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NRG Energy, Inc. (NRG)

Q4 2017 Earnings Call

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#### MANAGEMENT DISCUSSION SECTION

**Operator**: Good day, ladies and gentlemen, and welcome to the Fourth Quarter and Full-Year 2017 NRG Energy Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, this call is being recorded.

I would now like to turn the conference over to Kevin Cole, Head of Investor Relations. You may begin.

#### Kevin L. Cole

Senior Vice President, Investor Relations, NRG Energy, Inc.

Great. Thank you, Sonia. Good morning and welcome to NRG Energy's fourth quarter and full-year 2017 earnings call. This morning's call is being broadcast live over the phone and via webcast. This can be located in the Investors section of our website at www.nrg.com under Presentations & Webcasts.

As this is the earnings call for NRG Energy, any statement made on this call that may pertain to NRG Yield will be provided from NRG's perspective. Please note that today's discussion may contain forward-looking statements, which are based on assumptions that we believe to be reasonable as of this date. Actual results may differ materially.

We urge everyone to review the safe harbor in today's presentation, as well the risk factors in our SEC filings. We undertake no obligations to update these statements as a result of future events, except as required by law. In addition, we will refer to both GAAP and non-GAAP financial measures. For information regarding our non-GAAP

financial measures and reconciliations to the most directly comparable GAAP measures, please refer to today's presentation.

Now, with that, I'll turn the call over to Mauricio Gutierrez, NRG's President and CEO.

#### Mauricio Gutierrez

President, Chief Executive Officer & Director, NRG Energy, Inc.

Thank you, Kevin, and good morning, everyone. I'm joined this morning by Kirk Andrews, our Chief Financial Officer. Also on the call and available for questions, we have Chris Moser, Head of Operations; and Elizabeth Killinger, Head of our Retail business.

I'd like to start the call by highlighting the three key messages for today's presentation on the slide 4. First, we delivered on our 2017 goals and we are reaffirming 2018 guidance. After a year of relentless focus on multiple transformative priorities, we have a much clearer path to value, and I am very optimistic about the potential for upside in our business, particularly given the strength we're seeing in our core markets.

Second, we have made significant progress in executing on our Transformation Plan. Our sale announcements over the past few weeks have brought us to over 90% of our target asset sale proceeds. We have also significantly exceeded our 2017 cost savings target and remain on track to achieve our target credit metrics. And third, with the vast majority of our asset sales now announced, and as a reflection of our confidence in the outlook for our business, we are announcing a \$1 billion share buyback authorization with the first \$500 million program to begin immediately.

Now, turning to our Transformation Plan update on slide 5, as you can see by our scorecard on the left-hand side of the page, we're making good progress. We have realized \$150 million of recurring EBITDA accretive savings during 2017, which is over 200% of our original target of \$65 million.

The excellent work throughout the organization and the focus on our continuous improvement initiative led to a jumpstart of our cost program early last year. This meant that we were able to pull forward some of our 2018 initiatives and exceed our target for 2017.

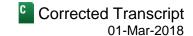
Looking forward, we remain on track to achieve our \$590 million in total run rate cost savings by 2020. Our margin enhancement target is also on track, with details of this initiative to be covered at our Analyst Day.

Now, moving to our portfolio optimization, today, we're announcing the sale of our Boston Energy Trading and Marketing business, or BETM, for \$70 million in proceeds. This transaction is intended to further simplify, streamline and focus our business, and brings our total announced proceeds to over \$3 billion. We remain on track to close all of our recently announced transactions by the end of the year and we will update you on our remaining asset sales as they progress.

Last, we continue to strengthen our capital structure. We are on track to achieve our target net debt-to-EBITDA ratio of 3 times by the end of the year. With the recent asset sale announcement, we now have line of sight to significant capital that can be deployed to our other capital allocation priorities. I continue to believe that our current stock price does not reflect the value of our business and presents the best return opportunity for our capital at this time.

I am pleased to announce that we have authorization for \$1 billion share repurchase program, with a \$500 million program to be launched immediately. And as we progress towards the closing of the asset sales and upon

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completion of our initial repurchase program, we will look to execute the remaining \$500 million of our \$1 billion program.

