

Waste Connections, Inc.
Form 425
January 20, 2016

Filed by Progressive Waste Solutions Ltd.

Pursuant to Rule 425 of the Securities Act of 1933, as amended, and
deemed filed pursuant to Rule 14a-12 of the Securities Exchange Act of 1934, as amended

Subject Company: Waste Connections, Inc.

(Commission File No. 1-31507)

Date: January 19, 2016

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EDITED TRANSCRIPT

WCN - Waste Connections Inc and Progressive Waste Solutions Ltd
Agree To Combine M&A Call

EVENT DATE/TIME: JANUARY 19, 2016 / 1:30PM GMT

OVERVIEW:

On 01/19/16, WCN and Progressive Waste Solutions announced that they have entered into a definitive agreement to merge in an all-stock transaction.

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JANUARY 19, 2016 / 1:30PM, WCN - Waste Connections Inc and Progressive Waste Solutions Ltd Agree To Combine M&A Call

CORPORATE PARTICIPANTS

Worthing Jackman *Waste Connections, Inc. - EVP and CFO*

Ron Mittelstaedt *Waste Connections, Inc. - CEO and Chairman*

Joe Quarin *Progressive Waste Solutions Ltd. - CEO*

CONFERENCE CALL PARTICIPANTS

Derek Spronck *RBC Capital Markets - Analyst*

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Chris Murray *AltaCorp Capital - Analyst*

Michael Hoffman *Stifel Nicolaus - Analyst*

Scott Levine *Imperial Capital - Analyst*

Al Kaschalk *Wedbush Securities - Analyst*

Tony Bancroft *Gabelli & Co. - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the joint conference call regarding the Waste Connections and Progressive Waste Solutions combination.

(Operator Instructions)

As a reminder, this conference is being recorded Tuesday, January 19, 2016. I would now like to turn the conference over to Worthing Jackman, EVP and CFO. Please go ahead, sir.

Worthing Jackman - *Waste Connections, Inc. - EVP and CFO*

Okay. Thank you, operator, and good morning, everyone. Welcome to this joint conference call with Waste Connections and Progressive Waste to discuss this morning's announcement by both Companies to combine in a stock-for-stock transaction.

Before we begin, I would like to call your attention to the first few pages of a slide presentation we filed this morning in conjunction with our release. These pages include disclaimers and notices regarding additional information and where to find it, and the participants in the solicitation of votes.

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The discussion during the call today will include forward-looking statements, and actual results could differ materially from those made in the statements. The factors that could cause actual results to differ are discussed in the cautionary statement in those first few pages.

Today's call is not intended and does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy securities of Waste Connections or Progressive Waste. We will have prepared remarks, and then we will move into a question-and-answer session.

Now, I'd like to turn the call over to Ron Mittelstaedt, the CEO and Chairman of Waste Connections.

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Okay. Thank you, Worthing, and good morning, everyone, from New York City. With me this morning is Steve Bouck, our President; Worthing Jackman, our CFO; and Mary Anne Whitney, our VP of Finance. In addition, from Progressive Waste, we are joined by Joe Quarin, CEO; and Dan Pio, Chief Integration Officer; and Chaya Cooperberg, VP of Investor Relations and Corporate Communications.

I will start with a brief overview and highlights of the transaction. Then Joe will say a few words before we move into Q&A. Following this call, Mary Anne and I will fly with [Hyatt] to Progressive's offices outside of Toronto to begin Canadian investor visits. We will spend remainder of the week meeting with investors throughout Canada, while Steve and Worthing meet with investors in US. Worthing will also be available for follow-up calls throughout the day today.

Turning now to the announcement. As noted in our joint press release, we are extremely excited to welcome Progressive Waste into the Waste Connections family and believe the combination will be quite compelling to our collective employees, shareholders, and other stakeholders. Under Waste Connections' leadership, we believe we can instill the corporate culture, safety focus, operational excellence, and accountability that have served us so well and which we believe are necessary for long-term success within Progressive's complementary markets.

These improvements, together with expected immediate SG&A synergies and other cash flow benefits, should accelerate value creation for both Companies' shareholders. Put simply, we believe this combination creates a Company uniquely positioned with industry-leading operating in free cash flow margins together with the balance sheet to drive further growth and increase the return of capital to our shareholders. This transaction has been carefully structured to maintain the historical differentiated operating and financial strength of Waste Connections' unique model.

