Corrected Transcript

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# Waste Management, Inc. (WM)

## Q2 2026 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good day, and thank you for standing by. Welcome to the WM Second Quarter Earnings Conference Call. At this time, all participants are on a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I will now hand the conference over to your first speaker today, Ed Egl, Vice President of Investor Relations. Please go ahead.

## Ed Egl

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

[indiscernible] (00:00:47) 2026 earnings conference call. With me this morning are Jim Fish, Chief Executive Officer, John Morris, President, David Reed, Executive Vice President and Chief Financial Officer, and Tara Hemmer, Executive Vice President and [indiscernible] (00:00:59) strategic update. John will cover an operating [indiscernible] (00:01:05) our prepared remarks, each of these members of our leadership team will be available during the Q&A portion of the call.

Before we get started, please note that we have filed a Form 8-K that includes the earnings press release and is available on our website at www.wm.com. The Form 8-K, the press release, and the schedules 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 and Form 10-Qs.

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 David will discuss operating EBITDA, which is income from operations before depreciation, depletion, amortization, and accretion.

Beginning this year, landfill accretion expense was moved from operating expense to depreciation, depletion, amortization, and accretion to enhance comparability and better reflect operating performance. For comparability purposes, 2025 actuals have been updated to reflect this change.

Any comparisons, unless stated otherwise, will be with the prior-year period. Net income, EPS, income from operations and margin, operating EBITDA and margin, and SG&A expense and margin 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. This call is being recorded and will be available 24 hours a day beginning approximately 1:00 P.M. Eastern Time today.

To hear a replay of the call, access the WM website at www.investors.wm.com. Time-sensitive information provided during today's call, which is occurring on July 29, 2026, 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 CEO, Jim Fish.

## James C. Fish, Jr.

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

Okay. Thanks, Ed, and thank you all for joining us. We're pleased to report another quarter of strong earnings growth, margin expansion, and robust cash flow generation. In the second quarter, operating EBITDA grew 5.5% or 9.1% excluding last year's wildfire cleanup contributions. Operating EBITDA margin expanded by 40 basis points, overcoming a 60-basis point headwind from wildfire volumes and a 40-basis point headwind from higher energy surcharges.

The strong underlying margin expansion was led by the Collection and Disposal business, where continued price discipline, cost optimization, and business mix improvements drove better profitability. Importantly, this earnings growth, combined with lower capital spending and working capital benefits, led to a 35% free cash flow growth for the quarter.

Taken together, our higher earnings, margin expansion, and free cash flow results once again demonstrate the strength and consistency of our operating model and our team. Additionally, our second quarter results reinforce the power and value of WM's integrated business model. Our Collection and Disposal operations serve as a powerful foundation, providing the scale, network, customer relationships, and operational discipline that serve the broader enterprise.

We continue to expand the value created by that foundation and strengthen the long-term earnings profile of the company through our investments in recycling, renewable energy, and Healthcare Solutions. For example, our recycling automation projects are driving a sustained 30% improvement in labor cost per ton compared to legacy facilities. And in the second quarter, we processed 12% more recyclables year-over-year.

We also produced an additional 1.6 million MMBtu of renewable natural gas, leading to combined recycling and renewable energy operating EBITDA growth of nearly 33% and a 30-basis point uplift to total company margin. Healthcare Solutions delivered a strong quarter, expanding operating EBITDA margin by 200 basis points through cross-selling and cost synergy capture, which reinforces our confidence in the platform's long-term growth and earnings potential.

Stepping back, WM's advantage is how all these businesses work together. Our network allows us to operate more efficiently, deliver better customer outcomes, and invest in attractive growth opportunities from a position of strength as our complementary assets and capabilities reinforce one another and allow us to capture more value across the waste stream and generate attractive returns for shareholders.

This integrated approach is supported by disciplined capital allocation. We're directing capital to opportunities where our existing network, customer relationships, and operating capabilities give us a clear advantage, including the $235 million of solid waste tuck-in acquisitions we closed during the quarter. These transactions strengthen our route density, expand our customer base, and enhance the value of our existing disposal network, making them a natural extension of the integrated model we've built.

Looking ahead, we continue to see an attractive pipeline of solid waste acquisition opportunities. Given our quick work returning leverage to within our targeted range, following the acquisition of Stericycle, we expect to increase core acquisitions in the future.

As we close out the second quarter, our results reflect the strength of WM's integrated operating platform and the consistency of our strategy. We continue to execute well in the core business, extend the value of our network through disciplined investments in recycling, renewable energy, and Healthcare Solutions, and strengthen our market position through targeted acquisitions.

Together with our balanced approach to capital allocation, these actions support continued growth in earnings, cash flow, and long-term shareholder value. I want to thank our employees for their dedication and hard work, which make these results possible.

And now, I'll turn the call over to John to discuss our operational results and progress against our strategic priorities.

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### John J. Morris

*President, Waste Management, Inc.*

Thanks, Jim, and good morning, everyone. The second quarter again demonstrated the durability of our earnings growth formula. Despite a tough comparison due to elevated wildfire-related activity last year, we delivered strong underlying profitability through above-average price-to-cost spread, disciplined expense management, and efficiency gains. Our team continues to deliver outsized performance in optimizing our business.

Operating expenses remain below 60% of revenue for the sixth consecutive quarter, despite a combined 120 basis point headwind from last year's wildfires and increased fuel prices. This performance reflects the benefits of our technology investments, automation initiatives, process discipline, and performance management. The impact is especially evident in our Collection business. Despite ongoing inflationary pressures, including labor cost increases of approximately 4%, we limited the increase in Collection operating costs to less than 1.7% compared to the second quarter of 2025.

This highlights our ability to offset inflation through productivity improvements and pricing designed to recover cost increases while continuing to deliver high levels of customer service. Our results reflect the value being created by the technology investments we've made over the past decade. WM has long been a leader in innovation from deploying our proprietary onboard computing system to deploying AI and machine learning across our operations today.

One example is our Smart Truck platform, which now generates more than $300 million of annual run rate EBITDA through service upgrades, optimized routing, and lower operating costs. Importantly, we are still in the early innings of capturing the full value of these capabilities. By combining AI, automation, and operational data at scale, we're improving execution, reducing cost, and enhancing the customer experience.

We are also continuing to innovate for the future through AI-enabled tools, autonomous long-haul vehicles, and remote-operated heavy equipment, all of which we expect to support higher revenue capture, lower operating costs, and sustained margin expansion over time. We're applying the same disciplined operating approach that has driven success in the Collection and Disposal business to Healthcare Solutions, and the results are increasingly evident.

