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WM - Q4 2018 Waste Management Inc Earnings Call

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OVERVIEW:

Co. reported 2018 diluted EPS of $4.20. Expects 2019 adjusted EPS to be $4.28-4.38.

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PRESENTATION

Operator

Good morning. My name is Dea, and I will be the conference operator today. At this time, I would like to welcome everyone to the Waste Management Fourth Quarter and Full Year 2018 Earnings Release Conference Call. (Operator Instructions) Thank you. At this time, I would like to turn the conference over to Ed Egl, Director of Investor Relations. Please go ahead, sir.

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

Thank you, Dea. Good morning, everyone, and thank you for joining us for our fourth quarter 2018 earnings conference call. With me this morning are Jim Fish, President and Chief Executive Officer; John Morris, Executive Vice President and Chief Operating Officer; and Devina Rankin, Senior Vice President and Chief Financial Officer. You'll hear prepared comments from each of them today. Jim will cover high-level financials and provide a strategic update. John will cover an operating overview, and Devina will cover the details of the financials, including guidance for 2019.

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 in 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 Devina 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 fourth quarter volume results discussed are on a workday-adjusted basis. During the call, 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 fourth quarter of 2017. Net income, effective tax rate, EPS, income from operations and operating EBITDA for both the fourth quarter and full year of 2018 and 2017 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 footnote 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 the use of our non-GAAP measures.

This call is being recorded and will be available 24 hours a day beginning approximately 1:00 p.m. Eastern Time today until 5:00 p.m. Eastern Time on February 28. 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 6496795. Time-sensitive information provided during today's call, which is occurring on February 14, 2019, will 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 will 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. At this time last year, I was telling you that 2017 was arguably the best year we've seen. I'm pleased to report that 2018 results were even better. Through our continued focus on customer experience, our cost management and our price discipline, to name a few, we had a great year.

For the year, the business produced a record high in operating EBITDA, which is the best reflection of the health of our business. We grew operating EBITDA by more than 5% in spite of the strongest recycling headwinds we've seen in over a decade. Overall, in 2018, we produced $4.20 of EPS, another year of double-digit improvement.

Devina will cover our 2019 guidance in more detail, but we are forecasting another record year in operating EBITDA this year, with our growth rate expected to be about 5%. Included in our 2019 forecast is our expectation that the strong recycling headwinds from last year will turn into a tailwind, thanks to our focused efforts on reducing operating costs at our plants and charging fees for contamination.

To the extent that Waste Management is a good proxy for the overall U.S. economy, our 2019 guidance of another record year in operating EBITDA clearly demonstrates the strength of our own business and of the economy as a whole. As we mentioned, operating EBITDA is the best reflection of the health of our business, and our strong growth translated into the strongest free cash flow we've seen ever, with the exception of 2014, when we sold our waste energy business. We allocated close to 90% of that free cash flow to shareholder returns, growing our dividend for the 15th consecutive year and spending $1 billion on share repurchases. We also spent $466 million on acquisitions, an indicator of the active M&A environment we're in and our ability to complete transactions at our targeted returns.

In 2018, we continued to focus on our people, disposal optimization, technology and profitable growth, all while delivering exceptional customer service. Our strong 2018 results validate that our execution on our focused differentiation of continuous cost improvement strategies drive strong growth in our business, and we expect further progress in 2019.

Our strategic direction in 2019 will look very much like 2018 as we move forward with a cultural transformation that places Waste Management employees at the head of the class in terms of focus and importance. In December, we announced the hiring of our Chief Human Resources Officer, Tamla Oates-Forney, who was formerly an HR executive at GE. Tamla is moving forward quickly in putting world-class processes in place, upgrading talent and helping to direct this valuable cultural shift at Waste Management. Similarly, after only 15 months under the leadership of Nikolaj Sjoqvist, our new digital team is beginning to show how our investment in operating, customer-facing and back-office technologies, as we migrate towards more agile cloud-based systems, can serve to differentiate Waste Management going forward and propel profitable growth.

Lastly, on the strategic front. Our 2019 Sustainability Forum, which was held 2 weeks ago in conjunction with the Waste Management Phoenix Open, broke all previous forum attendance records and built on our message of sustainability that is collectively good for the environment, good for our customers and good for our investors. That's best demonstrated by the shift in our fleet from higher-cost, higher-emission diesel trucks to quieter, much cleaner-burning, lower-cost CNG trucks.

To complement and aid the shift towards sustainability and benefit from the geographic breadth of our landfill assets, Waste Management is investing in higher-return [renewable] energy plants at our landfills in 2019 and beyond. This investment provides an avenue to close the loop between our renewable energy plants and CNG fleet, creating favorable returns for the company.

Our strategic focus on people, technology and growth through a superior customer experience is moving Waste Management from a leader in the waste business to being a leader in the Fortune 250. That was no better acknowledged than with our recent recognition by Fortune as one of the world's most admired companies.

Finally, as part of our strategic growth plan, we will continue to invest in acquisitions that surpass our return criteria and create value for our shareholders. Our pipeline looks robust, and there are plenty of opportunities to invest in acquisitions at a rate similar to what we achieved in 2018. So in 2019, we expect another year of above-average M&A activity. To that point, you may have seen that we recently received Hart-Scott-Rodino Antitrust clearance to proceed with the acquisition of landfill assets in West Texas. We will be buying these assets at an operating EBITDA multiple well below our trading multiple, and we're excited

(technical difficulty)

make core waste management service offering. We hope to close in March, and we will provide additional details once the deal is closed.

In summary, our hard-working employees made 2018 a very successful year, and we expect to see strong growth again in 2019. We will continue to make investments in our employees and technology and in capital equipment this year to further grow our business, improve customer service and generate strong returns. We're confident that these investments will position us well for 2019 and into the future.

