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Waste Management Inc Investor Day

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PRESENTATION

Edward A. Egl ***WM - Senior Director of IR***

Good morning, and welcome to WM Sustainability Investor Day. We're excited to have the chance to share more with you about the investments we are making in renewable energy and recycling businesses. We have great presentations, and I know that you'll walk away with a better understanding of these important parts of our business and the exciting growth opportunities ahead. I know you'll also have some questions for the team. And that brings me to my first of 2 housekeeping items.

After the presentations, we will conduct a question-and-answer session. You can submit your questions to the Q&A chat feature as you think of them. There is no need to wait. We will compile them throughout the morning, and I'll moderate the Q&A session once the presentations conclude. My second housekeeping item is everyone's favorite the forward-looking statement slide. Please note that we will discuss a number of forward-looking statements based on our opinions and beliefs as of today, April 5, 2023.

Please see Page 3 of the accompanying presentation for cautionary information about our use of forward-looking statements and projections as well as information about our use of non-GAAP measures. As a reminder, today's presentation may not be reproduced or redistributed without expressed consent from WM. And with that, I'll now turn the call over to President and Chief Executive Officer, Jim Fish.

James C. Fish ***WM - President & CEO***

Thanks, Ed, and thank you all for joining us this morning. It wasn't that long ago that we were in New York presenting to you at the NYSE, and we were talking about a very compelling business case back in 2019 for the solid waste business, and we talked about the stable revenue streams. We talked about the price discipline that we were putting into place and the cost controls.

We talked about improving solid waste margins. We also talked about the fact that we were building an innovative culture and that we're using technology to really enable that. And we also gave you some pretty aggressive goals at the time, some financial goals.

And since 2019, not only have we met those goals, we've exceeded those goals. Today, you'll hear a lot more about kind of the next leg, a very compelling investment case around these sustainability investments. The strategy itself really hasn't changed since 2019. The strategy is still one of differentiation and optimization. It's one of sustainability with people kind of over the top, and it's fully enabled by technology. That strategy will produce almost a doubling of our EBITDA and our free cash flow over a very short period of time from 2019 to 2027.

So 8 short years. I tried to come up with an industrial company that's over 50 years old. That's in kind of a mature phase that's doing that. And I couldn't come up with a company that's doubling their EBITDA, their free cash flow over a short period of time like that. It's pretty impressive. You're going to hear a lot of detail on that today. A little bit of detail for you though. How do we do this? Well, look, we use that second to none in asset base, and we refer to that quite often.

But we truly believe that our asset base is second to none. And then we combine that with technology. We combine that with expertise to produce those impressive results.

My dad said a long time ago that you make your own luck. And as I think about those intentional investments we've made in the past, whether it's an intentional investments to move our diesel fleet to natural gas, which now becomes an enabler to monetize those RIN credits. That wasn't luck.

Or when I think about the technology, the customer-facing technologies that we put into place, which now have resulted in a 25% reduction in call volume and in part helps us to enable that 5,000 to 7,000 positions that we just choose not to refill and make ourselves less labor intensive. That wasn't luck either. There's a whole lot of those strategic decisions that we've made that we've created our own luck.

When I think about the golf tournament and the reason I referenced the golf tournaments, and I'm talking about the WM Phoenix Open, which we just had a couple of months ago, the golf tournament is somewhat of a microcosm for the bigger company. I say that because we've been title sponsors now for 14 years. And when we started that title sponsorship, we had an aspiration to turn this into a zero waste event. And we've done that. We had an aspiration to make this the most heavily attended golf tournament. And we've done that as well.

We had an aspiration for this to really supercharge our brand, and we've done that as well. And as I think about the broader company, we had an aspiration, as I said, to create a natural gas fleet, which we've done. And now we're taking that 55% of gas that comes out of our landfills and turning that into -- monetizing that into a highly profitable revenue stream for ourselves.

So going from 45% to 65% is an aspiration, going from a business that had a lot of volatility in it, which was our recycling business and removing a lot of that volatility and now growing that business, both of those are aspirational. But when I look at that golf tournament and see what we've done with those aspirations, and I look at other goals that we've had over the long term within the broader company, I'm highly confident that we can achieve those.

As a result, we've won a lot of awards for it, and that's fantastic. The team that you'll hear present on this today is a team that you recognize. The one person you might not recognize is Shahid Malik. And Shahid joined us about 2 months ago. Shahid is a fantastic addition to the team. You'll hear a lot from Shahid today in the details of that RNG business. We're thrilled to have him on the team. So with that, I'm going to turn this over to Tara Hemmer for her presentation. Tara?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

Thank you so much, Jim. So happy to be here today to talk through our sustainability-related investments and how they are a growth engine for WM. So let's just dive in. As the largest environmental solutions provider in North America, we truly make living in cities and communities possible through the services we provide. And increasingly, our customers are coming to us asking us to help them think through innovative approaches to their toughest challenges.

And rising to the occasion requires partnering with our customers in new ways as they respond to the need to transition to lower carbon solutions while also finding ways to get the materials they place on shelves in stores back into new products.

As a world-class transportation and logistics company with the processing assets to match, we can ensure these materials are turned into their next best life, whatever that may be now and in the future. Our recycling and renewable energy investments play a pivotal role in building these solutions for our customers while also unlocking value for our shareholders.

At the same time, our investments in renewable energy and recycling will improve WM's environmental performance and provide opportunities for employees' roles to evolve, a true example of positives for all of our stakeholders.

So speaking of our investments, this next slide highlights the detail we provided in February of 2023 on our planned investments in renewable energy and recycling. Some key highlights. 20 new WM owned renewable natural gas plants expected to generate $500 million in operating EBITDA in '26.

Investments in 43 recycling facilities, including 31 automation projects and 12 new markets expected to generate $240 million in operating EBITDA in 2026. These investments together will target $740 million in incremental operating EBITDA and $580 million in run rate free cash flow in 2026. They have robust financial returns while driving key benefits for multiple stakeholder groups.

You're going to hear so much more about this later today from Shahid Malik and Brent Bell on how these investments will come to life and additional opportunities we see for growth in both of these spaces. You heard Jim talk a bit earlier about WM's overarching strategy of differentiation and optimization with sustainability as a key tenant and technology is a key enabler of our strategy.

Well, our renewable energy and recycling businesses and our announced investments in these businesses serve as a great platform for growth through differentiation and optimization. I want to give you a couple of key examples. Connecting the largest collection of landfills in North America with the largest collection of renewable energy facilities fueled by waste with the largest fleet of compressed natural gas vehicles allows us to deliver truly sustainable solutions to our customers while creating unparalleled value.

Imagine the waste you put out at the curb yesterday, fueling the truck that picks up your waste tomorrow, that's what we're talking about here, and we're uniquely positioned to do that. And on the recycling side, our network of material and recovery facilities, combined with the unique scale we have through our brokerage business, allows us to tap into wide and vast end markets to manage our material.

Again, imagine the plastic water bottles you put out at the curb yesterday being turned into the uniforms your driver wears to service your home next month. And all throughout our renewable energy and recycling businesses, we have opportunities to optimize to transform our asset base. On the renewable energy side, this is about taking a natural byproduct of our landfill operations and finding ways to monetize this byproduct.

And on the recycling side, it's about transforming our existing facilities for the future, to be more efficient, less labor-intensive, all while creating higher quality material. And the good news is we know how to do all these things because we have a long, deep and rich history scaling, building and evolving our renewable energy and recycling businesses. We've been at this for decades, and we know how to adapt to these businesses to the changing needs of our customers and evolving regulatory frameworks.

Take our renewable energy business as an example. In the 1990s, we scaled our landfill gas to electricity plants rapidly to take advantage of favorable tax credits, and we're doing the same thing with our renewable natural gas plants, responding to evolving customer preferences and government mandates for low carbon fuels.

And on the recycling side, when municipalities were trying to drive increased participation rates, we built the first single-stream recycling plant proving out this is possible. And we're doing the same thing now with our unique automated solutions.

We have the experience and the capabilities to deliver on these sustainability investments and the significant operating EBITDA growth that will come from them because we have the right teams, the right focus and the right assets at the right time.

Our decades of experience makes us who we are today. And we are who we are because of what we've learned over the last 30 to 40 years in this business.

And here are some of what we've learned. Size and scale matter. And having a business model that is vertically integrated, creates enormous competitive advantages as does the regulatory expertise that we've developed over the course of many years. But we can't forget about the intangibles. We're relentless customer focus, a commitment to ongoing innovation and a talented and committed team of people with years of expertise. And of course, all of this is backed by our tremendous financial flexibility.

In short, we have the capabilities and talent to win in this space, and that's why we are confident we can deliver on our commitments in the sustainability platform. We have so many great examples of how this comes to life, and you will hear some more leaner today.

But I think one of the best examples we have of delivering value for our shareholders, our communities and the environment, it's how our WM owned renewable natural gas plants have improved both economic and environmental performance. We now have been operating WM owned renewable natural gas plants since 2016.

We have 4 in place with enough history to show that these plants have helped more than double each site's operating EBITDA on an annual basis. This growth is unlocking other opportunities for new customers, for further investment in gas collection infrastructure to route more gas to the RNG plant, and all of this helps maximize environmental performance. Visiting these sites, you feel the pride of our employees in these assets and their contribution is clear.

Our teams continue to innovate to make them better. This is what sustainability is all about, delivering economic and environmental performance together. So let's talk a bit more about how our investments will deliver environmental benefits for us and our customers, while also delivering economic benefits.

As we invest in our renewable energy business, we are also optimizing our landfill gas collection and management systems that results in reducing greenhouse gas emissions. We set a science-based target, and the main lever for meeting our planned greenhouse gas emissions reduction is capturing more landfill gas.

And by diverting it for beneficial use, we also generate more renewable energy revenue. Likewise, as we leverage our recycling network to recover materials for reuse, collecting, marketing and processing more recyclable materials, we are helping our customers reduce their environmental impact as well.

We are North America's largest manager of recyclables, and we plan to continue to increase the materials we manage even more, leading to circular solutions. This is a win-win strategy. We're doing good for all stakeholders is also great for our business.

