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EDITED TRANSCRIPT

WM.N - Q1 2021 Waste Management Inc Earnings Call

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OVERVIEW:

Co. reported 1Q21 YoverY organic revenue growth of 2.1%. Expects 2021 revenue growth to be 12.5-13.0%.

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PRESENTATION

Operator

Good afternoon. Thank you for standing by, and welcome to the Waste Management National Services First Quarter 2021 Earnings Release. (Operator Instructions) Please be advised today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to Edward Egl, Director of Investor Relations. Sir, I give it to you.

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

Thank you, Holly. Good morning, everyone, and thank you for joining us for our first quarter 2021 earnings conference call.

With me this morning are Jim Fish, President and Chief Executive Officer; John Morris, Executive Vice President and Chief Operating Officer; and Devina Rankin, Executive Vice President and Chief Financial Officer. You will hear prepared comments from each of them today. Jim will cover high-level financials and provide a strategic update, John will cover an operating overview and Devina will cover the details of the financials.

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

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

John will discuss the results of the areas of yield and volume, which, unless stated otherwise, are more specifically references to internal revenue growth or IRG from yield or volume. During the call, Jim, John and Devina will discuss operating EBITDA, which is income from operations before depreciation and amortization. Any comparisons, unless otherwise stated, will be with the first quarter of 2020.

Net income, EPS, operating EBITDA margin and SG&A expense results have been adjusted to enhance comparability by excluding certain items that management believes do not reflect our fundamental business performance or results of operations. These adjusted measures, in addition to free cash flow are non-GAAP measures.

Please refer to the earnings press release and tables, which can be found on the company's website at www.wm.com for reconciliations to the most comparable GAAP measures and additional information of our use of non-GAAP measures and non-GAAP projections.

This call is being recorded and will be available 24 hours a day, beginning approximately 1 p.m. Eastern Time today until 5 p.m. Eastern Time on May 11. 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 1299110.

Time-sensitive information provided during today's call, which is occurring on April 27, 2021, may no longer be accurate at the time of a replay. Any redistribution, retransmission or rebroadcast of this call in any form without the expressed 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. It was said many times last year that 2020 was a year like no other. For many reasons, it was an incredibly difficult and trying year, yet our positive message internally was that great companies use tough times to better themselves, and that's precisely what WM did and the first quarter of 2021 showed that with an exclamation point.

We had an exceptionally strong start to the year as we kept our focus on those fundamentals that have always been great. Our people first, then our customers and then we focus on the details of our business, and that order inevitably produces the best results. In Q1, it sure did as we achieved record operating EBITDA of $1.16 billion and robust cash from operations of $1.12 billion.

Typically, during our first quarter earnings call, we reaffirm our full year guidance. However, as we view these strong results, in addition to our confidence in the transformative changes we're making to our business model and the fact that we have yet to see a full recovery in our critical landfill, commercial and industrial volumes, it became clear that we're on track to outperform our guidance from only 2 months ago.

Combine this with the broader economic trends and all indicators show that our full year revenue, adjusted operating EBITDA and free cash flow are on track to meet or exceed the upper end of the guidance ranges we provided in February. Devina will discuss our updated guidance, but it's safe to say we're very excited about our performance for the first quarter and we expect to show continued strength throughout the year.

We're seeing tangible benefits from the investments that we've made in recycling and renewable energy. In our recycling line of business, we've developed a model for all new plants which, with the addition of sophisticated technology, produces far better returns through a combination of added efficiencies, a higher quality of saleable material and less residual material for disposal at the end of the process, all while our basket of recycled commodity prices have climbed back nicely to historical average price levels.

Additionally, 3 years ago, we made the decision to close the loop between our natural gas fleet and the gas produced at our landfills by investing in the renewable energy business. We're now seeing those investments pay healthy dividends with approximately 2- to 3-year paybacks on our 4 plants, in tandem with greater stability and higher pricing in the renewable energy markets.

As we discussed last quarter, WM is also well positioned to leverage our ESG leadership, and particularly our focus on environmental sustainability to help our customers meet their own climate goals through recycling and other beneficial uses such as renewable energy generation.

We're in a unique position to help key stakeholders rise to the challenge. And we can do this while growing our business at the same time, collaborating with our stakeholders to find new ways to create value together. Continuing to integrate environmental sustainability into our strategic business framework for long-term sustainable and profitable growth requires a strong focus, which is why we've taken a step to dedicate a member of our senior team to this effort.

I'm pleased to announce that Tara Hemmer, Senior Vice President of Operations, will be taking this new role as Senior Vice President, Chief Sustainability Officer reporting directly to me effective July 1. With Tara's move, our Area Vice President leading the Greater Mid-Atlantic area, Rafa Carrasco, will be promoted to a member of the senior leadership team as Senior Vice President of Operations.

We've also launched a new exciting education benefit for our team members this month that will provide development and upskilling opportunities for our workforce. These changes underscore how the tenets of ESG are embedded into our broader business strategy.

As digital transformation sweeps across nearly every industry in the wake of the pandemic, we're making strides in differentiating our customers' experience through end-to-end digital transformation. Today, our customers can manage their relationship with us through online -- through our online WM -- My WM platform, which is connected operationally through our smart truck technology and supported by our customer analytics and data management tools.

Our newly automated setup process streamlines customer orders and accelerates the speed at which we can deliver on our commitments, while also reducing our cost to serve. These developments, combined with the continued growth of our e-commerce channel, give us confidence that our decision to accelerate technology investments was the right one, and we will emerge from the pandemic a stronger, more agile company.

In closing, I want to thank the entire Waste Management team for their hard work and dedication that has positioned us for a record-setting 2021. WM is well positioned to benefit from the continued reopening as more states and provinces emerge from the pandemic, and we expect our commercial, industrial and landfill businesses, our 3 most profitable lines of business, to benefit from further volume recovery and produce robust financial results with high incremental margins over the remainder of the year.

I'll now turn the call over to John to discuss our operational results for the quarter.

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

Thanks, Jim, and good morning. Before reviewing the terrific operating results that we achieved in the first quarter, I want to provide an update on the integration of ADS. Over the last 6 months, we've made significant progress on combining the 2 businesses, and we've been able to accelerate some of our integration plans.

The teams have worked tirelessly to make sure that this combination goes smoothly. And based on the success of the integration so far, we are increasing our synergy expectations to $150 million of total annual run rate synergies, $130 million coming from operating costs and SG&A savings and $20 million coming from capital savings.