And with that, I'll turn the call over to John and Devina to discuss our results and our 2019 guidance in more detail.

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

Thanks, Jim, and good morning. We're very pleased with our fourth quarter results as we executed extremely well on our core price disciplined growth strategies. Our industry-leading organic revenue growth continued to drive strong income from operations and operating EBITDA growth, both around 7% in the fourth quarter. Throughout 2018 and particularly in the second half of the year, we've been very focused on our pricing programs to overcome inflationary cost pressures and grow margins.

As we continue to experience cost pressures in 2019, particularly labor, transportation and landfill operating costs, we will ensure that these increases are being passed along to our customers so that we can continue to generate appropriate returns and grow margins. This strategy is best demonstrated by our collection line of business. We generated strong growth in 2018 and expect that trend to continue into 2019. As we think about the year ahead in our collection line of business, we expect to see the benefit from our investments in people, fleet and technology.

First, as Jim mentioned, focusing on our people is the most important priority in 2019. Last year, we invested a portion of our tax savings in our employees, and this year, in addition to upgrading and automating our fleet, we will continue to invest in our employees through proactive wage increases, facility improvements and additional training at our new driver and technician training facility, which will open in the first half of this year.

With regard to fleet investment, 2018 truck purchases and further fleet investments planned in 2019 are beginning to drive meaningful improvement in our maintenance costs. By the end of 2019, we expect to have over 60% of our routed vehicles running on natural gas, and we know there is a significant maintenance savings with natural gases compared to diesel trucks as they age.

2018 proved to be another solid year with respect to our efforts around continuous improvement and modernizing the work environment for our employees. We believe the steps we're taking to move towards an automated fleet will continue to drive not only safety performance, which is paramount, but also gains in efficiency and employee retention. This was, again, validated with several recent contracts that we were able to convert from the traditional rear-load model to an automated side-load service offering. We recognized almost immediate improvement in all of those critical elements of our performance.

We're also advancing our fleet strategy through partnerships with the truck manufacturers to implement the same safety technology we have on many of our cars today. We're looking to implement features like lane departure warnings, brake assist and collision detection that are worthwhile for enhanced safety alone and have the added benefit of making our operations more efficient as we avoid lost time and costs associated with incidents.

Finally, the use of technology is important to the continued growth of our collection business. We've been collecting and using data from the technology on our vehicles to anticipate and respond to our customers' growth and needs. This is translating into lower customer churn, volume growth above U.S. economic levels, and it's creating value for our customers and shareholders.

Looking at our disposal network. As we have discussed, we have the best-positioned assets in North America, but we are seeing cost pressures from our third-party haulers at our transfer stations and higher landfill operating costs. We're focused on disposal pricing opportunities that will continue to create healthy margin in a rising cost environment. In addition, we look to continue to make technology investments, like our pilot with Caterpillar for remote-operated equipment, that will continue to increase the returns on these valuable assets.

Turning to recycling. We performed well in the fourth quarter as a direct result of our continued focus on improving operating costs, restructuring our municipal contracts and successfully battling contamination. In 2019, we will look to continue to improve in recycling by investing in the MRF of the future to further improve operating costs and optimizing our plants by being thoughtful about meeting our customers' requirements. In addition, we will continue making progress on reducing contamination, assessing fees to cover our cost of service and reduce cost of managing materials.

Lastly, we closed on an above-average amount of acquisitions in 2018, and as Jim mentioned, the pipeline looks strong for 2019. Integrating these acquisitions is a key priority for our operating teams to ensure that we manage cost, extract the value of these transactions and deliver superior service to our customers. I'm excited about the future opportunity for Waste Management as we believe that focusing on our people, optimizing our disposal network, better using technology and growing our business will provide strong returns for many years to come.

I'll now turn the call over to Devina to further discuss our financial results and 2019 outlook.

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

Thanks, John, and good morning, everyone. Our fourth quarter results were, in many ways, the strongest we saw all year, allowing us to close out 2018 on a strong note as we either met or exceeded all expectations. I'm going to start by reviewing these results in detail and then turn to our outlook for 2019.

Our top 2 financial priorities are growing operating EBITDA and leveraging that growth to convert more earnings to free cash flow. In 2018, we delivered on each of those priorities. Operating EBITDA in the fourth quarter grew on a year-over-year basis by more than 7%. For the full year, operating EBITDA was $4,215,000,000, over a 5% increase from the prior year and in line with our original guidance in spite of a recycling headwind that was far greater than we could have predicted. We converted every dollar of operating EBITDA growth into incremental free cash flow in 2018, growing free cash flow to $2,084,000,000. That's an increase of over $300 million or almost 18%. This is higher than expected as the strong performance in the traditional solid waste business was supplemented by the sale of over $200 million of nonstrategic businesses and assets over the course of the year. While these proceeds are always a part of our free cash flow measure, in 2018, the amount was over $100 million more than we expected. And so as we normalize for this difference, the result is free cash flow of about $1,975,000,000, right in the middle of the guidance range that we gave at the end of the third quarter.

These results highlight the value of our balanced execution of disciplined pricing and targeted volume growth. In the fourth quarter, organic revenue growth in our collection and disposal business was 5.8%. Achieving these results in the fourth quarter of 2018 is particularly impressive on the volume front when you consider the year-over-year comparisons we were facing given 2017's hurricane volume. Our notable volume performance has been driven by our commercial collection business, and our focus on customer service has reduced our churn to 8.6%, which is over a 100-basis-point improvement from the prior year. We've also seen service increases continue to outpace service decreases, making this the sixth consecutive year for us to achieve that result, and we are happy to see momentum on that front build.

