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EDITED TRANSCRIPT

WM.N - Q4 2021 Waste Management Inc Earnings Call

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OVERVIEW:

Co. reported 4Q21 results. Expects 2022 total Co. revenue growth to be approx. 6%.

REFINITIV

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PRESENTATION

Operator

Good day, and thank you for standing by, and welcome to the Waste Management, Inc. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your speaker today, Ed Egl, Director of Investor Relations. Please go ahead.

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

Thank you, Faith. Good morning, everyone, and thank you for joining us for our fourth quarter 2021 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 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 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 forward-looking 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 as updated by our subsequent Form 10-Q filings.

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 fourth quarter of 2020. Net income, EPS, operating EBITDA margin, operating expenses and SG&A expense results have been adjusted to enhance comparability by excluding certain items that management believes do not reflect our fundamental business performance or results of operations.

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 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 5:00 p.m. Eastern time on February 16.

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 4865157. Time-sensitive information provided during today's call, which on February 2, 2022, 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*

All right. Thanks, Ed, and thank you all for joining us. 2021 was another very successful year at WM. Our strong operational and financial performance continued throughout 2021, delivering full year results that achieved or exceeded our financial guidance, which we increased from our original expectations twice during the year. We also successfully integrated the Advanced Disposal operations, generating synergies that have already exceeded our initial expectations with further synergies to come.

During 2021, we focused on driving disciplined organic revenue growth, advancing technology investments focused on customer retention and growth and cultivating our people-first culture. Execution on these priorities came together to produce record growth in full year adjusted operating EBITDA and cash from operations. It can't be overstated how impressive it is that we generated more than $5 billion of operating EBITDA in a year like 2021. This robust operating EBITDA translated into all-time high cash from operations of over $4 billion, which allowed us to return a record $2.3 billion to our shareholders.

Contributing to our operating EBITDA was our pricing where we finished 2021 on a very strong note as we made steady progress on covering the cost inflation in our business with excellent core price results across all lines of business. John will provide more details here, but we had record core price in both our landfill and residential businesses, 2 areas we've been particularly focused on over the last couple of years. Strong core price translated into the best collection and disposal yield that we've seen in more than a decade.

Another great story about our pricing efforts is that we're still seeing strong volume growth and improvements in churn. 2021 churn of 8.4% is an all-time low. As 2022 kicks off, we're fully focused on recovering inflationary cost increases through our pricing programs and through the aggressive management of our cost structure. Our revenue management team is hard at work executing on the 2022 pricing plans so that we can recover the inflationary cost pressures in our business and deliver another successful year. In fact, we've recently seen several large customers who have historically been very price-sensitive, renew at significant increases.

On the cost front, a big part of that management of our cost structure will be to materially improve our labor efficiency through the application of the technology investments we made over the last 18 months. Our expectation is to attrit between 5,000 and 7,000 positions over the next 4 years without replacements as these positions have become difficult to source and we expect that will continue to be the case.

At the same time, we continue to focus on providing the best workplace for our employees and leveraging our asset network for growth.

Regarding our 2022 financial outlook, Devina will provide more details, but at a high level, we expect to deliver total company revenue growth of approximately 6%, driving operating EBITDA growth of approximately 7% in 2022. It's fair to point out that both our revenue and our operating EBITDA guidance are at or above the high end of the ranges we targeted for the long term at our Investor Day in 2019. We expect margin expansion in the second half of the year with full year operating EBITDA margins expected to be flat to up 40 basis points compared to 2021.

This sets us up for another year of robust cash generation. The extraordinary cash generation of our business positions us to plan a 13% increase in our 2022 dividend rate, while at the same time, making substantial increased investments in high-return renewable energy and recycling projects. Tara Hemmer was appointed as our Chief Sustainability Officer last summer, and she's charting a path to an aggressive long-term growth for our sustainability businesses.

In light of our very strong cash generation, we plan to invest approximately $275 million in 2022 to expand our network of renewable natural gas plants with incremental investments in 2023 through 2025 totaling approximately $550 million. We expect to build 17 RNG plants over the next 4 years, which would grow our RNG generation by 6x. With conservative assumptions, these projects are expected to generate operating -- annual operating EBITDA run rate operating EBITDA of more than $400 million by 2026. And at today's higher prices, that operating EBITDA more than doubles.

In the recycling business, we expect to invest $275 million in 2022 in MRF technology with incremental investments in 2023 through 2025 totaling approximately $525 million. These investments accelerate our automation of recycling process, processing to reduce costs, improve product quality as well as expand our single-stream recycling footprint. Together, these projects are expected to generate annual run rate incremental operating EBITDA of approximately $180 million by 2026, assuming $125 per ton blended commodity price.

These growth projects further WM's sustainability leadership by increasing the renewable energy generated from our landfill network, expanding single-stream recycling capacity and automating recycling processing to reduce costs and improve product quality. They also are expected to generate excellent returns that are superior to those of solid waste acquisitions.

In closing, we delivered a fantastic year in 2021, overcoming the challenges the year presented. As we look ahead to 2022, we remain committed to advancing technology investments that differentiate us, automating our processes to reduce our cost to serve and leveraging our sustainability platform for growth. Our success would not have been possible without the best employees in the business and I want to thank all 50,000 of our team members for their contributions. I'll now turn the call over to John to discuss in more detail our operational results.

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

Thanks, Jim, and good morning, everyone. Our team finished 2021 strong with fourth quarter organic revenue growth in the collection and disposal business of 6.5%. Our fourth quarter core price of 6.7% in the commercial line of business and 5.2% in our landfills clearly demonstrate continued discipline and pricing momentum. These strong fourth quarter pricing results were the leading contributors to robust collection and disposal core price of 4.8% for the full year.

2021 yield was also strong at 3.5% and reflects an improvement in rollbacks of almost 500 basis points as well as continued improvement in customer churn. As we move into 2022, our revenue management teams are focused on continuing to recover inflationary cost increases, improving residential profitability and remaining disciplined on disposal pricing. With the strong momentum we have entering 2022, coupled with our team's continued diligence, we expect to deliver core price of more than 5.5% and yield approaching 4%.

Shifting to volumes. Fourth quarter collection and disposal volume grew 2.8%. For the full year, our collection and disposal volumes grew 3% and service increases outpaced service decreases nearly twofolds. Organic growth trends in the first few weeks of 2022 have been encouraging even as some parts of the U.S. and Canada have seen spikes in Omicron cases during January. Commercial yards are tracking above 2021 levels. And while industrial hauls are modestly below last year, we see that as mostly due to weather disruptions in a few areas across the country. Overall, we expect 2022 collection and disposal volumes to grow about 2%, with commercial collection and MSW landfill volumes as leading contributors.

Turning to operating costs. Adjusted operating expenses as a percentage of revenue increased 150 basis points year-over-year to 63% with commodity-driven impacts from recycling brokerage rebates and fuel totaling 100 basis points. The remaining increase was related to higher labor costs as overtime increased due to the highest number of COVID-related absences we have seen as well as some risk management costs. During the fourth quarter, our teams remain focused on controlling operating costs. And while the impacts of inflation and the tight labor market continue to put pressure on our metrics, there are positive trends in the fourth quarter results that position us well to deliver on our 2022 plan.

