Advanced Disposal Services, Inc.

Moderator: Nelson, Matthew

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OPERATOR: This is Conference # 5795839

OPERATOR Good morning, my name is Megan, and I will be your conference operator today.

At this time, I would like to welcome everyone to the Advanced Disposal Q Three Twenty Eighteen Conference 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, please press the pound key.

Thank you, Matthew Nelson, Vice President of Finance and Investor Relations, you may begin your conference.

MATTHEW NELSON Good morning everyone. We would like to welcome you to the Advanced Disposal Q Three Twenty Eighteen Earnings Call. With me today it's Richard Burke, our CEO, Steve Carne our CFO, and other members of senior management.

We issued our press release yesterday with our results and trust that you've had a chance to review it. If you need a copy of the release, you may find it on our website or at www.sec.gov.

In today's earnings release and during the conference call, we're 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 view the company's business, from the same perspective as management.

The earnings release contains exhibits that reconcile the differences between the non-GAAP measures and the comparable measures calculate in accordance with US GAAP.

Before we begin, I need to make certain remarks about forward looking information.

The matters discussed in this 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 nineteen ninety-five, 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 actual results to differ materially from resulting anticipated in those forward-looking statements. In this regard, we direct listener so the cautionary statements contained in our financial filings with the Securities and Exchange Commission.

This call's being recorded, and it will be available two hours after the conclusion of the call for thirty days.

Time sensitive information provided during today's call may no longer be accurate at the time of the replay.

Any redistribution, or retransmission, or re broadcast 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, and I want to thank everyone for joining us today.

Third quarter, two thousand eighteen, yielded solid results highlighted by disciplined price led revenue growth and improving free cash flow resulting in continued de leveraging, as we benefit from strong industry fundamentals. Starting with the top line, revenue grew two percent or four-point two percent, excluding the impact of the adoption of the revenue recognition standard. Average yield to four-point three percent for the quarter was the main driver of the revenue gains, as we continue to match our pricing strategy with overall macroeconomic conditions.

This brings year to date average yield to three-point two percent. And, we expect favorable pricing trend for the remainder of two thousand eighteen and into two thousand nineteen, as we benefit both from the rollover impact of pricing actions taken this year, along with CPI excess of two percent

Turning the volume, our collection business showed good growth overall, with service increases, outpacing decreases, and residential volume benefiting from a large municipal contract that began in late twenty seventeen.

Volume in total, however, declined one-point one percent. This decline was expected and was primarily due to difficult prior year special waste comps. More specifically, in two thousand seventeen, disposal times were up sharply in the third quarter, led by twenty nine percent increase in special wastes from a couple of large projects.

We did, however, have strong disposal pricing of approximately of four percent during the quarter that partially offset the volume declines, and excluding some difficult disposal comparisons, total growth would have been thirty basis points for the quarter.

Looking forward, comps for disposal volume will remain challenged in the fourth quarter, although likely, not to the same extent as we saw in Q three.

Our acquisitions net of divestiture yielded one-point one percent revenue growth, as we continued to benefit from the carry over acquisitions completed during twenty seventeen, and nine small tuck in acquisitions completed through September.

Our pipeline remains healthy with most of our current targets located in existing markets that improved density and drive new ball you into our disposal facility. We also think, we will, likely, get to the low end of our thirty to fifty million target range of acquisitions spending for two thousand eighteen, based or acquisition activity completed in October, plus other expected tuck in acquisition for the remainder of Q four.

And finally, our revenue from the sale commodities declined a hundred and thirty basis points, due to well publicized declines in fiber prices. For us, this included the price we received for OCC falling from an average of a hundred and thirty-three dollars per ton Q three twenty seventeen to fifty-nine dollars per ton Q three twenty eighteen.

So, while the sale recyclables, now, only makes up about one percent of our total revenue, it still impacted our bottom line with an EBITDA head win of four point two million for the quarter and ten million a year to date.

While the shift in commodity prices has been painful, we do believe it'll bring about a fundamental shift in our industry that will reduce earnings volatility from commodity prices longer term. Advanced disposal has used this market backdrop as an opportunity to educate our customers around the impact of contamination, and the cost of recycling, along with securing price increases related to the collection of recycled.

The residential portion of our business has been our most challenged recycling customer, and as a result, has been the main focus of our outreach efforts. Year to date, we've had conversations with about half of our municipal revenue base, and receive some form of pricing concessions, from about a quarter of that group. These conversations will continue, and we expect to have an initial conversation with ninety percent of our municipal revenue base, by year end.

Moving to bottom line results, adjusted EBITDA was flat year over year at a hundred and twelve-point three million, as we overcame a four point two million head wind from recycling and tough disposal makes cops from cycling some large highly proper, prior year special waste projects, that were incremental tons coming into our landfills.

Those two items, also, impacted margins by about a hundred basis points. So, normalizing for those items, margins would have been twenty nine percent instead of our reported twenty eight percent.

Free cash flow remains our most important financial measure of success, and we showed strong free cash flow results during the quarter of thirty-eight point four million. Year to date, free cash flow generation is up over seven percent. And in Q three, we were able to reduce our overall leverage by another ten basis points versus Q two, or thirty basis points year to date.

Leverage is now at four points four times, and we're making good progress towards our target of three and a quarter to four and a quarter times leverage.

Looking at our business more broadly, like others in our industry, we're experiencing labor cost pressures, both, from our drivers and mechanics, as well as, outside subcontracting costs. Hiring and retaining the best possible talent is always important to success, and we believe, that, is even more critical today, in an environment with unemployment below four percent.