Moving to slide 6 with our business and financial highlights, it was a busy year that challenged us to make our business stronger in order to position ourselves for long-term success. Despite of all of these moving pieces throughout the year as well as the devastation of Hurricane Harvey in our core Gulf region, we not only achieved top decile safety performance, but it was our second-best safety year in company history. This is a testament to the culture and focus of our employees. And I want to express my gratitude to all of my colleagues for their hard work and for keeping safety our top priority.

Now, with respect to our financial results, we ended the year with just under \$2.4 billion of adjusted EBITDA and almost \$900 million of free cash flow at the NRG level. Our Generation business performed well in light of a mild summer and our Retail business delivered its fourth consecutive year of EBITDA growth with \$825 million of adjusted EBITDA in 2017. Hats off to the Retail team, which continues to deliver outstanding results every year.

Now, in addition to our Transformation Plan targets, during 2017, we also executed on our objective to find a comprehensive resolution for GenOn, resulting in a reorganization plan that was approved by the Bankruptcy Court in December of 2017. The plan is intended to transition GenOn to a standalone entity and provides NRG with certainty and visibility into the timing and services that need to be provided to GenOn in this transition period.

On slide 7, I want to briefly describe the impact of our actions over the past two years on our portfolio. We will have an opportunity to discuss this impact in greater detail at our Analyst Day, but in the meantime, I'd like to highlight just a few of the ways we're simplifying and improving our vertically integrated power business.

First, we are reducing our capacity by over one-half to roughly 20,000 megawatts and focusing our business on our core Texas and East markets to better match our Retail business. As we are scaling back our generation, our Retail business continues to be strong, with a steady stream increase in customer accounts and continued solid earnings.

And as you can see on the third row of the slide, the EBITDA contribution from the Retail business is becoming increasingly important, going from 25% in 2016 to 60% in 2018 of our total earnings. These changes will increase the visibility and stability of our earnings profile, given the better balance between Generation and Retail. It also increases our EBITDA to free cash flow conversion. NRG has always been a cash flow machine. And with these changes, we will make our conversion even more efficient. We will improve our free cash flow conversion from 21% in 2016 to over 60% in 2018, a ratio unmatched in our industry.

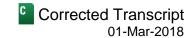
And our business is changing. It is improving. We are rightsizing the portfolio and becoming leaner, stronger and better positioned to create shareholder value, both today and into the future.

Now, the markets continued to show signs of steady improvement, as highlighted on slide 8. Over the past several years, we have highlighted to ERCOT regulators and stakeholders the extensive risk of retirements and the slowdowns in new-builds, given chronic low prices.

Now, and as expected, these dynamics are causing significant market tightening and we're entering the summer of 2018 with the lowest reserve margin on record at 9.3%. This is well below the target reserve margin of 13.75%.

And the power prices in the forward markets where ERCOT are responding to these tight market conditions and have more dramatically the past few months to over \$130 per megawatt hour for the summer, as you can see on

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the left-hand chart. This is a stark comparison to the average summer price of the past six years of only \$35 per megawatt hour. At NRG, we're all working to ensure our plants are ready to meet demand and provide customers solutions to proactively manage their energy bills.

Now in competitive markets more broadly, there have been persistent calls to action for reform across states and across power markets. We continue to work with regulators and customers to make sure that competitive markets are not disrupted from a generation or retail perspective. We must get the pricing signals right in generation markets and improve the way that customers are able to access and consume power in the retail power markets. At the federal and state level, we see many indications of positive market momentum towards these objectives, and we will continue to be a vocal advocate for competitive markets.

Now, turning to slide 9, I want to provide a capital allocation update. During my first call as CEO two years ago, I told you that given the deep cyclical nature of our sector, we have to first ensure the robustness of our balance sheet when deploying capital. We wanted to leave no doubt about our ability to deliver on the value that we knew existed in our portfolio during any market cycle. We therefore focus on strengthening our balance sheet and paying down debt.

Since 2016, we have paid roughly \$1.6 billion in debt and extended almost \$7 billion of maturities, with most of them due well beyond 2022. Our identified asset sales will also help us to reduce close to \$8 billion of debt. And with \$640 million allocated towards deleveraging and another \$1.2 billion of temporary cash reserve to achieve our credit metrics, we are well on our way to achieve our target net debt-to-EBITDA of 3 times by the end of the year.