Maintenance expenses improved sequentially as our continued efforts to standardize maintenance processes, particularly in our ADS locations, is reducing downtime and improving fleet availability. We also saw efficiency, net of incremental training hours, improving all lines of business. We expect these efficiency gains to continue and overtime hours to improve as our teams are taking intentional steps to improve retention, and we see that making an impact as annualized driver turnover has improved every month since August. We estimate that our focus on operating efficiencies and productivity helped to moderate the impact of inflationary cost pressure by about 60 basis points versus the third quarter.

So putting it all together, when you combine our pricing efforts with our progress on cost containment, we expect operating expense as a percentage of revenue to improve by the second half of 2022. Our collection and disposal business is well positioned to deliver great results in 2022 and so are our recycling and renewable energy businesses.

As Jim discussed, our sustainability businesses are central to our growth strategy, and we're pleased with the strong results we're achieving in both the recycling and renewable energy businesses. In recycling, each quarter of 2021 earned a spot among our 5 most profitable quarters of all time, and we're anticipating an equally strong year in 2022. Our current outlook for 2022 is based on an average blended commodity price of $125 per ton, which is modestly above current values of $115 per ton.

And similarly, renewable energy business delivered a very strong 2021 results and is expected to match this earnings contribution in 2022 as 2 additional renewable natural gas plants come online. We expect our fifth plant to be operational early in the second quarter and the sixth plant to be online by the end of the year. Our 2022 outlook is based on a RINs price of about $3, which is slightly above our 2021 rate but below current RINs pricing.

And finally, our integration of Advanced Disposal continues to go smoothly as we marked the first anniversary of the acquisition at the end of October. To date, we have combined virtually all the acquired operations into our billing and operational systems. And with $36 million of synergies captured during the fourth quarter, we exited 2021 on track to exceed our expectations for full run rate cost and capital synergies of $150 million.

In closing, I want to thank the entire WM team for their focus on safely and reliably servicing our customers. The team has done an exceptional job managing our operations, and I know that this will continue in the year ahead. I'll now turn the call over to Devina to discuss our 2021 financial results and 2022 financial outlook in further detail.

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

Thanks, John, and good morning. Our teams worked tirelessly this year to provide essential services to our customers and communities, and we're proud of the results we accomplished together. 2021 operating EBITDA growth of 16.5% was achieved by accelerating collection and disposal core price, capturing robust commercial collection and landfill volume growth, successfully integrating the ADS business and delivering record-high recycling profitability. Controlling our discretionary SG&A spending and leveraging technology investments to reduce the cost of our sales and back office functions also contributed to the strong EBITDA growth in 2021.

In the fourth quarter, SG&A was $481 million or 10.3% of revenue. Our fourth quarter SG&A costs came in higher than our run rate due to the timing of some of our technology- and sustainability-oriented investments. 2021 SG&A was 10% of revenue. That's a 20 basis point improvement over 2020. Over the long term, we target SG&A as a percentage of revenue below 10%, so we're pleased to be nearing that target so quickly after the ADS acquisition.

In 2021, we captured SG&A synergies from the acquisition ahead of schedule and started to realize the benefits of our technology investments, particularly by optimizing our sales coverage model, growing our digital sales channel and streamlining the customer setup process. We're confident that our technology investments will continue to deliver value as we differentiate WM and reduce our cost to serve, both on the operating cost and SG&A lines.

Fourth quarter capital spending was $774 million, which is above the expectations we had last quarter as we were able to opportunistically accelerate investments in recycling and renewable energy at the end of the year. While we continue to see supply chain constraints, slow delivery schedules and some important traditional solid waste asset categories, we worked diligently to close the year with strong momentum on capital investment to support growing volumes, particularly in our landfill line of business.

Growth in both cash flow from operations and free cash flow were particularly strong in 2021. At $4.34 billion, cash flow from operations increased 27.5%, and when excluding the onetime benefit from the required divestitures related to the ADS transaction, our free cash flow grew over 28.5% in 2021 to $2.53 billion. Over the course of the last year, we returned a record $2.32 billion to shareholders, a $970 million in dividends and repurchasing $1.35 billion of our stock. We accomplished all of this while achieving our targeted leverage ratio of about 2.75x, demonstrating that we are well positioned for future growth.

Moving to our 2022 financial outlook. As John mentioned, we anticipate organic growth in the collection and disposal business of about 6%, which is the high end of our long-term growth target. This revenue growth outlook drives our 2022 operating EBITDA guidance of $5.325 billion to $5.425 billion, and that represents almost a 7% increase in operating EBITDA at the midpoint. As Jim discussed, we are well positioned to allocate our cash both to growing shareholder returns and to increasing growth capital investments in our recycling and renewable energy businesses.

Setting aside the planned growth investments and focusing on the capital expenditures we plan to invest in the normal course of business, we expect capital spending to be in the range of $1.95 billion to $2.05 billion in 2022. Free cash flow, excluding these sustainability growth investments, is projected to be in the range of $2.6 billion to $2.7 billion. We expect to make approximately $550 million of growth investments in recycling and renewable natural gas projects in the coming year. While these investments will be reported as a component of our capital expenditures and therefore reduce our traditional measure of free cash flow, we see these investments to be similar to an acquisition dollar as they will produce high-return growth as a strong complement to our existing business.

When considering these growth investments, free cash flow is expected to be between $2.05 billion and $2.15 billion in 2022. This free cash flow outlook anticipates an increase in cash interest and taxes of $75 million to $125 million and a modest improvement in working capital.

Our long-standing commitment to a strong balance sheet and consistent and disciplined allocation of available cash towards growth and shareholder returns continues. Our 2020 priorities will be to invest in the business, grow the dividend, fund tuck-in acquisitions with strong returns and buy back shares. Given the Board of Directors' approval of a 13% increase in the 2022 dividend rate, we expect dividend payments to total about $1.075 billion in the year ahead. We also expect to continue our share repurchase program in 2022 as the Board recently provided authorization to repurchase up to $1.5 billion of our stock. While our guidance does not specifically include acquisition growth, we will continue to be opportunistic in pursuing the right deals at the right price.

In closing, we are proud of what we achieved in 2021, and we're excited about the opportunities that lay ahead for 2022 and future years. Our team is hard at work so that we can deliver on our commitments to our customers, communities, the environment and shareholders. With that, Faith, let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

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

Lots of places fruitful for questions, but I guess we should start with the announcement around the increased investments in sustainability. And specifically, I'd like to understand how you're approaching the economics on a long-term basis of these RNG investments. It seems like there is an awful lot of upside and downside in having the economics fairly exposed to the prices of RINs. And given the scale of the investment that you're contemplating and having the exposure through the EBITDA of those RIN prices, how are you thinking about potentially derisking that over time? It does seem like there's a market for long-term contracts in R&D. And while that would significantly haircut potentially the RNG EBITDA versus what you projected, you'd be getting more certainty. So I guess at a high level, how should we be thinking about that and how it impacts the predictability of earnings for the company?

