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Waste Management, Inc. (WM)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the WM Third Quarter Earnings Conference Call. At this time, all participants are in 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 speaker host, Ed Egl, Vice President of Investor Relations. Please go ahead.

Ed Egl

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

Thank you, Livia. Good morning, everyone, and thank you for joining us for our third quarter 2026 earnings conference call. With me this morning are Jim Fish, Chief Executive Officer; John Morris, President; David Reed, Executive Vice President and Chief Operating Officer (sic) [Chief Financial Officer] (00:00:40), and Tara Hemmer, Executive Vice President and Chief Operating Officer.

Jim will cover high level financials, John will cover an operating overview and provide a strategic update, and Dave will cover the details of the financials. Following 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 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.

We 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, we 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 expenses to depreciation, depletion, amortization and accretion to enhance comparability and better reflects operating performance.

For comparability purposes, 2025 actuals have been updated to reflect that change. Any comparisons, unless otherwise stated, will be with the prior year period. Net income, EPS, income from operations and margin, operating EBITDA and margin, operating expenses 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 October 28, 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 today. As most of you know, after [Technical Difficulty] (00:03:36) including 10 years as CEO, I'll be retiring in early January. At that time, John Morris will become WM's new CEO. John's promotion is the result of a thoughtful, deliberate succession planning process by our board of directors, and I have the utmost confidence that John is the right person to lead WM into its next chapter and build on the momentum that we've established.

Looking at the results, we're right on track to achieve our guidance for the full year, with revenue and free cash flow expected to finish at the high end of our ranges. During my tenure as CEO, we've achieved or beaten our original operating EBITDA guidance every year except for 2020 during COVID, and we're on track to do that again this year.

Taking a look at the third quarter, the company grew operating EBITDA by 5.8%, grew revenue by 6.3%, continued to reduce our SG&A down to 9.3%, maintained operating EBITDA margins at 31% in the face of strong headwinds from fuel and grew free cash flow by 20%.

And lastly, I'm pleased that our Healthcare Solutions business is in such a good place after two years of hard work on the integration. For the first time since the acquisition, revenue was up year-over-year, and we grew operating EBITDA 33%. I believe this is going to prove to be one of the best acquisitions in the history of the company.

So I want to finish my brief remarks today with a thank you and a farewell. It's been a tremendous privilege to be in this role for 10 years at this great company and to work with such a fantastic team of 60,000 people. You are all truly amazing. I want to say to our many investors and to each of you on the sell-side who cover our stock, how much I've appreciated all of the support you've given me over the years, your questions have been fair, your coverage has been comprehensive and intelligent, and your faith in us has been unwavering.

And I wanted to tell a quick story here. When I was just coming into my CFO role and my first investor meeting, Ed and I were out in San Francisco, and we met with Charles Ellwein at Capital World. And in my naive way, I told him that we had a plan to get SG&A down to 11%. I think at the time, it was at 12.7%. And so Charles, in a nice way, but in a firm way, said, Jim, I know you're new in the job. And just so you know, though, we've heard that from you guys for a long time. And to be honest, I don't believe you. I'll believe it when I see it. And so a couple of years later, when we actually did get SG&A down to 11%, I'll never forget Charles called me and he said, Jim, I didn't believe you at the time, but you did prove me wrong, so thank you for that and great job. And I don't know whether Charles is on the call today, but I have to say that no other call from an investor meant more to me than that call that day from Charles. And now that we're at 9.3%, and I expect that to drop below 9% at some point down the road, I do think back on that. So I want to tell that story.

And then lastly, I want to tell you that I am leaving WM with tremendous confidence not only in John, but in Tara, and David, in the rest of the senior leadership team and the entire leadership of WM. The company is in such a great place strategically, financially, customer-wise. And when I'm no longer on the inside, I will have the greatest trust in this management team. I love the culture that we've built here at this company, and I strongly believe in the long-term strategy of the company. So I am truly a shareholder for the long term.

It's been a joy for me to work alongside so many amazing people over this 25 years, and I look forward to supporting John and the team through the transition and watching WM continue to create value for all of its stakeholders.

And so with that, I'm going to turn the call over to John and he can share his perspective on the quarter, on our outlook, and on the opportunities ahead for WM.

John J. Morris

President, Waste Management, Inc.

Thanks, Jim. It's certainly an honor to have the opportunity to lead WM, and I appreciate the confidence that you and the board have placed in me. Over the years, I've experienced firsthand the strong foundation we've built centered around our people, culture, and strategy. And I look forward to building on that foundation and driving opportunities to deliver value for our customers, employees, communities, and our shareholders.

So now let's turn to our performance in the quarter and our outlook for the business. WM delivered another quarter of solid operating and financial performance. Operating EBITDA grew 5.8%, driven by strong price-to-cost spread in the collection and disposal business and growing contributions from our healthcare and sustainability businesses. Our results reflect the earnings power of our diversified business as growth came from every one of our operating segments with operating EBITDA increases of more than 30% in each of the healthcare and sustainability segments in the quarter.

In collection and disposal, disciplined pricing and technology-enabled cost optimization continued to drive results. Core price again was strong at 5.8% for the quarter. And despite a 70-point headwind from higher fuel costs, total company operating expenses remained below 60% of revenue, demonstrating the increasingly important role technology, combined with process improvements, is playing in sustaining our performance and helping us to structurally lower our cost to serve.

Growing the collection and disposal business through tuck-in acquisitions remains a strategic priority. We've completed \$239 million of deals through the first nine months of the year and expect to close another \$140 million in the fourth quarter. We've also signed a \$250 million transaction that we expect to close early next year and our pipeline remains robust, supporting continued acquisition activity into 2027.

Turning to healthcare solutions, I am very pleased with the progress we've made in the business in the third quarter with revenue up by 3.7% and operating EBITDA increasing 33%. We had two year-end targets for the business as we exit 2026 – core price at 5.5% and SG&A of between 15% and 16% of revenue. We achieved both of those targets earlier than expected, with third quarter core price coming in right at 5.5% and SG&A at 15.2% of revenue.

This progress reinforces our confidence that we can bring the same price and cost discipline to healthcare that has driven our success in solid waste. The benefits of disciplined investment and execution are evident in our sustainability businesses, where the projects we brought online are increasingly contributing to revenue and earnings growth. Recycling processing and sales segment operating EBITDA increased 40% to \$91 million in the

third quarter. That strong growth reflects the benefits of our investments in our automated network as well as year-over-year improvements on our blended average commodity price.

On the renewable energy front, we added a new renewable natural gas facility in New York during the quarter, marking the 18th facility completed since 2022. Segment operating EBITDA grew more than 35% despite slightly lower RIN pricing as compared to the prior year. With more than 90% of our expected 2026 production and about 40% of our 2027 production already contracted, we are also improving earnings visibility and reducing commodity price exposure.

As we move through the fourth quarter and prepare for 2027, our priorities remain clear – maintain disciplined price-to-cost spread, continue embedding technology and process improvement across our operations, execute additional tuck-in M&A, and capture the earnings and free cash flow benefits of our strategic investments. Our focus on these priorities gives us confidence in our ability to deliver strong results in 2027.

Before I close, I want to thank our employees for their dedication and commitment they bring to serving our customers and communities every day. Our performance is a direct result of their hard work and strong execution, and I deeply appreciate all they do.

And with that, I'll turn the call over to David.

