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Conference Call Transcript

BIN.TO - Q3 2009 IESI-BFC Ltd Earnings Conference Call

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IESI-BFC Ltd. - Vice Chairman, CEO

Tom Cowee

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the IESI-BFC Limited third quarter results conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session with instructions provided. (Operator instructions.) I would like to remind everyone that this call is being recorded today, Friday, October 30th, 2009 at 8:30 AM Eastern Time.

And I would now like to turn the conference over to Chaya Cooperberg, Director, Investor Relations and Corporate Communications. Please go ahead.

Chaya Cooperberg - IESI-BFC Ltd. - Director, IR

Thank you. And thank you, everyone, for joining us today. On the call, we have Keith Carrigan, Vice Chairman and Chief Executive Officer, and Tom Cowee, Vice President and Chief Financial Officer, both of whom will be providing comments on the results for the three months -- for

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the three and nine months ended September 30th, 2009. Also on our call is Joe Quarin, Executive Vice President and Canadian Chief Operating Officer, who will also be available to answer questions during our Q&A period.

Before getting started, let me remind you that our remarks and answers to your questions today may contain forward-looking information about future events or the Company's future performance. Although forward-looking statements are based on what management believes to be reasonable assumptions, the Company cannot assure shareholders that actual results will be consistent with these forward-looking statements.

The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events, or otherwise. We also do not commit to continued reporting on items or issues that arise either during our presentation or in the discussion that will follow except as required by applicable securities laws.

This information is, by nature, subject to risks and uncertainties that may cause actual events or results to differ materially. Please refer to the bottom of our news release for further information, and to our annual information form for more a more complete description of the risks affecting our business and industry.

On this call, we will discuss non-GAAP measures such as EBITDA and free cash flow. Please refer to our press release for a reconciliation of such non-GAAP measures to the most comparable GAAP measure. Management uses non-GAAP measures to evaluate and monitor the ongoing performance of our operations, and other companies may calculate these non-GAAP measures differently.

A telephone replay of this conference will be available until midnight on November 13th, and all of those details are available in the news release.

So, with that, I will now turn the call over to Keith Carrigan, Vice Chairman and CEO.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Good morning, everyone, and thank you for joining us on our Q3 earnings conference call.

This was another solid quarter for our Company, and we're very pleased to deliver results that we believe are in line with our expectations. We saw a quarter-over-quarter improvements in many areas of our performance. For instance, we achieved core price growth in our collection business in each of our three regions, Canada, the US northeast, and the US south. We also achieved positive volume in Canada and the US south, despite the challenges associated with a difficult economic environment.

Our disciplined strategies for growth resulted in EBITDA of \$81.4 million, up nearly 1% from Q3 2008, and that's when we hold the FX rate consistent in both periods. Our reportable EBITDA margins improved by 80 basis points to 29.4%.

Net income improved as well, up more than 17% to \$19.1 million, generating earnings per share of \$0.20. Holding the FX rate constant, net income was \$20.3 million or \$0.22 per share. This compares with \$0.24 per share in the third quarter last year, but keep in mind that we completed two equity offerings in 2009. Our EPS in the quarter is now based on a fully diluted share count of 93.4 million shares.

We also increased free cash flow 85.5% to \$38.5 million, giving us a free cash flow yield of 14.3%. Holding FX constant, we generated free cash flow of \$40.2 million. If you add back changes in working capital to our free cash flow calculation, we generated \$48 million of free cash flow. Even with the impact of FX, this gives us a free cash flow margin of 18% for the quarter.

These achievements highlight a successful quarter, given the lower commodity and energy prices we faced compared with the third quarter last year and also an additional accounting expense of \$1.3 million related to an actuarial adjustment to our insurance claims reserve.

Tom will take you through our financial results in more detail. But, I'd like to start with a discussion of the areas of note in the quarter and our outlook for the balance of the year. I'll turn first to revenue.

Revenue was \$268.4 million in the quarter compared with \$282.2 million in the quarter a year ago. When we translate the results of our Canadian operations into US dollars, our strong performance in Canada is diluted by the impact of a weaker Canadian dollar compared with last year. If we exclude the impact of foreign currency translation on these Canadian results, total revenue in the third quarter was \$274.7 million, a 2.7% quarter-over-quarter reduction.

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As you know, there are two ways in which we grow our revenues, through organic growth and through acquisition. Let's turn first to organic growth.

Organic revenue growth for the quarter continued to be positive in our Canadian operations, increasing 1.6%. This was comprised of a 3% core price increase coupled with volume growth of 0.3% and a recycling and other pricing increase of 0.2%, partially offset by a 1.9% decline in fuel surcharges.

In the US, organic revenues decreased 3.9%. Core price was up 2%, but there were declines of 0.5% in volumes, 3.8% in fuel surcharges, and 1.6% in recycling and other pricing.

We clearly continued to have pricing strength available to us in the quarter, and had, as I mentioned earlier, higher total collection pricing in each of our three regions. One area that saw a pricing decline in the US is the recycling business. The value of recycled materials has recovered to a broad historic average. However, the downturn in commodity prices following historical highs did not take full effect until the fourth quarter of 2008. As such, we expect to see recycling pricing in our US segment turn positive in the fourth quarter of this year, given the relative comparison.

Now turning to our volumes. The trends in our total volumes in the third quarter were consistent with what we saw in the second quarter of this year. We experienced modest volume growth in Canada across our commercial, transfer, landfill, and recycling services. Industrial collection volumes, however, remain soft compared with the third quarter last year.

In the US south, we enjoyed volume growth in our commercial, residential, and landfill services as well -- as a result of increased sales efforts and contract wins. However, let me say that we still experienced lower industrial collection volumes due to a quarter-over-quarter decline specifically in C&D related volume.

In the US northeast, we experienced some improvements as well. There was volume growth in front end collection and at our landfills. We continue to experience lower industrial collection volumes, however, compared with one year ago. We are encouraged by the volume improvements we saw in the quarter, and we expect, assuming that the economy continues to pick up, more significant improvements in the fourth quarter.

Having reviewed our organic performance in the third quarter, I'll now turn to the impact of acquisitions.

Acquisitions contributed 0.7% to revenue growth in Canada and 1.5% in the US. During the quarter, we completed two small tuck-in acquisitions, one in Canada and one in the US south. While the third quarter might not appear to be particularly active in terms of the number of M&A deals we closed, we remain active behind the scenes with a very robust pipeline of potential acquisitions under review and analysis. Our Company has a successful history of accretive growth through acquisition, and we are well positioned to pursue this path to further enhance our top and, most importantly, our bottom lines.

