29-Apr-2026

Waste Management, Inc. (WM)

Q1 2026 Earnings Call

CORPORATE PARTICIPANTS

Ed Egl
Vice President-Investor Relations & Financial Analysis, Waste Management, Inc.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

John J. Morris
President & Chief Operating Officer, Waste Management, Inc.

David L. Reed
Chief Financial Officer & Executive Vice President, Waste Management, Inc.

Tara J. Hemmer
Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

OTHER PARTICIPANTS

Jerry Revich
Analyst, Wells Fargo Securities LLC

James Schumm
Analyst, TD Cowen

Faiza Alwy
Analyst, Deutsche Bank Securities, Inc.

Trevor Romeo
Analyst, William Blair & Co. LLC

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Connor Cerniglia
Analyst, Bernstein Institutional Services LLC

Rob Wertheimer
Analyst, Melius Research LLC

Sabahat Khan
Analyst, RBC Capital Markets

Konark Gupta
Analyst, Scotiabank

Adam Bubes
Analyst, Goldman Sachs & Co. LLC

Toni Kaplan
Analyst, Morgan Stanley & Co. LLC

Tami Zakaria
Analyst, JPMorgan Securities LLC

Seth Weber
Analyst, BNP Paribas Securities Corp.

Shlomo H. Rosenbaum
Analyst, Stifel, Nicolaus & Co., Inc.

William Grippin
Analyst, Barclays Capital, Inc.

Kevin Chiang
Analyst, CIBC World Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by and welcome to the WM's First Quarter 2026 Earnings Conference Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] As a reminder, today's program is being recorded. And now I'd like to introduce your host for today's program, Ed Egl, Vice President, Investor Relations. Please go ahead, sir.

Ed Egl

Vice President-Investor Relations & Financial Analysis, Waste Management, Inc.

Thank you, Jonathan. Good morning, everyone, and thank you for joining us for our first quarter 2026 earnings conference call. With me this morning are Jim Fish, Chief Executive Officer; John Morris, President and Chief Operating Officer; and David Reed, Executive 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 David will cover the details of the financials.

Before we get started, please note that we have filed a Form 8-K that includes the earnings press release and is available on our website at www.wm.com. The Form 8-K, the press release, and the schedules to the press release include important information. During the call, you will hear forward-looking statements which are based on current expectations, projections, or opinions about future periods. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties are discussed in today's press release and in our filings with the SEC, including our most recent Form 10-K and Form 10-Qs.

Jim and John will discuss our results in the area 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 David will discuss operating EBITDA, which is income from operations before depreciation, depletion and amortization and accretion.

Beginning this year, landfill accretion expense was moved from operating expense to depreciation, depletion, and amortization, and accretion to enhance comparability and better reflect operating performance. For comparability purposes, 2025 actuals have been updated to reflect that change.

Any comparisons, unless otherwise stated, will be with the prior-year period. Net income, EPS, income from operations and margin, operating EBITDA and margin, operating expense and margin, and SG&A expense and margin 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 our earnings press release and tables, which can be found on the company's website at www.wm.com, for reconciliations to the most comparable GAAP measures and additional information about our use of non-GAAP measures.

This call is being recorded and will be available 24 hours a day, beginning approximately 1:00 PM Eastern time today. To hear a replay of the call, access the WM website at www.investors.wm.com.

Time-sensitive information provided during today's call, which is occurring on April 29, 2026, may no longer be accurate at the time of a replay. Any redistribution, retransmission or rebroadcast of this call in any form without the express written consent of WM is prohibited.

Now, I'll turn the call over to WM's CEO, Jim Fish.

James C. Fish, Jr.

Chief Executive Officer & Director, Waste Management, Inc.

All right. Thanks, Ed. And thank you all for joining us. The WM team again delivered strong quarterly results with earnings and cash flow results that achieved our expectations. What continues to set us apart is our ability to consistently achieve strong performance, regardless of external factors. Q1 operating EBITDA grew by nearly 6% compared to the first quarter of 2025, driven by solid performance in our Collection and Disposal business and further supported by growth in our sustainability businesses and ongoing optimization of Healthcare Solutions.

This momentum to start the year, combined with our proven operational execution and resilient business model, reinforces our confidence in achieving our full year financial guidance.

In the first quarter, our results clearly advanced each of our four strategic priorities for 2026. First, we grew our Collection and Disposal business, achieving 6.4% operating EBITDA growth, supported by our focus on customer lifetime value, operational excellence and network advantages. Our strategically positioned post-collection network is driving profitable MSW volume growth, while our technology leadership leads to differentiated services and lower costs. Additionally, our people first culture and disciplined approach to retention are driving meaningful improvements in safety, service reliability and operational efficiency.

As we look ahead, we continue to see opportunities for tuck-in acquisitions that complement our existing portfolio that we expect to close in 2026. Second, our sustainability investments continue to generate meaningful returns, underscoring the value of the capital we've deployed over time. In Renewable Energy, operating EBITDA more than doubled in the quarter, driven by the completion of seven new renewable natural gas facilities since the first quarter of 2025.

In the Recycling segment, even though pricing for single stream commodities declined 27%, operating EBITDA grew by 18%, as we realized automation benefits that lower labor costs and higher quality material and processed 9% more volume. In 2026, we're on track to substantially complete the sustainability capital expenditure program we laid out in 2023.

Third, in Healthcare Solutions, we continue to advance the business towards scalable, accretive growth. While revenue was impacted by volume losses from last year, effective cost management and synergy capture drove operating EBITDA growth of nearly 12% in the quarter. Importantly, we expect an inflection in revenue growth in the second half of 2026 as the ERP is stabilized and the benefits of our integrated offering become more evident.

And finally, turning to capital allocation. Our strong operating performance translated into significant free cash flow generation with Q1 free cash flow of $920 million, nearly doubling from the prior year. This enabled us to return about $730 million to shareholders through dividends and share repurchases.

As we close out the first quarter, our performance reinforces both the strength of our strategy and its alignment with the long term trends shaping our business. We're delivering consistent results in our core operations, realizing returns from years of disciplined investment in sustainability, advancing Healthcare Solutions towards scalable growth, and pairing that execution with a thoughtful, shareholder focused approach to capital allocation.

As we've progressed through 2026, we're well positioned to continue to produce strong results and harvest the benefits of our investments. I want to thank our employees for their continued dedication and hard work.

Now, I'll turn the call over to John to discuss our operational results.

John J. Morris

President & Chief Operating Officer, Waste Management, Inc.

Thanks, Jim, and good morning. The first quarter once again demonstrated the strength and resilience of our operating model and the progress we continue to make in optimizing our business. Despite a softer volume environment driven largely by winter weather impacts and the absence of last year's wildfire-related volumes, we delivered strong financial performance by remaining focused on disciplined price execution, technology enabled efficiency and cost control. This is clearly visible in our Collection and Disposal business, where we delivered operating EBITDA growth of more than 6% year-over-year, with margin expanding approximately 110 basis points. From a cost perspective, our focus on operational excellence continues to drive meaningful results.