David L. Reed

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

Thanks, John, and thank you all for joining us. We are pleased to report another quarter of growth across each of our operating segments. The breadth of this performance underscores the durability of our business model and the consistent execution of our teams. In collection and disposal, favorable price-to-cost spread added 40 basis points of underlying margin expansion. Healthcare solutions contributed another 30 basis points from cost management and pricing growth as we continue to realize the benefits from the integration and begin to see pricing traction.

These core business contributions were offset by primarily a couple of headwinds, 40 basis points from higher fuel costs and 40 basis points from increased risk management costs within our corporate and other segment. Even with those headwinds, the underlying performance of the business remained strong and demonstrated our ability to protect profitability while continuing to invest for long-term growth.

Turning to revenue, strong pricing results were led by the commercial line of business. Collection and disposal volume was modestly negative, primarily reflecting continued intentional residential losses, which have improved each quarter this year, and the national account broker losses in commercial that we discussed last quarter. Overall, our core price and yield are tracking to the high end of our guidance, with volumes still expected to be about negative 1% for the year or negative 50 basis points when excluding wildfire cleanup volumes from the prior year.

Our energy surcharge program continues to effectively recover higher direct and indirect fuel costs in both the solid waste and healthcare businesses, even as diesel spiked to record highs in the quarter. Finally, higher recycling and renewable energy volumes from completed growth projects and year-over-year increases in recycling commodity prices added to the top line.

Turning to SG&A, expenses improved 70 basis points to 9.3% of revenue in the third quarter. This improvement reflects disciplined cost management across the company together with continued synergy capture from the

healthcare solutions business. As John mentioned, healthcare solutions SG&A was 15.2% of revenue in the third quarter, reaching our year-end target ahead of schedule and representing a 390-basis-point improvement compared to the prior year. This reinforces our confidence in the integration and earnings potential of the business as we continue to streamline support functions, drive operating leverage, and scale the platform.

Our earnings growth continues to translate into robust cash generation. During the first nine months of the year, operating cash flow increased 12% compared to the same period in 2025. As planned, capital spending declined by more than 17% from the prior year, reflecting normalized investment in collection vehicles and lower sustainability capital as we approach the completion of our planned investment program. Together, these results drove free cash flow of over \$3 billion, up more than 42% through the first nine months of the year, with operating EBITDA conversion of more than 50% – of 50%.

We remain focused on converting earnings growth into cash efficiently while funding the investments that support safe, dependable operations and attractive long-term returns. We allocated more than 90% of that free cash flow to shareholder returns during the first nine months of the year, repurchasing \$1.58 billion of our shares and paying \$1.14 billion in dividends. That balanced approach reflects our confidence in the business and our commitment to returning capital to shareholders while maintaining the financial flexibility to invest in our strategic priorities.

We also remained within our target leverage of 2.5 times to 3 times, ending the quarter at 2.92 times. Our strong cash generation, disciplined capital allocation, and continued focus on the balance sheet position us well to create sustained value.

Finally, let me bring the pieces of our outlook together as we look to the balance of 2026. Strong pricing, cost optimization, and robust cash generation through the first nine months position us well to deliver our full-year outlook. We expect operating EBITDA to be within the guidance range we established at the beginning of the year, and we anticipate revenue and free cash flow results to be at the high end of our prior ranges.

Our expectations include full-year SG&A of about 10% of revenue, reflecting cost discipline across the organization and the success of our integration in healthcare solutions. Overall, the resilience of the solid waste business, continued progress in healthcare solutions, and growing contributions from our sustainability investments reinforce our confidence as we close out 2026 and build a strong foundation for continued growth.

In closing, I want to thank the entire WM team for their hard work throughout the quarter. We enter the final months of the year with strong momentum, clear priorities, and confidence in our ability to finish 2026 on a high note.

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

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] And our first question coming from the line of Tyler Brown with Raymond James. Your line is now open.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Hey, good morning.

Q

James C. Fish, Jr.

Chief Executive Officer & Director, Waste Management, Inc.

Good morning.

A

John J. Morris

President, Waste Management, Inc.

Good morning.

A

David L. Reed

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

Good morning.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Hey, Jim, it's been a pleasure. Wishing you definitely all the best, and John, big congrats. But hey, David, just appreciate the guidance color, but I was hoping for maybe a little more color just on the Q4 EBITDA shaping, I mean the range is still, call it, \$100 million at the EBITDA line. I mean, we typically see a slight step down in margins sequentially into Q4. Is that what we should expect? And would we maybe be shading towards the lower end on EBITDA for Q4?

Q

David L. Reed

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

Sure. I can give you some color here. We're obviously very pleased with the results through year-to-date. And fourth quarter should be consistent with the results we've posted all year. And note that similar to last year, we did have improving margins sequentially through the year, and we expect our best performance from a margin perspective in Q4. But having said that, if you think about the margin impact of fuel this year, which we are assuming is about a 40-basis-point impact, our year-over-year margin comparison will likely be a bit lower than the fourth quarter of 2025, all else equal. So that probably helps give you a little bit of color.

A

And then in terms of a couple of things just to keep an eye out in terms of what would progress that performance up from there is really if you think about – well, we do have sequential improvement in our renewable energy business from Q3 to Q4. That will happen as most of our shortfall in RNG production related to startup activity that we alluded to last quarter actually occurred in the third quarter. So you'll see a pickup in the fourth quarter. But then if you think about our sustained strength in our pricing program, both in solid waste and in healthcare, along with any improvement in the volume landscape, particularly things like special waste, that would aid our relative

performance. And then finally, the last thing I'd point out is just obviously any incremental strength in recycling commodity prices would further improve our Q4 results towards or above the midpoint.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Okay. Okay. That's helpful.

Q

David L. Reed

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

Yeah.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Yeah. Go ahead. Sorry.

Q

David L. Reed

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

Stepping back, I would just say if we think about the guidance range in general, given where we started at the beginning of the year and the moving pieces and the dynamics, we're definitely impressed with the resiliency and the strength of the business.

A

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Yeah. Okay. Perfect. And then, John, I think you mentioned that risk was a sizable headwind. So one, to be clear, was that in corporate? And two, was it accident or insurance premium related or what exactly is that? And then is that something that lingers into Q4 and into 2027 or how should we think about that?

Q

John J. Morris

President, Waste Management, Inc.

So, Tyler, it's a good question. I would tell you first and foremost, it's not related to our safety performance. It has more to do with sort of an out-of-period adjustment that happened in Q3. But if you look at our safety statistics and performance, that is not what's driving it. In fact, across the broader business, including our healthcare business, we're seeing a nice improvement in our recordable injury rate and our accident rate. So it's not that, but I'll let David comment on the actual number for the quarter.

A

David L. Reed

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

Yeah, there's an element that's in corporate and other and then an element outside of that. But for the company in general, it's about a \$63 million increase year over year for Q3. The higher risk costs were attributed to three items, the first of which is we had a negative impact associated with our third quarter actuarial adjustment. It's always a little bit of a wildcard, but I would point out that this follows six consecutive quarters of positive variances against our actuarial report. And so as John alluded to, this should – it's not to be construed as a trend or a fundamental change in terms of the frequency or activity of events.

