

# Quality and Consolidation Driving M&A in Waste Management and Remediation

A robust M&A market will continue into 2019 and is open to all participants in the waste management and remediation industry.

■ By Pauli Overdorff

After three consecutive years of annual M&A activity in the U.S. valued above \$1.26 trillion, as reported by MarketWatch in January 2018, this year could be even busier, particularly for waste management and remediation, a \$90 billion annual domestic revenue industry as measured by IBIS World.

Investment interest in the industry is driven by several factors, not the least of which is the impressive performance of publicly traded companies in the industry. Strong public equity performance and favorable debt financing has driven M&A valuation higher for waste and recycling companies.

Consolidation is a driver of industry mergers and acquisitions, as is typical in a fragmented industry, albeit one dominated by a “Big Three:” Waste Management, Inc. (WM), Republic Services, Inc. (Republic) and Waste Connections, Inc. (WCI). These companies bought private firms to fill in geographic service gaps or expand service offerings, particularly in the treatment and disposal of specialty wastes, hazardous and non-hazardous.

M&A activity of the Big Three can be characterized by WCI in the marketplace over the past 19 years. In May 2017 at the Fifth Waste 360 Investor Summit organized by WasteExpo and Stifel Financial Corp., Ron Mittelstaedt, CEO of WCI, reported that his firm made more than 45 private company transactions during that period. WCI makes its acquisition interest public by inviting hauling firms to reach out to WCI if they are “thinking of selling” their companies. “We offer competitive valuations, ongoing employment opportunities as part of a dynamically growing public company, creative structures to accommodate your tax and estate needs and [a] confidential and easy transaction,” he said.

There was a divergence of the Big Three on their marquee acquisitions in 2016 and 2017. Republic bought ReCommunity (Charlotte, NC), adding 26 materials recover facilities (MRFs) in 14 states to the 60 MRFs already operated by Republic. Waste Management purchased Keep It Clean Disposal, a hauling company with reported 1,300 commercial and 6,000 residential accounts. Waste Connections bought Groot Industries in Chicago to build on its 2016 acquisition of Canada’s Progressive Waste Solutions.

## M&A Beyond the Big Three

The Big Three are not the only participants in the M&A marketplace. Buyers and sellers of any size can participate. According to IBIS World, the U.S. has more than 45,000 companies in the waste management and remediation industry. They include waste collection, waste treatment and disposal, as well as remediation services and recycling.

Rising commercial activity drove waste collection industry revenue higher during the past two years. Continued growth in consumer spending will raise demand for waste treatment and disposal of specialty waste.

Recycling growth also results from heightened consumer environmental awareness, as well as localities pursuing “Zero Waste” disposal alternatives to landfills. Closures of landfills will affect all industry players. As the economy continues to improve, revived construction and development will sustain demand for remediation services. The private sector will pick up the slack caused by a reduction in government spending that has accounted for nearly 40 percent of industry revenue in recent years.

## Commodity Price Volatility Challenges Industry Segments

Impacting the upside for financial and strategic buyers in the recycling sector is the historical volatility of secondary commodity prices, as well as challenging export markets, particularly China. The sale of recycled material comprises 39.3 percent of the sector’s \$5.5 billion of revenue. Through 2016, the depressed price of oil favored the use of virgin material. However, oil prices climbed in 2017 and continue to rise, and sector fundamentals, therefore, contributed to a 5.3 percent increase in industry revenue, according to IBIS World industry reports on recycling.

The changing landscape in fuel sources and costs can affect the industry both positively and negatively. Conversion to alternative fuels and battery-operated vehicles may reduce the industry’s exposure to fossil fuels over time. However, while haulers’ fleets are still powered by diesel and gasoline, predicting fuel costs is likely to remain a challenge for investors looking at a fixed investment horizon.

## **Private Equity: A Long Time Player in Waste Management M&A**

Private equity funds have invested in the waste management and remediation industry for many years. Industry characteristics are attractive to private equity. These include providing an essential service, high barriers to entry, modest capital investments outside the recycling sector and a large number of industry participants. Through September 2017, financial buyers of waste management firms outbid strategic investors on transactions valued less than \$250 million, based on median multiples. According to industry reports, financial buyers offered 7.9x versus 6.4x multiple from strategic buyers. Last October, Littlejohn & Co, LLC of Connecticut agreed to buy Strategic Materials Inc. (SMI), a glass recycler in North America, from Willis Stein & Partners, Northbrook, IL, and London-based Vision Capital. The Compass Group, Westport, CT, supported its platform company, Clean Earth, Inc., by its 2017 acquisition of AERC Recycling Solutions, Allentown, PA, followed by the company's acquisition of MKC Enterprises, Doraville, GA, a fully-permitted RCRA Part B facility, in March of this year. With low interest rates, increasingly accommodative lenders, and surging levels of dry powder in private equity coffers, financial sponsors are expected to be aggressive in pursuing high-quality companies.

## **Intermediaries are Invaluable to Both Buyers and Sellers**

Acquisition activity in the waste management industry will continue to be robust as operators seek scale and cost efficiencies and look to boost topline growth. Yet there are plenty of opportunities for M&A activity to succeed for both buyers and sellers.

In this environment, the role of the investment banker or intermediary is more essential for both sellers and buyers. For sellers, engaging a consultant well in advance to guide the process will enhance valuation and avoid costly and time-consuming missteps, let alone "lost" opportunities. However,

the relative transparency of the M&A market has prompted smaller players to fantasize about grand valuations and "going to market" with unrealistic expectations. This can be minimized by engaging a qualified and experienced banker or intermediary. Further, operational demands preclude devoting the more than 1,000 hours of executive time it takes to prepare a business for sale, let alone negotiating the sale with a potential buyer. More importantly, it is crucial to offer a company to a wide market of buyers in order to achieve the optimal transaction.

Business owners who do not use professional M&A advisors more often leave money on the table at exit for such reasons as choosing the wrong buyer, undervaluing their business or exiting at the wrong time. According to industry lenders, there are far more unannounced deals in the waste industry than those noted by company press releases. Therefore, it makes a lot of sense for a proactive buyer to engage an intermediary to find acquisitions. In a fragmented industry where most of the participants post less than \$20 million in annual revenue and have neither the sophistication nor bandwidth to knowledgeably participate in the M&A market, an intermediary can provide the expertise and experience needed to identify good companies not being offered on the market, as well as negotiate a sale.

A robust M&A market will continue into 2019. Liquidity persists, despite the recent equity index volatility. Financial buyers have record amounts of cash to put to work, and public companies have strong balance sheets and the know-how to integrate acquisitions. The M&A market is open to all participants in the waste management and remediation industry.

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