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PRESENTATION

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Hi, good afternoon. It's Jeff Silber with BMO Capital Markets. I'm the analyst that covers Clean Harbor. CLH is the ticker. We're thrilled to be joined this afternoon by a number of members of the management team, Mike Battles, who's the CFO of the company. Brian, it Weber or Webber, I'm sorry.

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

It's Weber, Jeff.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

It's Weber. I thought you said that earlier. So I just wanted to make sure. And Brian, I just lost your title, but...

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

EVP of Corporate Planning and Development.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

I know it's Corporate Planning and Development. I didn't want to lose the EVP part, so I'm glad you say that. And then Jim Buckley, who runs IR for the company. And we're thrilled to have all members of the management team here with us today.

For those of you that are dialing or listening in, you have the opportunity to ask questions. There should be a box for you to ask a question on the app. Or if for some reason, that's not working, feel free to send me an e-mail at Jeff, J-E-F-F, dot Silber, S as in Sam-I-L-B as in Boy-E-R@bmo.com. Again, it's jeff.silber@bmo.com.

And why don't we start off with just a high-level question. Just there may be some folks on the line that might be new to the story. Can you guys just provide a quick overview of your company before we get into the specific areas?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Sure, Jeff. Good afternoon, everyone. I want to thank Jeff and the team at BMO Capital Markets for having Clean Harbor an opportunity today. Appreciate all the opportunity for outreach to our investors or potential investors.

This is Mike, and I'll start with a quick overview of the company. So it's actually a very interesting company. It's about -- last year, we were about $3.4 billion in revenue. We were about $540 million of EBITDA, north of $200 million of cash flows. And really, we go out and take hazardous waste out of the marketplace and dispose it in our permitted facilities, whether that be our 9 commercial hazardous incinerators, our hazardous landfills, wastewater treatment facilities, transfer stations.

And so we go out mostly in small quantity or large quantity generator of waste, think of the larger chemical companies, and we go out, pick up that waste and bring it into our network. Hard to replicate, permanent assets that will give us a real competitive advantage. There's only 13 commercial hazardous incinerators in North America, and we own 9 of them. So it really does allow us to have a very wide moat. There hasn't been a new permanent facility in over 20 years outside of our own. And really I'm very proud of the story.

It really has an interesting background. It was started 40 years ago by Alan McKim. Alan is the founder and still the CEO of the company, owns about 7% of the company. So still very active in the business kind of here every day and kind of running the business and really a great success story, a true American success story where kind of 4 guys in a truck kind of putting it all together and building kind of this Fortune -- S&P 400 company. And again, something that he's very involved in kind of every day.

We also do -- we're also the largest collector of dirty motor oil, used motor oil. And it's about 250 million gallons and really a great kind of green story. So we pick up the dirty motor oil. We run it through 6 re-refineries and make base oil, which is crude oil, motor oil, basically, and sell that back to our customers. And so when you think about an ESG initiative, we are pulling out 0.25 billion gallons of dirty motor oil out of the marketplace and making good motor oil. And so really a great story there.

I think that -- think about the company, we try to recycle what we can. But ultimately, when we've extracted all value out of the assets, it is ultimately getting -- it does get incinerated. And we have an industry-leading safety record, a strong level of compliance and, again, led by a founder that is still kind of active every day. And really, I've been here for about 7 years as a CFO. It's a great company to work for and really a fascinating story for people who don't know the history.

QUESTIONS AND ANSWERS

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

All right. Great. That's a great overview. And why don't we dig into it a little bit. And maybe we'll start with the larger of the 2 segments, Environmental Services. Can we just kind of step back and talk about what happened at the beginning of the pandemic to this business and how it's, I guess, bounced back since that time?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes, sure. So the Environmental Services business of the $3-plus billion, it's a little over $2 billion. So it's about 2/3 of the overall business. And when the pandemic hit, it was obviously, we were concerned about -- for our employees, for our customers, make sure they're all safe. And it's really that some parts of that business, like our project work that goes into our landfills, slowed down. But like everything else, we're an emergency response business, Jeff, at our core. And we saw a great opportunity, given our compliance and safety standards to go in and clean out sites that have been infected with COVID or potential decontamination work. And so that turned into a kind of north of $100 million business and part of our emergency response field service business, where we actually go out, done over 10,000 emergency responses to date in that area.