This simple truth is there are more driver and mechanic job openings available than there are qualified candidates. So, if you're not investing in your people, you're not going to retain your best talent.

Given that backdrop, our top priority as an organization is winning in this area, because it is at the heart of every key metric we have, whether it be safety, service, productivity, customer, or bottom line financial results, we recognize that we will need to continue to price above inflation, to be able to invest in programs that enhance our recruiting and retention efforts, while at the same time improving margins. We are committed to executing on all these fronts.

Turning to guidance, we are raising our revenue guidance to be between one point five four and one point five billion, narrowing our adjusted EBITDA guidance to between four hundred and twenty-six and four hundred and thirty million, and narrowing are free for cash flow guidance to between one hundred and thirty-six to one hundred and forty-two million.

And finally, before I turn the call over to Steve, I want to address a cost item in our press release. We incurred sixteen points three million in the quarter related to landfill remediation expenses and design enhancements.

This expense relates to a permitted design option at one of our landfills that has been suboptimal for the removal of Leachate. While estimates are subject to change, we believe all material costs associated with it have been accrued for, and a more detailed description can be found in our 10-Q

With that, I will now turn the call over to see.

STEVEN CARNE Thanks Richard, and good morning.

Revenue for the third quarter of two thousand eighteen increased seven point nine million or two percent of four hundred point six million, from three hundred ninety-two points seven million for the third quarter in two thousand seventeen.

Adjusted net income for the third quarter of two thousand eighteen increased two point two million to fifteen point one million or seventeen cents per diluted share, from thirteen points nine million or sixteen cents per diluted share for the third quarter of two thousand seventeen.

Adjusted EBITDA for the third quarter of two thousand eighteen remained flat compared to the third quarter of two thousand seventeen at a hundred and twelve points three million, achieving margins of twenty eight percent for the third quarter of two thousand eighteen.

Leverage, as defined in our credit agreements, decreased ten basis points to four points four times at Q three two thousand eighteen, compared to Q. two thousand eighteen, and decrease thirty basis points versus Q four two thousand seventeen.

A reconciliation of non-GAAP measures to the compatible GAAP measures can be found in our earnings release.

We achieved strong, top line revenue growth for the quarter of two percent, led by higher average price yield of four-point three percent, net of acquisition revenue growth one-point one percent, partially offset by declining organic volume of one-point one percent.

Recycling revenue was down one-point three percent, but largely offset by one-point two percent increase in fuel fee revenue. In addition, revenue declined two-point two percent, due to the adoption of the new revenue recognition standard, which requires recycling rebates, certain franchise fees, state landfill taxes to be netted against revenue.

We have achieved strong average price yield of four-point three percent for the quarter up hundred ten basis points, sequentially from Q two, benefiting from discipline pricing and higher CPI.

Our open market collection pricing led our strong average yield results by line of business, with roll off up eight percent, commercial up six-point seven percent. Residential price yield, which is more contractual and tied to CPI index, was up one-point seven percent, improving thirty basis points from Q three of two thousand seventeen. Disposal average price yield was four percent for the quarter, improving two hundred basis points sequentially from Q two.

Organic volume declined one-point one percent, primarily due to the impact of tough prior years special waste comps, and decrease tons, that were redirected from one of our landfills to allow for Leachate remediation, and design enhancements at the site, excluding the prior year onetime special waste volume, and the re direction of volume, our organic volume growth would have been thirty basis points for the quarter, and a hundred and twenty basis points here to date.

Looking at our expenses in more detail, our cost of operations, excluding accretion before Greentree and landfill remediation costs, as a percentage of revenue, was sixty-one-point nine percent compared to sixty-one-point six percent in the prior year quarter.

We have provided detailed schedules of our cost of operations and SG&A expenses in our 8-K. filing. Adjusting for the impact of rev rack our cost of operations, as a percentage of revenue, increased a hundred and ten basis points over the prior year quarter, broken down as follows:

- Fifty basis point increase in labor costs, impacted by driver and mechanic shortages resulting in increased over time and use of temp labor to cover the open positions. These labor head wins, we're somewhat offset by lower health insurance, as our plan redesign as resulted in lower costs as expected.
- Thirty basis point increase in repairs and maintenance costs, due to mechanic shortages resulting in some locations having to use outside repair facilities and increase temporary truck rental expenses.
- Eighty basis point increase in the cost of fuel as diesel prices have increased twenty six percent over the prior year quarter. however, the impact to EBITDA margin was neutral, as the increase in fuel surcharge fees, largely offset the increase in fuel costs as the company has increased participation.
- Forty basis point increase related to additional insurance accruals recorded due to an accident frequency and severity that occurred in the quarter. These cost increases were offset by the following decreases in cost.
    - Forty basis point decreasing transfer disposal costs positively impacted by increased internalization and lower recycling rebates.
    - Fifty basis point reduction and disposal facility cost, as we experienced a reduction landfill site repairs and lower operating costs at one of our landfill gas to energy plants. However, these gains were partially offset by higher Leachate disposal calls.

SG&A expenses as a percentage of revenue was eleven-point three percent. Compared to ten-point six percent in the prior year quarter. Normalizing for the rev rex standard SG&A expenses as a percentage of revenue are up fifty basis points, driven by a pension withdrawal liability, higher stock based compensation expense, that was accelerated due to senior executives reaching the eligible retirement age, and consulting costs associated with information technology projects, and higher computer hardware and software maintenance costs.

Depreciation depletion and amortization for the quarter was seventeen-point two percent of revenue, which decreased thirty basis points compared to the prior year quarter. As a reminder, our DNA is approximately six percent higher due to the legacy acquisitions and the related impacted GAAP purchase accounting, however, it has no impact on free cash flow generation.

