

# HEIGHTENED DEMAND FOR MATERIAL RECOVERY AND RECYCLING SERVICES DRIVES M&A ACTIVITY

WASTE & RECYCLING SECTOR UPDATE | OCTOBER 2023



**CAPSTONE  
PARTNERS**

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# Waste & Recycling

## Heightened Demand for Material Recovery and Recycling Services Drives M&A Activity

### KEY SECTOR TAKEAWAYS

Capstone Partners' Industrials Group is pleased to share its Waste & Recycling report. Waste & Recycling sector participants have benefited from continued increases in waste production and demand for waste removal and recycling services. Capstone expects heightened demand to drive elevated merger and acquisition (M&A) activity, as strategic and private equity buyers consolidate regional service providers. Several additional key report takeaways are outlined below.

1. Waste management firms have maintained strong growth through year-to-date (YTD) 2023, upheld by price increases and accelerated demand.
2. Large strategic players in the Waste & Recycling space have been active in consolidating facilities across the fragmented sector to bolster regional capabilities.
3. Modernization and automation has led to segment strength in the Material Recovery and Solvent Recycling segments, where reclaimed materials can be processed and resold.
4. Strategic buyers in the sector have been active in acquiring firms with established recycling and resale capabilities to reduce carbon footprints and recoup costs.

Capstone Partners has developed a full suite of corporate finance solutions, including M&A advisory, debt advisory, financial advisory, and equity capital financing to help privately owned businesses and private equity firms through each stage of the company's lifecycle, ranging from growth to an ultimate exit transaction.

To learn more about Capstone's wide range of advisory services and Waste & Recycling sector knowledge, please [contact us](#).

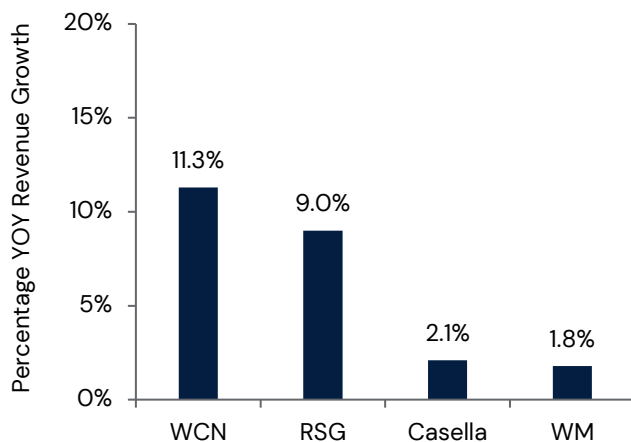
## NEED FOR INCREASED WASTE MANAGEMENT DRIVES SECTOR GROWTH

Demand for efficient and environmentally-friendly waste management and recycling solutions has elevated amid rising waste volumes in Commercial and Residential markets. Of note, global municipal solid waste is expected to grow to 3.4 billion tons by 2050, according to the World Bank.<sup>1</sup> In addition, only 32.1% of municipal annual waste has been recycled, according to the most recent Environmental Protection Agency report (EPA).<sup>2</sup> Sector participants are expected to pursue acquisitions to scale operations to accommodate increased waste volume. Continued pressure from environmental protection groups and the U.S. populous is expected to emphasize the value of recycling facilities and product manufacturing. As a result, the global Waste Recycling Services market is expected to experience a compounded annual growth rate (CAGR) of 4.8% from 2023 to 2030, reaching a projected market size of \$88.0 billion by 2030, according to Precedence Research.<sup>3</sup>

While waste management has remained a necessary and essential service offering for both residential and commercial customers, the sector has not been shielded from elevated inflation. Throughout the pandemic, waste management providers struggled to maintain margins amid elevated labor and input costs. As a result, many sector leaders have begun to shift towards shorter contracts, allowing for the renegotiation of contract terms every two years to protect bottom lines against economic headwinds. Notably, Arrowhead Environmental Partners, a landfill operator in the southern U.S., announced it would no longer be issuing contracts longer than two years in duration to protect against unstable pricing, according to a Company press release.<sup>4</sup> By reducing contract times, Arrowhead Environmental Partners has been able to focus on cost control amid a fluctuating macroeconomic environment.

