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ISM I

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**Progressive Waste Management: Part I of II**

**Research Assessment 2**

**Date: 15 September 2017**

**Subject: Portfolio Management**

**Works Cited:**

Progressive Waste Management. *Form 10-K 2013*, 2014. Web. 15 September 2017.

**Assessment:**

When making investment decisions, the annual report is one of the invaluable tools that all professionals use to determine the intrinsic value of a company. Although a certain amount of portfolio and theory are important in the world of portfolio management, the ultimate decider of investment success is the accurate valuation of a company. Because of this, studying annual reports of different companies is the most effective way of learning about portfolio management in practice.

This 10-K report covers the performance of Progressive Waste Management, a North American non-hazardous solid waste management company, over the 2012-2013 year. I picked this year because of Hurricane Sandy making landfall in Q4 of 2013. This unusual event allowed me to see the effects of such a catastrophic event on an intensely logistic-based company as well as study how the management of Progressive dealt with the damage on their facilities. Overall, I

learned a lot about management, industry analysis, and the effects of financial strain on the company as a whole.

The first part of the 10-K described characteristics of the non-hazardous waste industry. The biggest concept that management stressed was the incredible amount of competitiveness in the industry. Because the waste industry is highly dependent on the scale of a corporation, there is high competition for contracts, especially those that are residential. This competitiveness forces waste companies to drive down prices as well as guarantee efficiency, resulting in larger companies often holding a competitive advantage over smaller ones. Another risk that management stressed was legislative risk. Waste companies directly affect the environment in active areas, so they are subject to all legislation regarding the environment. In this sense, legislation changes could potentially force waste companies to dramatically alter their strategy in the future. Finally, because the company is spread across two countries: Canada (where they are headquartered and officially located), and the United States, they are susceptible to significant foreign exchange (FX) risk.

Although Progressive cannot prepare for dramatic changes in legislation or foreign exchange, they have a distinct advantage from some smaller companies because of their vertical integration. Vertical integration is the consolidation of smaller companies that are part of the same supply chain. Progressive has participated in many strategic acquisitions to pursue their goal of integration, particularly in 2011. By vertically integrating their company, they are able to offer a more efficient collection strategy and lower prices for their customers. These acquisitions, however, have somewhat damaged their financials over the 2012-2013 year.

The most significant damage that these acquisitions have done is raise the debt ratios in their corporation. Throughout the report, management describes the multiple debt agreements that they have entered into. Although Progressive paid off one of its largest loan facilities in 2013, they maintained a similar level of debt because of additional withdrawals from their revolving credit line. In the case of Progressive, their primary need for the revolving credit line is financing the multiple acquisitions that they have completed over the past two years. Although this debt will ultimately benefit the company by encouraging future growth, it could also result in adverse financial conditions if the debt is not managed properly. In the past, they have shown that they are able to manage their debt, as demonstrated by the payment of their Seneca IRB, but in the future, adverse economic conditions could impair their ability to effectively manage their debt.

Foreign exchange, or FX, is also a risk that Progressive must take into account when making decisions. This risk, however, stresses the company's response rather than the preparation, because they have no control over the economic conditions between the U.S. and Canada. FX primarily impacts their interest rates on loan facilities, especially their revolving line of credit. This risk often is the underlying drive behind many of the interest rates and taxes that the company is subject to. Foreign exchange rate changes ultimately ends up showing itself through balance sheet adjustments that sometimes reached into the hundreds of millions of dollars. I currently do not understand much about foreign exchange, but throughout the next few research assessments, I will study foreign companies and global economics to gain more insight on FX.

Overall, through the process of reading and annotating Progressive Waste Management's 2013 10-K filing, I was primarily able to get more practice and exposure in reading the Management's Discussion and Analysis as well as discovering areas of a business that I need to become more familiar in. I also gained some valuable exposure to the type of writing present in 10-K reports as well as some industry-specific financial terms that I was unfamiliar with. Moving forward, this information has set a foundation for me to build my knowledge base off of, and has allowed me to pinpoint specific topics that I am unfamiliar with and need to work on.