

GABELLI 5TH ANNUAL WASTE & ENVIRONMENTAL SERVICES SYMPOSIUM MARCH 26TH 2019



Companies	Ticker	Price	Exchange	Companies	Ticker	Price	Exchange
BioHITech Global, Inc.	(BHTG -	\$ 2.74	- NASDAQ)	Perfam Fix Environmental Services	(PESI -	\$ 3.93	- NASDAQ)
Casella Waste Systems	(CWST -	34.00	- NASDAQ)	PyroGenesis Canada	(PYRNF -	0.46	- NASDAQ)
Covanta Holding Corp.	(CVA -	17.60	- NYSE)	Republic Services, Inc.	(RSG -	79.73	- NYSE)
Darling Ingredients	(DAR -	21.86	- NYSE)	Taronis Technologies Inc.	(TRNX -	0.63	- NASDAQ)
Lighbridge Corporation	(LTBR -	0.88	- NASDAQ)	Vertex Energy, Inc.	(VTNR -	1.65	- NASDAQ)

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Gabelli 5th Annual Waste & Environmental Services Symposium – Highlights

G.research was pleased to host its 5th Annual Waste & Environmental Services Symposium Tuesday, March 26th at the Lotte New York Palace in New York City. The symposium included company presentations, fireside chats and one-on-one meetings with public companies operating in the \$60 billion solid waste and non-traditional waste industries.



Tony Bancroft joined GAMCO Investors, Inc., an affiliate of G.research, LLC, in 2009 as a research analyst covering companies in the aerospace sectors and environmental services, focusing on suppliers to the commercial, military and regional aircraft industry and waste services. In addition to the Environmental Services Symposium, he hosts two other annual conferences: the Aerospace & Defense Conference, and the Pump, Valve & Water Systems Symposium. Tony graduated with distinction from the United States Naval Academy with a B.S. in Systems Engineering and an M.B.A. in Finance and Economics from Columbia Business School. Previously, Tony served in the United States Marine Corps as and F/A-18 pilot.

Highlights:

- **Pricing.** The waste industry is seeing continued strong pricing, driven by increased demand in the open market. In the restricted market, companies like Republic Services (RSG-NYSE) have been working over the last several years to transition to different pricing mechanisms that more closely align with cost structure.
- **Volume Growth.** The solid waste industry volume growth is expected to continue in 2019. RSG's adjusted volume growth extracting broker volumes is 1.0-1.25% in 2019. RSG sees event-driven special waste to have some headwind in 2019 due to a difficult 2018 comp.
- **CPI Indexing.** Low CPI has worked against the waste industry in recent years as about 50% of revenue has indexed-based pricing. RSG believes CPI will move in its favor and the company along with the rest of the industry has been de-risking the CPI portfolio and moving to alternate indices, as mentioned above, which will benefit waste companies going forward. RSG has converted \$660 million of revenue to a waste based index.
- **Recycling.** Demand for recycled commodities declined in 2018 and continues to see relatively weak historical pricing throughout the country. OCC (largest recycled commodity by tonnage) currently sells for approximately \$53/ton versus the five-year average of about \$100/ton. Most of the industry has switched over to processing fee-based model versus the rebate model.
- **Compressed Natural Gas (CNG) Vehicles.** CNG trucks can typically save a hauler \$15,000-20,000 a year per truck with upfront costs of about \$30,000 (diesel trucks cost about \$250,000 new) per truck due to more costly fuel tanks. Infrastructure costs per fueling station can be up to \$2.5 million and add to the expense. About 20% of RSG's fleet is CNG and plans are to continue converting its fleet as part of its ordinary replacement process. RSG has 37 natural gas fueling stations for its fleet. A JV between Cummins, Inc. (CMI-NYSE) and Westport Innovations, Inc. (WPRT-NASDAQ) manufactures the only CNG waste truck engine.
- **Automation.** Residential collection automation is mainly driven by customer demand. Hydraulic arms allow collection trucks to make up to 1,200 stops per day which is about three times as many as a truck with a conventional rear loader. While automation lowers operating costs by reducing labor costs (single-driver trucks), improving productivity and lowering medical costs, it adds a large capital decision for the municipality. RSG has converted 75% of its residential fleet to automated single-driver trucks.
- **M&A.** The M&A pipeline looks to be strong for the waste industry in 2019. Tax reform, and/or better interest rate environment for sellers along with fear that those tax laws could change in the 2020 election sets up 2019 to be a period of outsized activity.
- **E&P Waste.** The recovery in oil prices has spurred E&P waste activity in certain areas, mainly the Permian as well as the Bakken. The Marcellus continues to show muted volume growth due to the basins' drilling economics. RSG saw flat revenue year over year, which was in line with expectations. RSG is well positioned in the Permian and drilling activity remains steady though it only comprises 2% of the company's revenue.