Turning to our bottom line results for the quarter, adjusted EBITDA remained flat when compared to Q three two thousand seventeen at a hundred and twelve points three million. Adjusted EBITDA margin for the quarter was twenty eight percent compared to twenty-eight-point six percent in the prior year, reflecting a sixty-basis point decrease in the margin year over year. The sixty-basis point margin headwind breaks down as follows:

- Sixty basis point negative impact from lower recycling revenue, however, offset by sixty basis point positive impact from the rev rex standard.
- Sixty basis point impact from higher property casualty and workers compensation insurance cost and thirty basis points negative impact due to lower special waste disposal vines.
- These declines were partially offset by thirty basis point increase for pricing gains, net of labor, transportation, and other inflation or cost. Said differently, core solid waste margins increased thirty basis points over the prior year quarter, when normalizing for the thirty-basis points margin for the prior year event driven special waste volumes that did not repeat, and sixty basis points impacts from the additional insurance accrual in the quarter.
- EBITDA margin would have been twenty-eight-point nine percent compared to twenty-eight-point six percent in the prior year quarter.

Year to date, we generate cash flows from operations of two hundred and thirty-four point four million or twenty-point one percent of revenue compared to the prior today period of two hundred and forty-five point one million or twenty-one-point eight percent of revenue.

Adjusted free cash flow year to date two thousand eighteen was a hundred nineteen points seven million, which increased all from a hundred eleven points six million in the prior year period. The increase in adjusted free cash flow benefited from increased EBITDA and networking capital improvements. We are on track to achieve free cash flow of a hundred and thirty-six two hundred and forty-two million.

The company had CapX spend of a hundred and thirty-three points three million year to date, two thousand eighteen or eleven-point five percent as a percentage of revenue. Replacement maintenance CapX was ninety-nine points eight million or eight-point six percent of revenue.

Growth and acquisition CapX spend was thirteen points four million or one-point two percent of revenue, and infrastructure CapX spend was twenty points one million or one-point seven percent of revenue. Year to date, CapX spend is lower than the prior year by seven points two million due to the timing of the capital expenditures.

Total funded debt net of cash at September thirtieth, two thousand eighteen, was one point nine one billion with approximately two hundred and sixty-three million, of revolver availability.

For the quarter, interest expense was twenty-four points four million compared to twenty-four points one million in the prior year quarter.

Cash paid interest for the quarter was sixteen points seven million.

Covenant leverage is defined as total funded debt net of cash proforma adjusted EBITDA, September thirtieth, two thousand eighteen, was four points four times down from leverage of four point seven times a year end.

Adjusted TTM, September two thousand eighteen, pro forma adjusted EBITDA was four hundred and twenty-eight points nine million, including one point seven million up proforma credit for full year impact of acquisitions, net of divestures, and new municipal contracts.

Based on actual results for the first nine months of the year and expectations for the remainder of the year, we're making the following updates to our two thousand eighteen guidance:

- Raising revenue guidance to between one point five four and one point five billion from our previous guidance of between one point five to two one point five four billion.

- Narrowing adjusted EBITDA guidance to retain four hundred and twenty-six million and four hundred and thirty million
- And, narrowing adjusted free cash flow guidance to between a hundred and thirty-six million and a hundred and forty-two million
- And, capital expenditure guidance to be between a hundred eighty-six million a hundred ninety-two million.

We will now open the lines to questions.

OPERATOR At this time, we would like to take any questions you may have. To ask a question, please press star one on your telephone keypad. Our first question comes from Hamzah Mazari with McQuarie Capital. Your line is open.

HAMZAH MAZARI Good morning. Thank you. My first question is just on pricing. Richard, you talked about potentially two thousand nineteen pricing setting up pretty well, maybe just ramp for us. You know, if we look at your business, you know, pricing was one percent or so. Last year, was running in the two percent range the last few years, prior to that. Now you stepped up sort of in this four percent range.

Maybe frame for us, aside from CPI increasing, what is changed in the market place? Or you seeing more discipline? Or, are you just more aggressive? Or, you know, you were sort of focused on shutting low quality volume before, just any color, aside from, you know, CPI rising, what you're doing differently around pricing?

RICHARD BURKE Yeah. Good morning Hamzah. Thanks for the question.

I think you have to start was sort of the macroeconomic. Look you've got strong consumer confidence, you got low unemployment, and when we look at some of our lines, like commercial and roll off, we are really at full capacity on those routes. So, when you get the full capacity, you can start to you can start to push price. So, we're pushing our open market pricing, even more than we have in the in the past, in order to, you know, achieve these numbers that, you know, are above the two and more in line with three-point two percent year to date.

HAMZAH MAZARI Great. And, then, just a question around labor. I know you can surcharge for fuel, but when you look at your overtime labor, or temp labor, or some of the labor inflation you're seeing, is that something that you can surcharge for, or is that baked into your pricing, or does that come with the lag?

RICHARD BURKE Look Ham, we haven't looked at separating labor out as a surcharge. It might not be a bad idea, but we haven't looked at. It really is blended into that overall price that we're driving out to the market. It is the fact that there is a shortage of drivers and mechanics. So, in order to look to overcome our internal inflation and still develop margin, when we look at the labor lines, we're going to need to be in that three percent or better range.

STEVEN CARNE So, Hans, just little bit of pressure, too; I mean, if you look what we did in the open market pricing: a roll off of eight percent price yield to the line of business year over year, commercial six-point seven percent. So, what Richard, you know that's a little bit of demands. So, a little bit of surge pricing that were able to get, because of the demand and those wanting good service.