In the landfill business, volume growth has been driven by strong C&D and special waste volumes, both of which grew by double digits in the fourth quarter. As we've discussed on prior calls, the California wildfire volume contributed to the increase in our C&D volume, which we expect to continue into 2019. We never like to see events like this occur, but we have positioned ourselves particularly well as a strong community partner for those devastated by the fires and as a result, expect that we will continue to see significant fire volumes into 2019. However, given the magnitude and uncertainty inherent in this effort, we have not specifically considered these volumes in our 2019 outlook.

Turning now to costs and margins. In 2018, our operating expenses as a percentage of revenue were about 62% for both the fourth quarter and the full year. There were a number of variables that impacted the comparability of operating margins in 2018, but when we isolate the impact of the revenue accounting change, the special benefit we paid to our frontline employees and recycling, we are pleased that our operating expense margin improved for the year in spite of higher third-party transportation and labor costs. These results tell us that we are growing in the right ways, executing our pricing programs to cover cost increases and create incremental margin and continuing to operate more efficiently.

In 2018, our SG&A costs as a percentage of revenue were 9.6% for the fourth quarter and 9.7% for the full year. This is the first time since 2005 that full year SG&A as a percentage of revenue has been below 10%. In fact, when you compare our 2018 SG&A costs to 2012, you'll see that dollars spent on SG&A have actually come down. That's a testament to the hard work our team has done to manage our spending, even in a strong growth environment. Together, these results drove more than 50 basis points of operating EBITDA margin expansion in the fourth quarter of 2018 and 60 basis points of operating margin expansion for the full year.

As we think about guidance and outlook for 2019, we see the strong performance from 2018 as a foundation for continued earnings and cash flow growth. We project that our operating EBITDA will increase to $4.4 billion to $4.45 billion in 2019, growing again at about 5%, with this growth fueled by our focus on delivering industry-leading organic revenue growth. We expect core price of greater than 4%, yields of greater than 2% in collection and disposal and total company volume growth of around 2%. We expect our strong operating EBITDA growth to drive free cash flow of between $2,025,000,000 and $2,075,000,000, an increase of approximately 7% after adjusting for the above-average asset build in 2018 and normalizing for tax planning benefits that won't repeat.

We project capital expenditures required to support our business to be between $1.65 billion and $1.75 billion in the year ahead. We will continue our long-standing commitment to our shareholders of using excess free cash flow to pay dividends, prioritize well-priced acquisitions and investments that will bolster our long-term organic growth and repurchase shares. Adjusted EPS for the year is expected to be between $4.28 and $4.38. Our 2019 guidance is based on an effective tax rate of 24%, which is almost 2 percentage points higher than what we saw in 2018. Normalizing for that as well as the 2018 benefit from fuel tax credits that we are not counting on in setting our 2019 guidance, this represents EPS growth of about 7% for 2019.

We are all very pleased with the strong financial performance we accomplished in 2018 and are particularly proud of the commitments we made and will continue to make in the years ahead in building the best team in the industry.

Jim, John and I can't thank the Waste Management team enough for the fantastic year they delivered. With that, Dea, let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question will come from Michael Feniger with Bank of America.

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

Can we just talk about -- on the SG&A, obviously, it was a great year in 2018. So can you talk about how we're thinking about SG&A as a percent of sales as we're going into '19?

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

Sure. So you're right. 2018's SG&A performance was fantastic and definitely a result of very focused and dedicated attention to controllable costs. When we think about the baseline, what you'll see is that we're ensuring that we manage our baseline cost so that we can invest in the future. And so thinking about 2019, you'll see an increase in SG&A as a percentage of revenue to about that 10% level that we think is the right level for us long term. And that increased SG&A is going to be dedicated toward the 2 strategic priorities that Jim discussed, and that's continued investment in technology and people.

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

Michael, this is Jim. The only thing I would say in adding to what Devina said is that this is not a 1-year trend. This has been a continuing trend since 2012, and it's something that I talked about when I was CFO way back in 2012. And Devina has really taken the ball and continued to run with it, so this is something that -- it's ongoing, but it's not something that just started to happen in '18.

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

And on the pricing guide, I mean, core pricing was strong in the fourth quarter, 5.6%. You're guiding it to be up 4%. I think '18 was up over 5% for the full year. Even 2017 was up close to 5%. I'm just curious how you're seeing that pricing playing out, at least the momentum there, and how we should think about that as we go to the second half of the year.

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

Yes. Look, I think you're right to talk about core price, Michael, because yields, it's a bit more complicated. It includes the mix component. So the core price is probably the best representation of what we're actually passing through to our customers in terms of price increase. You mentioned a couple of numbers there in '18, and in core price, it was 5.3%, 5.6% in the fourth quarter, which is outstanding. And honestly, when I look at early indications in January, for the month, I mean, January was excellent in terms of core price, in terms of yield and in terms of volumes. So we're encouraged to see that it's continuing. We think we're really in a sweet spot right now in terms of driving both strong price and accretive volumes and really no reason to see a trade-off between the 2.

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

Understood. And just lastly, you might have mentioned this, but I think we were talking about 40 to 50 bps -- $40 million to $50 million EBITDA kind of uplift just if prices remained flat. I mean, that was -- this was a few months ago. Obviously, we saw prices take a dip down. Could you guys clarify what's actually baked into the '19 guide with recycling?