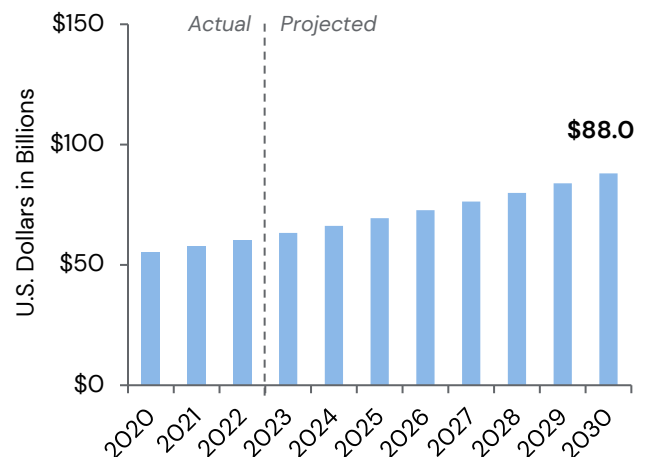
Public companies in the sector have remained resilient despite unstable market conditions and elevated interest rates. Waste Connections (NYSE:WCN) recorded increased revenues of 11.3% year-over-year (YOY) in Q2 2023, according to a company earnings release.<sup>5</sup> Other public companies in the sector have also recorded strong revenues, with Republic Services (NYSE:RSG) and Casella Waste Systems (Nasdaq:CWST) recording revenue increases of 9.0% and 2.1% YOY, respectively, in Q2 2023, according to Company earnings releases.<sup>6,7</sup> Notably, Republic Services reported that 4.4% of Q2 growth was driven by acquisitions, while Waste Connections reported that new acquisitions represented ~8% of total revenues seen in Q2 2023. While M&A activity has receded from pre-pandemic averages, deal flow in the Waste & Recycling sector is expected to rebound by late 2023 or early 2024 as macroeconomic challenges ease. Strong increases in waste production in the U.S. bodes well for sector growth and will likely spur investments in new technological capabilities as sector participants become more focused on sustainable waste management processes.

**Public Companies See Steady YOY Revenue Growth in Q2 2023**



Source: Capital IQ and Capstone Partners

**Waste Recycling Services Market Projected to Realize Stable Growth Through 2030**



Source: Precedence Research and Capstone Partners

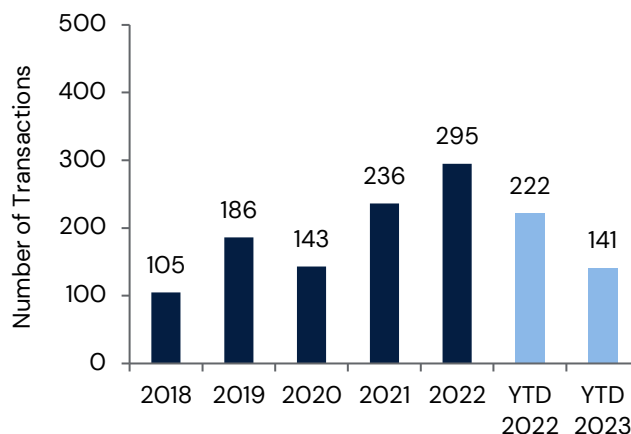




## INNOVATIVE, QUALITY BUSINESSES ATTRACT ELEVATED M&A INTEREST

M&A activity in the Waste & Recycling sector has sharply declined through YTD 2023 (ending September 1), with 141 transactions announced or completed, compared to 222 in YTD 2022, which was a record year. While deal volume has slowed, sector leaders have pursued target companies with desirable geographic locations and proven cash flows. Increased competition across the Waste & Recycling sector is expected to fuel M&A activity, as companies vie to capture new customers through increased service capabilities. Regional facility consolidations have been particularly attractive for strategics and private equity-backed players. Specifically, firms that offer innovations in recycling techniques and processes have garnered increased attention from companies looking to reduce their overall footprint on the environment. Firms able to successfully acquire and integrate new facilities will be well positioned to take advantage of sector growth.

