# Waste Connections, Inc. [WCN]
# Q2 2020 Earnings Call
# Friday, August 7, 2020, 8:30 AM Eastern Time

*Company Participants:*
Worthing Jackman; President and Chief Executive Officer
Mary Ann Whitney; Senior Vice President and Chief Financial Officer

*Analysts:*
Kevin Chiang; CIBC Capital Markets
Hamzah Mazari; Jefferies, Inc.
Tyler Brown; Raymond James
Brian Maguire; Goldman Sachs
Kyle White; Deutsche Bank
Michael Hoffman; Stifel Nicolaus
Sean Eastman; Keybanc Capital Markets
Noah Kaye; Oppenheimer
Stephanie Yee; J.P. Morgan
Walter Spracklin; RBC Capital Markets

**Presentation**

Operator: Greetings, and welcome to the Waste Connections second quarter 2020 earnings conference call. During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. (Operator Instructions) As a reminder, this conference is being recorded Friday, August 7, 2020.

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

Worthing Jackman: Thank you, operator, and good morning. I'd like to welcome everyone to this conference call to discuss our second quarter results, the current operating environment, and our outlook for Q3 and the full year. I'm joined this morning by Mary Anne Whitney, our CFO.

As noted in our earnings release, strong operational execution and continued recovery in solid waste volumes drove better than expected results in the second quarter. Adjusted EBITDA for solid waste collection, transfer and disposal expanded year-over-year in spite of significant COVID-19 related costs incurred in the quarter.

In fact, the reported year-over-year margin decline in the period was entirely attributable to reduced E&P waste activity, as the underlying solid waste margin expansion more than offset over $20 million in incremental COVID-related costs primarily related to front-line supplemental wages and the margin dilutive impact of acquisitions in the quarter.

At the onset, we believe that our preparedness and execution during this pandemic will leave us better positioned when we emerge from it. Although only in the early stages of a recovery, we already are pleased to provide our outlook for the full year above the preliminary expectations we had communicated in May.

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

Mary Anne Whitney: Thank you, Worthing, and good morning. The discussion during today's call includes forward-looking statements made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, including forward-looking information within the meaning of applicable Canadian securities laws. Actual results could differ materially from those made in such forward-looking statements due to various risks and uncertainties.

Factors that could cause actual results to differ are discussed both in the cautionary statement included in our August 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: Great. Thank you, Mary Anne. We're extremely pleased with our results in the second quarter, which exceeded the preliminary expectations we provided in May and provide the basis for our increased revenue and margin outlook for the full year. These results reflect the resilience of our underlying solid waste business, as well as the dedication and commitment of our 18,000 employees who have maintained the focus on the health, safety and welfare of their colleagues, service continuity, expense management and community support, all while enduring the many challenges and hardships resulting from the pandemic.

Looking at results, the revenue impact from COVID-19 continues to be driven mostly by changes in demand for collection and disposal services resulting from closure requirements or other operating limitations in the markets we service and the resulting levels of activity as those economies reopen. As such, the magnitude of reductions and the shape and pace of recovery of lost revenue varies by geography, market size and customer mix.

By the end of Q2, about 53% of solid waste commercial customers and 42% of associated revenue in competitive markets we track that had suspended or reduced service had reached out for a resumption in service or increase in frequency, up from 12% and 9%, respectively, in early May. Volumes in all of our solid waste regions showed monthly improvement during Q2, exceeding our preliminary expectations and resulting in solid waste revenue down 5.3% year-over-year on a same-store basis. Excluding the most impacted markets in the Northeast and Canada, solid waste revenues in the quarter were down about 1.3% on a year-over-year basis.

Our results in the period also reflect the company-wide focus on cost control as volumes declined and on quality of revenue as volumes return. As noted earlier, underlying margin expansion in solid waste

enabled us to overcome $20 million in incremental COVID-related costs in Q2, primarily related to frontline supplemental wages and the margin dilutive impact of acquisitions completed since the year ago period. Cash collections also improved, as we have driven a 10% reduction in DSOs year-to-date along with better than expected bad debt exposure and expense.

Looking beyond the financials, our top priority remains the health and welfare of our employees, especially those experiencing unexpected hardships, and we continue to invest in our communities and our business. Frontline attendance remains near record levels. Turnover and safety performance continue to improve.

Philanthropic efforts have been expanded in our communities to further support organizations with a focus on women and children at risk and racial inequities at a local or national level. Our inaugural Waste Connections scholarships were awarded to support employee children in their pursuit of vocational, technical and university education goals. A portion of COVID-related CapEx cuts earlier this year have been restored. And we're making additional technology investments to improve customer connectivity, introduce machine vision and AI into onboard fleet camera systems, and beta test our first electric garbage trucks later this year.

We're also on pace for another solid year of acquisition activity in spite of COVID-related logistical and diligence constraints. Year-to-date, we have closed acquisitions totaling approximately $60 million in annualized revenue, including an exclusive G Certificate collection and transfer company in Washington and an integrated collection and disposal company with operations in Iowa and Nebraska.

In addition, we have completed tuck-ins in Idaho, Missouri, New York, Oklahoma, South Dakota and Texas, and have signed an agreement to acquire a collection and recycling company with about $40 million in annualized revenue, which we expect to close in mid-Q4.

Looking at recent trends, solid waste volumes improved sequentially by about 300 basis points in July as compared to Q2. The 53% of solid waste commercial customers and 42% of associated revenue in competitive markets we track that have suspended or reduced service and subsequently reached out for resumption in service or increase in frequency by the end of Q2, have since increased to about 60% and 50%, respectively.

Looking at year-over-year results in July, revenue on a reported basis was down about 1.9%, and adjusted EBITDA margin was down an estimated 70 basis points. Reduction in E&P waste activity accounted for the entire year-over-year decline in revenue and exceeded the estimated margin decline for the month. Price plus volume for solid waste collection, transfer and disposal revenue declined 2.4% in July and was up 50 basis points, excluding Canada and the Northeast, our most impacted markets.

We acknowledge that the impacts from COVID-19 persist and recognize that reopenings may be complicated by continued outbreaks and the imposition of additional closure requirements. As such, the trajectory of any recovery is inherently unpredictable, and the ultimate impact to our business will not be known until we emerge from this period.

That said, we are encouraged by the demonstrated projectability of our business with insights from daily tracking, Q2 trends, and our July results. On that basis, and assuming no significant change in the underlying economic trends, we have provided our 2020 outlook as follows -- revenue of $5.325 billion, down about 1% year-over-year; adjusted EBITDA of $1.61 billion, or about 30.2% of revenue, and down 90 basis points from 2019; adjusted free cash flow between $805 million and $835 million, or about 50% to 52% of adjusted EBITDA.

The expected decline in E&P waste activity for the year exceeds the year-over-year change in consolidated revenue and accounts for all of the year-over-year change in adjusted EBITDA margin in our outlook. Moreover, in addition to the over $20 million in incremental COVID-related costs year-to-date, we have included about 50 basis points of potential additional COVID-related expenses in the second half of the year.