For 2021, we now expect synergies of between $75 million and $85 million, all coming from cost savings. With approximately $15 million of annualized synergies captured in 2020, we expect to exit 2021 on an annual run rate synergy level of around $100 million. The remaining $50 million is expected to be captured in 2022 and 2023 from a combination of operating costs, SG&A and capital expenditures.

Now turning to our first quarter results. Organic revenue grew 2.1% as disciplined pricing and improved recycling results overcame modest volume declines. Pricing performance for the quarter was very solid with both core price of 3.4% and collection and disposal yield of 2.8%, outpacing our expectations. Notably, our commercial yield rebounded sequentially from 3.1% -- to 3.1% from 1.9% in the fourth quarter.

As economic reopening progressed during the first quarter, collection and disposal volumes improved again sequentially to a decline of 2.3% from 2.7% in the fourth quarter. In the first quarter, net new business turned positive, churn improved meaningfully to 8.2% and service increases expanded.

While volumes have recovered meaningfully from the second quarter of 2020 collection and disposal decline of 10.9%, as Jim pointed out, WM is positioned to benefit from further improvements in North American economies. For example, at the end of the first quarter, we have recovered about 72% of the commercial yards lost due to COVID, providing room for considerable improvement in commercial volumes as we progress through the year.

Similarly, our other highest-margin businesses, industrial and landfill, have volume upside opportunity as visibility into the economic reopening continues to improve and more event work is scheduled and completed.

Looking at the lines of business, we're making improvements with the help of a very [deliberate] pricing focus, residential, landfill and recycling, I'm happy to report that we have had standout in each of these areas during the quarter. Residential yield doubled year-over-year to 4.2% as we made strides to improve the profitability in this line of business. This is the highest residential yield we have achieved since 2008 and it showcases our success in demonstrating the value of our service and pricing it appropriately.

The increased yield drove operating EBITDA margins in the residential line of business to the highest level in the past 12 months despite still elevated residential container rates. Landfill core price was 3.2%, a strong result when you consider the impact of lower volumes related both to the pandemic and severe winter weather.

In recycling, operating EBITDA doubled year-over-year to achieve earnings that rank in our top 5 best quarters ever. These results are truly a reflection of our work to improve the business model while creating a sustainable solution for our customers and not simply the result of an increase in recycled commodity prices. While our other top recycling quarters had an average commodity price of $127 per ton, we achieved our strong first quarter results with a price of $79 per ton.

Finally, turning to costs. First quarter operating expenses as a percentage of revenue improved 130 basis points to 61.1%, demonstrating that we are maintaining our cost discipline as volumes recover. In the first quarter, we saw a 40 basis point improvement in our labor costs as we continue to manage overtime spending. We also saw efficiency improvements in both the commercial and industrial lines of business, which we were able to identify and capture as our investments in technology help make us nimble.

In closing, I want to thank the Waste Management team for the exceptional job they have done in managing our operations to position us for success in 2021.

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

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

Thanks, John, and good morning, everyone. As you've heard from both Jim and John, we had a fantastic start to 2021 and we forecast continued strength our business as local economies emerge from the pandemic. These strong results and our confidence in our outlook for the remainder of the year have led us to raise our full year financial guidance.

Revenue growth is expected to be 12.5% to 13%, with combined internal revenue growth from yield and volume in the collection and disposal business of 4.5% or greater. The increased outlook is underpinned by our disciplined pricing programs and strong outlook for continued volume recovery.

For adjusted operating EBITDA, we now expect to generate between $4.875 billion and $4.975 billion, a $100 million increase at the midpoint from our prior guidance. The improved outlook for adjusted operating EBITDA translates directly into incremental free cash flow, and we now expect that we will generate between $2.325 billion and $2.425 billion of free cash flow for the year.

Our team members on the frontline continue to deliver and the investments we are making in our people, technology and customer experience are generating strong results.

Turning to our first quarter results. Net cash provided by operating activities grew $355 million. The contribution from operating EBITDA growth accounted for a little less than half of that increase, with the remainder coming from lower incentive compensation payments and an increase in cash collections from customers, and favorable timing of some of our payables.

While we expect some of the timing differences experienced in the first quarter to reverse for the year, the remaining contributors to our strong cash flow from operations results position us for a very strong year.

In the first quarter, capital spending was $270 million, a $189 million decrease from the first quarter of 2020. Capital expenditures were lower in the quarter, primarily due to timing, but the timing of fleet purchases, which we had intentionally front-loaded in 2020 and steps we took in late 2020 to accelerate some of our 2021 capital given our confidence in the pace of volume recovery.

We continue to prioritize the investments in the long-term growth of our business, including recycling, renewable energy and technology investments that we have previously discussed. For the full year, we expect capital spending to be at the high end of our $1.78 billion to $1.88 billion guidance range as we invest in our business to support growth, reduce our cost to serve and extend our environmental sustainability efforts.

Putting it all together, our business generated free cash flow of $865 million in the first quarter. The operating EBITDA growth, lower capital expenditures and favorable working capital changes that I discussed drove the significant year-over-year free cash flow increase. This sets us up very well to achieve our increased free cash flow outlook. In the first quarter, we used our free cash flow to pay $247 million in dividends and allocated $250 million to share repurchases.

Turning to SG&A costs. SG&A was 10.7% of revenue in the first quarter. That's a 20 basis point increase over 2020. We remain focused on managing our discretionary costs, optimizing our structure for the ADS acquisition and using SG&A dollars to enhance our business. Our deliberate increased level of investment in technology as well as higher incentive compensation accruals are the driver of SG&A as a percentage of revenue being above our long-term target of less than 10% of revenue, but we are committed to ensuring we return to that optimized cost structure in the near term.

Our first quarter leverage ratio of 3.04x has improved from the fourth quarter due to our strong operating EBITDA growth. This leverage ratio remains well within the financial covenant of our revolving credit facility and right at the top of our long-term targeted range of 2.5 to 3x.

Our strong first quarter results and increased expectations for current year operating EBITDA and free cash flow, position us to purchase at least $1 billion of our shares in 2021, and at the same time, achieve our target leverage of 2.75x by the end of the year. Our capital allocation priorities continue to be a strong balance sheet, prudent investment in the growth of our business and strong and consistent shareholder returns.

With the strength of our collection and disposal business, expectations for continued recovery and improved market backdrop for recycling, effective cost control and even better-than-expected integration synergies from the ADS acquisition, cash flow converges conversion is strong. And as a result, we expect to increase cash allocated to shareholder returns from our initial plans.

In closing, it is imperative that we thank the men and women across the Waste Management team for their tireless efforts to serve our customers and communities each day. Our strong results are a testament to their commitment, and we're excited about what we will achieve together over the remainder of the year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is going to come from the line of Jerry Revich, Goldman Sachs.

