

Watchlist Investing Newsletter

Patently finding and following great public companies to own at the right price.

Issue #6 | August 2021

“One person said to me, 'I have a list of 300 potentially attractive stocks, and I constantly watch them, waiting for just one of them to become cheap enough to buy.' Well, that's a reasonable thing to do. But how many people have that kind of discipline? Not one in 100.”

– Charlie Munger

In this issue:

- Waste management industry analysis 1
- What's coming next issue 13

Companies in this issue: Waste Management (WM); Republic Services (RSG); Waste Connections (WCN); GFL Environmental (GFL); Casella (CWST); Stericycle (SRCL); Sharps Compliance (SMED).

Deep Dive

Waste Management Industry

INTRODUCTION:

There's probably nothing less “sexy” than trash. (Maybe an undertaker?) Trash—waste—is something many of us don't spend too much time thinking about unless it's a neighbor's garbage can rolling into the street as we drive by, or perhaps a moment's “ewe” as we try to make our contribution to an overflowing bin. Yet from an economic standpoint taking care of the stuff other people throw away is a pretty good business. Better yet, it's not a business that excites Wall Street or the meme stock followers. It's mature, boring, and basically only grows with GDP. That's not landfill I smell but opportunity!



This is my first industry analysis for the newsletter. I've tried to give it the same feel as a specific company analysis while at times generalizing. It also afforded the opportunity to highlight some slight differences between the three main companies covered. What I found was not surprising: companies in this industry are “bond-like” and as such currently sport ridiculous valuations. Yet it's an industry I feel Watchlist Investors should know. A buying opportunity might present itself in the future, and it provides a good launching point for analysis of peripheral companies only briefly mentioned.

INDUSTRY OVERVIEW:

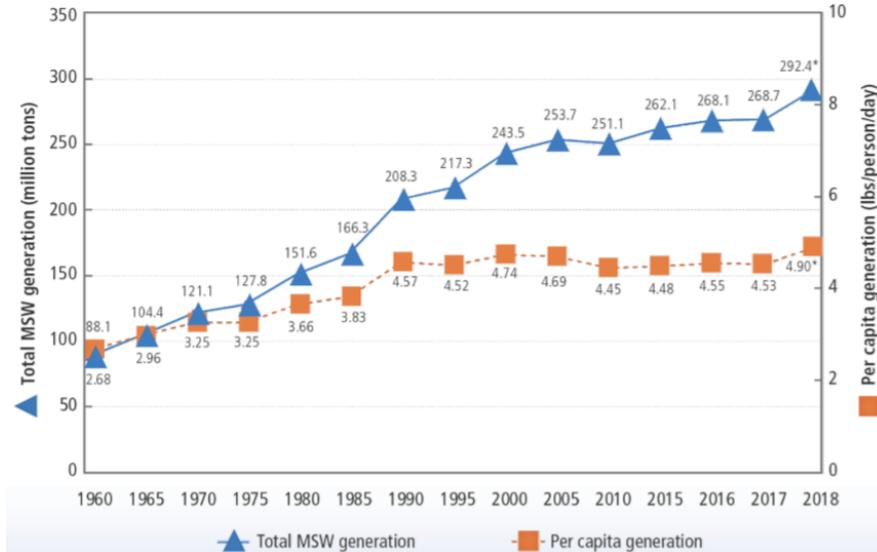
The waste management industry is best characterized as basic, boring, and mature. In the United States the recycling and solid waste market is worth about \$67bn annually with another \$20bn of environmental services ([Source: RSG presentation](#)). At its simplest, the industry collects what we as a society no longer want, aggregates it, and moves it to a few areas where it can be recycled or stored for eternity. And we're generating a lot of trash—municipal solid waste (“MSW”) to be precise. Here's data from the EPA on total MSW and per capita waste through 2018.

Watchlist Investing Newsletter

Patiently finding and following great public companies to own at the right price.

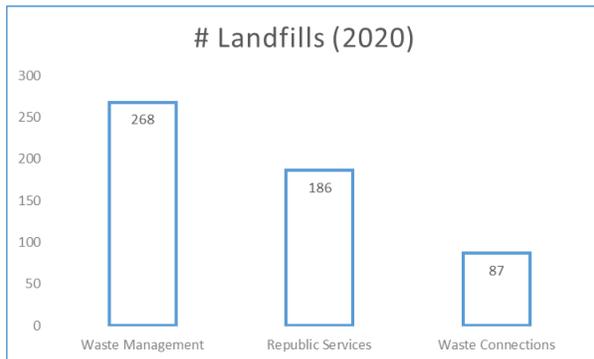
Issue #6 | August 2021

Figure 1. MSW Generation Rates, 1960 to 2018*



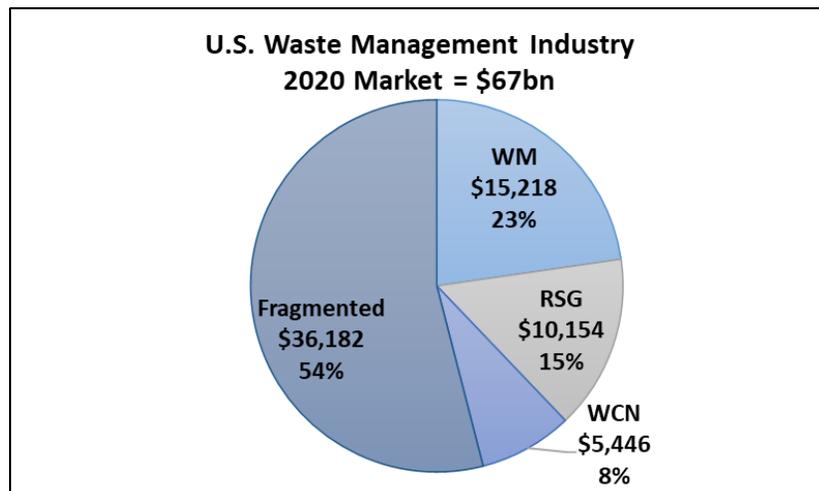
Source: [EPA website.](#)

Industry dynamics are split between the haves (vertically integrated operations with collection and landfill operations) and the have-nots (primarily collection operations). According to Morningstar, landfills today number about 1,500 compared to the 10,000 in operation in 1980. Landfills confer a significant competitive advantage to companies possessing them through the costs and permitting required to open (including NIMBY or not-in-my-backyard-type effects), maintain, and finally cap/close/monitor at the end of their useful life.