Thus, our 2020 outlook includes underlying solid waste margin expansion sufficient to more than offset these incremental COVID-19-related costs, reflecting the strength and resilience of our growth strategy and our differentiated approach to market selection.

We've also layered back in a portion of CapEx cuts as our business has recovered, increasing our expected CapEx to $550 million for the full year. With year-to-date adjusted free cash flow of $495 million, we are well on our way to achieving our full year outlook, and we remain opportunistic if presented attractive offers to purchase additional fleet, equipment or landfill acreage for future development.

Finally, we've already returned over $200 million to shareholders through share repurchases and dividends year-to-date. Yesterday, we announced the annual renewal of our normal course issuer bid, authorizing the repurchase of up to 5% of our outstanding shares, which we will continue to approach opportunistically. We also anticipate announcing another double-digit percentage increase in our cash dividend in October.

Looking back to the beginnings of the pandemic and concerns about the potential for double-digit volume losses, we couldn't have anticipated that we'd be in a position to provide our 2020 outlook with solid waste price plus volume growth of only a negative 200 basis points or better. The strength of our pricing and the resilience of solid waste volumes, particularly in the majority of our markets, has driven outperformance in the first half of the year, funded significant discretionary COVID-related costs, and provided a higher jumping off point for the second half of 2020.

With that, I'll pass the call to Mary Anne to review the financial highlights of the second quarter and to provide a detailed outlook for Q3. I'll then wrap up before heading into Q&A.

Mary Anne Whitney: Thank you, Worthing. In the second quarter, revenue was $1.306 billion, or about $18 million above the preliminary expectations we provided in May, on better-than-expected recovery of solid waste volumes during the period. Revenue on a reported basis was down $64 million, or 4.7% year-over-year, with almost half the decline due to lower E&P waste activity.

Acquisitions completed since the year ago period contributed about $45 million of revenue in the quarter, or about $40.7 million net of divestitures. Solid waste price plus volume growth on a same-store basis in Q2 was negative 5.3%, ranging from about flat in our mostly exclusive West Coast markets and negative 1% to 2% in our Central and Southern regions to negative 11% to 13% in our most impacted Eastern and Canada regions.

Pricing growth overall in Q2 was 4.3%, including core price of 4.5%, in line with our expectations, offset somewhat by a 20-basis-point reduction in surcharges. Pricing ranged from 3.1% in our more exclusive markets in the Western region, to an average of over 4.5% in our more competitive regions.

Solid waste volume growth in Q2 was down 9.6%, with the most-impacted regions in the Northeast U.S. and Canada down 16% to 17%, while volumes in our Southern, Central and Western regions declined between about 4% and 7%. As we have noted, our volumes largely reflected the pace and shape of

shutdown and reopening activity across our markets, which varies and depends on geography, size and customer mix in each market.

Declines in activity by line of business in Q2 reflects decreases in all regions related to shutdown orders, including some markets that limited or prohibited construction activity.

Looking at year-over-year results in the period on a same-store basis, commercial collection revenue decreased approximately 7.6%, with the most-impacted markets in the Northeastern Canada accounting for about half of that year-over-year decline. Roll-off revenue decreased approximately 13% on pulls down about 12% year-over-year and revenue per pull down about 1% on lower weights.

Solid waste landfill average price per ton increased 5% year-over-year, although revenue was down about 5% on a same-store basis, as total tons declined about 10% year-over-year. MSW tons were down about 8%; special waste down 12%, and C&D down 18%.

Looking at E&P waste activity, we reported $35.5 million of E&P waste revenue in the second quarter, down about 45% year-over-year. This decline in activity was associated with the drop in rig count on reduced expectations for Q2 demand, which also resulted in our recognition of a $417 million noncash impairment charge for long-lived E&P waste assets, as we had foreshadowed.

Looking at Q2 revenues from recycled commodities, landfill gas, renewable energy credits, or RINs, excluding acquisitions, in the aggregate, they were down about 9% year-over-year due to lower landfill gas sales and recycled commodity revenues, resulting in a nominal marginal headwind of about 10 basis points, well below the punitive impact of prior quarters. At current rates for recycled commodities and RINs, their combined impact could be a small tailwind for the second half of 2020, with lower recycled commodity values more than offset by higher year-over-year RINs.

Adjusted EBITDA for Q2, as reconciled in our earnings release, was $394.3 million, about $21 million above our preliminary expectations due to higher revenue and stronger flow through from returning disposal and commercial collection volumes. Adjusted EBITDA as a percentage of revenue was 30.2% in Q2, down 90 basis points year-over-year, but about 110 basis points better than our preliminary expectations, with the entire year-over-year margin decline due to lower E&P waste activity.

In addition, there was a 20-basis-point drag from the margin dilutive impact of acquisitions completed since the year ago period and another 10-basis-point drag from recycling and RINs, as noted earlier.

Solid waste collection, transfer and disposal margins were up 30 basis points year-over-year in the quarter, as notable reductions in third-party brokerage and disposal costs, medical expense, fuel and discretionary items more than offset increased incentive, deferred compensation and risk accruals and over $20 million in COVID-related expenses, which included about $5.5 million in higher bad debt expense.

Fuel expense in Q2 was about 3.4% of revenue, down about 50 basis points year-over-year on fewer gallons, lower rates and a CNG credit of about $900,000. We averaged approximately $2.30 per gallon for diesel in the quarter, down about 14% or $0.37 from the year ago period.

Our effective tax rate for the second quarter included, as expected, a $27.4 million tax impact from 2019 due to the proposed IRS regulations from late 2018, which were finalized in April 2020 and impacted 2019. As such, our effective rate in the second quarter was 41.1%. Adjusting for this discrete item, the underlying tax rate in Q2 was approximately 21.5%, in line with our expectations for the quarter and the full year.

GAAP net loss per diluted share was $0.86, and adjusted net income per diluted share on an adjusted basis was $0.60 in the second quarter. Adjusted net income in Q2 primarily excludes the impact of the noncash impairment charge to the E&P segment and the discrete tax item, as well as intangibles amortization and other acquisition-related items.

Adjusted free cash flow in the first half of the year was $494.6 million, or 18.6% of revenue and 61.6% of adjusted EBITDA. Capital expenditures of $268.7 million during the six-month period were up $14.9 million year-over-year. Debt outstanding at quarter end was about $4.7 billion, down from approximately $5.2 billion in Q1 due to the pay down of $500 million on our credit facility. We ended Q2 with cash balances of $790 million and over $2 billion of available liquidity.

Our leverage ratio, as defined in our credit agreement, was about 2.7x debt-to-EBITDA. And on a net debt basis, our leverage remains at around 2.3x debt-to-EBITDA at the end of Q2. Our current weighted average cost of debt is approximately 3.4%, with essentially all of our debt at fixed rates.

I will now review our outlook for the third quarter 2020. Before I do, we'd like to remind everyone once again that actual results may vary significantly based on risks and uncertainties outlined in our safe harbor statement and filings we've made with the SEC and the securities commissions or similar regulatory authorities in Canada. We encourage investors to review these factors carefully.

