

**[WCN] - Waste Connections, Inc.,
Q4 2021 Earnings Conference Call
Thursday, February 17, 2022, 8:30 AM ET**

Officers

Worthing Jackman, President, CEO

Mary Anne Whitney, EVP, CFO

Analysts

Walter Spracklin, RBC Capital Markets

Hamzah Mazari, Jefferies

Tyler Brown, Raymond James

Jerry Revich, Goldman Sachs

Kevin Chiang, CIBC

Sean Eastman, KeyBanc

Noah Kaye, Oppenheimer

Michael Hoffman, Stifel

Chris Murray, ATB Capital Markets

Presentation

Operator: Greetings, and welcome to the Waste Connections Fourth Quarter 2021 Earnings Conference Call. (Operator Instructions). Afterwards, we will conduct a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded Thursday, February 17, 2022.

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 fourth quarter results and our outlook for both the first quarter and full year 2022. I am joined this morning by Mary Anne Whitney, our CFO.

As noted in our earnings release, 2021 ended on a high note, as strong solid waste organic growth and acquisition activity, along with continuing underlying margin expansion, drove Q4 financial results once again above expectations.

Acquisition activity accelerated in the fourth quarter, resulting in approximately \$400 million in acquired annualized revenues in 2021, and setting up acquisition contribution in approaching 6% in 2022, including transactions completed year-to-date. Along with solid waste pricing growth of about 6.5%, this already positions us for double-digit percentage growth in revenue, adjusted EBITDA and adjusted free cash flow in 2022.

Put simply, 2021 is a reflection of how an intentional culture of commitment and accountability to all stakeholders enabled us to excel in a challenging operating environment, overcome inflationary pressures and supply chain issues, execute our growth strategy, expand margins, support employee health and welfare and position the company well for 2022 and beyond.

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 February 16 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 maybe 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 measures. 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: Thank you, Mary Anne. We are extremely pleased with our strong operating and financial performance in Q4 and throughout 2021, as we manage through the pandemic and related impacts with an intentional approach to strategy, culture, execution and value creation. Our proactive approach to pricing through labor pressures, accelerating capital expenditures, through supply chain constraints and maintaining our focus on servicing our customers drove record performance in 2021, and positions us for another outsized year of revenue, adjusted EBITDA and adjusted free cash flow growth in 2022.

We often highlight the importance of the culture in driving differentiated results and our results are emblematic of that purposeful culture in action. Our culture guided our response from the onset of the pandemic, as we focused on reducing employee concerns

regarding health, welfare and family obligations. To date, that investment totals over \$50 million, primarily focused on our frontline employees, including \$10 million during the recent Omicron surge in January, when we reinstated both paid leave for Covid-19-related absences and supplemental wages and recognition of frontline efforts to honor our service commitments during an extremely tough operating environment.

That intentional focus on execution also drove continuous improvement in safety in 2021, as we not only maintained the 12% gains we achieved in safety-related incident rates during 2020, which drove continued improvement in spite of reopening activity.

During 2021, over 55% of our operating locations either posted zero safety-related incidents or year-over-year improvements, and our total recorded injury rate and cost of risk as a percentage of revenue remained well below industry averages.

We also delivered 5% solid waste price in 2021, 100 basis points above our initial outlook, as we recognized and addressed the need for incremental price throughout the year to help offset inflationary pressures.

Adjusted EBITDA margin expanded each quarter, excluding the impact of acquisitions, and it was up 70 basis points for the full year, even including the impact of acquisitions. Moreover, we are already set up for pricing of about 6.5% in 2022 and perhaps ultimately approaching 7%, as we recognize the realities of continued elevated inflation rates, which informs our outlook for 2022.

In spite of inflationary pressures and a 25% year-over-year increase in CapEx in 2021, adjusted free cash flow increased 20% and exceeded \$1 billion with a conversion rate of over 52% of adjusted EBITDA. We are positioned for similar strong conversion and continuing double-digit free cash flow growth again in 2022.

We continue to reinvest in and grow our business, successfully accelerating fleet and equipment purchases in spite of macro supply chain issues.

Looking ahead, our 2022 outlook includes CapEx, up another 14% to \$850 million, including \$100 million for new landfill gas and resource recovery facilities. Consistent with our priorities identified in our sustainability report, these investments include 2 greenfield recycling facilities in existing markets and renewable gas projects at 2 of our landfills, all projected to be operational in late 2023. At approximately \$150 million in total capital outlays over 2 years, these are strategic investments with attractive paybacks even at more normalized values for recovered resources. As we have consistently emphasized in our approach to ESG, these projects are an integral part of our business and are consistent with our focus on value creation.

Looking specifically at the 2 renewable gas facilities at our landfills, these projects are part of a group of 15 to 20 projects in various stages of development, and expected to be completed over the next 10 to 15 years, with third-party partners involved in about 2/3 of these opportunities and Waste Connections owning the remainder.

Looking next at acquisitions, following 4 years of above-average activity, 2021 once

again stood out for the pace and magnitude of activity, which accelerated at year-end as expected to drive another outsized year. We completed over 30 acquisitions, all in solid waste, and spread across our geographic footprint in both franchise and new competitive markets and including a number of tuck-ins to existing operations.

We continue to be selective about the markets we pursue, the risk profiles we accept and the valuations that we determined to be appropriate. In total, we acquired approximately \$400 million in annualized revenue in 2021, and we have closed another \$100 million in annualized revenue year-to-date, providing 2022 acquisition contribution of about \$350 million in revenue or about 6% from deals already completed.

