ADVANCED DISPOSAL SERVICES, INC.

Moderator: Matthew Nelson
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Operator: This is Conference # 36123484

Operator: Good morning. Thank you for standing by, and welcome to the Advanced Disposal Q2 2017 earnings call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

I would now like to hand the floor to Matthew Nelson, Vice President of Finance and Investor Relations. Thank you, Mr. Nelson. I hand the floor to you.

Matthew Nelson: Good morning, everyone. We would like to welcome you to the Advanced Disposal Q2 2017 earnings call. With me today is Richard Burke, our CEO; Steve Carn, our CFO; and other members of senior management. We issued our press release yesterday with our results and trust that you've had the chance to review it. If you need a copy of the release, you may find it on our website or at sec.gov.

In today's earnings release and during the conference call, we are providing adjusted financial information including adjusted EBITDA, adjusted free cash flow and adjusted net income, all of which are defined in our press release and exclude certain items that management believes are not indicative of our results of operations.

This information is provided to enable you to make meaningful comparisons of the company's operating performance between years and to review the company's business from the same perspective as the management. The earnings release contains exhibits that reconcile the differences between the non-GAAP measures and the comparable financial measures calculated in accordance with U.S. GAAP.

Before we begin, I need to make certain cautionary remarks about forward-looking information. The matters discussed in the teleconference may contain certain forward-looking information intended to qualify for the safe harbors from liability established within the Private Securities Litigation Reform Act of 1995, including projections, estimates and descriptions of certain future events.

Any such statements are based upon current expectations and current economic conditions and are subject to risks and uncertainties that may cause the actual results to differ materially from results anticipated in those forward-looking statements. In this regard, we direct listeners to the cautionary statements contained in our financial filings with the Securities and Exchange Commission.

This call is being recorded and will be available two hours after the conclusion of the call for 30 days. Time-sensitive information provided during today's call may no longer be accurate at the time of the replay. Any redistribution, retransmission or rebroadcast of this call in any form without the express written consent of Advanced Disposal is prohibited.

I would now like to turn the call over to our CEO, Richard Burke.

Richard Burke: Thanks, Matt. Good morning. We want to thank everyone for joining us today. We achieved strong financial performance in second quarter 2017, highlighted by our best quarterly revenue growth rate in three years and continued gains in free cash flow generation as we deliver on the commitments we have made to our shareholders.

Starting with revenue, top line grew seven percent through a balance of both organic and inorganic growth. Acquisitions made up nearly half of the revenue gains led by our Q1 purchase of CGS, which expanded our footprint into a large portion of Central and Eastern Indiana through a vertically integrated network of solid waste collection, recycling and disposal assets.

We are pleased to report that the integration process continues to go well and according to our plan. In addition to the CGS acquisition, we've completed seven tuck-in acquisitions year-to-date, including four in the second quarter. One of those tuck-in acquisitions in Q2 was located in Polk County, Florida, which will become the base business through which we begin building out our commercial and industrial business ahead of a new municipal contract that begins October 1st of this year.

Another tuck-in was related to a swap during the second quarter that enabled us to exit a market where we were at a disadvantaged disposal position, while at the same time strengthening our presence in the existing disposal-neutral market.

Moving to organic growth, volumes turned positive during the second quarter with a 60 basis points contribution to total revenue growth. This was ahead of our internal expectations where we expected volume to turn positive in Q3 and also represents a 230 basis point improvement compared to Q1 2017. A six percent increase in disposal tons at our landfills drove the overall improvement, partially offset by a reduction in residential volume.

It is worth noting that new municipal contract wins for the year continued to outpace municipal losses as we expect. The start data for those contracts vary, as you know. So those new net wins are not felt immediately, but we expect year-over-year residential volume comparisons to continue to improve as the year progresses.

Our total yield for the quarter was 3.1 percent and comprised of three items. First, average price yield was 1.4 percent in second quarter 2017 compared to 1.7 percent in second quarter 2016. While we do see ebbs and flows in our pricing quarter to quarter in part due to mix changes, we remain committed to disciplined pricing in our markets over the long term. And year-to-date, our average yield is two percent on price.

Additionally, recycled commodity sales add a 1.2 percent boost to overall revenue due primarily to higher OCC prices. So while our exposure to the sale of recycled commodities is limited with only approximately two percent of our company-wide revenue tied to this area, we did get a nice pickup in the quarter from that, and we'll continue to monitor trends as the year unfolds.

Fuel fee revenue also contributed 50 basis points to revenue growth, driven largely by higher fuel prices year-over-year.

Turning to bottom line results. Adjusted EBITDA improved $2.3 million to $109.8 million. Gains in profitable organic and inorganic revenue growth, commodity price tailwinds and continuing to manage controllable costs all aided our adjusted EBITDA year-over-year. We are seeing some cost headwinds related to third-party disposal costs driven by higher container waste, disposal facility costs and health insurance claims that Steve will discuss in more detail. But overall, our core business remains robust.

