**WCN - Waste Connections, Inc.**
**Q2 2017 Earnings Conference Call**
**Thursday, April 27, 2017 8:30amET**

Executives:
Ronald Mittelstaedt, Chairman, CEO
Worthing Jackman, CFO

Analysts:
Tyler Brown, Raymond James
Derek Spronck, RBC Capital Markets
Hamzah Mazari, Macquarie Capital
Joe Box, KeyBanc Capital Markets
Kevin Chiang, CIBC
Chris Murray, AltaCorp Capital
Michael Hoffman, Stifel Nicolaus
Noah Kaye, Oppenheimer
Andrew Buscaglia, Credit Suisse
Corey Greendale, First Analysis
Brian Maguire, Goldman Sachs
Barbara Noverini, Morningstar

Presentation

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Waste Connections Second quarter 2017 earnings conference call. (Operator Instructions). Afterwards, we will conduct a question-and-answer session. (Operator Instructions). As a reminder, the conference is being recorded Wednesday, July 26, 2017.

I would now like to turn the conference over to Ronald Mittelstaedt, Chairman of the Board and CEO. Please go ahead, sir.

Ronald Mittelstaedt: Okay. Thank you, operator. I'd like to welcome everyone to this conference call to discuss our second quarter 2017 results and an updated outlook for 2017, as well as provide a detailed outlook for the third quarter. I am joined this morning by Steve Bouck, our President; Worthing Jackman, our CFO; and several other members of our senior management team.

As noted in our earnings release, continued strength in solid waste volumes, recycled prices and E&P waste activity enabled us to once again exceed our outlook for the second quarter.

Given our strong results in the first half of the year and expected continuing momentum from these trends, we've raised our outlook for the full year revenue and adjusted

EBITDA.

More importantly, full year adjusted free cash flow was also pacing ahead of initial expectations. Now estimated at approximately $750 million, we're almost [at] 52% of adjusted EBITDA and up almost 20% per share year-over-year.

We're pleased to report that the divestiture program we implemented following our Progressive Waste acquisition is nearing completion, with the expected benefits greater than originally anticipated.

Moreover, we are very encouraged by our progress on potential acquisitions for which we could fully utilize existing cash and projected excess cash flow over the next few quarters.

In addition to funding potentially above-average acquisition activity, our strong financial profile also positions us for another double-digit percentage increase in our quarterly dividend in October.

Before we get into much more detail, however, let me turn the call over to Worthing for our forward-looking disclaimer and other housekeeping items.

Worthing Jackman: Thank you, Ron, and good morning. The discussion during today's call includes forward-looking statements made pursuant to the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995 and forward-looking information within the meaning of applicable Canadian securities laws.

Actual results could differ materially from those made in such forward-looking statements and information due to various risks and uncertainties. Factors that could cause actual results to differ are discussed both in the cautionary statement on Page 3 of our July 25 earnings release, and in greater detail in Waste Connections' filings with the U.S. Securities and Exchange Commission and the securities commissions or similar regulatory authorities in Canada.

You should not place undue reliance on forward-looking statements and information, as there may be additional risks of which we are not presently aware, or that we currently believe are immaterial, which could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements and information in order to reflect events or circumstances that may change after today's date.

On the call, we will discuss non-GAAP measures such as adjusted EBITDA, adjusted net income attributable to Waste Connections on both a dollar basis and per diluted share and adjusted free cash flow. Please refer to our earnings release for a reconciliation of such non-GAAP measures to the most comparable GAAP measure.

Management uses certain non-GAAP measures to evaluate and monitor the ongoing financial performance of our operations. Other companies may calculate these non-

GAAP measures differently.

Finally, reported results reflect the impact of our Progressive Waste acquisition on June 1, 2016. Contributions from this combination was treated as acquired revenue through May 2017 and was incorporated into organic growth statistics beginning June 1, 2017.

I will now turn the call back over to Ron.

Ronald Mittelstaedt: Okay. Thanks, Worthing. In the second quarter, solid waste price plus volume growth was 5.1%, exceeding our 3% to 3.5% outlook for the quarter primarily due to better-than-expected volume growth. This strength in volume growth was once again driven by double-digit percentage increases in disposal volumes and continuing improvement in collection activity, most notably in our Western and Eastern regions.

Q2's organic growth and same-store comparisons include 1 month of contribution from operations acquired in the Progressive Waste acquisition since it closed on June 1 of last year. Had those operations been included for the full quarter, we estimate price plus volume growth for the combined Company in the period would've been closer to 4%, with price accounting for almost 90% of that growth.

As a reminder, volume growth in the near term is being impacted by our shedding of low quality and unsafe-to-service revenue across the former Progressive Waste footprint. This is a purposeful price-volume tradeoff in the near term as we improve quality of revenue in many of these markets.

On a same-store basis, commercial collection increased about 4% and roll-off revenue increased about 6.5% in Q2 from the prior year period. Roll-off pulls per day increased 1%, driven primarily by our Western and Eastern regions, which more than offset declines both in Canada, due to the Alberta economy and purposeful customer shedding, and in our Southern region from purposeful customer shedding and a tough comp in certain Southern markets.

Solid waste landfill tonnage in Q2 on a same-store basis increased 12% over the prior year.

MSW tons rose 9%; special waste increased 23%; and C&D was up 4%.

Looking ahead, we expect overall same-store landfill tonnage growth rates to moderate into the single-digits, as future periods reflect both the full quarter impact of the Progressive Waste acquisition, which will account for approximately 35% of total tons, as well as the timing of special waste projects which drove outsized growth in Q2.

In addition, growth will be impacted by the lower annual tonnage limitations imposed under the new 60-million ton 30-year conditional use permit at our Chiquita Canyon Landfill in Southern California beginning August 1.

Regarding Chiquita Canyon, in addition to tonnage limitations, the new permit increases local taxes and fees by about $15 million per year and increases -- in certain costs imposed on the operating conditions. The projected total impact of the permit condition changes is between $15 million and $20 million first year hit to EBITDA, which we hope to recover some of over time as disposal rates in that market rise.

Recycling revenue, excluding acquisitions, was $24.2 million in the second quarter, up about $7.5 million or about 45% year-over-year due primarily to higher commodity values for fiber.

Prices for OCC or old corrugated containers, averaged about $172 per ton during Q2, up 65% from the year-ago period and up 4% sequentially from Q1. OCC prices currently average a little over $190 per ton, up about 55% from the level we averaged in last year's third quarter.

