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WM.N - Q1 2022 Waste Management Inc Earnings Call

EVENT DATE/TIME: APRIL 26, 2022 / 2:00PM GMT

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the WM's First Quarter 2022 Earnings Conference Call. (Operator Instructions) After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) And please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, David (sic) [Edward] Egl, Senior Director, Investor Relations. Please go ahead.

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

Thank you, Lorrie. Good morning, everyone, and thank you for joining us for our first quarter 2022 earnings conference call. With me this morning are Jim Fish, President and Chief Executive Officer; John Morris, Executive Vice President and Chief Operating Officer; and Devina Rankin, Executive Vice President and Chief Financial Officer. You will hear prepared comments from each of them today. Jim will cover high-level financials and provide a strategic update. John will cover an operating overview, and Devina will cover the details of the financials.

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

During the call, we will give 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. John will discuss our results in the areas of yield and volume, which unless stated otherwise, are more specifically references to internal revenue growth or IRG from yield or volume.

During the call, Jim, John and Devina will discuss operating EBITDA, which is income from operations before depreciation and amortization. Any comparisons, unless otherwise stated, will be with the first quarter of 2021. Net income, EPS, operating EBITDA and margin and SG&A expense results have been adjusted to enhance comparability by excluding certain items that management believes do not reflect our fundamental business performance or results of operations. These adjusted measures, in addition to free cash flow, are non-GAAP measures. We refer to the earnings press release and tables, which can be found on the company's website at www.wm.com for reconciliations to the most comparable GAAP measures and additional information about our use of non-GAAP measures and non-GAAP projections.

This call is being recorded and will be available 24 hours a day beginning approximately 1:00 p.m. Eastern time today until 5:00 p.m. Eastern Time on May 10. To hear a replay of the call over the Internet, access the WM website at www.wm.com. To hear a telephonic replay of the call, dial (855) 859-2056 and enter reservation code 3365157. Time-sensitive information provided during today's call, which is occurring on April 26, 2022, may no longer be accurate at the time of the replay. Any redistribution, retransmission or rebroadcast of this call in any form without the expressed written consent of WM is prohibited.

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

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

Thanks, Ed, and thank you all for joining us. The first quarter of every year sets the tone for the rest of the year, and our strong first quarter results really set us up for success in 2022. We delivered exceptional core price and yield results, grew profitable volumes and managed our costs. The result was double-digit growth in revenue, operating EBITDA and cash from operations. In fact, our cash from operations was the highest we've ever generated in a quarter, allowing us to return $0.5 billion of cash to our shareholders.

Our operating EBITDA margin of 27.6% was ahead of our plan, even in the face of record inflation and the delayed approval of the alternative fuel tax credits. So we executed extremely well in the first quarter and achieved better results than we anticipated, positioning 2022 to be another great year for WM. In addition to the strong start in the first quarter, we see signs that the economy is trending positively. Several of the key leading performance indicators within our business, such as special waste volumes, construction and demolition volumes and new business formation pointed to continued strong economic activity and business performance for the balance of the year. The positive economic activity, combined with WM's diverse customer base, the recession-resilient nature of our business and nearly 75% of our revenue that is annuity-like, gives us confidence to reaffirm the full year outlook we provided in February.

As we progress through the year, we remain committed to executing on our strategic priorities of providing the best workplace, advancing technology and automation that differentiates WM and reduces costs and leveraging our sustainability platform for growth.

Turning to our sustainability and technology investments, we're excited about the future. We see the opportunity to further our sustainability leadership by expanding recycling capacity, automating recycling processing and increasing the renewable energy generated from our landfill network. We opened a new recycling facility in the first quarter and we're on track to bring online another fully retrofitted MRF in the second quarter, along with the next WM-built renewable natural gas plant. These projects are expected to generate excellent returns that are superior to those of solid waste acquisitions.

Regarding technology, last quarter, you heard us discuss cost-saving opportunities for automation and optimization, which involves creating a competitive advantage for WM by differentiating the customer experience, while reducing our labor dependency on certain roles. Through our focus on digital technology, we anticipate reducing 5,000 to 7,000 positions over the next 4 years. In this tight and expensive job market, it makes complete sense to use technology to reduce our dependency on certain high-turnover jobs.

In addition to tackling this attrition, technology produces a significant amount of data that we view as a valuable asset. John has referred to our trucks as rolling data centers, and we're using that data and analytics to create a sustainable competitive advantage. Currently, we're piloting the full end-to-end optimization of our roll-off routes, which will be the first of its kind in the industry. Early efficiency results in our pilots are very encouraging and our plan is to have our roll-off routes fully optimized by mid-'23.

Finally, while we use automation and data to our advantage, we will invest in training and upskilling of our existing employees to ready them for higher-skilled future roles. To sum it up, we've set the bar high in our first quarter with our results, and we're confident in our ability to deliver strong performance throughout the remainder of 2022. I want to thank the entire WM team for their hard work and dedication. I know that they continue to work to deliver on our commitment to our customers, our communities and our shareholders. And we very much appreciate that.

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

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

Thanks, Jim, and good morning, everyone. 2022 began on a high note with first quarter organic revenue growth in the collection and disposal business topping 9%. Our expectation was that the first quarter would be our strongest quarter of the year, both for pricing and volume growth, and our teams delivered revenue that exceeded our expectations. Core price of 7.3% is more than double the result for the same quarter in 2021, as we work to secure price increases that keep pace with the inflationary environment.

Strong pricing results across all lines of business translated into collection and disposal yield of 5.5%, with standout performance of 7.9% for commercial and 5.1% for landfill MSW. We remain confident that our pricing strategies appropriately respond to the rising costs and prioritize our focus on maximizing customer lifetime value. In the first quarter, we delivered record high core price, while maintaining churn near historic lows by using a data-driven and customer-focused approach.

