

Transcript of
Meridian Waste Solutions
Third Quarter 2017 Earnings Conference Call
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Participants

Stephen Hart – Hayden Investor Relations
Jeff Cosman – Chairman & Chief Executive Officer
Chris Diaz – Chief Financial Officer

Analysts

Keith Gil – Carter, Terry & Company
Marcus Gustafsson – Gustafsson Wealth Management
Gregory Anastos – Windsor Street Capital

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Meridian Waste Solutions' Third Quarter 2017 Results Conference Call. All lines have been placed on a listen-only mode.

At this time it is my pleasure to turn the floor over to your host, Stephen Hart of Hayden Investor Relations. Sir, the floor is yours.

Stephen Hart – Hayden Investor Relations

Thank you very much. Good morning, everyone. I'd like to welcome everyone to Meridian Waste Solutions' Third Quarter 2017 Results Conference Call. Hosting the call today are Jeff Cosman, Chairman and CEO; and Chris Diaz, the CFO.

Before I turn the call over to management, I'd like to remind everyone that this conference call may contain projections or other forward-looking statements regarding future events or the future performance of the Company. Meridian Waste Solutions does not assume any obligation to update that information. Actual events or results may differ materially from those projected as a result of the changing market trends, reduced demand, and the competitive nature of Meridian's industry as well as other risks identified and documented that are filed with the SEC.

In addition, certain non-GAAP financial measures will be discussed during this call. These non-GAAP measures are used by management to make strategic decisions, forecast future results, and evaluate the company's current performance. Management believes the presentation of these non-GAAP financial measures is useful to investors' understanding and assessment of the Company's ongoing core operations and their prospects for the future. Unless it is otherwise stated, it should be assumed that any financials discussed in this conference call will be a non-GAAP basis. Full reconciliations of non-GAAP to GAAP financial measures are included in the earnings press release that was issued earlier today.

With that said, I'd now like to turn the call over to and introduce Jeff Cosman, Chairman and CEO. Jeff, the call is yours.

Jeff Cosman – Chairman and Chief Executive Officer

Thanks, Stephen. It's a beautiful morning here in Atlanta, Georgia. Thanks to everybody for getting on the Meridian Waste Third Quarter 2017 Results Conference Call. We wanted to update you on our progress and go through some of the results from 2017. More importantly, we want to say how proud we are of Wally Hall, our President and COO, who's made significant strides in improving the operations of the business. You'll hear throughout this call how well he's made an impact on our business.

Real quickly, some of the key highlights for the third quarter. We've got record quarterly revenues of \$14.8 million, which has increased 77% compared to third quarter September of 2016, primarily due to the acquisition of the CFS Group in Virginia as well as the new contracts we started in April of 2017 this year in St. Louis. We have organic growth of 9% and our operating expenses as a percentage of revenue declined to 70% from 80% in the second quarter of 2017, and adjusted EBITDA of \$3.4 million for the core waste management and services segment in relation to interest expense of \$2.7 million, a great trend for us. We look forward to expanding on that going forward.

We continue to integrate and improve efficiencies in our mid-Atlantic segment, particularly our Virginia assets. Wally has been able to find and improve our margins up there in Virginia. He's working closely with management there in Virginia as well as in Missouri and being able to access the capital markets for an additional \$5 million over the past few months, which we are very excited about. We continue to raise capital to improve the operations and make positive steps to what our strategic goals are for 2018.

We put new equipment in Virginia, which we put a press release out about roughly two weeks ago. That new equipment will go to operate our own landfill. We had a previous third party operator on the landfill site. By putting our own equipment in we're able to pick up roughly \$100,000 a month in EBITDA, which we feel very positive about for 2018. We continue to look for growth opportunities in all areas of our waste operations, which is a core platform of our waste management services, as well as opportunities in the emerging growth innovations and technology division.

Recently in the last week we announced an investment in American Science and Technology, which is a manufacturing facility, currently a pilot facility in Wausau, Wisconsin. We will be utilizing that to advance our significant opportunities on our Meridian innovations division, where we look to make cheaper plastics that are sustainable and just as effective as the current plastics out there. We have a lot of good things moving on that regard.