Operating expenses as a percentage of revenue improved 70 basis points and came in below 60% for the fifth consecutive quarter, underscoring the durability of the structural changes we're making across the business.

Automation and technology continue to help us flex costs and drive efficiency as volumes fluctuate. As an example, whole dollars repair and maintenance costs were actually lower year-over-year and improved by approximately 30 basis points as a percentage of revenue.

This improvement reflects innovative solutions and disciplined fleet actions, including the use of augmented reality tools to improve technician efficiency and continued benefits from right-sizing the fleet. Together, these initiatives are improving asset utilization and delivering sustainable cost savings.

Equally important, our people first approach continues to show up in our results. Total driver and technician turnover, both voluntary and involuntary, remained low at 17.2%, improving 130 basis points year-over-year. This strong retention supports safer operations, higher service reliability and greater efficiency across the business.

And notably, our first quarter safety performance was our best ever Q1 performance for safety related incidents, which is particularly impressive given the challenging winter weather conditions. Together, these results reflect the engagement, consistency and dedication our teams bring to executing our strategy every day.

Turning to the top line, pricing execution remained strong. Each of Collection and Disposal's core price of 6.3% and yield of 3.9% exceeded our expectations, with pricing dollars up year-over-year.

Core price growth in our commercial and landfill lines of business each exceeded 7.5%, reflecting the value of our service offerings, consistent execution in the field and focus on price to cost spread.

Shifting to volumes, we began the year softer than expected with about half of the shortfall in Collection and Disposal volumes driven by severe winter weather. We did see several areas of underlying strength and stability.

MSW volumes were 2.7% and special waste volumes were 6.7%, when excluding wildfire volumes from the prior year. Industrial collection volumes returned to modest growth in the quarter, supported by continued internalization of solid waste from Healthcare Solutions customers.

While volumes were a headwind early in the year, we expect improvement from seasonality as well as the lapping of a couple of larger low-margin contract losses in the balance of the year.

In Q1, our energy surcharge program recovered the increase in both direct and indirect fuel costs, we saw in the first quarter. Higher revenue from fuel recovery created a 20 basis point drag on operating EBITDA margin. Putting together these pieces on pricing, volume and energy surcharges, we expect to achieve our full year revenue guidance in 2026.

Turning to Healthcare Solutions, we continue to see the benefits of integration into our core operating structure. Operating EBITDA margin improved by 200 basis points in the quarter, while SG&A costs decreased roughly 20% year-over-year, reflecting disciplined, operational alignment and the benefits of WM's integrated business model.

We remain on track to achieve a run rate of $300 million of total synergies at the end of 2027, with results reflected across all of our business segments. So, in closing, I want to thank our teams for their continued focus, discipline and commitment to serving our customers. The strong start to the year reinforces our confidence in our strategy, operating model and ability to perform consistently in a dynamic operating environment.

And with that, I'll turn the call over to David, to walk through our financial results in more detail.

David L. Reed

Chief Financial Officer & Executive Vice President, Waste Management, Inc.

Thanks, John, and good morning. We are pleased with our strong start to 2026, particularly when looking at the drivers of our first quarter operating EBITDA margin expansion, which reflects solid contributions from across the business.

The Collection and Disposal business expanded margin by 110 basis points, driven by strong pricing and our success using technology and automation to reduce costs. This growth includes the 20 basis point headwind, John mentioned, from the impact of higher fuel prices.

Our Recycling and Renewable Energy businesses together contributed approximately 50 basis points of margin expansion, reflecting accretive growth from investments in renewable natural gas facilities and Recycling, automation and new market projects.

Healthcare Solutions contributed another 20 basis points of margin expansion due to effective cost management and synergy capture. These contributions were partially offset by 40 basis points of increased spending on technology initiatives and 70 basis points related to higher cost and timing related impacts from incentive compensation and employee benefit costs.

The strong execution translated into robust cash generation. Operating cash flow was $1.5 billion in the quarter, an increase of nearly $300 million compared to the first quarter of 2025. The increase was driven by working capital improvements and our strong earnings growth.

Capital expenditures totaled $650 million in the quarter, including $61 million directed to sustainability growth investments. Capital spending was approximately 22% lower year-over-year, as expected, reflecting normalized spend on collection vehicles and lower sustainability capital as several projects reached completion during 2025.

Combining all of this, first quarter free cash flow nearly doubled to $920 million, putting us on track to achieve our full year guidance. As Jim mentioned, we allocated the majority of our free cash flow to shareholder returns in the first quarter. We returned $385 million to shareholders in dividends, and we resumed share buybacks repurchasing $344 million of our shares.

Our leverage ratio at the end of the quarter was 2.94 times, returning to within our target range of between 2.5 and 3 times. Our effective tax rate was approximately 18% in the first quarter, lower than planned, driven largely by the benefit of production tax credits related to our renewable natural gas business.

During the quarter, the IRS clarified the qualification for these credits, and we now expect to realize benefits during the next several years, another value-add from our strategic decision to grow our renewable natural gas portfolio. That benefit is approximately $27 million for the 2025 tax year and $30 million to $35 million annually from this year through 2029. As a result, of receiving 2025 and 2026 production tax credits, we now expect the full year effective tax rate of approximately 23% in 2026.

In closing, I want to thank the entire WM team for their continued focus and execution. Their dedication has driven a strong start to the year and positions us well to deliver on our full year financial guidance. Through our disciplined approach to operations, capital allocation and investment, we remain confident in our ability to create long-term value for shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Certainly. And our first question comes from the line of Jerry Revich from Wells Fargo. Your question please.

Jerry Revich
Analyst, Wells Fargo Securities LLC

Q

Yes. Hi. Good morning, everyone.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Good morning.

Jerry Revich
Analyst, Wells Fargo Securities LLC

Q

Hi. I just want to unpack the really strong margin performance despite the lower volumes in the quarter, really nice price cost. As we think about the volume cadence over the balance of the year, can we just double click on what gives us confidence that volume trends will be better in the back half of the year? Can we just expand on how you would quantify the weather impact? And I don't know, if you want to talk about it month-by-month or just give us more visibility on that point?

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Yeah. Go ahead, on the margin piece, David.

David L. Reed
Chief Financial Officer & Executive Vice President, Waste Management, Inc.

A

Yeah. Just in terms of the margin trajectory for the back half of the year, I mean, you do know that Q2 will be a tough comp for us with the wildfire volumes. But we do expect EBITDA margin to lift nicely from there in the second half and follow a pattern similar to what we saw in 2025. And we had, obviously, a strong start to our pricing plan for the year and that also gives us confidence with the margin trajectory.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

And then, Jerry, as far as volume goes for the remainder of the year, I mean, if – first quarter, because of the weather impact, and look, we don't normally talk about weather because it happens every year, but this year in particular, along that East Coast, three feet of snow in Boston is, I don't think they've had that in 15 years. So, it did impact us and we had a number of facilities that were shut down.

John can tell you the more direct numbers, but I think some of our facilities were shut down for as many as 10 days, including, by the way, our Stericycle facilities that were shut down. So, it did have a significant impact on volume.

