

CORRECTED TRANSCRIPT

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Michael Hoffman, Analyst, Stifel

So this is Michael Hoffman. I'm Group Head of Diversified Industrial Research, cover the environmental services space. It's my pleasure to have Waste Management on stage with us. And from my right to or – yes, my right all across the stage we have Jim Fish, who's the Chief Executive Officer; Devina Rankin, who is the Chief Financial Officer, and Rafa Carrasco, who is the SVP of Strategy. In the back of the room is Ed Egl, who's Vice President, Finance and Investor Relations. So, all the tough questions go to him. These are all the layup questions up here.

Devina Rankin, Executive Vice President and Chief Financial Officer

Yes, exactly...

Michael Hoffman, Analyst, Stifel – Question

All right. So I have a couple housekeeping questions I'd like to get out of the way. Just so we check these boxes around this. Did everybody actually see the news on Monday? They did a little deal. HSR filing has it been done?

Devina Rankin, Executive Vice President and Chief Financial Officer - Answer

10 days.

Michael Hoffman, Analyst, Stifel - Question

In 10 days?

Devina Rankin, Executive Vice President and Chief Financial Officer - Answer

The process from sign to when we'll do the filing is about a 10 day period.

Michael Hoffman, Analyst, Stifel - Question

Okay. So when that hits, say it's at the end of the 10 days, when people look out on a calendar, typically either if Justice is swamped, they'll come back and say, pull it, refile it, because they don't want to trigger weird things. When is that date of either they pull it or they ask for a second request? How far out are we looking at? What's that date look like?

Devina Rankin, Executive Vice President and Chief Financial Officer - Answer

So we're not specifically looking at that date because things are uncertain in that regard. But what we're thinking about is that if there's no second request that you could see close somewhere in the ballpark of four to five months.

Michael Hoffman, Analyst, Stifel

Okay.

Devina Rankin, Executive Vice President and Chief Financial Officer – Continuing Answer

If there's a second request, it'll take longer.

Michael Hoffman, Analyst, Stifel - Question

Right. Okay. But we're somewhere in the summer is either they tell you to pull it, refile it, because they're busy and they can't get to it. It's...

Devina Rankin, Executive Vice President and Chief Financial Officer- Answer

Right.

Michael Hoffman, Analyst, Stifel- Question

We'll hear some, maybe even before the second quarter reporting on that, right, from that?

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

Yes, I think we can anticipate that. We'll definitely keep everyone posted.

Michael Hoffman, Analyst, Stifel – Question

Okay. Where would this reside inside your segment structure?

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

So, I would say the regulated waste piece is easy because it'll be its own segment. The secure information destruction piece of the business, figuring out how that gets parsed part of it, recycling, part of it kind of our other category we have yet to determine, but that will probably be the most likely.

Michael Hoffman, Analyst, Stifel – Question

So it's not going into the sustainability segment for instance, this would be a standalones. You'd have a standalone reporting segment?

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

That's right.

Michael Hoffman, Analyst, Stifel – Question

Okay. I assume you had a meeting with the credit agencies and got them all calm, cool and collected? The leverage is going here. Here is the path to get it down.

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

Our treasurer met with them over the last couple of days. We didn't get preclearance on this because we view it based on the size of the company to be a large tuck-in type deal for us, albeit a different space and adjacency, something that we do and know pretty well. And so we gave them a pathway to returning to our target leverage of 2.75 to 3 and we think that that looks like about 18 months post close.

Michael Hoffman, Analyst, Stifel

Okay.

Devina Rankin, Executive Vice President and Chief Financial Officer – Continuing Answer

And so all of their releases are out and only slight negative outlook for the transition period is what we're talking about, no fundamental change in rating.

Michael Hoffman, Analyst, Stifel – Question

But they're not putting on a watch list or anything like that. They're just going, we're aware of it, blah, blah, blah.

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

There's – S&P I think gave a negative watch and Moody's retained. But what I would say is still the strongest ratings in the industry.