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Let's turn to the highlights of the proposed transaction. This combination brings together complementary offering footprints under a proven and stable Management Team with a long-term track record of shareholder value creation. For Waste Connections, 2015 marks our 12th consecutive year of positive total shareholder returns, and over the past decade, our stock has outperformed the TSR of larger-cap companies in our sector by more than 2 times, and the S&P 500 by almost 3 times.

In year one we anticipate the combined Company will generate adjusted EBITDA between \$1.25 billion and \$1.3 billion and deliver more than \$625 million of adjusted free cash flow, excluding the impact of any divestitures and/or assets swaps. We expect the combined Company will continue to lead the industry with 30% plus EBITDA margins, while maintaining Waste Connections' exceptional conversion percentage of EBITDA to free cash flow.

To drive further value creation, we will look to either divest and/or swap assets within certain US markets to maintain the consistency of our differentiated strategies. By year two of the transaction, the combined Company could push 32% EBITDA margins or higher.

We believe the combination should generate approximately \$50 million in SG&A cost savings. In addition, upon closing, we'll be able to lead and accelerate Progressive Waste's progress in turning around certain underperforming markets in the US that had hampered them in 2015. These benefits are not in our synergies estimate. Also not in our synergies estimate is the potential \$20 million to \$25 million of cost savings we could achieve if we improve Progressive Waste's safety performance to our industry-leading metrics.

As our stockholders know, we are extremely focused on free cash flow generation and growth in free cash flow per share. Tax-effected synergies, CapEx discipline, and other cash flow benefits are expected to contribute incrementally to the combined Company's cash flow in year one. On a

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free cash flow per-share basis, this should represent a more than 20% accretion in year one to the approximate \$3-per-share current street estimate for Waste Connections. With stocks in our sector trading around a 5.5% forward free cash flow to market cap yield, or about an 18 multiple, we believe this stock-for-stock transaction will be quite compelling to both Companies' shareholders.

The stock-for-stock structure should also enable us to maintain our current strong credit profile at close. We expect to maintain our flexibility upon future growth opportunities, annually increase our quarterly cash dividend rate, which may be adjusted after closing, and return additional capital to stockholders through opportunistic share repurchases. Maintaining investment-grade ratings is also important in light of the current disruptions and volatility in the leveraged-finance and high-yield market.

Upon completion of the transaction, the combined Company will be led by Waste Connections' current Management Team and use the Waste Connections name. The Company will be locally branded as Progressive Waste in Canada, and either Waste Connections or the local operating brand throughout the US.

We expect to add two new solid waste regions to our operate structure, a Canadian region led by Progressive Waste's current Operating Team, and a new Southern region that combines most of what is currently Progressive Waste's West region along with Waste Connections' complementary assets in those states. The new Southern region will be led by an RVP and other operating and financial leaders from Waste Connections.

On a pro forma basis, we estimate region revenue for the combined Company, before any asset divestitures or swaps, to break down approximately as follows for solid waste. About 25% from our current Western region, 25% from the new combined Southern region, 20% from a combined Eastern region, 15% from a combined Central region, and 15% in Canada.

The Board of Directors for the combined Company will include the five current members of the Waste Connections Board and two members from Progressive Waste's current Board. The transaction is structured as a reverse merger with the new Company domiciled in Canada. The combined Company will maintain its corporate headquarters in the Woodlands, Texas, and Canadian operating headquarters in Toronto, Ontario.

And now, I'd like to pass the call to Joe Quarin for a few additional comments before we head into Q&A.

Joe Quarin - *Progressive Waste Solutions Ltd. - CEO*

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Thank you, Ron. As noted in the release, we believe combining with Waste Connections makes compelling strategic and financial sense, with the all-stock structure providing our shareholders with the opportunity to participate in the significant near- and long-term upside potential for this combination. As previously mentioned, this combination should accelerate the local market improvements we already have underway. And the minimal overlap and complementary profile of our assets should provide our employees new opportunities for growth and continuing development.