This strong start to the year, along with continued elevated acquisition dialogue, potentially sets up 2022 for another outsized year of activity.

In spite of acquisition outlays of over \$1 billion and almost doubling our return of capital to shareholders in 2021, our leverage remained essentially flat at about 2.4x net debt to EBITDA.

We remain well-positioned for continuing elevated levels of investment in our solid waste growth strategy, whether via organic growth, new resource recovery projects or solid waste acquisitions. It's an all-of-the-above approach with differentiated returns, not one with trade-offs that drives continuing long-term, double-digit free cash flow per share growth.

2021 marked our 18th consecutive year of positive total shareholder returns and we returned \$560 million to shareholders through dividends and opportunistic share repurchases, including about \$350 million of shares repurchased in early and late 2021. In addition, we have already repurchased another \$425 million of shares in 2022.

Now, I'd like to pass the call to Mary Anne to review more in depth the financial highlights of the fourth quarter, and provide a detailed outlook for Q1 and our full year 2022. I will then wrap up before heading into Q&A.

Mary Anne Whitney: Thank you, Worthing. In the fourth quarter, revenue was \$1.624 billion, about \$44 million above our outlook and up \$226 million or 16% year-over-year.

Acquisitions completed since the year-ago period contributed about \$83 million of revenue in the quarter or about \$79 million net of divestitures.

Total price in Q4 of 5.7%, including about 70 basis points in fuel and material surcharges, was our highest reported price in the decade, and range from about 2.6% in our mostly exclusive market Western region, to between 5.8% and 7.2% in our competitive markets.

Solid waste volumes of 1.2% exceeded our expectations with positive volumes in all U.S. regions. Volumes were strongest in our Central region, including Colorado and the Plain states, where mild winter weather through most of the quarter led to better-than-expected activity; and also in our Western region, where landfill activity was strong up until late

December's epic snowfall. Underlying volumes were also up in Canada, but down on a reported basis due to the expiration during the quarter of a poor-quality municipal contract inherited in our 2016 Progressive Waste acquisition.

Looking at year-over-year results in the fourth quarter on a same-store basis, commercial collection revenue was up 13%, roll-off revenue was up 11% and pulls per day up 5% with revenue per pull up 6%, and landfill tons were up 4% on increases of 3% to 5% in all waste types.

Moving on to E&P waste, as expected, revenue was essentially in line with the prior quarter at about \$34 million, up \$9 million year-over-year and up about 45% from the lows we saw in mid-2020. We remain encouraged by increased rig counts and elevated crude pricing levels, which if sustained, could lead to increased E&P waste activity over the course of 2022.

Looking at Q4 revenues from recovered commodities, that is recycled commodities, landfill gas and renewable energy credits, or RIN, excluding acquisitions, in the aggregate, they were up about 90% year-over-year due to both higher RIN prices and higher recycled commodity revenues due to strong fiber values.

Prices for OCC, or old corrugated containers, averaged about \$185 per ton in Q4, decreasing during the quarter to end the year at about \$170 with current values about \$160 per ton.

Renewable energy credits or RINs averaged about \$2.80 in Q4, including the impact of a hedge, which rolled off at year-end.

During Q4, spot rates were in the range of \$3.25 to \$3.50 where they have remained year-to-date.

Adjusted EBITDA for Q4, as reconciled in our earnings release, was \$495 million, about \$9 million above our outlook and 30.5% of revenue, up 20 basis points year-over-year, excluding the margin dilutive impact of acquisitions.

Underlying solid waste margin expansion of about 40 basis points, plus 90 basis points from recycled commodities, RINs and E&P net of fuel more than offset higher wages and Covid-19-related increase over time and outside repairs, as well as the return of certain discretionary and Covid-19-related support costs.

Capital expenditures of \$744 million in 2021 were about \$44 million above expectation, as we continue to capitalize on opportunities to acquire fleet and equipment as we approached year-end. In spite of CapEx up 25% on a year-over-year basis, we delivered full year adjusted free cash flow up 20% year-over-year at \$1.01 billion or 16.4% of revenue, reflecting a conversion of 52.6% of adjusted EBITDA.

Moreover, we entered 2022 well-positioned from a working capital standpoint, which once again provides a strong cushion.

I will now review our outlook for the first quarter and full year 2022. 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 have made with the SEC and the Securities Commissions or similar regulatory authorities in Canada. We encourage investors to review these factors carefully.

Our outlook assumes no change in the current economic environment. It also excludes any impact from additional acquisitions that may close during the remainder of the year and expensing of transaction-related items during the period.

Looking first at the full year 2022, revenue in 2022 is estimated at \$6.875 billion. For solid waste, we expect mostly price-led organic growth of 6.5% to 7%, plus about \$350 million from acquisitions already completed, with E&P waste revenue and the values for recycled commodities and renewable fuels assumed about in line with current levels.

Adjusted EBITDA in 2022, as reconciled in our earnings release, is expected to be approximately \$2.145 billion or 31.2% of revenue.

Excluding the 20 basis point margin-dilutive impact of acquisitions already completed, and 15 basis points for January's Covid support costs, margins would be up about 35 basis points.

Any moderation in inflationary trends, increases in the values for recovered commodities or in E&P waste activity or additional acquisitions closed during the year would provide upside to our initial 2022 outlook.