Recent pronouncements from China regarding its intention to reduce the import of certain types of scrap materials by year-end could impact the prices for recycled commodities, given the uncertainty resulting from such statements. That said, we have not seen any negative impact from that pronouncement.

Regarding E&P waste activity, we reported $47.2 million of E&P waste revenue in the second quarter, up 72% year-over-year and up 28% sequentially from Q1, with each month increasing throughout the period.

Margins in this segment are solidly above our corporate average with EBITDA minus CapEx margin now in excess of 35%.

At current crude pricing and rig counts, we expect E&P waste revenue to moderate somewhat and flatten out in Q3 before a potential normal seasonal tail-off in late Q4.

As noted earlier, we are nearing completion of the divestiture program we implemented following our Progressive Waste acquisition with the projected benefits greater than initially expected. Earlier this year, we exited the Washington, D.C. market for a combination of cash and a long-term disposal contract.

In June, we completed the swap of our Lee County, Florida market for assets in Charlotte, North Carolina that expand our presence in that market and provide additional synergies and internalization benefits.

Last week, we signed definitive agreements for a multi-market swap to exit certain markets in order to expand our position and drive synergies and internalization further in other markets.

Completion of this transaction and the expected sale of our final divestiture are subject to municipal consents, with closings expected by quarter-end. When completed, these divestitures will have reduced our revenue by almost $100 million and expanded EBITDA by about $3 million.

In addition, we've decided to retain three markets that we originally thought would be divestiture candidates, given their dramatic performance improvement through price increases, the shedding of low-margin revenue and other operating improvement. Our efforts in these three markets should reduce total revenue by another $10 million and increase EBITDA by $12 million, or several hundred basis points on that revenue.

All in all, on an initial approximately $250 million of revenue we targeted to divest, sell or fix, we'll end up reducing revenue by approximately $100 million to $110 million. And EBITDA should increase by about $15 million on the lesser revenue retained.

Looking at acquisition activity, this is, without a doubt, the most active deal environment we've seen in over 15 years. We've executed several letters of intent for transactions currently under due diligence and we've extended offers to over a dozen other companies.

It's worth noting that none of these transactions are contingent on potential changes in tax laws.

As noted in our earnings release, we believe that these potential acquisitions could fully utilize our existing cash balance and projected excess cash flow over the next few quarters.

Finally, regulatory approval and closing of the previously announced acquisition of an approximate $15 million revenue franchise on the West Coast should be completed by September 1.

And now, I'd like to pass the call to Worthing to review more in depth the financial highlights of the second quarter and provide our raised outlook for the balance of 2017 and a detailed outlook for Q3. I will then wrap up before heading into Q&A.

Worthing Jackman: Thank you, Ron. In the second quarter, revenue was $1.176 billion, or $26 million above the upper end of our outlook for the period.

Acquisitions completed since the year-ago period contributed about $386 million of revenue in the quarter, with Progressive Waste accounting for $337 million of that amount.

Adjusted EBITDA for Q2, as reconciled in our earnings release, was $373.6 million or 31.8% of revenue and about 30 basis points above our margin outlook. The margin beat is once again attributed to better-than-expected increases in higher margin flow-through activities such as solid waste landfill and E&P waste revenue and higher recycled commodity values.

Year-over-year, our adjusted EBITDA margin reported for the second quarter declined by

30 basis points due primarily to the comparative lower margin Progressive Waste and Groot acquisitions completed since the year-ago period.

Fuel expense in Q2 was about 3.7% of revenue and we averaged approximately $2.44 per gallon for diesel, which was down about $0.04 per gallon from both the year-ago period and sequentially from Q1.

Depreciation and amortization expenses for the second quarter were 13.4% of revenue, down 10 basis points year-over-year and 30 basis points below our outlook, primarily due to higher-than-expected revenue.

Interest expense in the quarter increased $10.7 million over the prior year period to $31.2 million due to higher average outstanding debt balances and higher interest rates as compared to the prior year period.

Debt outstanding at quarter-end was about $4 billion and our leverage ratio, as defined in our credit facility, was about 2.7 times debt to EBITDA. Our effective tax rate for the second quarter was 29.8%, slightly higher than expected for the period due primarily to true-ups associated with the Canadian tax filings in the quarter.

GAAP and adjusted net income per diluted share, reflecting our 3-for-2 share split completed in June, were $0.47 and $0.55 respectively in the second quarter.

Adjusted net income in Q2 primarily excludes the impact of intangibles amortization and other acquisition-related items, including mark-to-market accounting for share-based awards assumed in the Progressive Waste acquisition.

Adjusted free cash flow in the first half of the year was $393.6 million or 17.4% of revenue.

I'll now review our outlook for the third quarter and updated outlook for the full year. Before I do, we'd like to remind everyone once again that actual results may vary significantly based on risks and uncertainties outlined in our Safe Harbor statement and filings we've made with the SEC and securities commissions or similar regulatory authorities in Canada. We encourage investors to review these factors carefully.

Our outlook assumes no change in the current economic and operating environment. It also excludes any rebranding costs or other items resulting from the Progressive Waste acquisition, and any additional acquisitions or potential divestitures that may close during the period.

Looking first at Q3, revenue in the third quarter is estimated to be approximately $1.185 billion. We expect core price plus volume growth for solid waste to be between 3% and 3.5%.

As noted earlier, Q3 will be the first period for organic growth figures to reflect the full quarter impact of the Progressive Waste acquisition.

Adjusted EBITDA in Q3, as reconciled in an 8-K we're filing contemporaneously with this call, is estimated to be approximately 32.6% of revenue or about $386 million. This is a 100 basis point margin improvement over the prior-year period, despite both a 50 basis point dilutive margin impact of the Groot transaction completed since then, and 2 months of the negative margin impact from the new Chiquita Canyon permit. This also is nearly a 175 basis point underlying margin improvement before those two impacts.

Depreciation and amortization expense for the third quarter is estimated to be about 13.6% of revenue. Of that amount, amortization of intangibles in the quarter is estimated to be about $25 million or about $0.06 per diluted share net of taxes.

Interest expense in Q3 is estimated to be approximately $32 million and interest income is estimated at about $1 million.

Our effective tax rate in Q3 is estimated to be about 29%, subject to some variability.

Finally, non-controlling interest is expected to reduce net income by about $350,000 in the third quarter.

Turning now to our updated outlook for the full year, as provided and reconciled in our earnings release, revenue for 2017 is now estimated to be approximately $4.57 billion, or $120 million above our initial outlook due to both higher-than-expected activity across all lines of business and increased recycled commodity values.