Casella Waste Systems (CWST - \$34.00 - NASDAQ) Symposium Highlights - NR

Year	EBITDA	TEV/EBITDA		
2021P	\$ 180	11.1 x	Dividend:	None Current Return: Nil
2020P	167	12.0	Shares O/S:	43 million
2019E	155	12.9	52 Week Range:	\$36.95 - \$ 23.38
2018A	138	14.5		

Source: Company filings, Thomson One

COMPANY OVERVIEW

Casella Waste Systems, based in Rutland, Vermont, is a vertically integrated solid waste and recycling company. The company operates eight landfills, forty-nine transfer stations, thirty-seven collection operations and eighteen recycling facilities, as well as four landfill gas-to-energy and facilities throughout the Northeast US. Casella is expected to generate 2019 revenue, EBITDA, and EPS of \$639 million, \$155 million, and \$0.85 respectively.

Reason For Comment

On March 26, 2019 Casella presented along with participating in a fireside chat at the g.research 5th Annual Waste & Environmental Services Symposium. Highlights below:

- The company is working towards its 2021 plan which targets 3-4% revenue growth per year (which includes 2% headwind from the Southbridge closure over the next two years), \$20-40 million in acquisitions or developments annually, normalized free cash flow growth of 10-15% with a baseline target of generating more than \$50 million of normalized free cash flow by 2021, and total leverage of 3.0-3.25x.
- CWST continues to focus on its five core strategies which include: 1) increasing landfill returns, 2) driving additional profitability within collection operations, 3) creating incremental value through resource solutions, 4) reducing G&A costs by 75-100 bps by 2021 and 5) improving efficiencies, and allocating capital to balance de-levering with smart growth.
- The company's recycling business is performing well, overall, as the SRA fee has floated back up to 15% due to continued recycling cost pressures from China's import ban for recycled commodity prices.

Investment Case

Casella is a well-managed business, priced at 12.0x 2020P EBITDA. The company is focused on growing its cash flow and reducing costs while reducing leverage to 3.0-3.25x total debt-to-EBITDA. CWST is committed growing via small tuck-in acquisitions in its market which we believe will continue to improve route density, internalization and EBITDA margins.

Table 1

Casella Waste Systems Earnings Model 2017-2023P

Fiscal year end 12/31 (\$ millions, except per share)	2017	2018	2019E	2020P	2021P	2022P	2023P	CAGR '18-'23P
Revenue	\$599	\$620	\$639	\$658	\$678	\$698	\$0	6.3%
EBITDA	129	138	155	167	180	157	0	8.0%
EPS, continuing ops	\$0.65	\$0.75	\$0.85	\$0.90	\$0.95	\$0.80	\$0.00	
TEV/EBITDA	15.5 x	14.5 x	12.9 x	12.0	11.1	10.5	9.9	
P/E	51.0	55.5	42.3	35.6	30.8	27.1	24.2	
CAPEX	\$64	\$65	\$61	\$63	\$65	\$67	\$0	

Source: Company reports, consensus estimates

Republic Services (RSG - \$79.73 - NYSE)