Regarding tax rates, our effective tax rate for 2022 is expected to be approximately 22% with some quarter-to-quarter variability and cash taxes are expected at 50% to 60% of book.

And finally, our share count is expected to be about 259 million on a fully diluted basis consistent with the share repurchases already completed year-to-date.

Adjusted free cash flow in 2022, as reconciled in our earnings release, is expected to be approximately \$1.15 billion or about 53.5% of adjusted EBITDA and about 16.7% of revenue on CapEx totaling \$850 million, including \$100 million for new landfill gas and resource recovery facilities, as Worthing described. To be clear, 2022 adjusted free cash flow of \$1.15 billion projected up 13.9% year-over-year includes the incremental \$100 million in CapEx.

Turning now to our outlook for Q1 2022, revenue for Q1 is estimated to be approximately \$1.61 billion. We expect price plus volume growth for solid waste of about 6.5%, primarily price. The positive volume trends we saw in most of Q4 continued into January, but severe winter weather has since impacted many parts of the U.S. Reported volumes will also continue to be impacted by the expiration of the municipal contract in Canada noted earlier, as well as the end earlier this quarter of the remaining low-quality Progressive Waste municipal contract in our Southern region.

We have mentioned looking forward to the end of these lingering poor-quality contracts since completing the Progressive Waste acquisition in 2016. In the aggregate, they account for revenues of about \$50 million or about 80 basis points of volume. We are happily redeploying assets from both of these expired contracts for better returns.

E&P waste revenue and recovered commodity values are expected to remain in line with current levels.

Adjusted EBITDA in Q1 is estimated to be approximately \$495 million or 30.7% of revenue, down 30 basis points year-over-year.

Excluding 30 basis points margin dilutive impact from acquisitions already completed, and 60 basis points impact from January's Covid support, margins would be up about 60 basis points in the quarter.

Depreciation and amortization for the first quarter is estimated to be about 13.4% of revenue, including amortization of intangibles of about \$37 million or \$0.11 per diluted share, net of tax.

Interest expense net of interest income is estimated at approximately \$40 million.

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

Worthing Jackman: Terrific, thank you, Mary Anne. We define intentional to mean a sustained commitment to being deliberate and purposeful in everything we do to achieve desired, predictable and differentiated results. The strength and consistency of our results reflect the durability of our market model and the benefits of an intentional culture focused on employees and value creation.

Put simply, we have a playbook that has served us well, whether at revenues of \$30 million or now approaching \$7 billion, providing the visibility to deliver on our commitments. We recognized at the onset of the pandemic that the challenges of this period could create opportunities for differentiation in terms of culture, strategy and value creation.

Looking back at the past 2 years, we couldn't be prouder of our teams and their accomplishments, driving outsized financial performance and operational excellence, while adhering to the values that have set Waste Connections apart since the company's inception. As we enter our 25th anniversary year in 2022, we look forward to more opportunities to be back together, to celebrate the successes that have driven a track record of growth and value creation and to further accelerate our speed of execution.

Moreover, we are looking ahead as we position ourselves for revenue of \$10 billion and more.

We appreciate your time today. I will now turn this call over to the operator to open up the lines for your questions. Operator?

Questions and Answers

Operator: Thank you. (Operator Instructions). Walter Spracklin with RBC Capital Markets.

Walter Spracklin: So my first question, I guess, is on capital deployment. And certainly, when large companies get a lot of cash, a lot of investors have some concerns about strategic drift and so on. And when you look at your opportunity set going forward, whether it's RNG, whether it's acquisitions or other growth opportunities, how do you prioritize? And is there any risk that as you get bigger, you start to have less and less opportunities in your core markets, and start to look at projects that perhaps are outside of solid waste? Can you perhaps, Worthing, talk a little bit about where those priorities are and where you see that opportunity set, or is that still far off in the distance?

Worthing Jackman: Yes, as I tried to wrap up my comments today, our priorities remain to maintain a playbook that we know has driven our success. And that is capitalizing on opportunities in solid waste. As you know, the opportunity basket is quite large. We focus on a subset of the opportunity basket, some \$3.5 billion to \$4 billion of revenue that fits our market model. That's a fraction of the total available or addressable market when it comes to that. I was pretty clear in October with my thoughts on moving away from solid waste to other, quote, "environmental solutions" or services-type businesses. I'll stand by those comments back in October, so it's not something we look at with regards to a drift.

When it comes to capital deployment, I think our view has always been we have an all-of-the-above approach. As I said also, it's not about trade-offs. Look, when you think about acquisitions, sellers drive most of the timing in the transactions we do, whether it be last year early on and people concerned about changing tax rates. That was a big impetus for a while as the year moved on, and we got more clarity on that.

Frankly, owner exhaustion in trying to run a business in a pandemic world, in a labor-constrained environment, in an inflationary environment, etc., it takes a different focus to succeed in this. And so that seems to be driving a lot of the transactions that we're looking at right now. And so again, sellers drive most of the opportunities and the timing around that. We're ready to take advantage of that and capitalize on that.

Again, the resource recovery projects, we look at it, and these are years in development. The ones we're finally breaking ground on today have been years on the drawing board. And the timing of those really is nothing more than now the expansions that landfills might have been done, or the permitting is in place, or the pipelines are now available, etc. So there is a host of things that drive the timing. That's why we look at it and say, over the next 10 to 15 years, we can see a pipeline of projects.