Adjusted EBITDA for the full year is now estimated to be approximately $1.45 billion, or about 31.7% of revenue and up $40 million over our initial outlook. This incorporates an almost $10 million hit under the new Chiquita Canyon permit for the remainder of the year and a somewhat cautious outlook for recycled commodity values.

Adjusted free cash flow in 2017, as Ron noted earlier, is now expected to be approximately $750 million, or almost 52% of EBITDA, and up $25 million from our initial outlook. On a per share basis, this reflects an almost 20% increase year-over-year.

And now, I'll turn the call back over to Ron.

Ronald Mittelstaedt: Okay. Thank you, Worthing. Again, fundamentals remain strong for our business and results in 2017 continue to exceed expectations. We're extremely pleased to have raised our outlook for the full year, which is now on track for adjusted free cash flow per share growth of almost 20% year-over-year.

Finally, we remain well positioned for a potential significant increase in acquisition outlays over the next few quarters, and expect to announce another double-digit percentage increase of our regular quarterly cash dividend in October.

We appreciate your time today. And I will now turn this call to the operator to open up the lines for your questions. Operator?

## Questions and Answers

Operator: Thank you. (Operator Instructions). Tyler Brown with Raymond James.

Tyler Brown: Hey, Ron, so you mentioned that it's by far the most active deal environment in years. I'm just curious if you can talk about maybe why you believe that is. Is it a grain of the industry? Is it just that multiples are attractive? Just maybe -- just a little more color there, please.

Ronald Mittelstaedt: Yes, Tyler, it's hard to point to any one thing; I think it's a lot of things. I think it is -- we've said for a long time that low interest rates, and the lower they are, hurt deal activity for private companies. We've seen some movement, obviously, two movements already in interest rates and expected more movements in interest rates. I think that helps somewhat.

We've had 7 to 8 years of the prior administration and rising taxes and a tough economy for the front half of that 8 years. So I think people feel that their business has now fully recovered and gotten back to, and maybe above, what it was prior to the recession. I think they think there may be a change in taxes, but recent activity has told them there may well not be. And they fear that a regime change in perhaps 3 years could mean just higher taxes.

So I think there's a whole host of reasons, but a good economy, stable to rising interest rates, know what the tax rates are, might get better, but could get worse on the horizon.

Worthing Jackman: Some generational issues.

Ronald Mittelstaedt: And then generational issues.

Worthing Jackman: Right.

Ronald Mittelstaedt: That always feeds into it. So there's sort of a confluence of things that have come together, and then some deals that have private equity involvement, life of the funds ending. So there's just -- you can't point to one thing. There's a number of things that are just sort of all coming together.

Tyler Brown: Okay, great. No, that's very interesting. Hey, Worthing, just in your remarks, you noted that your free cash to EBITDA conversion is expected to top 50% this year. I think, obviously, that's fantastic. But as we look forward, do you expect to see some cash tax creep, call it, over time? And do you think ceteris paribus, that ratio might actually ratchet down a touch to maybe the upper 40%, or just how should we think about that over the next couple of years?

Worthing Jackman: Hold on while I look up ceteris paribus. (Laughter). This year, we guided to about 52% conversion. You'll see that drift down over time closer to 50% as a percentage of cash tax to GAAP increase because this year, we're running in that 65% plus or minus cash tax to GAAP. Over the next 3 or 4 years, that should be creeping up closer to 80% or 85%, and as that happens, you'll see the conversion of EBITDA on today's mix of revenue --

Ronald Mittelstaedt: Yes, exactly.

Worthing Jackman: -- approach 50% or so.

Ronald Mittelstaedt: Yes, and I think Worthing's last point, Tyler, is an important one. The offsetting things to that is that we expect, in this environment, continued margin improvement in both EBITDA and EBIT. That will offset some percent of free cash flow to EBITDA conversion creep; it'll offset that. And then in deal activity, it depends what kind of step-ups you're getting.

Worthing Jackman: Right.

Ronald Mittelstaedt: And I can tell you, in most all the deals we're doing, we're getting all step-ups, so that helps protect that creep. So we've run between 48% and 52% for nearly 7, 8 years running or more now, and we ought to continue to run right in that range. There will be some puts and takes.

Tyler Brown: Okay, perfect. And then one just real quick last one -- the Canadian dollar has been moving here of late. Can you just remind us maybe what a $0.01 move in the FX rate means to EBITDA? And are you using the current FX rate embedded in the back half guide? Thanks.

Worthing Jackman: Sure. Well, $0.01 is about $2.5 million to $3 million on EBITDA for a full year. And so you just run that out. That's what, on an after-tax basis, that's anywhere from, what, $1.8 million to $2 million or so after tax, or just under $0.01, to $0.01 rounded.

Right now, [incorporated] Canadian dollars moved to about $0.80. That's taken into account in our outlook, and again, hard to say what's going to happen in the fourth quarter of the year, but I think all signs indicate that it'll comfortably stay above $0.78 as you look at the back half, back end of the year.

Tyler Brown: All right. Thanks, guys. Appreciate the time.

Operator: Derek Spronck with RBC Capital Markets.

Derek Spronck: I'd like to focus around the acquisition opportunity. Can you maintain your mix of franchise versus secondary markets as you become more active with acquisitions going forward?

Ronald Mittelstaedt: I think, Derek, over time, you can; that moves around. If you go back pre-Progressive Waste acquisition through our 18-year history before that, we have always run sort of between about 45% and 52%, 53% at its peak, sort of exclusive contract business versus competitive. Now when we did that transaction, the Progressive transaction, that moved that to about 42%, 43% contract business out of the total. If you look at the percentage of opportunity bucket that's in those markets, we'd tell you that it's in that 40% of the total range.

So staying about where we are today over time is what we expect. It's going to move a few percentage points here and there. At any given period of time, it could move a little more than that on deal activity. But it should stay pretty much, I'd say, within 2 or 3 points of the mix we have today over any 3 to 5 year period of time.

Derek Spronck: Okay. That's great. And is the market easier now for you on the acquisition front, now that Progressive is no longer in the market competing against you guys?

Ronald Mittelstaedt: Well, I would say yes, but really also because -- part of our also deal activity -- and I didn't answer this to Tyler's -- is that we've been able to sort of get our acquisition group into the [form] of Progressive footprint that we really hadn't been able to do, and fully understand up until really -- we were half a year to almost a year into this transaction, because we were so busy on other things.