### Waste & Recycling M&A Activity Moderates



Year-to-date (YTD) ended September 1

Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Strategic buyers have maintained interest in the space through YTD, representing nearly half (49.6%) of sector deals to-date. Large strategics have increasingly pursued tuck-in acquisitions, with public companies targeting middle market players to expand their geographical footprint and add service offerings. In March, Waste Management (NYSE:WM), one of the largest commercial and residential waste management firms in North America, acquired Specialized Environmental Technologies (SET) for an undisclosed amount. SET specializes in the organic compost of biodegradable materials, a growing segment in the Recycling sector. Capstone expects Waste & Recycling sector participants to continue to target environmentally-conscious companies in the Recycling space that offer state-of-the-art facilities and technology that can drastically increase waste recycling rates. Firms will likely need to continue modernizing waste management facilities and supply chains to reach a target U.S. recycling rate of 50% by 2030, according to the EPA.<sup>8</sup>

Private equity buyers represented 50.4% of transactions through YTD 2023. Sponsors have been active in acquiring regional Waste & Recycling sector participants to enter a highly competitive market. Of note, AEA Investors acquired Chemtron RiverBend, a provider of wastewater treatment services and products based in St. Charles, Missouri (March 2023, undisclosed). AEA Investors plans to grow Chemtron RiverBend's market share in the mid-west. Private equity firms are expected to continue rampant consolidation of regional waste processing facilities, in direct competition with national and international service providers.

### Waste & Recycling Valuation Analysis

Valuation Method	Average Revenue Multiple	Average EBITDA Multiple
Waste & Recycling Sector M&A Transactions (2020-YTD)	2.2x	10.2x
Industrials Industry M&A Transactions (2020-YTD)	2.1x	9.7x

Year-to-date (YTD) ended September 1

Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

## MATERIAL RECOVERY FACILITIES AND SOLVENT RECYCLING IN DEMAND

### Material Recovery Elevates as Waste Increases

Increased construction activity across Residential, Commercial, and Infrastructure markets has spurred an elevated need for material recovery and recycling. As a result, material recovery facilities (MRFs) have been prevalent targets in the M&A market through YTD. GreenWaste Recovery a MRF service provider operating in California, acquired Hayward Transfer Station, a recycling facility in San Jose, California (February 2023, undisclosed). The acquisition of the facility will expand GreenWaste's geographic reach into coastal California. Strategic firms already operating in the space have been active in increasing processing capacity through small acquisitions of regional recycling centers. Innovation in sorting technology and robotic processing in the MRF segment has fueled acquisition appetite by strategic buyers seeking cost efficiencies. Providers already operating in the Waste & Recycling sector and looking to expand into new services can enter the MRF space with relatively low upfront costs. In many cases, facilities can also be transitioned to service the Recycling segment for added financial benefits including tax breaks and increased market visibility.

Sector participants have increasingly pursued automation in MRFs to optimize productivity and drive cost efficiencies. Waste Management has continued to work towards full automation of its MRFs with a goal of carbon neutrality by 2060, according to Waste Management.<sup>9</sup> Automated facilities offer the ability to enter new markets with low operating costs, however, the high amount of up-front capital stands as a barrier to entry for smaller operators. Capstone expects sector participants to invest heavily in MRFs to keep pace with increasing calls for environmentally-friendly solutions.

MRFs will have to adapt to meet growing demand for increased facility capacity and reduce the gap between processing costs and current contracts. As labor costs and operation costs have continued to increase, in many cases MRFs have been forced to absorb losses as contracts in the industry tend to extend three to five years. Some sector participants will likely need to make significant changes moving forward, such as shorting contracts to minimize risk, increasing contract prices, and continuing to actively convert existing MRFs to fully-automated facilities.