But the real head wind, we're trying to catch up a little bit on our open market pricing, as we're still about one-point seven percent on our municipal base. And, if you just look at that for the quarter, it was about twenty basis points pressure on the margin. If you assume that CPI is two-point four percent, you're just trying to recoup, you know, your cost structure of one point seven.

So, part of it is the lag pressure that we have in the municipal base and pushing the open market to compensate for that a little bit, until we can start to either renegotiate or get the reset on an annual basis to a higher CPI in the municipal business.

HAMZAH MAZARI Great, and just lastly, I'll turn it over, any impact from hurricane on the business, at all start to flag, or was it sort of immaterial? Thank you.

RICHARD BURKE No, Ham's, probably the biggest impact for us was Leachate, the rain falls for the, really, two hurricanes, the one that came through the Carolina's, and then cut up through Pennsylvania.

We saw spike in Leachate, around six or seven hundred thousand for the quarter, over and above where we were a year before. As far as revenue, we really weren't in those markets. So, we didn't see a revenue pick up; we did see a cost hit on Leachate, though.

HAMZAH MAZARI — Okay. Thank you.

OPERATOR — Your next question comes from William Grippin with UBS. Your line is open.

WILLIAM GRIPPIN — Hey, good morning everyone. So, but my first question is just an acquisition. Richard, I think you noted in your comments you expect to hit sort of the low end of the thirty to fifty million range that you would kind of spoken about previously. Just looking at the numbers, it seems to imply maybe something a little chunkier closing in the fourth quarter. Just wondering if you could provide any color around sort of, you know, maybe sizes deals that you see closing? Yeah, thank you.

RICHARD BURKE — Yeah, Will, thanks for the question. Yeah. I wouldn't really say anything chunky, i.e. it's more about volume. We've got a couple teed up. You know how these things are, I mean, they are, you know, the five to ten million ones can be can be difficult to do too, because they're bit emotional for the seller. But, it's just the volume of deals more than one big chunky one here in the fourth quarter.

WILLIAM GRIPPIN — Got it.

RICHARD BURKE — We considered it. We continue to see a strong pipe line of tuck in deals, and we're really focused on the ones that are existing markets, where we can tuck those in, integrate those quickly, pick up that volume, pick up that additional density on that route, and then internalize those tons into our long live landfills. Those are the ones that we think, right now, create the best shareholder value for us, and at the same time, help us on our deleveraging pack.

WILLIAM GRIPPIN — Yeah. It makes sense. Thank you. And, then, my last, more of a model a question, just on the free cash flow guide, it looks to imply, maybe, a slightly higher working capital drag in the fourth quarter, is that consistent with what you guys are seeing?

STEVEN CARNE No, I think we've gotten what we thought or expected from a net working capital for the year. And, if you look year to date, we continue to push the DPL, and then, we might have a little bit of room to improve some DSO measures in Q four. But, we largely have captured what we thought we were going to get from the networking capital for the year.

WILLIAM GRIPPIN Got it thank you.

OPERATOR Our next question comes from Corey Greendale was first announced that Your line is open.

COREY GREENDALE Hey. Good morning. First quick question on the free cash flow. I just want to confirm, Steve, the, I think the most recent number guidance I had for CapX was kind of one eighty-four to one ninety-four, is that still the expectation for the year?

STEVEN CARNE No, I think we've tighten that Corey on that on that metric from one eighty-six to one ninety-two.

RICHARD BURKE Okay, so it is tightening but haven't raised the rate. So, related to that you talked about the labor pressures within maintenance and repair costs, within that category is there anything related to the fleet, like. is it based on aging of fleet? Do you think you need to accelerate the pace in trucks any truck buys then or anything like that in order to get those costs more under control on an operating basis?

STEVEN CARNE No, were we running that band of, you know, seven one to seven points three on the age of the fleet. So, it's more (crosstalk).

COREY GREENDALE Okay.

STEVEN CARNE The factor of just the pressure around shortage mechanics, outside repairs, when you send a truck out it just takes longer. So, you know I have that, and in some instances, you potentially have some additional truck rentals.

RICHARD BURKE: It also put some pressure, Corey, on spare ratios. So, if we're running eight front load routes, we normally want to keep spare for eight. And, that's if you're fixing them inhouse. If you're pushing, if you're having to push them out and wait in line to get your truck repaired, you have to look at your spare ratios. So, we've had to look at that, and maybe hold on to some trucks a little bit longer than we wants to in certain markets, not all markets, in certain markets to compensate for that.

And, on the shortage of mechanics and drivers, look we've changed the way were attacking this. I mean, we've now put an RPO model in. So, we're using outside recruiters for the first time in our history that are that are: dialing out, being aggressive, targeting markets where we are short. We're using all social media that we possibly can.

We're laying our benefits package out for everyone to see, and we're doing things to enhance that benefits package, in order to make us more attractive to quality drivers and mechanics to join the Advance Disposal Team.

COREY GREENDALE: And when you look at those kind of actions Richard does that is your goal or the expectation that will prevent things from spiraling further or do you think that you might see some relief on some of the cost pressures as that takes hold?

RICHARD BURKE: No, it's more about relief. It's not about spiraling out of control; it's more about relief. Look, we're going to have that pressure of two point five to two-point eight percent probably internal inflation on that. That's just going to be there, when you have the fact that there are more jobs than there is qualified candidate. So, that's going to be there. But, it's not about it spiraling out of control. It's about controlling that, and it's about, you know, a quality of employee. It's not just about heads; it's about a quality driver, and a quality mechanic fixing things once, not twice. Those things will help us with our cost.