A

Secondly, we had some cost estimate increases associated with a few large loss claims that were accrued during the third quarter. And then third, we had a tough comp versus last year where we had an insurance recovery in

the third quarter of last year. So the expense was higher than we expected, but we don't expect that to have an outsized negative impact as we carry forward.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Okay. Excellent. Yeah, Tara.

Tara J. Hemmer

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

And just to highlight one important point, about \$40 million of that was in corporate and other, and \$23 million was in collection and disposal. So that's something that's impacting the collection and disposal growth.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Okay. Excellent. Perfect. Great color. And then just last one real quick. I just want to make sure that I'm reading the release correctly, which is always a little risky. But I think healthcare revenue was up maybe 4%. But if I look at core price and volume, it only contributed maybe \$1 million to revenue growth. And I think, John, you said that core pricing was up 5%. So were volumes down about 5%? It seems that maybe most of that 4% was from fuel surcharges. But I guess regardless, it seems like good SG&A management and the core pricing is what's driving the EBITDA there. Just any color there would be helpful.

John J. Morris

President, Waste Management, Inc.

Yeah, I think you hit some of the big pieces of that. We're really proud about where core price is at 5.5%. We said a handful of quarters ago, I think I said we think that at some point that'll approximate what we do with the solid waste business. We had targeted to be at 5.5% at the end of the year. We're there at the end of Q3. SG&A, we said 15% to 16% at the end of the year. We're closing in on 15% at the end of Q3. So really good story there.

I think the EBITDA comment you heard from Jim and from myself at over 30% improvement shows that we're taking a lot of the – what we would call the WM way and working on price-to-cost spread and whatnot. There are still some volume headwinds that we've talked about. What I would tell you, Tyler, is when you look at the trends, I'm not putting a stake in the ground to say when they're going to get positive, but I will tell you both on the secure document side and on the healthcare side, we're seeing improving trends as we go into 2027.

And lastly, there was some tailwind too from the fuel side in the healthcare business. But overall as Jim mentioned, it's been two years of hard work, and I feel like we're really starting to hit our stride here in terms of what it's doing for the business from a segment perspective and also what it's doing on the other side of the fence, if you will, with regard to the benefits on the core solid waste business.

Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Okay, perfect. Excellent. Thank you, guys.

Operator: Thank you. 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

Yes, hi. Good morning, everyone. And Jim and John, congratulations. Jim, I think the stock is up 6x since you were appointed CFO, so really fantastic performance by the team.

James C. Fish, Jr.

Chief Executive Officer & Director, Waste Management, Inc.

Thanks, Jerry. Thank you.

Jerry Revich

Analyst, Wells Fargo Securities LLC

I want to ask in terms of – we had some lumpier costs this quarter. Obviously, risk costs can move around on us. As you folks think about pricing heading into 2027, are you thinking about pricing for potential additional one-off risks? Should we expect 2027 to be an outsized year of the price-cost spread for you folks, given some of the variability that we see here?

Tara J. Hemmer

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

Jerry, the one area that we're really focused on is landfill and transfer station pricing. We think that we have an opportunity if you look at where our post-collection assets are and how critical and advantaged they are within the network. And also, we are experiencing some increased landfill operating costs and we expect those to persist. A great example of that is in California where there's new legislation that will require enhanced monitoring and some other things that will flow. And we know that we can pass along these costs through pricing and leverage that. So as we look to 2027 and beyond, we're going to look to continue to enhance our landfill and transfer station pricing.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Super. Thank you, Tara. And then can I ask, in terms of the update on the RNG development plans, well, it looks like those are coming along nicely. D3 RIN prices obviously a bit softer recently. Can you just talk about directionally the incremental earnings that you're expecting 2027 versus 2026? I know you'll give us a wholesome update in about three months, but I'm wondering based on what you folks have been able to put into service, how does the growth 2027 versus 2026 compare to what you folks had laid out maybe six months ago?

Tara J. Hemmer

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

Sure. When we look at the renewable energy business, what we reflect on is that we're through so much of the hard things. We have all of these plants constructed 18 of them online. We'll have another one come online in Q4, and the last one will come online in early Q1 of 2027. We've learned a lot of lessons along the way on what it takes to start these up. And we have also gotten through a lot of the pipeline issues that we referenced that impacted really Q3 of this year.

The other thing that we've demonstrated is our ability to navigate pricing. We had given a outlook of \$26 as a long-term number. This year we should land a little bit higher than that, more like \$27. And that price impact from a flow-through perspective is being impacted by lower production, which we've already talked about.

So we're pleased with the progress. The rollover impact we are going to see increased EBITDA from these plants, those that came online in 2026 and also in 2027. And we – last thing I will say is we gave this framework of 80-40-20 to have 40% of our volume locked up for next year, and we're at that number today. So we feel very confident about our ability to hit the \$26 number. We'll give a little bit more color on the EBITDA ramp in early 2027.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Appreciate it. Thank you.

Q

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

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Thanks, so much. I was hoping you could update us on some of the volume trends in the core business, including particularly the intentional shedding in resi. Are we through with that at this point or is that going to continue?

Q

John J. Morris

President, Waste Management, Inc.

Yeah. Good morning, Toni. Thanks for the question. For the full year, we said we'll be about a 1% decline in volume or about 50 basis points if you take out the wildfire comp year-over-year. To your question though, I would tell you, starting with residential, we're pleased with what we're seeing, which is what we told you folks is in the second half of the year, we'd start to see this trend towards positive. And so while we're minus 3.5% year-to-date, we're 2.6% for the quarter. And so we're tracking along.

A

What I would also tell you is if you look at the core price yield and revenue build for residential, we're up about \$40 million in revenue despite the volume loss. So we're tracking the right way there. We've said, again, not putting a stake in the ground on when it's going to go positive, but we feel good about the trend going into 2027.

To continue on volume, if you look at our industrial roll-off, it was flat, slightly positive, which is, frankly, what we've been seeing through the year. That's probably a line of business got some indication of what's going on in the broader economy, in particular around construction. So even though that's been a headwind on the construction and disposal volumes, we're pleased that our roll-off volume has held up. That tells you about the rest of the industrial line for us.

Commercial down about 1.3%, which was slightly more negative than what we printed in Q2. I would tell you, it's really two major things. It's one is what we talked about, some national account broker decisions that we made last year that we should lap right around the end of Q1 and then a little bit of pressure on the SMB business, but I would tell you where construction and housing are doing what they're doing, it's not a total surprise that we're not seeing the same strength in the business formation.

What I would tell you, though, is some of the metrics we keep an eye on, whether it's service increases and decreases, whether it's our churn rate, our ability to get pricing in commercial, even in this high fuel environment, we are seeing no wavering in that. In fact, we've seen some positive trends there, net of these two bullet points in commercial.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

That's great. And then shifting to technology investments, hoping you could just give us some color on benefits you've been seeing from maybe the pricing program and what's sort of next on the technology side? Thanks.

Tara J. Hemmer

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

Sure. Obviously, technology is something that we've leaned into as a company, and we've been leaning into for some time, whether it's Smart Truck that we have on our trucks that helps us look at where we might have overages, that's something that we're continuing to enhance. And then on the operating side, we have technologies in play that are helping us with the health and safety of our employees, some tools in our trucks and also routing algorithms. We have something called MBO on the industrial side of the business that's helping us route on a daily basis much more effectively and using it for traffic conditions in real time. And we're also looking at where we might have opportunities to leverage AI in some unique applications related to helping our dispatchers. The way I would frame our technology journey is this is something that's been a part of our fabric for several years now, and it's going to be what we lean into to continue to expand margins in that 50 basis point to 100 basis point range consistently over time.

