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EDITED TRANSCRIPT

WM.N - Q2 2023 Waste Management Inc Earnings Call

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OVERVIEW:

Company reported EBITDA of $95 million, cash flow of $2.1 billion, Free cash flow of $940 million.

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the WM Second Quarter 2023 Earnings Conference Call.

(Operator Instructions)

Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Ed Egl, Senior Director of Investor Relations. Please go ahead.

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

Thank you, Michelle. Good morning, everyone, and thank you for joining us for our second quarter 2023 earnings conference call. With me this morning are Jim Fish, President and Chief Executive Officer; John Morris, Executive Vice President and Chief Operating Officer; and Devina Rankin, Executive Vice President and Chief Financial Officer. You will hear prepared comments from each of them today.

Jim will cover high-level financials and provide a strategic update. John will cover an operating overview, and Devina will cover the details of our financials. Before we get started, please note that we have filed a Form 8-K this morning that includes the earnings press release and is available on our website at www.wm.com. The Form 8-K, the press release and schedules of the press release include important information.

During the call, you will hear forward-looking statements which are based on current expectations, projections or opinions about future periods. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties are discussed in today's press release and in our filings with the SEC, including our most recent Form 10-K.

John will discuss the results in the areas of yield and volume, which unless stated otherwise, are more specifically references to internal revenue growth or IRG from yield or volume. During the call, Jim, John and Devina will discuss operating EBITDA, which is income from operations before depreciation and amortization. Any comparisons, unless otherwise stated, will be with the second quarter of 2022.

Net income, EPS, operating EBITDA and margin and operating expense and margin results have been adjusted to enhance comparability by excluding certain items that management believes do not reflect our fundamental business performance or results of operations. These adjusted measures, in addition to free cash flow, are non-GAAP measures. Please refer to the earnings press release and tables, which can be found on the company's website at www.wm.com for reconciliations to the most comparable GAAP measures and additional information about our use of non-GAAP measures and non-GAAP projections.

This call is being recorded and will be available 24 hours a day beginning approximately 1:00 p.m. Eastern Time today. To hear a replay of the call access the WM website at www.investors.wm.com. Time-sensitive information provided during today's call, which is occurring on July 26, 2023, may no longer be accurate at the time of a replay. Any redistribution, retransmission or rebroadcast of this call in any form without the express written consent of WM is prohibited.

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

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

Thanks, Ed, and thank you all for joining us. Our team continues to advance our 2023 priorities, including increased profitability of our business through strong price discipline and an optimized cost structure. As I said in February, 2023 will be a year of pricing and cost control. It's a year of continuing to set ourselves up for the long term by delivering on what we can control. In the second quarter, our adjusted operating EBITDA margin expanded 60 basis points, driven by pricing in the collection and disposal business and diligent SG&A cost control. We delivered this result despite some things that we can control, stubborn cost inflation, slower event-driven volumes and lower-than-expected renewable energy prices.

Notably, cleanup volumes from Hurricane Ian came in significantly lower than anticipated, which had a $9 million operating EBITDA impact in the quarter. We're pleased with our pricing results for the first half of the year as our team is executing well to ensure that our pricing is keeping pace with the pressure from rising costs. Overall, our volumes are also tracking at or above our expectations, though the mix of volumes across our businesses is different than we had planned. Event-driven landfill and industrial volumes in the quarter were lower than we anticipated, which we see as a short-term moderation in this business. Some customers seem to be taking a more cautious wait-and-see approach regarding the timing of large jobs given the economic backdrop with many anticipated projects moving into 2024. Our pipeline remains strong, so we view this as a temporary shift in project timing.

The impact to our special waste and construction and demolition volumes has been mitigated by strong growth in our strategic accounts business, where we continue to differentiate our service offering. We're overcoming margin pressure from this temporary change in volume mix with continued momentum in pricing, optimization costs and efficiency improvements. And you'll hear more from John and Devina about the success we're having in managing our operating costs and SG&A where we had opportunities ahead.

Turning to recycling. We're now expecting a slower-than-planned recovery in recycled commodity prices in the second half outlook. The investments we're making in automating our recycling facilities position us well in any commodity market environment as they drive lower labor cost, processing costs, improved efficiency and enhanced material quality. In the second quarter, our fully automated recycling facilities delivered differentiated results relative to the rest of the network with 33% lower labor cost per ton and 18% lower total operating cost per ton.

During the quarter, we're pleased to have opened a new recycle facility in the Greater Toronto area, and also completed technology and automation upgrades at an existing facility in Arizona. Recycling is a service with strong customer demand and our intentional shift to a fee-for-service business model as well as our high-return technology investments make it a profitable business for WM in any economic environment, with margins now well above our prior commodity cycle lows.

On the renewable energy front, we opened our Eco Vista renewable natural gas facility in Arkansas during the quarter, the sixth WM-owned RNG facility and the second of our 20 planned projects in our sustainability growth program. Last month, the EPA announced its 3-year renewable fuel standard rule, which provides strong demand and visibility to the market for renewable fuel standard credits, or RINs.

This robust demand provides support for our blended average pricing assumption of $26 per MMBtu used to develop our investment strategy and strengthens the case for potential upside. Shifting to our full year outlook. We're updating our 2023 guidance ranges to consider first half results and a slower recovery in commodity prices in the second half of the year. We now expect an adjusted operating EBITDA growth of 5.7% to the midpoint of our guidance range, which is still well within the 5% to 7% long-term growth range that we provided in May of 2019. Devina will walk through the key pieces of the outlook in further detail.

The WM team continues to step up to the challenges of each day, while at the same time, progressing investments in our business that positions us to further differentiate our industry-leading asset network and capabilities and reduce our cost structure. I want to thank each of our team members for their hard work and dedication. I'll now turn the call over to John to discuss our operational results for the quarter.

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

Thanks, Jim, and good morning. Pricing remained a bright spot in the second quarter as we continue to execute on our revenue management programs to recover cost increases and improve margins. Our second quarter organic revenue growth in the collection and disposal business was 6%. This growth was led by core price of 6.9% with collection and disposal yield of 5.8%. We have and continue to emphasize the importance of post-collection pricing, and in Q2, we delivered a yield of 7.5% at our transfer stations and 6% for landfill MSW, both improvements in the growth rates from last year.