Michael Hoffman, Analyst, Stifel – Question

Got it. Okay. And then last one on the synergies, my perception people said “how are they possibly going to get this?” I said this isn't actually as that hard, I think. There is duplicate public company costs, I don't know, \$60 million? There's two IT systems in Stericycle at the moment that you would get the benefit of closing one of them. That's \$25 to \$30. And then you're the champion of lean SG&A, you Devina Rankin that is. And therefore picking up \$45 million off of the base of their \$400 million of SG&A is not that hard.

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

Yeah. So you've outlined the good pieces. I would say that we were less focused on duplicate IT systems in the short term with this synergy target for us, it's more about our expectations for internalization that's the third lever. So I would take out the duplicate IT and replace it with some internalization benefits we expect on the disposal side of business.

Michael Hoffman, Analyst, Stifel – Question

All right, and I'll get to that. But there is a duplicate IT. So theoretically you would accrue that benefit?

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

In time in the diligence processes what we learned is Cindy, Janet and team have done a great job in the CRP journey and they've done a whole lot of hard work in a five-year period. But there's still some work that needs to be done. And so I think it would be premature to be able to predict how much of the duplicate system we could take out and we would rather see where we should be making incremental investments in IT in order to stabilize the environment across now the broad organization.

James Fish, President and Chief Executive Officer

So why don't I talk a little bit about – because I feel like there is going to be some overlapping synergies. So your next question, I think I'm going to probably touch on that piece that she is touching on. But why don't we – because I think there's going to be a lot of interest in what the strategic...

Michael Hoffman, Analyst, Stifel

Well, that was going to be the next piece.

James Fish, President and Chief Executive Officer

I'm going to direct the...

Michael Hoffman, Analyst, Stifel

Yes, I know he walked out to me at Waste Expo and you said, “can we throw these questions out and start all over?” So I had to basically wing it.

James Fish, President and Chief Executive Officer – Answer

So I think – let me kind of say this about the strategic perspective of this deal. First of all, we've been interested in this, Michael, since probably a decade ago. But a decade ago it was a “bet the company” type deal.

Michael Hoffman, Analyst, Stifel

Right.

James Fish, President and Chief Executive Officer – Continuing Answer

I mean, \$13 billion was, I think their market cap ours was \$18 billion. So today, when we looked at it, it's basically the size of, we have 16 geographic areas, it's the size of one of our biggest geographic areas. And we look at it as a collection and disposal business. That's what it is at its core, it's a collection and disposal business.

Michael Hoffman, Analyst, Stifel

Don't dispute that.

James Fish, President and Chief Executive Officer – Continuing Answer

They collect material, we collect material, they dispose the material, we dispose the material. They just dispatch a truck in the morning, we dispatch trucks in the morning. And when we looked at what we are really good at, we're really good at collection, disposal. You mentioned that Devina is really good at running a big business in a lean way. So we looked at their operations and said, okay, their operating cost as a percent of revenue. And again, not a hugely dissimilar business here is 64-ish percent, ours is now 60%. And you've heard us talk about it for the last couple of quarters John Morris is really doing a great job of squeezing efficiencies out. We spent \$300 million on technology, working on how do we become more efficient. And so it's all been a routing and logistics exercise.

They have a huge routing and logistics network for 5,200 routes, I think. At the same time, their SG&A, when you look at their forecast for 2024 is 22%, ours is approaching 9%. So when you think about synergies, there's big, big opportunity for synergies there to bring what we do well, which is operations, efficiencies, routing and logistics, and then running the business in a lean manner at the SG&A line.

So a lot of opportunity there. And then I look at the growth trajectory over a 10 year period. And the medical services business, and this is not us saying, this is third-party saying, this is projected to grow at somewhere in the neighborhood of 5% to 6%. That's the volume side of medical services.

Not to surprise anybody in the room, the U.S. average American has aged 10 years in the last 40. We're getting older and the replacement rate is like 1.7% or 1.7 right now. So we're not replacing, we're getting older. If you were to ask me what business do I want to be in right now? I want to be in a medical business of some kind, because it's only getting bigger. And our business, by the way, solid waste, if I think about volume over the next decade is going to grow at probably 1% to 2%.

