

Waste & Environmental Services Market Update

Industry Consulting Team | Q2 2023

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Highlights – Waste Sector

- Valuations in the US waste management industry have softened as capital demand and growth through strategic channels has lessened. Trends show that privately owned companies are leveraging sponsor capital as a more attractive means of financing operational growth and scale.
- Waste-related pricing continues to rise despite inflation steadily decreasing this year. The industry is largely tied to long-term contracts, which creates a lag in pricing adjustments. As costs slowly decline, large haulers are unlikely to continue proposing aggressive contract increases.

Waste and Environmental Services Industry Trends

Economic:

- Housing starts rose in July; increasing 3.9% month-over-month and 5.9% compared to July 2022. Single family housing units alone were up 9.5% year-over-year with the Midwest and South regions rising 20.0% and 6.1%, respectively. Building permits in the US slightly increased month-over-month in July.
- The housing market is expected to slow to pre-pandemic levels as consumers shy away from high interest rates and the inflationary environment.
- Historically, waste volumes have had a year-lagged correlation to the housing market. While housing has come down from record levels, waste collection should benefit from new developments in 2021-2022. Certain regions will continue to see positive impacts of migration that occurred during the pandemic.
- Labor participation is still below pre-pandemic levels, as experienced personnel is limited. Consumer sentiment has dropped significantly resulting in a standoff to raise the FED's borrowing cap.

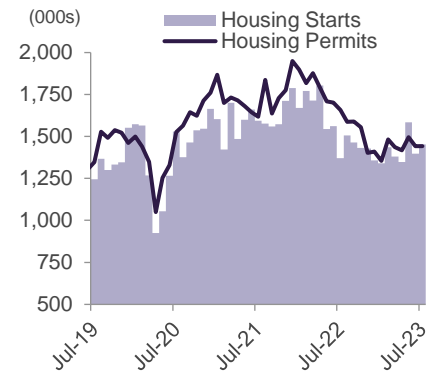
Waste Pricing:

- The US saw inflation reach its highest levels in 40 years, and as a result, waste companies were able to institute pricing increases for contracts tied to CPI.
- In the short-term, the focus will be on route optimization through bolt-on acquisitions, truck automation and material sorting facilities to keep margins stable.
- Public companies reported that average retention rates despite price increases were very high indicating a strong acceptance of the new pricing environment. Local waste haulers shouldn't see decreasing retention rates for upcoming contracts.

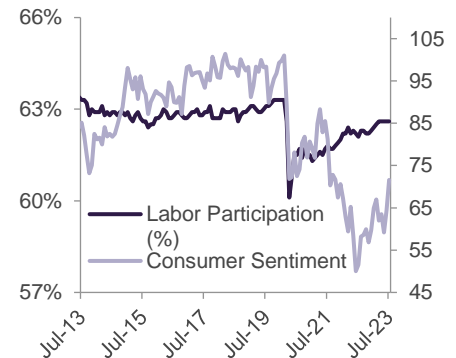
Waste Volumes:

- Waste volumes for the top five public companies (WM, RSG, GFL, WCN and CWST) were relatively flat for the first quarter 2023 (0.5% average growth). Most of the volume growth in the Southeast was driven by Hurricane Ian cleanup efforts.
- As more companies were disciplined around pricing, collection and hauling volumes were impacted by strategic exits of certain contracts. Volumes are expected to remain flat the rest of the year but companies will seek opportunities to build market share.

