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EDITED TRANSCRIPT

WM - Q4 2019 Waste Management Inc Earnings Call

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OVERVIEW:

Co. reported 2019 diluted EPS of $4.40.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Waste Management Fourth Quarter Full Year 2019 Earnings Release Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

It is now my pleasure to turn today's program over to Mr. Ed Egl, Director of Investor Relations. Sir, please go ahead.

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

Thank you, Jay. Good morning, everyone, and thank you for joining us for our fourth quarter 2019 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, Senior 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; 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 can include important information.

During the call, you will hear forward-looking statements, which are based on current expectations, projections or opinions about future periods. We'll also be providing our outlook for 2020. This outlook does not include the impact of our planned acquisition of Advanced Disposal Services, Inc., which we may also refer to as ADS. Once we complete this acquisition, we plan to provide an updated outlook.

All such 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.

Jim and John will discuss our results in areas of yield and volume, which, unless otherwise stated, are more specifically references to internal revenue growth, or IRG, from yield or volume.

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In addition, beginning in the fourth quarter of 2019, we updated our calculation of core price. With advancements in technology, we collect additional transactional customer-level data, which provides us improved clarity of the impact of our pricing activities. While this does not change the year-over-year core price performance results, the new measure reflects a more precise calculation in evaluation of our revenue change. Please refer to the press release tables where we have provided 2 years of quarterly core price data using the new methodology.

During the call, Jim and Devina will discuss our earnings per diluted share, which they may refer to as EPS or earnings per share, and it'll also address operating EBITDA, which is income from operations before depreciation and amortization. Any comparisons, unless otherwise stated, will be with the fourth quarter of 2018. Net income, EPS, operating EBITDA margin, operating expense and SG&A expense results have been adjusted and projected 2020 measures are anticipated to be adjusted to enhance comparability by excluding certain items that management believes do not reflect our fundamental business performance or results of operations, including costs incurred in connection with the pending acquisition of ADS.

In prior quarters, the adjustment for ADS included the reduction of common stock repurchases from planned levels. We are no longer adjusting for this. 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 p.m. Eastern Time today until 5 p.m. Eastern Time on February 27. To hear a replay of the call over the Internet, access the Waste Management website at www.wm.com. To hear a telephonic replay of the call, dial (855) 859-2056 and enter reservation code 9977058.

Time-sensitive information provided during today's call, which is occurring on February 13, 2020, 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 Waste Management is prohibited.

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

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

Thanks, Ed, and thank you all for joining us this morning.

We're proud of how Waste Management performed in 2019. We continued our focus on optimizing our traditional solid waste business, developing our people and investing in technology to better serve our customers, and we're confident these are the right focus points to deliver long-term growth for the company.

The results are evident in our full year top line growth, which was 3.6%, despite a negative $318 million drag from commodity prices in our recycling line of business and a negative $23 million swing from the sale of renewable energy credits. Landfill pricing was one of the bright spots in 2019 and is also a great example of what the Waste Management organization can achieve when we have a shared focus. Together, the team achieved our best ever full year landfill MSW pricing in 2019 as we exceeded 3% MSW yield in every quarter, with each quarter surpassing the previous one, culminating in fourth quarter MSW yield of 4.5%.

We expect to continue to drive improved MSW pricing for the foreseeable future as our price increases keep pace with the increasing costs at our landfills. But we won't just focus on MSW pricing. We're pricing all our lines of business to ensure that we generate appropriate returns on invested capital, including our recycling and residential lines of business. John will share more about our 2020 plans for those 2 areas.

The strong revenue growth that we generated in 2019 translated into robust operating EBITDA. Our collection and disposal business saw operating EBITDA grow by 8.5% and operating EBITDA margin expand by 70 basis points, both of which were better than we expected when we gave guidance at the beginning of the year.

In 2019, our overall operating EBITDA grew by 4% despite lower-than-expected market prices for recycled commodities and renewed -- renewable energy credits. We also produced $4.40 of EPS in 2019. We're forecasting another record year in operating EBITDA in 2020, with growth of 5.2% at

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the midpoint of our guidance range. We expect to achieve this growth from continued strong performance in our collection and disposal business through a combination of price, volume and cost controls.

Last quarter, I spoke of the lack of visibility in our special waste pipeline as we were seeing hesitation from some industrial customers in committing to event work. I'm pleased to report that we're seeing more companies commit to event work so far in the first quarter, and concerns of a recession around the industrial economy have mostly abated.

We've been awarded a large coal combustion residual remediation project starting this spring. With our well-positioned asset network and expertise, we have developed a strong reputation in managing all aspects of these clean closure projects. We expect that our differentiated service offerings will result in additional jobs throughout this year.

Turning to free cash flow. We've said operating EBITDA is the best reflection of the health of our business and provides the foundation for generating free cash flow. 2019 was no exception as our robust operating EBITDA once again translated into exceptional free cash flow. We allocated more than $1.1 billion of that free cash flow to shareholder returns, growing our dividend for the 16th consecutive year. We also spent $527 million on acquisitions, an indicator of the active M&A environment we're in and then our ability to complete transactions at targeted returns. Devina will discuss capital allocation in the year ahead, but suffice it to say, that we expect to continue to reward our shareholders in 2020 by allocating a substantial portion of our free cash flow back to shareholders.

On the M&A front, obviously, closing the Advanced Disposal acquisition is expected to be the highlight for the year. We are expected -- we are excited as we near the close of this transaction, and we have great confidence in the potential of the combined organization. We anticipate that we will obtain antitrust regulatory approval by the end of March and close soon thereafter.

We've received a high level of interest from other companies in acquiring any potential businesses we might be required to divest, and we expect to complete the sale of any required divestitures shortly after the closure of our purchase of ADS. Our integration team has been working hard preparing for this close, and the team is positioned to move quickly to integrate ADS operations and to achieve our targeted synergies.

Overall, the lead story at Waste Management and within the industry as a whole is one of consistency and predictability of earnings and cash flows, resulting in excellent returns to shareholders. Devina will go through our guidance in detail, but we expect that consistency to continue into 2020 where we see a highly efficient customer and employee-centric core engine, driving a continuation of what we've seen for the past 3 to 4 years.

