

An aerial photograph of a large, intricate green maze, likely a hedge maze, with many winding paths and dense hedges. The maze is the background for the entire slide.

Brookfield

A Virtuous Cycle for the Circular Economy Sector

Waste and Recycling Services May Offer
Inflation Protection and More

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A VIRTUOUS CYCLE FOR THE CIRCULAR ECONOMY SECTOR
PUBLIC SECURITIES GROUP

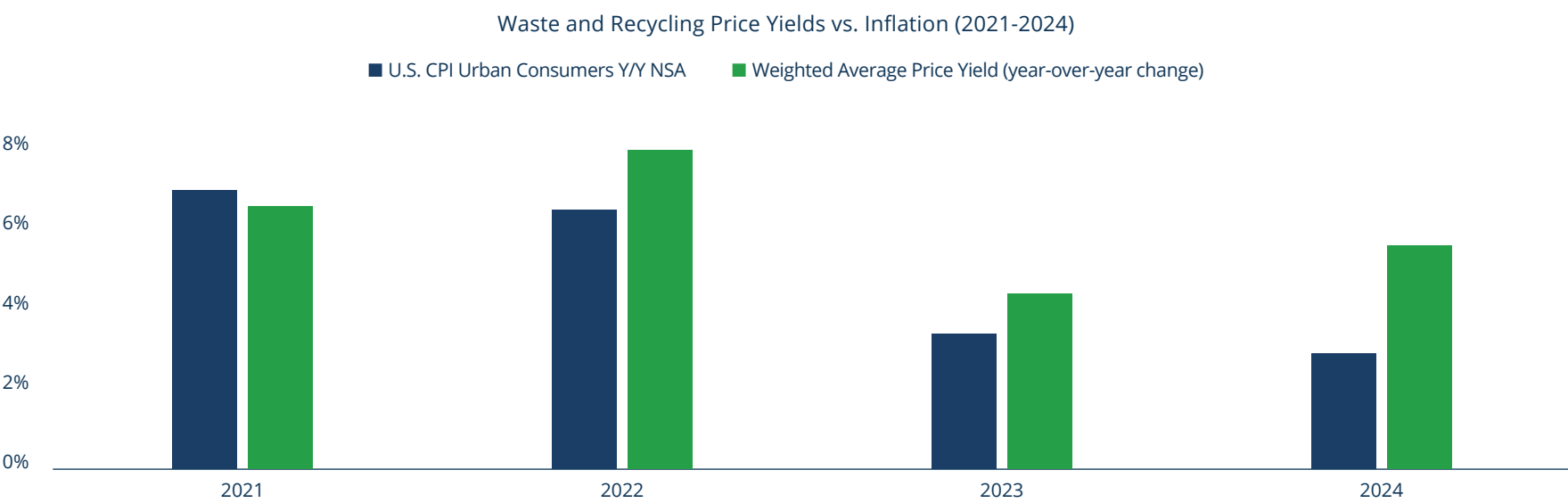
In recent years, companies in the “circular economy” sector—which includes waste and recycling services companies—have exhibited resilient cash flow growth. Investors in these companies have benefited in the era of elevated inflation. Expanding pricing power and operating efficiencies have helped drive investment returns, validating the argument that this sector can serve as an effective inflation hedge.

We believe listed companies operating assets at the forefront of upgrading the world’s waste infrastructure to promote a cleaner and more efficient circular economy are well positioned for continued upside. Structural changes in their business models and new markets position the sector well to compound cash flow growth, in our view.

Pricing Power Driving Yields

Favorable pricing dynamics for the sector have led to year-over-year growth in price yields exceeding inflation—even as year-over-year consumer price index (CPI) measures hit multi-decade highs. In some cases contractual escalators drove top-line growth, while in others inelastic demand and the adoption of dynamic pricing models helped drive revenues.