So we now have just a greater breadth of footprint in the U.S. and of course, Canada to run in. Now anytime you take out an aggressive competitor, it's certainly going to help the flow of deals to you on a percentage basis. So it's a combination of those things.

Derek Spronck: Okay. That's great. And one last one -- are the opportunities right now more tuck-in in nature, or are there some opportunities, larger acquisition opportunities to move into new markets?

Ronald Mittelstaedt: Yes, it's a combination. Again, remember, larger in our model is sort of a $20 million to $40 million standalone deal. That's large in our market; very large is larger than that, but it's a mix. There's quite a -- look, if you look at the amount of cash we have on our balance sheet and excess cash flow over the year that we've commented on a couple of times, including the release, you can't soak that up with tuck-ins in 6 months.

So there's a number of tuck-ins and there's a number of standalone deals, some in markets we're in and some in new markets and new states.

Derek Spronck: Okay. Thanks. Thanks for the color.

Operator: Hamzah Mazari with Macquarie Capital.

Hamzah Mazari: The first question is just around margin. You've had positive volume for 5 to 6 years. How should investors think about incremental margins, greater volume leverage, but then maybe higher costs on adding routes? What are incremental margins now and how should we think about that going forward?

Ronald Mittelstaedt: Yes, I think, Hamzah, it obviously depends on what system it comes into, right? So if it comes into our landfills -- and the reality is, as we've said today, we're getting it in all systems. We're getting it in landfill; we're getting it in roll-off; we're getting it in commercial; we're getting it in E&P; we're getting it in recycled commodities. Of course, that doesn't fall through necessarily in volumes, but -- so it depends on where it comes in.

Right now, it's been more outsized at the landfills and so you've seen greater margin impact. We just pointed to 175 basis points of improvement in the quarter on a year-over-year basis. A decent part of that is the expansion due to landfill volumes coming in at higher than the corporate average.

So I'd say in general, investors should think that as the mix comes in across our system, that it's coming in at that sort of 35% to 40% type contribution above our -- but a decent number, 10% to 15% above our current corporate average margin. And the more of that that comes through landfill, the higher that contribution is.

Worthing Jackman: So Hamzah, without a doubt, whether you look at yield, whether you look at core price or however you want to calculate it, in this cost pressure environment, you've got to be delivering north of 2% price or yield in order to be offsetting some of the cost pressures. And so the margin expansion that we see, and what Ron is talking about, is really because organic growth is price-led.

Ronald Mittelstaedt: Yes.

Hamzah Mazari: Great, that's very helpful. And then maybe on the Chiquita Canyon issue, how unique is that situation in terms of re-permitting? Are there other landfills in your system where we could see something similar happen, as you go to extend the permit or re-permit or whatever you want to call it?

Ronald Mittelstaedt: Yes, well, thank God, there's only one California in the nation and beyond that, thank God there's only one Los Angeles, because there couldn't be a worse political governmental communist environment in the nation. So it doesn't exist anywhere else; you don't have to worry about it. We've never had it in the history of our landfills and we won't have another one.

Hamzah Mazari: That's why you moved to Texas, right? Thank you.

Ronald Mittelstaedt: (Laughter).

Hamzah Mazari: Thanks.

Worthing Jackman: We interrupt this call for a political commentary.

Operator: Joe Box with KeyBanc Capital Markets.

Joe Box: It's going to be tough to follow that one. (Laughter).

So you mentioned that you could fully utilize your cash balance and your free cash flow over the next several quarters. So I guess we're talking about $700 million to $800 million of potential deal spend. I guess just for perspective, how should we think about how that compares to a typical expected deal outlay? And then how should we think about what the typical hit rate or closure rate would be on that pipeline?

Ronald Mittelstaedt: Well, I think if you -- let's take the first part of that, Joe. What we've said -- and if anybody has followed us for a long period of time, and we've said the model doesn't materially change post-Progressive. Look, we target sort of 3% to 4% external growth a year. So if you take $4.5 billion, that's sort of $150 million to $200 million. We'd consider that sort of a normal M&A year. That's a lot of work to get to that.

But if you take the midpoint of that at $175 million revenue and you sort of assume a 6 to 7 multiple, it says you're buying around $30 million of EBITDA in that, and you use a 25% average EBITDA margin on that. So if you do that, what that says is that you're spending $200 million to $250 million.

Worthing Jackman: Roughly 30% of our free cash flow.

Ronald Mittelstaedt: Yes, $200 million, $250 million would be sort of an average outlay in a year to drive that roughly 3% to 4% organic growth or external growth. So if you use your numbers, like you just said, that's saying that it would -- the opportunity that we're looking at is 2 to 2.5 times what I just outlined, right?

Worthing Jackman: This is even after already completing --

Ronald Mittelstaedt: Yes, and that's after --

Worthing Jackman: (Inaudible) $400 million on another transaction earlier this year.

Ronald Mittelstaedt: Yes, that's after we've already done $225 million to $250 million this year alone right at the beginning of the year in Groot and other transactions. So it's going to be, any way you cut it, a very outsized year in M&A activity. So that's how I think you should think of it.

Joe Box: Understood. Thanks for that. And then I was hoping to maybe get a little bit more color around the E&P trajectory that you provided. I guess aside from a change in oil prices, are there any new location openings, pricing opportunities, or things that can maybe provide some variability versus that flattening in 3Q and the normal tail-off in 4Q that you alluded to?

Worthing Jackman: Not that we're seeing currently, Joe. The new landfills that we're actively looking to permit, those would not come on this year. Even if we got the permit before the end of the year, those would take 6 to 9 months to see any impact, so you're looking at the second half of 2018 for those. So no, we don't see anything, any step-function change relative to the pace of activity we described.

Ronald Mittelstaedt: Yes, Joe, I think, look, knowing what we know right now, we think June is the peak month for E&P in terms of revenue in our system. And as we've said on other calls, there is -- the good news is the nationals and all of the drillers have gotten very, very effective at lowering their cost structure throughout their system. And they are able, particularly in the Permian and the Eagle Ford, to drive returns that are analogous to pre-crude reduction prices when crude is in that $40 to $50 range.

But having said that, there is enormous sensitivity in rig activity between $40 and $53. At $47 to $50, they turn on and at $44, they turn off. We're really seeing a very fast on-and-off switch relative to what has historically been there. So you tell us the price of crude that you want to assume, and we can tell you what revenue will do. But it's highly sensitive relative to what it used to be when crude Brent was between $75 and $120.

