Earnings Report Summary
Feb - 3 - 2025
Waste Management Inc.: WM

Name	Waste Management, Inc.
CEO	Mr. James C. Fish Jr.
Website	www.wm.com
Sector	Commercial Services and Supplies
Year Founded	1987

Profile	
Market Cap	$88.40B
EV	$104.44B
Shares Out	401.4M
Revenue	$22.06B
Employees	–

Margins	
Gross	39.3%
EBITDA	29.1%
Operating	18.8%
Pre-Tax	15.7%
Net	12.4%
FCF	9.8%

Returns (5Yr Avg)	
ROA	7.1%
ROTA	34.0%
ROE	30.5%
ROCE	13.0%
ROIC	9.5%

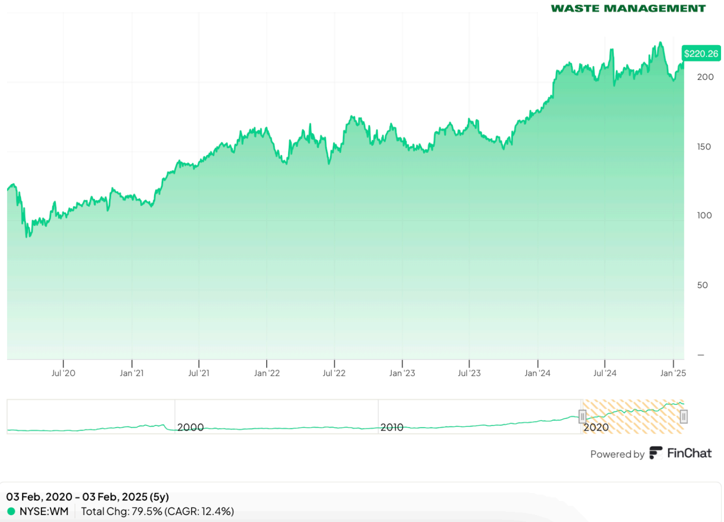
Valuation (TTM)	
P/E	32.3
P/B	11.1
EV/Sales	4.7
EV/EBITDA	16.3
P/FCF	40.9
EV/Gross Profit	12.0

Valuation (NTM)	
Price Target	$234.39
P/E	28.6
PEG	5.0
EV/Sales	4.1
EV/EBITDA	13.8
P/FCF	32.6

Financial Health	
Cash	$614.00M
Net Debt	$16.04B
Debt/Equity	2.1
EBIT/Interest	6.9

Growth (CAGR)	
Rev 3Yr	7.2%
Rev 5Yr	7.4%
Rev 10Yr	4.7%
Dil EPS 3Yr	16.7%
Dil EPS 5Yr	11.7%
Dil EPS 10Yr	9.3%
Rev Fwd 2Yr	10.7%
EBITDA Fwd 2Yr	11.3%
EPS Fwd 2Yr	9.7%
EPS LT Growth Est	11.0%

Dividends	
Yield	1.4%
Payout	43.9%
DPS	$3.00
DPS Growth 3Yr	9.3%
DPS Growth 5Yr	7.9%
DPS Growth 10Yr	7.2%
DPS Growth Fwd 2Yr	8.7%



Earnings Report Highlights & Summary - Fourth quarter and year ended Dec 31 2024

Analysis Highlights

1. The nature of WM's business makes its economic prospects relatively possible to project. The Company has grew its revenue, gross profit and operating profit in all but one year during the past ten years (2015-2024), achieving relatively consistent CAGR of 6.08%, 6.97% and 7.99% respectively.

2. The management team appears to be knowledgeable of both the operational and financial aspects of the business, with CEO Jim Fish at the helm since 2016, and COO John Morris and CFO Devina Rankin with the company for over 20 years. The team is concise about the fine details where margins can be enhanced, although much rhetoric has been used to report the Company's earnings.

3. WM's business is also arguably relatively insulated from the near-term uncertainty arising from trade wars, as most of its operations is located within the U.S., and only a small fraction located in Canada (the Company had about 44,600 employees in the U.S. and 3,400 in Canada at the end of 2023). The Company has no operation outside of North America.

4. While WM has just reported relatively positive earning for FY2024 (the stock traded up 6.15% after reporting earnings, the biggest single day raise in over a year), and has reported positive integration for its Stericycle acquisition (revised cost synergies up from $150 million to $250 million), the stock is lagging the S&P500 for the past year, rising 19.41% compared to S&P500 24.17% (as of Jan 31).

