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WM.N - Q2 2022 Waste Management Inc Earnings Call

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OVERVIEW:

Co. reported 2Q22 results. Expects full-year 2022 revenues to grow approx. 10%.

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PRESENTATION

Operator

Thank you for standing by, and welcome to the WM Second Quarter 2022 Earnings Conference Call. (Operator Instructions) At this time, I'd like to turn the call over to your host, Ed Egl, Senior Director of Investor Relations. Please go ahead.

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

Thank you, Valerie. Good morning, everyone, and thank you for joining us for our Second Quarter 2022 Earnings Conference Call. With me this morning are Jim Fish, President and Chief Executive Officer; John Morris, Executive Vice President and Chief Operating Officer; and Devina Rankin, Executive Vice President and Chief Financial Officer.

You will hear prepared comments from each of them today. Jim will cover high-level financials and provide a strategic update. John will cover an operating overview and Devina will cover the details of the financials.

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

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

During the call, Jim, John and Devina will discuss operating EBITDA, which is income from operations before depreciation and amortization. Any comparisons, unless otherwise stated, will be with the second quarter of 2021. Net income, EPS, operating EBITDA and margin and operating and SG&A expense results have been adjusted to enhance comparability by excluding certain items that management believes do not reflect our fundamental business performance or results of operations. These adjusted measures, in addition to free cash flow, are non-GAAP measures. 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 27, 2022, may no longer be accurate at the time of a replay. Any redistribution, retransmission or rebroadcast of this call in any form without the expressed written consent of WM is prohibited.

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

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

Thanks, Ed, and thank you all for joining us. The strength and resiliency of our business was clearly on display in the second quarter as we built on our first quarter momentum to deliver results that exceeded our expectations. Our teams remain focused on recovering inflationary cost pressures with our strongest-ever core price yield results. Our pricing results, combined with volume growth and sustainability contributions, drove quarterly revenue above $5 billion for the first time. Our robust revenue growth translated into operating -- into adjusted operating EBITDA growth of 7.8%, which is above the upper end of our long-term growth profile of 5% to 7%.

Cash from operations remained strong in the second quarter, positioning us to return more than $0.5 billion of cash to our shareholders to bring the year-to-date total of shareholder returns to more than $1 billion. You'll hear more details from Devina, but our strong start to the year gives us confidence to increase our 2022 outlook for revenue, adjusted operating EBITDA and free cash flow. In the second quarter, we continued to see strong volumes, an encouraging sign for economic activity across the areas we serve.

Currently, our key business indicators point to continued positive economic activity. That said, WM is well positioned in any economic environment. Our resilient business model is underpinned by our diverse customer base and essential nature -- the essential nature of our service and the annuity-like characteristics of about 75% of our revenue.

We continue to advance our long-term strategic priorities of providing the best workplace for our employees, investing in technology and automation that differentiates WM and permanently reduces our cost to serve and leveraging our sustainability platform for growth. Investing in making WM a great place to build a career while also reducing our labor dependency through attrition and automation together position us to navigate this tight labor market.

In our sustainability growth journey, we achieved 2 exciting milestones in the second quarter. We opened our fifth WM owned and operated RNG plant in Oklahoma, the first of the 17 new RNG facilities we announced, that are expected to add 21 million MMBtu of RNG to our renewable energy portfolio by 2026. We expect to complete construction on the next RNG facility by the end of the year.

On the recycling front, we brought online our Houston MRF, the sixth redesigned recycling facility utilizing advanced technology to reduce labor and improve product quality. Our advanced technology MRFs are yielding tangible benefits, resulting in about a 30% labor cost savings per ton compared to the rest of the single-stream network.

In the second half of the year, we expect to open 2 additional advanced technology recycling facilities and enter a new recycling market, keeping us on track to meet our recycling investment goals.

I want to take a moment to discuss our capital allocation priorities, particularly related to M&A. Our strong operating EBITDA growth has allowed us to absorb the $4.6 billion acquisition of Advanced Disposal and quickly return our balance sheet to pre-ADS leverage levels. We consider a typical M&A year to be between $100 million and $200 million of acquisitions. This year, we have the strongest pipeline we've had in a long time and expect to close between $300 million and $400 million of acquisitions.

We will remain disciplined in our approach to traditional solid waste tuck-in and recycling acquisitions to maintain our strong financial position and generate industry-leading returns. Our cash generation plus our strong balance sheet affords us the ability to allocate capital to our priorities, investing in organic growth and sustainability initiatives, predictably growing our dividends, completing accretive acquisitions and returning cash through share repurchases.

In conclusion, I want to thank the entire WM team for their hard work and dedication. I'm excited about the remainder of 2022 as we continue to deliver on our commitments to our team members, customers, communities and shareholders.

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

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

Thanks, Jim, and good morning, everyone. Once again, we achieved exceptional organic revenue growth in the second quarter, led by collection and disposal yield of 6.2%. Our pricing accelerated sequentially as we continue to address persistent inflationary cost pressures throughout the business.

Second quarter core price increased 20 basis points from the first quarter to a record 7.5%. Core price was strong across every line of business, and we had standout performance of 10.6% in our industrial business and 9.4% on in our commercial business. Customer receptivity to our pricing remains strong as second quarter churn, adjusted for the intentional loss of an unprofitable national account contract, was 9%. We remain confident that our pricing strategies are appropriately responsive to rising costs while prioritizing customer lifetime value. Our teams continue to be focused on disciplined pricing in the second half of the year, and we now expect 2022 core price of more than 7% and collection and disposal yield approaching 6%.

Key indicators in our business continue to signal healthy economic activity in the quarter. Second quarter collection and disposal volume grew 2.3% with commercial volumes growing 1.6% and special waste volumes up more than 19%. Additionally, new business exceeded lost business as service increases continue to outpace service decreases by a wide margin. Second half volumes are expected to remain strong and for the full year, we expect collection and disposal volume growth of about 2.5%.

