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Waste Management, Inc. (WM)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day. Thank you for standing by. Welcome to WM Fourth Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there'll be a question-and-answer session. [Operator Instructions] Please note that today's conference maybe recorded.

I would now like to hand the conference over to your speaker host, Ed Egl, Vice President, Investor Relations. Please go ahead.

Ed Egl

Vice President-Investor Relations & Financial Analysis, Waste Management, Inc.

Thank you, Olivia. Good morning, everyone and thank you for joining us for our fourth quarter and full year 2024 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'll hear prepared comments from each of them today. Jim will cover high-level financials and provide a strategic update. Darren will cover an operating overview and Devina will cover the details of the financials and our 2025 outlook.

Before we get started, please note that we have filed a Form 8-K 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'll 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 and Form 10-Qs.

John will discuss our results in the area 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. You'll also hear references to WM Healthcare Solutions. This new segment includes the acquired Stericycle, Medical Waste and secure information destruction businesses. References to the legacy WM business are total WM results, excluding the WM Healthcare Solutions segment.

Any comparisons, unless otherwise stated, will be with the prior-year period. Net income, EPS, income from operations and margin, operating EBITDA and margin, operating expense and margin and SG&A 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 and adjusted projections, 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 [ph] about (00:02:40) 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 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 January 30th, 2025, 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, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

All right, thanks, Ed. Good morning, everyone, and thank you for joining us today. I'm pleased to report another year of outsized operational and financial performance driven by our team's focus on top line growth and cost discipline. This combination, along with our ongoing investments in technology, automation and sustainability, have positioned WM to continue delivering long-term value to our shareholders. In 2024, we remained dedicated to optimizing the cost structure, expanding our sustainability platform and enhancing shareholder returns.

This focus led us to achieve operating EBITDA growth of more than 10% in our legacy business for the year and achieving 30% full year operating EBITDA margin for the first time in our history. Our Collection and Disposal business led the way driven by consistent organic revenue growth, disciplined cost initiatives and a continued focus on business mix optimization. 2024 marked a year of significant milestones in progressing sustainability growth investments. We brought five renewable natural gas facilities online, expanding our renewable energy platform and further positioning WM as a leader in environmental sustainability. And we're confident in the demand for renewable natural gas, especially from sources like our landfills and in our overall investment thesis for these transformative assets.

Additionally, in 2024, we advanced automation upgrades at 10 recycling facilities, improving throughput and lowering operating costs across our recycling network and added recycling facilities in two new markets. These investments are unlocking opportunities with customers and delivering positive environmental outcomes while also putting us on a path to broader long-term financial growth. We're progressing well on the remaining renewable natural gas and recycling projects and expect our growth investments to contribute operating EBITDA approaching \$800 million in 2027.

We have a great deal of confidence in the value of these projects that are underway, and we're enthusiastic about the strong complement they provide to our existing business. In addition to achieving strong organic growth across our business in 2024, it was a sizable year for acquisitions, including the successful completion of the Stericycle acquisition in November. Adding Stericycle's leading platform in medical waste management and secure information destruction to WM broadens our suite of solutions, allowing us to more comprehensively serve our customers across a wider range of environmental services. Our integration efforts are underway, and in a short three months, we've integrated the commercial, operations support and back office functions into WM's structures led by our seasoned, disciplined leaders. One of our new employees summed up our excitement for this acquisition saying, it really feels good to be working for a management team that's looking to grow and optimize the business. We have a well-resourced, experienced WM team engaged in making the necessary operational and cultural changes, and we're encouraged by the progress we've made so far.

With respect to synergy capture, we now expect \$250 million of synergies over a three-year period, and we're confident we can deliver up to \$100 million in 2025. The WM Healthcare Solutions business is expected to grow about 9% before synergies, driven by organic revenue growth and operations initiatives. Overall, we remain confident and focused on ensuring a smooth transition for both employees and customers, while driving synergies and unlocking value. This acquisition exemplifies our disciplined approach to capital allocation and strategic growth, and we're excited about the long-term benefits it will bring to WM.

Looking ahead to 2025, we're confident that the momentum we've built will lead to another year of outpaced growth. At the midpoint of our guidance, we expect our Collection and Disposal business to produce more than 7% operating EBITDA growth in the year ahead, even as we face a headwind from the expiration of alternative fuel tax credits. Our disciplined focus on pricing and cost management will ensure that we maintain healthy margins with a positive price to cost spread. Our renewable energy and recycling platforms will continue to scale with additional projects coming on line and incremental contributions from sustainability investments expected to accelerate this year, adding \$150 million of operating EBITDA growth in our sustainability segments.

Combining all of this, we expect to deliver total company operating EBITDA growth of 15% at the midpoint of our range, or nearly \$1 billion of growth in 2025 compared to 2024. Before I turn the call over to John to cover operating results, I want to express my gratitude to the entire WM team, including our new team members from Stericycle. Their commitment to our mission and values continues to be the foundation of our success. As we look forward, we're excited about the opportunities ahead and remain steadfast in our goal of creating long-term value for all of our stakeholders.

I'll now hand it over to John to provide more detail on our operational performance.

John J. Morris

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

Thanks, Jim, and good morning. Before discussing our performance, I want to thank our team for their dedication during the devastating California wildfires. These fires have impacted our employees and the communities we serve, and we're committed to supporting recovery efforts and restoring normalcy for everyone affected. Turning to our results, WM delivered another fantastic quarter to close 2024, reflecting our focus on operational discipline and price execution. Operating expenses as a percentage of revenue were 60.3%, marking the fifth consecutive quarter below 61%. Our full year result of 60.7% was below 61% for the first time in WM's history and improved 100 basis points from 2023. This improvement was driven by strong execution by our team, as well as automation and technology adoption.

Labor efficiency continued to improve during 2024, with labor cost as a percentage of revenue declining by 60 basis points for the full year compared to 2023, which is particularly notable considering the dilutive impacts from the Winters Brothers and Stericycle acquisitions. Our labor cost improvements stem from our commitment to human-centered leadership, process discipline, and importantly, the introduction of technology that allows our operational leaders to spend more time in the field. Our annualized driver turnover as of December was the lowest ever at 15%, marking an improvement of over 300 basis points from 2023. Additionally, advances in route automation and resource planning tools have driven labor savings.

Since we started our residential optimization effort in 2022, we have automated over 500 residential routes and exited an additional 400 routes where conversion was not an option or profit margins were challenged. The outcome has been, reduced labor dependency while greatly enhanced safety performance and improved customer service. Combining these efforts have translated in our residential line of business operating EBITDA margin growing more than 400 basis points and approaching 20% for the full year. We're pleased with the considerable progress we made in 2024 on automating routes, shedding lower margin business and improving driver turnover, and we'll be focused in the year ahead on maintaining the value we've captured from these efforts.

Repair and maintenance costs also declined as a percentage of revenue, thanks to increased truck deliveries, fleet optimization and a streamlined maintenance approach that increased technician productivity and reduced reliance on rental units and third-party services. We remain focused on optimizing our business using data,

technology and process discipline to enhance our customers experience while reducing our cost to serve. Our operational achievements, combined with disciplined pricing, led to a 10.4% growth in operating EBITDA in our Collection and Disposal business in 2024, achieving a 37.2% margin for the year, our highest ever. These results exceeded our original growth projections, with margins expanding 200 basis points, and delivering nearly \$700 million in operating EBITDA growth in our Collection and Disposal business.

This impressive performance underscores our team's focused execution of strategic priorities. Our revenue grew across all lines of business, supported by a Collection and Disposal yield of 4.5% and core price of 6.7%, with churn remaining at about 9%. We continue to refine the use of data and analytics to maximize customer lifetime value, to deliver pricing performance, in line with our cost to serve our customers while meeting our margin objectives.

Throughout the year, volume grew consistently in our key lines of business, Commercial and MSW Landfill. Our workday adjusted volume finished the year as expected, and net service increases remain positive. For the year, MSW volumes grew steadily with an observed acceleration in the second half of the year. The 4.4% annual increase in MSW volumes demonstrate the value of our expanding network and logistical capabilities, as evidenced by our expanded rail operations serving the Midwest. Special waste also showed positive momentum, indicating growth potential for 2025 as our pipelines remain strong.