But as we look at it, it's not like we're going to own all of them. As we said before, 2/3,

as we see it, already involve third parties in this planning and development. And frankly, in many cases, it's because the landfill rights are already under some contractual obligation that we're now talking to them about tearing up existing contracts and kind of redoing things for the benefit of both parties. And so we don't see a large amount of capital being deployed on the landfill gas side because as I said, it's only a third of the projects or less that we will own.

And frankly, if you look back at these 2 projects and look at some press releases that have been out there the past 2 months, there are 2 other projects that we're doing a partnership with third parties that have been there in 2 of our landfills. And so theoretically, out of the 4 that we're doing right now, 2 are owned. So in other words, that's not consuming so much capital that there is a trade-off of that or something else.

Acquisitions are always more accretive than buying back our stock. Obviously, the market episodically provides opportunities to buy back our stock, but we clearly understand that deploying capital and acquisitions is accretive to value creation. And doing the smaller transactions provide a lower risk profile and a lot better return per capital dollar deployed than doing larger public to public type transactions.

And so what's made us successful, as I said the last 25 years, will continue to be our playbook going forward. And we talked about a pathway to \$10 billion or more in revenue, and we will execute the playbook to that.

Walter Spracklin: That's fantastic and certainly a prioritization that's consistent with I think what investors are looking for.

Now, the second -- my follow-up question here is really on if we look out a number of years, I guess firstly, you did \$1 billion in acquisitions; that's certainly well above what you kind of trended in prior years. How many more billion-dollar years are there? And when we're past that, whenever that might be, can you give us a peek into what your return of capital strategy will be, once you get of a size that acquisitions simply won't be able to -- won't be enough out there? How would you look at return of capital to shareholders?

Worthing Jackman: Sure. We've been consistent in saying this for probably a decade now, as we continue to grow the business because it's not about chasing a growth rate. What we look at is, on a risk return basis, the lowest risk path to a double-digit free cash flow per share growth. And we have said all along, as we get bigger, our expectation has always been that shrinking the denominator and the share count becomes a component of that pathway to double-digit, not just increasing the numerator.

It's just the fact this happened over the past 6, 7, or more years, the top line growth from acquisitions has driven a numerator growth that has allowed lower mid-teens free cash flow per share CAGR. Our belief has always been that at some point in time, we transition to the organic side, providing 7%, 8%, 9% of that pathway to top line growth, acquisitions, topping that off by 1 or 2 percentage points; and then a repurchase of 1% to 2% of our stock providing another couple of points to that growth.

So the pathway to get to the double-digit sustained free cash flow per share growth can change over time. Frankly, if organic growth continues to drive more of it over time, it's a much lower CapEx deployment for that attainment.

Walter Spracklin: Makes a lot of sense. Appreciate the time. As always, congrats on the great quarter. Thanks, Worthing.

Operator: Hamzah Mazari with Jefferies.

Hamzah Mazari: My question is just around just operating leverage. I know you guided that to 20 bps. But maybe you could just talk about with price-led organic growth of 7%, how does that sort of break out between open market and franchise? And then just what's your assumption on cost inflation in that guide of kind of 20 bps [op] leverage?

Worthing Jackman: Sure, I'll start and hand it off to Mary Anne. Good question, Hamzah. So I know it's atypical for folks to run models in an inflationary environment because it's new to many. But if you think -- as we look at it right here, assuming a 6% overall cost inflation, it takes 4.5% of price just to overcome down on a dollar basis, right? And if that's all we did, that's about 80 basis points dilutive.

So the fact is, is that to drive 20 basis points on a reported basis of expansion ex acquisitions, it's really 100-basis point margin expansion, because first thing we do is by going to 6.5% or more, is we're overcoming the 80-basis point dilution that just inflationary results in and then some, because we're driving a 6.5% to 7% price.

And so it's the optics. I know why the optics, you say. Well, why is it just 20 in such a strong pricing environment? The fact is it's 100-basis point margin expansion over the impact of inflation through reported numbers.

And Mary Anne, that breaks down -- .

Mary Anne Whitney: Sure, sure. So again, when you think about that 6.5% maybe plus on price, the way it breaks down in our exclusive markets, that's around 4%, and in the competitive markets that's 6% to 8%; so 50 to 100 basis points higher on both sides in terms of what's driving the difference between 5% last year and 6.5% this year.

And as Worthing said, we think of that as addressing the inflationary environment we're currently in. So exactly how you define that, whether you call that 5.5%, 6% that type of inflation, that's what we're seeing around us, and that's what we are addressing.

As you'll recall, Hamzah, back in October, we talked about thinking maybe 5.5%, 6%, and we said we were comfortable at the high end of the range. We've stepped that up to 6.5%, and as Worthing mentioned in his remarks, maybe higher than that, maybe ultimately at 7% because what we're doing is addressing the environment we're in. And we think that's the right way to be proactive from a pricing standpoint.

Worthing Jackman: Again, the importance of understanding the need to get the 80 basis points back and then some on the margin side, is inflation is not just in the P&L.

Inflation's on capital as well, right, in the CapEx. And we're seeing increases, as you might imagine, on fleet construction and other outlays. So you not only have to cover it through what's been impacting your P&L, but what's impacting your CapEx as well because that's how we maintain the very high conversion rate of EBITDA to free cash flow.

Hamzah Mazari: Very helpful. My second question, and I'll turn it over, is just at what point does your leverage get too low where I guess your leverage is 2.4x net? It feels like the acquisition environment, as you pointed out, could be as good as 2021. That's going to add a lot more EBITDA.