**Doug Usifer**  
Managing Director

*"Demand for waste management and recycling capabilities and capacity will remain a key driver for M&A activity. Companies that have robust volumes coupled with high efficiencies and technology solutions in sorting, handling, and purification/recovery will be among the most sought-after targets."*

### Solvent Recycling Underpins ESG Innovation in Waste & Recycling

Recycled solvents have become an integral part of the growing cyclical economy in the Industrials industry. The process includes the recovery of solvents used in manufacturing, the purification of the solvent to market level quality, and the sale of the recycled solvent. These products can be used in paints and adhesives, cleaners and degreasers, and pharmaceuticals. Clean Harbors (NYSE:CLH), a leader in the Waste Management sector, including the Solvent Recycling segment, acquired Thompson Industrial Services in March 2023 for \$111.9 million. Thompson Industrial provides products and services to oil and gas refiners and recyclers in North American markets.

### Downstream Demand from MRFs Drives Plastics Recycling Expansion

Plastic recycling capabilities have become paramount as global plastic consumption is anticipated to spike coupled with the desire to remove plastic from the waste stream. Of note, global plastic demand is projected to reach 460 million tons by 2030, with an estimated 80% of annually generated plastic waste disposed in landfills or incinerated, according to Grand View Research.<sup>10</sup> Heightened demand for plastic recycling stemming from increased consumption has spurred many sector participants to launch new facilities to capture elevated waste volume, evidenced by PureCycle's (Nasdaq:PCT) flagship polypropylene purification facility in Ironton, Ohio (launched June 2023).<sup>11</sup>

## GFL ENVIRONMENTAL RESTRUCTURES ASSETS



**Ticker:** TSX:GFL

**Headquarters:** Toronto, Ontario, Canada

**Markets:** Waste Management

**LTM Revenue:** \$5.6 Billion

**Market Capitalization:** \$12.0 Billion

### Company Description

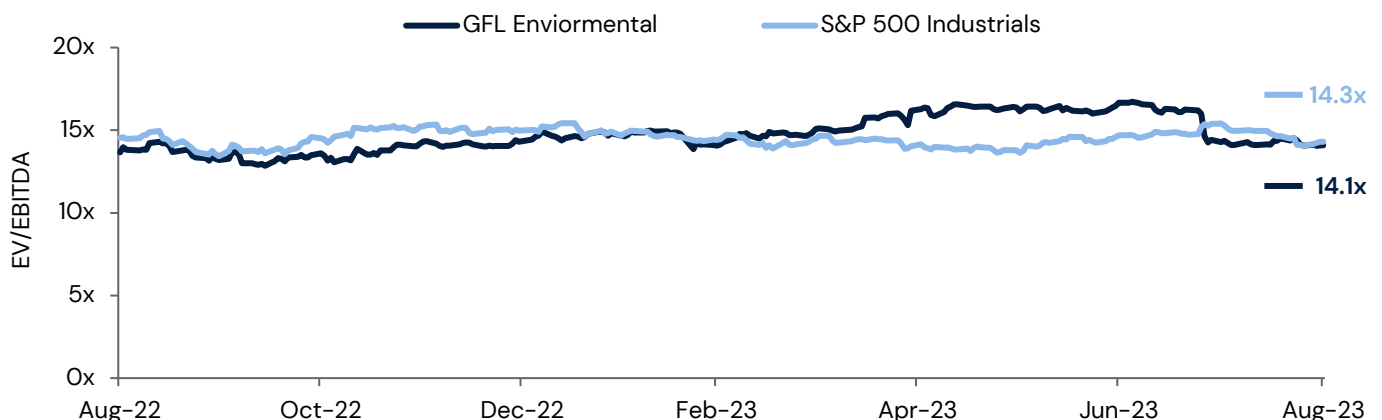
GFL Environmental (TSX:GFL), a waste management firm serving the Commercial and Residential markets, provides a wide array of services including solid waste and recycling services, excavation and construction waste management, and organics and compost services. GFL Environmental reported an adjusted EBITDA increase of 19.3% YOY in Q2 2023, according to an earnings release.<sup>12</sup> Strong financial performance from GFL Environmental signifies an increase in the need for waste management services and consistent price increases to maintain pace with rising interest rates.

