

FINAL TRANSCRIPT

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BFC.TO - Q1 2009 BFI Canada Inc. Earnings Conference Call

Event Date/Time: May. 01. 2009 / 8:30AM ET

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BFI Canada Ltd. - Vice Chairman, CEO

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Walter Spracklin

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the BFI Canada Limited first quarter results conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question and answer session. Instructions will be provided at that time for you to queue up for questions. (Operator Instructions). I would like to remind everyone that this conference call is being recorded on Friday, May 1, 2009 at 8:30 a.m. eastern time.

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

Chaya Cooperberg - *BFI Canada Ltd. - Director of IR and Corporate Communications*

Thank you, and thank you all for joining us today. On the call, we have Keith Carrigan, Vice Chairman and Chief Executive Officer, and Tom Cowee, Chief Financial Officer, both of whom will be providing comments on the results for the three months ended March 31, 2009. Also on the call are Mickey Flood, President, and Joe Quarin, Executive Vice President and Canadian Chief Operating Officer, both of whom will be available to answer questions during the question and answer 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.

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We also do not commit to continue 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 by its nature is subject to risks and uncertainties that may cause actual events or results to differ materially. Please refer to the bottom of the news release that we put out yesterday for further information and to our annual information form for a more complete description of the risks affecting our business and industry. I hope you've had a chance to take a look at our news release. If not, you can log into our website at www.BFIcanada.com to see a copy.

A telephone replay of this conference call will be available until midnight on May 15. You can dial 416-640-1917 or 1-877-289-8525 and quote the reservation number 21303699. These details are also all available on the news release. So I would now like to turn the call over to Keith Carrigan, Vice Chairman and CEO.

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Thank you, Chaya. And welcome, everyone, to this morning's quarterly conference call. As those who joined us at our annual general meeting yesterday heard, we are extremely pleased with our strong performance in the first quarter. We continue to grow EBITDA and EBITDA margins, as well as free cash flow and net income. We also increased core price in our Canadian and US operations. We achieved this record performance in spite of a challenging economic environment. In fact, our operating metrics appear to have once again outperformed those of our peers in the nonhazardous solid waste services sector.

In a few minutes, Tom will provide a detailed review of the items on our income statement and balance sheet. But first, I'll discuss the highlights of our performance in the quarter, as well as our position and strategies for the balance of 2009. Revenues in the quarter grew more than 14% to \$279 million. Excluding the impact of foreign currency translation, our year-over-year revenues declined 1%. Some areas of the business are more immune to the broader economy than others. However, we were able to offset much of the impact through price, lower fuel costs, and cost saving initiatives.

By looking at our revenue composition by service type, I can describe exactly how the economy is affecting our operations. In Canada, based on first quarter gross revenues, commercial collection represents 39% of gross revenues. Transfer and disposal is next at 24%, followed by industrial collection at 17%. Residential revenues accounted for 14% of gross Canadian revenues with the balance coming from recycling and other. In the US, transfer and disposal represents the largest component of gross revenues at approximately 35%. Followed by commercial collection at 26% and residential collection at 21%. Industrial collection represents 14% of gross revenues, while recycling and other account for almost 4%. Residential collection in our business is considered an almost recession-proof service, while commercial collection is highly recession-resistant.

The industrial line is most sensitive to the economy and throughout 2008, the impact was most pronounced in our US northeast region. The good news is our performance is stabilized on a sequential basis and we believe we are seeing the bottom. However, in the first quarter, we saw some of the weakness related to industrial services and volumes spread into our US south and Canadian regions. Although core pricing remains strong in the quarter, volumes declined. This moderated organic revenue growth, that is gross revenue excluding acquisitions, foreign exchange translation, and fuel surcharges. Organic revenue was up 0.1% in Canada and was 5.4% lower in the US. In Canada, by implementing core price increases of 3.4%, we effectively offset volume in fuel surcharge and recycle commodity revenues, also saw a decline of 2%, 0.5%, and 0.8% respectively. In the US, while core price increased 2.5%, fuel surcharges declined 1.2%. Recycle commodities revenue was 2.5% lower, and volumes declined 4.2%.

To adjust the market reductions in recycled commodity prices and offset the higher processing costs, we've introduced price increases in both Canada and the US. Initially when commodity prices dropped in October, we were able to pass through increases faster in Canada and in the US south than in the US northeast, which began to catch up in the first quarter of this year. In fact, a portion of the core price growth in Canada and the US in the first quarter is attributable to these necessary surcharges. In the first quarter, acquisitions contributed 3.7% to gross revenue growth in Canada and 2.2% in the US. This entire revenue impact in the quarter came from acquisitions completed in 2008.