John J. Morris

President, Waste Management, Inc.

That's a great answer, Tara. I think the one thing I would add, Toni, is on the healthcare side too, we're in a very early innings, and we've talked about the benefits of our technology applications over top of what healthcare is. And it's the things Tara talked about, sort of the operating expense benefits we can get from routing and the other forms of technology we're embedding in the business. One example there is, we've been upgrading a lot of the robotics capabilities inside some of the processing plants, which is helping us meet some of the challenges with the broader labor market.

And then I think on pricing, I mean we've talked about this a good bit. I think the predictive analytical tools that we've built, Mike Watson and team, have shown up and continue to show up in our ability to syndicate pricing across the broader business. And frankly, you're really starting to see it show up in the healthcare business in the last few quarters.

Toni Kaplan

Analyst, Morgan Stanley & Co. LLC

Thank you. And I'll add my congratulations to Jim and John. Sorry about that. All right. Thank you.

James C. Fish, Jr.

Chief Executive Officer & Director, Waste Management, Inc.

Thank you.

John J. Morris

President, Waste Management, Inc.

Thank you.

David L. Reed

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

Thank you.

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

Tami Zakaria

Analyst, JPMorgan Securities LLC

Hi. Good morning. Thank you so much, and congrats to both Jim and John. I wanted to follow up on Toni's question. In hindsight, what are some of the key reasons or factors that drove your volume outlook to fall short this year versus your original expectation of it being up?

John J. Morris

President, Waste Management, Inc.

I think there's two places where it's probably, Tami, a tad softer than we originally anticipated. I mean, clearly, you see some of the volume declines in residential, a lot of that was planned, but it is contributing to the negative volume print. And I think when you look at, there's a little bit of softness in some of the landfill volumes, I mentioned C&D, I think that's actually more a reflection of what's going on in the broader economy. And the other one was commercial. And no, it's not far off what we predicted. I do think some of what we're seeing in the macro environment is impacting some of the business formation in the commercial line of business.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Understood. That's very helpful. And then, excellent margin performance in the quarter on the healthcare side. As we look into the fourth quarter, are you still expecting healthcare growth, sort of exiting the year with a mid-single-digit percent type of growth rate?

John J. Morris

President, Waste Management, Inc.

Well, listen, we're really proud about the progress we made in the first half of the year, and then going into the second half of the year. I know Brent and team are working hard to do two things. One is continue to make progress in the middle of the P&L, and you've seen the focus on SG&A line and the progress that they've been able to deliver there, in addition to the pricing progress through the end of Q3. I would tell you, we're not going to take our foot off the gas there. And as Jim mentioned, I think is as we start to unpack more and more of this healthcare business, we see it as a really good strategic investment going forward.

Tami Zakaria

Analyst, JPMorgan Securities LLC

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.

Yes. Hi. Thank you. Good morning. And congratulations from me as well to both Jim and to John. I guess, John, I'm curious as you step into the CEO role, how should we think about your strategic focus, priorities. I know you've

talked about potentially higher level of solid waste M&A, but curious if there's other areas of investment that you're thinking about just kind of what your priorities are and if anything changes.

John J. Morris

President, Waste Management, Inc.

A

Well, I think what you've heard from Jim and David and I over the last couple of quarters is, one, certainly being focused on returning cash to shareholders, and we've talked a lot about that and I'm sure David will get a chance to comment a little bit more on that. We do think now that we feel like we've turned the corner, if you will, on healthcare, we've got the ability to be a little more aggressive in terms of what we do on the core solid waste side, and we see that as a strategic priority.

And as referenced in my prepared remarks, what we've done through the year-to-date, what we expect to close in Q4, and what we've already got teed up for the first quarter suggests that we've got good runway. And listen, that's a core competency of the organization is to bring in those core solid waste businesses and tuck those in. At the same time, I think you'll continue to see us build on the healthcare business and look for further ways to integrate and take the advantages of cross-selling in addition to some of the operating expense opportunities we have in that business. And I think other than that, I think you're going to see us continue – there's not going to be any big shifts in the way I think just because Jim is going to retire here in a few months. We've all worked together for a long time and built this strategy collectively. So I feel like we've got a terrific path charted that we're going to continue to pursue.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you. And then question for David regarding free cash flow. So I know you're saying you're not going to be at the high end of the free cash flow guide. And you haven't been specific around where in the guide you land on EBITDA. So just curious kind of what's driving that higher free cash flow. Is it timing? And kind of any thoughts or whether that impacts next year?

David L. Reed

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

A

Sure. I mean, we're very pleased looking three quarters into the year with printing over \$3 billion of free cash flow and then obviously the strong, almost aspirational number, but hitting the strong EBITDA to free cash flow print of 50%, which was really great to see. A lot of that was expected. We've talked a lot about this year being harvesting. So the strong earnings growth, the lower capital spending that we've been alluding to for a number of quarters now are playing out as we anticipated.

I will say a couple of other areas that have been pleasant surprises. Cash taxes was a bit favorable relative to what we thought we were going to have for this year. And then we've had a nice improvement – a nice sustained improvement in working capital, particularly around accounts payable. And that's been driven by some of our active strategies in vendor management. So that's kind of given us a little bit of extra push in terms of our results and expectations for the year.

As we look into the fourth quarter, I do anticipate that we'll have sequentially higher CapEx spending, which is common as we close out the year. And so from a – while we're going to be within our guidance range for capital spending, we're probably going to be more towards the higher end at that \$2.75 billion number as well. So again, really good result for the year. We talked about this being the year of harvest and returning cash to shareholders, and that's how it's playing out.

Faiza Alwy

Analyst, Deutsche Bank Securities, Inc.

Great. Thank you.

Q

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

Bryan Burgmeier

Analyst, Citigroup Global Markets, Inc.

Hi, good morning. Thanks for taking the question. And yeah, congratulations to both Jim and John on the next phase of your journeys.

Q

James C. Fish, Jr.

Chief Executive Officer & Director, Waste Management, Inc.

Thank you, sir.

A

John J. Morris

President, Waste Management, Inc.

Thank you.

A

Bryan Burgmeier

Analyst, Citigroup Global Markets, Inc.

Just on the quarter, obviously a really big step up in healthcare margins as you flagged. Can you just maybe remind us how much of a benefit you have in 2026 from cost synergies and maybe how much is kind of remaining there? And then do you see this low 20s EBITDA margins as sort of an achievable run rate going forward?

Q

John J. Morris

President, Waste Management, Inc.

Yeah, Brian, we're super pleased with where we are on the margin front. And to answer your question, I think we still have some room to go there. To your first part of your question, I think mid-2027 right now looks like where we're on track to hit kind of the synergy target, which would be a little bit ahead of what we originally planned, which credit to the team. I mean, some of the challenges we faced in the first year, 18 months, we've certainly weathered the storm. And now the team, like I said, has really seemed to hit their stride and gain momentum. So I think mid-year 2027 is when we should be right around that synergy target we've talked about.

A

Bryan Burgmeier

Analyst, Citigroup Global Markets, Inc.