GFL Environmental has been an active acquirer in the space, targeting complementary businesses to add geographical reach and service offerings. GFL has announced or completed 16 acquisitions through Q2, which included the acquisition of refining assets from Vertex Energy, including a used motor oil refinery, for an enterprise value of \$94 million in February 2023, according to a company press release.<sup>13</sup> These acquisitions have supported GFL's market share in the Sustainable Goods space.

GFL Environmental has also been active in divesting non-strategic business operations with sub-optimal returns. Notably, GFL announced the sale of Company operations in Tennessee, Pennsylvania, Delaware, and Maryland to Casella Waste Systems for an enterprise value of \$525 million in April 2023 (see page nine for more details). GFL Environmental plans to continue to optimize revenues and margins, with a focus on bolstering its environmental, social and governance (ESG)-friendly offerings.

When commenting on the future during a company earnings call, Patrick Dovigi, CEO of GFL Environmental, noted: "When you look at what's in front of us, here's what I see: The optimization of pricing to provide sustainable, durable price cost spread; the rationalization of the portfolio to focus on the most attractive markets; the deleveraging and associated financial leverage; the ramp up of RNG; all the self-help levers we can pull to improve asset utilization and cost efficiency; and the runway for further M&A; and the opportunity for industry leading growth; along with material improvements to our margins and free cash flow conversion is undeniable. So, from where I sit, I would say we're just getting started."<sup>14</sup>

### GFL Environmental Remains On Pace with the S&P 500 Industrials Index



Source: Capital IQ and Capstone Partners as of August 31, 2023





## NOTABLE TRANSACTIONS



**Doug Usifer**  
Managing Director

*"Although deal activity has slowed somewhat in 2023 YTD, Waste & Recycling M&A activity is expected to pick up steam in the fourth quarter and into 2024."*



Sims (ASX:SGM), a leading buyer, processor, and seller of recycled metals announced its acquisition of Baltimore Scrap in August 2023 for an enterprise value of \$177 million, equivalent to 5.4x EV/EBITDA. Baltimore Scrap is one of the largest metal recyclers in the U.S., with 17 facilities across five states processing approximately 600,000 tons of metal per year, according to a press release.<sup>15</sup> With the acquisition, Sims stands to gain Baltimore Scrap's four shredders and robust rail, barge, and port infrastructure. The transaction also supports Sims' ongoing growth initiative to capture significant U.S. market share and bolster its customer base through efficient logistic channels.



Solid Waste Operations

In June 2023, Republic Services acquired GFL's solid waste operations in Colorado and New Mexico. The transaction marks GFL's third and latest divestiture in YTD 2023, enabling GFL to reduce net leverage, improve credit ratings, and enhance free cash flow. GFL's three divestitures YTD garnered a combined enterprise value of \$1.2 billion, equivalent to 3.6x EV/Revenue and 13.3x EV/EBITDA. The acquisition has afforded Republic Services with a greater geographic presence in Colorado and New Mexico, additional personnel, and vertically integrated recycling, collection, and disposal capabilities for clients in both the Commercial and Residential end markets.



Solid Waste Operations

Casella Waste Systems, a regional solid waste, recycling, and resource management services company, acquired the solid waste operations of GFL in Pennsylvania, Delaware, Tennessee, and Maryland for an enterprise value of \$525 million, equivalent to 2.8x EV/Revenue and 12.2x EV/EBITDA (April 2023). The acquisition includes nine hauling operations, one transfer station, and one material recovery facility that is anticipated to provide additional annualized revenues of approximately \$185 million and annualized EBITDA of approximately \$43 million, according to a press release.<sup>16</sup> Casella expands its assets through the transaction, bolstering its Northeast operations.