Our teams remain focused on controlling operating cost. Adjusted operating expenses were 62.4% of revenue in the second quarter, a 130 basis point increase from the second quarter of 2021. The year-over-year increase in operating expenses as a percentage of revenue was largely driven by fuel and commodity price impacts, 70 basis points from higher fuel costs, 30 basis points related to the alternative fuel tax credits received in 2021 that have not yet been renewed for 2022 and 30 basis points from the impact of higher commodity prices on our recycling brokerage business.

In the second quarter, we again saw high single-digit inflation in our costs, and we are managing through this with both pricing and cost controls. Our core price is recovering our cost of inflation in each line of business, except residential, where the impacts of higher labor costs are most pronounced. In that line of business, our conversion of approximately 2,000 railroad routes to automated side loaders will both reduce labor and significantly improve efficiency. This is one of the ways where we are investing in technology to reduce our dependency on certain high-turnover positions.

Additionally, early results from our pilot programs to fully optimize our roll-off routes are showing efficiency gains in the range of high single to low double-digit percentage increases. As we move into the second half of the year, we expect inflationary cost pressures to ease on a year-over-year basis given the proactive steps we took to raise frontline wages in the second half of 2021.

As Jim mentioned, we're excited about growth opportunities in our recycling and renewable energy businesses, and both businesses continue to deliver strong results. Together, recycling and renewable energy contributed $19 million of operating EBITDA growth in the second quarter. The recycling business is on track to deliver results on par or modestly higher than the record earnings we achieved in 2021. Our blended average recycling stream commodity price was $131 per ton in the second quarter, and we continue to expect a full year average of $125 per ton.

In the renewable energy business, better pricing for renewable natural gas, electricity and environmental credits is driving our full year outlook for this business higher than our original guidance by $35 million to $45 million. Overall, our second quarter results exceeded our expectations as we demonstrated our ability to execute on our disciplined pricing programs and manage costs.

I'm extremely proud of having the entire WM team work together to provide safe and reliable service to our customers. I'll now turn the call over to Devina to discuss our financial results in further detail.

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

Thanks, John, and good morning. The strong operating and financial results of the second quarter confirmed a number of important indicators we saw emerge in Q1, positioning us to increase our full year financial outlook. I'll cover our updated guidance in a moment, but I want to give a little more color around our second quarter and year-to-date financials first.

As John discussed, our results have been driven by robust organic growth, led by our disciplined pricing focus as well as diligent cost management. Proactive management of our SG&A has been an important element of those cost management efforts. In the second quarter, adjusted SG&A was 9.4% of revenue, a 20 basis point improvement over the same period in 2021. We accomplished this result in spite of an increase in incentive compensation due to our focus on controlling discretionary SG&A spending and leveraging technology investments to reduce the customer sales and back office functions. We are on track to deliver SG&A as a percentage of revenue of about 9.6% for the full year.

Operating EBITDA increased more than $100 million in the second quarter, driven by an increase in the operating EBITDA of our collection and disposal business of $107 million. Operating EBITDA margin in the quarter was 28.1%, a 50 basis point improvement from the first quarter of 2022. We are confident in our ability to achieve our full year margin outlook, which is a particularly strong result given the dilutive impacts from rising fuel costs, which we now estimate could be about 60 basis points for the year.

Year-to-date cash flow from operations was up $142 million or about 6.5% from the prior year, which has been driven by operating EBITDA growth of over 9%. Cash flow from operations growth was slightly muted relative to operating EBITDA growth due to higher cash taxes, which will continue throughout the year, and working capital pressure that we expect to moderate over the remainder of the year.

During the first half of the year, we've invested $856 million in capital to support the business, and we invested an additional $112 million to support the strategic growth of our recycling and renewable energy businesses. Our year-to-date free cash flow, which includes the impact of capital outlays to support our sustainability growth investments, is $1.35 billion, putting us on pace to exceed the upper end of our initial 2022 guidance of $2.05 billion to $2.15 billion.

While the pace of capital spending has been slower than expected in the first half of 2022, we currently expect truck deliveries, landfill construction and sustainability capital projects to ramp in the second half of the year. We're encouraged to see supply chain constraints in certain asset categories begin to show promising signs of improvement, though we are proactively managing the business in anticipation of the longer delivery schedules we've experienced over the last year. We will revisit capital and free cash flow guidance in more detail next quarter.

As Jim discussed, we are well positioned to allocate free cash flow among all our capital allocation priorities. In addition to increased acquisition expectations for the year, we now expect to allocate our full $1.5 billion authorization to share repurchases.

Turning now to our updated 2022 guidance. We expect revenue growth of approximately 10% and adjusted operating EBITDA in the range of $5.5 billion to $5.6 billion. The $175 million increase in operating EBITDA guidance is driven by more than $325 million from increased price and volume performance and $40 million from better performance in the renewable energy business. Those things are partially offset by approximately $190 million of higher costs, which were driven by a combination of inflation pressure and incentive compensation.

Note that this outlook assumes fuel prices remain at June levels for the second half of the year, equating to a 60 basis point drag to full year operating EBITDA margin. Even still, we expect to deliver margin of 28.1% at the midpoint of our guidance.

We remain optimistic that the alternative fuel tax credits will be approved in 2022 and continue to include the approximately $55 million benefit we would expect to receive in our outlook.

In closing, our excellent first half performance sets us up to deliver another year of strong financial growth in 2022. I can't thank the WM team enough for all their contributions to our success.

With that, Valerie, you let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tyler Brown of Raymond James.

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

You guys threw out quite a bit in the prepared remarks, but I just want to make sure I have it. So on the down 120 basis points on the margin walk, it was 70 basis points from fuel, 30 from the CNG credit and 30 from commodities. Is that right?