While our Industrial business remained soft, we are rolling out disciplined growth programs to enhance volume capture at appropriate pricing levels, which gives us confidence in our outlook for 2025. As we look ahead to 2025, our focus is on building upon our success in 2024. Our priorities include further improving operational efficiency in our core Collection and Disposal business and maximizing growth opportunities from acquisitions and sustainability investments.

Additionally, our core fleet business optimization and revenue management leadership are now embedded into the WM Healthcare Solutions Organization, driving a disciplined integration process. With these efforts, we are confident in our ability to drive continued revenue and operating EBITDA growth while delivering value to our shareholders and customers.

At the midpoint of our guidance, we expect sustained momentum in our disciplined pricing programs, resulting in a core price increase of between 5.8% and 6.2% and yield of between 4%, 4.2% with Collection and Disposal volume between 0.25% and 0.75% compared to 2024. We remain committed to maximizing customer lifetime value, securing pricing that exceeds our cost inflation and driving disciplined volume growth.

In closing, I extend my gratitude to our dedicated team members whose hard work and commitment have been instrumental in our success. Together, we'll continue to build on this year's achievements, striving for excellence in all that we do.

I'll now turn the call over to Devina to discuss our 2024 financial results and 2025 financial outlook in further detail.

Devina A. Rankin

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

Thanks, John, and good morning. We're proud of our 2024 results, building on our commitments to operational excellence, sustainability leadership and shareholder value creation through targeted growth. We improved operating EBITDA margin by 80 basis points for the year. This strong result was driven by margin expansion of 200 basis points in the Collection and Disposal business, with about 180 basis points from the benefits of price, cost optimization and intentional shedding of low margin Residential business. The remaining improvement in

Collection and Disposal margin was from lower fuel costs. The record growth from Collection and Disposal business was partially offset by the impacts of higher commodity pricing in the recycling brokerage business, increased incentive compensation costs, higher employee health and welfare costs, and the addition of Stericycle, each affecting the margin measure by about 30 basis points.

Cost efficiency remained a central theme in 2024. Our SG&A as a percentage of revenue was 9.6% for the full year, including a 30 basis point headwind from the addition of WM Healthcare Solutions. Compared to 2023, we achieved a 10 basis point improvement in SG&A as a percentage of revenue for our Legacy business, largely through discipline in discretionary spending and targeted optimization of customer engagement costs.

Our strong operating performance translated into robust cash flow generation in 2024. Cash flow from operations grew more than 14% to \$5.39 billion and free cash flow before sustainability growth investments reached \$3.27 billion, marking a 22.5% increase over 2023. These outcomes highlight our focuses on margin expansion, working capital optimization and disciplined capital expenditure investment. In 2024, we returned \$1.47 billion to shareholders, including more than \$1.2 billion in dividends.

Additionally, we acquired Stericycle and invested about \$800 million in tuck-in acquisitions to expand our traditional solid waste and recycling footprint, all while funding \$950 million in sustainability growth initiatives. Our disciplined approach to allocating capital prioritizes growing shareholder returns by identifying investment opportunities that will drive long-term growth at attractive returns. The strategic growth of our sustainability business and its targeted investment in healthcare demonstrate this focus and we expect 2025 to be a year of outsized operating EBITDA growth as a result.

As Jim outlined, we expect to grow operating EBITDA by 15% in the year, which we anticipate translating into robust cash from operations and free cash flow. Capital expenditures for 2025 are targeted at between \$3.175 billion and \$3.275 billion, with about \$625 million directed toward high return sustainability growth projects and about \$225 million for our WM Healthcare Solutions business. We expect free cash flow to grow more than 17% to \$2.725 billion at the midpoint of our outlook. This outlook includes an anticipated benefit from investment tax credits of about \$220 million. WM's strong balance sheet and our cash flow growth outlook position us to continue our commitment to sound capital allocation.

Our outlook includes \$100 million to \$200 million of investment in solid waste acquisitions and estimated dividend payments of about \$1.3 billion. We've paused share buyback, as we expect to focus on getting the balance sheet back to targeted leverage levels with a combination of earnings growth and debt reduction. By the end of 2025, we expect leverage to be approximately 3.1 times.

In summary, 2024 showcased the strength and resilience of WM's people and our business model, driven by our commitment to operational excellence, disciplined capital management and sustainability leadership. I'd like to extend my gratitude to our dedicated team members whose hard work makes these achievements possible. We're excited about the opportunities ahead and confident in our ability to deliver strong results for 2025 and in future years.

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

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Please stand by while we compile the Q&A roster. And our first question coming from the line of Tyler Brown with Raymond James. Your line is now open.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Hey, good morning.

Q

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

Good morning.

A

Devina A. Rankin

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

Good morning, Tyler.

A

John J. Morris

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

Good morning.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Hey, I promise to ask a question on the business, but Devina, can you help me with the couple of bridge items? So, first, I think I heard it, but you are assuming a CNG tax credit headwind, is that correct? And is that like \$60 million?

Q

Devina A. Rankin

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

Yes, that's correct. It's a \$63 million headwind in dollars and a 30 basis point headwind in margin.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Excellent. Okay. And then on Stericycle, I think you're including \$400 million of incremental EBITDA, which means you're going to do something like \$460 million, if I take the Q4 number.

Q

Devina A. Rankin

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

That's correct.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Does that – okay. So, number one, is that including a \$100 million of realized synergies or is that a run rate? And then two, was there a definitional change in how you calculate EBITDA for Stericycle versus their convention? Because it feels like the base EBITDA is just lower than what they were reporting or am I off on that?

Devina A. Rankin

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

A

Yeah, those are great questions, Tyler, and thanks for pointing them out. So, I'll take the second one first. And yes, there was a definitional change in EBITDA between the two companies. We have, I would say, I guess, a more conventional approach to what we adjust out of earnings and we found that they adjusted things that look more like normal course of business costs. And so, we've recast that. And so, the 2024 run rate number that we had for the business exiting the year was that – representative of that \$61 million with about \$4 million of realized synergies in the fourth quarter for us. And so, I would recommend using that as the starting point for 2025. We're optimistic about synergy capture in the year ahead, and we think up to \$100 million will be realized in the year. Our midpoint assumes \$85 million to \$90 million of realization.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Excellent. Okay. Great. Okay. I don't know, if Tara's there, and I apologize, but I just kind of can't get the Waste Management sustainability contribution [ph] reported (00:22:11) because I think, last quarter you said sustainability was \$92 million benefit year-to-date. But then, in the release today, you said again \$92 million for 2024. So, was there no incremental sustainability contribution in Q4 or am I missing something, which I probably am? But if I look at your table and allocate the recycling fees and the royalties, it looks more like EBITDA was up [ph] 110 (00:22:36). I hate to throw that many numbers out, but maybe you're following what I'm saying.

Tara J. Hemmer

Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

A

I am in the room. Hi, Tyler.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Hey, Tara.

Tara J. Hemmer

Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

A

Yeah. You're following the right math. There's a couple of things that are going on in the – between the segments and what we report. And of course, on the recycling side of the business, a piece of it ends up in Collection and Disposal. And then, you have the 15% royalty that flows to the Collection and Disposal business. What we really want to emphasize for 2025 is there's a lot of tailwinds in both of these businesses that gives us a lot of optimism about what we're going to contribute in 2025, \$190 million coming from those growth investments.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

[ph] Exactly (00:23:22).