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Despite the effects of the economic challenges, we improved profitability in the quarter. Consolidated EBITDA increased nearly 17% to \$78 million, even before the impact of translating our US EBITDA into Canadian dollars, EBITDA grew nearly 3%. EBITDA margins expand nearly 60 basis points to 28%. Our strong EBITDA performance resulted in free cash flow of \$38 million, up 22.5% over a period a year ago. Excluding the impact of foreign currency translation, free cash flow increased over 8%. On a weighted average per share basis, free cash flow increased 20% to \$0.54 per share.

Turning again to our income statement, net income increased 17% to more than \$12 million in the quarter, excluding the impact of foreign currency translation, net income increased 8.5%. Earnings per share rose \$.02 to \$0.17 on a fully diluted basis. In all, this was a very solid opening to 2009. Yesterday at our shareholders meeting, I reaffirmed our outlook for capital expenditures and free cash flow in 2009. Again, assuming no further significant change in the economies of the two countries, we still expect total capital expenditures, including both replacement and growth capital to be \$20 million to \$30 million less in 2009 compared with 2008. This estimate assumes a US and Canadian dollar being at parity. We also still anticipate excess free cash flow after dividends paid to be in the \$40 million to \$50 million range.

While it is clear that the economy in 2009 will present challenges, we are prepared to meet them. We remain confident that our market focus strategies, combined with the resilience of our diversified business model and positive cash flow place us in a strong position for the balance of the year.

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

Thomas Cowee - BFI Canada Ltd. - VP, CFO

Thanks, Keith, and good morning, everyone, on the call today. As Keith mentioned, consolidated revenues in the quarter were \$278.8 million, an increase of 14% over the same period a year ago, or a decrease of 1% when you exclude the impact of foreign currency translation. Total operating expenses were up 11% over the comparable quarter. However, excluding the impact of foreign currency translation of our US costs, operating expenses would have declined 4.4%. We had lower vehicle operating and third party transportation costs in the quarter, primarily related to the decline in fuel prices. And in our Canadian operation we had lower landfill development costs in the quarter versus the same period of 2008.

SG&A expenses were up 23.4% over the comparable quarter. However, excluding the impact of foreign currency translation of our US costs, SG&A expenses were up 7.5%. The increase was the result of additional sales staff, salary, facility and office costs attributable to acquisitions and organic growth, and additional compensation expense to retain certain executive employees.

Earnings before interest, taxes, depreciation and amortization, or EBITDA, increased 16.7% or \$78 million. Excluding the impact of foreign currency translation, EBITDA increased 2.7%. As a percent of revenue, EBITDA for the quarter was 28%, a 60 basis point increase over the period a year ago. The improvement in the EBITDA margins were helped by lower fuel costs in the quarter.

Amortization expenses increased \$4 million in the first quarter as a result of foreign currency translation. Excluding foreign currency impact, amortization actually declined \$2.3 million. Lower amortization is due to changes in future permitted air space capacity estimates at our Seneca Meadows Landfill. This resulted in a projected landfill construction and development cost being amortized over a higher remaining landfill capacity estimate.

Excluding the impact of foreign currency exchange, interest on long-term debt declined \$3.6 million compared with a year-ago quarter. This is primarily due to a decline in the variable lending rates. We also had less long-term debt in the US in the quarter, principally from applying the net proceeds from our recent bought deal financing against US facility borrowings. However, the resulting interest savings from this transaction will be largely noticed in the second quarter of this year.

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Turning to our balance sheet, at the end of the quarter, long-term debt stood at \$965.6 million, down from \$1,020,000,000 at the end of 2008. As a reminder, we have two separate credit facilities in our company, one in Canada, and one in the US.

Starting with Canada, the funded debt to EBITDA covenant as of March 31, 2009 as defined and calculated in accordance with the underlying Canadian senior credit facility was 1.96 times versus a maximum funded debt to EBITDA covenant of 2.75 times, and down from 2.1 times at December 31, 2008.