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

That's right. And that's looking at the operating expense line, so we would also -- for the EBITDA margin, and I think it's important in thinking about EBITDA margin in 2 pieces. So one is how did we perform relative to the expectations that we laid out at the beginning of the year. And what we can say there is that we're extremely pleased. And really, our outperformance relative to expectations is in 2 places, and that's our traditional solid waste business that outperformed expectations by about 40 basis points and the renewable energy business that outperformed expectations by 20 basis points.

As we've mentioned, we've had a couple of headwinds relative to our initial expectations, and those headwinds are fuel and the alternative fuel tax credits as well as incentive compensation. But when we put all of that together and think about our outlook for the full year and our performance in the first half, particularly relative to our original guidance, we can say that we're 60 basis points ahead of expectations on base performance, and that's a really strong outlook.

When we look at Q2 specifically, the walk forward between the 29.3% that we achieved in Q2 of '21, which I'll remind everyone, is the best quarterly performance that we've had in our history from a margin perspective, to what we delivered at 28.1% today for Q2, really, fuel is the story there in terms of that walk forward.

So what you saw in that 120 basis points is 80 basis points led by fuel. And that 80 basis points is 50 basis points from higher fuel costs, 30 basis points from the alternative fuel tax credits. Recycling was 40 basis points negative, that was in line with expectations. 30 basis points of that is from the brokerage business that we talk about, where it's effectively pass-through revenue. So higher commodity prices just translates into pretty much a dollar-for-dollar increase in cost. And then the other piece of that was higher incentive compensation cost at 30 basis points.

So really happy with the strong performance of the solid waste business, and I think that's the highlight when you look at the margins for the business in the quarter.

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

That's why she's the CFO, Tyler.

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

Yes, I was going to say that was extremely helpful, very detailed. So real quickly, not to focus too much on the margins, but it does feel like you're looking for a margin uplift in the back half, I think, somewhere circa, call it 50 basis points. But I just want to kind of think about it conceptually. So is it that the pricing contribution will kind of hang around the same place, but your unit cost inflation kind of eases? Because I think John talked about it, you pulled some frontline wages, I believe, forward in the back half of '21. Is that kind of how that will work?

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

Yes, I think that's right, Tyler. I mean, listen, we got out from the labor issue kind of Q2, Q3 last year. So we feel like while we're still seeing labor inflation, it's not going to be at the same rate. And there's other obviously inflationary pressures, but I think you got it right.

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

Okay. Great. And just my last one, John, just real quick. Can you remind us what percent of your revenue is, call it, temporary roll-off in C&D landfill volumes? Just I've been getting some questions about housing, just kind of your exposure there.

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

Yes, we're not really exposed too much there, Tyler. The temp C&D business is low single digits.

Operator

Our next question comes from Jerry Revich of Goldman Sachs.

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

Nice quarter. I'm wondering if we could trouble you just for an update on how pricing is tracking now that your landfill gas facilities are coming online. Jim, how are you feeling about the pricing point relative to the mid-20s that you underwrote the investments in? And is the offtake market developing?

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

So I thought you were going to go down to the solid waste pricing path. But on RNG, look, I think our expectation here is that -- we built in $2.80, Jerry, for the back half of the year. We think that's pretty comfortable. As you know, based on our discussions, and we're with you that the business was pro forma-ed at much lower numbers. And even at those lower numbers, $2 for RIN and $2.50 in natural gas, even at those lower numbers, this is an outstanding business in terms of the returns. But specifically for the back half of '22, our expectation is that we'll see $2.80 in RIN pricing, and we feel comfortable with that number.

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

And Jim, in terms of the offtake market, is that developing? What's your level of inbounds for folks that are looking to lock in long-term agreements? And can you comment on how those conversations are going?

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

Yes, Jerry. I would tell you that we're obviously -- the RIN market is what it is, and that's a part of our portfolio. But we have started to become -- and I think last quarter or the quarter before, started to do some direct offtakes for renewable natural gas. And we're seeing good momentum in some of those contracted rates.

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

Okay. Super. And Jim, since you want to talk about it, the solid waste pricing. Can we talk about that? So big CPI tailwind into next year, obviously positive revision to pricing over the course of this year. As you look at the book of business today, what's your best sense for how pricing might look in '23? It feels like just with CPI pricing rolling and the timing of C&I increases, you probably have 5 points of core price already in your back pocket entering '23. But I'm wondering if you could comment on that.

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

Well, you're absolutely right, Jerry, about the tailwind on those businesses that are driven by an index-type increase. The 12-month lag that we've talked a lot about really starts to help us most significantly in the first quarter of next year.

So if we believe that CPI has gotten pretty close to the top here at 9.1%, then we would see pricing -- let's just assume for the sake of discussion that inflation starts to taper back down. I think you'd see pricing in those open market businesses follow that down but not exactly. I think we've kind of talked about it compared to banks, for example, where their spreads are better at lower rates. And I think that's what you would see with our pricing is that if inflation starts to really taper back down, that you'd see a bigger percentage of our price go to margin improvement, not just cost recovery. Right now, we're kind of in a street fight trying to cover costs at 9.1% CPI.

And then with respect to your initial question, yes. When we get to really the first half of 2023, and recall that what we said about those index-driven price increases is that -- about 70% of that takes place in the first half of every year and 30% takes place in the second half of the year. So we will see some tailwind in the second half of 2022 from CPI, but it's just not as pronounced because only 30% of the revenue is getting it.

When we get to the first half of 2023 is when we get the real tailwind in -- it's primarily residential because that's the line of business that is most tied to an index.

Operator

Our next question comes from Michael Hoffman of Stifel.

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

Jim, I'd like to follow-up on the price conversation because I think this is one of the most critical issues the industry has going for it. So tackling what you just said and summarizing it, you're about 60-40 open market versus index, and I get the weighting first half, second half. But if CPI goes to 3%, you're still going to get a good spread to it, call it 100, 150 basis points in your open market. And then you're going to have your index at an 8-something, maybe closer to 9%. In just the algebra formula, there is a greater price in '23 than I am in '22 before I factor in churn. That's the math, right?