Looking at cash flows. Q2 was another strong quarter of cash flow generation. Cash provided by operations was $77.5 million in Q2 2017, which is $27.1 million or a 54 percent increase versus Q2 2016. And adjusted free cash flow improved $16.8 million to $42.5 million. Lower cash interest payments, working capital improvements, adjusted EBITDA gains and prudent capital investments all were part of the formula for the significant cash flow growth achieved during the quarter.

Overall, our team continues to deliver on the commitments we've made to the shareholders since our IPO. We have expanded our operational footprint. We've continued to strengthen markets with tuck-in acquisitions, achieved some new important municipal contract wins, continued our pricing -- our disciplined pricing, strengthened our balance sheet and have reduced our leverage.

The combination of these efforts is driving strong operating cash flow improvements, and we remain on track to achieve our adjusted EBITDA and adjusted free cash flow guidance that we outlined earlier in the year. We are also raising our revenue guidance from our initial estimate of between $1.45 billion to $1.475 billion to our updated forecast of $1.475 billion to $1.49 billion, due primarily to acquisition growth at the top end of our range and new municipal contract wins.

Not only have we continued to execute on our business strategy, but we have also made important changes to our Board of Directors with the additions of Tanuja Dehne and Renae Conley as independent members of our board effective August 1st. Our board is now comprised of a majority of independent board members, and all our committee members will be independent by October.

With that, I will now turn the call over to Steve for a more detailed discussion of our financial performance.

Steven R. Carn: Thanks, Richard, and good morning. Revenue for the second quarter 2017 increased $24.9 million or seven percent to $383.1 million from $358.2 million for the second quarter 2016. Adjusted net income increased $7.1 million to $13.8 million from $6.7 million in the prior year. And adjusted EPS was $0.16 in Q2 2017 compared to $0.10 in the prior year. Adjusted EBITDA for the second quarter was $109.8 million compared to $107.5 million in the prior year. A reconciliation of non-GAAP measures to the comparable GAAP measures can be found in our earnings release.

We achieved strong top line revenue growth for the quarter of seven percent led by 3.4 percent growth from acquisitions, total price yield of 3.1 percent and organic volume growth turning positive, contributing 60 basis points of revenue growth for the quarter. Looking at revenue growth in more detail, we achieved total price yield of 3.1 percent for the quarter, with 1.4 percent average organic price yield, 1.2 percent price growth from recycling as commodity prices grew year-over-year, and 50 basis points from fuel fee revenue impacted by increased diesel cost.

Average yield of 1.4 percent is down 30 basis points from the prior year quarter as we saw some pressure on price yield due to mix of business, as 100 basis points of volume growth for Q2 was generated from contaminated soils that's generally priced lower than other disposal waste volumes, as these soil volumes can often be used for daily cover, reducing operating costs particularly at mobile sites that are dirt negative.

Organic price yield of 1.4 percent was driven by 170 basis points positive pricing in all lines of business, except for 30 basis points negative price yield contribution in our C&D disposal and commercial lines of business. Resin pricing contributed 50 basis points to overall price yield with core price growth of 1.7 percent in the resi line of business in Q2 and improved 110 basis points sequentially from Q1 benefiting from higher CPI and timing of annual contract resets, which is weighted to the back half of the year.

Roll-off core price growth was 3.3 percent for the quarter, which contributed 30 basis points to overall price yield, driven by strong pricing in the Midwest and South, but offset by lower pricing in the East, which was impacted by lower-priced project-based work compared to the prior year.

MSW and special waste had moderated contribution of 20 basis points to overall price yield impacted by mix of business. Increased environmental fees contributed 70 basis points of overall price yield, which moderated from Q1 as the company starts to cycle tough comps from the prior year environmental fee increase. C&D disposal revenue had 20 basis points negative impact on price yield, impacted by slightly lower pricing on project volumes compared to the prior year. We saw somewhat moderated commercial price growth, which was impacted by negative churn mainly in primary mortgage with our Midwest region.

Volume turned positive for the quarter with 60 basis points organic volume growth, up 230 basis points from Q1 and the first positive quarter for volumes since Q1 of 2015. Positive organic volume for the quarter, led by increased MSW revenue of 70 basis points with MSW tons up three percent. C&D revenue increased 60 basis points with tons up 16 percent, and special waste and trucking revenue were up 100 basis points with tons up six percent year-over-year and up 15 percent sequentially in Q1 2017. These volume gains were offset by lost resi contract volumes of 90 basis points and lower shale volumes of 50 basis points. As we anniversary these negative volumes, we expect volumes to remain positive in the back half of the year if timing of special wastes projects remain on track.

Turning to our bottom line results. We achieved adjusted EBITDA for the second quarter of $109.8 million compared to $107.5 million in the prior year. Adjusted EBITDA margin for the quarter was 28.7 percent compared to 30 percent in the prior year, reflecting a 1.3 percent decrease in margin year-over-year, impacted by acquired revenue for which we have not yet achieved the full synergy contribution due to integration and start-up costs, which will moderate the balance of the year. In addition, we experienced the following headwinds in the quarter.