As we continue to meet our top capital allocation priorities, we are now pivoting to evaluate growth opportunities and returning capital to shareholders. Our immediate \$500 million share buyback is reflective of our commitment to seeking the value-maximizing outcome for our capital. And as we progress towards closing our asset sales, we expect to execute on our additional \$500 million authorization.

So, with that, I will now turn it over to Kirk for the financial review.

#### Kirkland B. Andrews

Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

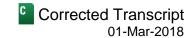
Thank you, Mauricio. Turning to the financial summary on slide 11, in 2017, NRG generated \$2.373 billion in adjusted EBITDA, \$1.3 billion in consolidated free cash flow before growth, with nearly \$900 million of that cash flow available at the NRG level. For the year, Retail delivered a robust \$825 million in adjusted EBITDA, including the impact of low commodity prices, execution on cost reduction and continued customer growth.

Generation and Renewables delivered a combined \$615 million in 2017 EBITDA, including a one-time impact of a non-cash expense of approximately \$60 million due to excess oil inventory write-down and the write-off of obsolete spare parts inventory across the fleet. NRG Yield contributed \$933 million in line with expectations.

Including today's announced sale of our Boston Energy Trading and Marketing business, the total Transformation Plan asset sales announced or closed to-date totals \$3 billion, or only \$200 million away from our revised target, which we expect to reach by 2019

In the fourth quarter, we successfully refinanced our 2023 unsecured notes at a record low rate for NRG of 5.75%, reducing annual interest expense and extending the previous maturity by five years. In 2017, we also

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completed the reduction of just over \$600 million in corporate debt through redemption of the remaining balances of our 2018 and 2021 notes.

These redemptions eliminated our nearest corporate maturities and combined with interest savings on the 2023 notes refinancing led to annual cash interest savings of \$55 million. I'd like to take a moment to address one element of our 2017 income statement, which is not included in our EBITDA results. That is a non-cash impairment charge on fixed assets and goodwill of \$1.8 billion. This charge primarily consists of a \$1.2 billion impairment loss on our interest in the South Texas Project, or STP, our nuclear facility south of Houston.

A regular fourth quarter process of revising our forecast of power and fuel prices and the impact on plant cash flows resulted in the need to write-down certain fixed assets, including STP. The portion of the total write-down from goodwill impairment was approximately \$100 million and was largely related to the announced sale of BETM.

Turning to 2018 guidance, we are reaffirming our ranges for both adjusted EBITDA and free cash flow before growth. Our 2018 pro forma numbers, which are based on the midpoint of guidance and reflect the implied 2018 contribution from retained businesses and Transformation Plan cost savings and margin improvements, are also unchanged from our call last month.

Importantly, as shown in the bottom row of the table, our pro forma financials also demonstrate the significant cash flow efficiency benefits from our retained businesses, as we convert over \$0.60 of every \$1 of EBITDA into free cash flow, a 66% improvement in cash flow efficiency versus 2017 results.

Finally, as noted in the bottom right of the table, while our 2018 pro forma EBITDA includes a substantial portion of the cost savings and margin benefits of the plan, we expect an additional \$275 million of incremental EBITDA beyond 2018 as we reach our run rate of recurring savings by 2020.

Turning now to slide 12, we provided financial summary of our 2017 NRG level capital allocation, with changes since our third quarter update highlighted in blue. We finished the year with \$440 million of excess capital remaining available for allocation, a \$370 million increase versus our third quarter update. The substantial portion of the \$370 million increase is largely due to an increase in total available capital and a decrease in allocations due to a shift in timing of expenditures and commitments from 2017 to 2018.

First, total capital available prior to allocations increased by \$193 million, as shown on the far left of the chart. \$92 million of this increase reflects the difference between actual 2017 NRG level cash flow and the midpoint of guidance, which form the basis for our previous update. The remaining \$101 million was a result of the sale of our Minnesota Wind portfolio to a third party as well as various distributed solar dropdowns to NRG Yield.

On the uses side, actual capital allocated to the GenOn restructuring was lower due to the shift in expected emergence from 2017 to 2018 following the court approved plan in December. Actual 2017 capital allocated to GenOn consists of the \$125 million draw by GenOn under the intercompany revolver in 2017, which will be repaid by GenOn upon emergence and NRG's pension contribution of \$13 million. The balance of capital required for GenOn will be funded as a part of 2018 capital allocation, which I'll review shortly.

