$50 million in EBITDA in that. So -- and then of course that amount drops down in the fourth quarter because commodities started to abate in the fourth -- or started dropping in the fourth quarter of last year. So yes, I mean, your numbers are pretty accurate, and that's why the guide-up on EBITDA, there was so much to overcome from relative to February that recycling dropped down again.

Michael Hoffman: And how do I think about that sort of \$100-million in incremental rev on solid waste coming in in 30-something percent kind of margin?

Ronald Mittelstaedt: Well, you've got to look at the split, Michael, that the -- I think it's fair to think of the organic piece of coming in at north of our average margin because it's price-led, but then the acquisition contribution could come in at below our corporate margin, probably more in that mid- to high-20% level between the blend of new markets and tuck-ins.

Mary Anne Whitney: And that's about two thirds of the incremental revenue, is the \$65 million in acquisition contribution.

Michael Hoffman: Okay, \$65 million in deals, \$35 million organic. Okay, so some housekeeping, just so I understand everything correctly. In the new guide, in the 4% to 4.5% on price, how much are you assuming for help from fuel in that?

Worthing Jackman: Well, the surcharge component is a combination of fuel as well as recycling fees in some markets as well, so it's a combination, and surcharges collectively were, what, 30 basis points in Q2?

Mary Anne Whitney: Thirty, and it'll tick up a little at -- since fuel's been up, it'll tick up a little bit more than that.

Ronald Mittelstaedt: Yes, so they were at 30 basis points in -- incrementally in the second quarter, Michael, and we would expect that to be, I mean, around 40 to 50 basis points in the Q3/Q4 time frame.

Michael Hoffman: Okay, so the pure price part's 3.5% on the collection disposal business, 3.5% to 4%, and then fuel and other is another 0.5%, roughly?

Ronald Mittelstaedt: That's a fair estimate.

Mary Anne Whitney: (Inaudible) that.

Michael Hoffman: Okay. And then in your guide, the month of lost -- missed special waste because of weather, does -- are you picking it up, or are you not assuming you pick it up in the guide, so that's upside?

Ronald Mittelstaedt: Yes, well, we're assuming it's obviously there in the third quarter because we are seeing that as July is all virtually -- well, three quarters done, and we are seeing that. Now, we are not assuming that the incremental whatever was delayed occurs. If that does, that is upside. I mean, there's always a balance when these projects get delayed. There's some you get and some that just doesn't occur.

Worthing Jackman: Or it gets pushed to (inaudible) quarter.

Ronald Mittelstaedt: First half.

Michael Hoffman: Okay, but there -- but it's work that theoretically would happen eventually, it's just so if it happens in the context of '18, that's upside to the guidance, is the way to interpret it?

Ronald Mittelstaedt: That's a correct statement.

Michael Hoffman: Okay. On price, are you seeing better retention of a price at a certain level, or are you absolutely raising the level, which is helping drive this? Or is it a combination of both?

Ronald Mittelstaedt: It's a combination of both.

Michael Hoffman: And is the retention issue being helped by just how good garbage is? There's so much volume? Like, I did a recent tour of the Northeast and was stopping and seeing transfer stations, and the C&D ones were overflowing. They were -- no way they were going to clear all that volume in a day. And the MSW ones were struggling. That's how much volume there was.

Ronald Mittelstaedt: Yes. I mean, again, I think to my comments earlier, Michael, this economic -- the economic strength that is underlying is benefitting everybody, and everybody's system's

full. So whether you're public or private, you don't have a lot of excess capital laying around in terms of trucks and boxes to go put to work. I mean, you can get it, and in some cases you can't get it because trucks are pushed out so far right now from a lead time standpoint. So you've got a very full system. And everybody is facing the same cost pressures and labor supply pressures. And the privates who tend to not be as price-focused historically, they've typically built their model with more commodity risk in it, and so they are really cost-pressured right now. So they, too, have to push. So you've sort of got a secular -- a cyclical issue, and you've got some uniquenesses around our sector that are causing that to even need price more.