We also are today presenting at the Biomass Research and Development Board, which is an inter-agency collaborative composed of senior decision makers from federal agencies and the White House and co-chaired by the US Department of Agriculture and the US Department of Energy. Our policy director, Alan Peterson, will be presenting today. We're very excited that we've been asked to do that, and with the research and the things that we have going on it looks to be a positive step in that regard.

Our technology side, we've made small little acquisitions to increase the size of our access to the markets with Mobile Science, our Bright City applications, as well as moving into some other different directions that will enhance revenue and net income for next year in the technology side.

We're very excited about the things that are going on right now inside the company. More importantly, we're very excited about how Wally has brought on the right people to do the right things to improve our revenue side but also our margin side.

I'm going to turn it over to Chris Diaz, who will run through the third quarter numbers. We'll open it up for questions after he talks.

Chris Diaz – Chief Financial Officer

Thanks, Jeff. For the three months ended September 30, 2017 revenues were \$14.8 million, a 77% increase from \$8.4 million for the three months ended September 30, 2016. Organic revenue growth of the Midwest segment was 9% driven by additional customers and price increases. Gross profit improved by \$1.5 million to \$4.5 million in the three months ended September 30, 2017 as compared to a \$3 million gross profit in the three months ended September 30, 2016.

Operating expenses were \$10.4 million or 70% of revenue for the three months ended September 30, 2017 as compared to \$5.4 million or 64% of revenue for the three months ended September 30, 2016. This increase is due to increased labor costs in 2017 in the Midwest segment. Operating labor expenses for the 2016 period were 19% of revenues, whereas 2017 expenses are 27% of revenue.

The reason for this is two-fold; first, the company needed to increase driver wages to help stabilize their workforce and avoid turnover; second, add-on revenue for the new St. Louis contract has not materialized as quickly as expected, although it has improved starting in the third quarter, but the company has increased its labor force to service the expected increase revenue. As revenue increases to expected levels from these new St. Louis contracts operating expenses as a percent of revenue will decrease. Of note, operating expenses did decline from 80% of revenue from the second quarter of 2017, which represents a 10% decline.

For the three months ended September 30, 2017 adjusted EBITDA for the core waste management and services segment was \$3.4 million. For the nine months ended September 30, 2017 revenues were \$40 million, a 67% increase from \$23.9 million for the nine months ended September 30, 2016. Organic revenue growth of the Midwest segment of 10% was driven by additional customers and price increases. Gross profit improved by \$2.5 million to \$11.2 million in the nine months ended September 30, 2017 as compared to an \$8.7 million gross profit in the nine months ended September 30, 2016.

Operating expenses were \$28.7 million or 72% of revenue for the nine months ended September 30, 2017 as compared to \$15.2 million or 64% of revenue for the nine months ended September 30, 2016.

For the nine months ended September 30, 2017 adjusted EBITDA for the core waste management and services segment was \$8.8 million, which includes a full quarter pro forma effect of the CFS acquisition.

That summarizes our third quarter and year-to-date results. Now back to you, Jeff.

Jeff Cosman – Chairman and Chief Executive Officer

Thanks, Chris. Stephen, we'll open it up for questions. I'm sure there's plenty of them.

Operator

Thank you. The floor is now open for questions. [Operator instructions.] Our first question comes Keith Gil with Carter, Terry & Company. Keith, state your question.

Q: Good morning, Jeff. Congratulations on a great quarter.

Jeff Cosman – Chairman and Chief Executive Officer

Good morning, Keith.

Q: My question is regarding organic grow. Are you currently bidding or have an opportunity to either win or acquire new routes in the St. Louis or Virginia markets?

Jeff Cosman – Chairman and Chief Executive Officer

Thanks, Keith, it's always great to talk to you. We are looking at a couple of tuck-ins in the St. Louis marketplace as well as the Virginia marketplace. We remain focused on filling our landfills. Volume is going to be the key to our success going forward. The tuck-in operations that we're looking out of Missouri will be central to that theme as well as Virginia. We have underutilized assets in Virginia, those being our landfills that we're trying to get to a certain volume. I think Chris and Wally's and my objective is to get to about a 70% to 75% penetration into the volume of those landfills so we've got some work to do.

