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WM - Q1 2018 Waste Management Inc Earnings Call

EVENT DATE/TIME: APRIL 20, 2018 / 2:00PM GMT

OVERVIEW:

WM reported 1Q18 revenue of $3.51b and EPS of $0.91.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Waste Management First Quarter 2018 Earnings Release Conference Call. (Operator Instructions) As a reminder, today's program is being recorded. I would now like to introduce your host for today's conference call, Mr. Ed Egl, Director of Investor Relations. You may begin, sir.

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

Thank you, Kevin. Good morning, everyone, and thank you for joining us for our first quarter 2018 earnings conference call. With me this morning are Jim Fish, President and Chief Executive Officer; Jim Trevathan, Executive Vice President and Chief Operating Officer; and Devina Rankin, Senior Vice President and Chief Financial Officer. You will hear prepared comments from each of them today. Jim Fish will cover high-level financials and provide a strategic update, Jim Trevathan will cover price and volume details and provide an operating overview, and Devina will cover the details of the financials.

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

During the call, you will hear forward-looking statements which are based on current expectations, projections or opinions about future periods. 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.

Jim and Jim 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. All volume results discussed are on a workday-adjusted basis.

During the call, Jim, Jim and Devina will discuss our earnings per diluted share, which they may refer to as 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. Any comparisons, unless otherwise stated, will be with the first quarter of 2017. Net income and EPS for the first quarter of 2017 have been adjusted to enhance comparability by excluding certain items that management believes do not reflect the 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 notes and schedules, 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.

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 May 4. 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 3888516. Time-sensitive information provided during today's call, which is occurring on April 20, 2018, may no longer be accurate at the time of a replay. Any redistribution, retransmission or rebroadcast of this call in any form without the express written consent of Waste Management is prohibited.

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

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

Thanks, Ed, and thank you all for joining us this morning. The first quarter 2018 was an excellent quarter that continued the strong growth we saw throughout 2017. Over the past year, our traditional solid waste business has proven to be as strong as we've ever seen at Waste Management, and the first quarter was a continuation of that trend.

Much of the strength can be attributed to our focus on disciplined growth, our commitment to delivering exceptional customer service and our improving cost structure, aided by solid economic growth in the United States and Canada. In the first quarter, we saw collection and disposal revenue grow by more than 6%, total company operating income grow by 9% and operating EBITDA grow by almost 8%.

Once again, our strong operating EBITDA performance translated into excellent free cash flow, which continues to demonstrate the cash generating strength of our strategy. The strong performance in our free cash flow allowed us to repurchase shares and spend $248 million on acquisitions, in addition to our previously announced 9.4% increase in our dividend.

The acquisition pipeline remains robust and we continue to look for opportunities that surpass our return criteria and create value for our shareholders. Our operations produced $0.91 of EPS in the quarter, and we've built a strong foundation for the remainder of 2018. Excluding the $0.12 EPS benefit from tax reform, our EPS grew close to 20% when compared to the first quarter of 2017.

In the first quarter, revenues from our collection and disposal business grew by more than $183 million, with most of this increase being organically driven. A key driver of our revenue growth was the disciplined execution of our pricing programs. In the first quarter, our collection and disposal core price was 4.9% and our yield was 2.3%, in line with our full year goals.

Looking at volumes, our traditional solid waste volumes were positive 3.4% in the first quarter, an increase of 200 basis points compared to the first quarter of 2017. The volume growth continues to be driven by our highest-return and best-margin businesses: commercial, landfill and industrial. Our plan to focus on delivering excellent customer service and directing our sales efforts and growth capital to the portions of the U.S. and Canadian economies that are seeing the strongest economic development is generating the results that we expected.

Our traditional solid waste performance is as good as we've seen it. On the other hand, the recycling business is in a state of transformation. In the quarter, recycling commodity prices declined 36% and volumes declined 1% at our recycling facilities. And while recycling is only 1/10 the size of our traditional solid waste business, it still impacted the first quarter EPS by $0.08 on a year-over-year basis.

We've said for years that recycling is a business that Waste Management is committed to, and we still are, but we simply can't continue with the model in its current state. The original concept of recycling was to reuse materials, either in their existing form or in some other form, to minimize the consumption of natural resources.

Unfortunately, in North America today, the word recycling seems to have replaced with a new word, diversion. When diversion away from your trash bin is your primary goal, then putting more material in the recycle bin does not necessarily mean that we're saving more natural resources. What it does mean is that the recycle bin, almost inevitably, has a higher percentage of trash in it, or as the industry calls it, contamination.

Last year, the Chinese government decided that they were tired of importing increasingly contaminated recyclables. So they changed their policy to only accept recyclables with a 0.5% contamination content. Some of our plants see material come in the front door that is 40% trash. So we have to try and pull out almost 99% of that trash from the recycle stream in order to sell it to China as recycled commodities. Even our best-in-class inbound streams, which have only 10% contamination, still have to pull out 95% of the trash before they can sell it.

As diversion goals have increased, so too have our contamination percentages, which have increased from 10% to 15% 5 years ago to 20% to 25% today. In addition to that, China temporarily suspended import licenses, which caused global commodity prices to plummet last fall, and they have yet to recover.

Clearly, this is not a sustainable recycling business model. We must address higher operating costs in our recycling facilities and shrinking revenue from the sale of recycled products. As a result, we are continuing to educate our customers on how to lower contamination by recycling right and partnering with industry stakeholders on expanding these efforts. At the same time, we are auditing loads received at our MRFs and we are rejecting and charging back for contamination where we can. These efforts should enable us to recoup part of our increased processing costs and residue disposal costs.

In our new contracts, we are looking to shift even more of the commodity price risk to our customers and more easily recapture our actual processing costs going forward. We started this shift several years ago by restructuring contracts, and this is the next evolution in that shift.

Lastly, we are communicating with our customers on the extent of these global recycling market changes. Our customers appreciate the transparency Waste Management provides, and they seem willing to work with us to ensure the longevity of the recycling business. While these are difficult times in recycling, our goal in this transformation is to build a recycling program for both Waste Management and our customers that ensures environmental and economic sustainability for the long term.