In the second quarter, Healthcare Solutions operating EBITDA margin expanded 200 basis points to 19%, while SG&A expense declined 15% and improved 290 basis points as a percentage of revenue, demonstrating the earnings power we expected at acquisition. Momentum is building in the second-half with improving revenue quality supporting top-line growth and core price expected to exit 2026 above 5.5%.

Cross-selling initiatives are also contributing, generating $32 million of annual operating EBITDA to date, and we remain on track to deliver more than $300 million of synergies by the end of 2027. This progress reinforces our confidence in the long-term value of this business.

Turning to overall revenue growth in the second quarter, both core price and yield exceeded our expectations and supported our continued success in maintaining strong price-to-cost spread. On volumes, second quarter comparisons were impacted by last year's elevated wildfire-related activity as Collection and Disposal volumes declined 0.4%, excluding those impacts.

While overall volumes remained softer than we anticipated entering the year, we saw encouraging trends across several areas of the business. Special waste volumes increased 4.5%, excluding prior year wildfire activity, and industrial Collection volumes continued to demonstrate modest growth. Residential volume declines improved 200 basis points sequentially to negative 2.9% as anticipated. We expect the residential losses to continue to moderate over the coming quarters. Our focus remains on disciplined, profitable growth through prioritizing returns over lower margin volume.

Looking ahead to the balance of 2026, our outlook continues to reflect strong pricing execution and disciplined operating performance. Collection and Disposal yield is tracking toward the high end of our guidance range, and energy surcharge revenue is higher than expected. At the same time, volume trends have been softer than planned, with Collection and Disposal volumes expected to be relatively flat in the second-half, resulting in full-year decline approaching 1% or approximately 50 basis points excluding the impact of 2025 wildfire cleanup activity. We're also seeing modest pressure from lower recycling brokerage activity and the timing of RNG plant connections to pipelines.

And as a result, we are narrowing our full-year revenue outlook by about 0.5% to $26.275 billion to $26.475 billion. Importantly, this update does not change our confidence in the profitability and cash flow outlook for the year, supported by strong pricing, disciplined execution, and the underlying strength of the business. Taken together, our second quarter performance reinforces the strength of our operating model and our confidence in the path ahead.

With that, I want to thank our entire team for their continued strong performance. And now, I'll turn the call over to David to walk through our financial results in more detail.

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## David L. Reed

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

Thanks, John, and good morning. Operating EBITDA margin was one of our standout aspects of our second quarter results. As Jim noted, margin expanded 40 basis points, driven by a strong price-to-cost spread and continued cost reductions from technology and automation in our Collection and Disposal business. These improvements added 140 basis points of margin growth, while recycling, renewable energy, and Healthcare Solutions contributed a combined 40 basis points to company margin. These benefits were partially offset by approximately 40 basis points from higher technology investments and the timing of risk management cost in our Corporate and Other segment.

As noted, our results overcame a 60-basis point headwind from prior year wildfire cleanup activity and a 40 basis point headwind from energy surcharges. Despite these headwinds, we delivered strong earnings growth and margin expansion in the quarter, demonstrating the durability of our business model and our ability to consistently create value.

Turning to SG&A, expenses improved 60 basis points to 9.9% of revenue in the second quarter, returning to below 10% for the first time following our 2024 acquisition of the Healthcare Solutions business.

Diligent cost management across the company and ongoing synergy capture from the integration drove this result. And we anticipate full-year SG&A as a percent of revenue of around 10%, including SG&A in the Healthcare Solutions improving to a run rate of between 15% and 16% of revenue, compared to more than 24% of revenue when we acquired the business.

Our earnings growth continues to drive robust cash generation. In the first six months of the year, operating cash flow was $3.23 billion, an increase of more than 17% compared to the same period in 2025. As planned, capital spending was more than 18% lower than prior year, reflecting normalized spending on Collection vehicles and lower sustainability capital as we near the end of our planned investments.

Free cash flow totaled $2.02 billion, growing more than 56% in the first six months of the year, representing operating EBITDA conversion approaching 52%. We allocated the majority of our free cash flow to shareholder returns in the first-half of the year, repurchasing $1 billion of our shares and paying $764 million in dividends. As forecasted, we are within our target leverage range of between 2.5 times to 3 times, finishing the quarter at 2.96 times. We expect leverage to come down in the back-half of the year.

And finally, pulling together the outlook for 2026, as you heard this morning, we delivered excellent second quarter results and remain confident in the strength and consistency of our business. We're on track to achieve our full-year operating EBITDA and free cash flow guidance. At the same time, we are increasing our 2026 margin expectations by 20 basis points to between 31% and 31.2%, demonstrating our ability to flex cost, drive productivity, and continue growing earnings in a dynamic operating environment.

While earnings calls naturally focus on the current quarter and year, our focus extends well beyond the near term. We are executing a long-term strategy designed to drive growth and shareholder value for years to come. That means creating the industry's best employee experience, delivering differentiated service to our customers, expanding our disposal advantage, increasing our technology leadership, and continuing to allocate capital in ways that maximize returns. As a result, we remain confident in achieving our 2026 objectives and in our ability to deliver sustainable long-term growth and shareholder value well into the future.

In closing, I want to thank the entire WM team for their hard work in the first-half of 2026. We are well on our way to another year of strong results. With that, Olivia, let's open the line for questions.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Our first question coming from the line of Toni Kaplan with Morgan Stanley. Your line is now open.

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**Toni Kaplan**
*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks so much. I was hoping you could talk about maybe the Healthcare business. Just what are you seeing in terms of sort of volume or price there? And how should we think about growth going forward? I think it was just a little bit lighter than what we were expecting. Thanks.

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

A

Hi, Toni. Yeah, good question. And look, I would tell you overall, I'll give you maybe a bit more than you just asked for. I'll give you more of a holistic picture here. But overall, the WM HS story is a good one. It was one of the drivers of our strong EBITDA pricing SG&A performance for Q2. So we were pleased with that. I think we can finally say the business is integrated, and that was – maybe took a bit longer than we initially thought when we bought it. But we can say it's integrated now that we're seeing things like DSO dropping. DSO is down to five days, which was a nice improvement and continuing to drop.

We did talk about customer credits last quarter, and we said they would peak in Q4. They did. They came down in Q1 and came down again in Q2. And that really turns into a tailwind, a pretty significant tailwind for us in the back-half of the year, which we had indicated last quarter. That will affect both top line and bottom line. And so that's a positive for us.