Michael Hoffman: Okay. And then shifting gears, around this labor issue, do you think there's any likelihood of successively, either at a state or a federal level, getting relief on hours of service or the e-log limits that are putting incremental pressure around the model?

Ronald Mittelstaedt: I don't know about the likelihood of getting relief on that. As you know, I think some of the larger players in our sector are pursuing that very heavily right now, have made a very good argument as to our drivers not being over-the-road drivers, being routed drivers that come home each night, that the logs and these rules were really more intended for unsupervised over-the-road drivers who are self-policing, if you will, over the course of the week and are not getting home each night.

So the arguments are very good. And so I would hope so, but we're not banking any reliance on that. It would certainly be beneficial to the sector, and also certainly as a participant in that sector, we would benefit as well. Because whether it is the singular day or the cumulative total hour restriction, there are many days, especially during the very heavy summer months, both heavy from a volume and heavy from a vacation standpoint, where that is a challenge, where you would typically run routes between 52 and 56 weeks. When you start getting to 10% to 15% of your people on vacation, just mathematically, you push to 60- to 70-hour weeks in some cases, or 60- to 65-hour weeks, and that's where this becomes a struggle that I think we and other participants are facing, particularly in light of such a tight labor market right now.

Michael Hoffman: Okay. Last two from me: Total dollar value of offer letters out to sellers? You talked about [4.25] in the first . . .

Ronald Mittelstaedt: (Inaudible) provide that, as you know, but nice try. Twenty years, we still haven't provided that. But what we will tell you is that the amount of revenue that dollars are -- of offers are out on is north of what we've closed to date.

Michael Hoffman: Okay, perfect. And then last one, New York City has just done two things around their waste business, the transfer station ruling that's sort of that equilibrium principle, and then this issue of franchising. How does that change your view about staying in the five boroughs?

Ronald Mittelstaedt: Yes. I mean, no change. I mean, this is sort of a -- and number one, both of those were known and have been known for the better part of a year and a half now. As you know, it affected our decision to stay in New York City. We believe that in a city like New York City and the way waste service works in New York City, how complex that city is, and large,

and the difficulty with traffic and service, et cetera, that the franchise system or some model thereof does make a lot of sense relative to the existing system today for a host of reasons. And we believe that those with the best asset positioning based on other cities of the size that have looked at this, like Los Angeles, tend to have a very good opportunity if the city goes to franchising.

So whether they do or not, we don't know. We're neutral. We plan to be there either way. But if they do go to it, we believe we certainly have a strong asset positioning to be very competitive however they go at it. But it certainly does make sense, and I -- we understand why they would look to do so.

Operator: And our next question comes from the line of Noah Kaye of Oppenheimer. Please proceed.

Noah Kaye: Hey, thanks for squeezing me in. Thanks for offering the early thoughts on 2019. You talked a lot about lapping the recycling headwinds here, but just wanted to be clear that that 50 to 75 bps, that assumes kind of flattish recycling price environment. I guess a follow-up question on that is, if we get another leg down here off of a potential ban, and interested in your thoughts on that, how significant is that for you? Are we still going to see kind of these 90%-type decrementsals, or at a certain point are the decrementsals going to get better just because you're not going to be spending as much on trying to meet practically infeasible contamination standards?

Ronald Mittelstaedt: Yes, okay, good questions. Now, first off, that -- the -- we're not guiding, but just giving early thoughts on '19, as you said. It does assume that we stay in sort of a flat recycling environment from where we are right now, so that was number one.

Number two, if there is another leg down, will we experience that leg down? Yes, like everyone else, we will. This is just price for a commodity. Of course, if it goes up, we would experience that as well. We're not really expecting another leg down because I don't believe anyone is expecting China to come back anytime soon. We are making operating, marketing, structural decisions as a company and as a sector as if they're not, so that is an upside if they were to, but no one is expecting that, so I don't really believe that that on its own leads to another significant leg down.

