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2005: A Year of Promise And Preparedness For The Solid Waste Industry

CASH FLOW/SMASH FLOW: **The Industry's Cash Flow Story in the Balance** by Peter Anderson

From the waste industry's heady, go-go days of the early 1990's, things have fallen to a pretty pass.

Ever since Waste Management's (WMI) back-to-back financial meltdowns in 1998 and 1999, neither the stock price nor Wall Street's backing has been there to reach the final endgame by consolidating the industry.

Since the industry's historic growth had come from serial acquisitions, this retreat into running the core business had major implications for the erstwhile consolidators' place in the hearts and minds of investors.

Beginning with a Duetsche Bank report in 1999, *Waste Management: Getting Focused on the Long-Term Big Picture Cash-Flow Story*, the industry has worked to resuscitate its financial fortunes as a "cash flow" story. Even though growth could no longer be expected to produce capital gains, it was said that extra cash applied to stock buy backs might, and, anyway, higher dividends would improve overall returns.

With the enormous store of disposal overcapacity overhanging the market, it was no wonder the industry has been spitting out cash that's not presently needed for capacity replacement. But, does the inference that the industry may be winding down make it a sound place to invest at today's ticker price as a cash flow story?

The answer is that it all depends on which way the

current battle over post-closure care plays out.

Currently, Environmental Protection Agency (EPA) rules mandate that landfill owners maintain closed landfills for 30 years, and that the funds to pay for minor and routine care be assured through a variety of different mechanisms, several of which accept corporate IOUs and do not require cash outlays that negatively impact earnings.

The reason for insisting that landfill owners hang around for awhile after the landfill is no longer accepting waste is because closed sites entombed behind a series of barriers remain a threat to the environment for a very long time, for "thousands of years," according to EPA.

Just the minor amounts currently booked for this post-closure care on the liabilities side of the industry's balance sheet