When you look at our annual financial results from 2017 to 2019 and now through our guidance for 2020, you'll see revenue growth in the 3% to 4% range, EBITDA growth in the 4% to 5.25% range and cash from operations less CapEx in the 5% to 12% range, all within the bands that we've communicated over the past 3 years.

The amazing part about our results is that we have had some challenges in parts of our business like recycling and renewable energy sales, yet the core business continues to churn out earnings and cash at a strong pace. This industry and this company, in particular, have been a model of strong predictable results. With a very strong consumer segment of the economy and what appears to be a recovering industrial segment so far in the new year, we are confident that this rock-solid trend will continue.

Lastly, I want to thank all of our hard-working team members who continue to make Waste Management both a great place to work and a fantastic long-term investment for our shareholders.

With that, I'll turn the call over to John and Devina to discuss our results and our 2020 guidance in more detail.

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

Thanks, Jim, and good morning, everyone.

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We had a strong finish to 2019 and are pleased with our full year performance. Our disciplined pricing programs are delivering great results, which is best demonstrated by our 2019 MSW yield of 3.8%, which is 160 basis point improvement over 2018. We will continue to price our well-positioned landfills to generate an appropriate return on invested capital in a rising cost environment. More broadly, in the collection and disposal business, we've achieved 2019 yield of 2.8%, the highest yield that we've seen in a decade. As we look ahead to 2020, you will see our continued focus on pricing to overcome cost headwinds and to keep generating appropriate returns on invested capital.

What's impressive about these pricing results is that we were able to achieve this without compromising our volume results. We achieved 2.3% volume growth in 2019, which outpaced growth in the broader economy. However, as we expected, some, but not all volume growth, moderated in the fourth quarter both as a result of difficult comparisons to the fourth quarter of 2018 and the timing of special waste jobs.

The good news in 2020 is shaping up to be another solid year for volume. As Jim mentioned, coal combustion residuals should be a benefit for us in 2020 as we've already been awarded a job to start in April and there are additional jobs in the pipeline. The strong consumer economy and special waste pipeline, combined with the positive trend in service increases exceeding service decreases, gives us confidence that we'll have another good fine year in 2020.

We plan to build upon our success in 2019, continuing to execute on our focused differentiation and continuous improvement strategies in the year ahead. The team is focused on opportunities to continue to improve and optimize our collection and disposal businesses. We plan to improve ROIC in our residential line of business and improve our overall operating costs with M100 focused on labor, technology helping you improve routing and maintenance service delivery optimization focused on repair and maintenance costs.

In our residential line of business, we have several initiatives underway aimed at improving profitability. This begins with the way we bid on municipal contracts. Waste Management has led the industry on return on invested capital, and we're bringing in even greater attention to this metric in 2020. We're taking a hard look at each residential contract as it comes up for renewal and making sure that our bid prices and terms of service are keeping pace with cost inflation over time and changing recycling dynamics. We're also leveraging the data we continue to aggregate via our onboard technology to improve routing and the efficiency of our drivers with results in improved service and reduce costs. We expect to see similar results in the residential business that we achieved in the commercial line of business with these tools.

More broadly, in the collection business, we're improving efficiency and capturing savings through several efforts. First, M100 or managing 100% of our drivers' day, allows us visibility into our drivers' routes in real-time to coach for improved efficiency and an enhanced view of customer profitability. At our Investor Day last year, we said that a 1% increase in collection labor efficiency yields $25 million in savings and that we expect $75 million of total savings from M100 by 2021. We expect to capture the next $25 million of savings from M100 in 2020.

The other effort that will benefit our collection line of business is our maintenance service delivery optimization or MSDO. We expect to continue to lower maintenance cost as we did in the second half of 2019. This leads to improved operational performance by bringing increased standardization to our fleet as well as improved maintenance processes. These are just a few examples of the great work underway to further optimize our collection operations with the help of technology.

Turning to recycling. Our recycling business performed well in light of further fourth quarter erosion in recycled commodity prices. Despite a 43% year-over-year decline in our blended average commodity price to about $37, our fourth quarter EPS contribution from recycling was only lower by $0.02. For the full year, recycling commodity revenue declined $318 million, yet the business generated operating EBITDA comparable to 2018 as we were able to offset virtually all of the impact of commodity decline with an increase in fees. Our recycling performance demonstrates the success we are having in restructuring and recycling contracts to a fee-for-service model. We will also continue to make strides on improving our business-driven use of technology. At our Chicago MRF of the Future, we expect to be fully operational by the second quarter. This plan is designed to be capable of generating high-quality material with technology through positive and intelligent sorting to generate the end product our customers require.

Looking towards 2020, given the expected lower commodity price levels in the current environment, we expect a minimal impact on overall results from recycling with headwinds in the first half of the year.

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And finally, I want to give an update on all the work we're doing to prepare for the integration of Advanced Disposal. As Jim mentioned, we are approaching the close of the transaction and the start of the integration. We have developed detailed plans and are prepared to start integration as soon as we close. With the additional work that we have done since the third quarter, we are confident that we will be able to achieve synergies in excess of the $100 million we laid out when we announced the acquisition. We look forward to officially welcome the ADS team into the WM family.

And with that, I'll turn the call over to Devina to further discuss our financial results and 2020 outlook.

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

Thanks, John, and good morning.

Our 2019 performance showcased the strong conversion of operating EBITDA from our collection and disposal businesses to cash and also our disciplined execution on managing working capital. In the fourth quarter, our cash flow from operations exceeded $1 billion and grew more than 12%, and full year cash flow from operations was almost $3.9 billion, representing growth of almost 9%. As I mentioned earlier in 2019, with our robust collection and disposal volume growth, we plan to increase capital expenditures for the year above our initial guidance of $1.75 billion. With cash flow from operations growth that also exceeded our plan, we knew we were well positioned to proactively increase our capital expenditures and still deliver on our free cash flow objective.

During the fourth quarter, we spent $286 million on capital expenditures; and for the full year, we spent $1,818,000,000. Free cash flow in the fourth quarter was $756 million, and full year free cash flow was $2,105,000,000. In 2019, the most significant contributor to our free cash flow growth was strong operating EBITDA. So we also realized benefits from working capital that we expect to reverse in 2020 and lower-than-expected cash taxes.

In the fourth quarter, we used our free cash flow to pay $218 million in dividends. For the full year, we returned $1.12 billion to shareholders comprised of $876 million in dividends and $248 million in share repurchases. In 2019, our acquisitions totaled $527 million.

