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PRESENTATION

Operator

Good morning, everyone. My name is Christine, and I'll be your conference operator. At this time, I would like to welcome everyone to Waste Management 2019 Earnings Release Conference Call. (Operator Instructions) Thank you.

It's now my pleasure to hand the call over to Mr. Ed Egl, Senior Director, Investor Relations. Sir, you may begin.

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

Thank you, Christine. Good morning, everyone, and thank you for joining us for our second quarter 2019 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, Senior Vice President and Chief Financial Officer. You'll hear prepared comments from each of them today. Jim will cover high-level financials and provide a strategic update. John will cover an operating overview, and Devina will cover the details of the financials.

Before we get started, please note that we 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 schedule for the press release include important information.

During the call, you will hear your forward-looking statements, which are based on current expectations, projections or opinions about future periods. 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 in our filings with the SEC, including our most recent Form 10-K and subsequent Form 10-Qs.

Jim and 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 and Devina will discuss our earnings per diluted share, which they may refer to EPS, or earnings per share; and they will also address operating EBITDA, which is income from operations before depreciation and amortization;

and operating EBITDA margin. Jim and Devina will also be discussing the planned acquisition of Advanced Disposal Services Inc., which they may refer to as Advanced or ADS. Any comparisons, unless otherwise stated, will be with the second quarter of 2018. Operating and SG&A expenses, operating EBITDA, net income and EPS for the second quarter 2019 have been adjusted, and projected 2019 results are anticipated to be adjusted to enhance comparability by excluding certain items that management believes do not reflect our fundamental business performance or results of operations, including costs related to 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 the 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 about 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 p.m. Eastern Time today until 5 p.m. Eastern Time on August 8. To hear a replay of the call over 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 4598118. Time-sensitive information provided during today's call, which is occurring on July 25, 2019, may no longer be accurate at the time of the 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 President and CEO, Jim Fish.

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

Thanks, Ed, and thank you all for joining us. Once again, our employees delivered strong operating performance in the second quarter, continuing to demonstrate our strategic focus on leveraging our asset network to serve our customers and drive growth. Just like in the first quarter, the strength of our collection and disposal business was the main contributor to our success. In the second quarter, we generated more than 7% organic revenue growth in our collection and disposal business with yield of 2.7% and volume of 4.4%. And we had strong core price of 5.4%, which translated into total company operating EBITDA of more than $1.13 billion, an increase of almost 7% from the second quarter of 2018. We also saw operating EBITDA margin expand 30 basis points for the total company and 60 basis points for the collection and disposal business. As we've said many times, operating EBITDA is the best measure of the health and performance of our business. And in the second quarter, all indicators point to excellent health. Our operating EBITDA growth translated into free cash flow of $440 million.

We're pleased with our year-to-date results, which we will discuss in a moment. But first, I'd like to provide an update on the progress we're making towards the ADS acquisition. At the end of June, the ADS stockholders voted overwhelmingly to approve Waste Management's acquisition of the company. This stockholder approval is an important milestone in the process towards closing the transaction. In addition, and as expected, we received a second request from the Department of Justice, and we continue to work with them to satisfy this request. We remain on track to complete the acquisition during the first quarter of 2020. We will keep you informed as we continue our progress towards closing this transaction. We have a dedicated team working to position us to successfully integrate ADS upon close. These efforts are important, and we're pleased with the progress we're making on that front.

Our team is also focused on a number of additional efforts to accelerate our growth and continuously improve our business. We continue to invest in our people, technology, our customer experience and our asset network. On the people side, we opened our second driver and technician training facility in Glendale, Arizona, in June, and we continue to expand our program with Caterpillar to remotely operate equipment at one of our landfills in Denver. While this is a technology investment, it's also an investment in our people as technology like this modernizes the jobs for our workers, improve safety, enables us to more efficiently work and provides us with an opportunity to expand our workforce in the future.

On both the technology and customer-experience fronts, in June, we launched an upgraded wm.com that allows customers to order and manage service with modernized navigation and increased functionality. We redesigned the site with input from our customers. And so far, it's been really well received. In the first month, we had 20% increase in customers shopping on the website and an 11% increase in overall online sale revenue. E-commerce is a small but growing channel for us, and we're in the early innings of maximizing its value. Another benefit we get from e-commerce is improving customer loyalty because most online customers enroll in convenient billing and payment options.

Finally, on the asset network front, we're seeing great results from our increased focus on enhancing our post-collection business model. Our team is securing expansion, air space capacity in key markets, partnering with communities to ensure that they understand the role that landfills can play at achieving their Waste Management goals and optimizing our pricing methods to improve profitability and return.

In the second quarter, core price in the landfill line of business was 4%, and MSW yield was 3.6%, which exceeded 3% for the second consecutive quarter. This is the highest MSW yield in a decade. It's important for us to drive discipline in landfill pricing to ensure that we earn appropriate return on this capital-intensive part of our business. Our efforts to drive greater discipline in the pricing of our post-collection businesses starts with the transfer station, which is often referred to as a remote gate of the landfill. This focus is also showing strong results with our second quarter transfer station yield improving to 3.4%, an increase of 70 basis points sequentially and 160 basis points from the prior year period. We will continue to focus on maximizing our asset utilization to generate strong returns on all of our assets.

We've had a great start to 2019. In the second half of 2019, we expect that our collection and disposal business will continue to generate strong earnings growth and more than offset the decline we now expect in our recycling line of business. John will give a bit more color, but suffice to say, we're confident in our ability to execute our strategy, and we are reaffirming our full year 2019 guidance of adjusted earnings per diluted share of between $4.28 and $4.38, adjusted operating EBITDA of between $4.4 billion and $4.45 billion and free cash flow of between $2.025 billion and $2.075 billion.

And with that, I'll turn the call over to John.