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

Okay. Great. Really nice performance out of the gate here. I'm wondering if you could talk about, as you look at your employee footprint today and look towards recovery, what level of volume growth can the business absorb before we're back to adding headcount?

(technical difficulty)

Operator

(Operator Instructions) Our first question will come from the line of Jerry Revich with Goldman Sachs.

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

I'm wondering if you can talk about what's the magnitude of volume growth that your footprint can absorb off of the current run rate levels before we're back at having to add headcount. You spoke about reducing over time in the quarter and as we shift forward to recovery from here, I'm wondering if you could touch on how we should think about absorption from here in capacity.

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

Yes, Jerry. What I would tell you is if you looked at our performance throughout the kind of COVID volume slide, if you will, efficiencies improved. Throughout, obviously, as we mentioned, our management of over time certainly improved. And what that also did is helped us build some capacity in the system. So as we look at the rest of 2020 and what we've revised guidance to, we feel like we're in good shape to absorb that volume.

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

Jerry, I would add one thing here, too, which is about adding back labor. I mean there's a couple of dynamics here. One is that pretty much all U.S. companies are facing, large or small, is this temporary competition against the government for unemployment benefits, and that is having an impact on us. The good news for us is that we didn't lay people off from COVID. So if you did and you're trying to rehire right now, you're having a tough time. And we -- as you may recall, we guaranteed 40 hours last year when COVID first hit and said you're not going to lose your job because of COVID then. So that did help us. Not sure that we expected this unemployment benefit to continue as it has, but it did help us.

I think the other aspect of this is that we recognize that labor inflation is going to be around. It's been 5%-ish for our nonexempts for a couple of years now, and -- but we didn't anticipate this new competitor, being the government. We think that's temporary. Right now, I think it's scheduled to -- these unemployment benefits are scheduled to go at the end of July. They may have extended with the new package through September. But we'll use pricing from a kind of a macroeconomic standpoint to make sure that we manage volume. We don't need to take all new volume coming. We'll take the best of the new volume and we'll manage accordingly, John and his team will through the labor line, by using price to maybe tamp down some of that volume if we need to.

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

Okay. Terrific. I appreciate the color. And then as we think about where volumes are tracking for the first quarter, they're about 3% below 2019 level. So if that same trajectory holds in the second quarter, we should be looking at something like high single-digit volume growth. Is that consistent with what you're seeing through April? Can you just comment on whether that 2-year stack holds and if that's what we should be thinking about, the cadence in the second quarter?

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

Yes, Jerry, I think you [made] great. We've looked at 2019, we looked at 2020. And really, what we've done is looked at Q4 of 2020 to look at some of the sequential trends on volume. And that's really where I think we see or what we hear a level of confidence is. January and February were certainly challenging months, partly due to weather, partly due to just the comp year-over-year. Really happy with what we saw in March on the volume front and equally pleased what we're seeing in April. So while we've looked at 2020 and 2019, we've really focused on what the sequential improvement has been, and that's part of why you heard the message from us about how we feel about the balance of the year.

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

Terrific. And lastly, on the ESG side, obviously, some clarity for wind pricing now. Can you talk about to what extent you have the capability based on permitting to transition additional landfills to landfill -- gas-producing landfills that tie to the grid to take advantage of where wind prices are and what the cadence of the additions could look like over the next couple of years?

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

Yes. So we have -- as I mentioned, we have 4 plants. Now we have a fifth that would be coming online in 2022. That capital is being spent right now. That's in the plan. So -- that Devina mentioned. This is -- we believe it's a nice opportunity for us and it's made possible because of the fact that our fleets now -- we are -- almost at 70% of our routed fleet is CNG. And considering that, that includes the ADS trucks, which are at a much lower percentage, we think there's a couple of benefits there.

One is just the simple shift from diesel to natural gas is definitely a good shift for us. And then as you mentioned, the fact that we're able to close that loop between those natural gas trucks and the gas produced at our landfills. We like the investment. We started making those investments 2 or 3 years ago. They have -- at current pricing, they have really good returns. And I think you'll see us continue to do that as we're doing this year, and I expect we'll continue to do it next year.

Operator

Our next question will come from the line of Jeff Goldstein from Morgan Stanley.

Jeffrey Daniel Goldstein - *Morgan Stanley, Research Division - Equity Analyst*

On the new internal revenue growth guidance of 4.5% or greater, can you just help parse out what the breakdown of this figure is between yield and volume, and how that compares at all to your prior thinking around the recovery in terms of that mix?

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

Yes. So what we're looking at is what you saw in the first quarter, really strong performance on the yield side translating into strength for the remainder of the year, and that really being the catalyst for the upside on the total of 4.5% or greater. That being said, our initial outlook for volume was around 1.5% to 2%, and we're optimistic that we'll also be at the high end of that range. But outperformance to previous expectations at this point really is centered around strength in pricing and the outlook for continued strength over the rest of the year.

Jeffrey Daniel Goldstein - *Morgan Stanley, Research Division - Equity Analyst*

Okay. Perfect. And then just on the EBITDA margin guide for the year. If my math is right, the implied margin for the year is coming up a similar amount as the increase in the expected synergies from ADS. So is that fair? And should we assume that based on that, your other investment assumptions for the year are largely intact? Or just any other cadence of expenses we should be contemplating for the year?

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

Yes. When we looked at 2021 on a year-over-year basis, we knew we had some cost headwinds. And in particular, the second quarter had some cost headwinds for health and welfare specifically. We also expected incentive compensation to be a headwind for the full year, though that's even greater headwinds now because of our strong outlook for 2021 than we would have initially expected.

Our overall margin guidance for 2021 initially was as much as a 50 basis point improvement, you can see with the strong performance in the first quarter. We expect there could be some upside to that, though rather than update margins specifically at this point, we'd really like to see the seasonal results on volume because the contribution margin from that incremental volume is one of the important things for us to keep our eye on.

That being said, I think it's really important to step back and recognize that we started with guidance that could have been slightly backward at 20 basis points on a year-over-year comparison, both because of those comp headwinds and the integration of ADS. But then when we look at where we stand today, we're confident that we'll actually be at the high end of our expectations of 50 basis points. And that's certainly somewhat because of the ADS synergy capture, but it's also because of some stronger outlook on pricing that I mentioned earlier.

Operator

Our next question will come from the line of Hamzah Mazari with Jefferies.