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

I think you're spot on, Michael. I mean, look, we're not crazy about 9.1% inflation. And as I said, we're doing everything we can with price and doing a good job with it, but to cover our cost. If inflation comes back down to a more reasonable number, let's call it 3% over the next kind of 2 to 3 quarters, then I think we have a greater percentage of our price that actually goes to margin improvement and not just focused on cost recovery, which is kind of where we are today with the open market pricing.

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

Right. And so I was thinking -- go ahead, John, sorry.

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

I was just going to say, Michael, I think the one caveat to that is what we're specifically doing in residential. And you can see that we continue to make progress on the core price side and the yield side, and we're still being pretty deliberate about what volume we're going to keep and what volume we're not going to keep. That would be the one caveat to what Jim commented on.

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

Yes. And I get that, and I keep trying to convince the market you're supposed to pay attention to price, not volume, because at the end of the day, you'll have a better quality business.

So the other part of the price question that keeps coming up and we try to help the market understand is how sticky unit prices are. So the rate of change in open market might go from a 7 core to a 5 core, but the underlying unit prices are very, very sticky, price per yard, price per ton, price per pull. Can we help everybody appreciate the significance of that as well?

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

We consider our business to be very price-inelastic. And the reason is that it's such a small percentage of the customer's overall cost structure. I mean, we've estimated it differs a little bit whether you're a residential customer versus a business customer, but it's probably 0.5% of a small business' overall spend. And then when you add to that what we're doing to truly differentiate ourselves, those 2 things cause pricing to be pretty darn sticky for us. So you're right. It is -- we tend to hold on to more of it than maybe other businesses might.

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

Right. And my point being is if all of this unwinds from an inflationary standpoint or there's a recession, you don't walk back unit prices. You hold on to the unit price, plus I've got the favorable trend of higher price versus underlying internal cost of inflation in '23. The power of that is pretty compelling.

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

Yes. No, that's right. I mean, the unit price stays where it is. And then it's just about the percentage, which is yield or core price. Those are percentage growth figures. And we think that the percentage growth figure, as I've said, does kind of taper down as inflation comes down, but the spread improves a bit. So we have a little bit more that goes towards margin improvement at 3% CPI than we do at 9.1% CPI.

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

The RIN recycling upside of $35 million to $45 million, I'm assuming that's mostly all weighted in the first half because the RIN's coming down, recycling's come down sequentially. And so the benefit of that has already been captured.

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

So I'll take that in 2 pieces, Michael. On the recycling side of the business, we were better in the first half about $28 million. We expect actually to give some of that up in the second half of the year. So we expect about $20 million to $25 million of earnings pressure in the second half just because of where commodity prices were in the second half of '21 relative to what we expect them to be in the second half of '22.

On the renewable energy side, we have captured $27 million in the first half of '21 -- or '22, and we expect another $10 million to $20 million of incremental earnings in the back half. So when you net those 2, we expect to be down in the, call it, $10 million to $15 million range.

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

Okay. That's very helpful. And then Devina, on the guide at the beginning of the year, you framed it as negative 100 basis points of headwind. First half, plus 100 to 140; second half, sort of 0 to 40 up. You were actually pretty close to the negative 100, a little less actually. But you're now telling us it's less than positive 100, 140 in the second half. That's if we're revising part of the messaging, that's the other part of it?

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

That's right. But what I would say is the plus 100 to plus 140 now looks more like, call it, plus 80 to plus 120. And when you consider the impact of fuel at 60 basis points, that really does speak to the strength of the underlying fundamentals of solid waste and the incremental benefit of the renewable energy business relative to our initial expectations.

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

Fair enough. And just to be clear, that 60 basis points is just a pass-through math. It's not a real cost impact. It's -- you offset the cost increase with the surcharge, and it's just the pass-through math.

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

Yes, that's right. From an earnings perspective, you'll really -- should be a zero-sum game for us. What we see on the fuel surcharge side of revenue growth, what we had in Q1 -- or Q2, I'm sorry, was $129 million. We expect similar levels, maybe a moderate decrease in the second half of the year on a quarter-by-quarter basis. But that effectively is a dollar-for-dollar offset as higher operating costs, both for direct fuel and our indirect costs from subcontractor costs and other transfer elements of the business.

Operator

Our next question comes from Hamzah Mazari of Jefferies.

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

My first question is just maybe you could frame for us how this business you think will perform in a new recession. I know the business is pretty resilient. I know most companies are not seeing a downturn either yet, but -- just the reason I ask that question is the sector is pretty different from '09, when volumes fell 10% and it took a lot longer to recover.

And then most investors kind of have the COVID year in front of them, where your internal revenue growth, I guess, was negative 3%. That was more of a shock to the system. But just frame for us how your business is different. We're clearly seeing pricing, how the sector is more disciplined. Just frame for us your downturn playbook and just resiliency of this business. I know it also lags going into a downturn.

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

Thanks, Hamzah. So you really kind of talked about it, primarily volume, right? But there's a couple of different components to your question here. I'll tell you what gives us cause for optimism here. We knew that 99% of the focus on this call is going to be about forward-looking statements. So a couple of things. First of all, I mentioned that on the price side, we -- to Michael's question, we have a very price-inelastic customer base. That's a real positive in terms of the stickiness of price, and price is one of the big 3. If I think of the big 3 being price, volume and cost control, we feel really good about price.

If we think about volume a little bit, and so just maybe a little bit of inside baseball here. We just had our 16 area vice presidents on for their quarterly reviews, and almost to a person, they're feeling really optimistic about their own individual areas. And when we look at our July numbers in terms of volume, they look pretty good. I mean, they look basically exactly like we saw in June. You have to kind of consider that we had 1 less work day. Fourth of July this year was on Monday, last year was on Sunday. So there's a little bit of -- we have to consider that. And we also are, on the commercial side, considering things like we intentionally shed a big national account that affected us by almost 1 percentage point.

