REFINITIV STREETEVENTS

EDITED TRANSCRIPT

WM.N - Q3 2023 Waste Management Inc Earnings Call

EVENT DATE/TIME: OCTOBER 25, 2023 / 2:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Brian Joseph Butler *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

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

David John Manthey *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

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

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

Jasper James Bibb *Truist Securities, Inc., Research Division - Associate*

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

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

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

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

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

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

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the WM Third Quarter 2023 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Ed Egl, Senior Director of Investor Relations. Please go ahead.

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

Thank you, Victor. Good morning, everyone, and thank you for joining us for our third quarter 2023 earnings conference call. With me this morning are Jim Fish, President and Chief Executive Officer; John Morris, Executive Vice President and Chief Operating Officer; and Devina Rankin, Executive Vice President and Chief Financial Officer. You will hear prepared comments from each of them today. Jim will cover high-level financials and provide a strategic update, John will cover an operating overview, and Devina will cover the details of the financials.

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

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

Net income, EPS, operating EBITDA margin and SG&A expense results have been adjusted to enhance comparability by excluding certain items that management believes do not reflect our fundamental business performance or results of operations. These adjusted measures, in addition to free cash flow are non-GAAP measures. Please refer to the earnings press release and tables, which can be found on the company's website at www.wm.com for reconciliations to the most comparable GAAP measures and additional information about our use of non-GAAP measures and non-GAAP projections. This call is being recorded and will be available 24 hours a day beginning approximately 1:00 p.m. Eastern Time today. To hear a replay of the call access the WM website at www.investors.wm.com.

Time-sensitive information provided during today's call, which is occurring on October 25, 2023, may no longer be accurate at the time of a replay. Any redistribution, retransmission or rebroadcast of this call in any form without the express written consent of WM is prohibited. Now I'll turn the call over to WM's President and CEO, Jim Fish.

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

Thanks, Ed, and thank you all for joining us. Our third quarter results are a testament to our team's ability to deliver on the priorities we set for 2023, including increasing profitability through disciplined pricing and optimizing our cost structure. Against the challenging backdrop, we have remained focused on the things we can control and this diligent focus is evident in our third quarter results. Adjusted operating EBITDA grew by more than 6% and margin expanded 100 basis points to 29.6% when compared to Q3 of 2022. Our strong results in the quarter were powered by our solid waste business. Organic revenue growth in the collection and disposal business remains solid and is tracking well against our expectations.

Third quarter core price of 6.6% reflects robust price performance across all lines of business. We're also pleased with the resilience of our solid waste volumes as commercial volumes turned mostly positive and special waste growth improved from the second quarter. And what really stands out for this quarter is our success in managing the middle of the P&L. We continue to drive SG&A leverage and we're also gaining momentum on operating cost optimization and efficiency gains. Our long-term focus on using automation and technology to optimize our cost structure is paying off as we're choosing not to replace certain high turnover difficult-to-fill positions.

Since January of 2022, we've leveraged attrition and technology to reduce headcount by 1,650 positions. We continue to be focused on the full opportunity of 5,000 to 7,000 position eliminations through attrition and technology over 4 to 5 years, and we're pleased with this progress to date. You'll hear more details about our cost performance from John and Devina. Putting it all together, our focus on price, efficiency and cost control translated into the strong operating leverage we produced in the quarter.

Turning to our strategic investments in sustainability growth, the investment proposition for growing our renewable energy and recycling business remains strong and our project execution is tracking well. Our seventh renewable natural gas plant and the third of 20 facilities in our growth program is expected to be in service in January. And we have another 4 facilities on track for completion in 2024, including 2 of the largest projects in the portfolio, Fairless in Pennsylvania and Orchard Hills in Illinois.

On the recycling front, we've completed technology and automation upgrades at 2 facilities in the quarter. And we have 2 more upgrades at a new facility in Nashville slated to begin service by the end of this year. Our automated network continues to drive great results by pushing our labor and processing costs lower, improving throughput and driving enhanced material quality, which benefits the recycling business in any commodity environment. Yet again, in the third quarter, we saw materially lower labor cost per ton at our automated facilities at about 35% below the rest of our recycling network. Our investments in developing the blueprint for a modern recycling facility sets us apart within the communities we serve and are unlocking further growth opportunities.

With one quarter remaining in the year, we're well positioned to deliver on the 2023 financial outlook we provided last quarter, including adjusted operating EBITDA growth of 6% at the midpoint. We continue to expect a margin run rate exiting the year of about 29%, underpinned by 62% operating expenses as a percent of revenue and 9% SG&A as a percent of revenue.

We're pleased with our results through the first 9 months of the year. Our team is very focused on price discipline and cost optimization to deliver a strong finish to the year and lay the groundwork for further growth in 2024. I want to thank each of our team members for their commitment to our customers and their many contributions to our success. I'll now turn the call over to John to discuss our operational results for the quarter.

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

Thanks, Jim, and good morning. I'd like to open by highlighting the strides we're making in optimizing our cost structure. In the third quarter, operating expenses as a percentage of revenue improved 90 basis points year-over-year to 61.3%. The collection and disposal business contributed 70 basis points of this improvement due to the strong operating leverage provided by our cost optimization efforts. In addition, we achieved pricing leverage as core price exceeded cost inflation by an estimated 100 basis points in the quarter.

We're pleased with the progress we've made in managing our labor costs as well as expenses related to repair and maintenance. Our efforts have resulted in a meaningful decline in WM's underlying cost of inflation since the beginning of the year to mid-single digits in the third quarter. Our focus on efficiently managing labor expenses is yielding positive results. So far this year, we have automated 141 residential routes and have a target to convert more than 400 routes in 2024. As we shift to more automated routes, we've seen a nearly 14% decrease in the number of helpers needed in our residential business.

In addition, our focus on reducing turnover continued to produce improvements in Q3, building on the consistent progress we've made over the past 12 months. Our collection efficiency has also exhibited steady progress throughout the year with commercial, industrial and residential business line showing improvements every quarter. All these focus areas on managing our business are contributing to the improvement in labor costs.