Our outlook assumes no significant change in underlying economic trends. It also excludes any impact from additional acquisitions that may close during the remainder of the year and expensed new transaction-related items during the period.

Revenue in Q3 is estimated to be approximately $1.37 billion. We expect price plus volume growth for solid waste to range between negative 2.5% and negative 3.5%, with price in the range of 4% to 4.5% and volumes in the range of negative 7% to negative 7.5%. In addition, we expect revenue from E&P waste activity to account for less than 2% of reported revenue. Adjusted EBITDA in Q3 is estimated to be approximately $420 million, or about 30.7% of revenue.

Depreciation and amortization expense for the third quarter is estimated to be about 13.8% of revenue. Of that amount, amortization of intangibles in the quarter is estimated to be about $32.6 million, or $0.09 per diluted share net of taxes. Interest expense net of interest income in Q3 is estimated to be approximately $40 million. And our effective tax rate in Q3 is estimated to be about 21.5%.

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

Worthing Jackman: Thank you, Mary Anne. Again, our pandemic preparedness and playbook, the commitment and dedication of our employees, strong operational execution and recovering solid waste volumes drove better-than-expected results in the second quarter and positioned us to increase our outlook for the full year over the preliminary expectations we had communicated in May.

Our 18,000 employees have stepped up throughout this pandemic providing essential service, as evidenced by the many customer expressions of appreciation extended to our front line for providing a bit of normalcy during this chaotic and uncertain time. We are a closer knit and better positioned company as we emerge from this pandemic.

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 & Answers**

Operator: Thank you. (Operator Instructions) Kevin Chiang, CIBC.

Kevin Chiang: Congrats on a good Q2 here. Maybe if I could just turn to pricing. If I look at the split between Canada and the U.S., this looks to be the lowest spread in the second quarter here, about 60 basis points positive for Canada. I'm just wondering as we look out here. Should we think of these two numbers converging over time, or do you still see latent opportunities here to kind of capture more pricing in Canada versus what you see in the United States?

Worthing Jackman: Kevin, as you know, when we completed the Progressive transaction, we talked about the need to go in and reprice the book. Obviously, we're four years or more into the closing of the Progressive transaction. So consistent with what we communicated throughout last year and earlier this year, we do see those converging over time because we've worked through the book.

Mary Anne Whitney: I guess what I would just add to that, Kevin, this is consistent with the expectations that we had coming into the year. Really, our pricing is playing out as expected. As you may recall, we had talked about the step-down from Q1 to Q4, and we even noted at the time it was most pronounced in Canada because you had that carryover of those outsized PIs we did in prior periods.

Kevin Chiang: That's helpful. And maybe just my second question here. If my math is correct, I think you're going to average a sub-$10 million revenue run rate per month in E&T. I'm just wondering, one, what you can do here to maybe take out more costs, to maybe reduce the decremental margins, if you think rig counts stay low for longer. And then, secondly, do you still see this as a standalone reporting segment, or does it make sense to eventually roll this into one of your regional segments?

Worthing Jackman: Good questions. So first off, I'm proud of the fact that we remained profitable through the rapid decline. As we talked all last year, our business held up a lot better than any other company in that space, as did our margins, despite tremendous declines in rig count. Obviously, you saw the acceleration from Q1 to Q2 in that decline. Our margins were still -- they're looking more like a collection company now than a disposal company, right, and landfill company. And that's a testament to, again, the asset positioning we still have and the tight execution that our folks have.

And so from an EBITDA standpoint, EBITDA minus CapEx standpoint, it's still running positive. From a segment standpoint, we have chosen to consolidate that segment into our Southern region. Those two regions sit together in the same office, and so it made sense from a kind of overhead basis and a command-and-control basis to consolidate those two.

As you may know, the person that oversees the Southern region used to also oversee R360, and the regional vice president that oversaw R360 is a former Solid Waste, and so that person is now assistant RVP within that region. And so we've kept the command and control but consolidated where it made sense.

Operator: Hamzah Mazari, Jefferies.

Hamzah Mazari: My first question is just on free cash flow. It looks like you did almost $500 million the first half. The second half seems more conservative, but you are seeing sequential momentum in the business. So maybe if you could just talk about the puts and takes, maybe some of the costs coming back, maybe some conservatism you've baked into the guide, especially because some of your peers are reiterating a free cash flow guide which they had pre-COVID. I think your guide is a little lighter than what you were thinking pre-COVID. So just walk us through high-level thoughts on how you're thinking

about that.

Mary Anne Whitney: Sure. Well, happy to start with the puts and takes, as you said, Hamzah. And you're right, coming in with $500 million and over 60% conversion in the first half of the year, we are assuming a lower conversion rate in the second half of the year. I'd say there are a couple of things that we know about, to start with, that are higher takes in the back half of the year.

So for instance, cash taxes are heavily weighted to the back half of the year. There's still about $90 million in cash taxes to come, and our interest expense, which stepped up as we extended the tenor of our debt and fixed. We have the full impact of that in the back half of the year and only a partial impact in the first half of the year. So there are some discrete items which should cause that conversion to change.

But then I would say that, arguably, it depends on how you think about what flows this year and what you think longer-term about. And what I'm alluding to there would be, for instance, the deferral of payroll taxes, which I'd say everyone is benefiting from, and as in our numbers, it's about a $14 million benefit in the first half of the year, and the total for the year is about $40 million. And clearly, we could show all of that benefit this year and the number would be higher from our guidance.

Similarly, Worthing described in his remarks the DSO improvement, which also, if you look at about three days, works out to about $40 million as well. And again, we could fully take all of that benefit this year or we could think longer term, which, as you know, is more our style to think about setting ourselves up for smoothing that out over multiple years.

Worthing Jackman: Yes, I'd rather go into next year with an $80 million to $100 million cushion than let it all flow through this year and start defending why free cash flow is flat to down next year.

Hamzah Mazari: Right. Got it. That makes a lot of sense. And then just historically, the waste business has lagged going into a downturn, coming out of a downturn. This is very different. Clearly, with the pandemic it's adjusted a lot quicker, both on the upside and downside. I guess my question is what do you think derails the strong sequential momentum in July? Is it just that you see a wave of bankruptcies and customer churn goes up, or is it sort of something else that derails the momentum? Is it just the consumer just flattens out? Just help us think through -- you've had a strong, almost V-shape recovery. Where do we go from here?

Worthing Jackman: Sure. First, I'd say that as we think about our outlook for the year, our assumption really is that the recovery has plateaued. I think we'll be proven wrong on that, but we're not going to bake into our outlook for the balance of the year the continued recovery. Now, clearly there are some more impacted markets in Canada and the Northeast that have only recovered about 40% of the revenue, not 50%. As those economies continue to reopen, as school resumes and governments kind of start restaffing buildings, I suspect that those markets will get closer to 60% of recovered revenue that we've seen elsewhere throughout the system.