As we look at volume going forward, there's a couple of things that give us reason to be optimistic, specifically, and John mentioned it, special waste, which we knew was going to be a difficult comp, because of Southern California fire volume last year, including the fire volume, it was down, I think, about 1.5%, but excluding it, as John mentioned, it was actually up 6.7%.

And the reason that's meaningful is because it gives us an indication of what special waste will look like, what's the pipeline look like, and what will they look like? What are the special waste volumes look like when we anniversary this fire volume, which is for the most part at the end of Q2.

We did get some fire volume in Q3 in the month of July, and then it almost all went away at the end of July. So, we will get to a clean year-over-year for special waste by the time we get to the month of August. And this gives us a bit of an indication that that special waste volume should be pretty strong for 6.7% is a pretty decent number.

And then John also mentioned MSW volume, just looked at the numbers for last week. MSW volume was over 4% positive for us. So, that's a positive for us. And then the other one that I would mention is industrial volumes, which have finally shown a reversal of probably a six or seven quarter trend.

We've been negative on roll-off volumes for at least, kind of, a year and a half. And we finally got to a point where we're showing it was, I think, the real number was like 0.2 positive. So, it was just slightly positive. And last year was, like, 1.5% negative.

So, I think, we're fairly encouraged with volume numbers. Are we going to hit our guidance for the year? Don't know. And we'll give – we'll really take a refresh of our guidance numbers at the end of Q2, but we are encouraged with what we're seeing on the volume side.

Jerry Revich
Analyst, Wells Fargo Securities LLC

Q

Okay. I appreciate the color. And then just to unpack the comments about the tough margin comp, and David, I think, normally you folks are up somewhere around 150 basis points to 200 basis points margins 2Q versus 1Q, and given the weather that we just stepped through, it does look like you should be in a position for good year-over-year margin expansion in 2Q, even with the tough comps from wildfire standpoint, just given the run rate in 1Q, I just want to make sure we're on the same page with you and not missing any moving pieces in the 1Q results as we think about the normal seasonality for 2Q.

John J. Morris
President & Chief Operating Officer, Waste Management, Inc.

A

Yeah. Jerry, I would tell you, it's John, I think, the outsized impact of the wildfires in Q2 is really worth noting again. I think, the revenue number was 85-ish million dollars and probably strong flow through on that EBITDA.

So if you take that out, what I would point you to if you look back in the tables, you can see whether it's Collection and Disposal, Recycling, Renewable Energy, Healthcare, you can see the margin improvement in Q1, but I think net of the fire headwinds, I think, we're going to see good margin improvement in Q1 and Q2, but it will be muted. It will be muted somewhat by that, that volume not repeating in the landfill line of business.

Jerry Revich
Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you.

John J. Morris
President & Chief Operating Officer, Waste Management, Inc.

A

Sure.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

[ph] Brian? (00:20:46) Is [ph] Brian (00:20:47) up next?

Q

Hi. Good morning.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Here we go.

Q

Can you hear me?

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Yes, we can hear you now.

Q

Okay. Yeah. Good morning. Thanks for taking the question. Yeah. Overall, really strong margin expansion in the quarter. You know, the only item that sort of jumped out at us in a negative way was just the magnitude of the increase in corporate expense. I think, you had been flagging that that was going to be up because of some technology related investments. Just curious if the level of increase in 1Q is, sort of appropriate for 2Q or if maybe we think about that sort of moderating throughout the year.

David L. Reed
Chief Financial Officer & Executive Vice President, Waste Management, Inc.

A

Yeah. Thanks for thanks for the question. Like you said, we did expect Q1 to be a tougher comp in this segment. And I'll break it down into two pieces. There was a health and welfare cost aspect to an unusually favorable Q1 last year. So, it had some one time benefits. And so, that made the year-over-year comp a bit difficult. We also had higher annual incentive compensation and annual wage increases along with the increased technology costs that you mentioned.

And those costs are to support strategic initiatives of other – that benefits other segments. And so, if you look at the overall performance of those other segments, I think, you're seeing some of the returns on those investments. In terms of your question about kind of the cadence for the rest of the year, it – Q1 is indicative. It's a normalized, kind of rate for the remainder of the year. It's pretty flat throughout the rest of the year at that level in Q1.

Q

Okay. Understood. Thank you. And then just, John, you mentioned some surcharges for rising fuel costs. Do you anticipate any drag on EBITDA in 2Q given maybe potential timing differences between rising costs and surcharge implementation? Or is this sort of happening in real time?

John J. Morris
President & Chief Operating Officer, Waste Management, Inc.

A

It's almost real time, [ph] Brian. (00:22:44) [indiscernible] (00:22:44) there's a little bit of drag. We said 20 basis points on the margin side, but based on the way our billing cycles work you said it's about a month lag, but it's really from an EBITDA standpoint it's not going to be anything material.

Jerry Revich
Analyst, Wells Fargo Securities LLC

Q

Okay. Got it. Thank you. I will turn it over.

Operator: Thank you. And our next question comes from the line of Jim Schumm from TD Cowen. Your question please.

James Schumm
Analyst, TD Cowen

Q

Hey, good morning, guys. I'm just looking at the solid waste volumes up quite a bit and transfer station volumes down. What's driving that? Does that have something to do with WM Healthcare?

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

No, Jim. It probably, the transfer volume honestly that's is probably as much about the northeast and the weather. I know that in – for instance, in the New York metro area, there was obviously significant impact in – due to the weather. So, that's really what's driving the transfer volume not the Healthcare business.

James Schumm
Analyst, TD Cowen

Q

Okay. I see. And then, on the Healthcare business, can you just give us a sense of you talked about some customer credits in the past and just what did that look like in Q1? What does it look like in Q2? How's that trending?

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Well, so we knew that customer credits, we said they peaked in Q4, which they did. And then fell off a little bit in Q1 and Q2. And then they will really reverse when we get to Q3 and Q4. So, the year-over-year comp becomes quite a bit different, quite a bit easier in Q3 and Q4.

I think overall, Jim, as I look at the Healthcare business, it's really turning out to be exactly what we hoped it would be, with EBITDA improving by almost 12%. We were better than our own business plan by about 3%.

And just about everything we look at, whether it's pricing which we did say back last quarter that the year on the top line was largely going to be about price, not about volume. The volume would be negative. And that was a – mostly a function of losing, I think, we projected to lose three hospitals. We actually only ended up losing one. So, that was a real positive for us.

I think, the reason we only lost one is, because our customers are now getting a very payable invoice. And so, all the work that continues to happen by the way we're still working on ERP, but all of that is behind the scenes. And so, it's kind of invisible to the customers. And that's a real positive for them.

So, the ERP is progressing. But what we really wanted to make sure was that it was not visible to the customer. And then we would continue to do the technology work, the systems work and the process work, which is ongoing.

We think a lot of that will be done by the end of the year. Some of it will carry over into next year, but my biggest concern was with the customer and now the customer is getting a good bill. So, that's why I think we only ended up losing one of the three hospitals.

