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Waste Management, Inc. (WM)

Investor Meeting - Raymond James

CORPORATE PARTICIPANTS

Devina A. Rankin

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

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

OTHER PARTICIPANTS

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Good morning, everyone. I think at this point we've got a good quorum. The number of people have kind of leveled off coming in. Frankly, we've got a really good group joining us this morning. But if there's anyone out there that may not know me, I'm Tyler Brown. I'm the senior analyst here at Raymond James covering the environmental services sector. I do transportation. I do some heavy construction materials as well. So, I wear a number of different hats. But the waste sector is one of my favorites and I think most of you – most of you know that. So, I just want to first off, just thank everybody for joining. But this morning, I'm just really excited to have Devina Rankin, Waste Management's outgoing CFO and Mr. David Reed, Waste Management's Incoming CFO, joining us for what we will call maybe a CFO transition-type call to both thank Devina for all her incredible service over the years, but also to introduce David Reed to the street. He is likely new to many of you. But before a little logistics, given the number of people that are on this call, we have elected to put it into a webinar-type format just to kind of keep the background noise to a minimum. I do believe that WM is looking to put this event up on their website post the call. But if you do have any questions intracall, give me an email, tyler.brown@raymondjames.com. I will try my best. Not really good at multitasking, but I'll try my best if there are any incoming questions.

So, with that, Devina, David, great to see both of you. Thank you, guys, so much for joining us. Look, it's an exciting time at WM. There's a lot going on. I mean obviously there's a few wrinkles you've got, your story continuing to optimize your Collection and Disposal business. Obviously, there is a lot of progress being made on WM Healthcare Solutions. And obviously there's going to be some increasing and ramping contributions from your sustainability investments. So, there's a lot going on. But first I just want to say thank you, guys, for being here.

Devina A. Rankin

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

Thank you for having us, Tyler.

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

Yes, thank you.

QUESTION AND ANSWER SECTION

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Perfect. So, Devina, let's kind of kick it off maybe with you, let's talk a little bit about the CFO transition. I would say it did maybe come as a bit of a surprise to some of us, myself included, maybe many on the street. But can you just kind of start us off, maybe talk about that decision. Look, I've known you for a long time. I know you have a lot of different passions. But maybe just in your words, if you could just talk a little bit about the decision.

Devina A. Rankin

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

A

Sure. So, as some of you may know, I have had the privilege of being with WM, formerly Waste Management, for over 23 years now. And in a lot of ways, my waste management connection started before that because I was an auditor at Arthur Andersen and part of the team that worked through the USA Waste – Waste Management integration process in 1999. So, my entire career really has been dedicated to this great company. I've also had the privilege and honor to serve as the company's CFO for almost nine years now. And I would tell you it just was a time of reflection for me. And one of the things that I decided is that I think my WM CFO era is complete. I've done a tremendous amount here and have so much to be appreciative of most importantly, but also proud of, right. The company's market capitalization has gone from about \$30 billion when I took the role and we're hovering at around \$90 billion today. I think we should be higher than that frankly. But – so accomplished a lot and done a lot.

But those passions, the things that wake me up every day, excited to contribute my time, talent and treasure to the world. I want to start to shift those things in a different direction. I teach at my alma mater, Texas A&M University, and every semester when they ask me to sign up again, I think do I really have the time to drive to college station once a week for five or six weeks a semester? And I really decided that I enjoy that so much and feel so much fulfillment for it that I don't want to give it up.

And in addition to that, I spend time with not for profits, in particular, NMDP. It was formerly known as Be The Match. It's the National Marrow Donor Program. My [ph] wife (00:04:35) and I have committed a great deal to that organization over the last almost a decade now. We became connected with them because she was a bone marrow donor to a 13-year-old girl with acute lymphoblastic leukemia. And while I've been able to write checks to the organization, I haven't been able to spend a whole lot of time with them. But I hope to change that. I'm going to join their board and see what I can do to continue their mission. And then as a cancer survivor, I'm fully committed to the mission of MD Anderson and really want to do more to further their ambitions and their – their commitment to making cancer history. So, those are the sorts of things that really drew me to think that maybe the time had come for me to close one chapter and open another. And while I'm sad to leave WM because it's just such a great organization from the front line to the back office, I know that I'm leaving it in fantastic hands.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Yeah, perfect. I mean there are just so many sides of you, Devina. I mean I've known you for a long time. So, I just personally just want to wish you the very, very best. And I know a lot of my peers and a lot of the buy-side as well you just – you've been a fantastic CFO, so thank you so much for that.