Market share is split between the largest nationwide players at the top with the rest of the market largely fragmented. Included in the fragmented section are operations owned/managed by municipalities.

Waste Management (Ticker: WM; Disclosure: None) is the largest with operations in 49 states, \$15bn in annual revenue and 268 landfills; **Republic Services (Ticker: RSG; Disclosure: None)** ranks second with operations in 41 states, \$10bn in revenue and 186 landfills; and **Waste Connections (Ticker: WCN; Disclosure: None)** places third with operations in 43 states, \$5.5bn in revenue and 87 landfills. Each has a minor presence in Canada.



Each has a minor presence in Canada.

Watchlist Investing Newsletter

Patiently finding and following great public companies to own at the right price.

Issue #6 | August 2021

As would be expected from a mature industry, growth comes primarily from acquisitions. Organic growth is closely correlated with overall increases in the economy, including household and business formation.

Consolidation has continued over the last 30 years to where it is today. All three of these companies regularly pursue a few dozen tuck-in acquisitions annually, mostly of smaller collection-only operations, and each has completed a large acquisition over the last decade. WM recently acquired Advanced Disposal in 2020, which was the 4th largest company in the industry.

BUSINESS MODEL:

The bread and butter for WM, RSG, and WCN comes from collecting waste from residential, commercial, and industrial customers. Collection revenue accounts for 65% of revenue for WM and 75% of revenues for RSG and WCN. To generate this revenue requires a big investment in rolling stock, namely, garbage trucks.

Here scale matters. The largest companies enjoy not only the landfill assets described above but significant economies of scale in collection and transfer via route density. Driving from one end of town to the other for a pickup is inefficient compared to a truck that can stop at every house in a neighborhood. Competition is tough and can lead to intense pricing pressures in markets with many different players.

WM, RSG, and WCN have the advantage of longer-term contracts with cities and municipalities for a large portion of their revenue (about 25%-40%) where they are the sole provider of services for a region. These markets are generally referred to as exclusive or franchise or sometimes exclusive franchise markets.

Both WM and RSG have the advantage of being the #1 or #2 player in many markets, including urban markets. WCN as the smaller player has taken the path of seeking to operate in secondary markets which feature less competition from the big players. Here WCN can use its relative size compared to other, smaller market participants to its advantage.

Landfill revenues account for 21%-24% for WM, RSG, and WCN. About half of this comes from tipping fees, which are fees third party operators pay to dispose of waste usually based on a per ton or per yard basis. WM and WCN report revenues on a gross basis but detail from RSG reveals that the other half of landfill revenues comes from intercompany charges.

Likewise for transfer revenues (about 12%-14%) of revenues, about half come from third parties with the other half from intercompany charges. WM, RSG, and WCN operate 348, 220, and 132 transfer stations, respectively. These operations allow for greater vertical integration of operations, effectively channeling waste from many collection operations into landfills. This is especially important in urban environments where compaction can take place and maximize the efficiency of moving waste out of urban centers and into landfills.

The remaining portion of revenues from these companies are comprised of recycling, intermodal, and E&P. Recycling has garnered press because China began placing greater restrictions on importing certain materials beginning in 2017. This hurt the industry, but it was relatively modest and led to a change in how the companies generate revenue from the segment. Previously the companies would sell the recycled commodities and generate a profit, a portion of which was sometimes shared with their customers in the form of a rebate. The industry is now shifting to a fee for service model where the customer can sometimes earn a rebate but the waste management companies are ensured revenues/profits first.

WCN, and to a lesser extent WM and RSG, have operations in the energy and production industry. These include specialized operations that collect, transfer, treat, and dispose of hazardous waste from the energy industry, such as drilling waste and the like. They also include deep-injection wells and other final storage facilities.

Watchlist Investing Newsletter

Patently finding and following great public companies to own at the right price.

Issue #6 | August 2021

EXPENSE STRUCTURE:

WM, RSG, and WCN, unsurprisingly, exhibit the same basic income statement. Operating expenses or cost of operations make up about 60% of total revenues and include the largest single component, labor, at about 20% of revenues. Maintenance expense is within that category too at about 8-9%. Depending on the year fuel comprises about 2-3% of revenues. Other costs include transfer expenses, subcontractors, cost of goods sold, and landfill operating costs which vary between the companies depending on their particular accounting and slight differences in their operations.

Reflecting the capital-intensive nature of the business, depreciation and amortization make up between 10%-13% of revenues. Amortization includes meaningful amounts of non-cash charges for acquired customer lists and other amortizable intangibles.

Notably, each company has non-trivial amounts of restructuring and/or impairment expenses over their history. WCN in 2015 took a charge related to E&P disposal amounting to a whopping 23% of revenues.

WM and RSG each have enough of these charges to highlight and adjust for when considering valuation. Each company, of course, adds back such charges to arrive at adjusted earnings, but they are significant enough to be classified as recognition of capital allocation mistakes and not something to paper over or ignore entirely.

% Revenue - 10-Yr Avg (2011-2020)	WM	RSG	WCN
Operating expenses	63%	61%	57%
SG&A	11%	10%	11%
Depreciation & amortization	10%	11%	13%
Other (incl'd restructuring & divest, etc.)	1%	0%	4%
Operating profit	16%	17%	15%
Interest expense	3%	4%	3%
Income taxes	3%	3%	3%
Other	1%	1%	0%
Net income	8%	9%	8%

BALANCE SHEET:

At the risk of oversimplifying, the WM, RSG, and WCN balance sheets basically contain two assets: landfills and trucks. Indeed, the plant, property, and equipment line item represents 99% of the tangible capital employed in their businesses (excluding cash). All three enjoy no core working capital¹ requirements. That takes care of the tangible assets required to run the businesses.

Each of these companies have a considerable amount of goodwill and intangible assets on the books because of acquisitions. As a result, returns on tangible capital are significantly higher than what management has outlaid for the assets (discussed further in the capital allocation section). Goodwill and intangibles comprise one-third of WM total assets and half of assets at RSG and WCN.

On the liability side of the balance sheet we find a significant amount of debt, though not unusual nor probably inappropriate for the level of maturity of the industry. Debt funds 50% of footings at WM and one-third at RSG and WCN.