5. The stock's P/E at 29.63x after its latest earnings is also below its five year average of 32.58x, and management's outlook for accelerated growth starting FY2025 through to FY2027 resembles market's estimated forward P/E of 28.61x, 25.32x, 22.96x respectively for FY2025 through to FY2027. While still early, the nature of its business economics to be relatively estimable could suggest WM's profitability to trend higher in the next few years, with valuations expected to lower if the stock continues to remain at current level.

Financials

1. In 24Q4, total adjusted revenue of $5,893 million was 12.96% higher YoY, and higher than past six quarters (23Q2-24Q3) CAGR of 9.52%. For FY2024, total adjusted revenue of $22,063 million was 8.01% higher than FY2023, and higher than past five years (FY2019-23) CAGR of 6.49%.
2. For FY2024, operating revenue in all business segments grew, notably newer segments like Recycling Processing & Sales (grew 26.82% YoY), Renewable Energy (grew 16.48% YoY), and the newly added Healthcare Solutions, although the three segments make up 10.5% of all revenue.
3. The more legacy business of Collection & Disposal (89.4% of all revenue) also recorded growth across all segments, but Industrial was relatively weak almost flat at only 0.19% growth YoY.
4. Management commented that revenue growth in 2024 was driven by improved pricing strategies (6.7% core price), increase in completed acquisitions including the Stericycle acquisition, and higher market prices for recycled commodities.
5. In 24Q4, operating expenses as a percentage of revenue were 60.29%, a fifth consecutive quarter below 61%, a management target. For FY2024, operating expenses as a percentage of revenue were 60.66%, below 61% for the first time in WM's history and improved 106 basis points from 2023, and improved from the past five year average of 61.76%.
6. Management commented that the improvement was driven mainly by leveraging technology and automation to optimize cost, and shedding low margin volumes in the residential collection business.
7. Labor efficiency also contributed to the lowering of operating expense, with labor costs as a percentage of revenue declining by 60 basis points for FY2024 compared to FY2023.
8. Adjusted operating EBITDA (the profitability metric management choose to use, defined as GAAP income from operations before depreciation and amortization) grew 9.5% YoY in 24Q4, and was 11.26% higher for FY2024 than FY2023.
9. For FY2024, adjusted operating EBITDA margin expanded 80 basis points YoY at 29.7%, driven by impressive Collection & Disposal business expanding 200 basis points YoY at 37.2% margin.
10. For FY2024, reported net income at $2,746 million grew 19.18% from FY2023, higher than past five years (FY2019-23) CAGR of 3.66%.

WM Legacy Business

1. In the Collection & Disposal business, since WM started Residential segment optimization efforts in 2022, the Company has automated over 500 residential routes and exited an additional 400 routes where conversion was not an option or profit margins were challenged.
2. The Company reported continued progress in 2024 on automating routes to 'intentionally' shed lower margin business, resulting in Residential segment operating EBITDA margin growing more than 400 basis points and approaching 20% for FY2024.
3. These efforts also improved driver turnover, resulting in lowest ever annualized driver turnover as of December 2024 at 15%, an improvement of over 300 basis points from 2023.
4. For the weaker Industrial segment, management commented that industrial production in the U.S. have been in an industrial recession over the past quarters, and WM's numbers have reflected that.
5. While the Company is "not expecting a big rebound" for the Industrial segment in 2025, it expects to "bring some of that volume back" at margins that are acceptable.
6. Overall, the record growth from Collection & Disposal business was driven by margin expansion of 200 basis points, with about 180 basis points from the benefits of price, cost optimization and intentional shedding of low margin residential business, and the remaining from lower fuel cost.
7. The growth was partially offset by the impact of higher commodity pricing in the recycling brokerage business, increased incentive compensation costs, higher employee health and welfare costs, and the addition of the Stericycle acquisition, each affecting margin measure by about 30 basis points.
8. Repair and maintenance costs also declined as a percentage of revenue, resulting from increased truck deliveries, fleet optimization, and streamlined maintenance approach that increased technician productivity and reduced reliance on rental units and third-party services.
9. In 2024, WM continued to expand its renewable energy platform, bringing five renewable natural gas facilities online, and expects to bring online eight more in 2025. By the end of 2025, all but two of planned plants will have completed construction.
10. Management commented that it is confident in the demand for renewable natural gas, especially from sources like WM's landfills, and will continue to invest as such.
11. On another note, regarding the L.A. fire, the Company reported that all staffs are safe, and as of the call, nobody had been displaced, and its operations are safe and unaffected.