Michael Hoffman, Analyst, Stifel – Question

And what percent of your solid waste business services the healthcare industry?

James Fish, President and Chief Executive Officer – Answer

What percent of our solid waste services the healthcare? It's small, I mean...

Michael Hoffman, Analyst, Stifel

My statement would be, you're underrepresented. You're underrepresented.

Rafael Carrasco, Senior Vice President, Enterprise Strategy – Answer

I'll give you a little color there. When we looked at the opportunity, we thought about it in terms of actually getting our presence in the medical solid waste space up to par with what we have as far as share in some of the other segments, like retail, like commercial property and so forth. And we were maybe at half of what in the medical waste businesses, in the healthcare business, that we are in some of those other segments. So we can just actually jump up halfway there. We can create a tremendous amount of cross-selling synergy.

James Fish, President and Chief Executive Officer – Answer

And I think cross-selling is an important aspect of this because...

Michael Hoffman, Analyst, Stifel – Question

This is a bundling conversation?

James Fish, President and Chief Executive Officer – Answer

Well, look, yeah, I don't really like the word "bundling." I mean, I think "cross-selling" is a better. But it's semantics, I guess. So but I'll give you an example. I was in getting my annual physical a couple of weeks ago, and there's a Stericycle can at this doctor's office. And there's a gray solid waste can. It's not us. And so there are a number of large hospitals, by the way, Rafa can talk about the national account side of this, but there's a number of large hospitals where they are and we're not. There's also some places where we are and they aren't.

So there's certainly an opportunity there to cross-sell. But I think the trajectory was important to us. The fact that they are running a collection and disposal business. I don't know how many sites, for example, in Houston, they have. We're building a brand new hauling company that will have lots of extra capacity. There's no reason we couldn't run Stericycle trucks out of that hauling company, right? I mean, its...

Michael Hoffman, Analyst, Stifel – Question

Right. So in Stericycle's billion and a half domestic revenues, there's \$200 million of it is the solid waste recycling revenue, a healthcare hazardous waste and regulated medical waste? Cross-sell, acquiesced to the cross-sell. That to me is the potential. And then it's back to how many

customers do you have that's a solid waste hospital? It's more probably hospitals because the doctor's office is probably, unless it's standalone, it's an office building, and that's a different kind of...

James Fish, President and Chief Executive Officer – Answer

Well, I think it's two handfuls of things. It certainly is cross-selling that's an opportunity. It's taking operating costs down significantly. I mean, they're 400 basis points.

Michael Hoffman, Analyst, Stifel

Which is their story anyway, you bought into their story. That you had got this in a position...

James Fish, President and Chief Executive Officer – Continuing Answer

SG&A, I mean, they're going to spend according to their projection for 2024 almost \$600 million in SG&A. And we're going to spend \$1.9 billion. I mean, they are at 22 we are at nine. There's a huge opportunity there. We only put 300 basis points in the synergy projection. So the growth trajectory, the fact that their capital dependency is much lower than ours...

Michael Hoffman, Analyst, Stifel – Question

5%, 6%?

James Fish, President and Chief Executive Officer – Continuing Answer

Yeah, 5% or 10%.

Michael Hoffman, Analyst, Stifel

Yeah.

James Fish, President and Chief Executive Officer – Continuing Answer

Landfills are expensive...

Michael Hoffman, Analyst, Stifel

Yeah.

James Fish, President and Chief Executive Officer – Continuing Answer

And similarly, on the maintenance and repair side, it is a lot more expensive to maintain a front loader with all the hydraulics on it, the complexity of it, than it is to maintain a box truck.

Michael Hoffman, Analyst, Stifel – Question

So they lease everything. I would think that's another synergy eventually, as you get to you own it, it's a slow process. You can't do it overnight.