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

Thanks, Jim, and good morning. Second quarter results were strong, particularly in the collection and disposal lines of business. Collection and disposal organic growth -- revenue growth was up 7% driven by strong execution on our core price program, continued progress of our strategy around customer differentiation and robust post-collection volumes at our transfer stations and landfills. On a landfill volume front, in the second quarter, growth was driven by the continued strength of MSW volumes, an increase in special waste volumes from a pipeline that remained strong and very strong C&D volumes as we were able to position ourselves as a community partner to assist with fire cleanup activities in California. The strong volumes that we're seeing in our landfills are also at attractive prices. MSW volumes grew 6.1%, and yield was 3.6% in the second quarter. MSW yield of 3.4% and 3.6% in the first 2 quarters of the year represents step change improvement from the last several years, and we expect this trend to continue. Our post-collection lines of business are seeing increased operating cost pressures as well as higher capital investments as the cost of construction arise. We will continue to focus on disciplined pricing to recover these costs and generate appropriate returns on our investments in these assets.

Turning to our customer-focused metrics. Churn was 8.8% in the second quarter. Year-to-date churn is 8.5%, a 60 basis point improvement over last year. Additionally, service increases continue to outpace service decreases. The strong collection and disposal organic growth and great operating performance led to operating EBITDA growth of $112 million and a 60 basis point improvement in the margins in those lines of business.

In the second quarter, total company operating EBITDA was the highest that we have ever generated. In the second quarter, total operating costs as a percentage of revenue were 61.5%, a 40 basis point improvement over last year as our operations have been able to improve their efficiency and manage their spending as volumes increase. We still have opportunities for further improvement, particularly around labor, maintenance and leachate management costs, and our team is focused on identifying and making these improvements. For example, our [M100] program provides our frontline supervisors a view of each segment of their routes throughout the day, which will allow for improved efficiency and additional labor savings. We saw early benefits from this initiative in the second quarter as efficiency improved in all 3 collection lines of business, driving a 25 basis point reduction in labor costs as a percentage of revenue. We expect to drive even greater efficiency improvement in our collection lines of business as we continue the deployment of these tools across the enterprise.

Turning to recycling. There was a $21 per ton or 33% drop year-over-year in our blended average commodity price down to $43 per ton, but operating EBITDA improved $6 million. We're pleased with the outcome of our team's hard work to improve the recycling mile by lowering costs, restructuring contracts and assessing fees for contamination. Looking at the remainder of the year, we anticipate that commodity prices will continue to be well below the $70 per ton commodity price we expected when we gave our 2019 outlook. And as a result, we no longer anticipate a full year tailwind from recycling. We now expect that our recycling business will be a $0.01 to $0.02 headwind for the full year.

As we've mentioned previously, the traditional formula that a $10-move in commodity prices changes annual EPS by $0.04 no longer holds due to our successful efforts to change and improve the business model. To emphasize this point, without the changed proactive steps to evolve the recycling business model, the full year impact from depressed commodity prices would likely be closer to a negative $0.09 rather than a negative $0.01 to $0.02 that we're forecasting. We remain focused on changing the business model for recycling with improved MRF technology and contract structures that recoup processing costs and protect us from commodity price downside. To that end, we are on track to open a recycling plant of the future by the end of this year. With this plant, we expect to achieve labor and operating cost savings while creating the best quality material for sale.

Impressively, we fully expect the performance of our collection and disposal business to overcome the headwind from lower recycling and commodity prices. As we passed the halfway mark for the year, we anticipate that continued strong organic growth and a focus on operating efficiencies will keep us on target. Our employees have delivered a strong performance throughout this year. I want to thank them for the fantastic job they continue to do service on our customers and producing great [improved] results. As a leadership team, we're absolutely confident they will continue to perform at high levels to achieve our full 2019 guidance.

I'll now turn the call over to Devina to discuss our second quarter financial results in more detail.

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

Thanks, John, and good morning, everyone. As you heard from Jim and John, the strong performance of our collection and disposal business continues to overcome the impact of a weak recycling environment. In our second quarter, we again delivered solid financial results. Collection and disposal operating EBITDA grew by over 9% when compared with the second quarter of 2018, driving total company operating EBITDA growth by almost 7% and positioning us well to deliver our full year targeted growth of about 5%. We view operating EBITDA growth as the single most important measure of our performance, and we're very pleased to see our operations deliver these results.

In the second quarter of 2019, cash flow from operations grew 3.6% to $1.010 billion. When we normalize the year-over-year comparison for the impact of the fuel tax credit that we received in the second quarter of 2018, the increase would have been 6.7%. We are pleased with this result and see our efforts to convert more of each revenue dollar to cash [war] gain. The cash from operations as a percentage of revenue improving 30 basis points on a year-to-date basis to 24.9%. This is particularly impressive when you consider that we achieved this result in spite of a $66 million decrease in revenue from yield in our recycling business due to the 30% decline in market prices of the commodities we sell.

During the second quarter, we spent $578 million on capital expenditures. This compares to $436 million in the second quarter of 2018. The increase in the current year is related to timing differences in our spending for landfill construction, trucks and containers. The difference in timing is the result of intentional steps we have taken to invest in our growth by pulling forward some of our planned capital spending. We remain disciplined in allocating capital dollars to our highest margin and return businesses and have proactively managed our capital spending in 2019 to address our robust volume growth. Volume in our landfill and commercial collection businesses exceeded expectations in the first half of the year, and our operators and their corporate partners have worked hard to accelerate construction and asset deliveries to meet our customers' needs. With the strength of our volume growth, our full year capital expenditures will be at the upper end of our guidance of between $1.65 billion and $1.75 billion.