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

Yes. I mean, look, we -- it's a little bit of a hard-to-predict number because there's a couple of components to it. There's what we're doing on operating costs that John mentioned and what we're doing with contamination fees. And then, of course, there's the number which is commodity prices. And so we're sticking with our prior comments that recycling is going to be a tailwind for '19. The extent of the tailwinds, honestly, is difficult to quantify right now because of this continued softening in commodity prices. But really, for the year, the reason we're sticking with our prior comments about the tailwind is because of our efforts that were solely driven by contamination fees. The contamination fees really didn't start until second quarter, and they continued to ramp throughout the year. So first quarter, there should be, certainly, a tailwind from those, and this reduced operating cost. And then that lessens as we get through 2019.

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

If you think, Michael -- just to add a little bit of color there because there is so much variability that can happen in the recycling line of business. The key point there is that Waste Management's done a really good job of ensuring that commodity price volatility is no longer going to be the driver of how we think about the earnings profile of that business, moving to a model that prioritizes fee for service and getting a return on the assets that we deploy and then using technology to reduce cost over time. Those are going to be our priorities. I think that the one data point that I would add, if you look at our estimate for average commodity prices, we ended 2018 in the $65 to $70 range for the full year on average. We predicted that we would be at about $70 in 2019. And you guys know as well as I do that early in 2019, we are seeing levels that are softer than that, so that's why we're hesitant to specifically give you a number that confirms what we had told you at the end of Q3.

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

I think, Devina, what I would add is the beginning of the year was certainly volatile, and it's reflected in our OpEx through Q2, but we've seen steady improvement in the last couple of quarters in our OpEx. And if you look at our results for Q4 in recycling despite kind of flattish commodity prices Q3 to Q4, we showed improvement. So I think it validates what Jim and Devina were talking about, Michael.

Operator

The next question is from Brian Maguire with Goldman Sachs.

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

It was obviously very topical, talking about the 0 waste initiatives you've got there, and that's been -- seemed like it's picking up a lot of steam and momentum, both with the consumers and in the industry. And I see you guys are making a lot of investments there, MRF of the future, some of the -- a lot on the recycling side, a lot on the CNG vehicles. Just wondering, how do you view these investments in general? Are they -- do you sort of view them as almost defensive to sort of sustain current profitability in the industry and protect some of the turf that the waste guys have? Or can these be offensive sort of investments that lead to new lines of business down the road that don't really exist today?

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

Yes. Thanks, Brian. Regarding your question, we really are looking at this as being an offensive move. What I've said all along about sustainability, and I said it at our forum this year and I spoke with Kevin Johnson of Starbucks this week about it, and my point is sustainability has to be both environmentally and economically sustainable for it to really work. And so that's our kind of upfront goal going in. When we think about the investments themselves, our venture group is run by Chuck Boettcher, and Chuck's looking at what -- is there something we can invest in that improves the back end of these recycle plans. For example, we have a lot of waste plastics that go out of the back end, and so we're charging fees on the front end, as we've said earlier, for contamination. But is there something we can invest in that produces really good returns but also is able to handle some of these waste plastics out of the back end of the plant. From a sustainability standpoint, both economically and environmentally, that would be ideal, so that's what Chuck and his team are looking for, really, kind of around the world. And I think we'll find it. I think we'll find something that helps us improve the sustainability of our model, our recycling model, but doesn't concede -- if somebody still is going to contaminate their trash bin, we're still going to charge them fees, and we're still going to work on, through our new recycle plant of the future, reducing operating costs.

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

Okay, great. Now sort of tied into that a little bit, I can't -- I just wanted to tease out some of your comments from the prepared remarks, I think you said you were maybe spending a little bit more CapEx on, I think it maybe was methane recovery at the landfills in 2019. Just wanted to get a little bit more color on that. And just in general, the step-up in CapEx doesn't seem like a huge amount, but it is a little bit higher from already elevated 2018 levels. Just wondering, is that on continued fleet modernization or some of these new initiatives that you were just talking about on sustainability and environmental things?

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

Right. So you're right. I mean, it's -- well, last year, actually, on a percent of revenue, which is kind of how we look at CapEx, on a percent of revenue, 11.4% of '18, and middle of the range is 11%-ish, maybe 10.9% this year. But keep in mind, that doesn't include -- our guidance does not include capital or resulting EBITDA for these renewable energy plants. The renewable energy plants are a way for us to close the loop. We've made a big investment in natural gas trucks. It will be over 60% of our fleet at the end of the year, will be CNG -- they're cheaper from a maintenance standpoint. There's a whole bunch of reasons why natural gas trucks are good for us. But what this allows us to do, because now we have such a big natural gas fleet, is really close the loop through the monetization of these RINs credits that are available to us by building these plants. The reason I say that it's not in either the CapEx guidance or the EBITDA guidance is because there's a timing difference. It takes 12 to 14 months to build these plants. So when we go through our capital committing process, if we decide that we're going to build out a renewable energy plant, the paybacks on those are excellent. They're 3 to 4 years. So they're kind of no-brainers in terms of investments, but we also have to -- investors have to recognize that there's a timing difference that -- and we don't attempt to match them on a calendar year with the returns simply because you're looking at a 12- to 14-month construction period for the plant, and so the CapEx obviously takes place upfront.

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

And I would add on the normal capital number. Your point about it being elevated from kind of the historical norms of the 10% really has to do with the growth that we're seeing in the solid waste business. We've invested in the fleet, and we're also investing in additional airspace at the landfills. I mentioned C&D and special waste volumes both being up double digits, and so constructing airspace to keep up with that growth is something that we're committed to. And so those are the main drivers of the elevated spend. But in a growth economy and a growth environment for our business, we're certainly seeing that as a worthwhile investment.

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

Okay. And last one for me. Jim, I think you mentioned your -- you got some regulatory clearance, and in March, you'll close on some landfill assets in West Texas. I recognize that was kind of a hole in the portfolio out in the Permian for you guys. But just wondering, with the decline in oil prices, why now is the right time to be investing in there. And do you feel like you've got the appropriate multiple on those businesses given where oil prices are now?