Our team's collective focus continues to be on maximizing customer lifetime value. That focus led to second quarter churn improving to 8.3%. This lower churn has allowed us to convert more core price into yield, driving our full year outlook for collection and disposal yield to increase to more than 5.5%.

Looking at volumes. Second quarter collection and disposal volume grew by 0.2%. As expected, volume growth was weighted to the landfill line of business with modest declines in the collection business. MSW volumes stood out with an increase of almost 4%. As Jim mentioned, some of our event-driven landfill volumes, particularly special waste tons have been tracking below our expectations and below the very strong levels we saw in 2022.

Our collection volumes were down modestly in the quarter due to the intentional steps we continue to take to price every contract to achieve acceptable returns as well as the impact of lower volumes from temporary roll-off. Net new business and net service increases were firmly positive and improved from first quarter 2023 levels, underscoring that commercial conditions remain solid. Though collection volumes are down, both revenue and operating EBITDA grew in each line of business, demonstrating that we are prioritizing profitable volume growth. For full year, we continue to expect collection and disposal volumes to be flat at the midpoint of our guidance.

Turning to operating expenses. We realized benefits from our optimization efforts in the second quarter, leading to 20 basis points of improvement in operating expenses as a percentage of revenue to 62.2%. The improvements that we made in Q2 are being partially offset by higher cost due to inflation. While we experienced some impact of lingering inflation into Q2, signs of easing continued as the quarter progressed. The areas experienced the most pressure are labor costs and repair and maintenance costs. There's cause for optimism in both of these categories. Labor costs have continued to moderate during the second quarter, settling in the mid-single-digit range from the double-digit levels that we have seen over the last year.

This improvement can be attributed to better employee retention as evidenced by over 50% fewer driver openings and driver turnover improving 250 basis points compared to the same period in 2022. We have robust strategies in place to optimize labor efficiency, particularly in our collection line of business, which we expect to further diminish these cost pressures as the year progresses.

We are seeing the benefits of these efforts as we progress through the second quarter, with June marking the lowest cost to serve month of the quarter. This is a promising sign as we move through the remainder of the year.

As noted, another significant factor impacting our operating cost has been repair and maintenance expenses. The effects of not receiving a full allotment of trucks over the last few years are still being felt. However, the good news is we are now receiving more trucks and it's leading to improved costs. Since the beginning of the year, our maintenance cost per unit have either improved or remained stable across all collection lines of business. Similar to our approach to labor costs, we have comprehensive plans in place to drive continued improvement in our repair and maintenance performance as we progress through the rest of 2023.

Our efforts in these 2 key areas as well as broader operating expense categories give us confidence that we can continue to improve overall operating costs as a percentage of revenue as we progress through 2023.

I want to thank the entire WM team for continuing to provide safe and reliable service to our customers. I know they're all working hard to deliver strong results through the remainder of this year and beyond.

With that, I'll turn the call over to Devina to discuss our financial results and guidance and further detail.

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

Thanks, John, and good morning. The first half of 2023 and our revised outlook for the full year is best framed as the story with 2 primary themes. One of executing well on our top priorities to profitably grow our business, and the other of pressure from market factors beyond our control that we are working to ensure we navigate from a position of strength. Our team's diligent efforts delivered 2 particularly strong outcomes in the second quarter. First, revenue growth from price and our focus on cost optimization translated into an increase in collection and disposal operating EBITDA of $95 million or 6.2% in the quarter. And second, SG&A costs as a percentage of revenue improved by 30 basis points to 9.1%, and this is the best result in our company's history.

Our commitment to managing discretionary spending and investing in automation to reduce our cost of service is paying off. We're seeing strong outcomes from our investment in a customer experience model that leverages technology to communicate with customers in their channel of choice. Customer feedback has been strong, giving us confidence that with these investments we've permanently reduced our SG&A cost structure, and we will continue to drive improved customer satisfaction that will only bolster customer lifetime value from here.

Organic growth in the collection and disposal business and our focus on SG&A optimization delivered 50 basis points of operating EBITDA margin expansion in the quarter. Operating EBITDA margin improved 60 basis points overall. So you can see that these 2 things delivered almost all of these strong results. This is what gives us confidence in our ability to continue to grow margin in the back half of the year and into 2024.

Year-to-date, cash flow from operations was about $2.1 billion. As expected, higher cash interest, taxes and incentive compensation payments more than offset the benefit of operating EBITDA growth in the first half of the year. We expect to see those impacts lessen in the second half of 2023.

Capital spending in the first 6 months of the year totaled almost $1.2 billion, with $963 million related to normal course capital to support our business and $270 million of spending on sustainability growth projects. As Jim mentioned, we're pleased with the continued progress on our sustainability growth program with 3 new projects coming online so far this year. However, customary construction and permitting delays for certain recycling and renewable energy projects will push about $200 million of our planned 2023 sustainability growth capital into future years.

Free cash flow through the first half of the year was $940 million, and free cash flow before sustainability growth investments was $1.157 billion. Year-to-date, we've returned $572 million to shareholders through dividends, and we've repurchased $620 million of our stock. Dividends will total a little more than $1.1 billion this year and we expect to repurchase about $1.25 billion of our shares over the course of the year.

Our leverage ratio at the end of the quarter was 2.8x, which is well within our targeted ratio of between 2.5 and 3x. About 21% of our total debt portfolio is at variable rates, and our pretax weighted average cost of debt for the quarter was about 3.8%.

Our balance sheet is strong, and we remain well positioned to fund growth.

Turning to our updated 2023 guidance. We now expect revenue growth of between 3.25% and 4.25%. The revision from our initial expectations is entirely related to commodity prices in our recycling and renewable energy businesses and the pace of contributions relative to plan for our recycling acquisitions. The key takeaway here is that core price, yield and volume outlook in our collection and disposal business are intact and even performing slightly ahead of our initial expectations.

We now expect adjusted operating EBITDA to be in the range of $5.775 billion to $5.875 billion, which is a $75 million decrease at the midpoint. About $50 million of the revised outlook relates to our performance in the first half of the year relative to our plan and $20 million relates to a slower recovery in recycled commodity prices in the back half of the year relative to our expectations.