In the US, funded debt to EBITDA covenant as of March 31, 2009 as defined and calculated in accordance with the underlying senior credit facility was 3.44 times versus the maximum funded debt to EBITDA covenant of four times and down from 3.93 times at December 31, 2008. Even without the proceeds from the recent bought deal transaction, US covenant would have decreased in the quarter. Holding the foreign currency rate between Canada and US at parity, the consolidated debt to EBITDA ratio at March 31, 2009 for the Company was 2.71 times.

In the second quarter, we plan to draw on the available Canadian revolving credit facility capacity to repay the senior secured Series A debentures that will mature on June 26, 2009. Drawing on the Canadian revolving credit facility to pay off this debenture has no impact on the total funded debt to EBITDA covenant, as this covenant calculation already includes both borrowings from the revolving credit facility drawing and the senior debentures.

Now turning to our capital and landfill purchases in the quarter, our spending for replacement in growth capital totaled \$25.1 million. Of this total, replacement capital represented \$15.5 million and growth capital represented \$9.6 million. As Keith mentioned in his comments, we are on track with respect to our capital expenditure guidance for 2009.

That brings me to the end of my comments. Again, we are very pleased with the performance in the quarter. In a difficult environment, we continue to improve our EBITDA, EBITDA margins, free cash flow, and net income. This is certainly no small achievement and reflects on the resiliency of our business model. Thank you for listening.

Now I would like to ask the operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). And our first question comes from Walter Spracklin of RBC Capital Markets. Please go ahead.

Walter Spracklin - RBC Capital Markets - Analyst

Thanks very much. Good morning, everyone.

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Good morning, Walter.

Walter Spracklin - RBC Capital Markets - Analyst

My first few questions are actually going to be on the northeast. I'll just list the questions and you can address them how you like, in what order. First, would be on the competitive environment in the northeast. And Keith, are you seeing any improvement

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there, particularly from a pricing standpoint? You did point to stabilizing characteristics, I believe were the words in the MD&A, and would ask you if you could elaborate on what that means.

And then finally, you also mentioned the timing of remediation spending and you emphasize the timings. Is that to suggest then that this will sort of have an offset in the balance of the year?

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Let me address the -- first what we're seeing with our companies. Then we'll talk about the competitive environment. As expected, the industrial collection sector line of business, we did see a decline on a year-over-year basis. But on a trending basis, if we view what had occurred on a run rate relative to the last quarter and really from the summer on, we're seeing a flattening out, even of that industrial basis.

I will say to you that volume at our landfills in the northeast are basically flat, even on a year-over-year basis from the first quarter, in the northeast. So we're pleased about that. However, without a doubt, there is a highly competitive nature to the northeast. There's no question about it. I believe that we're seeing our competitors vying for waste to either their landfills or the waste energy plants in the northeast, and I expect that that competitive nature will continue until you really get a redistribution of the waste and a repricing, call it a repricing of the waste throughout the northeast. I think that's been taking place. I'm not sure that it's completely done at this stage, but we like where we're positioned right now in our model right now as well. So I think that addresses the where we are, and it addresses the competitive environment.

Tom, why don't I let you talk about the timing of the other, third part of Walter's question. Do you want to repeat the third part?

Walter Spracklin - RBC Capital Markets - Analyst

Oh, sure. You had mentioned that the quarter was impacted by timing of remediation spending, and I'm just wondering if by emphasis on timing, is that something that should fix itself later in the year?

Thomas Cowee - BFI Canada Ltd. - VP, CFO

No, no, that was related to some activity we had on landfill projects in the first quarter last year, so it doesn't have anything to do with construction activities or anything like that. Sorry. My brain went dead. I forgot the question.

Walter Spracklin - RBC Capital Markets - Analyst

Okay. No problem. Next question is just on sort of the risks going forward, and Keith, I think you've addressed a number of the recent issues that perhaps were prevalent. And what I'm referring to is sort of cash flow conversion to corporation. You're dealing with the debt and I think that that's largely resolved. With those things under your belt, what's your next priority? Northeast sounds to be a work improving, but a work in process. Is there anything going into the second quarter that you see as your top priority in terms of dealing with?

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Well, we certainly had a lot of adjusting to do over this last quarter and towards the end of 2008. I have certainly been through a number recessions and I've never seen the speed and the turbulence of movement related to this recession. So certainly I think we've adjusted our business model, and assuming that we do not see significant changes over the next few quarters, as I mentioned, we feel very good about, about the balance of the year.