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

So Noah, I'll start with some comments about how we approach the volatility and then I'll turn things over to Jim so that he can cover the strategic overview with regard to how we're thinking about this portfolio. In the renewable energy space, we currently and expect to continue to manage the volatility by looking both at the very short-term market-driven prices and then long term, those attractive long-term contracts that you mentioned.

So we participate on both ends of the spectrum and I would say almost anywhere in between, and we'll continue to assess what's best in order to both reduce volatility but then also optimize the returns of the portfolio and what you can see outlined in the press release that we provided. We're really happy with the return profile and the payback period when you see a 3-year payback period at the conservative levels that we've assumed. That indicates that even with the incremental volatility, we know the returns outpaced the solid waste acquisition returns that we've discussed.

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

Yes. And I think just to add to that on the strategic side, Noah, I think there really isn't -- I guess I'll say it this. We have 4 critical capabilities that nobody else has that enable us to really have confidence in these investments. Devina talked about how we mitigate risk. But as we think about them strategically, we have a team that's been doing this since 2015, and they know how to scale these plants across the whole portfolio. We have an asset that nobody else has, which is the amount of gas that we own. Nobody else can bring that to the table.

We have the biggest CNG fleet in North America, and that enables us to fully close the loop and leverage the fleet to monetize the RNG. And then lastly, we've got the balance sheet. So if you look at all 4 of those, this made a ton of sense for us to accelerate investments in 2022 out through 2025. I don't think anybody expects that over the next 3 years that we're going to see significant downside in RINs pricing or, for that matter, natural gas pricing. But if there is, we built in pretty conservative estimates and still come up with these very strong returns that Devina referenced.

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

That's very helpful. And then my second question is just around labor or really around people. You've talked for many years about really making Waste Management an employer of choice not just in the waste management industry but amongst all companies. And now that you're really embarking on a program of attrition and automation and increased efficiency, I guess, how do you approach the challenge at the same time of remaining that employer of choice and continuing to make positions at Waste Management attractive to an increasingly constrained labor force?

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

I think you used the right word there, which is attrition. I mean, we're not talking about announcing a big layoff next week. We're talking about using high turnover. This whole Great Resignation as we've heard, we've been talking about that for a while now. And you've heard me talk about my daughter saying in her high school class, nobody wants to drive a truck or operate a piece of heavy equipment. So this is not something that just came to us in the last 3 months. We've been focused on it for a while.

We built out those 3 single-stream plants, which we've discussed at length, and those have provided a significant labor benefit to us. So as we started thinking about it more, we saw other buckets of opportunity. When we look at moving, for example, from traditional rear load, we have call it, 3,000 rear load trucks available to shift to ASL. And those rear loaders probably driven more by safety than anything else so it's a safer vehicle at ASL, but there's a labor opportunity there in a category that's very difficult to fill, particularly in today's world.

I mean, it's hard to get somebody to ride on the back of a truck and throw trash. So we've got some categories here where we feel like we can really use attrition to our benefit, become much more productive from a labor standpoint. And it's part of why I've maybe never been more optimistic than I am today, coming off of 2 pretty rough years, maybe as rough as any of us have seen in our lifetime and all of a sudden looking at a '22 where we can really start to leverage those investments we've made in technology in those buckets where we have transactional type jobs that are really hard to fill.

I don't think this affects what we've tried to do with the culture. The culture is still absolutely being a great place to work. We've done a tremendous amount of benefits, offering to pay for college education for dependents, which I don't think any other company out there does. So we still feel very good about the fact that this is a great place to work. But where we have high turnover, let's take advantage of it.

Operator

Your next question comes from the line of Jerry Revich from Goldman Sachs.

Jerry David Revich - *Goldman Sachs Group, Inc., Research Division - VP*

Jim, I'm wondering if you could just expand on the offtake part of the conversation. You just had 22 million mmbtu of gas is going to come online. How much of that do you anticipate going into transportation applications where it will be eligible for RIN 3 credits? And how deep are your conversations with industrial gas customers that won't be using RIN 3 credits? Can you just talk about how that market is evolving and how deep that market might be at this point?

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

Might be giving me more credit here on a pretty technical question. I guess I would tell you that -- and I'm not going to give you a very technical answer because I just don't have the expertise. But -- and we can definitely get you an answer on that. But if we look at the -- the one thing that I mentioned was our fleet and having that fleet that's 70 -- over 70% of our routed fleet is now natural gas. That number came down a bit when we bought ADS, but we continue to buy 90% of the trucks each year as natural gas trucks.

So, it does give us a chance to sell those credits and fully close the loop but also paints a nice sustainability picture for us that Tara and the entire WM team are able to leverage. I'm not sure I can answer the more technical aspects of your question there, but hopefully, that gives you a little bit of insight.

Jerry David Revich - *Goldman Sachs Group, Inc., Research Division - VP*

Okay. And then if we could just pivot and talk about the yield outlook, so nice to see the acceleration for '22. I'm wondering, can you talk about how you expect the cadence to play out? In the last call, you spoke about bigger commercial and industrial price increases coming once we annualize. So does that mean we should look for yield to accelerate as we head through the course of '22, so exit rate higher than 4%? Can you just put a finer point on how you expect that dynamic to play out?

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

I think if you look at the year-over-year comps, the comps will certainly be easier purely from a price standpoint in Q1 and Q2. And then we started to kind of get our sea legs a little bit in Q3 and Q4. As we saw inflation, I would tell you that, that inflation that we started to see in Q3 did catch, I think, the entire world offguard. But nobody expected coming into the year that we'd have 40-year high inflation.

So Q3 was playing a bit of catch up. Q4, we started to really catch up. But there is a lag in terms of how much pricing we can get to cover inflation. And honestly, we probably will be happy just to get to a point where we cover that cost. That's why the labor aspect is so important because we're attempting to raise margins here and add EBITDA dollars. And I'm not sure we do that purely through pricing. In fact, I would argue that pricing, we think, can be the primary offset to inflation.

But in terms of adding EBIT dollars and adding margin points, we think the labor piece is a critical aspect of that. To kind of talk about where it goes for the rest of the year, I mean, I would tell you that -- and I think John and I both talked about it in our prepared remarks, but the fact that we're seeing landfill pricing, and I gave an example of a couple of disposal customers that took pretty substantial price increases, who previously had been very, very price sensitive. And I think they -- that told us that they understood they're seeing inflation in their system. And so we needed to take significant price increases on those big landfill customers.

John has talked about residential for a long time, and we're finally starting to see that residential is showing vast improvements on the price front. So I'm happy that we're seeing this across all lines of business. To me, that is maybe the best sign in terms of pricing is that we're seeing this not just in the commercial line of business but we're seeing it across all lines of business and all waste streams.

