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EDITED TRANSCRIPT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Waste Management First Quarter 2020 Earnings Release Conference Call. (Operator Instructions) Please be advised, today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Ed Egl, Senior Director of Investor Relations. Thank you. Please go ahead, sir.

Edward A. Egl - *Waste Management, Inc. - Director of IR*

Thank you, Blue. Good morning, everyone, and thank you for joining us for our first quarter 2020 earnings conference call. With me this morning are Jim Fish, President and Chief Executive Officer; John Morris, Executive Vice President and Chief Operating Officer; and Devina Rankin, Executive Vice President and Chief Financial Officer. You will hear prepared comments from each of them today. Jim will cover our COVID-19 response strategy, along with an overview of our results. John will cover an operating overview, and Devina will cover the details of the financials.

Before we get started, please note that we have filed a Form 8-K this morning that includes the earnings press release and is available on our website at www.wm.com. The Form 8-K, the press release and the schedules to the press release include important information.

During the call, you will hear forward-looking statements, which are based on current expectations, projections or opinions about future periods. All such statements are subject to risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties are discussed in today's press release and our filings with the SEC, including our most recent Form 10-K and subsequent Form 10-Qs.

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John will discuss our results in the areas of yield and volume, which, unless otherwise stated, are more specifically references to internal revenue growth, or IRG, from yield or volume. During the call, Jim, John and Devina will discuss operating EBITDA, which is income from operations before depreciation and amortization. Any comparisons, unless otherwise stated, will be with the first quarter of 2019. Net income, EPS, operating EBITDA margin and SG&A expenses have been adjusted to enhance the comparability by excluding certain items that management believes do not reflect our fundamental business performance or results of operations, including costs incurred in connection with the pending acquisition of ADS. These adjusted measures, in addition to free cash flow, are non-GAAP measures. Please refer to the earnings press release and tables, which can be found on the company's website at www.wm.com for reconciliations to the most comparable GAAP measures and additional information of our use of non-GAAP measures and non-GAAP projections.

This call is being recorded and will be available 24 hours a day beginning approximately 1:00 p.m. Eastern Time today until 5:00 p.m. Eastern Time on May 20. To hear a replay of the call over to the Internet, access the Waste Management website at www.wm.com. To hear a telephonic replay of the call, dial (855) 859-2056 and enter reservation code 4950049.

Time-sensitive information provided during today's call, which is occurring on May 6, 2020, may no longer be accurate at the time of a replay. Any redistribution, retransmission or rebroadcast of this call in any form without the express written consent of Waste Management is prohibited.

Now I'll turn the call over to Waste Management's President and CEO, Jim Fish.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Thanks, Ed, and thank you all for joining us. Given the significant and widespread disruptions caused by COVID-19, we will use our time on the call to discuss our response strategy rather than focus on first quarter results. Our immediate priorities going into the shutdown were protecting our employees and providing safe and reliable service to our customers and communities. Having established a framework to achieve those early priorities, we're now focused on optimizing our business for the new environment, preserving our financial strength and flexibility and progressing towards closing the acquisition of Advanced Disposal.

We're taking steps to use the crisis to create a new normal. We're focused on opportunities to enhance our business, attracting top-quality talent and developing customer-centric solutions. I'm extremely proud of how our team has worked together proactively to address the challenges we faced during the last 2 months and how our frontline teammates continue to diligently provide essential services to our customers.

As I've said many times, at Waste Management, we put our people first, so they can take care of our customers, communities and the environment, which will, in turn, benefit our shareholders. It should be no surprise that our top priority as a leadership team has been the health, safety and financial well-being of our 45,000 team members. We wanted to ensure that our employees could focus on continuing to provide exceptional customer service and not worry about whether they'd be able to pay their bills.

So the first and probably easiest decision we made was to indefinitely guarantee 40 hours of pay for full-time employees through the duration of the pandemic, so that they know their jobs and pay will be secured even if COVID-19 reduces the number of routes or hours needed to service our customers. Of course, it's important to point out that we took immediate steps to protect the jobs of -- while we took immediate steps to protect the jobs of 45,000 employees, we're managing the labor components of operating costs through significant reductions in overtime hours.

Regarding health and safety, we're also working with vendors to make sure that we had appropriate personal protective equipment for frontline employees, including masks, gloves and a hand sanitizer. We quickly made strict changes to our daily processes to follow social distancing guidelines for our frontline employees, and we transitioned about 20,000 of our office employees to a work-from-home environment in 1 week's time. This has been a massive change to how our team performs their jobs, and overall, it's been a very successful transition.

We're also providing paid sick leave for our COVID-19-related absences for employees and have extended benefits for backup child care in light of school closures. The team has responded commendably by continuing to provide essential services to customers and communities across North America. Our team has also been focused on supporting customers, especially small and medium commercial businesses that are the lifeblood of our economies. Even with the substantial support packages, small businesses will certainly need a helping hand coming out of the shutdowns.

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Given that, we've helped our customers rightsize their service levels, reducing service where necessary, temporarily pausing price increases and extending payment terms.

In addition, as I've said publicly, in an effort to support those small businesses, Waste Management is giving a free month of service to qualifying open-market small business customers as they resume their normal waste service and restart their businesses in a post-COVID-19 economy. Our customer teams are proactively contacting these small business customers in an effort to show our support and will continue to do so as states and provinces reopen across North America. We see this as the right thing to do and believe it will result in greater customer loyalty over the long term. We're optimistic that this enhanced customer loyalty, combined with the fact that we've seen less than 1% service cancellations in our commercial line of business since the start of the pandemic, are good signs for how our business will recover as businesses reopen and need our services.

We're also working with our municipal customers to address increased residential waste per unit and helping them manage recycling challenges in areas where there have been processing disruptions.

Turning to our financial results. For the first quarter, our business generated operating EBITDA of more than $1 billion. For the first 2.5 months of the quarter, our operations were performing extremely well, putting us on track to exceed our first quarter goals. Of course, the whole world changed during the second half of March, and we swiftly began to adapt our business and identify cost-saving opportunities. John and Devina will give more color on cost reductions, but I can assure you that we are maximizing our asset utilization and looking at all discretionary costs and capital spending.

Maybe even more importantly, we're looking at this unprecedented event as an opportunity to permanently change our business processes, our customer service offering, our work, our office work model and application of digital business solutions, to name a few. WM has always been a very resilient business model, and we will make sure we come out of this pandemic stronger, more differentiated and even more resilient than we were going in.

Finally, it's been about 1 year since we announced our acquisition of Advanced Disposal. Despite the general business disruption caused by COVID-19, we continue to make progress and currently anticipate being in a position to receive final antitrust regulatory approval and proceed towards closing by the end of second quarter of 2020. We're looking forward to completing this transaction, integrating the ADS team and operations and creating long-term value for our shareholders.

In closing, despite the fact that solid waste is an essential service and many parts of the business remain recession-resilient, we are suspending financial guidance we provided in February given the uncertainty around the unprecedented impact of COVID-19. At this time, we cannot forecast with reasonable accuracy the duration of the COVID-19 disruptions or the pace of recovery, particularly for small businesses. There are just too many unknowns, and any guidance at this time would be an educated guess at best.

Poor short-term visibility does not, however, alternate the very strong cash-generating ability of our business model. In past downturns, we've demonstrated the ability to flex spending, manage capital and maintain solid pricing discipline, all in order to generate strong free cash flow and strong return to our shareholders. We expect to continue to do that in today's economic environment. And most notably, now more than ever has been the right time to stand firmly behind our 45,000 team members and our small business partners to do our part to protect their futures.