Environmental liabilities are an important item to consider. Misjudging these, or the effect of inflation on future liabilities, could impact equity values, although probably not to the point of passing on an attractive valuation (if one ever presents itself). Landfill operators not only must operate their assets in accordance with significant rules/regulations during operation but cap, close, and finally monitor the property for several decades afterward. This includes collecting and treating leachate, the “crud” that inevitably leaks out of garbage.² The way this is

¹ I define core working capital as receivables + inventory + prepaids – accounts payable – accruals/deferred revenue. Basically, working capital excluding cash and current maturities. Sometimes I’ll add in a portion of revenues in cash if it’s a meaningful item or the business requires it, but history shows these businesses don’t require much cash on hand.

² The companies like to point to the fact that some landfills have biogas processes that capture usable methane from decomposing garbage, and which can be sold or used for fuel. But these are such a minor part of operations and probably more a feel-good than a revolutionary source of useable carbon.

Watchlist Investing Newsletter

Patently finding and following great public companies to own at the right price.

Issue #6 | August 2021

accounted for is by estimating the future costs related to closing the landfill and amortizing those costs into expenses as airspace (the usable volume of space) is consumed. Like pension accounting, assumptions matter a lot. WM, RSG, and WCN assume inflation in the 2% range and use a discount rate of between 3.4% and 5%.

Airspace capacity available for future use is measured in years. WM has an average of 38 years remaining; RSG has 63 years, and WCN 32 years. All three are continually looking for ways to add capacity, in many cases working with local governments to expand capacity at existing landfills.

CAPITAL ALLOCATION:

We see the same basic capital allocation strategy at WM, RSG, and WCN over the 2011-2020 decade. All three paid out significant proportions of earnings as dividends and share repurchases and expanded physical operations by making dozens of acquisitions, usually with debt.

A note on growth capex: To be consistent I've included depreciation and amortization together which at times makes it look like there is negative growth capex or a shrinkage in investment in physical plant/equipment. In reality, all three companies are basically in a replacement mode where capex = real depreciation. Amortization throws the figures off.

Waste Management: WM paid out slightly more than 100% of its \$12.1bn net income in dividends/buybacks. Its \$8.3bn acquisitions over the period featured divestitures of \$3.9bn, which is far more than its competitors and a result of Justice Department antitrust rulings. The most notable acquisition includes the 2020 Advanced Disposal acquisition for \$4.6bn (including debt). WM also disposed of Wheelabrator, a waste-to-energy business, in 2014 for \$2bn.

WM Capital Allocation 2011-20		
Sources		
Net income	12,147	55%
Impairments	981	4%
Divestitures	3,900	18%
LT debt	4,903	22%
Total sources	21,931	100%
Uses		
Growth capex	(686)	3%
Acquisitions	(8,302)	38%
Share repurchases	(5,143)	24%
Core working capital	(294)	1%
Dividends	(7,447)	34%
Total uses	(21,872)	100%
Change in cash	14	
Unaccounted	45	

Note: Asset and goodwill write-down in '13.

RSG Capital Allocation 2011-20		
Sources		
Net income	8,022	73%
Divestitures	211	2%
Negative capex	499	5%
LT debt	2,184	20%
Total sources	10,915	100%
Uses		
Acquisitions	(3,011)	27%
Share repurchases	(3,516)	31%
Core working capital	(720)	6%
Dividends	(4,100)	36%
Total uses	(11,347)	100%
Change in cash	(50)	
Unaccounted	(382)	

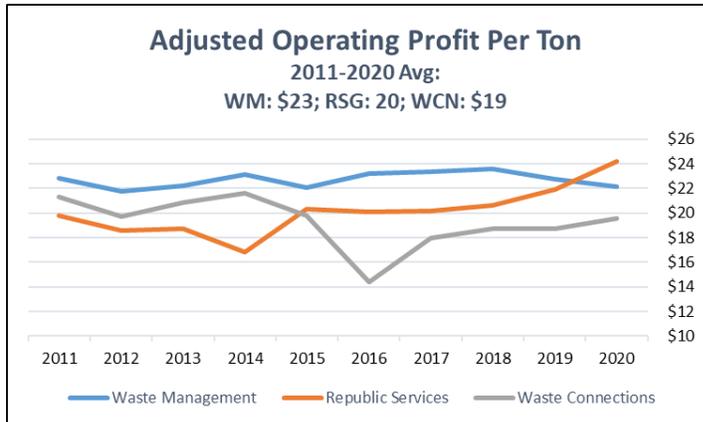
Republic Services: RSG's capital allocation looks very similar to WM. It paid out 95% of earnings in dividends/buybacks over the period. Its acquisitions did not, however, require the same degree of divestitures as WM. RSG did not detail its acquisitions like WM, but it was a consistent acquirer. The most notable acquisition during this period was in 2017 when it acquired RE Community Holdings II, the largest independent recycling processor in the US, for \$167m.

Watchlist Investing Newsletter

Patently finding and following great public companies to own at the right price.

Issue #6 | August 2021

Waste Connections: WCN returned just 50% of its net income in dividends/buybacks between 2011-20. It used that capital and additional debt to fund 146 acquisitions. That includes the 2016 merger with Progressive Waste which saw the issuance of \$3.5bn shares. The quirk of accounting noted at the beginning of this section really shows with WCN, as it appears its investment in physical plant *shrunk* by \$719m. This is a result of the heavy acquisition spending.



Sources		
Net income	2,803	25%
Issuance of SH*	3,503	32%
Negative capex	719	7%
Core working capital	229	2%
LT debt	3,804	34%
Total sources	11,059	100%
		0
		0
Uses		
Acquisitions	(9,804)	87%
Share repurchases	(398)	4%
Dividends	(1,008)	9%
Total uses	(11,210)	100%
Change in cash	607	
Unaccounted	(759)	

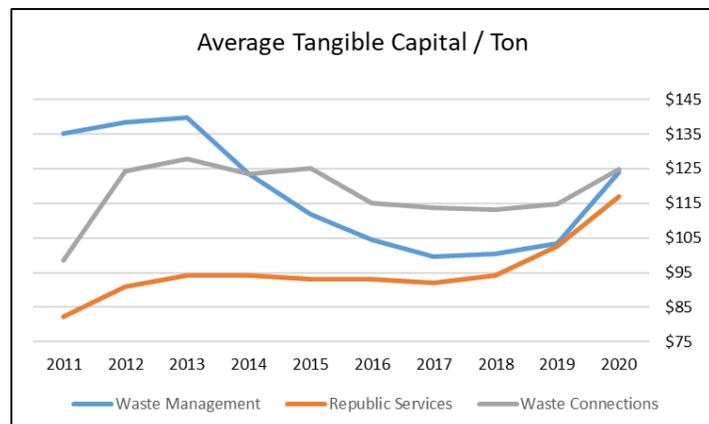
*Part of the 2016 Progressive Waste merger.