Turning to repair and maintenance expenses. Despite some lingering effects of inflation and the timing of fleet deliveries we're making progress. For the first time in several years, we expect to get an allotment of vehicles that aligns with our fleet replacement strategy with more than 1,200 received to date. This has allowed us to remove older trucks from our fleet and also reduce rental truck usage by over 40% since the start of the year. Furthermore, our spending on third-party technicians has been reduced by 2/3 compared to the second half of 2022 and continues to improve. With the progress we've achieved in the third quarter, we believe we've turned the corner on this expense line and are optimistic about ongoing improvements as we close out the year.

Turning to our revenue growth. We continue to execute on our revenue management programs to recover cost increases and improve margins. Our third quarter organic revenue growth in the collection and disposal business was 5.7% on a workday-adjusted basis. This growth was led by core price of 6.6% with collection and disposal yield of 5%. Our differentiated service offering is generating value with our national account customers as well as commercial customers. We continue to focus on maximizing customer lifetime value and our Q3 churn of 9% remains at the low end of our historical range, demonstrating the positive momentum we are seeing with customers valuing our service offerings.

Looking at volumes. Third quarter collection and disposal volume grew by 0.7% on a workday-adjusted basis. Our landfill business drove most of the volume growth as special waste grew 11.1% on a workday-adjusted basis in the quarter. As a reminder, we do not separate special waste into yield in volume. And in Q3, we benefited from several high-priced projects that drove the increase.

So we've highlighted in previous conversations, the timing and pricing of special waste projects is subject to variability due to their discretionary nature. However, our project pipeline remains robust. In addition, Workday adjusted MSW volumes were up 1.7% in the quarter. Our overall collection volumes were down modestly due to the intentional steps we continue to take to price every contract to achieve acceptable returns as well as the impact of lower volumes from our roll-off business. Yet both revenue and operating EBITDA continue to grow in each line of business, demonstrating that we are prioritizing profitable volume growth.

Net new business and net service increases remained solidly positive and growth in our strategic accounts business driven by our differentiated offerings continues to outpace our expectations. Thus, overall collection and disposal organic growth is on pace for the year. With regard to recycling and renewable energy, our third quarter results were in line with our expectations, and our recently automated recycling facilities are delivering strong results. As Jim discussed, our sustainability growth projects are tracking well and we're confident that our operating EBITDA expectations for the year remain in the range provided last quarter.

In closing, I'd like to express my gratitude to our frontline teams for their dedication to providing safe and dependable service to our customers and communities each day. I'll now turn the call over to Devina to discuss our financial results in further detail.

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

Thanks, John, and good morning. Our third quarter results reflect our continued focus on the fundamental value drivers of our business, disciplined revenue growth and cost optimization. Executing on these fundamentals positioned us to deliver WM's best ever operating EBITDA margin in the third quarter at 29.6%. This is a 100 basis point improvement compared to Q3 of 2022 and it can be attributed almost entirely to 70 basis points of margin expansion in the collection and disposal business.

SG&A leverage provided the remaining expansion. We're pleased with the team's focus on optimizing costs and reducing discretionary spending, which together positioned us to deliver SG&A costs as a percentage of revenue of 9%, showing that this long-term goal is not just achievable, it is largely in hand. While the current quarter result has some benefit from lower current year incentive compensation costs, we see this level of SG&A is sustainable, particularly as revenue grows. While there were a number of other margin impacts in the quarter, mostly related to fuel, energy and commodities, these items basically offset each other, giving us confidence that this quarter's results are based on the steps we are taking to price our services above inflation and to permanently reduce our cost structure.

Through the first 9 months of 2023, we have expanded operating EBITDA margin by 40 basis points to 28.5%, putting us squarely on track to achieve our full year target of operating EBITDA margin of 28.4% to 28.6%. Our operating performance has translated into robust cash flow from operations. Through the first 3 quarters of the year, cash flow from operations exceeded $3.3 billion, positioning us to deliver more than $4.5 billion of cash from operations for the year. As we expected, cash flow associated with operating EBITDA growth in 2023 has been largely offset by higher interest, taxes and incentive compensation payments. Despite these known headwinds, our conversion of revenue dollars to cash from operations and operating EBITDA dollars to free cash flow in the base business were both near peak levels in the quarter, demonstrating the sustainable value creation from our diligent focus on optimizing the middle of the P&L and/or capital expenditures. Capital spending in the first 9 months of the year totaled almost $1.9 billion with $1.456 billion related to normal course capital and $397 million of spending on sustainability growth projects.

We now expect sustainability growth capital spending of about $750 million in 2023. The $150 million decrease from prior expectations is based on a shift in the timing of spending across the next 2 to 3 quarters. As a result of this lower anticipated capital spending 2023 free cash flow is expected to be $150 million above our prior expectations and in the range of $1.825 billion to $1.925 billion. Free cash flow through the first 9 months of the year was $1.552 billion, and free cash flow before sustainability growth investments was $1.949 billion. We're confident in our ability to achieve our full year targeted free cash flow before sustainability growth investments of between $2.575 billion and $2.675 billion.

Year-to-date, we've returned $855 million to shareholders through dividends and repurchased $990 million of our stock. Our leverage ratio at the end of the quarter was 2.73x, which is at the midpoint of our target ratio of between 2.5 and 3x. 9% of our total debt portfolio is at variable rates and our pretax weighted average cost of debt for the quarter was 3.9%.

Our balance sheet is strong, and we remain well positioned to fund growth opportunities. Looking at our full year expectations. Our solid operational performance in the first 9 months of the year positions us to achieve the operating EBITDA guidance we provided last quarter of $5.775 billion to $5.875 billion. This strong result will be achieved with continued focus on pricing our services to recover cost inflation differentiating WM's value proposition with customers to maintain and grow the right volumes and optimizing both operating costs and SG&A.

We expect full year revenue growth to be modestly below the midpoint of our July 2023 guidance of 3.25% to 4.25%. Most aspects of our revenue outlook remain intact, but we have seen lower revenue than planned in our recycling brokerage businesses. Given the relatively small operating EBITDA impact from the brokerage business, this refreshed revenue outlook does not impact any other component of our guidance.

To sum it up, we're pleased with our performance throughout 2023. We firmly believe that leveraging technology and automation to enhance our operations and investing in our sustainability businesses are positioning us for future success. We're grateful for the hard work of the entire WM team. Their dedication to safely serve our customers and communities will ensure we finish the year strong and move into 2024 even stronger. With that, Victor, let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Bryan Burgmeier from Citi.

