WasteExpo 2021: Conference Highlights the Growing Role for Sustainability and Technology

Industry Commentary

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Despite rising headwinds from labor inflation and increasingly stringent regulations, the waste management industry is positioned to benefit from secular growth trends. Navigating demands from investors, regulators, and other stakeholders for enhanced sustainability, however, will require new models and enhanced technology.

At WasteExpo 2021, held June 28–30 in Las Vegas, executives from the waste management industry met to discuss key trends and challenges facing the industry. Sustainability issues have taken increasing prominence on the strategic agendas of waste management companies. Companies also continue to focus on ways to incorporate leading-edge technology to improve safety, operate more efficiently, and improve digital engagement with customers.

Using insights from this year's conference as well as our ongoing M&A processes and sector conversations, we examine the trends that are shaping the waste management industry. We also provide our perspective on today's dealmaking landscape and how the surging importance of ESG investing is affecting the waste management industry.

How Green Can Waste Be?

The waste and recycling industry has a nearly impossible task—to sort and either recycle/reuse or dispose of the seemingly limitless variety of global waste streams in an environmentally friendly and simultaneously profitable manner.

It is important to realize that sustainability in waste management isn't a binary proposition and there are meaningful steps that waste management companies are taking to reduce their environmental impact. Much of the discussion at this year's WasteExpo centered on steps that companies are taking to address environmental sustainability issues. Eco-initiatives that companies are implementing include improving the carbon footprint of their fleets, harnessing waste for conversion to renewable energy, waste-to-energy and/or beneficial reuse, and other creative solutions.

Given the intense complexity of the world's waste streams, and despite significant capital spending on advanced sorting technologies and materials recovery facilities (MRFs or "murfs") of the future by waste management companies, opportunities to create a green waste management industry without changing the current supply chain of waste are limited by economic, technological, and logistical constraints. These realities could mean that new approaches—ones that fundamentally rethink how societies manage waste—may be essential to achieving the sustainability gains that some stakeholders expect. Policies related to extended producer responsibility (EPR) and the move toward a more circular economy have the potential to meaningfully reduce waste.

EPR is a policy approach that shifts the responsibility for managing products and packaging from the consumer to the producer. EPR also appeals to circular economy proponents who advocate for producers to manage the lifecycle supply chain, therefore connecting recycled commodities with production.

The EPR model has been adopted in the EU for several decades and typically covers hard-to-recycle materials and packaging. In the United States, 26 states have EPR policies for electronics, and several programs have been established for hard-to-recycle items, such as paint, mercury-containing thermostats, mattresses, and batteries. Discussion around EPR continues to gather momentum from a regulatory perspective at the state and federal levels. Maine and Oregon are among the states where bills have been introduced that would increase consumer brands' responsibility for waste. At the federal level, the Break Free from Plastic Pollution Act of 2021, which is being considered in Congress, also addresses EPR.

It is important to note that EPR policies risk disintermediating the waste management industry, to a degree, and waste management companies will need to continue to be proactive participants in conversations with producers and regulators to ensure their future role in the supply chain of producers' various waste streams.

Technological and Digital Progress Continues

The digitalization of the waste management industry and the adoption of automation, electric vehicles, and other cutting-edge technology continue to advance. But the industry is often not at the leading edge of these trends. Continued progress in these areas is essential because it has the potential to make meaningful gains in addressing some of the biggest pain points facing the industry, including safety, environmental impact, and labor pressures.

Field positions in waste management continue to be relatively dangerous jobs. Tools available today in consumer vehicles, such as 360-degree cameras, sensor and automation technology, and next-generation telematics, have tremendous potential to reduce the frequency and severity of accidents. Improved sensor and automation tools also are essential for improving the efficiency of waste and recycling streams, reducing the amount of waste that ends up in landfills. The industry is committed to a transition to an electric/renewable-powered fleet, but these vehicles are significantly more expensive than traditional options. In addition, limited charging infrastructure and vehicle holding capacity present a challenge for long-haul routes.