Shifting to volumes, first quarter collection and disposal volume grew 3.8%. Landfill volumes continue to be strong, with MSW volumes increasing more than 5% and special waste volumes growing almost 30% in the quarter. And while we expect some moderation in special waste volumes from our first quarter levels, our project pipelines remain strong. Also contributing to our strong volume results was significant growth in our national account business.

In the first quarter, our strategic business solutions team won more than $20 million of new annualized revenue. These wins were driven by our ability to meet customer sustainability and operating needs through a differentiated use of customer-facing data analytics and service capabilities. Our teams remain focused on controlling operating costs. Overall, adjusted operating expenses were 62.3% of revenue in the first quarter. While cost inflation in the first quarter persisted in the high single digits, our operating costs improved 70 basis points from the fourth quarter of 2021, largely due to encouraging trends in our largest cost category, labor.

First quarter overtime costs and training hours came down compared to the fourth quarter of 2021, as we've improved retention and been successful in onboarding new team members to transition from training hours to productive hours. On a year-over-year basis, the increase in operating expenses as a percentage of revenue primarily comes from 3 areas: 50 basis points in our collection and disposal business related to inflationary pressures, including the proactive and intentional steps we took last year to increase wages for frontline team members; 40 basis points from the impact of higher commodity prices on our recycling brokerage business; and 30 points related to the alternative fuel tax credits received in 2021 that have not yet been renewed for 2022.

When we think about the balance of the year, we expect the inflationary cost pressures to ease in the second half of 2022 as we lap acute inflation that began in the second half of 2021. We do anticipate some pressure on maintenance costs in 2022 as a result of delays in our truck delivery schedule resulting from ongoing supply chain constraints.

Turning to our residential collection business, we continue to execute on our long-term plan to improve this line of business through pricing and automation. The impacts of higher labor costs are most pronounced in this part of the business, and we are focused on appropriately pricing our contracts and reducing our costs by transitioning more of our residential fleet to automated single-driver vehicles. Our first quarter revenue growth results reflect our success in moving residential pricing as our yield was 5%.

In the recycling line of business, we delivered another strong quarter with operating EBITDA growing by $23 million. Our blended average commodity price in the first quarter was about $126 per ton, which is in line with our full year expectations. We continue to see strong demand for recycled materials, and we remain focused on educating customers to help unlock additional supply of recyclables and employing technology to maximize the value of the material recovered while reducing our cost of processing.

And finally, our renewable energy business contributed an additional $13 million of operating EBITDA in the quarter. We have a new renewable natural gas plant coming online in the next few weeks in Oklahoma, the 17th R&D plant in our network and the fifth developed by WM. The next RNG project is on track to come into service by the end of the year, positioning us to deliver on our 2026 targets as we expand our leadership in the landfill gas energy business.

In closing, I want to thank the entire team for the fantastic job. They do safely and reliably serving our customers day in and day out. We've had a great start to 2022 and look forward to building on our success.

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

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

Thanks, John, and good morning, everyone. Our disciplined pricing programs, robust volume growth and solid recycling performance fueled strong top line growth, and that translated into a nearly 11% increase in operating EBITDA in the first quarter. Our operating EBITDA growth completely flowed through to cash from operations, as lower interest payments more than offset a modest decline in working capital benefits related primarily to higher incentive compensation payments in 2022 for a strong 2021 performance.

We're pleased with these strong results and are well positioned to comfortably deliver on our full year outlook.

Turning to capital expenditures. First quarter capital spending to support our business totaled $371 million, and we invested an additional $47 million in our recycling and renewable energy businesses. Given our acceleration of sustainability growth in the fourth quarter of 2021, we spent a little less capital on these investments in the first quarter, but we remain on track to advance these projects in 2022 as planned. We expect that our investments in recycling and renewable natural gas projects will ramp up as we move through the balance of the year.

While we continue to see supply chain constraints slow delivery schedules in some asset categories, we're managing spending across our portfolio and expect capital expenditures to support the business to be within our full year guidance of $1.95 billion to $2.05 billion and sustainability growth investments to be approximately $550 million in 2022.

As you heard from Jim and John, our teams are executing on the recycling and R&D growth projects we discussed last quarter, and we're confident in the strong returns these projects provide. Keep in mind that these investments are reported as a component of our capital expenditures and reduce our traditional measure of free cash flow. Yet we view these investments to be similar to an acquisition dollar as they produce high-return growth as a strong complement to our existing business. Putting it all together, our business generated first quarter free cash flow of $845 million. Before sustainability growth investments, first quarter free cash flow was $892 million, which puts us well on our way to achieving our full year outlook of between $2.6 billion and $2.7 billion.

We are well positioned to allocate our cash to sustainability growth investments, traditional tuck-in acquisitions and growing shareholder returns. We used our free cash flow to pay $275 million in dividends in the quarter, and we allocated $250 million to share repurchases, while maintaining our leverage ratio well within our targeted range.

Turning to SG&A. We remain focused on controlling discretionary SG&A spending and leveraging technology investments to reduce the cost of our sales and back office functions. First quarter SG&A was 10.1% of revenue, a 60 basis point improvement over 2021. We fully expect to achieve SG&A as a percentage of revenue of less than 10% for the full year, even as we continue to invest in technology to differentiate WM and lower our cost to serve.

In closing, our strong results are a testament to the dedication of our 50,000 team members. We're proud of our performance in the first quarter and excited about what we can achieve together over the remainder of the year. With that, Lorrie, let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Toni Kaplan of Morgan Stanley.

Toni Michele Kaplan - *Morgan Stanley, Research Division - Senior Analyst*

Just given the strength we saw in Q1, just hoping you could add any additional color on why not raise the guidance? I know you said it puts you in a really good place for reaching the full year guidance. But is it the supply chain issues or uncertainty just in the macro? Just wanting to understand some of the drivers there.