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

Thinking about some of the underlying guidance components, volume is maybe a little bit better than your original view and on that maybe points to a little bit of upside on recycling and renewables versus the guidance you put out in July. I guess, A, do you agree with that to be -- it will seem like we maybe could be pointing towards the higher end of the EBITDA range? I think you said 6% EBITDA growth at the midpoint, which is maybe a touch higher, but that is on towards your model. Any detail you can add there?

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

Yes. So I guess a couple of -- you mentioned volume, then you mentioned the EBITDA range. So I'll tackle volume first here, Bryan. When we looked at volume, we were obviously pleased with a couple of things, special waste, as I mentioned, was slightly better. Some of that was rate related, really. But for the most part, volume was as we expected, which was fairly flat. We said at the beginning of the year that volume would be flat. And it's been fairly flat all year. Third quarter was slightly better than the first 2 quarters. I think the collection volumes have been flat pretty much all year long. It's been a -- it's different from one line of business to another.

Resi almost really by design has been down probably for a couple of years and roll-off was probably the more disappointing of the lines of business and then commercial might have been the one that was more encouraging. So commercial was up slightly, roll-off down and then resi by design. And then within the landfill line of business, not anything really unexpected there other than maybe special waste and maybe C&D a little bit. C&D has a little bit of a mix there.

And in particularly when you get to the fourth quarter, C&D is really going to be a difficult comparison because of the hurricane last year. But overall volume, I think is not -- it's not going to be a big change when you get into the fourth quarter. And honestly, what you're going to see in '24, and we'll give, of course, our guidance when we get to the next quarter, but '24 is going to sound pretty similar to '23, I think, when it comes to volume.

I guess when it comes to the EBITDA range -- and we anticipated that there would be a question of, okay, so nice performance on EBITDA. So why not give us a number in the higher end of the range. And I would just tell you, there's going to be a natural level of conservatism here because whether it is -- not that we're affected much by geopolitics, but there's a lot going on right now that makes it a little bit hard to see out into beyond a month or 2. I think that's why '24 is still a question for us. How does '24 look? We're going to wait 3 months before we really try and put a pin on '24. But for '23, we're comfortable with the range. We feel comfortable with the quarter. And to the extent that it ends up where we expect, then we were right to not change it. If it's higher than we expected, then it beat us up at that point.

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

Understood. Yes. Last question for me. If I heard you correctly in the prepared remarks, I think you said you're looking to bring 4 or 5 RNG facilities online next year. I think that would be essentially in line with your original plan from January. Is it fair to assume that most of the construction delays that we're seeing in the CapEx line are related to recycling? Can you put a finer point on the facilities might be coming online in '24? Or is it a little bit too soon to speculate, right?

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

Sure. This is Tara Hemmer, Chief Sustainability Officer. I think there are 2 key takeaways that we want you to hear from us related to our sustainability-related investments. And the first is our level of confidence in our 2026 EBITDA projections, the $500 million for renewable energy, the $240 million for recycling. We've spent a lot of time really looking at our projects and we're very confident in our ability to deliver those numbers in 2026.

The second thing that is important to note and it's one of the reasons why we have this level of confidence is in 2024, we expect to have about 40 projects under active construction. So that gives you a sense of the momentum that we're building within the platform. If you look at the capital related to some of the shifts, it is related to both recycling and renewable energy.

It's not just specific to recycling. So I want to leave you with that. But the important thing to remember is these capital shifts that we see, we see something similar in our traditional business where construction projects really don't know calendar years. And so some of this is about shifting some things from Q4 into Q1 and Q2.

Operator

And our next question will come from the line of Tyler Brown from Raymond James.

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

John, I know it's early, but it does feel like unit cost inflation is starting to ease. I'm just curious, you said mid-single-digit unit cost inflation in the quarter, but can you be a little bit more specific on what that was? And two, just any early thoughts on how you guys are thinking about core price into next year in order to offset unit cost inflation to get to that 29% margin that Devina talked about.

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

Yes. Good question, Tyler. I would tell you, let me start with wages because that's one I've used as a barometer. When you look at where we were beginning of the year Q1, it was double digits. It was 10%, 11%. And when you look sort of right, the big buckets of labor drivers, technicians and equipment operators, those numbers are down between 5% and 6% in Q3. So almost half of where they were. So that's part of what we're seeing from an inflation moderation. I think on the M&R side, too, maintenance and repairs, part of my prepared remarks is we got 1,200 trucks, and we'll end up with about over 1,300 for the year and we're seeing the same kind of progress in our maintenance and repair expenses.

When you look at it in whole dollars or on a percentage basis, we've sort of gone from the mid-teens down to low double digits and now we're in the 6% to 7% range for Q3. So as Devina said, we're not claiming victory there yet. But I think the combination of us getting assets, some moderation in the big buckets, labor being one of them, are what you're seeing translate to the 61.3% in the quarter from an OpEx perspective.

On the core price side, I mean, Jim said in his opening comments, it's not really been so much about the core price going through. It's about what are we retaining. And I think when you look at the margin expansion you saw relative to the OpEx, and you heard in my prepared remarks about us making margin and EBITDA improvements in all lines of business. I think that's the end result we're shooting for. So our pricing strategy holistically is working, and I don't think you're going to see any change in that.

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

Tyler, I'll just add a little bit of color in terms of specific amounts when we look at core price covering cost inflation for the portfolio overall. We talked about in Q3 that getting to a positive 100 basis points, which is fantastic for us to see. As you can appreciate, pricing activities don't link directly to when we see cost inflation. And so when we look at Q1 and Q2, the Q1 variance between those 2 measures was a negative 500 basis points.

In Q2, we had improved to negative 250 basis points. So what you see is the continued progress in terms of making sure that on an annual basis, we are seeing those pricing activities cover our cost inflation. And when you couple that with the cost optimization efforts that we're putting forth to more efficiently run the business and getting some help from truck deliveries we're really starting to see the math associated with price covering inflation and hopefully getting to a point at some point where we start to see that as a lever for incremental margin expansion as well really take hold in the third quarter.