Q: Where are you currently? If your goal is 75%, where are you currently?

Jeff Cosman – Chairman and Chief Executive Officer

Yes. Each one is different. In Missouri I think we're at 55% to 60%. Lunenburg, we have our least amount of volume going into Lunenburg. They're probably doing a little less than 30% of their daily capacity. Petersburg is much better. They're more in the 50% to 55% range. So if we tackle those and we're able to get up to 70% plus in those markets, and that goes straight to EBITDA, that goes straight to the bottom line for us, so we're working on that.

Wally and the team have focused primarily about improving the operations. Now that we have tailwinds to basically say that, yes, we are improving operations, now we're getting deeper into it where we're looking to increase the volume. We are bidding on additional contracts both in the Missouri and the Virginia areas. Virginia seems to be a little bit more subscription based, so those are in the trenches fighting hand to hand combat at everybody's doorstep to get that subscription business. Whereas, St. Louis they have contracts with a lot of different municipalities in the Missouri market and each one is coming up at different times. We continually look to expand our customer base by bidding on those contracts. Because we have our own landfills and we're vertically integrated that will obviously help our pricing and being able to be competitive against the large majors. And, we remain focused in building that revenue and enhanced EBITDA with volume going to our landfills.

Q: Could you explain or give examples of tuck-ins and the approximate cost that would be involved?

Jeff Cosman – Chairman and Chief Executive Officer

Yes. Just in general terms, I'll tell you tuck-in is an operation that their routes will overlay on top of our routes where we'll be able to take their trucks off the street and be able to pick it up with our existing fleet. That's the best opportune acquisition. Even if we pay four and a half five turns of EBITDA we will pick it up in synergies by reducing the back office, by reducing those trucks on the street, the workers' comp, and all the rest of it. We're looking for those specific type acquisition targets because they enhance our ability to improve our operations immediately. Those are immediate impact kind of things.

When we talk about tuck-ins, those are ideal. The second kind of a tuck-in is an operation that's they're local, doesn't take to our landfill or transfer station, doesn't necessarily overlay on our routes, but fits in well because we can take that volume out from our competitors' landfills and be able to fill it into our landfills. That's a different kind of tuck-in, pay a little bit, it's based on a deal by deal basis on what we're going to pay. But it's all accretive at this point because we will get the synergies that build up to the EBITDA.

Chris Diaz – Chief Financial Officer

Yes. The good news is based on the volume and the capacity that we have at our landfills pretty much everything we're looking at we'll be able to internalize or at least vertically integrate the operations. We have the benefit of those landfills, whereas a lot of competitors they're just looking to add routes and things like that, and that's it. For us, we have a lot of volume available to vertically integrate those operations. That's the big upside of these acquisitions.

Q: The landfills?

Chris Diaz – Chief Financial Officer

Yes.

Q: Okay. Thank you. I'll get back in the queue and have someone else ask a few questions. Thank you.

Jeff Cosman – Chairman and Chief Executive Officer

Keith, two is kind of light. You usually run about four or five.

Q: Don't worry. I'll be back.

Operator

Our next question comes from Marcus Gustafsson with Wealth Management. Marcus, state your question.

Q: Thank you. Good morning, fellows. Obviously, you had mentioned here over the last few weeks a couple of press releases have come out in regards to the DxT Medical and the Meridian innovations. You mentioned these for many months now but have not necessarily gotten into what exactly that they do. I see that DxT Medical is going to help you with the Bright City, but obviously, they must have had some sort of business before. My first question is, what are your expectations for them for the technology piece? I'll start with that. I have one more question on the innovation side.

Jeff Cosman – Chairman and Chief Executive Officer

Yes. Sure. Thanks, Marcus. Great talking to you. For DxT Medical essentially what it gave us was a national platform of salespeople out on the road, 1099 folks that are looking to put additional substance in their bag to increase not only their cash flow in their pockets but more importantly is to drive the Bright City apps into all municipalities across the country. We view Bright City as an opportunity for a lot of growth.