We'll go out to a warehouse and someone had been sick with COVID. We're bringing our foggers and our hazmat suits and do a deep clean and usually at an oddball hour. So let's say, it's a distribution center that closes at 8 that's open up at 5 next morning, we'll go in at 2:00 in the morning and do that big, deep clean and get it ready for the next day. And that's been a huge benefit and almost like a natural hedge, guys, and really has been. As certain parts of our ES business have slowed down, that decontamination work, done this at oddball hours, we can try to put a decent rate, has been a nice offset and really has been -- for the Environmental Services business, I'd say 2020 wasn't that big of a difference from where we originally had thought kind of, let's say, pre-COVID, if you will.

And so that's been down a little bit, but really not nearly as much. And it really got a little upside down because our revenue is down, but our EBITDA is up. And the reasons behind that is because of this mix shift of [EV] that we -- again, some businesses slowed like in Western Canada or industrial services, not super high-margin business anyways and offset by the decontamination work, along with some federal funding, both in the U.S. under the Cares Act and on the Canadian Emergency Wage Subsidy program in Canada.

So both those helped us as well in the ES business and drove, I'd say, what looks like on the surface a very normal year, even though it's anything but normal, as we all know.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

So as we dig a little bit down, so what's going on with those different aspects of mix now? Are you seeing decontamination work going away? Are you seeing the project work picking up? If you can get us up to speed, that will be great.

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Sure, Jeff. So the interesting thing is that we talked about this in the Q3 call that Q4 would be better than Q3. Q3 is better than Q2. And that's certainly what's happening. I don't -- although that we do read the same newspapers, you, everyone else reads about lockdowns and shutdowns and so forth, we really haven't seen it in our business. And not only that, Jeff, but the decontamination work, which we had forecasted to be slowing down as the year rolls itself out, really hasn't slowed down very much. And so as you can imagine, with infection rates being kind of going -- unfortunately, going through the roof, there is continuing a need for that -- for those services. And so what's happening is that we're kind of getting the best of both worlds, where we're getting the decontamination work kind of staying kind of unabated, and yet the business continues to recover, let's say, as expected. So again, I'm really kind of a little bullish on how we finish out the year here.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

All right. That's great to hear. So when we kind of look through COVID, how do you differentiate the different services that you provide within ES compared to some of the other companies that are out there?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes. We are the only company that has a full suite of disposal options, right? You compare it to other companies in our space, maybe they have landfills, maybe they have an incinerator, maybe they have TSDFs. Nobody has kind of the full suite of kind of end-to-end disposal network. So like, for example, like things like, we'll get into PFAS, but there's a big debate as to what happens with PFAS? Does it get -- if it gets labeled a hazard, to go into hazardous landfill, if it had to be incinerated, how do you treat the water and everything else.

And the good news is that kind of regardless of what happens here for -- from a regulation standpoint, we're the only company in North America that provides a full suite of services and would be able to attack it no matter what the endgame is here. So I mean, I think that that's a real big different -- in my opinion, that's a big differentiator because often we do working with a large company like a Dow or a DuPont, I mean they have waste streams that need a variety of different treatments. Some need to be treated in a landfill and some can be put into an incinerator, some need to be treated first before they go in either place. So we offer all those services. And that's why we have such great relationship with our customers and how sticky we are kind of with our customers because of the fact that we can offer this end-to-end service, and that's certainly differentiating us with our peers.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

All right. That's great to hear. So again, just kind of looking beyond COVID, what do you think that the normalized type of growth that we should see for your ES business? And if you could break it down between volume and price, that will be helpful.

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Sure, sure. So at the end of the day, because we have this moat that has tough-to-replicate permanent facilities, we've been able to charge incremental price over the past 20, 30 years. And that's 3% to 5% per year for the incineration, for example. And so that, in my mind, in a -- even in a normalized year, that's how it works. And we've been able to drive that. And also what's happened, Jeff, is that in the incineration world, there's been a shift of higher-to-destroy, tougher-to-treat hazardous wastes into the network. And we think that's due to the growth in the Gulf with the low prices of natural gas and the growth of the chemical industry and the manufacturing space. And that's generated more hazardous waste streams, hard to destroy, higher price points. And so that's led to a better mix in our business.