So there's likely some recovery that we still expect that could provide further upside to our Q3 guidance and balance of the year guidance. I mean, obviously our volume declines in July year-over-year (inaudible) handle on them. And as Mary Anne said, we're guiding 7% to 7.5% down for the full quarter, so you kind of see where some of the cushion is as things do recover.

But without a doubt, there's some of that business that has not recovered yet, where the lights aren't on, where no one is answering the phone. That likely won't come back, and so we have to expect that. It'll take some time. But clearly, the good news for the industry is a lot of it has come back. I think the

industry is punching through some pretty good numbers relative to what's happening in the macro. But without a doubt, some business that hasn't come back likely won't come back.

Hamzah Mazari: And then just lastly, I'll turn it over. Just on your M&A pipeline, are you just being more disciplined, or are you just seeing increased competition from others that are just doing more aggressive M&A, both in terms of larger transactions and then even some of the majors increasing their acquisition appetite and spend? Just is there any change in terms of bidding activity that's maybe more competitive, or is it just that you're just being disciplined and there's more M&A to come next year, as you had said?

Worthing Jackman: Look, as you know, beauty is always in the eyes of the beholder, right? I mean, what's attractive to one company may not fit for another. What one company is willing to pay may not fit what another company is willing to pay. I mean, so I can't speak for the transactions other folks are doing. I know our transactions. We remain focused on market selection and asset positioning and, most importantly, free cash flow. And as always, we remain highly skeptical of any financials generated by a banker, so that skepticism hasn't changed.

So look, we said that this will be a high period, these past four years, in M&A activity. You're seeing it happen. There could be additional rush to activity by the end of this year. Folks still want to get into this year certainly of tax law. So it remains to be seen how much more might get done during this calendar year or how much, if there's momentum in place, might naturally just flock into next year, because clearly there's concern out there of potential changes in tax law next year that could impact a lot of sellers.

Operator: Tyler Brown, Raymond James.

Tyler Brown: Worthing, so I know servant leadership is a big part of your culture. It seems like times like these may be when that model really shines, if it even comes at a cost. I know you called out the $20 million of COVID, but can you talk a little bit about what servant leadership means in times like these? And did other kind of employee costs creep in that we may not have seen or wasn't directly in that $20 million?
Worthing Jackman: Well, it's a good question, and we've always said that culture matters, and obviously we think that's been a key to our success. Look, how we think about culture combines with our decentralized operating model, which really empowers local folks. And you think about a time like this, when a lot of folks are remote and you're really counting on the decision-making at a local level, the accountability that leaders locally have to their frontline, it's driven our success in this pandemic. It's how we're quickly able to pivot and not lose momentum.

Look, I think every company is doing what they can for frontline employees. We've chosen to do it a little different, right? I mean, we've -- I think we're the only company that's done supplemental wages. We've chosen to pay our people not to work. We've chosen to pay our people if they have child care, day care issues. We're supporting them through employee relief. We're supporting them in their personal tragedies.

I mean, look, if you think about our workforce and with 30 million to 40 million people on some sort of government employment assistance right now, a lot of those are spouses of our employees, and so it's incumbent upon us to get more money in the frontline. We did it through supplemental wages in the first wave. We have other things in mind. As Mary Anne said, we're anticipating the likelihood during a second or a third wave, we'll do some other things for the frontline.

Look, our incentive comp accruals are higher this year. We have not cut back on that. We think that it's people. We've always said they work harder in a tough year to deliver results than when they blow away

budget. We're not going to penalize our folks just because of budget cut and targets got set right before a pandemic relative to a company that would've had a fiscal year starting in April that set different targets after the pandemic started.

I mean, so you've got to take care of your people. That's rooted in our culture, and we're seeing the benefit in, again, what we're doing for our customers. We're seeing the benefit in reduced turnover. We've seen the benefit in improved safety. It's just -- as I said before, we're a closer-knit company throughout the organization, and, again, I think the foundational aspects that Ron and others put in place here for our culture and servant leadership are paying huge dividends in this period of time. And again, we're just scratching the surface of the payback that we'll see as we come out of this pandemic.

Tyler Brown: Right. Yes. That's extremely helpful. Real quick, Mary Anne. So if we strip E&P away and we look at solid waste margins, basically what is the embedded -- I may have missed it, but what is the embedded Q3, Q4 solid waste margin guide? And then can you kind of go through the puts and takes on a year-over-year basis? It feels like maybe recycling and rent could be a tailwind, COVID M&A a headwind, and then some core expansion.

Mary Anne Whitney: Sure. So I'd say the biggest difference between the back half of the year and Q2 is that the drag from E&P in Q2 is about 90 basis points, and we're thinking in terms of more like a 130-basis-point drag in Q3, and similar would be expected in Q4. So what that implies is that underlying solid waste margin expansion of around 70 basis points in Q3, in spite of the fact that, as Worthing said, you've got about 50 basis points of COVID costs built in there. Acquisitions are about a 20-basis-point drag, and recycling and RINs are essentially flat. As I said in my remarks, there could be a little tailwind, so maybe a nominal tailwind boosting that.

Tyler Brown: Okay. Perfect. And just real quickly, one last one. Just for simplicity purposes, just based on the deals that you've done to date, how much revenue should we see from M&A in 2020, and then how much rolls into 2021, just from a modeling perspective?

Mary Anne Whitney: Sure. So in Q3 and Q4, you're right, about $42 million, $43 million, and that brings you to a total of about $185 million in 2020 from all of the deals. So the $170 million from last year net of some divestitures plus about $30 million from the deals we've gotten done this year, and then that says that $70 million would roll to next year.

Worthing Jackman: And anything that's yet to close will be additive to that.

Mary Anne Whitney: Correct.

Operator: Brian Maguire, Goldman Sachs.

Brian Maguire: Just a question on the third quarter sales outlook. It looks like -- and this may just be conservatism, but it looks like you're guiding for sales to be down 3% of the July comp, and July was down 2%. I just wondered if there was anything unique in the July comp that would have made that a little bit better than what you'd expect for the full quarter.

And just thinking about some of the different end markets you've got, things like schools, it looks like, at least here around Houston, they're going to be shut to start the school year. So in a month like July, you wouldn't have that necessarily in the comp, I wouldn't think, but as you get back into some seasonality later in the year, do you think that the year-over-year rates could have some unique headwinds from things like that?

Worthing Jackman: As you know, we try to give outlook that we can meet or exceed. I link back to what I said earlier, that -- I think your question is once again exposing the cushion we think about when it comes to revenue. We're guiding 7%, 7.5% negative for volumes for Q3, but July had a six-handle on it. And so you think about the -- if we're too conservative, 5%, that means there's $10 million to $15 million of potential revenue upside as we look at the quarter playing out, but obviously there's still two-thirds of the quarter to play out here relative to just closing July.