If we combine the excess capacity in our debt facilities while still staying below our target leverage ratio of 2.5 times with our strong outlook for free cash flow after dividends, we will have approximately \$250 million to apply towards acquisitions in 2010 without any shareholder dilution. We expect this reinvestment of capital to create increased shareholder value over the period.

Make no mistake, though. We approach each and every acquisition with a strict set of criteria. First, the assets must fit strategically within our business model. Second, the assets must align with or, better yet, improve on our existing business mix. That means they will help increase our internalization rates and enhance our EBITDA margins on all of the assets within the area. Third, the acquisition must generate cash flow immediately, even before synergies. And finally, we assess whether the acquisition can meet our stringent return requirements in five years or less. We look at internal rate of return as well as return on equity.

The goal of improving returns to shareholders is at the very heart of every acquisition we make. In fact, improving returns to shareholders is what drives all of our capital allocation decisions. For example, we have a dividend policy that pays \$0.125 each quarter. In 2009, we also have one more special dividend payment of \$0.125 per share that will be paid to shareholders of record on December 17th. As our free cash flow profile grows, we will apply our cash to those areas where we believe it will generate an optimal return.

At this time, with our free cash flow levels and strong balance sheet, we are well positioned for growth as the economy slowly returns to normalcy. We believe that our operating strategies and our focus on urban densely populated markets will improve to be an extremely effective model during the recovery.

I'd now like to turn the call over to Tom Cowee for additional comments on the financial results of the quarter. Tom?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Thanks, Keith, and good morning, everyone. I'm going to start with a discussion of revenue and earnings performance by segment. And I will be speaking to growth revenues, which is how we addressed the discussion in our press release and MD&A.

Gross revenues in our Canadian segment were, on a Canadian dollar basis, \$121.6 million. This was an increase of approximately \$3 million over the same period a year ago. Core price, volume, acquisition growth all contributed to the growth. There was also an impact of about \$2.1 million related to lower fuel surcharges as the cost of diesel has declined relative to last year.

In our US south segment, gross revenues increased approximately \$3.4 million. The increase is due to core price, acquisition, and volume growth. We enjoyed volume growth from our commercial and residential services as a result of increased sales efforts and contract wins.

Lower fuel surcharges affected revenues by about \$6.7 million in the quarter. There was also an impact from the decline of recycled materials pricing compared to the third quarter last year.

Gross revenues in our US northeast segment declined approximately \$8.2 million. Volume and fuel surcharge declines were partially offset by modest price growth. While the gross revenues continued to be affected by lower volumes, we have not experienced any further deterioration as a result of the economic slowdown. Pricing in our collection services remains strong, and volume growth in our landfills has more than offset landfill pricing declines.

We also saw the impact of lower recycled material pricing in this segment. As Keith mentioned earlier, we expect the fourth quarter to present an easier comparison as recycled materials pricing declined principally in the fourth quarter of 2008.

In the quarter, operating costs in Canada and the US northeast declined, and increased only marginally in the US south versus the same period last year. Excluding the impact of FX, approximately \$3.1 million, the decline in the Canadian segment operating expenses is due to lower vehicle operating costs as the cost of diesel has come down versus the same period last year.

The decline in operating expenses of \$7.1 million in the US northeast is due to lower disposal, transportation, and vehicle operating costs. Lower disposal costs are the result of the economic slowdown in the region, while lower transportation and vehicle operating costs are due to the decline in diesel fuel cost. Higher accident claim reserves of approximately \$1.4 million partially offset these declines, as Keith discussed earlier.

Operating costs in the US south segment increased marginally over last year. Again, we incurred a higher accident claim cost of approximately \$1.6 million from the actuarial adjustments to our US accident reserve in the quarter.

We did not -- we did have lower vehicle operating costs again due to lower fuel prices as well.

The last quarter, we discussed that fuel hedges we had -- last quarter we discussed the fuel hedges we have entered into in the US to offset the volatility in this expense item. In September and October, we have now added fuel hedges in Canada. We hedged 950,000 monthly liters for the first year, decreasing by approximately one-third to 650,000 monthly liters in the second year, and decreasing by another third to 325,000 monthly liters in the third year.

The beginning average price is approximately \$0.56 per liter, including provincial and federal fuel taxes. Note that we have not designated our Canadian fuel hedges for hedge accounting as we have done in the US. This means the fair value changes in our Canadian fuel hedges will be reflected in our income statement.

Through the uses of fuel surcharges and fuel hedges, we will continue to actively manage this area of our business to reduce the variability of fuel charges in our business going forward.

SG&A expense was \$33.3 million compared to \$32.3 million in the same quarter last year. Our Canadian segment SG&A expense increased approximately \$1.2 million, or by about \$500,000 excluding the impact of FX. The increase is entirely attributable to fair value changes in share-based compensation.

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In our US south segment, we had higher salary expense as we hired more sales staff in the current year. Expenses in the US northeast declined due to lower professional fees and salaries.

Amortization expense was \$41.9 million in the quarter, a decline of \$5 million from the third quarter last year. Declines in our Canadian segment amortization are due to lower intangible and landfill asset amortization coupled with FX. FX accounted for approximately \$800,000 of the change. Lower landfill and intangible amortization is a result of lower per ton amortization rates and fully amortized intangibles.

Our US segment also experienced a decline in amortization expense. The decline was primarily in our US northeast segment, and is due to a lower per ton amortization rate resulting from change in landfill capacity estimate at our Seneca Meadows landfill.

Interest expense of \$7.9 million represented a decline of \$5.5 million compared with the third quarter a year ago. Lower interest rates on borrowings in Canada is the primary reason for the Canadian segment decline. In the US, we benefitted from a combination of lower interest rates and lower debt levels, thanks to the net proceeds of our share offerings in March and June, 2009.

Looking at our balance sheet, at the end of the quarter long-term debt stands at \$646.8 million, down from \$654.6 at the end of the second quarter. We have two credit facilities in our Company, one in Canada and one in the US, and each has a separate set of covenants.

In Canada, our funded debt to EBITDA covenant as of September 30th, 2009 was 1.78 times versus a maximum funded debt to EBITDA covenant of 2.75 times, and down from 1.9 times at June 30th, 2009. In the US, our funded debt to EBITDA covenant as of September 30th, 2009 was 2.59 times versus a maximum funded debt to EBITDA covenant of 4 times and down from 2.64 times at June 30th, 2009.