Mario J. Cortellacci - *Jefferies LLC, Research Division - Equity Analyst*

Mario Cortellacci filling in for Hamzah. Maybe you could talk about how much room you have on the disposal pricing side. I think it's running in the high 2 range right now as volumes are recovering. And maybe you can speak about it just in context of what you guys were executing on and what the goal was prior to COVID-19 and how pricing on the disposal side had started ramping prior to the pandemic.

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

Yes. So landfill pricing, as you know, is always a top priority for us. MSW core price was strong for the quarter as were the other lines of business. I think an important distinction here is that several of these lines of business, specifically commercial, also as we've talked many times about recycling, have become somewhat fee-based. And so as volume increases, you see fees increase and those fees go to the price line.

So it's honestly part of why -- there's a number of reasons why we took the unusual step to raise guidance in Q1. But one of those is the strength that we're seeing in pricing. And of course, a second one is that when you think about volumes, and I mentioned it in my remarks, that volumes really have not recovered fully, especially in those 3 high-margin lines of business: commercial, landfill and industrial. John mentioned, they were starting to see really good green shoots in March and continuing into April on the volume front.

And then lastly, on reasons why we felt really comfortable with our guidance changes was that recycling is -- as John mentioned in his script, we're producing these great results recycling at average commodity prices. I mean $79 for that basket of commodities is right in the middle of our historical averages, whereas the other 4 quarters, we talked about the top 5 -- being the top 5 best quarters of all time in recycling, and yet the other 4 when we were up at $125, $127 on an average commodity price. We're now down at 79%, at least that's where we were for the quarter.

So all of those combined to give us real confidence going forward that we could raise guidance. But pricing and landfill pricing, in particular, we think are a strength for the quarter and will continue to be in the next couple of quarters.

Mario J. Cortellacci - *Jefferies LLC, Research Division - Equity Analyst*

Great. And then on ADSW synergies, just thinking about what the long-term revenue synergy potential is there. I mean prior to the deal, they were busy doing deals and building out their route density, and that more or less what was put on hold as the deal was going through. And then again, we got hit by the pandemic. But does that create more pricing opportunity for that particular business on top of what, I guess, was already baked into what their plans were? And any thoughts on that would be great.

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

Yes. We -- look, I think ADS will go through a similar price model that WM legacy goes through. So what we've really been focused on in terms of synergies is the cost synergies Obviously, with respect to ADS, just as with WM legacy, we're looking at the cost side of the business to see what do we have to do with pricing to make sure that we keep up with inflation.

Mario J. Cortellacci - *Jefferies LLC, Research Division - Equity Analyst*

Got it. And then if I could sneak in just one more. You had mentioned weather, and I don't know me if I missed it during the prepared remarks. Are you able to help quantify what the weather impact was on volumes in the quarter?

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

It's really difficult to specifically point to volumes. But what we looked at is basically a month-by-month view of our volume trends. And what we saw is a significant downward pressure in the month of February. Some carryover of that into -- or recovery of that, I should say, in March, but we don't know how much was true, recovery of volume lost in February versus just continued momentum as we see economic recovery from the pandemic. We certainly think that it's the latter, and we're optimistic that we'll continue to see growth based on what we are seeing in the month of April thus far.

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

I think it's fair to say, though, that it was not insignificant. I mean when we have to shut down the entire state of Texas for a week and shut down our Gulf Coast operations which are very important operations for us from a special waste standpoint, for example. We shut down our -- a lot of our operations in areas like Tennessee, I mean, that was shut down for almost an entire week. So it was not an insignificant impact. It's part of why the volume story is a little clouded for the first quarter. And then why John gave some details on what January and February look like versus March and April.

Operator

Our next question will come from the line of Walter Spracklin, RBC Capital Markets.

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

So I'd like to start just on -- obviously, you had a great quarter with -- from a cash flow generation standpoint, right, an indication that, that trend is continuing. Just curious how that impacts, how you look at M&A. Does that more dry powder make you more incented to look a little harder for M&A? Obviously, your experience here with ADSW is going very well. Or is it the case that you're kind of concentrated on the integration, you're preoccupied with that and M&A outside of any tuck-ins is -- any larger scale M&A outside of any tuck-ins is probably not in the cards?

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

Yes. I mean it's probably more of the latter. We are still very focused on ADS integration. But look, our -- what we're hearing internally is that there is quite a bit of interest probably driven as much as anything by the potential for tax law changes coming. And so I think you're seeing the pipeline starts to build a little bit. We, at this point, are saying bottom end of the range, the historical range of $100 million to $200 million, and that's what we said when we gave guidance back in February, and we're sticking to that right now.

Look, it's possible though, it's always possible that something comes along and it's too good to pass up. And I think what you'll probably see is that you may see that valuations actually -- it's really just a math equation. You might see valuations come down a little bit because somebody is looking and saying, "All right, my capital gain here is going to be pretty significant. And here's what the cost of that is at the higher capital gains rates. So I'm willing to come down a little bit in terms of my sales price." Don't know for a fact that that's what happens, but it wouldn't surprise me if that happens. But for us, right now, Walter, we're really focused on ADS integration. We're sticking with the bottom end of that range at $100 million.

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

That makes sense. Okay. And my second question here is on coming back to your contracts and how might the pandemic have given you an opportunity to get better yield without raising your core price. And here I'm referencing to structurally charging more or charging on a weight basis as opposed to a per household. But is there anything that you're looking at now that is allowing you to make a greater return on your contracts with your customers, commercial, residential or otherwise, that goes beyond just simply higher price?

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

Well, there really are a couple of dynamics taking place with price. If you set aside recycling and just talk about commercial, industrial and resi, if we talk about really commercial, I mentioned earlier that we're moving some of that to fee-based. And so that is a component of price, and it's an important component of price. And we think that, that has -- that's going to help and that has helped and will continue to help commercial and industrial.

And then on residential, John's talked about residential now for 2 or 3 years. And we really look at residential as being one of the real strong points for the quarter. The work that his team -- John and his team have done to get to the highest yield since 2008, a 4% yield has really been a success story for the company. And that's coming as much as anything through -- maybe not as much with fee-based as it's coming through contract renegotiation.

It might surprise you to know that that's not coming from some of the indexes going up. We actually saw a small amount of deterioration in that for the quarter. Now we do expect that, that -- we do expect that inflation will kick up a little bit, and so we'll get some help. And we're typically a beneficiary of higher inflation. But we didn't benefit in Q1 from that, it was really all -- almost all of it was just renegotiation of contracts. And factoring in to those contracts, the fact that we now expect wages to be a bit higher permanently because of the pandemic and because of somewhat of a permanent shift of some portion of the economy to a work-from-home environment.