First, we saw 100 basis point impact in our third-party disposal costs normalize for volume changes. Our internalization rate remained consistent and as we followed this trend, the key driver of the change for the quarter is higher container waste across all lines of business. This trend could become a positive force going forward if those container waste turn into incremental business, but for this quarter, it was a headwind.

Second, disposal facility costs impacted margins 50 basis points, driven by higher sulfate treatment, leachate, and gas system costs as so of our landfills. We are addressing these increased costs through a combination of increase in our environmental fee we charge to our customers, and capital infrastructure spend which we have forecasted for 2018 that will also help to offset these operating loss longer term. This headwind will likely continue through the end of the year.

And third, we saw a 30 basis point headwind from higher healthcare costs, driven by increase in both the number in severity claims and 20 basis points from worker's comp loss as credits from claims recorded from prior year were one time in nature. These headwinds were offset 70 basis points benefiting from pricing, yield contribution and lower SG&A costs.

Reviewing the results of operations, we achieved operating income of $24.1 million for the quarter and $37.1 million excluding $13 million related to the

South Carolina collection operations' intangible assets impairments compared to $36.1 million in the prior year quarter. We have provided detailed schedules of our cost of operations and SG&A expenses in our 8-K filing.

Our cost of operations, excluding depreciation expense, as a percentage of revenue was 61.7 percent compared to 60.2 percent in the prior year quarter. The 150 basis point increase in operating expenses as a percentage of revenue is primarily due to higher third-party disposal costs and increase in maintenance costs related to landfill gas control and solvate treatment and an increase of fuel costs.

SG&A expenses as a percentage of revenue was 10.6 percent compared to 10.9 percent in the prior year quarter. Salary expense remained flat while revenue increased, driving a decrease in SG&G as a percentage of revenue. Salaries were impacted by lower bonus accruals and lower stock-based compensation expense, offset by the impact of merit increases and severance expense.

Depreciation, completion and amortization was 17.6 percent of revenue compared to 18 percent in the prior year. As a reminder, our D&A is approximately 6 percent higher due to the impact of GAAP versus accounting of the legacy business. However, it has no impact on free cash flow generation.

We generated strong cash flows from operations for the quarter of $77.5 million or 20.2 percent of revenue compared to the prior year quarter $50.4 million or 14.1 percent of revenue. Adjusted free cash flow of $42.5 million or 11.1 percent of revenue also improved significantly compared to the prior year quarter of $25.7 million or 7.2 percent of revenue. Cash generation for the quarter benefited from a significant decrease in cash interest payments related to our debt refinancing and improvements in the adjusted EBITDA.

Net working capital in the second quarter benefited from an increase in DPO and timing of tax payments that will reverse in the third quarter. The company expended $38 million for the quarter for CapEx or 9.9 percent as a percentage of revenue. Replacement, maintenance CapEx was $26 million or 6.8 percent of revenue, which is below our target of 8.5 percent to 9.5 percent for maintenance CapEx due to timing. Growth CapEx was $1.5 million or 0.4 percent of revenue. And CapEx spent for acquisitions subsequent to closing was $3.6 million or 0.9 percent of revenue. Infrastructure CapEx was $6.9 million or 1.8 percent of revenue, primarily related to landfill gas and treatment infrastructure.

Total funded debt at June 30, 2017, was $1.962 billion with approximately $254 million of revolver availability. During the quarter, interest expense was $23.1 million, with cash paid interest of $27.6 million. Covenant leverage, defined as total funded debt to pro forma adjusted EBITDA, at June 30, 2017 was 4.6x compared to 4.8x at year-end. LTM June 30, 2017 EBITDA of $422.2 million includes $9.3 million of pro forma credit full year impact for acquisitions and new municipal contracts.

We will now open the lines for questions.

Operator: Thank you. At this time if you would like to ask a question, please press star one on your telephone keypad. Again to ask a question, please press star one now. Your first question comes from the line of Jon Windham, Barclays

(Will Grippin): Hey good morning, guys. This is (Will Grippin) on for John. Just a quick question, it looks like the guidance that you guys gave this quarter implies 40 basis point lower EBITDA margin at the midpoint compared to your previous guidance. Could you just help me understand how much of that is related to higher integration costs from all the acquisitions you guys have done versus higher disposals in healthcare?

Steven R. Carn: Good morning and good question. There's really three items in the expense that are causing those -- the issue. One is the insurance around health insurance. And we continue to see an increased disparity in frequency we saw in Q1. But we think will continue to see it in the balance of the year, which will put some pressure on the margin.

The other thing that we saw in the quarter was increased third-party disposal costs. And as we look at our internalization and as we look at container waste, we actually saw an increase in container rates year-over-year. On our commercial front loader pounds per cubic yard, we saw 1.5 percent increase. Roll-off, we saw 4.8 percent. On the resi side, we saw 4.5 percent. That's putting in a little bit of pressure on that line item until we start to see those customer service level increases in frequency.