Our Board of Directors conducted a review of the strategic options available to the Company and unanimously concluded that this transaction is in the best interest of Progressive Waste and our shareholders, especially given the overwhelmingly compelling financial benefits and the value creation resulting from the combination. We also believe domiciling the combined Company in Canada demonstrates the strong continuing commitment and support we expect to maintain within our local communities. Ron?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Thank you, Joe. I appreciate that. With that, I will now turn this call over to the operator to open up the lines for your questions. Operator?

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Derek Spronck, RBC Capital Markets.

Derek Spronck - *RBC Capital Markets - Analyst*

Good morning. My first question is just on the regulatory front. Do you foresee any issues with the regulatory front? And in particular, Investment Canada Act, do you require approval in that regards?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Derek, no. There was a lot of thought put into the structuring of this transaction. As you know, it is a reverse merger on a technical basis, and as such, really, Waste Connections shareholders are effectively receiving shares in Progressive through this transaction, and so there is no review required under the Investment Canada Act. The combined Company will be a Canadian-domiciled Company, so that is really no change.

And as far as any other regulatory approval, there is approval required of the Toronto Stock Exchange, and there is a review of the respective Competition Bureau as well as the Justice Department in the United States. But there is no overlap in field operations between our two Companies virtually whatsoever. That is one of the benefits of this transaction on a complementary asset basis, and so there should be no Competition Bureau or HSR review period that is extensive at all.

Derek Spronck - *RBC Capital Markets - Analyst*

That's great. So the Q2 closing seems certainly feasible. Just moving on quickly on the tax front, can you talk a little bit about how the tax structure is going to look following the merger?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Well, obviously, this is a combination. As you know, Progressive Waste enjoys in their Canadian operations the benefit of a lower corporate tax within Canada. Waste Connections over the years has worked very hard to achieve a tax step up on our transactions we've done throughout the United States, so that we have very high deductibility of goodwill and other intangibles because of the way we've structured our deals historically.

So as we went into this deal, one of the reasons that we structured it in the way that we did is it maximized the benefits of the existing structures, whereas some of that could have been lost if we had structured it with a traditional Waste Connections acquisition of Progressive. So the short version is we achieved the best of both Companies' tax situation from the way the structure has been derived, and it's pretty straightforward after that.

Worthing Jackman - *Waste Connections, Inc. - EVP and CFO*

And if you work through the implications on effective tax rate, you get an approximate 27% or so estimated effective tax rate.

Derek Spronck - *RBC Capital Markets - Analyst*

That's fantastic. Thanks. I'll get back in the queue if I have any other questions. Thank you.

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Operator

Tyler Brown, Raymond James.

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

Hey, good morning, guys.

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Good morning, Tyler.

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

First off, congrats on the deal, and thanks for the commentary. But I'm not sure if you'll indulge me here a little bit, but on the 10% to 15% in the US that you talked about in the release that might be up for rationalization, can you give us a sense of maybe how much EBITDA that might be? Or thought of another way, is it safe to say that it wouldn't be 10% to 15% of the US EBITDA?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

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Yes. Well, first off, the 10% to 15%, Tyler, is 10% to 15% of Progressive's revenue, so if you look at their \$1.9 billion -- I'm rounding -- you get about \$150 million to \$200 million bandwidth, so of the combined Company, it's half of that 10% to 15%. I can tell you that we've identified -- Progressive has identified, they've been working through this actually over the last several years. As you know, they made a divestiture in Long Island earlier in 2015.

There is approximately \$100 million of revenue that the two Companies have identified that, while EBITDA positive, is actually EBIT negative, and just a flat divestiture of that \$100 million would increase EBIT overnight without any regards to what comes our way for that. So I would tell you that it is not anywhere near 10% of their EBITDA. In fact, it's a very, very low-single-digit number. So what I would be telling you is for that 10% to 15%, whether we were to divest or swap, and the reality is, it will be a combination of those two, you should expect EBIT and EBITDA to go up from that process.

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

I assume free cash flow as well?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Correct

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

Okay. And then Worthing, just to be clear, can we walk through the pro forma capital structure just as it will look at the time of closing? So basically, I think you mentioning 3 times debt, but basically, you're looking for around \$3.5 billion of debt for the combined entity. And then, can you help us out on maybe the share base just to be just clear?