Our SG&A costs as a percentage of revenue were 10.3% for the full year, which was about 25 basis points higher than what we planned. This difference is largely due to litigation and incentive compensation costs that were higher than expected. We remain committed to a long-term target of SG&A as a percentage of revenue of about 10%. In 2019, we were effective in managing our baseline costs while very intentionally investing in technology and our people. The investments we made in 2019 and will continue to make in 2020 support our customer and growth objectives as well as a number of the operational improvements that John discussed.

Late in 2019, we determined it was prudent to make an investment in our foundational finance and human resources systems. These systems serve as a platform for almost everything we do, and we have not upgraded this platform in almost 20 years. In the fourth quarter, our team started this multiyear effort. You will notice that we adjusted for these costs in our press release, and we will continue to adjust for the costs associated with this investment in the year ahead.

Our adjusted effective tax rate was 16.3% for the fourth quarter of 2019 and 20.2% for the full year. Our effective tax rate was lower in 2019 than we expected because we realized value from the fuel tax credits, we made an incremental investment in low income housing and we recognize some favorable adjustments when we finalized our tax returns for the prior year.

Our debt-to-EBITDA ratio measured based on our bank covenants was about 3.1x at the end of the year. While this measure is trending higher as we approach the ADS closing, it is within our targeted levels and positions us well to continue to execute upon our long-term capital allocation priorities of growing the business and returning cash to our shareholders.

Moving to our 2020 outlook. As a reminder, our revenue, earnings and cash flow guidance does not include the anticipated impacts of acquiring ADS. However, it is important to note that our free cash flow guidance does include an initial estimate of the incremental interest costs we will

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incur for the debt raised to fund the transaction. We plan to update the remaining components of our outlook, including taxes and EPS, following the close of the acquisition.

On a stand-alone basis, we expect 2020 operating EBITDA to increase to $4.56 billion to $4.66 billion, growing by 5.2% at the midpoint, fueled by continued strong organic revenue growth. To that end, we expect core price of 4% or greater, yields of about 2.5% in collection and disposal, and total company volume growth of approximately 1.5%. We expect our strong earnings growth to drive free cash flow of between $2.15 billion and $2.25 billion.

We project capital expenditures to be between $1.7 billion and $1.8 billion in the year ahead, which is a decrease in total spending from 2019, so at or above our long-term capital spend as a percentage of revenue target. We have seen our capital investments pay off, and so we plan to continue to invest above our long-term average in 2020 with our focuses in the year ahead on landfills where volume growth is expected to remain strong and facility upgrades.

We remain committed to a capital allocation plan that maximizes long-term value and total shareholder return by prioritizing organic and acquisition-related growth, dividends and share repurchases. Given our focus on the integration of ADS, we expect tuck-in acquisition spending in 2020 to be lower than what we have seen in the last few years and more in line with our historical target of $100 million to $200 million annually.

We are pleased to be increasing our planned quarterly dividend rate for the 17th consecutive year, as announced in December, and expect our dividend payments to be about $920 million in 2020. Given this, we currently project that excess free cash flow will be at least $1 billion in 2020.

We have prudently slowed our share repurchase activity in anticipation of the Advanced Disposal acquisition. With those steps and our robust growth, our balance sheet is strong, and we are well positioned to restart our share buyback program.

We plan to begin repurchasing shares in the first quarter and expect to allocate at least $1 billion to repurchasing our stock over the course of the year.

In summary, 2019 was a successful year for Waste Management, and we can't thank the Waste Management team enough for all their hard work. 2020 is set up to be an outstanding year as we focus on execution, both on the fundamental strength and growth of our business and on the ADS integration.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Brian Maguire of Goldman Sachs.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

First question just on the -- just some updated color on the ADS transaction. And initially, there was some enthusiasm that might be done a little bit sooner since like it's maybe taking just a little bit longer. Just wondering if you could comment on how the conversations are going and the remedy package or divestment package, what kind of reception you're getting in the market for that and whether you think that might go to one person or maybe now we're in a situation where we're going to be talking about multiple buyers for that?

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

So Brian, what I would tell you is, is that we announced the deal on April 14. So we're just come -- we're not even at a year mark yet. And as Jim mentioned in his prepared comments, we're on a trajectory, we think, to get clearance from DOJ right towards the end of the quarter. And obviously, we're going to move to close quickly after that.

In terms of the divestiture package, what I can tell you is, is that we've had a really robust lineup of suitors, kind of I said it's kind of like a line around the block of folks who are interested in these assets. So as we progressed with our conversations with the Justice Department, we've obviously continued to move that process along at the same pace.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. And I just wanted to ask about your comments on the residential line of business. Jim and John, I think you guys both talked about how that's a focus area for 2020. As some of these larger, longer-term contracts come up for renewal, I guess, the volumes have been a little bit light in that part of the business. I'm wondering if you could just kind of comment on where you see margins in that business today versus where they've been historically and what actions you're thinking about taking in 2020 to try and improve those margins.

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

Sure, Brian. I think first and foremost, obviously, the recycling business has had a kind of knock-on effect on residential. And in my comments, you heard me talk about that, making sure that our pricing models keep up with what the cost inflation we're seeing in the residential line of business, that we're getting the appropriate returns for the capital that we're deploying there. And I would tell you that it's obviously the lowest of the 3 collection lines. So when we look at where we're going to direct our investments, we're going to look to move those margins up here over the next handful of years.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. And just last one for me. I apologize if I missed it, but can you guys quantify the impact to EBITDA from the CNG or the fuel tax credit in 4Q and kind of what's embedded in the 2020 guidance for EBITDA?

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

Sure. I'll cover both the EBITDA impact and the cash flow impact. So the fuel tax credit, which was recognized as a reduction to operating expenses, was about $70 million in the year, and we project that it'll be a little below $40 million in the year ahead. From a cash flow perspective, there were no cash flow benefits associated with that. That's one of the working capital headwinds that we -- that I mentioned for 2020 are actually -- it created a headwind in working capital for us this year because we recognize the earnings, and we'll recognize the free cash flow benefits in the year ahead, those free cash flow benefits for both what we recognized in the P&L this year and expect to recognize in the P&L next year are -- a total of about $90 million.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. And just to be clear, this -- the $70 million that was all in 4Q, right, because it just occurred late in the year, right?