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

Yes, perfect. I totally get the timing. So I kind of want to shift gears just a little bit. This is for Jim and Tara. I get it that you guys are not giving guidance, and I totally appreciate that. But I do get a lot of questions about the EBITDA contribution from RNG and recycling specifically in '24. Because if you go back to the Investor Day, I think you're supposed to get something like $225 million combined incrementally from those 2. But on the other hand, you guys are pushing CapEx. It sounds like there's some delays. I get it may be that, that build was directional, but can you just give any broad stress on what that EBITDA contribution would be next year? I think it would be extremely helpful.

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

Yes. We can both kind of address this, Tyler, right. I think, first of all, it's important to understand, and Tara mentioned it in her first question there that we really would prefer that you anchor on that $740 million. That's the number that truly is to be modeled against. The other numbers, look, there's -- because of the movement and we anticipated some movement in capital spending, we anticipate some movement in permitting. We've had a good story on permitting in Canada. I mean so -- but we've also had delays on supply chain and hence, the movement around in CapEx from one quarter to another.

And so the numbers that we gave were really more of a buildup to that $740 million, not intended to be guidance. So that's, I think, first point. The second point here is that with 40 active projects ongoing, there's -- and a lot of movement by the way, both in recycling commodity prices and D-3 RIN pricing, natural gas pricing those businesses are really -- it's why we wait to give guidance until February. I know companies give a lot of guidance this time of year. But our preference is to wait and give ourselves a bit more time, particularly in today's climate, where visibility isn't fantastic.

You can't look out about a ship and see for 20 miles. No it's not 10 feet either, but it's not 20 miles. So we're really giving ourselves the benefit of a little bit of extra time before we try and answer that question directly. And I'm not trying to punch your question, but it is just going to be much easier for us, for Tara, for Shahid, for that whole team, for Brent Bell to give a very precise answer in early February than it is today.

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

And we'll be much further along in our construction process for those 2024 projects.

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

Okay. Yes. No, I completely get it. And maybe just my last one kind of in the same vein, I'll try again in a little bit different way, but it looks like you deferred about $230 million, I think, from your original guidance on green CapEx. So should we think about $750 million kind of maybe being a number to use for next year as well just on the CapEx side?

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

Tyler, I'll take that really quickly. But deferral in 2023 was $350 million in the aggregate from where we started the year. Some of that will roll into '24, as Tara mentioned, because it really is just kind of a not writing the check in December, but instead writing it in January or February. But then we do expect that some of what we had anticipated as '24 capital could move into 2025. And so it's difficult to say that we'll just take that $350 million and add it on to what we had previously projected for '24 because we will have some shift from '24 into '25. But all in all, those projects, the confidence in them that Tara spoke to, I think, is the most important point. For us, it's making sure that we do the right thing from a working capital management perspective, and pay for this capital when it's placed into service or aligning those 2 as best we can.

Operator

And our next question comes from the line of Tobey Sommer from Truist Securities.

Jasper James Bibb - *Truist Securities, Inc., Research Division - Associate*

This is Jasper Bibb on for Tobey. I wanted to ask about the SG&A optimization effort. I think if I heard you correctly in the prepared remarks, there was a comment about current SG&A levels being sustainable. So as we look out to '24, should we think about SG&A at 9% of revenue being a good starting point for the year? Or any context there would be helpful.

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

Yes, that's exactly right. When we look at the levers that have been used to deliver SG&A in the current year, it really is our focus on technology and optimization, particularly with some of the success that we've seen in customer experience and sales. And that customer engagement model is something that we know will continue to create momentum in the years ahead. And the cost discipline as well has been really important. So 9% as a percentage of revenue, we feel like is a new long-term sustainable level of SG&A going forward.

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

It's probably worth mentioning here, too, that -- I mentioned it in my prepared remarks, the 5,000 to 7,000 positions that would come out through attrition, that has to date -- and so far, the number I gave was 1,650 positions since January of 2022. To date, that has mostly been SG&A type positions. The big buckets going forward to get us to that 5% to 7% are mostly OpEx position. So when I think about what's happened today, most of those positions came out of our customer experience department where we've used technology to really automate a lot of that. Our call volume has been down as much as 25%. So those positions that had high turnover, 50%-ish type turnover we just chose to not replace. Going forward, the big buckets where you'll get up to that 5,000 to 7,000 range, the big buckets become recycling automation.

Now that is ongoing. I talked about a 35-ish percent reduction in labor cost per ton. But as Tara mentioned, there's a lot of projects ongoing. We're not even close to even 1/3 of the way through those. So there's a lot of positions yet to come out in our recycling business. Those largely fall into the OpEx category. Then John mentioned the conversion from rear load to ASL. Some of those have taken place this year, but probably 3x as many next year.

And then the last bucket, which is probably the most difficult one, and we have talked about it quite a bit, but is route optimization. That involves a lot of technology. It involves a lot of process change. but there's also a lot of payback in that when we get it right. So those buckets are mostly OpEx buckets. The previous buckets in that 1,650 positions were mostly SG&A.

Jasper James Bibb - *Truist Securities, Inc., Research Division - Associate*

That makes a lot of sense. And then I was hoping to follow-up on the sustainability capital spending. I guess, what are the most frequent issues you're seeing that are delaying these projects, whether it's supply chain or permitting and the projects that were already delayed earlier this year, any color on what's been the experience or the time line on resolving those earlier delays.

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

Sure. The biggest issues that we have been seeing were really in 2 key categories. The first is on utility interconnects, and we're making progress on utility interconnect for us. That's on the electrical side and then also getting the connectivity to be able to push the gas into the system. And so we've been working hard on making sure that we have those agreements in place. And then the second piece, it's construction related, but I would put it more into the permitting category, and we've made a lot of progress on obtaining many of our permits that are necessary on the RNG side. So from a supply chain perspective, we've done a fantastic job of really making sure that we have built slots on equipment for both our recycling business and our renewable energy business. So that's less of a risk.

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

We talked about -- actually the single biggest plan, and I mentioned it in my remarks, which is Fairless in Pennsylvania. That is our single biggest plant that we will build in the 20. And to give you some perspective, that plant was originally, originally scheduled for opening in the second quarter, beginning of May. And it's pushed a little bit. And right now, it looks like it's scheduled to open at the end of June. So it's pushed a couple of months. But I think that gives you a good feel for what's happening here. We're not talking about pushing things back 12 to 15 months, they're moving in kind of 60-day -- 30- to 60-day increments, but it is having some effect on CapEx, for example in '23, but I think the fact that we've got 40 active recycle and RNG plants in '24, you'll have quite a few more -- you'll have another big chunk in '25. And then we get to '26, we're very comfortable with the end number.

