William Blair

WasteExpo 2017: Innovation in a Shifting Regulatory Landscape

At the WasteExpo 2017 conference in New Orleans, executives and other industry leaders addressed the opportunities facing waste and recycling companies and the ideas that will support the industry's continued growth.

Industry Commentary

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Recent policy announcements by officials in the United States and China could mean an altered regulatory landscape for the waste and recycling industry. As these policy changes take shape, firms across the industry continue to seek solutions to meet diversion goals, improve efficiency, and convert hard-to-recycle items. Against this backdrop, executives from across the industry met at this year's WasteExpo in New Orleans to discuss how the industry will adapt to these challenges.

The May 8–11 conference featured nearly 13,000 total participants, including over 1,000 international attendees from 80 countries. In this article, we highlight several of the most important trends that emerged from the presentations we attended and the discussions we held with a number of key executives at the conference.

Changes in the Executive Branch
President Trump has signaled a dramatic shift in U.S. environmental policy, yet it remains to be seen just how drastic those changes will be and whether they will gain support in Congress. In early June, President Trump announced that the United States would pull out of the Paris climate accord, raising significant questions about how this would affect efforts to reduce greenhouse gas emissions in the United States and around the globe.

Given the appointment of Scott Pruitt to head the Environmental Protection Agency, efforts to roll back Obama-era regulations are likely, and observers expect that more rulemaking authority will be delegated to the states. This likely would lead to an uneven regulatory scheme across the United States, which could pose problems for multistate operations and sow confusion at a time when consistency is needed in areas like e-cycling, large-item recycling, and food/organics waste.

In the absence of a strong EPA and with the United States' withdrawal from the Paris climate accord, progressive states, such as California, will lead the effort to enforce stricter environmental guidelines. State and local governments—with the support of leaders across the waste and recycling industry—are promising to step in and uphold commitments to the goals of the Paris pact, despite formal withdrawal by the federal government.

In the international sphere, NAFTA renegotiations could affect the flow of waste and recyclables across the borders with Canada and Mexico. And like its 2013 "Operation Green Fence" initiative, China's recently announced "National Sword" initiative could have a large impact on the waste industry, as China aims to crack down on imports of plastics and paper scrap as part of a larger campaign against illegal smuggling. Although National Sword could slow imports and raise costs on processing and commodity prices in the short term, it may serve as a catalyst for long-term improvements in domestic infrastructure and recycling processes in the United States.

Diversion Goals

As part of the "Zero Waste" movement—which refers to collective efforts by individuals, organizations, and governments to eliminate all waste—many municipalities are implementing diversion requirements for traditional recycling, food scrap, and solid waste. California is among the leaders with an ambitious goal of 75% recycling, composting, or source reduction of solid waste by 2020. Some local governments in California have banned plastic bags and Styrofoam containers or partnered with waste haulers and charities for the collection of large items. In 2014, Massachusetts banned landfill disposal of commercial organic material by businesses and institutions that dispose of one ton or more of food waste per month. This is part of an effort to reduce commercial organic waste material 30% by 2020 and 80% by 2050. Achieving these types of diversion goals will require a multifaceted approach, with governments enacting stricter laws that will change habits, consumers adapting to new requirements, and CPG firms undertaking large-scale conversion to recyclable materials.

Continued Emergence of Tech Solutions

Besides collecting trash, a garbage truck can collect massive amounts of data when outfitted with 360-degree cameras, onboard weight scales, GPS, and various sensors. The data from

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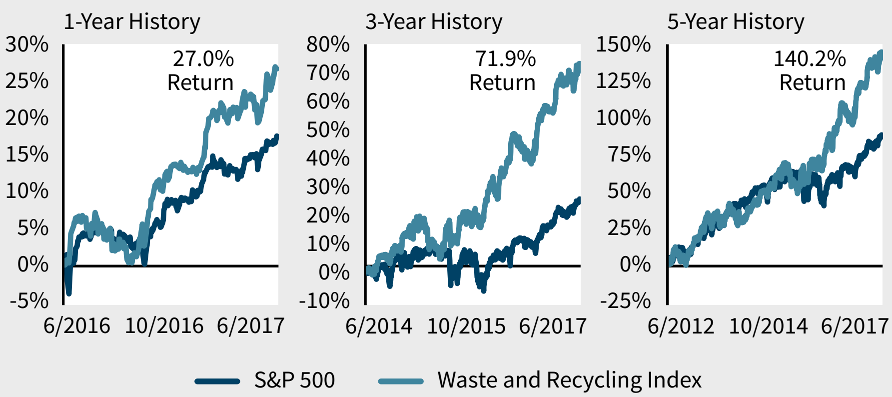
Waste and Recycling vs. S&P 500

The waste and recycling industry has significantly outperformed the broader stock market over the past five years. Since 2011, LTM EBITDA multiples for the composite of the five public companies in the waste and recycling index have increased more than 40%.



