Mergers & Acquisitions Insights from the Waste & Recycling Industry

WA: Hello everyone. Thank you for joining us for this afternoon’s Webinar: Mergers and Acquisitions Insights from the Waste and Recycling Industry. Today we are excited to bring you four industry experts who will give you tips about navigating the acquisition process and answer any questions you have about how to decide whether to sell your company and what corporate and private equity buyers are looking for in today’s landscape. Today’s session is an open forum so feel free to ask questions at any time using your chat feature. Our panelists include:

Alan Handley who is the Chief Executive Officer of Lakeshore Recycling Systems. In this role, he sets the LRS vision into action, overseeing the company’s operations, financial direction, expansion initiatives, and industry leadership. Alan initially joined LRS as Chief Financial Officer in 2012, and was responsible for seamless integration of Recycling Systems, Inc. with Lakeshore Waste Services. Prior to LRS, Alan served as Executive Vice President and CFO at Aldridge Group, one of the nation’s leading civil and electrical contractors. He has held leadership positions at KPMG, Heller Financial, Price Waterhouse and the United States Marine Corps. He also lectures at Northwestern University’s Kellogg Graduate School of Management as an adjunct professor of Strategy. In addition to earning his CPA, Alan is a Certified Insolvency and Restructuring Advisor and a Chartered Global Management Accountant.

Brian D’Amico is a founding and managing partner of Summer Street Capital Partners, a private equity fund focused on the environmental services industry. At Summer Street, Brian oversees the firm’s investment activities, operations, and investor relations. Brian leads the firm’s Environmental Services Investment Team and serves as Director at Summer Street portfolio companies such as Action Environmental Services, Apple Valley Waste and Curtis Bay Medical Waste Services. With his substantial experience in solid waste companies, Brian partners with talented managers, bringing capital and resources to support acquisitions and aggressive growth strategies of small to mid-market companies. Throughout his career, Brian has advised entrepreneurs, invested in small companies, and shepherded numerous transactions to a successful close.
Joe Cassin serves as Waste Management’s M&A manager for the Western U.S. and British Columbia. Joe has more than 30 years of experience in the solid waste industry and has completed more than 400 M&A transactions. His responsibilities include acquisitions, divestitures, contract negotiations, real estate transactions and 3rd party disposal opportunities. Through a series of mergers, Joe was promoted to his current position with Waste Management. His tenure has provided him with extensive experience in all aspects of the solid waste handling and disposal industry.

Bradford Page joined William Blair in 2010. He has advised both public and private companies on mergers & acquisitions, divestitures, and debt and equity financings. Prior to joining William Blair, Brad worked at J.P. Morgan in the Diversified Industries group covering global conglomerates and at The Carlyle Group in the U.S. Middle Market Buyout. He is on the Executive Committee of the Auxiliary Board of the Shedd Aquarium and the Dean’s Advisory Council of the Business School at Georgetown University.

Please remember this session is an open forum today so feel free to ask questions throughout the hour today using your chat feature. And with that said, I will turn it over to Brad Page to lead off today’s discussion.

BP: Thank you. Thank you to everyone joining us on the Webinar today. We appreciate everyone taking the time out of their day and carving some opportunity out for us to discuss the industry, to take any questions you may have as well. As we get started here on the current trends, I’ll first address the few factors that are driving the M&A market and the industry. I’ll spot a couple of transactions that are outlined here and then I’ll wrap with an update on M&A markets and general evaluation.

On both sides of the line, everyone that is here today has a common interest in the industry. At William Blair, the waste and recycling industry is one where we spent a lot of time and we are seeing attractive dynamics across the sector, particularly around pricing and volume; the trends have manifested into good financial performance, and, ultimately, good stock market performance. All these points have resulted in what has been and what continues to be a very healthy M&A environment. First, on the stock market, we’ll call them the big three. Each has outperformed the broader market over the last one and three year periods. For some quick context, the broader market is down about 2½ percent over the course of the last 12 months. The big three are up between 20 and 50 percent over the last three year period, the S&P is up about 25 percent, the big three up between 40 and 80 percent, so clearly outperformance, double, and in some cases, triple the performance of the broader market; each is trading at approximately 100 percent or a 52 week highs. What that tells you is that the trends around valuation and where people are thinking about the industry is going in the institutional community continue to trend positively and continue to have underlying dynamics and trends that are positive for our industry.
The type of performance and the outlook for the period has driven a consistent M&A market. Over the past five years, the sector has averaged approximately 200 transactions per year; we factor in weekends and holidays and it is about one per day. The stats on the number of transactions and aggregate dollar values have been very consistent. 2016 is off to a great start—just since January, our sector has announced about 80 percent of what was announced in terms of M&A volume for the full year of 2015. The largest of those transactions, which has seen a lot of press, is the Waste Connections acquisition of Progressive Waste for about $2.7 billion and, according to comments from the Waste Connections team on their last earnings call, they expect the transaction to close as early as the first of June.