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Worthing Jackman - *Waste Connections, Inc. - EVP and CFO*

Sure. There's about \$3.6 billion of pro forma debt that we expect at closing, and therefore, if you take the \$1.25 billion at the low end, forecasted year-one EBITDA, you would just start out of the gate at a sub 3 times leverage. Obviously, at \$1.3 billion, even lower. The share count, we estimate about 174 million shares outstanding post closing.

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

Okay, perfect. And then just real quick housekeeping, but one, will Progressive's NOLs convey in the deal? And two, what is the FX rate that is contemplated in the pro formas?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Tyler, this is Ron. Yes, that's one of the things I was referring to earlier in my commentary on the contemplation of the structure. Structuring things away we did protected the NOLs that Progressive had had, so we do get the benefit, the combined Company gets the benefit of those. That was something that was very important. And our guidance as we've given it today in the combined release is predicated on a \$0.69 to a \$0.70 on the dollar current FX rate.

Tyler Brown - *Raymond James & Associates, Inc. - Analyst*

Perfect. Very, very helpful. Thank you.

Operator

Joe Box, KeyBanc.

Joe Box - *KeyBanc Capital Markets - Analyst*

Hey, good morning, everybody.

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Good morning, Joe.

Joe Box - *KeyBanc Capital Markets - Analyst*

So Ron, this a pretty unique deal, not just in structure and size, but it's clearly the entry into some competitive markets for you guys. I'm just hoping that you could maybe put a little bit more color around why some these markets maybe aren't truly as competitive as they may seem, and ultimately, what attracted you to Progressive and what you like about some of their specific markets?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Yes. Well, number one Joe, I would tell you that we believe once we swap or divest the 10% to 15% that we've talked about, the reality is that 85% to 90% of Progressive's markets look very, very similar to the historical foundational tenets of Waste Connections.

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Number one, they have a leading market position, and certainly, in virtually every area they are within Canada, they either have long-term exclusive agreements in Canada coupled with an integrated position with often the best landfill position in those markets in conjunction with the contracts.

If you look at their West region, which is part of our new South region, their Texas business, which is one of their largest footprints in the US, is a highly municipal contract and franchise business and is integrated. If you look at parts of their Florida business, particularly the Gulf Coast parts, again, it is a high-contract business and fully-integrated leading position.

So as we work our way through, you could make the same statement about Louisiana. You can make the same statement about their position Missouri. So other than a few locations, which I would consider more urbanized collection-centered locations, Progressive is predominantly in suburban markets, less so than metro. They are highly contractual in nature, and they are fully integrated in those, and so it is actually very consistent.

So if you like at the traditional Waste Connections solid waste model, we've run about 50% what we call exclusive markets. If you look at the pro forma revenue of these two Companies now, well, we just gave you that 25% of the revenue comes from our West region. That is 100% exclusive.

15% of the revenue comes from Canada. I'll be conservative and call 50% of that exclusive, so that takes you to 32.5%. And then if I look at the new Southern region, our Southern region, comfortably half of that region is exclusive, and so that region represents 30%. So you immediately get to about 43% to 45% exclusive.

So while the merger expands the footprint of the Company quite dramatically, the Company stays within about 5 to 7 percentage points of the exclusive nature hallmark that has been the tenet of Waste Connections. That is something we looked at very hard throughout his process because we believe it is critical for the long-term success in this business. And obviously, we will improve those percentages as we rationalize that 10% to 15% of revenue, and we'll push closer back to that 50% pretty quickly.

Joe Box - KeyBanc Capital Markets - Analyst

I appreciate that. That is perfect. Thank you. And then just quickly on free cash flow, obviously there is a substantial gap between your free cash flow profile and historical Progressive.

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Can you maybe just talk to the typical trajectory to harmonizing the free cash flow profile? Is that something that maybe we could see over the next 12- to 24-month period, or are there maybe some investments that are needed here and maybe it takes 3 to 5 years to get Progressive's free cash flow profile more in line with yours?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Yes well, look, we have just guided that the pro forma run rate Company in the first year will have 15%-plus free cash flow margins, which is in line with Waste Connections. We've been running, as you know, between 15% and 17%, so right out of the box, the way we've structured this and with synergies, we are going to achieve the 15% plus, which is virtually double anyone else in this sector as a percentage of revenue, as you know. So that was critical, the way we structured things and what kind of synergies we had as well as other issues.