Operator

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

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

I'm wondering if you folks can talk about the opportunity for lower R&M and what that could mean for you folks. Really interesting in the quarter to see your operating expenses essentially flattish, given John, the inflation items that you mentioned earlier. And so as you folks get the truck deliveries online, et cetera, how much further could the cost structure improve off of the strong levels we're seeing in 3Q?

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

Yes, Jerry, I think it's a great point and John and I have spoken a lot about this. I think one of the best indicators is when you look at the year-over-year increase that we have been seeing in the first half of the year for repair and maintenance costs, that was 14.1% in the first 6 months of the year. In the third quarter, that was up only 6.9% as the deliveries that we've talked about finally are getting on the road and we're able to get the older assets off the street. The team members are having to run much longer than our plans because we hadn't gotten or a lot of trucks for the last 18 months or so.

So when we look at sustainable levels of repair and maintenance increase, we think that there's some good tailwinds coming in the fourth quarter and into early 2024. When you just look at that one metric alone, I think it's a great indication.

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

Just to clarify, so it sounds like it could be not just lower inflation going forward. It sounds like it could actually be a decline in spending, if I understood your comments correctly?

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

No. What we're hesitant to say is a decline in spend because while there are some parts inflation places where we've actually seen costs going backward and that should give us some benefits there are places where we're just still catching up with regard to making sure that we've got the right assets in the right places to service the customers. We do think in the first half of next year, you could see effectively flatter cost in repair and maintenance and that's what we're working towards.

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

I think the other benefit, Jerry, is just a little bit more detail than the M&R question, but it's not just M&R. We're also seeing it show up in other parts of the business, in particular, in labor and efficiency, right, because we're putting newer trucks on the street. That obviously benefits in other places just as opposed to maintenance and repairs. And we're seeing that show up in efficiency.

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

Super. And can I shift gears and ask you, if you don't mind, how are you thinking about the allocation of gas that's coming online towards transportation versus utilities. So it looks like based on the EPA October report, there's about a $10 million MMBtu shortfall towards transportation applications. And so as you think about where you're putting the gas to use, how does satisfying and making sure that, that market gets enough supply factor into your decision versus the allocation plan that we spoke about at the Sustainability Day?

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

Yes. I mean we're still targeting and using that framework that we had in place, really thinking 1 year out having 70% to 90% of our volume locked up, 2 years out in that 40% range and then 3 years out, 10% to 30%. I think what we have to be clear about is when we think about that, it is transportation versus voluntary market, but you can also do fixed-priced or longer-term deals in either market, and we're going to be accessing both of those. If you think about our portfolio for 2024, one thing that's important to note is we had done some deals in the voluntary market. A great example is we did one with a large utility 20-year agreement with pricing that's north of $20 a ton -- sorry, $20 per MMBtu -- [old garbage call me] -- at $20 per MMBtu.

So on a blended basis, if you look at 2024, we have roughly 30% today of our volume locked up, and that will, of course, have an impact on pricing. We are tracking very closely the transportation market and we've been watching what's happening with RINs and the price pop. What's important to note there though is we don't necessarily access the spot market. We are looking at the spot market but also selling forward. So we want to just caution people about just taking a $3.40 RIN price that RINs are trading at today for future pricing in 2024.

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

And it helps the futures market.

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

Absolutely. Absolutely. Like we're positive pricing going forward into the fourth quarter and, of course, 2024.

Operator

One moment for our next question. Our next question comes from the line of Noah Kaye from Oppenheimer.

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

First, just a clarifying question following up from Tyler. 29% margin, is that the 4Q number? Or is that kind of the bogey for 2024? I just want to make sure that we all understand we're on the same page.

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

Yes. The way that we've looked at the 29% is basically the second half of 2023, our target was to deliver 29% EBITDA margin. What you see is a 29.6% in the third quarter that modestly outpaced our expectations for the quarter. So it gives us some room in terms of our fourth quarter expectations. But Q4, you can expect us to be in the range of the 28.5% to 29% margin.

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

Perfect. Clearly, a big story this quarter is those gains right in margins largely from managing the middle. So I want to delve a little bit more into both labor and equipment availability. Just on the labor side, where is turnover currently? How has that progressed? And then I think in the release, there was a call out of some modest costs for upcoming collective bargaining anything we should be aware of there in terms of how it might impact labor trends.

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

Yes. The collective bargaining comment was simply some dollars we spent in preparation for some contracts we had in the Midwest, which thankfully got resolved. But when we have big agreements like that, it's not uncommon for us to spend some money to make sure we're prepared for the worst, so to speak. But in this case, it was a better outcome and those are behind us. And on the labor front, part of my comment earlier was just in the moderation of rate inflation that we've seen from 10%, 11% coming out of last year into the first quarter or 2 of this year and now being closer to the 5% to 6% range in terms of the rate that labor is going up. And you put that against the backdrop of our pricing strategy, which Jim commented on, we continue -- we're seeing a better spread between what's happened with inflation and some of those costs, in this case, specifically labor.

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

And the turnover -- yes, go ahead, please...

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

And the turnover is still a good story. That was part of my prepared remarks, too, and driver being the biggest we have about 21,000 drivers in the network, and we're continuing to see improvement there down into the low 20s from probably a peak up in the high 20s to close to 30% 18 months ago.

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

Yes. I was just going to say, no, I mean, what you're really hearing here is it's not just specific to your questions, but to all questions is what we've been saying for several quarters, which is there's a few things that are outside of our control. And we're very focused on those things that are within our control, might sound obvious, but it's not going to sound that different when we get to '24. And while we're not giving specific numbers for '24, I would tell you that when we get to '24, pricing is going to continue to be good. We're going to continue to focus, as Devina said and John have said on the middle of the P&L. We feel good about the progress we're making on OpEx. We feel great about the progress we've made on SG&A.