If you're sitting below 2x -- I'm not saying you're going to sit below 2 next year, but at some point, if you're below 2, do you do a special dividend? Do you just buy back more stock? At what point do you just say that the balance sheet is too under-levered?

Worthing Jackman: Well, I think if you look at the -- good question. If you look at the outlays this year, if this year looks like last year, we will exit the year closer to 3x level, right, because between the \$1 billion outlay and acquisitions, if that occurs, the outlay you've already seen on share repurchases of [425] and we're just early in the year, right? And so we expect to exit the year closer to 3. That gives us all the flexibility, again, looking forward to continue the growth model and return to capital. Well, Hamzah, it's hard to imagine that we would ever get below 2x given the way we're running the business.

Mary Anne Whitney: Right. And to Worthing's earlier comments about capital deployment, again, we've tried to be consistent to remind people that look back to pre-Progressive, we were buying back 3% to 4% of shares. And so there is certainly optionality to increase the return of capital to shareholders in that environment.

Hamzah Mazari: Got it. Thank you so much.

Operator: Tyler Brown with Raymond James.

Tyler Brown: Mary Anne, just real quick, do you specifically have what E&P and fuel, the impact there on margins? It sounded like there was a lot in that 90 basis points of commodity and other stuff in there that you talked about?

Mary Anne Whitney: So looking ahead, it's a nominal tailwind. If you think about where we are this year versus where we averaged last year, kind of the tailwinds from recycling, RINs and E&P net of fuel, maybe that's 20 basis points of tailwind net as we move ahead, so a small nominal benefit in 2022.

Worthing Jackman: Yes, Tyler, we derisked fuel somewhat more late last year when you saw that massive dislocation in crude for that brief period of time in December.

Tyler Brown: Okay. Okay. That's helpful. And then I appreciate the Q1 guidance, very helpful. And maybe, Worthing, you kind of already addressed this, but how should we think about the cadence of margins through the year? It sounded like you guys might be a

little bit more consistent versus more back-end loaded?

Mary Anne Whitney: That's right. I think that's a great observation, and we recognize that there are some -- there's certainly some puts and takes. But as we think about guiding the full year up 20 basis points ex acquisitions, and then telling you, well, look, it's up 30 basis points in Q1, that tells you that it's going to be pretty similar as we move through the year. It's really not a bet on something changing in the back half of the year.

We acknowledge that there is a little more benefit from recycling RINs, etc., earlier in the year, but we told you about Covid costs. So I'd say that the sort of puts and takes have been dissipated as you move through the year, and there is less of that noise. And the year-over-year margin activity therefore, becomes far more consistent as you move through the year quarter by quarter.

Worthing Jackman: Yes, I think it's consistent in 2022 because it was consistent in 2021.

Tyler Brown: Okay, right. So there is not an assumption that things -- inflation gets significantly easier in the back half in the guidance?

Worthing Jackman: Right.

Mary Anne Whitney: That's --

Worthing Jackman: And nor is there entering the year with a big year-over-year decline that makes that back-end assumption a taller mountain.

Tyler Brown: Okay. Okay. And then on the sustainability-linked CapEx, I realize that there is a good pipeline of RNG projects, but can you talk about the 2 [MRFs]? I guess is there a tail opportunity there, or were these just kind of advantageous opportunities to internalize some third-party commodity volumes, just any thoughts there?

Mary Anne Whitney: Yes, that's the way to think about it, Tyler. As we've described in our sustainability objectives that we'd increase our recycling capacity, we've talked about the fact that there would be these greenfield opportunities. So these are 2 markets where we already have the recyclables, we're collecting them and we were utilizing a third-party facility. So what this does for us, of course, is it internalizes those tons, it derisks the processing fee aspect of it. And it also provides an opportunity to put the new technology into a new facility, the use of robotics or optical sort of less reliance on labor.

So really a win-win in terms of the timing and the opportunity there. Those are somewhat unique opportunities. We will certainly look for others, but that's the way to think about that opportunity set.

Tyler Brown: Okay, great.

Worthing Jackman: Once we do those projects, we're mostly optimized throughout our footprint with regard to recycling facilities.

Tyler Brown: Okay. Okay. That's very helpful. Okay, thanks. I will pass it on. Thanks.

Operator: Jerry Revich with Goldman Sachs.

Jerry Revich: Mary Anne, can we just talk about the first quarter guidance a bit more? So you folks are going to get good core price contribution probably closer to 7 points in the first quarter. And so I just want to make sure I understand the volume comments that you made because it looks like maybe the volume contemplates flat to down organic volume? Is that the impact of the winter weather that you referred to? Can you just expand on that, or is there just enough moving pieces in the guide to give us room to execute in this environment?

Mary Anne Whitney: Sure. We will start, first off, we sort of like to guide to what we know, and leave upside for things outside of our control. And we put volume in that category, particularly during the winter. So with that observation, I'd then call out the fact that we have baked in these contracts that went away. And so if you think about our full year guidance, maybe whether it's half a point of volume, add to that the 80 basis points for these contracts that went away, and you're in what we would characterize as a more normalized, call it, 1.5% type of volume environment. And I'd say the first quarter is the same way with that caveat around winter weather and just arguably, rather waiting to see until that comes.

Now what I would say is if I look at trends in January, it is encouraging to see that the same kind of positive sort of low-single-digit type of numbers coming out of our landfills and our roll-off (inaudible), which those are good real-time indicators of what we're seeing out there and could be indicative of the kind of volumes we will report.