One thing I would say, though, is I even look at the pandemic and the projectability of the business, as we talked about before. We do a constant rolling forecast here. Our July revenue exceeded our expectations by about 0.5%. So when you think about how we dialed in the business to think we know what's going on, we're kind of narrowing the scope of expectations. And so could we beat if July trends continue? Absolutely. Degrees of magnitude, again, on numbers like $10 million or $15 million. People shouldn't go too much higher than that. But it's always better to keep something in our pocket, just like we keep something in our pocket on margins and something in our pocket on free cash flow.

Tyler Brown: Makes sense. And then just a little bit more of a bigger-picture question, just around pricing. I think over the last couple of years, it's been a positive backdrop. I think you guys and others in the industry have cited the need to recover a lot of cost inflation, also the need to offset the lower recycling prices. The question is just really sort of around what will support pricing going forward? It looks like everybody in the industry is getting a ton of cost benefits, way more than anybody thought kind of in this environment.

Recycling has (inaudible) maybe temporarily, but kind of poked its head back above water for a lot of folks. I know that the industry discipline will probably hold, so there will be pricing, but would you expect naturally, just in this more deflationary environment, we would see industry pricing start to maybe normalize towards the lower end of the range where you guys have historically talked about it being?

Mary Anne Whitney: Sure. I would say, Brian, that we continue to think about it and communicate it the way we historically have, which is as a spread to CPI. And so to your point, to the extent that costs are under control and have slowed down, as we're seeing, we think that that would suggest that pricing on a reported basis steps down, so meaning less positive as we move ahead, really consistent with the way we came into 2020, where we said it will step down over the course of the year, and that is playing out as expected. And again, we look ahead to 2021, and therefore, is it possible that it's in the 3.5% to 4% range? Yes. That's consistent with what we've said in the past.

Worthing Jackman: But again, the spread to CPI is still running, would be running 200-plus basis points at that kind of number.

Tyler Brown: Yes. Yes, I think the point I was just trying to make is in a quarter like 2Q, everybody seems to be getting the benefit from the lag in the pricing benefits, but you're getting the cost kind of deflation upfront, which is a good thing. But, again, I think you guys will be able to maintain that spread to CPI. I think that makes sense.

And just a last one for me. I wonder if you could just talk about how much overtime might have been down year-over-year and if there was any benefit in the quarter from lower diesel prices or just a lag on some of the pass-throughs there. Any way to quantify that?

Worthing Jackman: Yes. I mean, we'd quantify, at least from a fuel standpoint, that fuel as a percentage of revenue was down about 50 basis points. A little bit of that was CNG credit, but most of it was the decline in diesel prices year-over-year. What was the other --

Mary Anne Whitney: And with respect to overtime, as we've said last quarter, we really saw the depths of that really coming into our call in May, where we said overtime has been down about 25% at the bottom and that those costs were coming back in because the business was returning. So less of a focus on that.

Tyler Brown: Okay. So 25% at the bottom, and then as the volumes came back, some of that came back as well, probably?

Worthing Jackman: Yes, we're back to having overtime being about 18% of total hours, which is kind of where we were going into the pandemic.

Operator: Kyle White, Deutsche Bank.

Kyle White: I just wanted to see how the recovery has progressed in states that were kind of early to open and were seeing rising cases throughout July, states such as Texas and Florida. Anything notable there in terms of kind of the revenue impacts as those cases started to spike up?

Mary Anne Whitman: Sure. So happy to give you some anecdotal information. We haven't seen really any step-down in any of those markets, which I think is what you're referring to, where you've seen a second wave or a surge in places like Florida or Texas. As Worthing said, when we look at in the aggregate, the recovery is around 50%.

And in the less impacted markets, meaning not the Northeast or Canada, it averages 60%. And for instance, I look at a market like Houston, and it's above that. It's 65% to 70% recovery and really no material change over the last three months, again, by way of example. I then would contrast that with something like New York City, which really didn't open up and is still down at more like a 30% recovery, so well below the average. But really, we haven't seen any step backwards yet in our numbers. It's something we're mindful of, and it's one of the reasons to be conservative as we think about how the quarter plays out.

Kyle White: That's helpful. And then just kind of a bigger question. Is there anything about this kind of pandemic that is making you change the way you operate your business or your strategy for the long term, whether it's on what markets you want to be active in and participate, if you want to have exposure to E&P, or just anything on the cost side, any cost take-outs you think that may be permanent?

Worthing Jackman: Yes, the irony, of course, is the last couple years, people have been asking us -- so you don't have as much urban exposure, so do you think you're missing out the migration of people into their urban environments? And we said, no, we've got a nice balance. We've talked about secondary suburban markets and the resilience and the price retention ability there and why we still think those are the best markets long-term.

But, no, it's good to have a balanced mix. Obviously, we have a balance in some large urban markets. Obviously, New York is slower in their recovery, and you see that in the numbers. But, no, look, we see no change in our strategy. We like our current footprint. We like all the businesses that we're in. They all work well together. Obviously, we had a big impact this year with what's happened in the crude market, but what makes us look stupid one year, we might look like geniuses in two years, right? And so we'll continue to play the hand that we hold right now.

Operator: Michael Hoffman, Stifel.

Michael Hoffman: On the cost side, before all of this pandemic happened, we often talked about incrementals in collection kind of 35% to 40% incrementals and disposals 60% to 80%. In 2Q, clearly you do better because you've managed the costs. How do we think about the sustained incremental? Does the low end come up because you're going to retain some of the savings, and so now we get to talk about a better overall incremental going forward?

Worthing Jackman: Yes, I think you've got to separate things like costs that don't come back in the business versus incremental and decremental conversation. I mean, in my mind at least, when you look at decrementals and incrementals, the pandemic played out completely different based on the impact the pandemic was having on the revenue.

In markets where you might have had a 4% to 6% or 6% or less type impact to volumes, the loss of revenue was acute on the flow-through. It was a very high fixed-cost embedded cost structure, because in those examples, we weren't really aggressively rerouting if you're thinking the business is going to recover in six weeks or eight weeks. We weren't cutting heads in that period as well. And so you held on to the costs as revenue flowed off. But as you've seen, as revenues returned in those markets, the incrementals were also extremely high also.

Contrast that in markets where you had severe contractions, like in the Northeast and Canada, where there you were more aggressively and proactively parking trucks as needed, managing your headcount, et cetera, and so the decrementals and incrementals are not as high as compared to those other markets. So the irony, of course, is the markets that performed better on the top line were having different type of experiences on incrementals and decrementals than the others.

Look, clearly on the cost side discretionary items that we control, it'll look different as we come back, as the economy recovers, because how we operate as a company will tweak modestly. We will get back to face-to-face. We will get back to in-person training when the time's right. We will get back to town hall meetings with our frontline at all times of the day and any time of the day. So those kinds of costs will come back in, and I can't wait for them to come back in. We'll start paying bar bills again, we'll start throwing parties again, and that's not insignificant when it comes to costs.

So look, it's different with the incrementals and decrementals, Michael, by type of market, given how the pandemic's hit and the shape of the costs that came out of the business, as Mary Anne described which ones did, and which ones come back in will be a little bit different coming out of this.