In the second quarter of 2019, our business generated $440 million of free cash flow. For the first 6 months of the year, free cash flow was $871 million. The timing difference that I just discussed for capital expenditures was the primary driver of the decline in the measure from the prior year. Additionally, our second quarter of 2018 included $28 million of fuel tax credits as well as nearly $80 million in proceeds from the divestiture of noncore businesses. When we normalize for these 2 items, the year-over-year comparison for both the quarter and year-to-date period more clearly reflects our strong operating EBITDA growth. We continue to expect our strong operating performance and disciplined capital spending will yield full year free cash flow in line with our guidance of between $2.025 billion and $2.075 billion.

In the second quarter of 2019, we used our free cash flow to pay $217 million in dividends, and we repurchased $180 million of our stock. When combined with our first quarter share repurchase activity, we expect this level of share repurchases to meet our goal of offsetting dilution from stock-based compensation. Given the pending acquisition of ADS and our efforts to position our balance sheet well for close, we no longer expect to repurchase additional shares over the remainder of the year. We continue to estimate that this will have up to a negative $0.06 impact on full year EPS.

During the quarter, we successfully executed a $4 billion debt financing, which positions us to close on the acquisition of Advanced Disposal. The offering proceeds have largely been invested in stable money market funds, so we also used a portion of the fund to retire several of our higher-priced senior notes. We are happy with the results of both transactions, and our average pre -- our pretax average cost of debt is now below 4%, which is instrumental to executing well on achieving our targeted returns for the pending acquisition. We estimate that the incremental interest will have a negative $0.03 impact to 2019 EPS. We plan to adjust for both the impact of lower share repurchases and incremental interest costs through the ADS acquisition closing.

Our debt-to-EBITDA ratio, measured based on our bank covenants, was 2.95x at the end of the second quarter. This is higher than where we have been in recent years but well within our targeted levels, which is particularly impressive given that the measure does not yet have the benefit of ADS EBITDA. Our strong balance sheet continues to afford us the financial flexibility to pursue strategic acquisitions at the right price.

Turning to SG&A. For the second quarter, our SG&A costs as a percentage of revenue were 9.8%, in line with the second quarter of 2018 despite the increased investment we are making in technology. For the full year, we continue to target SG&A expenses as a percentage of revenue of about 10%.

In our business, the second quarter is often an important indicator of how we will perform for the full year as we observe seasonal increases in certain parts of our business. With the strength of our second quarter results and the positive momentum that we are seeing early in the third quarter, we are positioned well to deliver on our 2019 priorities.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Tyler Brown from Raymond James.

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

John, obviously, landfill volumes continue to impress. At this point, you're running maybe north of 120 million tons of landfill volumes, but it feels like there's a couple of discrete projects in there like the wildfire cleanup. I know you mentioned the pipeline is robust, but how should we think about those landfill volumes moving into this year? Is there maybe a few million tons that won't recur? Or anything there would be helpful.

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

No. I think, Tyler, fair question. I mean we certainly have looked at that, and I think there's a lot of puts and takes with that volume. I mean we're pointing to the California wildfires this year, which is obviously an unfortunate event to say the least. But if you go back last year and the year before, although the geography changes, we've seen these events year in and year out. It's hard to predict, obviously, where they're going to show up. But I think the other thing you should look at, as aside from just that, is our special waste volumes continue to be strong, and we referenced that in some of the prepared remarks. So we feel good about the landfill volume. We also look to the transfer stations, as Jim mentioned, the remote gate to the landfill, we continue to see both price and volume performance there. So we feel good about where we are on the post-collection side.

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

Okay. That's very helpful. And then, Jim -- yes, yes?

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

Well, I was just going to add to that. It really is almost like event work for us. I mean -- and to John's point, it's extremely unfortunate when you have these big national disasters. We're there to help clean up. We were actually up -- Tara and I were up last week in Northern California, driving through Paradise. It's devastating. But really, when you boil it down to how it impacts our volume or how it impacts our EBITDA or revenue or free cash flow, as John said, it's a lot of puts and takes. It's very lumpy, hard to predict on an area-by-area basis. But we seem to have, whether it's a big event or big construction projects or a natural disaster cleanup or whatever it is, every year. And so we just look at it as part -- as just simply part of our overall business, albeit part that's tough to predict.

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

Yes. No. That's -- appreciate that. But, Jim, maybe kind of coming back to the economic data, I mean, if you look at it across The Street, it kind of remains disparate. Obviously, your business is doing extremely well right now, but you also tend to be a bit late cycle. So I'm just curious what you're seeing out there and maybe what are the KPIs that you and the senior management team really watch that might foretell a trend change in that organic growth metric?

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

Yes. You're right, Tyler, about the fact that our industry tends to be considered more of a lagging indicator for the macroeconomy. I would tell you that Waste Management specifically is a pretty good indicator overall because we service virtually every sector of the economy. What I would say is there are a couple of kind of leading indicators within our numbers. First and foremost, our commercial collection business is somewhat of a proxy for how small business is doing. And when you see service increases outpacing service decreases repeatedly and strongly, to us, that's a pretty good leading indicator of how small business is looking at the future in terms of the economy. And then, secondly, John mentioned special waste. Our special waste pipeline is very strong. We've seen double-digit numbers now again. And the reason special waste is our leading indicator is because a lot of North American companies, the confidence in the economy shows up in their special waste project work. When they see signs of a slowing economy, they tend to kind of pull in the reins on that event work and wait until times look a little rosier. So the fact that our special waste pipeline looks as good as it does and the fact that our special waste volumes in the quarters, both second and first, have looked good is a good leading indicator for us. And then the last one, of course, is just C&D volume. And of course, part of our C&D number is driven by fire volume. But even without the fire volume, our C&D number has been very strong for at least 5 quarters. Every city I go to seems to have a sea of [grain stalk] on the -- out on the horizon. So it looks like C&D is still quite strong, and that is also a pretty good leading indicator of the overall economy.

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

Okay. Yes. That's helpful. And then maybe, Devina, real quick. What was the divestiture made in the quarter? So one, you noted it was ancillary. Maybe what was it? Two, is it in that other revenue line? And then, three, just how should we think about divested revenue in the second half versus the $82 million in the first half, just for modeling?