This leads me to a few discussion points around some transactions and the drivers of M&A volume in the sector. Whether a large public consolidator or a private equity or a merger of two similar companies, several factors are important to highlight as trends that people want to focus on and where we continue to see clients paying attention and getting prepared for market and making sure they understand specific trends. One is around strategic rationale; importantly, does the transaction make sense? Does the transaction open up new markets, complement existing markets or deliver new service offerings? At the end of the day, what it boils down to is does 1+1=3? Secondly, is the growth and health of the business. Are the companies strong, growing, good contracts in place with a quality asset base? Is someone who is going to be either acquiring a business or merging, do they feel as though the business does not require a lot of incremental capital as an example. Lastly, from my and our experience, something that does not get as much emphasis but one of the key factors is around people and management. What I can tell you from our experience is that is it difficult to diligence but also the most important trend. It is critical for management to get a view going into a transaction on what is important for them. Anything can range from building a bigger business, building a more powerful provider in the local industry all the way through maximizing value. One of those strategies is not better than another, one is not preferred as it relates to a potential acquirer but they do present a different set of transaction objectives and it is something to be acknowledging and up front with.

Moving to general market M&A and valuation trends, we are coming off a year in 2015, that was the best on record. M&A activity was high and evaluations were high. Drivers of activity were consistently looking for and had a desire to find incremental growth opportunities in a way to show shareholders better growth and the availability of cheap credit. 2016 started off a little bit slow out of the blocks driven largely by the view across investors as well as individuals that the economy was potentially entering a soft patch. That showed up during the first couple of months of the year with falling stock prices and pockets of the institutional credit markets that were effectively closed. The S&P over the first six weeks of the year dropped about 10 percent. Just in the middle of February, that story has largely flipped, views on the economy have become much more stable, stocks have improved and are actually showing a gain for the year and the credits markets are largely open again. M&A volume for the year in 2016 likely won’t reach 2015’s levels but that’s ok because the market remains very stable as well as very healthy. One of the most frequent questions that I get is around what the balance of the year is going to look
like and, most importantly, is the window of opportunity to go to market and to have a successful transaction closed. What the facts tell you is that it is not the case; the balance of the year we expect to look a lot like what the past several months have been—transactions getting done and buyers remaining aggressive.

**WA:** So today’s discussion points include, deciding to sell or acquire a company, evaluating your company’s worth, looking at potential buyers and companies, and private equity firm vs. a private hauler. Right now, we are going to start off with “When to Decide to Sell or Acquire a Company” and hear different perspectives. Alan, would you like to kick off the discussion with your experiences and advice on this point?

When to Decide to Sell or Acquire a Company

**AH:** Thank you. I think we’re very active in this space and looking to acquire both tuck-in acquisitions as well as platform acquisitions in the greater mid-west area, Chicago in particular. So some of the things that we’ve looked for in the last three years since we began actively pursuing an acquisitions strategy are companies that will increase our saturation or extend our footprint. We really want to expand into the greater mid-west region, particularly areas that are contiguous with Illinois. Things that we look for specifically for tuck-in acquisitions are companies that are close to operations in Chicago. We like entities that have a mix of permanent work, but also have strong relations of contemporary work or add facets to our existing verticals like composting, organics, recycling, portable restrooms, those types of activities. If we are looking at platform companies or those that have standalone ability or the ability to help us expand dramatically in the geographic area, we like to have a heavier concentration on collection preferably permanent work with contracts and then augmented again by some of the same verticals that we talked about before with composting and recycling. Lakeshore loves companies with strong management teams that may want to stay on and grow with us but we are generally agnostic if the owners want to exit. Those are the things we look for when we set out evaluating both our expansion plans as well as discussions with hopefully people who would like to join the Lakeshore family.