And then, I guess, as I think about – you didn't ask about the cross-selling or synergies, but I'll go ahead. And as I'm talking about WM HS, cross-selling has been a positive for us. We had two big cross-selling closes for the quarter.

That kind of benefited – half of it benefited Healthcare Solutions, half of it benefited Solid Waste. Pricing is right on track, it's where we thought it would be. And that's a good thing. And we think pricing continues to improve even as we get into the rest of the year.

Synergies are at or even potentially ahead of plan. We're moving fleet maintenance in-house. That should be a positive on the cost line. So, I think, overall we're very pleased with this. And you mentioned the Credit Memos.

I mean, look, I think, the – that in large part was in Q4 was really kind of cleaning up the mess from prior periods and that mess is, should for the most part. I mean, we will always have credit memos. We have credit memos on our regular business, on the Solid Waste business.

But if you look at things like DSO down 14 days, that is a major, major change for us. If you look at past due receivables, down by two-thirds, I mean, the balance has come down two thirds over less than a year. So, all of those are positive signs and we think that the Healthcare Solutions business is shaping up to be exactly what we hoped it would be when we bought it.

James Schumm
Analyst, TD Cowen

Q

Great. And Jim, since you brought it up on the synergies on the path to $300, like roughly where are you now? Are you in $130, $140 or where are you?

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Well, so the total number, which we think, we said would be $300, and I think, $50 of that was cross-selling benefits. So, and as I said, we're on track with that number. And you could argue that maybe we're even ahead of that number a little bit.

Right now, we're targeting $300 still, but we think that potentially we could end up ahead of that number and maybe as high as $325.

James Schumm
Analyst, TD Cowen

Q

Okay, great. Thank you very much.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Yeah.

Operator: Thank you. And our next question comes from the line of Faiza Alwy from Deutsche Bank. Your question please.

Faiza Alwy
Analyst, Deutsche Bank Securities, Inc.

Q

Yes. Hi. Thank you so much. So, I wanted to ask what you're seeing from a Recycling commodity pricing perspective. Just given higher oil prices, I'm curious if you're expecting an improvement in those prices and if you could help sort of frame that for us in terms of upside. I know you're typically hedged. So, just want to understand potential upside to revenue and EBITDA.

Tara J. Hemmer
Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

A

Sure. This is Tara Hemmer. We were pleased with where we exited the quarter. March was at about $69 a ton. And as you recall, what we guided to was $70 a ton. So, we feel positive about where that's heading. Two things I just want to point out. One is about 80% of our commodities, stay domestic between the US and Canada, but we do have some exposure to what's happening globally, which really is about freight disruptions, given what's going on in the Middle East. So, we have no qualms about demand for our products. It's really about us tracking what those freight costs might look like. And that's going to be really a function of how long this goes on in the Middle East. So, that being said, we feel really positive about the $70 a ton that we guided on. We'll give more of an update in Q2 on where we think it could head up or down.

Faiza Alwy
Analyst, Deutsche Bank Securities, Inc.

Q

All right. Thank you. And then just to follow up on the Healthcare cross-selling opportunities, could you frame for us how much of the improvement that you're seeing on the industrial volume side is kind of related to the cross-selling benefits and kind of how much better are you doing relative to like the underlying market there?

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

That's a good question. I don't know that I know the answer to that. So, we'll have to get back to you on how much of that cross-selling actually impacts the industrial line of business. I can tell you that the number in terms of an annualized EBITDA benefit was about $27 million from cross-selling. But I can't – I don't know offhand how much of it was in the industrial line of business.

Faiza Alwy
Analyst, Deutsche Bank Securities, Inc.

Q

Understood. Thank you.

Operator: Thank you. And our next question comes from the line of Trevor Romeo from William Blair. Your question please.

Trevor Romeo
Analyst, William Blair & Co. LLC

Q

Morning. Thank you for taking the questions here. I wanted to ask one on collection disposal pricing. I think, you said both core price and yield were coming in a little bit ahead of what you'd expected. So, maybe first, where are you kind of seeing pricing stick a little better than you thought? What are the drivers of that? And then if you think about CPI maybe starting to trend higher, we'll see what happens with the Middle East and maybe it takes a while for some of your contracts to reset, you know, higher CPI, but [indiscernible] (00:31:03) thoughts on ability to price, to get into a little bit of a higher inflationary environment. Could we see those, pricing and spread metrics sort of move up, maybe moving into 2027?

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Sure. So, the – I'll take the second part of your question first on CPI, we tend to say that there's about a two-quarter lag, one to two quarter lag on the adjustments for CPI. So, as CPI trends up, which it has a bit that is tends to be most of our resets there in terms of price and about I think about 40% to 45% of our total revenue is based on an index. And those indexes tend to reset on a quarterly basis. And it often takes two quarters for that reset to take place.

So, any movement in CPI that we would have seen in Q1 probably won't have much of an impact on us, until we get to the back half of the year. So, that's the second half of your question.

The first half of your question is really about price as a whole. Two of the lines of business that – I think, first off, everything was on track for us with two exceptions, which are resi and MSW. And those were actually ahead of our expectations. Resi yield was up 110 basis points versus Q1 of 2025, and yield was 6.3%.

That's really strong for residential. We've been talking about residential for quite a long time as we've really tried to pare down some of the unprofitable business there. And so, that is certainly part of that exercise.

MSW was another – MSW might have been the single most impressive performer for the entire quarter, both on the volume line and on the price line. MSW yield was 6.9%. I think, what you're seeing with MSW yield, and this takes place slowly over a period of years. We talked about it last June on Investor Day, but as you see landfill capacity slowly come offline for the industry, or some of it doesn't come offline, but it moves to more center of the US locations away from these big cities.

But as you see that happening, we end up in a better position, because our lives – our landfill lives are a bit longer than the rest of the industry. And it gives us the ability to raise price to preserve airspace, really. And that's what you're seeing with MSW going up by 6.9% is a bit of cost recovery, but also, airspace preservation. So, those were both surprises to the upside, the rest were pretty much on track.

Trevor Romeo
Analyst, William Blair & Co. LLC

Q

Okay. Thanks, Jim. That is helpful color. And then I would love to get either maybe your perspective or John's perspective on AI and new technologies. Obviously, WM has been leaning into automation for a long time at this point, but just in terms of AI, there's a lot of hype out there. So, would love your views on whether there are any new tools you're looking at that could accelerate your efficiency going forward? Thank you.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Yeah, that's a good question. I think, obviously, we've spoken to where we've embedded technology into the business, right. And a lot of what we're doing in the Recycling facilities that Tara and team have talked about with AI and robotics and automation, what we're doing from a routing and logistics perspective with the now call it 19,000 trucks we have on the street with the Healthcare business.

And by the way, worth noting that a lot of the technology benefits that we're seeing in our traditional Collection and Disposal business are yet to show up in the Healthcare business, so we see some other upside there. But I would tell you, we still feel like we're in the early innings in terms of our ability to embed technology to drive not only efficiency, but if you think about things like making these jobs more palatable, look at our turnover at 17-plus-percent. That's the lowest it's ever been. I think, part of it is we're changing the scope of these roles and making them less labor dependent, if you will.