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So from a stabilized point of view, we're very happy with where we are today and we have some very definitive plans going forward to carry us through the balance. Let me also suggest to you, though, that once again, we have worked hard to get our balance sheet in shape. We believe that there are opportunities out there to carry our plans forward with respect to the balance of assets that we would like to see in every region. We feel that we can improve those balances in every one of our regions.

So we expect to now look to move forward, put an emphasis to move forward and take advantage of opportunities that may be there to further balance, create a better balance on our asset base.

Walter Spracklin - RBC Capital Markets - Analyst

You're referring there to tuck-in acquisition opportunities?

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Absolutely.

Walter Spracklin - RBC Capital Markets - Analyst

Last question here is on pricing. You reference that you're looking at price increases, Canada and the US. Can you give us a sense of the magnitude of those price increases?

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Well again, we've talked about what we have done in the past. We don't see that the price increasing pushback in the areas that we are price increasing, we'll call it that. So we feel that we have the elasticity to carry that forward through the balance of the year and so we're going to be obviously picking our spots. And as usual, we look at a market by market basis and we certainly haven't reduced our emphasis on return on capital. That is still the driving force in each one of our markets and so consequently, we will deploy strategies, and if they involve pricing in those markets, we'll deploy that pricing strategy in the market to create the returns that we're looking for.

Walter Spracklin - RBC Capital Markets - Analyst

That's all my questions. Thanks very much, everyone.

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Thanks, Walter.

Operator

(Operator Instructions). Our next question comes from Sophia Taylor of TD Newcrest. Please go ahead.

Sophia Taylor - TD Newcrest - Analyst

Good morning.

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Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

Good morning.

Sophia Taylor - *TD Newcrest - Analyst*

Thanks. Still focusing on the US Northeast --

Operator

(Operator Instructions). Ms. Taylor, your line disconnected. If you can queue up. Thank you. Go ahead with Ms. Taylor.

Sophia Taylor - *TD Newcrest - Analyst*

Hello?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

Hello? Let's try again.

Sophia Taylor - *TD Newcrest - Analyst*

We're on?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

Yes.

Sophia Taylor - *TD Newcrest - Analyst*

Okay, thanks. Just, again, the US northeast, the flattening out trend, some of your peers have disclosed statistics on a monthly basis. Could you possibly provide us with numbers, I suppose, on a monthly basis Q4 to Q1 to sort of help lend the color in that area?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

I'm sorry, Sophia, would you repeat it? We kind of caught in and out, pieces in and out of your question again. Let's try again.

Sophia Taylor - *TD Newcrest - Analyst*

Sure. One more time.

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

Okay.

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Sophia Taylor - TD Newcrest - Analyst

In terms of the US Northeast segment, some of your peers have disclosed statistics in terms of the trends they are seeing on a monthly basis, Q4 and Q1. Is it possible to obtain that from yourselves as well?

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

We typically do not release that much detail. I certainly -- again, I've indicated that if you look at the key elements of the operation, I would tell you that on a quarterly by quarterly basis, our commercial business is actually up in the northeast on a year-over-year basis. The industrial sector is down. I think it's fair to say that we are seeing industrial down in the US, typically in a range of 12% to 14%.

We are -- the residential typically has been holding its own. And by the way, in Canada, the reduction in the industrial sector is roughly only about 4 percentage points. We are seeing the residential sector essentially holding its own. We've actually had some improvement because of some contract wins midway through last year, and again, I did mention to you, and this is certainly a very significant point, that we have maintained the volume in our northeast landfills on a year-over-year basis.

And quite honestly, I think that's really the significant trend because we had a depletion in revenues as the year went on in the northeast, or in volumes as the year went on. So the first quarter was a pretty good quarter. So in consideration that we are maintaining volume relative to first quarter of last year, that's a pretty good indication in terms of where we would be for the balance of the year. Does that help you?

Sophia Taylor - TD Newcrest - Analyst

It does. Thank you. So that's where the US northeast. Then if I were to look at the US South and Canada, just the industrial line, are we still seeing some acceleration there, or is there stability--

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

No, we -- on a quarter by quarter basis, again, we saw a reduction in terms of industrial activity, about 14%. I'll remind you that when you look at industrial as a percentage of revenue relative to the Company, it's a smaller -- has a smaller relationship, typically is not as profitable as some of our other lines of business as well. So when you look at the south, you'll notice the south in general we have positive earnings results on a year-over-year basis.

Sophia Taylor - TD Newcrest - Analyst

Okay, okay, great. With respect to pricing, the surcharges being put through that we're starting to see materialize I think was how it was put in Q1, is there expected to be a materially more significant favorable benefit in Q2?