**BD:** I would just add that we own companies in the space as well buy from both sides of the point here and on the sell side, the timeframe under which many private equity firm needs to look for a sale, but from a market perspective, we look at the business and continually ask ourselves the question: is there anything else we can do with the asset? Have we exhausted the consolidation of the market? Have we added the full balance of services? Is there a gap or geography hole that we need to fill? Sometimes you get to a point where you’ve done as much as you can do under that platform strategy and that’s usually the time to start thinking about looking at the next option that might be a call from someone like Joe from Waste Management talking about that hill over calling another PE firm might also have an asset. We look at it in that perspective. They usually, on buy the side, have hit some of the points earlier but if it comes down to us buying, it is the market dynamics, the geography the business is in and the quality of the business.

**WA:** Who should be involved in making the decision to sell or acquire a company?
JC: I think the decision to at least sell a company really comes down to the family and owner, whether it’s a private equity, the board or just individual family members on what their long term succession plan looks like and where they see themselves in the future. Many times, it’s a group decision but it should be kept in a very close knit group of trusted advisors that are really the in-house people.

BD: I would agree with Joe. The alignment of the ownership group, sometimes the ownership team may be fairly diverse and that’s absolutely critical. We’ve been in situations where a company has gone to market and we hear that one or two of the shareholders are not interested in the sale and it leaves off to a confusing process and ultimately, the value can be negatively impacted by the perception of instability so the alignment from the key decision makers, whether it is the management or ownership or both, is absolutely critical.

BP: I would echo that also. Importantly, it is having not only an alignment, but also a vision for what you’d like to accomplish in the transaction. Having enough sense for whether it’s a family or whether it’s a company that is owned by a collection of individuals who want to stick around, what role do people want to play, management and ownership—that all ends up being something important and if that gets left to the end, people are across the table from each other not seeing eye to eye and pointing fingers and moving around in different directions. Not only is it confusing for someone who is looking to buy the business, but it also leaves some unanswered questions post-sale that are important that should have been addressed earlier.

WA: How long do non-compete contracts generally last after selling your business?

JC: I will tell you that the non-compete is there to really protect the assets that we are acquiring and what we don’t want to see happen is that we give somebody a chunk of money and they go out and buy bigger and better trucks and come back and compete against us and go after their customer list that they just recently sold. They range between five to seven years and usually include a geographical area and maybe something that is very specific; if you are selling a hauling company, it may be a limited to hauling or it may include all aspects of waste management business—composting, landfilling, transfer stations, etc. but all of that is negotiable, so just something to keep in mind.

WA: How large should the company be in order to attract acquisitions? Where is the minimum for revenue or accounts served?

BD: In most geographies, there is a buyer for any size business. The type of transaction and opportunity will often differ by size. For example, if you look at a very nice company with two or three lines of revenue and it there is a geography where we are not currently operating and it was just too small to be a platform, however for someone in that market, it is a very attractive transaction for a tuck-in or combination of an existing business.
AH: We’ve done deals as small as a $1.5 million in sales and we’ve done deals as big as $30 million in sales. It just depends on from a strategic standpoint, is it accretive to my organization? Does it expand my footprint? Does it provide a product offering that I don’t do today that maybe I want to get into? There is a whole list of reasons. In Chicago area, Illinois, the mid-west region, there are probably very few deals that I won’t take a good look at.

WA: What is your view on the plastic recycling based on current oil prices and do you see an increase in M&A in this environment and at which part of the chain? Is there a difference in U.S. and EU markets on this?

JC: That is a tough one to answer. Commodity-based businesses like our recycling facilities our plastics recycling, waste paper, it has us all at the edge of our seats, trying to figure out how to make money at it and how do we make it a successful line a business for us. It is something that we want to do and will continue to do. I’m not in a position to answer about the EU since we do not have a presence there but we watch the commodity markets very closely.

WA: Thank you. Let’s move on to Evaluating Your Company’s Worth. Brad, would you like to kick off this discussion point?