So what does this mean for the long-term growth of WM? I've outlined how our plan sustainability-related investments are targeted for rapid growth. And you can see the operating EBITDA contribution from these investments is expected to be a bigger piece of our operating EBITDA contribution in the future.

But you can also see that the biggest piece of our operating EBITDA contribution will continue to come from our core business. These investments will help us complement and grow our core and differentiate WM in the marketplace, given our service offerings.

I want to unpack the national accounts example a minute. Over the last 6 to 7 years, this business has more than doubled, driven by the data and insights we provide our customers, including information on how much waste and recyclables they generate, opportunities for waste minimization and solutions for recycling. Increasingly, these customers are seeking solutions that will help them achieve their own sustainability goals. And our investment serves to provide solutions for these large businesses across North America.

I want to close with something I said earlier. We have the right team, the right focus, the right assets at the right time to deliver significant operating EBITDA and free cash flow growth from our sustainability investments. It is clear our sustainability story is compelling as it is good for our business, driving strong economic value and benefits for all stakeholders. And we're really excited to tell you more about it.

Shortly, you will hear from the leaders of our sustainability businesses. Shahid Malik, our Vice President and Head of Renewable Energy; and Brent Bell, our Vice President and Head of Recycling. Shahid recently joined WM coming to us from PCG and he has decades of experience leading change in energy companies. Brent has been with WM for over 20 years and is a trusted expert inside and outside WM on recycling markets and growing recycling businesses.

You will hear from each of them in their respective segments. But before I turn it over to Shahid, I want you to take a look at this quick video that highlights our renewable energy business. Thank you.

(presentation)

Shahid Malik ***WM - VP of Renewable Energy***

We're all in on this one. What a great video. I hope you enjoyed seeing our team in action and our plant in Texas. And I hope we can host you 1 day at one of our facilities to give you a personal to all. Anyway, thank you, Tara, for that kind introduction, and good morning to everybody on the call. I also want to extend my warm welcome to you, and thank you for listening in today. It's great to be here.

I joined WM earlier this year after 20 good, and Tara say, successful years in the energy industry, running oil, gas and power businesses and manage diverse energy assets as well as diverse energy commodity portfolios.

So my wife and daughters asked me, why would I want to join WM, an environmental services company? Well, after doing my research, frankly, I was inspired by the leadership role that WM has assumed to reduce greenhouse gases and was impressed with what WM was doing in the recycling and renewable space.

I told my family that it was my chance to leave behind the fossil fuel industry where I grew up, to do my bit to clean up the environment and leave the world a better place. Not that I'm planning to leave the world just yet, of course, but I do want to make my family and friends proud of me.

I'm very pleased to be here as part of this incredibly successful company and to share some information about our plans to build the leading platform in renewable energy from waste. As the largest renewable energy producer from landfills, WM's renewable energy business is highly profitable, is completely complementary and very well integrated with our core business, and it has favorable momentum from global decarbonization trends.

Our landfill assets give us tremendous optionality, optionality to construct RNG plants or to construct landfill gas to electricity plants or indeed to monetize our existing landfill gas. And I will describe we decide between these attractive options later in our session.

WM benefits from the vertical integration as our core waste collection and disposal businesses build up this reservoir of landfill gas that can be used to generate low carbon fuel or heat or power. Our landfills both active and closed produced landfill gas and our renewable energy business gives us a platform to monetize this asset as a resource base for decades to come.

We have landfill gas to electric plants, we have renewable natural gas plants. And at our RNG plants, we're able to leverage this unparalleled vertical integration with the rest of WM. One way that we do this is by allocating the use of RNG to our fleet of nearly 11,000 CNG trucks. WM has invested over $3 billion to create the largest heavy-duty natural gas fleet in North America, which is unmatched in the waste industry. In addition to our own fleets continued and increasing use of CNG, we do expect the overall transportation market demand for CNG to grow and to further displace diesel as a fuel source.

And we also have options beyond just allocating fuel to our fleet as we continue to see a surge in demand in the voluntary market for renewable natural gas. Here, companies are buying RNG to reduce their own greenhouse gas emissions or indeed to blend it with their fuel as part of their own industry's compliance obligations. In particular, we see gas utilities and a significant pressure to reduce their greenhouse gas emissions, and we expect them to be major buyers of RNG.

Our renewable energy business adds value towards essentially a byproduct of WM's core waste collection activities. And as a result, the environment benefits and we're able to create shareholder value by generating truly excellent financial returns. The growth opportunities available to us make for a compelling investment thesis. The 135 million MMBtus of projected gas captured that's depicted here in the right-hand column gives us a myriad of options. And let me, at a very high level, break down our opportunity set for you here.

We are growing the amount of gas we beneficially use over time through a mix of WM owned RNG plants, driving high utilization in our existing landfill gas-to-electric plants and by leveraging relationships in the third-party market. At the same time, we will have a significant amount of landfill gas still available for us to develop in the future, all of which unlocks profitable growth opportunities for WM that I'll describe in more detail later in my presentation.

We have all the ingredients of a winning platform from our industry-leading long-term supply of landfill gas that we convert and use for different activities, coupled with a sharply growing demand for the renewable natural gas and the renewable electricity that we produce. In this first phase of our RNG plant build-out by the end of 2026, just 3 years from now, we expect to produce 8x what we're producing today or another 25 million MMBtus to add to our existing 3 million MMBtus.

At the same time, we plan to increase our beneficial use of landfill gas to 65%, and we expect to add $500 million in incremental operating EBITDA and financial returns that exceed traditional WM investment returns on capital. These projections include the additional benefits of between $250 million to $350 million for investment tax credits that may accrue to WM.

Bringing these investments to life really requires strong execution. And I'd like to give you a bit of color on how we intend to deliver on our plans here. We are very well aware of the challenges of developing, building and commissioning these plants in an inflationary environment where labor and equipment is often in short supply. Fortunately, we've preordered most of the major equipment for most of our plants that we have on the drawing board.

Our equipment costs are known, and our schedules are being defined. In addition, we have several advantages that will allow us to execute effectively. As you know, WM is at its heart an engineering and a world-class logistics company with a deep pool of talent that our renewable energy group is fortunate to be able to draw upon. Also, our scale and our capital investment program make us a very attractive partner for engineering and construction vendors.

As Tara mentioned, we have this tremendous history of successfully executing large projects and a strong in-house capability. And we've established a standard set of 4 RNG plant designs and sizes that enabled us to quickly scale up in a cost-effective manner and importantly, allow us to leverage those learnings across all of our plants. And it is just one thing you remember from this slide, it is that we run a very safe set of assets.

We have a strong record of operational excellence with plant availability in the high 90s percentile and an industry-leading operating expense of between $5 to $7 in MMBtu. Actually, that's 3 things you should remember, but I think you get the picture. The most exciting thing about this business and one of the other reasons I wanted to join WM is that the growth prospects for the industry and WM, in particular, are really very bright. Almost every forecast from industry consultants shows demand for RNG outstripping supply through the next 10 years and beyond.

This chart on the left comes from Bloomberg and shows demand rising rapidly over the next few years as a voluntary market starts using a lot more RNG to meet utility demand as gas utilities begin to blend RNG into their networks as one of their tools to meet their own decarbonization goals.

We do predict that supply will grow, but will not be able to keep up with demand and hence, our confidence that this will be a long-term growth story for WM.

Today, WM is an industry leader in RNG supply from landfill gas, and we expect to continue to be a leader in this industry. In the earlier slides, I talked about the execution of risk and portfolio management of developing and constructing these assets. Let me shift gears now and tell you about how we're developing our commercial sales and risk management for the commodities portfolio.

As you know, there are 2 main markets for our gas. The sale of the commodity itself into the gas markets and the monetization of the environmental attributes through the transportation sector as well as through the voluntary markets.

We monetize these environmental attributes through 2 major customer segments: direct monetization by allocating the equivalent of our RNG production to our own CNG fleet, which creates a RIN, an environmental attribute; or by selling into the large and rapidly growing voluntary market to industrials, municipalities, to refinery blenders, a growing list of gas utilities and also major educational facilities.

One of those customers is the University of California system, a highly creditworthy and a highly respected institution to which we have sold approximately 12 years of RNG, locking in a portion of our sales for a long period. This gives us certainty of prices for our product and allows the university to budget for its own energy needs while helping to meet its own ambitious goals of decarbonization. And we have a team of market that's executing such transactions today, and we're planning to grow this expertise as our RNG production scales up over time.

And this expertise will be supplemented by appropriate risk management controls and a framework for monetizing our energy portfolio in the best risk-adjusted manner that I will describe on the next slide.

Turning now to commercial matters and the risk management side of our business. I don't need to remind you that the gas and RIN markets can be volatile and prices can react unpredictably to natural disasters, to geopolitical events or indeed to changes in regulatory policy.

At WM, we are further developing our commodity risk management approach with an overarching framework that identifies, monitors and provides the tools for our commercial teams to manage the risk of our portfolio by executing sales in a controlled and well-defined way. Like any company in the energy sector, our challenge is to forward-sell our commodities, primarily RNG and RINs, at attractive prices in order to lock in earnings and to minimize the effects of price volatility.

We intend to have a balanced approach to the commodity risk inherent in our portfolio, trading off the certainty of future fixed price sales against the higher prices that we usually get in the short-term spot markets.

We currently have about 40% of our 2023 production sold at a fixed price and somewhat less in the outer years. And this is partly because liquidity is lower in those future years, but also intentionally on our part because selling forward at a fixed price can usually be done only at a discount to the current spot price.

So due to these market dynamics, we are carefully assembling this balanced portfolio of sales at varying price levels and at various terms. And as our production scales up and as our revenue becomes more material to WM, we will increase our fixed price sales percentage by instituting a rolling 3-year program to add fixed price sales on a regular basis, as shown in the graphic on the right-hand side.

Our plan is to lock up between 10% to 30% of our portfolio in that third year, 30% to 50% in that second year. And by the time we enter the prime calendar year between 70% to 90%. As time progresses and as we continue to sell ratably, we will, in effect, be dollar cost averaging our aggregate sales at a fixed price. This strategy will be programmatic and will provide visibility and certainty into our future earnings. And I know that will make our CFO, Devina, very happy for one.