Ultimately, we hope to see a shift in thinking away from the value being placed on how much gets put into the cart, to how much truly gets recycled into new products. So while our recycling results from the first quarter were about where we expected, our recycling outlook for the remainder of 2018 has changed from our original guidance.

We're already hard at work to combat contamination and control our costs, but the financial benefits of our actions will likely take time to materialize. And since our previous guidance, OCC prices have declined to 9-year lows and mixed paper has dropped 80% to prices at 0 or negative in some markets. So we now believe that the year-over-year decline in our recycling line of business will be between $0.12 and $0.15 per share versus our original guidance of a negative $0.08 to $0.10.

To come full circle, in spite of these significant challenges in the recycling line of business, the large majority of our business is hitting on all cylinders. And therefore, we remain confident in our ability to deliver strong performance throughout the remainder of 2018. As a result, just to be clear, we are reaffirming all of our full year guidance, including operating EBITDA, EPS and free cash flow.

I will now turn the call over to Jim to discuss the first quarter operating results in more detail.

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Thanks, Jim, and good morning. Our results in the first quarter continued the strong trend that we saw throughout all of 2017. We saw both price and volume in our traditional solid waste business exceed 2% for the fourth consecutive quarter. As a result, total company income from operations grew $50 million, an increase of 9%, and income from operations margin expanded 110 basis points to 17.3% when compared to the first quarter of last year.

Our operating EBITDA grew $69 million, an increase of nearly 8% when compared to the first quarter of 2017. And our operating EBITDA margin expanded 140 basis points to 27.2% when compared to last year. Revenues in the quarter were $3.51 billion. First quarter revenue growth in our collection and disposal business from the combined impact of price and volume was $160 million. First quarter revenues were negatively impacted by lower recycling commodity prices and lower volumes, which drove a $77 million decline in recycling revenues.

Looking at internal revenue growth in the first quarter. Our collection and disposal core price was 4.9% and yield was 2.3%. Traditional solid waste volumes improved 3.4%, while total company volumes increased 3%. Volumes in the first quarter included about 40 basis points from natural-disaster cleanups in Florida and California.

Volumes in our transfer station line of business were 6.4%, primarily due to the new New York City disposal contract. Looking at our other revenue metrics, service increases exceeded service decreases for the 17th consecutive quarter, and new business continued to exceed lost business for the 12th consecutive quarter.

Our churn rate was 9.6% in the first quarter, or 8.9% excluding the expected churn from the implementation of the City of Los Angeles franchise contract, and our rollbacks were 18.8%. Our collection lines of business continued to perform exceptionally well. In the first quarter, commercial core price was 5.9% with volumes up 2.7%. Industrial core price was 9.9% with volumes up 3.9% in that first quarter.

In the residential line of business, core price was 3.3%. Residential volumes were down 1% in the first quarter, but that is a 110 basis point sequential improvement from the fourth quarter of 2017. The combined price and volume increases in our collection line of business led to income from operations growing $64 million, income from operations margin growing 130 basis points, operating EBITDA growing $68 million and operating EBITDA margin growing 100 basis points.

In the landfill line of business, total volumes increased 9.5%. MSW volumes grew 2.2%, C&D volume grew 28.1% and combined special waste and revenue-generating cover volumes grew 4.5%. We achieved core price of 3.3% in the landfill line of business. For the first quarter, our landfill line of business grew income from operations by $30 million and income from operations margin by 90 basis points, while operating EBITDA grew $42 million and operating EBITDA margin rose by 100 basis points.

Moving now to operating expenses. In the first quarter, total operating cost as a percent of revenue improved 80 basis points to 62.2%. On a dollar basis, costs increased $18 million when compared with the first quarter of 2017. Our cost of goods sold decreased year-over-year, primarily due to the 36% reduction in recycled commodity prices.

We also had lower fuel expenses in the quarter due to the 2017 fuel tax credits, which reduced our current quarter cost by about $28 million. The cost of goods sold and the fuel benefits were partially offset by an increase in labor costs due to the $2,000 employee bonus and volume increases in our commercial and industrial businesses. When we isolate the impacts of these items to focus on the operating costs and margins of our traditional solid waste business, we are pleased that our cost control efforts are working in a growing volume environment.

If we net the positive impact from the fuel tax credits with the negative impacts to margin from our recycling line of business and the employee bonus, operating expense margin for our traditional solid waste business improved over 50 basis points.

Overall, we're very pleased with our operating performance in the first quarter, and I know our employees are hard at work to make 2018 another successful year.

I'll now turn the call over to Devina to discuss our financial results.

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

Thanks, Jim. Good morning, everyone. In the first quarter, we continued to see our strong operating EBITDA translate into free cash flow growth. We generated $809 million of cash from operations, and that's an increase of 12% from the prior year period. Our cash flow from operations as a percentage of revenue grew more than 200 basis points from the prior year to 23%.

We continue to demonstrate the ability to convert more of our operating EBITDA into cash from operations, positioning us very well to continue our commitment of investing in growth and returning cash to our shareholders.

During the first quarter, we spent $400 million on capital expenditures. That's an increase of $68 million from 2017, but is in line with our expectations as we intentionally spent more of our fleet capital early in the year to support our growth. As we have said before, we've seen significant organic growth in our business and we're investing in our fleet and our landfills to respond to the needs of our customers.

We continue to expect that our capital expenditures will be between $1.6 billion and $1.7 billion for 2018. We generated $423 million of free cash flow in the first quarter. That's an increase of $26 million or more than 6% from the first quarter of 2017. In the quarter, we converted more than 44% of our operating EBITDA into free cash flow. This strong performance puts us well on our way to achieving our free cash flow guidance of between $1.95 billion and $2.05 billion for 2018.

In the first quarter, we returned more than 100% of the free cash flow we generated to shareholders as we paid $206 million in dividends and paid $250 million to repurchase shares. In addition, we spent $248 million on traditional solid waste acquisitions, demonstrating our commitment to identifying accretive transactions in growth markets that will allow us to more effectively leverage our people and our assets to service our customers.