Evaluating Your Company’s Worth

BP: First our considerations as it relates to value. It is important to know that there is no “right answer” where you can point down to a specific dollar value or specific share price. The answer is generally across a range of values, somewhere between X and Y for instance and then, importantly, X and Y are developed from a view of the left hand side of the page, a comparables analysis and cash flow. So comparables analysis will take two forms—one is the public markets. How are public companies trading? And, specifically, how this industry will relate to EBITDA multiples and generally on a trailing basis; comparable transactions would be from an M&A perspective, what is the value that similar businesses have achieved in the market in a change of control type of environment. I’ll note from corporate finance perspective, you’ll tend to get valuations that will be comparable transactions that will be a little bit higher and the reason for that is that you control premium. You as the owner of the business, have the ability to drive the strategic direction, which, if you’re just looking at just buying a share, for instance, in Joe’s company, you wouldn’t be able to do.

Secondly, is the discounted cash flow and everyone will do this analysis. What it boils down to is the future value of a stream of cash flows that is discounted back to the present time and what does that look like? What is the cash flow of the business projected to be over time? Then, importantly, what is the cash flow and what are the capex needs? Be honest with yourself—do we need new trucks? What does the maintenance look like? What does the growth capital look like? Some of the takeaways are that it is important to have a sense for what your company is worth before starting a process. Goal is the objective of management—what are you looking for in a future partner? Different types
of buyers are going to have different views on value, different criteria and approach, everyone is going to look at things with a little bit of a different lense. The way that Brian looks at something from a private equity perspective will be a little bit different than how Joe looks at it from Waste Management or how Alan looks at it from a leading regional player. Preparation is key here. It is important because these transactions can last several months and what we talk with clients about all the time is getting them “battle ready” and that means doing the market analysis, doing the valuation work in advance of reaching out to any potential buyers. There will be questions that will come up during a diligence process. As the management team, you would have an understanding of what are the key focuses on the business, what are the key things that people are going to want to dig into and being able to have detail to support that in both today and over time—anything around route density, disposal options, safety history and training.

Lastly, it is important to have a sense for timing and getting your ducks in a row early and doing that upfront. As the seller, you control the timing of any process until you launch the first outbound call and you begin to engage with a buyer on the other end of the phone. At that point the process begins to take on a life of its own. You still control the timing, but it becomes a little harder to manage, so I would say process timing and only going in when you feel you are ready from a seller’s perspective would be a couple of very key points.

**WA:** How do you value a company’s EBITDA—free cash flow or revenue stream?

**BP:** We typically will look at all metrics, and as I mentioned earlier, triangulating around what is the appropriate value is a science, but there is a lot of art as well. EBITDA tends to be a place that we start, it tends to be home base for us around valuation in the industry. People talk about valuation, the health of companies in terms of EBITDA and margins. Revenue for sure is important, I would say it is secondarily important and then free cash flow, yes, absolutely important that would certainly come in during your discounted cash flow analysis. Operating cash flow tends to be something where we spend a lot of time particularly in this industry as you begin to look at EBITDA-less capex and the capital needed to run the business, both maintenance and growth and it would be important to think about capex getting the operating, free cash flow, if you can cut it out between what you need to keep the trucks on the road and what you need to think about moving into a different or adjacent markets.

**BD:** EBITDA multiples can range from five to six times on one end of the spectrum to 8 ½ to 9 times on the other end, but the key is what EBITDA? Sometime when we are buying through a business we already own, we’ve become a strategic buyer and the factors that go into valuing that business we’ve talked about—fleet, team, systems, route density—but if we are trying to fill a need, for example, we can merge those routes into existing routes; there is a synergy value there that we can get our head around and value at some level. If we have a transfer station in that market and we are going to internalize the tons, there is a synergy value for that. So oftentimes, the seller’s multiple may be higher than the buyer’s multiple and there always a balance of how much of those synergies are paid through the seller and how much accrue to the buyer. And I will tell
you as a buyer, you are not going to pay for all of them because you are always surprised and things never play out exactly the way you think, so you have to give yourself some cushion and some room to move.

**WA:** *In the medical waste space, is the pricing multiple typically based on EBITDA or revenue?*

**BD:** Most are generally small collection operations. You’ve got a number of box truck routes and oftentimes, that will be a multiple of revenue but it still comes back to the same factors as a buyer—what EBITDA would I absorb? Small companies often buy on multiple of revenue because they can absorb the cost structure of that collection business and adjust their assets pretty quickly. Other platforms can do that in certain geographies but overall medical waste seems to be more revenue-driven than traditional solid waste.