And -- but if we factor those onetime things out, volume still looks pretty good. And the most forward-looking component of our volume is special waste. It was up 19% for Q2. But as we look out towards what the pipeline is telling us in -- for the remainder of the year, it still looks really good. Our volume in the first 3 weeks of July looks good in that special waste stream. So that's 2 of the big 3 there.

And I would also tell you, Hamzah, to your question about why we're different from other industries. I don't know that we're different from other industries necessarily. But our company, we do believe that we're starting to take some share. It's a tough operating market, a really tough operating market for a lot of companies. John talked a bit about this labor shortage, and I don't think that's a short-term trend. That is a long-term trend. That's why we've talked about kind of the third of the big 3, which is cost control and taking advantage of the attrition in our business, the cost categories that we're looking at, not backfilling for have -- some of them have 50% turnover.

So why go through that hamster wheel every single day? Why not use technology to let some of those jobs have attrit away and actually use that to our benefit? And the -- most other companies out there in our space just don't have the technology or the wherewithal.

So some of this that ultimately makes us look better even in a recessionary environment is that we feel good about taking share in a tough operating climate.

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

Got it. Very helpful. And just you had flagged an above-normal M&A year. I know it's still sort of $300 million, $400 million figure. But just maybe frame for us, what's driving that? How long do you think an above-normal M&A environment could last? And any change in valuations you're seeing in the private market?

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

Yes. So I just talked about the fact that it is a bit of a tough operating environment out there for a lot of companies. And so what we don't want to do and we've said this on several of our previous calls, we don't want to bail somebody out of a problem. I mean, we're still going to be conservative when it comes to valuations.

But we think there's some really good companies out there that are not asking for ridiculous prices, purchase prices, and those are attractive to us. And we see enough of those to say that in the solid waste space and in the recycling space, we feel more like a $300 million to $400 million a year versus more of our traditional $100 million to $200 million is appropriate.

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

Got it. Just a clarification question and I'll turn it over, just for Devina. I think you had flagged $129 million sort of out of the $153 million that's fuel surcharge recovery in Q2. Just comparing that number, did you mention sort of how much fuel increased for you, when we're looking at that $129 million number? What did your cost increase for fuel just comparing the $129 million? Was it over $100 million or less than $100 million? Just any sense there.

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

It was effectively equal. So it was a combination of direct fuel and indirect. So the indirect will show up in lines like the subcontractor category. So you can think of it effectively like a dollar-for-dollar offset.

Operator

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

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

I just wanted to come back to inflation. Last quarter, you guys quoted, I think, around 9%. Wondering what that was in the second quarter. And just this dynamic around comping the heavy wage increases. Last year, it was interesting how we think about how that part of the inflation algorithm trends into the second half.

But what else should we be aware of in terms of what's happening under the hood in terms of inflation? I mean, outside of wages, are things still ramping, cooling off? Any color on that element would be helpful.

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

Yes, Sean, I think the commentary on labor, we got out front of it last year. And we see, while it's not going all the way down, it's going to moderate in the back half of the year because of the intentional steps we took last year. Devina touched on it, but we're still seeing inflationary pressure on third party on maintenance and repair. Subcontractors is one that sticks out.

And clearly, whether it's by rail or by truck, we're seeing the fuel impact there as well. That's a big chunk of the indirect pressure we're seeing. And I think the commodity piece runs through that a little bit as well. When you think about third-party maintenance and repairs, there's a commodity element to that.

So I would tell you that I feel like it's peaked, generally speaking. And I think the benefit we'll see is in terms of what we did with our labor, which is a big chunk of our operating expense line.

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

I do think, Sean, that Devina touched on it in her remarks. But the supply chain itself, I mean, she mentioned that we're seeing a little bit of easing there, and that is true. But that's pretty important to us, particularly as you think about the delivery of trucks to us. I mean, last year, we didn't get the trucks that we ordered. And so far this year, we have not gotten to the number that we expected. We're hopeful that in the back half of the year, we start to see a pretty significant ramp-up there in the vehicles that we've ordered. That's a pretty important part of the inflation picture because, as John mentioned, maintenance cost is not insignificant as a cost line item. And that obviously is impacted as you're having to keep older trucks in the fleet.

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

Okay. That's interesting and kind of a segue into my next question. I think in the prepared remarks, you guys had mentioned that capital spending is running a little below expectations in the first half. Maybe you'd revisit that guidance next quarter. I mean, is it really just trucks we're talking about here? I wondered if some of these capital spending delays also are being seen around the sustainability investment program. And whether there's any risk to that incremental EBITDA we're expecting to see roll out of those investments into next year.

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

Yes, great question, Sean. First and foremost, I would say it's important to hear the message that we are very confident with the rollout of our sustainability initiatives, and those investments are on track. We talked about both the renewable energy facility and the recycling facility coming online and expectations for the remainder of the year there. It continue to be strong relative to our initial expectations. So when we look at capital being below our guided levels, it really is more in the traditional solid waste space and specifically for trucks.

As Jim just mentioned, our truck deliveries in 2022 has really been slow relative to our initial expectations. And even after we saw Q1 unfold, we revised those expectations, and they're still below what we had expected at that point in time. So as we look at how we spend our capital, we're adapting for that slowdown on the truck front. And we're looking at places across the rest of our business to proactively pull forward capital, whether it be in the landfill line of business where we've seen strong volumes, particularly in special waste, or as we look at other parts of the business that are performing well and have continued investment opportunities because those returns have been strong.

So overall, what I would tell you is we still need Q3 to unfold before we can give you the additional detail on the traditional capital part. I would tell you, at this point, we completely expect to stand firm on the sustainability capital at about $550 million for the year.