The operating EBITDA shortfall in the first half of the year primarily relates to 3 things: inflationary cost pressure that has taken longer to abate in 2023 than we expected; a softening in event-driven volumes at our landfills; and lower-than-expected commodity prices in our renewable energy business. These are market-driven pressures, giving us confidence that our collective performance on the company's top priorities over the first half of the year delivered the intended outcomes.

With the strength of our collection and disposal operations and the success from our SG&A optimization efforts, in 2023, we will again deliver on our target of growing operating EBITDA by 5% to 7% annually. In addition, we expect to expand our operating EBITDA margin 40 to 60 basis points for the year. Both measures demonstrate the resilience of solid waste and the benefits of pricing discipline, focused differentiation and cost optimization to drive long-term growth.

In closing, the WM team is delivering well to safely and reliably serve our customers and to optimize our costs. We will deliver another year of strong financial growth in 2023 and position ourselves for continued success on the road ahead. I can't thank our hard-working team members and us for all of their contributions to our success. With that, Michelle, let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is going to come from the line of Tyler Brown with Raymond James.

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

Devina, so lots moving around in the margins, but can you just talk a little bit about that margin walk in more detail, kind of how we bridge that 60 basis points year-over-year. Maybe talk about fuels, commodity, the CNG tax credit to M&A. I know there's quite a bit in there.

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

Yes, you're right, Tyler, there are a lot of moving pieces. Similar to what we talked about in the first quarter, when you combine recycling and renewable energy prices that had a negative impact to margin of about 30 to 40 basis points, again, the dilutive impact of M&A, this is half recycling and half solid waste was about 40 basis points. And then what we had is an offset from fuel that you didn't see in the first quarter. So we're really pleased that when you look at those 2 things which are more timing- and commodity-related and focus on the real substance of the margin expansion that we produced in the quarter, that is 2 things, and it's solid waste and it is SG&A cost optimization.

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

Right. So maybe fuel kind of offset the commodities and M&A. Is that kind of what you're saying?

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

Exactly.

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

Okay. Perfect. And then I think last quarter, you guys did talk about 4% to 5% unit cost inflation for fiscal '23. I'm just curious if that number still feels about right or if it is coming in a touch higher? And then how should we think about Q3 margins? Will they be up something like 50 to 70 basis points sequentially and then maybe tick down in Q4, just to help us with the modeling?

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

So Tyler, I'll start, and then I'll leave the second part to maybe to Devina. But I would tell you that when I look at probably the best barometer for that inflation question is probably labor. I think the good news, as you heard in my prepared remarks, it continues to moderate. We came down, I think we were right around 6% for the quarter, which is obviously a tad higher than what we had projected in the number that you referenced.

But I think the good news is, is that we continue to see that moderate and it continue to moderate through the quarter as we looked at each of the progressive months as we're anniversary-ing some of the peak labor increases. The second part would be on the M&R side. And as you heard also in my prepared remarks, the good news is that we're on track to receive about 90% of our trucks this year as opposed to less than half the last few years. So that's another place where we've seen a little bit of persistence in inflation. But as evidenced by my commentary and Devina's, we feel good about the balance of the year and our ability to continue to drive OpEx down.

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

And on the second part of your question, Tyler, when we look at 28.7% in Q2, we're really confident in our ability to deliver 29% in the back half of the year in EBITDA margin and the incremental benefit we expect to come from the traditional solid waste side that John just discussed. But what we're really looking at here is long term being able to target 29% that is based on 62% operating expenses as percentage of revenue and 9% SG&A as a percentage of revenue. And we think that that's just when we look at -- when I say long term, that's what we think we can start to produce in 2024 and there's upside potential from there.

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

Excellent. Very good. And then my last one, real quick. So Jim, it sounds like the $740 million of incremental EBITDA from RNG and recycling is intact. You did mention that the timing may fluctuate, and we did have the $200 million CapEx deferral. So at this point, how much incremental

EBITDA are you expecting in '24 from those? If I look back at the Investor Day, it was something like $225 million incremental. Is that still the case? Or has that been pushed out a little bit?

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

Yes. Thanks, Tyler. Look, as far as the end number for both RNG and recycling, which was $740 million, that -- we're still comfortable with that. The interim years were really designed to kind of give some insight into the buildup of that. We knew things would change, whether it was timing of CapEx, supply chain-related, third-party delays, permitting, things like that. So what we'll do is update that number, the 2024 number when we give guidance to incorporate some of those shifts that have taken place over the last few months.

Operator

Our next question comes from the line of Toni Kaplan with Morgan Stanley.

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

You mentioned that collection and disposal will exceed 5.5% this year. We did see a little bit of a decel in 2Q. Can you just talk about what should cause that to sort of accelerate from this level?

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

I would tell you, I think the one thing I would point to is when you look at the conversion rate between core price and yield, that's where we really have seen an improvement as we looked at the first 2 quarters of the year. And now we're converting close to 85% of what we're putting through in core price into yield, and that's given us confidence that as we go through the back half of the year, we're going to see something better than the 5.5% we originally guided to.

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

Terrific. I wanted to ask a little bit more on the SG&A optimization. Thanks for calling that out. Just any additional color on what's going on there and how much maybe you have left to do with regard to that?

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

Sure. So as I mentioned in my prepared remarks, we've seen really strong traction, particularly in our customer experience part of our back office. And that really underpins the success of our automation and optimization efforts across the business. That's been the most significant driver of the change in SG&A optimization overall. We expect similar things to happen in other parts of our business as well. And so while we're looking at a 9% SG&A number, Jim and I talk about the fact that either of us, if we had said that we could achieve that when we both started the CFO position, we would have told you that was a really hard thing to achieve. So we're pleased to be at this level. How much more room there is in it, it's still to be determined. But what I think you see here is WM's commitment to continuous improvement, and we're seeing success really motivate our teams to figure out how to leverage the success in other parts of our business.

Operator

Our next question comes from the line of Bryan Burgmeier with Citi.

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Bryan Nicholas Burgmeier - *Citigroup Inc., Research Division - Associate*

Just following up on Toni's question, so there's a comment in the press release and prepared remarks about exceeding yield growth of 5.5%. So what level of yield growth do you assume at the midpoint of your revenue guidance now? Is it 5.5%? Or is that above 5.5%, any detail you can have on kind of what's baked into the guidance would be great.