David, so we've had a chance to kind of go through maybe get to know you a little bit, but maybe you can just kind of give everybody just a quick brief history of David Reed, maybe talk about some of your formative experiences, maybe from your background and as you kind of transition into this role.

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Sure, sure. I'd be happy to. Just kind of going way – way back after graduating, I started my career in investment banking, where I developed strong analytical foundation, completing over 50 transactions across a range of industries and business situations. So, I think that – that early access to whether it's capital markets or M&A gave me a front row seat to see how strategic decisions shape enterprise value across – across against – again different situations. From there I did transition, I did my tour of duty in investment banking. I transitioned into corporate roles, starting with Kimberly-Clark and then LyondellBasell before – before joining WM almost eight years ago. And I joined as the VP and Treasurer, actually backfilling Devina as she was moving into the CFO role. And as Treasurer I led a team across Treasury, Risk Management and Capital Markets, and really was able to participate and advise on some of our major milestones, including the Advanced Disposal acquisition and a number of financings, I think of over \$10 billion in financing while my time in the role. And then as part of that role also really focused on driving shareholder return strategies and in our enterprise risk management framework as well that we still deploy today.

The last three years has really been quite an interesting role for me. I've been in more on the operations side of the house as the Vice President Business Partner for our Western Tier. And I oversee strategic and financial planning for roughly half of our collection and disposal operations. And then I also get to act as a corporate and field advisor on things such as M&A and growth initiatives in the areas. So, that's been a great – a great opportunity for me.

So, as I think about formative experiences and how [ph] it will shape (00:08:12) me in my transition into the CFO role, it's really those involvements around integration efforts and complex acquisitions, that enterprise risk management work I alluded to. And then just working on building lean and high performing teams, that's been something that's helped shape how I think about what I want to accomplish in the CFO role. I view the role as not just as a financial steward, but as a strategic partner, someone who can translate complexity into clarity, guide long-term value creation, and foster a culture of accountability and innovation.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Yeah, perfect. So, one clarification because I did get some questions kind of polling just kind of prior. Can you talk about your last role? Because I think it was – you're Vice President and Business Partner of the Western Tier. Can you just kind of rehash that? What exactly was the role and kind of talk a little bit about kind of what you did day-to-day?

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Yeah. I would – I would most equate it to like using kind of more external terms as like a divisional CFO for the Western Tier. And so it – you wear a lot of different hats, but all capital decisions, all growth decisions kind of run

through. We have eight areas in the west and eight areas in the east. And so those eight areas, the business partners in those areas have a dotted line to me and so I'm an advisor to them to help them drive their and execute their financial plans.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Okay, perfect. That's great clarification. So, Devina, I think David has been with WM now for I think it's almost nine years. I think you originally hired him. Maybe if you could confirm that or not. I believe that's true. And just kind of I'm sure you played a really key role in helping kind of shape him into this role. Can you just talk a little bit about how you guys have worked together and how closely you've worked together maybe over the last few years?

Devina A. Rankin

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

A

Yeah. So, I did hire David a little over eight years ago. And one of the things that I'll highlight first for anyone listening who is thinking about this is networking is not overrated because I will tell you that I was lucky enough to have met David during a treasurer's forum that one of the large investment banks had here in Houston. And without that connection, I don't know that we would be sitting here together today. And so certainly appreciative of that networking opportunity and the fact that he took my call when I picked up and said I was looking for someone to backfill my role as Treasurer when I got the CFO seat all those years ago.

And David was a better treasurer than I was. He had really great contributions to the organization from minute one. And we worked hand-in-hand on a lot of complicated things. Funding the ADS acquisition kind of stands out of all of them. But things like building the right risk management framework and enterprise risk management framework for the organization. It may sound like something that the street doesn't necessarily think about. But what I will tell you is it helps guide long-term strategy for the organization in a way that maybe most people don't ever have to realize if you don't sit within a large corporate enterprise. And when you think about what we've navigated through, whether it be a global pandemic for the first time in a 100 years, it is a great indication of the strength and resilience of not just WM, but the industry that David was involved in building some of the frameworks that have been valuable to us, to thinking about not just running the business every day, but expecting the unexpected and preparing for the unexpected with the benefits of such a resilient business.