6 of the last 8 quarters, we've grown pricing over 10%. And that price is about, 1/3 of that is price and 1/3 of that is mix. And so I think that mix stream has been really been a big differentiator in the ES business. And I think in a post-vaccinated world, that means nothing has changed. And that we still had a good year in that area, and I think that continues well into the future. There's plenty of high hazardous waste streams out there. The drum volumes and the direct burn streams of the highly chlorinated and highly fluorinated waste streams, that's been a big win for us, they continue into 2021 and beyond.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

That's great. So based on that and, again, kind of looking long term, where do you think margins can go in this segment?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes. We haven't really gone into the individual segments yet. We're in the middle of our budget process now. And as part of that, we do a strategic 5-year review. I would say that over the last 11 -- for the whole company, Jeff, without getting into SK versus ES for a minute, we've grown margins 11 straight quarters year-over-year. And that's just a fact. That's been well before COVID, well before any government funding. We've been growing our margins 11%. We've said publicly many times, 25 to 50 basis points of margin expansion is, in my mind, very reasonable and very doable. That's leveraging our incinerators, our landfills, our headcount and driving that business going forward.

And how it breaks down between the different businesses, it gets a little confusing because the Safety-Kleen business gives us containerized waste streams and the margins get a little screwed when you start doing that. But overall, I think that -- overall, I think the 25 to 50 basis points is very reasonable expectation. And if you look at our 5 -- an internal 5-year model, that would tell you that.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. Okay. That's actually really helpful. Let me just go back to ES for a couple more questions and then we can move on to Safety-Kleen. We talked earlier about what happened to the business because of the pandemic. Do you think there are to going be any long-term changes to the ES segment because of what we've been going through?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes. I'd say 2 or 3 things. I'd say that the first of which is that if you think about what happened in March, April and May and how supply chains got completely disrupted and critical supply lines got -- slowed to a crawl, I wonder, if you and I were starting a company tomorrow, would we make more investment in the U.S. to get our supply chains of critical parts closer to our end customers, closer to our manufacturing. And so I'm of the view that an onshoring of manufacturing is going to happen. And any time you do that, whatever it is, there's going to be, whether it's pharma, whether it's -- whatever it is, there's going to be hazardous waste that comes out of it, either in the building of the site where you put a shovel in the ground with hazardous material in soil or, of course, what the byproducts are of the manufacturing process.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. That's good.

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

The other thing I'd say is that whether we like it or not, whether -- it's not related to the pandemic, of course, is that there are climate changes here to stay and there are more natural disasters than less. And I hate to say that, but that's -- in some ways, that's a winner for us, right? That's -- emergency response is how the business was formed. And when there's a spill or a pipeline rupture because of a natural disaster, because of a hurricane, and that's opportunity for us, opportunity for all the companies in our space. So I believe that that's a long-term catalyst that will continue kind of indefinitely, unfortunately, really.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Yes. No, sad but true. That's okay. One more on ES before we move over to Safety-Kleen. I remember we had you guys at this conference last year, and I think every other question was about IMO 2020. Can we just kind of revisit what happened, what the impact could have been and what happened instead and what you think the impact might be going forward?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes. No -- so Jeff, I think that, that was part of the stock price run-up when we got a little excited about IMO 2020 which, interestingly enough, happened. And what's happening and is still is happening, both us, you go ask our peers the same question, and we're seeing it in the spread. Our spread is getting wider on the -- certainly on the front end of the spread, when you talk about, you use motor oil because there's less outlets for that dirty motor oil, we've been able to charge more. And as you know, both in Q2 and in Q3, we got record charge for oil levels. What's screwing it up a little bit is demand. I mean, demand has really kind of masked that goodness in this business where demand has kind of cratered, as you know, in Q2 and in Q3. And as such, all this good news around IMO kind of got lost in the shuffle.