Our special waste, if we look at our special waste and we look at just our baseline, we were up 7.9%, I think, was in our base business, pricing in special waste. And that doesn't really go into our yield number because it tends to be a [Indiscernible] work, but that's a big increase. So we're happy with the progress we're making on price. I don't know that, that really spells out where we're going to be each quarter. Suffice it to say we're going to have easier comps in Q1 and Q2, though.

Operator

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

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

So it looks like margins fell about 140 basis points year-over-year here in Q4. Any way that you could kind of unpack some of the moving pieces? I mean, I think ADS closed in late October, as John mentioned, so that impact seemed to be maybe watered down a bit on a year-over-year basis. And I would think that commodities were a help. Can you just talk about what was really working hard against you?

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

Yes, sure. So commodities actually worked against us in the fourth quarter by 100 basis points, which is what John remarked to in his prepared remarks. So that's the recycling brokerage part of our business as well as fuel. And we expect that both of those impacts would continue into the first half of 2022.

When I look at the remaining components of the fourth quarter, there were about 90 basis points of impact to margin in the quarter that aren't representative of our run rate. And so that's what gives us confidence in our outlook for the 28.1% to 28.5% EBITDA margin in the year ahead. Achieving 28.1% EBITDA margin in this year, integrating the ADS business and having the significant cost inflation that we had in the second half, we're really pleased with. We know that we have additional margin expansion opportunities, particularly with ADS synergy realization that ramped in the back half of the year. So we'll see that continue into 2022.

We had some incentive compensation headwinds on a year-over-year basis. Those actually, on a year-over-year basis, were more significant than we expect to be in the way of rollover benefit in 2022. That rollover benefit could be as much as 40 basis points next year. So all in all, what I would tell you with respect to margin, when we compare WM's margin to industry margins, finishing this year at about 30% is a real accomplishment because that's been a target that we've all talked about for a long time. And using both recycling brokerage and the impacts of accretion that are adjustments for the rest of the space, we came in at exactly 30% for the full year and 28.9% for the quarter.

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

Tyler, I know you asked a margin question, but I have to say I guess time will tell whether investors are as optimistic as we are about this. But I got to tell you, I mean, 2021, I mean, I don't need to tell you what it looked like. But at no point in our lives that we've seen in 2021 where we're having hand-to-hand combat with a pandemic and, at the same time, seeing 40-year inflation. And with that, we still raised guidance twice and -- but for a couple of kind of one-timer type expenses, would have finished in the middle of -- almost in the middle of the range for that EBITDA guidance.

I was actually stunned that we were able to work our way through 2021. And then when we look at 2022, looking at our guidance, you remember the Investor Day in 2019 and that's why we referenced it. But putting guidance out there that's at the top end of that range, by the way, if you remember that presentation, we had 3% to 4% inflation in that 2019 presentation when we said that the range would be 5% to 7% for EBITDA, long-term range, and we're coming out with guidance at 7%. And that's also the baseline that we raised twice in a kind of a (expletive) year in 2021. So that's why we're as optimistic as we are, and we'll see whether the market feels the same way.

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

Yes. No, no, definitely strong. But just going back to, again, kind of not to harp on margins, but you talked about them -- it sounded like you were maybe implying contraction in the first half and then expansion in the back. But just for our modeling and so that we can kind of get the quarterly flow right, I mean, should we think something like down 100 basis points in the first half and then up maybe more than that year-on-year in the back half? Or just any color there?

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

Yes, Tyler. So if you look at the year-over-year comps, Q2 of 2021, in particular, is a really tough comparison because that quarter, we had 29.3% margin. So what you outlined just now is exactly what our projections are. We'll be down about 100 basis points in margin on a year-over-year basis in the first half of 2022 and up 100 basis points to 140 basis points in the back half of the year.

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

Right. Okay, so a great jumping off point to '23. Okay. And then just my last one here. On the recycling side, Jim, so the $800 million spend, how much of that is for automation versus new MRFs? And to be clear, the $180 million EBITDA uplift, so $60 million to $70 million of that is from labor savings, is that right? And the other $120 million to $130 million is just from increased material flow?

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

Yes, it might be a little bit more on labor. I don't know. We just had this meeting the other day where we talked about how much of this is going to be new plants versus rebuilds. Both of them have really high payback really or really low payback period, really high returns. So they're both great investments.

And -- we're -- the good thing is we're not really constrained on -- in terms of cash. So we can probably -- it's less about either/or and more about and. We just want to make sure that we're as on those new markets, we're picking the right markets. I know Brent Bell and his team are looking closely at that. And then with respect to the labor savings, the number that we're giving is -- that we've talked about is somewhere in the neighborhood of 1,000 to 1,200 positions over about a 4-year period. So if you kind of take the high end of that and you call it, I don't know, let's say, $75,000 all in, and keep in mind, some of these are -- a lot of these are temps, so we get charged a different number than they actually make.

So let's say, $75,000 all in, that may or may not be the right number, but you can use that kind of to do the math. And that's probably where most of these [5 to 7] are. We're not talking about $200,000 jobs here. But the high turnover, the high attrition that we see in those jobs really, I think, is -- makes this the absolute right move to move away from those, particularly in a time where we have such a hard time filling those positions.

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*

If I could just maybe ask the investments you're making in these high-growth areas. It looks like your renewable energy projects will generate roughly double the returns of recycling. So just wondering, what are the gating factors that wouldn't have you accelerate investments in renewable over recycling? If I just think of $1. giving you double the return of the other?

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

I think we've given a lot of thoughts on this. I think the cadence that we've laid out internally is the right one. I think we mentioned 17 plants and that's a lot. So these things are complex. There is -- there are some questions, I guess, around supply chain and how much does that lengthen the amount of time that's necessary to build out these plants?

But the acceleration, we think, is absolutely appropriate for all the reasons that we mentioned. Do we accelerate it further? I don't know that we do. I think we're -- I think we have the right amount of plants planned in the right places. We've looked at where the right places would be, what landfills will be feeding them, all of that. But I'm comfortable with the plan that we've laid out.

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

And I think what's important is that the teams that are working on this are independent and not constrained by one another, right? So we're able to work on both things in parallel and move 2 really important parts of our business forward simultaneously. And they each have great returns and returns greater than we're even seeing on some of our core solid waste acquisitions, which makes us really confident in making these investments at the same time.

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

But Devina, adding $400 million in EBITDA. I mean, and we've talked a lot about that, and that is at these -- for very conservative numbers. So $400 million EBITDA for the existing plants plus those 17 new plants is a lot. And that's why I mentioned in my remarks that, look, if you extrapolate it out at today's natural gas and RINs pricing, it's not $400 million, it's north of $800 million. So I think the amount of plants that we've planned is appropriate.

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

No, that's a fair point. The returns across all these projects seem to be very high. Maybe sticking on this topic. If I look at your free cash flow guide, including the spend just over $2 billion, Devina, you talked about targeting just over $1 billion on dividends. You did renew the buyback for up to $1.5 billion. If I put that all together, does that suggest something about the M&A pipeline, that maybe you're seeing either a deceleration in opportunities or maybe the regulatory environment and the DOJ just make it tougher for you to maybe execute on deals or the time line of those deals get pushed out? Just is that something we that we should be reading into based on some of these investments you're making?