And we've been partners in so many ways. And what I will tell you about this last role that he took, the one that he talked about with the West Tier as business partner, it was really my encouragement that resulted in that set. David has a hunger to learn and grow and develop professionally. But it was also something that in my own journey at WM over the 23 years that I can tell you I regret is that I didn't spend more time close to the business. And so it was really important to me in thinking about what would position him to be really well prepared to take this next step in his career.

So, with that encouragement, I kind of had to let go of the direct partnership that I benefited from with him being the treasurer, because while we still engage day-to-day in the Western Tier business partner role, he really was serving the business and therefore not serving the corporate elements of the CFO title. And so we've worked together really as strong partners every step of the way. And I love his hard work, his professional skepticism, but also drive and determination. But I also really respect that the partnering and collaboration that he demonstrates every single day, not just in the back office, but at the front line, and that's one of the things that I think will serve him so well as he takes on this next role.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Perfect. So, clearly, David, you've been around the block. You've been with WM for some time. So, as you move into this role, what will be some of the initial priorities as you kind of make this transition?

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Yeah. I'm really fortunate that I had this most recent role. I do think it broadened my exposure. All my prior experience had kind of been more corporate or strategy oriented. So, I do feel like I have a great foundation with WM for my two previous roles. Several things – the priorities that I'm thinking about, particularly in my first year in the CFO role, one is, the first is expanding my relationship with Jim, John, and the SLT to ensure that all aspects of our finance organization are properly calibrated to support the company's growth and operational priorities. I have a good sense of that today, but as I step into the role, I'm going to use it as an opportunity to double click in a number of areas just to make sure that – that we're positioned appropriately.

Secondly, I want to spend a lot of time connecting with investors and analysts to build a long-term relationship, to understand and compare how we view our company and industry and what drives differentiated long-term shareholder value, just kind of really having a fundamental view of that would be a priority of mine. And then lastly I am fortunate I'm taking over a finance leadership team that is seasoned. And we've partnered together for most of Devina's time in her role. And so there will be opportunities to continue to expand how finance supports the business with the focus on continuously improving the insights and value we provide, but also while seeking opportunities to lower our cost to serve. And so those are two elements within the finance organization I'm going to be focused on. But I'll be spending the early part of my tenure looking at prioritizing each of those, those three items.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Perfect. So, Devina, just mechanically, I think the transition, maybe this happens over a six-month period. Is that right?

Devina A. Rankin

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

A

That is right.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Okay. And so how will your role more over these next six months in broad strokes?

Devina A. Rankin

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

A

So, I kind of think of our transition plan as having two primary chapters, one being providing David a period where he is shadowing me. That's chapter one. And then I think the second chapter is I'll shadow David when he has taken the role and taking the helm. And I'll be there to answer questions and guide or help clarify anything that maybe we didn't address when he was shadowing me in the first chapter. I think the other thing that's going to be really important though is you guys know that we continue to work through the Stericycle integration and optimizing the healthcare business, and I'll continue to play that role really till the end.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Okay. So, we get you for maybe one more earnings call?

Q

Devina A. Rankin

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

One more.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Maybe two.

Q

Devina A. Rankin

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

Just one.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

One more? Okay.

Q

Devina A. Rankin

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

Yeah, just one.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Just one. Okay. All right. So, I want to kind of go to really if there was one central question that I kind of got from folks, it's really around kind of David as we think about you've got one CFO leaving, a new CFO kind of fresh coming in. You guys are obviously coming off of your Analyst Day. And I think the natural question for folks is how much do you kind of wear the prior strategy, the financial targets that were laid out a few months ago. So, look, we're all different. We all have different perspectives. But when we think about WM's strategy, are there parts to WM's current strategy that we should think about being emphasized or deemphasized, just anything kind of helping us think about it on a go-forward basis?