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

Yes. We feel really good. As I mentioned in my script, we feel really good about the multiple that we're buying this at. And we really didn't have a presence in the Permian Basin, which, if you're going to be in that energy services space in the United States, that's the big boy. That's the one you have to be in. And so this is something we've been looking at for a while, and this one, we really felt like was the right fit for us. So we'll give more details on the financial side of it once it closes, but we're excited about the strategic value of this, and we're certainly excited about the multiple that we're getting it at.

Operator

The next question will come from Hamzah Mazari with Macquarie Capital.

Hamzah Mazari - *Macquarie Research - Senior Analyst*

My question is around capital allocation. I realize you have a $1.5 billion authorization, but just any thoughts as to how to think about the pace of buybacks in '19 and as well as any kind of update as how you're thinking about larger M&A, either in solid waste or outside solid waste?

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

Sure. So I'll start, Hamzah, and then turn it over to Jim to talk a little bit more about the M&A landscape. But as he mentioned during his prepared remarks, if you look at 2018, we spent over $450 million on acquisitions and, at the same time, bought back $1 billion of our stock. In 2019, we expect that M&A spending could be in the $200 million to $400 million range on that core solid waste tuck-in spend, where you're more accustomed to seeing that being more in the $100 million to $200 million range for us. So when we think about that level, we're planning share repurchases of about $800 million for 2019. And should we see a different outcome on the M&A side, we'll flex that as appropriate to maintain a strong balance sheet.

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

Yes. And Hamzah, on the M&A front, really, as Devina said, I mean, we tend to do a handful -- probably several handfuls of these smaller tuck-in type acquisitions, where the benefits are really extracting synergies, and those are right down the middle of the fairway. And then we're looking at, as is the case with this -- with Petro Waste, looking at something that's core to us because it is landfill assets, but it's also in a place that we wouldn't normally be otherwise if we weren't in an energy space. We're not going be up in the middle of West Texas if we weren't doing this for energy purposes. So I think, with respect to the latter, that's why we really had to buy that at well below our trading multiple because it doesn't come with the synergies that a tuck-in comes with. But we feel good about that multiple. And then with respect to those tuck-ins, we always feel good about the fact that we buy those at multiples and then whittle them down to the tune of 2, 3, even 4 turns through synergy monetization.

Hamzah Mazari - *Macquarie Research - Senior Analyst*

Got you. And then just in terms of -- are you thinking about cyclicality of this business differently if things were to slow? I know 2009 volumes were down 10%. Nobody expected that. That was obviously a great recession. But how do you think about cyclicality of your business and defensive qualities if things do slow down?

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

Yes. I mean, look, here's what I would say. We do think about it. We've talked a lot about what happens if the economy turns down. There had been a lot of chatter about that a bit earlier. It feels like that's tapered off a bit. We've said this, I think, many times, and that is that 2009 -- I mean, we all know there's a recession coming at some point. We just don't know when. And 2009 was a bit different than the normal recession because it was so driven by housing. And so our business, really, on the housing side has not returned to where it was in 2009. But when we look at the indicators that might lead us to believe that a recession is on the horizon, the best indicators for us are our volume numbers in our commercial collection business; our special waste business, which is a good indicator of the industrial economy; and our C&D volumes at our landfills. And really, all of those look strong right now. We tend to be more of a lagging indicator than a leading indicator, but those tend to be somewhat leading. And all of those look strong right now, and that carries over into January. When we looked at our volume numbers in January, they were very strong in those 3 measures as well. So we do focus on it, and we want to make sure we're not caught off guard by a downturn in the economy, hence, the real attention that we pay to efficiencies and cost control. But the good news is, right now, we're not seeing that softening that's been talked about over the last few months.

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

And somewhat defensive nature on the -- it's a very good point any time it's made about our industry and our business. There's a great deal of discipline in the industry today that, I think, last time around, maybe we weren't all as good at. So we can certainly flex down our capital expenditures. You've seen us flex our SG&A costs, and we would be well positioned to do those things if we saw some softness in the volume environment going forward.

Hamzah Mazari - *Macquarie Research - Senior Analyst*

Great. Just a follow-up question, and I'll turn it over. On customer churn, could you remind us how you're calculating churn? Is it on a dollar basis? Is it something different? And then is there any more room to improve that further?

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

I think there is -- John, go ahead.

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

Yes, I was going to say we're doing -- on the customer -- we look at it both ways, Hamzah, but hat we're reporting is on the customer count. And yes, I mean, we've talked about how much of that is structural, but I think as you're seeing year-over-year, even in a growth environment, one of the ways we're getting that growth and net growth is that we've improved service. And you're seeing it in our churn rate, which has come down year-over-year and quarter-over-quarter.

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

And I'd say your last point there, Hamzah, I still think we have some opportunity. You've asked the question and rightly so over the last few quarters. And I still think we have some opportunity down -- we were really happy with the improvement we made, and we finished at 8.6%. But look, I think we can get down below 8%. And then where we go from there is more aspirational, but I think structurally, I think the business can certainly be below 8%.

Operator

The next question is from Tyler Brown with Raymond James.

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

Devina, a couple of modeling questions. But what are your expectations for total revenue growth in '19? So basically, what I'm driving at is what is your assumption for the net benefit from M&A in '19? It looks like you had quite a bit of action at the end of the year, including maybe some divestitures.

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

Right. So both acquisition activity and divestiture activity were a little elevated for us in 2018. The net impact to revenue in the year was about $65 million to revenue. Rollover, we expect to be about the same. And then, with incremental acquisitions, I would say that it's about a 1% increase in revenue. And if you add that to the 2% yield plus guide and about 2% volume, it'd be around the 5% mark.