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

Exactly. There will be a timeline, it will be diligent. But at the end of the day, their balance sheet management was one of the things that played in to that decision for them. And we have the opportunity with the strength of our balance sheet to use our own capital dollars more efficiently.

James Fish, President and Chief Executive Officer – Answer

Well, the other thing, Michael, that I think Cindy and Janet have done a really nice job with over the last few years, as I mentioned that we've been interested in them for 10 years. Part of the problem was the size, but part of the problem was they had some things that we didn't want...

Michael Hoffman, Analyst, Stifel

Yeah, they cleaned that all up.

James Fish, President and Chief Executive Officer – Continuing Answer

We didn't want Romania or Brazil or Argentina. Nothing wrong with those countries, but we didn't want to operate there. And so they've cleaned that all up. I mean when Cindy came in five years ago, she was charged with in part doing that and in part rolling out the ERP and they're right at the finish line on the ERP. And Cindy's done a nice job of moving out a lot of the portfolio that they didn't.

Rafael Carrasco, Senior Vice President, Enterprise Strategy – Answer

Michael, one element on the cross-selling before we depart too far afield from there that we didn't mention explicitly, but it's an important thing for everybody to consider is that what that will allow is broadening our suite of services. Entering that space is going to allow us to provide obviously more services, but also from one service provider, one that is in our national accounts, for example, strategic accounts, sustainability and environmental services. We enjoy a very good reputation of actually providing not only the service itself, but sustainability services, how to reduce your waste, the platform in which we report is very well regarded. And so there's a desire from the customer base to actually receive that. I would point you to the fact that our strategic accounts business has grown at a CAGR of double digits over the last three years. And there's a lot of similarities between that and what a large hospital network, for example, is going to want to see.

Michael Hoffman, Analyst, Stifel – Question

Yeah, well, I'm back to – there's solid waste, there's recycling, there's healthcare, hazardous waste, there's a medical waste, and then you given all kinds of documentation on what am I

doing with all this? So that they can stand up in front of a board of trustees and go blah, blah, blah, right. That to me is – I get the underlying strategy thing. So I do need – I want to pull back one second, because this is you and you kind of thing. I think of the white room – whiteboard room, wherever it is in Houston. This is my words, is there's a deployment of capital sort of conversation and you're going above average returns. Whatever we're going to do, we want above average returns, sustainable recurring growth at good IRRs, and you want to sustain a compounded at a high quality compounded free cash flow growth. That's a high level driver of choices. Few years ago, you made choices about that and went accelerate MRF spending to capture those values, accelerate the RNG spending for all the obvious reasons. Have to ask the question, are you in fact monetizing part of that?

James Fish, President and Chief Executive Officer – Answer

Monetizing part of RNG?

Michael Hoffman, Analyst, Stifel – Question

Yeah.

James Fish, President and Chief Executive Officer – Answer

What we've said ten times is it's an option for us. I mean, right now...

Michael Hoffman, Analyst, Stifel

The articles, I assume.

James Fish, President and Chief Executive Officer – Continuing Answer

Well, sure, I've seen the articles. I would tell you this. One of the articles had a \$3 billion number in there for \$500 million in EBITDA. I was kind of offended that they would think I would sell the business for \$3 billion. So, look, it's an option for us, but right now, we're focused on building the 20 plants out. 80% of the CapEx will be spent on those by the end of the year. We'll have five plants opening this year. One's already open. Four more will open. So right now, the focus is, let's build out these 20 plants. If somebody beat me over the head with a checkbook enough, look, I would listen. But for now, we're focused on building out the plants. We think it's a great business.

Rafael Carrasco, Senior Vice President, Enterprise Strategy – Answer

So, Michael, it's not an either or there, right.

Michael Hoffman, Analyst, Stifel – Question

If you could own part of it. I mean, you still own a piece. You take out some of your equity, things like that. That's the way to think about it.