Turning to SG&A. For the first quarter, as a percent of revenue, SG&A costs were 10.6%, a 70 basis point improvement from the first quarter of 2017. On a dollar basis, SG&A costs were $373 million in the first quarter or $17 million lower than the prior year period. The reduction in SG&A costs is due to our continued focus on managing our discretionary spending as well as a decrease in our labor expenses that can largely be attributed to prior year executive severance costs.

Our effective tax rate for the first quarter of 2018 was approximately 23%, and we now expect our full year 2018 tax rate to be between 24% and 25%. Each of these rates is a little more than 1 percentage point less than we previously expected. This revised outlook is due to additional clarity we now have on the impacts of tax reform. The EPS benefit of this revised tax outlook was $0.01 per share for the first quarter of 2018, and is projected to be about $0.06 per share for the full year.

Our key financial metrics remain strong as we continue to see the benefits of earnings growth and disciplined allocation of our free cash flow. At the end of the first quarter, our debt-to-EBITDA ratio measured based on our bank covenants was 2.4x, and our weighted average cost of debt for the quarter was about 4%. The floating-rate portion of our debt was 17% at the end of the first quarter.

In summary, 2018 is off to a strong start, with the first quarter reflecting the continued execution of our core operating objectives and focus on continuous improvement. Our strong traditional solid waste business performance overcame the headwinds from recycling to produce a healthy increase in both cash and earnings. We expect that trend to continue throughout 2018.

The Waste Management team has once again demonstrated that our disciplined focus on serving the customer while optimizing our business generates strong operating results, and we look forward to that continuing throughout the year.

With that, Kevin, let's open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Brian Maguire of Goldman Sachs.

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

Jim, appreciate your comments on the recycling markets these days, and it sounds like you guys are taking a leadership position there, as you should, in trying to clean up the industry and change some of the habits and practices being employed. Adjusting to the new environment all seems very logical. Just some questions around the impact in 1Q from it because I noticed you said there was an $0.08 hit to EPS on, I think it was about $77 million of sales. I think last year's total benefit was around $0.085 on roughly 3x the sales amount. So I was just wondering if you could maybe dig into that a little bit more, why the sensitivity in the margin is a little bit different on the way down than it was last year on the way up.

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

Yes. So the EBITDA impact was about $46 million for us for the quarter. And the -- that's driven by those things I mentioned in my prepared remarks: The big decline in OCC, mixed paper down 85%. But what's maybe a little different from prior years is that we're seeing that big uptick in operating costs that's as a result of that 0.5% contamination limit that China's put on. And then in addition to that -- think of it this way, we were shipping about 30% of our cardboard a year ago to China and it's now about 2%. Fortunately, we have markets that we can ship to. Not everybody is that fortunate, but there's a higher transportation cost that comes with that. Those markets are markets like India and Vietnam. And so the haul is longer to get to those countries versus China, so we've seen an increase in our transportation costs as well. But I think maybe more directly to your question, as we think about what this looks like going forward, there is a bear case to be made here about recycling -- well, there's a bull case. I've made the bear case, I think, but there's a bull case to be made about recycling, and that is that not only are we going through those steps to improve the business in the short term, but -- look, China needs cardboard. And there's probably 5% growth of cardboard in China expected for 2018. And they really have 3 sources of it: one is OCC -- import OCC, which I mentioned. We're really -- we're not sending ours, and most are not either, so they're not getting OCC from the import market. The domestic Chinese OCC market is drastically insufficient to satisfy their demand. So they've been -- they've resorted to pulp, which has just spiked as a result of the artificial shortfall in supply without OCC. So I think there's a case to be made that -- there's a bull case to be made here. And then I think the other side of that is that we're looking, for the medium and long term, at changing some of our technology in our plants so that we can better handle contamination coming in the front door. I don't know whether that answers your question, but that's kind of the bull and bear case for us.

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Jim, maybe I'd, for Brian's benefit, mention too that in alliance with your bull case, right now, that $0.12 to $0.15 revised guidance is based on about $80 a ton for our commodities. We're now at about $70, $72, $73, in that vicinity. So it's not a huge upside that's built into that guidance on the commodity side. We have some upside expected, but we truly see that because of Jim's bull case. I fully expect that to happen. In addition, if you just look at the commodity trends right now, domestic OCC, we see it trending up from that April level that we saw that's exceptionally low, as Jim pointed out. The export OCC, we also see that trend up for Jim's bull case example. Export ONP we see moving up from the April level significantly, and that's in our guidance number. And the really down one is that mixed paper. That, we don't see moving forward as we move forward. But the point is that in that new revised guidance, we've got about $10 of commodity price that we built in on the upside and to that guidance.

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

But I think the wrench in the math there, really, is the operating costs. That's kind of the short answer. We gave a long answer to your short question. But that is -- if you're just looking at kind of commodity prices, you should be able to kind of do the math that you were doing. The wrench is operating costs, and then that's something we haven't necessarily seen. And seeing that big spike is what's caused the difference.

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

Yes. That's a great answer. And just -- do you think then we need to maybe update the sensitivity that we've been using, the $0.04 per $10 move? And then just sort of to Jim's point on what's baked into the guidance, it looks like an incremental $0.04 to $0.07 hit for the rest of the year after the $0.08 this quarter. It seems awfully low considering, I think, the 2Q comp will be even tougher. I would think the 2Q number would be even bigger than the $0.07 high end of that range. So are you sort of assuming that it's a year-over-year good guy for the second half of the year. Is that what I'm hearing?

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

So Brian, I would start by saying, with regard to the guidance that we've always provided with respect to that $0.04 impact for the $10 shift in prices, what's important there, to reiterate Jim's point, is that is the commodity price piece only, and so that speaks to revenue sensitivity. The operating expense sensitivity is the other piece of the equation. So we wouldn't break with that guidance because they're not necessarily connected. But what we did see in the first quarter is that in addition to the EPS impacts, which were about 75% to 80% of the $0.08 of negative impact that we saw in the quarter from commodity price changes, we also saw that OpEx be about 20% to 25% of an impact. With respect to the last part of your question, I think what's important to remember is first quarter was really the strongest quarter for recycling in the prior year, and the comps -- and the declining commodity prices we really started to see in the fall of 2017. And so the more positive outlook for the remainder of the year, relative to what we saw in first quarter, really has to do with the impacts of those year-over-year comps. And then to some extent, starting to see some benefits of the specific action that the company is taking.