If you look at our safety results, I mentioned in my earlier comments that those are – that's the best Q1 safety numbers we've posted. And part of what's helping us do that is we're using AI as one example from a coaching perspective with the 20,000 plus drivers we have.

So as much benefit as we've seen that's showing up in our OpEx numbers and our Collection and Disposal margins, I think, we still see a good bit of runway there to continue to accelerate those investments.

Trevor Romeo
Analyst, William Blair & Co. LLC

Q

That's great. Thank you very much.

Operator: Thank you. And our next question comes from the line of Noah Kaye from Oppenheimer. Your question, please.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Well, that last question took a little bit of the thunder, but I'm going to continue on the same thread, John. We're sitting here with risk management at 1.5% of sales, which is very good. But we think about that as a lagging indicator of safety performance. So, just how sustainable are kind of some of these gains on safety in your view? Could we get further benefit? And then how should we think about that translating to kind of risk management going forward?

John J. Morris
President & Chief Operating Officer, Waste Management, Inc.

A

Well, [ph] I think, Noah (00:36:23) what I would tell you is this is not something that happens over a quarter or two or a year. I think, what you've seen is slow and steady improvement in our safety results. And to your point, you're starting to see it show up in the risk numbers over time. So, while we're – I think our recordable injury rate for the quarter was about 2.7%, it was under 3%, which is a big milestone for us. We still see plenty of opportunity with respect to that. And I think to your point, it's going to translate to our risk going forward in a positive way.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Thanks, John. A question on Renewable Energy segment contributions, maybe for David or Tara. Just you had the projects come online, but how did sort of the mix of lower RIN and higher energy commodities impact results in the quarter?

Tara J. Hemmer
Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

A

Well, if you look at the quarter, we doubled – almost doubled our Renewable Energy production from our renewable natural gas plants, which was excellent and what we were anticipating coming out of 2025 with the plants that had come online in that year. We didn't have any new plants come online in Q1. We expect three more to come online in Q2 and then the rest of them in the back half of the year. We did see higher pricing, and that is a testament to what the team has been able to do locking in volumes. And we are now 80% of our volume is locked in for the year. That's up from 60% when we announced guidance in January. So, really pleased with our performance, how we're tracking and seeing the benefit of some higher commodity prices, too.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thanks. Just one quick one for David. I just may have missed the exact answer before, but the weather headwinds in the quarter, I think, you said those were half of the delta on volumes. Was that basically half of the

1.5% volume decline or kind of half of the delta versus what you'd originally thought on volumes? I just want to clarify.

David L. Reed
Chief Financial Officer & Executive Vice President, Waste Management, Inc.

A

It's half of the 1.5%.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thanks very much. I'll turn it over.

Operator: Thank you. And our next question comes from the line of Connor Cerniglia from Bernstein. Your question, please.

Connor Cerniglia
Analyst, Bernstein Institutional Services LLC

Q

Great. Thanks so much for having me. I know, we already had a question on AI investments, but I just wanted to follow-up. Others in the industry have talked about some of the benefits they've seen from a pricing standpoint. I think, there's been commentary that there's – they expect a 100 basis point improvement in margins over the next few years. Have you all seen similar benefits mainly on pricing? And do you have a sense of maybe what that number could be? Or it sounds like it's a bit still too early to tell, but any color there would be helpful.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

As it relates to AI and pricing, we've been using AI-enabled cameras, for example, on trucks to – it both helps us with the quality of the material. So, as you think about a can being dumped into – a recycled can being dumped into the top of a truck, we've been using these AI-enabled cameras now for probably 6 or 7 years, John. And it is interesting watching them work because they're able to identify pretty accurately non-recyclable materials coming out of that can. And then we're able to contact the customer and clean up their recycle stream. So – and if they choose not to clean up their recycle stream, then we'll bill them for it. So, it has been a positive on the price line. It's also been a positive on the quality of the material coming into the recycle plants.

Connor Cerniglia
Analyst, Bernstein Institutional Services LLC

Q

Great. That's it for me. I'll pass it on. Thank you.

Operator: Thank you. And our next question comes from the line of Rob Wertheimer from Melius Research. Your question, please.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Hi. Thanks. You've touched on Healthcare a couple times. And you mentioned, I think, in your opening remarks, 2H revenue growth as the ERP stabilizes. If you were to sort of break that down, is that mostly the absence of customer credit? Or are you seeing more price and volume opportunity come through already as you improve service quality? And if not, when do those two factors start to make a bigger difference? Thank you.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Yeah, Rob, I think, it's all of the above. Certainly, credits improve as these past due receivables are cleaned up, and I mentioned that they've dropped by two-thirds in a fairly short period of time. And we will continue to see the year-over-year change on that be positive, particularly as we get to the back half of the year. So, that's part of it. But pricing – I mean, if you think about pricing last year, it was – we were kind of getting our sea legs a little bit last year. And this year, I think, we're in a very good spot. We understand the customer a lot better than we did last year. I think, our customer service stats are as good, if not better, than some of our solid waste customer service stats, and that gives you the ability to put a price increase. So, it's a little hard to put a price increase through to a customer, if your customer service has been very poor.

And I think, we've completely turned that corner. So, part of it is credit, part of it is price. And we think part of it is volume as well. I mentioned a couple of the cross-selling opportunities that are starting to manifest themselves, and that manifests on not only the top line, but on the volume line too.

And then, of course, those losses that presented, I think, we said a $40 million headwind to us coming into 2026. That was mostly going to be a front half of the year issue. So, if I think about Healthcare Solutions, really, we are super optimistic about this because it really does – we knew it was going to be a front half versus the back half, whether you look at volume, whether you look at credits, whether you look at just about any metric, and we are encouraged with that. We think it's going – we absolutely believe that the story we were telling last year of front half and back half is starting to show up for us.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thank you.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Yeah.

Operator: Thank you. And our next question comes from the line of Sabahat Khan from RBC Capital Markets. Your question, please.

Sabahat Khan
Analyst, RBC Capital Markets

Q

Great. Thanks and good morning. And maybe if I could just follow up on the discussion there on the Healthcare side. I think, you're talking to roughly flattish type volumes, most of the gain coming from pricing this year. And I think longer-term number is about 3% to 5% sort of top line growth. I guess, based on what you've learned about the business, the customer mix and the progress you've made, now how are you thinking about the price versus volume opportunity going forward over the medium term? Does this align more with the solid waste business where it still remains a primarily a pricing – pricing driven, just some comments on the long term mix of the pipeline?

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Yeah, I think, what we're seeing with price, particularly as we think about what Q2, Q3, Q4 will look like, that looks about like what we would expect for the long term. Volume we knew was going to be the one where we'd have the most ability to improve. And so, that's why we're encouraged about that front half, back half.

I think, the front half we knew was going to be soft from a volume standpoint, whether it was with, customer losses, encouraged by the way, as I mentioned early on, that those customer losses are lower than we thought they would be.