Jerry Revich: Terrific. And then in terms of the recycling opportunities for you folks, can you just remind us of what proportion of your collections business is recycling today? And of that, what proportion do you dispose to third-party facilities? Are you folks optimistic on acquisition opportunities in areas that don't require greenfields, as you alluded to, Worthing? Is there an opportunity for accelerated M&A in parts of the footprint where you disposed the third parties?

Worthing Jackman: Yes, again, as I said earlier, these last 2 facilities optimize our recycling position and our current footprint. The majority of our tons in our facilities come off our trucks. And so to Mary Anne's point about reducing our reliance or risk exposure to third parties, this buttons that up. Obviously, acquisitions that bring us into new markets create new opportunities.

You've seen transaction we did in Massachusetts last year, that is more of a resource recovery market. But those acquisitions are coming with their own resource recovery facilities. Obviously, as we do more tuck-ins in those markets, we will be able to bring more volumes into those facilities to the extent we're not already getting those. But once you've got your footprint down, after that, it's minor investments with regards to robotics and additional sorters to again reduce our reliance on labor, as well as increase the quality of the output and therefore, the price of the commodities.

Jerry Revich: Got it. Thanks.

Operator: Kevin Chiang with CIBC.

Kevin Chiang: Worthing, I just want to clarify something you mentioned in your prepared remarks. I think you said a lot of your safety metrics, and I think you said your cost of risk was lower year-over-year or trending lower? And I guess when I think of an environment where labor has been tight, so you have more new employees, you also made a lot of acquisitions, and typically, safety is one of the places you find synergies. Just wondering maybe what's driving this better safety performance maybe relative to those like perceived headwinds at least on my part?

Worthing Jackman: Well, again, I think that's a longer story. We've always talked about our behavioral-based approach to safety where every person is accountable. This is not a safety department's responsibility in this company. And so we reinforce those behaviors, we coach behaviors. And we hold ourselves accountable for continuous improvement. Put simply, you are right when you point out that acquisitions do typically come along at higher incident rates, that's opportunity. It's opportunities, not just financially, but most importantly for the health of our employees and the safety within our communities. That's of paramount importance.

It's not uncommon for acquisitions to come to us with incident rates at 4x to 8x our average. And when we see that, we look at our most improved performers year-over-year. In this past year, our most improved performer was a recent acquisition in the prior year, and they were down, what, some 65% or 70% in incident rates in year one, so it's possible. It's just it's about culture, it's about relationships, it's about accountability and it's about owning it.

Kevin Chiang: Okay. That's helpful. Just for my second question, maybe going back to something Walter had asked, I think you have talked about this pipeline of opportunities or subset of opportunities kind of \$3.5 billion to \$4 billion. I think that's been pretty consistent for a number of years now. But it does feel like the underlying solid waste industry has gotten more rational. I think the industry seems to be stronger.

Just wondering, does that not play a role in what goes into that pipeline? Like are there markets that 5 years ago, weren't attractive because of the way the overall solid waste market was positioned versus here in 2022?

Worthing Jackman: Well, it's not that they weren't attractive; it's that the proper way to enter it wasn't available at the time. And so as we move through, like you've seen us do in many new markets these past several years, those new market entries are the beachhead for us to continue our model, right? And so just because we are not in a market today, it doesn't mean we may not be in a market in the future. We are just waiting for that right entry point to be available.

And so that's why the addressable market really hasn't changed too much because while we are very active in what we are executing on, we are actually replacing what we are closing with the opportunities that we now have in those new markets.

Kevin Chiang: Okay. That makes a lot of sense. Congrats on a good quarter. Thank you very much.

Operator: Sean Eastman with KeyBanc Capital Markets.

Sean Eastman: Nice strong finish to the year. I just wanted to come back to the CapEx. So it's helpful to call out exactly what's in there for the sustainability investments. If you pull that out, underlying 11% as a percent of revenue, how do we think about the go-forward? We got a big pipeline of sustainability-linked investment opportunities. Does that \$100 million ramp into next year? And then is that 11% underlying sort of the right way to think about the next couple of years as well? Just some color on the trajectory of those two pieces would be great.

Mary Anne Whitney: Sure. So first, with respect to your question about the pipeline of projects, the way to think about it is for those 4 discrete projects that we called out that are unique, as Worthing said, those are 2 unique recycling facilities; and 2 of the few RNG facilities that we plan to own are included there. So for next year, in addition to the \$100 million we are spending this year, there will be another about \$50 million would finish those 4 projects. Beyond that, we are not talking about layering in more as you look ahead. So that's one aspect of the answer.

The second would be with respect to what has arguably been some outsized CapEx, we thought that was prudent in 2021 to make sure that we were positioning ourselves given supply chain constraints and any concerns about deliveries, to make sure we were positioned to get it. And we talked about that all last year and coming into this year, we felt the same way. And so we have positioned ourselves again and those are the numbers we have communicated.

As we look further down the road, we would say, think more about a more normalized CapEx as a percentage of revenue back at that 10.5% type of range that you have historically seen us in.

Sean Eastman: Okay, very helpful. And then I wanted to ask about the E&P upside optionality. It's hard to ignore the leading indicators, which are looking very encouraging, probably prudent to leave that as upside. But is there any other reason other than just prudent conservatism to think that E&P won't have some potentially meaningful uplifts over the course of 2022?