Rafael Carrasco, Senior Vice President, Enterprise Strategy – Answer

Potentially. There's a whole slate of probabilities and possibilities there. But what I'll say, too, is that it's not an either or there. It's also not an either or with respect to the growth of our solid waste business, right? I mean, we're committed to that. It's good business. We have a long runway to go and extracting costs there. All our investments on technology are beginning to see through what you can see what our forecasted margins for the year are. And that's all a result of that. So we're going to continue to grow not only organically, but inorganically in the solid core waste.

James Fish, President and Chief Executive Officer – Answer

And I think too, Michael, it's important for everybody to hear this. We're not changing what we're doing on the solid waste side or the sustainability side.

Michael Hoffman, Analyst, Stifel

No, no, I swear, I'm going to go with this.

James Fish, President and Chief Executive Officer – Continuing Answer

This acquisition doesn't – isn't an "either/or", it's an "and" basically. So we're still doing the RNG business. We're still investing in tuck-in acquisitions. So we said, I think \$100 million to \$200 million, and we'll still be there. So, I mean, it doesn't change what we're doing. I think there was some concern that is this – are you changing directions? This is adding a line of business, just like the industrial line of business or the commercial line of business. And now this is the medical waste business.

Michael Hoffman, Analyst, Stifel – Question

Right, and that's where I was going with this. So there's this capital allocation aspect of strategy, and then there's areas where you're going. And we talked about this. We talked about more sustainability. This is a natural extension. I think there's potentially natural extension towards the industrial waste market as well. You have huge data points...

James Fish, President and Chief Executive Officer – Answer

That's a really good point. It's a really good point. We've talked about that and nothing's built in about this. And there – but there is the potential to use these incinerators, as you know, we've been in the incinerator business in the past. And so there is the potential to use this in the industrial space as well, not just the medical waste space.

Michael Hoffman, Analyst, Stifel – Question

Right. And/or I got to believe you've got, I don't know, \$3 billion of solid waste revenue. That's a manufacturing customer that has a non-solid waste streams as well. And they've got to be coming at you going, I'd really like to consolidate service providers and therefore, that's another one of these optionalities. Rafa, on your whiteboard, as you stepped into the strategy role, I would assume...

Rafael Carrasco, Senior Vice President, Enterprise Strategy – Answer

Yeah, absolutely.

Michael Hoffman, Analyst, Stifel – Continuing Question

...right way to think about it?

Rafael Carrasco, Senior Vice President, Enterprise Strategy – Answer

And it's important to call out that we already have one of the top industrial and haz waste businesses in the country, right? So this is an additive to that. We have four hazardous waste landfills. We have deep well injection. So it just broadens the suite of services if we're able to...

Michael Hoffman, Analyst, Stifel – Question

It's just such a tiny little business inside \$22 billion that it's hard to – but you do – Emelle, Alabama and Kettleman Hills are extraordinarily well positioned geographically. If you added infrastructure around it, it's amazing what you might redirect at you.

So you're not buying just a medical waste business. You're also getting a document destruction business. And Jim, I went looking for when – because you said it in a public forum a long time ago, and I'm not holding you accountable to it just saying you said it was, "don't necessarily understand the shredding business..."

James Fish, President and Chief Executive Officer

Okay.

Michael Hoffman, Analyst, Stifel – Continuing Question

Seven, eight years ago what's changed? How did you get comfortable about that business?

James Fish, President and Chief Executive Officer – Answer

Eight years into the job, I guess. Look, I think the way we view it (and Rafa, you can probably touch on this more than I can) but it's a sustainability business. Eight years ago, we really weren't – while we were in the recycling business, we really hadn't kind of separated out sustainability as being a strategic imperative. And in the last four years, we put Tara Hammer

into a role over sustainability. And so we've really – and obviously, the RNG business is a relatively new development in that space as well.

So I think as we look at the Shred-It business, it does dovetail nicely with our recycling business. It's essentially a high grade paper recycling business with a few more kind of customer requirements. But I think we have the ability to, when we think about synergies, to squeeze synergies there as well. I would tell you when we talk to Brent Bell and Brent, Head of our recycling, and Brent, we said, Brent, what do you think about this?