Next, NRG's actual cost-to-achieve associated with the Transformation Plan were lower than original expectations, exclusively due to a delay in timing from 2017 to 2018. And finally, the remaining small changes in allocated capital reflect minor updates in actual costs related to the debt financing and the 2017 growth investments.

The ending balance of \$440 million in excess capital at year-end shown on the right-side of the slide forms the basis for our 2018 capital allocation, which I'll now review on slide 13. Our expected capital from existing sources on the left of the chart on page 13 includes the \$440 million ending 2017 balance, plus the \$1 billion of pro forma free cash flow from 2018. We expect this to be significantly augmented by the closing of our announced asset sales, which now include the sale of BETM. The total net proceeds of \$2.792 billion reflect the aggregate proceeds of our 2018 announced asset sales net of transaction costs leading to total expected 2018 excess capital available of just over \$4.2 billion.

Turning to uses of capital, we have allocated just over \$2 billion to the balance sheet. And this is comprised of approximately \$760 million of permanent debt reduction and the balance of \$1.2 billion expected to be a temporary reserve to ensure we achieve our target ratio of 3 times net debt-to-EBITDA. I'll review the basis for this \$1.2 billion reserve in greater detail on the credit slide at the end of my section. But we expect this \$760 million in 2018 permanent debt reduction to be necessary to achieve the 3 times net debt-to-EBITDA ratio in 2018 and beyond.

However, due in part to the fact that as I mentioned earlier, in 2018, we will not yet realize \$275 million in recurring EBITDA from the full run rate of the transformation, our 2018 ratio does not yet reflect the full impact of the plan. As such, we are temporarily increasing our minimum cash balance in 2018 by \$1.2 billion in order to achieve the target ratio. As our ratio improves over time, we would expect that this reserve would be released and available for future allocation.

Next, as Mauricio mentioned earlier, we're allocating \$1 billion of 2018 capital towards share repurchases, the first \$500 million of which we expect to begin immediately. Dividends, which represent the balance of allocated return of capital to shareholder, are unchanged versus the 2017 rate.

Turning to GenOn, we expect \$178 million of capital towards the remaining commitments under the plan as GenOn expected to merge in 2018. This consists of the \$261 million settlement amount and the 2018 pension contribution, partially offset by the repayment by GenOn of the intercompany revolver. We expect \$246 million in capital allocation toward the completion of our investment in cost-to-achieve under the Transformation Plan, including the amounts delayed from 2017 to 2018, I mentioned earlier.

Finally, expected 2018 growth investments of \$195 million consist primarily of the Carlsbad project, which is more than offset by the dropdown proceeds reflected in the asset sale bar to the left, and Canal 3, which remains under option for purchase by GenOn under the plan of reorganization. Based on this current allocation, this implies \$613 million of excess capital remaining to be allocated in 2018.

Please turn to slide 14, and I'll use this ending balance as a starting point to update the roll forward to pro forma 2020 excess capital we first provided last July as a part of the Transformation Plan announcement. Beginning on the left side of the chart on that slide, we start with the excess capital from 2018 of \$613 million. I'll briefly walk from left to right to summarize the sources and uses in 2019 and 2020 to update or revise expected cumulative excess capital.

First, using our pro forma 2018 free cash flow as a basis for 2019 and 2020, adds \$2 billion of additional cash. Next, as shown in the table above the third green bar, we had \$404 million of cumulative incremental cash flow from the Transformation Plan, which is not reflected in our 2018 pro forma free cash flow. This incremental cash flow is primarily due to the increase in margin enhancements toward the 2020 run rate of \$215 million, \$90 million in additional cost savings versus the 2018 rate, and the \$20 million increase in run rate maintenance CapEx.

Next, while our 2018 capital for allocation reflects the bulk of asset sales toward the target, we reflect the remaining balance of \$205 million in additional proceeds expected by 2019. \$90 million of additional cumulative cash flow reflects two years of cash interest savings on the \$640 million of permanent corporate debt reduction we assume to take place at year end 2018.