Joe Box: Got it. And then lastly, just quickly on special waste, you'd mentioned it was outsized in the quarter. Can you maybe just talk about the pipeline there and if we can extrapolate anything regarding the health of construction and infrastructure going forward?

Worthing Jackman: Yes, the activity has been broad-based, but most notable in the West and the East. But that said, again, other regions were up as well in the period. Again, given when you see that kind of 20%-plus increase in special waste tonnage, some of that was just timing of kind of what might've pushed out of Q1 or what might've started earlier than Q3. So Q2 was outsized; we don't expect to see that continue into Q3. But clearly, it's a positive sign with regards to underlying activity.

Joe Box: Great. Thank you, guys.

Operator: Kevin Chiang with CIBC.

Kevin Chiang: I was just wondering about some of the cost inflation you could potentially be seeing in your operating model, especially on the labor front, and how that flows through on pricing. Is there an upper limit in terms of where you think pricing can go to offset these cost pressures?

Ronald Mittelstaedt: Well, there's a timing issue at times, Kevin, is the short answer. Look, in 40% to 45% of the business, you have indexed pricing of some form or another to something similar to a local CPI. Ultimately, higher wage costs in medical and other costs in that bucket drives the CPI up. So while there may be a lag, you ultimately get it. So you're sort of protected in that 40% to 45% of your revenue and we've seen the CPI has been moving up in that area.

In the other 55% to 57% of our revenue or so, we're not CPI-indexed and obviously, where we can move price as necessary and as the market will allow, if costs are moving up, we're not the only one experiencing that in the market. So they would -- actually [in a way], they impact more disproportionately low-margin providers. So they really have to move pricing up. So we're not -- we have a very high degree of confidence that we will be able to cover any cost increases; we always have.

We are in this environment. You're still seeing margin expansion, but make no mistake, we are an exceedingly tight labor market in the U.S. It's most pronounced on the West Coast, parts of the Southeast, and parts of the Atlantic Coast as well. But we're managing through it and so there's not -- we're not concerned of an inability to cover that and we don't want investors to be.

Kevin Chiang: Okay. That's very helpful. And I apologize if this was answered earlier, but just on the M&A front, given the underlying health in the waste cycle, I think you spoke to some of the reasons why people could be looking to sell their businesses today. Wondering if you see any widening, I guess, of the bid-ask multiple? Are the sellers out there looking for a higher multiple, given the underlying strength, or has that been pretty static here?

Ronald Mittelstaedt: Yes, I'd say we've seen some widening of the bid-ask multiple. Sellers are -- sellers see public company multiples and the multiples in the overall stock market that have been moving up, and so that's certainly out there. Ultimately, at the end of the day, our multiple doesn't affect what we can pay. We do deals on a return on cash basis and we look at that very heavily and we stick to a pretty strict protocol.

And I'd say, if you look back over the last 3 to 4 years, you're probably seeing a 1.5, maximum 2 average turn in EBITDA multiple change on the larger deals in particular, not as much on the tuck-in deals. And at the same time, you've seen a lower cost of debt over that period of time, so on a return basis, you're really not seeing a change in returns so -- but it does affect some deals. Obviously, the larger the deal, the more visible the deal.

But again, most places we're doing deals, we're the fairly logical strategic buyer in our market model, whether that be in exclusive markets, or whether that be where we have large positions in more secondary markets. So we're not seeing that we're losing transactions on multiples to other buyers. Sometimes we see that we're losing transactions to the seller keeping the business for a difference in expectations.

Kevin Chiang: That's helpful. And just lastly, more of a housekeeping question. It seems like the buyback probably remains halted through the back half of the year, maybe early 2018, given that pipeline for M&A. And just when I look at the Canadian internal growth numbers, just to confirm, kind of mid-2018 is when we should think of that normalizing to what you're doing in the U.S. currently?

Worthing Jackman: Well, normalizing to what the Canadian economy can produce.

Kevin Chiang: Okay. So it sounded like a 2.5% to 3% pricing, 1.5% volume, if we think that's the normalized run rate?

Worthing Jackman: No, I think pricing again will be north of 3%, if you look at Canada. And volume will probably oscillate between zero and 1% unless things pick up, or improve further in Canada, because I think most people are seeing improvements in the economy. But again, by the second half of next year, maybe that means you're at the upper end of a zero to 1% on the volume side.

And again, U.S., we'll be running in that overall 2.5% to 3% range, if not just a little bit higher, with Progressive influence on the price side. So the upper end of that 2.5% to 3%, and volume still in that 1% to 2% range once you get away from the anniversarying of the purposeful shedding.

Kevin Chiang: And just on the buyback in terms of how you're thinking about that through the back half?

Worthing Jackman: Yes, again, the buyback, again, as you know, in Canada, there is the normal course issuer bid that gets renewed on an annual basis. So you'll see us renew that on its anniversary in early August, so we'll have the buyback flexibility in place. But obviously, as we've always said, M&A activity is our highest and best use of capital. And given the pipeline that we've talked about, we'll be directing our firepower to M&A.

Look if the market dislocates in any way, we're not prohibited from doing both, obviously, because as we spend our cash, we're actually de-levering through acquisitions, because we're not getting full credit for our cash, our lever statistics. So there's the ability to do both, but again, the upper end of what might be possible is a very large outlay over the next 3 or 4 quarters and so we'll be focusing our firepower on that most likely.

Kevin Chiang: Thank you very much and congrats on a good quarter.

Operator: Chris Murray with AltaCorp Capital.

Chris Murray: Just one quick one for me. Just -- and maybe a little bit of a follow-on to what Kevin was thinking about. Just what are your thoughts around leverage levels? And you're talking about the availability of an acquisition pipeline. Is there something that we could think of that, independent of some of the normal puts and takes, that you could actually look to take on more leverage in order to accelerate some of this growth?

Worthing Jackman: Again, we don't feel constrained by leverage statistics, to be honest with you. The underlying EBITDA, the denominator in any of those calculations, continues to grow organically. As we deploy just the $400 million of existing cash that's on the balance sheet, on any multiple, that'll delever us even more because that adds to the denominator without adding to the numerator.

We feel comfortable taking the leverage over 3 times, although you won't see that for all of these outlays, because even if we spend $1 billion, you'd only see a modest uptick in leverage to probably 2.85 times or so, or 2.9 times, so kind of the mid-3s. We're not even threatened by this.

We've got full flexibility to do, again, acquisitions and buybacks and continue to drive higher dividend and return the capital to shareholders. The model does lend itself to higher leverage. We've got the good problem of having tremendous free cash flow generation and that's kind of kept us to the lower end of our leverage targets despite the outlays.