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

I wouldn't say that it's material. There's always a catch up that we do, particularly, and it's kind of like the fuel surcharges where, we're viewing price on a relative basis and we're usually a month behind. So there will be some catch up, more particularly in Canada you're going to see that. But in terms of materiality, I would suggest that it won't be material to the results.

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Sophia Taylor - TD Newcrest - Analyst

Okay, great. And then just an update, if we could, please, on Lachenaie.

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Lachenaie continues through the process. Again, once again, we've been extremely pleased. If you recall, if you remember, don't quote me on the number, but we've been through this so many times, I think this is about the fourth or fifth since we've been here that typically government waits till later on in the process to issue the permit. But without a doubt, this has been the most successful permitting phase that we have ever been through.

You might also recall that as we go through the previous permit, that the technical aspects of Lachenaie had been approved through the last permitting process, and we did get a very favorable report from the public hearings to the government as well. So, we're not seeing any pushback at all related to Lachenaie. So obviously we're not -- we have no angst at this stage.

Sophia Taylor - TD Newcrest - Analyst

And expected timing on when we might hear?

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

It's very unpredictable. Government is very unpredictable in terms of timing. They have different motivations, but once again, we follow it very closely through the government process and, again, what you want to know is that we have not seen any pushback anywhere.

Sophia Taylor - TD Newcrest - Analyst

Perfect. Thanks very much.

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

You're welcome.

Operator

And our next question comes from Aleem Israel from Cormark Securities. Please go ahead.

Aleem Israel - Cormark Securities - Analyst

Good morning.

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Good morning.

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Aleem Israel - *Cormark Securities - Analyst*

Wanted to visit a couple of things. Going back to the industrial set again, I want to confirm a few numbers. US Northeast down kind of down 12% to 14% on the industrial side?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

That's correct. Let me also say that we had a very good first quarter last year in the industrial side, it really hadn't hit the northeast at that point. It did once we got into about the second quarter.

Aleem Israel - *Cormark Securities - Analyst*

Okay, and then Canada was down, you mentioned about 4%?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

4%, that's correct.

Aleem Israel - *Cormark Securities - Analyst*

Okay, and then US South?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

It's down about the same, 12% to 14%.

Aleem Israel - *Cormark Securities - Analyst*

12% to 14% as well.

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

So we're seeing it across the US in the industrial commercials, or the industrial sector.

Aleem Israel - *Cormark Securities - Analyst*

Okay. And are you seeing it -- I mean with the US south kind of more exposed to the gas side, and we see a big decline as it relates to gas-related work, are you seeing an impact overall in the economy, I guess more down there at this point and are things accelerating a little bit more to the down side?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

No, actually we're not. I think this is a little bit of a catch up in terms of we're seeing slowdown, some slowdown in housing that we didn't see through a lot of 2008, but we do very little work related to the oil and gas industry.

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So as I always mentioned to you, we're seeing positive signs from within the Company as it relates to the commercial side of the business and the residential side of the business and that's offsetting any of the issues related to the industrial sector.

Aleem Israel - *Cormark Securities - Analyst*

Okay, and can you remind us, I think you've disclosed this in the past, but the US south, would it have kind of more or less of that 14% exposure to industrial that you provide us as exposure for US overall?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

If you look at the pies, it's pretty much equal balance on the industrial sector as a percentage to total revenue. And we really like to frame up the percentages of each sector within our complete revenue base. So theoretically, we don't like to see too much of that particular sector, so we're very happy where we are within that relationship right now and it creates a nice balance with our other lines of business.

Aleem Israel - *Cormark Securities - Analyst*

Okay. And just going back to Lachenaie, I know you mentioned timing in terms of when the government can make a ruling on it, but when is the actual expiry date of that existing permit?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

It's the end of July.

Aleem Israel - *Cormark Securities - Analyst*

End of July.

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

That's correct.

Aleem Israel - *Cormark Securities - Analyst*

Okay. Okay. And on the US south, last quarter we saw the margins up there pretty strongly, I think it was around 400 basis points, and this quarter we're up 370 basis points at the EBITDA level. Is there something I guess there where you're seeing kind of more landfill volumes and it's changing the mix of your business in the US south?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

I would say to you it really involves strategies which involves all of the lines of business that we can deploy an advantage related to this economy. I know I'm not being specific related to numbers, and I'm not going to give specific related to numbers, Aleem.