Kinderhook Industries-backed Capital Waste Services, a leading provider of waste management in the southeastern U.S., acquired Sandlands C&D Landfill of South Carolina (March 2023, undisclosed). Sandlands provides construction, demolition, and asbestos material disposal for the participants in the Building Products & Construction Services industry. The acquisition expands Capital Waste Services' geographic reach in South Carolina. "The site provides CWS a desirable base to further expand collection efforts in the region and continue to deliver best-in-class service," said Rob Michalik, Managing Director of Kinderhook, according to a press release.<sup>17</sup>



## SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV/LTM Revenue	EBITDA
09/01/23	Coble's Sandrock	Meridian Waste	Provides garbage dumping services.	-	-	-
08/28/23	Taylor Garbage Service	Casella Waste (Nasdaq:CWST)	Offers waste collection services.	-	-	-
08/15/23	Assets of Baltimore Scrap Sims (ASX:SGM)		Provides metal recycling solutions.	\$177.0	-	5.4x
08/15/23	AWT Sanitations	CARDS Holdings	Offers residential sanitation and recycling services.	-	-	-
08/15/23	Go Eco Disposal	GFL Environmental (TSX:GFL)	Provides automotive, residential, and commercial waste disposal and recycling services.	-	-	-
08/15/23	Kentucky Petroleum Recycling	GFL Environmental (TSX:GFL)	Offers oil and reclaimed fuel recycling services.	-	-	-
08/04/23	Trash Hog	CARDS Holdings	Provides solid waste collection services.	-	-	-
07/26/23	Pro Disposal USA	Coastal Waste & Recycling	Offers roll off dumpsters and residential waste collection services.	-	-	-
07/26/23	Waste Management Hauling Site	Burrtec Waste Industries	Comprises a waste hauling facility in Santa Clarita, California.	-	-	-
07/19/23	Heritage-Crystal Clean (Nasdaq:HCCI)	J.F. Lehman and Company	Provides parts cleaning, hazardous and non-hazardous waste, and used oil collection services.	\$1,292.0	1.6x	7.1x
07/12/23	Homeland Waste Management	CARDS Holdings	Offers residential and commercial waste management services.	-	-	-
06/26/23	Assets of County Recycling Services	CARDS Holdings	Provides recycling services.	-	-	-
06/21/23	Complete Recycling Solutions	TerraCycle	Offers recycling of lighting implements.	-	-	-
06/20/23	Recycle Waste Services	Titan Trucking	Provides recycling, hauling, disposal, and waste diversion services.	\$26.7	1.2x	-
06/12/23	Assets of Consolidated Waste Services	Casella Waste (Nasdaq:CWST)	Comprises garbage collection and recycling services.	\$219.0	-	-
06/05/23	Solid waste operations of GFL Environmental	Republic Services (NYSE:RSG)	Comprises solid waste operations.	-	-	-
06/01/23	Raintree Disposal	CARDS Holdings	Provides waste disposal services.	-	-	-
05/26/23	J&J Refuse	CARDS Holdings	Operates as a residential waste hauler.	-	-	-
05/26/23	Arrow Disposal Service	Evergreen Environmental	Operates as a waste hauling and recycling company.	-	-	-
05/24/23	RPJ Waste Services	Sustainable Environmental Mgt.	Provides dumpsters, portable toilets, and disposal services.	-	-	-
05/08/23	Barnes Waste Disposal	CARDS Holdings	Offers waste collection, hauling, and disposal services.	-	-	-
05/01/23	Greenville PA Wastewater System Assets	Aqua Pennsylvania	Provides wastewater collection services.	\$18.0	-	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Partners

