

Waste & Env. Services Market Update

Industry Consulting Team | Q1 2022

Prachi Wagner

Waste & Env Services
Industry Manager

Prachi.Wagner@Truist.com
(704) 620-0708

Josh Silverstone

Waste & Env Services
Associate

Josh.Silverstone@Truist.com
(954) 821-9783

Highlights

- Record inflation has caused an upward trend in pricing for waste companies leading many to increase prices for contracts linked to the current CPI index which is at a 40-year high
- ESG (“Environment, Social and Governance”) is becoming a main focus for the waste industry with many public waste companies announcing investments with an emphasis on recycling and renewable energy
- Consolidation has continued in the waste management industry driven primarily by high valuations, aging out of management, and labor and equipment shortages

Waste and Environmental Services Industry Trends

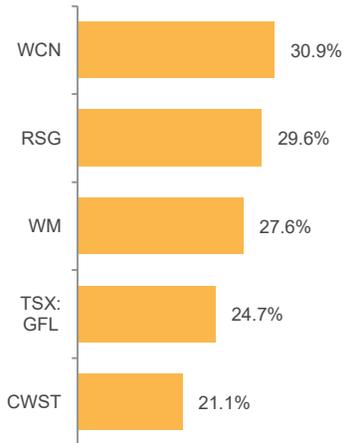
➤ **Economic:** Housing remains a key driver of incremental solid waste volume growth for the Waste industry. In January 2022, seasonally-adjusted annual housing permits were up to 1.9 million, the highest since May of 2006. Conversely, housing starts fell 4.1% from December 2021 to a seasonally adjusted annual rate of 1.6 million in January of 2022 which is the lowest in 3 months. This was primarily driven by labor shortages and an increase in material costs due to supply chain constraints. With limited inventory, the demand for new houses remains strong going into 2022

➤ **Margins:** Pricing rose across all revenue segments for public companies in 2021, but margins were primarily pressured by dilution from recent acquisitions and inflation in wages. Residential waste collection saw an uplift in revenues due to price increases driven by rising inflation and fuel costs, but margins were lower due to labor shortages and higher incentives to retain front-line workers. Commercial waste collection is seeing a rebound in volumes as economic activity returns to pre-pandemic levels as case counts decrease, but price increases are lagging inflation leading to modest margin contraction. Landfill pricing is showing an increase in volumes nationally due to recovery in industrial and commercial collection in the later half of 2021 and beginning of 2022

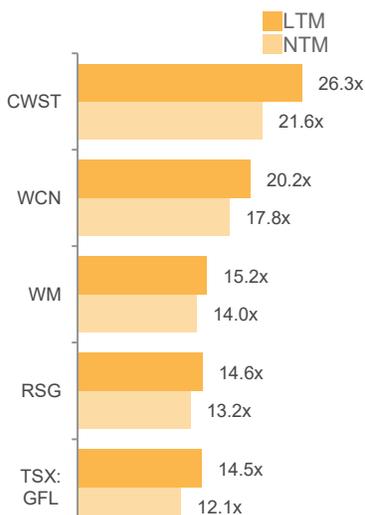
➤ **CapEx:** Steel prices are unlikely to ease materially over the course of 2022 due to geopolitical activity (Russian invasion of Ukraine) leading to prolonged supply chain disruptions, volatility in commodity prices, and capex pressures. With the increase in steel prices, the cost of trucks and containers remained elevated throughout 2021 and the beginning of 2022. Supply chain constraints and labor shortages have elongated the delivery times of new trucks leading companies to look to the secondary market for truck purchases or short term rentals to fulfill waste contracts. Public waste companies are investing in technology to increase labor efficiency through automation to reduce dependency on a larger labor force

➤ **Waste Volumes:** Residential waste volumes decreased in the fourth quarter as the population migrated from a fully remote working model to a hybrid model. Some areas saw spikes in the Omicron variant but overall the business travel segment is projected to grow in 2022, displacing lower residential waste volumes into the commercial space. Commercial volumes have returned to pre-pandemic levels in most of the United States. Industrial waste volumes are light as supply-chain issues are still disrupting the industrial market. Event-driven waste volumes are back to pre-pandemic levels as the economy has cautiously opened up despite Omicron outbreaks