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

Sure. It's specifically 5.6% as we're looking at the midpoint, and that's about a 20 basis point increase from where we started the year.

Bryan Nicholas Burgmeier - *Citigroup Inc., Research Division - Associate*

Got it. Got it. And I appreciate the updated view on the recycled commodity basket. Can you maybe just provide some detail on what the average was during 2Q or maybe where you are in June, July? Just trying to think about how much improvement we need to see in the second half?

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

Yes, Bryan, I'm going to let Tara Hemmer, she's sitting here with us. I'll let her take that for you.

Tara J. Hemmer - *Waste Management, Inc. - Senior VP & Chief Sustainability Officer*

Excellent. So our commodity price for recycling for Q2 was $60. And I think what you have going on in the second half of the year is really a tale of 2 different commodity types. If you think about our fiber pricing, we're expecting a slow ramp in fiber pricing, and that's really being driven by some mill capacity coming online domestically. The bigger story really is on the non-fiber pricing and related to plastics, which is a smaller part of our volume, but higher-value commodity. And we've seen prices decline roughly 30% to 55% from May to July. So that's what's driving our recycled commodity price outlook for the second half of the year. And so we're expecting the second half of the year to now be about $60 a ton. So really the same as Q2.

Operator

Our next question comes from the line of Michael Hoffman with Stifel.

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

So Devina, what was the value of the assumption for a sequential improvement in all things commodity. So not just recycling, recycling RINs, nat gas, electricity in the original $5.9 billion.

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

Yes. So we look at that as a $40 million -- what I would say is we were expecting about an $85 million headwind from commodity price impacts in the recycling and renewable energy businesses. That's now expected to be more like $125 million at the midpoint. So about a $40 million headwind relative to initial expectations, with half of that in the front half of the year, and that's related to the renewable energy businesses. And really specifically in electricity and nat gas prices specifically. And then on the back half of the year, as Tara just articulated, pressure from recycling commodity prices, particularly plastic being lower than our expectations, which is causing a $20 million decline in the back half of '23.

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

Okay. I didn't ask that question very well. You all in your prepared comments, I think, are inferring this, I'm trying to piece it out in numbers. If you got a Mulligan and we went back to February, and you were giving guidance and you didn't have any of the sequential improvement, what would have the midpoint have been? I think it's like $5.7 billion, which means you were raising guidance in 2Q because of the strength of garbage.

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

No, I think you're right on there, Michael. I mean, I think if we had a crystal ball and said, "Hey, commodity prices are not going to improve the way we thought they would in the back half of the year." If we know that natural gas pricing was going to come down significantly, which we didn't expect that our electricity would come down or even rent pricing would come down in the front half. Obviously, it's improved in June. But I think if we had known all those things, clearly, we would have given lower guidance than we gave. But still, as I said in my prepared remarks, and we're still coming in at 5.7%, which is in that range of 5% to 7% EBITDA growth. And by the way, when we gave that back in 2019, that assumes average commodity prices. We are 45%, 40% under average commodity prices. So I feel -- I walk away from this quarter -- well, initially -- and I'm not going to sit here and tell you I wasn't disappointed when I first looked at the numbers.

But then I start looking at what we're controlling and thinking, gosh, normally, when you crush it on SG&A and pricing and margins. Normally, that's a beat and raise. Why are we having the lower and it's all what we've just been talking about. It's all these commodity-based things that are sometimes hard to predict. And we used history to predict, for example, commodity price rebound. It's going to come back. It's just going to be 2024 now. So I think you're absolutely right. The guidance would have been lower, still would have been within the 5% to 7% range. But I walk away feeling pretty good about things. I might sound crazy today, but I walk away feeling good that we're -- that those things that we're controlling, we're doing a darn good job of it.

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

Right. So I'm repeating the obvious, but core recurring collection and disposal is performing as planned or better. That's the conclusion.

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

Yes, that's right. I mean actually, I would say, you could argue a little better, right? Devina just talked about SG&A being 9%. I'd tell you, when I was CFO, I mean, I'm sitting there wondering how we get to 12%.

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

So she's got bragging rights.

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

Yes, she is way better at this than I was.

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

On special waste, John, are you below a normal baseline as well. So this is not only -- you didn't get hurricanes, but the normal sort of recurring stuff that happens over and over again, even though it's not terribly predictable, there's a certain baseline. Are you below the baseline too, because of deferrals?

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

So 2 things, Michael. First, the answer is I don't think no, we're not. I would tell you that on the hurricane piece, I mean, when we look back, that was a little bit of a headwind in the first half of the year, a little bit more in Q2. But again, when we were predicting what we're going to do back last year with respect to Ian, we've cleaned up a lot of it. It just moderated a little bit more in the first half and a little bit more in the second half. So that's answer number one. I think on the special waste side, I've done a little bit of a lot of homework on this and talk to the team here. I would tell you, no, I don't think we're below the baseline.

I think what we saw is historic highs in the first 2 quarters of last year in special waste, and I'm going back until 2017, I think, is as long -- those are 2 of the strongest quarters we've had. In fact, Q2, I think, was our strongest quarter in recent history for special waste, so no. And really, it was a handful of events, a little bit in the Rust Belt, we saw a little bit of moderation on some really big projects. But when you look outside of that, I'm pretty confident about what's going on in special waste.

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

Well, I think, Michael, it probably makes sense that I mentioned that these -- a lot of these companies went into somewhat of a holding pattern here until they get better visibility on the economy. And when you think about what was going on was potential for a real banking crisis here. So today, they put a little bit of a lock on the checkbook with some of these projects, which they have timing discretion on. They will do those projects. The pipeline is still strong. We've been talking about that for several quarters. Still strong pipeline, still really good customers that are all still there, but they just put a lockdown on some of these projects.

And so down -- look, down 1.9 million year-over-year tons in special waste and RGC for the first half and down very significantly versus our budget, that mattered. But again, the good news is all these things that were kind of out of our control. They will reappear. It's not as if they're not going to do those projects. They will do them. It's not as if commodity prices won't come back. They will. So that's why I'm walking out of here feeling better about this than you might think.