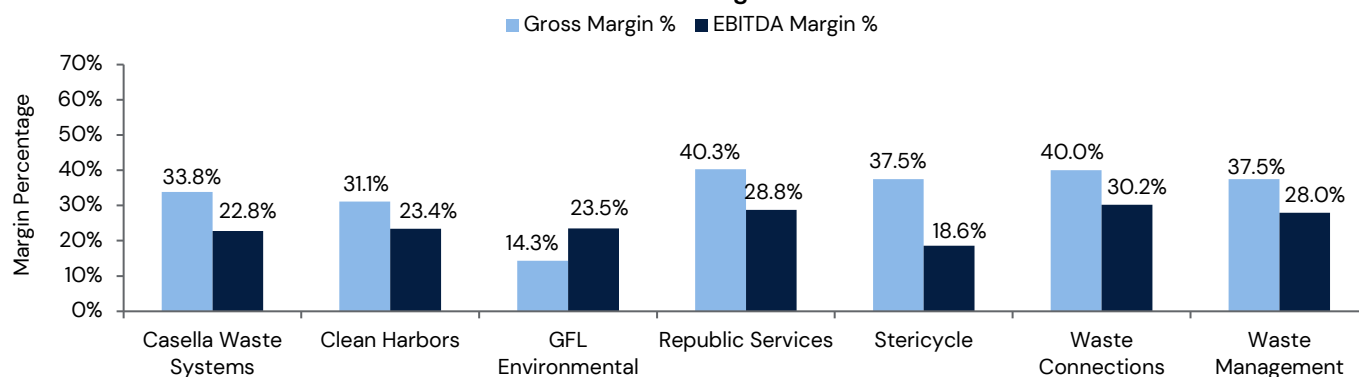


## PUBLIC COMPANY DATA

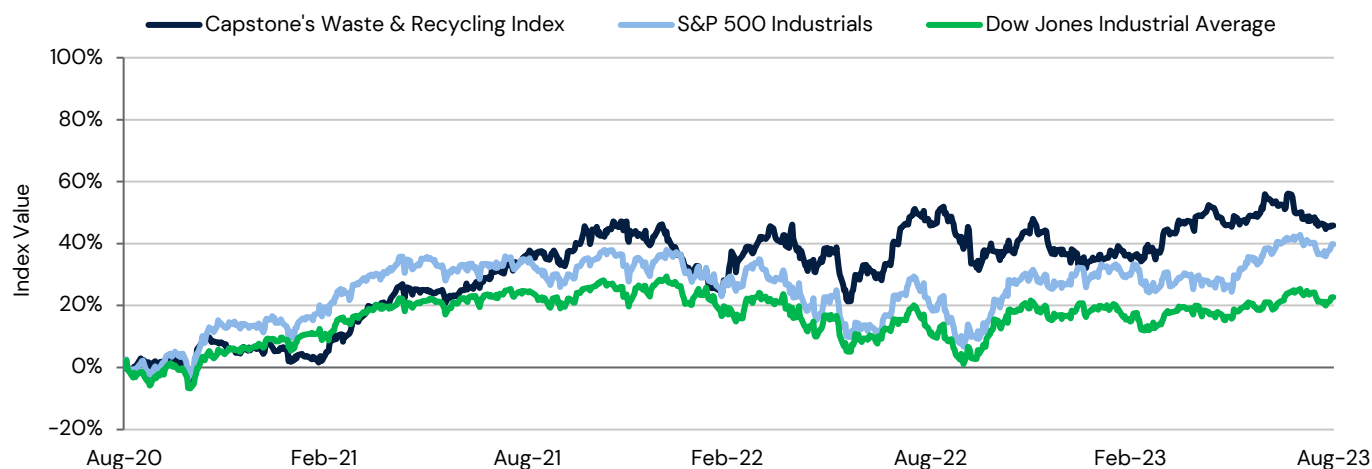
Company	Price	% 52 Wk	Market	Enterprise	LTM			EV / LTM	
	08/31/23	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
Casella Waste Systems, Inc.	\$79.64	83.1%	\$4,616.1	\$5,240.9	\$1,119.6	\$255.2	22.8%	4.7x	20.5x
Clean Harbors, Inc.	\$169.37	95.0%	\$9,171.5	\$11,429.0	\$5,346.5	\$1,252.0	23.4%	2.1x	9.1x
GFL Environmental Inc.	\$32.55	85.0%	\$12,016.5	\$18,097.2	\$5,584.6	\$1,313.2	23.5%	3.2x	13.8x
Republic Services, Inc.	\$145.90	93.1%	\$46,152.0	\$58,430.6	\$14,434.6	\$4,153.5	28.8%	4.0x	14.1x
Stericycle, Inc.	\$44.06	78.5%	\$4,076.5	\$5,807.7	\$2,714.5	\$504.8	18.6%	2.1x	11.5x
Waste Connections, Inc.	\$138.37	93.4%	\$35,648.4	\$42,505.4	\$7,670.8	\$2,314.9	30.2%	NM	18.4x
Waste Management, Inc.	\$158.62	90.8%	\$64,250.5	\$79,493.5	\$20,021.0	\$5,597.0	28.0%	4.0x	14.2x
<b>Mean</b>							<b>25.0%</b>	<b>3.4x</b>	<b>14.5x</b>
<b>Median</b>							<b>23.5%</b>	<b>3.6x</b>	<b>14.1x</b>
<b>Harmonic Mean</b>							<b>24.4%</b>	<b>3.1x</b>	<b>13.6x</b>