KEY VARIABLES / METRICS³:

At its core, the waste management industry is all about moving stuff—in this case garbage—from point A to B. As such, expressing operating metrics in terms of tons seemed logical (strangely, no analyst I’ve come across uses this metric). I was very surprised to see basically a flatline of about \$20 to \$24 per ton operating profit after adding back impairments/write-offs.

The story I believe this tells is one of maturity, whereby the efficiencies gained via industry consolidation are being passed back to the customer in the form of lower price increases. The companies discuss increased yield, which is just another name for price increases, typically in the 2.5% per year range. Yet costs increase all the while.

It was not too surprising to see the industry consolidation create a convergence on tangible capital employed per ton. All three companies were in a range of around \$115 to \$125 per ton toward the end of the decade.



³ There are a lot of things that *might* go into a research report like this, like the switch to electric trucks, or gas trucks, single-driver trucks, automated sort machines, etc. But in the long run that stuff doesn’t *really* matter. Best practices will come out of industry experimentation and be adopted by all players. What matters is the scale economics of collection and strategic landfill assets.

Watchlist Investing Newsletter

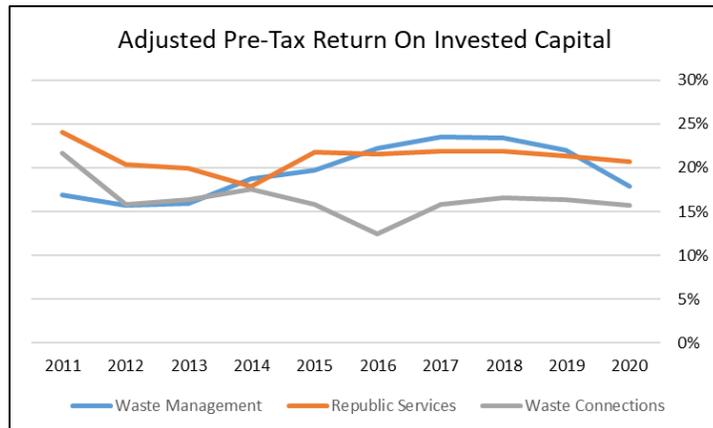
Patently finding and following great public companies to own at the right price.

Issue #6 | August 2021

Finally, combining capital intensity with operating profits (or adjusted EBIT margins) we can see pre-tax returns on tangible capital of around 15% for WCN and 20% for WM and RSG.

If goodwill and intangibles are added to tangible capital, and making adjustments for write-offs/impairments, a lower, around 10% pre-tax return is observed. This highlights the fact that the underlying businesses are very good but that the market for their operations is highly competitive.

Based on these metrics I must conclude that WM and RSG really are the better of the three businesses. WCN has done the logical thing focusing on secondary markets and to a lesser degree on the E&P disposal market. But WCN's lack to scale compared to its peers appears to be a real relative disadvantage.



RISKS:

Environmental: The industry is subject to a significant amount of regulation pertaining to the disposal of waste and the proper recycling/remediation of other chemicals. With hundreds of landfills the chance of any one having a major issue, such as a groundwater leak exposing a community to hazardous waste, is real. The companies do have insurance in place to cover such contingencies, but the risks are real and would impact future insurance premiums above and beyond any immediate liability. The risks are compounded by the fact that each company controls but doesn't really know what's going into its landfills from millions of collection points. Future regulatory or legislative changes could increase environmental monitoring and remediation faced by industry participants.

Acquisitions: Each company's strategy includes ongoing acquisitions. Management could overpay for one or more acquisitions that end up destroying shareholder value.

Recycling: With the growth in absolute volumes of waste and an increasingly environmentally conscious public, reductions in waste could pose a threat to volumes. Yet, it seems unlikely that recycling efforts would materially impact waste volumes to the degree that assets become underutilized. This effect would likely be offset or partially offset by growth in US population over time as well as GDP, which is highly correlated to waste volumes. To the extent that recycling becomes more prominent, it's likely that waste management companies would play a part in the process. The burden of reducing waste is increasingly being put on goods producers. Yet packaging can only be reduced so much. And it seems highly inefficient to use the postal service to send *all* superfluous material (along the lines of returning printer cartridges) back to manufacturers. More likely would be the use of existing recycling infrastructure to channel materials to their highest use. There may even be opportunity for waste management companies to invest in more specialized recycling infrastructure.

OTHER:

Ownership: Notably, the Bill & Melinda Gates Foundation owns 11.5% of Waste Management.

Watchlist Investing Newsletter

Patiently finding and following great public companies to own at the right price.

Issue #6 | August 2021

VALUATION:

My first thought upon completing the valuation of WM, RSG, and WCN was, “What am I missing?” My second thought was, “Have I wasted my time?” There’s no sugar coating it and I’m pretty sure my valuation isn’t *that* far off.

In each case it appears the market price of the businesses are a whopping *five times* their intrinsic value. I believe interest rates are driving valuations to nose-bleed levels.

First, by causing an artificially low cost of debt. WM had a weighted-average cost of debt of just 2.7%. One could easily imagine that doubling. On top of this boost from low interest costs you have the effect of expanded valuations due to interest rates.

Another factor is taxes. I’ve assumed a slightly higher rate under the assumption long-term tax rates will increase from their current level.