Tara J. Hemmer

Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

A

And like Jim said, if you look at how much we've delivered at the end of 2024, that's going to roll into 2025 with the new RNG plants and the 12 recycling facilities, plus we have another eight on the RNG side in 2025. There is a lot of positive impact that's going to roll through the P&L.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Okay. That is helpful. Last question. This is for Jim or John, because it sounds like Collection and Disposal organic EBITDA is expected to be up something like 7% despite the CNG tax credit headwind. Obviously, that is super solid. I mean, you guys said back at your last Analyst Day, you're 5% to 7% organic grower. And quite frankly, you've got pretty tough comps. So, that's really good. So, can you talk about the core dynamics, maybe the outlook for pricing, what maybe more importantly, cost inflation and productivity? Because it just feels like there's a very solid price to cost spread in Collection and Disposal? Thank you.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

Yeah, Tyler. It's Jim. I think you've highlighted one of the, probably the area that maybe we're most proud of, which is the core business itself. And we talk a lot about Stericycle and the sustainability businesses, which are exciting. But the core business, if you think about it from 2022 to 2023, grew 7%, grew 10% last year, just the core. And then we're looking at another kind of over 7% this year on the core.

So, well ahead of that 5% to 7% number that we gave way back in 2019. And that is coming, as you point out, really from several areas. We talk a lot about pricing and our pricing team does a great job. But what that cost to price spread is not just price, it is cost. And John mentioned it in his script and John is kind of a modest guy, but I mean, his team has done a spectacular job of taking that cost number. If you think about that OpEx as a percent of revenue coming under 61%, years ago, we kind of aspirationally talked about a 60% number and then kind of laughed in the room about that and said, yeah, well, that'll never happen. We're kind of scratching at that right now. We're close.

So, a lot of the cost to price spread and a lot of the margin growth that you've seen in the business over the last few years and ultimately, those growth, EBITDA growth numbers that I just cited are coming on the cost side at the same time, as we're doing well on price. And I think once you start to see volume pick up because volume has been pretty, pretty muted over the last couple of years, you really can see the core business taking off at the same time as the old Stericycle business, the new WM Healthcare Solutions takes off and at the same time, as the sustainability investments really start to add EBITDA free cash flow.

John J. Morris

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

A

The only thing I would add, Tyler, Jim covered it all is I think a lot of the benefit you're seeing play out in the middle of the P&L for WM, I think Rafa and the team are really excited to do the same with WM Healthcare businesses. A lot of the processes and practices and technology advantages we've developed that we can lay right over the top of that business and start to drive some meaningful results. And Rafa can comment on that. But you heard, you saw in the press release our confidence around the synergy capture over the next handful of years.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Yeah, perfect. So, it feels like, call it 4% yield in Collection and Disposal, maybe a couple percent unit cost inflation, net of productivity, something like that?

John J. Morris

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

A

Yeah, I think what you saw from a spread perspective and it showed up in our OpEx and our EBITDA margins and our [ph] labor (00:26:54) ratios, you're going to see that. You're going to see continued benefits into 2025.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Q

Okay. Excellent. Thank you for the time, guys.

Devina A. Rankin

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

A

Thank you, Tyler.

John J. Morris

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

A

Thank you.

Operator: Thank you. Our next question coming from the line of Noah Kaye with Oppenheimer. Your line is now open.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Q

[ph] All right (00:27:12). Thanks. I'll pick up on Tyler's line of questioning, just the 2025 yield guide, 4% to 4.2%. As we've seen CPI come down a little bit. So, just help us understand maybe the different components of core price and yield assumptions that you're factoring in open market versus the sort of [ph] restricted (00:27:36) index part of business.

Devina A. Rankin

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

A

Sure. So, at a high level, I think what's really important on the core price to yield conversion, that's something that we talk a lot about. And the commentary in John's prepared remarks about what's happening in the landfill part of the business is a really important example of that conversion. And what you see is it really comes down to business mix and that's very good profitable business for us. But it does come at a lower yield because it's a lower average unit rate than some of the rest of the network. And so, the core price guide is 5.8% to 6.2%, a little lower conversion this year at 4% to 4.2% with business mix being one of the things that's leading that.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

Yeah. I guess, the only thing I would add is on the resi side, I mean, we've done such a great job on resi, but I was maybe a little surprise even to see this number myself. But Noah, when we look at – we've been going through this, call it a business improvement process with residential's improved margins significantly in that line of business. And the number that surprised me was the 25% of our residential customers still have an EBIT margin of zero or less. And sometimes we ask, what inning are we in, in terms of this residential, I don't know what to call

it, cleanup, I guess, but it's a – but it's, if it's 25% then I was assuming we were kind of in the eighth inning. We're probably more like in the sixth inning, to use a baseball analogy. And that all helps us on the price front.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Q

Yeah, helpful. Thank you. Stericycle, now WM HS, you previously, I think, did a nice job of bucketing the different areas where you were going to see those synergies. Can you maybe give us an updated breakdown now, obviously, between sort of going from \$50 million to now maybe \$100 million this year and going to \$250 million overall? Just kind of how does that break down? Where do the cost synergies come from?

Rafael Carrasco

Senior Vice President, Enterprise Strategy & President, WM Healthcare Solutions, Waste Management, Inc.

A

Yeah, I think I can take a stab at that, Noah. This is Rafa Carrasco, I'm now leading the WM Healthcare Solutions business. So, what I'll tell you is the doubling of the synergy estimates is centered essentially around the same three buckets that we offered at the time of the acquisition. That was internalization, SG&A and OpEx, which we said at the time was about 33% each. Internalization is about the same value now, but we now see meaningfully larger SG&A opportunities and higher OpEx opportunities. Examples, I'll give you up on the SG&A side, optimization of the sales coverage, which we've already embarked on, on the shredded business. And on the OpEx side, we've uncovered new opportunities for consolidating recycling capacity in the network and then reducing fleet number while working on bringing the maintenance and repair in-house.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Q

Yeah. Very helpful. Just one last one, maybe for Devina. You gave us some nice pieces around what drives free cash flow this year in the guide, but just wondering if there's any other moving pieces we could consider to bridge from EBITDA to [ph] EBITDA (00:30:45) operating cash flow? Maybe you can touch on interest expense, tax and some of the other items that we'd normally look at.

Devina A. Rankin

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

A

Yeah. So, it's going to be another great year of free cash flow growth. There's a couple of points that I'd like to make. One is we always talk about EBITDA being the long pole in the tent with regard to free cash flow conversion and with almost \$1 billion of EBITDA growth expected in the year ahead, we're going to have another great conversion to more cash flow from operations. The two things that will offset that are increased cash interest and we expect that to be \$350 million to \$400 million higher in 2025 and about \$300 million of that is related to the Stericycle acquisition. The remainder is just timing related. And so, we had more of that [ph] pulled in (00:31:39) or we had more help from that in 2024, and you'll have more of a run rate for a full year in the year ahead.

And then on the cash tax side, it's an interesting story because this growth in pre-tax income is fantastic and usually comes at a pretty high incremental cost from a cash tax perspective. But we're seeing some offsets of that because we have a higher expectation for ITC in 2025. So, total cash taxes will go up about \$75 million to \$100 million, and that's the plus higher ITC, slightly offsetting the higher pre-tax income impacts.

And then the only other thing I would point to is working capital was a fantastic result in 2024 and we do think that some of the strong execution by the team on improving our [ph] key stats (00:32:36) like DSO and DPO is what's contributing to that. But some of it is also timing related and we think we got some of that timing benefit in Q4,

that's impacting roll over into the first part of 2025, which is why 2025 may look a little muted in terms of the level of growth.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Q

Well, thank you for all this. And I just want to say thanks as well for providing all the additional details in the release that the businesses obviously continue to transform and grow. And you've given us a lot of information. So, appreciate it. Thank you.

Devina A. Rankin

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

A

Thank you, Noah.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

Thank you.

Operator: Thank you. Our next question coming from the line of Jerry Revich with Goldman Sachs. Your line is now open.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

Yes. Hi. Good morning, everyone.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

Good morning, Jerry.

Devina A. Rankin

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

A

Good morning, Jerry.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

I'm wondering, Rafa, I wonder, can we just talk about the commercial opportunity? Really interesting to hear about the synergy target moving higher without the commercial piece even kicking in yet. Can you just talk about how that looks to you, given your route economics work on the core business. It sounds like there's really significant runway there. Just can you talk about what inning of that process we're at and what sort of contribution can you get by getting the right pricing on the right routes as you internalize the business?

