

Waste & Environmental Services Market Update

Industry Consulting Team | Q2 2022

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Highlights

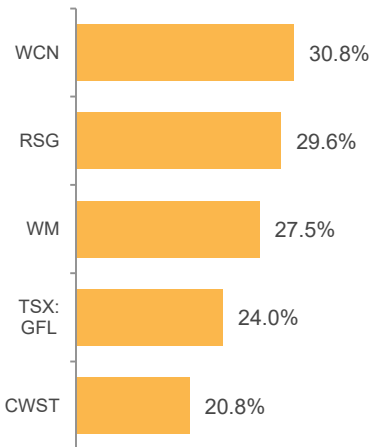
- Baseline pricing of new contract and municipal bids have increased amid inflationary pressure on wages and fuel
- There has been more investment in materials recovery facilities and interest in landfill diversion as disposal costs increase and landfill capacities dropped
- Increased regulatory pressure in many regions have caused recycling costs to increase in line with disposal costs – consumers are becoming more accustomed to paying more for recycling

Waste and Environmental Services Industry Trends

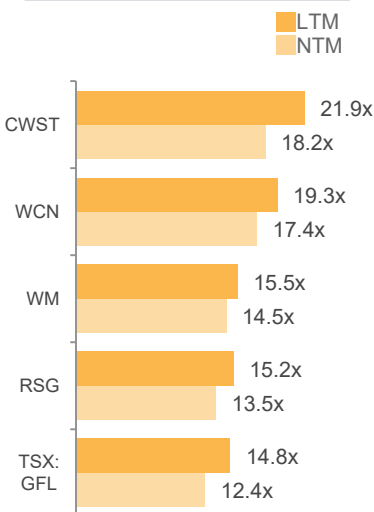
- **Economic:** Incremental residential and commercial waste volumes are primarily driven by housing construction. In April, seasonally-adjusted annual housing permits were 1.8 million, 3.3% above the April 2021 levels. Housing increased 14.6% from April 2021 to 1.7 million.
- **Waste Pricing:** Most waste contracts in the U.S have a price escalation clause tied to the Consumer Price Index (“CPI”), fuel surcharges, and environmental fees. Inflation rose 8.2% in April from the previous year after hitting a 41-year high in March. This comes as the Federal Reserve began raising interest rates in mid-March. We expect waste pricing to continue its increase in line with CPI throughout 2022. During Q1, average core waste pricing increased to 6.4% for the main public waste companies. Some companies have started to increase baseline pricing on new bids and contracts to adjust for long term wage increases that have pressured margins.
- **Waste Volumes:** Waste volumes for the publics increased 2.2% during the first quarter, with uneven growth across various categories. Residential volumes saw a decrease in Q1 as more employees moved back to the office for work. Commercial and landfill volumes returned to pre-pandemic levels as many companies started bringing workers back to the office. Industrial waste has been slow to return amid supply-chain issues, but is projected to increase as industrial activity returns. Total Capacity Utilization, the percentage of resources used by companies to produce goods, has continued to increase hitting 79% which is the highest rate since December 2018. Industrial Production in April increased 1.1% from the prior month which is the 4th consecutive monthly increase. As more waste is transported over the road, event-driven waste volumes are expected to return to pre-pandemic levels.

- **Recycling:** As US landfill capacity diminishes (especially in the Eastern region), focus has shifted from waste disposal to waste diversion through investments in new recycling assets. Recently, USA Hauling announced plans to build a new \$30 million materials recovery facility (“MRF”) in Connecticut and Mazza Recycling opened a new \$15 million MRF in New Jersey. As more waste companies price the recycling in-line with the processing costs, we predict that there will be more investments in materials sorting processes. Companies are looking at recycling as a competitive edge to gain market share against the larger vertically-integrated companies.