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

I think, Toni, the last year was actually a little unique for us. I think it was the first year we've ever raised guidance in the first quarter. And so we didn't want to set a trend necessarily. I think we felt like the quarter was fantastic, sets us up well for the year. But before we would change that outlook, we wanted to get another quarter or 2 under our belts.

Toni Michele Kaplan - *Morgan Stanley, Research Division - Senior Analyst*

That's great. I wanted to also ask about on the labor side, just an update on what you're seeing in the labor market, maybe churn. And I just wanted to ask if there's sort of in terms of the projects that you're implementing, any sort of impact on like delaying those projects because of the tight labor market?

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

No, Toni. We've seen some increases in overtime, which I've honestly moderated over the last couple of quarters. So that's good news. We've been successful in bringing down our turnover numbers. They're not where we want them to be, but they're about 300 basis points better than they were 2 quarters ago. So we're seeing good trends overall on the labor front. We were, to some extent, paying a little bit of a premium to service some of that business a few quarters ago as the overtime was up, but the good news is that's moderating. Our overtime percentages are coming down, our retention rates are better. So we feel pretty good about where we are and our ability to service any of these volume opportunities that present themselves.

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

And then, Toni, with regard to our process on labor to advance the projects that we've discussed in sustainability and recycling, one of the things that's unique about WM is that we started this journey with a really strong team that's been developing these projects over the last several years. And we're leveraging that team and building it where appropriate in order to accelerate the investment from here, and we're really satisfied with where that stands.

Toni Michele Kaplan - *Morgan Stanley, Research Division - Senior Analyst*

That sounds great. Maybe just one last thing for me. Core pricing looked really good in the first quarter. When you think about sort of the ability to offset inflation, it seems like that should be able to do it. Can you go beyond offsetting inflation? And when do you see core pricing sort of normalizing?

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

Yes. Look, I would tell you, for the quarter, we were pleased with the results from a price perspective, considering that we talked about a 4% yield and 5.5% core price. As you know, things do moderate a little bit as we get later in the year just because the comps change. So you shouldn't expect to see the same raw numbers in Q3, Q4 because of the difficult comparisons. But we certainly have, I think, shown that we're pretty effective at using price to cover the cost inflation.

I think it's also important that we focus on the cost side of the business, and that's why we're starting to really talk a lot about technology. I mentioned this 5,000 to 7,000 jobs, that, in a low-cost way, meaning we use attrition to take them out, that will be a significant contributor as we go down the road. So we're not just relying solely on price to improve margins. Some of it has to come from the cost side of the equation. It's going to be a combination of things that I think get us on a significant margin improvement path.

Operator

And our next question is from Jerry Revich from Goldman Sachs.

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

Yes, I'd love to continue the discussion on core price. If you don't mind, really impressive performance. I'm wondering if you can talk about whether you folks went back to customers that had a price increase within the past year with the second price increase? Or is the acceleration that we're seeing an upside versus the original expectations driven by higher pricing on contracts that are rolling?

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

Yes, Jerry, I'm not going to say that there isn't a single customer out of our 25 million that didn't get 2 price increases, but we've really, really tried to move away almost completely from that. And I hope that there aren't any, but what we're trying to do is when we take a price increase on customers, make it an annual thing. And so I can't say with 1,000% confidence that something didn't slip through the cracks. But I would tell you that, that may have been a practice from years ago, but that practice has changed. So that pricing is more of an annual item for our customers.

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

That's super. So it sounds like the leading edge pricing is probably a couple of points even higher than the strong core price. And in terms of the landfill gas cadence, can you talk about as the RNG plants come online, is there a ramp-up period to get to full production and full efficiency? How quickly relative to the time lines that you outlined, Jim, can we expect the full run rate earnings contribution?

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

Yes, Jerry. I mean most of those plants have infrastructure in place already. So we're managing that gas. In most cases, the difference is we're switching over from the technology we were using to manage the gas to an RNG process. So once the plant is up and we've kind of knocked the kinks out, if you will, it comes up to speed fairly quickly. None of these are landfills where we're starting with no infrastructure. If that were the case, it would be different, but that's not our situation.

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

And Jerry, just to put a fine point on how we're thinking about the build of financial value from these plants, our 2022 guidance did contemplate these 2 facilities that we're bringing online in 2022. And because of the timing of bringing them online, it really did have a pretty inconsequential impact, particularly the one that comes in the fourth quarter. But we do expect a step change in 2023, and we'll give you more clarity on that as we get closer to that point.

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

Super. And I'm wondering if you folks would be willing to tell us the timing of additional plants coming online in '23 with the type of precise schedule that you laid out for '22 at this point?

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

At this point, it's too early for us to give you those details. We are actively pulling in the equipment and the permitting processes. And because of the uncertainty in those processes, we just can't predict at this point with the same level of certainty that we've given you for 2022, what we expect in the year ahead. But as we get closer to those dates, we certainly will.

Operator

And our next question is from Hamzah Mazari of Jefferies.

Hamzah Mazari - *Jefferies LLC, Research Division - Equity Analyst*

Just in terms of pricing, do you have a sense of what percent of your customers actually push back on pricing? Because pricing in this sector from '09 to 2012 was very, very low, 1%, 1.5%. And maybe the sector found discipline, maybe 2015, and it's a small ticket cost item. So is it 5% that push back or 10%, 20%? Just any sense of that would be helpful for investors.

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

Yes. So I can't speak to the sector. What I can tell you, though, is there's a couple of those metrics we pay close attention to. One is churn, which in my comments, I said, is still near historical lows. So we haven't seen really a lot of movement there even when you look at the pricing that we posted for the quarter. We look at service increases and decrease as also a measurement of the health and those continue to be positive in a big way.

And then lastly, the metric we look at is rollbacks. And I will tell you that rollbacks are much stronger year-over-year. So even as we've addressed this -- and I think we all agree that customers understand that there is real inflationary pressure. And I think that's -- that, coupled with the value in terms of service we're delivering is the reason why you're seeing rollbacks even lower despite us having pushed through more on the revenue quality side.