Got it. Got it. Thanks for that. And then, John, I think base CapEx for WM was down to maybe 9.5% this year. Just curious if – similar question, if you see that as kind of a sustainable level or is there maybe a little bit of a catch-up going forward? Any thoughts around sort of fleet age or technology investments could be helpful. Thank you. I'll turn it over.

Q

John J. Morris

President, Waste Management, Inc.

A

Yeah, I think, Bryan, on technology, we've got that sort of baked into our capital run rate now. On the fleet side, obviously, we talked about the fact that we've caught up and you'll see more steady state there. But I think long-term capital run rate is still probably 10%, 10.5%. It's a little bit – it's down a little bit this year relative. I mean, I think it's down 17% for the quarter, I think.

David L. Reed

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

Year-to-date.

John J. Morris

President, Waste Management, Inc.

Yeah, year-to-date, excuse me. Some of that has to do with we're slowing – in the slowing, we're completing the spending on a lot of sustainability investments. The fleet spend has come down a little bit. But I think long-term, 10%, 10.5% is still going to be the right range for us.

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

Konark Gupta

Analyst, Scotiabank

Thanks, and I echo best wishes to both John and Jim here. Hey, first question on M&A opportunities. I mean, you guys laid out obviously some near-term opportunities in the fourth quarter and maybe early 2027. But I'm curious on your thoughts in the event of one of the larger players spinning off some assets over time. Would you guys be interested in any specific pockets of the markets or any specific types of assets in that spinoff potentially? Or, I mean, you guys have probably already a lot of density in various markets you want to be in, so you probably would pass on some of those opportunities.

John J. Morris

President, Waste Management, Inc.

Yeah, I think the way I would answer that, Konark, is if it's certainly solid waste core assets, we'd be interested in. It was hard to pick a geography where we wouldn't be more interested. And even on the haz side or the industrial side where we've got assets and services that we could wrap those assets around, we'd be interested in that as well. I think the good news is that credit to David and the team that the balance sheet's in great shape. So regardless if it was a smaller one or a larger one, if it fit our strategic lens, it'd be something we'd certainly be able to pursue.

Konark Gupta

Analyst, Scotiabank

Okay, great. Thanks for that. And then just as a follow-up, the current kind of environment, right, we are in right now, obviously the fuel prices and energy prices keep like trickling up. We don't know when the inflation ends and all that, but I mean, do you think we are in a sustainably – maybe more sustainably than before higher for longer pricing environment and weaker for longer volume environment? I mean, is that the trade-off that we are playing for the next another one year or two maybe?

John J. Morris

President, Waste Management, Inc.

Well, I would tell you we've obviously historically been able to price through sort of the ebbs and flows of inflationary pressures, whether you look at CPI or WST more recently. I think you look at what we've been able to do is certainly maintain a cost-to-price spread and actually improve that. Now, specific to \$6.37 a gallon diesel, let's all hope for everybody that that's not the case long term in this short term, as you heard from us in our prepared remarks and some of the Q&A, that we've – we're finding our way to recover that cost broadly across the portfolio.

Konark Gupta

Analyst, Scotiabank

Okay. Great. Appreciate the color. Thank you.

Operator: Thank you. Our next question in queue coming from the line of Seth Weber with BNP Paribas. Your line is now open.

Seth Weber

Analyst, BNP Paribas Securities Corp.

Hi, guys. Good morning. I just wanted to follow up on your comments about the SMB market. Given the strong core pricing, I'm wondering if you're seeing any fatigue or higher churn on the – just the consumer side. Thank you. Thank you.

John J. Morris

President, Waste Management, Inc.

Yeah, that's a good question, Seth. Part of what I mentioned is some of the headwind is some, I would call it, deliberate actions we took with some of our national account broker business. And as you can imagine, that's more pronounced when you have a loss there just because of the scale of it, but we feel like we're going to lap that right around the end of Q1. To your point, our churn actually improved about 30 basis points year over year to 9.3%. So we – and when you look at our pricing, it has not impacted our pricing, and we're seeing, like I said, indicators of the commercial line of business actually having a little bit more momentum once we lap the national account work.

I do think though, as I mentioned, when you think about what's going on with commercial business formation related to housing construction, et cetera, I do think it's putting a little bit of pressure on that line.

Seth Weber

Analyst, BNP Paribas Securities Corp.

Okay. Thank you. And then just a quick follow-up on healthcare. I think last quarter you gave us a cross-selling number, \$32 million of EBITDA. Just wondering if there's an update on that. Thank you.

John J. Morris

President, Waste Management, Inc.

I think it was – \$38 million, I think, was the number we stated last – for the full year. And we feel good about where we're at now moving into 2027.

Seth Weber

Analyst, BNP Paribas Securities Corp.

Got it. Okay. Thanks, guys. Appreciate it.

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

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Thank you for the questions. Jim, wishing you the very best. And John, congratulations and same to you. We'll miss you, Jim. It's been a pleasure.

James C. Fish, Jr.

Chief Executive Officer & Director, Waste Management, Inc.

Thank you, Noah.

John J. Morris

President, Waste Management, Inc.

Thank you.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

So maybe a question for David here. I must have misheard. Were you saying in answer to the first question asked on the call that you expect EBITDA margins to be up sequentially but modestly down year over year...?

David L. Reed

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

That's correct.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

...because if I – oh, well, if I plug that in and just take the revenue number, then that actually puts me just below the low end of the EBITDA range. So there may be something wrong we're doing here. But I think that would suggest that you're heading towards the lower end of the guide for the year. So anything that we're getting wrong?

David L. Reed

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

Well, that's just on the – I'm just making the assumption on the fuel the 40 basis impact of fuel, but I did highlight some of the items that, depending on how they play out in the quarter, will push us up higher in that range as well. That's just fuel isolated.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Yeah, meaning that revenues can possibly be higher versus the high end of the range. I'm sorry, I'm just getting a little bit confused.

David L. Reed

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

Yeah, whether it's improvement in volumes or strengthen our pricing or recycling commodity prices. Those would be the things that would move us up the range.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Okay. Okay, very helpful. And then I think the commentary on increased landfill costs coming in the context of AB 28 is interesting. Just broadly how are you thinking about the landfill operating cost profile and risk mitigation and risk planning strategies going forward. What do you think that means in terms of overall industry pricing trends, especially given not only those cost pressures but increasing disposal scarcity in certain parts of the country?

Tara J. Hemmer

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

Well, first and foremost, when you look at landfill operating costs, and we are seeing them tick up a bit in California and in other places, a lot of it driven by leachate. We know how to handle those from an environmental perspective. We know how to process them, and we're going to continue to do that in an environmentally responsible way. We also know how to pass those costs along to our customers through price increases and recognizing the strategic nature of our assets. We have always used a next best alternative analysis on how to price, and that's part of an evolution of our pricing analytics.

And we're going to use that as we navigate increased operating expenses at our landfills. And by the way, it's not just us. This is an industry-wide issue, and so everyone is going to be faced with some of these same issues across the board. So we're in a strong position, like I said, to deliver on price increases to recoup our costs.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Makes sense. Thank you very much.

John J. Morris

President, Waste Management, Inc.

Thank you.

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

Sabahat Khan

Analyst, RBC Capital Markets

Great. Thanks and good morning, and congrats both to Jim and John on the chapter ahead. Just on the question, I guess, there's been a bit of discussion on the healthcare side. As you sort of contemplate 2027, not looking for guidance, but maybe if you can talk about sort of the pipeline that you've been building that gives you confidence on maybe accelerating on the growth front there. And just in terms of how the year has played out on the top line, were you initially thinking it would be a bit more late in the year, heavy on the top line growth. Maybe you can just talk through what's sort of the revenue outlook for that business at this point in the year. Thank you.