I think to your question about volume, again, that was really going to be – always going to be more of a back-half of the year story, and we're already starting to see that. So we had our quarterly business reviews with all of our area leaders, including WM HS, last week. And we're hearing that cross-selling did pick up again in Q2, up to $32 million, I think was the number. We said $50 million when we originally gave those – that synergy number of $300 million. $250 million would be cost related, and $50 million would be related to cross-selling, and we're up to $32 million. Fully expect to get to that $50 million number, and it probably is going to happen in the first quarter- by the first quarter of next year. So that's been a positive, and that certainly is going to affect volume in the back-half of the year.

We also heard our national accounts team talking positively about WM HS volume that's starting to grow. I think they gave a $15 million win number on the call last week. We're seeing things like speed to close improve nicely.

And then, I guess, lastly, even though you didn't ask about it, but look, the cost synergy line has been a success story all along. We did talk a bit in our scripts about SG&A, and our SG&A within WM HS has dropped from 24%, 25% when we first bought it down to 18% at the end of the quarter. We expect that to be 15% to 16% by the end of the year. And you really don't have to look any further than our overall number that we talked about. I mean, 9.9% gets us back below 10%, where we were before we bought the Stericycle business. I think it kicked us up to almost 11% the quarter after we bought them, and now we've chopped away at that and we're back down at 9.9% and continuing to go down from there. So that's a real positive.

And lastly, I think I would tell you that OpEx, after rolling the business into our existing field operations, we've really seen a benefit from OpEx, and that's been part of the success story with OpEx as well. So overall, I think – long answer to your short question, but overall, I think we feel like we've fixed the business now and integrated it, and this is really turning into exactly what we hoped when we bought it initially.

**Toni Kaplan**
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Terrific. And maybe just to follow up on C&D, I think it sounded like you sound like it's going to accelerate in the back-half of the year and be towards the higher end of your expectation. I guess what trends are you sort of seeing that gives you the confidence in the recovery? And – or does something have to change in the market to get you to that level? Thanks.

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

A

No, Toni, I think when you look at overall landfill volumes, you saw that we still have positive landfill volumes across MSW in the quarter. Moderated a little bit from Q1 to Q2, but still positive. I think a bright spot was certainly special waste, because even [ph] net of the (00:22:11) wildfires, which was significant volume, particularly in Q2 last year, we're still showing positive 4.5% volume there. I think that's a pretty good indicator of at least what's happening specifically in the industrial sector.

**Toni Kaplan**
*Analyst, Morgan Stanley & Co. LLC*

Q

Terrific. Thank you.

**Operator**: Thank you. One moment for our next question. And our next question in queue coming from the line of Noah Kaye with Oppenheimer. Your line is now open.

**Noah Kaye**
*Analyst, Oppenheimer & Co., Inc.*

Q

Well, good morning, and thanks for taking the questions. Maybe just want to understand a little bit more on the revenue guide pieces, following up on your prepared remarks, David. So it sounds like we're going to have some uplift here, obviously, from energy surcharges that weren't contemplated in the guide. If I run rate that from 2Q, I don't know, maybe it's $300 million higher or so. Kind of we're looking at something like $450 million pre-impact of surcharges, and it seems like roughly $350 million of that would be just from lower solid waste volumes. And then the balance is from recycling brokerage and RNG. Is that the right way to think about it? Is there any change to WM HS? Can you kind of help refine those moving pieces for us?

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

A

So, thanks. Good question, Noah. Let me take a bit of it, and then I'll pass it over to [ph] David (00:23:31).

**Noah Kaye**
*Analyst, Oppenheimer & Co., Inc.*

Q

Thanks, Jim.

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

A

First of all, if you think about the revenue for the second quarter, really kind of break down revenue into three pieces. First of all, about half of it was on the Collection and Disposal side. And really that was related to what happened in the first quarter with the winter weather. What we said at the end of the first quarter was we thought what we normally see when we have a bad winter is that we recover it in Q2, especially on things like roll-off and some of the landfill volumes. And we just didn't see that recovery in the second-half.

What is that attributed to? It's a little bit hard to say. Is it the economy? I mean, we don't see a hugely growing economy, but we also don't see any red flags. So that was about half of the revenue piece for the quarter. The other half you can break into two pieces. Part of it, about half of that was our brokerage business which was slower on volumes, doesn't really have much impact. It's a bit of a pass-through business. Doesn't really have much impact on the EBITDA line.

And then the other half was related to RNG, specifically a couple of plants. Those two plants are built, so they're standing ready, but we're not able to push gas into the pipeline yet. And that's related to a couple of third parties. The gas lines are being prepared for the gas to come in, but it's not something that we have a ton of control over. We do think that we'll be there, and we will be pushing gas out of those plants by the end of the year. That's the hope. So that's really the breakdown of revenue. And then I'll let David talk a bit more specifically about the back-half of the year.

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*

A

Yeah. So I mean, as you just heard, this is really a volume-driven adjustment. And so with our pricing plans, our cost management, and our ongoing optimization plans, we really feel like we're mitigating the earnings impact. On the volume side, on the Collection and Disposal business, you referenced the energy surcharges. So call it the $250 million of lower revenue due to volume is being offset by the higher energy surcharges. We're estimating for 2026, about $175 million of higher energy surcharges, so to get to a net impact of $75 million.

The things that are going well, again, to help close the gap from an earnings perspective, that also give us confidence on our EBITDA and free cash flow guidance, again, is that better-than-planned pricing execution, the cost and controls. We also have an improving Healthcare Solutions outlook, as Jim just alluded to, and then also lower cost in our Corporate and Other.

**Noah Kaye**
*Analyst, Oppenheimer & Co., Inc.*

Q

Yeah. Great. I mean that plays into the next question, which is, there are some puts and takes for the raise in margins here with some of the non-core solid waste pieces. But it feels also like because core solid waste margins are outperforming better versus the guide. And I want to understand what the main drivers of that are. And then in particular, as you look at the full-year, any change to corporate expense expectations, or is this really a story about better leverage in C&D?

**John J. Morris**
*President, Waste Management, Inc.*

A

I think Noah – this is John, I think you hit it right there at the end, which is, if you look at the margins and the OpEx for the quarter and you think about the wildfire and fuel impact on margins, it really does highlight exactly what a great job the team's been doing on controlling costs for all the things I talked about through my prepared remarks. And despite the volume challenges that David referenced that we'd see in the back-half of the year, the only thing that's changing really is the volume – excuse me, the revenue adjustment we just spoke to. But obviously upping margins and keeping our EBITDA and free cash flow targets intact, I think, just speaks to the strength and the resiliency of the business model we've built.