Q

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

Yeah. I think philosophically you should expect a similar disciplined and thematic approach to how Devina led on matters such as capital structure, capital allocation, investment decisions. My objective is for our strategies to be transparent and well understood, similar to how they were laid out at our recent Investor Day. And what I would say is, as we finish our multiyear wave of sustainability growth investments in recycling and renewable energy, and as we continue to integrate and optimize our WM Healthcare Solutions business, our near-term focus is going to be rooted in operational excellence, maximizing free cash flow, a return to our targeted leverage that we've outlined and then shareholder returns.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Perfect. So, if we can go back to the Analyst Day and the 2027 financial targets, can you talk about what your role was in building those 2027 targets, maybe how much collaboration there was between you and Devina?

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Sure. Actually, as a precursor to our Investor Day, Devina had me lead our 2026 financial plan and discussion with our board late last year. And as part of that exercise, we developed a multiyear view that served as the foundation for the 2027 outlook that was used for Investor Day. So, from the get go I had a good involvement in designing and building that outlook and it was driven by various industry-wide influences such as the changing regulatory and labor landscape, along with our views on capital discipline and proactive investments in our asset network.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Perfect. So, clearly you are very much involved with all of that. So, as you come into the role, you got fresh eyes, fresh perspective, are there any aspects to the plan that you think could maybe have more upside or downside to it versus what you laid out? And I just bring this up because I just continue to get this sense that every time you guys kind of talk, [ph] Rafa (00:19:54) and the team, seems to be uncovering more incremental opportunity at WM Healthcare, be it direct synergies, cross-sell opportunities, et cetera, just seems like that continues to track a little bit ahead. But just anything that you kind of see that has more upside, downside as you kind of laid it out the 2027 targets.

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Yeah. I mean we're definitely excited about the strong growth that we outlined in Investor Day, to deliver between now and 2027. It's probably a bit early to refresh that view, just given how recent that – that – that event was to discuss the various moving pieces. But fundamentally I would say our Collection and Disposal business is what anchors our growth. And then it's complemented by the – the – the outsized growth we have in our smaller businesses, such as recycling, renewable energy and healthcare solutions. So, we still fully believe in all the secular trends that are kind of underpinning our strategies and that's where we feel like we're well positioned.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Right. So, kind of coming back to it. I mean look the core here is still the Collection and Disposal business. That is I think Jim has put it the proverbial golden goose. So, is there anything on the horizon though that investors should think about that would change the dynamics of a price-led go-to-market strategy, again focusing on a positive unit rev to unit cost spread and improving margins over time?

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Well, we've demonstrated that we can sustainably price and keep pace with inflation. And I think that mindset coupled with continuous improvement will allow us to continue to try to target capturing 50 basis points to 100 basis points of margin expansion annually in the Collection and Disposal business, and we still feel confident in our ability to strive for that.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Right. So, that go-to-market strategy again still is really around maximizing the value of the services you provide in effect.

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Yes, correct.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Okay. So, obviously as we think about on this topic, which is a huge topic with investors, over the next few years I mean do you see risks or opportunities in that price-to-cost spread? I mean I think you've had something like 30% unit cost inflation in front line over the last five years. But then you guys talked a lot about technology. That could be somewhat of a disinflationary opportunity. But just can you just talk about some of the challenges or maybe opportunities on that cost spread that – that you kind of see over the next few years?

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Devina, if you want to take this one, otherwise I can.

Devina A. Rankin

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

A

Sure. Yeah. So, when we think about the nearer term opportunities, it really is associated with how we use technology to offset that cost inflation that comes on the highest cost element of our cost structure and that's our labor, right. This is a human capital-intensive business and our ability to use technology as a strong complement to our workforce is the focus of the organization. And we've seen that as an important lever. The successes of that have been fits and starts. If you think about the recycling part of the business as a strong example there, right, the recycling line of business where we've automated a lot of our single string MRF facilities and we've seen 30% to 35% reduction in the labor cost there. And that pencils out exactly according to plan.

Then you have in the collection part of our business where routing technology and efficiency has always been the fundamental and the focus. We certainly have seen technology provide dividends over the years. You think back to the early days of – you'll remember Tyler we called it service delivery optimization, right. And we've moved beyond service delivery optimization into next-day optimization where in particular in the industrial part of the business we want to use technology to be more dynamic in our routing. And while that has provided benefits, certainly over the last 10 years or so in terms of operating cost as a percentage of revenue, we haven't seen [ph] MDL (00:24:18) provide the lift that we expected as quickly in 2024 and 2025 as we would have expected when we put those technologies into place.