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

Yes. I would tell you that we're certainly not taking our eye off the ball or the amount of focus that we have as an organization away from core solid waste acquisitions. And we're not seeing significant constraints with respect to DOJ pressure or anything like that outside of what we discussed when we were closing the ADS transaction. For us during the integration of ADS, that was the top priority for our organization, particularly in that part of the country.

And for us, that was over half of the areas that we oversee. And so it was really important for us to make that priority #1 from an M&A perspective. The team is definitely looking at the landscape and participating in conversations. As you see some of the smaller players make decisions, we've always talked about the driving forces in their decisions. And this tight labor market has certainly been an accelerant for them. And so we're part of those conversations, still focused on that. We are going to remain disciplined in terms of return. And so buying at the right price is what will be important for us.

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*

Houston, I hope things are good down there. Can we go back to RINs for a second? Are you taking 100% ownership of the 17 or are you partnering?

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

At this point, the plan is 100% ownership of the 17.

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

Fair enough. And you can't do a financial hedge on RINs yet? Maybe somebody will figure out how to create that. But in lieu of that, are there other creative ways to develop a hedging approach to the RIN? Because everybody has been alluding to, are you trading 1 volatility for another having fixed recycling to this. So what's the opportunity there?

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

The opportunity there really is on those long-term contracts that I mentioned earlier, and we continue to work very diligently in that space and have had some good success. And we looked for those long-term contracts to be an appropriate balance to market exposure, so that we do have an appropriate level of volatility without giving up too much of the upside potential.

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

How long is long?

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

Some of them have been more than 10 years and less.

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

Okay. Jim, what's your Washington, D.C. staff telling you about EPA and the messaging they have around the RFS and the RVO? Because that's the greatest point of volatility. If they move that around wrong, that crushes the demand side and you can't control that. So what are they telling you?

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

I think our -- the good news is that they have their finger on the pulse up there. It's just the pulse seems to be a little bit erratic, I guess. I would tell you that areas like CCRs, I mean, coal combustion residuals, which have been discussed within the EPA longer than some of the other items. That is an area that we really see the opportunity starting to develop. And we like -- the pipeline is kind of 40 million-ish tons over $1 billion for us in the next 4 years.

And then things like PFAS. PFAS is -- we've always talked about that as an opportunity for ourselves. But there's a lot that is being discussed. I'm not sure we've seen the full consensus maybe is the best way to put it on a lot of those topics, with the exception maybe of coal ash and some of those have been talked about longer.

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

I think, Michael, the other thing we're watching is a small refinery exemption, right, because that's also been part of what's in that market. And there's been some commentary there. There's nothing decided yet, but to the extent that, that they extinguish some of the exemption there, I think that obviously bodes well.

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

Well, and the good news is in December, EPA set an outlook for '22 and '23 that seem to recognize, don't compromise whatever you do with the exemptions by setting too many -- till the numbers too up. That seems to send a good signal for at least the next 2 years. If we could shift to price, what's the early reaction to the 5.5% average core price? A year ago at this time, the customer was taking more price, and we ended up with a better outlook on price. What's the current early reaction to the 5.5%?

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

I think the -- probably the best indicator would be in our churn numbers. I mean -- and I mentioned the churn was at an all-time low there. So I think the reaction is that people understand that inflation is real, that it's out there in the economy and that we're being judicious about how we apply it, but we're attempting to recover our costs.

And look, that's been no easy task. We've seen a pretty heavy hit from labor inflation, particularly in Q3. That started to come back down there a little bit in Q4, just simply because we've taken a lot of those adjustments already. But I think, John, the number was almost $100 million in adjustments for 2021.

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

Yes, slightly over.

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

Yes. So I think the reaction has been reasonably accepting, Michael.

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

I would add, Michael, too, that our most labor-intensive line of business, Jim talked to the automation benefits and the path we're pinning down with regard to residential. But you've seen the sequential improvement in residential core price and yield. You've also seen some of the volume degradation. We're going to continue to be selective there, especially in this kind of labor environment, which we don't see as short term. So we look at that price and labor trade-off as good for the shareholders.

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

Okay. And so if I then look at the volume side, would you say you're still seeing new business growth helping that? Or is this still mostly service interval upgrades of existing?

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

I think it's some of both, right? John talks a lot about service increases versus decreases. There's -- I think it's almost like by a factor of 2 higher on service increases. So it's a bit of both, Michael. I mean, I mentioned probably the most forward-looking volume that we have, the revenue stream that we have would be in special waste. And I think what that portends for the economy is a good -- is that we don't see a big downturn in the economy coming even with the inflationary pressures.

Our special waste pipeline looks really good. Our special waste in Q4 was really strong. And so the only areas that we saw that were weak were really driven by difficult year-over-year comps. I mean, roll-off volume was flat. But it was not because we're -- it wasn't something for us to be concerned about simply because 2020 had a lot of fire volume in Northern California and also a lot of -- you remember the late hurricanes that hit the Gulf Coast last year. And so there was a lot of volume from that.

So without that, we would have seen a much more positive number in roll-offs. I think volume looks to be a bit of both of those, still kind of an emergence from COVID and which is kind of the service increase, service decrease piece, but also growth of the overall economy.

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

Okay. And then to clarify the M&A question, how would you frame the corporate development pipeline? Is it busy? And is it a reasonable -- you're not modeling this, but is it reasonable to think that you can participate in the ongoing consolidation at 1% or 2% rev growth, which is a little less than the underlying organic growth of the industry?

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

I think we'll always focus on -- we'll always have our eye on M&A. And where there's opportunities, we'll try and take advantage of those. But at the same time, we don't want to overpay for these so we're careful there. But it doesn't look like the M&A landscape has changed that significantly.

But we just felt like, as we looked at somewhat of a capital allocation decision here with respect to these big incremental investments in renewable natural gas and in recycling, that the returns on those were better than the returns for solid waste acquisitions. And while the cash generation of the business has been tremendous, it's not an infinite bucket. It's a finite bucket. And so therefore, we feel like we will invest more heavily there. But again, with M&A, to the extent that an opportunity arises and we feel like it builds a gap, we'll explore it.

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

And then, Michael, on -- from a planning perspective, our 2022 guide does not include any rollover benefit from M&A. The solid waste acquisitions were only about $40 million in 2021 and divestitures actually had a larger impact. So from an outlook perspective, the '22 guide doesn't contemplate anything from acquisition contribution.

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

I mean, that's a great point, Devina, because when I -- I've talked about that 7% EBITDA growth number at the high end of that long-term range. But that is almost 100% organic. I mean, we're not talking about a big rollover from acquisitions. We had very little in the way of acquisitions, solid waste type acquisitions in 2021. So that 7% is in the face of still pretty significant inflation, but it's at the high end of that range, which is why we're talking about it.

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

So you've mentioned 2019 several times. The world's changed a lot since 2019. Do the assumptions need to be revisited?