Waste management companies are facing the same pressure to create digital customer experiences that many other industries face. Companies, to varying degrees, are responding to these expectations by embracing e-commerce and digital self-service platforms, such as creating apps that enable customers to manage their accounts and engage with their providers digitally.

Other Trends Affecting Waste Management

In addition to the mega themes related to sustainability and technology, other topics that garnered significant attention at this year's conference include:

- Labor Market Pressures: Waste management, like most industries, is starting to feel labor pressures amid the ongoing reopening of the economy from the COVID-19 pandemic. It remains to be seen how much of this recent pressure will be transitory, but if it is sustained, this would add to the business case for increasing automation and digitalization in the industry as discussed above.
- PFAS Regulation Accelerates: Per- and polyfluoroalkyl substances (PFAS) have drawn increased scrutiny from federal and state regulators, and efforts to more closely regulate the disposal of PFAS have intensified under the Biden administration. PFAS are a broad category of manmade compounds that have been manufactured and used globally since the 1940s in a wide range of consumer products such as textiles, fire suppressants, cookware, packaging, and plastics. Complying with regulations related to PFAS disposal continues to be increasingly important for waste management companies.
- Incineration Capacity Constraints: Incinerator capacity is currently constrained across the U.S. market. It will be interesting to see if this trend remains in the long-term, and potentially affects the profitability of waste management firms, or if it will be a short-term blip.

How the Rise of ESG Affects Investor Interest in Waste Management

The growing importance of ESG and sustainable investing is undeniable. According to the U.S. SIF Foundation, the amount of U.S.-domiciled assets under management using sustainable investing strategies grew 42% from 2018 to 2020 to reach $17.1 trillion—or one-third of all U.S. assets under professional management. Investors are increasingly pressuring boards and management teams to implement more sustainable practices and publish data through sustainability reports.

The waste management industry is not immune from increasing ESG scrutiny. For example, consumer brands are responding to customers' and investors' demands for heightened waste-reduction commitments. Manufacturers are changing product and packaging design to facilitate recyclability and to use more recycled materials.

Many ESG investors understand that waste management companies are a crucial part of the solution in enabling responsible consumption and driving the shift toward a more circular economy. This progress, as well as efforts related to renewable fuels, recycling enhancements, and the circular economy could cause ESG-focused investors to take a new look at the waste management industry.

M&A Activity Remains Robust

There are several forces that have spurred a recent increase in dealmaking activity in the waste management industry. The industry is defined by a barbell shape—there are several large national or regional consolidators at one end and thousands of small mom-and-pop local operators at the other end. Many of these smaller players have been looking to exit due to difficulty in finding talent, anticipated tax changes, and the increasingly complex regulatory backdrop. In addition, many of them are run by owners likely looking to retire and take advantage of today's high valuation multiples, especially with the prospect of higher capital gains rates on the horizon.

The waste and recycling industry will likely face a more stringent regulatory regime under the Biden administration, as well as increasing pressure from ESG-focused investors. Companies that embrace technology and are able to adapt to shifting demands for sustainable solutions are best equipped to rise above these headwinds and continue to garner premium valuations.

To learn more about these and other trends that are shaping the dealmaking landscape in the waste and recycling industry, please do not hesitate to contact us.

Recent William Blair Environmental Services Transactions

EIS Environmental Infrastructure Solutions
a portfolio company of O2 Investment Partners
has been acquired by
Sun Capital Partners, Inc.

Ameresco
Green • Clean • Sustainable
Follow-on Offering

Hydromax USA
has been acquired by
Industrial Growth Partners®

Montrose Environmental
Follow-on Offering

Montrose Environmental
Initial Public Offering

Vessco
a portfolio company of
O2 Investment Partners, LLC
has been acquired by
Gryphon Investors