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

So the $82 million was actually in the first half of 2018. Divestiture activity in the second quarter of 2019 was very material at about $8 million, and that's just normal course asset divestitures.

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

Okay. Sorry, I got my numbers all mixed up. But is there a lot -- going to be a lot of back-half divestitures or no?

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

There's not currently an expectation of any meaningful back-half divestitures. We certainly look all the time for underperforming assets and assets that we can shed in order to be sure that we're optimizing the business model. We're really looking at the reverse side of that and thinking about acquisitions. And you'll see that in the second quarter, we acquired almost $50 million of additional traditional solid waste businesses. And when we think about that in terms of acquired revenue, you're looking at about $120 million of acquired revenue, thus far, in 2019. What you're seeing is somewhat of an offset associated with divestitures from the prior year. And so there were divestitures, both in the front half of 2018 and the back half of 2018, that are somewhat offsetting that strong acquisition growth, but you'll see some of that normalized in the back half of the year.

Operator

Our next question comes from the line of Michael Feniger from Bank of America.

Michael J. Feniger - *BofA Merrill Lynch, Research Division - VP*

Just on the MSW yield, the 3.6% second straight quarter, can you just help us understand what is out there in the market right now that should give us confidence that there's momentum there that we could kind of look at that number going forward rather than stepping back into the old years and the old cycles where pricing was a little bit more competitive? Is it something with the cost pressures at the landfill that the market now can start passing that through? Is it disruption on the recycling front? Is it some consolidation that's played out? Help us understand some of the factors that is really putting together 2 straight consecutive quarters of good yield at the disposal.

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

Yes. Michael, I think you've touched on a couple of pieces there. It's -- part of it is an increased focus through the use of data and analytics. When we brought that to the collection side of the business is probably 7, 8 years ago, and we've really transitioned that over to the landfill line of business. And now there is not only a use of data and analytics, but there's a real focus on it from our senior VPs as they work with their teams in the field. So that certainly is having an impact.

I think there may be some of it that is kind of necessarily as a result of a few of the cost categories going up, specifically transportation-related costs and leachate management, certainly are climbing at a rate higher than CPI, but I think some of it is just a recognition on our part of that these are really critical assets that we have to earn a better return on them. They're very capital intensive. And so I would say that 4% core price in landfills and 3.6% MSW yield on the heels of 3.4% is good, but I still think there's opportunity to increase that at our landfills and transfer stations, not just to keep up with inflation and certain cost categories, but to help us expand margins. And to me, that's kind of a breath of fresh air after what feels like a decade of 1% yield at the landfill.

Michael J. Feniger - *BofA Merrill Lynch, Research Division - VP*

That's helpful. And then just lastly, I mean, this year had a nice little benefit from the inflation pickup last year. This year, though, inflation has kind of disappointed, at least on the headline numbers. Can you just talk about what that might mean for us thinking about that going to 2020? And are some of your business lines clearly seeing cost inflation above CPI and the market is going to still have to try to raise pricing to offset that?

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

Yes. Sure, Michael. Really, on inflation and CPI specifically, it's really been flat for the most -- flattish. I mean, it was down, I think, 10 basis points for the quarter, but we didn't see really much in the way of a tailwind from CPI as it was creeping up over the last few quarters. And now it's just starting to reverse course a little bit. We're not anticipating much in the way of a headwind. As you said, we do have some cost categories that are outpacing inflation. And so as a result, we've tried to transition some of our pricing of contracts over to that water-sewer-trash index that is more representative of our overall cost structure. But there are some -- there are also a few cost categories that are not increasing at the same rate such as fuel. So overall, I think we're kind of a bit above that CPI, but we don't expect to see much of a headwind as we move out towards the latter half of '19 and into '20. Unless something really changes dramatically, I don't anticipate much of a headwind on the price side from CPI softening.

Operator

Our next question comes from the line of Sean Eastman from KeyBanc Capital Markets.

Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Associate*

First one for me is just on ADS and the HSR review. I can fully appreciate that there's only so much you guys would want to disclose in the middle of this process, but it would be helpful if you could let us know how this review had been tracking relative to initial expectations. And then maybe lay out kind of a rough time line on what to expect in terms of next steps coming out of the second request from the DOJ.

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

Yes. Fair enough. This is John. I think in terms of what we've experienced to date, I think it's tracking about as we expected from a timing standpoint, a process standpoint. Clearly, we're not far enough along where we can really start to add any more color or detail. As we said in the prepared remarks, we still think the first quarter of 2020 is on track. I will tell you, the process, so far, has not yielded any surprises. We're continuing to do everything we can from a regulatory standpoint to make the process with the DOJ go as expeditiously as it can.

So in terms of next steps, again, we're not far along in the process -- far enough along in the process for us to really add any additional color. But I would expect probably in the next 60 to 90 days, we're going to be further along to the point where we'll be able to add a little bit more color.

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

Sean, I think we all can emphasize with you on the -- your impatience here because -- but unfortunately, when it comes to things like synergies, we gave that original $100 million number. But we don't know anymore at this point because they're still operating as a separate company, and we have not -- the size -- we have a team in there kind of diving in right now, that team won't go in and dive in until we close the transaction. And then in very short order, we'll know whether that $100 million is conservative or not. But we're kind of equally impatient. We're waiting for this to run through its cycles with the Department of Justice. And once it does, we expect that things will move along pretty quickly.

Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Associate*

All right. Yes. I guess that -- and I wasn't really trying to prod an updated synergy number necessarily. I just wanted to understand kind of -- even just procedurally what the next step is in terms of when it will be released by the DOJ or filed by you guys and kind of when that next sort of filing or update would be.

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

Well, as you've seen, the second request is in process right now. That's probably the only update since the last call. We're obviously working our way to satisfy that request from the regulators.

Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Associate*

Okay. Got it. And then the next one for me is just on the 60 basis points of margin expansion in the collection and disposal business. From a year-over-year perspective, there is quite a few moving parts in terms of some of the bonus payments made last year, some seasonality nuances, and then this year, some technology investments being made. If there's any kind of additional parsing out you could do -- you could provide us in terms of how much of that was newly gained operating efficiency versus some of these other nuances I just highlighted. Any color around that 60 basis points would be helpful.

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

I think what's important in thinking about that 60 basis points is, one, that it's ahead of our expectations for the year. We look for about 50 basis points of traditional, probably for collection and disposal margin expansion annually. And so to be at 60 basis points in the second quarter is ahead of plan. What is also important about this is that it's generated in the core business. And so the special bonus that you mentioned did provide about 40 basis points, so that's separate and apart from that 60 basis points that we're really focused on and measuring as an indicator of how our efficiency focus as well as our pricing execution is delivering upon the margin expansion goals of the organization.

On the reverse side, the incremental SG&A spending that we've talked about for technology investment is on the SG&A line. And we talk about SG&A actually being flat on a year-over-year basis from a margin perspective. We do expect that you'll see some acceleration of our SG&A spending for digital in the back half of the year. And as a result, you'll see some of that margin pressure from the digital and SG&A costs that we've talked about and anticipated come through and normalize out some of the EBITDA margin expansion that we've experienced in the first half of the year.

But overall, when you think about the fact that in 2018, we have a fuel tax credit that gave us about 30 basis points of a headwind to 2019 on margin, we've overcome that nicely and generated strong EBITDA margin expansion. And we expect that to continue strongly into the back half of the year and then into 2020.

Operator

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

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

So just wanted to go back to your comments about the commercial service increases outpacing the decreases, coupled with the strong industrial yield and a very nice commercial yield. I think you also mentioned that the churn rate was 8.8% in the quarter. Is that right? So that actually ticked up in 2Q. So is that just sort of seasonality? What drove the slightly higher churn rate? How should we think about that maybe trending going forward as you look at the business?

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

Yes. This is John. You touched on it. One, there was a slight uptick in Q2. But when we look on a year-to-date basis, we're still better through the first 2 quarters, so we're not concerned about that.

In terms of what's driving some of the commercial volume, I think Jim mentioned it in his remarks. We've implemented smart truck technology on our vehicles, and we think that being able to gather data that we otherwise weren't able to is certainly driving some of that volume.

Secondly, I think when you look at the churn rate, part of it is being driven by our customer service and customer experience improvements. And it's coming from the lost business that is moderating a bit as opposed to how we've done well in the new business side as well, but part of it's coming out of our ability to retain some of these customers.

And then lastly, I would say Jim mentioned early, early innings, but I think the experience that customers are starting to have with some of the online tools we put in place is showing nice progress, albeit early innings.

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

That's really helpful color. And then just a general macro. I mean your organic growth was outstanding this quarter. I think you broke out at your Investor Day the revenue mix across different sectors, and that was very helpful, and it's pretty diversified. But just listening to some of other companies, particularly in the industrial space this quarter, there have been some practically warning indicators around some of the heavy industry, even in the transport space. And I guess just looking at your industrial business specifically, how should we think about kind of expectations for growth and price strength for the rest of the year? What are you hearing from customers that kind of gives you confidence the sustainability of these metrics you've been delivering?

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

Yes. No. I mean I obviously can't speak to what the other companies are seeing. But what I would say about our volume is, and I've mentioned it a little bit earlier, the real kind of indicators that reflect the health of the industrial segment are special waste primarily and then also there's a component of it within C&D and maybe even in MSW, but largely special waste. And that special waste pipeline looks still very strong. I mean I think there's -- and there's reasons for optimism there, even on things like coal combustion residuals down the road. It's -- a little bit of that speaks to the lumpiness that we see in our overall business that we talked about early on. Those things are hard to predict, but they come as big chunks of business, and they tend to come every year. We just have a hard time telling where they're going to be and when they're going to come. But I would tell you that this economy has been a real enigma because there isn't a real, clear sign as to the direction of it. And so we kind of have to look at our own numbers and say, "What do we think as opposed to what the departments think," because departments -- so the fed can't even tell you what they think about it. So right now, our numbers look to be still pretty strong. When we look at July into the month that we're in now, our volume numbers that we look at each week still look strong, and they look strong in the commercial line of business. They look strong in the landfill line of business. And they look fine in the roll-off line of business as well. The one that's been historically weak for us has been resi, and that's been weak for quite some time. And some of that's just been almost by design. But not to sound like the blind optimist here in a room full of kind of naysayers, but our volumes look reasonably good.

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

No. I would add one thing on the industrial line of business specifically. I think if you think about how Waste Management has positioned itself to be more customer-centric and really ensure that as we've grown in the industrial line of business with the [technology] session, it's been about shifting from temporary business to permanent business and doing that by focusing on our customer. And so I think just seeing the results of that, not just on the volume side of that part of our business, but also on the price side. So we're happy that the overall focus on the customer is really showing us results. And our ability to retain those volumes, I think, we're better positioned for that today than we were last time around.

Operator

Our 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*

Actually wanted to shift back to the recycling discussion. Despite the pressure on commodity prices, you're still able to increase operating EBITDA which is phenomenal. Can you tell us roughly how many or percentage-wise of your contracts have been restructured to kind of shift the risk over to your customers?