Putting the foreign currency rate between Canada and US at parity and adjusting using just LTM EBITDA without pro forma adjustments for acquisitions, our consolidated debt to EBITDA ratio for the Company at September 30th, 2009 was 2.18 times, down from 2.28 times at June 30th, 2009. At the end of the quarter, we had available capacity of \$435 million between the two facilities.

Now turning to our capital and landfill purchases, our spending for replacement and growth capital totaled \$28.2 million in the quarter. Of this total, replacement capital represented \$19.3 million and growth capital represented \$8.8 million. Excluding the impact of FX, which was about \$300,000, replacement capital decreased by \$7.2 million due to the timing of landfill expenditures in our US segment.

Through the nine months of 2009, we are on track for our guidance of free cash flow after dividends of \$40 million to \$45 million calculated at parity.

As you consider our free cash flow going forward, I do have a comment on our US tax -- cash tax outlet going forward. In September, our US segment received final approval from the Internal Revenue Service for a change to the tax depreciation method for all our landfills. This change is expected to reduce cash income taxes by approximately \$2.2 million in 2009. It will also increase the existing federal losses available for carry-forward by approximately \$251.7 million to a total of \$267.3 million at September 30th, 2009. We expect, based on our current estimates, that these losses will be available through 2012.

That brings me to the end of my prepared comments. This was a very successful quarter for us, and we are pleased with the improvements in many areas of our business.

Thank you for listening, and I now would like to ask the operator to open the lines for questions.

QUESTION AND ANSWER

Operator

Thank you. (Operator instructions.) Your first question today comes from Scott Levine of JPMorgan. Please go ahead.

Scott Levine - JPMorgan - Analyst

Good morning, guys.

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Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Good morning, Scott.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Morning.

Scott Levine - JPMorgan - Analyst

Quick question regarding the Northeast. So, the margins continued to improve there quarter-on-quarter, and in reality, I guess, more so quarter-on-quarter than your other two geographies versus maybe steeper declines in the fourth quarter of last year and in first quarter. Is some of this a lag in recovery of some of the cost pressure in recycling and fuel, and/or how do we think about that versus underlying trends in the business in that region?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes, Scott. The -- we saw some volume increase in the northeast in our commercial lines of business. In addition to that, our material recovery line of business, and we did have some increase in volumes at the landfills for the quarter. In addition to that, we didn't see the same deterioration in price that we had seen quarter-over-quarter.

So, let me say that on the base business, I believe that we have hit bottom in the northeast. And clearly, you might look at that and say there's a slight material -- or a slight uptick in terms of volume and price.

However, as it relates to commodity pricing, we're still being comped against significantly high pricing in the third quarter. So, quite frankly, there was roughly about a \$200,000 impact, negative impact regarding commodity prices in the quarter in the northeast. And in addition to that, about \$650,000 related to reduction in energy pricing as well in the quarter in the northeast. So, we really didn't receive any benefit, obviously, in those two areas.

Scott Levine - JPMorgan - Analyst

Okay. And then, I think you mentioned as well, Keith, I'm not sure if I got this right. In the US south, did you say that C&D weakened quarter-on-quarter from a volume perspective?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes. No, the C&D itself was down for the quarter. However, our total volumes in our landfills were actually up in the quarter in the south. We had some special waste volumes that offset part of that decrease in C&D, and our municipal solid waste was marginally up as well.

Scott Levine - JPMorgan - Analyst

Okay. One last one, then. You mentioned the acquisition pipeline being healthy. Maybe if you could provide a little bit more color on pipeline levels throughout the three regions and maybe anecdotal observations about multiples and what you're seeing in the marketplace, generally speaking.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Well, there's no doubt that we are seeing an increase in activity in terms of options in all of the regions, quite frankly. As it relates to volumes, I don't believe that there really has been any change relative to what we've seen earlier in the year. We would still typically see that tuck-in type

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acquisitions are in that four to five times, four to six times range multiple. And then, of course, clearly we are hearing about some platforms that would be in a range that would be slightly higher that.

So, our pipeline still remains robust. We continue to have focus on improving our internalization rate, as mentioned earlier, in the northeast. And clearly, as I mentioned to you, that it appears that we are being certainly communicated to about other opportunities that exist both in the US and Canada, Scott.

Scott Levine - JPMorgan - Analyst

Thanks. Nice quarter.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Thank you.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Thank you.

Operator

Your next question comes from Walter Spracklin of RBC Capital Markets.

Walter Spracklin - RBC Capital Markets - Analyst

Thanks. Good morning, everyone.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Morning, Walter.

Walter Spracklin - RBC Capital Markets - Analyst

On that acquisitions, how much, Keith, have you -- would you consider yourself to have been sort of held back this year with the debt level and your effort to bring the debt level down? In other words, if -- you've done a good job of bringing that debt level down. Can we see, all else equal, a higher activity level from you this year now that the debt level is down where it is, or do you want to bring the debt level down a little bit more before you start going out and doing acquisitions?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes. I think clearly there are a number of pieces to the question that you asked. The first I would suggest to you is that, Walter, that we've been held back clearly a good nine months in terms of the impact of the economic changes going back to 2008, the last quarter of 2008. In addition to that, we de-levered ourself both with an offering in Canada and then obviously the offering in the US.

Most so than that, however, and certainly an integral part of that was the fact that sellers were obviously sitting on the sidelines as well. Clearly, our sector had a significant decline through the period. And so, valuation, I believe, though that period was being established as well, both from a seller's point of view and a buyer's point of view.

So, I believe now that the valuations have really set in. And as a result, as I mentioned on the previous answer, we're seeing more activity in terms of communication as it relates to getting back to acquisition activity. So, we're quite busy. The group is quite busy.

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We're having a look at selective opportunities. We feel that those opportunities are going to meet -- that are out there that will meet our criteria in terms of improving not only the existing asset base -- or the new asset base but the existing asset base as well. And we'll be highly accretive under our acquisition requirements.

So, I believe that you will see more activity over the next few quarters. And we'd like to get back to you through those quarters with some interesting information.