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

Okay. And to be clear, is Petro Waste in that guidance?

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

No, it's not specifically included in the guide.

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

Okay, that's helpful.

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

Acquisition growth in the $200 million to $400 million range was included in the guide. So you can think about Petro being a piece of that puzzle potentially, but we're going to wait until after the first quarter to revisit the total M&A guide for the year beyond the $200 million to $400 million.

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

Okay. Okay, that's helpful. And then I just want to make sure we all have it, but how big of a headwind in Q1, specifically, will the CNG tax credit and recycling be in terms of EBITDA or EPS?

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

So the CNG tax credit was $28 million in operating expense benefit in Q1 of last year. It didn't show up in cash flow until the second quarter. From a recycling business perspective, we actually expect some upside from recycling. Though with the softness in commodity price, as we've discussed, it's hard to predict how much that will be.

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

Okay. Okay, that's helpful. And then, Jim, this is a bigger picture question, but it seems like the solid waste market is really affording maybe 4% to 5% organic growth. You're looking at, call it, 2% plus 2% in '19, which is obviously very healthy. But conceptually, is 2% plus 2% a function of your go-to-market strategy? Or is it a function of what the market is affording? I mean, obviously, volumes require capital. They eat up airspace, et cetera, maybe why not turn up the pricing dial and turn down the volume dial, particularly in an inflationary environment?

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

Yes. So look, Tyler, here's what I'd tell you about the kind of the 2% and 2% add for a total of 4% here is that it's very similar to what we gave last year. In fact, I think it was 2% and 2% and 4% on -- also 4% on core price. And it's not that different from what we gave in '17, although it's higher on volume. I think in '17, we kind of gave 4% core price, 2% yield and 1% volume. So it's pretty consistent with what we've been giving you over the last couple of years. Obviously, when you look at our 2018 performance on those metrics, you might say, well, there's some upside. And we wouldn't disagree with you on that, but we don't want to get out over our skis too much. There has been -- as I mentioned earlier, there has been some conversation in kind of the -- or with respect to the macroeconomic climate that things might be softer. Again, we're not seeing that, but for guidance purposes, we wanted to be a bit cautious when we gave our guidance on top line. But we do recognize that, that could be a bit of upside there.

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

Tyler, this is John. I think the one area that we've talked about and we're going to continue to talk about and focus is the post-collection pricing, both landfill and transfer station. You've heard us all talk about some of the pressures we're seeing from our third-party transporters and all the pressure on the network to be able to move volumes. I think if you look at the results, you're going to see that our focus on the core price side and the transport and landfill pieces improved. But as Jim mentioned, I think that's the one opportunity there, particularly as we see the volumes improve and we're trying to mitigate some of these cost pressures that we're facing.

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

And Tyler, I would add that I really don't think, for us, in this environment, we view price and volume at all as a trade-off. We see the incremental volume that we're achieving in the marketplace providing better flow-through than our existing business, and that's important. And so as long as we continue to see EBITDA margin on incremental volume exceed our existing margins and we can control the capital at a reasonable level and see return on invested capital grow at the same time, we're going to continue to see volume growth as a good addition to the price discipline that we bring to the market.

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

Okay, that's helpful. And maybe lastly, Devina. If I walk down the EBITDA-to-free cash flow waterfall, so I start with EBITDA, add in stock comp, maybe take out closure, post closure, cash interest, cash taxes, all the CapEx. It still feels like you need a little bit of a working capital benefit to get to the free cash flow guidance. Am I right there?

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

We're expecting about a little bit of a repeat of the working capital benefit that we saw in 2018 and the year ahead. But other than that, yes, I think you have it exactly right. The one thing that I would say is we have a $75 million -- I think I mentioned in my prepared remarks that we had a tax planning benefit in 2018 that won't repeat. So that does provide a little bit of a headwind if you look at the interest and tax piece of the equation in 2019, but that is included in our guidance. So that emphasizes your point on working capital. We expect to see some value there.

Operator

The next question is from Noah Kaye with Oppenheimer.

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

So the volume guidance of 2%, you said that, that doesn't contemplate or include the fires. And obviously, you're coming off of a tough comp year-over-year, including some large new contracts that you talked about. Any large new contracts or items that you would call out as drivers for the volume growth this year?

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

No. I think -- this is John, Noah. I think the one that we spoke about, which we just about anniversary-ed, is the city of Los Angeles. Obviously, that was a big implementation for us and drove a lot of the puts and takes in our volume last year. But outside of that, there's not one that I would call out.

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

John, where we may see a little bit of impact positively in '19 with respect to city of Los Angeles, it was the start-up cost side. So while the top line may not show much due to the anniversary-ing, we did see some start-up costs that really persisted through a big part of last year, and that should start to mitigate.

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

We should start to lap that.

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

Yes.

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

Understood. And then I guess I want to follow up on Devina's previous comment that you're seeing the EBITDA margin on new volumes exceeding additional volume. I guess as we look at the revenue guide and the EBITDA guide, if I'm doing our math right, it kind of assumes flattish EBITDA margins year-over-year. So I guess the question is, should we be seeing higher operating leverage at this point? Is there anything you can do to get margin expansion in '19, considering that we don't have the recycling headwind and it is a very healthy environment for growth?

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

Yes, I think it's a great point, Noah. And when we look at the guidance for 2019, what I think is important to point out is that we do expect solid waste margins to improve by about 50 basis points. And in 2018, we saw the same results. They were just muddied up a little by the impact of hourly bonus as well as the recycling line of business that you mentioned. And so when we stripped away all of that, we generated 50 basis points of solid waste margin expansion in 2018. We expect to do the same in 2019. Where you're going to have an offset on the EBITDA line is the incremental SG&A dollars that we expect to invest in technology and people. And so the solid waste business is performing exceptionally well, and we're getting the right leverage out from that incremental volume.