Rafael Carrasco

Senior Vice President, Enterprise Strategy & President, WM Healthcare Solutions, Waste Management, Inc.

A

Yeah, Jerry, hi. How are you? Look, what I tell you is, with respect to cross-selling, we virtually have nothing built into our existing 2025 contribution right now. That is something that the team, the joint team is engaged and evaluating. And we see some of that actually coming in 2026, I should say. I can also tell you that with respect to

kind of the routing, one of the important things we're working on is driving P&L accountability down all the way into the business units. That's something that didn't exist at Stericycle before. When we do that, we're actually going to also generate P&Ls by customer, that's going to allow us to implement a disciplined growth, discipline that we actually have already built into our WM facilities. And that's going to inform quality of revenue.

Jerry Revich*Analyst, Goldman Sachs & Co. LLC*

Q

And Rafa, the timeframe on that?

James C. Fish, Jr.*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

Sorry, this is Jim. I'll just add, I want to kind of put an exclamation point on what Rafa has said about cross-selling. He said, we don't really have anything in there in 2025 and it starts to ramp up in 2026. I would say, that might be the single biggest opportunity we have over the long-term for this business. I'll give a couple of examples, I've been in a couple of doctor's offices recently, not for any health problems, but just for my physical. But in both cases, in one case, we were present, meaning the WM Legacy Business was there and Stericycle was not. And in the other office, Stericycle was there and we were not. So, both of those would be opportunities for cross-selling that we really haven't fully baked into anything at this point. But we feel like is a big opportunity for us.

Jerry Revich*Analyst, Goldman Sachs & Co. LLC*

Q

I'm glad you got the green light, Jim. And in terms of the base business performance, I think we're all holding our breath this quarter for the group heading into earnings, because the last time commodity prices took a hit, we had a bit of a recalibration to go through across the sector. Now, we're looking at really attractive margin expansion, 2025 versus 2024. Can you just talk about how you folks are maybe taking a more aggressive approach to make sure you're pushing pricing in the base business to compensate for potential downside risk and recycling feels like that's part of what's playing out here? But I want to make sure I have that right.

James C. Fish, Jr.*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

Well, look, this is probably something everybody at the table could answer. We're looking around [ph] wondering (00:36:25), do you want to take it? Should I take it? But I think the point here is such a good point, which is the base business and I made this point earlier, the base businesses is really the superstar in this report. And I think as we look at pricing, we like the fact that our price team has developed a level of sophistication to be able to really price on a much more granular basis. So, where you have customers, for example, that have had missed pickups or whatever, we're able to say we're not going to give those customers the same level of price increase. I mean, that level of granularity didn't exist within the company several years ago.

So, I think the sophistication within the pricing group is palpable. And to Rafa's point about pricing within Stericycle, I mean, I think we can take that same level of sophistication to the Stericycle business that really in that \$250 million that Rafa talks about, the large, large majority of that is really cost related or internalization. And so, there isn't a whole lot there. There's some, but not a whole lot in there with respect to price.

So, I feel good about price not only in the core business but also with Stericycle. And I think I've talked a lot about cost. I will say one thing about cost, and that is that we had talked about not replacing a certain number of positions several years ago. And we've been chipping away at that. I think through the end of last year, we're up

to about 2,500 positions that we've chosen not to replace that spans different functional areas. But I think, John, it's right, we have about another thousand...

John J. Morris

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

Yeah.

A

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

...coming from two primary areas. One is recycling, as we upgrade these facilities, but the other is these conversions from [indiscernible] (00:38:08).

A

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Got it. And can I ask Tara the landfill gas. Really good to see the production coming online on schedule that you laid out last quarter. It looks like maybe the OpEx per MMBtu is higher in 2025 as you ramp that up. Is that right? Can you talk about that given the EBITDA ramp 2026 versus 2025? It feels like that might be happening or maybe we're not getting the full environmental credits. Can you just comment on if that's what's coming out on the numbers?

Q

Tara J. Hemmer

Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

Yeah. It's a great point, Jerry. And if you also look at our 2027 update and that updated range, it is driven by OpEx. If you think about our highest cost category within our renewable natural gas plants, it's electricity. So, we are working very closely to figure out ways to reduce our power consumption and [ph] lock in (00:39:03) on rates. So, that's one item.

A

We're very confident in our gas curve. The team that John leads on the landfill side has done a fantastic job in optimizing flows and we feel really good about the eight plants we're going to bring online in 2025. But a really important note is that by the end of 2025, we will have all but two of our plants that have completed construction. We won't necessarily see the revenue on that into 2026 because of timing on commissioning. But most of these plants are going to be done and completed. We have solid momentum there.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Super. Appreciate the discussion, everyone. Thank you.

Q

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

Thank you.

A

Devina A. Rankin

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

Thank you, Jerry.

A

Operator: Thank you. Our next question coming from the line of Trevor Romeo with William Blair. Your line is now open.

Trevor Romeo

Analyst, William Blair & Co. LLC

Q

Hi. Good morning. I appreciate you taking the questions. First, just going back to Stericycle, maybe more on the organic side, I was just wondering if you could maybe talk about the Q4 like-for-like performance from a revenue and margin perspective for Stericycle, and then the 9% organic growth you expect for 2025 pre-synergies. Just to clarify, is that a revenue or an EBITDA growth number? And either way, could you kind of just talk about some of the drivers of that organic performance in 2025, especially if it doesn't include any cross-sell benefits?

Devina A. Rankin

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

A

Sure. So when we look at the Stericycle performance in the fourth quarter, I think, like I said earlier, about \$4 million of that was synergy capture. And so the rest of it, you can look at being the performance of the business. And when we look forward to the growth that we will generate in the year ahead in the Healthcare Solutions business, 9% is a step change from what they've generated over the last several years. And we see that step change is possible for two primary reasons, one being the asset network expansion with the McCarran facility coming on line, and the other being fleet optimization. They were underway with regard to some recharacterization of their fleet. They historically have used operating leases in order to fund their fleet. And they knew and had started to execute upon some opportunities to recapitalize that at a better cost. And we accelerated some of that into the fourth quarter. And so we see the ability to reduce those costs by up to 30% in some instances by being able to have a better cost of capital for the organization and a more intentional approach to funding our fleet.

Rafael Carrasco

Senior Vice President, Enterprise Strategy & President, WM Healthcare Solutions, Waste Management, Inc.

A

Yeah. And Trevor, this is Rafa. Devina covered it very well. The one thing I would add outside of OpEx and more on the revenue side is that, we have now the ability to add, and in a couple of weeks we'll have every single one of the Stericycle contracts over \$50,000 in annual revenue in our data mart. And then, it's going to allow us to better capture earn PIs that in the past had been overlooked, and then it'll prevent revenue leakage. So that gives us some confidence going into 2025 as well.

Trevor Romeo

Analyst, William Blair & Co. LLC

Q

Great. So it sounds like, just to clarify, the 9% is an EBITDA number, but the revenue outlook, you expect a little bit of an uptick there as well.

Devina A. Rankin

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

A

That's correct. 9% EBITDA, revenues in the range of 2.5% to 5% depending on price execution, that revenue leakage that Rafa mentioned, with some offset on volume expected in the fleet business.

Trevor Romeo

Analyst, William Blair & Co. LLC

Q

Okay. Great. It's good to hear. And maybe for my follow up, I guess, on the going back to the Collection and Disposal business, maybe specifically the volumes 0.25% to 0.75% expected for this year. I guess, what are some of the puts and takes in that outlook? And maybe specifically, how are you thinking about the more cyclical portions of that volume, and how likely they could be to rebound?

John J. Morris

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

A

So I think, Jim made it in his statement and his opening comments, I mean, with the administration change we have some optimism there from a business perspective. If you start to break it down, though, Trevor, if you look at our landfill volume, specifically MSW and CND, we had some good momentum there. Our special waste pipeline is strong. Our special waste results were solid through the year, and we were optimistic about that for 2025. The one I would highlight, Jim made a comment about is our residential, the intentional shedding of 3.5-ish-percent of residential volume is part of that number, and we're going to continue to do that.