John J. Morris

President, Waste Management, Inc.

Well, I think what you saw is some real significant progression from the end of last year through the first half and then into Q3. So as I mentioned earlier, us being close to the sort of solid waste pricing we talked about several quarters ago, for us to be there earlier than anticipated is certainly terrific. I think a lot of that is translating into obviously the significant EBITDA growth that we built from the first half going into Q3 and the momentum we built into Q4.

And from a volume perspective, as we've said, the one unique aspect of some of the volume challenges we've had is when you gain or lose a customer, the tail going in or going out is a little longer. So what we're weathering is honestly some losses that we've known about. As I mentioned though, I'm not ready to put a stake in the ground on positive volume for the medical waste side of the house or the secure document destruction, but the trends are improving. So as we move into 2027, we know that we're going to continue to see benefits there. When it gets to positive is still a little bit yet to be determined, but we're really happy with the progress the team's making.

Sabahat Khan

Analyst, RBC Capital Markets

Q

Great. And then just a quick one on the broader volume side. With a lot of the construction activity commentary being positive across some of the industrial machinery type names, are there – are you seeing some positive momentum in some underlying markets, maybe offset by perhaps housing? Maybe you could just break out some of the volume details, particularly on the solid waste side, and where there might be some green shoots and where maybe there are the more meaningful offsets that are driving it to be more negative. Thanks.

John J. Morris

President, Waste Management, Inc.

A

Well, I would tell you, that's a good question because I think when you look market by market, there's plenty of markets we're in and I could rattle them off. You could probably come up with some of the same geographies that are still showing really positive growth trends, and that's where Tara and the team were looking to make sure that we got the right assets and we're investing the right way to take advantage of that.

Housing is still, last time I looked, it's [ph] 1.2 million and change (00:51:45), which is well down from where it has historically been, and that's part of what you're seeing on balance, I think, through our construction and demo volume I commented at, which is down about 4.5% year-to-date. The good news is, is that we're not tethered to that as much on the roll-off side, and I think that's one of the reasons you're seeing our overall roll-off for industrial volume continue to be slightly – slightly positive.

Tara J. Hemmer

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

A

And the interesting thing we spend a week every quarter with our areas, and 16 of them pretty much across the board are saying, their special waste pipelines are very strong. It's just some of these special waste pipelines haven't yet hit. So it's not a question of if, it's more of a question of when. And that really speaks again to where our assets are located and the types of materials that we can take. So we're in a strong position when some of these things start to pop. Certainly with diesel pricing being what it is and some of the other things that are talked about in the economy, we think that some are just taking a wait-and-see approach and might see some of them later in Q4 or early 2027.

Sabahat Khan

Analyst, RBC Capital Markets

Q

Okay. Thanks very much.

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

Kevin Chiang

Analyst, CIBC World Markets, Inc.

Hey, thanks for taking my question and just echoing everyone's congratulations, Jim and John, onto your new chapters here. I know there's been a lot of questions on healthcare, but just wondering, when you look at the volume trends you're seeing versus the strong pricing you're pushing through, are you seeing an increase in customer churn? Or is churn holding, I'll call it flat or static, as you push through this pricing and really the volume situation is more, maybe more cyclical?

John J. Morris

President, Waste Management, Inc.

So it's a good question, Kevin. I think it's interesting because I mentioned the long tail on some of the losses we endured at the end of 2025 and 2026. So I almost bifurcate churn between like the historical churn we're still fighting our way through and the near-term churn. And as I mentioned, we're seeing good trends. Like I said, we're not saying when we're going to go positive. But the one thing I would point to is if you look at the hospitals in particular, which is a big piece of that revenue on the medical waste side, and you look at what's happening in that sort of same-store sales basis, a lot of the secular trends that we talked about are showing up in that hospital group where we're seeing the growth there. It's been a little bit of a mixed bag when you folks have looked at it because we've had other things that have been impacting that number. But again, that's probably one area we feel – we have a lot of – we feel encouraged by because those hospitals are growing in and of themselves. So it's probably two answers to your one question, but there's sort of the legacy churn and then there's a near-term churn, and that's why you hear probably a more level of confidence in terms of the trends we're seeing.

Kevin Chiang

Analyst, CIBC World Markets, Inc.

No, that's very helpful. Maybe a second one for me as I guess as you guys approach the midterm here. Just anything you should be – that you're watching out for that we should be thinking about whether it's changes in the regulatory environment. There's been a lot of headlines on the waste sector looking for a broad exemption on PFAS as a passive receiver. Maybe the M&A environment and maybe even special waste volumes that Tara talked about. Like, do you think the upcoming election cycle maybe impacts some of the trends you're seeing today or maybe the trends you think will happen in the coming quarters or two?

John J. Morris

President, Waste Management, Inc.

Well, Kevin, that's a loaded question right there, my friend. Listen, I think on the regulatory front, we've said this, whether it's Canada or here, it's more provincial or state-run other than PFAS, right? And I think Tara commented earlier, we've been closely watching that. While the rules haven't been totally formulated yet, we feel like it could be a little bit of a cost headwind to us. But again, as Tara mentioned, relative to the landfill side, we think that's cost we can pass on to our customers. We also still believe that there is a big opportunity on the other end of the PFAS calculation depending on how the regulations fall.

Kevin Chiang

Analyst, CIBC World Markets, Inc.

Yeah, I'll leave it there. And I appreciate you taking the opportunity to answer that question. Again, congrats, Jim and John.

James C. Fish, Jr.

Chief Executive Officer & Director, Waste Management, Inc.

Thank you.

A

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

Trevor Romeo

Analyst, William Blair & Co. LLC

Good morning and thank you, and my congratulations as well to Jim and John. I will just ask one, I think, for the sake of time on M&A. So it sounds like you've had some good activity on new deals that you've signed recently. So maybe are there any details you can give us in terms of like regions, asset types, et cetera, on those deals? And then if we think about maybe higher interest rates and the impact on potential M&A, how does that influence both kind of your preference to do M&A versus maybe the willingness of small operators to sell if that's an incremental headwind to them?

Q

Tara J. Hemmer

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

So the thing that I would just say on M&A and just to emphasize is these are core solid waste deals where we're going to bring our machine to bear on driving synergies, whether it's internalization into our landfill assets or routing synergies. So as John always uses golf analogies, but straight down the middle of the fairway.

A

John J. Morris

President, Waste Management, Inc.

[ph] That's not usually where I hit it, but (00:57:23)

A

Tara J. Hemmer

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

And the other thing I would mention is that there is a lot of room across the US and Canada geographically for us to do deals. And so we do have a robust pipeline right now of deals that we're looking at. David can speak to the interest rate environment and how that's potentially a positive for us.

A

David L. Reed

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

Yeah, I think we're in a really good spot, obviously. We have deep access to capital. Our balance sheet's in really good shape. Close to 90% of our interest rate exposure is fixed. And so, from that standpoint, we're obviously well positioned. And then, from a seller mindset, I do think just higher interest rates might make them more prone to potentially look at exiting, just if they're thinking about recapping or funding growth in their business. The rates that they're probably going to see are probably pretty high at this point. And so, I do think we see – that's why we see a fair amount of activity in the market and the pipeline right now.