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

Noah, it's John. I would probably revisit or add to that. One area we are clearly focused on that has a lot to do with the cost pressures and transportation pressures that I mentioned earlier is on landfill and post-collection pricing and making sure that we're recognizing all the pressures that we're seeing through the transfer and landfill network to make sure that we're overcoming those cost pressures.

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

And perhaps, a finer point as well that's worth mentioning is we actually are seeing increases in our recycling volumes. A lot of those increased recycling volumes are in our brokerage business, and so that does mute the margin expansion of the overall business a little as well.

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

Right. So that shift to brokerage is -- as you said in the past, it's about a 5% EBITDA margin business, so that will have an impact as well. All right. That's very helpful color.

Operator

The next question is from Sean Eastman with KeyBanc Capital Markets.

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

I know it's tough on the recycling to give a number on the anticipated tailwinds for '19, but perhaps, just assuming a stable underlying commodity price environment, I'm trying to get a sense for what portion of the benefit is coming from the contamination fees relative to the operating costs. And maybe if you can provide some context on how far through the portfolio you guys have worked through on the contamination fees and, perhaps, on a percentage basis, how much those operating costs have come down over the last year or so.

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

So let me start. This is John. Let me start with kind of the -- we've kind of broken out these contamination fees in a couple of different buckets. One is municipal contracts, obviously, which I mentioned, and I would tell you we're mid-innings on there. As you might imagine, the contract cycle is longer there, so we're working our way through that. So that's where we expect to see the upside going into '19 and beyond. The first 2 phases were a little bit easier, if you will, to execute on, although the buckets weren't quite as big, which is making sure that our own internal customers -- commercial customers are giving us the material that we expect. And then lastly is making sure that when material hits the floor, that the contamination levels are not above what we can otherwise process. So there's 3 buckets around that. I mentioned earlier our OpEx from the MRF standpoint kind of peaked in Q2, which probably shouldn't come as a surprise to anyone because there was obviously a lot of volatility in the market at that point. And off the top of my head, we have probably come down about 4% or 5% in operating cost per ton since then. But if you look at Q3 and 4, we've kind of stabilized revenues, and we've continued to make improvements. And the overall MRF performance at the recycling plant suggests that what we're doing around contamination is driving a big piece of that improvement.

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

And Sean, I think the original number we gave in terms of tailwind was $40 million, $50 million-ish, something like that. And that was -- we always qualified it by saying that assumes flat commodity prices from where they were. They have come down a bit, so they've softened a bit more, and that's why we're a bit hesitant to give a number. But, I mean, suffice it to say it's going to be somewhere between -- it's going to be a tailwind. We just don't know exactly what it's going to be. If it flattened from here, I'd say we're going to stay where we are now. We haven't -- I don't know that we know the number, but I think it's probably in the $20 million to $30 million range would be my guess. But then again, I'm not sure it flattens here. It may return back up to where it was a couple of months ago. So that's why we're a little uncertain about it. But the number that we gave originally, assuming flat commodity pricing back at the end of the third quarter, was $40 million to $50 million. And if it does return to that, I think you'll see us kind of in that range with the things that John mentioned as well, continuing to work on kind of that phase 3 of contamination fees with municipalities and then also, an added focus on operating cost.

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

Sean, this is probably the toughest quarter to call, just because this is generally a volatile market from a commodity standpoint with what's generally going on overseas.

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

Makes sense. That's helpful. And the second question I have is -- you guys are talking a lot about technology. Those investments are having a visible impact on the SG&A line this year. You guys did mention a few initiatives, but I just want to make sure I understand exactly what the big technology goals are in terms of implementation for this year relative to those investments flowing through SG&A and whether there's some core sort of KPIs you guys are targeting or some sort of payback period on those investments. I just want to understand those dynamics.

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

Yes. So certainly, Nikolaj and his team are looking at, once we make an investment in a -- whether it's a customer-facing technology, whether it is really a use of data and analytics, they do have a very prescriptive scoreboard, if you will, and they're looking to see what kind of returns we get for those. So we've recently rolled out a tool for our open market residential customers, and it's showing really, really promising results. And so the payback on it is, we think, is very short. But open market residential was not a huge business for us. The big question will be what happens when we roll out a customer-facing technology for one of our bigger lines of business, like commercial? We wanted to walk before we ran, and so that's why we chose to go with OMR first. It is very promising in terms of the results that it's generating. Once we move to some of our bigger lines of business, such as commercial or roll-off, we expect that those will also have short paybacks on them, but we're in the process of kind of building those out right now. And then the use of data and analytics largely for John's purposes right now, I mean, as you think about -- he's talked about maintenance cost and how we use data and analytics to really help us with things like predictive maintenance. We're doing some pilots on that, and those, we think, will definitely bear some fruit. And we do have a metric that we're using to gauge that.

Operator

The next question is from Michael Hoffman with Stifel.

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

Devina, am I correct we're about -- we're talking about $100 million is what the SG&A swing is for investing in Nikolaj's projects?

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

That's about right, yes.

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

And just to follow up on the last one. So typical 3-year payback is what I'd think about that and mid-teens unlevered IRR, and that's the way to think about the sort of leverage on them?

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

Yes, that's it. Yes, that's a great way to think about it.

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

Okay. And then on free cash flow, I get you sell things periodically. That's the swing in the numbers. If I strip that out over the last 3 years and I look at the sustainable growth between them, like '17 to '18, you're up 12%, but '18 to '19, you're up sort of mid-5s. Is it appropriate for me to sort of smooth those 2 numbers and say that we can talk about a 6% to 8% sustainable free cash flow growth rate under the current business climate?