But really, we look at leveraging a combination of our assets relative to what we're seeing in the economy, and so we've been very happy with the strategies that we've been able to deploy in all of our regions, quite frankly, related to the economy. And we think we've offset a great deal of the economic headwind that we've seen in this last quarter.

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Aleem Israel - *Cormark Securities - Analyst*

Okay, and should we expect that same kind of year-on-year improvement to continue to the third quarter?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

As I kind of gave -- are we still on track -- what we see is that free cash flow number and we've given you advice in terms of where we are with CapEx. So again, we think that we have strategies in our markets that we are happy with that we are working in the first quarter, and we see no reason why they will not continue going through the balance of the year, assuming we don't see any more significant downturn in the economy.

Aleem Israel - *Cormark Securities - Analyst*

Okay, and last question, Republic mentioned at one of their conferences that you have been successful on the Fort Worth assets. Can you maybe give us some color around that?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

We would be happy to. We are the successful bidder. They have not closed. There is involvement of a landfill south of Fort Worth and commercial collection routes, which we -- in harmony with our other assets, it's a wonderful fit and we're very, very pleased with the opportunity to acquire those assets.

We've also acquired some very small assets in Missouri where, as you know, we have operations in that state right now.

Aleem Israel - *Cormark Securities - Analyst*

And can you give us a range maybe in terms of size that we can expect to see?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

I think we probably -- they are not going to be material to the corporation. Typically we we don't really -- unless they are material, we don't like to give that information out. It really creates problems for us as it relates to other past deals or future deals that we do.

Aleem Israel - *Cormark Securities - Analyst*

Okay, and I think Republic had mentioned that -- expect a closing date?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

End of the month.

Aleem Israel - *Cormark Securities - Analyst*

End of the month, okay. Great, thanks.

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Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

Great. Thank you.

Operator

And our next question comes from Bob Gibson of Octagon Capital. Please go ahead.

Robert Gibson - *Octagon Capital - Analyst*

Good morning, everybody.

Thomas Cowee - *BFI Canada Ltd. - VP, CFO*

Good morning.

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

Good morning, Bob.

Robert Gibson - *Octagon Capital - Analyst*

Commodities, can you give us some ideas of which are the big meaningful commodities for you and sort of maybe the order of magnitude?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

I mean obviously are you talking about specific commodities? We don't give, we don't give a breakdown. Obviously I will say to you, though, that paper and paper-related commodities are the largest recoverable material that we see from out of the waste stream. In the northeast, we also operate what is called as a dirty murph, where we have a process where we literally take almost all of -- or very selected loads of waste across for recycling.

In that area, we're taking out some rubber, we're taking out some metals, some plastic, and, again, all of the paper-related material as well. So in the northeast, then obviously we're looking at more metals. If we -- most of our other locations, it's principally paper product.

Robert Gibson - *Octagon Capital - Analyst*

Okay, because we're seeing the recovery in the metal prices. I was just wondering how material that might be to you.

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

It's clearly going to be beneficial, without a doubt. In the northeast, we have not recovered all of the difference in commodities. And clearly that's one area that clearly will provide a benefit going forward through the balance of the year in terms of higher metal prices.

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Robert Gibson - *Octagon Capital - Analyst*

Okay, great. Tax rate, seemed a little high this quarter. Can we get some guidance?

Thomas Cowee - *BFI Canada Ltd. - VP, CFO*

Well, the only guidance we've specifically given towards our tax rate, or tax information was back when we did the conversion, Bob, and that's where we specifically came out and said that we would expect to see \$26 million to \$30 million of cash taxes in the year. That's the only guidance we have given out in that area so far, and we believe we'll be there probably on the low end of that number.

Robert Gibson - *Octagon Capital - Analyst*

Great. Thanks very much.

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

Good. Thank you, Bob.

Operator

And our next question comes from Nima Billou of Bloom Investment Counsel. Please go ahead.

Nima Billou - *Bloom Investment Counsel - Analyst*

Good morning.

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

Good morning, Nima.

Nima Billou - *Bloom Investment Counsel - Analyst*

Can you refresh, what does the industrial segment refer to besides construction and demolition that's sensitive to the economy?

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

That would also be very heavy volume producers, so very heavy -- very large retail operations and very large manufacturing plants.