**WA:** *If purchasing on a valuation of EBITDA multiples, should there be additional considerations for the hard assets, what about the real property and how is that factored into the valuation?*

**JC:** While EBITDA is always something that we look at, we’re curious to know if it is accretive or dilutive to Waste Management’s current EBITDA multiple. All of our models are based on an internal rate of return, so what’s our return on the investment over a period of time? With regards to real estate, we prefer to own because you are in control of your destiny, but a lot of sellers see that as an annuity going forward. So we have a model where we do lease vs. own, if a piece of property is worth $1 million and they want to lease it for $5,000 a month—we’d probably rather lease it than buy it. If they have a piece of property that is worth $1 million and they want $20,000 a month, then we are better off buying it for fair market value. So we just do the math at the time of the valuation; it is especially helpful if the seller tells us upfront what their ultimate goal is on the real estate, but we do the math and determine what works best for us and how it impacts the valuation process, so it ultimately drives cash flow which impacts our IRR.

**AH:** The one thing that I run into sometimes with potential sellers is that there is the EBITDA concept that we’ve talked about now and the multiple concept that we talked about and there is some miscommunication and misunderstanding sometimes about whether you are buying the cash flow, the enterprise or the multiple EBITDA concept or whether we are buying assets. Sometimes sellers get confused and they want both—they want a multiple on my EBITDA and some type of value for the hard assets, etc. From my perspective, it’s one or the other. Real estate notwithstanding, if I am paying you five times for your company, I am buying the physical assets that produce that EBITDA—they are linked together. I want to be clear that the way we perceive the world is that when we are paying 5 times our EBITDA, we are buying all those assets necessary to generate that EBITDA most of the time. Real estate is sometimes unique but all of the other assets we are buying.
JC: I agree with you, Alan. So the model does take into consideration all of that replacement equipment and so our ultimate goal is what to we need to get the same, or ultimately better, results than what we are buying—that includes all assets.

AH: It could be very frustrating where you are negotiating a deal for assets and all of a sudden, they ask do you also want my MRF or my trucks or do you want my yellow iron, well it’s X amount of dollars for that. I think that we need to make it very clear to the people who are thinking about selling companies that they need to have an understanding that it is one or the other—I’ll buy your assets or I’ll buy your EBITDA but I am never in a position where I can buy both.

BD: I agree. The assets only have value to the extent that they are able to generate cash flow and that’s where the EBITDA concept is really meant to capture.

WA: Thank you. Let’s move on to Looking at Potential Buyers and Companies. Joe would you like to kick off this discussion point?

Looking at Potential Buyers and Companies

JC: So once you’ve made the decision to sell or you’re exploring it, you really need to do your research, know what your ultimate goal is. Is it to get cashed out, do you want to want to continue on with the buyer post-closing, or do you want to become part of a bigger organization and do a roll-up? So take a look at your market and figure out who you compete with. Would your competitor be a potential buyer? That is usually the first thing I would look at. Does your competition that you’re looking at have the ability for financing; what are the synergies that they have. We talked about synergies and what multiple they pay under those synergies. So does that particular buyer possibly have route reductions, internalization of tonnage under another profit center, back office consolidation (which might be elimination of some head count in the office)? Real estate lease consolidation—can you get out from underneath that? Also, think about the reputation of the buyer. Is the potential buyer capable of getting financing, what is their likelihood of closing and do they have a proven track record of buying companies? I assume many folk will have municipal contracts so also think about will the city support assigning the contract to the buyer. Lastly, how will your employees fit in? Is this an important aspect for you or are you really just looking to maximize value? Employees seem to be a big consideration these days.

WA: What dynamics come into effect when a landfill is part of the sale?

JC: So landfills are much more difficult to value than hauling companies or recycling facilities. I will say that there is just not a whole lot of landfill opportunities available so they are a nice asset to have and once that we will taken a very hard look at. The landfill is all about volume and life, so what is the life of the site, what is the existing volume that is currently going into the landfill, and what is the potential volume that can go into the landfill post-closing? So is it a site that hasn’t maximized it’s ultimate tonnage on a daily basis? And then, of course, when you look at the overall life of the landfill, what is the
capex that is going to be required to keep that site open? Do you have cell development, a lot of yellow iron to purchase, closure costs, post-closure costs? All of these things are taken into consideration. But good assets are hard to come by and certainly we'd have an interest in them.