Essentially, the reason why we brought Bright City into the platform into Meridian was to utilize Bright City with our municipalities. We have over 27 to 30 plus municipalities that we contract with in order so we can get our assistance to receive payments through our Bright City app. We're looking at it as a revenue driver for our municipalities, but also a way for instead of sending out paper statements to our over 118,000 customers we can send those out via notification on a mobile app, which would save somewhere in the north range of \$0.50 to \$0.60 per invoice, and be able to have our customers remit their payments via the app, therefore accelerate the payments to us, thereby getting our cash flow faster rather than slower through the standard mail.

Right now we look at technologies like utilities, like your water bill and various other pathways that a lot of people pay via ACH or electronic check or something to that effect. We're not there yet. We're at a rate that I'm not excited about. Bringing on a mobile platform we'll be able to accelerate that where we'll be able to auto draft or ACH quicker and get our cash in faster. We'll reduce cost from that point but also increase our cash flow to get it faster.

Back to DxT, that gives us a platform, because it's a municipal based platform we don't feel like it's just going to be with our 27 to 30 municipal contracts we have. We feel like it's an avenue. We're making tremendous strides with municipalities right now that are outside our purview in the waste business and they're looking at it to bring it onboard. They would be using it for parking tickets, payments, and for various things within the municipality that they can directly communicate with their residents and vice versa. Instead of a social platform it's more of a direct inline communication that they can communicate better. DxT gives us that platform nationwide, it gets us over 100 plus sales reps nationwide, 1099, we're not paying a majority of those sales reps, and we're trying to just hit the market to gain market share in that regard.

Q: In terms of numbers, if we want to model something here, what are your expectations for 2018?

Jeff Cosman – Chairman and Chief Executive Officer

In 2018, I think we're focused on getting our 27 to 30 municipal contracts on our waste business up and going. I would say we're figuring out the pricing. Pricing will be indicative of how many residents are in the municipality, say like Alpharetta has 60,000 plus residents, I think we could get somewhere between \$0.25 to \$1.00 per resident on an annual basis as some kind of annual fee. We're looking at it from transaction based, much like we are on the waste business. We want volume. We're looking at it from a transaction base, how we can get the municipalities to transact their business, like I said, whether it's parking tickets or licenses for food and beverage or whatever it may be. We want to run their payment centers through our mobile app, which gives them a pathway to not only know where their residents are in regards to communicating with them, but also provide the services that are not there yet vis-à-vis a mobile app, and that's the driver of it.

Q: I appreciate that. The second question here is on the Meridian innovations. You mentioned in the press release, from I think it was November 10th, that this commercial by refining industry could be launched immediately. In the, I think it was 8-K, obviously the contract starts on January 1st. The other thing that it looks you can produce all different types of materials with this, but what markets will you focus on first and why?

Jeff Cosman – Chairman and Chief Executive Officer

Yes. It does start January 1. We are working with them currently. It's just the contract basically starts January 1. What markets are we looking at right now? Immediately we've talked to plastic manufacturers all over the world at this point. We're looking at and we are in discussions to move our products in the interior automotive side. I think we're looking at a moldable, meltable, flowable, injectable molded plastics with the lignin. Essentially we're going to be reducing the cost, taking out petroleum-based products, not all of it, a majority of petroleum in current plastics today and be able to inject and mold with meltable plastics.

The current discussions are centered around that type of a marketplace. The polypropylene market is a \$200 billion market and what we've already proven to our relationships now is that we've been able to reduce the petroleum in the product, reduce the cost of that product, and still give the same characteristics of their existing polypropylene as well as other products in the plastic space. We've obviously got to do some work to the pilot facility to make it a commercialization facility. We're understanding and kind of engineering what that will take to do that. We expect, I would say, in the next 60 to 90 days to have some very meaningful conversations in that type of market that polypropylene, that plastics market.