These 4 charts summarize our planned R&D investments and are exactly in line with what we laid out in February. Our 20 new facilities are expected to add 25 million MMBtus of RNG production annually by 2026 and contribute $500 million of operating EBITDA growth by 2026.

These projects have a high conversion of earnings to free cash flow with $450 million of free cash flow expected to be generated in 2026. This then is a highly attractive growth story with considerable upside potential.

And let me talk about that upside potential. If we flip over to the power side of our business, today, we own and operate about 60 landfill gas to electric plants across our network, producing power that we sell into the grid.

And as you know, the EPA is working to finalize a new policy, which promotes the use of electric vehicles in this country. Included in the proposed set role is a framework to create electric RINs or e-RINs for short. And since WM already produces renewable electricity from landfill gas, we anticipate that this new pathway may add incremental earnings for us, earnings that are expected to grow over time.

Importantly, we believe and so does the EPA according to this graphic here that the electric demand for EVs from landfill gas generation will outpace landfill gas production later this decade. In turn, this expected growth in demand for renewable electricity may provide new opportunities for us to develop additional landfill gas to electric plants for some of that uncommitted gas in our portfolio.

So the e-RIN opportunity that's being proposed is really exciting. It's exciting for WM and exciting for our industry. There are some significant differences between e-RINs conventional D3 RINs that have detailed on this slide here, but I won't go into them now.

The most important thing and the most important takeaway for you to remember is that without any additional investment today, we expect to have between 1.8 million to 2 million-megawatt hours of renewable electricity sold into the grid in 2026, that could potentially be utilized for e-RIN generation.

By 2026, we could see an uplift of at least $70 million of incremental operating EBITDA as a result of this potential framework. Of course, I want to point out that this projection is subject to a number of assumptions, some of which are detailed on the slide here.

But clearly, this is potentially a very exciting opportunity for us, and you'll be hearing a lot more about this later in the year as the rules become finalized. We talked earlier on about the optionality of our landfill sites, specifically the option to build RNG plants or to build power plants or the option to sell the gas rights to a third-party developer and then to collect the share of the revenue that they generate.

This slide shows a high-level example of our decision-making process when we are choosing between self-build or between third-party build. The first filter is economic. Theoretically, of course, we should always invest in positive NPV projects ourselves, but we're very mindful of capital allocation, and we rank each project on several dimensions.

Dimensions such as, if we invest here, will the project meet our risk-adjusted hurdle rate? Where does it stack up on our priority list? What is the trade-off from a lower royalty stream with no WM capital investment versus the returns from investing the capital dollars ourselves?

And we know that we can't possibly execute on all of the opportunities that are in front of us today. So what is the value to us of receiving third-party royalties sooner than if we invested ourselves.

The second filter that we have is more practical in nature, how difficult will it be to execute? What are the potential environmental hurdles? What strategic value do we gain by entering in a relationship with a third party and so on and so forth? We believe that our planned third-party deals, together with our line of sight opportunities to invest in new projects, will yield approximately $30 million of incremental operating EBITDA by 2026.

Let me show you this case study. In this case study, we went through that same analysis before deciding to sell a landfill gas rights to Kinetrex, which is now a subsidiary of Kinder Morgan. We own 3 landfills in Indiana that were a low priority for us from an RNG development standpoint. By selling the landfill gas rights on a long-term basis to Kinetrex, they will build 3 RNG plants that will reduce the emissions from our sites and will provide us a royalty at almost no cost to us and at zero investment by us. And at the end of the period, we have the option to recall these gas rights and do whatever we want to do with that gas.

So as you can see, a nice win-win solution for both parties with optionality for us as well. I've already talked about our premier asset base, the vertical integration that we have and the free option value that's concurrent in our portfolio. And that leads me to reaffirm the value of our business today with 4 key numbers that highlight the remarkable journey that our renewable energy business has embarked upon.

By 2026, we expect to add $500 million in incremental operating EBITDA from our RNG investments; a potential $70 million of incremental EBITDA from year-end generation, assuming that the proposed e-RIN framework is finalized by the EPA, of course; $30 million from pending and planned third-party renewable energy project developments, and that's a total of around $600 million of operating EBITDA.

This demonstrates how we are able to capitalize on a myriad of options that we have to drive value from this business not just over the next 3 years but frankly, over the next 30 years.

The renewable energy story, though, doesn't just end with RNG and power. I am personally very excited about the opportunity to continue to invest in renewable gas, in landfill gas-to-electricity and related areas where we think we will have a competitive advantage, whether it's using our 45 million MMBtus of surplus landfill gas to build more gas or electric plants or to monetize the LFG by selling it for a third party to then develop or to invest in some of the adjacencies that I have listed here.

There's adjacencies to our existing renewable energy business, such as renewable technologies like carbon capture and storage, sustainable aviation fuels or indeed, RNG through organics.

And there are certainly other opportunities, too. But we think these 3 are very well aligned with our core businesses, and there are enough synergies here for us to explore these areas, especially with the incentives offered by the Inflation Reduction Act. So we're very bullish on the renewable energy business here at WM.

Investing in this business is a no-brainer. We have the feedstock, we have the balance sheet, we have the experience and expertise, and we have the ambition to build a world-class business in the renewable energy space.

Furthermore, there are positive tailwinds from regulatory and taxation policy from the federal and state governments here in the U.S. and also in Canada. And all of that gives us confidence that the planned investments that I outlined today will profitably supplement WM's core business and contribute a planned $600 million in operating EBITDA by 2026. We believe we have a very strong business, and we're building for the future, delivering significant environmental benefits while also providing strong returns to our shareholders.

As you've heard in the video from one of my very good colleagues there, we're all in on this one. Thank you for listening in today. And I look forward to the question-and-answer session very shortly.

Before that, I will turn it over to Brent Bell, who will walk you through our recycling investments. Before all that, take a look at this video, highlighting our Salt Lake City recycling facility. Thank you again.

(presentation)

Brent Bell ***WM - VP of Recycling***

What a great video highlighting one of our automated recycling facilities in Salt Lake City. Today, you'll hear about similar investments in how WM is leading the industry with providing sustainable solutions for our customers, material processing innovations and creating value to our shareholders. Next, we'll review our asset mix. WM has a very comprehensive and diverse asset base when it comes to recycling infrastructure.

As the largest residential recycler in North America, we operate nearly 100 recycling facilities and manage over 10 million tons of traditional recyclables through our material recovery facilities, our MRFs and our brokerage business. The material recovery facilities are split between 3 main asset types: commercial, construction and demolition or C&D; and our popular single-stream assets. The WM recycling strategy is based on aligning customer needs with our investments that deliver shareholder returns.

First, let's talk about end markets. The only way recycling works is that there's demand for recycled materials. Strong demand for recycle materials typically translates into higher value, which helps our customers, the municipal customers specifically generate better economics for their recycling programs. What we are seeing today is an increase in commitments from consumer packaging and goods companies. These brands need more recycled content for their products and packaging.

We actually meet with these companies on a regular basis. And I can tell you there's a real concern on the availability of supply for these recycled materials. Using plastics as an example. The amount of plastics required to achieve these goals is 4 to 5x the quantity that's available today. State regulations being passed, specifically around minimum content and extended producer responsibility will also drive demand for the materials we manage today.

Minimum content legislation is one of the most favorable for the recycling industry, establishing a mandated demand for recycled materials. It's important to note that each state starts legislation at different times. Take California, for example, the first state to pass minimum content, they have a ramp up to 25% recycled content by 2025 and 50% by 2030. Another example, New Jersey, starts with 15% recycled content in 2024. Over the next few years, the demand will increase, and we're positioning WM to unlock additional supply.

WM has many unique capabilities in recycling. Having our size and scale makes WM a great fit for serving customer base -- our customer base. Beyond that, how do we differentiate ourselves? It's our assets and our people. Regarding our assets, the automated sorting facilities are the most efficient in the industry and extract the highest value for recycled materials using less labor than ever before.

We developed our flagship automated site in Chicago. And this facility has won numerous awards, and we also have a patent on the design. We continue to leverage this design as our blueprint for automation. Next is our people. We absolutely have the most talented recycling team with years of expertise from our in-house engineering and design team responsible for sorting technology, partnered with WM supply chain and recycling operations.

No company in North America has built or operated more recycling facilities than WM. And we are confident this team can execute on the planned investments. Our global export group, which is part of the brokerage team, has unique capabilities that we'll discuss on the next slide. The brokerage group is one of the most interesting parts of our business, managing 4 million tons of material from national account customers and an additional 5 million tons from WM facilities annually.

There are 3 parts to best describe this business: customers, material management and financial benefits. On the customer side, brokerage customers are typically large national accounts that generate enough material that they actually build the material themselves.

These include store locations or distribution centers. If you ever drive behind a grocery store, then you're likely to see bells of cardboard piles up waiting for pickup. Those are the customers that utilize WM to organize their logistics and the end markets for their materials.

Since their material is already billed, we arrange transportation and delivered directly into the end markets, like a paper mill.

The value driver occurs when WM combines those volumes, along with our plant tons to get more favorable contract terms. Next is material management. Likely one of the most significant services in the recycling industry is the ability to move material. Remember, these are volumes that get generated regardless of demand.

On a daily basis, WM is responsible for moving 25,000 tons per day every day. This is where the value of our global export team comes. Many of you may remember when China implemented their national sword policies in 2017. Many recyclers had trouble moving material. WM was able to count on our global export group to divert material away from China and minimize disruptions to our customer recycling programs. The domestic markets have invested in more capacity for plastics and paper over the past few years.

So when we do export, it's primarily clean cardboard. It's important to note that 100% of our residential plastics stays in the U.S. and Canada.

At WM, we take great pride to ensure our customers' materials are properly recycled and end up in sustainable markets. Regarding the brokerage financial benefits, we're able to provide customers not only with recycling services but other service offerings such as organics and solid waste services. Leveraging sustainable solutions, along with other WM services, creates a one-stop shop for national account customers that they highly value.