WM Healthcare Solutions

1. On Nov 4 2024, WM completed the $7.2 billion acquisition of Stericycle, expanding into the growing healthcare market. The Company will report the medical waste and secure information destruction businesses together as WM Healthcare Solutions.
2. Adding Stericycle's leading platform in medical waste management and secure information destruction to WM broadens the Company's suite of solutions.
3. In the short three months, the Company has integrated the commercial operations support and back office functions of Stericycle into WM's structures.
4. In terms of cost synergies, the Company now expects $250 million of synergies over a three-year period, and management is confident about delivering up to $100 million of that in FY2025. Previously management had expected the cost synergies to be about $150 million over the three-year period.
5. Management expects the old Stericycle business, which is the new WM Healthcare Solutions business, to grow about 9% before synergies, driven by organic revenue growth.
6. Having captured $61 million operating EBITDA in 24Q4 (Nov to Dec), inclusive of $4 million of cost synergies, the full-year run-rate from this new earnings contributor amounts to about $342 million.
7. At about 9% growth and additional $90 million cost synergy (management's mid-point), the new Healthcare Solution is expected to contribute about $463 million operating EBITDA in FY2025. For context, total adjusted operating EBITDA for FY2024 was $6,563 million.
8. Management commented that it is still in the process of developing figures on the commercial opportunities from the acquisition, thus commercial synergies have not been included in the 2025 numbers yet, and this will be one of the growth drivers starting 2026.
9. CEO Jim Fish suggested that WM's price team has "developed a level of sophistication to be able to really price on a much more granular basis", that did not exist within the Company several years ago.
10. The CEO believes that such "level of sophistication" of pricing can be taken to the Stericycle business as one of the commercial synergies.
11. Management also discussed other commercial synergies such as cross-selling, which is expected to be the single biggest opportunity over the long-term, and detailed P&L accountability down to the customer level, which is currently built into WM's operations to drive growth discipline.

FY2025 Outlook

1. The Company expects revenue growth of 16.4% at midpoint, including 5.7% organic growth and 10.7% acquisition growth. Organic growth is lower than recent five years (FY2020-24) CAGR of 7.37%, with the Stericycle acquisition acting as new driver of growth.
2. Adjusted operating EBITDA expects growth of 15% at midpoint, higher than FY2024 11.26% growth.
3. Collection & Disposal business, which is currently 89.4% of all revenue, is expected to grow more than 7% in operating EBITDA. The Company has set priority to further improve operational efficiency in core Collection & Disposal business. However, Industrial segment expects to remain soft.
4. Adjusted operating EBITDA margin is expected to remain relatively flat at 29.45% at midpoint, compared to 29.7% for FY2024, although WM Legacy Business is expected to expand 70 basis points to 30.7% and WM Healthcare Solutions is also expected to expand 250 basis points to 17.6%.
5. Capital expenditures are targeted at about $3,225 million, with about $625 million directed to high-return sustainability growth projects, and about $225 million to grow Healthcare Solutions business.
6. Free cash flow is expected to grow more than 17% to $2,725 million at midpoint, including projected benefit from investment tax credits of about $220 million, less $100 to $200 million of investment in solid waste acquisitions, and estimated dividend payments of about $1,300 million.
7. Management continues to pause share buyback as the Company focuses on getting its balance sheet back to targeted leverage levels, expecting leverage to be approximately 3.1 times at the end of 2025.
8. Long-term target for leverage level is 2.5 to 3 times, which management believes is optimal to provide available capital for strategic opportunities like acquisitions when they arise.
9. Management expects growth investments to contribute operating EBITDA approaching $800 million in 2027. For context, the Stericycle acquisition is projected to contribute about $463 million operating EBITDA in FY2025.
10. Management commented that volume growth has been "pretty muted" over the last couple of years, and when volume do pick up, the core business can be seen "taking off" at the same time as the new WM Healthcare Solutions "takes off", and at the same time as the sustainability investments "really start to add EBITDA and free cash flow".

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All currency in USD unless otherwise stated