We'll really get a view on that in Q3 if that trend continues, or was it just an anomaly for Q2. And then the other thing that we talked about were the disposal facility costs around sulfate leachate and gas cost. A combination of levers we're pulling on that is to increase our environmental fee related to those costs, in addition to spending some capital infrastructure costs to help control those that we'll spend some in this year, but mainly in '18 that will help longer term, help with the balance of those costs.

Around the integration and start-up costs, we're starting to moderate those and starting to get a fuller contribution from those acquisitions. And that will moderate more so in the back half of the year, although we have pulled (canning), which is the large municipal contract that starts. We'll have a little bit of headwind in that Q3 time frame and Q4 as we roll out that contract.

Richard Burke: Yes (Will), if we step back a little bit in great detail, if we step back a little bit around the growth and look at the fact that we've added two market platforms. We're in the process with CGS and then also with Polk County, which is good long-term business. And it fits our model of either secondary vertically integrated or disposal-neutral, so it falls right in our sweet spot.

But that the those markets initially, they're not going to be 28 percent, 29 percent, 30 percent markets. You're going to come in maybe high teens, low 20s. And then we have to do what we do. We have to get the synergies; we got to roll up the back office. We've got to get pricing in line with our pricing and get the routing synergies. So depending on the size of the growth that we bring in that we do acquisitions, there is a bit of a lag a bit of a pressure short-term margin.

But long term, this is great news. This business that we believe fits in our market selection strategy, and a long run, will produce the kind of margins that we're comfortable with being in that high 20s area.

(Will Grippin): Got it. I guess, that's as far as the integration costs, it sounds like you're not expecting that necessarily to continue as much. I mean, was the majority of that was just from the large CGS acquisition, and then given kind of the smaller tuck-ins that you guys did in 2Q probably having less of an impact there?

Richard Burke: That and also Polk. I mean, we're starting a new contract in October. That's 60,000 residential homes. So we ran down there in a tuck-in acquisition. We sort of bit it a little different than normal. Normally, we get the large long-term municipal contract as the anchor tenant. And then we do tuck-ins and add to them.

But we were opportunistic in going down and grabbing a local there to build off of. So when we've had that, there's not a huge amount of EBITDA contribution from that tuck-in until we can integrate the municipal contract. That's weighing on us a bit short term, but long term, this is Florida. This is Disney. So growth is big, and we like having a new platform in that disposal initial market. So short term, little bit of headwind, but in the long term, it will pay off.

(Will Grippin): Got you, makes sense yes, and congrats on that getting all those tuck-ins done. I mean you guys have done a great job kind of ramping the pace right after the IPO.

Richard Burke: Thank you, we love deals.

(Will Grippin): Second question and I'll turn it over, was just on the -- your exposure to recycling. I know it's substantially lower than your peers. But in that business, do you see any risk from China further restricting imports, and kind of how are you guys thinking about that?

Richard Burke: Like we said, about two percent of our revenue's tied to really commodity price around recycling. And nearly 60 percent of what we collect is on the paper side, mostly OCC. So we do have some exposure on the plastic side. But if you look at our footprint, the majority of the material we collect's in the Midwest.

So the export market doesn't play as large a role for us. Now as long as the margin constricts and we can not only domestic mills, we will feel that, right? Look we're not really on who are using to (domestic mill) so, I think our impact this probably less than our peers.

(Will Grippin): Great, thank you.

Operator: Thank you. Your next question comes from the line of Noah Kaye from Oppenheimer.

Noah Duke Kaye: Thanks so much for taking the question, good morning Richard, Steve, Matt, maybe we could start with volumes. And clearly, this is ahead of where you and we thought you'd be at this point. You gave a good unpacking of some of the drivers there. But I just want to make sure that we're absolutely clear on how to think about the higher than expected volumes.

And in particular, the stickiness of that as we go into two quarters ahead. Do you think it is a sustainably higher level on volume productivity that you are perhaps expecting? Or were there some onetime special project types that may be drove volume (beat)? Thanks.

Steven R. Carn: It was a combination of both there was some increase. So we see three percent on MSW. So you can think about those as most sticky. And we saw 16 percent increase in C&D tons in Q2, off of a five percent that we saw in Q1 '17, so a little bit of a -- muted in Q1 as we talked about because of the pull forward from '16 to '17. But that can be fairly sticky. We see a good pipeline. Special waste is up six percent.

And as we look at our pipeline, if the projects that we have in that pipeline, the funding and the timing of those volumes coming into our sites stay on track, we would expect those volumes to help contribute to the volumes in the back half of the year. Also, the wins outpacing the losses on our resi business also help those volumes. So we feel good about the core volumes and really getting to positive volume slightly earlier than what the anticipated with a good volumes around MSW C&D.

The other thing that we saw was actually positive increase in true big guys in our commercial business which is encouraged. So we continue to see some service increases outpacing decreases. We're seeing reduction in our churn partially related to better customer care centers and the quality customer experience that they're doing with us. We feel good about lower volumes.