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

That's right.

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Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Yes.

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

Yes. So Brian, Jim here. Just to level set on EBITDA a little bit here for Q4 and for 2019. We had quite a few puts and takes in Q4 that rolled into the final number. And by the way, that's not that uncommon for the fourth quarter. But some of those puts and takes would have been in your estimates, and several would not have been. So obviously, the fuel tax credits that you just talked about, on the positive side, the RINs pricing, recycling, all of that would have been in your numbers, we've talked about a lot of that. But we also had a material true-up of our 2021 LTI plan from stronger-than-expected total shareholder return on free cash flow, and we had somewhat of a clearing of the decks of legal settlements. And the total of those 2 was almost $40 million for the quarter, and that would not have been in your estimates. You wouldn't have known about that. It was included in our adjusted EBITDA. So we included those. So just wanted to level set that there are some things in Q4, moving parts that we tend to have in many Q4s, but some of them were not in -- would not have been in your estimates, you wouldn't have known about those, and that amount was approaching $40 million.

So the good news, though, is that, really, the underlying business, which I talked about in my remarks, the underlying business is super solid. It didn't waiver. It was strong last year, and it's going to be strong in 2020.

Operator

Next question comes from the line of Kyle White from Deutsche Bank.

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

Just focusing in on volumes, down 40 basis points this quarter. It was a little bit lighter than I expected, considering you guys are trending well above like 2% for the year. Just curious what kind of caused this inflection this quarter and if there's anything notable, and then how it performed relative to your expectations going into the quarter?

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

Sure, Kyle. Let me give you a little bit of color on Q4 and then some insight into volumes for early Q1 and for 2020 as a whole. First of all, in Q4, our volume figure was indicative of a couple of things. First, we knew we had the tough comps year-over-year due to the fire in Northern California, and that will continue through the first half of 2020. Secondly there, we had a onetime settlement with the City of Los Angeles contract in our numbers in Q4 of '18, and that impacted volume or at least it impacted the comparability on a year-over-year basis. Without that, in 2018, commercial would have been 2.1% positive instead of 1.5%. And then the third thing for Q4 that's worth mentioning is that we saw a $22 million decline in our renewable energy and Energy Services businesses, and that hits the volume line. So that gives you some insight into Q4.

Here's the positive on January 1. January has come out of the gates nicely. So even with tough comps largely from the anniversary of the New York City contract, commercial volume was a healthy 3.6%, roll off was positive 2.8%, resi was down 1.3%. John's talked about that. I mean he and the ops teams are looking to fix the margins in that business. So it's not surprising that it's down a little bit. And then landfill and transfers -- tons were up 1% and 4.7%, respectively. So that's January.

And then looking past January as we will -- we talked about it, but we've got that large coal combustion residual remediation project and we have a big national account, both of those will start in early Q2. So even with the tough comps from the Northern California fires and New York City contract in the first half of the year, we're very comfortable with the 1.5% volume growth for 2020 with some organic growth, and by the way, with the backdrop of what appears to be a pretty darn resilient overall economy.

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Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

Got it. That's very helpful. Next question's just really on the guidance in terms of what assumptions are you making in terms of pricing and values for recycled commodity values and then also the RINs for the full year?

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

Yes. Kyle, for recycling, listen, there's -- we finished the fourth quarter right around the $37 per ton number on average, and I think it was about $44 for the full year. There's been some talk of a little bit of uptick in the early part of the year on OCC. And frankly, we don't have anything baked in, in terms of commodity uplift.

What I will tell you, though, is what -- in my prepared remarks, what's more important is that even though the total revenue impact was over $300 million for the organization for the full year, we're essentially flat. I think we're down about $2 million in EBITDA. So what we're really focused on is the commodity price is going to do what it's going to do, but we're still working to make sure we continue to evolve the model to a fee-for-service model where we can generate the right returns on margins, and we're moving in that direction.

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

And on the RINs side, we were effectively kind of flat to where we finished the back half of 2019 in terms of setting our guidance for 2020. We did not take into account the significant upswing that we saw in January, but we do have our eye on that and think that there's some potential value that can be created there.

On the recycling front, I do think it's important to talk about the fee-for-service model. And while commodity prices, as John mentioned, we projected to be flat. We do expect to continue to move forward with executing on that fee-for-service model and see some incremental revenue from that plan in the year ahead.

Kyle White - *Deutsche Bank AG, Research Division - Research Associate*

Just to quickly follow-up. If we assume RINs pricing at the January levels sort of increase, what kind of benefit do you think this would have to EBITDA on an annualized basis?

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

So Kyle, we've looked at -- I mean in the fourth quarter, we saw about an $0.86 per unit number. And right now, in 2020, we think it could be in the $1.10 to $1.20 range. But as you folks know, that number has been all over the board, and it's been a bit of a political football. But if it stays where -- in that $1.10 to $1.20 range, we are going to open our fourth RNG plant this year. There could be probably $10 million to $15 million of upside if those RINs hang in that range for the full year.

Operator

Next question comes from the line of Sean Eastman of KeyBanc.

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

I guess just from a high level, I just wanted to kind of go back to the 5% to 7% EBITDA growth target you guys outlined at the Analyst Day last year. Obviously, 2020 guidance came out toward the low end of that, and I assume maybe part of that is maybe the tough comp on the California wildfire,

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high-margin revenues, but just hoping to get some comments on how you're thinking about that longer-term target and just kind of why we're at the lower end in 2020.

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

Yes. I think you've nailed it. I mean I think it is -- we do have tougher comps there with those wildfires. And those pretty much turned off last year at the very end of July. So we've got 7 months of tough comps there. Obviously, you can't predict whether there's something else that comes up throughout the year. If something else did happen, whether it's a natural disaster or a big project that we don't anticipate, then that would help to offset that. But for now, we felt like 5.2% was a reasonable number, within the previously communicated range of 5% to 7%, as you say, that's the lower end of that, but we still feel confident that we'll get there. And I think that's -- we do feel like we've got an economy that provides a pretty good support for hitting within that 5% to 7% range.