Walter Spracklin - RBC Capital Markets - Analyst

And just on that existing asset base, obviously you've brought down your CapEx spend in accordance. And with less opportunities and higher cost of capital, I'm wondering now that your cost of capital has come down, existing opportunities -- or, sorry, on your existing base, what can we look at as a sort of a normal run rate CapEx spend for this Company now in a more normalized environment?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Well, I think it really is going to hinge on what we see in terms of a growth in the economy. And I gave you a little bit of an outline of what we are seeing in terms of that growth. We've had a little bit of pick up in commercial activity in all of our regions. We're seeing some pick up in recycling activity in all of the regions as well, albeit we're talking about percentage points now. So, I wouldn't get overly fussed that it's hugely wild increases in terms of volume.

But, at the end of the day, clearly growth CapEx is related in -- partially to increases in volumes. Clearly, we would like to internalize as much of new volume as we can into our existing asset base. But, there clearly are opportunities going forward. We typically have had a maintenance or replacement CapEx figure of about \$80 million a year. We don't see that changing a whole lot going forward.

So, the key number, then, is going to be in that growth area. And so, this year that would be in the neighborhood of about \$30 million, unless we see significant growth. And by the way, I'm talking about Canadian dollars here. Unless we see significant growth going forward or significant contract wins, then I would suggest to you that I would probably see the same type of maintenance capital spending next year as you're seeing this year.

Walter Spracklin - RBC Capital Markets - Analyst

So -- sorry, just so I got dollars right here. You were guiding us \$80 million.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes. Yes, we're -- well, really I should say it's always been on parity, on a (inaudible - multiple speakers) basis.

Walter Spracklin - RBC Capital Markets - Analyst

Okay. All right. And then, do you have any update -- I mean, you mentioned that you're seeing some pick up. We're going into -- we're looking at, believe it or not, coming up closer to 2010 now. What's your view on providing guidance? Are you -- do you plan on doing it? And if so, when would you expect it? And this is on a -- on both an EBITDA and free cash flow basis.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes, I do. We'll -- we're in the process right now of putting models together for next year. We will be meeting with the Board in mid-December and having those approved. So, we expect that we'll give some guidance in terms of revenue earnings and free cash flow as well next year.

Walter Spracklin - RBC Capital Markets - Analyst

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Perfect. And just last question here for Tom. You mentioned you got some nice increase in your loss carry-forwards. Any -- how do we look at your tax rate going into 2010?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Well, the US side obviously not a whole lot different than what we've historically guided. On the Canadian side, the cash tax impact has been a little lower this year because we originally had estimated not being able to tap into some NOLs quite as much.

But, I think when you look into the next year, it's going to kind of look similar to the original guidance we gave back last year when we converted.

Walter Spracklin - RBC Capital Markets - Analyst

Okay. That's great. Thank you very much.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Thanks, Walter.

Operator

Your next question comes from Bill Fisher of Raymond James.

Bill Fisher - Raymond James - Analyst

Good morning.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Morning, Bill.

Bill Fisher - Raymond James - Analyst

On insurance, I just want to make sure I heard right. The -- on the accruals, was it \$1.6 million in the south and \$1.4 million in the North?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Versus the impact of last year on that, yes.

Bill Fisher - Raymond James - Analyst

Okay. And were those just noncash actuarial step-ups?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Yes, it's just a noncash actuarial adjustment.

Bill Fisher - Raymond James - Analyst

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Okay. And just actually back on the tax rate, is -- does your -- you had some, I thought, intangible amortization dropping off. I thought it was in '10, but did that happen this year? I'm just wondering if that --?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Yes. We always spoke in terms of it kind of starting to drop off at -- for next year. But, it's starting to bleed out a little bit here in the end of this year. And, of course, the big impact will be next year, Bill.

Bill Fisher - Raymond James - Analyst

Okay. And does that -- on a reported basis, does that favorably benefit your reported tax rate, or if it's --?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

That shouldn't have any impact.

Bill Fisher - Raymond James - Analyst

Okay. And then last, on that cash tax, it's \$2 million cash benefit on the IRS ruling for the landfills this year?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Yes.

Bill Fisher - Raymond James - Analyst

And could that be bigger next year?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

No. It's -- I mean, it's kind of just a catch up this year, and then the historical \$4 million or so that we'll pay in the US for state taxes and alternative minimum taxes will impact as well for it.

Bill Fisher - Raymond James - Analyst

Got you. Okay. Thank you very much.

Operator

Your next question comes from Michael Hoffman of WSI.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Good morning. Thank you. If we could get specific on numbers, what is your expectation for the fourth quarter '09 full taxes? And if you'd break it out by the regions, that'd be great. And then, what is your expectations, the actual tax rate for FY '10?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

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Again, we're still working on our model for 2010. Obviously, the effective tax rate, 33%, was a little lower than normal in the third quarter. I would continue to use that 35%, 36% effective tax rate that we've been giving.

FX plays a little bit in on that. As the currency does slide down a little bit, the relative impact of net income in the two countries do affect that, specifically because the effective tax rate in Canada is roughly 30%, and the effective tax rate in the US is right at or a little above 40%. So, it is a little bit of juggling act, obviously, based on the net income in each country.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Okay. So, just so I followed all that, in an aggregate basis, we should use 35%?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

35%, 36% range, yes.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Okay. And that is good for now for forecasting for 2010 before we get further guidance?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Yes. Yes.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Okay. All right. And then, with regards to capital spending, I just want to make sure I heard this correctly, because the original guidance was for a \$20 million, \$30 million less growth capital spending from a year ago, which actually would have put you sort of in around 125. So, that's -- 110's a step down from that, and that could be lower this year, given what's going on? Or, 110's a good number for this year?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

I would, at this point -- I mean, in that 110 range, I think, is pretty close.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Okay. And then, in a low growth economy in North America -- so, both jurisdictions, low inflation, low growth economy, that's kind of a good place to start as a stake in the ground for 2010?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Yes. Yes.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Okay. And then --.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

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One clarification. That 120 is in US dollars, obviously.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Say that again, Tom? I'm sorry.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

120 -- I'm sorry, the \$110 is in US dollars, the range that I said it was.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Right, right. Yes, I'm modeling US dollars.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Yes.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

And then, the US north did have a terrific margin improvement year-over-year, and as well sequentially. How much of that is just the fuel unwinding?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Hang on a second here.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Yes, give me a second. I've got it here, too. I mean, I'm --.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

There's lesser in fuel -- we'll let Tom look up the number. But, I can tell you, Michael, it's lesser in fuel in the northeast. That was the region that we really had the issue of not being able to pass through as much surcharge in the northeast as we were in the other regions, simply because our concentration of collection volume was higher in the other regions relative to the northeast.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

And I don't actually have that number in front of me specifically. But, there was also the transportation component that is basically fuel, too. So, a lot of the operating costs decrease in the northeast in the quarter has a fuel relationship.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Right. And not to take anything away from the extraordinary cash flow, because at the end of the day, this is amazing cash flow. You do long haul a lot of stuff, which has got that underlying transportation fuel. The -- and with the volumes the way they were, it appears you gave up a little bit of price to be able to hold onto volumes since your internalization is below 50%. When do we see a shift, in your view, in that marketplace where you've hit -- and I think I heard you say you thought you were hitting this point of parity where nothing gets any worse from here and therefore maybe you start to get both price and volume movements in the north.