STEVEN CARNE: And, so, Corey, you know, one of the levers is, you know, the additional price, and that's why you've seen it come up and us be more price discipline. And, you've seen it come up from Q two to Q three.

COREY GREENDALE And maybe just a summative question on another point, a then I'll turn it over. With all those moving pieces, obviously, the price result was quite good in Q three. All sequel, and I know they're moving pieces, Steve, I think you said, excluding others moving pieces, the solid waste EBITDA margin of about thirty bips. And (inaudible) would have applied it north of four percent price could have translated it better than thirty bips. Is that, or should I not be thinking of it that way? Is thirty bips kind of what we should expect with four percent plus price? Or, do you think there is room for upside to that as these things improve?

STEVEN CARNE It is one quarter, and it'll be a little bit of time to cycle through. You know, certainly the head wind on the additional insurance accruals. And, then, the other thirty basis points was really just mix of business, so, you know, that's lumpy. That's the special waste events jobs, which are fairly incremental, you know, good incremental margin to our landfills, and pretty good dropped to EBITDA. So, a little bit of year over year kind of noise.

COREY GREENDALE Okay, thank you. I will turn it over.

OPERATOR Your next question is for Michael Hoffman from Stifel. Your line is open.

MICHAEL HOFFMAN Thank you for taking the questions, the Leachate pressure in three Q is it done?

RICHARD BURKE I think, we're returning more to a to a normal state, yes, Michael. I mean, you know, weather temperatures up. Long as we can get, we don’t usually get hurricanes in November. So, I'm not a weather man, but we're not forecasting, right now, access Leachate in fourth quarter.

STEVEN CARNE Yeah. We were up about six hundred thousand years over year basis on Leachate. Some of the of the expenditures that we had last year, that we talked about last year, on some capping events we pulled forward and some pretreatment expenditures on facilities, and then we had a little bit blasts tropical this year on that Leachate, but still we see some cost pressures around the ability for some pretreatment centers to take that Leachate.

STEVEN CARNE	Yeah there's some regulatory pushes in certain states that re that are changing the game a bit and certain markets, where we will have to pre-three Leachate. We've got that built in; it's not totally unexpected. But, that's going to add a process to getting Leachate out. And, that's, you know we've talked about this for years. That's one of the reasons when talk about infrastructure our capital and there are young, long, live landfills, that we have a bit more cap than many of our peers, because we're still putting in those wastewater treatment facilities, at some of our newer landfills to treat. But, the CapX, we spent in two thousand seventeen, helped us, certainly helped us weather the hurricane season this year.
MICHAEL HOFFMAN	Okay. And, then, great on the pricing. You know, I heard the message you're two and a half to two points eight internally, right four three. You know, you flow, you throw in the fuel, you know, all in you're looking at sort of five of almost price. And, I'm struggling a little bit with the margin, to see the margin, can you, it feels like you had to give more up anyway. So, I'm struggling a little bit with why there's really margin, there's operating leverage.
STEVEN CARNE	Well, in the quarter, there sixty basis points relative to insurance accruals
MICHAEL HOFFMAN	Does not repeat?
STEVEN CARNE	Well about half of that is a benefit that we had in the prior year that didn't repeat on some legacy claims that settled less than what we thought, and then about thirty basis points or half of the sixty on some severity that we had and a quarter. And, then, the mix of disposals line, which was about thirty basis points, so that those incremental tons that came in Q three, you know, last year, you know, we have that head wind on those profitable tons.
MICHAEL HOFFMAN	Right, so the truth is in the you know, day to day operation of the business (inaudible) margins didn't improve. Because, this is part of doing business is the mix.

STEVEN CARNE Yeah, and we talked about that. So, you have the labor pressure, you have the lag on the rest of the muny. So, there's twenty basis points kind of head wind there, until we can get that to at least inflation. Right now, for the quarter over quarter, it was one-point seven percent. So, that's twenty-basis points head wind on the margin. You had some R&M, and we talked about that. And, then, we had some SG&A cost, that we talked about, relative to telecom., and then there were some stock comp expense, and a withdrawal liability, stock comps, obviously, add back EBITDA. But, the withdrawal liability impact on the SG&A.

RICHARD BURKE We had a year to be certified.

MICHAEL HOFFMAN Yeah, that's the fourteen points four million on the other line and the SG&A that's the pick up there that was versus the twelve to thirteen that number is running typically a quarter.

STEVEN CARNE Yes, and there a little bit of noise in the ratio due to rev rex.

MICHAEL HOFFMAN Okay. So, when, you know, at a four three price, and you're only a two eight in inflation, we should start to see some operating leverage. So, where are we when the noise clears that this becomes evident. That, you're producing that operating leverage. Are we well into nineteen before we get to see that, because there's going to be rolling effects of this noise. Do we see it in, as early as, four Q?

RICHARD BURKE Yeah. I mean I we're going to do our guidance, Michael, like we usually do Q four of nineteen. But we need to just bring a couple of quarters of this price together with some of the noise around the cost, in order to start seeing that margin expansion. Again, we're, we believe this will produce margin expansion over time.

MICHAEL HOFFMAN Okay. And the four plus percent price in three Q has should have natural momentum, so there's carries into four. So, that it's a compare in the first half of nineteen. And then, you, obviously, have to produce more pricing, because the comp gets tougher. But I should, if I modeling quarters, a four kind of number into the first half is not an unreasonable way to think?

STEVEN CARNE Yeah, but if you look nine months today we're at three-point two percent, and so, you know, part of the four three was, you know, comp to comp. You know pricing wasn't as good in, you know, Q. three.

RICHARD BURKE We comp about twenty bips from thirty bips from seventeen.