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*
A

And I think on Corporate and Other, we saw improved performance sequentially from Q1 to Q2. It's largely driven by timing of certain expenses, which can create some of that variability quarter in, quarter out. But I think what's important, too, if you step back, is from a full-year perspective, while we see variability in various segment contributions, we remain confident in our full-year outlook of overall operating EBITDA. And like we alluded to a lot of times with the operating costs in terms of flexing according to the conditions of the business, we do the same thing on SG&A as well.

**Noah Kaye**
*Analyst, Oppenheimer & Co., Inc.*
Q

Helpful. Thank you, all.

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

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

Hi. Thanks for taking my question. Maybe just more of a macro volume question. Just wondering, the tone may be a little bit softer on volume. Just wondering, as you've talked to your customers over the past 90 days, whether you've seen a change in sentiment, just given how volatile the overall macro has been and commodity prices have been all over the place here. Just are you sensing that from your customers versus maybe what they would've been messaging entering 2026?

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

We're really not. I'll tell you, Kevin, I just looked at our volumes this morning, and two of the best indicators for us of the health of the economy are roll-off, which is our industrial line of business, and then special waste. John talked about special waste being 4.5% positive if you exclude the wildfires, and continuing to show strength.

And looking at the – over the last four weeks compared to the same four-week period from prior year on roll-off volumes, industrial volumes, it looked like they were up 50 basis points. That's a pretty good indication that the economy is doing okay.

As I said kind of early on in the first question, we don't see it blowing and going, but we also don't see it falling off a cliff in any way. So I'm not sure the macroeconomy is really a driver here. Some of it has been a bit of national accounts lost business on the commercial side. So it is a bit of a mixed picture for us if you look at it by line of business. But if it gives you any comfort, we're not seeing the economy show signs of weakness.

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

Okay. That's helpful. And just wondering, as we kind of enter the back-half of this year, we've seen a little bit of volatility in D3 RIN prices, maybe arguably upside volatility, given we saw a couple of 52-week highs the past couple of months. Does that change how you think about, let's say, hedging out your exposure as we look out into 2027? I know you typically think of, call it 80%, and 40%, 20%, kind of one, two, three-year split. Does that change just given the recent volatility in RIN prices we've seen?

**Tara J. Hemmer**
*Executive Vice President and Chief Operating Officer, Waste Management, Inc.*

A

No, not at all.

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

Q

Okay.

**Tara J. Hemmer**
*Executive Vice President and Chief Operating Officer, Waste Management, Inc.*

A

Our approach remains the same. And just to give you some context on where we are today, we have 90% of our volume locked up for 2026, so very little impact from the rise in RIN prices in 2026. However, it will have an impact in 2027 and should be positive. And as we look at 2027, we have roughly a third of our RINs pre-sold, so we're doing a nice job of making sure that we are locking in some of our offtake and making sure that we have a little bit of an opportunity to see some of the upside. Really pleased with where we're at.

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

Q

That's great color. Thank you very much, Tara, and thank you very much for taking my questions overall.

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

A

You bet.

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

**Trevor Romeo**
*Analyst, William Blair & Co. LLC*

Q

Hi. Good morning. Thanks so much for taking the questions.

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

A

Good morning.

**Trevor Romeo**
*Analyst, William Blair & Co. LLC*

Q

The first one I had was just on the free cash flow outlook, I think just maintaining the guidance despite some strength in the first-half. So I think if you look at the last few years, you've generated more than half of the year's free cash flow in the back-half. I think this year you're already over 50% in the first-half. So maybe you could just help us with the cadence you're expecting. Are there any items, working capital or otherwise, that would make conversion step down in the second-half? Or is there maybe some conservatism there?

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*

A

Sure. I'll jump in. We're very pleased with the performance of free cash flow through the first six months, and we do feel like we're in a strong position to deliver our full-year expectations. As we alluded to in our remarks, Q2 was up 35%, first-half was up 57%. Our guide does call for free cash flow being up 29% year-over-year. This will be our third year in a row between 20% and 30% increases. And as we exit this year, we will have doubled the free cash flow in the last three years. So those are all really strong points to highlight.

This growth is driven by strong earnings growth, lower CapEx, which we alluded to. Working capital, you highlighted that it has been really strong the first-half of this year, including things like accounts payable. So we're keeping an eye on that. There could be some upside there, but we're obviously -we're tracking kind of what are our historical trends with AP, and that's one element that's keeping us within our guidance range. but we'll give a further update in the fourth – excuse me, in the third quarter as the year continues to progress.

**Trevor Romeo**
*Analyst, William Blair & Co. LLC*

Q

Okay. Thanks for that, David. And then maybe a follow-up on the recycling business, which really good results in the quarter. I think, Jim, you mentioned that you processed 12% more recyclables year-over-year. So maybe how much of that is new facilities versus improving throughput at your existing facilities? And then maybe just a quick update on where the commodity markets stand with the green shoots in the fiber market you called out earlier in the year, and we've already seen some improvement in prices in the first-half, but where do you think – where are you expecting that to come out for the full-year at this point? Thanks.

**Tara J. Hemmer**
*Executive Vice President and Chief Operating Officer, Waste Management, Inc.*

A

Thanks, Trevor. Yeah, we're very pleased with the performance of our recycling facilities. And at this point, we've built out 38 of our 39 that we originally had in our capital plan. Our last one will come online in 2027. And it really is coming from all angles. Our new facilities are performing really well. If you look at our two new facilities in Canada, really strong performance in that extended producer responsibility market. And then we are seeing volume improvements at our automated facilities.

And you're seeing that show up. We were just talking a little bit earlier about our internalization rate, and some of that is coming from the recycling facilities that we built. All in, this is just a really great story in our automation journey. We had committed to roughly 1,200 roles that were hard to fill. And we've exceeded that number at this point, and you're seeing it translate into our EBITDA performance, despite the fact that commodity prices were down year-over-year.

So the trajectory is really strong on the recycling business and will be so that we can support our customers. On the outlook for commodity prices, we had started the year with a full-year outlook at $70 a ton. We're a bit higher in Q2, which you saw. And we're seeing OCC prices creep up, which we had somewhat expected for the back-half of the year, and we're starting to see a little bit of positive movement on plastics. So I think what you'll see from us is that our full-year outlook on commodity prices might be slightly higher, but it will likely be offset by some operating issues, primarily related to the fire that we had at one of our Arizona facilities.

**Trevor Romeo**
*Analyst, William Blair & Co. LLC*

Q

All right. Thank you very much.

