

Why We Own Waste Management (WM)

A plastic cup is easy to throw away. Making it valuable again requires a collection route, a sorting line that can recognise it, a buyer for the recovered material and a system that can do all three at enormous scale. That unglamorous chain is where WM's investment case begins.

Waste is one of the clearest examples of an economic system losing the value of nature. Materials are extracted, turned into products and often used once before being buried. WM can help reverse part of that loss by recovering materials and energy from the waste stream. But the case does not rest on good intentions. It rests on whether WM's network can convert rising demand for reliable waste services and circular infrastructure into durable cash returns - whether the business behind it is financially strong and well led enough to keep funding that network - and whether the measurable outcome improves fast enough.

Structural demand: waste does not disappear

US households and businesses produce waste every day, regardless of the economic cycle. Municipalities need collection, transfer and disposal services; manufacturers and retailers increasingly need traceable recovery; and regulators are shifting more of the cost of packaging waste towards producers.

The physical baseline is sobering. The US Environmental Protection Agency's latest comprehensive national dataset, for 2018, estimated that Americans generated 292.4 million tons of municipal solid waste and sent about 146.1 million tons to landfill. The data are old, which is itself a limitation, but the scale explains why collection and disposal remain essential infrastructure.

Policy is changing the economics around that infrastructure. Oregon's Recycling Modernization Act, for example, began moving the state towards a producer-funded system in July 2025, with more consistent collection, upgraded processing and stronger reporting on responsible end markets. Other states are pursuing variations of extended producer responsibility. These rules can create demand for better sorting and evidence that recovered material actually reaches a useful destination.

The structural need is therefore broader than “more recycling”. Customers need dependable collection, legally compliant disposal, lower contamination, auditable material recovery and a practical route for organics and landfill gas. The winning operator must join those pieces together.

Where WM fits

WM sits primarily within the **Nature Innovation** theme of the Delta Outcomes Global Leaders Portfolio: using infrastructure and technology to keep materials in productive use and recover

value from waste. **Climate Action** is a secondary lens because landfill methane and the energy intensity of collection matter. **Human Advancement** also matters through safe, reliable sanitation services and working conditions. Neither secondary lens replaces the primary test of material recovery and resource productivity.

Theme membership explains a source of structural demand. It does not make WM's shares attractive at any price - and it is not, on its own, why we trust the company with client capital. That trust has to be earned separately, through the numbers and the people running the business.

WM's advantage: a network that is difficult to replicate

WM's advantage begins with density. A collection truck becomes more productive when stops are close together. Transfer stations consolidate loads. Landfills provide permitted disposal capacity that is scarce, regulated and expensive to build. Recycling facilities and organics sites add recovery options, while landfill-gas projects turn methane into saleable energy.

Those assets reinforce one another. A dense route network lowers collection cost per stop. Internal transfer and disposal capacity reduces reliance on third parties. Long-lived municipal and commercial relationships improve visibility. The waste stream itself supplies material to recycling and renewable-energy facilities. Data and automation can then improve routing, labour productivity and sorting accuracy across the system.

How the advantage becomes earnings

WM earns recurring revenue from collection, transfer and disposal, with price increases and route productivity supporting margins. Its ownership of disposal assets lets it retain more of the value chain. Automation can reduce labour and contamination costs. Recycling and renewable natural gas can add earnings as new facilities ramp, although both remain exposed to commodity prices and policy incentives.

The second quarter of 2026 shows that mechanism working. Revenue rose 4% to \$6.68 billion. Adjusted operating EBITDA increased to \$2.07 billion from \$1.96 billion, with the adjusted margin improving to 30.9%. Operating cash flow reached \$1.73 billion and free cash flow rose 34.5% to \$1.10 billion. Adjusted operating EBITDA from recycling and renewable energy increased 32.5%.