I'm of the view in a post-vaccinated world that, that comes back and back with a vengeance. And I think we're going to be in a much better spot in that business because of the fact of IMO 2020, certainly on the front end of the spread. In the back end of the spread, there's a lot of variables around what happens to base oil and whether it be international demand in China and Saudi Arabia and Russia, okay, we can fight this battle. But on the front end of the spread, something under our control, we've certainly done a good job of managing that and improving the charge for oil and the spread, just doing the simple math, has widened in fact about a $0.10, I'd say.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

If you can remind me, before COVID, did you guys ever size out the opportunity, what you think -- thought it might be?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

I mean, look, it's actually pretty simple to do. You'd say, we collect about 240 million, 250 million gallons of used motor oil a year, $0.01 is 2.4 million, and there you go. And that's just on the front end of the spread. And so that's the power of price, right? So that is the deal.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. That's really helpful. All right. Why don't we move on to Safety-Kleen. And again, I'll ask the same question that I asked earlier on the ES business. Can we just revisit how the pandemic has impacted the business so far and get us up to speed on current trends there?

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

Sure, Jeff. This is Brian Weber. I think the reduction in vehicle miles traveled certainly negatively impacted the business early on. And in Q2, we were running at about 70% of our historical levels. In Q3, we saw that increase to about 80% of normal. And as we're here in Q4, we're at about 90-plus percent of normal. So we've seen a steady and gradual recovery. And while personal vehicle mile traffic is down, commercial traffic is up, and we're seeing some benefits from that.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

And is there any difference in the business in terms of a mix shift where it comes from?

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

I don't think so. I don't think we've noticed any difference in terms of mix.

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes, they both suffered in Q2 pretty bad, and they both have recovered, Jeff. If you remember in the Q2 call, we talked about SK Oil being just marginally profitable in Q2, and that's where they were, and they were better in Q3 and then they're better in Q4.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. That's great. Now we're seeing some news about some areas that are starting to lock down again and you might see that impact miles driven. Are you seeing any impact on your SK business in those areas?

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

We're not. We haven't seen any impact yet. Maybe too early to tell, but so far, no negative impacts.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. That's really helpful. So again, just kind of stepping back, looking through COVID, how do you differentiate what you do in this business compared to some of your competitors out there?

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

I think there's a few things, Jeff. I think our size and scale differentiates us. So we operate out of 200 locations across the U.S. and Canada. We're the #1 used motor oil collector, as Mike mentioned. We're the #1 re-refiner of used motor oil. We're #1 in parts washer services. We can offer a closed-loop service offering to our customers where we can pick up used motor oil and deliver to them lube -- re-refined lube oil on the same truck. So I think all of those things really differentiate us.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. That's great. Do you think there'll be any long-term changes to this segment of your business because of the pandemic? I know we talked about ES already, but I'm just wondering about this segment as well.

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

I don't think so. I think there's some positives that we expect. I think people will probably be reluctant to rush back to public transportation. And so I think vehicle miles traveled should increase in a post-vaccinated environment. So that should benefit our business. And as Mike said, we weren't really able to realize the back end of the IMO 2020, where we get a higher price for our low-sulfur finished products, and hopefully, that's still to come.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. Why don't we talk about longer term. I know when I read about the transportation segment of the market, all you can hear and see is about the acceptance of electric vehicles. What do you think, if we do move in that direction, how are you positioning your business against this trend?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes. We get that question from time to time around EVs and how they're taking over the world. That's certainly some people's views. And my sense is -- so just so we're all grounded in reality here, it's under 2% of all cars in North America. And any car being cranked out today has a 13-year life. So I think that it may happen down the road and let's just play it out to its ultimate conclusion, right, so that I'd say 2 things.

I'd say, first of all, that if the answer is, we're all going to be driving around in electric cars and there are going to be charging stations everywhere we need them and say the awesome, awesome, all those gas tanks, all those gas stations need to be closed and all those tanks need to be removed from those gas stations. Just they're under the same criteria that everyone else is, Jeff. And so I'm of the view that there's billions of dollars of market opportunity there. And we do this all the time. We remove tanks, and it's $200,000 to remove a tank, even assuming there's no contamination.