Turning to uses, \$88 million of debt amortization reflects the final portion of the repayment of Midwest Gen capacity monetization shown as debt for accounting purposes as well as ongoing but relatively de minimis amortization on our term loan. \$30 million represents two years of our ongoing commitment to fund GenOn pension contributions as part of the plan. And finally, \$75 million to fund two years of annual dividend at the current rate, which, of course, will be slightly lower based on the share buyback.

We add the release of \$1.2 billion cash reserve, I spoke about earlier, to arrive an implied balance of just over \$4.3 billion in excess capital through 2020, which for comparative purposes is \$5.3 billion before taking into account the 2018 share buyback allocation, and represents in the aggregate over 60% of our current market capitalization.

And finally, turning to a brief update on pro forma 2018 capital structure on slide 15. First, we've modified this slide on the left side to more clearly reflect our consolidated debt balance and pro forma debt balance in the context of targeted divestitures. Just over \$8.1 billion of our ending consolidated debt balance will be eliminated upon the closure of the sale of NRG Yield and Renewables business as well as the associated dropdowns to NRG Yield.

What remains is a pro forma consolidated debt balance of \$8.5 billion, \$1.3 billion of which is non-recourse debt. Approximately 90% of this remaining balance of non-recourse debt is the project debt balance at the Ivanpah project level which amortizes, funded by project level cash flows over the remaining life of the PPA. The balance of non-recourse debt at what remains of the Midwest Gen capacity monetization transaction, which is treated as debt for accounting purposes, and is fully repaid by 2019.

Turning to the right side of the slide, our 2017 recourse debt balance of \$7.186 billion will be further reduced in 2018 by the term loan amortization and the permanent corporate debt reduction as a part of the Transformation Plan and included in 2018 capital allocation.

For presentation purposes, we've included only the \$500 million minimum cash balance and the \$1.2 billion cash reserve I spoke about earlier to derive implied net debt. We assume that \$613 million in remaining excess capital in 2018, shown in the red box at the bottom of the slide, has been allocated to other opportunities.

The denominator of ratio starts with our 2018 pro forma EBITDA, which does not yet reflect the full run rate impact of the Transformation Plan with \$275 million of additional savings expected beyond this year. We deduct the EBITDA from non-recourse entities, Ivanpah and Midwest Gen, and add back the cash distributions from those subsidiaries, as well as, consistent with our previous slides on credit ratios, certain non-cash expenses included in EBITDA.

Our net debt balance of \$4.8 billion temporarily reduced by the \$1.2 billion cash reserve reflects a ratio of 3 times our pro forma recourse EBITDA, in line with our revised target.

With that, I'll turn it back to Mauricio for closing remarks.

#### Mauricio Gutierrez

President, Chief Executive Officer & Director, NRG Energy, Inc.

Thank you, Kirk. Just a few final remarks on our priorities for the year on slide 17. And as always, our first priority is to deliver on our financial and operational goals. We're focused on executing our Transformation Plan objectives and bringing our announced asset sales to a timely close in the second half of the year.

In 2017, it was a priority to find a comprehensive resolution for GenOn, and during the year, we were able to achieve this objective. Now, with a plan confirmation by the courts, we're focused on working with GenOn on transition services so that GenOn may be a standalone company by September of 2018.

I want to acknowledge that 2017 was an important year for our company and we underwent a series of changes stemming from multiple strategic initiatives. I am very proud of our success in greatly simplifying our business and positioning ourselves to thrive under any market cycles.

I look forward to continuing our conversation about the long-term strategy and prospects of the company at our Analyst Day on March 27. I want to thank you for your time today and your interest in NRG.

**Operator**: Thank you. [Operator Instructions] Our first question comes from Stephen Byrd of Morgan Stanley.

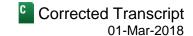
And with that, Sonia, we are now ready to open the lines for questions.

#### QUESTION AND ANSWER SECTION

Your line is now open.	
Stephen Calder Byrd Analyst, Morgan Stanley & Co. LLC	Q
Hi. Good morning.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Good morning, Stephen.	
Stephen Calder Byrd  Analyst, Morgan Stanley & Co. LLC	Q
Congratulations on continued progress on your Transformation Plan.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Thank you.	
Stephen Calder Byrd  Analyst, Morgan Stanley & Co. LLC	Q

Wanted to first touch on Texas. We share your optimism about the tightening supply-demand balance. Can you speak to how you're likely to be positioned for the summer, just at a high level? I know it's challenging to tell us

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exact megawatts of open position, but to the extent that we do see relatively high summertime prices, how can we think about the strategy for remaining open and positioned to take advantage of such price moves?