Public Comps LTM EBITDA Margin



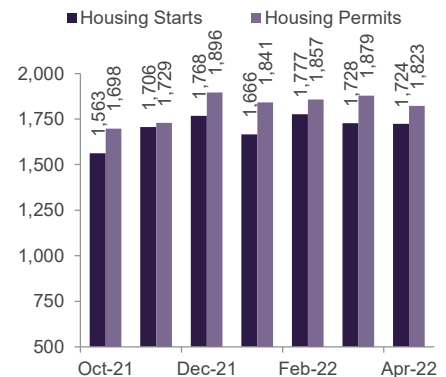
Public Comps EV/EBITDA



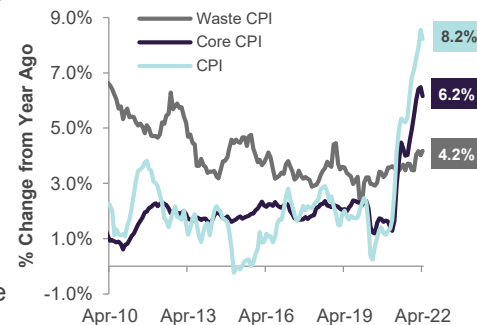
Solid Waste Public Companies

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

Housing Starts



Consumer Price Index⁽¹⁾



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Extended Producer Responsibility (“EPR”): What it means for the future of recycling

- Currently both products and packaging are designed to be for one-time use, with no consideration of their environmental impact or impact in landfills. The waste industry has become encumbered with the responsibility to divert the waste away from landfills through various recycling initiatives.
- Extended Producer Responsibility, or EPR, is a strategy where producers are given responsibility for the environmental impacts of their products through policy changes at the state or federal level. The strategy is intended to lead to manufacturer design changes to reduce waste at the source and to provide innovative ways to keep the resources recycling in a closed loop (rather than being disposed of in landfills).
- As ESG (“Environment, Social, and Governance”) strategies become more mainstream, brands have become more supportive of the EPR model for packaging and plastics after years of resistance. In the US, some states are expected to pass bills banning certain single-use plastics. The future could also include bills that set a minimum amount of recycled material in the production process. An example of this is the recent passage of bill in New Jersey that established postconsumer recycled content requirements for plastic, glass, and paper materials.
- These bills can lead to EPR programs that help improve end markets for recycled commodities and allow state and local governments to retain control over their recycling programs. Ostensibly, this will create opportunities for MRF and landfill operators to have contracts with consumer products companies (rather than municipalities or direct customers), changing the way current recycling contracts are structured. As a result, this change will lead to more diversion of consumer products away from landfills.

M&A Update

- Following a strong M&A year in 2021, private and public waste companies have continued the momentum with more than 60 acquisitions documented through May.
- Valuations have remained relatively unchanged from 2021, but M&A activity is becoming more focused on small and medium sized deals. Publicly traded and PEG-backed waste companies have utilized acquisitions to expand platforms regionally seeking to obtain disposal assets like transfer stations and landfills

Acquiror	Target	Details
 WASTE CONNECTIONS, INC.	 TEAM WASTE Our Game is Picking Up	Following a record acquisition year in 2021, Waste Connections has continued its momentum with 4 acquisitions during 1Q22. The acquisition of Team Waste gives WCN growth in both the Tennessee and Mississippi markets. The acquisition comes with a C&D landfill in Northern MS
 MERIDIAN WASTE	Triad Waste / Pinnacle Waste	Meridian Waste has gradually grown its presence in the North Carolina market over the last 4 years with growth capital from Warren Equity Partners. To start 2022, the Company acquired Pinnacle and Triad Waste in Goldsboro and Stanford, respectively. The acquisitions include C&D transfer station
 LIVE OAK ENVIRONMENTAL, LLC	 AMERI-TEX SERVICES	Live Oak Environmental, a Kinderhook-backed company, completed its 3 rd platform acquisition with Ameri-Tex Services out of Whitehouse, Texas. The acquisition gives Live Oak growth within the Texas market with 46,000 residential subscription and 20+ municipal customers throughout its footprint
 ARCHAEA ENERGY	 INGENCO	Leading renewable natural gas (“RNG”) provider, Archaea Energy, announced the acquisition of INGENCO, a landfill gas to electric (“LFGTE”) operator for \$215 million. The deal will expand Archaea’s RNG development opportunities with the addition of 14 LFGTE plants including gas rights for the sites
 GFL GREEN FOR LIFE	 Sprint Waste Services	GFL’s 2022 M&A activity has been off to strong start with 21 acquisitions completed through the beginning of May. One notable acquisition in the Texas and Louisiana markets is Sprint Waste Services, a vertically integrated waste management provider. The acquisition of Sprint includes a network of 16 sites in LA and TX and 2 C&D landfills



(1) Core CPI excludes food and energy items from measurement. Waste CPI includes data from Water, Sewer and Trash Collection Services
 Data as of May 26, 2022
 Sources: Bloomberg, WSJ, CapIQ, Waste360, Company Report, Federal Reserve Economic Data, WasteDive, Company Reports, Bureau of Labor Statistics