I think when you see us get up towards 7% is when you'll start to see a couple of these headwinds that we've talked about for probably 2 years now really starting to kind of recover fully, and that means recycling, that means some consistency in RIN pricing, then you'll see us in the 7%, possibly even exceeding 7%. But with just solid waste, you're talking about a 5-plus percent number that's probably double the overall economy. It shows you how strong solid waste is.

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

Yes. That's helpful. I guess the other interesting thing for me is that, that 5% to 7% target, kind of built a 2 by 2 price volume backdrop. And as we look at the 2020 outlook, now it's a 2.5% price, 1.5% volume, which seems inherently more valuable to me. And I just wondered if that 2.5%, 1.5% is more accurate in terms of what we should be seeing for WM over that targeted time frame, that 3-year time frame.

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

I think the 2.5% is probably a bit more reflective of what you might expect going forward. The 1.5%, as we said earlier in your question here, reflects the tough comps. So all things being equal, in other words, the economy not being a big headwind of any kind, then I would expect that normally, we'd be closer to that 2% number that we've historically given. But this year, we have, as we said, the tough comp with the fires.

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

There's also a tough comp with the New York City contract. And so the fires in the New York City contract together are about that 50 basis point differential. And so it's important to know that we've not backed off of the 2% long-term volume outlook. It's -- the 1.5% that's reflective of that tough comparison.

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

Yes. It shouldn't be surprising to you that we're -- that we want to be a little bit conservative when we issue our guidance. I mean it's probably better to under-promise and over-deliver than the opposite. So I think we've got what we believe is very achievable guidance set for 2020.

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

And I guess, just a key takeaway here is that we're running at 2.5%, whereas you guys had a longer-term outlook of 2% on the price, which I think is probably pretty notable. Last question for me, just trying to understand the SG&A line. I think you have this 10% SG&A margin target. I just wondered if that's a number we hit in 2020 and whether there's more opportunity to continue to move that down just around these technology investments starting to be more than offset by the savings and benefits from those investments.

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

I think when you look at 2019, Jim's mentioned earlier about those 2 items that we're not planned for and certainly are not items that we expect to recur. Those 2 items, if we adjust for those, we would have delivered SG&A as a percentage of revenue of 10% in the year. And so we remain committed to that target over the long term. And what you see in addition to those 2 items are the impact of the ADS integration planning work that we're doing, we did adjust for those, and we'll continue to adjust for those in the year ahead and then my mention of our enterprise resource planning efforts that we started in the fourth quarter. So those 2 items will elevate the level of recorded SG&A above 10%. But when we call those out and really focus on the fundamental investment in the organization, from a technology perspective, you're absolutely right, things like investments in our call center technology where we should be able to serve our customer online rather than having them call into our call center to get information about their accounts or their service will drive a reduction in SG&A over the long term. But right now, what we see is the incremental investment of that dollar into technology and our people is going to position us to want to continue to maintain SG&A as a percent of revenue at 10% rather than allow it to tick down because we think that those investments are worthwhile and create incremental value for the long term.

Operator

Next question comes from the line of Tyler Brown of Raymond James.

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

Jim or John, big picture question, but I want to come back to that 4.5% MSW yield print this quarter, the 3.8% for the year, which I felt like was, if not the biggest, one of the biggest stories of 2019. But it feels that there is real post collection pricing momentum. And if we believe that pricing at the curve emanates from the landfill, why wouldn't we expect this new, call it, paradigm of landfill pricing really to set a stage for a prolonged positive pricing outlook on the collection side, I would presume that over the long run, core collection and core post collection pricing really should equal out?

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

Well, look, Tyler, I think one does kind of beget the other. But as we've talked about landfill pricing for probably a decade, we've never really been able to establish any consistency there. And that's -- I think you're absolutely right. I think you've pinpointed it, and that is that it's one of the big stories for 2019 for us that we were able to, as I said in my remarks, get a strong MSW price number that is starting to approximate that cost structure that we've also talked about every quarter for the last 2 years. I mean we keep talking about how our cost structure is going up by 5% and MSW's is going up by 1%, and we're finally getting to a point where we're starting to close the gap there. And so that's a big deal for us. And we're starting to do it on a consistent basis. I think our customers understand that things like leachate costs, which have been a topic of discussion for 2 years here, that leachate costs are going up, and they're going up really on a permanent basis, that labor costs continue to go up. So this is a -- it's a very big story. It's a story that we've ultimately talked about for a long time but never really been able to nail down. And now we're finally able to say we feel like landfill pricing is really here to stay.

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

Tyler, I would add to that. We are equally as focused on the transfer station pricing as well as part of the post-collection network. You've heard us talk about pressure on subcontracting costs and whatnot. So when you look at it -- I, in particular, the team are looking hard at what we're doing on the transfer side.

We talked about residential. I mean if you look at our residential core price and yield, it's going up. It's progressing. And we talked about volume, there could be some volume pressure there. But I think it would deliver better margins and better returns when you walk all the way through the network. I think we're comfortable with that.

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

Well, I think one last thing here, Tyler. When we talk about -- it's a little bit of an add-on to what John said there. But when you talk about margin improvement, you might say, "Well, gosh, I mean, you're not even covering your cost increase there with your landfill. What are you so excited about?" Well, look, I mean, I would tell you that 4.5% is better than 1%. So while we may not be covering that cost increase, which is kind of approaching 5% of the landfills, it still is going to add to our margins, similarly, on the resi line of business, which is really the one collection line of business that's seen margin degradation over a period of 5 to 10 years, falling, I don't know, John, almost in half over a period of 10 years, that, that line of business will also start to affect overall margins, even though we will not get back to where we were 10 years ago for quite some time. So while we're -- while a lot of this is really just cost recovery cost recovery, it's cost recovery that we weren't doing in the past. So -- and we've got to get there now. And I think consistently, we're starting to show that.

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

So I hate to maybe nitpick just a touch. But in '19, you posted collection and disposal yield of 2.8%. Again, we talked about accelerating post collection. So why are you guys looking for a deceleration of collection and disposal yield in 2020? Is that just conservatism?

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

Yes. I mean I think a little bit of that is conservatism. I mean it's -- we've said all along that we would be 2% price, 2% volume. 2% was kind of the baseline. So I would tell you that 2.5% is -- if you want to think about it, the way I just said it on the previous question, it's kind of almost a new baseline for yield, which is -- and instead of 2%, maybe we call it 2.5%. We're not ready to call it 2.8% yet.