Now, we continued to see the anecdotes on a route-by-route basis that tell us it's the right thing and the right ambition. But we see the long-term value from that as route optimization being eliminating some routes, right. So, if you think about a facility needing to run 35 routes could instead run ultimately 30 routes, right. Is there a 10%-plus efficiency that can be gained in the number of drivers, the number of trucks that are needed at a facility?

So, I would say in terms of structural opportunities that exist. We are, as David mentioned earlier, that continuous improvement mindset drives us to always look for them. And I think technology is the one that we see the most

upside from. But you have mentioned a couple of times on today's call that we continue to be price focused too, right. And so the growth of the business on the top line needs to continue to reflect the fact that labor inflation has been one of the things that's driven the cost structure of this organization in the last five years and the price that we go to market with will need to reflect that.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Yeah. I mean it's one of these industries that is maybe considered a bit boring, maybe a little bit old industrial, if you will. But it still does feel like there's a lot of technology application. I mean I know there's a lot of talk about AI, but it does feel like this is an industry that there still is opportunity there on the technology front.

Devina A. Rankin

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

A

Absolutely.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Perfect. Okay. So, I don't – Devina, I don't want to be too near term-focused, but I did get this question from folks and I just want to maybe think about just calibrating as we kind of think about into 2026, because in Q2 you guys did benefit quite a bit from fire cleanup on the Q2 disposal side. Can you kind of quantify at all a little bit about how much that helped? Because I just want to make sure that we all get our models correct into 2026 because I feel like that was a pretty big help in Q2.

Devina A. Rankin

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

A

It was definitely a big help in 2020 – in the second quarter of 2025. And it's one of the things that we're looking at as we build our 2026 plans. I think it's really important that we first emphasize the strength of WM in terms of our market placement and our community partnering. We do show up when our communities have hard times. And while we would have hoped that this had never happened, we were certainly pleased to be an important partner to the LA communities at this time of need.

I'll quantify it by giving you some context, because we don't specifically quantify it in the EBITDA dollars. But the context that I think is important is we expected 50 basis points of volume accretion to all of 2025 associated with the wildfires. And that's a significant needle mover in a given year. We saw almost all of that in the second quarter. It's effectively tailed off to virtually nothing in Q3. So, that 50 basis points of volume, you can do the math off of our Collection and Disposal revenue. And then when you think about volume providing incremental EBITDA, the flow through of volume, we say generally is 40%-plus on incremental volume. And when you think about it, this was all landfill. So, the landfill volume is actually the strongest incremental flow through that we have in the entire portfolio. So, it was above that normal 40%, which is more representative of a typical mix. So, those are kind of the factors that I would outline to say, while we don't want to give the specific EBITDA dollars, that kind of helps to frame the impact to the year.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Yeah, that's exactly my point, right. It is something to consider, but I just want to clarify. So, there may be a smidge in Q3, but that's pretty much wrapped up at this point.

Devina A. Rankin

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

That's correct.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Okay. So, not something that we need to think about in Q4. Okay, perfect. Can we turn a little bit to capital allocation? I want to talk a little bit about M&A and the balance sheet. So, David, this is maybe just kind of a first one to talk about capital allocation. So, just curious about your thoughts about the balance sheet in general. Where do you kind of see that optimal capital structure? Is it kind of I assume it's pretty much in line with where you guys have laid out, but just any longer-term thoughts about how you think about leverage longer term?

Q

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

Sure. Yeah. I mean you mentioned the balance sheet and leverage. And on that point, we're very proud of our strong investment grade credit rating and look to maintain that. We prioritize diligent fiscal stewardship as kind of one of our key priorities. And on the leverage end I think we finished the second quarter at 3.5 times debt-to-EBITDA, and we're working to lower that to our target range, which is between 2.5 times to 3 times by middle part of next year. And so we're still on track for that. That's one of our key near-term focuses, is to get that back into that zip code, because then it allows us to then look at broader capital allocation, which is more of our longer-term traditional priorities.