Ronald Mittelstaedt: But, Chris, again, don't be misled. There's not a scenario we're looking at where we're outlaying $1 billion. I'm not saying not over the course of this year and next year, but certainly not over the short term.

Chris Murray: Okay. So there's no expectation that we're going to see a massive bump in one quarter that's going to turn things around. So it's just going to be a --

Worthing Jackman: Yes.

Chris Murray: Is it fair to think this acquisition pipeline will develop kind of on a more regular basis over the next few quarters?

Worthing Jackman: Yes, I think the numbers we gave before, we talked in terms of almost of a dozen and a half various transactions. And so this is just a steady progression of acquisitions, the timing of which is hard to predict. But again, there won't be any one singular bump in any one quarter.

Ronald Mittelstaedt: Yes, and I think the only change to that would be -- and again, what we've said before, Chris, is if there is material tax reform -- we're not saying there will be -- but if there is, I think you'll see, not just in our sector, but others, a true M&A bonanza over the 2.5 to 3 year period before the next election --

Worthing Jackman: Above and beyond what we're talking about.

Ronald Mittelstaedt: -- above and beyond what we're talking about. That, I would say.

Chris Murray: Okay, great. Well, we can revisit that if and when it happens.

Ronald Mittelstaedt: That's right.

Chris Murray: So thanks very much, guys.

Operator: Michael Hoffman with Stifel.

Michael Hoffman: Ron, just following up and closing the loop on this acquisition thing, just so I've got my math right, $700 million to $800 million possible spend, 6, 7 times. That's $100 million to $125 million of incremental EBITDA could come in. You talked about a -- or a normalized organic growth of 4% to 6%. Deal flow normal is 3%. So I've got a rollover potential leverage going into 2018, kind of another 3%, 4%. I'm going into 2018, I think, talking about almost double-digit revenue growth. And I know you're not giving guidance, but am I thinking about that correctly?

Ronald Mittelstaedt: Yes, I think what you said on the organic side is correct if we achieve what you outlined there. And again, we're not guiding. What we're saying is we're got -- I think what we said today is we've got about $400 million of cash on the balance sheet, and our excess cash flow over the balance of the year is expected to be a couple hundred to $250 million. So I think that adds more to like $600 million to $700 million.

But there were analysts that made commentary on $800 million. But we're in the same zip code that if we achieve that, then you're looking at double-digit revenue growth going into next year, that is a correct statement.

Michael Hoffman: Okay. I just wanted to make sure I was in the right ballpark. So an equipment supplier that's a subsidiary of a big public company reported 5% organic growth in the second quarter. And they sell truck bodies and the like, lift equipment and what-have-you. How do I think about that data point and what's going on inside the business and -- because clearly, the buyers of this got to be people like you.

And what that's telling you about new capacity growth, route additions or where I am in the cycle of, capital gets added now incrementally because maybe I'm fundamentally at full capacity in commercial collection? How do I sort of walk that through about where am I in the pattern of that, and how that keeps driving operating leverage and opportunity?

Ronald Mittelstaedt: Yes, well, obviously, Michael, it's different for every company. And it has to do with geographies as much as anything, and wins and losses within those geographies. But clearly, we've said for the last couple of calls that if you look at the West Coast, if you look at parts of the Southeast like North Texas, coastal Florida, the Carolinas, those are the outsized organic growth areas being driven by both residential and commercial activity and demographic changes for population, all at the same time.

And so there, we're adding routes because we're full; we're adding routes in commercial; we're adding routes in residential; we're adding routes, roll-off routes. But that's happening within the numbers we're reporting. It's happening within the CapEx we've guided you to, and it's happening within the updated balance of the year free cash flow, so we've accounted for that.

I'd tell you that these are good problems to have, okay, very good problems to have when you're -- yes, there's incremental cost to adding additional routes, but there's also a reduction of certain costs in adding incremental routes. When your systems are full, you're running 11 to 12, 13-hour days in your system, you're taxing your vehicles; you're taxing your employees; you're taxing your service quality.

And then when you add vehicles, you're pulling average hours down and you're removing overtime and replacing it with straight time. And you're getting less maintenance overtime and you're getting less variable heavy wear and tear on vehicles. So there's offsetting costs, see? It's not just all an incremental cost by any means, and if it was, you wouldn't be seeing 175 basis point margin expansion to the underlying business right now.

Michael Hoffman: Right.

Ronald Mittelstaedt: So these are good problems to have in this environment, especially where I said it comes on for us and our model. I can't speak to everybody else; it's different, but we're getting our outsized growth in the West. That's our highest productivity system, our greatest density system and guaranteed price and the capital goes into the rate base.

Michael Hoffman: Got it.

Ronald Mittelstaedt: In the South, we have pricing power, not just us, but others. So if you're not getting the acceptable return for the incremental capital you're pushing in, then you have the ability to change that. So I view -- I'd take this problem all day long.

Michael Hoffman: Okay, good. And then in the $120 million of incremental sales, how would you parse that across solid waste, E&P, recycling, intermodal?

Worthing Jackman: Yes, Michael, if you look at it relative to expectations earlier in the year, there's probably an extra $45 million or so plus or minus on E&P. There's probably about $30 million plus or minus recycling. If you look at the solid waste volume growth, there's probably an extra $30 million, $35 million on that, and then the balance is what we term just intermodal and other.

Michael Hoffman: Okay. That's helpful. And then putting this volume comment in perspective, if you did 12% as a company in the second quarter, I've got to believe the old Waste Connections was higher mid-teens. That puts [bin] probably in the mid-single-digits. How do I think about that same set of data, but it's now the third quarter, or if you'd had it for 3 months, what's that data? So my just one last attempt to make sure nobody gets confused that you're not decelerating the rate of growth of business.

Worthing Jackman: Right, and I think the 12% you referred to is landfill volume growth on a tonnage [basis].

Michael Hoffman: Yes, right.

Worthing Jackman: And as we've said, excluding Progressive, legacy Waste Connections was about 15% on the tonnage growth. So 1 month of Progressive lowered 15% down to 12%. Add another 2 months of Progressive, it likely lowers 12% down closer to mid-single-digits. And as we said on the call, we expect landfill tonnage growth to moderate into the single-digit range as you get the full impact of Progressive Waste and the Chiquita Canyon permit.