Operator

Our next question comes from Noah Kaye of Oppenheimer.

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

Actually, that last question really feeds into what I wanted to ask about, which is kind of the medium to longer-term planning for some of the investments that, Jim and John, you've talked about in terms of ramping up ASL's percentage within the fleet, of course, the recycling automation. But just generally, these investments that are helping to reduce your labor intensity, can you kind of outline for us? You talked about where you want to be in 4 years. How should we think about maybe the next couple of years? Hopefully, you put some of these supply chain constraints behind us. But can you just talk maybe about 24 to 48 months -- sorry, a 12- to 24-month type expectation for where you think you can get to?

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

So I think that what you're talking about, your question is really around -- is it where we expect to be with respect to capital? Or is it about what we think the impact will be from an operating standpoint by not backfilling some of these roles? Just so we're clear.

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

It's both, right, because we understand that one will follow the other. So...

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

Okay. So let's talk about the capital piece first. And if I just think about kind of the big buckets around where -- I've talked about 5,000 to 7,000 positions that we wouldn't refill. The big bucket's, as John mentioned, shifting from a rear-load truck to an ASL truck. There's about -- if you think about a rear-load being maybe a $280,000, $300,000 truck and ASL is maybe $100,000 more, so there is some additional capital going to an ASL. But really, if you think about that, that pays itself off in almost in 1 year's time because you're taking a helper off the back, and you're picking up a pretty significant chunk of productivity there.

We've done this many times, moving from rear-load to ASL, and the pickup in efficiency is about 15%. And then you take a helper off the back, the all-in cost of -- a lot of those are actually temp laborers. So we're paying a temp firm, might be $75,000 to $100,000 all in for that person on the back of the trucks. So it pays itself back almost in a year's time. That's bucket one. So there is some additional CapEx for the truck, but the OpEx goes away pretty fast.

If we think about another bucket, we've talked a lot about recycling. And we've said kind of somewhere in the neighborhood of 1,000 to 1,200 positions there as we -- and I mentioned in my prepared remarks that we've seen 30% reduction in the labor cost at those first 5 that we've done. And we think it's anywhere between 30% and 50% reduction. So one of the plants that we rebuilt was in Salt Lake City. That one actually was closer to 50% reduction in labor.

So it's a range of how much labor comes out and the capital is already accounted for. We've already talked about the $800 million-ish over a period of 4 years, that's in that number. And then we also, in recycling, gets an improved quality of the material at the back end of the plant, and that doesn't show up in -- that shows up in top line revenue. Use Salt Lake as an example there. Previously, before we rebuilt the plant, they were having to sell all their mixed paper as a low-grade paper. Now they're able to separate it. And they have a pretty big component of the high-grade paper that obviously comes at a higher price.

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

The only thing I would add to what Jim has already said is we're taking kind of a total cost of operation view. Residential is a good view of that between capital and OpEx. And I would tell you, the other thing that's happening is when we started down this past few years ago, recycling and residential are 2 good examples. Kind of the calculus we were doing then, in this labor inflationary environment, those are actually -- those investments are getting better as we go along. As Jim mentioned, I don't think any of us think this labor shortage or the labor wage pressure is going to abate anytime soon. So as we continue to invest, these pro formas actually look better as time goes on.

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

Yes. So to kind of complete the answer there -- and good color, John. Thank you. It is -- what do we expect this impact to be? I mean, look, put a number on -- put whatever number you want on those 5,000 to 7,000 positions that don't get refilled. The good news is that this is not your traditional, okay, we're going to rip 10% of the workforce. That's not at all what this is. This is a very strategic approach to reducing our labor dependency by taking advantage of these very high-turnover numbers in some of these jobs.

And so the cost of -- the exit cost is just very low. The capital cost is largely accounted for. And the operating improvements, whether it's SG&A or operating cost, if it's 5,000 jobs, let's put a number on that of $50,000 to $100,000 per, it's a big -- it's a material impact to OpEx and to SG&A. If it's at the higher end of that job range, 7,000, then it becomes even better.

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

Yes. That's great color. Just wanted to get a little bit of color as well on the M&A pipeline, and good to see you coming back in greater force to the market. But is this primarily traditional solid waste? Is it recycling? Can you give us a sense of the mix in terms of where you're seeing the opportunities?

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

It's a little bit of both. I mean we kind of consider -- we consider recycling to be traditional solid waste, but it's a bit of both. We announced the continuous investments last quarter or a couple of quarters ago and which is taking low-value plastics that we weren't getting paid a lot for and some of those mixed papers that I mentioned that are low value as well, and combining them and making a roofing material.

And so there's a little bit of both in this. How do we take material that is, for example, coming into the landfill today that really doesn't add a lot of value, that maybe is light? I mean if I'm thinking about plastics, plastics are very light, but plastics are also very recyclable. And so it's -- we're already doing everything we can with things like PET and HDPE, going through a traditional single stream. Are there other things we can do with plastics that come into the landfill? Taking them out of the landfill, where it doesn't decompose for 700 years or something, and doing something that's both environmentally and economically favorable to the existing model.

And then you're right, the other piece is just very traditional solid waste acquisitions, tuck-ins, that -- where we may have kind of a hole in our network or we've got something that feels like it's -- it would be additive and makes a lot of sense for us at a reasonable valuation.

Operator

Our next question comes from Walter Spracklin of RBC.

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

So I'd like to keep on the M&A front. You're doing 2x to 3x this year what you would do in a normal year. When you look at the addressable market for acquisitions and look at what's not held by the majors, do you see that entire market as being in your sights? Or would you consider some lower portion of that as being where you would focus your attention over the coming -- and I'm not saying this year, over the coming 5, 10 years in scope?