It wasn't that long ago that we were talking about getting below 11%. Now we're saying the number is 9%. So -- but I think the technology that we've been talking about for probably 3 years is finally starting to show that it really is going to produce some results. And then there's a bit of a hangover from the pandemic where we -- where there were some things that we simply didn't expect that affected turnover, that affected supply chain, obviously, inflation all of that, I think we've really, really gotten our hands around and now we're starting, as John mentioned in his detailed prepared remarks, pull units out that have been sitting on the fence that really we've been keeping there as just kind of a cautionary move on our part.

So '24 is going to look, I think, pretty similar. It's going to look fairly flat on volume. It's going to look good on price. We finally will get a little bit of tailwind when it comes to our sustainability businesses because '23 was tough from that standpoint. And finally, we'll see some year-over-year positive comps on commodity prices. I think in our RNG business, we've talked a lot about RIN pricing. That looks like it's -- it could end up being a good positive year-over-year comp, same with natural gas.

Last year, Q4 was difficult because of the Ukraine spike in natural gas pricing, all of that kind of went away if you look at natural gas pricing in the first quarter. So I think you're going to see a fairly another year where we're saying, here's what we're focused on. We're not going to try and predict what happens with the economy. But those things that we can control, I think we're doing a pretty darn good job of controlling them.

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

For sure. And I just wanted to follow up less quickly on the truck delivery side. It's been great. And clearly, you're seeing that benefit on the MNR of those increased deliveries. You already commented what you expect this year. I know there have been some investor questions around the impact of the UAW strike at Mack. But we do have built slots opening up for 2024 now. Can you just comment into visibility into continued strong truck deliveries?

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

Yes. We're actually in pretty good shape. That's an unfortunate situation. But we've talked to our supply chain team between Devina and I and the build slots that we have and the trucks really going into the first half of next year don't look like they're going to be impacted, partly because we take delivery of chassis a lot earlier than we take delivery of the truck because it's another manufacturer that's involved in that. So we're in pretty good shape there.

Operator

Our next question will come from the line of Stephanie Moore from Jefferies.

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

This is Hans on for Stephanie. I was just curious if we could sort of bridge the 100 bps of margin expansion. I know you guys kind of called out sort of optimizing the overall cost structure in the collection and disposable side, but just curious if you could sort of parse out the other item impacts like fuel, ITC and M&A.

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

Sure. So collection and disposal of 70 basis points plus SG&A of 20 basis points basically tells the story, but then we've got puts and takes and the biggest piece there is the timing of the alternative fuel tax credit, and that was a headwind of 50 basis points. That was almost entirely offset by the impact of lower fuel prices and our surcharge structure, and that was a 40 basis point impact in the quarter. Then you had recycling and renewable energy. Recycling was positive 20 basis points, renewable energy was negative 20 basis points. So again, those 2 offset each other.

And we've talked all year about having some dilutive impact from M&A because of the type of acquisitions we had on the recycling brokerage side as well as just a typical ramp of getting good solid waste tuck-in acquisitions to WM standards. That impact has lessened in the third quarter relative to what we've seen in the first half of the year, and that was at about 40 basis points in the first half down to about 20 basis in the third quarter.

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

Got it. That's helpful. And then just kind of shifting gears a bit. Just kind of curious if you could talk about the greatest -- where do you have the greatest sort of pricing opportunity? And how should we be thinking about your pricing power in a lower inflationary environment. And I was also just sort of wondering if you could just remind us what percent of the restricted book is tied to waste and sewer trash collection portion of CPI versus actual headline CPI. I think it's kind of important as that kind of component has been accelerating kind of for most of this year and probably will average 1 point or 2 higher than headline CPI, which could have some impact on pricing next year.

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

Yes. The number we usually give is about 40% is tied to some type of index. Not necessarily water sewer trash, that's one of the indices, but about 40% is tied to an index. There tends to be a bit of a look back on that, a lag. So to the extent that, that number is climbing, that ends up being a positive for us. It just -- it takes a little while to get to that full positive. I think to your first question about where we expect pricing to be good. Look, I think pricing has been pretty consistently good across the board. In years past, particularly probably as far back as 5 years ago, pricing was pretty good, but it was very focused on one line of business.

That has changed over the last few years where we've been good with pricing across the board. But I think the piece that we've all touched on a little bit here today that I'll reiterate is really the net price. It's not something we used to talk about because there was a whole lot of inflation in the economy. But if I just use Q2 of '22 because that was kind of the high watermark for inflation. So CPI at 9.5% in Q2 of '22. And if I look at our core price for collection disposal was 7.5% in Q2 of '22 and yield was 6.2%. Now we're looking at a CPI in the 4% range. I think 4.1% was the exact number. And our Q3 collection disposal core price was 6.6% and yield was 5%.

So we've completely flipped the tables there, where in Q2 of '22, CPI is 300 or 400 basis points in front of our price. And now we flip the table. So collectively, we're kind of recovering -- we're adding margin now, whereas we were 5 quarters ago seeing margin decline. But overall, I think we're on a nice trajectory with respect to margin growth. And that really is a function of having a more manageable CPI. I know one of the questions that quarter was what's the optimal level of inflation? And my kind of smart answer was, well, it's not 9.5%. I think we're -- if I were asked that question today, I'd say we're much closer to an optimal level of inflation because we're able to recover with our pricing programs across the board.

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

The only thing I would add there, Jim, is when you look at our customer metrics, which is another benchmark and you look at our new business, our lost business, our net new, our churn numbers, our rollbacks, all those KPIs around how that's impacting the customer are still on a good trajectory as well. So to your point, it feels like overall, we're in a good spot.

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

Got it. Super helpful. And if I could just sneak one more question in. Just kind of curious with labor turnover improving, just sort of wondering how we should maybe think about productivity or efficiency gains as employees kind of mature into their positions?

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

Yes, I think that's a great question. One of the friction points, obviously, of turnover is the experience level, and that does translate to 2 things. One, it can translate to safety and it could translate to efficiency and we've seen positive momentum since the beginning of the year for each quarter in each line of business. And 2 of the 3 lines of business went back positive in the quarter. All 3 were positive in September. We're seeing the positive efficiency momentum continue into October. So that's probably the best benchmark for us to look at in terms of where that shows up.

Operator

Our next question will come from the line of Dave Manthey from Baird.

David John Manthey - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Can you hear me now? Hello?