A

And the way I think about that is having a balance and consistency over the long term in terms of all the different buckets of capital allocation. I tend to think about it in terms of like a cascading decision matrix. And so first I start with reinvesting in our business. And we just want to – obviously we want to maintain the quality of service that our customers expect and provide a safe work environment for our team – for our people.

Secondly is sustainably growing the dividend. And we've – as you know we – we target dividend payments between 40% to 50% of free cash flow of our baseline free cash flow. And we also triangulate that with the underlying free cash flow growth. So, in terms of how much we grow the dividend each year, it's kind of calibrated to how much our free cash flow has been growing. And we've done it – we have a great track record here at 22 years of sustainably increasing the dividend. So, that's kind of the second priority as I think about cap allocation.

The third is looking at our growth opportunities on a risk-adjusted basis and prioritizing those highest returning projects that are in line with our core strategies. I mean there's lots of great projects that are presented to us, but we also want to make sure it ties into what we're conveying to the – to the street in terms of what are those core strategies that we're really focused on. And so that's going to be across Collection and Disposal and sustainability businesses.

And then thereafter M&A, we have a disciplined – disciplined approach there where we definitely lose out on some assets because we're – we're price conscious and – and there's – sometimes we just won't go all the way to what that -- what might win the deal. But we always want to look at businesses where we feel like we're the right owner and – based on our core competencies. And so that's where you see us make those bets is where we have a strong conviction in that. And then lastly is share repurchases. But we – once we get our leverage back in the range that I outlined we will restart that program and we'll have that program going in an ongoing manner.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Okay. Right. So, it's kind of get the balance sheet back in order, at least down to the 2.5 times to 3 times. Obviously, the dividend is a huge part of your story. That's not going anywhere. Then it kind of comes back to any investments, M&A. And then the buybacks kind of the last thing. Just to kind of maybe summarize all that.

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Correct.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Okay. So, maybe the other – another question that I get about you guys is there's a lot of questions around sustainability investments in particular. Those would be investments like RNG recycling. It's obviously been a big part of WM's capital allocation story of the past couple of years. That spend is somewhat sunseting I think as we kind of get out into next year. But I know that people are curious, David, if you could talk a little bit about how you think about the risk and reward of those continued investments just given there is some commodity volatility there?

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Yes. I would say we've been very pleased with the results of our investments in growing recycling and renewable energy. And as Tara discussed at Investor Day, we'll be disciplined in identifying and pursuing new projects. Obviously, the ones that we highlighted over the last several years were the – probably the highest returning, most obvious projects to pursue. And so you can expect a healthy amount of scrutiny for future projects just as we continue to evaluate our asset portfolio where those investments might make sense. But then as you kind of alluded to, we've really done a lot of work to de-risk both businesses really, whether it's through the automation efforts in and of themselves, de-risk, a lot of our – the volatility to our business, but also our fee-for-service approach in recycling. And then with the RNG side of the house, we have a dedicated risk management program that we manage to lock in rates with a certain cadence so that we eliminate near-term volatility.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Perfect. So, I think the punch line there, obviously this first tranche of investments were, let's call it, maybe some of the best, some of the juicier ones. There probably are further investments, but I would assume there'll be pretty strict hurdles, obviously when we think about all of that.

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Yes. Yeah. We'll be very disciplined and we're going to weigh that against other investments, whether it's in our collection and disposal business or other verticals.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Okay. So, maybe some additional thoughts on M&A. Again, another question that I get quite a bit about you all, but I would love to get your perspective more broadly on M&A, what that pipeline looks like because you've

always described yourselves as disciplined acquirers and you focus on tuck-in deals and selected larger deals, let's just say. But as you think about M&A, how do you think about that pipeline, especially in some of the maybe the less core solid waste side as it relates to healthcare, hazardous waste, maybe even international expansion? Just any broad thoughts and strokes there?

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Sure. I think the financial discipline that we would apply would cover all of those areas. So, first of all tied back to core strategies like where do we – where is the SLT defined where we want to spend our time and effort, so that we're not looking in every direction or investing in every direction without a lot of focus. And so that's going to be kind of core. But as we evaluate deals we're going to look for appropriate returns, particularly given the high returns we see with our internal growth opportunities, which we still have a lot of opportunities from internally funded projects.