And as far as the decrementsals, I would expect those to, as we go forward, to begin decreasing as a percentage. And the reason I say that is, we and others in the sector are rapidly working to sort of change the economics one customer at a time as we have the opportunity to where we are being paid a processing fee for handling someone's commodities; of course, a collection fee for collecting them; and we're transferring more of the commodity risk over time to the customer. So as the sector and as we as a company do that, the decremental, why it comes, it comes more on the customer than it does us, so it should continue to be less as commodities drop more in the future. I don't mean necessarily over the next 90 days, but as we get into '19 and beyond.

Noah Kaye: Yes, that makes a ton of sense. And then just implied by your comments, just so I'm clear, are you exporting a significant amount of your recycling? I mean, what percentage of recycling revenue now is actually going to China?

Ronald Mittelstaedt: Zero now, or very, very nominal. As you're aware, there's just not any loads really going into there. So I say zero tongue in cheek; it might be a couple -- under 5%. And we are exporting approximately another 25% of our commodities to various countries, up to and including Europe most recently for the first time ever in the second quarter. And then of the balance, again, about 70% to 75% being domestic now. Which is completely (inaudible) from 12 months ago.

Noah Kaye: Yes. And just on your free cash flow guidance and the use of CapEx, I mean, you would have been at \$890 million had you not made the investment decision to spend that \$30 million on the E&P. Can you just remind us how much we should think about that as sort of a revenue run rate and how much it might contribute to the 2019 early thoughts in terms of total growth? You're only going to get part of that, obviously, next year, but just so we have it right in our models for '19's impact.

Ronald Mittelstaedt: Yes. Well, what we were saying is that that CapEx was dedicated to those E&P facilities. We said that once fully running, they would generate approximately \$10 million of EBITDA on approximately \$20 million to \$25 million of revenue. You're not going to get all of that in the second half of next year, but certainly as you come out of the end of the third, beginning of the fourth quarter, it's reasonable to expect that.

So if you picked a number -- I'm using this -- of \$5 million to \$10 million of EBITDA contribution in reported 2019, and let's use \$15 million to \$20 million of reported revenue, those are probably fair numbers. So that gives you about, on a revenue basis, about 30 to 40 basis points of reported growth.

Noah Kaye: Perfect. Thanks so much.

Operator: And our next question comes from the line of Chris Murray of AltaCorp Cap. Please proceed.

Chris Murray: Yes, thanks, guys. Good morning. Just a couple quick questions, just -- and one clarification. The first one, and I'm not sure who wants to take this, but when I think about leverage levels, as you guys continue to acquire, part of the discussion has always been that your leverage ratios are based on, I think, total debt, not net debt. But as that cash comes -- gets deployed for M&A, should we be expecting your leverage levels to continue to fall down, especially if you, as you alluded to, your pace of acquisitions looks in the second half somewhat like what the first half looks like?

Ronald Mittelstaedt: No. I mean, Chris, so remember the following: We came into the year with -- I'm going to round -- \$400 million to \$500 million of cash balances. First off, you are correct that we do not get a net debt credit. It is a total debt credit that we have in a leverage calculation. So cash sitting on the balance sheet earning a nominal interest rate really isn't helping you. So remember, as we put that first \$500,000 to \$600 million of cash -- \$500 million to \$600 million of cash to work, we're getting EBITDA, which is dropping the leverage because of the EBITDA you acquire. When we get to where we're now utilizing our credit facility, then your leverage

will start to climb. Knowing the transactions that we've had out in front of us and do have out in front of us over the balance of '18 and as we look into '19, I think you will see leverage levels go up, which implies that we will be moving into our credit facility because we will have outspent the cash that we either have on the balance sheet or that we generate in that period of time. So you'll see leverage start to move back up.