Source: Capital IQ as of June 19, 2017; the Waste and Recycling Index comprises the following companies: Advanced Disposal, Casella Waste Systems, Republic Services, Waste Connections, and Waste Management these sources can be used to track public services in need of repairs, map waste and recycling streams, pinpoint instances of contamination, and keep consumers informed about ways to reduce overall waste or better comply with recycling initiatives. In addition, next-generation telematics are helping firms reduce insurance costs by providing service alerts, helping improve driver behavior, and aiding in accident reconstruction.

Technology solutions can also be applied toward achieving waste diversion goals and solving food spoilage issues. Apps, such as Copia, which redistributes excess perishable food from large events, catering services, and restaurants, and B2B software, such as Spoiler Alert, which works with large food distributors to manage unsold food inventory, are changing the way excess food is distributed, transported, and tracked.

Challenges Posed by Hard-to-Recycle Items

The waste and recycling industry continues to seek ways to improve upon the collection and recycling of large items and electronics. New products, such as wearable electronics, are posing novel issues for waste management companies as these items enter the waste stream. In addition, the trend toward "fast casual" clothes—cheaper apparel with a shorter shelf life—is increasing the amount of clothing in landfills.

The collection and disposal of other hard-to-recycle items often goes unregulated. For instance, only three states have rules and collection fees for disposing of mattresses. The regulations that exist often are inconsistent across state lines, which can lead to illegal dumping when methods of disposal are unclear or cause problems for nonprofit recyclers operating without proper guidance. The industry would benefit from a more uniform regulatory scheme as well as significant investment in specialized recycling programs and public education efforts.

M&A Trends in the Waste and Recycling Industry

The waste and recycling industry continues to generate significant interest from financial sponsors and strategic acquirers. This interest is being driven by several factors, not the least of which is the impressive performance of publicly traded companies in the industry. Over the

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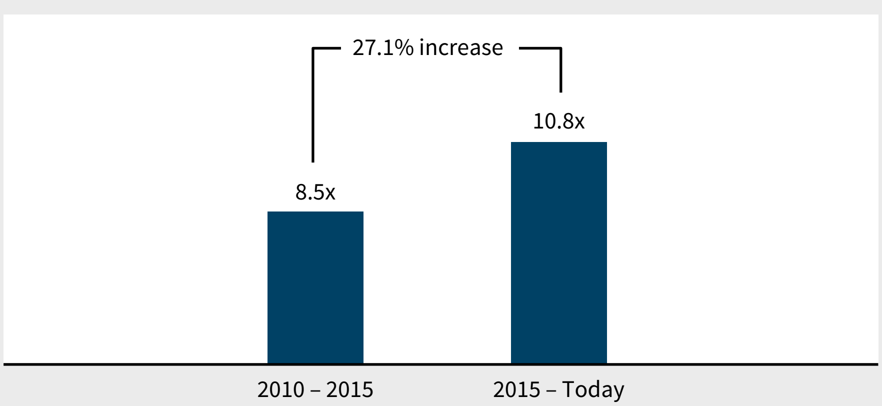
Waste and Recycling M&A Multiples

Multiples for M&A transactions involving waste and recycling companies have increased significantly over the last several years. This increase has been driven by heightened scarcity value for Tier 1 assets that become available for purchase and favorable macro M&A conditions across industries, including low interest rates and surging levels of dry powder in private equity coffers.



Source: Publicly available information and William Blair analysis past three years, an index of publicly traded waste and recycling companies gained 72%, compared with 25% for the S&P 500 over that same span, according to data from Capital IQ. The composite LTM EBITDA multiple for the five public companies in the waste and recycling index has increased more than 40% since 2011.

The industry's impressive public equity performance, as well as increasing scarcity value for Tier 1 assets that come to market and favorable debt financing for private equity buyers, has driven M&A valuations higher for waste and recycling companies. From 2010 to 2015, the median EBITDA multiple for waste and recycling M&A transactions was 8.5x. For transactions since the beginning of 2015, however, that multiple has increased more than 27%, to 10.8x. With low interest rates, increasingly accommodative lenders, and surging levels of dry powder in private equity coffers, financial sponsors are expected to be aggressive in their pursuit of high-quality companies.

As the waste and recycling industry faces a new wave of regulatory and market-driven pressures, the companies that are best equipped to navigate these challenges through technology-driven solutions, strong safety and training standards, and adaptable business practices will continue to garner premium valuations. To learn more about these and other trends that are shaping the deal-making landscape in the waste and recycling industry, please do not hesitate to contact us.

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