AUGUST 8, 2011

WASTE & RECYCLING NEWS

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WM deal transforms company, CEO says

Waste Management purchases Oakleaf Holdings for $425 million

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Not very long ago, even Waste Management Inc.'s CEO could not have seen what he calls the value in buying the nation's largest waste broker.

But David P. Steiner says solid waste management is changing and so is his company.

That's why Houston-based Waste Management plunked down $425 million for Oakleaf Global Holdings of Windsor, Conn., in a move that makes the company the nation's largest waste broker in addition to largest hauler.

"When you look at our industry and you look at opportunities for growth, frankly, four or five years ago we would have never thought of an Oakleaf because the business model was so dissimilar," Steiner said in an exclusive interview with Waste & Recycling News last week.

"Four or five years ago, we weren't nearly as much as what I would say an environmental solutions provider as much as we were a waste management company," the CEO said. "As our strategic focus has changed, as our focus on the customer has changed, what we realized is you've got a company out there right now [in Oakleaf] that has a great focus on the customer, a great focus on sustainability solutions."

Instead of buying and taking out Oakleaf simply to capture customers and their waste streams, as is commonly the case in the trash business, Waste Management sees more value in keeping the Oakleaf model in place.

"We certainly will keep the business model intact and we hope to keep most of the vendor network intact," Steiner said.

Waste brokers, while providing business to local haulers, can be viewed by some in the hauling world with disdain because they get between trash companies and their customers. Waste Management and Oakleaf, in fact, had a rather public split about a decade ago over allegations that Oakleaf was taking Waste Management's customers.

The two companies continued to do some business together in markets where Oakleaf held contracts and Waste Management had exclusive rights to handle the trash. But that only accounted for about $8 million to $10 million in annual revenue for Waste Management, which boasted $12.9 billion in hauling and disposal revenue in 2010.

Relations between Oakleaf and Waste Management started to improve when Steve Preston became Oakleaf's CEO two years ago, Steiner said.

"I think they made it easier for us to do business with them," he said. "I think that was noticeable when Steve came on board.

"A lot of the issues we had 10 years ago disappeared when Steve took over. One of the big issues we had was not getting timely paid. Steve came in and put systems in place."

Michael E. Hoffman, director of research at Wunderlich Securities Inc., said the "slightly cynical" analysts' view is that Waste Management, through the deal, bought back revenue it had lost over the past several years.

Oakleaf brings about $580 million in annual revenue to the company. Former Oakleaf owner New Mountain Capital, a private equity company, excluded Valet Waste, which provides doorstep waste and recycling services to apartment complexes, from the deal.

Preston, who remains CEO of Oakleaf at Waste Management, said the deal is a game-changer.

"I just think we have to kind of break the mold a little bit when we think about why we did the transaction. From my perspective, it's a transformative event for the industry. We're going to be terrific partners to our vendor network," Preston said.

Oakleaf, through about 800 national accounts, provides waste and recycling services to about 115,000 locations around the country. The company, with few hard assets of its own, contracts for those services and then hires third-party haulers to provide the actual work in local markets. Oakleaf figures its customers generate about 5 million tons of waste per year.

"We believe we were bigger than all the other brokers combined, just based on our understanding of their customer bases and the size of their customers," Preston said. "We believe we had 50% or more of the brokerage market."

Hoffman, who has covered the waste management industry for years as a securities analyst, said controlling the brokerage business allows Waste Management to better compete for national accounts.

"The real lever on this," Hoffman said, is that there is an expectation on Waste Management's part "that national account discussions are limited by the fact you are truly not national, you are not everywhere. … If they are in any type of more of a rural secondary-tier market, Waste Management is not there. That's not their model. So you end up with a scenario that you're not able to, in fact, bid a true national contract.

"Now, having a brokerage business allows you to do that. It's as simple as that," Hoffman said.

Another factor is to control tonnage coming out of the accounts, Hoffman said.

Waste Management, Steiner said, wants to continue to send collection work to third-party haulers through Oakleaf. The companies also can talk about how they can more closely work together for their mutual benefit.

Waste Management could come in and take over some of the collection business with their own operations.

But, Steiner said, his company actually could make more money by continuing to work with third-party haulers and provide them with additional services such as disposal, recycling and waste-to-energy. And because the disposal portion of the business has higher margins than collection, the ability to profit from this type of relationship is magnified, he said.

"It was a revelation, frankly, we had at the beginning of the process in talking with Oakleaf," Steiner said.

But the benefits have to run both ways, Steiner said. Third-party haulers must have a compelling reason to send material to Waste Management facilities.

"Obviously we've got the facilities to provide the vendor network, I would suspect, at a very competitive rate. And hopefully, down the line, we can provide them with additional services," he said.

Those additional services could include offering organic and electronic waste recycling through Waste Management sites, moves that could provide other haulers with more revenue-generating opportunities, the CEO said.

Steiner also spoke about the potential to offer group buying power for equipment and insurance to help third parties save money.

"You've always got the competitive nature of the business. That doesn't change that dynamic. But you can make it a win-win for both companies," he said. "We do this all the time in our industry. We do swaps. We'll do volume swaps around the country with our competition. Route swaps. You do them because it makes both companies stronger. And as long as it makes both companies stronger, everyone wins.

"Doesn't mean we're going to be any less competitive out on the street. But it does mean if we can find a win-win, I don't know why we wouldn't look for it." ■

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