WM also added three renewable natural gas facilities with an expected combined annual run-rate of 3.5 million MMBtu, and opened a Denver-area recycling facility designed to process 60,000 tons a year. These figures describe installed or expected capacity, not guaranteed utilisation, price or return. Their importance is that they make the earnings bridge testable: capital should lift throughput, lower unit cost or create saleable energy, then appear in EBITDA and cash flow.

Technology is increasingly part of the same mechanism. Management reports that its smart-truck platform already contributes more than \$300 million of annual run-rate EBITDA through service upgrades, optimised routing and lower operating costs, and that automated recycling facilities are delivering a sustained 30% improvement in labour cost per ton compared with legacy plants. Healthcare Solutions, the medical-waste business acquired with Stericycle, lifted its adjusted margin by 200 basis points to 19.0% in the quarter, with \$32 million of a \$50 million cross-selling synergy target already realised. These are company-reported figures, but they are the right kind: they can be checked against margins and cash flow over time.

That is the causal chain we test as investors: waste generation that persists through the economic cycle, and recovery rules that are tightening, create unavoidable demand; WM's route density, permitted disposal capacity and recovery network let it serve that demand at lower cost and price above inflation; collection, disposal, recycling and renewable energy convert that position into revenue, EBITDA and free cash flow; and disciplined valuation determines whether those economics justify ownership.

The quarter was not uniformly strong. WM lowered its revenue outlook by about 0.6%, primarily because of weaker volumes, while maintaining adjusted EBITDA and free-cash-flow guidance and raising its margin guidance. Recycled commodity prices, renewable-fuel credits and natural-gas prices were all lower than a year earlier. Pricing power and productivity therefore carried more of the result. That is a strength, but persistent volume weakness or poor project returns would eventually test it.

A financially strong business, not just a good story

A compelling theme only matters if the company behind it can fund it, year after year. A business that cannot protect its margins or convert growth into cash will struggle to keep building the sorting lines, organics sites and gas-capture projects its impact case depends on, however durable the demand looks. So before we get carried away with the story, we ask a simpler question: is this a genuinely well-run, profitable company? On profitability and shareholder returns, the answer is clearly yes; on earnings growth, the honest answer is that the past three years were held back by a large acquisition and a heavy investment cycle, and the stronger case lies ahead.

Profitability. WM earns strong and steadily improving profits from its operations. Its adjusted EBITDA margin - a broad measure of operating profit before interest, tax, depreciation and amortisation - has risen every year, from 28.9% in 2023 to 29.8% in 2024 and 30.1% in 2025, reached 30.9% in the second quarter of 2026, and management now guides to 31.0%-31.2% for the full year. The narrower operating margin, struck after depreciation on the new recycling and renewable-gas assets, has held broadly steady at around 18%-19%. Return on shareholders' equity - essentially, how much profit the company generates for every dollar shareholders have invested - has run between roughly 27% and 33% over the past three years, although we treat that level with some caution because WM funds its long-lived landfill and collection assets partly with debt, which flatters returns on a relatively thin equity base. The

more demanding measure, return on invested capital across both debt and equity, eased from 12.2% in 2023 to 10.0% in 2025 as the company absorbed the Stericycle acquisition and elevated sustainability spending, but stayed above the roughly 9% hurdle we hold the business to throughout.

Earnings growth - the case ahead. Here the historical record is more modest, and we say so plainly. Adjusted earnings per share rose from \$6.19 in 2023 to \$7.23 in 2024 and \$7.51 in 2025 - growth of around 7.5% a year over three years, slightly behind revenue growth of around 8.6% a year that was itself boosted by acquisition. Growth slowed to under 4% in 2025 as integration costs, higher interest expense and depreciation on new plants weighed on the bottom line. The case ahead rests on that investment cycle turning into earnings: analyst projections point to adjusted earnings per share growth of around 13% in 2026 and low double digits a year thereafter, well ahead of expected revenue growth of around 6% a year, as sustainability capital spending moderates, new facilities ramp and Healthcare Solutions synergies build. Second-quarter adjusted earnings per share rose a more modest 5.2% to \$2.02, even as free cash flow grew by more than a third, so the acceleration is expected rather than yet visible in reported earnings.

