

Debt-Equity Choice

The Case of Allied Waste

The Company

- Second largest non-hazardous waste management firm in the U.S.
 - Sales 5,248.
 - Waste Management is the largest.
 - Sales 11,574.
 - Republic Services is third.
 - Sales 2,518.
- Vertically integrated.
 - Collect refuse and “to the extent that it is economically beneficial” dispose of it in their own landfills.

EBITDA and FCF

- EBITDA and FCF each play a role when analyzing a firm's debt.
- EBITDA
 - Excludes capital expenditures and taxes.
 - If a firm is near bankruptcy this is the most it has available to pay off its bonds.
 - Firm can, at least temporarily, reduce all capital expenditures associated with growth.
 - No taxes since all free cash flow goes to make interest payments which are tax deductible.