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**Operator**: Thank you. Our next question coming from the line of Tami Zakaria with JPMorgan. Your line is now open.

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**Tami Zakaria**
*Analyst, JPMorgan Securities LLC*

Q

Hey, good morning. Thank you so much. I think that you recently purchased a landfill in Florida. Can you just remind us whether it was already planned? If not, how much tonnage do you expect this to run rate at, and over what timeframe? And how strategic [indiscernible] (00:36:24) this might be in that region overall?

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**John J. Morris**
*President, Waste Management, Inc.*

A

Tami, you broke up a little bit. I think I got most of it, though. I think, first, I'll start where you finished, which is strategically. We've got, obviously, a terrific set of assets down in South Florida and have been down there, gosh, for 50 years. And the real estate we bought is obviously an extension of our investment in that market. We've had the Medley Landfill down there for decades, and the real estate we purchased is tied to the opportunity we see to continue to perform in that market. So what was the other part of your question?

---

**Tami Zakaria**
*Analyst, JPMorgan Securities LLC*

Q

When do you expect that to be operational and what runway tonnage would you expect in that landfill?

---

**John J. Morris**
*President, Waste Management, Inc.*

A

I don't know the tonnage there off top of my head. What I would tell you is we do have a decent amount of airspace left at Medley Landfill, but we didn't want to – we want to take the opportunity, obviously, get the property under the WM moniker now. So we've got a number of years before we're going to be required to move over, which frankly gives us the latitude to go about doing what we have to do between now and then and get that site ready well in advance of when day one comes.

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**Tara J. Hemmer**
*Executive Vice President and Chief Operating Officer, Waste Management, Inc.*

A

The way I would think about it is just extending our competitive advantage in that market, and the Miami market is clearly one that's going to grow long-term.

---

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

A

I think too, part of the extension of that competitive advantage was what the Florida team did with building out that rail line. So we built out a couple of years ago, probably two years ago, built out a rail line with a rail partner. So we're moving volume actually at either the same or lower transportation cost from South Florida up to a landfill that has over 100 years of life in Central Florida.

And so all of that is part of the strategy of furthering our really strong disposal position. It's a bit of what we talked about at Investor Day last year, how important that moat is around our business, which is disposal, whether it's recycle centers, whether it is transfer stations, or in this case, whether it's landfills. And with the steps that we've taken in South Florida now, including the purchase of this property, we really have a good position in disposal for the long-term.

**Tami Zakaria**
*Analyst, JPMorgan Securities LLC*

Q

Understood. That's very helpful. And my second question is, I was hoping to get some help with the modeling. How should we think about C&D volume growth in – or volume decline in 3Q versus 4Q?

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

A

I think we're saying it's flattish in the back-half. Collection and Disposal should be flattish in the back-half of the year. And so it takes us for the whole year to about negative 0.8%, I believe. Our original guidance was positive 0.4%. So a bit of a fall off, most of which, as I explained, was related to not recovering the volume loss from that strong winter.

**Tami Zakaria**
*Analyst, JPMorgan Securities LLC*

Q

Understood. Thank you.

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

**Faiza Alwy**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Yes. Hi, thank you. Good morning. I had a few clarifying questions just on the guidance change on the revenue line. So one, just want to confirm, I think, David, you said that you're anticipating $175 million of higher fuel surcharge revenues, and I believe you already got $100 million this quarter. So one, want to confirm that, and that seems a little bit conservative. So it sounds like you're anticipating the fuel prices would normalize at some point this year.

And then secondly, I believe you said $250 million of lower volumes, which seems to be a combination of the lower solid waste, lower brokerage, and lower RNG. So just want to understand what the positive [indiscernible] (00:40:30)...

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*

A

Sure

**Faiza Alwy**
*Analyst, Deutsche Bank Securities, Inc.*

Q

...$25 million delta is.

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*
A

Yeah, I'll start with the second part. The $250 million is really just in the Collection and Disposal business on volume impact to lower revenue. The $175 million for higher energy surcharges, which equates to about a 20-basis point margin headwind, really is carrying us through Q3, and then we start to see some decel or normalization of diesel prices and other prices that go into the calculation of the energy surcharge. So depending on your view of how long we're going to be at this higher level that, I just wanted to give that clarity as well.

**Faiza Alwy**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Okay. And then the positive, sounds like there's a positive $25 million delta?

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*
A

Not from our side. Sorry, I'm not sure what you're referring to.

**Faiza Alwy**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Okay. Okay. No, I think you said $250 million lower revenues, right? And then $175 million of the surcharges.

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*
A

Yeah

**Faiza Alwy**
*Analyst, Deutsche Bank Securities, Inc.*
Q

So that's about [ph] $75 million. (00:41:34)

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*
A

Yeah. Net...

**Faiza Alwy**
*Analyst, Deutsche Bank Securities, Inc.*
Q

The two.

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*
A

Yeah, sorry.

**Faiza Alwy**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Yeah, sorry.

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*
A

Sorry.

**Faiza Alwy**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Go ahead

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*
A

Sorry, net-net $75 impact on that piece, on the Collection and Disposal side. And then on the sustainability businesses, we called for about $75 million of a reduction related to the volumes, both on the recycling brokerage, which Jim alluded to, which doesn't have necessarily that much of an EBITDA impact. And then we also talked about the lower RNG volume associated with some of the plant delays and the pipeline interconnects. Those are the two pieces.

**Faiza Alwy**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Okay. Got it. And then just on the volume piece within solid waste, like is this – I know you made some comments around you're not sure if this is related to macro. Like, do you think it's related to just the higher fuel surcharges? And if you could give us a bit more context around where you're seeing, kind of where the volume recovery didn't happen. Is it more around the residential/commercial side, more industrial side, any particular regions? Just any additional color there would be helpful.

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

Yeah, I don't think it's so much of a price elasticity issue here with higher fuel surcharges. Particularly when we look at the volume, as John mentioned, we did see a fairly nice pickup in industrial volumes. I mean we've been negative in industrial for five consecutive quarters, and so to see that kind of get back to flat and slightly positive, as I mentioned, over the last four weeks, that's the good news picture for us.

The volume negativity was – for the most part, was in the commercial line of business. And that commercial line of business was driven more than anything else by some lost national accounts. Typically, when we lose national accounts, it ends up being as a result of price. So – but we – when we win national accounts, it ends up being something other than price, which tends to be things like data and analytics.