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Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Michael, the -- first, let me just go back and address the fuel issues as well. We have put hedges on, so consequently we do not expect to see the impact that we saw in previous quarters when fuel pricing was high in the northeast. So, just to address that issue.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Okay.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Secondary, we are seeing a moderate improvement in terms of pricing at our northeast landfills on a year-to-date basis. And I would say to you it's a moderate increase, virtually about 1 percentage point. And we have seen some increased volumes at the landfills as well.

Now, part of that was essentially previous agreements that we had acquired through acquisition where there was a diversion of waste to other third party landfills that we now have the ability to internalize. So, some of those agreements are coming off, and that led to better internalization rates or -- and increased volumes at the landfill.

So, you could look for -- obviously for that to remain consistent going forward, assuming that there's no further deterioration in the economy in the area. And -- but, apart from that, I mean, we're not seeing any tremendous uptick in the economy. There's no indications in the northeast that would give rise to say that we would see further improvements beyond, at this stage, what we've accomplished through the quarter.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Okay. And I'm presuming that's the Winter Brothers put to the Allied landfill, and now that's undone. You're capturing that in your in-house.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

That was part of it.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Okay. When you talked about generically that the commercial business, the front end loader business was showing some growth. The -- when you think about all tonnage going across scales, and I realize some of this doesn't translate into revenues right away because of service upgrades and all that, what are you seeing in your tonnage crossing scales off your own trucks, and then sort of tonnage off of third parties coming into your system?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes, that's a good question. We're not seeing significant growth in our weight, if you would like our weight per cubic yard, or our weight per load in terms of industrial or, more importantly, that have -- we'll call it the heavy industrial business. So, we are seeing -- we did begin to see a little bit of an uptick. But, at this stage, I wouldn't say that it's material, and we saw that in September.

So, I can't tell you at this stage whether that's a seasonality issue adjustment or whether it's -- we're going to see an improvement in the economy as it relates to the weight per cubic yard. Clearly, that's an indicator that we're looking very, very closely at because obviously that will translate not only in terms of how we operate and changes we make in our collection companies as it relates to pricing, but in addition to that, it's going to translate to better volumes in our landfills as well.

So, we are paying close attention to it. But, at this stage, I would say to you we're not seeing any material uptick in those weights.

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Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Okay. And then, the -- with regards to acquisitions, one might have characterized that it probably is more of a buyer's market obviously than a seller's market, given the multiple compression, at least from the percent perspective of what a buyer would want to pay. But, have sellers kind of gotten grounded, too, from your perspective? So, are you finding a middle ground where deals can in fact get done with regards to valuation?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Obviously, there are -- as any other time, there are two types of sellers, I think, Michael, I would address that. The sellers that are out just basically window-shopping to determine what value is out in the marketplace. And typically, if they're still trying to test high multiples, then those conversations don't go a long way.

But, clearly, there are those people who the conversations are much longer. And so, they've really looked at and accepted valuation today in terms of today's multiples and today's cost of capital. And so, clearly we are having elongated, certainly, conversations with those folks. And they're clearly being driven by all kinds of reasons. Clearly and certainly, one of them is the concern about the availability to raise debt going forward.

So, that's bringing, clearly, more people to the table. And the conversations therefore are much more in-depth and, I believe, will lead to fruition in those -- with those types of folks.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Okay. And then, does the expiration of the Bush capital gains tax seem to be causing people to want to talk more?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

There hasn't been anyone that I can think of that's come to us and said that's the motivating reason that they're selling. Typically, I think people have, I'd like to say, much more important reasons why a sell is more meaningful for them at today's given time. So, we're not hearing anything back that that's the motivating factor.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

And then lastly, we always wonder about the saga in New York City and when they'll finally get to some permanent solutions. But, is -- do you have any visibility on that at this point?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

No. Discussions continue. We like our position as it relates to New York City. But, I would say that the pace has slowed a little bit over the last quarter.

Michael Hoffman - Wunderlich Securities, Inc. - Analyst

Okay. Terrific cash flow.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Thank you very much, Michael.

Operator

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Your next question comes from Jonathan Ellis of Banc of America-Merrill Lynch.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Thanks. And good morning, guys.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Morning, Jonathan.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Morning, Jonathan.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Just a point of clarification first. When you reference landfills volumes by region, does that encompass both third party and internal volumes, or is that just the third party volumes?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes, it's both. It's obviously internal and third party.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Okay. Could you then help us, particularly in the northeast? If you strip to the impact from internal volumes, did your third party tonnage increase or decrease year-over-year this quarter?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Let me just check here.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

And I guess the same question would extend to the other regions. Was there any change in terms of year-over-year comparisons if you strip out internal tonnage for the landfill volumes in the other regions?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes, let me -- do you have a second question? And we'll give you that information.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Let me -- I'll throw up maybe more of a softball then. The fuel hedges you just put in place in Canada, can you help us understand what percentage of your total fuel consumption does that encompass?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

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In terms -- Company-wide, it's about 40%. And it's pretty similar to that percentage in Canada.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Okay, 40%. And then, do you -- you gave a price point for the first year. Do you have price points for the second and third year for those hedges? Are they fairly comparable or are they slightly higher?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

They go up -- there is a little bit of uptick, and they're all laid in -- presented in the MD&A, John. I don't have them actually here in front of me.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Oh, apologize. I missed that, then. Okay.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

No problem.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Jonathan, on the external tonnage in the northeast for the quarter, it was down 4%.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

That's in the northeast. And then --.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

That's in the north. I'm sorry. It's down 2% in the quarter.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Okay. And I guess my question is would there be any meaningful difference in the other regions if you strip out internal volumes?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes, let me just tell you.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Okay. And maybe while you're looking that up, just one other question I wanted to ask as it relates to landfill depletion. Tom, I think you mentioned that landfill depletion had declined in Canada, if I caught that correctly.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

The actual amortization expense, yes.