Circular Economy Sector Price Yields Have Been Exceeding Inflation

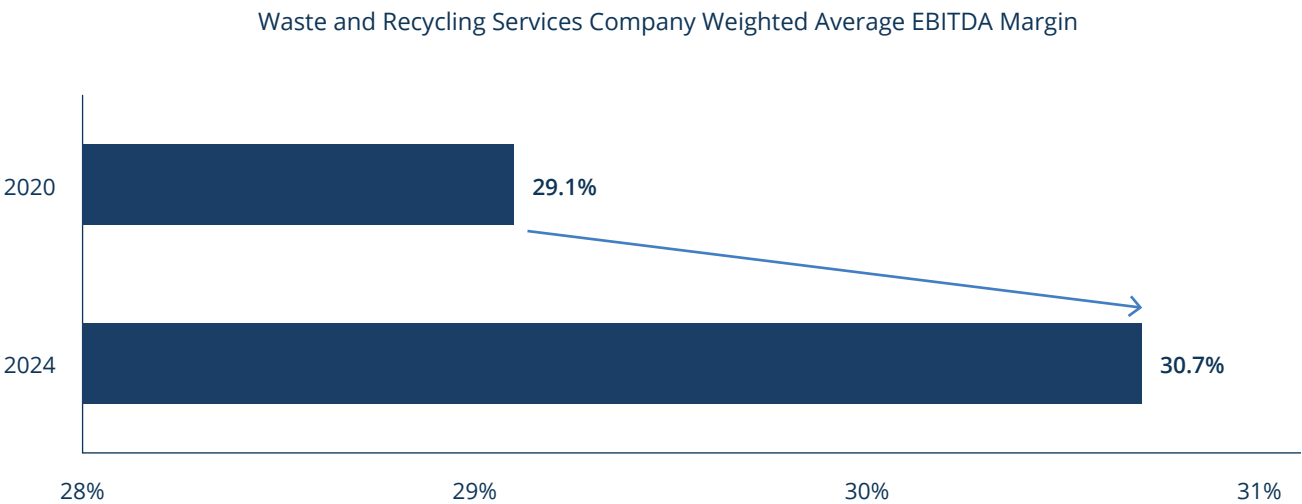


As of December 31, 2024. Source: Company filings. Calculations based on the three largest companies in the sector: Republic Services (RSG), Waste Connections (WCN) and Waste Management (WM).

Operating Margins Improving

In addition to improved pricing dynamics, waste and recycling services have recently significantly improved their operating margins. Management teams of the listed companies in the sector have been able to lower their costs through fleet modernizations, facility upgrades and process automation. This ability to mitigate cost inflation while optimizing ongoing operating expenses enabled the largest operators to drive significant margin expansion, by roughly 160 basis points between 2020 and 2024, at a time when inflation was near all-time highs. With labor costs moderating, we believe these companies are well positioned to manage the spread between price and costs to maintain healthy margins.

Operating Efficiencies Have Helped Drive Significant Margin Expansion



As of December 31, 2024. Source: Company filings. Calculations based on the three largest companies in the circular economy sector: Republic Services (RSG), Waste Connections (WCN) and Waste Management (WM).

Opportunities for Cash Flow Growth

There is a utility-like quality to this sector’s business model, which has translated into resilient (e.g., less cyclical) cash flows. That said, beyond their core businesses of waste collection and disposal, listed companies in the sector are also implementing growth initiatives focused on sustainability practices that drive the circular economy. These practices include operations related to renewable energy, consumer packaging circularity and specialty disposal services (e.g., disposal of medical and hazardous waste).

One key opportunity we see for the sector’s future cash flow growth is renewable natural gas (RNG). This biogas is produced through the decomposition of waste at landfills, wastewater treatment plants and livestock farms, among other sources. Landfill gas projects are gaining more traction because they can reduce carbon emissions while lowering business operating costs.

Given the industry’s high barriers to entry and strong operating platforms, we believe incumbents enjoy wide competitive moats and are well positioned to execute on their numerous long-term growth opportunities.

Solid Waste and Recycling Industry Overview

The solid waste and recycling industry is playing a key role in the global transition toward a circular economy that minimizes both raw materials use and the creation of pollution and waste. Companies operating in the industry focus on the collection, processing and management of waste and recyclables for commercial and residential customers. These companies also operate environmental services business lines, focused on renewable energy solutions and other decarbonization and circularity solutions. According to one recent estimate, the total addressable North American environmental services market generates approximately \$165 billion of annual revenue.¹