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

That's where we are, yes. We definitely are happy that if you normalize '17 to '18 for taxes and interest and the proceeds from divestitures and do the same for '18 and '19, we're in about a 7% annual growth environment.

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

I'd say, Michael, one of the questions that you've all had of us is, so how is this, your EBITDA, which is really the long pole of the tent, right, I mean, how is that converting to cash? How is it converting to free cash flow? And if we look at '17, '18, '19, '19, of course, is our guidance, if we look at that, we're pleased -- very pleased with that. I mean, '17 was 42.2%. '18, if you strip out some of those onetime tax planning and normalize the divestiture -- I mean, we're always going to have some divestitures in there, so I'm not saying take it out completely, but more of $100 million divestitures than the big year that we had this year. If you normalize '18, 45.1%, and then when you look at our guidance for '19, 46.3%, so somewhere between 90 to 120 basis points of annual growth in that conversion ratio. And by the way, remember, it wasn't too long ago that we're -- that number started with a 3, and it was really the mid-3s. So we're now on a path to something that starts with a 5. We're really pleased with that conversion from EBITDA, which is 5% last year, 5%-ish this year, to cash.

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

Okay. Excellent. That helps. And then to do this waterfall bridge differently on your EBITDA, 42.16%, midpoint 44.25%, that's 2.09%. But I got to factor in there, there's $100 million of SG&A, so the solid waste and recycling is really up $300 million something is the way to think about that?

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

That's exactly right.

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

Well, that's why, Michael, we've seen a -- it's pretty easy to kind of say, hey -- nobody has, actually, this morning. But it's easy to say, well, what about your bonus? Why not add that? Or why not add your recycling business? And then as we all know, there's a lot of puts and takes in the EBITDA number. And what we're really focused on is the big number itself, which grew 5% last year and will grow another 5% this year. That was 2x the economy last year, 2x GDP last year, and it could be as much as 2.5x. So we're very pleased with the EBITDA growth, which, in our mind, is -- that is the best indicator of the health of the business.

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

Right. And to that last bit, Devina, what's the number for 2018 when you talk about the solid waste business? When you make that statement, the solid waste business, what is that revenue number?

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

The revenue number?

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

Yes.

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

We'll have to get back to you, Michael. And we've got good information in the tables that we'll clarify how we're thinking about that. So when we looked at the solid waste business in 2018 relative to 2017, we saw over $300 million of EBITDA growth in that business, which makes sense because the $210 million of EBITDA growth that we've talked about had that $90 million of headwinds in the recycling line of business. It was really a stellar performance.

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

Okay. That's part of what I was trying to get at, but I also -- it's hard for people to see the margin expansion in that business given the way the data is provided, so maybe a little clarity on that would help.

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

Okay. We'll take that under consideration.

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

And then one last thing for you, Jim. I'm assuming these renewable energy projects, as you experienced in CNG credits, come and they go, so they're a good return on capital, not counting on the RINs, so they are forever.

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

Yes, that's right. Yes, I mean, look, the RINs are -- there is some volatility to those RINs, but we feel like they're really good investments for us. And so that's -- and hence our interest in them. And they're made available to us because of the -- not only our landfill gas but also this CNG conversion that we're making over a period of years.

Operator

The final question is from Jeff Silber with BMO.

Sou Chien - *BMO Capital Markets Equity Research - Analyst*

It's Henry Chien calling for Jeff. I wanted to ask about the volume guidance for 2019. And just in relation to some of the comments, that sounds like there's a little bit more skew to commercial and C&D. I'm just curious how you're thinking about the sort of sensitivity of that number and volume growth to different parts of the economy. So I'm just thinking if housing starts continue to get weaker or stronger or any other -- or the industrial economy and so forth. Is there any kind of changes in the sensitivity of that volume as you look forward to this year?

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

Henry, I think Devina mentioned it earlier. I think when you look at our special waste pipelines and our C&D pipelines, we obviously had a strong 2018, and we still see health in those pipelines. I think Jim and Devina both commented on the commercial line of business. And service increases versus decreases is certainly a good barometer, along with our other sales activity. And while we're kind of looking out at the horizon to make sure we're not missing something, the short-term outlook is still strong. In fact, as Devina mentioned, the service increase and decrease ratios actually improved as the year goes on, so we have not seen softening in those buckets as of yet.

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

And we certainly take into consideration -- a lot of attention in our business is paid to housing starts and new business formation, and so those 2 data points are important to us. We're a lot less directly tied to housing than we were with the last downturn, and that's valuable for us and in thinking about the confidence we have in achieving that 2% volume growth in the year.

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

I would also add, Henry, when you look at the tables in the back on MSW volume, if you net out some of the one-time things, we really look at that as being about a 3.5% to 3.7% increase in volume when you kind of normalize it versus the onetime issues. So all our volume fronts look pretty consistent and strong as we sit here.

Operator

There are no further questions. At this time, I would like to turn the conference back over to management for any closing comments.

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

Great. Thank you. So to conclude -- first, I do understand that Ron Mittelstaedt was not on his call this morning due to a family emergency. And Ron's a friend of mine, and I just want to say to Ron that we're thinking about him. He's definitely in our thoughts and prayers this morning.

Regarding the business, the last few years, and we've talked about it this morning, the last few years and our expectations for this year really demonstrate our consistency in managing our business. And we're producing what we consider to be excellent growth in all of our financial and operational metrics and very solid returns to shareholders, and I could not be more proud of this team for doing that.

Thank you all for joining us this morning, and we will talk to you next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference call. You may now disconnect.