Look, Progressive has made substantial reinvestment in their Company over the last three years. And as we look at things, their CapEx as a percentage of revenue was trending down in 2016 and 2017 and 2018 because of the investments they had made, really, 2011 through 2015, heavy landfill investments, heavy fleet investments in CNG, heavy transfer investments in certain parts of the country, so that is going to be coming down.

Now, they do have the New York transfer and disposal contract. I would call that a one-time CapEx. We are very aware of that number and understand it well. But -- and that contract I think makes tremendous sense the way it is outlined right now and structured. But we'll start out at 15%, and I believe we will improve from there.

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Joe Box - *KeyBanc Capital Markets - Analyst*

Great. Thanks guys. Take care.

Operator

Jeff Volshteyn, JPMorgan.

Jeff Volshteyn - *JPMorgan - Analyst*

Good morning, and thank you for taking my question. On an operational level, how do you compare the systems, the equipment, going to be org chart between the two Companies? And then the \$50 million of cost synergies, how will they be broken up, breakups by these operational areas?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

On the systems front, the Companies are fairly similar. Progressive is on a singular general ledger platform; Waste Connections is on a singular general ledger platform. We will ultimately be converting the Progressive GL platform to ours, so there will be a singular financial platform for the entire Company.

Progressive is on one billing platform in Canada and one in the US effectively. Waste Connections is on a singular billing platform. We will be converting their operations to our billing platform. So within the first six months post closing, we'll be on a singular billing platform throughout North America, and within the first 30 days post closing, we will be on a singular financial platform post closing.

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As far as the synergies, we've outlined that those are SG&A synergies. Obviously, the two Companies each have their own headquarters, and obviously, there's a need for a singular headquarter. That will be in the Woodlands. We will be assessing the talent from both Teams and looking to put together a singular Team that takes the best of both.

But we're pretty confident that \$50-million number is really, if you will, deemed through -- comes through the corporate overhead functions of the two Companies. It really doesn't contemplate any field or operating synergies. Those are all an upside.

Jeff Volshteyn - *JPMorgan - Analyst*

Excellent. As a follow-up, Ron, I think you mentioned a multiple that is implied in the transaction. I didn't catch that number, and maybe can you -- were there -- maybe can you quantify the implied multiple per transaction?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Yes, what we said is that if you give an 18 multiple to -- we said that the free cash flow of the sector tends to trade at about a 5.5% yield to market cap, and that yields about an 18 multiple. And we said if you use that, that provides about a 30% immediate upside in valuation to both Companies shareholders, just using that number alone.

Jeff Volshteyn - *JPMorgan - Analyst*

Okay. Thank you.

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Operator

Sachin Shah, Albert Fried.

Sachin Shah - *Albert Fried & Company - Analyst*

Hi, good morning. Congratulations on the deal. So I just want to confirm, I think I heard that no [investor] in Canada is required, competition Canada and HSR are the two remaining regulatory approvals. Is that correct?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Yes, that s correct.

Sachin Shah - *Albert Fried & Company - Analyst*

Okay. And far as the dividend policy is concerned, are you expecting to maintain that dividend policy?

Worthing Jackman - *Waste Connections, Inc. - EVP and CFO*

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Yes. From Waste Connections' side, we started our dividend payments in 2010. We've had double-digit increases each year since then. Once the combination is complete, we'll take an assessment -- a reassessment of the dividend policy for the combined Company going forward, but obviously, we expect to maintain a dividend going forward.

Sachin Shah - *Albert Fried & Company - Analyst*

Okay. And you're expecting the deal to close probably the second half of -- second quarter of -- second half of the second quarter of 2016, or is it maybe a little bit later or sooner?

Ron Mittelstaedt - *Waste Connections, Inc. - CEO and Chairman*

Yes, right now we believe that if you use sometime in May as a proxy for things, that's a fair date. It could be a little earlier than that; it could be a little bit later than that. But we certainly see it occurring within the second quarter.

Sachin Shah - *Albert Fried & Company - Analyst*

Okay, perfect. Thank you very much.

Operator

Corey Greendale, First Analysis.