The end result is we're going to be looking at lignin is in all vegetation, and from trees to biomass on the ground our goal is to be able to make smaller facilities locally for the tobacco stocks, the peanut holes, the peach pits and all that, all that contains lignin right now and it is sitting on the ground. There are a billion tons of biomass sitting on the ground that's repopulated every year because farmers don't get a value out of it in their marketplace. We're going to walk in and say, look, if you collect that biomass on the ground and give it to us we'll buy it from you, creating a value. We'll be able to turn that lignin into some sort of plastic-based product and potentially a fuel-based product.

Q: You mentioned also that this facility in Wisconsin could start immediately producing between 200 tons to 2,000 tons a day. Am I thinking about this right, that if you produce on the lower end of this, 200 tons a day, you said also that you could produce plastics that will be at the price of 600 to I think it was 2,000. If you do that 200 times 600, times 200 days a year, that's \$24 million, on the low. Is that potentially revenue? Could we start to model that for 2018 or is that a few years down the road?

Jeff Cosman – Chairman and Chief Executive Officer

Yes. I would say '18 is probably not a good number for that, Marcus, and here's why. That facility in Wisconsin is, basically we're taking a pilot facility to make it commercialized. In doing so, it's going to be the base engineered facility that we will put out across the country in places like South Georgia and North Carolina for tobacco and, frankly, corn stalks in Iowa. That facility will be the model to build additional facilities across the country.

As we prove this out and potentially have the relationships that will get us the initial orders or the initial investment in the facilities going forward, that's what we expect to build going forward to handle all the biomass. Right now the USDA and the EPA is basically saying we have to reduce our requirements right now because nobody is handling that. And, based on what we've already proven with our patents and our licenses we can do what they need to be done, it's just going to take a little time. That pilot facility will help accelerate that but it'll be the base model for what we will build across the country to handle all the biomass, and that's not even touching the pulp and paper mills, who we need to partner with to increase their revenue stream by taking the lignin out of that processing facility.

Much like the recycling business in the 80s to 90s where recycling companies came in and augmented the cost for a solid waste company to use that cost to buy recycling lines, we potentially will look to, in the pulp and paper mill, look to those people to provide the capital to build the facility, and we'll provide the licenses, engineering and the expertise to be able to drive revenue into their market.

Q: That's all I had. Thank you, guys.

Operator

Our next question comes from Gregory Anastos with Windsor Street Capital. Gregory, state your question.

Q: Thank you. Jeff, in the last call you had mentioned that you were going to be starting to attend some investor conferences in October. I know I saw in the press release with regards to the Dawson James Conference in Florida, but I haven't seen anything else. What's the status with going out to conferences and the plan going forward?

Jeff Cosman – Chairman and Chief Executive Officer

Greg, thanks for getting on the call. I apologize for not saying this in my prepared remarks. Stephen told me to say this and I just forgot. In December I'll be at the LD Micro Investor Conference in LA so that's starting. As Stephen is building a platform for us to start penetrating that, we've had a lot going on, not to say that's an excuse not to start planning for it, but I sit here today saying we've done a first today and that is to be able to file our Q on time without any extensions, which is an absolute positive. So, we've been focused on that. We're focused on the operations. We're obviously raising capital and we're doing a couple of deals.

That's gotten in the way of really forecasting out which kinds of conferences we're going to. I am committed to doing that. Stephen is going to help me with that. We are planning to get out there. I know potentially in February I think I'll be at the Roth Conference out in Southern California. The plan is to get out there and create the urgency for investors to look at the stock but also get interested in it and buying in the open market.

Q: Great. Thanks.

Operator

[Operator instructions]. There appears to be no further questions. I'll turn the call back over to Jeff Cosman.

Jeff Cosman – Chairman and Chief Executive Officer

I'm surprised Keith Gil hasn't gotten on for another question. I'm sure he'll call me. I'm sure we'll talk about that. Again, I'm very excited about how things are going. Wally has made tremendous strides on our operations. Chris remains focused and committed to improving the internal organs of the company. We were able to put our Q out on time. We have our controllers out in the field who are closing faster. We have some cash management things that we're putting in place. We have all the things that are leading up to a growth story again. We've obviously digested a lot of things over the past year.