EV = enterprise value; LTM = last twelve months  
 \$ in millions, except per share data  
 NM = Not Meaningful

### Last Twelve Month Margin Performance



### Capstone's Waste & Recycling Index Average Return Outpaces Broader Equity Markets



Waste & Recycling Index includes: CLH, CWST, GFL, RSG, SRCL, WCN, WM  
 Source: Capital IQ and Capstone Partners as of August 31, 2023





## WASTE & RECYCLING REPORT CONTRIBUTORS

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Doug joined Capstone Partners from Atlas Advisors where he focused on the firm's Industrials practice. He has over 30 years of experience in investment banking and industrial sectors including chemicals, plastics, waste and scrap metal. Prior to Atlas, Doug worked at National Starch as Business Director, Food Emulsions, and Encapsulation, where he was General Manager of a \$40MM global specialty food ingredients business. He also worked on M&A transactions including National Starch's acquisition of Penford's resistant starch business. Before to National Starch, Doug worked at Engelhard Corporation in several capacities, including Business Development Manager, Corporate New Ventures; Marketing Manager, Special Effect Pigments; Manager, Technology and Market Development, Performance Additives/Specialty Minerals. While at Engelhard, he worked on M&A transactions including the acquisition of Mearl Corp, a U.S. producer of pearlescent pigments and iridescent films. He previously worked at Cambrex Corporation (pharmaceutical fine chemicals) and Hoechst Celanese (electronic products and plastics).

**John Wilson**

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John Wilson is a Vice President in the Burlington office. He is engaged in the execution and advisory of mergers, acquisitions and strategic capital raises. Prior to joining Capstone Partners, he was with Goldman Sachs Asset Management in their fixed income defined contribution division. His industry experience includes Chemical and Waste. He earned a BS and an MBA from the University of Vermont. John is a Registered Securities Representative having passed the FINRA Series 79 examinations.

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Max serves as Manager on Capstone's Market Intelligence Team. He provides M&A insights, proprietary research analysis, and macroeconomic trends for C-suite middle market executives, specializing in the coverage of the Industrials, Business Services, Financial Technology & Services, and Technology, Media & Telecom industries. Prior to joining Capstone, Max was an analyst at Lab42 Research, a Chicago-based market research firm. During his time at Lab42 Research, he specialized in the development, implementation, and analysis of proprietary research projects for clients in the Business Services, Consumer, Financial Services, Government, and Technology industries.

## FIRM TRACK RECORD

Capstone Partners maintains an active Industrials practice in the middle market, with Waste & Recycling being an important vertical within our focus. This market presence allows Capstone Partners to provide Waste & Recycling companies with up-to-date market data and access to key decision makers among the sector's most active acquirers and investors. A sampling of closed transactions are displayed below.



ENGAGED  
CAPSTONE PARTNERS  
DURING A CHAPTER 11  
REORGANIZATION



A portfolio company of  
 CVF CAPITAL PARTNERS  
CENTRAL VALLEY FUND  
HAS BEEN ACQUIRED BY

DELOSCAPITAL



HAS BEEN ACQUIRED BY



Elemental Holding SA

Industrial Metals  
Recycling Operation

FINANCIAL ADVISORY AND  
INTERIM MANAGEMENT  
SERVICES



TRANSACTION ADVISORY  
SERVICES



HAS SECURED DEBT  
FINANCING FOR THE  
ACQUISITION OF



HAS BEEN ACQUIRED BY



\$180 MILLION  
CAPITAL RAISE



HAS BEEN ACQUIRED BY





## ENDNOTES

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