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

Yes. This is John, Jeff. We look at -- we're probably about 40% of the way through, and I will tell you we think about it in phases. The customers we have on our own backs, if you will, obviously, we can get to them generally quicker than the residential customers or commercial customers, if you will. The volume that's coming into our MRFs directly is another phase we've obviously began to tackle early on. And then the last phase is really a lot of the franchise and the miscible customers, which take longer, just because the structure of those contracts is generally 3 to 5 years. And a lot of times, it's related to other lines of business that's integrated to a franchise post-collection contract, et cetera. So -- but to answer your question specifically, we're probably between 35% and 40% of the way through, probably middle innings on the commercial piece and the MRF volume. And probably if you use the baseball analogy, maybe the third inning on the residential side.

So we've got room to go, for sure. And when you look, to your point, for us to see another quarter of continued revenue drop in our recycling team, and the field team's been able to improve EBITDA. We're pretty impressive. We're pleased with the progress and are pleased with where we're at. We have a bunch of work left to do and plenty of opportunity.

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

I would say, Jeff, one more point here and that is that to what John said about having still 60% left, albeit the tougher group, which are these big contracts. The good news is if there is a little bit of good news in a really low kind of 25-year low number, and that is -- and our argument is a lot stronger when we come into a municipality during a renegotiation and say, "Look, we're at 25-year lows on OCC pricing. We're getting 0 for mixed paper, and this business has really fallen off a cliff." That -- those are real facts that we're bringing to the negotiating table with some proofs that have pretty big purchasing power. As opposed to just coming in and saying, "Look, these are the normal ebbs and flows of a business. And we're in kind of a down cycle right now, but we think it will come back." I wish I was as optimistic as that. Unfortunately, there are some kind of things that are changing within the recycling business, things like Amazon's reduced packaging program and U.S. retail stores. I think the last time I saw was U.S. retail big-box stores of -- there've been 12,000 enclosures so far in 2019 compared with 6,000 for the entire year last year. So there are some prominent changes going on in the business. So if there is a silver lining to a dark cloud, it's that. When we go in for a negotiation on these big contracts, we do have a pretty compelling story.

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

All right. That's helpful. And if I could just ask a follow-up on the ADS merger. Besides the DOJ review, what are the milestones should we be tracking before closure?

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

Well, I think I mentioned earlier in one of the previous questions, the second request has been -- we're executing against that right now. And that, to me, is the next milestone is getting through that. And like I said, I think in the next probably 60 to 90 days, a little bit of speculation, but I think between 60 and 90 days, we're going to have some more detail that we can share with you, folks.

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

And while it's difficult for you guys to track this externally, internally, we're certainly tracking our integration planning effort for -- you can imagine the number of back-office processes that are not on the customer side and certainly sensitive to how we're thinking about operating 2 separate businesses through both. But we're -- we've got the right team in place that's focused on integration and planning at this point, and that's an important thing for all of us to be tracking within the organization but not one that you'll be able to see the efforts of externally.

Operator

Our 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*

If I could just close the loop on ADS. Jim, when we were last together a few weeks ago, you suggested that the 12 to 15 months that you thought this would take to get it done now might be more like 12. Is that -- that could be a point of an update, just to give everybody something to bite on.

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

Yes. I mean, look, maybe that's just my own kind of optimism coming out. I just feel like the -- Chuck Boettcher has always looked to me sideways whenever I say that, but I think that's -- based on what we're experiencing so far with the second request, based on the fact that there seems to be a smooth process taking place within the -- between the DOJ and our own inside and outside counsel gives me optimism that this is more kind of the front end of the range that we've given as opposed to the back end.

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

Great. And then, Devina, on the free cash flow, could you help us a little bit with cadence? So if I use the midpoint, the $2.05 billion, that leaves you with [1.179] you got to generate in the second half. How should we think about the cadence of that between the 2 quarters?

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

So I think, in particular, if you look at the first 6 months of the year, we talked about the capital side. So at about $1.050 billion of capital through 6 months, we're at about 60% as a full year target at this point. So that's one of the items that is swaying more of the free cash flow toward the back half of the year.

The other piece is actually increased interest in taxes, which we talked about in setting our target for the year. We talked about $75 million of incremental cash taxes associated with cash tax planning benefits that we realized in 2018 that would not repeat in the current year. 3 to 6 months, our interest and taxes are up $90 million. So what you can see is that we've effectively paid that -- most of that incremental $75 million that we expected to incur. And those 2 items really do explain what you're seeing in terms of distribution of cash flow relative to the overall target that we're still very confident that with the EBITDA growth being the leader of that cash flow generation, coupled with our focus on working capital optimization, we're going to deliver right at that targeted free cash flow that we talked about of $2.025 billion to $2.075 billion for the year.

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

Michael, that's -- just to reiterate that one, but that is -- I've called it the long pole in the tent. But that EBITDA growth, which we've always said is that's the best measure of the health of business I said in my prepared remarks. But I just don't wanted that to be missed here. I mean 6.9% growth in EBITDA is pretty darn impressive, and that's a number we're proud to have as we report today.

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

Okay. So just to close the loop on my question and if I follow your line of thinking there, Jim, your next best quarter in EBITDA is 3Q seasonally. So I -- is there anything timing-wise of a tax -- normal tax payment or interest payment that would eat into cash in 3Q, and so a proportion of that [179] are more in the 3Q, less in the 4Q?

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

I would certainly say that as that long pole in the tent being EBITDA and Q3 being our strongest EBITDA quarter, we are confident that Q3 will be a very strong EBITDA quarter for us for free cash flow for the [quarter].

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

And there's not some timing issue around cash outflows like taxes or interest expense that moves that timing around the distribution of the free cash?

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

That's right, not in 2019.

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

I think the only timing, Michael, might be -- and Devina has talked a lot about it, but is CapEx. We talked about CapEx .

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

When can you get it done? Yes.

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

Yes. I mean, exactly. I mean we're -- think Devina, as we discussed yesterday, we're probably 60%.

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

60%.

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

Through our CapEx spending through 2 quarters. Now that doesn't mean you necessarily kind of straight-line it from there, but it does give us optimism that that's -- this timing of CapEx in the first 2 quarters of the year is what's causing this pretty high capital expenditure number.