With that, I'll turn the call over to John to discuss our operational results for the quarter as well as additional color on the impacts to our business from the pandemic.

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Thanks, Jim. Good morning, everyone. First, I can't emphasize enough how proud I am of the WM team. Our team members have stayed focused on safely serving our customers and communities during a time of extreme uncertainty and distraction. Despite the volatile backdrop, our frontline employees have reported to work, taking great pride in their role of providing an essential service to our cities and towns across the U.S. and Canada.

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While many companies are facing challenges to their supply chains in this environment, I want to take -- I want to recognize the fantastic work that our supply chain team has done to keep our operations running smoothly. They've been able to continue to meet the needs of our business and the safety of our employees, including being able to secure personal protective equipment to protect our frontline employees for the next several months. There's no doubt that we have a dedicated team of men and women who are committed to providing the waste and recycling services our communities depend on.

Turning to our results. Operating EBITDA grew 2.6% for the quarter with COVID-19 impacting our business in the second half of March where we saw revenue negatively impacted by $40 million. We've positioned ourselves to be responsive to the volume changes in our business and properly adjust our costs. I'll first spend some time talking about some of the specific ways that we are flexing our costs to respond to this decreasing volume environment.

In our collection line of business, technology and analytical tools such as M100 provide data and visibility into our drivers' routes that enable us to swiftly remove overtime hours and optimize or eliminate routes when customers reduce or suspend service. These insights have allowed us to flex our labor costs in this rapidly evolving environment. For example, we've been able to reduce overtime hours by half compared to prepandemic. In addition, we've reduced commercial routes by almost 6% and industrial routes by almost 13%. And overall, we've parked almost 6% of our routed vehicles, allowing us to reduce fuel and maintenance costs.

In our post-collection operations, we're flexing costs commensurate with this volume environment. These results are evident in our reduction of heavy equipment operating hours, overtime and other variable expenses. With most communities we serve under stay-at-home orders, we've seen a significant increase in residential container weights, and our disposal costs are increasing, putting pressure on margins. But as we discussed last quarter, improving the profitability of our residential business is one of our key focus areas in 2020, so that put us ahead of the game in initiating conversations with our municipal customers on price increases that keep pace with rising costs. We're having these conversations as contracts come up for renewal as well as proactively discussing the changing dynamics with our customers.

Given the fluid environment we are in, I also want to provide some color on the volume declines that we've seen during the month of April. At the peak, we saw more than 20% declines in third-party landfill tons and industrial hauls and close to 16% declines in the commercial line of business, while our residential line of business has seen about a 25% increase in the amount of waste disposed. A large portion of our landfill business over the last several years has been driven by big businesses, C&D contractors and special waste volumes, and they account for much of the decline that we've seen. We expect that these volumes should rebound fairly quickly as the economy reopens and as our pipelines remain strong.

On a positive note, as we progress through the month, the rate of volume decline improved, and we had 2 areas actually show positive net service changes at the end of April. However, we still saw low double-digit volume declines in our overall business. In order to help our customers recover post-COVID, we have internal task force teams to focus on proactive restoration efforts to facilitate volume increases for restaurants, retail and offices, which make up 60% of the commercial revenue impact. The extreme volatility that we've seen in our volumes and the uncertainty in knowing how quickly those volumes return are the primary reasons we decided to suspend our guidance.

Turning to price. In the first quarter of 2020, core price was 5.5% versus 4.5% in the first quarter of 2019 with all lines of business greater than 4%. Landfill core price remained strong at 4.3% with collection and disposal yield of 2.2% in the first quarter. As a reminder, yield is calculated using current period volume, and as a result, in a declining volume environment, there will be downward pressure on yield, but that does not indicate we are lowering prices. As Jim mentioned, we have taken thoughtful, proactive customer-focused steps to help our small business customers in this tough economic climate and to generate long-term customer loyalty. These actions do not indicate we're abandoning our pricing discipline. We remain committed to recovering the increased cost of our business through pricing actions.

While we aggressively address cost reductions related to our volume trends, we also remain focused on meeting our customers' needs. Our operations and customer experience teams are partnered to ensure we can swiftly respond to service increase requests and ramp our operations back up to meet their demands. We've developed a proactive approach to service restorations for customers adversely affected by the COVID crisis. Our goal is to ensure that reinstating their environmental services is seamless, so they can focus on getting their business back up and running. We're in a great position to do this as our 40-hour guarantee was the right thing to do for our team members, allowing us to remove overtime while retaining our frontline employees for the next phase, ramping our operations back up as efficiently and swiftly as possible to meet our

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customers' needs. In addition, our emerging self-service capabilities as well as the technology on our vehicles will help us support their needs as their businesses come back online.

And finally, our recycling business performed well, considering further erosion in recycled commodity prices in the first quarter. Our average commodity price fell nearly 30% to $40 per ton. Despite a decline in revenue of about $60 million in the first quarter, the operating EBITDA contribution from the business increased modestly. These results demonstrate the success we continue to have in restructuring our recycling business to a fee-for-service model. Throughout the COVID crisis, we've been able to continually to safely process most recyclables as we encourage everyone to continue to recycle right.

As a result of the demand created for materials we collect, we have seen an increase in OCC prices in April. While we are encouraged by the increase in demand and recovered prices, there are some challenges with other commodities like steel, aluminum and plastics as we've seen the prices for these commodities decline. Despite all these movements and restrictions in the marketplace, our team continues to be able to consistently move all the tons we process.

I am proud of how we navigated the COVID crisis, in particular, how we've taken care of our people. This will no doubt help us with employee retention and ultimately help differentiate Waste Management as a great place to work.

With that, I'll now turn the call over to Devina to further discuss our first quarter financial results and capital allocation priorities.

Devina A. Rankin - *Waste Management, Inc. - Executive VP & CFO*

Thanks, John, and good morning, everyone. As Jim mentioned, we have temporarily suspended our 2020 guidance, a step we view as prudent due to the uncertainty created by COVID-19. With that said, one of the strengths of our business model is that in the face of unprecedented uncertainty, we provide our constituents, employees, customers, communities and shareholders with a great deal of certainty.

Waste Management provides essential services to a diverse customer base across the U.S. and Canada. Our business is recession-resilient with more than 75% of revenues having annuity-like characteristics. We have experienced and dedicated team members who are focused on safely serving our customers, and we are finding them more dedicated than ever. We've implemented tools and practices that drive disciplined pricing, cost control and capital spending across our network, and so we are well positioned to flex our business with changing volumes. All of this comes together to position Waste Management to generate strong and consistent free cash flow and return value to our shareholders.

We are certainly seeing declines in revenue related to COVID-19. And to partially offset the impact of the anticipated revenue decline, we're taking steps to manage costs and capital spending without compromising our long-term strategic priorities or growth opportunities. Some of these steps include limiting hiring, reducing or eliminating discretionary spending in travel and entertainment and consulting costs and reducing incentive compensation costs. We have proven in the past that we are very good at flexing our spending when facing challenging economic conditions, and we want to assure you that we will continue to manage our business to maximize cash generation and returns over the long term.

We remain confident in our ability to generate strong free cash flow in 2020, positioning us to pay our dividend, make opportunistic investments and bolster our liquidity. We're extremely well positioned financially to manage our business through COVID-19 impacts. We continue to maintain a strong balance sheet and liquidity position with our current and forecasted leverage ratio well within our revolving credit facility financial covenant. Our liquidity is the strongest it has been in the company's history, bolstered by the recent upsize in our revolving credit facility to $3.5 billion. We took proactive steps to fund the ADS acquisition. So when you consider our cash on hand with our expectations for access to both short-term and long-term financing options, we are confident that our liquidity and financial position will remain strong through the acquisition close and the most significant challenges presented by the pandemic.