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

Okay. Okay. And then, Devina, just a little bit, I think implied in your guidance, you're looking for maybe a 40 basis point improvement in EBITDA margins in 2020, if my math is correct. But I was hoping that you could maybe parse out some of the drivers there. So I mean wouldn't recycling and RINs, the CNG tax credit be margin dilutive? So are you maybe implying that kind of the core margin expansion is actually maybe more, say, 60 to 80 basis points? Or is my math all messed up?

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

No, I think your math is good. On those items that you mentioned, certainly, we do think that there's some dilution to margin. Although at some point, that kind of flattens out from a margin perspective because we're not projecting any meaningful growth in recycling or RINs in the year ahead. So the impact to margin should be relatively flat. But your point on fuel tax credit, that definitely will be dilutive to margin in the year ahead.

The outlook for collection and disposal continues to be that 50 to 100 basis points. So your 60 to 80 that you mentioned is right in that range. Jim -- John's mentioned of M100, the focus on MSDO for repair and maintenance, and then one of the items that we've not mentioned yet today, but I think really is driving some productivity from a margin perspective is our turnover. Our turnover improved about 150 basis points during the year, and we think that we can continue to march forward on those goals and objectives with the focus on people first at Waste Management.

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

Okay. And then super quick modeling questions. Was the LTI true-up in legal and SG&A?

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

That was in SG&A, yes, and it was about $40 million.

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

Okay. Right. Okay. And then I think there's some movement going on in cash taxes. What would you expect that cash tax as a percentage of book this 2020?

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

Yes. So our cash tax payment this year was lower. We made that decision because of the fuel tax credit. While it doesn't show up on the same line, we knew from a cash perspective, it was something that we would see a benefit of in 2020. So we normalized that by reducing our Q4 cash tax payment on our federal return. And so our cash taxes were about 67.5% of book in 2019. We're projecting that goes up to about 70% in the year ahead.

Operator

Next question comes from the line of Michael Hoffman of Stifel.

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

A couple of housekeeping. Can we follow just a directional trend on the volumes so we are thinking about this correctly. Negative in 1Q, flat or slightly positive in 2, incrementally positive in 3, incrementally positive in 4, and that's how you get to the 1.5%?

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

Yes. I'm not sure I've been -- based on January, I'm not sure I'd say negative in Q1. I mean I went through the numbers for January that we've seen to date, and they were pretty encouraging. So I think you could end up with slightly positive in Q1. We'll see based on what happens in February and March, obviously. But the volume, particularly as we look at the commercial line of business, has been strong for probably 3 years, and it continues to be strong. I think that is probably the best representation of the strength of the consumer economy. We talked about that at the end of Q3.

So I would tell you, I think commercial is certainly carrying today, and landfill has been reasonably strong as well. Landfill has those tough comps.

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

Q2 and Q3 are your toughest comps on the fire volume. So Q1 necessarily -- doesn't necessarily have as a heavy burden from that regard. And so I think that's why Jim's comment earlier about the strength that we've seen in January, we don't expect Q1 to have as significant a hill to climb with regard to that year-over-year comparison as Q2 will.

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

I think, Michael, there was a little bit of a kind of a gap between fires last year because you had Southern California that really impacted Q4 of '18, so we had tough comps in Q4 of '19. Then there was a little bit of a lull there, and then you had the big Northern California fires, and that really started coming to us more, I think, in February. So January really wasn't impacted much at all by fire volume. But the fires -- the volume coming into our sites in Northern California pretty much turned off completely at the very end of July.

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

All right. So what I'm hearing is maybe a zig-zag of a 0, positive 1Q, slightly negative, flattish in 2Q, a little bit better in 3, and then better in 4, and that's how you get to the 1.5%?

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

I think that's probably right.

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

Okay. All right. It just helps the modeling, so there's no noise when things are reported. Jim, I listened carefully to your opening remarks, and you make a point of saying, I think an important metric is operating EBITDA. So operating EBITDA is different than adjusted EBITDA. I'm presuming that's -- I'm hearing that correctly?

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

No. I mean, I'm talk -- I just -- it's just the way we -- I call it out, but it's -- it is adjusted EBITDA. That's what I'm talking about.

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

It's the adjusted number. Okay. So can you help us with then, Devina, what's the approximate dollar amount of adjustments you're assuming in the 2020 number versus what you actually produced in 2019?

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

We don't specifically predict what we think our adjustments will be in the year ahead. Though one item that we do know about, that I mentioned during my prepared remarks, is the ERP system upgrade, and we think that, that adjustment could be up to $40 million in the year.

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

Okay. So that was a question. ERPs typically tend to be long planning things. So this feels abrupt. Is it?

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

It's certainly not abrupt. It's something that we've been talking about for some time. There was a bit of a fork in the road decision for us to make, whether or not we wanted to do a technical, more kind of maintenance-oriented upgrade to the systems that we had or we wanted to make a more transformational change. And with Tamla's partnerships, she and I viewed it as the right time for us to make a transformational investment in our finance and HR systems. And so that's the path that we're starting to work down. As you can appreciate, this is a process that takes a lot of time and energy and support from all levels of the organization, including our Board of Directors. And we worked through those processes and made a final determination about midyear and started to launch our process in the fourth quarter.

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

Yes, Michael, I just want to add to that. It might appear abrupt from a reporting standpoint. It's certainly not abrupt from a planning standpoint. I mean we've spent at least a year, probably more like 1.5 years, planning for this, as she said, going through an RFP process. We've dedicated people within the organization to really oversee this and run it.

So -- and then when it comes to the reporting aspects, this is really the first time we've kind of called that out, but we went through a diligence process where we looked at what other companies have done to see what the treatment has been and a little bit of both, but probably more on the exclusion side, which is why we opted for that approach.

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

And that makes me feel better that it's not about -- the planning is good. Free cash, just so I'm clear, do I take $90 million for CNG credit out of the midpoint of the guidance? Is that what I'm supposed to do? Is that what you're saying? So I've heard you say -- I'm not sure I understood what you're saying about the 2020.