Specific to margins, brokerage transactions are primarily revenue pass-through, which causes operating EBITDA margins to be lower than our physical assets. However, there are minimal investments required, so the return on capital is high, one of the highest in the company. Now that we've set the stage for our ability to support these investments with our people and our existing assets, let's transition to the value creation from automation investments.

These recently announced automation and new market investments are expected to deliver $240 million in incremental operating EBITDA by 2026.

There are 4 major categories of value creation: revenue quality of recycled materials; expanding capacity in markets we serve; investing in new markets; and creating labor efficiency. The next few slides will walk through each of these operating EBITDA categories.

In terms of revenue quality, when we first started up Chicago, the first automated facility WM, we really didn't fully appreciate the revenue quality benefits from these facilities. So let me try to explain how this does separate automated from non-automated facilities.

And now that we have a handful of these automated facilities up and running, we have quite a bit of confidence in these numbers. Revenue quality consists of 2 components: bale quality and recovery rate. So let's take an existing bale of mixed paper, which they includes junk mail, magazines, office paper and small cardboard.

With the new automated facilities, we're able to separate the smaller cardboard containers and put them in the cardboard bunker versus the mixed paper bunker. Today, with cardboard prices at $35 per ton and mixed paper at only $5 a ton, by simply pulling the small cardboard out, we've improved the revenue by $30 per ton in that material example. Recovery of plastics and cleaning up the quality of glass has similar impacts, higher value for the same material streams.

Second, recovery rate. The new automated equipment has a higher capture rate, which means we have more materials recovered and less ends up going into residue or lower value streams. Math on the recovery rate is even better going from a negative disposal fee to positive commodity sale. So as an example, if that recovered commodity is a plastic bottle were $300 to $400 a ton today, that's additional value we are now capturing with these automated facilities.

The next value driver is capacity from automation. Expanding capacity in existing markets is expected to deliver an additional $35 million of incremental operating EBITDA. With automation, we're able to utilize the same footprint, sometimes even consolidating facilities and generate a higher throughput or tons per hour.

With automation investments, we will expand our existing plant capacity by 1 million tons annually. We have a ramp-up for capacity utilization baked into our models to achieve the $35 million of operating EBITDA by 2026.

As we look to unlock more supply recycled materials from our customers, expanding our capacity in existing markets will be critical. Next, I'd like to talk about new markets. WM is very excited to enter into 12 new markets over the next 4 years. We've announced 8 of those new markets for recycling, half being single stream and the other 4 split between C&D and our commercial recycling facilities. We expect these new markets to generate $65 million of operating EBITDA and additional 1.8 million tons of capacity.

As part of our efforts to unlock supply of recycled material, these new markets are attractive due to the opportunities they create. Let's take Fort Walton as an example. It's an area today with limited recycling services. It's a great part of the country. We've seen a lot of folks relocate to it. And now what we're seeing is these new residents are asking their elected officials, their community leaders and even WM for recycling services that they had in their previous community.

These investments will further expand our industry-leading footprint and unlock much needed supply in these underserved markets. The final driver value -- for value is around labor efficiency. Labor is one of the main reasons we started this automation journey. A majority of our workforce consisted of labor positions that are traditionally temporary in nature and often difficult to fill with high turnover.

As we transition from non-automated to automated facilities, we look for opportunities such as labor upscaling, so we can transition the workforce to be WM employees.

A good example would be technicians. Through automation, we have less sort labor, but we have a need for higher skilled mechanics. On average, our conversion to automation has resulted in a 30% improvement on labor per ton, and recent benefits from automation include a 40% improvement in safety. The operating EBITDA associated with labor efficiency is $70 million by 2026.

Next, we wanted to lay out the plan for automation by year as well as dive into a recent conversion to automation in the Houston area. Houston is a great example of automation efficiencies. We previously operated 2 facilities in this market. And due to the increased throughput, our tons per hour, we were able to consolidate into one highly automated facility, about 20 minutes away from our corporate offices. We're very happy with the results we've seen in Houston.

The new MRF has a 75% increase in capacity with a 33% reduction in labor per ton. We've seen an increase in the recovery rate of materials, resulting in a 51% reduction in recyclables and residue. So like capturing more water balls in the prior example.

Finally, our Houston MRF has a 31% increase in average revenue per ton. This includes sorting to higher quality material and improving the capture rate. Each month, we review the automation results compared to the nonautomated facilities, and we are really excited to push forward on these investments.

Similar to data we provided in Q4 earnings release, here's a few data points regarding additional capacity of new and existing markets ramping up by 2.8 million tons. Total of $1 billion of capital projected been shown by year.

This leads us to $240 million of incremental operating EBITDA by 2026 and $180 million of run rate free cash flow. There are plenty of growth opportunities for recycling. We can go through a few on the next slide. Additional opportunities we see for value creation and helping customers with their circularity solutions. Late last year, WM acquired controlling interest in Natura PCR. This is a company we work with for years, helping our retail customers with film plastic recycling by turning this material into plastic pellets.

Natura PCR has expansion plans to process 400 million pounds of plastic film within 5 years. Businesses that can take customers material from their loading dock and within a few weeks, working with manufacturers, have those same materials back on store shelves in the form of products or packages really represent the value WM brings related to circularity solutions.

We've also developed partnerships with companies such as Dahl, working together to help unlock materials and address challenging situations within recycling, such as education and improving the recycling rate for plastics.

Due to our role as the largest recycler in North America, we're seen as a valued partner and will continue to help these customers manage materials to extract the highest value. The WM recycling story is very compelling. We're meeting the sustainability needs of our inbound customers in new and existing markets.

And we have in market demand for recycled material, we collect and process it's growing with brand commitments and state regulations. As the industry leader in recycling, we're investing in our people and our assets to help our customers achieve their sustainability goals while driving strong growth for WM shareholders.

Thank you all for your time today. I will now turn it over to Devina Rankin.

Devina A. Rankin ***WM - Executive VP & CFO***

Thanks, Brent. Tara, Shahid and Brent have done a really fantastic job of walking us through our compelling sustainability strategy. They've clearly outlined how putting the strategy into action will deliver both environmental and economic value.

I want to spend time reiterating the strong financial returns WM shareholders can expect to see from these investments and expressing our continued confidence in the core solid waste business. I'll also reiterate our commitments to disciplined capital allocation and industry-leading return on investment.

To get started, it's important to ground ourselves in the fundamental strength of WM's business. As we communicated in early February, we expect 2023 to be another year of robust growth, particularly for our solid waste business. We'll provide more details on the first quarter earnings call, but let me just say, we are pleased with how we have started this year, and we think that a financial plan to deliver 6% to 8% operating EBITDA growth in 2023 speaks volumes about the resilience of solid waste and the strength of our business performance.

I now want to pull the renewable energy and recycling investment story together so that we clearly speak to the magnitude of investment being made. And even more importantly, the incremental earnings and free cash flow we expect these businesses to contribute in about 4 years' time. You can see the details here and the picture you see tells a great story. We often talk about the strong payback of these investments and the confidence we have in the strategy knowing that renewable energy and recycling are very direct extensions of our core solid waste business.

To really drive these points home, I want to compare the sustainability growth plan outlined here very directly with the ADS acquisition. We saw ADS as an accretive value creator for customers and shareholders alike. But what we may not have fully appreciated until today is that we have a plan in front of us to invest about half the purchase price of the ADS transaction and achieve almost 2x the operating EBITDA growth.

So there's no question that these investments have a return profile that aligns with our commitments to shareholders and positions us to invest available capital in the long-term growth of WM at returns that exceed virtually any other alternative. We can now look at this incremental operating EBITDA and free cash flow as a contributor and strong amplifier to our projected long-term growth.

As a reminder, in 2019, we set a target of 5% to 7% annual operating EBITDA and free cash flow growth. We're very pleased to have delivered results that aligned with and in many ways, exceeded those established targets. And what you see here is that with the additional growth we've delivered from our core solid waste business, coupled with our sustainability businesses, we now expect to meaningfully exceed those targets over the next 5 years.

It's important that we frame this outlook with an eye on how we plan to deliver upon these investments, while maintaining the things we hear from WM shareholders about what they value most. Things like strong predictable results, a resilient business model and a management team committed to disciplined policies and execution that aligns with plans. At our core, we think about safety, risk management and transparency in all we do.

This is no different. And we're leveraging these fundamentals to strengthen our capabilities and build an appropriate framework to manage inherent risk. What's most important is that we bring together the skills and capabilities of the finance team with the expertise of our operating partners so that our approach is grounded in the commercial and market-driven aspects of the key business drivers.

Our disciplined approach to capital allocation really pulls all of these messages together, and it helps us drive home why our sustainability growth investments will be a vehicle for outperformance in the next few years.

We're committed to a capital allocation model that ensures we are investing in the business, maintaining a strong balance sheet that provides security and financial flexibility and providing really strong returns to our shareholders. We've seen this commitment pay off, and there are 2 very important measures that demonstrate our strong results best.

One, total shareholder return, which has benefited from an 8.5% compound annual growth rate in the dividend; and two, return on invested capital, which has expanded 270 basis points in the 3 years and continues to lead the industry.

The accelerated growth rates and returns of our sustainability investments will serve to improve each of these measures in the years ahead. When you combine the fact that we will be improving from such a strong starting point with the benefits of a proven track record for executing upon our plans, we're confident the outcome will be outsized returns. Before opening things up for questions, let me just close by bringing us back to the WM investment thesis Jim started us with today.

It really is a great story. And we're committing that we will leverage our fantastic team and the strength of our business model to deliver results that we expect to exceed the very strong results of recent years on the road ahead. With that, Ed's going to moderate our Q&A session. So we'll take a quick break to get our Q&A panel set up. Thank you.

(Break)

QUESTIONS AND ANSWERS

Edward A. Egl *WM - Senior Director of IR*

Okay, Jim. So we've got a lot of questions from the audience here around this topic. How should we think about your growth over the next 3 to 5 years? How much additional runway do you see in the renewable energy and recycling businesses after 2026?

James C. Fish ***WM - President & CEO***

Well, Devina just talked about the growth from '19 to '22. At our last Investor Day, we talked about 5% to 7% for EBITDA and free cash flow. And so if you think about this as 2 pieces, our core business and then the sustainability investments, $840 million, plus that 5% to 7% gets us to something in the neighborhood of a doubling of our free cash flow from '19 to '27.