Public Comps EBITDA Margin

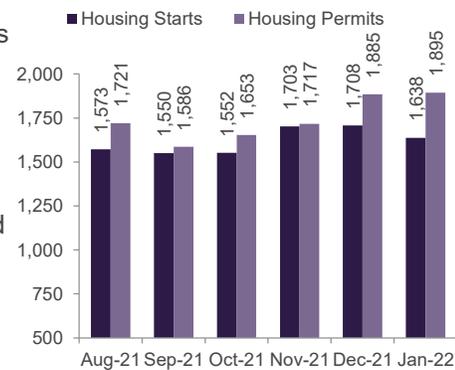


Public Comps EV/EBITDA

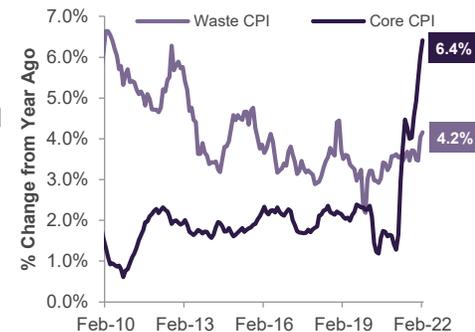


Solid Waste Public Companies
WCN – Waste Connections; RSG – Republic Services;
WM – Waste Management; GFL – GFL Environmental;
CWST – Casella Waste Services

Housing Starts



Consumer Price Index



Waste & Env. Services Market Update

Industry Consulting Team | Q1 2022

ESG (“Environment, Social and Governance”) and the Impact on the Waste Industry

- As ESG has grown in popularity over the last few years, many waste companies have been making investments in initiatives focused on moving the effort forward. ESG investing in the Waste Industry is going mainstream in large part because more investors, shareholders and rating agencies are considering ESG in their investment or rating decisions
- According to the Global Sustainability Investment Alliance (GSIA), in 2020 approximately \$35 trillion in assets were being managed in accordance with ESG principles globally. As reported by Refinitiv Lipper, 2021 was a large year for ESG-focused funds, with the sector attracting an inflow of \$649 billion, compared to \$542 billion and \$285 billion for 2020 and 2019, respectively
- Waste Management recently re-branded itself as ‘WM’ focusing on being a more sustainable company. The company has committed to investing \$800 million in its recycling business from 2022-2025, focusing on automation of recycling processes, improvement of product quality, and expansion of its single-stream recycling footprint. It will also invest \$825 million to build 17 Renewable Natural Gas (“RNG”) plants over the next four years to recycle the gas produced by landfills into a renewable energy source for the economy
- Republic Services has also invested in RNG plants with four projects expected to be completed by year-end and another 14 to be completed by 2024. The company announced plans to construct an integrated plastic recycling facility in Las Vegas expected to produce ~100 million pounds annually of recycled plastic products. This facility will then be able to recycle the used plastic for the first time in a closed loop manner, reducing the reliance on virgin plastic and diverting plastic waste from landfills
- The continued focus on ESG in the waste industry will help provide domestic markets for recyclable materials and drive innovation in closed loop recycling for various materials that are currently exported or sent to landfill

M&A Update

- Waste & Environmental Services M&A activity is at historic levels, with public companies spending around \$4 billion in 2021 and strong momentum in the first two months of the year
- Public company activity is shored up by low interest rates, elevated sale multiples, and companies diversifying revenue streams through acquisitions in adjacent sectors. The announcement of Republic Services purchasing US Ecology was a novel deal for the industry as it represents a large non-hazardous waste company diversifying revenue streams into hazardous waste
- Family-owned companies are also seeing preminent sales driven by higher valuations, retirement of baby boomers and pandemic fatigue with respect to labor and capital costs. We do not expect to see a diversification of revenues of non-public companies into hazardous waste. Growth in these companies is primarily driven by geographical expansion and densification of existing waste footprint with assets and customer lists

Acquiror	Target	Details
		Republic Services announced the acquisition of US Ecology for \$2.2 billion. The acquisition represents a major step in Republic’s expansion of their environmental services division. The acquisition includes 14 specialty and hazardous waste landfills, 16 TSD facilities, and 7 wastewater, and over 80 field locations
		Long-time investor in the waste & environmental services industry, Macquarie, announced the acquisition of a majority stake in GreenWaste and partner company Zanker Recycling. The deal comes on the heels of the implementation of a organics recycling requirements across California
		Founder SPAC is merging with waste and recycling technology company, Rubicon, in a deal that will take the platform public. Rubicon’s technology offers value-added advice to match business with the appropriate waste & recycling provider to save money and reduce emissions
		Closed Loop Partners acquired a majority stake in Sims Municipal Recycling (SMR) in a deal that will accelerate circular economy efforts across existing and new markets. SMR produces hundreds of thousands of tons of valuable commodities that are diverted from landfills and recycled to manufacturers
		Casella Waste acquired the assets of Northstar Pulp & Paper, a resource management company focused on recycling processing, brokerage, and collection across the northeast



Sources: Bloomberg, WSJ, CapIQ, Waste350, Company Report, Federal Reserve Economic Data, WasteDive, Global Sustainability Alliance (GSIA), Refinitiv Lipper, Company Reports