And if there's a contamination, it goes from there. And so my view on this is that, if that were to happen, if we're all going to be driving kind of awesome electric cars, then what's going to really happen is all those tanks, forget the pipelines, forget the refineries, forget the entire infrastructure that exists across North America, I mean just the gas stations alone would be a multi -- would be a huge win for Clean Harbor because that's our whole business model.

The other thing I'd say is that, hey, if we're talking about oil demand going down, that $2 billion now, and let's say, it goes to $1 billion, I'm making this up because all these great electric cars don't need oil, the -- in pressure to meet ever-increasing ESG demands, one would think that a green oil that was re-refined from crude and kind of no dinosaurs killed in the process, if you will, would be a great ESG story. And one more -- and so I think -- it's my view, Jeff, that the market is coming to us. And they're going to be -- if it goes from $1 billion -- $2 billion to $1 billion, I'm making that up, we're going to be a bigger share of that. And that oil will be more in demand than conventional motor oil.

And so whether you're talking about passenger cars going electric, I doubt trucks and heavy hauls and everything else are going to all go electric. And I still think there's going to be quite a demand for oil. And by the way, what's better for the environment than green motor oil that costs less to make and has the same quality if not better quality than conventional motor oil. So I'm all for EV. Let's go.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

All right. That's great. It's actually a good segue to one of the questions we've gotten in. And again, if anybody has any questions, just put it in the app. I'm going to characterize this a little bit, but just can you ask management how they think of themselves as an ESG investment?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes. So I'll take that. And I'm of the view that this is a very -- it's a great question because when you think about hazardous waste incinerators, and if you haven't seen one, it's probably everything you imagine. They're big. They're very big, and there are a lot of pipes and a lot of smoke. But the

-- but at the end of the day, that is the greenest answer for the environment because the alternative for taking these very dangerous, kind of some of the most dangerous chemicals on the planet, would be in soil or groundwater, right? So where does it go?

And so my view on that is that we are -- so we're going to issue an -- our ESG score has improved 40% since this time last year. We're really proud of the progress we're making in that area. It's not enough. We're going to issue a sustainability report in Q1 of 2021 with good metrics, all with SASB compliant and really it's part of the progress we're making in that area.

My view on it is that we have our own footprint. We have our own -- how much water we use, how much electricity we use, all that stuff, how much diesel we use, all that stuff is going to be in the report. But what we don't capture and what we should capture is the fact we collected almost 250 million gallons of dirty motor oil. The alternative would have been burned or thrown in the ditch or something happening to it.

So again, I think our ESG story is great. We've made some improvements in the basic scoring, but I think our story still needs to be told and still needs to be understood by the marketplace. Because again, the alternative for an incinerator or a landfill is in the river. And really, it really is a great ESG story that needs to be better told. And I think we're a great ESG investment because we're taking waste from the network and disposing of it properly.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

All right. That's great. I think you put a case for it. So hopefully, the individual that asked the question got some good color on that. One more question on SK before we move on. We talked a little bit about potential long-term growth in the ES segment. Can you talk about what you think the potential long-term growth is for SK and kind of bridge it out the individual components of that?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes. Sure. I think that when you think about it for a minute, I'm of the view that we have a dominant position in the marketplace. We are #1 both on the ES branch business, the 200 branches across North America, as well as the SK Oil business. And so -- and that position allows us to drive price, and it has been driving price in that business and will continue. Again, we've been able to get a good price for both parts washer services, containerized waste services, small quantities of hazardous waste and then back services, cleaning out a grease trap or dirty rainwater that's gotten into the auto body shop.