MICHAEL HOFFMAN Right, so I should think of this as more like a three and a half to four, is it a way to think about from a modeling standpoint. I'm not, just so we all are being intelligent in how we model you, going forward.

STEVEN CARNE I think that's, yeah, because you're going to get some. You're absolutely right, we're going to get some roll over of the pricing that we took in eighteen and in to nineteen. And, we're going to see that you're right in one H of nineteen.

And it just as we get further in the year, and as we develop our plan, which we're not completely finished with for nineteen, and certainly on the Q four call, we will provide that, more detailed guidance of how we feel about pricing. But, certainly, we will have to remain price disciplined, because we'll have to tougher comp in the back half, you're right, in nineteen.

MICHAEL HOFFMAN Okay, and then last question for me, you had about a four-million-dollar year over year increase on the labor line in your out packs, and it's an approximate similar on the maintenance. If you think about that overtime piece of those two, four million-dollar increases, if you're successful with your recruiting efforts re internalizing maintenance What could we see come out?

RICHARD BURKE So, the over overtime and outside repairs is a large portion of that increase. You know, some of it's just going to be regular wage push back, I haven't looked at it exactly that way Michael. But I would imagine half of that is likely tied to over time and outside repairs. And, again outside repairs are being done, because don't have the properly staff mechanics in house, so get him in house, don't send it out.

And then of course, the overtime is the other piece if were running it will run in the right number route for the workload we're going to drag that OT down. But this is a long process.

So, I don't want you modeling January one, there is going to be some light switch flick, and all of a sudden, we're fully staffed. Because, it's still a very good economy, very vibrant economy. The down side of a good industrials economy is everybody that wants a job got a job. So, this is going to be a gradual improvement not a flick not a flip the light switch improvement.

MICHAEL HOFFMAN Okay. All right. That helps thank you.

STEVEN CARNE Thank you, Sir.

OPERATOR Your next question comes from Noah Kaye with Oppenheimer. Your line is open.

NOAH KAYE Hey, good morning, thanks for taking the questions. just start with a quick housekeeping one, can we understand that six-million-dollar adjustment to free cash flow for the landfill remediation costs at vis a vis the sixteen million dollars opt X charge which took. So, you're adding back six million dollars in your adjusted free cash flow walk for the landfill remediation costs.

STEVEN CARNE Yeah. That's what we've spent to date on the remediation and design enhancements at our one of our landfills in the south region. And, so, we would expect some additional spend in Q four and on kind of more of the hard asset.

You know we're putting in some pumps on the redesign and an actual extraction and disposal of the Leachate. The balance of those costs will go into nineteen; most of those will be spent in that calendar year. There might be a little bit of roll over into the following year. But, that's kind of how we think about the actual cash expenditure of what we accrued in the quarter.

RICHARD BURKE And Noah, something to understand here is the long-term shareholder value of this remediation project is this will allow us, at this particular site, to maximize the permitted air space that we have. In other words, to go on top. So, this, so while it is an upfront expense, long term for shareholders, viewing it through that lens, that's the way we're looking at this project.

NOAH KAYE That makes sense, I guess I'm just being a bit dense here. But, if it's a project that you're investing in, why is it being adjusted as a free cash flow walked?

RICHARD BURKE Well, it’s not normal. It's not normal operating expense. It's not. I've been doing this thirty years, I've never quite done this. So, it's not it's not a normal OpX expense.

NOAH KAYE Got it. And then, you mentioned that part of the reason there's some head went on the insurance side was just due to higher accident frequency. What was causing that? And, what can you do to manage it better?

RICHARD BURKE So, we had a we had a severe accident during the quarter that resulted in a fatally, unfortunately. And, so, we're doing everything, right. So, we've gone about a complete retraining on defensive driving on Smith System. We've done stops. We've done, we're doing daily huddles. Really, safety is always being a core value of this company, and it continues to be. And, we're enhancing everything we're doing.

We're also adding technology. We've always had Drivecam, since two thousand seven, in the cabs, that gives us a view as to what's going on around that truck, that we can use to train people.

We’re enhancing that with an even a better technology that we, now, have in four hundred of our trucks and plan to have in about half our fleet by this time next year. That will give us even more visibility to the actions of that truck, as well as, service verification. So, by doing that, you know, we're training people. We're doubling down on the amount of time.

Again, in a tight unemployment market, some of the talent coming through the door is not the talent we've seen in the past. So. we've had to look at our training program and, really, doubled down the amount of time we're spending in the cab and in the classroom with people, before we're letting them drive our trucks.

NOAH KAYE Okay. That's helpful color. And then, you know, you've already commented on, you know, M&A and plans to come close to the low end of that thirty, fifty-million-dollar range. So, with six million years to date through September, you said that there was more spending in October, would you mind telling us, basically, how much that was, and how far we need to go, basically, to get to the rest of the twenty-four million that you have to spend four Q?

RICHARD BURKE So, we spent about six. in October on a on another deal, another tuck in deals in one of our markets. So, we have about eighteen remaining; we, again, don't want to get too far ahead of me skews here. LOI aren't deals, but we have LOI's signed that would get us to the lower end, as long as we close those deals. Look deals can go squarely in the twelve hours, I'm sure you, all you folks know. But, right now, we've got LOI's that get us to the low end of the ring.

NOAH KAYE Okay. That's very helpful. Thanks so much.

RICHARD BURKE Yes, Sir. Thanks Noah.

OPERATOR Your next question is from Michael Zinniger with Bank of America Merrill Lynch. Your line is open.