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Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Okay. But, that's actually not -- that's not directly linked to volumes, then, as --.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

No, it was the adjustment to the amortization rates.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Okay. So, that was independent of the volume?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Correct. Correct.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

And Jonathan, in the -- when we look at third party volumes, it was relatively flat in Canada external volume on a year-over-year basis. And the south, we did -- on an overall basis, we do have some shifting in terms of external tonnage in the -- in terms that it is down but only as a percentage related to the fact that we acquired Turkey Creek, which increased our internal tonnage into Turkey Creek. Okay?

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Okay.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

So, you just have a rebalancing, basically, in this.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

I got you. Okay, that's helpful. Just in terms of overall landfill pricing, can you help us understand? If you look at the mix between contracts and spot market business that you do at your sites, can you give us some sense of what the proportion is, and whether there's any real difference in pricing trends you're seeing between the contract side versus the spot side at your landfills?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

I would say to you that the -- right now, the majority of it is spot pricing. We have very -- a very limited amount or certainly a limited amount of long-term contracts. There are some short-term contracts that will run for several months or through a balance of the year. But, effectively, the majority of it is spot pricing.

And this year, I would say to you, as I indicated earlier in talking about that percentage -- that price percentage was actually up slightly in the northeast. So, you can see that the spot contracts are -- have been relatively flat or consistent through the year.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

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Okay. That's helpful. And then, just in terms of mix, the -- to what extent did mix between MSW, special waste, C&D, actually impact your pricing this quarter at the landfills? Or, was it really just -- when you talk about the percentage changes, was it really more just of a per unit change?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes, I would say to you it's more about per unit. It really wasn't significant price relationship between C&D and municipal solid waste.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Okay, that's helpful. And then, just -- if we could turn our attention quickly to the acquisitions, I know in the past you haven't provided annualized revenue from companies acquired. And if you're not willing to do that now, maybe can you give us a sense, the revenue contribution from acquisitions in the quarter that you reported for the US and Canada, how should that percentage roll off over the next four quarters, just so we can make sure we're going to model this properly? And maybe what I -- specifically, would more of it roll off, say, in the next quarter, or should we assume that there is a kind of a scaling down, linear scaling down over the next four quarters?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

I think if you go back to 2008, we really haven't done any material acquisitions --.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

During the fourth quarter at all.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

For the fourth quarter of last year and then going into this year. So, you're not going to have much of a rollover effect, certainly through --.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Most of the impact so far in acquisitions is the Fort Worth deal.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes, right.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

In Q2.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Right. So, you're not going to see a lot of that impact. And I would certainly want to say that as we go forward, anything that's material we will give you some guidance on in terms of the year-over-year benefit related to those acquisitions.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Okay, great. And then, just the residential contract in the southeast, I believe, started this quarter. How -- can you quantify what the impact of that is on a quarterly basis or an annualized basis?

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Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes. I mean, the revenue is approximately \$12 million on an annualized basis.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Okay. That's helpful. And then, just my final question. In Canada, I noticed that your recycled commodities line was actually up year-over-year. And just given the timing of commodity pricing turning positive versus 2008, I was surprised that your revenue figure in Canada was actually positive this quarter as opposed to that being pushed out to the fourth quarter. Any reason why your commodity line in Canada was up this quarter, just given overall pricing trends?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes. I think clearly we have -- we've had a focus on that area as well. I would -- so, our sales group has been out there identifying where opportunities exist in that area, because at the same time, it obviously gives us an opportunity to bring in more MSW related customers as well.

So, in addition to that, I would believe that when you look at Canada where landfill pricing is higher, there's certainly more of a motivation for clients to be looking -- or a customer base to be looking at engaging in recycling activities. So, we're very, very pleased both in terms of margin, because, once again, I'll reaffirm the fact that we have a policy that we look to get a payback from the customer in terms of collection activities related to recycling to the same extent that we would commercial or roll off collection activities.

So, overall, it's had a tremendous benefit to us, and it generates the same if not a better payback as it would on our other lines of business.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

So, it's really -- it was more of a volume pick up than anything to do with pricing?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

It is volume and price. As I mentioned to you, we do look for the same if not better margins out of the recycling collection than we do in the other lines of business.

Jonathan Ellis - Banc of America Securities-Merrill Lynch - Analyst

Got it. Great. Thanks, guys.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

You're welcome.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Thank you.

Operator

Your next question comes from the Chris Murray of CIBC World Markets.

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Chris Murray - CIBC World Markets - Analyst

Morning, guys.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Good morning.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Morning. How are you, Chris?

Chris Murray - CIBC World Markets - Analyst

Good, thanks. Just let's -- if we can return a little bit to acquisitions, just trying to dig into these numbers a little bit. You indicated in your script that you're looking at about \$250 million available for acquisitions if you look at that 2.5 multiple. Could you give us some more idea about where you think you may be wanting to target that number? And also, I guess what I'm thinking about more than anything, in the past you've talked about driving your internalization rates, which are right now, I guess, in the US around the 40% level. Can you give us some idea of where you think that you could drive your existing EBITDA margins to vis-a-vis where you're going to take your internalization rates to?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Well, boy, that's a -- you've put a lot in that question. The -- first of all, we'll reaffirm the fact that when you look at the US, you're really talking about the two regions. The southern region, at the present time we're happy with the internalization rate. We'd always like to see it increase. So, whenever we have an opportunity through acquisition or through growth, we will look to increase the internalization rate both in Canada and in the south.

Having said that, our actual internalization rate in the northeast is below 40%. So, we would like to increase that rate. And there is a focus, clearly, to create opportunities through acquisition where we can get more internalized volume into those northeast landfills.

Now, as I mentioned earlier, clearly when we acquire businesses, and if we're doing -- if they really fit in well with our existing asset groups, then there will be synergies in the existing assets as well. So, when we -- relative to the acquisition that we do and the size of the acquisition and the area it's affecting, clearly that will affect margins.

So, in other words, if we can internalize more into an area which gives us an ability to pass through price both from the landfill and then all the way back to the collection companies, then we have a compounding effect on margins. And so, clearly we will see margin expansion. But, to give you an exact number really can only be done on a case-by-case basis of the relative size of the potential acquisition, or the acquisition relative to the assets that are in that current area.

But, clearly you would expect that any material acquisition into a densely populated area should give you better expansion -- margin expansion through all of the assets in that region.