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

Well, we'll see. I mean, you might argue that the assumptions need to come down after the last 2 years. But yes, I mean, at Investor Day in 2019, we talked about what the world has been for the last 3 or 4 years, 4 or 5 years even, and which was pretty low inflation. So we built low inflation into those EBITDA and revenue ranges. We may decide after 2022 or 2023 that the world has changed sufficiently enough to have another Investor Day and to talk about different ranges.

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

Okay. Last one for me. John, you've been focused diligently for a couple of years now improving the resi margins. What's left? Is there much left or are you pretty much done that and now it's just maintaining?

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

We're not done, Michael. I mean, I think when you think about this labor environment, right, from where we started to talk about the world changing a lot, well, the labor world has changed a good bit. We talked about that in our prepared remarks and a bunch of the question-and-answer period.

So I would tell you that the goal line there has moved a little bit, right? The rate -- the labor intensity of that business is higher than the others. We still have automation opportunities there, and the margins there are still not competing with commercial and industrial. So as much as we've made terrific progress, we've seen some additional pressure, especially in the back half of the year on wages inflation, if you think about the impact of Omicron in Q4, I mean, all those things, I think we still have a good bit of opportunity there.

Operator

Your next question is from Kyle White from Deutsche Bank.

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

I wanted to go back on -- you talked a little bit about in terms of the special waste pipeline. But I just wanted to take a step back and talk more broadly about the economy at a high level and what you guys have seen. Obviously, a lot going on with the market but housing is doing well, while maybe consumer sentiment spending is weakening. Maybe just any notable details that you could point to at a high level how it impacts your business, given that you have exposure throughout the broader economy.

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

So Kyle, I think the challenges that we're looking at in 2022 are largely going to be inflation and maybe, to a lesser degree, this labor challenge that it feels like a long-term challenge and hence, the need to really become more productive from a labor standpoint and then the 5,000 to 7,000 positions that will attrit away from the business that we plan to replace with technology.

By the way, what I didn't mention is we saw some (inaudible) in 2021. We've talked a lot about these investments we've made in customer service digitalization. And so in 2021, as maybe somewhat of a test case, we fully automated our customer setup function. It was not a huge number of jobs. It was maybe 200 jobs, so about $7 million in savings. We did something similar with some of our -- we call it sales optimization. So we've gone through a piece of it and then, of course, some of what we saw with recycling. We've gone through a piece of it. But I would tell you that in general, we see and we hope to see 2022 be a much quieter year than the last 2. Hard to be no easier than the last 2, I guess.

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

Yes, we'll see. Time will tell. In terms of the rise of Omicron late in the quarter and into January, did you see any impact on your volumes from this? I think in the prepared remarks, you mentioned maybe, I think Canada, I know it's a small exposure, but just any impact from the rise in Omicron?

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

Matt, it was -- Kyle, it was really spotty. I mean, it wasn't -- it was more of an impact on our overtime and our ability to service our customers. There were a few pockets. You referenced Canada, where it's been a little bit of a unique circumstance up there in eastern Canada. A little bit of volume impact there but generally speaking, no.

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

We did see -- we talked about the fact that we had as many -- I think the number we gave was 800 employees in Q3 at the peak who are out with either the virus or some exposure. And so therefore, they were quarantined, so 800 out of 50,000. Omicron, fortunately, it seems less serious but definitely more contagious. And so -- and that showed up in our numbers. The peak was 1,500, and probably John, half of those were drivers.

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

More than half.

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

More than half. So if there was any good news about it, it was that it happened in kind of December, January, which are slow volume months for us as opposed to the peak from Delta, which was in August, and early September, and those are our peak months for us in terms of volume. But right now, we're seeing those numbers come back down pretty dramatically.

Operator

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

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

My first question, and I know you touched on the margin side, but I just had a follow-up on just operating leverage. As you had said, right, you hit 30% margins but basically, margin expansion still seems pretty low relative to high single-digit organic growth. Could you maybe just talk about is -- and I understand labor inflation, et cetera, could you have been more aggressive on pricing earlier on the discretionary side? I know the CPI site sort of resets kind of first half, second half. So that's kind of point one .

And then second point, is your labor turnover higher than your peers because it seems like your peers are getting margin expansion on similar organic revenue growth. So I'm just curious whether you could have been more aggressive on price earlier or whether your turnover is higher. I know you're a much larger company.

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

I'll start on the margin commentary. Pricing, I think, with respect to our pricing activities, what you saw was a much more significant and acute change in the cost environment in the third quarter across the U.S. economy, right? Whether or not our competitors saw those impacts, I observed their third quarter results as well. And so what I would tell you is that what we saw is that we were taking active steps with our employee base to be sure that we were curbing the impacts of turnover that were happening across the economy.

From a margin perspective, I definitely don't think that you should take away from our 2020 results any indication of a plateau. Instead, what we know happened in 2021 is 2 things: one, we were integrating the ADS business, which has a 400 basis point lower margin base than the WM business. And so we knew that would have pressure on our margins coming into the year. And then secondarily, we saw that acute labor inflation cost hit us in the third quarter with a very prompt response really late in Q3, early in Q4 from a pricing perspective that you saw provide really good margin cover in the fourth quarter to the point earlier, that provided about 60 basis points, both from a price perspective and efficiency perspective benefit on a sequential basis going from Q3 to Q4.

And we think some of that sequential improvement continues into Q1, where pricing activities will continue as we've mentioned before.

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

I was just going to say, so I think if you heard what Devina commented on earlier about how we'll see that margin improvement kind of in the back half of the year. But if you assume that we'll see some margin pressure in the first half and you do the math to get to the second half of the year, I think it really gives you a certain level. It tells you about our level of confidence about what's going to happen with margin.

I think on your CPI point, I mean, we think about 2.5% is what we're going to see for the full year next year. And as Jim mentioned earlier, some of that -- a good chunk of that comes is in the residential revenue line, and we see that the biggest lift for residential in July. As far as turnover, I can't comment on the others. What I can tell you is we've had a very concerted effort and process that we've put in place. We are pleased with what we're seeing. It's obviously not a trend you fix overnight. But since August, we've seen improving acquisition and retention numbers. So when you look on a net basis, we are making headway in terms of those we're bringing on and those we're retaining.

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

I think -- I mean, Hamzah, real quick, first of all, with respect to turnover, I don't know what the other guys' turnover is, I can't really compare. I would tell you if they're not seeing any inflation in their business, then they're operating in Antarctica because the whole world is seeing inflation.

And regarding pricing, our core price is 5.2% for Q4. And you might say, well, you guys aren't very good at covering inflation because inflation was more like 6% for us and we were only showing 5.2% core price. We're not getting there. But as we talked about, there is a lag. Could we have been more aggressive? I don't know. I mean, boy, this thing came out of nowhere. I don't think anybody expected it. So I'm happy with the progress we're making. We've made a ton of progress sequentially between Q3 and Q4, and we'll continue to see that in 2022.