Turning briefly to our first quarter 2020 results. I want to highlight how we see SG&A, capital spending and cash flows. Results that we saw in the first quarter is important indicators for what we expect for the remainder of the year. First quarter SG&A was $390 million, a decrease of 4.6% compared to the same period last year. And SG&A as a percentage of revenue was 10.5%, an improvement of 60 basis points over last year. These

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results include benefits from lower incentive compensation accruals as well as steps we have taken to quickly reduce discretionary spending in response to business impacts related to COVID-19.

The continuous improvement mindset we have fostered over the last several years is serving us well as we rationalize and optimize costs across the organization. As a result, we expect to reduce SG&A spending by about 10% of COVID-related revenue declines.

Net cash provided by operating activities was $765 million in the first quarter. The strong start to the year was driven by operating EBITDA growth, but that growth was more than offset by higher cash interest and adviser costs associated with the pending ADS acquisition as well as a sharp decline in customer receipts in late March, which we attribute to customers taking steps to protect their own financial position. We are seeing this trend continue into April and are paying close attention to how this impacts our revenue, bad debt reserves and working capital outlook.

Capital spending in the first quarter was $459 million, which is down modestly when compared to the same quarter in 2019. While we continue to prioritize investments in the long-term growth of our business, we are now flexing our capital spending to align with current volumes and expect to see a significant decline in capital spending beginning in the second quarter of 2020.

For the full year, we are targeting capital spending reductions of about 10% from planned levels. Landfill capital makes up about 1/3 of our overall capital spending, and we expect most of the reductions in this category as we adjust cell construction schedules with declines in volumes. We also see opportunities to flex spending for containers and heavy equipment.

Free cash flow was $318 million in the first quarter of 2020. It's important to highlight that our first quarter 2020 cash flow included over $55 million related to our pending acquisition of ADS and the ERP implementation. When we consider these items and the uncharacteristic customer receipt slowdown we saw at the end of March, combined with our intentional focus on flexing SG&A and capital spending, we're satisfied that we remain on track to deliver another year of strong free cash flow. The cash that we generate positions us to invest in our business and return cash to our shareholders. In the first quarter, we paid $236 million in dividends and repurchased $402 million in shares. We remain fully committed to our dividend program. However, as a prudent step to preserve cash in this uncertain environment, we decided at the end of March to temporarily suspend our share repurchases.

In closing, I want to echo what both Jim and John have said. I could not be prouder of how our employees have responded to this unprecedented pandemic. I want to thank every one of our 45,000 employees. The work they have done and continue to do will make Waste Management a stronger and more resilient company as the economy emerges from the pandemic impact.

With that, Blue, let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Walter Spracklin from RBC Capital.

Walter Noel Spracklin - *RBC Capital Markets, Research Division - MD & Analyst*

First, starting here on pricing. I guess I recognize that you will be taking some actions here, perhaps deferring any price increases given the environment. But overall, can you speak to the pricing behavior among your competitors especially smaller players and whether you are losing business due to some of that price action, particularly since the April period? That'd be great.

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James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes. I think -- Walter, I think the business that we've lost, which John can go into in more detail, it's a very small amount of commercial business that we've lost so far has strictly been due to the pressure of this COVID shutdown, not due to pricing in any way. We have not seen anybody out there slashing pricing. I think most companies are out there really focused on the cost side of their income statement. And I think for us, specifically for all the right reasons, we put our price increase program to our small businesses on hold until they can restart those. I mean as I said in my prepared remarks, I mean, small business is truly the group that is at greatest risk here and, hence, our program to try and help them reemerge.

But as John said and I'll say, we're not -- we've gone for a long time building this kind of price discipline muscle here. And just because it's got a 2-month or 3-month break does not mean it's going to atrophy. We're going to continue to make sure that we increase price to offset cost increases that we've seen and -- but we are going to take a break with those small businesses until they get back on their feet.

Walter Noel Spracklin - *RBC Capital Markets, Research Division - MD & Analyst*

Okay, that makes sense. My follow-up here is on just the understanding that your -- you have less visibility into the full year. But just looking into -- you mentioned April and as we model for Q2 here, I heard you mentioned low double-digit volumes and pressure on pricing or pressure on yields, I guess. If that kind of -- if we were to kind of take the low double-digit volume and negative pricing as our Q2 and then decide where we go from there, would there be anything that we'd be missing or you would highlight that would either cause us to reexamine that assumption here for the second quarter?

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes. I mean the -- there is a bit of -- there is some good news here and -- when we look at our numbers. And it's primarily on the roll-off and landfill side of our business. Those, as John mentioned -- and good news on the -- a bit of reason for optimism on the commercial line of business, although that one is the one that is less clear. We just don't have as good of an idea about what happens with commercial business, what happens with retail, restaurants, all the sporting-related businesses, office space. That is really virtually impossible to predict. There's no historical evidence for us to kind of look back into.

But as we just look at our own numbers, I'll give you a couple here with roll-off. And roll-off, as John mentioned, was down, at its low point, in the 20% range. So I'll read off a couple of those numbers, starting with the week of the 15th of March. We were down 4.6%. That's compared to a pre-COVID week just a couple of weeks before but down 4.6%. So all of a sudden, the week of the 22nd of March down 11.6%, down 14.6% the week of the 29th; first week of May, down 17.7%; down 19.6% the week of the 12th. All of that is not surprising, not unexpected and not great. But then all of a sudden, the week of the 19th, so the next week, we went from down 19.6% to down 15.1%. The week of the 26th, we went from down 15.1% to down 11.8%. So a fairly sharp rebound in the roll-off line of business. And when we look at the waste streams within our landfill line of business that are most driven by big business, we're seeing a similar rebound where we're not seeing necessarily a big rebound. We are seeing some signs that we've bottomed and starting to climb out gradually, and let me stress gradually, is the commercial line of business because so much of that is driven by small business. And I just think small business themselves don't know what the rebound is going to look like. This is driven by geography. It's driven by mix of business. There -- I mean, the small businesses that are tied to health care probably didn't even see a downturn.

But a fairly significant percentage of our business is schools, for example. Schools obviously have been shut down. And there's conversation in Houston that they might do every other day in the fall. So we just don't have a good -- we don't have good visibility with respect to small business. But the good news is that big business that's not in any kind of liquidity -- doesn't have any liquidity concerns or going concern issues, that is starting to rebound. And when we look at those numbers I just read you for roll-off, it looks encouraging.

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John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Maybe, Walter, just a little more color on the landfill side. When we look and we strip it out by waste stream, what we've seen is looks like our landfill volumes on the MSW side bottomed out between like the first and second week of April, and we're starting to see not big improvements, but it's improving week over week. So we are seeing volume come back on the MSW line.

Special waste, a little bit later. It looks like it bottomed out in the last week or 2, and that is starting to turn positive. And then lastly, C&D was obviously down pretty significantly, but we've also in the back half of April seen signs that that's flattened and started to turn positive. So there are some signs of optimism in our landfill volumes. And most importantly, the one we pay, obviously, particular attention to is MSW, and we've seen that turn positive here in the last few weeks.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Well, and John and Walter, the -- when John talked about 25% down at its low point for all landfill tons, heavily weighted there was the C&D and special waste, and those are really big customers. Those are big contractors. Special waste is almost exclusively big customers, and they're not going out of business. They just kind of went into a wait-and-see mode. Our pipeline, as John mentioned in his remarks, is strong. And so I think what you're starting to see with that roll-off and some of those waste streams at the landfill returning is big business starting to kind of turn things back on.