Brent, by the way, is the right guy to ask, not me, because he knows a lot more about it than I do. And Brent was very excited about it. Felt like this has real opportunity inside of his business. As you know, we're spending over a \$1 billion not just on RNG, but also on rebuilding these recycled plants...

Michael Hoffman, Analyst, Stifel

Modernization...

James Fish, President and Chief Executive Officer – Continuing Answer

...which gives us the ability to potentially run shredded material through there.

It also has the same opportunities on the collection disposal side, or particularly the collection side of consolidating facilities. I don't know how many facilities they have in certain cities, and we'll have to look at that. But running a Shred-It truck out of a WM facility makes a lot of sense.

Michael Hoffman, Analyst, Stifel

Well, they're all box trucks. They're all box.

Rafael Carrasco, Senior Vice President, Enterprise Strategy – Answer

A little more on that point. So the volumes associated with high grade office paper and so forth have seen a reduction over time, over the last kind of five years. Actually, what we're seeing now is that they've stabilized post-pandemic. Right. And so now it's a good moment to actually continue the journey that Stericycle has begun on fee-for-service as opposed to being heavily dependent on the commodity price. They've done a great job there. We feel like we actually have a lot of experience having taken our own recycling business into a fee-for-service model. So there's opportunity there. It's also a really good opportunity to continue to actually cross sell there because there's opportunities for cardboard and other recyclable materials that we can leverage.

Michael Hoffman, Analyst, Stifel - Question

Well, so just to be clear, so it's domestically about \$800 million revenues. International, it's about \$100 million. And only 10% or 12% of that's actually the paper sale. It is. They do get a...but it's

transaction based. So is your analysis of this that it's slowing over time, but can you flip that to a service based model like your commercial collection? So it doesn't matter whether I pick you up on Tuesday or I pick you up on Thursday, I'm getting paid.

Rafael Carrasco, Senior Vice President, Enterprise Strategy – Answer

That's exactly. That's exactly the goal, Michael.

Michael Hoffman, Analyst, Stifel – Question

Okay. And then it's, you know, \$4 billion industry. They're roughly 20%, Iron Mountain's probably about 15%. So there's a lot of independents. It's never really been consolidated. So is that an option as well as there's the density aspect of stops, just like in commercial side.

Rafael Carrasco, Senior Vice President, Enterprise Strategy – Answer

Certainly an opportunity to consolidate, but I would tell you that our first order of business is really to sort of optimize. And just as a reminder, that doesn't just mean that we come in and we take out routes because our routes are compatible. That's actually not the case. We just talked about the difference in the trucks and so forth. But the technology that we're deploying across our own organization is transferable very nicely to the routing and logistics platforms that Stericycle has. And then with that, we can continue – we can begin to optimize dynamically the efficiency of those routes. And so there's a lot of lowering the cost to serve that has to happen. That enables that conversation about fee-for-service to develop.

Michael Hoffman, Analyst, Stifel - Question

Right. And then when they bought it, that 25% of their doctor, dentist, veterinary, clinic side of the model use Shred-It for their shredding and they've never changed that. I mean that was supposed to be part of it. So there's – that's the cross-sell opportunity of that. And I'm not saying it's going to be 100, but it ought to move. And then they're – they sell like six services into a medical waste customer and they're at 1.2 average services. So that's another opportunity.

James Fish, President and Chief Executive Officer – Answer

Well, and I do think you're touching on really important point, which is that cross-selling piece, whatever we want to call it. Republic talked a lot about that with their acquisition of US Ecology. And rightly so, I mean, it was a really important part of that acquisition. This is a really important part of this acquisition for us, right. And Rafa has talked about it. We've all talked about it. I think it was lost a little bit, maybe in the press release. It's hard to communicate on a piece of paper. So – but that is a very important part.