Symposium Highlights - NR

Year	EPS	P/E	Dividend:	\$ 1.50	Current Return: 1.9%
2021P	\$4.00	24.5 x	Shares O/S:	323	million
2020P	3.60	22.1	52 Week Range:	\$81.20 - \$ 64.13	
2019E	3.25	24.5			
2018A	3.10	25.7			

Source: Company filings, Thomson One

COMPANY OVERVIEW

Republic Services, based in Phoenix, Arizona, became the second-largest solid waste company in North America after its acquisition of Allied Waste Industries in December 2008. The company operates 190 landfills, 207 transfer stations, 349 collection operations and 91 recycling facilities, as well as 75 landfill gas-to-energy and renewable energy projects throughout the US and Puerto Rico. Republic is estimated to generate 2019 revenue, EBITDA and earnings of \$10.5 billion, \$3.0 billion and \$3.25 per share, respectively.

Reason For Comment

On March 26, 2019, Republic participated at the g.research 5th Annual Waste & Environmental Services Symposium. Highlights below:

- Management expects margin expansion of 30 to 50 bps in 2019 and sees continued broad based volume growth to in the coming years. Lower recycling prices negatively impacted EBITDA margin by 40 bps in 2018. Although recycled commodity prices have been weak, the customer has been willing to pay for it as 85% of processing volume has switched to a fee-based model.
- On the restricted market pricing side, about 50% of the company's revenue has a CPI-related inflation escalator. The company has already renegotiated about \$660 million in revenue onto new indices and is hopeful it will be able to roll over more restricted contracts. These new contracts have a 3% or great annual price adjustment. On the open market side, management has been able to increase price by implementing new pricing tools, receiving more demand for service, and attracting higher-value segments.
- For M&A, the company looks to complete about \$200 million in tuck-in/bolt-on acquisitions tending to be smaller, \$2-3 million in purchase price, which can easily be layered into existing infrastructure/markets and providing the highest synergies. Most of the transactions are done around 4.5-5.0x.

Investment Case

Republic is a well-managed business, priced at 10.9x 2020P EBITDA. We continue to like Republic's core solid waste business and history of returning cash to shareholders. RSG is committed to growing via tuck-in acquisitions in its 240 already established markets. We believe this will continue to improve route density, internalization and EBITDA margins.

Table 1

Republic Services Earnings Model 2017A-2023P

Fiscal year end 12/31 (in millions, except per share)	2017	2018	2019E	2020P	2021P	2022P	2023P	CAGR 18-'23
Revenue	\$10,042	\$10,117	\$10,547	\$10,995	\$11,462	\$11,949	\$0	3.9 %
Adj. EBITDA	2,778	2,911	2,970	3,121	3,293	3,472	3,654	4.7
Adj. EPS	\$2.43	\$3.10	\$3.25	\$3.60	\$4.00	\$4.35	\$4.75	8.9
TEV/EBITDA Multiple	12.3 x	11.7 x	11.5 x	10.9 x	10.3 x	9.8 x	9.3 x	
P/E Multiple	32.8	25.7	24.5	22.1	19.9	18.3	16.8	
Capex	984	1,050	1,044	1,089	1,135	1,183	0	

Source: Company reports, consensus estimates

Companies Mentioned

BioHITech Global, Inc.	(BHTG - NASDAQ)
Casella Waste Systems	(CWST - NASDAQ)
Covanta Holding Corp	(CVA - NYSE)
Cummins, Inc.	(CMI - NYSE)
Darling Ingredients	(DAR - NYSE)
Lighbridge Corporation	(LTBR - NASDAQ)
Perma Fix Environmental Services	(PESI - NASDAQ)
PyroGenesis Canada	(PYRNF - NASDAQ)
Republic Services, Inc.	(RSG - NYSE)
Taronis Technologies	(TRNX - NASDAQ)
Vertex Energy, Inc.	(VTNR - NASDAQ)
Westport Innovations, Inc.	(WPRT - NASDAQ)

I, **Tony Bancroft**, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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