Chris Murray: All right. And you're still comfortable around that 3x, kind of normalized leverage rate? That's a fair thought?

Ronald Mittelstaedt: Yes. I mean, well, I mean, we're comfortable at above that. We've always said that, look, sort of somewhere in that 2.5x to 2.75x is sort of optimal from a pricing grid standpoint on our bank debt, but we're comfortable living up to that or north of that.

Chris Murray: Okay, great. And then just one quick question on 2019 on CapEx, just so I'm clear on this. You talked about free cash flow increasing kind of double digits on a per-share basis, but just -- you've got \$30 million, call it growth capital, allocated for the E&P business right now. Is there any rollover, like additional growth capital, we should be thinking about? And is it still fair to think kind of that 10% to 11% of revenue as sort of your run rate for CapEx next year?

Ronald Mittelstaedt: Yes. I mean, I think right now we would tell you that 10% to 10.5% on a run-rate basis is a fair number to use for our CapEx for next year. I mean, if there are incremental growth projects that come at the end of next year like these are, we would of course talk about them and adjust the CapEx guidance midyear through, but as we sit here right now, we are not aware of incremental projects that we would spend money on in '19. Again, crude sits at \$100 a barrel and we see the Bakken open up, that could change things. But again, that's not baked into guidance. That's not what we're expecting. So I think using 10% to 10.5% is a very fair number, Chris.

Mary Anne Whitney: Yes, just to add to that, we (inaudible) our maintenance CapEx is staying in that 9.5% range, and as Ron said earlier, assume volumes are positive next year, and therefore you get up to that 10%, 10.5%.

Chris Murray: All right. Thanks, guys.

Operator: Our next question comes from the line of Derek Spronck of RBC. Please proceed.

Derek Spronck: Okay, great, thanks. I know it's been a long call, so I'll try to be quick. Just to clarify on the 3% to 4% acquisition revenue for 2019, it seems like you need to close about \$75 million in acquisition revenue in the back half of '18 to kind of get you there, and you currently have over \$175 million currently out there that you're -- potentially could close. Is that -- does that -- is that correct?

Ronald Mittelstaedt: I think both numbers are correct.

Derek Spronck: Okay, so potentially that 3% to 4% could be higher depending on how the back half of the year closes out. Has there been any change in terms of -- it seemed like the -- more

opportunities were kind of in the tuck-in following the acquisitions you made into new markets. Are you seeing larger acquisition opportunities of size flow through, and maybe a little bit more so than you had originally expected in the first part of the year?

Ronald Mittelstaedt: Yes. I mean, I think, as we've tried to outline on the call today, Derek, I mean, we've closed three new market entries between \$40 million and \$60 million each, two of those three of which were fully integrated markets for us.

Again, let's go back, make sure everybody understands. In our model, a large transaction is \$20 million, \$30 million, \$40 million. So when we start getting to \$40 million to \$60 million, I mean, that's a very large standalone transaction in our model. Very large, okay? And so to have done three already this year, that is more than we expected going into this year and yet there remains similar-type transactions in that pipeline on a go-forward basis, which is what gives us some confidence in this. So yes, I think there is more activity, there is more deals, again, of size, and again, of size being \$20 million to \$60 million in our model.

And for all the reasons we've talked about on prior calls, you've got -- you have first tax rate change in 30-plus years and the belief that that could be a window of opportunity. We could have -- we have an election cycle in a year and a half and who knows what happens there, but that could change things in two years and we could be in a different environment. You've got moving interest rates. That helps the seller on the redeployment of proceeds in fixed-income-type products earn more of the standard of living they were used to. So that's helpful. You've got a very full economy; they're now well above where they were coming out of the Great Recession of '09 to '12. And you've got a capital deployment cycle coming for many, so they've got to make a decision: Do I bite that next capital bullet and does that take me two to three years to get back in value what I put into it?