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

Got it. Very helpful. And my follow-up question is on the investments, more specifically around execution risk. You have the 17 RNG plants. I think you said you're going to take 100% ownership. Do you have the bench strength and engineering talent to sort of execute on that? I'm assuming you're not JV partnering on this. You mentioned a bunch of accelerated recycling and automation investments too. Again, great paybacks and you mentioned the EBITDA ramp.

But just help us think through execution risk. I know historically, Jim, when you were CFO, WM had made a ton of investment. I guess this was a long time ago, right, waste-to-energy, ethanol plants, oil fields. Then the company sort of refocused back to the core, and now this is sort of a new phase of investment but it is definitely very much sort of in your core wheelhouse, RNG, recycling, et cetera. But just help us think through execution risk as you execute on all these different initiatives going forward.

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

So Hamzah, I'll start with recycling. I mean, if you look at where recycling was 3, 4, 5 years ago, we charted a path to make that business compete from an investment and return standpoint with other lines of business. And even with the commodity tailwinds, even when you look at commodities were down, we were improving the returns on the margin on that business.

And then if you look forward, I don't think we have a -- we have total confidence in our ability to execute on the recycling side. I think we've demonstrated that even when commodity prices were not the tailwind they were with the fee-for-service model, we've talked about. So I think we've got backstops on the recycling side. In terms of the team, we have in place to be able to build and operate these recycling plants. We're the biggest recycler in North America and we do -- I like to believe we do this better than everybody else.

On the WM [RE] side, I think what Jim said is right now, we're assuming 100% of the risk. We've got optionality and Devina talked to some of the other backstops we could potentially put place down the road in terms of the commodity risk. In terms of the execution, Jim mentioned we have the fleet and we have a team that's been in the RNG business for a bunch of years right now. So to me, this is less about execution risk. It's really just about giving Tara and that team the resources they need to go faster.

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

I mean, there's been no shortage of potential suitors, Hamzah, on the R&D business for us. But at this point, we feel good about doing it on our own. But we have -- we still have optionality.

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

Got it. And by optionality, you mean that you could potentially bring in somebody, is that what you mean?

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

If we wanted, sure. I mean, one of the assets that I talked about, 1 of the 4 things we bring to the table is the asset itself. I mean, we have more landfill gas than anybody else. And so those 4 things, I think, are really what differentiates us in this foray into RNG that we think is going to be hugely valuable for us. So we talked about $400 million at very conservative numbers. It could be as high as $800 or more. So we like our position. But yes, that's the answer is that optionality means if we wanted to partner up with somebody, we could.

Operator

Your next question is from the line of Walter Spracklin from RBC Capital Markets.

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

So you likened the growth initiatives to 2 acquisitions and also kind of framed it as growth. And my question, I guess, is on how much, and I'm going to use the word cannibalization, but it's probably -- it's not the right word for it, but how much to the extent that you might have invested in either growth CapEx over the next 4 years or your investment in acquisitions over the next 4 years might have come from or been impacted by your decision to deploy capital in these areas?

Were they at all affected? Or is this something that is completely 100% incremental and therefore, capital that, let's say, would have gone back to investor returns is now because of the return potential is now being allocated to this. Is it complete? In other words, do we open our models, our long-term models? Do we add that EBITDA dollar -- the complete level of dollar EBITDA to our year for those years, those out years? Or is this something that might have been also built into what we would have otherwise modeled in terms of M&A and/or growth CapEx?

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

Yes. So the easy answer here is that it's not a trade-off for us. So this is not taking the place of some other investment that we otherwise would have pursued in a way of growth or M&A. For us, this is incremental. And for that reason in terms of how you think about it in looking at our long-term growth outlook, this is incremental to that long-term growth outlook that we've outlined.

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

Okay. That's fantastic. I appreciate that. On the customer -- on pricing and the impact on customer churn, every day seems to be a new day in terms of how -- what the level of pricing is that's passed on. My question is, is there any incremental change even as of -- as we enter the new year, as you go back to those customers with the price increases, as fluid as it seems to be that all sectors and all services and all goods manufacturers seem to be able to pass on pass on price, is there any level of churn that is coming little more than expected? Is there any behavior among your competitors that's shifting at all again, not so much in the fourth quarter, but in recent trends that would suggest that customer churn may be picking up a little bit here with the higher pricing?

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

I would tell you, Walter, as you look at our momentum into Q3 and Q4, what we see in the outlook here, and we've talked about for 2022. And believe me, I ask that exact question of our revenue management team about once a week. And the short answer is no. I think the receptivity of just about all of our customers, they understand that inflation is real, that it's not going away. And we're trying to be thoughtful about it.

One of the comments I didn't make to Hamzah's question was really trying to take our customer lifetime value view of our base and being -- obviously, we have, as Devina said, some acute inflationary headwinds that took everybody a tad offguard. And while we're doing our best to recover that as quickly as we can, we're also -- this is also the long game, too. And I think that's when we're going through the model and customer lifetime value is certainly something we're factoring in there. And I think you're going to see that continued momentum throughout '22.

I don't think from a -- I haven't seen -- other than what I commented on some of the selective revenue decisions we're making in residential, the receptivity of the customer base has been pretty consistent.

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

I think also, Walter, worth mentioning here, I honestly can say I have no idea what the competition is doing other than what they publicly talk about on their calls. So it's not something we really pay attention to. We have a certain cost structure that we're trying to cover and so that's how we focus our pricing.

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

Yes. My question on competition is at the ground level, are you seeing competitors taking customers with a little less price than you're bringing on the table? But it sounds like that's not the answer. I really appreciate -- go ahead.

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

It's always a competitive business. So I mean, are there competitors out there that are taking customers. It's a very competitive business. We have cities where we have a dozen competitors or more. So I think the answer to that is, yes, that's just part of what we deal with day in and day out. But I don't really focus on it because I feel like we are -- we have a really solid, robust plan in place with respect to all of these financial aspects and pricing is a big contributor.

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

Okay. You've been very clear and direct with your answers. Really appreciate it.

Operator

Your next question is from the line of Sean Eastman from KeyBanc Capital Markets.

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

So you guys have said previously sort of that 50% free cash flow conversion is a sustainable level? It looks like you're guiding too close to that in 2022 when you back out the accelerated investments. So I'm just trying to think longer term, going into 2023, do we think about 50% underlying conversion and then maybe assume sustainability investments remain elevated? I mean, any kind of color on where that $550 million goes and that underlying sustainable conversion rate would be helpful.

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

Yes. Sean, that 50% target remains our goal, and we were happy to accomplish that in 2021. And you're right, from a guidance perspective, we're kind of right at the bottom end of that targeted range. When I look at the longer-term outlook, you're exactly right from a sustainability project perspective. With the outlook we gave for 2023 through 2025, you can expect that, that elevated level of growth investment will continue through that period. And that would be treated similarly to how we provided our guidance in 2022.

When I look at the contributing factors, we think that there's more work that we can do on working capital optimization. EBITDA growth continues to be that long-term outlook of 5% to 7% that we've talked about. So we'll certainly continue to revisit that as we see different factors contribute to both the headwinds and tailwinds of the business as appropriate.