Operator

Your next question comes from the line of Kyle White from Deutsche Bank.

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

Hope everyone is doing well. Just focusing on residential. Obviously, with the uptake in volumes on the collections side given the shelter-in-place orders, can you just talk about your ability to potentially increase pricing in order for it to be more appropriate for the increased volume levels? Have you had any success doing this to date?

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Well, yes. I mean, first and foremost, I think our strategy on residential before this pandemic was obviously a focal area for us. We've talked about our plans to improve margins there. And I think if you look at our core price results in Q1, they're strong and stronger quarter-over-quarter from '19 to '20. On the volume side, certainly, we've seen plus-20% increases in the volume on a per-unit basis, and we've kind of broken that down. About 25% of it is open market, and the balance of it really is municipal and franchise business. So we are really focused on going back to all those municipal and franchise customers and having some conversations about what's going on in the volume. I mean look, nobody signed up for 25-plus-or-minus percent increases in residential volumes. And I'm sure, as you folks know and can assume, some of that is going to remain because I think what Jim mentioned in his opening remarks is there's going to be a change in the work environment. And I think we're going to see more people stay and work from home. So we're -- that is a key focal area for us.

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

Got you. And then just follow-on. Can you provide similar level of details on the commercial line of business similar to what you just did for the roll-off and how the month of April looked? How is the beginning relative to exit rate of April in terms of servicing clients?

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John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Yes. I mean Jim mentioned it. I think what we saw is it started moderated through the month of April. We had 2 of our areas or regions, depending on how you refer to them, actually show positive coming into the end of the month. And just in the -- we're obviously like everybody watching us on a day-over-day basis, week over week. And I would tell you that each day, it's improving over the previous week. As Jim mentioned, it's not huge increases yet. But really, what's important for us is trying to figure out where the bottom of this thing is, and that's what we're focused on, and we feel like we've got a pretty good feel for it right now.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

I think the good news, John, on commercial, and Kyle, the good news on commercial, while we've said there's not a ton of visibility with small business, the good news is that we really have been diligent in trying to determine which customers are not going to make it out of this. And so John talked about that 1%. Well, we've scrubbed that number. That's not just customers calling us and saying, "Hey, cancel our service. We're not going to continue." That is us proactively, through an enhanced process made possible, by the way, through our onboard systems, going back to them and saying, this is a driver, for example, identifying -- through an enhanced [call] process, identifying a customer that looks like the doors are closed. And so -- but it's still on their route sheet. And so that would all be included in that 1%. So 1% is a very encouraging number. That tells us that of all these small businesses, the large, large majority are going to try and make a go of this coming out of COVID-19. Now what we don't know is how many of them actually make it. We don't know. I mean you can read 100 articles on what the risk is to small business if this thing lasts 6 months or 12 months. It differs from New Jersey and New York to Texas and Arizona.

So it's -- the other thing, I think, John, that you were going to touch on was the number of service reductions that we see.

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Yes. No, fair, Jim. Thanks. I mean we went back and looked, and just under about 10% of our 1.3 million commercial customers have said have had some change in their service. The vast majority, as Jim mentioned, only about less than 1% have actually canceled service. The rest are either reduced or suspended service. And I think what's important to note there is about 80% of those customers came to us as their business has started to decline. But to Jim's point, we've been very proactive with our ops team, our customer experience team to use the tools we have, both on the truck and back in the office to be able to identify and work proactively with these customers. And granted, we might be reducing some yards, if you will, in this example, a little quicker than otherwise may have happened. But listen, this is the -- we're playing the long game here. This is certainly about working with our customers, especially the small business customers, through a really tough time. I think the upside for us is that 20% I referred to that our folks identified as service reductions also provide a little risk mitigation because one of the things we're talking about is what the financial position are these small businesses going to be in the past, et cetera. So what's gotten out in front of this and reducing those yards in a proactive fashion also protects us, we think, a little bit from bad debt and allowances for doubtful accounts in the future.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes. It may -- Kyle, it may end up giving -- it gives us the best information right now, which actually maybe -- may mean the number is a little bit lower for commercial yards because we're proactively addressing it with customers where they haven't reached out to us but where it appears there's a problem. But it also then, once we emerge from COVID-19, will give us a much more accurate number there. We won't be billing somebody with the expectation that we're going to collect and find out after the fact that, "Uh-oh, they're out of business." We believe it gives us a much more accurate number during COVID-19, and then maybe, as importantly, a much more accurate number when we emerge from COVID-19.

Operator

Your next question comes from the line of Hamzah Mazari from Jefferies.

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Client Id: 77

Hamzah Mazari - *Jefferies LLC, Research Division - Equity Analyst*

Hope everybody is safe and healthy. My first question is, maybe you could touch on what you're seeing in container weights in commercial in April. And any thoughts as to -- historically, the sector has lagged going into a downturn and coming out of a downturn. Maybe if you could talk about how the dynamics maybe different this time given this pandemic.

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Maybe Hamzah, I'll take the first part of that. I think what we've seen in terms of container weights has been generally commensurate with the volume decline. We've paid a lot of attention not only to the volume and the container, but obviously, the weight per unit because, obviously, as businesses slow down, we're seeing less waste in the containers. So I think overall, what we've seen is volume declines or weight declines commensurate with volume in our front-load containers.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes. Hamzah, with respect to kind of historical downturns, I mean, as you know, I mean, this is not -- there's no precedence for this because typically, whether it's '08, '09 or whether it's 2000 or any downturn that you look at, there -- the economy starts to -- there are signs that this is happening, and the economy starts to ramp down into a recession. There was no ramp-down here. There was no ramp to this. This -- literally, in a matter of days, the entire North American economies and the world economies, for that matter, shut down. And so there wasn't a ramp for this, which is -- hopefully, we'll never see this ever again, but no ramp.

And then the ramp coming out is less about kind of macroeconomics and more about geographies and cities and more about the virus itself and the phases that the White House put out. So it is so hard to know. I mean I would tell you with respect to commercial that we don't -- I can't tell you when football stadiums or broadway shows or office complexes, I mean, we're in a Phase 1 status in the State of Texas, but I would tell you, it is a ghost town downtown. So there are no office buildings. They're open, but there's -- but our office building here might have, I don't know, 3,000 or 4,000 people in it, and I bet you, there aren't more than 75 people in this office. So -- and I just don't know. I couldn't tell you when the Houston Astros or all the little ancillary businesses around the Astros or any other sports team, for that matter, are going to play ball again. Don't know. So it is very, very different and trying to compare it to a previous recession just kind of feels like it's not applicable.

Hamzah Mazari - *Jefferies LLC, Research Division - Equity Analyst*

Got you. And Jim, you talked about potentially using this pandemic to make some permanent changes in the business. What do you see as sort of the big structural changes coming out of COVID-19? Clearly, work-from-home population could double, if not triple. You have to manage your residential business and your mix change there. You referenced that a little bit. But maybe if you could talk about what you see as sort of the 1, 2 or 3 big dynamics that will change your business coming out of this would be helpful.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes. Absolutely, Hamzah. Look, I mean, one of the things that this taught us was that if we really narrow our focus and put our full efforts behind something, we can get it done quickly and we can get it done well. I mean you mentioned work from home. I would tell you, if I'd asked Nikolaj Sjoqvist, our Chief Digital Officer, if I'd asked him back in November, "Hey, what's it going to take to do a full work-from-home solution?" I promise you, he would have said 12 months. And we did it in 7 days. So -- and we've done it well. We've really -- may have been a few hiccups early on, but at this point, we're running smoothly.