**BP:** The only thing I'll add onto to that is what the legacy costs are going to be and how do you think about that. Are there any environmental liabilities that are currently tied to a landfill? And being sure that before you go out to market and try to gather value or gather indications that you feel very buttoned up around stage 1 and stage 2, whatever other potential liabilities that are sitting out there that will be disclosed at some point and it will be important to get a handle on them early.

**BD:** It’s sort of like the old real estate adage—location, location, location. That applies in a large way to the landfill side of the business. If you are in a densely populated market with limited disposal options, you are going to have a valuable asset. If you are one of 10 landfills in a market where the volume is scarce, you are going to struggle to extract a value out of a site, either through sale or operating it. So it really is a big factor on location—it will drive the opportunities for volume, which will drive a large part of the valuation equation.

**WA:** Given that recycling is currently out of favor, is it a good time for acquiring businesses and assets in recycling?

**BD:** A pure play recycling operation is a difficult competitive profile. I would tell you that the more you control your volume, the more value of your recycling facility over time improves. If you internalize volume, that MRF or that site can be important integral part of the overall value of your company. We’ve seen over the last five to seven years, many challenges in pure play recycling where you’re dependent on third parties for significantly all your volume. The vagrancies of the market can drive performance and therefore drive value to highly variable levels.

**WA:** What if the seller owns its own Class A transfer station, how do you put a value on that and a recycling facility?

**JC:** We would take a look at the facility and say is the transfer station part of the bigger hub and spoke? Does the transfer station feed which landfill? And are there more tons that possibly the permit allows us to bring into the site? So if you have a transfer station that does 300 tons per day but it is permitted for 500, does the buyer have an additional couple 100 tons of volume to deliver to that site, which will, ultimately, will go to a landfill that is owned by the buyer? So look at it more from a hub and spoke and it all will be based on existing cash flows and what percent of synergy and upside that the buyers are going to include in that valuation. Again, the MRFs are valued based on really today’s cash flow or lack of it. Do they have city contracts or municipal contracts that support it? Is the MRF what is considered a lost leader where it supports large municipal contracts? Is it required to be built to the rate base? These are all things we think about before we go forward on a recycling facility.
**WA:** Can you speak to your outlook and expectations of the Canadian market M&A activities and multiples?

**BP:** I am going to start with outlook on evaluations, multiples and trends. I think it piggybacks on what I had hit on earlier around the volumes of the year to date are trending well above where they were over the course of the last five years—both in terms of numbers of transactions as well as aggregate dollar value. If you think about how that plays out over the course of the next six to eight months, our view on that is its going to be very consistent with what it’s been, particularly over the course of the first six weeks, you had almost a goldilocks environment, where rates continue to be low; once we got through a bit of a capital crunch in the first six weeks of the year, there is absolute credit available which is going to drive buyer appetite particularly as it relates to folks like Brian in the private equity context, what a leverage buyout would ultimately be and then multiples likely will continue to be very, very good. The multiple environment for the space right now is at an all time high or very much approaching it. The stocks, the public market for these companies are trading at 52 week highs. They are reaching new highs everyday; their performance has been a multiple of what the broader market has been over each of the course of the past one to three year periods. We feel very bullish about where the market sits right now and from an outlook, both from an evaluation standpoint and from an M&A standpoint.

**WA:** Thank you. Let’s move on to Private Equity Firm Vs. Private Haulers. Brian would you like to kick off this discussion point?