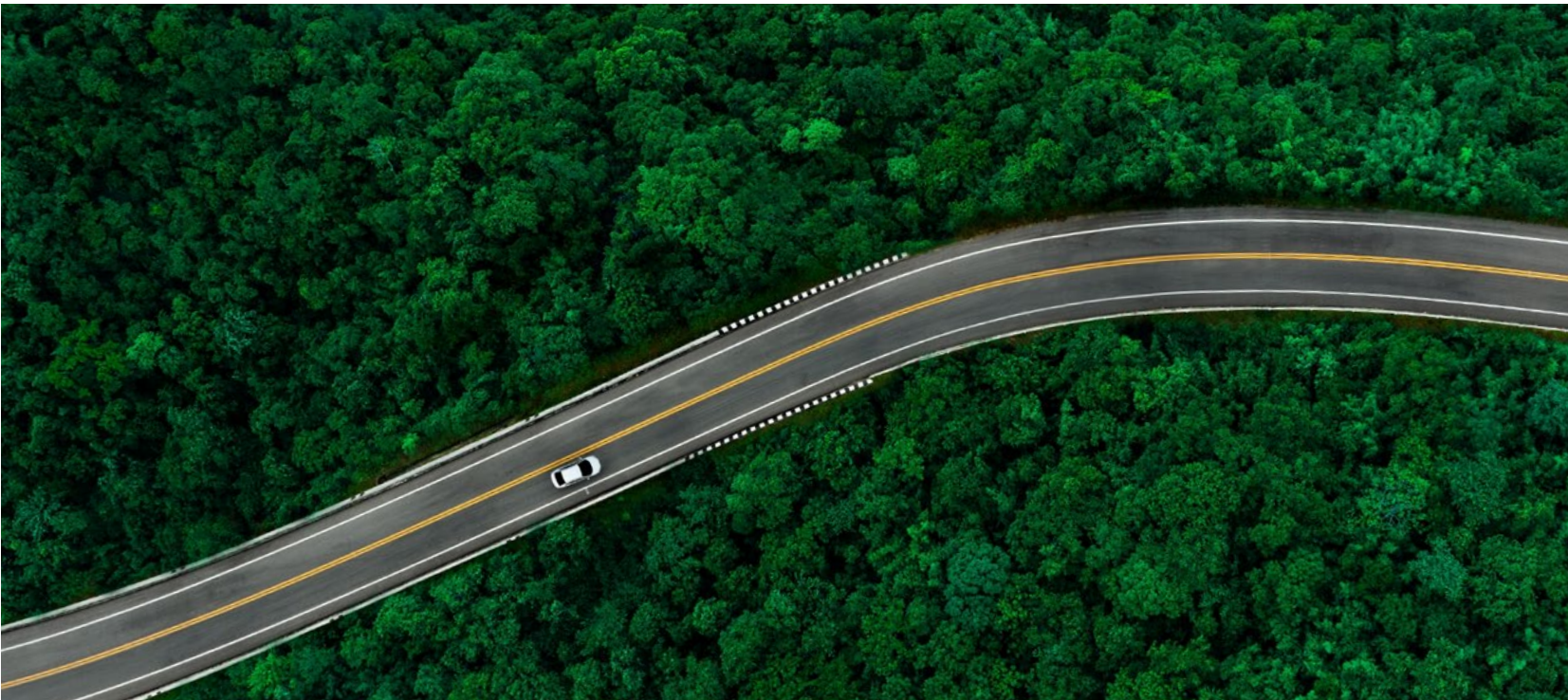
The industry is comprised of publicly traded and privately owned local, regional, and national and international companies. In the U.S., the three largest publicly traded companies within the sector are Waste Management, Inc., Republic Services, Inc. and Waste Connections, Inc.

¹ Source: Republic Services, Inc. 2024 annual report.

More Than Just an Inflation Safe Haven

While global inflation has come off its 2022 peak, it remains elevated. Recent performance of waste and recycling securities suggests allocators should consider strategic exposure to the sector as a means to hedge a reacceleration of inflation. Additionally, beyond their core business models that have historically generated reliable cash flow growth from the delivery of essential services, we believe the sector is also poised to benefit from several secular growth tailwinds.

Because their operations promote circularity and facilitate decarbonization across the global economy, these companies represent a meaningful portion of our climate transition investment universe. Alongside electricity infrastructure and companies developing sustainable industrial and technological solutions, we believe the waste and recycling services sector offers diversification benefits to a strategy focused on driving positive environmental and financial outcomes.



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