So our national accounts team is pretty optimistic about what national accounts holds for the back-half of the year. But the front half of the year, we did see some – and the back-half of last year did see some losses in commercial, which impacted that commercial line of business. So to answer your question, I don't think this volume has anything to do with the fuel surcharge.

**Faiza Alwy**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Great. Thank you so much.

**Operator**: Thank you. And our next question in queue, coming from the line of Jerry Revich with Wells Fargo. Your line is now open.

**Jerry Revich**
*Analyst, Wells Fargo Securities LLC*
Q

Yes. Hi, good morning, everyone.

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

Morning.

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*
A

Morning.

**Jerry Revich**
*Analyst, Wells Fargo Securities LLC*
Q

I wonder if you folks can just talk about with the digital investments that you folks have made over the years and lots of AI processes that you've spoken about in the past, anything that you're able to do now that the AI models have accelerated over the past six months and even three months that you folks are thinking about as an opportunity for WM to accelerate some of the initiatives that you folks laid out at the Analyst Day?

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

Yeah, Jerry, I think the example I gave in my prepared remarks about our Smart Truck platform, which is a combination of artificial intelligence and other forms of technology, certainly, $300 million of run rate EBITDAs is significant. And I would tell you that we look at it not just from an AI perspective, but if you look at our roadmap on how we're going to modernize the business, it's really a technology roadmap that includes artificial intelligence, right?

We've talked about – Tara talked about the great results we're having, even in a $70 recycling market on the recycling business. A lot of that has to do with the technology investments we've made to modernize those plants, and a component of that is artificial intelligence, right? So I don't look at it as just AI. I don't think we do as a team. I think we look at it as more of a broad technology roadmap. And I will tell you that when you look at the operating performance of the business, Collection, Disposal, Recycling, and you look at what we're able to do to compress the operating cost pressure, I made the comment in my opening remarks that we're under 1.7% in the Collection side. I think that's a combined demonstration of where this technology roadmap and investments are paying off.

**Jerry Revich**
*Analyst, Wells Fargo Securities LLC*
Q

Got it. Thank you. And then, Tara, can I ask for the landfill gas outlook, can you just give us an update on the earnings ramp 2027 versus 2026? Nice to see D3 RIN prices moving in the right direction. How are we doing operationally? Are you folks scaling as you expected as additional facilities come online?

**Tara J. Hemmer**
*Executive Vice President and Chief Operating Officer, Waste Management, Inc.*
A

Yeah. We're pleased with the results when our facilities come online and the ramp of those. What we're seeing right now, the couple of facilities where we're having issues getting into the pipeline, that will have an impact on volumes for 2026. So our volumes will be a bit lighter than we had anticipated at the beginning of the year. But as we roll to 2027, we'll give updates obviously as we get closer, but we feel confident about our ability to deliver when those plants are built.

**Jerry Revich**
*Analyst, Wells Fargo Securities LLC*

Q

Super. And last one, Jim, can I get your views on what you're seeing within residential? We've seen across the group, greater churn, I think, over the past call it year or so. It feels like competitive intensity in rolling up some of those residential assets might be increasing. Would love to get your take on where the industry is at regarding PE involvement in those areas or when we might see a slowdown in the residential churn?

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

A

So I can probably give you a good answer, Jerry, I bet John can give you a great answer, so I'm going to pass it over to him.

**John J. Morris**
*President, Waste Management, Inc.*

A

Yeah. Jerry, I think what you've seen over for, gosh, the last eight quarters, 10 quarters, 12 quarters is volume losses that have been 4%, 4.5%. And we've talked to everybody at the end of the year about us starting to see that moderate. So I think two things are happening. You're starting to see the front end of that moderation, obviously the 200-plus basis points in defection improvement.

More importantly, though, is I think when you look at the performance of that business, not just because what we've done about being selective on the top line of what we would take and the contract improvements, et cetera, but what we've done in the middle of the P&L there to make that a much more competitive cost model.

We've more than doubled the EBITDA margins in the last four years in that business. And we said that when we got to the point where that line of business started to compete for investment with our other opportunities, that we saw that turn into an opportunity for growth. Now we're not there yet, but you're starting to see the moderation, and we do think probably sometime middle to end of 2027, we could see a pathway to us getting to flat to positive, and that's where that starts to become a growth opportunity. But it's important to note, it's not just price on the top line. It's really what the team has done to modernize that business model in the middle and make us that much more competitive.

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

A

I knew you'd give a great answer.

**Jerry Revich**
*Analyst, Wells Fargo Securities LLC*

Q

Thank you.

**John J. Morris**
*President, Waste Management, Inc.*

A

[indiscernible] (00:48:44)

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

A

Yeah. Great answer.

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

**Konark Gupta**
*Analyst, Scotiabank*

Q

Thanks. Good morning. I just wanted to dig into the margin outlook for the second-half. So if you look at the first-half, I think your margins were up 60 basis points, versus prior year. The guidance implies, I think 30 basis points for the second-half improvement over last year. I'm just thinking, like in the second-half, you have wildfire comps, which are easier. You have recycled commodity prices are higher. Surcharges are lesser than the first-half. So what could potentially be weighing on the second-half margin improvement versus the first-half?

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*

A

Yeah. I mean I think as we guided to the 20 basis points improvement for the full-year, earlier on the call, Q2 was by far our toughest comp, I mean margins improved 110 basis points sequentially, to 30.9%, and really proud of the team's efforts to get that number. What you should expect to see as margins progress in the back-half of the year is they should progress from that level into the back-half of the year. It may not be a straight line, but we do expect to see elevated margins for the back-half of the year. And again, you highlighted really the key contributors, which is we have only a small wildfire impact in the third quarter. It's pretty de minimis.

And then we are assuming that the fuel surcharge becomes less of an impact as we get late into the year. You also heard other commentary around commodity pricing. If you think about on the renewable energy side, as Tara alluded to, a lot of that is kind of locked in already. So we have that kind of baked in as well.

And then if you step back and just look over the last three years, we have improved margins by 70 basis points on average. And our expectation for this year is this will be the fourth year of margin expansion as well.

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

A

I think, David, one other thing that I would mention also is WM HS. I mean if you think about the price side of it, we will exit the year at 5.7%, finish this quarter at 4.5%. And we continue to see improvement on the cost side. So WM HS is really starting to flex its muscles a little bit in terms of adding to the good picture.

**Konark Gupta**
*Analyst, Scotiabank*

Q

Thanks for the color. And while we are at WM HS, any thoughts, Jim, on your revenue outlook for that business now? It seems like it is almost fully integrated here. You are hitting some strides on the cross-selling side of things as well. Do you see some growth in the back-half heading into 2027?