As I mentioned in my prepared remarks, we're getting close to 20% there on that business, we're up 400 basis points, were down 900 routes. There's a lot of benefits to us doing that, and that's part of what the volume calculation is. But if you kind of strip out the residential piece and look at the disposal volumes and the commercial business, we've got good momentum there. And I think, on the industrial side, we've seen some softness there. But as I mentioned in my remarks, we've got a team rallied around trying to look for opportunities where we have some capacity to bring some of that volume back and margins that are acceptable.

Trevor Romeo

Analyst, William Blair & Co. LLC

Q

All right. Great. Thank you all very much.

Devina A. Rankin

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

A

Thank you.

Operator: Thank you. Our next question coming from the line of Faiza Alwy with Deutsche Bank. Your line is now open.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Yes, hi. Thank you so much. So I wanted to first ask about the sustainability EBITDA. What I'm understanding is that, some of that is in the collection, goes in the Collection and Disposal business as opposed to the Renewable Energy and Recycling business. So I just wanted to get a sense of how much of the 7% increase in EBITDA, or the \$500 million is related to the sustainability projects.

Tara J. Hemmer

Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

A

So first and foremost, for 2025, we're going to deliver \$190 million in EBITDA, incremental EBITDA from our growth investments. And you'll see when you look at the segments, we're showing \$150 million. What happens is, with our Renewable Energy business, there's roughly a 15% royalty that's paid to the Collection and Disposal business, that's really about the use of their landfill gas. And then there are certain fees that go into the Collection business related to Recycling. Those are the key elements.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Understood. And then I was hoping if you could help us with some of the quarterly cadence as it relates to various items, and what I'm thinking of is the buildup of synergies on Stericycle, and maybe your assumptions around some of the commodity costs that you've laid out, whether it's the natural gas and the OTC pricing.

Devina A. Rankin

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

A

Sure. I can take this, and what I would say is, you can think about it in the three pieces, and it's the traditional solid waste business, we actually expect some margin pressure in the first half of the year, because if you look at 2024, Q1 is our toughest comp on a year-over-year basis as we saw some of the momentum with regard to automation, in particular, take hold. And so we would say, from an earnings growth and margin perspective, Collection and Disposal may look a little more muted in Q1, in particular, but first half.

And then in the Stericycle business, you will expect that the ramp of synergy capture will be more significantly weighted towards the second half of the year. So I would say, the earnings growth, you'll start to see more of that momentum as we get into Q3. And then on the sustainability businesses, because of the impact of recycling commodity prices, we actually see more of the pressure, downside pressure associated with recycling commodity prices being in the first half of 2025 because of the year-over-year comparisons.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you. If I could just sneak one more in. One of you mentioned the ITCs. I'm curious if you're anticipating a change in that, just given the new administration and the changes around the IRA, and funding related to that. Like, should we anticipate sort of any changes there?

Devina A. Rankin

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

A

We certainly do not expect any changes. We are watching everything closely. But based on our interpretation of where those decisions will get made, we think that those ITC benefits are secure. That being said, I think it's really important to remind everyone that we made our capital investment decisions for our renewable natural gas business before the IRA was in place. And the payback period of three years excludes the incremental benefit that we get from that ITC. So it really speaks to the significant return profile of this business, irrespective of that incremental benefit.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

Also, as Devina said earlier, the \$60 plus million, \$63 million I think is the exact number on the alternative fuel tax credits that we did not put in. And similarly, if bonus depreciation came back, that would be something that we have not put in, and that would be an even bigger number, something north of \$100 million. So we're not sure what to expect there. It's a bit of TBD, but we did put in the investment tax credits we feel strongly that those will remain.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. Our next question coming from the line of Kevin Chiang with CIBC. Your line is now open.

Kevin Chiang

Analyst, CIBC World Markets, Inc.

Q

Hey, good morning. Thanks for taking my questions. And I echo the thanks on the disclosure here. It's very helpful. Maybe, I missed this, earlier you talked about, as you look past 2025, some of the revenue synergy opportunities, that's a significant long-term opportunity. Did you disclose the percentage or note the percentage of, I guess, healthcare clients that might use WM today, but not Stericycle or vice versa, just to get a sense of maybe how big that cross-selling opportunity could be?

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

We're still kind of assessing that. I don't know, Rafa, if you...

Rafael Carrasco

Senior Vice President, Enterprise Strategy & President, WM Healthcare Solutions, Waste Management, Inc.

A

Yeah, I was just going to say, no, we're still in the process of assessing that. I mean, we see the opportunity looms large. And we were concentrating, frankly, in making sure that we merge the right commercial teams. We've actually placed a number of our WM sales and commercial leaders atop some of those functions now, and we are particularly excited because we see a lot of parallels between what we can accomplish in cross-selling with Stericycle and their customers and what we've been able to do with national accounts, which, as you know, has grown at a double-digit pace over the last five years for us.

Kevin Chiang

Analyst, CIBC World Markets, Inc.

Q

That's helpful. Sounds like an exciting opportunity. And maybe just, I know you touched on this a little bit, just the, I guess, the residential volume trend and some of the intentional shedding. When I look at the growth rate, it did take a bit of a step down in Q4 versus the previous quarter trends. Just wondering, can we attribute that incremental delta to that intentional shedding, or are you kind of accelerating that given the inning you find yourself in terms of the opportunity? And I guess, in terms of what that volume trend looks like more specifically in 2025. Does it kind of look like the down 3% we've seen on an annual basis or maybe more like what we saw in Q4 with maybe a 4 handle in front of it there?

John J. Morris

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

A

I would tell you, Kevin, that business can be a little lumpy. If you lose a contract, and I could certainly follow up on Q4. But no, I think we heard from Jim and I both is that, we think that 3% to 3.5% range through 2025 and probably through 2026 is probably what we can expect. But again, I think, what we would highlight here is, when you look at it, we've reduced 900 routes over the period. We've improved margins this year by 400 basis points. It's been a shining star, which we haven't been able to sustain in long time in our Collection business. So I think from a return standpoint, from a margin standpoint and from a, I mean, all the other benefits we get from safety and service and whatnot, we're going to continue on that path for the time being.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

Well, just so we're on how this actually happens with these residential customers, we don't go fire anybody. What we do is, when a contract comes up, if the margins aren't acceptable, if they're underwater or at flat or whatever, we just bid it at a price that it would be acceptable to us. And in many cases, we end up losing it. And that's okay if we lose that business.

Kevin Chiang*Analyst, CIBC World Markets, Inc.*

Q

That's great color. Thank you very much, and congrats on a good quarter there.

James C. Fish, Jr.*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

Thank you, Kevin.

Devina A. Rankin*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

Thank you.

Operator: Thank you. Our next question coming from the line of Konark Gupta with Scotiabank. Your line is now open.

Konark Gupta*Analyst, Scotia Capital, Inc.*

Q

Thanks, operator. Good morning, everyone, and congrats on doubling the synergies. So good to see that. I just want to get back to the Stericycle or Healthcare business. Your guidance is, I guess, directionally suggesting about \$2.6 billion revenue and \$460 million in EBITDA in 2025. If we use that as a baseline, how do you guys envision the growth in that business, obviously, including synergies over the next two to three years, especially when you compare that to what Stericycle was looking at pre-acquisition at about 13% to 17% CAGR in EBITDA?

Devina A. Rankin*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

So I would tell you, it's difficult for us to specifically indicate the long-term growth rate, and that 13% to 17%, we certainly always had our eye on when we were going through due diligence processes, but also weren't seeing the prior team create strong traction on delivering that consistently. At this point, though, we do see that we're on the doorstep of a step change in the growth profile of this business. It's too early to indicate a specific growth rate. 2026 will be a big year for us, though, in terms of synergy capture and ensuring that we take the customer-centric approach that WM has, and leveraging that for top line growth. You can see that 2025 is a year of still pretty moderate top line growth for this business. We expect to see a step change in that beginning in 2026.