So, I do think that this becomes a – over the – probably as we get into next year where we don't have this kind of front half, back half thing, a business where we really can expect, nice level of volume growth. And then the top line is not just solely reliant on price, but the price component was quite good. And volume, we see it coming.

Sabahat Khan
Analyst, RBC Capital Markets

Q

Great. And then just maybe sort of clarifying the commentary on sort of the back half of the year guidance and the outlook there, with RINs and commodities maybe in a better position than we were a few months ago. From your perspective, in terms of the guide, are you assuming volume probably okay in line with what you initially expecting with potential upside from RINs and commodities through the back half? Or do you see those maybe as offsetting at this point of the year? Just wondering if there is upside in the back half, could that come from those two sort of areas outside of just the core business? Thanks.

Tara J. Hemmer
Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

A

Well, just to clarify, on the sustainability related businesses, we're still expecting to come in with that $240 million to $250 million benefit to EBITDA from the sustainability businesses. And while we expect, at least on the Renewable Energy side, pricing to come in a bit better. One of the things that we're tracking is, we feel confident that our plants will commission. We're just navigating some interconnect delays with the utilities that might have been unexpected. All of that said, we're in a great spot to achieve our goals for 2026 and really positions us nicely for 2027, when all the plants are online and our ability to meet or exceed the $26 per MMBtu number. So, how that stacks with the rest of the business, David can speak to.

David L. Reed
Chief Financial Officer & Executive Vice President, Waste Management, Inc.

A

Yeah, I think, it's still in line with what we guided to last quarter in terms of it's a little bit more weighted in the second half in terms of contribution from EBITDA. And then we talked earlier about the margin, the margin trajectory for the remainder of the year does look similar to 2025 in terms of the slope. You do see sequential and year-over-year improvements in the back half of the year on margin, as well.

Sabahat Khan
Analyst, RBC Capital Markets

Q

Great. Thanks very much.

Operator: Thank you. And our next question comes from the line of Konark Gupta from Scotia Capital. Your question, please.

Konark Gupta
Analyst, Scotiabank

Q

Thanks. First of all, my condolences for Dean Buntrock, for his legacy. Maybe the first question on the volume side, the residential volumes had been obviously soft, as you guys are shedding, just curious, where do you see, the shedding kind of maybe slowing down substantially. Is it still more like a second half story or more of a 2027 now?

And the industrial rebound wasn't a lot, but still positive in Q1. Do you think that would be an indication along with the special waste volume turnaround you're seeing of the macro turning more positive?

John J. Morris
President & Chief Operating Officer, Waste Management, Inc.

A

Yeah, I can answer those backwards. I think, Jim mentioned it and I mentioned in my prepared remarks about what strength we saw in the special waste line net of the benefit of the wildfires last year. And we just did our quarterly business reviews at all our 16 areas last week and there were some optimism around the special waste pipeline. So, we feel good about that for the balance of the year.

On residential, I know we posted, I think, it was about a 5% negative volume for the quarter. And again, that does fluctuate, but I went back and I looked at 2023 and every quarter since 2023 with about a 3.5% volume decrease, we have seen revenue and EBITDA improvement.

And to put it in perspective, if you go to Q1 of 2023 to Q1 of 2026, our EBITDA was up 211%. So, while we've traded off some volume, we've obviously seen the financial benefit. We've seen it in a bunch of different ways. We've automated the majority of that fleet. We've seen improved safety numbers, efficiency numbers. We've focused on quality of revenue, contract terms, et cetera.

And so, the first part of your question, we did say at the end of the year that we do see some moderation in that coming in the second half of the year, not to positive, but we're going to see some positive movement as we move through Q2 and Q3 in terms of the volume degradation.

But to this – to-date, if you go back, like I said, every quarter for the last three years, we've shown substantial positive EBITDA, dollar and margin improvement. So, feel good about where we are, but we do see it becoming more of a tailwind over the next handful of quarters as opposed to the negative headwind on the volume front.

Konark Gupta
Analyst, Scotiabank

Q

Okay. Thanks. And as a follow-up on the margin side, I think, you mentioned the fuel is being a headwind of about 20 basis points for now. When you look out for the full year, I know the EBITDA dollars are not impacted much given the fuel revenue and the fuel costs are roughly an offset.

But do you think the top end of the guidance range for margin, which was, I think, 31% for the full year, do you think that's still is attainable in this fuel environment or that might be a little bit impacted just given the mathematical influence?

David L. Reed
Chief Financial Officer & Executive Vice President, Waste Management, Inc.

A

Yeah. I mean, based on where we're at right now, we're very comfortable with the whole range that we gave for margin. Just to give a little bit of context on surcharge revenue, about a $1 increase in the price of diesel equates to about $200 million of annualized surcharge revenue.

And if you assume like a 1:1 trade off with fuel costs and surcharge revenue, that's about a 20 basis point to 25 basis point headwind. But we do have that factored into our overall forecast for the remainder of the year and still feel comfortable with our guidance range.

Konark Gupta
Analyst, Scotiabank

Q

Okay. Thanks, David. Thank you.

Operator: Thank you. And our next question comes from the line of Adam Bubes from Goldman Sachs. Your question please.

Adam Bubes
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. I appreciate all the clarity on drivers of higher corporate expense year-over-year. How should we be thinking about what normalized corporate expenses percent of sales looks like beyond 2026 and your ability to achieve leverage on that line item beyond 2026?

David L. Reed
Chief Financial Officer & Executive Vice President, Waste Management, Inc.

A

Yeah, I think, because it is showing up in that segment, but the benefits are showing up elsewhere, I do think the – at least for the Q1 print that we had in terms of corporate and other for the remainder of this year, that is relatively stable. But, you kind of have to look at the whole picture in terms of the returns that we're getting, particularly, on the technology investments we're making in our business. And so, that's where I would point you to.

It may mean that like SG&A as a percentage of revenue is more in that, kind of 10% range long-term versus something south of that. But you would hope to see us – the improvements in OpEx to – so the overall margin improvement of the business as a result of those investments.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

Part of that 10% David is having the Stericycle business on board because prior to Stericycle the number was approaching 9%. You recall that Stericycle number was actually as high as, I think, 25%. So, now we've chopped away at that. And I think, David, that's down to 17.

David L. Reed
Chief Financial Officer & Executive Vice President, Waste Management, Inc.

A

Yeah. High-teens.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

High-teens. So, but it still is – it's certainly not down where the business was prior to the acquisition. So, I think, David's number of 10% is a reasonable – actually quite good number considering you've got a high-teen business there in Stericycle. As we continue to get synergies and a lot of synergies do come out of the SG&A line, we think it's possible to get the WM Healthcare Solutions business down in the low-teens and maybe even below that.

At the beginning, I used to talk about getting it down to our own number. And so, I think, there's a long-term pathway to getting total SG&A back in that kind of low-nines. But for now, we're still focused on sub-ten because of the Stericycle business.