Nima Billou - *Bloom Investment Counsel - Analyst*

Got you. And on the CapEx side, it's great to see the free cash flow and deleveraging, but what will allow you to spend \$20 million to \$30 million less this year and yet still put enough reinvestment back in the Company?

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Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Sure. I mean if you look at volume, typically we had been growing volume in high, very high single-digit range. Well, clearly volume is down this year. So just on a normalized basis, on a percentage point by percentage point basis, if volume is down and it's not all absorbed into the existing assets, then clearly we would, without a doubt, be just -- we'll call it a savings of capital on a year-over-year basis.

So unless you see the volume start expanding towards the end of the year, and we start back up around 6%, 7% volume, then normally you would see this type of reduction. Let me assure you that as far as maintenance spending is concerned, we are spending at the same rate, at the same ratios that we have on a year-over-year basis. There is no reduction or contemplated reduction with respect to replacement and/or maintenance capital in our model.

Nima Billou - Bloom Investment Counsel - Analyst

In the US South, what allowed the margins to expand a quarter over quarter basis? Was it significant cost reduction or the volumes held up better in that region, allowing you to still gain pretty decent efficiencies?

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Well, there's a number of issues. First of all, we have reduction in fuel costs on a relative basis. In addition to that, we've been expanding our commercial base. And as I mentioned earlier, the industrial base typically is a lower margin business as well. So you get a little bit of a redistribution of the asset base, and that redistribution and more emphasis on a higher margin type business will generate a higher margin.

Nima Billou - Bloom Investment Counsel - Analyst

Great. Thanks very much.

Operator

(Operator Instructions). Our next question comes from Youssef Abboud of Clarus Securities. Please go ahead.

Youssef Abboud - Clarus Securities - Analyst

Good morning, gentlemen.

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Good morning.

Youssef Abboud - Clarus Securities - Analyst

Just putting all the pieces of the puzzle in place of what you said, so we should expect the sequential improvement in your performance overall over the next six quarters, is that correct?

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Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Well, I'll leave that up to you. We're very happy with the first quarter. The first quarter typically on a seasonal basis is one of our lower quarters. What the variable, of course, is going to be that typically we would see an upwards movement of industrial collection, particularly in the north, from a seasonal perspective. At this point, we don't know how that is going to look. Again, that's more of a low margin business, so we could see some reflection of that as it relates to revenue, but not much of a reflection as it relates to earnings.

But on the other hand, again, all the other lines of business, we're very, very pleased with and we expect to continue progress in those lines of business.

Youssef Abboud - Clarus Securities - Analyst

Okay, thanks. And my second question is regarding the acquisition. You mentioned that you bought a few things from Republic. Can you give -- and you said it's a small, small acquisition. Can you give us an idea about the amount that you are paying or at least just a range, or --

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

No, again, we don't disclose that. It's certainly not beneficial for future prospect acquisitions that we are going to do that it's public in terms of what we pay for an acquisition. If it's a material acquisition relative to the corporation, then clearly we will give you the details. Particularly on acquisitions that are not material, it tends to create more of a problem for us as we negotiate the next deal, so we don't give that information, obviously. By the way, I should tell you as always, every acquisition we do, we like to see it accretive to free cash flow today. This will be no exception.

Youssef Abboud - Clarus Securities - Analyst

Oh, excellent. Just to recap, you made a landfill acquisition and collection business in Missouri, correct?

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

Well, that's--

Thomas Cowee - BFI Canada Ltd. - VP, CFO

Not a landfill.

Keith Carrigan - BFI Canada Ltd. - Vice Chairman, CEO

It's not a land fill.

Thomas Cowee - BFI Canada Ltd. - VP, CFO

Transfer station.

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Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

Transfer station and collection business.

Youssef Abboud - *Clarus Securities - Analyst*

Okay. Thank you very much.

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

You're quite welcome.

Operator

Mr. Carrigan, there are no further questions at this time. Please continue.

Keith Carrigan - *BFI Canada Ltd. - Vice Chairman, CEO*

Well, once again, I would like to thank everyone for joining us. We're very, very pleased with the way that our company and our people adjusted to the turbulence in the economy. Once again, I think it reaffirms the model that BFI has, and I believe as we look at most of the key metrics of our business, that we have certainly ranked at the very top of the sector once again.

We look forward to the balance of the year and the challenges that it presents and we expect -- look forward to obtaining the results that we expect through the corporation through this balance. So once again, thank you very much for joining us and we look forward to speaking with you on the next quarter.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. You may now disconnect your lines.

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