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

So our 2020 guide of $21.50 to $22.50 includes $90 million from the fuel tax credits. At the midpoint, we expect EBITDA growth to be about $225 million. Interest, as I mentioned, is going to be a headwind from a free cash flow perspective in the year ahead because we've taken out $4.5 billion of incremental debt. And so that's a headwind of about $100 million in the year ahead. Cash taxes, we think, will be another $115 million on a year-over-year basis. And then we have a working capital headwind that is about $75 million that will round out the guidance. But still really drawing you back to the operating EBITDA strength and honing in on an expectation for $225 million of growth from operating EBITDA.

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

So I appreciate that. Help us understand what's structural and what can change over time between a core, a 4% and reported of 2.5%, how that gap closes? And I'm hopeful that 2.5% isn't permanent, that you get to improve that. But can you talk about that?

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

Yes. The fundamental difference between core price of 4% and yield of 2.5% is really related to churn. And our churn was essentially flat in 2019, but we do see continued opportunity with regard to reducing churn as we drive a differentiated service offering with technology and improve our customer service. Both things, we think, we're advancing in really positive ways.

So as we can reduce our churn, and we think there's probably 150 basis points of room in that figure, we can close the gap between the 4% and the 2.5%.

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

I would say, Mike, sorry, I would also say that we spoke either in Q2 or 3 about some -- a little bit of friction with some national accounts that we shed last year. The good news is, is that we are actually adding a couple of large national accounts here in the first half of the year. And the reason I bring that up is churn aside, what we're really trying to focus on and making sure that the first day isn't our best day with that business. We've got the right margins going in, and we've got the right rate setting mechanism built into those revenue books. And so we're pleased with that. I will tell you, we looked at churn and also our net C&I customer base, and that -- the net C&I number was up a pretty good bit at the end of the year.

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

Yes, Michael. And last thing, in reference to your kind of pricing baseline question about 2.5%. As I said to Tyler, I mean, we -- our baseline was 2%, and I think it's starting to give us some confidence that we can move that baseline up. Doesn't mean we can't exceed it. I mean we obviously exceeded 2% in 2019, but we feel like we're able to -- particularly as we think about the pricing at landfills and in residential where we've been lagging for so many years, the ability to hit -- to move that baseline up by 50 basis points is, we think, certainly achievable.

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

Okay. That's what I thought, but I just wanted to draw it out. And then back to Advanced Disposal quickly. You closed it. You've had this 12 months to plan. I'm assuming you've -- and I'm calling them green and yellow teams. But can you talk about some of what that planning looks like and what we can expect to see some -- what are tangible milestones that would come out that are a result of your planning?

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

So I would tell you, Michael, that our group on our side of the fence has been hard at work really since probably June building out the plans for integration. Keep in mind, Advanced is still a separate company until we close. So our planning activities have really been on our side of the fence. And I will tell you that. I think the first year, I will -- I've said publicly, privately that our goal day 1 and really through probably day 30 or 60 is really just making sure we take care of the employees and we hang on to our customers and provide them the right service. So this is a long game for us. We're going to move as quickly as we can to achieve synergies, but we're going to do it with people and customers in -- as a priority.

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

But it is why, and Devina talked about it in her script, it is why we've -- we're going to be pretty strict about M&A this year within that 100 to 200 range because it's -- that is not -- lowering down to that range is not indicative of the lack of a robust market or whatever. I think that's still there. But what I don't want to do is distract folks who are going to be working hard on ADS integration, to John's point, and get them somehow -- even if just mildly distracted by another acquisition. So we're going to -- we really are going to be in that 100 to 200 for the year.

Now the only caveat to that would be, let's say, we get -- we really have accelerated the integration work and the synergy work, and we get to Q4, and we feel like, wow, most of that is done and something pops up on our radar that just we can't pass up. Okay. We'll talk about it at that point. But for now, we're setting an expectation that we're going to be -- it's just going to be small tuck-ins throughout the year, and we will focus our attention on the integration work with ADS.

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

Well, you're doing 5 years of tuck-ins in 1 year with ADS anyway.

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

Exactly.

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

So I mean, by all -- so I -- none of that freaks me out other than is there an accelerated level of deals just because everybody wakes up and decides there might be a socialist elected to presidency and taxes are going up, and they pull it all into 2020, you don't want to miss some of that. But I get why you ought to focus on...

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

I won't say anything -- I won't comment on the politics now. But hopefully, nothing freaks you out.

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

Well, just -- I mean, sellers have to figure out what their after-tax proceeds are going to be and if they think they've got a changing tax environment coming into '21, they move -- they're buy -- they're selling into '20.

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

Yes.

Operator

Next question comes from the line of Hamzah Mazari of Jefferies.

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

My first question is just on ADSW. Any thoughts as to the time line to achieve the $100 million plus in synergy and sort of costs to achieve those synergies? Any framework to think about for us?

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

Well, Hamzah, I would tell you that I think we've been pretty clear that we think for the balance of 2020, between integration and costs to achieve, not a ton of benefit in 2020. We expect that through the course of 2021, we're going to make up a good bit of ground, and you'll start to see a lot of the net benefit for the organization.

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

And from a cost to achieve perspective, we're planning for cost to achieve to equal 1 year's worth of full synergy realization. That is exclusive of some of the transaction costs that are customary like payments to bank and things like that.

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

Got it. Very helpful. And then aside from solid waste and recycling, could you frame for us how big other businesses are for you today, haz waste, med waste? And is that a focus of growth post ADSW integration?

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

Yes. We could probably -- I'll take a shot at it quickly. And then -- med waste is quite small for us, really. I think we have a couple of locations maybe in Nevada and maybe in -- on the West Coast. So med waste is small for us. The Energy Services business has been -- was a focal point for us in 2019 with the acquisition of Petro Waste. So that business essentially doubled. That has been at its very, very peak back in 2014, had been $250 million-ish in revenue, and it has fallen back to somewhere in the neighborhood of maybe $100 million in revenue. And then, of course, when we bought

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Petro Waste, that's kind of doubled the size of it, basically. But it still is relatively small in comparison to the overall solid waste big business that we have.

And then what was the other -- oh, haz waste.

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

I would tell you, Hamzah, we've seen good growth really along the M&I corridor in our hazardous waste business. We continue to make strategic investments in our facilities, both around the Gulf Coast, the Pacific Northwest, et cetera. So it's an important part of our business, I would say, if you were trying to look at it in terms of scale to $16 plus billion revenue line, I wouldn't call that necessarily material, but it is an important part of our business. It's part of our differentiated services for our M&I customer base, and we've got a great team of folks who continue to run that business very well for us.