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Yes. Brian, we also, on the operating cost side, we expect -- and it's built into that guidance, we expect to see operating cost improvement versus the first quarter. We've got some strong actions underway. We look by MRF at where their commodities are being shipped and then address the contamination cleanup level to the end marketplace. And perhaps in the first quarter, we weren't as good at that as we implemented that Chinese -- the new standard. And you'll see operating costs on the recycle side get better. That will help us meet that new guidance number that -- versus the trend for Q1.

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

I know we're spending a lot of time on this question here, but this is really the -- it's the major detractor. Everything else was really, really strong in this quarter. And yet when you look at recycling, we knew there were going to be some questions on it. And we can go into the strength of solid waste, we talked a bit about it on our scripts. But Brian, last thing I would say is -- about second quarter and guidance for the remainder of the year, is when you see China do these -- kind of take these types of steps, they always do it in the first quarter because that is -- that's the quarter where they can afford to have -- to see OCC drop from 30% to 2% from Waste Management or from anybody else, for that matter. But they do have a need, as I said, for cardboard. And if it's 5%, there really is -- their options are pretty limited. I gave 3. And really, that second option is not much of an option, domestic OCC. So it's going to have to be imported OCC or pulp, and pulp has doubled. So at some point, they have to come back to imported OCC, which is why we think the price, as Jim said, has some upside, much more upside potential than downside.

Operator

Our next question comes from Hamzah Mazari with Macquarie Capital.

Hamzah Mazari - *Macquarie Research - Senior Analyst*

The first question is just around more work you plan to do with your cash. Leverage is at an all-time low. Free cash flow is at an all-time high. There's probably antitrust issues ongoing in the core business. So the question really is, do you return 100% of your free cash flow back like one of your competitors? Or are there better options for that cash?

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

So Hamzah, I would say the first quarter is a really good indicator of our confidence in the free cash flow generation and the balance sheet strength that you mentioned. And as I mentioned, we allocated more than 100% of free cash flow through a combination of share buyback and the dividend. And then on top of that, acquired $248 million of solid waste businesses. And so I think that's a really good indication of how we think about capital allocation going forward. We're continuing to commit to growing the dividend over the long term, as we did this year with the 9.4% increase on a year-over-year basis. And then we're looking at $750 million baseline of share buybacks for the year. So committed to that strong allocation as we have been.

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Hamzah, those $248 million of acquisitions that Devina mentioned are -- it's 7 or 8 transactions in Q1. Excellent tuck-ins that are in really good markets for us where we're asset strong and can internalize and get some synergies out of that material. So we're excited about that revenue that was added. Early pipeline for 2018 is strong as well, and we'll still look for really good acquisitions at a fair price that are accretive to our business, and expect to do more of them in '18.

Hamzah Mazari - *Macquarie Research - Senior Analyst*

Great. And then just second question. I know you gave a lot of detail on recycling, but my question is a little more specific around recycling. Over time, you've restructured some contracts, you've tried to derisk that business. But I guess the question is, is the real issue that you need to restructure contracts to get processing cost back or is it protection of downside of pricing? And is the issue it's more municipalities that you're dealing with? The question is more from a contract structure perspective, can you do anything?

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Yes. Hamzah, we are doing something about that. This week, in fact, a few of us from the SLT met with our public-sector team, from each of our 17 areas. We had already rolled out a 3-phase plan to do just that and look at contracts in their existing form where we can make operating changes around contamination, and then look for opportunities to renegotiate current agreements. Some will have to wait until the end of the term and take a hard look. But our customers fully understand the situation that we're in with contamination, and we're taking strong, strong action in that regard. The last action, what, 3 or 4 years ago, was primarily around floor pricing and getting the price right. What we're having to do now because of the reset button on the recycling business is take a look at that contamination and make sure that we're getting that fair payment for processing. And as Jim mentioned in his earlier statements, make sure that the customer is taking the risk on commodity price, not just us.

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

And really, Hamzah, this is Jim, and I'm going to reiterate this point that Jim just made. Contamination is the root of this. It is -- and it goes back to the statement I made earlier which is, we've kind of gone away from recycling to diversion. So there's this lack of congruency here between recycling more -- meaning, putting it to an alternative use or turning it back into the same thing, turning a plastic bottle back into another plastic bottle -- and we've gone to diversion, which means I divert more away from my trash bin into my recycle bin. And inevitably, that ends up meaning that you're going to have more trash in your recycle bin, and that is what we have seen. The numbers that I gave are actual numbers. 5 years ago, we were in the 10% to 15% contamination range at our single streams. And now, we're 20% to 25%. And that, I think, is what caused China to ultimately say, "We're tired of importing your trash. So get your act together." So it may not be a message that's necessarily pleasing to hear for our customers, but it's not our trash that we're creating. This is coming in on the inbound side. And when you have some plants that are 40% contamination in the inbound stream, that simply can't continue.

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

And Hamzah, I would add that the contract renegotiations that we did over the last 3 to 5 years really did provide some real value to the company in 2018. We expect it to provide value over the course of the year. It could have been that much worse. As you think about where we resulted -- where our Q1 results reflect the recycling line of business to be, which, as Jim said, was a $46 million year-over-year decline in EBITDA, we actually estimate that the impact from recycling for 2018 could have been as much as $0.08 to $0.10 worse than we're projecting if not for the work already done by our team.

Operator

Our next question comes from Michael Hoffman with Stifel.

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

If I can ask a different thread on the recycling, because I thought your explanation of the demand was good, but can you help us think about -- if they use 1Q to do whatever they want to do, what's the pattern look like typically, April, May, June, July, August? What do you see? And one of your biggest customers is Nine Dragons, and they're adding 2 million tons of capacity in the middle of the year. How does that layer into some of that thinking? Can you give a little more color around that?