Mary Anne Whitney: Sure. And we don't disagree, Sean, that certainly the fundamentals would suggest that there is an opportunity there. And what we typically would say is, look, let's get into the Spring because that's when we have better visibility because that's when the drillers have better visibility and are communicating that to us.

The one additional element I would say is that the realities of labor constraints are impacting the drillers as well. And so even though you see rig movement, it doesn't mean that the waste is generated as quickly as it might otherwise be because people may not be moving as quickly. And so that would be a limiting factor in the near-term.

But we agree with your characterization of the opportunity as we move through 2022. And as you'll recall, we typically guide to what we see. And so that's why the guidance is what it is. But of course, we acknowledge there should be an opportunity as we move through the year.

Sean Eastman: Understood. Thanks very much.

Operator: (Operator Instructions). Noah Kaye with Oppenheimer.

Noah Kaye: My first one is about investments at the landfill and specifically, around leachate management. It seems like we are circling a date for PFAS regulations to potentially come down the pike in maybe mid-next year. And if and when that happens, it just seems like it's going to take a huge toll on private and public water treatment infrastructure, wastewater treatment infrastructure. So to what extent are you addressing that proactively with some of your investments? Do you think the industry is ready to handle the incremental expenses of leachate disposal? And what might the implications be for landfill pricing?

Worthing Jackman: Well, I can just say I know what we are doing because we have been focusing on derisking our exposure to third-party treatment providers for many years now, plus making R&D investments into how to address PFAS or H2S emissions at landfills. And so we like the position we are in right now. Clearly, we are investing whether it be in thermal treatment, or whether it would be in leachate wastewater treatment onsite and those efforts continue. We monitor our progress in what percent we are handling onsite versus third-parties.

Look, you've got to remember that landfills are the regulated capsule to contain PFAS, and so this is an opportunity for us and how we treat this less of a risk. But you are right to point out that the wastewater treatment plants, that's where there is a much bigger focus and it is a bigger, more complicated issue for utilities.

Noah Kaye: Okay. Thanks. And the second one is just around the subjects of labor and automation. Clearly, this is a people-first business; you continue to invest in your frontline employees. Obviously, some industry players have been talking about automation as a lever to really optimize operations and potentially even drive natural attrition in the labor force. And would just love your perspective on that. To what extent do you see automation as a further tool for optimizing your labor costs? Where are you investing? And how would you frame it from the way Waste Connections is approaching it?

Worthing Jackman: Sure. Look, it's just called running a good business. We don't talk about what might happen and therefore, you have expectations and kind of look to the future for something that may or may not be delivered upon. Look, our view is, as you know, we have already been proactive on robotics to reduce the labor headcounts at recycling facilities, those investments will continue. You've got to remember as good things happen, there is always puts and takes, right, in every P&L and market-by-market. And so I don't view this as a layer takeable, taking thousands of employees out, and re-

presenting ourselves in a whole different view. The reality is you chip away and you run a better operation. You try to reduce your reliance on labor in a tough environment. But I wouldn't hang out hope for something that may sound good, but may be more difficult to deliver upon.

Noah Kaye: Thanks very much as always.

Operator: Michael Hoffman with Stifel.

Michael Hoffman: Congratulations on 25 years, it's been a pretty cool run. I got a bunch of questions that are about the model, not in any particular order, rising rates in the business model. And it's not about is your interest expense going up or down. What do you think about rising rates as operating a garbage company and some of the issues, but the consequences of rates going up?

Mary Anne Whitney: Well, I would say from our perspective, since the majority of our debt is fixed, and our weighted average interest expense is around 3% even with a modest increase, but I don't think it moves the needle. And I think what you should expect is to the extent we take on more debt, we look for opportunities to fix more because we can still consider this an attractive environment in spite of the fact that rates are up. Perhaps for other people who have relied on the low cost of debt to be more aggressive with respect to acquisitions, or other decisions they have made, I think it would have a bigger impact. But again, that's not us.

Worthing Jackman: Yes, but away from interest expense, as you say, Michael, if the view is to increase interest rates to kind of dislocate this economy, and potentially have a recession on the horizon, this industry does very well in a recession. As we all know, it's a very resilient industry. In fact, a recession, if it dislocates the labor force, and increases our available pool of labor, makes us an easier business to operate.

And you look back over time, we performed quite well in recessions, whether it be the early 2000s, late 2000s, etc. It's an industry that does well, and for us, it's a market model that allows for that continued differentiation.

Michael Hoffman: Perfect. And then Mary Anne, I was writing numbers down so fast, you may have said it and I missed it. Did you give an interest expense for the full year? You gave it for the first quarter. But did you give interest expense for 2022?

Mary Anne Whitney: It's about \$160 million.

Michael Hoffman: \$160 million, okay, I missed that. And then I appreciate -- and you have been very clear, you are going to walk away from bad business, and therefore, don't freak out if volumes are negative or a zero. Can you give us the cadence of when I am seeing that because I think it feels like I am probably negative in the first half and positive in the second half. And the second half reflects what's actually happening in the market on a go-forward basis.

Mary Anne Whitney: Are you talking about with respect to the 2 contracts that went

away?

Michael Hoffman: Right.

Mary Anne Whitney: One went in Q4 and one in Q1. So it's pretty steady, a little bit lower in 1 and 4, higher in 2 and 3, 80 basis points across the 4 quarters.

Michael Hoffman: Okay. So being negative in 1 and negative to flat in 2, and then slightly positive to more positive is sort of the way to think about it?

Worthing Jackman: Or it could be positive in 1 and would have been more positive without the losses.