So one I can't really comment on because it remains a big question mark, and we can't predict it is the future of cash taxes and whether it be the corporate tax rate or look at bonus depreciation impacts. Those things could put some downward pressure, and that's just too hard for me to predict with regards to the things that we can control, we're going to continue working to not just hit that 50% benchmark but try and improve it from here.

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

It also depends, too, right, Devina, on the free cash flow. Obviously, the piece is 1 of the 2 numbers there. And if you look at our free cash flow, excluding those growth types of investments, then your ratio is right at 50%. If you look at the way we define it, which is pulling CapEx out and this is -- as we've talked a lot about today, those growth investments in RNG and recycling, we're essentially kind of making a capital allocation decision and spending extra CapEx.

So the free cash flow guidance that we're giving is technically in that $2 billion-ish or a little bit more than that range. If you use that number to calculate the ratio, then it ends up being under 50%. If you use that the free cash flow number that we typically would report as a range of $2.6 billion to $2.7 billion, then you're talking about something that's 50%. So there is a little bit of math in that, that needs to be understood.

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

Yes, okay. Great clarification there. And just shifting over to the technology investments. Just in the context of WM's other levers to combat cost inflation beyond the pricing programs, obviously, you've talked a lot about automation. We've got the back office IT efficiencies. How is that reflected in the 2022 margin guidance? And I guess I'm trying to just think about the juice you guys have there going into 2023.

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

I think, Sean, I think, Jim, we all spoke to it. I mean, it's about making the labor pool that we have more efficient, right, and using technology to replace some of these transactional jobs and frankly, we're having a hard time filling. But that's more of the operating side.

If you look at it from a revenue side, we've talked a lot about the technology we've installed in our operations, and one of those is the technology we put on trucks. And if you look at the service increases and decrease in some of the revenue growth we're seeing in commercial, in particular, we think technology is part of the reason that's happening. We've automated a lot of those processes where the folks behind the wheel don't have to worry about whether they have to take a picture, send a picture, and that's all done with the technology and the data and analytics team we have.

So it's not just the operating side. We are also seeing the investments we've made and what we call smart truck as one example, sales coverage optimization, which is really about getting more efficiency out of our sales force, which I think is also contributing, those are a couple of examples where the technology is actually helping directly on the top line. In terms of the margin juice...

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

Yes. I would tell you, when we look at margins, the one place in the business that we specifically see technology showing up other than what John's already mentioned, particularly on the top line, is on the SG&A side. And our SG&A margins for 2022 are expected to be below the 10% that we accomplished in the current year.

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

So Sean, 1 last thing here. I know we're a little bit of a long-winded answer here, but a bit to John's point, he talked about our data and analytics. So our team, our data and analytics team is in the process of fully optimizing -- they're working on a specific line of business, so fully optimizing the roll-off line of business. And the number of permutations that there's a massive amount of data. They've built an engine there, and now they're in the process of kind of rolling this out over a period of months.

But it will fully, fully optimize the -- ultimately, all collection lines of business, right now, we're working on roll-off. But imagine all the data that goes into this, it's got road information, it's got driver data, it's got traffic. It's got customer data containers, all kinds of stuff. The number of calculations is a ridiculous number. It's got like 17 zeros behind it so it's a ridiculous number. But what it does for us is get to a point where we can fully, fully optimize these lines of business.

And then you start talking about it the way maybe Amazon talks about it and probably nobody else with respect to optimizing these routes. We think there's a huge productivity pickup there. So what we haven't talked about are some of the driver turnover that we'd love to be able to take advantage of. And this is one of those (inaudible) .

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

Yes. Interesting stuff.

Operator

Your next question is from David Manthey from Baird.

David John Manthey - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

You've covered a lot here, but just a question on recycling automation investments. What percentage of your recycling volumes are processed by your single-stream facilities today? And then what could that be by 2025? And just if I could understand, do these investments include adding more facilities? Or are they just about expanding capacity and improving productivity of the existing [49]?

Devina A. Rankin - *Waste Management, Inc. - Senior VP of Field Operations, Executive VP & CFO*

So we'll get you the information and Heather will be sure to circle back with you in terms of the percentage of our tonnage covered by the single-stream network. Sorry, we don't have that at our fingertips. But with regards to the investments that we're making, it's more heavily weighted toward automation, but we will be exploring new markets and expanding our single-stream footprint into markets that we don't currently serve.

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

Some of the new market investments, as we heard the other day in an internal meeting, was that it might be a city where we don't have a presence. But we do have a presence in a city that's 150 miles away, and we feel like the better of the 2 would be actually to go to the city to the south and close down the facility in the city to the north. So there's a bit of a strategic decision there, too. It's not always just where do we have underserved markets and how do we add capacity there.

Operator

Your next question is from the line of Michael Feniger from Bank of America.

Michael J. Feniger - *BofA Securities, Research Division - Director*

Guys, I know it's been long so I'll just ask a quick one. When we think of your core price of 5.5% and yield of 4% for 2022, that's very strong. Can you just help us, what's embedded for the cost inflation for 2022? Jim, in Q2, you gave us great color around [PQ] inflation. You mentioned, I believe, it was like 7% on some lines of business. I'm just curious what that should look like year-over-year as we think of 2022 versus 2021?

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

The 4% to 5% inflation is what we built in, Michael. So -- and that's why we think that we do get to a point where we're able to cover that with pricing. And then a lot of the margin growth comes from places like automation and removing some of these transactional type positions.

Michael J. Feniger - *BofA Securities, Research Division - Director*

Got it. And just lastly, Jim, just on the CPI side, it depends on when you look at CPI because you can get half the year of the COVID type of CPI while the other half of this really high inflation CPI print. So I guess, just when I think about CPI running through your book of business, is it mostly really second half or even like a 2023 is when we'll see these like really robust CPI print kind of come through the system? What's the timing on that?

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

I think you nailed it there, Michael. It really is probably second half of '22. There's a lot of these, as we've discussed, a lot of these contract adjustments have a 12-month look-back. So it won't fully capture this pretty aggressive ramp-up in inflation until we get to July or even January of next year.

You may recall we've talked about almost 70% of the adjustments that we take happen in the front half of the year. And so the ones that we just took in January, which I forget what the exact percentages are, but the big 2 months for adjustments are January and July. And what we just took in January, to the extent that there's a 12-month lookback, it's not going to include a whole lot. It's going to include maybe 3 months of the big inflation ramp.

Next year, it will include 12 months. And so the farther we get into -- the deeper we get into the year with these adjustments, the more they will include this big ramp-up in inflation.

Operator

There are no questions over the phone. I will now turn the call over to President and CEO, Jim Fish.

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

All right. Well, thank you. Long call today, but I think, hopefully, you felt we gave some good details. Thank you all for joining us. We're very excited about finally coming into a year where it feels like we're going to have a bit quieter year. And so thank you all for joining us, and we look forward to seeing you out on the road.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. .