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

Yes. I mean, I think, Michael -- first of all, the pattern tends to be, as they prepare cardboard for shipping for the Christmas season, it tends to be kind of Q2 and Q3. It's not Q4. So we have typically seen pricing -- commodity pricing drop off in Q4. A couple of years ago, it did not and that was somewhat unusual. But historically, you've seen kind of the low quarters be Q1 and Q4 and the stronger quarters be Q2 and Q3.

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

Okay. And so your anticipation is, given the fundamentals and all the little brown boxes that show up in all of our houses, that demand driver is going to be good in Q2 and 3?

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

Well, look, China -- it's not as if China is not going to ship cardboard boxes. So if you believe that their growth year-over-year is going to be 5%, they've got to find the cardboard somewhere. But we don't take issue with their point on contamination. I mean, if what's coming into their -- to Nine Dragons is heavily contaminated, it increases their cost. So I think they've taken a stance, and it's hard to argue that stance. But once we start cleaning up the stream, and that's why we spent a fair amount doing that, then I think you'll see them start to import. We're seeing a bit of that already, and then I think that price will come along with that. We're not projecting prices up where they were in 2017. But certainly, as Jim said, we think prices will bounce off of where they were in March.

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Michael, we think we'll come out of this reset even stronger than before. We -- our brokerage business is a great example of that. What we shipped to China in Q1, for example, 2/3 of it came from our brokerage volumes, very clean materials, and that we could combine with materials from our MRF that we had cleaned appropriately. So we think that we'll come through this fine, and that demand has to be there. We expect it to grow. And as I mentioned earlier with Brian's question, that export OCC, we think has some real upside over the April numbers. And we baked that in and we see signs of it.

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

And are you still approximately 50-50 brokerage versus your own MRF rev in the rev dollar?

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

It might be a little bit higher, our own, but more like 60-40 maybe. But yes, I mean, in that neighborhood.

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

Okay. And then switching gears to the solid waste business. A year ago, you had a 19% year-over-year growth in C&D and you've come back in 2018 and done 28%, and we had regular winter. Can you talk about what's going on across your 17 regions and what you're seeing? Because that's really good.

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

Yes. I think, Michael, you've talked about it a lot in some of your reporting. I mean, if you look at housing starts, housing starts have been on a really nice consistent upward trend, with March, I think, being the highest number that we've seen over the last few years at I think 1.3 million or something like that. It's not up to where it was in '06 at 2.1 million or a big number like that, but it's been a nice consistent upward trend. And so hence, we're seeing that show up in our C&D business. I might kind of answer a question for you that you -- in advance here, but -- because we've spent so much time on recycling, let me just give you, Michael, and everyone, a number here that is really eye-opening about the strength of the solid waste business, and that is our EBITDA growth. When you think about EBITDA -- and we show a number of $69 million in growth in EBITDA for the quarter. But what's included in that is the bonus which -- the $2,000 bonus which was $18 million, we already talked about the $46 million headwind in recycling, and then the fuel tax credit, which was a $28 million positive for us. If you said, all right, let's adjust for those and just see what the solid waste business is doing, the traditional solid waste. Adjusting those 3 things out, you get $105 million in growth, which is 11.9%, almost 12%, almost all organic growth in an EBITDA line in a 2.5% economy. So -- and if you do that math on the free cash flow line, it's absolutely ridiculous. The number is so good. So I think, Michael, I've kind of answered a question that you didn't ask, but maybe you were going to get to it or somebody else was. I know we're going to spend a lot of time talking about recycling, but I want everybody to understand, first of all, recycling is 1/10 the size of the solid waste business, and the solid waste business is absolutely rocking and rolling right now.

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Michael, the 28% that you mentioned on C&D, you're right, that's a really strong number. I don't see that moving forward at that level in future quarters. That's -- a lot of that volume were the natural disaster cleanups in Florida and in Northern California, yet it will be positive. It was last year, even before, given the construction activity in North America. So it will be positive, but it's -- it isn't going to be at 28%, in my estimation. I'd love for that to happen. The other point to mention is that C&D is about 10% of our total landfill volume. So although very positive, the rest of the lines of business in landfill were really strong as well.

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

And that was where I was going to go with it. Ultimately, this is a very consumer-sensitive business because of what happens in commercial collection. And when you look at weights on a same-store basis in commercial collection, how do you frame that trend?

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Yes. Michael, I'll tell you, I don't see it up dramatically. It's, in fact, slightly down by container, which is unusual because our -- the total volume looked really healthy. You saw it for all the lines of business, both price and volume were extremely healthy. So I'm not sure that's -- I know that's not what's driving it is the weight by container. It's the total volume of our business.

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

Okay. And if weight is not rising there but you're getting the level of pricing, so what's supporting that? Because you're a heavily urban model, so the level of pricing you're getting given -- as urban as you are and as much competition you have to deal with, is impressive.

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

You look, Michael, at the 2 lines of business that are driving that, the commercial and the industrial line of business, I think Jim nailed it in his opening comments, and that's that we have excellent assets in those urban markets. But we have moved some really strong process and people into those growth markets and are getting at least our fair share of the growth in those MSAs in commercial and in the industrial lines of business. That's helping the collection side, but it's also supporting the landfill line of business because we internalize that volume.

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

Okay. Devina, at a 21% tax rate, have you started a dialogue with the rating agencies that say, listen, you use to hold us to a standard of 3% to hold on to a BBB, of leverage. But now -- that's in a 35% tax world. At 21%, will they adjust your leverage up and allow you to be BBB still?

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

Yes. We're actively engaged in conversations with all of the rating agencies, Michael. And I would tell you, we have some positive outlook associated with where our ratings are today and are hopeful that we'll see those come through in the short period of time.

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

So in a consolidating climate, what I'm hearing is that you could get levered in to hold on to your rating, and because of this, the difference in the tax structure, they're open to that dialogue?