**John J. Morris**
*President, Waste Management, Inc.*

A

Yeah. If you recall, we talked about the headwinds we knew were going to be facing that business in the first-half of the year. I think the number we gave was about $40 million of known losses on the hospital side of the house, which are obviously starting to sunset. And I think we're going to obviously see that and I made that comment in my prepared remarks. We are going to see price performance continue to improve for all the revenue quality issues that Jim addressed earlier. I think we are continuing to see strong SG&A improvements, too. We talked about that. And that relates back to the margin commentary you just heard from David and Jim.

And Jim commented on one. We've got a $15 million win out of one of the national account businesses. So there's a lot of detail, not that I'll bore you with it, but we feel very confident that not only is the price going to accelerate through the back-half of the year, but a lot of the volume wins we've talked about for the last couple of quarters really have moderated in the first-half of the year, and we're confident we're going to see that benefit in the second-half.

**Konark Gupta**
*Analyst, Scotiabank*

Q

That's great. I appreciate the time. Thank you.

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

**Sabahat Khan**
*Analyst, RBC Capital Markets*

Q

Great. Thanks very much. Jim, maybe taking that discussion maybe to the medium-term, heard a lot of the comments around the Healthcare business accelerating through the back-half of the year. Now that it's fully integrated, you've had some time to look at it. Could we maybe revisit your sort of medium-term outlook for that business? Do you still expect it to grow sort of maybe in line or whatever the current view is relative to the rest of the base business? Maybe just talk to us about what you've seen in the last little while on the top-line opportunities, and maybe just focusing on the growth versus the margin side for maybe the next few years? Thanks.

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

A

Great question, Sabahat. And we focused so much over the last couple of quarters when we talk about WM HS on things like the billing and short-term items, which were the right things to focus on because there was this longer integration going on. But now that we feel like we're integrated, we can really focus on what this business – to your question, what the business looks like for the medium and long-term? And I've said it before, but if you think about this space, meaning healthcare and the aging population, all of those reasons why this was an attractive business for us, none of those are changing.

All of those are still good stories for this business specifically. So we're – I don't know whether relieved is the right word. We are relieved to have this business largely integrated now. And now we can really focus our sales team, our national accounts team, our operating team on all those things that we do well, our pricing team. And then when you add to that the macro effect of demographics and growing healthcare expenses, this really is going to end up being a fantastic business for us, exactly what we thought. So I haven't changed my optimism when I think about the medium-term and the long-term.

**John J. Morris**
*President, Waste Management, Inc.*
A

Jim, the one thing I might add that we're seeing is we get better integration into the business, to your point. Now this does become more and more of the scrambled egg, which is a lot of the benefits of the business. We talk about, for instance, we commented on what benefits are coming from cross-selling, right? $32 million going to $50 million, probably getting there a little quicker than we anticipated. Keep in mind, that's not just going to show up in the Healthcare segment. A lot of those benefits and some of the go-forward benefits we've identified, whether it's back-office, real estate, all those things, are going to accrue to WM, but they're not going to be necessarily specific to what you see in a Healthcare segment by itself.

**Sabahat Khan**
*Analyst, RBC Capital Markets*
Q

Great. And then just for my follow-up, not meant to be a throwaway, but just as we think about capital allocation, this business largely integrated, you're doing dividends, buybacks. I guess, what does the sort of medium-term focus look like on the capital allocation front? Or what's next for WM on maybe any larger investment as sort of the RNG projects or cycling facilities in [ph] Stericycle (00:55:44) are sort of getting wrapped up? Thanks.

**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.*
A

Sure. Yeah. I'll start. If you think about with the acquisition of Stericycle, and you also kind of look even back to when we acquired ADS, what we've demonstrated is really a good track record of being able to de-lever really quickly and get back to our targeted long-term leverage range and maintain that healthy credit profile. And kind of with that as the backdrop, our capital allocation framework really hasn't changed. We alluded to earlier that we're going to index a bit higher on tuck-in M&A activity, as an example.

But in terms of the prioritization, in terms of how we are focused on funding and investing in the base business to maintain the best assets in the industry, supporting the dividend, prioritizing and funding growth that's in line with our strategies and our competencies, and then always having kind of an outlet for returning excess cash to shareholders.

None of that really changes. It's really just tuning the dial based on the opportunities that we have. You alluded to our heavy push in sustainability. I mean, we do have some additional investments going into those areas, but it's on a much smaller scale right now. But we are continuing to invest in the business as we see opportunities.

**Sabahat Khan**
*Analyst, RBC Capital Markets*
Q

Great. Thanks very much.

**Operator**: Thank you. Our next question in queue coming from the line of Adam Bubes with Goldman Sachs. Your line is now open.

**Adam Bubes**
*Analyst, Goldman Sachs & Co. LLC*
Q

Hi, good morning. First question is on RNG, and what we've seen from a lot of landfill gas developers is that the facilities can take several years to reach sort of normalized utilization levels once online. Does the 25 million MMBtu production run rate, is that represent like a normalized production level, or should we think about that as a conservative base from which volumes can continue to grow?

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**Tara J. Hemmer**
*Executive Vice President and Chief Operating Officer, Waste Management, Inc.* A

So you're right. There is a ramp period when we bring online an RNG plant, and that's something that our team has done a fantastic job of really accelerating compared to our industry peers, and we also have one of the highest up times in the industry when you look at how we operate our RNG plants compared to others. So the 25 million MMBtu is really a focus on, one, what those plants look like once they've gotten through their sort of six-month shakedown period, and then also how we're looking at the ramp of landfill gas volumes at those sites.

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**Adam Bubes**
*Analyst, Goldman Sachs & Co. LLC* Q

Got it. And then just a follow-up on the margin outlook for the back-half of the year. So I think the full-year margin guidance implies 30 basis points of margin expansion in the back-half. In 2Q, you did 40 basis points of margin expansion, and you'll have an absence of the wildfire comparison in the back-half, which should be a tailwind relative to 2Q expansion. And it sounds like the impact from – the fuel impact is easing as well in the assumption. So just trying to – what's driving, like, the lesser margin expansion in the back-half than the 2Q level?

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**David L. Reed**
*Chief Financial Officer & Executive Vice President, Waste Management, Inc.* A

I mean, so we're calling for – I mentioned the 30.9% that we posted in Q2. We're calling for Q3, Q4 to be higher than that level. It won't be a smooth straight line in terms of Q3, Q4, but we are showing a net-net expansion for the second-half of the year.