Noah Duke Kaye: OK thanks very much. And then how should we think about those volume trends correlating to what you mentioned, which is the increase in container waste for third parties? How closely are they linked? Is there -- as you look at kind of the cadence of volume that you're expecting for 3Q and perhaps kind of the increase in service levels, how confident should we be that, that should not remain a headwind? And if not, how do you think about your pricing strategies around disposals to kind of offset that?

Steven R. Carn: So I -- there's a little bit of a lead time to try to drive those service increases and frequency. So it will take us sometime. We'll really know in Q3 whether it was kind of a Q2 event to wet weather. That's kind of the wildcard, how much is it related to decrease in weight because of rain and the waste being wet. And how much is it, we'll see in Q3.

So Q3 will kind of give us that story. But we're trying to get out in advance of that and thinking about waste that we could start to get our customers to think about those service level increases incentivizing our sales force to look at that. And but that takes a little bit of time to do that, but it's just 1 of those things that you find out. This is just one of those businesses that you got to attack kind of hand-to-hand combat in our local markets on a day-to-day basis, based on trends that we're seeing in the business.

Noah Duke Kaye: Great and just one last one on M&A. Again, congratulations and getting those tuck-ins done along with CGS. I mean, you're off to a strong start going to the back half of the year. It seems like now the chatter that we'd heard earlier in the year around potential pause in activity around tax reform uncertainty, that seems to be easing somewhat. And we've heard some more positive things about activity levels.

So we just like to hear how would you characterize the pipeline right now? How robust is it? How much upside with their potentially be to kind of what you typically want to do for annual M&A?

Richard Burke: Yes, so the M&A pipeline is very strong. I kind of break it into two buckets: traditional tuck-in, which the ones we like are in the 10 to 20-truck operations, mostly mom-and-pop operations where we're in existing markets. We tuck those in. Synergies are quick. You can get them. You can grab them. So you've got that camp. And then that's a pretty robust line. More than tax reform, what seems to be driving some of the decisions there are the potential for rising interest rates. Not all these companies -- or many of these companies have debt.

They have loans. They have variable loans. So every time the Fed thinks about another 0.25 percent, it comes off their bottom line, right? So a number of the smaller folks who are leveraged up are thinking that way, and that seems to be bringing them to the tabletop. On the chunkier sized deals. There's some out there, and we're getting a lot of meetings. We're having a lot of good discussion Caldwell-type and we think chunky, we think Caldwell-type size. So they're out there, and we're pursuing.

It's a longer sales cycle, but again, they really have to fit our model. They've got to be secondary, vertically integrated or primarily vertically integrated where we have strong asset base or disposal-neutral. We're not going to chase in markets where it's hauling only, collection on the end we're at a competitive disadvantage on disposals. So we're very disciplined about the fact that we only pursue opportunities that.

Noah Duke Kaye: Great, thanks so much, I'll turn it over.

Operator: Thank you. Your next question comes from the line of Hamzah Mazari with Macquarie Capital

Hamzah Mazari: Good morning, thank you. The first question maybe for Rich is around just longer term, if you could frame for us how do you guys think about the trade-off between slightly lower price and going after more volume in order to build route density. So the sectors offsets with pricing, which is fine, but you guys are at earlier stage than some of the other companies. So maybe route density is a bigger deal for you. Maybe just frame for us how you think about that.

Richard Burke : Yes, sure. Good morning, Hamzah. Look, we believe and we've shared does that in the big picture overall, we can deliver on a two percent price. A two percent price overall is our goal. Now anecdotally, you can dive down in certain markets, and we'll take it even lower than some markets. We can take it down to routes within our IT system where we can look at our routes and say look, this route's at 700 cubic yards.

We have capacity to go the last 300 yards to get to 1,000 to optimize that route to get those variable tons. In those markets and in those specific route, we will -- we can dive down, and we have the ability to price accordingly to build out the density of that route. But that's a decision taken more at our region level or our DM level when they get specific and drill down about building out proper route density. And again, if we're doing that and we're internalizing of those stunts, than that makes perfect cents.

Now if you're using variable pricing and you got to add more capital you got to add another truck, well than that doesn't make any cents at all. So it's really a -- you've got to look at it in a very macro level when you start to get into that variable pricing. But we believe overall even including that, that a two percent yield is a reasonable yield at this time for the company.

Hamzah Mazari : Got it. And then as you look at some of the issues that have limited operating leverage today, you cited M&A, increased costs around disposal. How much of that is controllable versus uncontrollable? And does that normalize in second half of '18? Or when does that normalize? Is it a few quarters?

Just any sense of what's under your control, what's execution related, what sort of out of your control, and then when does that normalize. I know there's a lot of moving parts here. So feel free to answer it however you wish.

Richard Burke : I think Steve is going to jump into the detail. But I will draw to the fact that for the quarter, we're at 28.7 percent margin, which is still an awfully healthy margin. So -- in the sector, so with that, Steve will jump in with more details.