Hamzah Mazari - *Jefferies LLC, Research Division - Equity Analyst*

Got it. And then just lastly, I'll turn it over. Do you -- I guess, do you have a sense of as it relates to the sustainability investments, does that create more volatility in your portfolio or less volatility? I know the recycling piece, you talked about sort of more of a cost takeout. But I guess on the landfill side, landfill-to-gas side, I guess have you made a decision on fixed price versus kind of levered to the end market? And just any thoughts as to volatility in the portfolio post some of the investments? Is that less or more?

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

It's a great question, Hamzah, and one that we're focused on internally in terms of how we'll manage this over the long term as this becomes a larger part of our business. Volatility in the natural gas business will certainly increase relative to the traditional solid waste business. That volatility, though, only comes from the top line of the business. There really is no volatility in the middle of the income statement.

And so for us, it's about how we evaluate every vantage point of the revenue life cycle and think about what we're exposed to in spot markets and what we can secure long-term contracts for. And we are currently addressing some long-term contracts. We've discussed the fact that some of those are extending beyond even 10 years at this point. We want to ensure that while we consider long-term contracts, we don't somehow diminish the return of the portfolio because we are making sizable investments here. We want to be sure that we're appropriately balancing ourselves between spot market and the long term to maximize the returns.

Operator

And our next question is from Michael Hoffman of Stifel.

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

So to come back to the pricing, which was terrific, and you stood up and delivered on what you said you were going to do versus get in the market and do it aggressively to make up for '21. Just to remind us all, your once-a-year objective is on contract renewal cycles, not just once a year at a point in time. Is that correct?

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

Yes, that's right.

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

Yes. Okay. So there's a rolling effect on price all year long. It's just you're not intending to come at a customer more than once is the objective.

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

Well, that's right. And I think the point about the price increase being once a year is that there may be some price that's still on the table out there because we didn't take price increases as aggressively in March of last year or in April of last year. So those will come around. I mean inflation didn't really kind of hit us hard until Q3. So you will see some pickup there that we didn't choose to take, even though that customer may have -- that the cost for that -- for servicing that customer have increased dramatically in Q3, Q4, the price wouldn't have mirrored that until we get to the anniversary this year.

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

Right. And then I fully agree and appreciate that not raising guidance now allows for the normal seasonality to occur and the like. But when I think about what you did give in guidance, 5.5% in core and 4% on price, 2% on volume, the 1Q numbers are -- how much above your own expectation were they comparatively? The 7.5%, the 5.5%, the 3.6%, how much did you exceed your own expectations?

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

So on the price side, I would tell you, our expectations had been when we set our guidance that we would see stronger price performance and volume performance in the first half of the year than the second half of the year, simply because of the year-over-year comp. We continue to see that math holds. And that, therefore, means that as we look at both the guidance we established and where we are today, that we expect Q1 to be the peak, I would say, in terms of the print on core price and on yields.

That being said, if I look purely at the numbers, I would tell you, we were about 100 basis points, maybe a little higher than that, above our expectations on core price. On the volume side, they were stronger than expectations, particularly in special waste. The rest of the business really performed according to plan.

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

Well, I think commercial was very strong too on the volume side. I don't know...

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

It was. It was just, generally speaking, in line with what we would have projected for the year. We're really optimistic that the commercial volume strength continues. But as John remarked earlier, the special waste volumes is one of the things that we have our eye on because approaching 30% increase on a year-over-year basis certainly isn't something that we had predicted.

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

Michael, sometimes, we talk a little bit about what the current month looks like. And we're not seeing anything that would change our view right now in April.

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

Fair enough. And just so everybody is looking at data, the $148 million of volume versus the -- which is like 3.5% versus the almost 8% landfill volume increase, the difference there is that there's a huge chunk of special waste in that almost 8% landfill volume year-over-year number.

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

Yes. There was -- definitely, special waste was a strong point. But the great thing about the quarter, if we're really focusing on just kind of this short-term quarter and then the remainder of the year, is that we kind of had universal strength. And I'm not sure we've had a quarter like this where virtually everything looked good. I mean even C&D, you might look at C&D and say, "Well, that was flat." But if you look at last year with all the fire and flood volume in it, if you pull that out, C&D was really strong on its own.

So whether it's MSW volume or commercial volume or special waste or C&D, everything looks strong. We are keeping our eye on the macro economy because there's a lot of chatter out there about that. But we're not seeing any signals right now in those forward-looking waste streams that would indicate that there's a big downturn coming. And believe me, we're looking at it. Nothing shows up right now.

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

Okay. And then the fuel -- the industry fuel surcharges, they're very good at it. We had a big spike in March. Can you help us get this right instead of guessing? What should we be modeling for that dollar change for the second quarter based on what happened coming into 2Q? You did $90 million in surcharge in 1Q. It's got to be bigger, but what's the right place to be?

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

Well, a quick clarification on the $90 million on the fuel surcharge line. It's important to note that, that also includes renewable energy pricing. So the fuel surcharge was about $70 million of the $90 million. That being said, March was about 45% of the quarter. And so the ramp that you mentioned was significant, and we continue to expect that will persist through the remainder of the year. Our prediction right now is $90 million to $100 million per quarter.

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

Okay. All right. That's terrific. And then since you alluded to the cadence, Devina, on CapEx. Can you give us a little framing of how we should land that to get the free cash flow per quarter kind of close to right, since it's such a big number to flesh out?

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

John did a great job of talking about the supply chain constraints. And so while we would love to give you some clarity on the cadence of capital for us right now, it's just more difficult for us to predict quarter by quarter, particularly for truck capital where we're seeing delivery schedules lengthen.

I would tell you, Q2 is usually the point in time that we start to see ramp, particularly in the landfill line of business. And so you'll see that -- I do expect Q4 to be a pretty heavy capital quarter again, though, for us. So I think you can take our guidance for each of them and make it pretty ratable over Q2 through Q4.