In addition to all the other things we've talked about, the cross-selling opportunity between these businesses is really critical. I gave the example of being in a hospital, but there's places where we are and they aren't, right. And I gave the example of a place where they are and we are, but there's places where we are, they aren't. And all of that enables cross-selling opportunities. And

then with the industrial piece that Rafa mentioned, you mentioned, I mean, there's an opportunity there as well to cross-sell, not just to grow the business.

Michael Hoffman, Analyst, Stifel – Question

And if Stericycle, which is a medical waste company, you can manage to get \$200 million of revenues out of the \$1.5 billion is the – my word bundling, bundling solid waste, recycling, health care, hazardous waste. I can't imagine what your machine could do around that. And therefore, against your \$22 billion, there's – I get you're not putting a number out there and it would be a guesstimating, but I've got to believe it's better than \$200 million incrementally. So it would be pretty interesting opportunity.

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

I think the thing for us, when we looked at this opportunity we've always talked about, and you framed it on our capital allocation priorities. We think about things in terms of return on invested capital, and the IRR that we see on this business outpaces that of the ADS acquisition that we did. And we all know the success that WM created with ADS acquisition. So what we're excited about is that this is a growth platform, a growth industry, a growth space. And we think there's momentum with all of the hard work that the existing leadership team has done and being able to capture that and move it forward with our expertise. And as a result, the IRR on this will exceed the IRR on the ADS acquisition by probably 150 basis points.

Michael Hoffman, Analyst, Stifel – Question

And ADS now sits at what type of an IRR?

Devina Rankin, Executive Vice President and Chief Financial Officer - Answer

We're – I would say our final view of the IRR of that was high single digits.

Michael Hoffman, Analyst, Stifel – Question

Okay. So this is going to be low double digits for now.

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

Low double digits.

Michael Hoffman, Analyst, Stifel – Question

All right. February 23, you all shared with the market. You thought you could compound free cash flow at 5% to 7%. You've been doing better than that because of these incremental investments in the MRFs and the recycling and the RNG and the like and your own, and then the self help, you've got that pop from that digital utilization story?

But that does have a runway and anniversaries and does the thing settle. And my impression of this if we're really going to buy into, they were going to have a compound EBITDA at 15% a year for five or six years their model, and convert that at 50% to 60% free cash that this helps lengthen your better than your 5% to 7%. Is that the right conclusion?

Devina Rankin, Executive Vice President and Chief Financial Officer – Question

You know, I think Jim also made the point on their capital efficiency. It's a more capital efficient business than our business. So whether it's driving more of their revenue dollars to operating cash or the capital efficiency gains, we do think that our fundamental commitment to 5% to 7% annual growth and free cash flow should be extended with this acquisition. Particularly when you think about the fact that our expectations for synergy realization and projecting our returns on this business, they're not a traditional 12-month synergy capture. It's going to take us longer to get these synergies than a traditional solid waste acquisition. So that's one of the things that for us speaks to that longer time horizon of being able to capture 5% to 7%.

Rafael Carrasco, Senior Vice President, Enterprise Strategy – Answer

But to that point Michael, you used to work probably for expedience's sake, “bought in” to their long range plan. We actually diligence their long range plan and there's some confidence there, right, that they can attain it and we can help accelerate potentially what they're doing.

Michael Hoffman, Analyst, Stifel

Right. Yeah. That wasn't being pejorative.

Rafael Carrasco, Senior Vice President, Enterprise Strategy

No. No. I understand.

Michael Hoffman, Analyst, Stifel – Question

I mean, it's we had a plan and you've come away going, “we believe the plan” through your own due diligence, I get that. But it's compounding at a rate of growth that's better than the garbage is compounding, and therefore it should support sustaining. You're actually outpacing your own target of 5% to 7% at the moment. And my – our quick modeling is it'll help lengthen the – you continue to outpace 5% to 7%.

James Fish, President and Chief Executive Officer – Answer

Well, but to Rafa's point, yes, we – and we did diligence that and we like the fact that they have that and we don't disagree with it, but it doesn't factor in a lot of what we bring to the table. So that's part of the beauty of it...for revenue and cost. I mean, their number for SG&A as I mentioned, 22% is the 2024 number, and they had a reduction in, I think, in March and...