Steven R. Carn: So let me take it into account of the three major buckets we see headwinds and then talk about what levers we can pull. To some extent, it's controllable, but some of it has a longer lead time. So third-party disposal costs, we're looking at pricing. We're looking at minimum charges on our temporary business as far as (roll off) tons.

We're looking at how we can move our commercial customers up to a larger container for increase the frequency so we can adjust the price to offset that, but takes a little bit of a lead time. That's going to take us to the back half of the year, and we would expect to start to see those type of contributions into '18 around our disposal facility costs. We're addressing that by looking at increasing our environmental fee to offset that.

We're spending a little bit on the infrastructure side around that does help control those costs and that's kind of a longer-term process that we're going through. And then around insurance. The health insurance really, if we continue to see these increased severity and frequency, we'll have to look in the plan and see if there's things that we can do inside the plans and how much cost shifting can we bear to the employee what the market will do.

So that won't reset until January 1st for us because that's our anniversary on our plan. So that will take a bit longer to control that. But again, it's marketplace by marketplace, making sure that we can drive price and push price to help offset that. Looking at other controllable costs outside of this that will help us offset some of these costs that take a little longer lead time. So it's all of those things.

And then the acquisition, the acquired revenue that we'll get incrementally, there is potential to increase downstream pricing and route efficiencies. But that takes a little bit longer in terms of drive those synergies with that revenue.

Hamzah Mazari: Got it. And -- just very helpful. Last question, I'll just turn it over. Could you comment on how much of your business has indirect energy exposure in terms of shale volume? I know you're not in the E&P business. But if you look back a year ago or historically, shale volume did have a minor impact up or down. So just curious with what's going on in the oil market, whether what -- just trying to get an update on that piece of business.

Steven R. Carn: It -- Hamza, it's fairly small for us at this point. We're going to anniversary that. Yes, I think it will be around that $2.5 million to $3 million of revenue for us this year, around 800 contribution to the bottom line. We've seen rig counts increase from 16, they were 16-23 and 6-30, we've seen 45. But it's your positioning to the rig.

So there's two landfills in Pennsylvania. And this rig increase hasn't been -- this is a logistics play. If it's close to our landfill, we'll get it. If it's further away in someone else's landfill, they'll get that. So there's more upside to us, but right now, we're not seeing it. At the height of it, we were at about 23 million of revenue, to give you some perspective, and that was back in '14.

Richard Burke: Yes and I would just add to that just to be clear. We didn't buy anything around the E&P waste. All we did was take two existing landfills and do a permit modification where we can take their waste. So we don't have any assets out there that are really just associated with the (BNP), as this thing has wound down. It was nice when we had it, but we certainly learned to live without it.

Hamzah Mazari: Got it, thank you, thank you guys.

Operator: Thank you. Your next question comes from the line of Corey Greendale First Analysis.

Corey A. Greendale: Hey good morning.

Male: Hey, good morning Corey.

Corey A. Greendale: So if you don't mind, just beating the disposal or the third-party cost a little bit more, so I understand there's some uncertainty around those the wet weather but given anything else going is there reasonable to think there's more economic activity?

So is there any way to give us a sense of at some point, it's not just a question it's not like customers have choice. Because their bins are full, so you've got to increase service levels. So can you give a sense across the board how close we are to that and how long the lag you expect between the EBIT cost of every year container waste of getting back the increase on service levels of price?

Steven R. Carn: I mean, Corey, this is a good question it's really the first quarter that we saw the increase in rates and really, the impact of the disposal cost line item. So we're in a bit of analyzing this. And we think there's some potential around the commercial industrial customers in looking at how full their cans our and putting together the program with our sales force to drive those are from those service-level increases.

And then also looking at kind of our flat rate customers in the temporary site may be increasing the minimum tonnage that we charge. And so we're looking at all those levers to deploy. It just takes a while to touch each one of those customers and it gets meaningful. I guess, we'll know in Q3 how much of it was maybe a little bit of weather in Q2, but if we continue to see an increase in these types of wastes on a year-over-year basis in Q3.

Corey A. Greendale: OK and Steve, can you clarify when you're going to impact of price impact the different piece of the business? The commercial -- that you say that price was less positive than it has been? Or where it was actually negative?

Steven R. Carn: Well, it was kind of flattish. And it was a little bit moderated by churn that we've seen in some primary markets in the Midwest, although we have driven our churn down, in '16, it was about 12.3 percent; year-to-date '17, about 10.6 percent. So we continue to work on customer retention to avoid that churn. So we continued to have that on the commercial side, maintain that density because that cubic guard on that truck is accretive. So we're looking at waste with our customer care and what we're doing in that process to help manage that line item.

Corey A. Greendale: OK and then also on price. Can you just help us think through yield in the back half of the year? I know the environmental fee, I think, anniversary, it sounds like you're talking about doing a different one. And I don't feel the same mix point from contaminated soils that you had in Q2. So just sort of directionally, should we be expecting yield to be down Q3 versus Q2 because of the environmental fee anniversary or do you think you can keep it consistent? What are your thoughts on that?