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

I guess if we're talking geography, we're a North American company. So we really haven't looked outside of North America for a big -- for any type of solid waste acquisition. Obviously, that doesn't meet the definition of a tuck-in anyway because we don't have operations overseas. So yes, within North America, when we look at these acquisitions, we're always looking at where it makes the most sense strategically for us and where we can bring it -- by the way, Walter, it's part of what -- of why we're excited about the -- this reduction in labor dependency.

It enables us -- if we believe that our competition can't do the same thing, that they're not able to use technology to reduce their labor dependency, then it gives us the ability to bring more synergies to the table when we acquire a company. So I think we're -- everything would be on the table within North America. And then, of course, if it requires a filing of some type, then we'll have [Justice] look at it. But we always feel like we want to be conservative on valuations, and that's maybe the single most important piece is does it meet our strategic goals? And is it valued properly?

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

I guess, not only does it bring in more synergies, Jim, it also makes it harder for those mom-and-pops to compete with you and perhaps drive more to you, given that they can't match your technological investment. Is that fair to say?

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

Yes. Look, I mean, it's -- I don't think it's against the rules to say that trying to reduce our cost structure is something that's very important to us. And to the extent that somebody else can't do that, that's their problem, not ours. I mean -- but it does present an opportunity. It's why we're seeing a pretty robust pipeline here.

I think there's a lot of companies out there that say, look, I'm not going to -- I don't want to be an HR coordinator 24/7. And I don't want to make the investments in technology to try and do the same thing that WM is doing, so I'll turn around and sell to them at a reasonable valuation. And that's okay.

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

That makes sense. As we -- as that market kind of gets acquired by yourselves and your -- and the larger majors, I know, Jim, you've talked a little bit about the potential for going a little further afield and possibly into hazardous. And is that still an option for you?

And would you go even further? I mean, we always worry a little bit about it getting beyond our core competency. So just curious, your view on what is an addressable market for Waste Management outside of solid or even outside of hazardous waste.

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

No, I think we're kind of staying away from just strictly kind of a services-type business. And yes, there are some ancillary businesses that might be interesting to us. But at this point, there's -- as we've talked about, there's such a nice robust pipeline of just traditional solid waste that we feel like we can focus there. And then add to that a little bit of the recycling-type businesses that I mentioned earlier, and that should take up all of our time.

Operator

Our next question comes from David Manthey of Baird.

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

We lost Dave. He fell off the screen.

Operator

Looks like our next question is going to come from Michael Feniger.

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

We've done a good job in answering the questions. Did he miss the call? He just disappeared from the queue.

Operator

So our next question comes from Kevin Chiang.

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

Can you hear me?

Operator

Yes.

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

Third time's the charm here, I guess. Congrats on a good quarter. Maybe just a couple of quick ones for me. It sounds like you're feeling -- you're kind of moving past peak inflation here, but I guess who knows how long it will take to get back to normal inflation. And obviously, you've been pricing to offset inflation dollars. But I'm wondering, has there been a push to capture more of that inflation via core price versus using a surcharge program? I presume, and correct me if I'm wrong, that if you can kind of capture more of that inflation through the core price, it just ends up kind of being stickier as inflation starts to roll over and CPI starts to come down here.

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

I think it's -- I think I heard you right. But it's a little bit of a combination of the 2. I mean, there's some surcharges there. We don't really -- we don't capture fuel in our core price or our yield numbers. It truly is designed to just be a pass-through for us. We do have an environmental fee, and that environmental fee does get captured in our price figures. But if that was your question, it's a combination of core price increases. And then also, there's a second component to that, which is holding on to those price increases, and that's why there's always a little bit of give and take in pricing. And that's been the model as long as I've been with the company, as long as we've been in existence, I think. So holding on to a higher percentage of those price increases is an important component.

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

No, that's helpful. No, that's exactly what I was looking for. And then just last one for me. You're talking about some of these -- the repricing of index contracts. You talked about this 12-month lag. Some of the other industries I cover, just given how acute inflation has been, there's been a push to shrink, I guess, that time line between when they start seeing that acute pressure to when they can start repricing for it or start getting compensated for it. Has there been any push on your end to maybe shrink that lag? Has there been any desire from your customers' perspective to shrink that lag like we've seen in maybe some other industries?

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

Yes. I think residential is probably a great example of that. If you look at what our core price and yield results have tracked at the last 6, 8, maybe even 10 quarters, it certainly outpaced up in the last couple of quarters what CPI has been. That's not the case the last handful of quarters, which kind of shows you, Kevin, what we're doing on the pricing side to strike the right balance between what we're seeing in our contracted rate escalators, what we're willing to accept going forward.

So I think the most encouraging thing is when you look at that residential line of business, that's probably the best example of that index, we've outpaced what CPI has been. And as I said, the exception is the last couple of quarters. And we've also -- in terms of -- we don't want to necessarily shed the volume, but we want to be profitable. And when you look at the volume trade-offs we did and what's happening on the price side, you're seeing that strategy play out again in this quarter as well.

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

And just one last point. That 12-month lag that you talked about is really contractual with these big municipalities. So there's not really an option for us to change that, unless they choose to change their bid specs.

Operator

Our next question comes from Michael Feniger of Bank of America.

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

Apologies about that. My main question, I know we're up on the hour, Jim, is your margin is going to finish this year at 28.1%. 5 years ago, it was at 28.3%. So it's basically been kind of range-bound. Yet now, you have a very profitable sustainability business with renewables. Your pricing is very strong in Q2. Does it feel like 2023 is when this margin range really breaks out 50 basis points or higher? Just based on where this business is today compared to even where it was 5 years ago?

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

Yes. I mean, I think there's been a couple of things that have happened as we've kind of shot for this aspirational number of 30% or whatever it is. Obviously, ADS had an impact on margin. That business was more like a kind of a 24% margin business when we were 28% so digesting that has had an impact on margin. But look, it's been a great acquisition for us.