	<u>WM</u>	<u>RSG</u>	<u>WCN</u>
Long-term revenue/capital	\$1.18	\$1.25	\$0.89
Sustainable EBIT margin ¹	15.5%	16.0%	17.5%
Pre-tax ROIC	18.3%	19.9%	15.6%
Sustainable revenues ²	\$16,500	\$10,250	\$5,500
EBIT	\$2,566	\$1,638	\$961
Estimated tax rate	25%	25%	25%
NOPAT	\$1,924	\$1,228	\$721
Cost of capital ³	7.5%	7.5%	7.5%
Enterprise value	\$25,656	\$16,378	\$9,612
Less: debt	\$13,810	\$8,927	\$4,717
Plus: cash	\$553	\$38	\$617
Equity value	\$12,399	\$7,489	\$5,512
Diluted shares outstanding (mil)	425.10	319.84	263.69
Value/share	\$29.17	\$23.41	\$20.90
Current price	\$145	\$115	\$124
Price/value	497%	491%	593%
Footnotes:			
1. Deducts 1% for restructuring/write-offs.			
2. Increased from \$15.5bn to \$16.5bn to account for the Advanced Disposal acquisition (net of divestitures).			
3. Estimated 50/50 debt/equity at 5% / 10%.			

OTHER/PERIPHERAL COMPANIES:

GFL Environmental (GFL)

Price (8/12/21):	\$35.63
Market cap:	\$11.7bn
2020 Revenue	\$4.2bn
Domicile	Ontario, Canada

Canada-based GFL Environmental (Disclosure: None) is a smaller cousin to its big US players. The business is led by its founder/CEO, Patrick Dovigi. In 2020 GFL received 8.3 million tons of waste (compared to 112 million for WM, 76 for RSG, and 45 for WCN). GFL’s business includes solid waste (77% of 2020 revenues), infrastructure and soil remediation (13%), and liquid waste (10%). In 2020, GFL acquired some operations from the WM Advanced Disposal acquisition (because of antitrust rulings). That was just one of numerous acquisitions totaling almost \$4bn in 2020, which significantly expanded GFL’s operations.

Watchlist Investing Newsletter

Patiently finding and following great public companies to own at the right price.

Issue #6 | August 2021

Casella (CWST)

Price (8/12/21):	\$68.81
Market cap:	\$3.5bn
2020 Revenue	\$775m
Domicile	US-VT

Rutland, Vermont-based **Casella (Disclosure: None)** is a tertiary player based in the US Northeast. In 2020 Casella received 3.6 million tons (see comparables under GFL above). The company has just 8 landfills. This makes it an integrated hauler but doesn't appear to confer all the advantages enjoyed by its larger US-based peers. My analysis shows Casella has an operating margin (adjusted for impairments) of just 8.5% compared to almost double that for WM, RSG, and WCN. Normalized earning power (operating income) of about \$66m pales in comparison to an enterprise value of \$4bn (including \$540m debt). From my vantage point the company is overvalued even as a takeover candidate from one of the larger players—perhaps RSG will seek a presence in the Northeast.

Stericycle, Inc. (SRCL)

Price (7/23/21):	\$67.15
Market cap:	\$6.2bn
2020 Revenue	\$2.7bn
Domicile	US-IL

Stericycle (**Disclosure: None**) is in the medical waste management business. It's tiny compared to its municipal solid waste (MSW) peers in moving just 0.9 million tons of waste, but it is the largest player in the medical waste industry in the US. **Sharps Compliance (Ticker: SMED; Disclosure: None)**, is its only publicly traded competitor and has a \$161m market cap. The rest of the industry is fragmented into small privately held companies. SRCL's comes primarily from disposal of regulated medical waste and then from secure information destruction (it bought Shred-it in 2015) and to a lesser extent communication and other services. About 20% of revenue is generated internationally. The challenge for this segment of the industry is transporting medical waste to one of just 11 medical waste incinerators in the US (SRCL owns 9 of these), which requires transport over longer distances than MSW. But the business still benefits from route density in that it collects from a variety of medial waste customers.

Watchlist Investing Newsletter

Patently finding and following great public companies to own at the right price.

Issue #6 | August 2021

SUMMARY FINANCIALS:

Waste Management (WM) Balance Sheet (\$mil; FYE Dec. 31)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cash	553	3,561	61	22	32	39	1,307	58	194	258	539
Accounts receivable	2,624	2,319	2,275	2,374	2,132	2,094	1,937	1,810	1,839	1,775	1,656
Inventories	124	106	102	96	90	92	106	178	174	153	130
Prepays & other	239	223	207	202	122	120	291	276	216	193	157
Total current assets	3,540	6,209	2,645	2,694	2,376	2,345	3,641	2,322	2,423	2,379	2,482
PP&E	14,148	12,893	11,942	11,559	10,950	10,665	10,657	12,344	12,651	12,242	11,868
Goodwill	8,994	6,532	6,430	6,247	6,215	5,984	5,740	6,070	6,291	6,215	5,726
Intangibles	1,024	521	572	547	591	477	440	529	397	457	295
Other LT assets	1,639	1,588	1,061	782	727	896	934	1,338	1,335	1,276	1,105
Total assets	29,345	27,743	22,650	21,829	20,859	20,367	21,412	22,603	23,097	22,569	21,476
CMLTD	551	218	432	739	417	253	1,090	726	743	631	233
Accounts payable	1,121	1,065	1,037	1,040	799	721	740	744	842	838	692
Other accruals + def. revenue	1,881	1,861	1,639	1,483	1,578	1,536	1,655	1,544	1,451	1,599	1,560
Total current liabilities	3,553	3,144	3,108	3,262	2,794	2,510	3,485	3,014	3,036	3,068	2,485
Long-term debt	13,259	13,280	9,594	8,752	8,893	8,676	8,345	9,500	9,173	9,125	8,674
Deferred taxes	1,806	1,407	1,291	1,248	1,482	1,391	1,453	1,842	1,947	1,884	1,662
Landfill and environmental remediation	2,222	1,930	1,828	1,770	1,675	1,584	1,531	1,518	1,459	1,404	1,402
Other LT liabilities	1,051	912	553	755	695	839	709	727	807	698	662
Total liabilities	21,891	20,673	16,374	15,787	15,539	15,000	15,523	16,601	16,422	16,179	14,885
Shareholders' equity	7,454	7,070	6,276	6,042	5,320	5,367	5,889	6,002	6,675	6,390	6,591
Total liab. + SH equity	29,345	27,743	22,650	21,829	20,859	20,367	21,412	22,603	23,097	22,569	21,476
Diluted shares out (avg in mil)	425	428	432	442	447	456	466	470	464	471	482