But this was really all -- and then, by the way, there's also this ongoing move to a different index that's more reflective of our cost structure, which is a water, sewer, trash index away from a CPI index. And we're up to about -- about 40% of our overall business is index-driven and about 40% of that is now on a water, sewer, trash, which then equates to about 15% or 16% in total.

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

That's great color. Congrats on a good quarter.

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

Thank you.

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

Thank you.

Operator

And our next question is going to come from the of Tyler Brown with Raymond.

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

Jim, back at our conference, you talked about some pretty stark differences in the small container volumes in reopened versus not reopened markets. And I realize you may not have all the data right there at your fingertips. But can you just give us some flavor of how, say, like a Texas or Florida, small container track versus, call it, Ontario, Canada, just maybe something like that? I'm just curious to get a little more color there.

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

Right. So Tyler, the -- you're right, we talked about some of those states that were early in reopening like Texas, Florida, Arizona, Tennessee and how they were showing real nice signs of recovery, but how other states maybe not as much. The good news is that we're starting to see some of those states that were in the latter group reopening. California is a good example. We're seeing some reopening in California. We're seeing some reopening in New England. We're seeing some reopening in the Upper Midwest and Illinois.

I would say that right now, Tyler, the area that is still showing the greatest softness that has not come to the party yet, is Canada. It's mostly Eastern Canada. That -- I looked at the numbers this morning in fact, and still showing weakness in Canada. And it really has to do with the fact that they've remained shut down. We're still showing a little bit of softness also in New York and Michigan. But the number of areas that are in that latter group, the softer group is shrinking, and that's good news. And so I think I would add a couple then to the list that I gave you at your conference to just the Texas and Florida, we've got a few new entrants there that are helping.

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

Okay. Okay. That's helpful. But those Texas and Florida, are they tracking up in small container?

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

Yes. So I looked at Florida's number yesterday, and Florida looks great. I would tell you the only challenge there is on the labor side. It's that competing against somebody sitting on the couch. And so while we didn't have layoffs as a result of COVID, as the business grows, we have a need to add drivers, add technicians. We have a number of open recs there and I'm not going to tell you it's been easy to fill those.

But we do think that's temporary. We don't think those -- that we're competing against the government forever. We think it's probably third quarter when the government starts to realize that, that ultimately needs to go away, that there's enough jobs out there to fill without providing the added unemployment benefit. But yes, Florida is doing real well right now. But a lot of that hospitality is coming back in Florida. And I would say the same in Arizona, the same really in Texas, too.

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

Okay. That's helpful. And then Devina, so if I took the midpoint of the EBITDA guidance, I think the raise was about $100 million.

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

That's exactly right.

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

So I'm curious how -- yes, okay. So I'm curious how that breaks down. So it sounds like there's maybe 20 of additional ADS synergies, but then it sounds like there's a little bit of actually a drag on incentive comp. But basically, of the remaining, how much of that is simply commodities and how much of that is improving IRG?

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

Yes. It's a great question, Tyler. I think way that we're thinking about it, and you highlighted ADS, we're thinking about ADS as being an important component to the overall collection and disposal business. And the collection and disposal business with ADS synergy capture is over half of the expected $100 million lift in EBITDA, with a lot of that coming from expectations for stronger pricing, expectations for strong cost discipline and then there's a big offset for the incentive compensation that we discussed. So when you have about half of that related to strong solid waste, it's a really strong indication of the strength of those 2 indicators.

Then on the commodity side, we've got a combination of the recycling line of business and RINs. And on the recycling commodity piece, we have about $35 million there and about $20 million from RIN value.

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

Okay. So collection and disposal up, it gets completely offset by incentive comp, and then commodities is kind of the other piece, if I'm...

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

Yes. Not completely offset by incentive comp. It just takes away from the headline number for solid waste.

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

Okay. Okay. And then just I know there's been a lot of change with the fee-for-service change in resi. So what is a $10 sensitivity to a $10 move in the commodity basket, either in terms of EPS or EBITDA these days?

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

Yes, Tyler. On the recycling, I'm assuming -- I presume that's what you meant. So yes, I mean, you saw some of that in my prepared comments about an average rate in Q1 of 79% versus historical high averages in the mid- to high-120s. And as I also mentioned, we've doubled the EBITDA quarter-over-quarter for the year. So we're very happy there.

To answer your question specifically, I would say it's about 23% to 25% of that move or $23 million on $10, if you want to look at it that way. But what I would caution you by saying that, and I've made this comment on a number of these calls, again, that math is correct. It doesn't slide up and down the same way as it used to because, again, we've put floors in place an inbound customer standpoint. We've got better and secured outlets on the outbound side. I mean we're seeing strong domestic and export markets right now, which is really helping us on the outbound pricing side, and we've got more security around some of those rates.

So the math I gave you is right. At a point in time if commodity price went way far south, which we don't expect, we expect them to stay hanging there for the next handful of years, that math would change. But about $23 million for that $10 move is where we're at for Q1.

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

So in cents per share then, Tyler, it's about -- and within this band that John just described, this price band, it is about $0.04 for a $10 move.

Operator

And our next question will come from the line of Michael Hoffman with Stifel.

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

So can I tease out, Devina, a little bit more of Tyler's question. If we've got greater than 50% is benefited by the collection and disposal, so that's $55 million, and then there's $55 million from recycling and RINs, is the compensation number then just $10 million? I mean I just -- I want to get this right.

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

The compensation impact right now, our estimate -- and this can change based on our performance, the compensation estimate is a total of about $25 million. And so when you look at the solid waste piece, my comment was it's more than 50%. So we take the $55 million from commodity, the $25 million offset from incentive compensation, that gets you to $30 million. So you've got about $70 million at solid waste, and it's a combination of synergy capture from the ADS business and the strong performance from legacy WM.

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

Right, and that was the important part of it. So on the WM piece, that's about asset utilization, incremental price because you lowered your churn, improved your core. That's the -- it's a little bit of all those things sum up together, right, for that incremental...

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

That's exactly right.

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

Okay. And then, John, there was a question earlier about labor. I mean one of the things to caution everybody is you may make a decision to walk over time up not to add capital, drive more trucks at a higher rate and then add a truck at a high level of utilization instead of adding a truck at a lower level of utilization. We have to be careful when we look at the balancing out of some of those numbers, is that -- over time. Is that correct?