And then all of a sudden, we kind of finished digesting ADS, and then we get this big headwind from fuel. And Devina did a nice job of talking about the fact that it's really -- it's margin-destructive, but it's not earnings-destructive. It's designed to be neutral from an EBITDA standpoint, but it does hurt us on the margin line.

So to the extent that you see a couple of things going on, one is you see us continuing to raise the ADS business up to our level of kind of margin. That will help us. As you see fuel come back down, nothing that we're really doing there to affect margin, but it does have a positive impact on us.

And then the other thing that we've talked a lot about is 2 other things. One is we talked about pricing right now basically covering cost and starting to -- as you see inflation coming down, a bigger component of price goes to margin accretion. So that's number one. And then number 2 is this whole cost piece. As we take -- permanently take cost out of the organization and become less labor dependent, that definitely has an impact on margins. So all of that gives me reason for optimism that as we think about '23 and beyond, I think we will really see margin improvement in the overall business.

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

Jim, I think that color was fantastic. The one thing I would emphasize, Michael, in terms of looking at the total company margin over that 5-year period, in addition to what Jim outlined specifically for commodity-based impacts and the ADS acquisition, is that when you think about the investment we're making in technology, it's showing up in our SG&A in a different way than it would have had we effectively decided to have SG&A dollars be to run the business model.

And so what you see from us is that we have a different level of SG&A than we otherwise would have if we weren't making these strategic investments that will provide significant returns over the long term. And so I really do think that you have to consider that aspect of how we have strategically changed over the last 5 years in terms of thinking about how our margins have adapted in that period.

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

That was helpful to give us context of how to think about it over that 5-year stretch.

And just lastly, Jim, I mean, what do you think is the right level of CPI for the business? What is the sweet spot? Because obviously, CPI of 1% for like that decade clearly doesn't feel like that's a great place for the industry and for your operations. Now CPI at 9%, that's another story.

Is there a sweet spot that you feel like is the right number where it helps you get good pricing resets on those contracts, yet you guys can also handle the cost inflation on the business in terms of also getting productivity savings every year? What would be that CPI sweet spot for the business, you think?

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

I mean, it's a good question. I'm not sure I know what the right number is. I can tell you the wrong number is 9.1%. So I don't know where -- we have talked about the fact that as we see inflation drop off and I compare it to banks, I mean, as you know, the banks probably try and do that math as well. Where is the sweet spot for me in terms of rates? And I don't know where the sweet spot is on CPI. It might be 2% or 3%, if I had to kind of pick a number. But I don't know for sure and we haven't really done the math.

But there was no reason to do the math until 1.5 years ago because it's been the same -- it's kind of been sub-2% for most of my career. But now there is a reason to try and answer that question, and we'll do a bit of work on it.

Operator

Our next question comes from Toni Kaplan of Morgan Stanley.

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

A macro question. So you're not seeing a slowdown within the -- at this point despite maybe some increased caution on the macro environment in general. But are there any particular industries within commercial, for example, that are just being a little bit more cautious? That the conversations have changed a little bit?

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

Well, you're right, Toni. I mean, there's a ton of speculation out there about what this -- when does the recession hit, how deep is the recession, how long is it?

I mean, the good news for us is that we are pretty -- I mentioned 75% of our business is pretty resilient to a downturn, so we perform well in any environment. We've talked a lot about special waste the last couple of quarters. And we're -- most of our revenue is kind of more of a lagging indicator. But special waste is the one leading indicator. And we have maybe a couple of leading indicators. One might be our construction and demolition, but that's -- as John said, it's a small part of our business.

Special waste is leading because it's largely industrial-type jobs, and those industrial companies have some discussion as to when they spend a lot of those dollars. And we're not seeing them turn that off. So our special waste was very strong for Q1. It was very strong for Q2, and we continue

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to be optimistic about special waste. Even when we look at our numbers in the month of July, we still are seeing very positive comparisons in special waste.

So as I think about the macro economy overall, I do think there is a recession coming. I'm not going to kind of buck the trend there because everybody is saying there's one coming. But I just feel like we're in a great industry to weather the storm and, ultimately, with some of the things we're doing with technology and reducing our labor dependency, come out of this thing better than anybody else.

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

Sounds good. And then just as a follow-up, strong results, pricing, and the outlook, obviously raised there. Just wondering if you could talk maybe one on just commercial and industrial pricing this quarter sounded great. Just how are you thinking about pricing, commercial, industrial landfill on -- as the year goes on?

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

Well, specific to landfill pricing. I mean, landfill pricing has been a focused area for probably 3 or 4 years for us. It was very good in Q2 and Q1. So we're pleased with the fact that we're able to put landfill pricing through.

And you're asking kind of more specifically around commercial and industrial pricing. Commercial and industrial pricing has been excellent as well. I would tell you that pricing, really across the board, I can't find a weak spot in terms of how we're performing on the price front. Whether it's residential or commercial, industrial landfill, everybody seems to be able to put price through.

I think part of that is that the customer is watching -- they're watching these business shows on TV as well, and they know inflation is out there. They know it's real. And because it's a small -- because our business is a small percentage of their overall spend, they're willing to take the price increase.

Operator

Thank you. I'm showing no further questions at this time. I'd like to turn the call back over to Jim Fish, President and CEO, for closing remarks.

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

Great. So thanks for joining us today. Just quickly to conclude. At a time when there's so many questions about the outlook from a macro standpoint, we are -- we're really proud to be somewhat of a symbol of stability and strength to our investors.

We stressed today that the short-term outlook looks good for WM, but I think maybe more importantly, we're very excited about and confident in the long-term outlook. The long-term strategy is playing out just as we have expected, just as we communicated way back in 2019 at our Investor Day. And we expect that to play out through, not only the end of '22, but '23, '24 and beyond. So thanks again to everyone for joining us this morning, and we will talk to you next quarter.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. You may all disconnect. Have a great day.