John J. Morris*Executive Vice President & Chief Operating Officer, Waste Management, Inc.*

A

And I have one thing to add here. We hope to be able to give you some additional color on this on Investor Day in June. We're really a little bit less than three months into this having ownership of it. So I think, Rafa and team have done a great job of identifying these opportunities, being able to bump the synergies from \$125 million to \$250 million. But by the time we get to June, I think we'll have even a little bit better insight into what 2026 looks like, what the remainder 2025 looks like, if there's any revisions to synergies than what those might look like. But for now, we're super excited about how this thing is really starting to take shape.

Rafael Carrasco

Senior Vice President, Enterprise Strategy & President, WM Healthcare Solutions, Waste Management, Inc.

A

Hey, Konark, maybe I'll add one more thing, because I mentioned earlier that we saw a significant amount of incremental value coming from SG&A on the synergy side. And when we first started talking about this post-acquisition, and we were talking about aiming initially to take this business down to SG&A as a percent of revenue in that sort of 19% range, which was already a significant improvement over that 24%, 25% that the business has historically showed. I think, right now what we have line of sight on, we're already going to eclipse that number, and we have our targets set on 15% and beyond. I mean, as you know, we're hovering our own SG&A as a percent of revenue under 10%. And ultimately, we would like to get it. Now, that's going to take some time. But if you think about the question you asked about growth, that's an important element as well.

Konark Gupta

Analyst, Scotia Capital, Inc.

Q

And that's great. I appreciate the color on that. And I didn't want to front run the Investor Day here for sure. So look forward to that. Just getting on the Stericycle team here, they had some ERP challenges or transition they were going through last year in 2024. Can you help us understand how are you kind of tackling that situation, and how much of that ERP [indiscernible] (00:55:58) is baked into your expectations?

Devina A. Rankin

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

A

Sure. So what's really important for us is using technology to optimize our processes and our people. And what we see in the first three months of being part of this, having the Stericycle team part of team WM is that, they focused more on the technology itself and not so much on the change management and operational connectivity that needs to exist with new systems. And so our team is laser-focused on bringing together the total of the impact of technology on how you run a business. And so we've got a team that's focused on data quality, focused on process redefinition, and bringing all of that together. We expect 2025 to be another year of investment in the ERP. And while that's not specifically provided for in the earnings, we currently expect that we would spend around \$35 million to \$40 million on incremental spend for this initiative in the year ahead. We don't know the split between capital and expense for that. So that's a TBD. But that's another reason that the step change going into 2026 is something that we're so bullish about.

Konark Gupta

Analyst, Scotia Capital, Inc.

Q

That's great. Thank you, Devina. And one last one from me just on the leverage side. It seems like you're expecting 3.1 at the end of this year. That's down from, I guess, 3.5 or 3.6 last year. Is that a good sort of run rate do you expect in terms of deleveraging? And so you might be closer to 2.5 perhaps by the end of 2026, maybe?

Devina A. Rankin

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

A

It's a great question. And what I would tell you is, our long-term target is 2.5 to 3 times. We think that that's optimal for our business in order to provide plenty of dry powder for strategic opportunities like acquisitions when we see them. With the cash flow generating power of the business, we expect to use some of our free cash flow to reduce debt in 2025. That said, if we see outsized tuck-in acquisition opportunities relative to the \$100 million to \$200 million that we included in our guidance, you could see some moderation in that level of debt reduction. While I'm not prepared to specifically tell you where we finish in 2026, I think that what you hear is the momentum in earnings growth, both from the core sustainability and our Healthcare Solutions business will provide an organic approach to de-levering that really is fundamental to how we get back to that target range.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

And maybe one last point on the ERP, the team that we have working on it, which is a fantastic team, has identified something in the neighborhood of \$150 million in cash improvement. That probably doesn't happen until early 2026, but that's an opportunity for us that we haven't baked in anywhere as you reduce these receivables that are outstanding. So it's really a DSO improvement, but it could be as high as \$150 million, maybe even more than that we think is out there for us.

Konark Gupta

Analyst, Scotia Capital, Inc.

Q

Great. I appreciate the color, guys, and all the best. Thank you.

Devina A. Rankin

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

A

Thank you.

Operator: Thank you. Our next question coming from the line of James Schumm with TD Cowen. Your line is open.

James Schumm

Analyst, TD Cowen

Q

Hey, good morning, guys.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

Good morning.

James Schumm

Analyst, TD Cowen

Q

Most of my questions have been answered. But regarding RNG, can you update us on what are the most significant delays you're facing at the moment? Any change there?

Tara J. Hemmer

Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

A

We haven't updated any of our projections since our last call. Like I said before, by the end of 2025, we'll have all but two of our plants completely constructed. And then, the other, the remaining two in early 2026, in the first half of 2026. So we're on track.

James Schumm

Analyst, TD Cowen

Q

But presumably, like, what are the delays? In the past I think you had some delays getting an interconnect. Is that still an issue or what's happening there?

Tara J. Hemmer

Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.

A

Yeah. So in the past, we had mentioned that two of our biggest issues were interconnects with utilities, and then some final permits. We've worked really closely on utility interconnects, and we have line of sight into when those will complete. So we feel more confident today than we did in the past.

James Schumm*Analyst, TD Cowen*

Q

And then on the ITC, you gave guidance there. Did you get shovels in the ground for all 20 projects by the end of 2024, such that you believe you will receive the ITC in 2026 as well?

Tara J. Hemmer*Senior Vice President & Chief Sustainability Officer, Waste Management, Inc.*

A

Yes. All 20 projects other than the two in Canada will be eligible for the ITC. So we feel confident that we [indiscernible] (01:01:08).

James Schumm*Analyst, TD Cowen*

Q

Okay. Great. And then, just lastly – sorry, Devina. Go ahead.

Devina A. Rankin*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

Well, super quickly, we've also focused extensively on domestic content and building the facilities so that we maximize the amount of the ITC. So our long range target had been \$250 million to \$350 million for ITC benefit. And when you look at the \$220 million in 2025 plus the \$135 million that we captured in 2024, you can see that we're actually going to exceed the previous range that we had committed.

James Schumm*Analyst, TD Cowen*

Q

Right. Okay. Thanks. And then, just lastly, so I guess, you still have a lot of work to do on the remaining projects. But do you have a lot of incremental RNG opportunities beyond the 13 or so that you're working on right now? And I know it's a bit off into the future, but as it stands now, do you think you'd own and operate these additional projects, or is that something you'd look to engage in a joint venture for those?

Devina A. Rankin*Executive Vice President & Chief Financial Officer, Waste Management, Inc.*

A

So, we are tracking a whole host of opportunities beyond these first 20 plants and we have more landfill gas that we could put to use, whether it's power projects, RNG projects and the team is actively looking at what the future could look like. We haven't made any decisions yet on where we had – and that's to come. We could look at partnerships with others or doing them ourselves. I think the most important thing to remember is we've maintained control of these assets and we've maintained optionality, and that's a good thing.

James Schumm*Analyst, TD Cowen*

Q

Right. Okay, great. Thank you guys for the help. Appreciate it.

James C. Fish, Jr.*President, Chief Executive Officer & Director, Waste Management, Inc.*

A

Thank you.

Operator: Thank you. Our next question coming from the line of Sabahat Khan with RBC Capital. Your line is now open.

Sabahat Khan

Analyst, RBC Capital Markets

Q

Great. Thanks, and good morning. Just couple of quick ones. Just to start off, I guess, when we look at the volume assumption here for 2025, I guess, what's the underlying view on the macro for the rest of the year and maybe more specifically on some of the more industrial or cyclical volumes that have been [ph] big (01:03:24) challenges for the sector over the last few years? Thanks.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

Yeah, I think you've highlighted the industrial side, which is, it's been the slowest segment overall for us. And I mean, if you look at industrial production in the US, you could argue that we've been kind of in somewhat of an industrial recession over the last few quarters, and our numbers have reflected that. We've been soft on that front. I mean, the two areas where our volume has been softest are the one that John has talked a lot about this morning, which is residential, and that's really intentional.