Adam Bubes
Analyst, Goldman Sachs & Co. LLC
Q

Got it. And then just wondering if you could talk about free cash flow conversion trajectory from here. I think, excluding growth investments as a percent of EBITDA, you'd be at high-40s this year. Where can that trend beyond 2026 you'll have landfill gas, which is high free cash flow conversion ramping and continuing to focus on working capital improvements in Stericycle, you talked about some incremental production tax credits. So, just wondering about trajectory there.

David L. Reed
Chief Financial Officer & Executive Vice President, Waste Management, Inc.
A

Yeah. I mean obviously just given the quarter we had with the $920 million of free cash flow, it's actually close to 50% for the quarter. I know, it's just one quarter, but for the year it's around 46%, including all investments. We do see a path to continuously improve that. And I do think 50% is a good a good number to aspire to. And I think we're charging forth in terms of our plans and our investments that should enable us to do that.

Adam Bubes
Analyst, Goldman Sachs & Co. LLC
Q

Great. Thanks so much.

David L. Reed
Chief Financial Officer & Executive Vice President, Waste Management, Inc.
A

Thank you.

Operator: Thank you. And our next question comes from the line of Toni Kaplan from Morgan Stanley. Your question, please.

Toni Kaplan
Analyst, Morgan Stanley & Co. LLC
Q

Hey, thanks so much. This quarter it looks like you started – restarted your buyback program with over $340 million of buybacks. I was hoping you could just refresh us on your capital deployment strategy going forward and how you're thinking about M&A and also just the pipeline for deals and how you're sort of balance – how you'd want to balance M&A versus buybacks. Thanks.

David L. Reed
Chief Financial Officer & Executive Vice President, Waste Management, Inc.
A

Sure. Yeah. We commenced our share repurchase program right after our earnings call last quarter. And we are on track for the $2 billion for the year. It's going to be a little bit more back end weighted, call it 55% to 60% in the second half of the year. Our capital allocation strategy for this year is really balanced. It is a year of harvest.

And so, we're really focused on returning that cash to shareholders. Over 90% of our free cash flow will be deployed in the form of dividends and share repurchases this year. We do have a decent tuck in pipeline. We previously said $100 million to $200 million. It's likely we'll be at the high end of that, if not above that, but we'll get more guidance next quarter in terms of that.

And then there was a reference to our leverage target being back within our long-term range that gives us a lot of capacity, and a lot of flexibility in terms of acquisitions, longer term. But again, this year, I think, it's primarily focused on the harvest theme.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

A

David, one thing I'd add to your point on – we did talk about a few acquisitions, Toni, that we're going to either close in Q4 or Q1. And they obviously haven't closed yet, but we expect in the next days or weeks, one of those will close, but to one or some of the other questions, that was a little bit of the revenue headwind in Q1. It was just under $20 million of headwind. So, we expect to – we're not going to get that $20 million back, but it's going to be part of our run rate going forward here sometime in Q2.

Toni Kaplan
Analyst, Morgan Stanley & Co. LLC

Q

That's helpful. And just as a follow-up on the technology and automation theme, you talked about that few times during the prepared remarks in terms of the benefits that you're seeing in terms of reducing cost from those initiatives, and I was hoping you could maybe just talk about which initiatives, whether it's robotics or automation or the cameras and the coaching that you talked about. Just which of the technology benefits are you seeing the most benefit right now and sort of when you look forward continuing to benefit from those? Thanks.

John J. Morris
President & Chief Operating Officer, Waste Management, Inc.

A

Yes, I'll try and be brief because that could be a really long answer. But if you think of what I commented on earlier, if you look at what we've done in the Recycling business, right, and Tara commented on, despite really low commodity prices, we're still making more money and better margins. A lot of that has to do with the fact that we've structurally lowered the operating cost model in those Recycling plants, and we're a lot less susceptible to commodity prices now than we were.

And that's really – that's not so much robotics, but it's automation and forms of artificial intelligence that we've put in those plants. Jim mentioned, you heard us talk about Smart Truck, right? We've got all of our commercial and residential trucks outfitted with technology that allows us to capture over 300 million images a year. We could never do that manually. We couldn't put enough people anywhere to be able to do that.

But we're using different forms of technology and AI to process, about 95% of those images without a human having to touch them. And it's given us tremendous amounts of data that we can use, whether it's to evaluate safety, contamination, pricing opportunities, over-serviced, under-serviced customers, et cetera. And those have been in place for years. That technology on that truck I'm speaking of has been around for probably closer to a decade.

And then you think from a safety perspective, I think, a lot of what we're able to do using artificial intelligence to capture data on how our folks are operating inside the cab, has given us the information to go out and coach our folks. And I do think that's a true contributor to the historically low rates we're seeing or the high retention rates we're seeing, if you will, on turnover rates being as low as they've ever been.

So those are all in place. Going forward, I think, we've got tremendous opportunity in terms of routing and logistical capabilities that our folks continue to work on. We're actively right now piloting a remote heavy equipment in a number of spots. We see that as a potential pathway down the road to forms of autonomy at some of our landfills, et cetera, et cetera. I can go on, Toni, but those are a few sort of examples that are in place now and a few that we see as driving benefits as we move forward.

Toni Kaplan Q
Analyst, Morgan Stanley & Co. LLC

That's great. Thank you so much.

Operator: Thank you. And our next question comes from the line of Tami Zakaria from JPMorgan. Your question, please.

Tami Zakaria Q
Analyst, JPMorgan Securities LLC

Hey, good morning. Thank you so much. Probably a question for Tara. You're sustainability EBITDA dollars was robust, but margins sequentially ticked down to, I think, 45% from 50% in 4Q. Is that due to seasonality and, related to that, what margin are you expecting in 2Q and for the rest of the year for sustainability?

Tara J. Hemmer A
Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

So, we saw strong margin improvement year-over-year on both the Renewable Energy business and the Recycling business. And we were really pleased at where we came in. What we had said previously was on the Recycling line of business that we would anticipate roughly 300 basis points of margin expansion this year, and we're still on track for that. And the Renewable Energy business, what we were anticipating was 200 basis points of margin expansion related to the growth investments, and that might be offset slightly related to our third-party fuels program.

What I'll say is, given that pricing is a bit higher in the Renewable Energy business, and we anticipated we would expect that margins would pick up a bit, based on what we had guided to. So, all in all, what I would say is we're in a really good spot. We're performing the way that we had anticipated and feel positive about where we're headed this year.

Tami Zakaria Q
Analyst, JPMorgan Securities LLC

Understood. That's very helpful. And I appreciate all the color on the Healthcare business. I was wondering if you could quantify the price versus volume you saw in Healthcare this quarter?

James C. Fish, Jr. A
Chief Executive Officer & Director, Waste Management, Inc.

I probably can't do that, I don't know, maybe Ed and other could offline take that.

Ed Egl
Vice President-Investor Relations & Financial Analysis, Waste Management, Inc.
A

Well, we can answer offline on how we're handling that right now.

Tami Zakaria
Analyst, JPMorgan Securities LLC
Q

All right. Thank you so much.