So again, I think that the long-term growth metrics for that business are very good. We can talk about -- you can talk about the growth in the end markets, but I think that our position in the market is undoubted #1. And we're the only one who has national presence, and that gives us great pricing power.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

All right. That's great. We've got another question on the SK business, so let me just circle back to that one. So when you would discuss the EV aspect going forward -- I'll just read this. Rather than assume that we go from one choice like fuel to another being electric, what do you think is the middle ground and when we will get there in terms of like a hybrid alternative?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

I mean, at the end of the day, I mean, there's going to be less gas stations, right? So at some juncture, those tanks have got to come out. And so even if you go down to this middle ground where there's a lot of cars in the road still, which still feeds our business, as well as electric cars, my view on that is that those tanks are -- if gas stations are closing, which they would need to close, if it happens of some hybrid model, that would be a winner for us.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. I want to go back to the margin discussion. And again, we'll just talk about it at the company level, not necessarily segment. And again, this is -- this dovetails with one of the questions we're getting from the audience. So the company looks like you're going to achieve pretty stellar margins this year. And maybe you can talk a little bit about why? And do you think that's sustainable going forward?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes. So this year, it was a unique year because of some federal funding. We did get about 30 -- during the first 9 months of the year, was $36 million in government funding, both in the U.S. and in Canada. We said on the call, on the Q3 call, it's $3 million to $5 million in Q4. So let's say, for the purposes of saying, $40 million of incremental government funding. That doesn't come back in 2021. And so -- and that's part of the great margin story in 2020, especially, in Q3, when we hit over 20%.

I think that the good news is that we've done 11 straight quarters of margin improvement even without the pandemic, and that continues over the long haul because of our unique pricing position, both on the SK and on the ES side as well as our good cost management, led by Brian, as well as our unique assets, which we can continue to leverage.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

All right. And this is kind of a follow-up to that. I don't know if you'll answer this, but I'm going to ask anyhow. When we look at adjusted EBITDA in dollars, do you think that goes up from 2020 to 2021?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

I would say that if you look at what the Street has on for us now, which is in the $540 million range, which is very similar to where we were in 2019, I think that's probably right. The midpoint of our guidance is also $540 million for this year. So maybe $540 million equals $540 million equals $540 million. And I think that's fine.

I think the margins will be much better in 2021, given the fact that in 2021, we're not going to have -- the SK business won't have recovered all the way yet. And so that will still be some pressure on the business. But I'm of the view that our EBITDA dollars will be as good, if not better, in 2021. And yes, our margins will be much better.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. You answered the question. I appreciate that. Thanks so much. Another question is from the audience. Are there any key economic or industry metrics that you think would be helpful for investors to track the expected progress in your different businesses?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes. So it's really the 2 we give out -- the 2 or 3 we give out are different based on business. I would say on the Safety-Kleen side, simply it's more than miles driven, but miles driven is a pretty decent indicator, right? Again, that drives -- it doesn't capture all the different types of driving, but it did give you some indication of where the general market is going, and that drives both on the SK branch side, the new brakes, the new mufflers. And on the SK Oil side, [new mile] change. That's a good indicator on the SK side.

On the ES side, I'd say 2. I'd say just straight industrial production metrics or GDP metrics, I think, are good ones as well as the chemical activity barometer by the chemical industry. They crank both those out, I think, a pretty good indicator. And that chemical activity barometer has been on the rebound all year. It's only like 2% or 3% lower than this time last year. So it's a -- which I think is very consistent with where we are and what we said publicly many times.

So again, those are pretty good KPIs that we would look at. And as we look at kind of setting budgets and different things like that, we look at stuff like that. But we don't look at general oil price -- but we don't look at oil price because we are not connected to oil. We are a spread business. Oil is an interesting data point, but it has nothing really to do with our -- with 99% of our business.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Yes. I think that's helpful. I think a lot of times investors just kind of look at the correlation there and don't really realize that it doesn't really have much to your business. Unfortunately, I think it has more with your stock price. But it's what it is.

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

And that's why we're taking all these great calls with smart investors on the phone right today because I think that's something we just got to break because it makes no sense to me.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Yes. Okay.

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

That's not the way 5 years ago, that's not the way it is today.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

All right. I appreciate you pointing that out. That is very helpful. At the beginning of the call, Mike, you alluded to PFAS. So why don't we dig into that a little bit more? Maybe at a high level just explain what it is and what impact it could have on your business?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Yes. So PFAS is just a type of chemicals called forever chemicals, which are used in a variety of different products, firefighting foam, teflon, made in the '80s and the '70s and '80s and in the early '90s. And what happened was that come to find out it's actually a known -- now it's a carcinogen. It's pretty dangerous, caused birth defects and so forth and so on. And so that's been slowly eliminated from the manufacturing process, but there's still a lot in the world.