Michael Hoffman: Okay. And then the last question is a housekeeping one. If you're not doing buybacks, then how do I think about the incremental add to the share count from stock comp conversions?

Worthing Jackman: Yes, again, we give out roughly about 400,000 or so plus or minus shares a year. Obviously, it's post-stock split and that'll go up a little bit. And so the creep from equity-based compensation is modest.

Michael Hoffman: Okay. Thanks very much.

Operator: Noah Kaye with Oppenheimer.

Noah Kaye: Just a quick question on the M&A front -- I think you talked positively at your Investor Day around the Canadian opportunity on the M&A front, the fact that Progressive is now giving you some insight into opportunities there so -- and presumably, tax reform certainly wouldn't be as much of a (inaudible) concern up there. So to what extent is that playing a role in the opportunity set that you're seeing now?

Ronald Mittelstaedt: I think, Noah, specifically the question is, is what percentage of the opportunity set is the Canadian M&A opportunity? I just want to clarify.

Noah Kaye: Yes.

Ronald Mittelstaedt: It's fairly limited as a percentage of what's in the basket right now. We have a few things in the bucket there, which in and of themselves, within our Canadian region, are meaningful to us. They're all important, but when you look at the scope of what we've outlined today, it would be a small percentage.

Noah Kaye: Okay. That's helpful. And then maybe just one more from me and I know it's (inaudible) call, but the MSW tonnage up 9% in the quarter, you talked about some of the different buckets of tonnage potentially moderating, particularly special waste. But as you look towards the trends for the second half of the year, just on the MSW front, what are your expectations on underlying trends?

Are we going to see moderation there as well, apart from any considerations on integrating Progressive, or kind of on an industry basis, sort of same-store basis, do you see these trends kind of continuing as apace?

Ronald Mittelstaedt: Yes, Noah, that's a very good question and again, we've tried to really parse this a lot of ways because we think this is really important for folks to understand the difference between underlying and reported. Again, we're not seeing any change to the underlying MSW performance of our business at our landfills anywhere except that we have -- we will begin August 1 having to accept less volumes at our Chiquita Canyon Landfill in Southern California because of the new permit we received.

And so that's going to say reported volume growth will come down. That doesn't mean there's any change anywhere else in our entire system, but that's a big landfill and that's going to be a negative on reported volumes. And then we have the Progressive coming in for the full 3 quarters and we've been shedding volumes in the system, including landfill volumes, because some of those volumes are coming off of our trucks, and some of them are coming from competitors where we're adjusting price and directing them to other people's landfills.

So that's going to suppress reported, but that's reported relative to what we just did. That's all in the numbers in the guidance that we've been giving you. So the underlying health of the MSW landfill volume strength -- and I think you'll see this from others that report today and coming out -- is very strong. The U.S. economy is strong.

Noah Kaye: That's incredibly helpful. Thanks so much.

Operator: Andrew Buscaglia with Credit Suisse.

Andrew Buscaglia: I just want -- on that underlying volume comment, just looking forward, I know you guys said in the past, and you're getting double-digit landfill tonnage, and that's the third or fourth year in a row, and it seems to have surprised you. Looking out into 2018 and beyond, what's your sense that that continues? I think we've got potentially higher GDP here. Residential housing continues to chug along. Other than just tough comps, do you see any reason why this would slow down over the next 12 months?

Ronald Mittelstaedt: You just said the only reason, Andrew, and that's why I just harped on the difference between underlying and reported. Tough comps, that's what -- especially when we have something like the Chiquita, that's going to suppress reported volume.

Worthing Jackman: Until it anniversaries.

Ronald Mittelstaedt: Until it anniversaries, that's right. So other than tough comps, no, Andrew, and I'm not saying it will occur. What you said is, if GDP rises, if the economy continues to improve, if other things happen, whether it be infrastructure, tax cuts, or something that stimulates further growth, no, there is not a reason. I don't know those things will happen, but we're not seeing any change right now.

Worthing Jackman: Yes, Andrew, it's our fifth consecutive year of strong -- not our third or fourth. And as you know, the start of every year, we're very cautious to look at the upcoming year. And this is the third year in a row we've been cautious out of the fear of tougher comps, and it's the third year in a row, now the fifth year of the string that upward volumes have been the surprise for us.

Andrew Buscaglia: Okay. That's helpful. And then just on the divestiture benefits, you said that they were greater; benefits are greater than you originally anticipated. And you had a lot of details on the prepared remarks with that, but could you expand on that? I think it's just a recent -- these just recent divestitures that surprised you in terms of what you're getting in terms of the swaps?

Worthing Jackman: Yes, when we initially announced the divestiture program, we talked in terms of shedding about $100 million of revenue and slightly improving EBITDA on a dollar basis, which is why we've always said focus on EBITDA and cash flow; don't look at revenue in the near term.

But as the mix of the divestitures went along, we were able to do, as we've said today, a multi-market swap for a very large percentage of what we're divesting. And again, swaps are win-win transactions for both companies, so both companies can drive synergies off the integration and expansions in the current markets, as well as further tonnage into their own landfills.

And so the ability to drive higher EBITDA off of swapped assets is one thing that's different in the mix. And the other thing, of course, as Ron pointed out, is the markets that we decided to keep, that we initially thought we would shed, and the dramatic performance improvement in that, it's also contributed to additional benefits than earlier expected.

Ronald Mittelstaedt: I think that's the one, to use your word, that surprised us. We weren't surprised by the swaps or the sales. We were surprised that the field and our region management's ability to materially impact markets in a year or under. We've taken 2 of those 3 markets from zero to 4% EBITDA to 15% to 20% in under a year, and that's a material change in margin.

Andrew Buscaglia: Helpful. Thanks, guys.

Operator: Corey Greendale with First Analysis.

Corey Greendale: Most of my questions have been answered, so really just one quick one. If you look at the acquisition pipeline, if you're able to close on all those deals you're talking about, it's more than a rounding error when you look at kind of the potential acquisitions in your market.

So is there any -- excluding the bonanza that you talked about, Ron, from a tax reform, is there any sense that this is sort of emptying the near-term pipeline, or do you think it could be equally robust after you close all these deals?

Ronald Mittelstaedt: Obviously, if we did everything that has been talked about today -- and again, we're not saying we are. We've got a lot of offers out; we have a lot signed. Our hit rate is pretty good when we get to this point, but you never say never. We have to do due diligence and there's a lot of negotiation still ahead of us. So with that caveat, Corey, there's a lot to do. There's just -- there's still a lot to do.