Operator: Thank you. And our next question comes from the line of Seth Weber from BNP. Your question please.

Seth Weber
Analyst, BNP Paribas Securities Corp.
Q

Hi. Thanks. Good morning and thanks for extending the call. Just a quick one. Just I'm curious on the special waste strength, in your experience, is that typically – have you seen that as a good leading indicator of just sort of the broader macro or, how do you kind of think about special waste as an indicator of the business? Thanks.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.
A

Yeah, I think, you're right on with that. That is one of the leading indicators for us is the special waste business, because the customers, while they have these special waste projects, they have some flexibility in terms of timing and so when we see that pipeline start to materialize in the form of volume growth for us, that is a good sign. It tells us that our customer base is relatively optimistic. So, yeah, I would say that's one of the best forward-looking metrics that we have.

Seth Weber
Analyst, BNP Paribas Securities Corp.
Q

Appreciate it. That's all I had. Thank you, guys.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.
A

Sure.

Operator: Thank you. And our next question comes from the line of Shlomo Rosenbaum from Stifel. Your question please.

Shlomo H. Rosenbaum
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Hi. Thank you very much. Could you talk a little bit about the current price cost spread within collection disposal and where that's looking – running versus your outlook and maybe how we should think about that spread running as we go through the year.

John J. Morris
President & Chief Operating Officer, Waste Management, Inc.

A

Yeah. Good question. I think, first and foremost, you could see what the Collection and Disposal margins have done. EBITDA margin is up 110 basis points. And that's overcoming a 20 basis point headwind from the fuel side. I think, when you look at operating expenses being, again sub 16 in the 59 range for Q1, obviously we're showing good spread between the two. I think, what we've talked about 150 basis points to 200 basis points is probably a little bit more than over 200 basis points now and what that's translated to is a 70 basis point EBITDA margin you saw across the business. And as I mentioned, the 110 basis points in the Collection and Disposal business. I think, Jim touched on CPI. I think, from an inflationary standpoint, 3%, 3.5% sort of the range that we're still experiencing a little bit more pressure on the labor side, probably closer to 4%, for obvious reasons, just the scarcity of some of that talent we need to keep bringing in. I do think that's part of where the – we talked about safety and turnover, where that's showing up.

I think, what I'd back up from is, I look at what our core price performance has been quarter-in and quarter-out, how that's translated to yield and how it's translated to margin. And I think, we feel good about our ability to still continue to drive some margin expansion as we go forward.

Shlomo H. Rosenbaum
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Thank you. And then if I could just follow-up. Can you comment a little bit about the churn rate in the quarter versus last quarter and then year-over-year? And maybe the role of technology and the AI advancements and how does that play into the improvements in customer and price stickiness?

John J. Morris
President & Chief Operating Officer, Waste Management, Inc.

A

So, I think, from a – we didn't comment about service increases. We're still positive for the quarter. So, that's always something that we look at. The churn rate, I don't have it in front of me, but I think it was right around 10%. It varies quarter-in and quarter-out. National account business can affect that. But we haven't seen any wide swings there.

I think, what's encouraging again is if you look at our price performance across all the Collection and Disposal lines, we're driving strong core price, strong yield conversion and we're doing without really driving defection. And I think, as Jim mentioned, if you look at a few spots, our MSW volume, our special waste volumes continue to be net of some of the anomalies we spoke to continue to be strong.

From an AI perspective, I would tell you it's a little broader. We do use some artificial intelligence in our process, but it's really about our predictive analytical capability that our customer teams worked on building over the years and using a lot of that data that we're gathering, filtering it through those technology tools, and being able to give our folks a better predictive position to make decisions on when and where pricing is warranted and how it be received and accepted by the customer. And I think, you're seeing the results of that show up in our financial performance.

Shlomo H. Rosenbaum
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay, great. Thank you.

Operator: Thank you. And our next question comes from the line of William Grippin from Barclays. Your question please.

William Grippin
Analyst, Barclays Capital, Inc.

Q

Good morning. Thanks for squeezing me in. I'll just keep it to one here. But coming back to the Renewable Energy business, the EPA obviously recently finalized the RVO for 2026 and 2027. Just wondering if you could provide some color on maybe how that's impacted your discussions with customers in terms of forward selling of RNG, and also, in terms of pricing expectations on voluntary offtake?

Tara J. Hemmer
Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

A

Sure. So, we were really somewhat pleased with what the EPA did with the RVO because they slightly raised the renewable volume obligation. And you've really seen prices hold and stay steady at $2.40 per RIN and that's good for us. And well above what we had anticipated for our long-term investment thesis at $2. You've seen us be able to go into the market and forward sell RINs. And the fact that we have 80% of our volume locked up for 2026, some of that is in the RIN market.

What we're tracking more broadly is what's happening in the voluntary market. Roughly half of our long-term offtake will be in the transportation market and the other half in the voluntary market. And we've seen, outside the US, whether it's Canada, the UK, Europe, even Asia have strong voluntary markets that we can tap into.

And then we're continuing to look at what public utilities might do in the US. They're passing along what they can to ratepayers and having more options in the US voluntary market. All that being said, we feel confident that we can sell all of our volume in the voluntary market, and that will come in at or above our $26 investment thesis.

William Grippin
Analyst, Barclays Capital, Inc.

Q

Appreciate the color. Thanks very much.

Operator: Thank you. And our final question for today comes from the line of Kevin Chiang from CIBC. Your question please.

Kevin Chiang
Analyst, CIBC World Markets, Inc.

Q

Hi. Thanks for squeezing me in here. Maybe this is also for you, Tara, just wondering what you're seeing in the recycled plastics market. I mean, virgin plastics gone parabolic here since the onset of the conflict in the Middle East.

And you did shutter a facility I guess the Natura plastic film processing facility, just wondering if the economics of that facility changes, just given what we've seen in the broader plastics market?

Tara J. Hemmer
Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

A

Yeah. Brent, would love your word, Parabolic, that's the new one. We have some other words for what's happened in the plastics market, clearly what's happening in the Middle East and what's happening with Virgin pricing will potentially have some impact on recycled commodities and it could be positive.

We're tracking that closely. And it's starting to creep back up. But the word that I would emphasize is creep. So, we're not anticipating any significant benefit from plastics pricing right now, nor would it change our tune on some of the facilities that we've shuttered at this point.

Kevin Chiang
Analyst, CIBC World Markets, Inc.

Q

Perfect. I'll keep it to one. Thank you very much for the color there.

Operator: Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Jim Fish, President and CEO, for any further remarks.

James C. Fish, Jr.
Chief Executive Officer & Director, Waste Management, Inc.

Okay. Thank you. Well, I guess one last comment here. We didn't really talk much about kind of the geopolitical environment, but even with all of the geopolitical uncertainty and then some of what we did talk about, which is weather.

What we're most proud of here is that our 60,000 folks have been able to produce good results for us. And we're on track to hit our guidance for the year. So, we're very proud of that.

Thank you all for joining us. And we look forward to talking to you next quarter.

Operator: Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.