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

Remember last year, Adam, that the back-half of the year was our strongest margined year, so we're going to have a tougher comparison as we go through the rest of the year. But as David pointed out, we're expecting to see continued margin expansion as we go through.

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**Adam Bubes**
*Analyst, Goldman Sachs & Co. LLC* Q

Thanks so much.

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

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**Bryan Burgmeier**
*Analyst, Citigroup Global Markets, Inc.* Q

Hey, good morning. Thanks for squeezing me in and taking the questions. You flagged some labor cost increases in your prepared remarks. I think it's up maybe 4% in the first-half of the year. I guess, just how did that compare to your original expectations, and are you assuming a step up or step down in the second-half?

---

**John J. Morris**
*President, Waste Management, Inc.*

A

I would tell you, Bryan, I looked at this actually just in the last 24 hours. It's about what we expected. We said 4% to 4.5% was sort of the wage inflation. If you look back what it was a handful of years ago, it was higher than that. But in terms of what we expected, I think we're right in the range that we thought we would be. And that's why I think it's that much more impressive when you look in particular at the Collection business, the comments I made that our folks were able to push the cost increases sub 2% when, as one example, labor is just north of 4%.

**Bryan Burgmeier**
*Analyst, Citigroup Global Markets, Inc.*

Q

Got it. Appreciate that. Last quick question from me, and I'll turn it over, is just curious the outlook for Healthcare in the second-half of the year. Do you think we start to see some revenue growth in the third quarter after you lap those pricing actions? I think the EBITDA growth kind of has started to come through, but just curious on the revenue side. Thanks.

**John J. Morris**
*President, Waste Management, Inc.*

A

Yeah. Bryan, I think if you look at some of the revenue friction that was still there in the second quarter, we talked about that's going to moderate in the second-half of the year. And for us to still grow margin and EBITDA, I think is really strong. I think the momentum on SG&A being sub-20, ticking down towards 15%, 16%, the EBITDA margin growth. And then you couple all that with the headwind on the revenue side that is moderating and the pricing performance that Jim in particular has talked about the last couple of quarters, that's really starting to show itself in a good way. I think we feel good about the second-half of the year.

**Operator**: Thank you. Our next question in queue coming from the line of Stephanie Moore with Jefferies. Your line is now open.

**Stephanie Moore**
*Analyst, Jefferies LLC*

Q

Great. Thank you. Appreciate the question. Maybe talking on the margin performance in the quarter, and then the outlook for the second-half of the year, particularly the underlying margin improvement. It would be helpful if you could maybe bucket the areas where you are seeing strength. Maybe talk through some of the price-cost spread, the benefits you're seeing from your productivity and AI tools. Any way you could maybe bucket the drivers of the strong underlying improvement, that would be helpful. Thank you.

**John J. Morris**
*President, Waste Management, Inc.*

A

Yeah, Stephanie, I think you hit on a couple of points that are really important. I think your cost-price spread is one of them. We talked about sort of 250 basis points being a milepost, if you will. And the reality is, at least in this quarter, we outperformed that. I think if you look at just the Collection and Disposal business, net of wildfire impact, net of fuel, and there's always puts and takes, but those are two pretty significant ones for the quarter. Really impressed with how the team has performed.

And as Jim mentioned, from a volume perspective, I mean while we've got some green shoots, it wasn't a huge tailwind. And yet you look at the performance of the business from an EBITDA standpoint, EBITDA margin, OpEx, and the outlook for the back-half of the year, still maintaining our guidance is terrific. And we just talked about, I think the other momentum builder that we've been working hard at, which is really starting to show is the Healthcare business. And I think as I mentioned, you're going to see – you're seeing the benefit in the Healthcare segment performance, but you're also going to continue to see the benefits accrue to the broader WM portfolio.

**Tara J. Hemmer**
*Executive Vice President and Chief Operating Officer, Waste Management, Inc.*
A

The only other thing I think we should amplify is that all of our businesses are contributing to margin enhancements, not just for the first two quarters, but for the rest of the year.

**John J. Morris**
*President, Waste Management, Inc.*
A

Yes.

**Tara J. Hemmer**
*Executive Vice President and Chief Operating Officer, Waste Management, Inc.*
A

It really speaks to the diversified nature of our business, and we're able to pull levers in all of our spots.

**Stephanie Moore**
*Analyst, Jefferies LLC*
Q

Understood. Well, for the sake of everyone's time, I'll leave it at that. Thank you.

**John J. Morris**
*President, Waste Management, Inc.*
A

Thanks, Stephanie.

**Operator**: Thank you. Our next question in queue coming from the line of Connor Cerniglia with Bernstein. SG, your line is now open.

**Connor Cerniglia**
*Analyst, Bernstein Institutional Services LLC*
Q

Great. Thank you so much for having me. Earlier in the Q&A you mentioned, within the Commercial segment, a lost national account. Seems like this is the first time you all have really commented on weakness in the segment related to price. I don't want to blow things out of proportion, but is this a one-off or do you think this is early signs of maybe greater competition in the Commercial segment? I know Residential has been that way for quite some time. But do you see increased competition from Residential starting to bleed over into Commercial or is it just more of a one-off? Thank you.

**John J. Morris**
*President, Waste Management, Inc.*
A

I think it's probably more of a one-off. I mean we always have a lot of competition in the small and medium business segment. There's a whole host of competitors for that business within Commercial.

National accounts is really what I was referring to where we lost some business, and I don't see any additional competitors there. We have maybe a couple of national competitors and it's that few. And then we have a couple of brokers that can cobble together a network. And so they can compete with us. Typically, they compete on the price side, the brokers do. So we tend to see that business ebb and flow. It's been more of a flow than an ebb.

But for the first-half it was a little bit of a negative impact from some accounts that we lost back-half of last year and maybe into the front half of this year. Overall, the national accounts business from both a volume and a price and therefore an earnings standpoint, has been growing significantly for us over the last probably three to four years. So I would not read anything into my comments about losing a bit of business in national accounts in the Commercial line.

**Connor Cerniglia**
*Analyst, Bernstein Institutional Services LLC*

Q

Great. And for the sake of time, I will leave it there. Thank you so much.

**John J. Morris**
*President, Waste Management, Inc.*

A

Thank you.

**Operator**: Thank you. Now I'm showing no further questions in the queue at this time. I will now turn the call back over to Mr. Jim Fish, WM CEO, for any closing remarks.

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

All right. Thank you. Well, I don't have a lot of closing remarks. I'll just say thank you all as always for joining us and thank you for your very good questions, and we'll see you next quarter.

**Operator**: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and you may now disconnect.