I think the other thing worth mentioning there, Michael, is that when we think about CapEx, a lot of it is about the growth, the future growth of the business. We're spending -- you and I talked about this when we traveled together, we're not talking about an immaterial number when we talk about building a brand-new -- for example, a brand-new single-stream plant. I mean whether it's a recycle plant of the future or a single-stream plant, when you build it from the ground up and secure the land and put the building on there and then put all the equipment in there, that's not cheap. And that's all for the brand-new recycle plant of the future in Chicago. That's all happening this year. We think that is -- if it proves out the way we think it will -- while the impact of one plant on the income statement in 2020 is not going to be material, if it proves out the way we think it will from a process and from an equipment standpoint, this then would start this kind of cascading effect where we replace every one of our single streams potentially with a plant that looks like that. So that is -- all that capital is showing up this year, and none of the EBITDA is showing up this year. So a piece of this CapEx is related to just an investment in our future.

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

Fair enough. In the past, you've shared with us what your price volume trends were specifically in C&D and special waste. And by the way, thank you for including that new table that shows price or yield and volume by the lines of business. Could we get some clarity on specifically what happened in C&D and special waste in the quarter? It's like you did 10.1% volume in 1Q, yes.

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

Yes. I mean I think I've talked a bit about special waste today, and, John, you can give some color here, too. But the special waste, as I said, there's a whole bunch of project work in there. I mean Mike Watson and his team are very focused on it. We said that at some point next year, CCRs maybe start to impact that number, which would be good for us. Right now, they're not. And right now, it's just a lot of project work, which, and kind of referenced to the macroeconomy, is a good thing as some of these North American companies are using that as -- I think it's a sign that there still is a level of confidence in the overall economy. But it's hard to point to one thing in the special waste stream. It's a whole bunch of things and I would say pretty much the same thing about C&D with the exception of the fire volume which was in there. And so when you look at our C&D volume over the last few quarters, it's been double digits. It has not been as high as it is -- as it was in the second quarter, but that's -- that was really more driven by the fire volume.

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

Yes. And the only thing I would say is when we look at...

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

Sorry, John. Sorry. No, no. Go ahead, John.

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

All I was going to add was when you look at it quarter by quarter, you can see some of the lumpiness with some of the projects that have gone in and out of the C&D bucket. But as you look at over the last handful of quarters, the last 2 years really has been generally up into the right. And as Jim mentioned, we continue to see strength in that overall. From quarter the quarter, it is -- it does bounce around a little bit.

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

Yes. Fair enough. So you were at...

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

I'm sorry, Michael. One quick point. As you think that's particularly important on the volume side, right? On the price side, we're talking about consistent execution. On the volume side, thinking about the landfill line of business and our outlook for the rest of the year, when you look at the first 6 months and 4.3% year-to-date of volume growth overall in the company, moderation from things like the California wildfire impact in the fourth quarter of last year, the anniversary-ing of the New York Department of Sanitation contract that came had a step change late in 2018, we do expect some level of moderation in volumes in the second half of the year from what you've seen in the first half.

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

Fair enough. And so you did 10.1% in volume in the first quarter and 17.2% in special waste year-over-year growth. What's that number in 2Q for both?

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

Special waste was 13.3%. And what was the other one that you were looking for?

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

You had -- C&D was 10.1% in the first quarter. I was just curious what it was in the second quarter, year-over-year growth, volume.

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

That's where the fire volume showed up. So that measure really isn't one of those that stands alone and tells you what the business did. But if you normalize for the fire volumes and look at landfill overall, our volume growth for landfill was 5.3% in the second quarter.

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

Perfect. All right. That helps a lot. And then last thing, I mean, I'm correct in the way you've showed the data. You had positive contribution year-over-year from recycling for your own efforts. But because where prices are, it will be negative in the second half and therefore negative for the year. Is that the right way for me to model it?

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

That's exactly right. So the benefit in the first half of the year from the recycling line of business totaled $17 million or about $0.03 of EPS, and we're now showing that we expect the back half -- or the total impact for the year to be a negative $0.01 to $0.02, which tells you a negative $0.04 to $0.05 of EPS is what we expect in the back half of the year. And that has to do with our execution on the contamination fees and our contract renegotiation efforts that really started to show themselves in the back half of 2018 and anniversary-ing those impacts.

Operator

Our next question comes from the line of Derek Spronck from RBC.

Derek Spronck - *RBC Capital Markets, LLC, Research Division - Analyst*

Are you seeing any pickup in landfill disposal volumes actually coming from recyclable material that otherwise would have been recycled because of the poor economics now, instead of being recycled, shifting into the landfill? And maybe if you could, maybe just touch on the coal ash opportunity as well.

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

Yes I would say -- this is John. I would say to the first question, the short answer is no. We haven't seen any appreciable impact from recycling, move into -- moving our landfills, for sure. I think one thing, as we have mentioned on the previous call, is we have a good portion, have a really talented team in our brokerage side of the business. So we've been able to continue to move material even through the most -- the harshest downturn in commodity prices in 20 to 25 years.

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

Yes. And I'll take the coal ash question. I mean we've -- one of the reasons we feel good about the opportunity is because we've -- since 2010, we've managed over 33 million tons of CCRs for electric utility customers, but there's an awful lot left. We've developed, we think, a really good reputation for the safe, professional handling of that. But there are 700 active and inactive ash pods in the United States that are covered by state and federal CCR regulations. And so over the next probably decade, those electric utilities are going to have to address somewhat in the neighborhood of 700 million tons. It's a big, big number, and we certainly believe we'll get some portion of that based on past history and based on the fact that we've built a really solid reputation as a good partner in this area.

Derek Spronck - *RBC Capital Markets, LLC, Research Division - Analyst*

Are the landfilling economics on coal ash relatively similar to the MSW landfilling?