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

Yes, but I think that -- I think if you look at the growth engines there, I mean, they all have growth potential, certainly, but I would probably highlight Energy Services, it's down. I mean -- and -- but I think that ends up being a growth business for us. Whether it is kind of traditional drill cuttings or whether it's waters or what have you, that has the potential to be a growth business for us. And then I think, as John said, the M&I business, for sure, with coal combustion residuals, I mentioned the big contracts that the remediation contract that we won. We think we have a couple of others that we could win in 2020. So the pipeline looks strong there, and we feel like we've got -- there's really a small group, if not one company that can really do what we do on handling the full solution for coal combustion residuals. So that's certainly a growth opportunity for us.

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

Great. And just a last question. On landfill pricing, you talked about sort of cost inflation. We've obviously seen landfill pricing step up the last few quarters, but it's been pretty low for a long time aside from the last few quarters. Why can't you raise it a lot more? Does it take a long time to roll through your system? You had referenced sort of cost inflation of 5%. So just give us a sense of is this sort of a gradual uplift for a reason, or can you just push through higher price to cover the cost structure?

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

I don't know. I mean when I looked at historical MSW pricing at 1%, and then the Q4 at 4.5%, somewhat of a quadrupling there felt pretty good to me. So could it go higher? Look, if our cost structure is 5%, at a minimum, I sure would like to get to 5%. But I'm happy with the progress we're making on it. It's not to say that we can't get up to, obviously, fully cover that cost structure. But I wanted to -- first and foremost, I wanted to make sure that we could consistently do this. We've never had any consistency in it. And now with 2019 and a bit of 2018 starting to really show consistency in landfill pricing, I'm happy with that so far, and then we'll address the number going forward.

Operator

Next question comes from the line of Mark Neville of Scotiabank.

Mark Neville - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Maybe just first on the Advanced transaction. Just so I'm clear, just on the divestiture package of the program. So the deal closes, and then you'll have -- just so I'm clear, a finite sort of period of time to divest of, whatever you need to sell? Or does it need to be sold before it closes?

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

Well, I mean, some of those details are still being worked out, Mark, with the regulators. But historically, the industry has been allowed to a period of time post closing to be able to narrow down the divestiture package and obviously the suitors for those assets.

Mark Neville - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. And it sounds like there's enough interest there that you're sort of not a disadvantaged seller? Meaning that you don't have to sell anything.

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

I mean, listen, I mean, I think everybody knows the history of Advanced and how they grew to where they are. And the assets that are on the list right now are obviously, though, in very high demand that we think from -- as evidenced by the number of folks who've lined up to chat with us about it.

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

Well, I think there are assets, John, that had it not been for this acquisition, would never have seen the light of day.

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

Yes. Agree.

Mark Neville - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Fair. Okay. Maybe just a follow up, I guess, on the landfill pricing. Again, I presume that there is, again, the incremental -- the margin on the volume is -- the incremental margin is pretty high. So there is, I guess, some sort of upper limit to how much you can raise pricing if there is, again, an alternative sort of place to dispose. And again, if you're doing 4.5%, you're not quite at the 5%, but it feels like it could be a lot higher. But I got -- I assume there is sort of risk to losing some volume, right?

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

Certainly, there's always risk to losing volume. I will tell you, Mark, what I've been particularly happy with is that what our revenue management team is doing to align with the operating side and using some of the data and analytical tools we have, I think we're making much, much better decisions, and our field folks have a higher degree of confidence in terms of how our assets are positioned, what do all their alternatives look like, how do we make sure we're recovering costs, covering transportation pressure, et cetera. And I think that's part of what you're seeing is, is a higher degree of confidence our team has in the analytics and the tools that we're using to make those decisions.

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

Yes. That well-placed asset network, I think, helps ease the conversation because understanding the next best alternative for the customer is one of the fundamental inputs to this insight and our ability to execute.

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

That's right. I mean your question is really about price elasticity, and Devina is exactly right. It's something we talked about at Investor Day when you talk about having that really, really well-positioned landfill network that's close to the city center, that really provides some protection against price elasticity.

Mark Neville - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Right. So again, maybe there is no reason why you can be doing, I guess, north of 5% then, based on that. Okay. That's helpful. Maybe just one last one then. Just on the ERP upgrade, again, I kind of -- these typically are -- again, the proof -- can be pretty big undertakings. So I'm just curious, is sort of a time line around that, and the $40 million, I think, that you quoted, is that a 2020 number? Or is that sort of life of project number?

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

Sure. So you're exactly right, there's significant undertakings, and that's why we haven't taken this lightly. We've planned for it well and ensured that the HR and finance teams are very well coordinated in our execution of the path forward.

In terms of the $40 million specifically, that's our 2020 estimate, and we do expect this project to go into 2022 based on our current projections of the time to standardize business processes and definitions in a way that it positions us to implement the new software.

Mark Neville - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. And then maybe if I can ask a last one then. Just on the RIN and the commodity price. I get there's tough comps. I think you mentioned the upside from the fee-for-service model. The RIN pricing has done a little better year-to-date. I'm just -- again, in the guide, is the assumption that there's still sort of a headwind for 2020? Or is it sort of a net neutral sort of 0 to EBITDA year-over-year?

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

Yes. Mark, I would tell you net neutral. I think you heard in my prepared remarks, that there's been a little fluctuation in commodity pricing. Q4 was obviously the softest quarter. We feel confident we can make that up, and that'll be kind of net neutral. It could be a bit of a tailwind, but we're kind of staying neutral there.

And on the RIN pricing, same thing. I mean, those rates today are a little bit elevated from where they closed the year out, but we're not banking on that because that obviously has demonstrated its ability to change overnight.

Operator

Thank you for your questions. I'll be turning the call back to our speakers for closing remarks.

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

All right. Thank you. So really just in closing, I want to repeat something that I've said many times, and that is that at this company, and honestly, in the industry as a whole, we truly are blessed to have the hard-working people that we have doing their jobs day in and day out to make this all possible. We're really here just reporting the great numbers that they produce every day. And so I just want to say thank you again to them. We're extremely grateful. Thank you all for joining us, and enjoy the rest of your week.

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Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Have a great day.

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