I think the piece that excites me the most here is that we've maintained this optionality. So we have the option truly strategic decisions we've made in the past, such as a 70% natural gas fleet. We have the option to monetize that ourselves, which is what we're doing with those 20 plants. We also have the option, as we've announced today, to monetize it through a third party and do a revenue sharing with a third party.

And of course, we always have the option to sell it to the market or sell it to a third party. But that's what excites me the most about this. And then as we think about that '27 and beyond, we still have 45 million MMBtus to do something with, which is about 1/3 of our total gas production. So this is not only exciting for the next 3 or 4 years, it's exciting for the years beyond.

Edward A. Egl ***WM - Senior Director of IR***

Great. So Devina, Michael Hoffman at Stifel asked a question here. Does the original target of 5% to 7% free cash flow CAGR stand once these investments are incorporated into the baseline free cash flow?

Devina A. Rankin ***WM - Executive VP & CFO***

It's a great question, Michael. So I think what's really important here and as we've outlined in the slides is that we still believe that the solid waste business can produce that 5% to 7% annual growth rate in free cash flow. And when you layer on top of that the growth that we're going to create in the next several years from the sustainability investments, which have an even greater conversion of EBITDA dollars into free cash flow than our base business, we see the CAGR of free cash flow in the next several years of being 9% to 11%.

I understand that part of the question is, well, what happens next? I think Shahid did a great job of talking about the available capacity that WM has to create incremental growth beyond the 2026 year that we've outlined here. So there is more growth to come from the sustainability growth strategy, specifically quantifying the level of growth that we'll see from the $655 million run rate free cash flow we expect to generate beginning in 2026.

It's too early for us to be able to specifically quantify that, but we think there's more to come. And I think that's the key takeaway.

Edward A. Egl ***WM - Senior Director of IR***

Okay. Next question comes from Dave Manthey at Baird. Tara, you present what I assume at the midpoint of most likely -- are most likely case scenarios, what key factors might move your outcomes higher or lower than what you're presented here today?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

Thanks for the question. We really tried to be thoughtful in both the recycling and renewable energy businesses about ranges of outcomes. And we gave you some information on the recycling side a range of pricing from $75 to $150 a ton and that $200 million to $260 million EBITDA range. And a lot of that is based on what we expect or what we anticipate pricing being based on the CPG commitments that Brent did a great job of outlining.

I think it's also really important to point out that 60% of our benefit is going to come independent of commodity prices, and a big piece of that is the automation benefit that we're anticipating. And then of course, on the renewable energy side, Shahid did such a fantastic job of outlining not just the supply that's becoming available but the strong demand that we're expecting to see in both the voluntary and transportation markets.

Certainly, one of the things that we're tracking that gives us some optimism related to pricing beyond that $26 per MMBtu number is some of the things that might be happening in some of the states related to low carbon fuel standards and blending by utilities of renewable natural gas.

Edward A. Egl ***WM - Senior Director of IR***

So Shahid, welcome to WM. As Tara mentioned, there's a lot of discussion on the supply demand, and we're getting a lot of questions on it. Can you talk about the potential supply-demand imbalances as other producers bring additional RNG facilities online?

Shahid Malik ***WM - VP of Renewable Energy***

Yes. Thank you for having me here, Ed. I'm glad to be here. So the supply has clearly been accelerating over the last few years as people look at this industry and think there's terrific returns to be had. So investment is coming in. And what we've seen, of course, is the EPA reacting to that and increasing the renewable obligations over time. And we have some questions as to what that number should actually be for the upcoming 3-year period.

But generally, in terms of supply, we are seeing the supply being very quickly produced, but we're also seeing demand rising, as Tara just mentioned. And we're seeing an increase in the transportation market, but also in the utility market and the fact that many companies are out there trying to decarbonize their platforms. Specifically, we have at least half a dozen states here in the U.S. as well as a couple of provinces in Canada.

They look at RNG as a way to decarbonize their utility -- the gas utility footprint. If you look at what's happening on the demand side in the United States, we have 2 states, California and New York on their own, they'll be demanding almost half of today's supply of RNG by 2030. So we're seeing a significant ramp-up in demand from both companies that are interested in decarbonizing as well as utilities that are requiring for their own decarbonized efforts as part of the utility blending practice.

Edward A. Egl ***WM - Senior Director of IR***

Great. So Tara, Mike at Wellington asks, will the recycling investments discuss get WM to its target to increase recovery of material by 60% to 25 million tons by 2030 or are further investments necessary?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

Thanks, Mike. Obviously, our investments in our recycling infrastructure, both in existing capacity and automating that capacity, and then also in new markets are a significant piece of the puzzle that will take us from the 15 million to the 25 million. It does go beyond that.

We expect growth within existing markets and then also within our brokerage business and also unlocking opportunities with organics, which is quickly evolving in some key markets, in particular, in California. So building a suite of solutions is going to be important to get us to that goal, but the most significant piece is on recycling infrastructure side.

Edward A. Egl ***WM - Senior Director of IR***

So Devina, we're getting a lot of questions asking for clarification on the ITC. Can you provide us some additional color?

Devina A. Rankin ***WM - Executive VP & CFO***

Sure. So the investment tax credits are a nice complement to the really strong investment thesis that WM has in front of it from a sustainability growth perspective. What's important here is that what we've assumed is $250 million to $350 million of investment tax credit benefit beginning in 2024, with the lion's share of that coming in 2025 and 2026.

We think that what's important is that we step back and look at whether or not we would have made these investments regardless of whether or not those ITC benefits were there for us, and we can say we absolutely would.

I'll go back to the ADS example that I provided just a few minutes ago. We're investing about half that we invested in the ADS acquisition in the sustainability growth platform and delivering almost 2x the free cash flow growth. I think what's important is that we've pulled out the impact of the ITC and looked at baseline free cash flow generation for 2027 and beyond at $655 million.

And what that does is show you a really strong payback period as well as earnings multiple and flow-through that show you that these investments made sense without the additional value creation of the ITC that the ITC is something we will see strong cash flow generation from in the next few years.

Edward A. Egl ***WM - Senior Director of IR***

Thanks, Devina. Shahid, you're going to be pretty popular here, receiving lots of questions around the RVO and our $26 assumptions. Can you provide some color on the underlying assumptions baked into our models?

Shahid Malik ***WM - VP of Renewable Energy***

Yes. Thank you, Ed. So the $26 is a long-term average. And we fully expect to see some price modulation up and down over the course of time. But if you look at recent history, firstly, the biggest component of that $26 is the value of the renewable identification numbers they're in. And that currently comprises about 90% of the value. The value of the natural gas itself is on to be small $10 -- just 10%.

So the value of that renewable attribute is very important. And what we've experienced over the last 4 or 5 years is that prices have fluctuated from a low of $0.50 to a high of over $3. But they've averaged around $2, and we expect that going forward for a variety of reasons, not least because we expect demand to grow, particularly in the voluntary market.

So we are expecting the $26 average price to be a fairly conservative price actually. And that's essentially comprised of $2.50 Henry Hub market price, which for today is around $2, but for next year and the year after, it's more like $3, going to $4 in future years and an average price in there in of around $2, something that we're very comfortable with.

Edward A. Egl ***WM - Senior Director of IR***

Great. So I don't want to forget my recycling buddy at the end of the table. I have Brent. Michael Hoffman asks, of the current content commitments by California, New Jersey Washington, is this enough to force the issue at CPGs to be ready to be really bottle-to-bottle circular?

Brent Bell ***WM - VP of Recycling***

Yes, sure. Good question, Michael. So we've been talking for years about the importance of recycling demand for our materials. We mentioned earlier, we move 25,000 tons every day. And so making sure we have good end markets important. Lately, we've been talking to a lot of the brands about their commitments, and they're wanting to go back into bottle-to-bottle. It's on the brand side. I'll give you one example of a big commitment, and I can't iconic brand recently made in their branding. So to go bottle to bottle, typically, you need clear bottles.

And so if you look at store shelves now, you'll see recently one of the big brands have changed a bottle over from being green to clear. And so as they're working with us on making sure they get more bottles back, they're making a commitment on changing a brand like that was pretty significant. If you go back to the state regulation part of the question, that's going to be mandated demand that quite honestly, we haven't seen before in this industry is a mandated demand for recycled content.

And while certain states have passed it already, and there's a ramp-up to that, we do feel like there's going to be more of a widespread impact for that demand, where someone is not going to make a shampoo bottle just for the state of California, or a soda bottle just for the state of New Jersey. So we see that's going to have a bigger impact on just as the states have passed it. And we're investing in our asset base to further support those commitments and demands.

Edward A. Egl ***WM - Senior Director of IR***

Great. Thanks, Brent. Let's see here, Shahid. James at TD Cowen, what is the approximate fixed price discount that you're locking in today compared with the $26 average price assumptions?

Shahid Malik ***WM - VP of Renewable Energy***

Yes, it's a good question, James. Thank you for that. So we're seeing a variety of different prices. And it really depends on the tender, i.e., the length of the contract. So if it's a short-term contract, the discounts are pretty small. In fact, there's usually a premium. But if the contracts are long term, 5, 10, 15 and even 20 years contracts that we've been able to negotiate, we're seeing discounts in the region of $4 to $6 off of that $26 price. So high teens, low 20s per MMBtu.

Edward A. Egl ***WM - Senior Director of IR***

Great. Okay. So let's see here. Next question, Tara, Morgan Stanley, how many RNG projects with third parties are expected to generate that $30 million in incremental adjusted operating EBITDA?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

Well, one of the things that we want to emphasize and Jim talked about this a little bit earlier is we have a myriad of options when you look at our portfolio and some were doing with renewable natural gas plants that we're building ourselves. But we also have the opportunity to tap into the developer community.

And we have a long and rich history of doing that. We have third-party developers on our landfills with landfill gas-to-electricity plants. And so we've been actively working with the developer community for some of our -- it could be lower volume gas or when you look at how we've been prioritizing our sites, how they can help us build those out.