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

Okay. And then you shared with us last quarter your second half of the year, internal cost inflation kind of ran at 6% and 7%. What were we running in the first quarter?

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

It was closer to 9%.

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

And is it coming down?

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

No. We think that this is effectively the peak, and we expect it to plateau. And then as we discussed, we expect to see some moderation in the back half because we'll lap the labor increases that we executed upon beginning in the third quarter of '21.

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

Okay. And then last one, on the renewable energy side, you have shared that your objective is to kind of create that stability on the profit line through the long-term contracts. The big change here is that we're moving away from a transportation buyer to a nontransportation buyer. And have you gotten more than indications of interest that they really are willing to pay a sustained premium? And I'm not talking current market rate, even just something higher than the long-term average of what the RIN has been, to create that stability on the profit line?

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

Yes, Michael. We've executed a handful of contracts that we had commented. One was around a 10-year mark, one was a little longer than that. And the short answer to your question is yes. It's a small percentage of the gas we produce now. We're going to continue, as Devina said, to look to stabilize the portfolio by putting a portion of those contracts in a fixed position. But the short answer is yes, people are willing to buy. And yes, they're willing to pay a premium on an MMBtu basis.

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

And it's a nontransportation buyer, it's utilities, it's institutions, it's property managers, things like that.

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

They're nontransportation. Yes.

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

Right. Last question, Devina, you've shared in the past that the ramp in the contribution is modest in '23, a little more in '24 and then it really moves up in '25. That pattern has not changed, right, in light of one of the earlier questions?

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

Yes, that's correct, Michael.

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

Okay. Great. Good luck for the rest of the year. Nice start.

Operator

And our next question is from Walter Spracklin of RBC Capital Markets.

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

So if we go back to the volume, you mentioned special waste and even commercial coming in a little bit better than trend. We seem to be fairly through the recovery phase and yet you still are putting up some pretty good volume numbers. Historically, we've always looked at waste as kind of a few demographic aspects and urbanization and so on being offset by some diversion and net-net, looking at overall a flat volume cadence over the long term and really pricing being an opportunity.

Is that changing now? Has it -- when you look at your volume trajectory here and the continued growth you're seeing in volume, is there anything structural that you think is going on right now that you think will have a longer-term impact in terms of perhaps positive volume growth going forward?

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

I think what structurally is changing versus maybe previous quarters is that we're starting to really separate ourselves, I believe, from the pack. So it's not just driven by micro and macroeconomics. It's driven by the fact that WM is -- we don't tend to -- we tend to on these calls talk a lot about kind of short term, the outlook and what the quarter looked like and what the remainder of the year is going to look like.

But we also try to inject in a bit of what we're doing strategically. And I would tell you, Walter, we're making huge strides in digitalizing our customer service. It's something the airlines did years ago, and now we're doing that. And it is separating us from a lot of others in the industry. We believe we're taking share. And I believe that's part of what you're seeing in the volume picture. I can't break it out for you by line of business. But as we do that, and we believe that's kind of a 3, 5, even a 10-year strategy, similar to what we're talking about with sustainability, there's an awful lot of customers out there that are talking to us about data and analytics for their own sustainability initiatives.

And we're really the only one that can provide that level that they're asking for. Nobody else can do that. So I would tell you this is not just about micro 101, this is about not only microeconomics, but it's also about the strategy we're putting in place that I believe is absolutely taking share and will take more share as we further differentiate ourselves down the road.

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

I think if that's true, you would probably see it in the special waste and commercial areas, which is where you are indeed seeing the strength. So that's a...

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

That's absolutely right. I mean, look, the short story is, that's why I'm still bullish on this company. Obviously, I'm biased, but I got to tell you, I mean, I'm really bullish on it even at $160. I mean it's -- the strategy to me, whether you're talking about the brand that can't be matched, the labor -- the reduction of labor dependency, which doesn't address the volume aspect, but addresses the cost aspect and using the digitalization of customer experience and to help us reduce our labor dependency by 5,000 to 7,000 jobs hasn't gotten a lot of comments from investors, but that's a big deal. And so all of that, I think, helps separate us from others who just simply can't replicate that.

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

Great points. Turning now to M&A. One of your competitors obviously has moved a little bit outside of pure solid waste into a little bit of hazardous. And there's been some discussion or rumor out there that you may do the same. Without you commenting on that, is that something conceptually that's in the cards for you? Or are solid waste kind of your singular focus for M&A opportunities?

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

Yes. I mean, look, we've seen the rumors. And I would tell you this, we're -- just as I went through with you kind of our strategy, which is really an organic strategy, we're really pleased with the results of our organic strategy. And at the same time, we'll continue to look at some of the small tuck-ins. We may do something that's an adjacency. We've talked about those as well that are related to our sustainability strategy. And that's probably where we draw the line as far as M&A goes.

I will tell you that, in my view, there are reasons today to be conservative when it comes to M&A. It goes back to what I said about us being differentiated. Some of these other haulers, by the way, some of them are talking to us that have pressures on driver and technician turnover, significant pressures on driver technician turnover, that are absolutely seeing wage inflation. They're having a difficult time getting capital equipment probably times 2 versus where we are. And they don't have a sustainability service offering that is now being requested. Those are reasons to not go out and pay a big, heavy multiple to acquire some of these folks.

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

Very good points. I appreciate the color and congrats on a great quarter.

Operator

And our next question is from Tyler Brown of Raymond James.

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

Devina, I may have missed it. But I was hoping you could just give us a little more color on the 70 basis point decline in margins? Just thinking about some of the puts and takes there. I'm thinking about things like fuel, commodities, maybe the tax credits, maybe that would have influenced it year-over-year because with 9% core inflation and, call it, a 5% to 6% yield, were core margins down?