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

We haven't specifically talked about a new kind of turn of leverage that would be acceptable in order to maintain investment grade. But we certainly are seeing that they see the fundamentals of the business have always been the cornerstone of what allows solid waste to be more heavily levered than other typical industrials that are more cyclical. And we expect that they'll continue to see that, not just for us but across the companies that they rate, with a lower tax environment. It's just difficult for us to say how high we would expect leverage to go. We've always talked about 3.25 kind of being the max level of leverage for investment-grade rating and what would be comfortable for us. We don't know how much that will change with tax reform.

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

All right. And then last question, this is a detail. You have a foreign exchange and other line is negative at 1.6%, yet the Canadian dollar actually is up. So what's in the -- what's the -- what's causing it to be negative because that should have been positive?

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

Yes. It's a combination of 2 things. One is the change in accounting standard that you guys are aware of, and then the other is a change in some of our pass-through revenues.

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

So that's where the rev rec is being adjusted?

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

It is.

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

Okay. And am I supposed to assume there's $40 million of that in -- or $40 million or $50 million for the next 3 quarters?

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

That's about right.

Operator

Our next question comes from Jeff Silber with BMO Capital.

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

I'm not going to ask about recycling. My first question, you mentioned the employee bonus. I know it's still very early, but I'm just wondering if you could talk about the impact, either in terms of retention, morale, recruiting, what you've seen so far.

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

So retention, we haven't seen -- the first 2 months at least, January and February, didn't see a big change in retention. March, we saw a bit of a change. I would guess that as we get later in the year that we'll see additional change in retention. We have not made any decisions on what we're going to do with respect to retention programs going forward. And as far as morale goes, I spent a lot of time out in the field, as does the entire SLT. And hopefully, the view that we get is an accurate view. But it seems to be reasonably good right now. Now I don't know how much of that is attributable to a $2,000 bonus and how much is attributable to just a strong performing business right now, but I'd like to think that the morale is pretty decent right now.

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

And how about from a recruiting perspective, is this something that you're using to recruit folks?

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

Well, for sure, the $2,000 bonus in 2018. Because one of the things that we said was that it's not just for people who were employed as of January 6 or whatever the day was we announced. If you start in 2018 and you're in one of those groups, it's largely hourly employees, then you qualify for this bonus. You have to wait a year to get it, and that was the retention aspect. But if I start on December 15, 2018, I qualify for the $2,000 bonus. I don't get it on December 31 like everybody else but -- I have to wait a year. But there is a value in it that if I start sometime in 2018, I qualify for the $2,000.

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

Yes. I guess I understood that. But I'm just wondering, has it been easier to recruit folks using this? I know it's still difficult out there.

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

I don't know that we've -- I don't know that we have enough data to say one way or the other, but that's a good question. I just don't know that we have enough data to say one way or the other whether it's made our job easier or not.

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

Okay. Fair enough. And then just shifting gears to the acquisition. The amount you spent this past quarter, I think, was more than you spent last year. Was it just an issue of timing or are you becoming a little bit more aggressive on the acquisition side?

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Yes. I think it was timing, Jeff. But -- plus one of them, probably a little higher average size than our typical tuck-in, it drove that dollar value up. But primarily, collection business that tucked in really well. I think the opportunities are out there and we're aggressively seeking them, as the other industry participants are. And the climate is just good for those tuck-in acquisitions at this point. Whether the number gets close to that, I can't say. It takes 2 of us to agree on a fair price.

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

And Jeff, I would just add that -- it probably goes without saying, but I think it's worth saying anyway. With tax reform, more deals are going across our hurdle rates. And so we certainly are committed to continuing to invest in consolidation of the business where it makes sense and where we think that there's real value. And so I think the first quarter number is an indication of that.

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

Great. And what do you think the impact on revenue growth from those acquisitions will be this year?

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

I don't have that number at my fingertips, but we'll get back to you.

Operator

Our next question comes from Tyler Brown with Raymond James.

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

Devina, real quick, was the CNG tax credit about $0.04, was it in OpEx or the tax? And then to be clear, was it contemplated in the guidance from last quarter?

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

Yes. It was about $0.05 and it was in operating expense, a little bit in tax, though not much, and it was contemplated in our guide for the year.

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

Okay. Perfect. Obviously, on the -- yes, sorry, go ahead.

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

The one thing I would add, though, is that is not in our free cash flow for the quarter. We'll see it later in the year.

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

Okay. That's helpful. And then, obviously, $250 million in M&A in the quarter. Obviously, very strong. Maybe to the prior question, do you have an expected EBITDA contribution? Or maybe, would it be safe to assume you allocated it, call it, mid-single-digit type multiples?

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

You're right there. That's a reasonable assumption. What I would say, and we always talk about is, where you do see our tuck-in acquisitions show up is on the EBITDA line. It's harder to see them on the EPS line because of some of the purchase price impacts to intangible amortization. So we do expect these transactions to be EBITDA positive and contributing right away. In our guidance for the year, we did expect about $200 million of tuck-in acquisitions. It's just more heavily weighted toward the first quarter than we anticipated.

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

Right. So should we assume that there's any more M&A included in the guide?

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

Not at this point.

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

Okay. Then quickly on recycling. Did I hear you right, is the commodity basket today at about $72 a ton right now? Is that right, Jim Trevathan? And then for a quick clarification, is that just OCC or is that a broader basket?

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

No. It's a broader basket, and it is about $70. And in the current guidance, the revised guidance, it's about $80 for the whole basket of materials.

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

Okay. Perfect. Yes, I just wanted to be clear on that. And then, Jim Fish, I hear you on the difference between diversion and recycling. I completely agree. Maybe you guys want to agree with me, maybe I'm being a bit too colorful. But am I crazy to think that this may be the best thing that ever happened to recycling? Meaning, I assume this has got to materially change the conversation as you go back to those municipalities?

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

Yes. I don't know that I would characterize it as the best thing that ever happened to recycling after seeing the $46 million decline. But I do think you're right, it is something that needs to change. When we all think about recycling, recycling is a good thing. But unfortunately, it has shifted away from this recycling for the saving of the world's natural resources to diversion, which just means how much less can I put in my trash bin and how much more can I put in my recycle bin. And I think that has kind of a bad unintended consequence.