So to give you a -- we did sit down as an SLT and talked about, all right, so let's say we put everything on the table, and then we pick 3 projects that we're going to get done or at least put a huge amount of focus into, and everything else is going to get -- put on the back burner. And so what we came out of that meeting with a few weeks ago was a work-from-home solution. The good news about that is we've already invested in the technology. We -- there's no pilot involved. We piloted all 20,000 people. So this is really just Tamla and her team making sure that we set up the

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right performance management metrics and that we look at all of the supervisory considerations and that we consider internal controls and those types of things.

That, we expect to be up and running by June 1. We did talk about ERP, and that's something we've talked to you about and talked on this call about. And that was one we felt, look, we have 2 systems that have been -- that aren't supported at this point, that are almost 20 years old. We have to move forward with that. That, by the way, is not going to be completed by the end of 2020, but it will stay on the schedule that we laid out, which is kind of a 2022, 2023 completion there for that. So that was number two.

And then number three is really a -- when we looked at who the winners are coming out of this, and there aren't a whole lot, but if I were to ask you, Hamzah, who's the big winner, not necessarily in our industry but just overall, my guess is that you'd say probably Amazon is a big winner. Well, you're right. Amazon has been a big winner, and then it's because they're the king of self-service. And so how do we digitize our self-service offering? It's something we talked about at Investor Day last May. And how do we expedite that? How do we expedite the digitization, the self-service customer experience and get that done in a very quick but very well-done manner? And that's -- and those are really the 3 projects that we identified and said we're going to move forward with all 3 of those, and we're going to expedite it, at least 2 of them, while staying on schedule with ERP.

Operator

Your next question comes from the line of Jeff Silber from BMO Capital Markets.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

I've had a number of investors asked me this question, so I'll just ask it to you. One of your larger competitors reported last night, seemed to be a little bit less impacted by COVID last quarter. And I think the near-term outlook, while dollar was a little bit, I guess, less worse than what you might be looking at. I don't know if you've looked at their numbers. I'm assuming you have. Any reason for those differences?

Devina A. Rankin - *Waste Management, Inc. - Executive VP & CFO*

What I would say, we certainly listened to that call and have done what we can, the same that all of you and your investors have done, to digest what we heard. And we would tell you that we think that we're going to focus on Waste Management and our outlook. And what we see is that the $40 million impact that we gave you in terms of revenue in the 2 weeks of March is not anything that we can use to say that that's representative of what you should extrapolate for the full year, which is why we've suspended guidance. We would tell you that what the company has been focused on and as we've talked about is responding well and taking care of our customers and our employees. We are controlling our costs and ratcheting back capital spending where appropriate. And all in all, we remain very confident in our ability to generate strong free cash flow for the year. And all those things together give us great confidence that we will respond as well as we should in this environment and certainly as well as we expect the industry as a whole will.

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Hey, Jeff, I think that one important point that we've all made through this conversation is trying to dictate where the bottom is. And we spent a good bit of time talking around whether it's landfill or collection volumes on some of the positive signs that we're seeing there as we came into the last couple of weeks of April.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes. I think that -- look, I mean, I didn't listen to their call. I mean Republic always does a nice job managing their business, so credit to them for that. I mean I do think we all are facing very similar challenges. I know they're trying to take overtime out, just like we are. We may be handling it slightly differently in some respects. But for the most part, the industry is, I think, doing a really good job of handling this.

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I do think and I don't know what they said about their commercial business, but I -- as I've said several times on this call, look, commercial is -- that's the big unknown. That's the question. How are they going to -- how are these small businesses going to recover from this? Are they going to recover? How many of them will choose to just throw in the towel? When do all these schools open back up? Do they open back up the same way they went in? I mean we're hearing that -- I read an article that said that as many as 40% of outgoing seniors from high school are going to take a gap year. That's going to affect colleges, and that affects our business. So I can't really answer your question specifically about how Republic is doing, managing theirs versus managing ours.

I would say that for us, there are certainly some reasons for optimism, which we've gone into, specifically landfill and roll-off, which are really related to big business. But the piece that I think all waste companies are going to really have to kind of get our heads around is what happens to small business because it is unprecedented that you take the entire $23 trillion U.S. economy and shut it down. And so these small businesses are going to be impacted by that. And that's -- honestly, that's why we didn't give guidance because we just don't -- it's a big piece of our collection. It's a big piece of our disposal. And we just don't have good visibility. We hope that by the end of Q2, enough of these states will be kind of back up and running and into Phases 2 and 3 and on, that we'll be able to give you a better insight into what happened with small business. But I can't really say why their picture was rosier than ours. I can just tell you that I'm feeling pretty good about some parts of our business, and I'm not feeling pessimistic about others. I just don't know. I just don't know about small business right now.

Operator

Your next question comes from the line of Noah Kaye from Oppenheimer.

Noah Duke Kaye - *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

Hope you're all doing well, and thanks for all the detail this morning. I guess first, just to touch on the question of decremental margins here. Devina, you walked through some of the cost levers that you have and expectations for SG&A. I guess is there a good sort of high-level way that we should be thinking about your decrementals here? Your margins, as you manage through some mix shift and an overall volume decline, is 35% to 40% kind of the right level for how we should be thinking?

Devina A. Rankin - *Waste Management, Inc. - Executive VP & CFO*

So we've historically talked about incremental margins being around that 40% that you identified. What I would say in this environment that makes giving you a decremental margin number to model or project that's particularly difficult is mix of business. And we've talked about the fact that our volume declines are coming in our highest-margin businesses. And we also identified that we think in the first quarter, we saw about 40 basis points of degradation in margin as a result of that high-margin business volume decline. We currently -- based on our outlook, we think that 40 basis points -- that 40 basis points will continue into the remainder of the year. And then when you combine that with the fact that we had expected 50 basis points of margin expansion in 2020, we think the full year impact to margin could be around 100 basis points as a result of COVID-19.

That said, it's really difficult for us to know the answer to that question because I think what you've heard consistently today is just the level of uncertainty makes some of that difficult to predict. And what we're seeing is a great level of ability to flex the business in the industrial line of business as an example. But in the landfill line of business, if we see volume declines there continue, that's a line of business that has very good flow through traditionally, and the variable cost, the ability to reduce variable cost there is just negligible in relation to the rest of our business. So we would say that the best way to think about that is about 100 basis points of margin decline from our previous estimates.

Noah Duke Kaye - *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

Okay. That's very helpful. And then just on receivables buildup that you mentioned, can you give some color on where in the business that occurred, if you can talk by sector or line of business? Or was that really concentrated?

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Devina A. Rankin - *Waste Management, Inc. - Executive VP & CFO*

It really was across the board. We look at our cash receipts for our customer base really in totality. And what we saw at the end of March was an estimate of $60 million to $80 million of pullback in cash receipts from our customers, and we've seen that continue into April. We can only attribute that to our customers taking steps to slow things down. But also, we take into account the fact that we were all moving ourselves to a work-from-home environment, and we expect that they were doing the same. So we would expect that as businesses find their way back to finding a way to work in this new normal environment that we'll see a healthy bounce-back there and want to view that more as timing. We've got our eyes on it, and we will be watching it through the year.

We did -- just for additional color, we took about a $5 million charge to SG&A during the quarter for bad debt reserves because that's our best estimate of what we think that, that might mean to -- that slowdown in customer receipts might mean.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes, I might just add one thing to that, I mean, look to Devina's point about slowdown of cash payments from customers. I mean that is not in any way surprising to us. I mean, I can't imagine that these small businesses or big business in the month of April are rushing to pay their bill, if they even got their bill, if it went to their office and they're not at the office. So I mean, it's not surprising in any way that you would see that effect from this.