Steven R. Carn: I think we'll anniversary the environmental fee, which is going to be a little tough. But we're addressing that with an increase in environmental fee, particularly as we look at those disposal facility costs. And it's really the waste stream that's generating that.

So we have a good case to pass that along to our customers. And then the other thing that we're looking at is the CPI. So remember, a large portion, 62 percent of our residential contracts reset. And it's biased to Q4, so 62 percent in the back half. So the CPI continues to grow. It was 1.9 kind of LTM in Q2.

So we'll start to see that kind of tailwind. Just looking quarter-over-quarter increase in resi line of business -- it was 1.7 percent from Q2. So that will help with the pricing. And then it's just some timing and mix, but we would expect the pricing to improve in the back half of the year.

Corey A. Greendale: OK, great. We'll turn it over, thank you.

Male: Thanks, Corey.

Corey A. Greendale: Yes.

Operator: Thank you. Your next question comes from the line of Michael Hoffman of Stifel.

Brian Butler: Good morning, this is Brian Butler in for Michael.

Male: Hey good morning, Brian.

Brian Butler: Just on the SG&A, you made good progress I think in second quarter. As a percent of revenues, it came down. And how should we think about that in the back half and going forward on what, if any, on reducing those costs as either percent of revenues or just on an absolute dollar basis?

Steven R. Carn: It continues to be a bonus for us really in two fronts. It never stops. So we can add top line growth. So a part of the Caldwell acquisition and the Polk County that municipal revenue we'll get in Q4. We'll help continue to manage that (counted down) as a percentage of revenue. And then we will continually look at ways we can be more efficient, not only at corporate office, but also in the field around SG&A.

Richard Burke: Yes. And Brian, we've talked about how from a corporate SG&A point, we feel very good about where we are and that we can add another couple of hundred million dollars over the years to this space without a material change to our SG&A. So that's what you're seeing. Actual dollars fairly static, but what you're seeing is revenue growth without any additional headcount additions at corporate.

Brian Butler: OK so call it $40 million, $41 million pace in the second quarter is a fairly reasonable rate kind of on a quarterly basis, in the sense that there was nothing really that unusual or an outlier that would push it up or down?

Richard Burke: There's always gives and takes around insurance and bonus accruals and this and that, but that fuels fairly right.

Steven R. Carn: Yes, you have to be careful looking at it on a percentage of revenue because of our seasonality. So you're kind of on cue looking at it in dollars versus trying to go to a percentage.

Brian Butler: OK, and then one last one on your thoughts around the debt repayment kind of on the back half of the year and going forward, and where that kind of -- if can you update any one just kind of capital allocation and thoughts on leverage.

Steven R. Carn: Yes. So we delivered from 4.8x to 4.6x, so kind of 0.2. We think organically, we can take a 0.3 or 0.5 a turn out on an annual basis. But we delivered with the fact that we spent about $80 million on acquisitions in the first half of the year.

So if we're doing what we said we would do, I think to some extent certainly longer term as you get more contribution from the acquired revenue on the EBITDA line, and then certainly using free cash flow. But it's really in the capital allocation is accretive deals, tuck-ins and pay down debt.

Brian Butler: OK but you're comfortable with the pace of call it 0.5 turn a year is -- I won't call it target, but…

Steven R. Carn: Yes, it -- but in a year where we've acquired more than $30 million to $50 million kind of was the target. We've done quite a bit more than that this year. And one of the acquisitions was a vertically integrated market, so it was a bit higher on the multiples we paid for it. So that was a little pressure to probably get into that 0.5 turn for full year '17. But remember, we're not getting the full year impact in the EBITDA in '17 also.

Richard Burke: I think we've stated it would be 30 to 50 basis point reduction if you look at it, we've gone four eight at the beginning of the year, four six and done seven deals during that same period of time. So we would expect to continue that trend.

Brian Butler: OK, great. Thank you for taking my questions.

Richard Burke: Thanks, Brian.

Operator: Thank you. You next question comes from the line of Michael Feniger of Bank of America.

Michael J. Feniger: Hey guys, thanks for taking my questions. On the M&A, I mean is the pipeline right now, is it strong enough for us to see another $80 million of acquisition spend over the next two quarters, or five to seven deals in the back half? Is it supportive enough for that type of run rate to continue?

Richard Burke: The M&A pipeline is as good as it was at the beginning of the year. To say that we're going to be able to close that much second half of the year feels like a stretch, Michael, just because I know where some of these deals stand right now. We won't stop. We'll be opportunistic when they're there, but it's hard for me to say that the second half on execution is going to be as robust as the first half.

Michael J. Feniger: Got it. And just my second question when we think about the average yield in the quarter as low in a few, how are we thinking about with are we talking about the pickup potentially in the second half? Is it more from the CPI side? Maybe is the CPI side more ticking up and offsetting the restricted stock, offsetting the open market? Do you find that open market is getting potentially more competitive? Or is it just a quarterly timing issue with lapping some of these environmental fees?