Waste Management (WM) Income Statement (\$mil; FYE Dec. 31)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Sales	15,218	15,455	14,914	14,485	13,609	12,961	13,996	13,983	13,649	13,378
Operating expenses	9,341	9,496	9,249	9,021	8,486	8,231	9,002	9,112	8,879	8,541
SG&A	1,728	1,631	1,453	1,468	1,410	1,343	1,481	1,468	1,472	1,551
Depreciation & amortization	1,671	1,574	1,477	1,376	1,301	1,245	1,292	1,333	1,297	1,229
Other (incl'd restructuring & divest, etc.)	44	48	(54)	(16)	116	97	(78)	991	150	29
Operating profit	2,434	2,706	2,789	2,636	2,296	2,045	2,299	1,079	1,851	2,028
OPM	16.0%	17.5%	18.7%	18.2%	16.9%	15.8%	16.4%	7.7%	13.6%	15.2%
Interest expense	425	411	374	363	376	385	466	477	484	481
Income taxes	397	434	453	242	642	308	413	364	443	511
Other	116	191	37	82	96	601	122	140	107	75
Net income	1,496	1,670	1,925	1,949	1,182	751	1,298	98	817	961
Diluted EPS	\$3.52	\$3.91	\$4.45	\$4.41	\$2.65	\$1.65	\$2.79	\$0.21	\$1.76	\$2.04

Waste Management (WM) Capital Allocation	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net income	1,496	1,670	1,925	1,949	1,182	751	1,298	98	817	961
Growth capex	39	(244)	(217)	(133)	(38)	12	141	62	(213)	(95)
Acquisitions	(4,085)	(521)	(460)	(198)	(608)	(554)	(35)	(724)	(250)	(867)
Divestitures	885	49	208	99	43	145	2,253	138	44	36
Dividends	(927)	(876)	(802)	(750)	(726)	(695)	(693)	(683)	(658)	(637)
Share repurchases, net	(402)	(248)	(1,004)	(750)	(725)	(600)	(600)	(239)	0	(575)
Change in debt	312	3,472	535	181	381	(506)	(791)	310	160	849
Change in core working capital	(263)	186	241	(182)	82	(110)	37	(40)	(252)	7
Acquisition notes	Oct. 30, 2020: Advanced Disposal for \$4.6bn including \$1.8bn debt; three others for \$1.3bn. Divest related to	18 acquisitions total, including Petro Waste on March 8, 2019 (Petro brought solid disposal and oil & gas landfill assets).	32 acquisitions in solid waste.	24 acquisitions for solid waste.	30 acquisitions for solid waste, including Jan. 8, 2016 of \$525m for Southern Waste Systems/Sun Recycling.	27 acquisitions for solid waste. Includes Deffenbaugh Disposal acquired on March 26, 2015 for \$400m total.	14 acquisitions for solid waste. On Dec. 19, 2014 divested Wheelabrator (waste-to-energy biz) for \$1.95bn.	15 acquisitions, including Greenstar, LLC in Jan 2013 for \$170m, and RCI in July for \$481m (largest WM co. in Quebec.)	\$94 for two oil & gas producing properties plus 32 solid waste acquisitions.	July 2011: \$432m for Oakleaf (waste and recycling).

Watchlist Investing Newsletter

Patiently finding and following great public companies to own at the right price.

Issue #6 | August 2021

Republic Services (RSG) Balance Sheet (\$mil; FYE Dec. 31)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cash	38	47	71	83	68	32	75	213	68	66	88
Accounts receivable	1,091	1,126	1,103	1,106	995	963	930	891	837	826	829
Prepays & other	392	433	391	248	222	235	385	318	327	374	329
Total current assets	1,522	1,606	1,564	1,437	1,285	1,230	1,391	1,422	1,231	1,266	1,246
PP&E	8,726	8,384	8,020	7,777	7,589	7,553	7,165	7,037	6,910	6,792	6,699
Goodwill	12,046	11,633	11,400	11,315	11,163	11,146	10,831	10,724	10,690	10,647	10,655
Intangibles	173	134	107	141	182	246	299	316	359	410	451
Other LT assets	967	927	526	476	411	361	408	451	427	437	411
Total assets	23,434	22,684	21,617	21,147	20,630	20,536	20,094	19,949	19,617	19,552	19,462
CMLTD	161	930	691	707	6	6	10	16	19	35	879
Accounts payable	779	778	762	598	554	577	527	511	475	564	607
Other accruals + def. revenue	1,342	1,357	1,266	1,330	1,252	1,252	1,288	1,190	1,201	1,299	1,192
Total current liabilities	2,282	3,065	2,719	2,635	1,812	1,835	1,826	1,717	1,695	1,898	2,677
Long-term debt	8,766	7,759	7,647	7,481	7,653	7,527	7,051	7,002	7,051	6,887	5,865
Deferred taxes	1,239	1,181	1,028	796	1,210	1,132	1,149	1,185	1,233	1,161	1,045
Landfill and environmental remediation	1,695	1,703	1,702	1,687	1,685	1,678	1,678	1,464	1,421	1,397	1,417
Other LT liabilities	964	856	592	588	576	587	643	674	512	526	610
Total liabilities	14,945	14,563	13,688	13,186	12,936	12,759	12,346	12,043	11,911	11,868	11,613
Shareholders' equity	8,489	8,121	7,930	7,961	7,694	7,777	7,748	7,906	7,706	7,683	7,849
Total liab. + SH equity	23,434	22,684	21,617	21,147	20,630	20,536	20,094	19,949	19,617	19,552	19,462
Diluted shares out (avg in mil)	320	322	328	339	344	351	358	363	368	378	385