A

Trevor Romeo

Analyst, William Blair & Co. LLC

Q

All right. That's really helpful. I'll leave it there. Thank you.

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

Adam Bubes

Analyst, Goldman Sachs & Co. LLC

Hi. Good morning, and congrats, both Jim and John. I know we're only in 3Q here, but maybe just conceptually, how are you thinking about the margin algorithm next year? It seems like there's a lot of moving pieces between fuel, landfill gas continuing to ramp higher, the strong synergy realization in healthcare. Can you just help us think about the algorithm there?

David L. Reed

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

Yeah. I mean, obviously, we're not providing guidance until next quarter, and the visibility, as we've been discussing, is obviously quite low. But you did highlight on a couple of things that will be a bit favorable for us if I think about some of the carryover and rollover impact from RNG and from recycling as those plants are – we get the full run rate benefit from those. But just given the price and cost dynamic that we've demonstrated really well this year, we've been north of the \$2.50 that we highlighted for this year. You'll continue to see us focus on maintaining that price-to-cost spread. It really comes down to fundamentally just the volume growth and expectations in the business because, again, I think on the pricing side, we're going to be able to pass along our cost. And so as I think about that, it's really more of a call on the macro environment, which as we've been highlighting is low visibility. It's a bit muted. But if there's any catalyst there that would help spur that upgrowth algorithm.

John J. Morris

President, Waste Management, Inc.

Yeah. The only thing I'd add, David, is that, again, we talked a lot about healthcare, but that also as we exit Q3 and go into Q4. Clearly, that's going to be a benefit to us, Adam, next year.

Adam Bubes

Analyst, Goldman Sachs & Co. LLC

Great. All clear. And then on the pricing side, I think core price was strong at 5.8% this quarter with yield of 3.4% in collection disposal. I think that spread is just a little higher than the recent range and it ticked up sequentially. What's sort of the mix impacting that and what do you view as more of like a sustainable level of that core price-yield spread going forward?

John J. Morris

President, Waste Management, Inc.

Yeah, I think we've said we've generally been like low-60s to 70%. We've ticked up a little bit higher from time to time. But to your point, if you break it up and you look at collection, it was somewhere in the neighborhood of the mid-60s, which is about the norm. Where it's been a little bit more pressured has been on the disposal side. And what I would tell you is not to get into the weeds where we've looked at some of the volume mix with a few small landfills that we closed, which we had planned to close. Think ADS. There were a few of the sites that we closed in the quarter. And then some volume shifts out on the West Coast where it tends to be higher-priced volume. It

doesn't necessarily mean higher-profit volume. That's where I see you see a little bit of the pressure on the disposals side of the equation.

Adam Bubes

Analyst, Goldman Sachs & Co. LLC

Great. Thanks so much.

Q

Operator: Thank you. Our next question coming from the line of Will Grippin with Barclays. Your line is now open.

William Grippin

Analyst, Barclays Capital, Inc.

Great. I appreciate you squeezing me in here. I did want to come back to some of the volume discussion around the healthcare solutions business. I think as of the end of the second quarter, I think you had made significant progress toward getting all your customers a clean bill. And we had sort of anticipated that that might help drive sort of a deceleration or an easing of some of this customer churn you've been seeing. I'm just curious maybe if you could parse out just some of the trends on the volume side between sort of churn versus just overall market volume trends and if customers starting to get those clean bills has had the desired impact.

Q

John J. Morris

President, Waste Management, Inc.

Well, I think what you heard, Will, is on the pricing side, clearly they're seeing the value. And the services we're providing across the portfolio. Again, in terms of the volume trends, what I would tell you is both. If you think – if you bifurcate the business between the healthcare side, traditional healthcare and the secure document destruction, we're seeing improving trends in both. I would tell you the [ph] SDD (01:02:36) business is probably tracking a little bit quicker than the medical waste business, but the important point is that they're both trending in the right direction. And as I said, half joking, I'm not ready to tell you we're not ready to say when those will go positive, but we feel good about the trajectory on both of those segments within healthcare.

A

Tara J. Hemmer

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

I think what's important is the way that we're looking at this is looking at quarter-over-quarter sequential improvement, and that's what we're expecting moving forward.

A

William Grippin

Analyst, Barclays Capital, Inc.

Got it. Appreciate that. And then just switching over to the RNG business, EBITDA margin just a bit weaker sequentially quarter on quarter. Was that just driven by, I guess, some of the sort of startup and slightly lower revenue you had flagged, or was it just contribution from the New York facility that was brought online diluting overall margin? And how should we think about sort of the right range for that business going forward?

Q

Tara J. Hemmer

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

The two reasons for the sequential drop from Q3 of 2026 to – from Q3 2026 versus Q2 is two things. One, we sold more volume in the voluntary market in Q3, which would be at a lower price per MMBtu. That's the first item. And the second is we did have some startup costs that flowed through the P&L. So it's one of the reasons why I

A

always point you to looking at margins in this business for the full year because we can have some lumpiness from quarter to quarter.

William Grippin

Analyst, Barclays Capital, Inc.

Makes sense. Appreciate it. Thank you and congrats on retirement, Jim.

John J. Morris

President, Waste Management, Inc.

Thank you.

James C. Fish, Jr.

Chief Executive Officer & Director, Waste Management, Inc.

Thanks [indiscernible] (01:04:16).

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

James Schumm

Analyst, TD Cowen

Hey, thank you. Most of my questions have been asked, but just wanted to echo my congrats to Jim and John, and maybe just one for me. So you kind of hit the goal for G&A for WM healthcare at you're around 15%. Can you speak to what the updated goal would be now?

John J. Morris

President, Waste Management, Inc.

I would say it'd be better than 15.2%. Credit to the team. They've worked really hard, and I will tell you, when we set that goal a handful of quarters ago to get there, it seemed like a taller hill to climb. And credit to the whole team, they've done a really nice job. And what I can tell you is where we're going to land, I don't know. We've talked about could it get as low as the core business? Is it going to stay at 15%? I would tell you we still have room to go. And I think we'll have probably a better view of that as we get into the beginning of the year and give guidance for next year. But better for sure.

James Schumm

Analyst, TD Cowen

Okay. Right. John I don't know, maybe it was two years ago, I think Devina said there's no structural reason why WM healthcare's G&A as a percentage of sales wouldn't or couldn't approach the level of – the corporate level of 9% to 10%. You've had the business for two years. Do you still believe that to be the case?

John J. Morris

President, Waste Management, Inc.

What I would tell you is I do think, all joking aside, there's certainly opportunity there. And yeah, I remember Devina's comments a handful of years ago, I would tell you the only place that I see a structural difference is really when you look at some of the customer-level attention that is required. I mentioned the hospitals, for instance. There is probably more of a customer service intensity there than other parts of the core solid waste business. So that would be the one area. But if you look at it – if you look at it, James, like in the field business, I

think, yes, that probably is a true statement. Where you see a little bit of a premium is obviously the unique nature of some of the services and the regulatory challenges that we're helping to provide services for, for these customers would be one difference.

David L. Reed

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

And I think just from an investment thesis, the synergies that we underwrote with the deal were going to get us to 17% and we're already past that. So I think from that goalpost that we're – we look really well. But to John's point, we see further room to go.