The $30 million number that you see in our deck, we believe, is conservative, and it's really tapping into some of those landfills where we're currently not beneficially using the gas we have the opportunity to drive revenue from it.

Edward A. Egl ***WM - Senior Director of IR***

Great. We're going to stick with Tara. Bryan at Citi. Based on the footnotes, WM e-RIN's earnings contribution target assumes WM captures 25% share. Can you talk about your assumptions underlying your e-RIN estimates?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

So thanks so much. And I was anticipating that we were going to get a bunch of questions on e-RINs. The first thing I want to emphasize is this is a fantastic pathway for us to really drive value from our legacy portfolio of landfill gas-to-electricity plants over 60 of those. And there's a fair amount that still needs to be unpacked when EPA issues their final rule. So we took some pretty conservative assumptions when we looked at our portfolio.

We are expecting or anticipating that we would generate anywhere from 1.8 million to 2 million-megawatt hours of electricity in 2026. And looked at taking a portion of that, we estimate about 70% of it would be available for the e-RIN pathway. And from there, we used EPA's own conversion values, which are in our deck, and then estimated a conservative share of the RINs that would go to WM, we certainly think that there's upside there. We use 25%. We think there's upside going forward.

The last thing I want to emphasize is we did place all of the earnings stream in 2026. We know that EPA is at least anticipating having the framework in place in 2024, but it was really difficult for us to really estimate when that would happen. And of course, we're going to aggressively work to get our sites registered so that we can get that earnings stream sooner, but we'll be giving more information as the rules are finalized, hopefully, later this year.

Edward A. Egl ***WM - Senior Director of IR***

Great. Staying with Tara again, one more question, Alexa Can you provide some additional detail around the royalty structure of the third-party landfill deals to get to the $30 million adjusted EBITDA? Is it based on the total amount of landfill gas captured at the plant and you keep a percent of the sales?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

Well, again, thanks so much, and this is another great opportunity where we're leveraging that optionality that we have because we control our landfill gas today and where it goes. No royalty structure is the same. But generally speaking, we do get a percentage of the revenue that is generated by the third party, and that can really vary, but typically within that 20% to 30% range.

Edward A. Egl ***WM - Senior Director of IR***

Great. Thank you. Shahid, can you provide an update on offtake agreements and related pricing ?

Shahid Malik ***WM - VP of Renewable Energy***

Yes. So we have been seeing a fair amount of interest in the voluntary market over the course of the last few months, specifically as it pertains to companies like first-class consumer goods package companies that are interested in decarbonizing their platform.

And therefore, they are buying short- to medium-term RNG. We expect that to continue. We expect to accelerate. The other component that we're seeing at the utility sector, both here and in other parts of North America, really starting to ramp up the procurement of RNG and blending it into the overall utility gas production.

The requirements for the amount of RNG to be blended by utility really varies by state and by Canadian province. So for example, here in the United States, we're seeing California as a leader and also New York pushing to increase the amount of RNG as a percentage blended in the utility space. So we're seeing increase there. And then lastly, with respect to Europe, interestingly enough, European demand, both from companies as well as from utilities, is increasing, and we expect to see more and more offtakes there.

In terms of pricing, I referred that to my earlier question -- my earlier comment. We are seeing prices anywhere from the high teens to the mid- to the high 20s. depending on the type of customer, depending on whether the market segment is transportation or whether indeed it's a voluntary market, like the utility market.

Edward A. Egl ***WM - Senior Director of IR***

Great. So John, Toni at Morgan Stanley has a question related to M&A. Can you please talk about how valuation multiples look for recycling companies? Are there any capabilities that would make you more efficient with regard to landfill gas or recycling that you could acquire?

John J. Morris ***WM - Executive VP & COO***

Thanks, Toni. Good question. I think Devina touched on a little bit some of the successes we had in the broader M&A market and ADS being the largest and one of the more recent ones. I would tell you, when I think about the multiples on recycling, what I really look at is a current portfolio, and I think Brent did a nice job in his prepared remarks and in the deck of outlining what the payback is on the recycling business that we have.

I mean we're going to automate a large number of our sites, and there's a handful of new markets we're going to go into. When you look at the average payback in that about 6 years based on our estimates, those are strong paybacks, and we see that as the best pathway to invest in terms of recycling expansion.

Edward A. Egl ***WM - Senior Director of IR***

Great. Shahid, Capital has a question. Can you clarify how much of the RNG portfolio will be contracted on a long-term basis, 10-plus year contracts versus the rolling 24- to 36-month fixed price program? Is that hedging of RINs?

Shahid Malik ***WM - VP of Renewable Energy***

Yes. Let's talk about that. That's a great question So high priority of ours at WM is to manage the potential volatility in earnings as this business starts to ramp up and really starts to generate a material amount of income. And look as a participant in the marketplace, we have to accept the market price, but we can help ourselves as well by carefully directing the sales that we're about to engage in between the different market segments, transportation market, the voluntary market as well as between fixed and floating prices.

And so the kind of offtake agreements that we're going to put in place will reflect the strategy that we're working on. So in 2023, as I mentioned in my prepared remarks, we have about 40% of our RNG sales locked up at a fixed price. In future years, it's less than that because -- primarily because there's lower liquidity out there, i.e., less people willing to buy at fixed price and also because there's longer-term sales really attract a discount if you want to sell them.

So we have preferred not to sell at a big discount and prefer to sell as much as we can in the spot market, but also lock up some of those longer-term sales as well. So we're assembling this balanced portfolio of short, medium and long-term sales at both fixed and floating prices in order to manage our earnings. So ultimately, our goal is to target the upcoming 3-year window an attempt to lock up about

50% of our earnings at risk for that 3-year period.

By preselling 50% of our portfolio at those fixed prices, we mitigate some of that downside risk and by retaining 50% that will retain at fixed or floating price sales in the spot market, we retain the optionality of increasing prices and therefore, increasing earnings in case prices rise.

Now another way of thinking about this is that if we have a $1.5 billion of earnings that we have planned in our business plan for the 3-year period, we would seek to lock up 50% of that 3-year value before the start of that first calendar year.

So if it's $1.5 billion, we plan to lock up $750 million before the start of that 3-year horizon at fixed prices. So how do we do this? Well, actually, this is something that the energy industry has been doing for many years now, and it's something that I personally have implemented in prior energy companies.

And let's say that you look at the 3-year horizon starting in '26 to '28 -- 2026 to 2028. Before the start of 2026, we plan to have presold between 70% to 90% of our volume at a fixed price for the prompt calendar year of 2026. We plan to presold between 30% to 50% of our volume at a fixed price for the second calendar year, which is 2027. And we plan to have presold between 10% to 30% of our volume at a fixed price for the third calendar year, which is 2028.

As time progresses, we'll continually layer in additional sales so that the first upcoming calendar year always has the majority of its sales locked up at fixed prices. So this program that we're outlining and that we're working on internally, this will dollar cost average our fixed price sales to mitigate some of that downside risk I talked about on half of our portfolio, but also allow us upside opportunity on the remaining half of our portfolio that we don't fix. For us, this will provide more certainty of earnings and more visibility and transparency into our business for you all.

Edward A. Egl ***WM - Senior Director of IR***

Thanks, Shahid. So the next question comes from Jerry Revich at Goldman. And it's addressed to Jim and Devina. Your 2027 plan implies an acceleration in the growth outlook from 6% to 8% this year to low double digits over the next 4 years. Is that growth profile balanced view to the year? It looks like based on sustainability investments, you should get double-digit EBITDA growth next year, but perhaps you could put a finer point on the path.

Devina A. Rankin ***WM - Executive VP & CFO***

So I'll go ahead and start, Jerry. It's a great question, and I'll refer you to Slide 54 for the best kind of framing of that, particularly for the sustainability business. For the core solid waste business that underlies that, we're assuming that same 5% to 7% earnings and cash flow growth that we outlined in 2019 at our Investor Day with our expectations for 2023 being in excess of that. The 6% to 8% EBITDA growth that we've projected for 2023, it's a strong indication that we think we're starting from ahead, which is a great thing for us to be able to do.

What is offsetting that somewhat in terms of the growth is what I will call the capital investment piece of this. The capital investment ramp is significant, as we've been discussing, and so much of that capital will be spent in '23 and '24. And we really will start to see the tailwinds of the earnings growth and cash flow generation in the out years.

The other thing that creates some variability in those assumptions is the investment tax credits, which I mentioned earlier. And that $300 million and pulling the impact of that out is the other thing that will give better clarity about run rate, which is why I bring us back to the $655 million of run rate free cash flow we expect from this business beginning in 2027.

James C. Fish ***WM - President & CEO***

I would add just one thing and that she gave a great overview of the numbers. I would just add that this is starting to demonstrate that being synonymous with sustainability, which is what we've talked about strategically for a long time, truly is paying off.

Not just that, that $840 million, but we believe that, that 5% to 7% in the core space, that, that actually grows, we can grow share there because of the fact that we're regarded as a company that's synonymous with sustainability, whether it's national accounts, whether it's big municipal contracts. That's part of what excites me about these 2 different investment thesis.

Edward A. Egl ***WM - Senior Director of IR***

Great. So Devina, Kevin at CIBC has a question. And he says, you have highlighted additional sustainability investment opportunities optionality looking beyond 2026. You've also noted that the returns expected from the current sustainability investments exceed what do you expect to see from acquisitions. Does this suggest a shift in your capital allocation priorities?

Devina A. Rankin ***WM - Executive VP & CFO***

It's a great question. What I would tell you is our capital allocation priorities have always been to be sure that we're investing the dollars that we generate from the business back into the business so that we sustain the strong asset network that we have today, the leading profile that we have across North America to provide environmental solutions. So you really do see this capital allocation plan aligning with that because reinvestment in the core and what we do and what we deliver has always been our top priority.

Beyond that, we look to tuck-in acquisitions, which have been a strong complement to our organic growth. And then the dividend commitment and share buyback. I don't specifically mention the strong balance sheet because it's really for us, that's always been a given, and we'll continue to make that a priority. So we think that the strong step change that we are presenting here for sustainability cash flow will only complement the other priorities.