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

Yes, I hear you. Yes, got you.

David John Manthey - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

So my question is, is any of the $350 million sustainability CapEx being cut at all? Or is it just being pushed to the right? And then is the plan to catch up between now and 2026? Or is the time line potentially elongated from here?

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

So none of it is cut. And yes, the plan is to catch up. As Devina mentioned earlier, it would be spread throughout 2024 and 2025 with some of what was originally in '24 moving to 2025.

David John Manthey - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And second, a couple of random modeling questions here. 11.7 D3 RINs you generate per MMBtu. Is that a constant or can that fluctuate for some reason over time? And then second, I think you told us last quarter that something like 19% of your debt is floating rate, what is that percent today?

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

So the 11.727 is constant. That's a constant conversion rate on the RINs.

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

And then on the floating rate debt, we're at 9% currently.

David John Manthey - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

9%?

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

Yes. A quick piece of color on the 9% just in July, we went into the markets and secured really strong fixed rate debt on a long-term basis at a coupon of 4.875%. And so when you see the 10-year treasury where it is today, you can certainly say that we're really pleased with that timing.

Operator

And our next question comes from the line of Brian Butler from Stifel.

Brian Joseph Butler - *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

Can you hear me?

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

Yes.

Brian Joseph Butler - *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

Just to try to keep it quick. On the pricing side, when you talked about kind of that spread over inflation being negative in the first half of the year and kind of positive 100 basis points, how should we think about that going into the fourth quarter? And then maybe longer term, where does that spread -- where do you hope that spread or target that spread to kind of even out in 2024 and kind of beyond?

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

Yes. It's a little bit of the answer I gave previously, which was the spread obviously was working against us 5 quarters ago when you had inflation approaching 10%. And we just were not able to get to that number on either core price or yield. So we were looking at 7.5% core price, 6.2% yield. And now that relationship has really flipped around. So you're looking at somewhere in the neighborhood of 4% CPI and declining by the way. And then price, whether it's yield at 5% or core price at 6.6%, we feel pretty comfortable that -- by the way, I don't think inflation is going to 1% anytime soon. I think you'll probably see inflation in this range for the foreseeable future.

So if that's the case, I'd like to be able to maintain our own price in this position where it's slightly above the inflation rate. And by the way, as John has mentioned, our own inflation is it doesn't track perfectly with CPI. So while we certainly have come down on labor inflation from the 10%, 11%, 12% that we were seeing a year, 1.5 years ago, we're still above that kind of 3% to 4% CPI number. So we need to get price in the 5% to 6% range, which is where I think you'll probably see it going into '24.

Brian Joseph Butler - *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

All right. That's helpful. And then on the -- I know we talked a lot about the productivity and optimization. But just at a very high level, I mean when you think of what's left to do and what's been done, is it reasonable to believe that '24 can produce kind of the similar kind of levels, if not better, than what you saw in '23?

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

I think we'll talk about '24 when we get to February. But if you just look at what the progress we made kind of quarter-by-quarter, first half, second half, it would certainly give us a better exit ratio from an operating perspective and a margin perspective. And I think Devina commented on that earlier. We still feel we have upside, and we've always talked about 50 to 100 basis points of EBITDA margin expansion. And as Jim mentioned, we've been chasing that a little bit in the last couple of years because of supply chain and inflation and whatnot. It feels like we're in a much better spot coming out of '23 than we were coming out of '22.

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

By the way, one thing we really don't talk about much when we talk about this rear load to ASL conversion. We talk about the heads coming out because there's obviously a helper on the back of a rear loader. What we don't talk much about is the pickup in efficiency or productivity because we are -- our history, and we've got a long history of making these conversions. We are much more productive on an ASL than we are on a rear loader. So there's, I don't know, John, 20%, 25% pickup in productivity in the resi line of business where you're making those conversions.

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

That's a good number.

Brian Joseph Butler - *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

Okay. And then one last quick one. On the sustainability deferred spending, that's all process related. That's not waste management making a decision based on where market prices are to delay any of that. It's really just a matter of going through the mechanics of getting the approvals and things like that.

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

Correct. We are full steam ahead, as I mentioned, with that about 40 projects under construction in 2024. That will tell you what you need to know there, we're moving forward.

Operator

Our next question will come from the line of Kevin Chiang from CIBC.

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

Maybe just one for me. I know this has been tackled quite a bit here. But it does sound like you have a number of -- maybe I'll call idiosyncratic cost containment programs in place, ones that maybe your competitors or smaller peers don't have. When you think longer term about that price over inflation spread and the typical margin expansion you'd want to get. Wouldn't that increase given those idiosyncratic opportunities? Or do you -- would you price above your own inflation versus, let's say, industry inflation and essentially those savings get, for lack of a better word, maybe competed away as you go to the market?

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

I think it's a great question. I think what's most important is that while we compete in the marketplace, we also compete with ourselves and working to continuously improve our business. And so price is one element of how we grow our business and another part of how we grow our business is ensuring that our cost to serve continues to improve over time. We do believe some of those cost improvement items actually translate into top line growth over time as well. And the best example of that is actually in the national accounts business, where WM is completely differentiated itself in the marketplace and therefore is getting outsized growth on the volume line.

The other thing that I think is important, and we don't tend to do this, but I want to do a quick comparison. Our 29.6% margin in the quarter actually compares to our largest competitors at 31.1% because of the impact of the recycling line of business and accretion. And so when we think about how our margins are comparing in the space, we're really proud of the progress we're making. And I think that 31.1% demonstrates the strength of the process improvements that we've been putting in place and the price execution we've had.

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

Congrats on the good quarter there.

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

Thanks Kevin.

Operator

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

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

You talked a lot about price, but you also mentioned that churn is at historical lows. I mean, why not try and push price a little bit more here? What's the -- I mean I know you can lose some business, but given that churn is low, why not push price more?

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

It's a good question. I think -- listen, we -- I mentioned it earlier, we're very focused on customer lifetime value. And when you look at the defection rate, coming down, those are some of our most valuable customers. And I think you're seeing that show up across our customer metrics and in the margin expansion. And as we've talked about a few times, I mean, getting price for price is one thing, but getting it over our cost of inflation and been able to grow the business. And Devina mentioned our national account business being a great example, where we've differentiated, shown value and continue to grow the top line there. So...