And these are chemicals that are pretty hard to destroy. They don't break down naturally. And so you really need -- so there's movement afoot in Congress and in the EPA to be labeled this chemical and chemicals like this as hazardous. And if it is labeled as hazardous, then there's certainly an opportunity as to -- normally when they do something like that, they say, like PCBs or asbestos, kind of how you have to destroy it. And whether it's putting it into a closed-loop landfill, which we have the most of in North America; or an incinerator, which we have 9 of the 13 commercial hazard incinerators, those need to be destroyed.

And again, there's not any -- today, Jeff, it is not hazardous. It can be put into a non-haz landfill, a municipal solid waste landfill. But we think over the next year or so, especially with the Biden administration perhaps, that would spur action because a lot of it's in Ohio, a lot of it's in Michigan, and these are voting states, if you will, material voting states. And so there may be some pressure there to start cleaning some of that stuff up. It's a high concentration in firefighting foam and the Department of Defense Bill today has money set aside to clean up kind of used in fire -- in drills, like both on -- at military bases and at airports, where a lot of it is there, like they do all the firefighting foam drills. And so that's -- and that's highly concentrated in firefighting foam. So that's where the first step is.

They've been focused more on groundwater, which we don't do a lot with. We do more on soil remediation. And so we have a big business in that right there. So -- and when this happens, we've been talking about PFAS for a couple of years now. It does take a long time for these to get designated as hazardous. But like PCB that took 5 years for that to happen, like asbestos took years for that to happen, it's going to happen -- it will happen. It does hurt people. And it needs to be labeled as hazardous.

And the problem is, Jeff, you need to have kind of a federal designation because until that happens, people aren't going to -- they don't really know what level of concentrate they need to clean to, right? How clean do I have to make the soil? How clean do I have to make the water? Until then, like, why will I do much maintenance because I'm not sure if I'm doing enough or too much. And so we really need that regulation to kind of spur investment in that area. But I'm of the view, as a long-term catalyst for this business, that's #1 with a bullet in my opinion.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Yes. Have you -- one of the investors is asking a question, have you quantified what the potential opportunity might be?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

It really depends at what level of concentrate you have to get to, right? So the answer is part per trillion or whatever the answer is, well, that's a huge win. If the answer is, well, it's -- again, it all depends on what level of concentration we need to clean to. The answer is, it's everywhere. It's in -- it's everywhere. It's actually in every one of us. It's crazier to think.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

It's a little scary, but I guess it's true. So it's okay. I have another question along these lines a little bit, but we're talking about more from an ESG perspective, are there any plans to change your old vehicle fleet to being powered with green energy like fuel cells?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Most of our fleet is a heavy-haul fleet, and so it needs that drivetrain, the power to kind of operate. And so it would be difficult at this juncture to kind of make those conversions. We do it in some places, we have a few of them set but really not at the level of -- not at a meaningful level.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. You had mentioned PFAS and mentioned potential changes from the Biden administration. Is there anything else out there that might be either positive or negative that we might see this new administration put into place?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

In general, Jeff, we've been asked this question under every -- every 4 years, we get asked this question. Whether it's a Democrat, Republican, conservative or progressive, at the end of the day, what we're dealing with is very dangerous. And normally, when a new administration comes in there, maybe fuel efficiency standards or air quality or water quality, it doesn't -- they don't touch what we're talking about because it's pretty dangerous stuff. And once something gets labeled as a hazardous material, it doesn't get labeled nonhazardous. It remains a hazardous material. And as such, it still remains something that needs to be destroyed.

So in general, it's really where the states is where the enforcement happens, and those don't change very much because what we're talking about here is pretty dangerous stuff.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. Just a segue to that, another question we're getting in from the line. If Biden raises the minimal wage, will that have any impact on your cost structure?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

All our employees are paid above the minimal wage today.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. That's the answer. Great. Why don't we circle back to big picture. We'll look at capital allocation. How do we think about your company's potential free cash flow generation? And what are your priorities for investment and allocation of cash?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Sure. So we're going to -- the midpoint of our guidance this year is $260 million. With that, we did get some loans from the government through payroll -- employee payroll nonsubmittal, which many companies did. And that's going to be about $36 million for the year, plus or minus. That has to be paid back half in 2021 and half in 2022. And as such, that's like a $54 million headwind, if you think about it, $36 million that's not going to repeat as well as an $18 million payback, right? That's all fine. That's good. I'll take the interest-free loan. I think it's great.