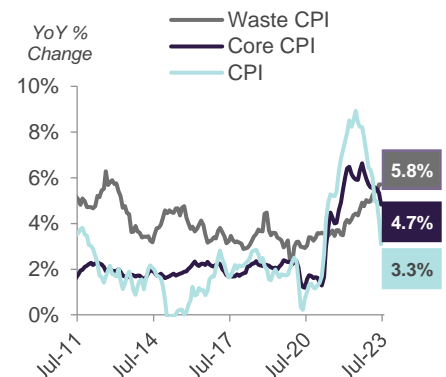
Housing Starts



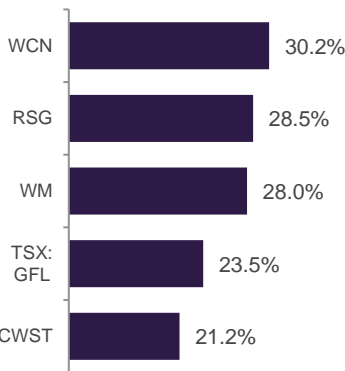
Labor and Sentiment



Consumer Price Index

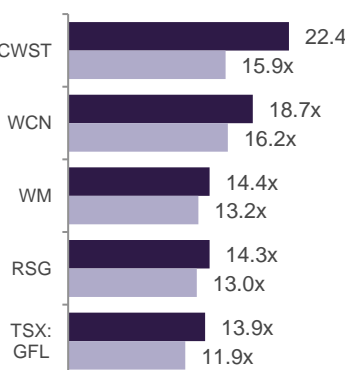


Public Comps EBITDA Margin



Data as of 8/15/2023

Public Comps EV/EBITDA



LTM NTM

Data as of 8/15/2023

Solid Waste Public Companies

WCN – Waste Connections; RSG – Republic Services;
WM – Waste Management; GFL – GFL Environmental;
CWST – Casella Waste Services



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The California Air Resources Board: Advanced Clean Fleets

- On April 28th, The California Air Resources Board (“CARB”) approved its Advanced Clean Fleets (ACF) initiative, a phased-in transition requirement toward zero-emission for medium-and-heavy duty vehicles. The state plans to end combustion engine truck sales by 2036 and fully transition the state’s fleet to zero-emission vehicles by 2045.
- Waste and Wastewater fleets will have to comply by similar standards moving forward. However, some exceptions could be made if the waste or wastewater fleet is fueled exclusively by biomethane or for the purpose of transporting biomethane. Other exceptions are made for compactor, transfer, and roll-off trucks.

M&A Activity

- The top five public companies (WM, RSG, GFL, WCN and CWST) have continued to pursue opportunities through M&A despite record levels of acquisitions over the last two years. Although valuations have softened due to higher interest rates and bank capital accessibility, sponsors are still active in the industry and driving valuations up for competitive platform investments.

Acquiror	Target	Details
		In July 2023, Heritage-Crystal Clean, Inc. (Nasdaq: HCCI) was acquired by J.F. Lehman & Company (“JFL”). JFL, one of the leading private equity firms focused on environmental sectors, acquired the company in an all-cash transaction valued at \$1.2 billion. The transaction is expected to close in 4Q23.
	Assets of 	In May 2023, Waste Management acquired the hauling assets of GFL in Nashville, TN to begin the strategic divestiture process to tighten their portfolio after multiple cycles of rapid growth. Additionally, this synergy will help to improve efficiency to routes and servicing residential, commercial, and industrial routes through the TN market.
		In May 2023, Live Oak Environmental acquired Texas based solid waste company Piney Wood Sanitation. Live Oak is a portfolio company of Kinderhook Industries LLC. Piney Woods is an active player in the solid waste collection industry for municipal, commercial, and industrial customers. The acquisition by Live Oak represents their fifth add-on since their acquisition by Kinderhook in July 2021.
		In April 2023, CARDS Holdings, Inc acquired Whittinghill Disposal Services, a key player in the commercial and industrial waste hauling sector in the Oklahoma market. The strategic purchase will help to bolster CARDS’ business portfolio and provide a tap into new service offerings. It will also help to bridge existing gaps with customers in Arkansas and Texas.
	Assets of 	In April 2023, Casella Waste Systems announced a \$525 million stock purchase agreement to acquire GFL Environmental’s assets in the three states of Pennsylvania, Delaware, and Maryland which is expected to close by 3Q23. Casella will acquire a wide array of collection, transfer, and recycling operations as well as nine hauling operations.
		In April 2023, Covanta acquired Circon Environmental Holdings, a portfolio company of Kinderhook. To date, this will be Covanta’s largest acquisition in two decades. The acquisition provides more than 20 facilities into Covanta’s portfolio for centralized waste treatment, storage and disposal. Additionally, the transaction allows Covanta to enter the hazardous waste sector for the first time.
		In April 2023, NMS Capital partnered with Texas Pride Disposal Solutions, LLC and Texas Dumpsters in a recapitalization transaction forming a new solid waste hauling operation that will conduct business as Texas Pride. The transaction will allow for scale of the business and investment in equipment and technology. This is NMS Capital’s second transaction in the environmental services sector in the last year.
		In March 2023, Capital Waste Services acquired Sandlands C&D Landfill of South Carolina. Capital Waste is a portfolio company of Kinderhook Industries, LLC. The acquisition will add a disposal outlet to create a more vertically integrated operations in South Carolina and will strengthen CWS’s position in their primary geography.



Sources: Bloomberg, CapIQ, Waste Dive, Waste360, USGS, Ag Metal Miner, California Air Resource Board, IBIS World, Fast Markets, American Iron and Steel Institute, Company Filings, Moody’s, Equity Research Reports, Company Websites, Resource Recycling