And then the one that's not intentional is our industrial hauls and those have been soft. And I would tell you honestly, we're not expecting a big rebound in those in 2025, love to see it. And as John mentioned, we are cautiously optimistic about what the new administration brings with respect to business growth, but we haven't baked anything in along those lines.

I will say that the landfill line of business has been kind of the superstar here for us with respect to volume. John mentioned MSW has been strong. He talked about our special waste pipeline is good as well and that's starting to pick up. So, we just had our quarterly reviews with all of our area Vice Presidents and they were speaking pretty optimistically about special waste. So, I would tell you that that volume is – we're being, I think, fairly cautious at that kind of 0.25% and 0.75%. But should things start to pick up on the industrial side, I think you could see that number exceed.

Sabahat Khan

Analyst, RBC Capital Markets

Q

Okay, great. And then, there's a bit of discussion earlier about the commodity prices. Just, apparently there's been some clogging at the port, some evolution in the demand environment, just a bit more color on what's baked into your 2025 commodity price assumption, [ph] if (01:05:04) you just put a finer point on that? And how cautious or how much of recovery is built into that assumption the rest of this year?

Devina A. Rankin

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

A

So, our assumption for recycled commodity prices is \$85 a ton, which is down slightly from 2024 at \$92. Here's what's important to note, exiting December, commodity prices were around \$80 a ton and that has been the bottom of the trough. If you look at January, we've already seen an uptick. And the good news is, we were tracking very closely the January potential for a port strike, and that did not happen. So we're seeing great movement on commodities, also now that we're seeing generation slowdown post the holidays should provide some good structure for prices to improve.

So, the way that we've modeled that is moderate increases throughout the year.

Sabahat Khan

Analyst, RBC Capital Markets

Q

All right. Thanks very much for that.

Operator: Thank you. Our next question coming from the line of Bryan Burgmeier with Citi. Your line is now open.

Bryan Burgmeier

Analyst, Citigroup Global Markets, Inc.

Q

Good Morning. Thank you for taking the questions. I just have two very quick ones. One, I appreciate the updated earnings sensitivity in the press release to recycled commodity prices. I was just wondering, as recycling earnings really step up over the next couple of years, do you think the earnings sensitivity will kind of scale with earnings growth or do you think the new earnings will rely maybe more on processing fees as opposed to the commodity prices? Just overall thoughts on your sensitivity to commodities as recycling maybe steps up a lot in the next couple of years?

Devina A. Rankin

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

A

Absolutely. Great question. And I think what's important to remember when we've made these investments in these automation facilities is much of the benefit comes outside of commodity prices. If you look at the automation benefit, through 2024, we've automated over 850 roles out of the system and that really has nothing to do with commodity prices. So that's a benefit that's going to run [ph] straight (01:07:26) to EBITDA, independent of revenue. And then, we're getting a price premium on what we produce. I was at our Westside murf a couple of months ago and how clean our cardboard is coming out of those plants, we're able to get a price premium. So, those are two aspects that are really independent of commodity prices.

The other thing that I think is really important to note, and we were looking at this this week, is we spent a lot of time making sure that we evolve our fee-for-service model and that we get paid [ph] price (01:08:04) first for processing . So, we've created sort of a floor, when you think about it, when commodity prices decline. So, the range here is not going to scale as we grow our volumes in the same way, it certainly will go up a little bit, but not at the same level that you would expect.

Bryan Burgmeier

Analyst, Citigroup Global Markets, Inc.

Q

Got it. Got it. That makes sense. Thanks for the detail. And last question for me and then, I can turn it over is, just your solid waste internalization, I think, exceeded 70% this quarter. I think that's like an all-time high. I was just curious if that's maybe higher than what WM was originally expecting or did you always see potential for 70% plus maybe after the Advanced Disposal acquisition? Do you consider yourself maybe fully optimized or penetrated at 70%? Just broader thoughts on internalization moving forward? Thank you.

John J. Morris

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

A

That's a good question, Bryan. I mean, I would tell you that we're constantly focused on trying to find ways from a cash-on-cash basis to put the volume in the right facilities. You've heard me and the rest of the team talk a lot over the last handful of quarters, at least, about the value of our network, not just the landfills. Our logistical capabilities, I mentioned in my prepared comments that we opened up another rail operation in the Midwest. We continue to look for intermodal opportunities, and I think that's what's driving it. We've got great positioned assets and part of the group, our network planning teams are doing a great job of building out those capabilities and I think that's what you're seeing in our internalization rates.

Operator: Thank you. Our next question coming from the line of Tobey Sommer with Truist. Your line is now open.

Tobey Sommer

Analyst, Truist Securities, Inc.

Q

Thank you. If you look at the margins and returns on your existing RNG and recycling, how do those compare with your April Investor Day from almost two years ago? And what if you could kind of discretely isolate the drivers of the delta, should there be one?

Devina A. Rankin

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

A

So, our returns are tracking pretty closely to the Investor Day. The biggest thing when you look at EBITDA flow-through on our RNG business, it really is about 75% and that's what we've been seeing. The biggest change really has been our capital has increased and we've been pretty transparent about that. But still within that, three-year range that Devina had mentioned. On the recycling side, we're right there on what we modeled. Not a whole lot to say there, other than these investments have really helped us with new customers. We've done that in Canada where we've been able to leverage these investments to build new facilities there, and we've gotten new contracts as a result of these investments. So, we're seeing opportunities for more volumes to come into these plants.

Tobey Sommer

Analyst, Truist Securities, Inc.

Q

Thanks. And as my follow-up, I was wondering if you could talk about immigration and whether that matters to the company in the industry, because there's been some discussion that smaller local players may employ some illegal immigrants at subpar compensation. Is that a sort of relevant change for your business?

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

I don't really think – it's not relevant to us and I can't really comment on anybody else. But, I mean, all of our employees are documented. And we pride ourselves on paying a good wage for all of our employees. So, I don't – I can't say much else about others.

Tobey Sommer

Analyst, Truist Securities, Inc.

Q

Thank you very much.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

[ph] Yeah (01:11:54).

Operator: Thank you. Our next question coming from the line of Brian Butler with Stifel. Your line is now open.

Brian Joseph Butler

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey, good morning. Thanks for fitting me in here. Quick one, just on the incremental our sustainability, that \$190 million you talked about, how should we think about that flowing through on the quarters? Is that going to be more back-end weighted or pretty even?

Devina A. Rankin

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

A

So, the way to think about it on the RNG side, we're going to have the rollover impact of the plants that completed at the end of 2024, those four plants, because we had minimal impact of those in 2024. Then, we have three plants of the eight plants that would really show earnings in the first half of the year and the other five plants in the second half, which are really more back loaded, I would say, into Q4.

On the recycling side, what we've seen, again, the rollover impact of those automation investments in 2024 and we also have some benefits. We're going to have less shutdown costs in 2025 than we did in 2024. So, it's a bit more of an even distribution.

Brian Joseph Butler

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay, that's helpful. And then on the RIN pricing, you gave your sensitivity, which is super helpful. But from a strategic perspective, how are you thinking about locking in those contracts kind of longer term, especially, considering the potential for the volatility here under the new administration? Maybe just kind of your thoughts on where you're kind of viewing the strategy on dealing with what could be some volatility in RIN prices?

Devina A. Rankin

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

A

Sure. So, first, the team did a fantastic job of locking up about 50% of our projected sales for 2025. And that is a mix of the voluntary market. And they had presold some 2025 RINs at \$2.70. So, they were very opportunistic in being able to do that. And we feel confident that for [ph] 2025 (01:14:04) – the balance that we have to sell, if you look at where the market is today at about \$2.40, that we should be able to do that. We've always talked about taking proactive approach and getting more towards that 80/40/20 split where, a year out, we would have 40% locked up and a year from there, 20%. Right now, we have about 15% of our future years locked in. And we have some, I would say, pretty robust activity on the voluntary market side. There are players out there who are really looking to decarbonize and we're going to balance that against the fact that we have a fleet of CNG trucks where we can generate RINs and make sure that we're monetizing the whole portfolio in the right way.