And when it happens, we were pretty happy about it. So -- but -- so we're going to end the year -- so I think, though, that even with that big headwind, if you will, we're going to -- 2021, so we're going to have a 2 in front of it. That's for sure, free cash flow, and probably in the $210 million, $215 million range.

We have to -- look, we have to finish our budget process, Jeff. We have to go through a CapEx review, which we're doing, we're kind of finalizing this week and next, but I'm of the view that CapEx was up a little bit, not up to 2020 levels, 2020 budget levels, but still I'm of the view that the free cash flow generation, this is $200 million going to $300 million. I have no doubt that over the long term, this thing is really turning into a cash flow machine and we'll have a ton of cash flow over the next 4 to 5 years.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

So what will your plans be for that cash? What are your priorities?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

So the first area is we want to make sure we invest in the business and invest in CapEx, whether that be in rolling stock, we have 10,000 pieces of rolling stock, whether that be in our incinerators or re-refinery. We know where the money is. That's where the money is, that's where the money is made. We got to make sure those are running well on the efficiency. We do have plans that guys have come up a couple of times over the next 2 to 3 years, adding 20,000 to 30,000 tons of capacity into the network. That's really debottlenecking other processes within our incinerators, which will add value, which costs a little bit of money to do so.

The other area is that, we do have a buyback program. We have about $250 million remaining under our buyback program of an original $600 million plan. So that's out there. And we think the stock is pretty cheap still at this price, and we think that there's opportunity to buy back our stock at a reasonable price.

And the last area is in M&A. And I think that I got the EVP of Business Development here. Why don't you talk about kind of where we would deploy our capital.

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

Sure. Yes, I think we've got -- in terms of the portfolio of services that we offer, we don't really have any voids there. But there are some geographies where we could do bolt-on acquisitions to build greater density, and we would prioritize acquisitions in our core Safety-Kleen environmental and Clean Harbors environmental space.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

And would they be geographically in North America? Is it North America is where the focus is?

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

It is. Yes. We think there's more room to grow still in North America, Jeff, and that's where our focus is.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. And we're getting a question from the line on the M&A. Have we been seeing deals in the sector? Where are acquisition multiples trending?

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

I would say slowly but surely deals are starting to reemerge. Obviously, there was limited activity from the spring throughout the fall because of lack of visibility on earnings of target companies and the challenges with trying to do diligence and integration planning remotely. And so for all those reasons, activity was quite muted. Starting to see a little bit more activity, and I would say multiples are in the -- still in the kind of the low double digits.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

And that's low double digits on, is it trailing or forward-looking EBITDA? Does it matter?

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

It's on trailing.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Trailing. Okay. Great. That's...

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

I think because there's such still uncertainty around what forward-looking EBITDA looks like.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Yes. No, that makes a lot of sense. Okay. That's helpful. We're almost out of time. I guess I'll end with a big picture, long-term question. What do you think in 5 years from now when we're at this conference, what will your company look like?

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

I think that it's going to have -- I think that the top line growth is going to grow at GDP-type of plus level. I think that we're going to do 25 to 50 basis points of margin expansion a year. And I think that we're going to have $300 million of free cash flow. And then with that, we'll deploy that back into the business or (inaudible) or buybacks.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

All right. That's all really helpful. Again, thank you, guys, everybody that's on the call that dialed in. And the folks from Clean Harbors really appreciate your time as well. And again, if there are any questions, you can follow with me, jeff.silber@bmo.com. Thanks so much.

Michael L. Battles - *Clean Harbors, Inc. - Executive VP & CFO*

Thanks, Jeff, and thanks the team at BMO.

Brian P. Weber - *Clean Harbors, Inc. - EVP of Corporate Planning & Development*

Thank you.
