

Waste & Environmental Services Market Update

Industry Consulting Team | Q1 2023

Prachi Wagner

Waste & Environmental Services
Industry Manager
Prachi.Wagner@Truist.com
(704) 620-0708

Aashish Shah

Waste & Env Services
Associate
Aashish.Shah@Truist.com
(704) 953-1713

Highlights – Waste Sector

- Pricing increases were a common theme in 2022 following strong inflationary pressures around fuel and labor with an average price increase of 7.5% among the top five public companies
- Waste volumes are projected to be flat in 2023 as the residential, commercial and industrial volumes are seeing economic compression offset by event-driven waste volumes, which are more unpredictable
- Acquisition spending for public companies has normalized with financial sponsor activity picking up due to a renewed focus by investors to invest in waste resilient assets in the current environment

Waste and Environmental Services Industry Trends

Economic

2022 was marked by rising inflation with the Consumer Price Index (“CPI”) peaking at 8.9% in June 2022 and dropping to 6.3% in January 2023. High inflation levels combined with seven Fed Fund rate increases led many waste management companies to increase pricing in 2022. Waste contracts typically have the CPI index built-in to account for price escalation, which results in margin stability during inflationary times. 2023 industry revenue growth is projected to be offset by the rising interest rate environment as the industry is highly capital intensive. Housing starts, which are strongly correlated to waste volume growth, fell for the fifth consecutive month in January of this year and are down ~21% from a year ago. However, we anticipate volume growth for regional haulers in the South and Northeast as housing stats are positive in these regions.

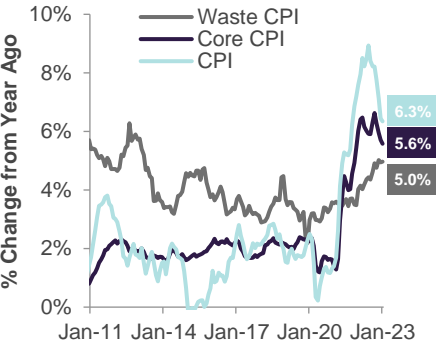
Waste Pricing

2022 saw an average yield increase of 7.5% for all public companies with the highest growth reaching 9.8% at GFL and the lowest at Republic with a yield of 5.2%. Pricing growth nearly doubled as compared to the same period last year due to 2022 high inflation levels and increased labor costs. While the 2023 average yield is projected to remain flat as inflation trends downwards, it remains elevated when compared to pre-COVID levels. Most fixed-rate contracts also saw price negotiations as inflationary pressures forced companies to back-off low priced contracts they had entered in pre-COVID. Recent trends indicate that new municipal contracts are being bid with ample cushion to consider the challenging environment facing the service industry with respect to interest rates and high labor costs. Recyclable commodity pricing showed volatility in 2022 and is expected to remain pressured in 2023 due to ongoing global economic issues.

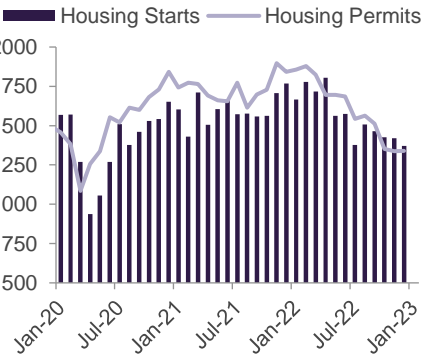
Waste Volumes

Waste volumes for the top five public companies (WM, RSG, GFL, WCN and CWST) were relatively flat in 4Q22 and grew about 1% for the full 2022 year. Volume growth was driven by special waste as the number of large events (i.e. concerts, sporting events, etc.) increased in the second half of 2022. 2023 volume is expected to be flat as housing affordability is pressured by higher mortgage rates and inflation combined with slower growth in the industrial sector. The industrial production index was unchanged in January 2023 after falling 0.6% in December with capacity utilization declining to 78.3%. 2023 will see companies focused on integrating acquisitions and increasing margin efficiency through internalization as the primary growth driver.