Republic Services (RSG) Income Statement (\$mil; FYE Dec. 31)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Sales	10,154	10,299	10,041	10,042	9,388	9,115	8,803	8,417	8,118	8,193
Operating expenses	6,101	6,298	6,150	6,215	5,764	5,519	5,643	5,235	5,006	4,865
SG&A	1,053	1,092	1,060	1,057	970	983	919	854	821	825
Depreciation & amortization	1,159	1,122	1,114	1,116	1,070	1,050	985	954	927	922
Other (incl'd restructuring & divest, etc.)	132	(1)	(19)	(15)	46	5	23	164	44	28
Operating profit	1,709	1,787	1,736	1,669	1,538	1,559	1,233	1,210	1,321	1,553
OPM	16.8%	17.4%	17.3%	16.6%	16.4%	17.1%	14.0%	14.4%	16.3%	19.0%
Interest expense	356	392	384	362	371	365	349	360	389	440
Income taxes	173	222	283	3	353	446	337	262	252	317
Other	210	99	31	25	201	(2)	(1)	(1)	108	206
Net income	970	1,074	1,037	1,279	613	751	548	589	572	589
Diluted EPS	\$3.02	\$3.33	\$3.16	\$3.79	\$1.79	\$2.13	\$1.53	\$1.62	\$1.55	\$1.56

Republic Services (RSG) Capital Allocation	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net income	970	1,074	1,037	1,279	613	751	548	589	572	589
Growth capex	(36)	(85)	42	126	142	104	122	73	23	(15)
Acquisitions	(770)	(575)	(277)	(352)	(62)	(573)	(196)	(69)	(95)	(43)
Divestitures	33	43	89	5	15	0	0	3	10	14
Dividends	(523)	(491)	(462)	(441)	(419)	(399)	(379)	(349)	(329)	(309)
Share repurchases, net	(95)	(390)	(714)	(574)	(354)	(339)	(312)	(63)	(255)	(420)
Change in debt (+issuance -repay)	239	351	150	528	126	472	43	(52)	149	178
Change in core working capital	(707)	281	(57)	686	(42)	127	2	(23)	(167)	(821)

Acquisition notes				Q4 '17: Acquired RE Community Holdings, II, for \$167.1m, largest indep. recycling- processor in US.						
-------------------	--	--	--	--	--	--	--	--	--	--

Watchlist Investing Newsletter

Patently finding and following great public companies to own at the right price.

Issue #6 | August 2021

Waste Connections (WSG) Balance Sheet (\$mil; FYE Dec. 31)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cash	617	327	319	434	154	11	14	14	23	13	10
Accounts receivable	630	663	610	554	485	255	260	234	236	176	152
Prepays & other	161	141	164	189	193	96	92	81	104	60	54
Total current assets	1,408	1,131	1,093	1,177	833	362	366	329	362	249	216
PP&E	5,285	5,516	5,169	4,821	4,738	2,738	2,594	2,451	2,458	1,450	1,337
Goodwill	5,727	5,511	5,032	4,682	4,390	1,423	1,694	1,675	1,637	1,117	928
Intangibles	1,155	1,163	1,129	1,087	1,067	511	510	528	542	450	381
Other LT assets	418	417	205	248	165	87	81	82	77	62	54
Total assets	13,992	13,738	12,627	12,015	11,193	5,122	5,245	5,064	5,076	3,328	2,916
CMLTD	8	0	2	12	2	2	4	5	34	6	3
Accounts payable	291	437	360	331	251	115	121	105	130	95	85
Other accruals + def. revenue	730	570	499	460	439	261	236	234	253	183	166
Total current liabilities	1,029	1,007	861	803	692	378	360	345	418	284	254
Long-term debt	4,709	4,354	4,153	3,900	3,617	2,147	1,971	2,068	2,205	1,173	910
Deferred taxes	760	819	760	691	868	452	539	502	465	397	334
Other LT liabilities (incl'd landfill liab.)	632	620	393	348	361	152	141	102	105	75	48
Total liabilities	7,129	6,799	6,167	5,741	5,538	3,130	3,012	3,016	3,193	1,928	1,546
Shareholders' equity	6,863	6,938	6,460	6,274	5,655	1,992	2,234	2,048	1,883	1,400	1,370
Total liab. + SH equity	13,992	13,738	12,627	12,015	11,193	5,122	5,245	5,064	5,076	3,328	2,916
Diluted shares out	264	265	264	264	231	123	125	124	122	114	117

Waste Connections (WSG) Income Statement (\$mil; (FYE Dec. 31)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Sales	5,446	5,389	4,923	4,630	3,376	2,117	2,079	1,929	1,662	1,505
Operating expenses	3,277	3,199	2,866	2,705	1,958	1,177	1,138	1,065	956	858
SG&A	538	546	524	510	474	237	229	213	197	162
Depreciation & amortization	752	744	680	632	464	269	258	244	194	167
Other (incl'd restructuring & divest, etc.)	467	62	20	156	28	494	4	14	(2)	2
Operating profit	412	838	832	627	452	(62)	449	393	316	317
OPM	7.6%	15.5%	16.9%	13.5%	13.4%	-2.9%	21.6%	20.4%	19.0%	21.1%
Interest expense	162	147	132	125	93	64	65	74	53	45
Income taxes (benefit)	50	139	160	(69)	114	(32)	152	125	105	107
Other	(4)	(15)	(7)	(7)	(2)	1	(1)	(1)	(2)	(1)
Net income	204	567	547	577	247	(95)	233	196	160	166
Diluted EPS	\$0.78	\$2.15	\$2.07	\$2.18	\$1.07	-\$0.78	\$1.86	\$1.58	\$1.31	\$1.45

Watchlist Investing Newsletter

Patently finding and following great public companies to own at the right price.

Issue #6 | August 2021

Waste Connections (WSG) Capital Allocation	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net income	204	567	547	577	247	(95)	233	196	160	166
Growth capex	88	78	134	153	119	31	17	34	40	25
Acquisitions	(389)	(737)	(830)	(411)	(5,179)	(231)	(126)	(64)	(1,580)	(258)
Progressive Waste Merger SH issuance	-	-	-	-	3,503	-	-	-	-	-
Dividends	(200)	(175)	(153)	(132)	(93)	(66)	(59)	(51)	(44)	(36)
Share repurchases, net	(106)	-	(59)	-	-	(91)	(7)	-	(19)	(117)
Change in debt (+issuance -repay)	363	199	244	293	1,469	174	(98)	(166)	1,060	266
Core working capital	(229)	(203)	(85)	(48)	(12)	(25)	(5)	(25)	(44)	(41)
Change in core working capital	27	118	37	36	(12)	20	(20)	(20)	3	41
Acquisition notes	21 acquisitions	21 acquisitions	20 acquisitions	14 acquisitions	13 acquisitions, including Progressive Waste for \$5.2bn via merger.	14 acquisitions, including: Shale Gas Services (E&P waste) for \$41m; DNCS Properties (E&P waste) for \$35m; Rock River	9 acquisitions, including: Screwbean (E&P) and S.A. Dunn for \$30m; Rumsey Environment al (solid waste) for \$18m; and	8 acquisitions (solid waste)	R360 acquisition for \$1.3bn (E&P); SKB environmental (solid waste) for \$87m; Alaska Pacific for \$137m (solid waste) plus	13 acquisitions including Hudson Valley Waste (solid waste) for \$299m.

