WasteExpo 2016: New Opportunities in an Evolving Industry

Presenters at this year’s conference focused on how regulatory and market pressures are creating opportunities for waste and recycling companies to evolve and adapt.

The waste and recycling industry continues to enjoy a strong financial outlook, backed by favorable pricing and volume trends. This has led to steady M&A activity and the largest publicly traded waste companies significantly outperforming broader equity markets over the last several years.

Against this positive macro backdrop, several trends are forcing waste and recycling companies to evolve as the industry responds to changing regulations and new market pressures. These trends—and how companies can successfully adapt to them—were the focus of many presentations and conversations at this year's WasteExpo in Las Vegas. As North America's largest solid waste, recycling, and organics industry event, the June 6-9 conference featured nearly 600 exhibitors and more than 13,000 attendees from across the industry.

Based on the presentations we attended and our conversations with executives and key decision makers at the conference, we examine four of the most pressing issues facing the waste and recycling industry as it continues to evolve.

**Regulatory Landscape Creates M&A Opportunities**

Companies across the sector are feeling the weight of increased regulations and heightened environmental standards. Mandates for reduced emissions or alternative-fueled fleets require capital outlays that smaller operators may not be able to meet on their own. Regulatory mandates may require smaller haulers to invest in new services and equipment to stay competitive.

The trend toward technology-enabled sustainability—and the capital expenditure required to keep up with this trend—creates significant M&A opportunities for industry consolidators and private equity firms. Smaller companies can enhance their attractiveness as an acquisition target by successfully incorporating responsible environmental practices and making investments to modernize their fleets. Enhanced sustainability also makes these companies more appealing to potential clients, as the public increasingly demands environmentally friendly methods for waste removal.
Tightening Labor Market Incentivizes Companies to Invest in Compensation and Training
The waste sector is facing a shortage of drivers and mechanics, and the ability to recruit and retain employees in those areas will be critical to a company’s continued growth. According to the National Waste & Recycling Association, the waste industry will create nearly 50,000 new jobs for collection drivers and 72,000 new diesel mechanic jobs by 2022. The shortage is being exacerbated by a tightening labor market and rising wages for drivers in other industries. At the conference, one executive noted that companies such as Walmart are paying salaries upward of $80,000 for drivers.

To find qualified workers in an increasingly competitive labor market, waste and recycling companies are increasing compensation and benefits accordingly. In addition, companies that have taken steps to improve on-the-job safety and working conditions will have a significant advantage when it comes to attracting talented employees. Many waste companies are already investing heavily in safety upgrades (such as automation, cameras, and accident prevention), increased training, and better incentives for safe drivers. Steps to improve working conditions, such as air-conditioned trucks, also can make a big difference in attracting and retaining employees.

Another opportunity for attracting more talent to the waste industry is changing the perception that the industry is low-tech. In reality, that couldn’t be further from the truth. The need for better efficiency and more environmentally sound technology is only increasing in response to regulatory requirements and consumer demands. In addition, scientific advancements in organics recycling, such as anaerobic digestion, hold great promise for attracting new talent to the industry.

China’s “Green Fence” Serves as Catalyst for Recycling Reform
In 2013, China implemented a program known as “Operation Green Fence” aimed at limiting the amount of contaminated recyclables being sent to China from around the world. India has implemented similar requirements, as well. As quality standards have risen in China and India, the United States and other countries have been forced to adapt their recycling infrastructure and processes to meet the new requirements. While the Green Fence has resulted in escalating costs around the globe and reduced demand for exported recyclable materials from the United States to those two countries, the policy is serving as a catalyst for the waste industry to rethink existing processes and create cleaner and more efficient methods of collecting and processing recyclable materials.

As a result of the Green Fence and reduced demand in China and India, more recyclable commodities generated by Americans are remaining in the United States. Additionally, recycling more of our own materials translates into greater savings in energy and reduced greenhouse gas pollution. Although the fallout from China’s Green Fence has been painful in the short term for many waste companies who rely on shipping recyclables overseas, the long-term improvements in our infrastructure and recycling processes could have a significant positive impact for our environmental future and provide considerable growth opportunities for those companies with the ability to adapt.

“Zero Waste” Focus Shifts to Organics and Electronics
The “Zero Waste” movement refers to the collective efforts by individuals, companies, organizations, and governments toward the common goal of eliminating all waste. Achieving that goal will require the implementation of a variety of measures, such as a
Recycling organic scraps through anaerobic digestion—a series of biological processes in which microorganisms convert biodegradable materials into energy—is very effective, but it is more expensive than typical scraping and requires infrastructure that most haulers and municipalities currently do not have. While haulers and processors are generally interested in moving toward organics recycling, participation outside of the Northeast and West Coast has been slow. Many experts believe that state and local governments will continue to bear the responsibility of establishing organics recycling programs.

In addition to food and organics, the recycling of old electronics, appliances, and other goods is an area in need of significant improvement involving more advanced collection methods, updated regulation, and better public education. As hazardous materials such as cathode tube rays are phased out in homes and businesses, more are entering the recycling stream during a period of low commodity prices. In order to maximize reuse and return value to the recycling stream, consumers should be encouraged to recycle TVs, computers, cell phones, and other electronics as soon as they are done using them. Such e-cycling programs can often be funded through a disposal fee on larger durable goods.

Adapting to New Realities
As the waste industry continues to adapt to changing economics and increased regulatory requirements, the public must become more aware of the new reality. Recycling programs generally do not pay for themselves and many companies will require a change in pricing structure in order to continue their programs. More education is needed to reduce cross-contamination of trash and recycling, which can slow down processing centers. Manufacturers, too, need to ensure that all packaging can be recycled via residential recycling programs. In short, capitalizing on the new opportunities facing the industry and developing environmentally and economically sound recycling programs will require cooperation from individuals, businesses, governments, and waste companies alike.

William Blair will continue to monitor trends affecting the deal-making landscape in the waste and environmental industry. If you have any questions about how these trends might affect your company’s M&A opportunities, please do not hesitate to contact us.

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