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Tyler, I think, somebody coined it aspirational recycling versus the real recycling that I think we all know is right. And our customers get it. They fully -- they understand it. Some of them don't like it, but they truly understand it. And I think you'll see over time, we will make this business better in the long run.

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

Maybe one last example here, Tyler, kind of a funny example, but -- maybe where the misunderstanding is, is that -- look, a lawnmower has a lot of recycled material on it. It doesn't mean that you can put it in your trash -- in your recycle bin and send it through our single stream because we don't have the equipment to break down the lawnmower. I mean, yes, the blade is made out of steel, but we -- our single-stream equipment cannot process a lawnmower or a baby stroller or name any other item like that. And so there's -- I think, there's a misunderstanding about what our recycle facilities will actually process. They obviously do a good job of processing tin cans and aluminum cans and plastic bottles and cardboard and papers, but they can't take the rubber out of a hose and they can't take the metal out of a lawnmower.

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

And we can't see the economics working to where that would ever even be feasible.

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

Okay. So this all comes back to the same -- kind of talking about the same thing here. If contamination really is the root of the problem, then why not abandon single stream and just go back to the simple basic, maybe call it dual stream or just simple commercial recycling?

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

Yes. Look, I mean, first of all, our customers want single-stream recycling and we're committed to single-stream recycling. So what we do want to do is make sure that we improve the process. Now some of this, as I said, can be done through technology improvement. And we're looking at different technologies to improve the stream, but I think we're too far down the path to do anything other than what we're doing today in terms of single stream. I think a lot of people reference Europe and what they do with their self-sort, but we've become a single-stream society. And I think our best course of action is to improve the model, both on the financial side but also on the materials side.

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

Okay. And then, Jim Trevathan, I apologize for being uninformed here. But what has the rollbacks been? I think you said 18%. What does that mean? Is that a spread between new and lost business or is that the percent of volume that's all rolled back? Or -- frankly, I just don't know what that is.

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Yes. Tyler, the easiest way I could tell you, as we rollout price increases, some customers question and challenge that number. And we -- to retain very profitable accretive business, we'll roll back a portion of that to retain that customer, and that's the simple...

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

Yes. No, sorry, I understand what a rollback is. I meant, what does the 18% mean, though? Is that how much you rolled back like in percentage-wise? I'm just...

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Yes. 18% of the total price increase we rolled out in the marketplace.

Operator

Our next question comes from Corey Greendale with First Analysis.

Ken Wang - *First Analysis Corporation - Analyst*

This is Ken Wang on for Corey. Pretty much all my questions have been asked at this point. So maybe I'll just ask, any notable changes in competitor behavior seen during the quarter?

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

No. I mean, I think everybody seems to like the current environment, that's for sure, with the economy doing as well as it is. And solid waste is a good business right now.

Operator

Our next question comes from Noah Kaye with Oppenheimer.

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

So in this quarter, resi volumes still down, though improving, and really where you're getting the growth, more growth both on price and volume is in the C&I, the higher-margin part of the business. So obviously a very good trend for overall company financials. One, as you look out to the book for the rest of the year, how do those sort of underlying trends look to you? Will you expect resi volumes to maybe turn positive or get back a little closer to the C&I side of the business in terms of volume growth? Or do you think C&I will kind of continue to really outpace on both metrics?

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Yes. Noah, I think that the commercial and industrial volumes will always outpace the residential volume. We look at it differently in that the return on capital is really the focus on that residential line of business. It requires, generally, when you add customers, new capital, new trucks to service a new marketplace and -- so we look at that differently than those volumes that can fit, if you will, in our current route structure. So we're not hungry and aggressively seeking that residential growth. We like the fact that it is improving, but I'm not going to forecast that it gets positive or moves into that 2% or 3% range like the commercial and the industrial business are. Yet, we're very pleased with what we're doing in that line of business. We've got real focus to move that margin up and to improve that return on invested capital. But the trend is good, but don't expect it to get to commercial and industrial level. The other thing that I'll mention on the commercial side, it's very positive the last few quarters. Remember that we added that L.A. business, and so we got a little headwind because we'll anniversary that in the second half of this year. It'll stay positive and we'll beat our guidance number there, but it won't probably be at the same high levels unless the marketplace continues to improve.

Operator

Our next question comes from William Grippin with UBS.

William Spencer Grippin - *UBS Investment Bank, Research Division - Director & Equity Research Associate of Utilities*

So you may have already touched on this, but I just wanted to confirm quickly. Was there a change in 2018 related to reclassing recycling rebates from expense to contra revenue?

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

There was.

William Spencer Grippin - *UBS Investment Bank, Research Division - Director & Equity Research Associate of Utilities*

Okay. And could you tell me the approximate dollar amount of -- for 1Q and the EBITDA margin impact from that change?

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

So as I mentioned earlier, it's in that foreign currency line item in the internal revenue growth table. And so in total, you saw a 1.6% change in revenue associated with that, but it's included with other things. With regard to margin impact, the margin impact was, in total, around 50 basis points on OpEx as a percentage of revenue.

William Spencer Grippin - *UBS Investment Bank, Research Division - Director & Equity Research Associate of Utilities*

Got you. And I guess can we expect sort of that relative amount to be consistent going forward over the course of this year?

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

Yes. What I would say generally, though, is that the impact of Q1 is a little higher than the full year run rate because Q1 is a lighter revenue quarter than the other quarters.

Operator

Our next question comes from Michael Feniger with Bank of America.

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

Just on the recycling, I'm just curious. I mean, on the 40% that is brokerage, can you just walk us through how the economics for that portion of your business is perhaps different? And with the contamination issues, you mentioned how some MRFs will clearly just start turning away. I'm just curious, is that just all going to end up -- most of that will end up at landfills? Is that what could play out? Hopefully, you could just address that.