Consumer Price Index



Housing Starts












Waste & Environmental Services Market Update

Industry Consulting Team | Q1 2023

M&A Activity

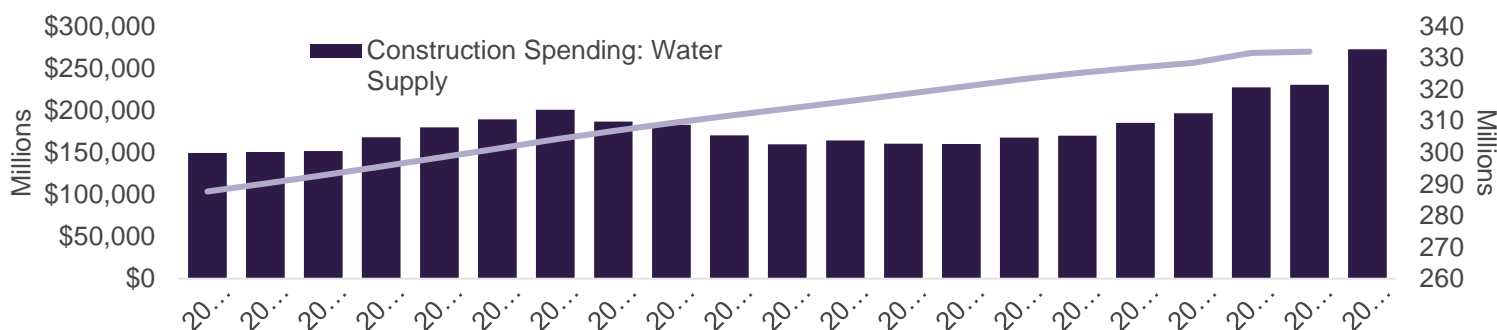
With the renewed global focus from investors to deploy capital in Environmental, Social and Governance (“ESG”) related industries, the Waste and Environmental Services sector is poised for an influx of sponsor capital in the next three to five years. In the past 18 months, there has been strong activity within the financial sponsor sector to invest in the recession-resilient waste assets, especially in the Northeast and Southeast regions of the U.S. Public companies have slowed M&A activity for 2023 due to a renewed focus on integrating and synergizing existing acquisitions to drive margin expansion.

Acquiror(s)	Target	Details
BlackRock Alternatives		In February 2023, BlackRock Alternatives acquired a majority interest in Environmental 360 Solutions. E360S is a vertically integrated provider of waste management, environmental, and recycling/circular economy services to over 30,000 Canadian municipal, commercial and industrial customers in Canada.
		Trivest Partners acquired Central Sanitation and four other portable sanitation companies in Ontario, Canada in February 2023 forming a new entity, Total Sanitation Services. The combination resulted in a fleet of 130,000 portable restrooms, restroom trailers, handwash stations and 18 locations.
		Waste Harmonics acquired New Market Waste Solutions in January 2023. New Market Waste Solutions' services acquisition complements Waste Harmonics by leveraging sustainable waste and recycling programs and solutions and providing scale to their existing market share.
		LRS acquired Modern Waste Systems and Michiana Recycling and Disposal in January 2023. The acquisition includes three waste and recycling transfer facilities, 100,000 residential and 9,000 commercial customers in greater Michigan and Indiana states.
		Waste Management has acquired a controlling stake in the U.S. business of plastic recycler Avangard Innovative in 4Q 2022. The business will operate as an independent entity called Natura PCR. Natura PCR will largely focus on processing commercial plastic film at its facility in Waller, Texas.

Water & Wastewater Management Update

Water and the need for treatment of wastewater is primarily driven by population need and expectations of future growth. In the United States, state and local governments usually correlate their water facility spending to residential and commercial activity that's coming online (i.e. fully occupied). As the country becomes more populated and natural water resources become more limited, private entities are seeking alternatives to meet water demand.

Currently, the most common alternative to natural water is reclaimed water. While there are various methods of reclaiming water, the concept is to obtain water that was previously used, treat it, and then recycle it for further use. Examples of use include, but are not limited to, landscape irrigation, groundwater supply, power plant energy generation, and environmental restoration. Local, state, and federal governments rely on the programs implemented under the Safe Drinking Water Act and the Clean Water Act to maintain quality standards. While several states have reclamation facilities, Florida (300+ facilities), California (100+), and Texas (35) have the highest concentration.



Sources: Bloomberg, WSJ, CapIQ, Waste360, Federal Reserve Economic Data, WasteDive, WhiteHouse.gov, EPA, Department of Energy, Census Bureau