WHAT'S COMING NEXT ISSUE:

This study of the waste management industry got me thinking about other industries with route density economics. The closest analog is the trucking industry, and perhaps as peripherals UPS and FedEx and logistics operations as logical extensions of that framework. That may hold off a month or two as **Sam Adams (Ticker: SAM; Disclosure: A few shares held in a personal account)** caught my eye after a recent steep sell-off.

Watchlist Investing Newsletter

Patently finding and following great public companies to own at the right price.

Issue #6 | August 2021

Watchlist

As of August 12, 2021

WATCHLIST			Count: 12		
Company Name	Industry	Ticker	Current Price	Market Cap	See Issue #
AAON, Inc.	Building Products	AAON	\$69.35	\$3,634,198,595	1
Berkshire Hathaway	Conglomerate	BRK.B	\$290.05	\$657,086,387,328	1
Hingham Institution for Savings	Banking	HIFS	\$303.97	\$651,225,026	1
Monarch Cement	Building Products	MCEM	\$115.00	\$301,802,435	2
International Flavors and Fragrances	Foods/Seasonings	IFF	\$156.03	\$38,861,564,836	3
McCormick	Foods/Seasonings	MKC	\$85.61	\$22,872,543,717	3
Bank7	Banking	BSVN	\$21.70	\$196,368,862	4
Plumas Bancorp	Banking	PLBC	\$32.26	#N/A	4
Auburn Bancorp	Banking	AUBN	\$33.80	\$119,719,259	5
Waste Management	Waste Management	WM	\$149.96	\$63,147,993,871	6
Republic Services	Waste Management	RSG	\$120.06	\$38,219,695,211	6
Waste Connections	Waste Management	WCN	\$126.65	\$33,028,264,664	6

Note: Plumas market cap was approximately \$188mm. Still not sure why it wouldn't pull the data.

To see the latest Watchlist and Suspect List on Google Sheets, head to www.watchlistinvesting.com or click [here](#).

Watchlist Investing Newsletter

Patently finding and following great public companies to own at the right price.

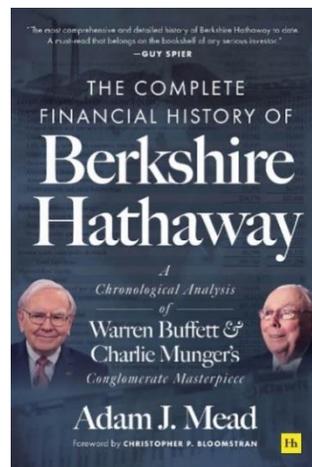
Issue #6 | August 2021

About

After nearly two decades as an individual investor, a decade in commercial credit at various banks, and a few years managing money for friends/family in the background, I decided to go full-time managing money for clients in 2020. Watchlist Investing is an extension—albeit separate and distinct—of what I do day-to-day as a practicing capital allocator. Inverting the margin of safety principle, I hope to add value to readers above and beyond the nominal cost of the newsletter.

My investing style is influenced by my background growing up in a family of business owners. I followed suit selling firewood through high school and founding a welding business in college. Looking at stocks as businesses is natural to me. My investing approach rests on fundamental value investing tenets, but it's adapted to suit my style. I'm 100% certain I'm not the best investor or analyst, but I hope to improve over time.

Between 2016 and 2021, I wrote a book on Berkshire Hathaway. *The Complete Financial History of Berkshire Hathaway* was and is my passion project. I hope it brings new shareholders up to speed on the company and provide a fresh look to longtime shareholders, in addition to serving as a resource/reference book. It can be purchased [here](#). I also created www.theoraclesclassroom.com as an extension of the book, which includes an archive of a lot of BRK material.



DISCLAIMER

Legalese: Copyright Adam J. Mead. All rights reserved. Reproduction in whole or in part, without written permission, is strictly prohibited. Watchlist Investing is intended as an information source for investors capable of making their own investment decisions and for general entertainment/instructional purposes. Under no circumstances does any information posted in this newsletter represent a recommendation to buy or sell a security. The information in this newsletter, and on its related website, is not intended to be, nor does it constitute, investment advice or recommendations. Watchlist Investing does not provide specific advice for investors. Consult your professional investment adviser before making any investment decisions. We do not provide any warranty or guarantee as to the accuracy, timeliness, performance, completeness or suitability of the information and materials found or offered in this newsletter, or on its related website, for any particular purpose. Past performance is not a good predictor of future performance. Performance and returns shown are unaudited. Results are not guaranteed, and we assume no liability whatsoever for any losses that may occur. No compensation for suggesting particular securities is solicited or accepted. Adam J. Mead and/or members of his family and/or clients may hold positions in securities mentioned in this newsletter or on its related website. Investing in stocks is risky and may result in substantial losses.

Plain language/bottom line: NOTHING - and I mean nothing at all - of what I write, imply, link to, comment on, etc. should be considered investment advice. This newsletter is intended as a general publication for information/educational/entertainment purposes and is not and should not be considered investment advice or an offer to buy or sell securities. I'm licensed as a registered investment advisor and have a fiduciary duty to put clients first. That means ahead of all subscribers and myself. Watchlist Investing subscribers are NOT my clients. All of that said, I will endeavor to let subscribers know when I or clients own the securities I discuss, but I have no duty to keep you informed if anything changes. Good morals (and the law) also mean I won't use this publication to tout or pump and dump securities, etc. I don't want to go anywhere within 500 miles of that gray line.

Subscribe:

\$99/year: Receive 10-12 newsletters per year, delivered to your inbox.

\$10/month: Try it out for as long as you like.

Free: I intend to publish free content from time to time. That might include social media posts, content via [Substack](#), or other means.

Contact me:

watchlistinvesting@gmail.com