Michael Hoffman, Analyst, Stifel

So they have a RIF, yeah.

James Fish, President and Chief Executive Officer – Continuing Answer

Yes. So they've been going through this process. So I think there's some opportunity beyond what we diligence. We liked the process that they have been going through. They have not, because they have had a finite bucket of dollars to spend on technology for example, they have been spending it on the ERP, which they should be, but they haven't had the ability to spend \$300 million on routing logistics systems that we have. So we bring that to them.

Michael Hoffman, Analyst, Stifel- Question

Yeah. Do you keep the SAP for continuity purposes?

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

Yes.

Michael Hoffman, Analyst, Stifel- Question

It just seems like that would be just...

James Fish, President and Chief Executive Officer – Continuing Answer I think so. I don't think we try and convert that over to ours.

Michael Hoffman, Analyst, Stifel

Yeah, yeah.

Devina Rankin, Executive Vice President and Chief Financial Officer

That was the reason we didn't try and implement SAP in our own organization.

Michael Hoffman, Analyst, Stifel

We've been there, done that.

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

Yes, exactly. So we're impressed with the work that they've done and we'll keep the platform they've built.

Michael Hoffman, Analyst, Stifel – Question

Right. Yeah. And plus, why disrupt the culture at this point?

So they have \$450 million. That's outside of the United States, not completely in Canada. So outside of North America. Thoughts about what you do with that?

Rafael Carrasco, Senior Vice President, Enterprise Strategy – Answer

I think that the way to think about that is that was not core to the strategic significance of the acquisition. But it certainly doesn't hurt to have a nice conservative perch from which to look at the western European market and see what that might yield in the future.

Michael Hoffman, Analyst, Stifel – Question

So just to be very clear, so everybody didn't run out of here and go, oh, my goodness, Waste Management's going to go buying garbage businesses in Europe. That's not your message, it's just, you'll look at it and figure out whether you're the right owner.

Devina Rankin, Executive Vice President and Chief Financial Officer – Answer

Yeah, absolutely. You know, Michael, I think one of the things that I heard the final comments with Waste Connections and you brought up, circular economy and sustainability. We all know that the circular economy and sustainability front in Europe is in some respects ahead of what we've done in North America.

And our recycling team has been exceptionally well connected intentionally with what's happening in the part of Europe that Stericycle is operating within. And so if there's anything that just continues our presence in that market in order to accelerate our focus on being the best recycler and the best solid waste company that can take the waste and the recycled content that we all generate and create maximum value for that in a circular economy, I think it could be a nice synergy that we're not even considering in terms of what brought value from the Stericycle transaction.

Michael Hoffman, Analyst, Stifel

Well, and I will confess in my new role, starting on Monday, I hope to change the narrative towards more circular, because I think it's a narrative that you all, as an industry and as the leader in size, you control a feedstock and we ought to, and you're in a position to influence behavior around, like for like. And circular to me is like for like.

James Fish, President and Chief Executive Officer – Answer

And I think on the international peace, Rafael said it well, I mean, it gives us a nice place to kind of view western Europe. But I would also say what they would. What they'll have left when this deal eventually closes doesn't scare us. There were a couple that would have scared us.

Michael Hoffman, Analyst, Stifel

Yeah, Brazil is pretty frightening.

And I suspect there's about \$100 million in Shred-It that's just in, like nine countries. And there probably is a better owner. But the UK, Ireland business, it's a nice business. It's about \$300 million in revenues. And Spain and Portugal is little. Maybe keep it, maybe you don't, but it's the UK, Ireland's a nice business, and they made that investment in the incinerator. So it's fully modernized to address what's happening at that economy.

James Fish, President and Chief Executive Officer – Answer

That's our view as well.

Michael Hoffman, Analyst, Stifel

Yeah. We're at the end of our time. I want to thank you very much for sharing.

James Fish, President and Chief Executive Officer

I hope it was helpful.