A year ago I sat in a 2,300 square foot office with three people in it. Now Meridian is a substantial company with a very nice office building here in Atlanta. We're growing. We have the right people. That's a function of people buying into the story, people buying into the fact that we are a grow company, that we innovate through technology but we also improve through the basic things that our president puts in place for our managers. We're excited about 2018, and we have the runway to start going. We look forward to having everybody else on the call in the fourth quarter.

Operator

We have another question, Jeff.

Jeff Cosman – Chairman and Chief Executive Officer

Thanks, Julie. Go ahead.

Operator

Keith Gil with Carter, Terry. Keith, state your question.

Q: I let someone else get in there.

Jeff Cosman – Chairman and Chief Executive Officer

Thanks, Keith. I didn't put much pressure on you, did I?

Q: No. I was trying to let someone else, but being no one else was there I'll be happy to get back in. I'm not sure if you fully answered the question, but is there actual potential revenue that could be achieved in 2018 via your new relationship with American Science and Technology?

Jeff Cosman – Chairman and Chief Executive Officer

Absolutely. They have been in operation for some time. They have major Fortune 500 customers, and those customers remain at that facility. So, we will continue to operate as such, but we will also enhance the facility to expedite the commercialization of what we're bringing to that facility. That facility was essentially a base model, so we didn't have to go out and build it.

Q: Excuse me. But did they have revenue for 2017? I also read that they have government grants as well?

Jeff Cosman – Chairman and Chief Executive Officer

Yes. The facility was built by grants from the State of Wisconsin. We've already talked to the State of Wisconsin so any improvements we can possibly make we will look to the State of Wisconsin to potentially fund that. We're also working with the Department of Energy. We have grant requests with the Department of Energy, the USDA and whatnot.

So, this is something that's high on the list for not only agencies to be looking at but also to invest in. We're talking about a large amount of tons on the ground that have no value today, for not only the farmers but no value in the marketplace and we are committed to being able to create value from that, and I'll call it a waste stream,

and that's what we do, we do waste streams at Meridian. We're going to be able to use those waste streams to create significant value but also handle the things that the federal government wants to handle through different sources other than black carbon petroleum based products. We're able to do that with our licenses our patents that we have within the company. With those licenses and patents we have exclusivity.

So, we're very optimistic about revenue in '18. Then in 2019 probably even more robust. I just don't want to forecast that number right now.

Q: I was going to ask can you quantify that, or at this point you cannot.

Jeff Cosman – Chairman and Chief Executive Officer

I can quantify it, but I tell to myself in the bathroom. I don't say it outside or out loud.

Q: Make sure there's no cameras in your bathroom.

Jeff Cosman – Chairman and Chief Executive Officer

Thanks, Keith.

Q: I also read, I don't know if it's still in play, doesn't American Science and Technology have a relationship with Spain, if I read that correctly, a university in Spain?

Jeff Cosman – Chairman and Chief Executive Officer

Yes. We're not losing anything from this transaction with them. In fact we're enhancing what they currently have, plus we have other universities here in the US that are partnering with us. We have, like I said, the Department of Energy that has asked us to come speak at their biomass conference. We have a person there today. This is not on the low radar. This is on the high radar.

Q: I believe Washington State is another one I read, if I'm recalling correctly. I'm just trying to figure out all the different relationships that you have, which all are existing and ongoing.

Jeff Cosman – Chairman and Chief Executive Officer

That's correct.

Q: I'm sorry. But I was trying to find this one which I thought was in Spain. Okay. I was trying to get to the point of, now, all going well, and I know always capital requirements are needed, how could you possibly expand? I would assume you would look for partnerships to expand, as you said, the base model into future facilities.

Jeff Cosman – Chairman and Chief Executive Officer

That's right. We would look for also state grants and federal grants. Absolutely. There's a pathway to expand that facility.

Q: Okay. Fair enough. Thank you.

Operator

There appears to be no further questions.

Jeff Cosman – Chairman and Chief Executive Officer

Thanks, Keith. Thanks, everybody for getting on the call. Stephen, do you want to wrap it up? I appreciate everybody getting on the call. I'm always open for conversations outside the traditionally quarterly calls.

Stephen Hart – Hayden Investor Relations

No, that concludes it. That's good.