Brian Joseph Butler

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks for taking my questions.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

[ph] Thanks, Brian (01:14:53).

Operator: Thank you. Our next question coming from the line of Toni Kaplan with Morgan Stanley. Your line is open.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Thanks so much. Wanted to ask about the resi [ph] shredding (01:15:09). Just wondering, were these contracts that were inherited from acquisitions or were they just signed a long time ago and something changed in the markets. Just wanted to understand the rationale for why these contracts are not that profitable anymore?

John J. Morris

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

A

I think, Toni, it's a few things. I don't think it's necessarily acquisitions, although I'm sure we acquired a few that were underperforming. But I think it's a few things. I think it's one, you've seen inflation, you've seen labor inflation, and that was always most prevalent in our residential line of business. So, I think we've seen more cost pressure because of the labor intensity in that business. And we're offsetting that by changing the model and automating that, driving out a lot of labor, a lot of risk and it's a portfolio approach. It's not in any one particular segment of business. In terms of it, it's contracts that are one year to three years in duration, three years to five years, five years to seven years. I wouldn't say it's any particular length. I would tell you we're a lot more cautious when it comes to anything over three years to five years when we are making our assumptions on what that's going to look like. The saying I have is I don't want the best day to be the first day of any of those contracts.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Great. Got it. And then, just I know it's still early, but could you talk about the potential impacts from the California wildfire cleanup on your volumes and just wanted to confirm that there's nothing in the volume guidance from that at this point and that would be upside? Thanks.

John J. Morris

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

A

Yeah, Toni. I mean, first and foremost, I was actually out in California with our team over the weekend. And the good news is, is that our folks are all safe. And as of the other day, nobody had been displaced, which we're thrilled about. Our operations are safe. In terms of any benefit, the folks in Southern California are doing a great – they're assessing that right now. There may be a little bit of upside [ph] they've (01:16:58) put in there. But when you look at our guidance for the \$500 million for the solid waste business, there's really nothing meaningful in there at this point.

Devina A. Rankin

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

A

We have included about 0.5 point of volume in our revenue guide for the year and there is the flow-through of that, both included in EBITDA dollars and margins.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

I think it's also important, it's such a good question about these natural disasters. But we – and looking back over the last decade, probably three out of every five years, we see something. The difficulty is, is you can't predict it. So, whether it's tornadoes in the Midwest or hurricanes in Florida or fires in Northern or Southern California, whatever it is, probably 60% of the time something is happening. 2024 as an example, the year where not that there weren't any natural disasters, but we really just didn't see a whole lot of volume from those disasters. And so, had we put something in initially, we would have been running uphill. 2025, we likely will see some impact. But again, it's very difficult, it's impossible to predict any of these. And therefore, we don't factor it in initially and it ends up being either upside for us in the year that it happens or something we have to recapture and work against in the years where we don't have it.

John J. Morris

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

A

Yeah. The last point I'd make, Toni, is I think our folks and our assets are very well-positioned to help all those communities get back on their feet when they're ready to reach out for that help.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

A

Yeah.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Q

Terrific. Thank you.

Operator: Thank you. Our next question coming from the line of Tony Bancroft with Gabelli Funds. Your line is now open.

George Anthony Bancroft II

Analyst, Gabelli Funds LLC

Q

Thanks so much. Jim and team, congratulations on all your success. Great quarter. Just want to ask and I was on another call, so just please stop me if it's already asked. But just with regards to the healthcare solutions business, obviously, you're highlighting that. It seems like there's a lot of potential growth going on there. Could you maybe remind us again or just sort of walkthrough [ph] what (01:19:04) sort of competitors, are there other large regional competitors? I know there's a lot of ones and twos out there, like you were sort of talking about, but maybe sort of define that market a little bit since it seems like [ph] that's somewhere that we (01:19:18) could have some more transformational growth?

Rafael Carrasco

Senior Vice President, Enterprise Strategy & President, WM Healthcare Solutions, Waste Management, Inc.

A

Yeah, Tony, this is Rafa. What I can tell you about that is, I mean, obviously, when we set our sights on Stericycle, it was because they had the most comprehensive network of assets out there and the largest portfolio of customers. Really, we didn't look around to see who we were going to competing with necessarily. That comes with the territory as we kind of assess the ability to cross-sell and all that. But we're focused on really maximizing what we acquired and making sure we synergize properly and introduce a lot of customer centricity to something that maybe was lacking, a discipline that was lacking back with Stericycle.

George Anthony Bancroft II

Analyst, Gabelli Funds LLC

Thanks. Great job.

Q

Devina A. Rankin

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

Thank you.

A

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

Thank you.

A

Operator: Thank you. Our next question coming from the line of Harold Antor with Jefferies. Your line is now open.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

[ph] Are you there (01:20:15), Harold?

A

Operator: Please check your mute button.

Harold Antor

Analyst, Jefferies LLC

Hello. Sorry. I was muted. I apologize. Yeah, just, I guess, labor turnover has been – labor has been something that's been talked about on [ph] several (01:20:32) of these calls. Just get an update on what labor turnover is now? What inflation has been running on the business? I think you said you have another thousand jobs expected to be made redundant over a period of time. So, just wanted to get an update on what those [ph] stats are trending on (01:20:50) now and then, what's implied in the guidance for 2025?

Q

Devina A. Rankin

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

I'll take this quickly and then, John can add some color. Basically, from a frontline labor perspective, we had – we're exiting 2024 with a 300-basis-point improvement in frontline turnover. It's the best in our history. So, frontline turnover had actually achieved about a run rate of 15%, which is fantastic. And then, when we look at wage inflation, while we are seeing [ph] top (01:21:22) CPI inflation abate generally speaking, we do think wage pressure continues to be above CPI and we expect wage pressure to be in the 4% to 5% range for the year ahead.

A

John J. Morris

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

Harold, I think the only thing I'd emphasize, Devina gave you a good answer, is the – and that's why you hear us talk about automation and our investments in technology are going to make us less labor dependent. That's why it's so important in the short term and candidly over the long-term, because I don't think we see anything on the horizon that would suggest that the labor pool that we're searching for is going to be that much more plentiful in the next year or the years after that. So, it reinforces our commitment to those investments.

A

Harold Antor

Analyst, Jefferies LLC

Q

Thank you. Thank you for the color. That's all from me.

Devina A. Rankin

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

A

Thank you.

Operator: Thank you. Our next question coming from the line of David Manthey with Baird. Your line is now open.

David John Manthey

Analyst, Robert W. Baird & Co., Inc.

Q

All right. Thank you. Just quickly on the Stericycle math here, if you did \$61 million in EBITDA in the fourth quarter, that implies a \$90 million run rate, which I guess implies roughly a \$360 million run rate for 2024. You're guiding to \$460 million by backing into the math there in 2025, including the \$100 million in synergies. So, question, are you defining all Stericycle improvement as synergy? And maybe a better way to ask is, just what's the 2024 pro forma EBITDA you're assuming for that, the Health Solutions business based on the WM definition of EBITDA?

Devina A. Rankin

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

A

Sure. So, basically, the \$61 million in Q4 included \$4 million of synergy capture. When you adjust for that, it implies a full year EBITDA number on a WM measured basis of around \$350 million for the business. We're implying a 9% growth rate that's expected on the base business. And then, \$85 million to \$90 million of synergy capture. All of that together brings you to the \$460 million-ish of EBITDA that we're projecting in the year ahead.

David John Manthey

Analyst, Robert W. Baird & Co., Inc.

Q

Very clear. Thank you.

Devina A. Rankin

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

A

Thank you.

Operator: Thank you. I will now turn the call back over to Mr. Jim Fish, President and CEO, for any closing remarks.

James C. Fish, Jr.

President, Chief Executive Officer & Director, Waste Management, Inc.

Okay. Well, thank for your excellent questions this morning. We hope you'll take in our WM Phoenix Open next week on the – [ph] you can catch us on the Golf Channel on CBS, which is my plug (01:23:58) for that and we look forward to talking to all of you again next quarter. Thank you.

Operator: This concludes today's conference. Thank you for your participation and you may now disconnect.

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