Michael Hoffman: Okay. Price -- you did very clearly telegraph back in February you thought you would do 5% to 5.5% for the year and then it would trend down sequentially to sort of 5.5% the first half, 4.5% to 4% in the second half. The 100-basis-point different between your original view of 2Q and what you report in 2Q is all related to the pandemic, and then the -- it's sort of a question and a statement. The 4%, 4.5% for 3Q I think is what you were originally going to do. Is that accurate?

Worthing Jackman: Yes.

Mary Anne Whitney: Yes. Sure, and maybe just to clarify, it's really a little different from what you said, because it really has been playing out just as we expected. To the extent that we deferred any PIs, it's a nominal amount. It's about $10 million in Q2, which we've layered in the back half of the year. So to your point, we said that pricing would step down over the course of the year. I don't think we put too fine a point on saying that the first half was 5.5%. I think instead we said Q1 is outside because of timing of price increases that carried forward, rolled into Q1.

So we really see that there's no change in the way we think about pricing. Obviously, we're mindful of the timing given the pandemic, and so we're sensitive to that. But we thought we'd exit the year at around 4%, and I think that's -- you're agreeing that that's what's implied by the numbers that we presented.

Worthing Jackman: And I think we guided 4.5% to 5% for the full year, not 5.5%, and obviously as the year plays out, we still expect the full year to look like 4.5% in pricing, so we're at the low end of our original expectation. Again, had we not deferred some of the pricing that Mary Anne talked about, we would have been closer to the upper end of that range.

Michael Hoffman: Great. And then the other point, that while you talk -- you always have talked about it for the 20-plus years that I've known you, a spread to an index. But the more important spread is your internal cost inflation, and that's probably the bigger message, is that you're very disciplined about managing that spread consistently so it creates the appropriate leverage.

Worthing Jackman: Absolutely.

Michael Hoffman: It's kind of a statement, but it's a question implied.

Worthing Jackman: I've got to look up what you mean by that, but, yes, we agree with your implied question that's a statement.

Michael Hoffman: Okay. And then on the M&A, just so I'm clear, Mary Anne, the $70 million rollover is deals done to date including, but not the $40 million that might close in 4Q?

Mary Anne Whitney: Yes, that's correct. Oh, no, excuse me, that is -- no, pardon me, Michael. That would be the entire $100 million, so meaning it's $30 million from the $60 million that's already gotten done, $30 million plus $30 million, and then $400. Essentially, the whole amount rolls to next year is what I've communicated. So meaning no credit has been taken for that in 2020.

Michael Hoffman: Right. Okay. But you were assuming it's happened, and therefore, there's the rollover. Okay, got it. That's what I wanted to clarify.

Worthing Jackman: Correct. Yes, but we've already signed a definitive agreement on that, Michael. We're just waiting for the closing date.

Mary Anne Whitney: Right, and what I wanted to make clear is that there was nothing from that deal in our 2020 outlook.

Michael Hoffman: Right. Got it. And then typically, you've talked about E&P being a 50%-ish margin business when things are normal. Where is it right now?

Worthing Jackman: Yes. Well, right now, again, I called it more like a collection company, in some cases. Right now, we're running closer to 20%. And again, if you look at the last time the E&P dipped, I think the bottom was about $10 million to $12 million or so of revenue per month, and at that level, we held onto about a 25% margin in that business at its depth. Right now, the depth is running a little bit below $10 million or so a month, and that's why you see the decremental coming off the -- come down as the revenue comes down below that prior dip.

Michael Hoffman: Right. That was April of 2016, and we got back to $50, $60 oil by the fall, and you were right back where old margins were.

Worthing Jackman: Yes. I don't suspect that -- look, I don't want to say I'm calling bottom in Q3, but I think a lot of companies -- a lot of the drilling companies have kind of said, hey, this year is over. When they look at having rigs return, for whatever reason, it's the magical 1/1, the new year starts, right? And so a lot of folks have their capital programs kind of kicking in in January of 2021. And so this year, I think we can pretty much anticipate what's going to happen for the balance of the year, and then the question will be what's the pace of any recovery as you flip the calendar into 2021.

Michael Hoffman: Got it. And then the last thing, on free cash. I mean, nobody actually has returned a guidance that's equal to last year if you're not -- if you're excluding the CARES Act. So everybody is below plan. Proportionately, though, what we're looking at is your differential as a percentage of the previous. You're at a better percentage of the previous ex any CARES Act. What are sort of your comments about why that's the case for Waste Connections? I think that should be drawn out.

Worthing Jackman: Well, I think it's just that our style is not -- I don't know, not to let everything flow. And so, look, we're going to make sure we're running this for the long term. We're going to make sure we're being opportunistic as we move through this year, in case there are some chances to make additional, unexpected investments that are very attractive and still deliver at or higher than what we're committing to. I still look back and say, look, diverting over 50% of EBITDA to free cash flow is still a metric that others can't hit, and so that should be enough at this time right now, given the shape of the economy, and let's hold onto a lot of cushion as we move into 2021.

Operator: Sean Eastman, Keybanc Capital Markets.

Sean Eastman: I just wanted to go back to M&A. Just trying to understand what you're planning around -- you mentioned there could be this sort of rush in activity in the second half, but is that what you're anticipating and planning around from a capital deployment perspective this year, or should we be kind of thinking about more of a normalized $125 million to $150 million in annualized revenue as kind of a base case? And also on that topic, seeing a deal get done in Washington in the second quarter is interesting. Any kind of -- anything to read into there in terms of activity in the franchise markets from an acquisition perspective?

Worthing Jackman: Look, I think to your first point of, hey, an average year at $125 million to $150 million, we easily have that in our sights for the full year. Typically, what's driven numbers well above that has been maybe one or even maybe two uniquely sized transactions of $100 million or $50 million or $75 million or so in revenue. Look, right now we always think, hey, if we just bat the averages and do $125 million to $150 million, keeping to our strategy, keeping to our metrics, then that's a great year.

And if we can do better than that, that's really up to the sellers and them driving the timing. What I would say is any seller that wants to get a deal done this calendar year needs to be in the chute no later than the end of September, and so time is running for those sellers. And we should know more on our next call with regards to what might get done this particular calendar year.

Sean Eastman: Got it. But I guess overall message, maybe even into next year, likely to be active in 2021 as far as you see it today as well?

Worthing Jackman: Well, again, if you look at -- lineage transition and tax issues drive a lot of things that move our sellers to come to the table. And so I think the question will be around taxes, is this the last year of certainty, because if everything flips in D.C., would tax laws change next year or would it take them into 2022 to get their act together and change tax laws? I think there's a kind of assumption out there that taxes are going up.

And the certainty of what you got this year could drive people to the table this year, or if they think they want to make the bet that it takes more than a year to get change done in D.C., that they might have optionality for that into 2021. Lineage transitions will always exist, right? But what we know is that folks that may want to sell their business in the next two or three years are likely to come to the table this year, because, again, just as our business has performed well, just as you've seen other people in the sector perform well, we can all look at the pandemic and understand how to value these businesses.