So you've got all these things that are affecting -- so I think if you're looking at selling your company potentially over the next two, three, four years, you're probably truncating into this window of now till the end of '19. I mean, that was what we believed would occur, and that's what we're seeing happen.

Derek Spronck: Okay, that's great color. Thanks, Ron. And just the last one from myself: Generally we've been thinking about your cash tax rate around, I believe, 80% of your effective tax rate, or 80% to 90%. Does the asset enhance expensing, does that change that at all? Or how should we think about your cash tax rate in 2018 and into 2019?

Mary Anne Whitney: Yes. We think it stays in its range. There is a benefit from being able to expense the equipment we buy in these acquisitions, and you'd see that in our guided CFFO being up from our original guidance. So there's some benefit, but you have to look at what percentage of the purchase price is actually allocated to equipment and -- to see how much of an impact that is.

Derek Spronck: Okay. And a little bit more elevated M&A than anticipated might be a net benefit to the cash tax (inaudible)?

Mary Anne Whitney: I think some incremental benefit, yes. That's the right way to think of that.

Ronald Mittelstaedt: That's correct.

Worthing Jackman: That's why you're seeing us raise the free cash flow guidance by the \$30-million increase in CapEx.

Derek Spronck: Yes, okay. Thanks very much.

Operator: And our next question comes from the line of Michael Feniger of Bank of America. Please proceed.

Michael Feniger: Hey, guys. Just on the M&A discussion, does the recycling pressure that you're seeing an issue? I mean, especially if China goes through with the ban. I mean, is that also starting to have an impact on M&A conversations, bringing more people to the table, changing the valuation discussion? I'm just curious if that's starting to have an impact.

Ronald Mittelstaedt: It is, Michael, and this is an arena you've got to be very careful in, because there's two types of -- well, there's three types of companies. There's those that it's brought to the table because they're at the knees and they're -- become virtually worthless because their entire EBITDA was built on commodities. We're not too interested in any of those unless we can materially change the model, but we're seeing a lot of those companies that, again, have built their whole business on commodity values and taken a lot of municipal contracts from a lot of public companies based on undercutting them at the table and taking it on commodities. And now those companies are really hemorrhaging.

There are companies who have -- I'm using this -- 5% to 10% of their EBITDA hinged in commodities. They're well aware of it and they are attacking it in the same manner that we and others are, through price and model changes. And as long as we can get comfort with what they're doing in that model, we are going to give them the full value for that change in the model. We're very interested in those companies and are having many discussions with those.

And then of course there's companies that just have no commodity exposure because of the niche business that they're in. And so again, we're -- so I would put the companies into three buckets. And two of those three buckets we're very interested in, and one we've got to be very, very careful with.

Michael Feniger: Great. And just my last question, I know there was a lot of color you guys provided on 2019 with pricing. You guys also discussed costs and what you're seeing there. I guess just if I could ask it a different way, the price-cost dynamic: Is it fair to say that it's incrementally improving in 2019, or is it just kind of staying in lock-step as we move to next year?

Ronald Mittelstaedt: Yes, I think we're saying it's really -- as we see things right now, Michael, we're saying it's staying in lock-step. Again, we don't see the cost pressures abating. If anything, if the economy continues to stay at the strength it is and there's not immigration reform, meaning

improved immigration, you're going to continue to see the labor markets tighten. So if anything, cost pressures should maybe go up some. So that's why again, we think you have to have next year approaching more close to that 4%-type price to have strong margin expansion. So we're just really saying it stays in lock-step as we see it right now.

Michael Feniger: Perfect. Thanks, guys.

Operator: And we have no further questions at this time.

Ronald 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. Both Worthing and Mary Anne are available today to answer any direct questions that we did not cover that we are allowed to answer under Regulation FD, Regulation G and applicable securities laws in Canada.

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

Operator: Ladies and gentlemen, that concludes the conference call for today. We thank you for your participation and ask that you please disconnect your lines.