Chris Murray - CIBC World Markets - Analyst

Okay. And then, just looking at that, I guess, in terms of timing. I mean, is this something -- and I know we're not talking 2010 guidance yet. But, is this something that you think you'd get accomplished over a three year timeframe? Is it something that you're trying to -- do you think your pipeline supports that kind of investment over what sort of timeframe, I guess?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

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Well, again, going back to your previous question, I mean, understanding the significant impact that we receive when we have the ability to create the scenario that I just described, then clearly there is some focus in terms of timing to improve our position in the northeast.

So, our people are actively looking at the opportunities that might exist in that area. So, hopefully I would like not to wait for three years to see those improvements.

Chris Murray - CIBC World Markets - Analyst

Okay. And then, just going back to what -- you also mentioned that you had not only tuck-ins but also some fairly major platform acquisitions you were looking at. Is it fair to assume that most of those platforms, however, will be in the regions that you're actually operating in? It wouldn't be in, like, another state that you're not currently operating in, or some other jurisdiction?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Again, let me say to you that we can have a platform that's in a new market but at same time is internalizing waste to our existing landfills within the region. So, once again, when we get into a platform, we would like to see the symbiotic relationship, as I described earlier, between the landfills and between the collection companies. And so, we're always looking for that.

So, the focus, again, will really be in those areas that would be a platform but, again, internalizing waste to existing landfills.

Chris Murray - CIBC World Markets - Analyst

Okay, great. And then, just on the PPSs. The -- I guess with the tax change coming on capital gains by the end of the year, have they -- have the holders given you any indications on their conversion? And if and when they did convert, are there any financial impacts to you, tax implications or any sort of changes that you may have to make if those actually occur?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

No, there's no tax implications at all to the PPSs. It's basically a one for one basis, number one. Number two, I think you'd really have to speak with them. My understanding is that they're very happy with the investment. But, certainly we can't speak for a third party.

And I know that in the past that they have fielded calls concerning this. So, I guess if I was concerned, I'd give them a call.

Chris Murray - CIBC World Markets - Analyst

Okay. Thanks.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

You're welcome.

Operator

Your next question comes from Bob Gibson of Octagon Capital.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Good morning, Bob.

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Bob Gibson - Octagon Capital - Analyst

Good morning, everybody.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Good morning.

Bob Gibson - Octagon Capital - Analyst

Can we just give a run down of the various landfills, anything new, anything we should be aware of, and maybe a focus on Calgary?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

No, all our landfills, I will tell you, are in pretty good shape, certainly as it relates to life in the sites. And as I mentioned earlier, overall we're pretty pleased in terms of volume. We expect to be hitting capacities in certainly most or all of the landfills through the balance of the year. So, we're pretty pleased about it.

In terms of the Calgary landfill site, we've been proceeding both in terms of the closure plan and in terms of new site development. As I mentioned on my previous call in the last quarter, we don't want to go beyond that. It's usually when we're more public about these things that it's going to create a negative impact in our ability to be successful.

So, let me just say that we're pleased in terms of where we are in Calgary. And at this point, we wouldn't say that we see any material change in the near future as it relates to earnings out of that region.

Bob Gibson - Octagon Capital - Analyst

Okay, great. And the next is labor cost. We're seeing a number of companies getting some cost pressure on labor. Is anything happening there, any contracts we should be concerned about going forward?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

No, we don't believe so. Clearly, as it relates to -- and I believe you're referring to organized labor. We have had some contracts come up and we seem to be doing well.

We have a real focus in regards to incentives. And, in fact, in most of our companies, we have productivity or production incentives in those companies. And again, assuming, and we like -- as you can see, we're continuously increasing our density. As we do that, that's a win-win situation, both for us and for our drivers as well, because clearly it gives them an opportunity to earn more pay by working the same amount of hours.

So, overall, I would say to you that we're pretty pleased with our relationships with labor. And we'd like to be hopeful that we don't see any concerns going into the near future.

Bob Gibson - Octagon Capital - Analyst

Great. Thanks very much.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

You're welcome.

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Operator

Your next question comes from Youssef Abboud of Clarus Securities.

Youssef Abboud - Clarus Securities - Analyst

Good morning, gentlemen.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Good morning, Youssef.

Youssef Abboud - Clarus Securities - Analyst

Actually, most of my questions have been answered. Just a quick follow up question on the northeast, the price increase we see on the collection side in Q3. Now, I think as you said, pricing pressure is less than before. Are we -- going forward, shall we expect that pricing increase to continue and to catch up with the south and maybe Canada in the next few quarters?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Well, every region has different dynamics in the region. If you go back, Youssef, we saw the deterioration in the economy in the northeast probably begin before most of our other regions. But, just let me say that that really is relative to the economy. It's -- we're continuing, or we will continue, to move price forward as much as we can in all of our regions.

But, again, there's always a relative comp to what's going on in the economy. We find, for example, in the eastern Canada, in those areas where we don't have automotive related type industries, that pricing is more flexible in those areas than it is in the areas where we're seeing a decline.

So, I would like to say that it's -- every market is different. We approach pricing opportunities and volume opportunities relative to what we're seeing in the market and then we'll adjust accordingly. Clearly, what we're always looking to do, though, is move our revenue per asset hour. So, more focus will move relative to what we're seeing with competitive conditions and economic conditions in each one of the regions.

Youssef Abboud - Clarus Securities - Analyst

And lastly, we saw the volume flat in Canada in Q3 and Q4 and -- sorry, and for the US down 0.5%. So, Q4, for your quarterly for -- very likely that we are going to see strong volume growth because of the low base comparison last year?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

I'm not so sure that we will see it in volume. I think clearly there are some areas that you could look at, however, on a quarter-over-quarter basis such as commodity pricing. If I recall, we had an impact of about \$2 million in the northeast, for example, in commodity pricing last year. So, clearly on a comp basis, we expect that we'll do much better both in terms of the Canadian area and the northeast area as well.

The south, if you recall, it wasn't as material last year at that time. So, I believe that that's where you're going to see the greatest pick up on a quarter-over-quarter basis.

Youssef Abboud - Clarus Securities - Analyst

Thank you very much.

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Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

You're welcome.

Operator

Your next question comes from Rupert Merer of National Bank Financial.

Rupert Merer - National Bank Financial - Analyst

Good morning, everyone, and congratulations on a great quarter.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Thank you, Rupert.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Thank you.