Sean Eastman: Yes. Understood. Just going back to sort of the pace of recovery question, in terms of that group of businesses where you mentioned the lights are still off, they're not picking up the phone, I mean, how good of a handle do you have on those potential -- that bucket that potentially doesn't come back and gets canceled? And how do you manage through that? I'm just curious to get your thoughts there.

Worthing Jackman: Yes, that's a good -- I mean, that's a really good question because it brings up a couple of things. I mean, number one, very early in the pandemic, really preparing for the pandemic, we spent a lot of time with our folks trying to make sure we all have our arms around not booking revenue for a customer that may not pay us as you play it forward, because that runs a risk of future unwinds that can be punitive. And so we spent a lot of time in educating our folks around that.

And also, we said we're not going to change our bad debt policies just because we think, hey, they're closed for a month or 45 days; gee, let's extend the timing for payment, which is why I think you've seen us at $5.5 million or so of incremental bad debt bookings. As businesses reopen, you might see some of that unwind in the future. And so you got to -- our view is you've got to be cautious in revenue recognition, and if you're overconservative, that's fine, and you've got to keep your standards on bad debt accruals and reserves. And if it gets -- if you've overestimated it, then that means you've got comebacks in future periods.

We've spent a lot of time trying to get our arms around that to make sure the controls are in place. But look, it's easy to track as we talk about the daily tracking we have by market, by commercial account, the commission tracking, as revenue recovers, how are we paying our salespeople on recovered COVID business, et cetera. I mean, there's a lot of data and a lot of insight to support everything we're doing.

Mary Anne Whitney: What I would add to that, to what Worthing said, is we also track cancellations, and given the fact that it's as low as that number is, meaning that it's in line with historical averages at about 0.5 points, that tells us that the cancellations aren't in there, so we're glad that we've been conservative, to all those points that Worthing made about how we think about the businesses coming back.

Operator: (Operator Instructions) Noah Kaye, Oppenheimer.

Noah Kaye: I think your last comments actually really play into my question, which is we've heard some interesting commentary from waste peers this quarter around the role of technology and improving operational efficiency and some of those benefits kind of coming to the core during the pandemic, and we know you run a more decentralized operational model, but you've also been rolling out increased connectivity as part of your 2020 vision, end cap tools, things like that. So what would you call out in terms of the impact those investments had from an operational perspective?

Worthing Jackman: Keep running a good business, and keep your people safe. I mean, look, we don't -- as you know, we're not folks that talk about use of technology and how it's going to take headcount out or do this or do that, and you ought to stop modeling these sorts of savings, et cetera. Look, running a good business and driving additional improvements, whether it be operations, the health and safety and welfare

of our people and their communities, that's just doing the right thing. Our savings -- do savings come along with that? Absolutely. Do we get hit in other areas of the P&L all the time, too? Absolutely.

And so, look, this is like a portfolio approach to help P&Ls move, and we talked about the strength of pricing and how overall the march to operating leverage and what that means to the P&L, but to laser out one or two things and to try to tell you what our expectations are would be focusing on the good and kind of turning a blind eye to the other things that can hit you.

The predictive maintenance tools, I mean, that's very powerful for what that can do with blown engines and reliability in uptime and reduction of road calls. This machine vision and AI that the camera systems have moved to, I mean, that's not there to say I got you. That's there to make sure that if we can improve on a real-time basis machine communication to our employees around a rolling stop or around staying in a lane, around wearing a seatbelt, around using a cell phone or whatever it is in the cab. I mean we're not trying to say I got you. We're trying to say let's just -- instead of waiting for an event recorder to record something bad that's happened or to record a huge inertial shift in the vehicle, let's try to avoid those from happening.

And so technology I think is -- whether it be in the fleet that will benefit all companies, whether it be through engagement tools, whether it be through online for Learning Management Systems and the LMS and how we've kind of said, okay, we understand the pandemic, we've got business acumen online, servant leadership online, we're zooming, video training, lead driver training, et cetera. There are so many things we're doing, that if this pandemic happened before the onset of a lot of this technology and existence of the Internet and bandwidth, boy, this would've been a hell of a lot different than what we've all in this industry and other industries have been able to do in this unique period of time.

Noah Kyle: I appreciate that. And I think, to your point, you don't necessarily need to call out and quantify from a financial perspective the impacts, and yet you just went through a very detailed list of tools that you have now that maybe didn't exist in the past. And no question, I think, we all have found benefit in some of those technology tools this time around. So maybe just one more around the opportunistic CapEx spend. Clearly, you've got truck and machinery demand generally depressed, used truck pricing is down. So is this just primarily buying more new trucks at better pricing to lower the age of the fleet, or is there something else you would call out?

And if I can just add to that, I mean, you mentioned you're trialing trucks with electric powertrains this year. I'm sure that's a very small part of the spend, but just are you seeing EVs as potentially economical or getting more economical from a total cost of ownership perspective, or is this more just about trialing technology and maybe positioning for differentiation on municipal bids?

Worthing Jackman: Well, we'll see on the EV side. I mean, we've been evaluating different units for the past three to four years and have waited until the payloads and the battery life were consistent with, A, the payloads of a diesel truck, right, and that the batteries were consistent with the kind of route hours that we have, right? And so we finally have the first product that we decided to beta three different units -- or unit to three different markets, two of which will be all EV and one of which will be an EV chassis and then -- excuse me, a diesel chassis and EV body.

And so we're going to see how they perform. Obviously, our expectation is that while a full EV might cost 2x or a hybrid EV diesel might cost 50% more, look, the payback in reduced maintenance, fuel usage, et cetera, could be in that 5- to 6.5-year span, and so it can make sense in certain markets to deploy. Obviously, the West Coast markets and some areas like California, that are already looking out ahead and looking to mandate EV as you move into the future.

And so while CNG was a nice way stop in this industry to reduce the use of diesel and to clean up emissions, obviously that is just a stop on the way to EV, and so we've got to be at the forefront of that. And others are doing the same thing or something similar to.

When it comes to opportunistic use of additional cash flow for CapEx, I mean, just this past month, in July, I mean, we invested a significant amount of money in the Québec province, both on a very large track of land for future development for an existing landfill, for a resource recovery park as well as we further our resource recovery initiatives in that marketplace. We've also acquired opportunistically a recycling facility out of bankruptcy in that marketplace. And so there are things we're doing in various markets, as we say, optimistically, to take advantage of some unique things and that we're presented.

Operator: Stephanie Yee, J.P. Morgan.

Stephanie Yee: I guess just a clarification on the guide. It implies that the fourth quarter revenue will be lower than the third quarter, and I would think that volumes would improve in 4Q versus 3Q. So is that implying that there would be lower price in the fourth quarter, or is that just reflective of lower energy revenue?