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

So it's really interesting when you look at the margin of the quarter, it certainly outperformed our expectation, and that started at the top line and continued through in terms of managing costs, which John mentioned earlier, particularly on the labor side. I think what's important is that you normalize for the fuel tax credits first because that really gets us focused on the rest of the business and how we've performed. And that was 30 basis points.

And so when you look at Q1's performance, and you can see that we were only down 30 basis points on a year-over-year basis, and that compares to our expectation that we'd be down about 100 basis points in the first half. We're certainly very pleased with that performance. The overall puts and takes just to build the bridge is that I would tell you the positive drivers from a margin perspective in the quarter were 20 basis points from the renewable energy business, about 10 basis points for leverage on SG&A beyond expectations.

Recycling, this is the brokerage business. It's led by the brokerage business. It includes all elements of the recycling line of business, but that was down 30 basis points on a year-over-year basis. And then the collection and disposal business overall was down 30 basis points. But what's really important to highlight there is that sequentially improved 50 basis points when you remove the impact of the fuel tax credit. So we're really pleased with that performance, and it outpaced our expectations.

We still remain cautious about margin in the first half of the year relative to prior year because as a reminder, Q2 of last year was, I believe, an all-time high at 29.3%. So we still expect margins in the first half to be, on a year-over-year basis, a more difficult comp and therefore, a decrease. But we expect the margin momentum that we began in the first quarter to continue throughout the year.

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

Okay. So that leads me to my second question. So it's still going to be soft, it feels like, in the first half. I don't want to put you too much on the spot, but do you think that margins can still improve for the full year despite the dilutive impact of the fuel? And I'm thinking that fuel is maybe an extra 50 basis points of dilution, but I don't know if that's in the right ZIP code?

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

So I'm going to separate fuel tax credits and the impact of rising fuel costs. But fuel tax credits, I would tell you, we hope, is a timing difference. Our outlook right now is that, that 30 basis points may continue, and we would love to see resolution sooner rather than later, but we think it could go all the way through the fourth quarter. But we do expect that to be a timing issue only, not contribute to the margin of the business overall.

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From a diesel fuel rising cost perspective, we certainly saw that impact in the first quarter. And like I said earlier, it ramped in March. We estimate that the impact of that for every dollar change in diesel fuel is about 20 basis points of margin pressure.

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

And Tyler, to my previous point to Walter about margin, there seems to be a real focus on pricing, which is the right focus. But when you think about margin, there's a cost aspect too. And then so just to give you a couple of examples, we fully expect that with the digitalization of our customer experience, for example, that we have built into our plan that we won't rehire some customer experience positions. I talked to Mike Watson about it this morning, and so we've built that into our plan, probably as many as 300 positions that we won't rehire when they attrit away. So this isn't laying anybody off, this is just saying when we have 50% turnover in some of those positions and calls come through our call centers that are asking for ETA or asking for status of a payment or a bulky pickup, those have fully been automated.

And so we've agreed that we won't replace those positions, and that amounts to somewhere in the neighborhood of 300 positions for the year that we built into our plan. Similarly, with this move from reload to ASL, we think there's as many as 2,000 of those that, over the next 4 years, come out. And so you get a helper on the back of the truck that comes out, but you also get -- and we know this from experience, a 30% pickup in efficiency when you move from reload to ASL. The Brent Bell taking out positions as we automate these plants, somewhere in the neighborhood of 1,000 positions net, and I say that because we'll be upskilling some positions there.

So that includes both positions coming out and then positions being added back. And the net of that is somewhere in the neighborhood of 1,000 to 1,200 positions over the next 4 years. And some of those do start hitting us in 2022 and then really accelerate in 2023. All of that, in addition to what we're doing on price, will have an impact on margins.

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

Right, right. Very idiosyncratic. I appreciate that fully. So the bigger question on pricing, so can you break it down on the 5.5% collection disposal yield between, call it, your open markets and your more restricted markets? Because it feels like a lot of the pricing momentum is being driven in the open market right now. But that CPI linked to that regulated return pricing should accelerate as '22 plays out. So I know you're talking about the high watermark in Q1 on core price, but why would it fade if the restricted piece is going to accelerate? Or is it just not enough mathematically to get it -- to keep the pricing where it is today?

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

So Tyler, I think the easiest way to look at it, we don't have specific breakdowns between open market and restricted prices. But what we've talked about is with rate-restricted pricing, we do reset about 70% of that in the first half. And so those resets being loaded toward the first half is one of the reasons that we expect the high watermark to exist in the first half relative to the second half, and then it comes back to those comps.

What I would say is that our pricing on The Street continues to have momentum over the course of the year as our contracts come up, particularly on open market and some of the actions that we took and the impact of fuel that we discussed will certainly continue to drive price higher. That's not reflected in your collection and disposal yields. But I really do think that this comes down to being focused on our market-based pricing and knowing that, that momentum is not what's flowing. It's just the comparisons on a year-over-year basis and the fact that we started to take pricing action more reflective of the cost environment in the second half of last year.

Operator

And our next question is from David Manthey of Baird.

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

First question on labor and benefits, both OpEx and SG&A. I think you noted that the proactive 2021 wage increases from last year. But are there any other parts of that cost stack that are elevated or understated this quarter that we should watch for, for the remainder of the year? Things like, I don't know, incentive comp or health care or anything like that?

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

I'll start the operating side. Devina can weigh in on maybe the SG&A and benefit side. I would -- we spoke to labor, obviously, being a long pole in the tent, continuing to see high single, low double-digit inflation on labor. I think it's most pronounced. We mentioned in the residential line of business, most labor-intense line of business that we have.

I would tell you, maintenance, in my prepared comments, David, we think that if there are some supply chain disruptions that linger through the balance of the year, we may be in a position where we're going to keep some of our older fleet employed for a little bit longer until we catch up. We don't see that as a barrier to be able to take advantage of some of the volume and market share that Jim commented on. It may put a little pressure on OpEx versus CapEx. But as Devina said, it's early in the year, and we've got a little bit of time here before, I think, we need to pivot. That would be one spot in the P&L where you might see it on the operating side.