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

Okay. And then Tara, how does the delay -- and you may have answered this, but so much information was given I missed it. How was the delay in spending impact capturing the ITC since such time sensitive.

Tara J. Hemmer - *Waste Management, Inc. - Senior VP & Chief Sustainability Officer*

It doesn't impact it at all. We're confident that we've done the work that we need to do to ensure that we get the benefit of the ITC.

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

And then what is the probability that you can work it up from 30% to 50% based on content and all that stuff?

Tara J. Hemmer - *Waste Management, Inc. - Senior VP & Chief Sustainability Officer*

So we're actively looking at which locations can get the energy community benefit, which would take it up to 50% and then also looking at domestic content, which would apply to [17 of the 20.] We don't have definitive confirmation there, working closely with Devina's tax team on that, but hope to have some more information perhaps later this year, early next.

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

Okay. So that's another upside pleasant thing. Instead of spending $1.2 billion, you're going to spend anywhere from $700 million to -- $500 million to $700 million.

Tara J. Hemmer - *Waste Management, Inc. - Senior VP & Chief Sustainability Officer*

What I can tell you is our teams have been working really hard to figure out how we can maximize the benefit across the portfolio. So anywhere where we think we can get the 40% of the 50%, they're doing the work to get there.

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

Okay. Cool. And then, Devina, if you said it, I missed it, what was the impact of less pass-through fees on margins?

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

So on the fuel surcharge, the impact was about 60 basis points.

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

Okay. And then what are the chances we might get segment reporting with more details just this is a learned experience from what happened this quarter?

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

Yes, absolutely. So what I think is important is you hear the close coordination that's happening between Tara's team and my team on every aspect of growing this portfolio. And I would say the systems, processes, financial reporting associated with the business is something that we're bolstering at the same time that we're building out the asset network. And so we have expectations that we'll be able to build SEC quality level of financial information in the near term, and that's our goal, and we'll keep working towards it over the course of the rest of this year.

Operator

Our next question comes from the line of Noah Kaye with Oppenheimer.

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

I'll pick it up there on the sustainability investments. And to be clear, permitting delays are absolutely nothing new in the RNG industry, and I think we understand why. But I'd be curious for your color on the development environment, to what extent any incremental challenges are presenting either from a permitting or construction perspective? How sort of temporary do you view this in this growing industry?

Tara J. Hemmer - *Waste Management, Inc. - Senior VP & Chief Sustainability Officer*

Well, I think it's important to set some context here. We have a large number of projects in flight at the same time, and we're really portfolio base view. If you think about it, some of them are going to delay. Some of them were working to accelerate. If you think about what's happening in 2024, we'll have well over 10 projects under construction. And so we're working with utilities to figure out how we can advance our interconnects we're working with local permitting agencies to ensure that we get building permits. So a lot of this is, like you said, really normal course. Things that happen on large construction programs and projects, and we're going to continue to evaluate. And that's why later this year, really when we announced Q4, we'll give a bit more color on what the impact will be.

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

Okay. And just a follow-up around the RIN assumptions for the full year. Obviously, for the first half of the year south of the original guide, kind of low 2s, RINs being north of $3 now. Is there some sort of impact to the blended average for the year from hedging? If so, can we kind of tease that out? Or could there still possibly be a little bit of upside from where RINs are penciling out today?

Tara J. Hemmer - *Waste Management, Inc. - Senior VP & Chief Sustainability Officer*

That's exactly the right way to look at it. So it really is a tale of 2 halves. And if you think about the second half of the year, with RIN prices now at around $3. You have to remember that we've been selling ratably over the course of the year. So we had some of our volume locked in for the second half of the year. But on a blended average basis, we expect the second half of the year to be more like 270.

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

Okay. Super helpful. And then I guess a question for perhaps Jim and John. If you look at the disparity in volumes between MSW and the collection lines, I mean, what is the story that, that tells? Obviously, you went to some of the detail earlier on special waste around to tough comps in some of the pocketbook deferrals. But just looking at that disparity, help us make sense of it.

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

Well, it's a little bit hard to tell what is causing the disparity. I mean I think there's a number of different factors. You might look at even kind of the commercial real estate market in downtowns, we -- those have declined a bit because the work-from-home movement has taken hold and kind of held there since COVID. If you look at MSW, MSW volumes were quite good, but what may be more encouraging is that MSW price was very good. I mean forever we talked about the fact that we weren't able to get price on MSW, and MSW price is sequentially up.

It's up significantly year-over-year. So while we're getting MSW volume, we're also getting MSW price, and that is very encouraging for us. I'm not overly concerned with roll-off volume being down. Some of it is related to the special waste projects. Commercial volume is kind of what we expected, kind of flattish, maybe a little bit down. And then RESI is a bit by design. I mean we've lost a few contracts, but that was because we weren't willing to go where they wanted us to go in order to retain them.

So I think we're -- from a volume standpoint, we're basically where we expected. It's just that there was a bit of a shift, especially as you thought more about our national accounts business. I mentioned that in my prepared remarks, but that business is doing very well. We're truly differentiating ourselves there and hence, the pickup in national accounts, but it does come at a different margin than, for example, the special waste business that we've talked about.

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

The only thing I would add on the front main residential well. And if you look at residential, and you saw it in the back, if you look at the 4% volume versus the revenue improvement, we've seen a similar trend there last couple of quarters, we try and rightsize that business and continue to get those margins up. On the commercial side, I did go back and looked at what printed in terms of the volume. And then you net out some of the franchise impact in addition to 1 national account loss we talked about that we're actually anniversarying ironically. And at the same time, putting about 15,000 containers back on the street to take that business back, we actually end up about 0.2% positive for the quarter. So there's some noise in there, and that's for the level of granularity, but I think that's why you hear from Jim and I some confidence in our answer to you.

Operator

Our next question comes from the line of Sean Eastman with KeyBanc Capital Markets.

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

I just wanted to come back to the confidence in that core 5% to 7% EBITDA growth going into next year. I wondered that just in light of the great pricing story, good signs on inflation from an OpEx trend perspective, more opportunity on the SG&A cost optimization. Is that a conservative range going into next year in light of how the model is setting up over the next 12, 24 months in your view?