Mary Anne Whitney: Sure. So Stephanie, just to clarify, you're right. What's implied would be a step down Q4 versus Q3, which is actually consistent with the seasonal decline that you typically see across the industry in Q4. If you think about the way that the quarters flow, it's 3, 2, 4, 1. So you step down, of course, between Q3 and Q4. And as Worthing said, we haven't assumed that there is continued expansion coming into the back half of the year, and in fact, he described it as the plateau. That's how we think about the way we guided Q3 and, again, stepping down in Q4. So we think that's the right way to be thinking about it at this point in time. And arguably, there's been less of a seasonal pickup that you've seen, so it could be, in fact, conservative even if Q3 does play out as expected.

Worthing Jackman: Yes. If you look -- to Mary's point about seasonality, if you look back over time, there's, what, between a 4% and 6% typical sequential decline in Q3 to Q4. Obviously, to be conservative, we've assumed the upper end of that. And again, to our point about wanting to meet or exceed expectations, as that comes in and performs a little bit better, because to your point about things opening up during Q3, then that again provides room for upside.

Stephanie Yee: Okay. Okay, that makes sense. And I know it's still early, but I guess what are your expectations for the energy business into next year? And I guess longer term, do you still think it's an attractive business to be in?

Worthing Jackman: Yes. Look, we've been in that business now of this kind of span of assets for almost eight years. I think over that period of time, we've gotten about $800 million of EBITDA off of it and about $600 million of EBITDA minus CapEx. And so what I would tell you is it's been a great business, and it will be a great business.

Obviously, there are peaks and valleys. When there's a valley like this, you're seeing corresponding reductions in fuel costs, right? And so from a P&L standpoint, I think about a -- I don't want to call it a hedge, but as that business comes back, guess what else is happening? The cost of fuel is going up. And so we'll offset that cost of fuel increase with the recovery in that business.

So no, it's a -- again, we're at a low. It's a unique low. And obviously, as rigs start coming back, we'll see some pickup off the bottom in that business as well. Our folks have done a tremendous job in, again, managing the cost to maintain profitability in that business, very attractive profitability, especially when you compare it to some of their peers.

It's just that you're seeing a more pronounced impact to our P&L this year because we did so well so long last year and into early this year. I mean, a lot of other companies in that space got washed out last year, and so their P&L impact was last year, and so you don't see as much P&L impact, for instance, out of our peers that are also in that business this year. We just did that much better than them for longer.

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

Walter Spracklin: I'd like to start with the lasting impacts structurally from COVID in a couple areas, and I want to start here with acquisitions. Do you find that given what has occurred and the tenor of the change in the acquisition activity and the nature of your discussions in the last month, two months, three months, do you get the sense -- and I know you mentioned the election coming up, but there is more urgency for those that were contemplating selling down the road to really get this done now, and has that in particular changed your negotiating leverage where you might be able to get a lower multiple for those transactions where post-COVID versus pre-COVID? Or are you seeing valuations around the same level as before?

Worthing Jackman: Yes, look, gold-plated companies are just that, and they know what they're worth. We know what they're worth, pandemic or no pandemic. The gold-plated, they have done fine through the pandemic. Some of it's tax-driven from a timing standpoint, some of it is just downright being tired.

I mean, it's -- they've been at it so long. They went through the period of time where it was tough to find employees in some of their markets, and now you fast forward into a pandemic, here's an additional struggle. You've got the government, in some cases, paying more money for folks to stay home versus show up in some of their markets. And so it's just a -- it can wear you out. And so I think some of that is driving the timing as well.

But look, without a doubt, I don't think -- when some people are playing with, effectively, free money, then it's tough to tell you that valuations right now are coming down. Obviously, we've talked about over the past couple of years how they've gone up one to two turns in EBITDA, primarily coming out of tax reform with the fact that more cash flow was accrued to the buyer because more cash was staying in the business. Obviously, taxes go up. There's a risk that, obviously, the valuations will come down. If taxes go up and the stock market corrects any, valuations are coming back down again as well.

So there is a unique time period. We've said a couple of times in the past that valuations can't get any better than this, but when money is free, they definitely can't get any better than this. And so I think there's been, for some folks, a rush to the exits. Others have no interest in selling, right? I mean, it's just -- it's such a great business. They're mentally not prepared to do it, and they'll keep holding on to it, and those will be deals in the future.

Some of the stuff we got done, like the transaction we got done in Iowa and Nebraska, I mean, that first offer was done in, I think, the late 1990s. And 21 years later, we finally got it closed. So sometimes these things take some time.

Walter Spracklin: Quite a closing time. Can we move now to the impact that it's having, post-COVID, on pricing? Obviously, you've been -- there's been some municipal contracts, for example, that have been based on a per-household basis, which, arguably, you would want to move to on a volume basis. How will that figure into year-over-year pricing? Will you get -- will your pricing go up to reflect some of the potential downside risk that you've seen develop with COVID-19, or will that just adjust to some volume level that if volumes are up, then your price goes up a quarter? How do you change your pricing strategy now that you've had the experience from COVID-19?

Worthing Jackman: Yes, look, we haven't been a company that's complained about our quality of price and quality of revenue on the residential side, and so we're not going to start complaining right now. Look, pricing for us is simple. I mean, you've got a subscription side of the residential business where you have more flexibility on the pricing structure. Obviously, our municipal contracts generally are pegged to either rate of return or some form of CPI, depending upon where those contracts sit throughout the U.S.

And in some cases, we just have bad contracts that we're still working through that came along with the Progressive transaction, that we are mostly through. I mean, this past month, we got a very large price increase in one of our contracts that corrected that one. I think two years ago, we got a very large price increase in another one that corrected that. We've got another one that will be correcting likely in Q3. And if that one gets done, that just really leaves one more left -- or two more left in the system of inherited contracts that, just for market reasons, contractual structure reasons, pandemic reasons, et cetera, a host of things that are happening, that we'll likely see those reprice as well or we'll exit.

Again, we don't do this for practice. We've been doing it for practice four years in some cases, based on how long we've owned those assets. And the right thing to do for the market, for our people, et cetera, and our capital is to correct it or move on. So the pricing dynamic as we've seen it hasn't changed. The relative attractiveness to residential hasn't changed. And again, it's market selection does matter, and how you operate in those markets and move pricing matters as well.

Mary Anne Whitney: And the one thing I would add to that is certainly on the West Coast in some of those franchise or exclusive markets, it can create an opportunity next year to get outsized pricing to the extent there are costs, including the types of costs you're describing that other people have highlighted, like higher waste, but more importantly, negative volumes, and the opportunity to therefore get better pricing than we would have otherwise been entitled to. So I think to Worthing's point, everyone's mix of business, including the exposure to franchise markets where there is that recovery mechanism, factor in.

Operator: And there are no further questions at this time.

Worthing Jackman: Terrific. Well, if there are no further questions, on behalf of our entire management team, we appreciate your listening to and interest in the call today. Mary Anne and I are available today to answer any direct questions that we did not cover, that we're allowed to answer under Regulation FD, Reg G and applicable securities laws in Canada.

Thank you again. As always, we miss being able to meet with you in person, and we look forward to speaking with you at upcoming virtual investor conference 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 lines.