And by the way, we think that the Olive branch, I guess, that we're extending to small business will actually have a positive effect on that. We think it's a sign of our commitment to them. And we think that, in return, it's a much easier call for an accounts receivable clerk to call after we've given a free month of service to a small business and say, "Hey, just want to remind you that you're in your second month coming back. Hope all is well. By the way, you're a little late on your payment. We need to make sure that gets paid." That's an easier conversation than if we never changed anything. And certainly, I don't want to be that receivables clerk calling them right now and saying, "Hey, haven't seen your payment yet." They're going to hang up the phone on me.

So I think every company will see some type of impact on DSO. I can't imagine a day where you don't see an impact on DSO coming out of 100% economic shutdown. But the goal for Devina and her team is to be in a position to recover that as quickly as we can. And just like pricing discipline, we have working capital discipline here that we will not lose focus on.

Noah Duke Kaye - *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

I appreciate that. Can I sneak one more in? Just, I wanted to clarify from the prepared remarks on the ADSW timing, you said you're expecting receipt of regulatory approvals by the end of the second quarter and then moving to closing. Did you say you expect closing to occur in -- by the end of the second quarter or subsequent to that? I just wanted to understand.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Well, no, I just said we anticipate being in a position to close by the end of the second quarter. I think it's important to point out that, look, when we first announced this deal, I don't remember the exact day but it was like the middle of April, at 19 or something of -- what was it, John?

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

14.

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James C. Fish - *Waste Management, Inc. - President, CEO & Director*

14. 14th of April, that we said it feels like the 14th of April 1990, honestly, because of this pandemic. But we said that it would take, we thought, between 12 and 15 months to close. We're at 13.5% or we will be, next week, so -- or 12.5%. So we're within that window in terms of this being in anticipation or anticipating being in a position to close, so we're not worried about that.

By the way, certainly, and I'm not going to blame anything on this pandemic, but look, we were moving 20,000 people to work from home. That included Chuck's attorneys who were working on this. That included DOJ attorneys. Credit to both sides for doing a nice job continuing to work even though we weren't traveling anymore. But no question, there was some impact from COVID-19 on this. We did not contemplate, when we closed this deal, any type of major economic disruption when we went about this in April of '19.

Operator

Your next question comes from the line of Michael Hoffman from Stifel.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

John, could I get a clarification? What was the percent change in your total yards and service in the commercial business in April?

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

I think -- I think we said 16%, Michael, was the high point.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

So 16% actually is the actual yard change or is it the volume change?

Devina A. Rankin - *Waste Management, Inc. - Executive VP & CFO*

No, that was the yard change.

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

That was the yard exchange.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Yard exchange, okay. And that's the low point, and it's improved from there. Is that -- that's the point you've made?

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

I would say it's improving, although as Jim said, it hasn't been as significant. It's kind of more flat in that.

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James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes, I looked at the number this morning, Michael. I think it was 15.2% this morning so it is improving. I think we've actually had a couple of areas. And I think maybe, John, you mentioned that, but it had gone positive, but it's creeping back.

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Michael, I also mentioned, though, specific to we're looking at this day by day, week over week, so my comments are really -- are that granular as we're looking for the bottom and looking for signs of improvement. But it's only been in the last week or 2 that we've really seen it bottom out start to show signs of some positive movement.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

And that -- I know somebody wanted to put you in a comparison test, but that's consistent with what we're hearing is that there's this gradual rolling reopening and so you should start to see some leveling off?

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Yes. No, I agree. And as Jim said, I think the big question is what's going to happen in those handful of buckets we spoke to, retail, public sector, et cetera, and how they're -- what rate they're going to reopen.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Okay. And then there was a number given and I'm not sure I heard it correctly so I want to ask the question. If I use 2019's commercial revenue of $3.47 billion, what percent -- there was a 60% number you said somewhere in the call today. But what percent of that is deemed small business versus larger business?

Devina A. Rankin - *Waste Management, Inc. - Executive VP & CFO*

Commercial, we actually look at more by customer type rather than size, so that's a difficult number to provide. But John can you give a little more color there.

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Yes, Michael, we looked at it from a revenue and unit perspective. And what we said was is that if you look at office retail, the restaurants and the education bucket, that was about 65% to 70% of where we've seen the degradation in revenue and volume.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Okay, all right. That helps. And then, Devina, I apologize. I'm not sure I totally understood your SG&A comment about how you're adjusting. Would you mind explaining to me? This dumb country boy didn't quite get it.

Devina A. Rankin - *Waste Management, Inc. - Executive VP & CFO*

No. So our objective with SG&A, as with most of our discretionary cost categories and places that we know that we should be flexing, is to flex in response to the change in revenue that we see. And with SG&A, we think that given the mix between what we view as controllable versus what

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we view as required in order to run the business, we think that for every $1 decline in revenue that we see versus our planned levels, we can take out $0.10 of that $1.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Okay. That's what I thought I heard. I just wasn't sure. Okay. And then is the headquarter move still planned for the fourth quarter? Or does this throw a monkey wrench into that?

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

No. It's still planned. I mean, we have a signed agreement with them and so we're still planning on moving. And I think the interesting part will be, as we look at kind of a new normal with work-from-home, is do we use all the floors that we're committed to? You can imagine that Houston is not a great commercial property market right now, but we would -- maybe we sublease out. We're not going to be able to sublease it out for top dollar but maybe we sublease out a floor. It really is going to be dependent on how many of our corporate office employees decide to or we decide that those jobs are better fit in a work-from-home environment.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Okay. And then, Devina, of the total dollars of direct labor spent in 2019, what percent of that was overtime?

Devina A. Rankin - *Waste Management, Inc. - Executive VP & CFO*

It's about 15%. And based on what we got out, which John mentioned earlier, was 50%. We've actually seen it trend even higher with about a 60% reduction. We think if you held on to that level of cost reduction, you could see $150 million to $185 million of flex if for some reason you see this continue.

I think what's most important there is that we've learned some things about how to optimize our driver hours in this pandemic, and we've learned things about what our drivers want as well. And whether it be trying to manage ourselves to more like a 45-hour work week so that overtime becomes less a part of our normal cost of doing business, there are steps that we can be taking to optimize the long-term cost structure.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

I think, Michael, the -- yes, the interesting thing about -- particularly about hourly labor and overtime is that we went through a fairly quick but thoughtful approach to the 40-hour backstop that we provided. And I think initially, there was some concern that, "Oh, my gosh, what are you doing there?" But interestingly, that has -- there's been a pretty minimal cost of that backstop. Recognize what that is, it really is protecting their job, not protecting their paycheck where it was pre-COVID. So all this overtime that John and Devina have talked about, they recognize that, that would come out.

As Devina just said, in some cases, drivers are saying, "You know what, I actually would rather work 44 hours a week as opposed to 53 hours a week." So it has been interesting. And I think what we're seeing is that as opposed to just taking a -- giving an hourly increase for all hourly employees, which, by the way, is going to be tough to get back once this thing ends, we decided that we would provide a backstop so it protects their jobs. It doesn't protect their pay. And it has been incredibly well received. I mentioned on an interview that -- I mean, we've had some people that have sent notes to me that honestly, if they were -- it felt like they were crying through their email. They were so happy that they at least knew that I have my job protected.

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John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Michael, the last point I'd put on that with regard to 40 hours, the other thing it's going to do is as we start to recover, we've got capacity in this system with those employees where we flex down the overtime. And the thing that's been really interesting, attendance and morale have never been better. And frankly, our safety results have improved and we had a really good first quarter. And we've rolled in April and had even better results in April. You could argue, it's less traffic, all those other things. But I think we're seeing the best out of our employees and they're performing exceptionally well.