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

And then on the incentive compensation and health and welfare specifically, what I would tell you is I do think that incentive compensation could modestly increase over the remainder of the year from the Q1 level. Just as we get further into the year, we'll get finer on our estimates and outlook and, therefore, the accruals.

But with regard to health and welfare, we are seeing the trends of those costs return to pre-COVID levels, where medical activity is getting back to normal. And as a result, those costs are pretty well in line with what we would have expected. They do tend to moderate over the remainder of the year, but nothing unusual on a year-over-year basis.

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

Okay. And second on recycling, could you update us on what percentage of recycling revenues are under some form of fee-for-service agreement? And historically, you've told us that about 2/3 of the material that you collect has 0 to negative value. And I'm wondering is that still directionally the case? And as you put in these state-of-the-art automated MRFs, does that percentage change materially?

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

So David, the MRFs that we're automating are certainly producing a better product and doing it more efficiently. And I think that model actually gets better with the labor increases we're seeing, right? We're employing less labor in these plants. The rates are going up. So the investments we were talking about 18 months, 24 months ago in upgrading these plants is actually printing better not just because the arbitrage has gotten better, the quality of the product coming out of these facilities is better when you use a mechanized process to pull that material out. It stands to reason that you would get a better, cleaner product coming out of there.

I think on the pricing side, what we're seeing is very consistent and strong demand. On the fiber side, mixed paper has been a good tailwind over the last couple of years, and we're seeing continued demand increase for some of the other streams, the plastic streams. So we feel good about the top line and the demand that's being created. And as I mentioned, that's something we're going to continue to do is to educate our customers and use technology to unlock some of those streams.

I would tell you in terms of negative value, the one that probably stands, I mean there's a residual content that tracks in the high teens to about 20%. We've been working on getting that down over the last few years. We feel technology will continue to help us in that regard. It's really the residual piece and glass, right? There's not really any positive market for glass. There's an environmental benefit to arguably keeping it out of the stream, but there's not a market that's positive for glass at the moment. Did I catch all your questions?

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

That does it.

Operator

And our next question is from Sean Eastman of KeyBanc Capital.

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

Just coming back to the margins. As a summary, do we need to be thinking about that 0 to 40 basis points of expansion for the full year differently in light of what we've seen in the first quarter and the movements on fuel? And are we still going to be down 100 bps in the first half, like you had communicated previously? If you're willing to sort of refresh those expectations, that would be super helpful.

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

So Sean, I think fundamentally, what this comes back to is us not wanting to be in a position to revise guidance across the board after just one quarter. And so the overall trend that we expected were our first half comps are just going to be tougher from a margin perspective than the second half comps. And therefore, we will relatively underperform our full year outlook in the first half and see a build as we get into the third quarter in terms of margin performance still holds.

In terms of the magnitude of it, I think Tyler's question earlier about the impact of fuel, framing that as about a 20 to 40 basis point impact, given what we're seeing in diesel fuels, we're pretty satisfied that we're going to be able to absorb the negative impacts of that. And so when we look at full year outlook for margin, we do see some upside, particularly because price has come in so strong and we've seen positive momentum on retention. It's just too early for us to update the specificity with regard to how we see that flowing through for the rest of the year.

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

Okay. Totally fair. Great answer. And coming back to the alternative fuel tax credit dynamic and those not being renewed yet. How is that built into the full year? And how big of a swing is that if -- or once those tax credits are renewed?

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

Yes. So it was $12 million for the quarter. The full year impact is expected to be a little north of $55 million. So the impact for the remainder of the year, we estimate to be about $45 million. We fully expect that we'll end the year with some clarity on this. But if we don't receive that clarity, it would be about a $55 million to $60 million negative impact relative to the guidance that we've provided.

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

Okay. Excellent. And then just real quick, relative to the $400 million EBITDA guidance for the RNG facilities by 2026. Can you tell us what that EBITDA number was in 2021 actual and what that number is in the 2022 guidance?

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

I don't have the specifics on that. Ed and Heather will be able to get you more color. The only thing that we provide is the year-over-year increase and that was $13 million of a year-over-year benefit in the quarter. The color there I would give you is that we estimate that for every $0.10 change in RIN values, we see a $4 million to $5 million change in our EBITDA, and that continues to hold. Through 2022, we will see that increase as we get into '23 with additional production.

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

I think it was about $180 million in 2021. But Ed and Heather can verify that, but I think it was about $180 million.

Operator

And our next question is from Noah Kaye of Oppenheimer.

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

You mentioned you picked up about $20 million in annualized national account revenues this quarter. I think you mentioned also the sustainability services were a big driver of that. So Jim, I just want to build on your comments earlier. Can you give us some examples for investors of what services the customer is actually asking for in values, what you're providing here that maybe smaller competitors aren't that's helping you to win this business?

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

Well, when we talk specifically about national accounts, I mentioned that data and analytics are very important to them. They all have sustainability initiatives, every one of them. And so when we think about renewing some of these big national accounts that we renewed or signing new accounts, one of their primary asks is what kind of reporting tools do you have that can provide the information on a store-by-store basis, for example. So that's critically important, and that's been a real differentiator for us.

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

Okay. That's helpful. And then I just want to understand a little bit the way you're proceeding with the automation initiative on the resi line transition to ASLs. Are you thinking about those investments as timed with contract renewals? Or is this really a substitution for fleets that are on existing contracts? In other words, this is sort of a mid-contract type initiative?

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

So I would tell you, Noah, where we have the opportunity to do it mid-contract, we're going as fast as we can. We're not waiting, so to speak, for contracts to roll. I think a lot of municipalities, we're having some really productive discussions with them because they've seen whether that we're a service provider or not, that strain on labor is showing up in the ability to service some of these municipalities, and we've seen opportunities to step in and convert these mid-contract.

