

Lynn Palmer

Mr. Speice

ISM I

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Progressive Waste Management: Part II of II

Research Assessment 3

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Subject: Portfolio Management

Works Cited:

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

Assessment:

The single most important part of company valuation is accurate and thorough analysis of a company's financials. The balance sheet, income statement, and cash flow statements collectively reveal the story of a company, creating an ongoing dialogue between the management's analysis (Part I of this two-part assessment) and the company's finances. In the same way that the movement of money reflects the events that occurred in the previous year, management's decisions are highly dependent on financials. For the intelligent investor, an extremely thorough understanding of both management and financial aspects of a business are necessary to determine the overall financial health and profitability of a corporation.

After familiarizing myself with the business of Progressive Waste Management in Part I of this two part research assessment, I have gotten a good idea of what I should expect in the company's financials. To summarize part I of this assessment, the major events of last year were

Hurricane Sandy, the closing of Progressive's Calgary landfill, and recovery from their multimillion dollar acquisition shopping spree. Because of these events, I have made a few predictions about changes in their financials:

1. As an effect of their string of acquisitions, they most likely raised their debt levels in their revolving line of credit, both in the US and Canada although concentrated in the US.
2. Because of a lower USD-CAD foreign exchange (FX) rate, the interest rate on the previously mentioned debt levels has dropped in relation to last year. Due to accounting rules, interest payments should be lower than previous years.
3. The closing of the Calgary landfill may lower intangibles because of lost contracts, but is dependent on new contracts in the US.

As I work my way through the financial analysis of Progressive Waste Management, I will discover if my predictions were correct and further evaluate the overall health of the company.

One of the most concerning parts of Progressive is their debt. After their string of acquisitions in 2012, their long-term debt actually decreased by 3%. Although this is not an extreme change, it is still a sign of stable financial health and a current ability to begin paying back some of their debts. To find a more accurate measure of Progressive's ability to pay back their debts, however, we must use the long term debt ratio, which divides the total long term debt by total assets. Progressive's 2013 debt ratio is 0.45, which means that for every dollar in long term debt they have, they have approximately 45 cents in assets. This is a relatively low debt ratio, suggesting a strong ability to pay back their debt holdings, although it must be compared to the industry average to determine if the debt ratio is comparably lower or higher than the general

industry. To further support the argument for a high ability to pay their debts, they also paid off their \$45,000 Seneca IRB on October 1st of 2013.

The second major part of their financials is their intangibles. These intangibles are mostly comprised of contracts with different cities and towns. When reading through their notes on intangible amounts, I found that my hypothesis of lower intangibles of correct. Because of the loss of some contracts in Canada, their intangible assets decreased, but was offset by a large new contract in New York, ultimately creating a 23% drop in intangible assets by year end. Although this drop in intangibles seems negative in the short term, in the long run, their acquisitions and new landfill projects should have enough earning power to fuel future growth.

A concept that I did not understand in the accompanying notes to the financial reports is the specific accounting policies that were used because of the acquisitions that occurred in 2012. Reading through the accounting policies that they described for mergers and acquisitions (M&A), I realized that I did not have enough accounting knowledge to fully understand the meaning of many of their M&A accounting policies. This unfamiliarity with M&A accounting, coupled with my lack of experience in FX, made it incredibly difficult to decipher how they calculated things like goodwill, fair value, carrying value, and interest on debt instruments and hedges. As I learn more about M&A and FX throughout the rest of the year, I will eventually be able to understand the different aspects of M&A and how FX affects these deals.

Through evaluating the financial statements of Progressive Waste Solutions, I primarily got practice with the skills that I need to effectively value companies. These skills will become incredibly useful when I begin to value companies for my original work, which I am currently planning to be a portfolio specifically for students saving for college. Because of the safety and

low risk that is required with this type of investing, accurate valuations become incredibly important. In addition, as I become more skilled at evaluating FX and M&A deals, I will be able to venture into more adventurous companies, particularly large foreign conglomerates. These, in turn, will allow me to have a more diversified, and therefore comparably safer portfolio. Overall, through reading this annual report, I have found specific areas to learn more about and developed fundamental skills that will be incredibly useful in the development of my original work.