Michael Hoffman: Okay.

Worthing Jackman: No, but we think of this environment right now as kind of an underlying 1%-plus environment. And so then you factor out that 80 basis points, and it gives you a sense of what might be reported. Obviously, if we do better than 1%, that layers on top of that.

Michael Hoffman: Got it. And then you have shared your internal cost of inflation, which is predominantly a wage issue in addition to the capital issue. Where are you on open positions and sort of a trend in actually being able to fill positions?

Worthing Jackman: I would say it's just a wage and CapEx issue. First off, I would say the wages were very proactive last year, going all the way back to the first half of last year when we started picking those up, notably, just in anticipation of what was going to come the remainder of the year. And so we do start to anniversary some of those as we work through the first half of this year. But there are all sorts of pressures out there, whether it would be pressures around repair and maintenance, pressures around third-party trucking availability because they have the same wage and labor availability issues that we all do; yet the waste still has to move from the stations to the landfills, right?

And so there are many line items that pop, and our belief right now is the underlying is at least 6%. And as we move through the year, as Mary Anne said, if we think that pressure for the full year is going to be higher than that, you will see us step up, as I alluded to, maybe pricing approaches 7% because of that.

Michael Hoffman: Okay. And then open positions, are you finding that you are being able to find people now a little bit easier than you had the worst of it sort of in early 3Q, and it's gotten a little bit better, or is it still at the same high level of open positions?

Worthing Jackman: We are still running at that 5% or so of open positions and when you spread across so many operating locations, running in that 4% to 5% is not unexpected. I would say we were stressed, obviously, in many locations with Omicron. At some points of the time, over 1,000 employees were affected or impacted by that in some ways and those that were able to show up, there was extra pressure to get the work done, which is why we did the month of January.

I think the telling sign really is going to be is how do you get through the Spring because obviously, the Spring is where you start getting the pressures. And so right now, we like where we stand, but obviously, we would love to make some inroads in that and put some more seats in the trucks.

Michael Hoffman: Okay. And then this is down in the weeds a bit, but there is a change in the political party in the Seneca area where your landfill is, and you are trying to get a host fee, a community host fee agreement. Do you change your handicapping on that now, given what happened in November?

Worthing Jackman: Look, we don't control the outcome and so we will just let time play out and determine where that heads.

Michael Hoffman: Okay. And then last, did I hear you correctly, so you spent \$425 million on a share buyback in January and so that's like 3.25 million shares?

Worthing Jackman: That's right, and that's why we gave you a share count of, what, 2.59 million for the full year, [just as of today].

Mary Anne Whitney: That's right, yes, so (inaudible).

Michael Hoffman: Okay. All right. That's terrific to hear. Thank you very much.

Operator: Chris Murray with ATB Capital Markets.

Chris Murray: Just quick questions going back to the inflation question. So thinking about the fact that maybe there is a chance that we could see some moderation on some of the inflation pressures as we go into the second half of the year. Can you just -- getting back to understanding the mechanics of inflation, is it fair to think that all the pricing that you all have been putting in, and the stuff you have got in your captive markets, like that's going to be sticky, those increases will be on an annualized basis. So that really leads to your comment about perhaps some margin improvement on the back half if inflation moderates?

Worthing Jackman: Right. We're saying moderation is upside, not what it takes to produce the wishful second half recovery.

Mary Anne Whitney: That's right. And just, Chris, to your point, we put in the majority of our price increases early in the year. To the extent there's CPI length, that's for the lag. So those are known numbers for 2022. To the extent that were to happen, it could impact on 2023 for those because where we sit now, it only gets better in 2023 because of the inflationary pressures we have seen in terms of pricing.

Chris Murray: All right. No, that's fair. I just wanted to make sure that there wasn't something that reverses back out on you.

And then my last question very quickly is just around the base dividend. Worthing, you made the comment a few times that the idea was, as you were growing, the dividend

would probably outgrow the pace of your cash flow generation. But in the last couple of years now, we have seen cash flow and we look at your 2022 guide certainly, this year, it looks like it's going to be pretty strong as well. So now you are kind of outstripping the growth in the base dividend. I appreciate that you are also supplementing that with some share buybacks.

But how do we think about that base dividend in terms of growth? I think Hamzah asked a question about a special. But just going back to the base dividend, and where you see that longer term, and do you start trying to grow that at above cash flow in the future?

Mary Anne Whitney: A couple of observations, Chris. First of all, it has been about a 15% CAGR since we initiated the dividend 11 years ago. So we have consistently raised it double-digits. And we do anticipate that when the outsized acquisition slows down as a percentage of our total free cash flow, that will grow from that 20% to 22% where it is now. We could see that growing to more like 30% of free cash flow.

The other observation would be in a year like this, 2021, we actually doubled the return of capital to shareholders from the prior year between our share repurchases and the continued growth in the dividend. And coming into this year, having already done share repurchases and being well positioned for continued growth in the dividend, you should expect something comparable.

Chris Murray: Great. Thanks for your time.

Operator: Thank you. Mr. Jackman, there are no further questions at this time. I will now turn the call back to you. Please continue with your presentation or closing remarks.

Worthing Jackman: 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 Joe Box are available today to answer any direct questions that we did not cover that we are allowed to answer under Reg FD, Reg G and applicable securities laws in Canada.

Thank you again, and we look forward to seeing you at upcoming investor conferences or on our next earnings call.

Operator: Thank you. That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.