And certainly, to the extent that we are not able to do that, there is that period of time when these municipalities or franchises are going out for bid or RFP, and we're trying to make sure we're in front of that to have productive and educational conversations, if you will, about what the benefits are of automating these services.

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

But just to clarify, I mean, for some of these routes, these municipalities, I mean the type of container may have to change as well. So there is some work involved, right, in educating and getting that change in place. But for you, just to clarify, the ROI is good enough such that you can put in the time and effort to have those changes take effect and convert the fleet over and you're just getting the savings on the labor and the efficiency?

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

Absolutely. I think for the municipality, you bring up a good point. When you go to kind of the pick up everything at the curb model to a containerized model, it helps in terms of the municipalities understanding, managing their costs and the quality material on the recycling side. And I think I won't go down this rabbit trail, but all the technology we put on the trucks becomes that much more valuable when you automate the service, and we've got the ability to look at each of these transactions to help educate these customers.

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

When you think about the returns, Noah, I mean, it's a pretty easy math equation. On the negative side of the ledger, you get a higher capital cost for an ASL versus a reloader to the tune of about $60,000, maybe 20% of the cost of the vehicle. But on the positive side, obviously, you get a helper coming off the back, put whatever number you want on that. And that is perpetual, whereas the capital cost is a onetime cost for the life of the vehicle. And then you get a safety improvement. You get a 30% -- as I mentioned, a 30% pickup in productivity or efficiency because we're just -- we're picking up 30% more homes per hour with an ASL than with a reloader. So the math is really compelling. It makes sense for us to move as quickly as we can on John's point.

Operator

And our next question is from Michael Feniger of Bank of America.

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

Just on pricing, you mentioned Q1 as a high watermark. And when we think of 2020 with your core price of 5.5%, yield of 4%, just why wouldn't those parameters -- just top-down view, why wouldn't they be higher in 2023? Is that what we should be expecting? Would you let your foot off the gas, maybe on the open market as the restricted resets higher next year?

I guess I'm just trying to put it together with the Q1 being really strong, the high watermark yet is going to decelerate a little bit in the second half. How do I think about those -- that 2020 parameters as we kind of move to 2023?

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

I think, well, I may have said it a couple of times already. I do think some of it becomes about the math. And I don't intend to make it overly simple in terms of looking at that. But next year's Q1 comp will be very difficult. We do think there is benefit from the rate reset on the restricted part of the book because this year's reset didn't fully contemplate all of the inflationary impacts because they are backward looking. So we think there will be another step change in that part of the business a year from now.

In terms of our activity on the street, I think it's important to know we are [assuming that's slowing] this momentum down. So we would like to create some -- decreasing the cost inflation environment that would allow us to view this a little differently going forward. And I think our focus on customer lifetime value will always ensure that we're being data-driven and customer focused in how we push our pricing efforts forward.

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

Very helpful. And just last one, Devina, you mentioned how the cost inflation stepped up from 7.5% in the second half to 9%. Now obviously, you guys are driving price. I'm just curious, what's kind of embedded on that full year cost inflation? Because I know there's expectations that that's going to moderate with the cost. But how should we kind of think about that plus 9% number for the full year?

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

We generally look at our cost of inflation at 3% to 4%. So just a normal course would be at that level. And so you can see that we're meaningfully higher than that now. Our expectation in the back half of the year isn't necessarily that we get all the way back down to 3% to 4%, but we land somewhere in between.

Operator

And our next question is from Kevin Chiang of CIBC.

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

I'll be quick here. Congrats -- first of all, congrats on a good quarter. Maybe just on the comments, you made it a few times, Jim, just on the data analytics and the demand from national accounts or larger customers and requiring this data as they go on their sustainability path. Is that something you charge for? Is that looking to accelerate revenue service that you're offering? And if not, does it become an ancillary revenue service? I suspect more customers are going to need to kind of track their Scope 3 emissions and their broader environmental footprint?

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

Yes, it's a good question, Kevin. We don't currently charge kind of a separate price for it. It's packaged together in our service offering for national accounts. But it's an interesting -- it's kind of an interesting prospect that could we charge something. And it's something we've thought about, could we charge for these separate services related to data and analytics. So for today, the answer is it's a packaged deal. For tomorrow, potentially something we could charge for separately.

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

Okay. That's helpful. And that's kind of my follow-on question. You kind of mentioned it again, this is one of the levers you're pulling on to grow volumes above what the market is doing. You're taking share. I suspect in the smaller accounts that this might not be a service that's as appealing to them. So I suspect you're solving other pain points for customers as you grab that market share and it doesn't feel like you're getting aggressive on price to win volume. So what are some of the other pain points you might be solving for, let's say, smaller accounts that onboard with Waste Management if it's not being pricing-driven?

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

I think the sustainability piece should be important to everybody. But you're right, I mean it tends to be more important to the bigger customers. When we think about the digital approach that we've taken to customer experience, that impacts everyone as well, and that may be even more heavily used with smaller customers. I refer to the airlines a lot and what they did on the front end of their operation with moving away from the call centers 20 years ago.

So we're in that process now where we're digitalizing that entire customer experience and everything can be handled via your personal device or your laptop at home and you don't have to reach out to a call center. That's why we've said, look, for those positions as they attrit, we've made a decision to not replace many of those, and that starts in kind of Q2, Q3 of this year.

Operator

And there are no further questions on queue. I will now turn the call over to President and CEP (sic) [CEO], Jim Fish.

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

All right. Thank you. Well, I guess it goes without saying that we're very pleased with the quarter. The short-term outlook is very bright for us even with some of the economic pressures that were discussed today. But I think most importantly, we're really focused on this strategy that produces, we think, great results and differentiated results over the next 3 to 5 to even 10 years. We're excited to see the results of those.

So thank you all for joining us this morning, and we'll talk to you next quarter.

Operator

And this concludes today's conference call. Thank you for participating. You may now disconnect.