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

Great. Really appreciate it. Two for me real quick. Your internalization rate reached just over 72% this quarter. That's pretty much near record levels. In the past, I think you talked about a mid-70% range was kind of the historical ceiling. Just wanted to get your thoughts on structurally higher internalization rates and what this can mean in terms for, I guess, overall disposal margin assumptions?

Tara J. Hemmer

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

Well, there's two things that are driving our internalization rate higher, and one of them we talked about last quarter related to recycling. Our recycling volumes are up, and we're seeing more volumes being really redirected to our recycling plants. So that's a key piece as we brought those investments online. We also are continuing to look at, through our routing algorithms, are we routing our material to the best spot? And we're able to then redirect some material into our own assets that we might have otherwise been sending to third-parties. So this is something that we're constantly looking at and will definitely have a broader positive impact on pricing too.

Stephanie Moore

Analyst, Jefferies LLC

Understood. And then I did want to follow up on a prior question just in terms of labor and productivity savings. So I think in the past you've talked about, I think, close to 5,000 position reductions through essentially not having to rehire or fill exit positions. Given all that you've done in terms of investing in productivity and technology, AI opportunity, how can you think about just incremental labor demand over time? Thanks. Appreciate it.

Tara J. Hemmer

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

This is something we spend a lot of time talking about, especially our collection business. Our collection business is very labor intensive when you look at our drivers and helpers. And it's one of the reasons why we made the transition to automated side loaders from rear loaders for safety reasons and also labor reasons. We're absolutely looking at how can we bring technologies to the forefront of our operations to reduce labor dependence, given that there's going to be a labor shortage long term. And the best example of that is the work that we're doing with the Caterpillar pilots on our landfills piloting remote heavy equipment and we're doing that at one of our hazardous landfills facility in Arizona.

And if we can expand on that, you can imagine where we can improve the overall experience for new employees and really tap into another labor pool that we might not have otherwise been able to tap into and then over time continue to look at structurally lowering our costs. So we're looking at a whole host of things. This is something that's incredibly important to us and something that is going to help us transform how we operate over the next 10 years.

Stephanie Moore

Analyst, Jefferies LLC

Thank you. Appreciate it.

Q

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

Tobey Sommer

Analyst, Truist Securities, Inc.

Thank you. In the healthcare arena, what does the pricing outlook appear to be like this year and in the next as hospitals are sort of seeing an increase in uncompensated care pressuring margins? Thanks.

Q

John J. Morris

President, Waste Management, Inc.

Well, I think, Tobey, we worked hard, obviously, as I mentioned, to get to where we are. And we think over the long term, we think the pricing algorithm for the healthcare business can approximate the solid waste business. And I think we are taking the same view and will continue to take the same view about where we can build spread between our cost to serve and price. And I think what you saw in the quarter was almost 500 basis points of margin expansion, partly fueled by SG&A coming down, partly fueled by pricing. And as I mentioned, I think we're starting to see some volume trends that are encouraging, still negative.

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And the one thing I would add to that is when you think about the healthcare business and the acquisition of what was Stericycle, there's obviously the short-term gains that we're making, but the more secular benefits of owning that business, particularly on the medical waste side, are more long term, right? And if you look at, it was one of the things that attracted us to the business a handful of years ago was the fact that that was an area where we think we're going to see outsized growth over the longer term. And in that regard, we're going to be patient, and that volume we think is going to accrue to our benefit.

Tobey Sommer

Analyst, Truist Securities, Inc.

And – thank you. The landfill requirements that are increasing expenses in California, do you anticipate those changes proliferating nationally or being confined to that market?

Q

Tara J. Hemmer

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

Well, to clarify, the legislation was just passed, so they need to go through some rulemaking. So it's still early innings there in what's going to happen in California. We don't anticipate that being widespread, but it's something obviously that we're tracking. And if it does get traction in other states, we're well positioned to respond.

A

Tobey Sommer

Analyst, Truist Securities, Inc.

Thank you.

Q

Operator: Thank you. And our last question in queue coming from the line of Shlomo Rosenbaum with Stifel. Your line is now open.

Shlomo H. Rosenbaum

Analyst, Stifel, Nicolaus & Co., Inc.

Hi.

Q

John J. Morris

President, Waste Management, Inc.

Morning.

A

Shlomo H. Rosenbaum

Analyst, Stifel, Nicolaus & Co., Inc.

Thank you. Good morning. Thank you for taking my questions. I wanted to ask a little bit on the diesel fuel assumptions that you might have in your guidance. Like, what are the prices that you're expecting for the fourth quarter? And just in general, how are you thinking about the general inflationary impact as it goes into 2027. Are you seeing anything or are you expecting that to creep into your labor costs in terms of how you're thinking of positioning the business and what you're going to need for pricing? If you can just address those two issues, and then I have one follow-up.

Q

David L. Reed

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

Sure. In terms of Q4 for diesel prices, we're assuming about a 40% increase over Q4 of last year. I think it's around \$5 – a little over \$5.50 per gallon for diesel. But in terms of your comment about inflation that's trickling down outside of just fuel, we are seeing it in third-party costs, but that is – our fuel surcharge program is designed to recover from that aspect as well. It's not just recovering our direct fuel costs.

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Tara J. Hemmer

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

The only thing I would say on that is when you see increased diesel costs like we did from August to September, a spike at \$0.80 a gallon, you've heard from us that there is approximately on average a one-month lag in our fuel surcharge. So you will see some timing differences on recovery. And this is something I think that we're all learning to navigate in how this has been interesting to follow related to what's happening with diesel.

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Shlomo H. Rosenbaum

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. And then maybe just shifting back to the healthcare side. In terms of the improvement in the EBITDA and the SG&A, could you talk a little bit more about how much of the improvement came from actually getting the technology to work and removal of the manual processes that were in place and how much might have come from other areas. Maybe you can just give us a little bit of an insight as to what got improved so much in the course of the quarter.

Q

John J. Morris

President, Waste Management, Inc.

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Well, I think first and foremost, I think the fact that we're getting pricing that's more commensurate with our cost to serve and trying to build a spread there would be one big move we've made. I think to the point – and Jim made this comment on many calls going back to the acquisition – that there was a lot more manual effort being put in in the early days to make sure that we were improving and getting to the point where folks were getting an accurate bill. And obviously, while there's still a little bit of that happening, the most important thing is our folks are getting an accurate bill. They're paying their bills at a normalized rate as opposed to what it was. And to your point, we have taken out some of that SG&A, and we're getting closer to automating more of that process. But I would say that's certainly a piece of it, Shlomo, we've been able to gain some traction.

Shlomo H. Rosenbaum

Analyst, Stifel, Nicolaus & Co., Inc.

Q

All right, thank you.

Operator: Thank you. I will now turn the call back over to Mr. Jim Fish, WM CEO, for his final remarks.

James C. Fish, Jr.

Chief Executive Officer & Director, Waste Management, Inc.

Okay, well, just a couple quick comments here. Thanks. First of all, thanks for joining us as always today, and I truly appreciate all the well wishes and the congratulations. I really do. I'm hoping that maybe I'll run into some of you up in Jackson Hole Fly Fishing. We'll see. But I would normally say at the end of this call, I'll talk to you next quarter. And today I'm going to say John and Tara and David will talk to you next quarter. Thank you very much.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect.

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