And so then I think what we're really looking to see is how does this potential acquisition extend our asset network? Does it provide internalization opportunities? Does it allow us to build density? Does it deepen our expertise and core competencies that we can otherwise not get organically? And then last but not – definitely not least is depending on what we're acquiring, is it a really good cultural fit for the company? So, that's extremely important as you think about integration and getting the business up to speed as fast as possible. So, those are kind of some key aspects that – that we focus on.

As you know we target deals that are accretive in EBITDA and cash flow in the first year with returns at a premium to our cost of capital. And we range kind of what that – those hurdle rates are just depending on what types of businesses we're looking at. If it's more in core, it probably has a lower hurdle rate. If it's the more we kind of extend out, whether it's kind of a new – a new market or just something where we're not as deep in we're going to require a higher hurdle rate to accommodate for some of the risks that we might be accepting there.

And then as I think about like valuation accretion, we're going to look for a post-synergy multiple well below our trading value because I think that's really what investors are going to want to see long term is that we can turn something into just as opposed to just adding it to our portfolio, like can we actually add incremental value to that asset. And so that's something we are very cognizant of. And then...

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Okay. And then...

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Yeah, go ahead.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Yeah. Sorry. No, no, please, please.

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

I was just going to mention tuck-ins because that's a normal course activity for us.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Yeah.

Q

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

But this year is a little bit elevated from our normal guidance of like \$100 million to \$200 million in our initial outlook. We're now targeting \$500 million in tuck-ins for the year. And I think through Q2 we are at \$378 million of spend thus far. We had a large regional solid waste player we acquired in the D.C. area that really complemented our asset base as well. So...

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Yeah. And Devina, [ph] there is something (00:38:03) part of the pushback that we get on you guys is maybe of less of an ability to do solid waste tuck-ins. But should we still think about that pipeline as \$100 million to \$200 million would be kind of a status quo year on that front?

Q

Devina A. Rankin

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

That's definitely a status quo year. I think what's really exciting, though is you look at the last two years and we've shown that there's plenty of white space and kind of integration opportunity on the map. And with the change in administration, we've actually seen more appetite for acquisitions even in those concentrated industries. If you look at some of the deals that are getting announced. So, we were always optimistic that we thought that there was more runway to be able to do in solid waste M&A. And I would say we're a little more optimistic here the last year or so than we had been before.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Okay. Interesting. Okay. Well, we're kind of coming up on time. So, look, first, this was fantastic. Again, it was kind of designed to give an opportunity first off for Devina, just to again say thank you. Talk about the transition. Give the street an opportunity to meet David. So, maybe I'll just pass it back to you guys. I mean is there any other points that you really want to make in closing? Is there any other – anything else that you really want to message or just any other broad kind of closing comments?

Q

Devina A. Rankin

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

I'll quickly just say, I mentioned in the first question, Tyler, that this organization is – it's been a privilege to be part of this team. And it's the people first that matter most to the success of this organization. And it's a really great business model, a great industry and a great leadership team. And I can pursue these personal interests and passions because I know that the next generation of leadership and the continuation of the finance leadership team that has contributed to my own personal success, they're here to take the baton and run harder and faster. And thank you for all of the support that you've given to me personally over the years.

A

But I hope that the compelling story of WM is one of resilience, of growth, of strong execution, and a responsibility to generate really outsized returns for our investors. And we look forward to the opportunity to continue to do that

on the road ahead. And I am so proud to be handing things over to David. And you guys are in great hands. He is going to be a great CFO.

David L. Reed

Incoming Executive Vice President and Chief Financial Officer, Waste Management, Inc.

A

Thank you. I've always learned – I should have – I should go first before letting Devina in because she is so good at this. But no, I just wanted to say, I'm looking forward to working with you and the street as I step into the role. I'm very honored and humbled for this opportunity. It's a wonderful company. It's – I'm excited every day I come to work, there's always new challenges. But the people I get to work with this is what's kept me here.

And I'm – and lastly I mean Devina has been a huge mentor and advocate of mine. She is the reason I'm here at the company, but she has also just been super supportive since I've – since I've been here. And I just – I'm going to be really sad to see her go. But it's – she has been – even in this transition she has been wonderful. So, thank you for having us.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Yes. Thank you so much. Excellent. Appreciate the time. And again thank you everybody for joining us. Thank you, guys, so much.

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