Rupert Merer - National Bank Financial - Analyst

So, on core prices, you've touched on this a little already. But, given that the core price increases were down a little quarter-over-quarter and have been trending down, how should we look at these going forward? Do you expect them to stabilize?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Again, really I'll go back to where we -- where I was in the last question. I would say, first of all, core price is an important part of our process. So, we will continue to focus on price. We believe that the industry continues to have pricing power in our markets.

I'll go back that our average customer is still getting one of the best service buys in the world in -- as it relates to waste collection in North America. So, we believe that pricing power is still out there. We will continue, therefore, wherever possible to move pricing going forward.

In addition to that, we have some markets where we're continuing to see population growth in the marketplaces in Canada. And we're continuing to see some migration of population in the US from north to south, and particularly in the Texas market. So, clearly there'll be a focus as it relates to volume growth in those particular areas related to that population growth.

So, I would certainly say that you can expect to see pricing moving forward. And certainly unrelated to economic activity, you should see some growth activity related to population.

Rupert Merer - National Bank Financial - Analyst

Okay, great. Thanks. The contract wins you discussed in the US south, is that mostly the \$12 million residential contract you also discussed?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

That's principally the growth, yes.

Rupert Merer - National Bank Financial - Analyst

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Okay. What was the timing of the start of that contract?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

It started July 1st, 2009.

Rupert Merer - National Bank Financial - Analyst

Okay. And just one more quick question. Given the change in fuel prices year-over-year and the various lag factors in seeing those move into fuel charges, what trends do you expect to see in fuel charges over the next quarter?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Well, I think as we mentioned earlier, what we've been able to do is strengthen our position in terms of our ability to be able to absorb and pass through more fuel surcharges, and assuming that we see increased pricing. So, if we go back to where we were in 2008, Canada had an ability to pass through the bulk or the majority of fuel increase. We still see that opportunity going forward.

If you were to look at the south, the majority of our business we were able to pass through. However, there was a portion in the residential related contracts that were either -- we would get delayed price increasing or, in some cases, we had no ability to price increase. And in the northeast in some of our areas, we did not have the ability as well.

So, for those areas, we have now created hedges, fuel hedges. So, between the fuel hedges and our ability to pass through fuel, certainly we do not expect to see a negative impact that we saw related to fuel going back to 2007 and 2008.

Tom, do you want to add?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Yes, I just wanted to add, I mean, if you go back to the fourth quarter last year, fuel started to drop very quickly in November-December. We tend to be on a lag on our pricing. So, really the true roll off of fuel surcharges happened in 2009, not in the fourth quarter.

So, there'll still be a fairly significant difference between this year, a reduction of fuel costs related to fuel surcharges, and last year.

Rupert Merer - National Bank Financial - Analyst

Okay, perfect. Thanks very much.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

You're welcome. Thank you.

Operator

Your next question comes from Nima Billou of Bloom Investment Counsel.

Nima Billou - Bloom Investment Counsel - Analyst

Good morning and congrats on a very good quarter.

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Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Thanks, Nima.

Tom Cowee - IESI-BFC Ltd. - VP, CFO

Thank you.

Nima Billou - Bloom Investment Counsel - Analyst

Just a quick question. From your answers to the questions regarding acquisitions, either it would be a tuck-in on a smaller scale, maybe \$10 million to \$20 million that would increase internalization or, if you ventured into a new territory, it would be on a larger scale that would encompass both collection and landfill, is that correct?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Again, it -- Nima, it's going to depend on the region that it's in. If it's a -- clearly, if it's a new platform, in other words, we're in a new collection market but we are -- we can internalize that waste to one of our landfills, then clearly we would not be looking to add more landfill, particularly if it's in the northeast.

If we were in a completely new region where we did not have accessibility to our landfill, then clearly we would look for an opportunity to either acquire a landfill in that region at the point of the first acquisition, or certainly we would want to feel very comfortable that we would -- could acquire a landfill shortly thereafter.

Nima Billou - Bloom Investment Counsel - Analyst

Okay. And in terms of volumes, sequentially they've certainly improved, although they're a bit negative in the States. Are you encouraged in terms of an economic rebound leading to higher volumes, or is it just a seasonal quirk and it's going to take longer for volumes tied to economic activity to come back?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes. Again, we haven't had any real strong indicators where I could come out and say to you that we're seeing a major uptick in terms of economic activity relating to more waste volumes at this stage.

We saw, as I mentioned earlier, a little bit of a movement as it related to September. But, I can't tell you whether that's more of a seasonally adjusted number at this stage, or whether it's related to economic activity. But, I would say to you it's not material enough that it's going to result in any material results going forward, so -- at this stage.

Nima Billou - Bloom Investment Counsel - Analyst

Fair point. And finally, you'd mentioned that strengthening commodity prices are starting to help the recycling side. Are you seeing that stabilize and are you going to get a little bit of an increased cash contribution from that side? Or, is it just going to hold steady, from your viewpoint?

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Yes. It's very difficult to say, because you're -- commodity prices today are driven from a world impact, economic impact in terms of what's happening over in China, etc. So, assuming, all things being equal, that China continues along their path, then clearly we see that -- we see pricing stabilizing where it is today. Certainly, I think the economic conditions would have to change significantly better for us to see an impact in pricing as it relates to North American activity.

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Nima Billou - Bloom Investment Counsel - Analyst

Okay. Thanks very much.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

You're welcome.

Operator

And your next question comes from Michael Simpson of Sentry Select.

Michael Simpson - Sentry Select - Analyst

Hi. Thanks. I guess you've had enough questions on acquisitions, so I'll just ask you about the goodwill. At the end of the year, do you foresee any write-downs in your goodwill?

Tom Cowee - IESI-BFC Ltd. - VP, CFO

We haven't made -- no. That's probably the best way for now. We haven't done any additional work, and we usually do it in the second quarter. As part of the normal audit process, our auditors will look at it. But, at this point, I don't expect it.

Michael Simpson - Sentry Select - Analyst

Thank you.

Operator

(Operator instructions.) Mr. Carrigan, there are no further questions at this time. Please continue.

Keith Carrigan - IESI-BFC Ltd. - Vice Chairman, CEO

Well, we'd like to once again thank everyone for joining us on our call today. We continue to be encouraged by our results. And once again, we'd like to thank the contributions of all our employees as it relates to another good quarter.

And most importantly, we look forward to meeting with you all again next quarter as we report our Q4 results. Thank you very much.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation and you may now disconnect your line.

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