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

Yes. That's fair, Michael. I think what we've also learned through this is that as the volume really -- kind of the tide went out on volume, I think the team did really a good job from an asset utilization standpoint, And what we've learned is that we can [see] some efficiency gains to be made by shortening the work week, if you will, from 5 or 6 days to 4 or 5 days. And we worked pretty hard through the pandemic to make sure we flex down. And I think that's what you see in efficiency numbers, our asset utilization numbers, our labor numbers.

And then as we flex back up, to your point, I mean, that's going to reach a point where we theoretically have to add another truck. But to my earlier comments, because we created that capacity and we feel we've got some leverage certainly throughout this year to be able to take on those additional volumes without real big incremental costs.

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

Right. And it's things like let's not work half a day on Saturday, which is over time, you can get the work all done in 5 days kind of thing. That's the stuff you've kept?

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

Yes.

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

Okay. So at the end of last year or in fourth quarter, you gave us a number of -- the total number of customers that weren't open yet at the end of the calendar year. Where does that number stand today?

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

Is this the recovery of commercial collection that we talked about being at about 70% of the COVID losses? Is that what you're referring to, Michael?

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

Yes. So I -- and the distinction being a customer because if they could restart but have less volume. So I want to be careful of there's a ton issue, but there's also a customer -- once they're back on, that's revenue came back on, whether they came as full or partially full, I don't care, the revenue came back on. So I'm trying to -- so when you say the 72%, is it 72% of the not open physically or the tonnage?

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

It's -- Michael, we've referenced that 72% number, that's of yards lost and then yards recovered. So it's units.

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

Right, okay. But you still have a lot of customers that are -- go ahead, sorry.

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

Mike, we do think that there's a percentage of businesses that -- and we don't know what that is at this point, but there's a percentage of businesses that are going to be much longer in reopening. And so because this was such a unique event that we had never seen before, we don't know exactly how that -- how that reopening occurs. But we do know that there are some businesses -- and likely -- and to Tyler's question, likely in those states that were -- that took longer to reopen.

I mean Texas reopened at least partially on the 17th of May last year and then fully reopened later in the year in the third quarter. But some of the states stayed closed until 2021. And if you were a small business in Texas or in Florida or in Arizona, you probably were able to weather the storm. If you were a small business in Michigan or in Toronto, you may have -- you may still be having a tough time weathering the storm. So we don't know exactly what that -- how many of those customers actually just simply don't come back. There will be some amount there for sure.

But we are, by the way, looking a bit at -- I know a lot of industries are comparing to 2019. And because comparisons are going to start to get really quirky, they already are. I mean comparing to 2020 for any metric is difficult. I'll give you one number that's very encouraging for us, and that's the EBITDA number. It's part of why we were so excited about the quarter and about actually raising guidance.

When you look at 2019 EBITDA for WM legacy and you add it to kind of ADS legacy, you get something in the neighborhood of kind of 4.8 -- about $4.85 billion. And then you look at what we just adjusted to and it's $100 million above that. Keep in mind, that's not really fair to do that because we divested a bunch of ADS legacies. So -- but even if you don't count that, if you just say WM legacy '19 and ADS legacy '19, you're talking $4.85 billion, and we're $100 million above that and we have not gotten a lot of the volume back and we still have a lot of room to go in terms of ADS. So that's one of the many reasons why we were very encouraged with the quarter and very able to take that unusual step to raise guidance.

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

All right. And that helps a lot. And to follow your thought all the way through, you sold $100 million of EBITDA approximately. So you're really up net $200 million on the combination of the 2 companies and you still have room to go?

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

Yes, we did have to sell some. That's for sure.

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

Yes. Okay. John, you mentioned service intervals improved. So just to be clear, are you seeing -- this is a COVID customer restarting and then the interval improved or existing business and the interval improved, or a combination of all that?

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

We can say it's a combination, Mike. A couple of numbers. I mean service increases outpacing decreases. That's been the case for a while, but the gap is actually widening. So you can argue about what that points to. But overall, we've seen a good trend there. And the churn number. We always talked about what was structural out at churn number. We were at 8.2% for the quarter, down from 9% and change. So we view that obviously as a good indicator.

And then to my points earlier, Michael, about volume, in particular on commercial, it's hard to look at the January -- excuse me, the Q1 this year versus last year. But sequentially, when you look at Q4, and then I pan across January and February, certainly not strong months, partly weather, partly all the other stuff we've mentioned. But then I look at March and what the trends are into April and small containers, and we're certainly encouraged there as well.

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

All right. And then last one from me, and this is a little bit of an [on-site quarter]. I think the garbage industry has one of the greatest opportunities to influence Scope 3 emissions, which are downstream from you. It's your vendors, your suppliers. So on Paris Agreement, what is the opportunity there? Because I think your business model forces those suppliers and vendors to have to sort of change the way they do things to meet your needs.

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

Let me give you an example of where you're right on that one, the golf tournament. We have made the golf tournament zero waste now for 9 -- I think 9 consecutive years, maybe 10 consecutive years. And so we've taken a very -- we play a very influential role there with the vendors or with the fans coming in. And while it's not going to be identical to that, we certainly, to your point, can play an influential role in sustainability. And that's why we look at it as such a differentiator for us. It's why we felt that strongly about putting a senior level person in charge of it. But I think you're absolutely right about that, Michael.

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

All right. Well, nice job. In my 33 years, I can't remember the last time somebody raised guidance on the first quarter.

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

Thanks, Mike.

Operator

And our next question will come from the line of Sean Eastman, KeyBanc Capital Markets.

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

Strong start to the year. Congrats. Devina, you mentioned in the Q&A sort of not explicitly updating the margin guidance, you're sort of still keeping your eye on that contribution margin into the second quarter volume recovery. I mean what are the big puts and takes that you're really keeping your eye on there? And is it fair to say that you are feeling better about that dynamic now with the first quarter closed out strongly?

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

Yes, it's a great question. And I think we talked a great deal today about the biggest driver and that's the labor cost part of the equation. We certainly think that the efforts that have been put forth by the team to manage overtime hours and get those impacts not just on the service side, but extended through on the repair and maintenance side have been a tremendous value. We want that to continue to be a lever that produces the strong operating margin for the business, and we're optimistic about that. But we also know that there are flex points or breakpoints in the equation that happen when you add an additional route. And so that's what we're watching as we move forward from here with the growing volume environment.

Aside from labor, I think what's really important is that we can't forget that in our transfer and disposal cost and subcontractor costs, there's a lot of third-party labor costs built into those numbers as well. And so the theme that Jim has pointed us to a number of times today, about the labor pressure that exists across the board, that's something that we've seen in those costs and something we expect to continue into 2021. So 45% contribution margin is what we've talked about. We're encouraged that we think that, that holds, but we think that there could be upside from it. But the labor piece of the equation is really going to be the piece we have to watch.