Shareholder returns. Ultimately, none of this matters to an investor unless it shows up in the share price, and here the record is genuinely strong. Over the five years to the end of 2025, WM's total shareholder return - share price growth plus dividends - compounded at roughly 15% a year, broadly doubling investors' money, with only one down year over the period, a fall of around 4% in 2022. Those returns have continued into 2026, with a total return of close to 10% in the year to late July. That is an unusually steady record for a business whose earnings growth was held back by heavy investment over the same period - which is also why we are careful not to assume that the share price can keep running ahead of the underlying earnings.

Taken together, this gives us confidence that WM has the profitability, cash generation and shareholder-return record to keep funding the recovery infrastructure its impact case depends on - although the earnings acceleration that today's valuation assumes is a credible, evidenced path rather than a result already proven in the numbers.

Leadership we can trust

A good business also needs to be well led. WM's governance rests on sound structural foundations. The roles of Chief Executive and Chair have been held separately since 2004, and the company has stated that it does not contemplate a board without a Non-Executive Chair. Every director stands for election each year, a single class of listed stock means no shareholder carries outsized voting power, and the board pairs recent refreshment with depth in recycling, technology and capital allocation. Pay is firmly long-term: around three-quarters of the Chief Executive's target pay is delivered in equity, with three-year performance shares tied to cumulative free cash flow and relative total shareholder return, and the programme drew around 93% shareholder support at its most recent advisory vote. Our engagement priorities are forward-looking: continued board refreshment so that independent board

leadership and the key committees meet our stricter tenure-based independence standard, and fuller public disclosure of the conclusions of the board's annual effectiveness review.

That foundation is matched by a sound capital-allocation record. Return on invested capital has stayed above our cost-of-equity hurdle in each of the past three years, even through the Stericycle acquisition and an elevated programme of recycling and renewable natural gas investment, and is expected to recover as that spending moderates and the new assets mature. Leverage stood at 2.96 times EBITDA at the end of the second quarter, within management's 2.5-3.0 times target range, while the company continued to return surplus cash to shareholders, including \$659 million of share repurchases in the quarter. Taken together, this gives us confidence that WM is overseen by capable, accountable leadership that acts in the long-term interests of shareholders and other stakeholders alike.

Outcomes: count recovered material, not announcements

WM aims to increase the amount of material it recovers by 60% from its 2021 baseline, reaching 25 million tons a year by 2030. It reports nine new or automated recycling projects with 817,000 tons of annual capacity and 3.8 million tons of organics processed in 2025.

The most decision-useful number is less flattering. WM says recovery had increased only 9% from the 2021 baseline by the end of 2025, missing its interim goal of 25%. The company attributes the gap partly to softer market demand, project timing and lower inbound recycling volumes. Whatever the cause, this is the correct discipline: planned facilities and headline capacity are inputs; recovered tons sold into responsible end markets are outcomes.

The same distinction applies to methane. The US Environmental Protection Agency estimates that municipal solid-waste landfills represented about 14.4% of US human-related methane emissions in 2022. Capturing landfill gas can reduce emissions and produce energy, but the evidence should include capture efficiency, fugitive methane, methane intensity and credible lifecycle boundaries - not only gas sold.

The cup offers a simple test. WM can show how advanced sorting identifies polypropylene, but a video of a possible journey is not proof that every cup completes it. We look for independently comparable contamination rates, actual facility throughput, recovered-material quality, end-market sales and the displacement of virgin material. We hold this evidence to the same standard we apply to the financial and governance claims above.