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

I guess based on this quarter, I wouldn't say it was conservative. I don't know. Look, I think...

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

Well, you said this quarter was the commodities, right? So I'm thinking about...

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

I know. I'm kind of half kidding here. But look, I think the 5% to 7% that we gave in '19 is a good range. But those components that you talked about, we're feeling very confident in those. I mean, SG&A we've talked about pricing has been a very good story for us and continues to be a good story for us. OpEx, John talked a lot about OpEx today. And while we had maybe a little more stubborn inflation in the front half, we're starting to see some moderation, as you said. We're starting to see things like training hours come down. We're starting to see over time come down a bit. So we're getting efficiency improvements, cost per unit on maintenance, truck deliveries.

All of those things caused us to be fairly optimistic, and Devina mentioned 29% margins as a decent jumping off point. And look, I would say, yes, that -- we've talked about 30% being a number that we felt was achievable for probably the last couple of years. Now we're finally getting to a point where we say, okay, we really do believe that. I mean, we're looking at 60 basis points of improvement in margins in the face of some really strong headwinds that were a bit out of our control. So we'll give you a lot more detail on that as we give guidance. But I would tell you that barring a big downturn in the economy that 5% to 7% still looks like a very good range for us.

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

Okay. And it sounds like maybe stay tuned on this, but in terms of the $200 million of sustainability growth CapEx that has slid, I mean, for now, is it a good assumption to layer that into the prior expectation for 2024, just kind of layer that $200 million on top? Or is that not the right way to think about it? Any sort of preliminary thoughts on that would be helpful.

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

Yes, Sean, I think you're thinking about it the right way. So layering that on top of what we plan for '24 is the best view that we have right now. We'll give more clarity on that when we give '24 guidance. But based on our expectations right now, I think what's important for you all to hear is that the teams are working really hard to accelerate projects where we can because the returns on these are so strong and a 3-year payback period means that we want to get these facilities up and running as quickly as possible. So while there are some places where we're seeing delays in deferrals like you said, there are others where we're working to see what we can accelerate. So right now, our best outlook is to layer the $200 million on to the prior outlook for '24.

Operator

Our next question comes from the line of Jerry Revich with Goldman Sachs.

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

Jim, Tara, can I ask you your views on the EPA's outlook for landfill gas, really interesting decoupling from other credit classes, so landfill gas really has to ramp up to hit their targets. Based on what you're seeing, do you think the transportation fleet that consumes natural gas was on pace to grow fast enough to absorb those credits? And given the visibility the requirements lay out for your business, how does that impact the potential shadow pipeline beyond the 20 initial projects that we discussed with Analyst Day?

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

I'll give a little bit, and then I think I'll let Tara answer the rest of it. I do believe that there is plenty of demand out there. So from that standpoint, I mean, there's been a little bit of discussion I've heard that, well, are you going to kind of run up against a ceiling here in terms of demand. And I think the answer is there's plenty of demand here as we think about the natural gas fleets, for example. I mean our natural gas fleet is about 70% of routed vehicles. So I think, Tara, I'll let you kind of give a bit more detail. But I feel optimistic about the demand side of this.

Tara J. Hemmer - *Waste Management, Inc. - Senior VP & Chief Sustainability Officer*

Yes. And just to add a little bit of color on to that. If you think about what the EPA did by setting a multiyear renewable volume obligation, it did 2 key things. One is they raise the volume, so that provided a strong demand signal. And two, they provided multiyear certainty. And that's something that obligated parties like refiners were looking for, and so are the producers like WM. So we really feel like there's a strong demand signal from that, and it has a halo effect into the voluntary market. We're seeing a lot more interest in the voluntary market, and we're actively working with our teams to figure what's the right way to transact going forward.

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

And to that point, given the visibility on a multiyear basis, how are you focusing about the pipeline beyond the initial 20 projects as a result? And are we looking at potentially accelerating the next batch of projects beyond these lines?

Tara J. Hemmer - *Waste Management, Inc. - Senior VP & Chief Sustainability Officer*

We absolutely have a pipeline of projects that goes beyond the 20. We haven't yet determined how we're going to approach that pipeline. So we'll provide some more information down the road. But a lot of opportunity when you think about our landfill gas. It's a phenomenal resource and something that we think we can monetize long term.

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

Super. And can we just shift gears, Devina, I just wanted to ask just to make sure I'm on the same page with you. If I'm looking at the second quarter results from a top line standpoint and apply normal seasonality in the [270 D3 RIN] and current OCC prices to the back half of the year, I would get towards the high end of your revenue range. So I just want to make sure I'm not missing any headwinds or any differences versus normal seasonality that could drive you towards even the midpoint let alone the low end of the range. Are there any moving pieces that we need to keep in mind?

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

No, I think that you're looking at it the right way to really give some clarity on our revenue guide relative to where we started. The commodity businesses, we expect to be down $125 million in revenue over the course of the year with a lot of that already in the first half and then about $100 million decline in revenue from the recycling acquisitions relative to expectations. So our expectations for the back half are normal with regard to seasonality impacts. The only thing that you could see is we did start to see hurricane Ian impacting Q4 of 2022 and those will not repeat.

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

Okay. And then can I ask a similar question from margins. Normally, your margins are up 0.5 point 3Q versus 2Q. This year, we're going to have the higher [D3] prices and OCC prices as well that could maybe 0.5 point to that? Is that how you're thinking about 3Q versus 2Q or anything else we need to keep in mind in terms of the margin cadence?

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

Sure. So in terms of the margin cadence, what we were looking at going from Q2 to Q3 and '23 is a typical margin expansion, but the offset will be the timing difference on the alternative fuel tax credit from a year ago. As a reminder, that wasn't concluded from a regulatory perspective until Q3. So we took all of that benefit in Q3 of last year. So that's the one thing that will dilute the margin upswing that we traditionally will see.

Operator

Our next question is going to come from the line of Stephanie Moore with Jefferies.

Hans Peter Hoffman - *Jefferies LLC, Research Division - Equity Associate*

This is Han Hoffman on for Stephanie Moore. I was just wondering if you could comment a bit on pricing just in terms of where you're kind of exceeding relative to kind of your internal expectations? And then just anything you're seeing from a churn standpoint?