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

Okay. That's really helpful. And then I guess, a more broad question. The cash flow generation performance measure in the stock incentive plan seems to imply that you guys are going to have over $4 billion of deployable free cash flow, in a sense, over the next 3 years. I mean, I think we have a good sense of capital deployment priorities for 2021 as you integrate ADSW. But there's a lot of dollars there and I thought I would check in to see if we could get a bit of a flavor on what's looking the most interesting as you look out over that 3-year horizon with all that capital.

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

Yes. So the first priority is investing in the long-term growth of the business, and that's something that we talk a great deal about organic growth through focuses in recycling and renewable energy have been places that we've said you could see some outpaced capital spending from us. So the current guide for 2021 incorporates our expectations for the full year in those programs. We just have yet to determine how much we could accelerate spend in 2022 and 2023 to cover incremental investment that could be worthwhile in those spaces.

I think the rest of the allocation really comes down to shareholder returns, continuing to grow the dividend over the long term in that 45% to 50% range on a payout ratio basis, and we measure that on free cash flow. So there's direct conversion from that free cash flow measure and the long-term incentive plan to award the dividend, which I think is a really strong indicator of how we think about the expected growth that can happen as we revisit that in the fourth quarter.

Beyond that, the statement that we made about at least $1 billion of share buyback in 2021 is an indication that when we don't see M&A being the place that we will spend that available dollar free cash flow, there is tremendous flexibility to allocate incremental dollars to the shareholders through share buyback. M&A, Jim touched on that, we'll continue to be sure that we're mindful of the opportunities that exist there. And if we see opportunities to provide outpaced returns relative to our other opportunities, we'll be well positioned to do that with the strong balance sheet that I mentioned.

Operator

Our next question is going to come from the line of Kevin Chiang with CIBC.

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

Congrats on a strong start to the year. I'm just wondering, as the economy opens, I think during the pandemic, just given all the government support for small businesses, I think that did cloud some of the analysis in terms of what bad debt could look like as companies came out of this.

And I guess as part of your business have come almost full circle, I guess, and some of this government support is being removed, is there anything playing out that was unexpected in terms of how you accrued for some of these bad debts? Or are things coming better or worse or maybe as expected?

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

I would say that things are recovering as expected. From a cash flow perspective, the really strong result that we had in the current year has to do with the headwinds that we experienced in the first quarter of 2020. In the first quarter of 2020, we were between $60 million and $80 million behind on cash flow because we saw our customers slow down their payments. We've seen really strong resilience from our customers. And I think our proactive steps to protect our customers, particularly small business through the pandemic, has paid dividends in that regard.

And so I will say we had really good results from a days sales outstanding and bad debt perspective in the first quarter. A little ahead of expectations. But all in all, I would say, more close to tracking than leading.

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

Okay. That's great news there. And then maybe just on the opportunities around the landfill gas capture. I know you spoke to this in your prepared remarks. But it does feel like there's more private capital flowing to this opportunity. Like I've seen, for example, a number of investment announcements around companies looking to partner with landfills on things like sustainable aviation fuel. Are you seeing the cost of capital come down on these kinds of projects? Or maybe conversely, is the ROIC improving? Just as a lot of other end markets look to reduce their own carbon intensity and looked at landfill gas captures maybe helping them achieve their own goals.

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

Yes, Kevin, on a third-party front, I'm sure there's plenty of dollars out there that are looking for a place to park in this space. But I think what's important is that the ones -- the 4 or 5 plants we have either in operation or that we've invested in, are showing some really strong results, and we're going to continue to look at those opportunities.

I think Devina said, how we finance is a different question. We have the balance sheet to be able to do that. We've got a fleet of 130 or so plants, a handful of those are the RNG plants. As Jim mentioned, we're closing the loop and fueling over half our fleet with renewable natural gas, which I think long term that is a great solution for us, and we've clearly got some runway to go before we even consume all of our capabilities to fuel our own fleet. We're happy with the space and the investments we have for sure.

Operator

And our next question will come from the line of Noah Kaye with Oppenheimer.

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

John, just looking at the $50 million of upsized ADS synergies targeted here, can you give us maybe the 2 or 3 big factors that are really driving that? Where are you getting greater savings than previously targeted? And then I think this will help investors understand what substantively you're actually doing here to improve the returns.

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

Well, certainly, you've heard us talk in the last few quarters, the integration has kicked off and has gone well. A lot of the elements of the integration risks seem to be going better than expected. We talked about data migration being kind of the long pole -- last long pole of the tent, that's coming along nicely as we're moving that information over to our system. That's important, Noah, because in order to get the routing synergies, the route consolidations, we need to have all the information in one database.

But specifically to your question, I mean, a public, public deal, we didn't -- you don't get the same look under the hood as maybe with a private deal. And once we dig under the hood, what we found is that the areas that are impacted are finding out that they can operate the business more efficiently than we even thought going into it. Secondly, I think on internalization and transportation synergies is another bucket where, again, once we got a look at some of that detail, we were able to drive out additional synergies.

And then lastly, really, on the supply chain side, even though we're facing a couple of headwinds on some commodity-related pieces, our supply chain group, once they got to look at the whole portfolio of spend there, has also been able to drive some additional benefit. So it's really efficiency in the business in the field, it's the internalization, the transportation and disposal internalization. And then lastly, it's really some of the corporate synergies around supply chain. Those are the 3 big buckets.

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

Okay. That's super helpful, John. And then I guess a question for Jim and the team broadly. I'm just curious to know how you're engaging so far with the new administration on some of the priorities they focused on in terms of climate pledges. They're clearly taking a whole government approach that includes EPA. Also, it's clear that waste reduction is, for some parts of the government, a focus as well. So just can you talk about some of the engagement that you've had so far in some of the focus areas for you as we kind of get in kind of almost, what, 1 quarter, all the way through the year of this first administration.

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

Well, so you mentioned EPA and that's where our engagement has been largely. We were -- we've been engaged with them for not just the quarter that the new administration has been in office, but for quite some time before that. But because of that engagement with them, we do know that there are changes coming through the EPA down the pike and we're prepared for those.

And I think the -- we've mentioned this before, but in an [off sort of] way, we believe we end up being a beneficiary of some of these changes coming from EPA because we've always held ourselves to a much higher standard environmentally. So to the extent that the bar gets raised by the new administration, it actually ends up being a benefit to us. The other areas, Devina has talked about the potential for tax changes and things like that. And so we're keeping up on that.