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

I'll take the second question. I'll let Jim address the broker question. But yes, I mean, ultimately what happens -- and that's the irony of all of this, is that when this material comes in the front door, if you have a plant where the inbound stream is 40% contaminated materials, today, we send a piece of it out as commodities. But that 40%, as much of that as we can pull out, ultimately ends up in the landfill. And that is the irony of diversion, is that while it may get diverted at the first step, which is at the curb, it doesn't get diverted overall. That's why we believe that recycling should be the goal, not diversion. Because diversion, ultimately, just means that it's -- that it ends up getting processed through our plant, but still ends up going to a landfill. So there's really no economic gain in pushing that through our plant. But -- Jim, the broker question.

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Yes. And maybe just a comment, too, for Michael on that last point, and that's we -- that's why we are working with our customers, our largest residential customers and cities and communities around education. That is -- that can be a true mitigator of that factor is to not contaminate, if you will, some of the recyclables. But we're not going to wait for that to happen. We're going to execute, as the contracts allow and as third parties bring us material, contamination charges that are allowable and reject materials that can't be recycled because it can't be sold. On the brokerage business, so -- it really -- they're large-volume customers that we end up just marketing their product for them. So we have a very low margin, low, mid-single-digit kind of margin, but no capital involved. There are no trucks involved. We're not collecting the material. We're just helping them broker their material and combining it with our excellent team that has the outlets all over the world. So it's, again, low margin, but really valuable for us and aligns us better with our customers as well.

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

That's helpful. And then also, I mean, obviously, the CapEx was high this quarter. Like you said, you were making some investments in your fleet and your landfills. Does that mean you're actually adding routes? Are you also seeing some smaller players investing in their fleets and starting to add routes as well, maybe because they're seeing the higher growth in the market?

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

Yes. Michael, I can't speak to the competitors, but we have added routes, but at a lower percentage in the commercial, in residential and industrial, all 3 lines of business, than our volume growth. Of course, resi is not growing, but -- so we're getting some efficiency there in routes versus the volume growth. But yes, we are adding routes in those 2 lines of business.

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

That's great. And then if I -- just on the margin performance. I mean, I guess big picture, if you're in an environment where volumes are 2%, your yield is 2%, core price is like 4%, 5%, I mean, what can you, now, typically expand your margins on -- in the solid waste business, in that backdrop?

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

So aspirationally, we look to expand margins 50 to 100 basis points for the year. We certainly outperformed that in the first quarter. Some of the outperformance came from the fuel tax credits. But even if you peel back the impact of the fuel tax credits, the traditional solid waste business did see that 50 basis point-plus margin expansion for the year. I mean, you really are hitting on it. If you look at price, we've always known that price is one of the levers that helps us to expand margin. But to Jim's point, when you're adding volume at a pace that outpaces meaningfully the rate of route increases and labor costs, you're going to get leverage from that as well. And so we're certainly seeing that show up.

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

Michael, I think if you look at margins, I mean, margin is maybe an underappreciated, really good story. If you look back over the last 4 years, Q1 of 2014, our EBITDA margins were 23.1%. And then and you continue down the road, I mean, 24.5% and 25.8%. I mean, it's been on a continuing upward trend. So does it continue in a straight line? I don't know. But boy, it sure has been a good story that I think is a little bit underappreciated.

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

Yes. No, I would agree with that. I mean, I'm just -- I guess I'm curious. Can you guys just remind us, like what has changed to be able to get this type of margin performance? Is it just better cost control? Is it removing costs during a low-CPI environment? I'm just curious if you could just touch on some buckets of how you guys have been doing that and why we could expect the 50 to 100 basis points, which we might not have been able to expect in prior cycles, why we can expect that going forward?

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

All right. Look, some of it -- you've hit on the kind of the key items. I mean, we've -- as you know, I mean we've kept control of SG&A since I was CFO. So SG&A has -- and that SG&A percentage, as Devina said in her prepared remarks, has come down. So SG&A, operating cost controls with SDO, which we've talked about for years. And then when your top line growth is coming in C&I and landfill, that's going to be good for your margins. So we think we're doing some things with the customer -- in terms of customers, improving customer experience. We're very, very focused on a best-in-class customer experience, and we think that is showing up in our growth numbers in the commercial and industrial lines of business.

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Michael, Jim called it in his early statements, disciplined growth. And our term for that -- what that includes is that point of where we grow and at what price we grow our business. We're very careful to make sure we're not just adding volume. We are adding it in the right places that add that margin expansion and with -- where we can internalize that volume. So it's not just the economic growth, it's the discipline to grow at the right price with the right customer base that adds to that margin expansion.

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

That's perfect. And lastly, I know we talked -- we touched a little bit on April with recycling pricing. I'm just curious, anything on the solid core waste? Is it the trend you kind of saw in February or March, continued in April? And any impact from weather at all?

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

Were you asking about price for solid waste?

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

Yes. Price and volume, basically.

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

Yes. So I would say, well, look, through -- it's early in April, but our volumes still look good in April. Price continues -- price is something that we've been focused on for a decade and we're certainly not -- what helps us with price is taking this very strong stance on customer experience. I mean, the better our customer experience, the more differentiated we are and the easier it is to command a higher price. And then what was the last part of your question?

James E. Trevathan - *Waste Management, Inc. - Executive VP & COO*

Weather.

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

Weather, yes. So we didn't really use the W word because it happens every year. What I would say is that this is a little bit tougher winter than last year. Last 2 years, actually, were pretty mild. We actually polled the field and we had 30 more lost days to weather this year, and that's area days. So the areas themselves had 30 more lost days this year than last year. So the weather did affect us, but we worked through that. It's winter.

Operator

And I'm not showing any further questions at this time. I would like to turn the call back over to our host.

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

Okay. Well, thank you very much. In closing today, look, I'd just like to say, I know we talked a lot about recycling. I think it was the right thing to talk about. It's an important part of our business. But as I said, it is a smaller part of our business compared to the solid waste. And with respect to solid waste, I would just say that maybe more than any other quarter in my career at Waste Management, this quarter highlights the strength of core -- the core of this business. So we look forward to the rest of the year and we look forward to seeing many of you next week in Las Vegas at Waste Expo. Thank you.

Operator

Well, ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.