So you can see us continue to have the cash flow generation that will support reinvestment, support acquisition and then support dividend growth, which has historically been that 8.5% compounded growth rate that I mentioned earlier. So we really think that this should be a strong additive to each of those priorities.

Edward A. Egl ***WM - Senior Director of IR***

Great. Shahid, there's another question here with supply/demand. Devin at BMO Capital Markets. Is there a risk that RNG pricing for offtake agreements moderate as more production capacity comes online? The chart on Slide 26 shows a roughly balanced supply-demand market over the '28 to '32 period, which could give buyers of RNG more leverage in those negotiations.

Shahid Malik ***WM - VP of Renewable Energy***

Yes. That's a really good question, Devin. And it's a million-dollar question, right? Is supply going to outpace demand or is demand going to outpace supply? Well, we're in the latter camp. And we are seeing increasing signs both in North America as well as in Europe of the voluntary market really picking up steam.

And the question is at what price will they be willing to continue to decarbonize and meet the standards of their respective federal and state governments? We are seeing clearly increase in demand today, and that will move much higher in the future. We're also seeing an increase in supply, and we're seeing big companies, some of the oil majors, for example, stepping into this business and putting serious dollars to work.

And that's fine, and we fully expect supply to grow. But the demand side in that chart that you have on the screen there shows really the middle range of what, for example, Bloomberg, has shown as a potential blending capability of utilities, which frankly are the biggest consumers of natural gas around the world. If we showed the high estimate that Bloomberg put in, the demand chart will be significantly higher than the supply line.

So we have confidence that the numbers that we've represented here are fairly conservative, and we expect significant growth in that demand over the long term.

Edward A. Egl ***WM - Senior Director of IR***

Great. So Tara, Julianna at Terra Alpha Investments asks, has WM quantified the estimated Scope 1 and 2 emission reductions expected from the investments discussed today?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

Yes. These investments are clearly connected to our broader sustainability goals. And if you look at our renewable natural gas investments and couple that with the investments that we're making in our landfills, enhancing our collection. We anticipate that these investments will help us reduce our Scope 1 emissions by 20% to 30% over our 2021 baseline. So these investments are clearly a key piece of how we're going to achieve our greenhouse gas emissions reduction goals.

Edward A. Egl ***WM - Senior Director of IR***

Great. So Noah at Oppenheimer. I'm not sure if this is going to be a Shahid or Tara question. Do the baseline projections assume some portion of RNG production goes into long-term offtakes in the voluntary market? If so, what percentage? And can you give us a scenario in which the company would enhance long-term visibility?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

I can take the first part of the question and then turn it over to Shahid to give him a break to drink some water. So let's just get questions here today. I think if you go back to 2022, you saw that we had 30% of our 2022 offtake in long-term fixed price arrangements. And then in 2023, that number is 40%.

Shahid did a fantastic job of outlining our approach to really locking in short-, mid- and long-term arrangements so that we can make sure that we're taking advantage of basically fixing a significant piece of a baseline that we can tap into and make sure that we're mitigating some longer-term risk, but also be in a position to take advantage of market dynamics because we do believe, we emphasize this a couple of times, the supply and demand dynamics are going to be in our favor, and we want to make sure that we're in a position to capitalize on that.

Shahid Malik ***WM - VP of Renewable Energy***

Thank you, Tara. And the second part of the question was, will we give you visibility and transparency? Yes, I mean we have nothing to hide in terms of the types of transactions that we're doing. Obviously, we want to retain customer confidentiality. But as we increase the materiality of this business, and we will come back to you and tell you what proportion our fixed short term, what proportion our fixed long term.

And as we think about the business and the types of activities that we -- and type of transactions that we expect to be doing, we are seeing growth in the transportation market. And we are clearly seeing not just the heavy-duty truck market but also other lighter-duty vehicles potentially taking up the slack on CNG and increasing their own demand.

We are seeing the increased potential from Europe as well as other parts in North America. And then we didn't talk much about the impact of what this potential pathway that the EPA is proposing around e-RINs. And that will really propel the industry to much higher levels of demand than it is currently. So we feel pretty good about where we're going and in terms of providing that visibility, we'll provide you whatever we can or whatever Devina and Jim feel comfortable sharing, which I'm sure will be a lot.

Edward A. Egl ***WM - Senior Director of IR***

All right. Wake up, Brent, another question for you. Can you discuss WM's capabilities to clean and sort plastics by number type?

Brent Bell ***WM - VP of Recycling***

Yes. So we've looked at extracting the highest value from our recycling stream for a long time now. And if you look at the plastics, it's one of the highest value materials we get in the bin today. And so with our automation that we've done in Chicago, which is the flagship this first start of this whole program, that's the one we have essentially set the blueprint for all these additional automated sites.

It's further extracting value out of the waste stream. So plastics is a great example because that's in high demand, as we mentioned in the deck earlier. 4 to 5x the amount of plastics, it's recycled today is what we're going to need in the future to meet the demands of these brand commitments and the state regulations.

And so we're doing our part on the investments to make sure we're extracting the most value, getting as many plastics as we can. And we even have some pilots going on now where we partnered with to try to get more of the film plastic, something that's really not been allowed in a curbside been in a while. So we're seeing how that progresses as well, but definitely looking to extract more value in the future, and that's the reason why we're doing these investments.

Edward A. Egl ***WM - Senior Director of IR***

Great. So Shahid, James at TD has another follow-up question. Can you talk about what you're assuming for LCFS or other state benefits within your RNG price assumptions? Is there upside here?

Shahid Malik ***WM - VP of Renewable Energy***

Yes. Great question, James. So currently, we're not assuming anything in our -- in the LCFS program as part of our earnings projections. We do see clearly some increasing demand for LCFS not just in the state of California but some of the other Pacific Northwest states that are promulgating these policies as well as actually in Canada.

Will it have an impact? Yes, it will. It's -- for those of you that -- I'm sorry, that don't know what the LCFS market does, it basically tries to incentivize the cleaning up of transportation by assigning a carbon intensity index to different types of fuels. And so the goal of these programs is to continually drive cleaner fuel being consumed in those states and in those provinces.

The value of those LCFS has fallen over the last 2 years from a high of $220 per credit I believe down to a low of about $70, and they're starting to pick up again. And it will have an impact, particularly on those people that are very actively involved, particularly in the state of California. But has it had a material impact on us? And will it have a material impact on us? The answer is no.

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

The one thing I just want to emphasize because we haven't talked about this today on LCFS, WM has something that's pretty unique, and it is that we have this very large and significant compressed natural gas fleet. And that will help us tap into this future LCFS market in other states, but it's also one of the key reasons if you look at our RNG investments, generally, we can close the loop in a way that other companies can't, and we're able to retain so much more of the value.

So our fleets are going to help us unlock opportunities when LCFS frameworks come into play, and they absolutely are a bit of an upside opportunity for us that's not in our numbers today.

Edward A. Egl ***WM - Senior Director of IR***

Great. Brent, what are you seeing currently in the recycling commodity market? How do we get from where we are today to the $125 pricing assumption?

Brent Bell ***WM - VP of Recycling***

Yes. So today, I think our guidance was around $70 per ton, and we expected that to ramp up throughout 2023. If you look at some additional mill capacity, the paper mill capacity coming online, we do see demand slowly increasing. So we're firm on our guidance that we provided earlier for 2023 pricing. And then as you look out into -- I know that the $240 million of incremental operating EBITDA, it was based on a $125 price point in 2025, 2026 time frame.

If you look at how we get to that level, really, a lot of that is specific to this is single-stream recycling automation. And so as earlier in the deck, we point out automation sites generate about a 15% higher value on revenue per ton than nonautomated sites. And so effectively, that $125 when you discount that back to a nonautomated term, which we've been using over the last 10 or 20 years, it's about $108 range.

So really, we're getting from what we normally would talk about in the $108 range. And if you look at the last 2 years, we've been just -- the $108 is slightly above that today, and we see increasing demand coming from the regulation, the brand commitments to further fulfill that. So we're pretty confident in the $125 number, especially when it's regarded strictly the automated facilities.

Devina A. Rankin ***WM - Executive VP & CFO***

The other thing I would add there, just to put an exclamation point on why these investments make so much sense and why we're so confident in the return profile of them, agnostic to commodity price levels is so much of the value creation here has nothing to do with commodity values. It has to do with efficiency in our processes and labor reduction. It has to do with capture rates and improving the flow-through reducing residual costs.

I know Brent did a really good job of emphasizing all of those details and providing that clarity both in the presentation and in his prepared remarks. But it really deserves repeating that these recycling investments do not pay off just at $125 rate. These recycling investments pay off virtually at any commodity price level.

Edward A. Egl ***WM - Senior Director of IR***

Thanks. Tara, so Brian at Stifel has a question. Once the planned RNG projects are developed in the fixed rate contracting strategies in place, what is WM expected sensitivity to a $0.10 change in the D3 RIN prices?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

So for 2023, we gave you the $0.10 change being $3.5 million. And what I want to caution the group on is we can apply that to future years because obviously, the amount of RNG that we're going to be generating is increasing significantly. As Shahid pointed out, we're going to be taking this laddered approach to layering in short-, mid- and long-term contracts. And some of those will be in the transportation market and some in the voluntary market.

So we'll be giving you a bit more clarity on what that change will look like going forward, depending upon which market we go into.

Edward A. Egl ***WM - Senior Director of IR***

So following up, we've got a lot of questions on e-RIN impact. So how does the emergence of e-RINs impact the way you think about the decision tree for building new facilities?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

Yes. It's a great point, and it goes back to that optionality that we want to hammer home at the end of the day, if you look at the landfill gas that's created from our network, we can do a number of different things with that gas. And you can see looking at 35% that's going to be available in 2026. We're going to be following closely the EPA's final rule and look at whether or not it makes sense to develop more RNG plants or also perhaps look at developing landfill gas to electricity plants at some of our landfills.

And certainly, that could be more appropriate at some of our smaller sites where you can put an engine or a turbine to capture and beneficially use some of that smaller gas stream and then create e-RINs through the e-RIN pathway. I just want to emphasize, our current portfolio of landfill gas-to-electricity plants, this e-RIN pathway, we'll be able to generate revenue with no incremental CapEx and that's critically important. This is a huge opportunity for us.