I personally have not had any engagement with the new administration, nor did I have engagement with the last administration. I guess they don't value our opinion that much, but that's okay. We're happy to fly under the radar.

Operator

And our next question will come from the line of Jeff Silber with BMO Capital Markets.

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

I know it's late. I'll just ask one, actually a follow-up from the last one. The president has proposed a pretty aggressive infrastructure program. I know there's some people thinking that may not all the spending be infrastructure-related. But I'm just curious from what you've seen so far, do you think there'll be any benefits to your company from -- if any things come to fruition?

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

Look, I think an infrastructure bill is going to be a positive for us any way you slice it. But there is a question about what the details of that bill are. I don't think anybody knows at this point. And is there still is a lot of [compete] that's going to need to take place within -- in Congress to figure out those details. So there could be an infrastructure bill that ends up being even better for us depending on the details of it. But any infrastructure bill is, I think, good for the economy and ultimately good for us.

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

Can you give some examples of what those details might be that could benefit you?

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

Well, so an infrastructure bill, for example, that focuses on road construction or bridges or big projects like that, that is -- that will -- we would certainly be a beneficiary of that. An infrastructure bill that focuses on a reduction in natural disasters, that's a much, much longer-term benefit. So I don't know that that's -- I don't know that the infrastructure spending that then in turn turns into fewer hurricanes is going to benefit us -- that's going to be harder to see, I'll put it that way. But certainly, infrastructure bills, as we think about airports, as we think about roads and bridges, all of that, we end up being a beneficiary both on the collection side of our business and the disposal side.

Operator

And our next question will come from the line of David Manthey with Baird.

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

One last cut here at the guidance walk, if I could. So you're saying the EBITDA guidance is up by about $100 million And I believe you're saying the compensation expense will offset pretty much the ADS synergies. So if we just set those things on the side, if your revenue midpoint is up by 2 66, EBITDA is up by $100 million, that looks like a high 30s kind of contribution margin. And what I'm asking here is it seems like if you're saying most of the revenue upside is coming from yield and commodities and growth in higher-margin segments, are you introducing a factor of conservatism here? Or is there another element we're missing?

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

We -- what I mentioned earlier about the cost headwinds that we know are coming, they were particularly strong in the second quarter 2021 outlook. And so our expectations currently are certainly that we could outperform on the margin side relative to where we stand today. But to build it in before we've seen the volume acceleration we thought would be not necessarily prudent based on where we stand. And we knew that $100 million lift in EBITDA from just 2 months ago was a really strong indication of the strength of the overall business. So is there upside? Potentially, but it would have to come from how we see the cost side of the equation flow through as we see volume returns.

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

But I think we're always -- you're always going to see this company, this management team and really even the industry be somewhat conservative. We're a fairly conservative company and industry. So to your question about conservatism, I mean, I would say you're always going to see us be fairly conservative.

Which is why, to Devina's point, it was such a unique event for us to raise guidance after just 1 quarter. I mean every time that I can remember, and I'm just about to hit my 20th year with the company, we've had a first quarter, even a really good first quarter, where we've just reaffirmed guidance. I think we did have 1 quarter where we lowered guidance after 1 quarter. But this is pretty unique for us to raise guidance. But with that said, we're always thoughtful about it and there is a level of conservatism in everything we do.

Operator

And our last question today is going to come from the line of Michael Feniger with Bank of America Merrill Lynch.

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

Okay, guys. I'll keep it very short. I mean, obviously, the industry has been more disciplined. You guys are talking about the focus on the price. We saw the improvement in churn. I'm just -- I'm wondering, Jim, as you see things open up and volumes do come up, it seems like maybe this reopening is getting pushed out a little bit. Based on the commentary in sort of April and May, maybe it's getting pushed out.

But when you do see the opening, are you going to see some small players that have kind of been struggling? Are they going to try to grab that volume? Do you have to walk away from some areas where you think it might get a little too competitive on that volume focus on the higher-margin areas? I'm curious how you're seeing that kind of play out when this reopening really does pick up more steam.

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

Yes. Michael, maybe a little bit. I mean, honestly, if you look at -- I talked about the improvement we made in the residential line of business. And we have walked away from some contracts there. And so I think you'll see some of that. I think you will always see us look at volume with -- look at it pretty carefully because not all volume is created equal. And so as we think about this reopening, as I said earlier, there may be some volume that we just simply elect not to take. And that might help us not only in terms of margin and in terms of operating performance, but it might also help our operations teams as they look at having to hire to accommodate that volume.

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

Yes, are you seeing that, Jim, in some of the places that have reopened? Maybe some of those mom-and-pops that have been struggling much more than you guys, are they starting to get a little competitive there as soon as you see some of these regions and states open back up?

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

Look, I don't -- it's a competitive industry. So there are always going to be -- there's no shortage of competition in our space. And I honestly, just anecdotally, I didn't see a whole lot of small businesses go away in our -- at least in our industry. So I don't necessarily think you're going to see a whole lot come back because those that were there pre-pandemic are still there. And it's a competitive space no matter who is competing.

So I think we do a nice job of -- the beauty for us is I think we're doing a really nice job of differentiating ourselves. So it's not just based on price. It's based on a service offering. It's based on this customer service digitalization that we've talked about. And that ultimately is what we look to differentiate ourselves and give us the ability to raise price so that we're not just staring at a commodity competition.

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

And Devina, just so we're clear because I might have missed this. Like obviously, April and May are -- the comps with the year-over-year with what happened last year. Like how are we thinking about this volume, the 2% volume number with the second half and Q2? Have you guys -- I might have missed this, have you framed any ranges of how to think about that easy comp in the second quarter, and then really the second half how that plays out?

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

Yes. It's a great question, Michael. Those estimates are really difficult to predict. But I would tell you our math at this point tells us that it's around 6% volume in Q2 and then closer to the 1.5% to 2% in the back half of the year.

Operator

That will conclude the Q&A session of today's call. I'd now like to turn the call over to President and CEO, Jim Fish.

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

Thanks, Holly. Just a quick ending comment, I just want to reiterate how much we appreciate. We now have 50,000 -- almost 51,000 folks here that have made a huge contribution to the success of this quarter and continue to do so day in and day out. So thanks to all of you for your contribution. And thanks to everyone on the call for joining us today.

Operator

Thank you for participating in today's Waste Management conference call. This call will be available for replay beginning at 2 p.m. Eastern today through midnight on May 11, 2021. The conference ID number for the replay is 1299110. The number to dial for the replay is (855) 859-2056 or (404) 537-3406. Thank you. You may now disconnect.