MICHAEL ZINNIGER Hey guys. Thanks for taking my questions. Just firstly, I know you guys are raising the revenue guide, but, you know, reducing the high end of the EBITDA range, is the lower EBITDA that you now expect in the in the fourth quarter? Just to pinpoint it, is it more on the insurance stuff you were talking about?

Or, is it just, overall, the higher cost pressures that we've kind of gone over, over the call? Is it, you know, especially waste AC&D, maybe looking a little bit more challenging, or a change in the recycling outlook? I was just hoping to pinpoint what that might have actually been.

STEVEN CARNE So, it'll be a little bit of roll over around the insurance, certainly, you know special waste. We had good volumes on a year over year bases in seventeen. And, then, these costs pressures. It's like Richard said, it'll take a while of pricing, well, you know, in that above CPI, certainly, to offset some of the pressures.

Again, the lag for us you got twenty four percent of our revenue that's index base, and that didn't reset until July one. And October one, sixty two percent of our annual contracts reset. And, so, you know, we'll get a little bit of that push, as we go into nineteen. But, again, it’s going to be the discipline pricing around the open market, because of that head wind and lag on that municipal based business.

MICHAEL ZINNIGER Makes sense. And then, the tight labor market you guys mentioned, everyone's facing it. Everyone is trying to tackle; it seems like in different ways. **Y**ou know, Republics talking about reinvesting seventy-five million in its fleet's front-line employees. We see what Waste Management's doing. I'm just, I know you guys run the business for the long term. So, when we think of next year, I mean how is it ADS thinking right now? Is it maybe stepping up in CapX or investment in furthering the automation fleet? I'm just curious, kind of big picture, next year how your kind of thinking about these initiatives going forward.

RICHARD BURKE Yeah, I don't see an increasing CapX. Our fleets in good shape. I mean, we're running seven one, seven three, ad our front load trucks are closer to six. So, when you take the spares in that gets up there. So, we're in great shape. We, fleet is not an issue to attracting drivers and mechanics.

I think where you'll see us continue to put money is on training, and on recruiting, and on things around culture. You know, we want to create the culture in our local operating locations, where if you want to be in the garbage business, you will want to be with us.

I mean, we've structured are our benefits. You know, we went through that about a year ago, and we have an HRA, Health Reimbursement Account set up. So, we've actually enhanced that for nineteen, and if left prices flat. So, for someone coming and trying to provide benefits to their family, we have a great offering for them, over above the wage. So, around that, it will be more than anything around capital, culture, and quality benefits.

MICHAEL ZINNIGER Okay. And, then, if I can just, if I look back the last few years, historically, the first quarter is always down verse the fourth quarter. That's just seasonality. I looked back the last three years, four years, it looks like EBITDA kind of fall fifteen percent sequentially. You know, is there any reason, when I'm thinking about twenty nineteen and going into twenty nineteen, is that seasonality that we kind of see in the EBITDA decline, is it, is there any reason why, maybe, that'll hold up much better, than we've seen in past?

RICHARD BURKE No, I think, I don't think the future will be much different than the past, when it comes to our Q one. Seventy percent of our landfill volume is in a, you know, what we would consider a cold weather state. So, we're normally impacted in first quarter. It's our lightest disposal month, and from special waste projects, it is by far, our lightest month. I mean, nobody in Wisconsin dig through the snow to get the soil.

So, it, you know, it really does impact our volumes on these fix call site. So, we'll look at, we'll continue to look at everything we can to try to prop up that first quarter, but first quarter for us is normally fairly tight. And look, we look at it not just through the eyes of EBITDA. But, you'll notice our CapX spend in first quarter is usually pretty light, too.

Because, we're focused on the free cash flow generation in that quarter. You won't see us start to spend capital, really, until second, third, and early fourth, and then we tighten it back down again. So, we can flex on CapX, in order to still hit good free cash flow numbers.

MICHAEL ZINNIGER Makes sense. And, then, just lastly, on C&D and special waste, how much of that is your total business? If you could, help, kind of, quantify that. And, you know, do you see any change in October beyond just, you know, obviously there's tough comp there, but did anything show up in some of the C&D, and in October that might have caught you off guard one way or the other? And, the comps stay hard, I think, into the first quarter or is it just a fourth quarter phenomenon? Thanks guys.

RICHARD BURKE So, good questions. We do a little over sixteen million tons total, through are forty landfills, about two million is C&D. And, depending on the year it could be three a half to five million in special waste. So, that's the way that break down.

October was a fairly typical October. Last year, was crazy October, because we had a couple of really big projects that didn't repeat. A number of projects we did October of eighteen was very similar to seventeen. It's just, instead of doing a two hundred-thousand-ton project, we were doing a lot of twenty-five and thirty thousand-ton projects. So, that's really the year over year difference. It's not number projects; it's just size of project.

I mean, last year third quarter seventeen, I'll give you the biggest project. We had the O'Hare runway project, if you fly out of Chicago. So, we were taking aviation contaminated soil out of there, and it took a couple hundred thousand yards of soil out of there. They didn't build a new runway this year. So, I mean, that's as specific as I can be. But, C&D looks good. And, we will continue to have a tough comp on C&D going into Q four through, because some of that seventeen carried over into October and November

STEVEN CARNE And, then, a large variable is how soon winter set in, in the Midwest.

MICHAEL ZINNIGER Got it. Thanks guys.

OPERATOR Your next question is from Toni Kaplan with Morgan Stanley. Your line is open.

TONI KAPLAN Thanks for taking my questions. Just taking a step back and thinking sort of big picture, things are going really well from a macro perspective for you and your competitors, right now, can you just help us frame where you think we are in the cycle?