Steven R. Carn: It's a mixed bag there. So again, the environmental fee is a little tough comp particularly in the back half of the year. Higher CPI is both beneficial, not just on the municipal side and we're starting to see that starting to flow through. But also longer term will help us get through the pricing to market. As we try to get that 50 basis points in excess of CPI will certainly get help.

Michael J. Feniger: Thank you, thank you guys.

Male: Thanks, Michael.

Operator: Thank you. Your next question comes from the line of Steve Fisher, UBS.

Steven Fisher: Thanks, good morning.

Richard Burke: Hey, good morning…

Steven Fisher: So it sounds like special waste is one of the keys to volume growth in the second half of the year. So how confident are you that the special waste opportunities can remain on track for the timing that you expected and what actually is the timing that you expect, I guess, between Q3 and Q4?

Richard Burke: Yes, that's a good question, so special waste pipeline is very good. It's as good as it's been all year. We have some projects we'll be wrapping up mid-September. Some others, we'll be starting around October. Those are the ones that are in question. While they're awarded, the key is awarded and funded because some of these are state projects.

So that can be that time line. Historically, we see very strong special waste in the third quarter. Think about it. The weather is good. Trucks are on the road. Things are hauling. It's normally not wet and thankfully, it's not snowing. We get to around Thanksgiving, and that's usually where we see special waste start to stop. We joke around here that when you watch a Green Bay Packer game and you see that orange, that means special waste is coming to a close because it's too cold to dig anymore.

That's just one of our canaries in the cave. But really, strong third quarter, fourth quarter, you'd like to think October, November up till about Thanksgiving. And then you'll really see it tail off again until probably April, May.

Steven Fisher: Got it. And then I'm a little puzzled about the higher working comp costs, given your historically strong culture of safety. Is there something systemic going on that you've not been previously aware of? And how are you managing this going forward?

Richard Burke: No, it's actually -- look, our -- our (DAR) rate (T.R.) -- our I.R. rates are down year-over-year. What it was is the legacy claims. If you remember the legacy claims that we took from IWS and Veolia. We had a big block of claims we've worked down. There was accrual set on those worker comp claims.

What we've been is we've been very proactive going out in settling those claims. So last year during the second quarter, we had a substantial pickup that we were able to settle claims for less than the accrual. So now that he worked this down to less than 20 of these claims still on our books from a high of probably 250 claims, there's less of that.

So now we're back to what I would say is more of a normalized run rate of worker's comp, but it's not indicative of the performance on the field. It's indicative of the fact that we've laid out the old legacy claims from the companies that we acquired in 2012.

Steven Fisher: Got you. All right, thanks a lot.

Operator: Thank you. Your next question comes from the line of Andrew Buscaglia enough Credit Suisse.

Andrew Edward Buscaglia: Hey, guys.

Richard Burke: Morning, Andrew.

Andrew Edward Buscaglia: Can you just talk a little bit about your free cash flow? You had a good first half year but you are -- you get your guidance now. I think ahead of what I was expecting at least. What -- what are the puts and takes in the back half? I know seasonally it's down, but as or anything we should be aware of?

Steven R. Carn: I think we pointed that out just to be aware that there was a little bit of the PO benefit in Q2 that will reverse in Q3 around just the timing of some landfill payments and other payments. And that's probably $12 million to $15 million. So that is just because where the holiday fell in the fourth and marked the timing of the cycle of our payments, but that's kind of the major kind of difference in Q2.

Richard Burke: We also had some -- the growth in the second half of the year around the Polk County contract and some others the starting out and landfill construction coming to a close during the construction season. So we will see higher CapEx in the second half than we saw in the first half.

Andrew Edward Buscaglia: OK. Yes, that was kind of the -- my next question. I mean, your CapEx guidance I mean, as a percentage of sales, it seems to have go down in Q2. But we seem to be having a little bit higher volume environment than we originally anticipated earlier this year. So you expect CapEx to maybe at to the high end or the higher end of your range that you put out there initially?

Richard Burke: We expected to be within the range a bit more towards the high end of the range than where it's running to date. But we'll stay in the range.

Andrew Edward Buscaglia: OK got it, thanks guys.

Male: All right, thank you.

Operator: Thank you. At this time there are no further questions. I would like to return the floor for closing remarks.

Richard Burke: Thank you very much. We're making great progress as an organization and we're very optimistic about what the future holds as we work to deliver on the promises we've made to our shareholders.

By focusing on market selection, profitable organic growth, accretive acquisitions, pricing discipline, managing controllable costs and been disciplined with our capital investments, we expect to continue to drive ever-improving free cash flow. I'd like to thank the Advanced Disposal team for all their hard work and dedication as we all live out our mission of every day driven to deliver service for safety always. Thank you all for being with us today. We appreciate it, be safe.

Operator: Thank you. This concludes today's Advanced Disposal Q2 2017 earnings call. You may now disconnect.

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