**Private Equity Firm Vs. Private Haulers**

**BD:** As I mentioned earlier, we own companies in certain geographies and in that case we view ourselves as a private hauler. The offer we may have to companies in the market under that scenario is the best of both worlds in that you have an existing operation where you have a financial firm that is backing it so you have a certainty to close and you have an ability to get strategic value multiples for your business and ultimately, you may have an opportunity to continue to play a role in the organization and that’s been talked about a lot and it really comes down to cultural fit, interest and the fit with the role you need to play or want to play with the private hauler. In markets where we are simply a private equity firm looking for a new platform, and there are certainly many geographies where that is the case for Summer Street, the team side of it becomes very important for us even more so. We are a good partner to the business owner that wants to build something over time and wants to do something in their market of scale. In each business that we’ve bought in the solid waste side, over the last 13 or 14 years now, we have grown each company significantly through acquisition and in all cases create a lot of density in geography. In partnering with the management teams that we’ve had, we’ve been blessed with great partners and great teams that have been able to execute, that for us is the gating item. The market could be attractive but if we don’t have the right team and the right partner, it is not a great fit. For you as a seller, for those considering a sale, if you want to be out and hand the keys over on day one, you’re probably looking for a private hauler
with private equity backing or someone like Joe and his brother. If you are looking to be part of something bigger, he’s got a lot of different options and the opportunities that are afforded will fall under the private equity side as well as the private hauler side.

**JC:** One thing to add on to what Brian said is, I think, ultimately, we are all lucky we are in the waste industry in one form or another because there are lots of potential buyers available for the small and mid-size companies that are out there looking.

**WA:** *Does the buyer usually make the first offer or does the seller need to have an asking price?*

**BP:** We deal with this in the context of an M&A process since we deal with this a lot. It would be important to have a reserved price and an idea in your own mind as the seller of what is an appropriate value for my company, myself, shareholders, employees of the business, and our customers. Knowing what that is and being firm on that whereas if you get values don’t ultimately reach that level, you can be comfortable and say hey we are going to live to fight another day. On the flip side, if you do get there, it is easy to see big numbers and than begin to lose control so being disciplined and having a process in place is good. A lot of my job is managing managers and management teams and being a sounding board for them and trying to bring people back to home base. That first part is important of having a valuation, an idea in your head but we will 100% of the time ask a buyer through a process to submit an indication of interest around value that will not only include price, but also in terms of structure. It is a big of a two-stage process – it is important to have an idea yourself internally – but then we’ll ask the market to speak.

**WA:** *How is non-contracted revenue, such as temporary roll-off work, evaluated?*

**JC:** Essentially, when we look at temp work, we have to make a decision on how much of that work we will retain post-closing and so if we are buying $1 million dollars worth of revenue and its all temp work, we will then come up with an assumption that we are going to lose X percent and actually value the company based on buying a percentage of revenue that is less than that $1 million dollars of revenue. Temp revenue is hard to track post-closing, especially to determine whether or not it is a tuck-in, which is usually is for us. There is a discount factor that is put on it and it just depends on the market and how aggressive the competition is.

**AH:** For us, we have a somewhat similar approach in that it depends on where that temporary roll-off work is, so if it is out of our existing geographic boundary, we’re going to give more credit to it, especially if the management team is going to join our team for some period of time or if an earn-out is involved, so we can have some comfort that the revenue and EBITDA is going to continue on. If it is inside of our existing geographic fence, then we discount a little bit knowing we are going to lose some of that post-transaction.
**BD:** Sometime we will throw in the concept of a revenue guarantee that to really work on the transition of those relationships and the temporary work that is generated from a series of relationships with the owner.

**AH:** If there is some sort of earn-out involved tied to those roll-off accounts, it makes me more comfortable when I am negotiating deals because a lot of those are based on long-standing relationships.

**WA:** *What revenue is considered a small company; what revenue is considered a mid-size company and so on?*

**BD:** I can give you the private equity answer to that one, at least from our perspective. Small for us would be $20 million and below, mid-size would be $20 - $75 million is generally a good number for a hauling business. There are not many that get north of $100 these days. In this market, I think those are reasonable ranges for the size.

**JC:** Waste Management has a little bit different outlook when it comes to sizing. Our transactions have gone anywhere from $100,000 purchase price and on up this year. It depends on the positive impact to that individual market. I would say under $5 million is considered small, $5 - $25 million is mid-size and anything above that is large these days.

**BP:** Regardless of size, as you get larger, you are going to have larger multiples, so some of that is going to be driven by size of the company to stand on its own to feet and as you get a little bit larger, you begin to have lenders who are more comfortable with the credit and are more comfortable supporting and changing control for private equity buyers. Larger will begin to get a better multiple.