Devina A. Rankin - *Waste Management, Inc. - Executive VP & CFO*

Absolutely.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

So why don't we move on? We've got -- it looks like we still have 6 or 7 folks left.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Can I just ask 1 last question, Jim, if I may?

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Sure.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Why pay terms for Advanced Disposal under the circumstance?

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Why -- I'm sorry, say that again.

Michael Edward Hoffman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Group Head of Diversified Industrials Research*

Why pay the current terms for Advanced Disposal, given what this pandemic has met? Why do that?

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Well, look, I mean, honestly, Michael, we really don't talk about those details on any acquisition, whether it's ADS or a $10 million acquisition. So I mean, I'd love to be able to answer that for you but we just don't talk about those, and we'll talk about that after the fact.

Operator

Your next question comes from the line of Sean Eastman from KeyBanc.

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Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst*

I'll just ask one so we can -- you guys can get back to work. I guess just going back to the Analyst Day last year, there was talk about the rise of cities, the rise of urban environments. Clearly, some of those population growth patterns could change coming out of this. And I'm just curious whether that's something you're thinking about. And just kind of how nimble you can be around how you strategize around that type of shift.

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Yes, Sean. There's been a lot of talk about this urban versus rural kind of math, and we've certainly gone back and looked at it. And the interesting part of it is, is that we can certainly find correlations. You look at places like New York, New Jersey, Seattle that have been hit pretty hard by this pandemic. You can certainly see the impact it's had on volumes there and also maybe a little bit -- they're going to be slower to recover, right, because they're still under these pretty strict stay-at-home orders or shelter-in-place.

That really has been the learning for us. The learning has been not urban versus rural, but it's been about where have cities where municipalities gone into shelter-in-place orders earlier. And if you look at some of those, they've gone in earlier and that's where we've seen the volume. And I will tell you, we've looked to market by market. And where you would think there'd be a correlation, we've looked on the East Coast, the West Coast, Middle America, and what we have been able to correlate is it's really been about who went out early and how long they're going to stay out. And that's where we really see the shift in volume. It's been less about just strictly urban versus rural.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes. I mean, I think there's been -- I mean, we -- as John said, we looked at it really market by market. I mean, there are some places where big cities are down less than rural areas. Philadelphia is an example of that, where when I looked at Philadelphia, it was down less than Gilbertsville or Scranton or Harrisburg. So it's -- it really is more about the business itself. It's more about the shutdown and it's not just that the urban areas are down more than the rural areas. There are some urban areas that are down more than rural areas such as Seattle.

But there are also -- I just couldn't find a strong correlation either way, because as I went through probably 7 of our areas, I found big cities that were down more than rural areas, and I found rural areas that were down more than big cities, and there was no rhyme or reason to it other than just business mix.

Operator

Your next question comes from the line of Brian Maguire from Goldman Sachs.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Jim, I know you've talked in the past, I think, as recently as a quarter or 2 ago about one of the best barometers for the outlook for the industry being the health of the U.S. consumer. And we've gone from record maybe 40-, 50-year low unemployment rates to 60-, 70-year high unemployment rates. And hopefully, it's all temporary. But just wondering if you think that's still the case, if you still think that we could kind of draw some parallels and tangents to what's going on in the labor market and the consumer sentiment and outlook and use that as sort of predictive indicators for where you think the industry is going.

And taking that a step further, as you look out to next year, if unemployment rates remain elevated like a lot of people are forecasting, do you think that it's just going to be a little bit more of a prolonged recovery than just reopening some of the businesses in these phase 1, 2 and 3 sort of rollouts getting completed?

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Client Id: 77

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes. Boy, that's kind of a big crystal ball question, and I just don't know that I have a good answer for you. Here's what I would tell you as it relates to WM. I mean, I think that clearly, the consumers is going to be heavily impacted by this. My big worry, and this is just my own opinion, my big worry is that if we stay in this for too long, we are going to create some real long-term damage. And look, I'm not being insensitive to -- I know you're in New York, and I'm not being insensitive to the people that have been affected by this virus, those families that have lost loved ones, I'm not. I'm just saying there is also a consideration on the other side, which is the long-term impact of this. Not just the long-term economic impact, but the long-term health impact, the long-term impact on things like clinical depression and things like that.

So what it -- how it relates to our business is that I do think those -- this has been a pretty common theme this morning, but those that will be most impacted, the longer we go with this will be those small businesses because they -- there was a report out yesterday that said, if this goes 6 months, that 40% of small business could be at risk of closure. Look, that's going to affect us. That's going to affect the Republic. That's going to affect everybody in every industry.

I think as we think about our own business, the good news is that we do have a big landfill business that is largely driven by 2 groups, not exclusively, but largely driven by the residential business with third-party MSW and largely driven by special waste and C&D. And as I said earlier, those are big businesses. So I think the landfill business will emerge from this. How fast? I don't know, but it will emerge from this more quickly than other lines of business for us and other industries, honestly.

And I think -- I would say the same about the roll-off business for us for all the reasons that I just gave. As I've said several times this morning, the one that is going to be the most difficult one to predict is that commercial line of business. And I just don't know what happens with schools, what happens with airlines. And of course, that whole hospitality space is a massive question at this point. Does it ever return to where it was with rental cars and airlines and hotels? So I do think though that as cities and states start to reopen like Texas is reopening. We went to a restaurant on Saturday, pretty full. I mean, not inside. It was outside seating only but pretty full. And so I think you'll -- those states that are able, from a health standpoint, to come out and emerge with kind of 2 months of damage, look, I think we can deal with a 2-month snowstorm. But if this thing is a 9-month snowstorm, boy, that's going to be hard to recover from.

So I think the long answer to your very short question, it's really going to depend on these reemergence plans and how quickly we're able to reemerge, and that is going to most impact the commercial line of business. Hopefully, that's helpful.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Yes, it's very helpful. I know we're running long. I just had one quick one just procedurally on how you're going to count some of the small business volume that's being suspended and some of the -- I don't know if you call it a rent holiday for the month of April for folks. Is that coming in as a volume number or as a metric on yields? And any sense kind of how many -- how much of the small container business might be able to apply for that sort of rent holiday?

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Are you talking about the month of service there, the free month of service?

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

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Client Id: 77

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes, that's going to show up as price really. And that's why I said I want to caution about what it says with respect to price discipline. I mean, I don't want somebody to freak out in Q2 when we show a price number and it doesn't look very good because we've given a free month of service.

By the way, just to give a little bit of context around that. It is not necessarily the month of April. It would be the first month that they come back and reestablish service. So -- and it's not all small customers. It is -- it's those customers that were forced into some type of impact by this. If your business had no impact, if you're a small health care facility and your business is up or if you're a small grocery store, then you're not -- you don't participate in this because you weren't impacted by it. But if you come back and start your business back up as a restaurant, and you previously were 5-days-a-week service or -- and now you're going to be 2 days a week, then we give you the 2-day-a-week service for that month in your first month. We're not going to give you a free month and a credit for whatever your bill was back in November.

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Brian, I would just say we met -- we said in the beginning, right now, a little bit less than 10% of our commercial customers, total commercial customers have been affected by this. So it would obviously be a subset, a small subset of that number.

Operator

Your next question comes from the line of Tyler Brown from Raymond James.

Patrick Tyler Brown - *Raymond James & Associates, Inc., Research Division - MD*

Sorry, I was having a hard time getting on the call so if you addressed this, I'm sorry. But John, I do want to come back to the pricing commentary. I appreciate your philosophy hasn't changed. Are you seeing anything irrational from small haulers or other landfill operators? And are you hearing about service failures for small haulers are then simply exiting the market?