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

Yes. I think you could -- we would argue that we're probably exceeding almost across the board, which is why we're -- our expectation is slightly higher than our original guidance, both on yield and on core price. But to be a bit more specific about it, and I think I mentioned it earlier, the 2 places where maybe we're seeing -- we're most pleased would be on the MSW waste stream, which I mentioned it was up sequentially and year-over-year and to a pretty handsome number and then also on residential. Both of those, by the way, in years past, were a bit of a struggle to see good core price or yield. And now we feel good about the fact that not only are they at the absolute, really good numbers, but the trend has been quite good.

Hans Peter Hoffman - *Jefferies LLC, Research Division - Equity Associate*

Got it. That's helpful. And then could you just maybe comment on the M&A environment just in terms of how valuations look like? And any change in activity level there?

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

Sure. I think the valuations have crept up a bit. I mean as you look at a couple of things. One is a lot of these smaller businesses are seeing an uptick in their businesses coming out of COVID. There's also an expectation from some of these businesses that now is the time to sell, whether it's because they don't have succession plans behind them or because of some of the labor pressures that they're anticipating, there's been certainly an uptick in M&A activity. And I think for us, it's a double-edged sword. We want to make sure we do have a nice pipeline of M&A opportunities. But we don't want to fall into the trap of paying way up for these. And so we'll be patient when it comes to those. I would rather -- as if these are -- the opportunities are going to go away. So all -- I'll sit back and wait as opposed to paying a multiple of 15x, I'll wait for that to come down to a more reasonable number unless somebody is willing to sell it to me today at a more reasonable number.

Operator

Our next question comes from the line of Tobey Sommer with Truist.

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

I was hoping you could discuss your labor turnover and compensation growth in the second half versus the first half? And then maybe from a longer-term perspective, how does that sort of comp and expense growth interplay with your 5% to 7% EBITDA growth target over the next several years? Do you model it being a little diminishing over that period?

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

So Tobey, I think a couple of things I'll note for you. One, I referenced that labor rates trended at about just over 6% for the quarter. And if you go back a year ago, that was probably 9%, 10% depending on what part of the country you're looking at. So it moderated. We had expected it maybe to moderate a tad more. But I think what you heard from all 3 of us is that we have good momentum on the OpEx side and in particular on labor. What's driving that is there a couple of things we've all commented on, which are driver turnover is down 250 basis points.

And why is that significant? It takes a lot of the cost friction out from the labor line. And we're seeing it not only in our quality of service and our safety results, but on a labor cost per unit, we're continuing to see that trend down. And then when you think about kind of where we are first half to second half and when Devina added some color on about what kind of the exit margins look like and what the exit OpEx margins look like. You're seeing that momentum build in the second half of the year and helping us build into momentum for 2024.

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

I'll speak to the 5% to 7% for a moment because I think what's interesting is when you look at 2023 specifically, we're guiding about $325 million of EBITDA growth at the midpoint. That includes a $125 million decline from the sustainability businesses. And so when you adjust that, that's $450 million of growth from the combination of strong execution in the solid waste business and the optimization of SG&A costs. That's over 8% EBITDA growth in our business. And so I think it indicates that, that 5% to 7% outlook does have some upside potential, and we start to see the momentum of the optimization efforts that we are putting forth. And when we see the stabilization in labor, which John just spoke about, it really helps drive that forward even more.

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

I appreciate that discussion. What kind of rate in underlying comp growth is there taking the turnover, the hiring, training kind of out of the equation?

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

I'm not sure. Could you take one more crack at that?

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

Yes. So what is your compensation growth for sort of -- maybe you could take a look at your existing employees? Like what's the underlying trend there as opposed to your training and hiring costs?

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

Yes, yes. That's a good question. That 6.1% that I commented was looking at average unit rate per hour. So that is probably the best barometer for what's happening. And that's what I was mentioning last year, that was 9%, 10%, 11%, depending on what part of the world you were looking at. So on an hourly rate, that's where we see the moderation coming down. The growth of that rate has come down almost in half.

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

I think this is -- part of this was the emphasis behind looking to take positions out through technology, not take them out but not choose to replace them because there is a concern, and there has been for 3 or 4 years now that this labor pool is shrinking particularly on the trade type positions. And John talks a lot about that. But that's why just in '22 and '23, there's 1,500 positions so far that we've chosen not to replace. Most of those, as Devina said, are on the customer experience side, through technology, our call volume is down significantly in customer experience. But there still are a number of those left. We said kind of 5,000 to 7,000 positions.

So at the low end of that 5,000 over a period of a couple of years. John has some operating positions to take out as he moves from traditional rear load equipment, for example, to automated sideloaders. Obviously, a rear loader has a person on the back. And not only is there an added labor component there, but there's a safety issue, too. It's much more dangerous to be on the back of a truck than to be sitting in the cab operating a joystick. There are -- we've taken out only 100 of those so far, really having to do more than anything with truck deliveries. But there's another 400 that are geared up and ready to go as soon as those trucks come in. And I think over the next couple of years, you could see something north of 1,000 that we take out, not only do you get a person off the back, but you also get a 25% or 30% pickup in productivity.

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

The one thing I would add, Jim, is we skipped over recycling. I mean if you look at the benefits we're showing in the recycling business in these automated plants and the margin expansion and the labor dependency and ratio reductions, that's a clear place where it's showing up. It takes a little longer to do with over 15,000 plus routes. But in the recycling business, Brent and Tara and team have done a nice job of really demonstrating where automation drives real dollars out of the business.

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

But all of these reduce that risk that you're talking about, which is this kind of inflationary risk on labor.

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

Excellent. I appreciate you being in the recycling comments. Just one brief follow-up on the relate. With respect to the acquisition pipeline and what you're seeing, you kind of gave an anecdote of a really high kind of mid-teens multiple. Is there really that kind of disconnect? Or was that just a single example, but maybe not representative of the pipeline as a whole?