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

Yes. I think so. I mean -- and in some cases, there's -- we had a big customer a couple of years ago, and so the margin that's going into the landfill were comparable. There was a pretty big capital commitment there. But hopefully, some of that capital is reusable. A lot of it was in the form of trucks. Some of it in the form of monofill construction. So we think that, going forward, we'll be able to leverage some of that capital that we stepped out for with this big customer several years ago. And so the returns there would be actually better than that original customer.

Derek Spronck - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. That's great. And maybe just one more for myself. If the DOJ determines that you need to divest more than $200 million of asset, does that derail the ADS acquisition at all? What are the recourse or mechanisms if that were to occur?

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

Yes. The $200 million is a negotiated point between the 2 parties and sort of an insurance policy, if you want to look at it at that way. It's not a line in the sand that's going to dictate whether the transaction goes or doesn't go. It's simply a way to get both sides comfortable with the threshold of potential divestitures. But as Jim said and I said earlier, we feel good about where we are in the process. All the feedback we've got to date has been consistent with what we expected. And that's why we remain confident that sometime in the first quarter of 2020, we'll be able to get the transaction closed.

Operator

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

Derrick Laton - *Goldman Sachs Group Inc., Research Division - Associate*

This is Derrick Laton on for Brian. Yes. Just one question around input costs in the quarter. Did you guys see anything meaningful in terms of higher landfill operating costs slightly to generation, anything like that? And if so, could you quantify that?

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

Yes. We certainly -- leachate continues to be one of the buckets of cost pressure for us, as is transportation. But I think the important thing to note is when you look at the overall margins and we've talked at length about core pricing, yield results for post collection and specifically the MSW, we're finding ways to obviously combat that and still show margin accretion. So as Devina, I think, mentioned earlier, there are certainly a couple of buckets, too, I mentioned, that are outstripping what we'd expect from normal cost increases. But overall, I think we're probably tracking in the 3% range from a CPI standpoint.

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

So, Derrick, from a quantification perspective on the current quarter impact, about 20 basis points of incremental cost was from leachate cost acceleration specifically, but that's incorporated in that 60 basis points of overall margin expansion that we talked about for collection and disposal. So it shows you that leachate is certainly one of those cost categories, like John mentioned, that's outpacing CPI growth. But at the end of the day, it's still a component of that 60 basis points of strong EBITDA margin expansion -- operating margin expansion that we're seeing in the business.

Derrick Laton - *Goldman Sachs Group Inc., Research Division - Associate*

Got it. That's helpful. And then just one last one for me. You mentioned sort of a step change in pricing around the transportation. What's sort of driving this focus? And maybe what's the opportunity for you guys as you look ahead for pricing in this particular segment?

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

Well, I think we've talked at length about the fact that we've got really well-positioned assets, and they're not just the landfills as Jim mentioned. The remote gate to the landfills in a lot of cases are these transfer stations, which we think we -- obviously, the team has done a nice job of making sure we're positioned in the right places and the right markets. I think that, coupled with some of the strain that's been spoken about in terms of transportation network, we've been able to leverage that. And I think that's part of the reason why we're seeing the success through the transfer stations. And I think that -- certainly, there's 2 components to pricing. One is overcoming, obviously, the cost headwinds that we've spoken to; and secondly is leveraging the position of not only our assets, but the network that exists between those post-collection assets. And I think that's what you're seeing the results of in the last handful of quarters.

Operator

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

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

I think you just answered it, but just the yield -- step change in the yield in MSW and transfer in around 3.5%. And again, I guess that you did clarify this point. You are capturing incremental margin, I mean, more than offsetting the cost pressures you're seeing in that business, and that's part of the 60 basis points, correct?

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

That is correct.

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

And I think, Jim, earlier, you mentioned further gains potentially on the yield. I'm just -- I'm curious, is that more incremental margin? Or is it, again, just more offsetting additional cost pressure?

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

Well, I don't know that we expect these operating costs that we've talked about today to continue to climb from where they are, but they are, at this point, running in excess of inflation. So I would just -- continuing to focus on pricing and drive higher price is probably as much margin accretion. But I would say after many years of 1%, 0.9%, 1.4%, I don't feel like I'm doing something that should upset so many folks.

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

Okay. And obviously, with the volume growth, it's not impacting the volume you're seeing in the landfill business either. Okay.

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

No. I mean -- and I think it goes to what John said just a second ago, and that is that we really have well-positioned disposal assets around North America. And so that makes a big difference for us as we think about our customers viewing it as the next -- they view it, what's considered to be a next-best alternative analysis. And in many, many cases, we're the best alternative when it comes to disposal.

Operator

We have no further questions at this time. I will now turn the call over to back to Mr. Jim Fish.

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

All right. Thank you. And lastly, we talk a lot about our people today, and I just want to reiterate how important this team of 44,000 people is into producing these results. Without every single person, we could not do what we do. Our reporting today wouldn't be what it was. We continue to make sure they know that by investing in them. And last week, I was in Chico, California, meeting with some of our teammates. We're about to open a brand-new hauling facility. Next week, I'll be in Denver. We're visiting our recently opened Energy Services building. I mentioned in my script that we're opening a state-of-the-art driver and technician facility in Arizona. And I'm giving the go-ahead this week, for the fifth year in a row, to fully absorb health care increases so that our hard-working 44,000 employees don't have to pay extra for that very, very important benefit. It's -- if you are at our Investor Day, you heard me talk about something called people first, and it's part of that culture. It's -- one of the questions that I think was asked was what's the key ingredient here to Waste Management's consistency in this kind of volatile economic climate, and I would tell you that the answer is our people. And so thank you to all of our 44,000 teammates today for all that you do, and thank you to all of you for joining us today. We'll talk to you next quarter.

Operator

Ladies and gentlemen, thank you for joining us. This concludes today's conference call. You may now disconnect.