**AH:** There should be more synergies from the ones you acquire, the smaller company I would imagine.

**WA:** *Thank you. Here are some additional thoughts and considerations for everyone to review and at this time, we are going to answer some final questions that you may have had during the discussion, some that we haven’t addressed yet.*

*Brad, you had mentioned that evaluations were high in 2015, do you know the average EBITDA multiples for these transactions?*

**BP:** So it varies, unfortunately, there is not a great answer if you think about businesses that are talking EBITDA here, the smaller businesses as Brain and Joe mentioned, will have multiples that will be a little more modest. Think about those in the mid to single digits range. As companies begin to get larger and transaction sizes start to get larger, Alan made a good comment a moment ago about synergies for larger companies being easier to capture. You can think about valuations for businesses on the larger side to be high single digits is appropriate and that would line up very well with how some of the larger companies are trading the space, through a cycle which they will continue with –
regularly trade in the high single digit range. They can touch low double digits over time when things are going well.

**WA: What sort of information will the seller be expected to show during an acquisition?**

**JC:** We have our traditional “wish list”. It would be things as simple as providing us with a P&L, balance sheet, possibly tax returns depending on the corporate structure. We want to have a list of all of the assets, make and models of the trucks, so can understand replacement schedules look like going forward, average age of carts and containers and we are going to want to have a head count by position; we are not going to ask for names, just individual titles and what their pay range is. Large contracts – we do not necessarily need to know the names of the contractors right away but we are curious if there is going to be anything going out to bid in the near future because that will impact our valuation and that generally gives us a pretty good start as we dive into it more, there will be additional information that we will ask for as well.

**BD:** We are very focused on the disposal environment for a hauling company so we are going to want to understand the transfer station, volume history, gate rate history and on T&D on those sites, where they are going, what the options are, etc. over a period of time.

**WA** How are most acquisitions completed? By asset purchase or stock purchase?

**JC:** We would say 90%+ are asset purchase and that is cash for assets. Occasionally we are buying the shares or the stock of the company depending on how that company is structured, and possibly the permits that are associated with it. But generally it is cash for stock as well.

**AH:** Since we are a collection only business, most of the assets we are acquiring are controlling volumes, so they are either MRFs or recycling type facilities and there are permits associated so oftentimes, due to the complexity here in IL, we will end up buying the stock to control that permit.

**WA:** How often do competition rules affect acquisitions?

**JC:** Essentially, in the U.S., you have an HSR (Hart, Scott, Rodino) filing and that is triggered by a number of points, 68 million. So if the acquisition is over a certain size you have to provide audited financials, it goes into the DOJ, they then talk to the local state’s AG’s office and they will reach out to competitors, customers, large waste generators, municipalities and say does this company have an unfair advantage by completing this acquisition and make a determination on it. Sometimes, they will require you to possibly divest a portion of it. When you get into Canada, you have something called the competition bureau, which is a little tougher in Canada. They want to look at the geographical area, the municipality that it’s in. They may want to look at all transactions over $1 million, which is small but that does happen. We had one recently that we submitted to the competition bureau 14 months ago, small acquisition and it took them 14
months to come back and say they would not block it. They would not agree to it, but they would not block it. It is pretty rare in the U.S. that we go to an HSR filing once or twice last year for the larger ones and occasionally up in Canada.

**BP:** That tends to be an area of an M&A process that is very legal intensive/very lawyer intensive, so if you think you are going to be in a position of having to file and there may potentially be some remaining trust with the DOJ, then that is something that you get out in front of. Every e-mail is disclosable, word documents are disclosable, presentations, memos, everything is disclosable, so keep an eye on what that might look like and how comfortable you would be with something like that getting out there with the knowledge that the key criteria for the DOJ is around pricing and the ability as the larger player in the industry having an impact on manipulating pricing so that tends to be their threshold and they have gone back on several occasions and submitted e-mail records or presentations in all manner, including internal presentations. Keep an eye out what exactly gets put on paper and put that in context with an eye on what the DOJ is focused on.

**END**

Thank you gentlemen and thank you everyone for joining us at today's Webinar, *Mergers and Acquisitions Insights from the Waste and Recycling Industry*. If anyone has any additional questions after this session, please contact the presenters at the e-mails provided. The audio recording and slide presentation of this session will be available online shortly at [www.wasteadvantage.com](http://www.wasteadvantage.com) for future reference.