Edward A. Egl ***WM - Senior Director of IR***

Great. We've gotten a lot of questions around this, but I'm going to read, Wills at UBS. Could you please discuss your thoughts on e-RIN value sharing with EV manufacturers, WM and third-party landfill gas-to-energy operators or owners?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

So the -- I think we just have to remember the proposed rule is just that. It's a proposed rule. And I think EPA is being very thoughtful. They've received a lot of comments and hopefully, they'll come out with the final rule sometime later this year. It's clear based on the -- at least the proposed rule that the EPA framework was that the OEM or the electric vehicle entity would be generating the RIN.

And it was also clear that there would be some sharing of that with the entities who are creating the electricity, which in this case, is WM. It's a bit too soon to say what the exact percentage would be. But we feel confident that the numbers that we provided to you the 25% share to WM is conservative.

And for all the reasons that Shahid also highlighted, if you look at the supply and demand, there is going to be certainly longer term scarcity of supply of landfill gas to create this RIN pathway, which puts us in a strong position for value creation for WM.

Edward A. Egl ***WM - Senior Director of IR***

Thank you. So Devina, I think we touched on this a little bit, but we're getting a lot of questions still on these investments contribution to EBITDA margin and free cash flow conversion. Can you provide a little more detail on that?

Devina A. Rankin ***WM - Executive VP & CFO***

Yes, it's a great question and one that we actually want to highlight. So I'm happy to make it more clear. The lift that we expect from these investments in our EBITDA margin in the out years is 200 basis points of incremental margin on top of the strong margin appreciation that we are producing as we focus on things like automation and optimization of our business. That is even stronger to free cash flow conversion.

While it's difficult to specifically say what free cash flow conversion may look like because, as I mentioned earlier, we could see incremental investment opportunities in the sustainability growth strategy in the years ahead. If we just looked at this portfolio and the portfolio that we have outlined here, we expect that the free cash flow conversion could be almost double the 200 basis points that I just mentioned for operating EBITDA growth.

Edward A. Egl ***WM - Senior Director of IR***

Great. Thank you. So I have a question probably for the whole panel, but I'm going to address it to John, and then anyone can maybe chime in here a little bit. They're asking the question, if we strip out the benefits of sustainability EBITDA contribution goals, it looks like EBITDA growth from '23 through '27 would be at the midpoint of the 5% to 7% prior guidance range established.

Yet you exceeded this range from 2019 through 2022 in a difficult inflation environment. Why should core EBITDA growth decelerate from '24 to '27 versus what you did in 2019 to 2023?

John J. Morris ***WM - Executive VP & COO***

Well, I think I go back to a comment Jim made when we did the original in last Investor Day in New York when we talked about 5% to 7%. And we've outperformed that. I think when you look at what we've projected for 2023, net of some of the small headwinds we'll see in recycling and renewable energy, the solid -- the core solid waste business is going to produce about 8.6%.

So even in a high inflationary market that we've experienced over really the last 2 years, supply chain issues, et cetera, et cetera, what we've demonstrated is that the core solid waste business continues to outperform what we talked about over the last several years.

And I think if you take all the information you've heard from the panel today, from Tara, from Brent, from Shahid and everybody else that addition of these sustainability investments is really going to compound what that growth rate looked like over the last handful of years, and Jim spoke to the almost doubling of it by 2027.

Devina A. Rankin ***WM - Executive VP & CFO***

One really important point just because it's part of the math, and it was a big part of the math. We invested over $4 billion to get part of that EBITDA in the ADS transaction. And so part of the growth rate that exceeded the 5% to 7%, although it had a lot to do with hard work on the things that we talk about all the time, pricing excellence, operating cost efficiency, SG&A cost management, all of those things were strong contributors, but the ADS acquisition was an outsized contributor relative to normal course M&A for us.

And so it's one of the things that I would caution may not be something that we could replicate from an M&A perspective in the next 5 years.

Edward A. Egl ***WM - Senior Director of IR***

Great. So our next question comes from Jerry at Goldman. And it's address to Jim, Devina and Tara. You folks are able to invest in landfill gas developed at their facilities at under $50 of CapEx per MMBtu of gas production. We've seen developers pay over $150 per MMBtu. I know your existing pipeline isn't for sale, but could you talk about the valuation that industry participants are offering you for the next 45 million MMBtu of capacity.

James C. Fish ***WM - President & CEO***

I'll try that one. I think we're pretty hesitant to talk about that. What we do like is the fact that we have that option. So we've talked about the optionality that we have by virtue of the investments we've made in our fleet, by virtue of the fact that we're the biggest landfill company. Sometimes people use that term in a derogatory fashion. I tend to take it as a complement.

And particularly today, where those landfills not only are very valuable in terms of the public service we provide. But now they're almost becoming these energy production facilities. So it's an option that we have. We don't really talk about the -- it would be speculative to talk about what we might do with any of those 3 options, but we like the position we're in.

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

I think the other thing I would just mention is we've been so focused on getting our 20 renewable natural gas plants and bringing online that 25 million MMBtus of capacity. And then, of course, looking at the e-RIN pathway and opportunity, which is not to say that we're not focused on the 45 million that's out there. But we want to make sure that we're making the right long-term decision for that piece of the puzzle that could be a significant earnings stream for us in the future.

Edward A. Egl ***WM - Senior Director of IR***

So Brent, can you put a finer point on the embedded financial metrics within the recycling investments?

Brent Bell ***WM - VP of Recycling***

Yes. So if you look at the metrics that we talked about today, the incremental operating EBITDA of $240 million, as we mentioned before, 60% of that is nonrelated to commodity pricing, right? So if you look at how we started this process with labor, labor on the automation side, we have $70 million.

Those are replacing the heads that are hard to fill, difficult to fill positions now. And then one of the benefits since we've had about 8 of these automated sites under our belt for a few years now is we're now seeing a true difference in the quality.

We talked about quality before, but now we can actually quantify it. And so you see the quality of revenue is additional $70 million. So the fact that you're seeing some of these margin benefits that are coming with this automation investments that really was based on labor alone, and now we're seeing all these other impacts to additional help in the margin as well as the base business that we're continuing to go back to these contracts and make sure that we get our processing fees are covered and that was a whole start of how we change this business around in order to do these investments.

Edward A. Egl ***WM - Senior Director of IR***

Great. Tara, same question for RNG investments.

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

Yes. I think Devina covered some of these a bit earlier, but you can clearly see the EBITDA contribution that these facilities are going to have. And if you look at the flow-through of EBITDA and free cash flow in that 75% to 80% range. And these are great examples where we're not just unlocking economic opportunity. But in many instances, we're taking gas that wasn't previously beneficially used and now creating a renewable energy source from it.

So one of the things that we're going to continue to do is make sure that we stay on track and provide visibility when we're bringing these plants online and then what it also means from an environmental perspective, we're tracking both metrics.

Edward A. Egl ***WM - Senior Director of IR***

Great. It looks like we're down to maybe two final questions here. Julianna asks, again, can you elaborate on the additional opportunities noted, such as growing organic, sustainable aviation fuel, sustainability services? What are key factors that will impact your decision to invest further?

Tara J. Hemmer ***WM - SVP & Chief Sustainability Officer***

I can take this one, and then I think Brent and Shahid can add color. One of the things that we really try and do as a company is look at what capabilities our customers are going to need in the future. And on the recycling side, we did a lot on that front with these automated investments and new markets, but also getting into some other businesses like the business we closed on Natura PCR, where we're taking film plastic and converting that into recycled content that can go back on to shelves.

So organic is a great example to certain areas of the country are passing legislation where organic needs to be repurposed and recycled either composting or through anaerobic digestion. And we're building capabilities in those markets, in particular, in California.

And similarly, on the renewable energy side, we're looking to the future, Shahid talked a lot about the opportunities that industry is seeing to decarbonize their own operation, and we're looking at what is the value of our renewable natural gas and how can we get it into those industries sustainable aviation fuel is one making sure that we're really maximizing the impact for WM.

Edward A. Egl ***WM - Senior Director of IR***

Okay. Brent, you're going to take us home here with a question from Michael. He started today, so end the day here. WM has a $10 per ton equals $20 million EBITDA impact. What is it when these investments are done?

Brent Bell ***WM - VP of Recycling***

Yes. So obviously, you saw the capacity increases that we're seeing. And those are ramped up, by the way. It's not 100% capacity even within a few years because that's just how we model it out. But there's 1 million tons of additional capacity for existing plants, 1.8 million for the new market. So 2.8 million tons of additional capacity. Along with that, yes, you're going to have inherently more commodity risk as you get into that $10 per ton change that we'll see.

We're focused on the demand for the materials, making sure that we have a good sustainable markets for this to help drive that value up as well as make sure that we can meet our customer needs in that aspect. As we mentioned, these investments you're seeing today, a lot of it is noncommodity driven. And if you look at our contracts that we're doing now to continue to recover that processing fee, then it's helping increase the margin.

And so ultimately, what I'd say on that is there's still going to be some volatility in this business, but we're increasing the floor so that our margins, even at the low levels, are acceptable for these returns.

Edward A. Egl ***WM - Senior Director of IR***

Great. That was the last question. Thanks, everyone, for the questions. I'm going to turn the call back over to Jim for any closing comments.

James C. Fish ***WM - President & CEO***

All right. Thank you. Well, I have to tell you how excited we were to -- as we prepared for this day. And I said it a little bit earlier this morning in my prepared remarks that I can't think of another industrial company that's talking about doubling their EBITDA and free cash flow over a short period of time. If you think about that a little bit differently and use 2022 as a baseline, we're talking about over a very short period, 3 years, adding somewhere in the neighborhood of 15% and even a higher percentage of free cash flow between 2022 and 2026.

And again, it's -- I'm not sure there are any other companies having these investor-type presentations talking about an increment that's in the neighborhood of 15% to 20% over the next 3 years. And that's outside of the core business growth. We were very excited to give you a lot of details today. Hopefully, this helped out a lot. I know there have been a lot of questions, and we hope that we answer them. Thanks for joining us today.