You've got to remember all this growth that you're seeing from the public companies reported, the private companies have had in their system over the last 5 years too. And so this will certainly be a good chunk if we get it done, but we're always -- and I don't think we're any different from anyone. We're always working 1 to 2 to 3 years out on M&A.

Things we're making offers to today, this is not the first time we've made an offer. It's probably the third to the fifth time over the last 5 to 6 years, and that means there's things we're making offers to now that it's the first time that the answer will be no. And in 1 to 2 to 3 years, the answer might be yes on that, so I'm not concerned that the well will go dry. That is not the case.

Corey Greendale: All right. Thanks very much.

Operator: (Operator Instructions). Brian Maguire with Goldman Sachs.

Brian Maguire: I just wanted to follow back up on Chiquita Canyon. Maybe you can just remind us all of what the size of that asset is in terms of sales or volumes. And then my question is really that's still a really fast-growing market. And if they're going to cap the landfill volumes, those tons have to go somewhere else. Presumably, that's going to require hauling them a longer distance. I'm not sure where else they put them in that area.

But if that's the case, doesn't that create a real pricing opportunity? Shouldn't you price the tipping [fee] to take in account the further distance that people are going to have to haul those tons? And how long would you expect before it would take to offset the incremental $15 million of fees or so if that logic is right? Thanks.

Ronald Mittelstaedt: That logic is right. That's a very insightful question. So the answer -- we don't provide the breakout of any of our landfills specifically, Brian, but let us just say that what we said today was that there's a $15 million to $20 million change in EBITDA on a run rate basis. That's not quite cutting the landfill in half in the EBITDA, but it's pretty close and so it's a material impact to that.

And it's not from volumes. The volume piece of that reduction is probably in the neighborhood of 10% to 15% of the volumes. The issue is just a pure tax grab by the county. That's all that's really occurring here. That's where the EBITDA is disappearing. It's not on the volume side. So there's not as much volume getting displaced.

There is certainly some; there's certainly 0.5 million tons or more a year and that's something. And you're correct, there really is no in-county room. So it will flow out of county, long distances up to 150 miles to find a home. And so the easy answer would be that those in-county providers, which are Republic Services, Waste Management and ourselves, could just raise rates. But that's not how it works, because we all have contracted customers that account for a high percentage of the volume that have contracts that prohibit those -- that allow for CPIs and other increases.

So until some of that contract work burns off over a multiyear period, you're not really able to reprice the market, if you will, because what's been chased from the market is the non-contracted volumes or spot business, okay? So the short answer to a very long and complicated question is it will occur, but that could take 2 or 3 years to replace that EBITDA loss through lower volume, higher price. It's not instantaneous.

Brian Maguire: Okay. That makes sense. And then just one more from me -- just following up on the comment you made about the China import bans on recycled fiber and a couple of other recycled commodities, just wondering if you have some contingency plans if that does start to impact the business? And are there other market opportunities for that recycled fiber to go to at a similar kind of yield or price point?

Ronald Mittelstaedt: Well, the answer to the second one is no, there isn't. So let's give you some numbers. China utilizes or consumes, buys -- and that's the word -- about 39 million tons of fiber a year. It imports between 30 million and 35 million of those tons a year. So it's heavily obviously reliant on importation predominantly from the U.S. of that fiber.

It really comes down to a demand issue on China and then what's going on in their country and in their export economy. And if that remains strong, then the demand will remain strong. They drive the market. While there are alternatives for the fiber both domestically and some exports, they're the 800-pound gorilla. So they drive the market pricing. So they have driven the market from -- I'm going to round -- 90 to 100, up to now 190.

The history is it will move back down at some point probably in the latter part of the fourth quarter, not necessarily to 100, but it could move down to 150. I'm just using a number. And it goes through these cycles. We've always said to all investors, that's why we would prefer that a low percentage of our business be based on commodities because it is a commodity. And it is going to ebb and flow and there's not really anything that we're able, or really anyone, is able to do about this.

There are certain hedges that can be put into place. There is extremely detrimental accounting associated with those that would cause more confusion than anybody would ever want to try to negotiate their way through. So we've been reticent, as I think others have, against doing that, and there's a cost to those hedges in the upside like this of the market. So it's a long way around the barn to answer your question, that there's not a great solution for the commodity volatility and that there's not an offset to China.

Worthing Jackman: Look, at the end of the day, Brian, the quality of what you bail and what you send is critical. And those that have high quality product, there will always be a demand in China for that; there will always be a premium price paid for that. If anything, what they're still trying to do is stop the importation of garbage wrapped in cardboard that some folks are trying to [fake] into China.

Ronald Mittelstaedt: That's right.

Brian Maguire: Okay. Thanks very much.

Operator: Barbara Noverini with Morningstar.

Barbara Noverini: Just a quick operational question for you. So it's interesting to hear you describe the sensitivity of drilling activity as E&P basically turn off and on according to oil price movements, but in what appears to be a fairly tight range. So how has your team learned to react to that level of volatility in activity?

This is obviously very different from sending a truck out to the curb in the neighborhood once a week. So are you basically fully staffed all times even if that means there are periods of activity that are very light? And would you say you've gotten any better at predicting surges in activity?

Ronald Mittelstaedt: Okay, a lot of questions in that, but we'll answer it. So just as the E&P drillers and national companies and international companies have gotten better, we've gotten better. We [flexed] our workforce down faster, or as fast as they did. Our E&P employees, unlike our solid waste employees -- our solid waste employees are location-based; they go home every night and they go to the same place every day.

A large percentage of our E&P employees are not location-based and they move daily and weekly around our system as demand changes. So it's a very different type of employee base, a very different type of work schedule, a very -- much more of a labor base that we move as the demand changes.

So we've been able to handle that. Had we not, you wouldn't see the incremental margin flow through from the activity that we've been getting on E&P. And I think like those companies, we've become very adept at it, and again, I used like a light switch. But in that business, that's a change over a 30-day period and not a 1 or 2 day period. So we do have a little time to react both directions for oncoming business and business that is coming off.

Barbara Noverini: Great. That's interesting color. Thank you.

Operator: Mr. Mittelstaedt, there are no further questions at this time. I will now turn the call back to you.

Ronald Mittelstaedt: Okay. Thank you, operator. Well, if there are no further questions, on behalf of our entire management team, we appreciate your listening to and interest in our call today.

Both Worthing and Mary Anne Whitney are available today to answer any direct questions we did not cover that we are allowed to answer under Regulation FD and Regulation G. Thank you again for your time.

Operator: Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.