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

On the disposal side of the business, I think it's important to really emphasize some recent success. The third quarter was the best ever disposal core price that we've had in our business. And we're pricing new business up to 9% on a year-over-year basis in the disposal part of our business. I think it indicates the strength that we're having there. And pricing has typically in this business been on the collection side. And what you're seeing is we're taking that discipline and customer lifetime value approach and extending it all the way through our value chain.

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

The last point I'd make on that is line of business, which is we've been very focused on in terms of pushing price to get the right margin is residential and core price of 6.9% yield to 6.3%, I think is an example of where we are absolutely pushing price.

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

But the other one, John is transfer stations. I mean for many, many years, Jim, we never even took a price increase. I mean transfer station pricing was 0.5%. And if you look at our transfer station pricing, which really is kind of a proxy for landfill, I mean they're -- for all intents and purposes, they're kind of close in landfills, if you want to think about it in that way. And our transfer station pricing and the yield number for transfer was 7.1%. And that is a -- honestly, it's kind of close to historical highs. I mean we did have an 8.9% in that line of business in Q1. But other than that, it's close to the highest number on my entire period. It goes all the way back to 2017. So not saying we can't continue to push price, we absolutely believe we can. We do have to be conscious of that customer lifetime value that John mentioned.

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

Got it. Last one for me. So you made about $370 million of share repurchases, but weren't very active on the M&A front. Can you just talk about how you're thinking about M&A versus share repurchases right now?

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

Well, yes, let me kind of say this about the M&A market here. First of all, at a time when interest rates are kind of a multi-decade highs and there's a bit of uncertainty about the economic outlook here. I'd rather pay 3x this $740 million that we've talked a lot about today than get into a process based on kind of rosy forward forecasts and race to the top. And that's kind of what it feels like in some respects in the M&A market today. So it doesn't mean we're not going to be in the M&A market, we will be. And when we're in that market, we're going to very much focus on strong strategic growth opportunities and tuck-in acquisitions.

But I just I don't want to get into a competition particularly based on these kind of future forecasts that may or may not become realistic or achievable. As it compares to the overall capital allocation plan and share repurchase, we've laid out that we had $1.5 billion in authorization. And we've talked about $1.3 billion being the actual number. We look at all kind of aspects of that capital allocation plan. We will continue to evaluate dividends, share repurchase, M&A. Devina has talked about the balance sheet, and she's always done such a great job of keeping that balance sheet in a good place. But most of -- if you think about it as M&A dollars, a lot of that has not been technical M&A. It's been these investments that Tara has talked a lot about. And those are basically an acquisition that we're paying 3x for instead of 12 or 14x for.

Operator

Our next question is come from the line of Stephanie Yee from JPMorgan.

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

I was just looking at the average yield guide for 2023. I think the expectation was for it to be over 5.5 percentage points. And based on the trend year-to-date, it seems like there should be a big step-up in the fourth quarter. Is that typical seasonality? Or is there anything abnormal with year-over-year comps in this year, implying a big ramp in average yield in the fourth quarter?

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

So the way that we're looking at it right now, we actually expect our fourth quarter yield to be pretty well in line with what we produced in Q3 and that would pull the full year to ride at that 5.5% that we had targeted. I would tell you from a conversion of core price to yield perspective, the trend that we saw in Q3 isn't really representative of a long-term trend or revision in the strength that we had seen of converting more of our core price dollars into yield dollars. It's instead mix related and also because of some of the impacts of noise from hurricane in that were particularly significant in Q3 and Q4 of 2022 and that's impacting our year-over-year conversions. So I think the key message here is confidence in our ability to deliver yield for the year of around 5.5%.

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

Okay. That is very helpful. And then if I can just go back to the comment about the futures market for RIN pricing and how you're not necessarily pricing at the spot market $3.40 RIN price. Can you just help educate me a little on, is there an actively traded futures market for RINs? And is maybe waste management leading that development of the futures market?

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

I think what's important to note is this is a market, even in the transportation market that has been evolving pretty quickly as more renewable natural gas is coming online. And as EPA is raising the RVO and also the fact that they set a 3-year RVO, which had never happened before. So this is something that historically there hadn't been a robust market where you could trade forward, and that's certainly evolved and something that we're seeing activity in.

Operator

And our last question from the line of Toni Kaplan from Morgan Stanley.

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

Earlier in the call, you talked about commercial being encouraging. I was hoping you could add any additional color to that. And I know that you don't want to go too much into '24, but maybe just give some color on whether -- where you're most optimistic, whether it's commercial, resi, industrial, like recovery in any of roll-off. Anything that you're thinking could be better in '24 versus '23?

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

Are you referring specifically to volume there?

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

Yes, yes.

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

Yes. So I guess specific to commercial and that may be the line of business that we have the most -- the highest level of optimism, and it's because our national accounts business, where we really feel like we have a differentiated offering there, whether it's through data and analytics reporting or service itself, that business has been growing, and it's been growing fairly significantly over the last 3 years. So as I look at commercial volume, as we said last quarter, a piece of the commercial volume has been a bit of a swap. So we've traded some of that national account, and we have seen a fairly muted small and medium business performance.

And the net of the 2 on the volume line has been slightly positive. So if you ask me to kind of place a bet on a line of business for maybe where we're the most optimistic in '24, I'd probably put it on commercial or maybe on the landfill line of business itself. I think you're going to continue to see residential be negative because we continue to kind of pare down some of that unprofitable work. And we just went through our quarterly reviews with our Vice Presidents last week, and there still is some unprofitable work out there that's going to -- when the contract comes up, we're either going to bid it up or we're going to lose it intentionally.

So I wouldn't expect to see volume in resi get back to flat or positive probably for at least a year and roll-off is so dependent on the economy, and we just don't have a great view of what the economy is going to look like. We'll know more in 3 months. But I'd probably put it on commercial as the one where we're most optimistic.

Operator

And with that, I would now like to turn the conference back over to Jim Fish, President and CEO, for closing remarks.

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

Okay. Thank you very much. Well, thanks very much for all your questions this morning. Really good questions, we appreciate them. We do look forward to talking to you in the interim period and between now and when we report our fourth quarter. And in that period, we have some holidays. So please enjoy your holidays. Thanks so much.

Operator

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