Value, decision, and tension

We own WM because three things line up: a durable, structural source of demand in waste collection, disposal and material recovery that persists through the economic cycle and is being reinforced by producer-responsibility rules; a genuinely profitable, cash-generative business behind it, with rising margins and a strong, steady run of shareholder returns, even though earnings growth lagged during a heavy investment phase; and a board and

management team we trust to act in shareholders' and stakeholders' long-term interests, with two clearly named governance priorities we continue to press.

We do not own it on the assumption that because waste will always exist, value will always follow. A necessary service can still destroy value if assets are bought too expensively, debt rises too far or price increases mask weak volumes and poor capital allocation. The core collection-and-disposal franchise deserves credit for route density, scarce permitted assets, contracts and recurring demand. New recycling, automation and renewable-energy capital deserves value only when throughput, margins and cash prove the return.

The central tension is that WM's quality is already widely recognised in its price. The shares trade at around 28 times this year's expected earnings, a premium to their closest listed peer, independent estimates of intrinsic value sit somewhat below the current share price, and sell-side price targets imply only modest further upside. At that level the price already assumes that pricing keeps running ahead of cost inflation, that volumes stabilise and that the investment cycle converts into the double-digit earnings growth projected above. Our ownership decision therefore tests normalised pricing, volumes and margins; the split between maintenance and growth capital; the cash returns from Stericycle; the path of leverage; and the sensitivity of recycling and renewable-energy earnings to commodity and incentive prices. A durable competitive position is not permission to ignore the price paid, and valuation discipline, not enthusiasm for the theme, governs position sizing.

What could break the chain

A number of things could weaken this thesis, and we watch for all of them:

- **Demand and pricing risk.** Collection and disposal volumes fell 1.8% in the second quarter, and management now expects a full-year volume decline of around 0.8%-1%. Revenue growth is increasingly carried by price and energy surcharges; if customers resist further increases, or surcharges unwind as fuel costs normalise, pricing may no longer offset weak volumes and cost inflation.
- **Integration and capital-allocation risk.** Healthcare Solutions must continue to earn an acceptable cash return on the Stericycle purchase price. Renewable natural gas pipeline-connection delays and softer recycling brokerage are already trimming around \$75 million from this year's sustainability revenue, and new facilities can miss their utilisation or return thresholds.
- **Financial-quality durability risk.** Margins and shareholder returns have been strong, but return on invested capital compressed from 12.2% to 10.0% over three years and leverage sits near the top of its target range. The earnings acceleration projected for 2026 and beyond needs to be delivered, not merely guided, for the financial case to hold through a weaker cycle.

- **Commodity and policy risk.** Recycled-commodity, natural-gas and renewable-credit prices were all lower than a year earlier. Regulation can raise barriers to entry, but it can also increase environmental obligations and compliance cost.
- **Impact-case risk.** The case can fail on its own terms. Landfills can leak methane and affect neighbouring communities; recovered materials can be contaminated or sold into weak end markets; and a company can report more capacity while falling behind its own recovery goal, as WM's 9% progress against a 25% interim target already shows.

The thesis would weaken materially if core price and productivity could no longer offset sustained volume weakness while Stericycle failed to deliver acceptable cash returns and leverage stayed elevated without a credible path down; if recycling and renewable-energy projects missed their return or utilisation thresholds; if methane, safety or community performance deteriorated materially; or if WM continued missing recovery milestones without a convincing corrective plan. It would also weaken if the valuation left no margin of safety for those risks.

WM's network makes it one of the few companies able to influence what happens after the bin. That scale can compound financially and environmentally - but only if it turns discarded material into verified value. We own WM because persistent demand for waste and recovery services meets route density and scarce permitted assets that convert that demand into durable cash; because the business behind it is profitable, cash-generative and has rewarded shareholders steadily, with an earnings acceleration still to be proven; and because it is overseen by accountable leadership, with two named priorities we will keep pressing. The investment case rests on WM continuing to turn an unglamorous necessity into durable cash flows, while recovered tons, methane performance and responsible end markets show that the same system is becoming less wasteful in the real world.

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