RICHARD BURKE Look, all the, yes ma'am, all the indicators we look at unemployment., consumer confidence, and I know there's some anecdotal things out around housing, but in the Southeast, we’re not seeing it. We're seeing housing still pretty strong. It really still feels mid cycle to us. We're not saying any indicators that jump up and give us pause that nineteen is not going to look a lot like eighteen.

TONI KAPLAN And, then, when you look at churn and what you're seeing in the market place, now, on that metric, you know, what have been the sort of biggest drivers if you could sort of parsed out proactive measures on your part verses just you know macro conditions in the market?

RICHARD BURKE I mean, churn's going to be some function of the competitive nature of the business, right. We'll probably seeing less of that in this pricing environment than we've, historically, seen in our career. More people are focused on price than taking volume. Anecdotally, there's always going to be the one or two markets where you get a, you know, undisciplined player. But that's the vast minority verse what we're seeing.

So, we, you know, most of the churn still, believe it or not, is, you know, it's just a little bit of competitive pressure. But, churn really hasn't been an issue. Our ability to push pricing and hold price has been about as good as I've seen in my career.

TONI KAPLAN That's great. And, one last one for me. I know you've shed some unprofitable contracts over time, and that's had an impact on volumes. How should we just be thinking about the current state of the portfolio? Do you like the contract you have now, or should we anticipate, you know, another round of portfolio pruning at, you know, at some point?

RICHARD BURKE Okay, I think as a business you're always looking to improve your portfolio. I mean, we've talked about it in great detail that we're a secondary market, primarily focused, vertically integrated. So, we have about sixty five percent of our revenues that resides in that market. And, that's our premier and preferred market.

About twenty percent of our revenue sits in a primary market, a big city, where we're also vertically integrated.

And then we've got about fourteen percent of our market that's disposal neutral., think of a Florida, seven, ten-year contract. And, then about one percent is competitor owned.

And, so, you know, you're always looking to prune your position in markets, but not so much from a pruning of bad contracts, more of a potential to do buy sales, swaps with others that improve our position one market, over another position, or continue to do the tuck in acquisitions we have, you know, to build even stronger bases around those disposal centers.

So, I, you know, I don't see another big round. You have to remember the, well, I'd like you to remember, the big round of the non-regrettable losses for us was really the three-year mark after we put three companies together. So, it was after you had the metric; you had some time to run them, and you could really look at some of those contracts you got. Is that additive or dilutive, and what's it going to take to get there? And some of them, you do the things you need to do, in order to make them better, and others, you decide, it's better off not to have that contract. We've worked through that. So, I don't see another round like that. I see we're constantly looking at the bottom ten percent, and what can we do to enhance.

TONI KAPLAN Terrific. Thanks so much.

RICHARD BURKE Yes ma'am.

OPERATOR Our final question is from Kyle White with Deutsche Bank. Your line is open.

KYLE WHITE Hey guys. Thanks for taking my question. I just wanted to follow up back on the housing topic, just probably trying to understand your exposure to housing, perhaps, if we saw material slow down, what kind of impact reaction do you think this would have on your business?

RICHARD BURKE Yeah. So, Kyle, when we look at our revenue, we have about six percent of our revenues tied to what we call temporary roll off, and not all of that is housing, but a big chunk of it, it would be housing. So, there's about six percent of revenue, and then there's the two million C&C tons at our land fields. So, that's where it is.

Look, unfortunately, we know what this looks like, because we all lived through the, you know, the recession of two thousand eight through, whatever, maybe fourteen, depend on what your what you believe there. But, we all lived through that. We know how to flex if that comes about. I mean, we flex down capital spend; we don't buy containers. We don't buy that fleet of trucks. You know, we shift those drivers over to one of our other systems. I mean, right now, I'd love to shift some drivers.

But it's in the whole scheme of things, it's meaningful, but it's not the majority of our business. I mean, it's not, we're not a building supply company. We're not just going to go from zero, from sixty to zero. We can flex and react to it on the capital side, again, keeping our eye on free cash flow.

KYLE WHITE Got you. That makes sense. And, then, I wasn't sure if I heard this properly in the prepared remarks in terms of increased participation on the fuel surcharge, I believe it was sixty percent of your fuel costs covered by this surcharge. Has that increased or do you see it increasing?

STEVEN CARNE Yeah. It ranges between sixty-two and sixty four percent of our ability to recover. And, what we've been doing is trying to get more of our customer base participation in that field, surcharge program, and we've been successful in doing that. And, we will continue to do that.

KYLE WHITE Do you have like a target that you think you can achieve in a year so or a time line of where you think you can go?

STEVEN CARNE You know, we'll get we'll continue to do that. It all depends on those individually negotiated contracts what you can get verses all of your price components. But certainly, on our open market business, we will continue to try to get as much participation in that program as possible.

And in that, you always have a lag on the way up on fuel, because you bill in advance, both, on your commercial and your residential quarterly. And, then, you get a little bit of tail wind if fuel prices come down for the same basis. So, we'll continue to pull all the levers we can to manage the cost structure of the business.

KYLE WHITE Got it. Thank Steve. Thanks Richard. Good luck in the rest of the year.

RICHARD BURKE Thanks Kyle.

STEVEN CARNE Thank you.

There are no further questions at this time. I'll turn the call back to the presenters for closing remarks.

RICHARD BURKE Thank you very much. In closing, I'd like to thank the Advanced Disposal Team for their hard work, dedication, as we all strive to live out our mission everyday driven to deliver service first, safety always. Thanks for joining us today. Everybody be careful. Take care.

OPERATOR This concludes today's conference call, you may, now, disconnect.