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

So Jim did comment on that specifically, Tyler, in the beginning. And again, we're 7 weeks into this and I don't think there's been anything out of the ordinary that we've observed. I'm not going to comment on what other folks are doing. I can just tell you that whether it's our collection pricing discipline. I spoke to our post-collection pricing discipline. By the way, the cost structure in those spaces has obviously has not subsided so we're going to continue.

I think the way to look at this is you just heard the commentary from Jim about the small business. We're going to pause on a subsection of our customers to help them through this tough time. But our strategy around recovering costs to protect, in particular, our landfills and our collection lines of business is not changing.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

And Tyler, to your second question, I have not -- I haven't heard of any small horse throwing in the towel. I mean I think because we're all considered an essential service, my guess is that it's not as if you're going from full revenue to 0 revenue like some of these businesses are.

Patrick Tyler Brown - *Raymond James & Associates, Inc., Research Division - MD*

Yes. Okay. So this is my big picture question. I hate to come back to residential, but is residential basically having a national sword moment? And what I mean by that is resi has already been struggling. The last call in Q4, you said it's your worst-performing collection line. Margins are down

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Client Id: 77

50% from the past 5 to 10 years. Now you've got surge in container weights and it feels like that paradigm shifted. I know it's early, but why don't we need to go through a fundamental stair-step in resi pricing to relevel that field?

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

Tyler, I will tell you, you've heard me on the last 4 or 5 calls or since I've assumed this position, that is a focal area for me pre-pandemic. And obviously, we've got additional work to do now that we've referenced some of these container weights. And listen, we also -- we're 7 weeks into this so a lot of what we're seeing is we're trying to see, as I mentioned earlier, where the bottom is or where the peak is on disposal volumes. And we're starting to see some signs that's going to mitigate. The real question is, how much is it going to be up permanently and how do we amend our strategy?

What I can tell you is before this pandemic hit, we have dedicated resources around the organization that are focused on residential. What we've done is we've obviously had another chapter to their book here, that they've got to go have some difficult conversations with some municipalities.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

John told me he left his car running in the parking garage and as soon as we're done here, he's heading over to meet with some of our municipalities. That's how urgent this is. I mean, we -- half kidding there but half not. I mean, we have to -- we -- you're right, Tyler. We really do have to look at how -- I mean, there's no reason to believe that all of a sudden, we're going to go back to pre-COVID on this. I mean, there are going to be a lot of people that are working from home permanently and waits for the...

Operator

Your next question comes from the line of Kevin Chiang from CIBC.

Kevin Chiang - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Analyst*

Just 1 for me. Thanks for all the trend data. I just wondered if you could delineate that between urban, I guess, your rural markets. Are you seeing that broad-based in terms of a bottoming? Or urban markets may be showing a bottoming first? Because as you mentioned, they went down at the lockdown first, and rural markets are still trying to find the bottom. Just trying to get a sense of how you would maybe look at those 2 markets separately.

John J. Morris - *Waste Management, Inc. - Executive VP & COO*

No. I would tell you that where the -- the urban markets, obviously, we referenced a few of them where they've gone out earlier and so they got to their bottom quicker. And as I said, we're starting to see a flattening and some slight signs of improvement. In the rural markets, we've also seen some declines. And as Jim mentioned, he referenced a bunch of specific markets we've looked at. And there's no clear correlation that just because one is rural or one is urban, that the volume decline has been faster or longer in between those 2.

I think what we are confident in is I think we are -- have found most of the bottoms and where we haven't, it looks like we're at least at the flat part of the curve. And we're optimistic we're going to start seeing volume increases there in the near term.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes. I think kind of the same answer there that we gave before in terms of not seeing real trends that were discernible. I mean, I did look again at some data yesterday. I had a look at San Antonio and Austin. Those happen to be 2 big cities that are not down as much as some of their rural

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Client Id: 77

counterparts, at least for us. And so in terms of the bounce-back, because Texas is now in phase 1, I wanted to see whether these cities are coming back more quickly.

Houston, which is down more than San Antonio, and Austin, does appear to be, at least for us, appear to have more bounce back to it. And when I looked at Houston versus some of its smaller rural counterparts, yes, I mean, I guess, in some cases, it's bouncing back quicker but it's just really hard to tell because Houston was -- is a big city. San Antonio is a big city yet San Antonio was down barely double digits in some of these metrics, whereas Houston was down closer to the numbers that John gave.

Operator

Your last question comes from the line of Mark Neville from Scotiabank.

Mark Neville - *Scotiabank Global Banking and Markets, Research Division - Analyst*

I'll keep it to 1. I guess my question, just around -- I appreciate sort of the lack of visibility and the suspension of the outlook. Again, to your point, it sounds like some of the data is getting a little bit better. Devina, I think you referenced, just on the CapEx, was a 10% drop this year. So I guess my question, just curious how you got to that number. I guess what I'm thinking is if you were thinking earnings cash flow would be down something significantly more than that, maybe there's more room to flex that line or that spend. So yes, I guess I'm just curious around the CapEx, sort of how you got to the 10%, and that's sort of a fair way to think about your early thoughts on what the year might look like?

Devina A. Rankin - *Waste Management, Inc. - Executive VP & CFO*

Yes, sure. So what I want to start with is that the 10% isn't inclusive of intentional investments that we may make in advancing those initiatives that Jim spoke to earlier. That's more in our volume-oriented business. And so when we thought about how we targeted a capital expenditure reduction that we thought was appropriate based on what we were seeing for the year, we looked at those volume numbers that we've talked so much about over the course of the call. And so whether it be industrial volumes or landfill volumes, which we've talked about being down double digits, that was the barometer that we used to then pull back to the capital category and say what level of flex do we think is appropriate.

If we see a rebound in industrial flex, we can turn it back up. What we want our shareholders to understand is that the company is going to be responsive and diligent in managing its cash flows, and that includes investing capital for the long term because these are long-term investments that need to be prudent, not just for today but for the foreseeable future.

When we think about capital expenditures as a percentage of revenue, we think maintenance capital is in the range of 8.5% to 9.5%. We've trended higher in recent years because we've seen healthy volume growth. And so in this environment, what we thought was prudent is to look at a 10% target as kind of our baseline, and we'll adjust that as appropriate if we see volumes rebound quicker than we might project today.

Mark Neville - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay, that's fair. And again, sort of the -- I just want to clarify the point, the 10% down but there would be some special investments, sort of that would bring that -- it would be down less than 10%, I guess? Is that correct?

Devina A. Rankin - *Waste Management, Inc. - Executive VP & CFO*

It could be, yes. We're in the early phases of evaluating those investments so I can't specifically quantify what we think that will be, but that 10% is exclusive of those investments.

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Client Id: 77

Operator

I'm seeing no more questions in queue. Please continue.

James C. Fish - *Waste Management, Inc. - President, CEO & Director*

Yes. Thank you very much, Blue. So lastly, I just want to say, as I always do, thanks to our 45,000 employees who really have continued to represent the best that this company is. And you've heard me speak about this many times. You've heard me speak about it today, but our commitment to putting our people first during this truly, truly unprecedented time has never wavered. And I think it's shown through during this -- our leaders certainly have shown up in ways that I honestly had never seen and have really, I think, unified our efforts to just not compromise on our commitments to our people, to our customers and to our shareholders.

And with that, I mean, I couldn't be prouder of our management team and of all of our 45,000 people. We're still working through what the new normal looks like, but I can assure you that Waste Management will come out of this stronger on the other side. Thank you very much for your time this morning.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect. Thank you for participating.

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