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

No, I mean that's -- look, I think what -- I guess my point was, you're starting to see some of these valuations creep up. And so really my primary point was we're going to be disciplined about that. I mean, particularly as you think about these investments we're making in RNG and recycling, I mean, if you put a multiple on that, it's a multiple of 3 or 4 compared to a multiple -- anything in double digits seems to not make sense compared to those. So it doesn't mean we're not going to do acquisitions. But I think we're going to be disciplined about how we go about that, particularly when it comes to some of these higher multiples.

Operator

Our next question comes from the line of Stephanie Yee with JPMorgan.

Stephanie L. Yee - *JPMorgan Chase & Co, Research Division - Analyst*

I wanted to ask about the plastic commodity prices being down. It sounds like on the OCC fiber front, that wasn't so much of a surprise. But if you can just comment on what's driven the decline in the plastic piece? And what your expectations are, not necessarily for this year, but just maybe '24, 2024?

Tara J. Hemmer - *Waste Management, Inc. - Senior VP & Chief Sustainability Officer*

Sure. If you look at what's happening with plastics, it really comes down to the virgin price for plastics is low, which is putting pressure on the recycled pricing. But we think long term, if you think about what's happening with brands, they all have commitments to buy recycled content, and we think that will come back, they are going to come back into the market to buy to meet their commitments. So we would expect that we would see a ramp longer term. It's one of the reasons why we're excited about some of our investments that we've made in plastics recycling and advancing those. And it's one of the things that our automated recycling plants do. They help capture more plastic, which will go to those markets longer term.

Stephanie L. Yee - *JPMorgan Chase & Co, Research Division - Analyst*

Okay. Great. And just a question again on kind of the longer-term EBITDA margin expansion potential, the 40 to 60 basis points, I think was mentioned and the 5% to 7% EBITDA growth, is that premised on yields being higher than that 2% level that was presented back in May of 2019, just because average yield is tracking higher than that right now? And it seems like there is momentum behind pricing, generally, both on resi and -- both on the collection and also the post-collection side?

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

Yes, it's a great question, Stephanie. I think the way that we're looking at that is not a specific yield number, but instead the spread between our yield and our cost inflation. And what we're really satisfied with is that we've seen flexibility in our pricing programs to be responsive to different cost environments. And so whether the yield in that initial guidance in 2019 was 2% or we're closer to the 5.5% today. What we're focused on is ensuring that we get the right spread from optimizing the business as well as continuing to price to cover cost inflation for long-term growth.

Operator

Our next question comes from the line of Jim Schumm with TD Cowen.

James Joseph Schumm - *TD Cowen, Research Division - VP*

So you cited inflation in the sustainability growth program. Is it fair to assume that the total CapEx to achieve the '26 targets will be higher than what you laid out in April? And can you give any indication of what that magnitude might be?

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

We are expecting that there will be an increase in the overall program, but because of the size of the program and the multiyear nature of executing upon it, we are going to wait to give specific updates with regard to the magnitude of that. It's difficult for us to update this a quarter at a time. And what we look to do is ensure that we give you clarity as we have significant or any meaningful revisions in near-term outlook and the most material one that we have at this point is just the shift of the $200 million from '23 to '24. Everything else is quite inconsequential to the overall outlook at this point.

James Joseph Schumm - *TD Cowen, Research Division - VP*

Okay. Great. And then just lastly for me. You mentioned a couple of the permitting issues and maybe some interconnects. Are you seeing any supply chain issues for equipment or any third-party constraints with like pipeline companies or anything like that?

Tara J. Hemmer - *Waste Management, Inc. - Senior VP & Chief Sustainability Officer*

On the equipment side, we did a good job in particular on the R&D side of making sure that we really procured our longer lead time items and those critical components related to our build. So we feel good about that. One of the things that we've been watching on both sides is really electrical components. And so the team has done a good job of getting out in front of that. Those tend to be a year out lead time like items and then working in close coordination with the pipeline and then electrical interconnect, and those are typically very local in nature and very site specific. So we've seen some issues here and there that we're trying to navigate through. And again, this is a pretty normal course when you think about what we're trying to build and the scale and the size of our portfolio.

Operator

Our next question comes from the line of Kevin Chiang with CIBC.

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

Maybe just two quick ones for me given -- I appreciate all the detail on this call already. Just to confirm, the ITC expectations that you laid out at the sustainability of Investor Day, the $250 million to $350 million, that's still the right range we should be thinking about just to confirm that number.

Tara J. Hemmer - *Waste Management, Inc. - Senior VP & Chief Sustainability Officer*

Yes. We'll provide greater detail in the future once we have a bit more clarity from the IRS, but we feel confident in those ranges.

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

Okay. That's helpful. And then you mentioned, I think, churn in the prepared -- not churns, the conversion rate in your prepared remarks from core price -- between core price and yield, 85%, that's obviously tracked nicely here over the past couple of years, if not longer. Just wondering how you think about that conversion rate, as you crush this inflation we've seen, it sounds like you're starting to see a little bit of disinflation or deflation in some of these buckets or these things aren't rising as fast. Do you think that makes smaller players a little bit more competitive, if they're not seeing the same inflation, they become a little bit more competitive on pricing. And that conversion rate could slip a little bit? Or do you think you've structurally changed how you think about core price and yield to kind of hold on to that even in an inflation environment that's, let's say, 3%, 4% versus 6%, 7%?

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

Jim said it last quarter or the quarter before, trying to expand margin when inflation is 8%, 9% is not ideal. So as we see inflation tick down and CPI is probably a good example of that. We don't -- we see our ability to grow margin, obviously, get a little bit stronger as inflation comes down. Secondly, CPI, obviously, is tailing off. I look at that 2 ways, 1 of which is the cost side, which I commented on. The second piece of it is as you look back on a lot of our index price contracts. We've still got a bit of a tailwind and we talked about that when we gave guidance of about 5.5% conversion rate there. So -- and lastly, I think whether it's been an inflationary environment, high CPI, lower CPI, if you look at our historic pricing strategy, we've priced to get margin on top of operating expenses regardless of what's happened on the CPI side.

Operator

Thank you. And I would like to turn the conference back over to Jim Fish, President and CEO, for his closing remarks.

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

Okay. Thank you so much. And I really appreciate your detailed questions this morning. It helped us to explain why we're feeling good about this quarter coming out. So thank you for those. Thank you all for joining us. Looking forward to talking to you again next quarter.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.