#### Mauricio Gutierrez

President, Chief Executive Officer & Director, NRG Energy, Inc.

A

Right. So, Stephen, let me answer the question with, I guess, two timeframes. The first is 2018, because we have seen a pretty significant increase in prices for this summer, and then perhaps longer-term, which is more of a structural change. So, for summer of 2018, our Generation business is very well positioned. We actually disclosed in the Appendix our hedge percentages now on a pro forma basis. And as you're going to see, we are about 30% open on our heat rate exposure. So, we are – from a Generation standpoint, we're well positioned to benefit from the market tightening – or the tightening conditions that exist in the market.

Our Retail business is well positioned as well. As you recall, we back-to-back all our Retail, I guess, load and about half of our portfolio is fixed price. So you should expect that that half of the portfolio is completely locked in and the margins are locked in. The other half is in variable pricing. We take steps to manage that load and as the load progresses and it fixes their price, we can, what I describe is, detail or perfect the hedges that we have on that variable pricing load.

Now, longer-term, 2019 and beyond, our Generation business is pretty open, as you can tell on the hedging disclosures that we have provided. So, we will benefit from any structural changes. And we believe that these repricing of the Texas market is going to continue at least for 2019 and perhaps 2020, since – which is not going to have a chance to have new-builds in the span of a year and a half or two years.

Our Retail business, on the other hand, as you appreciate, if there is a structural change in the Texas market, all retailers will see this new level of pricing in the market. So, first of all, it doesn't put us in any disadvantage. Number two, having our Generation business, it offsets a little bit that margin compression that you should expect from – or that you could expect from higher prices in our Retail business, and more than offsets that.

And then, the final thing that I will say is volatility creates opportunities and it creates opportunities for retail companies and generation companies that are well positioned. We saw it during the polar vortex and we actually are ready to capitalize on this opportunity as perhaps customers look – want to move to retail companies that are better capitalized, that has generation behind them and superior service that we provide. So, we see that also as an opportunity.

#### Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

No, that's very helpful. Shifting over to growth opportunities, obviously, you're generating a great deal of excess cash that could be deployed on organic growth opportunities. How do you think about the fields of opportunities? Is this a target-rich set of opportunities you're looking at? Or given where you stand today, is it relatively likely we should see fairly sizeable additional share repurchases just given the implied return in your own stock?

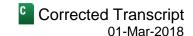
#### Mauricio Gutierrez

President, Chief Executive Officer & Director, NRG Energy, Inc.

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Yeah. Well, I mean, first is the latter part of your question, which is we're deploying \$1 billion because we believe the returns on our stock are pretty attractive. And number two, we are always evaluating the market in terms of attractive opportunities. What I will say is just given where the market conditions are, those attractive opportunities

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are perhaps more likely in the Retail business than in the Generation business. And that's where we're going to be focusing.

I mean, keep in mind that in the East, we're still long Generation. We need to continue growing our Retail business both organically. And perhaps, if there is an attractive opportunity in the retail sector, we will evaluate that. But without a doubt, right now, the most compelling return for our capital is our own stock and that's where we're focusing on.

Stephen Calder Byrd Analyst, Morgan Stanley & Co. LLC	Q
That's great. Thank you very much.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Thank you, Stephen.	
<b>Operator:</b> Thank you. Our next question comes from Julien Dumoulin-S Your line is now open.	mith of Bank of America Merrill Lynch.
Antoine Aurimond Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.	Q
Hey, guys. This is Antoine for Julien, actually. How are you?	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Hey. Good morning.	
Antoine Aurimond Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.	Q
Hi. To come back a little bit on the capital allocation beyond the \$1 billion about a recurring dividend program in terms of payout and yield?	buyback, how would you guys think
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A

Yes. I mean, it's one of the options that we have to returning capital to our shareholders. We laid out our priorities a couple of our earnings calls ago. And when I think of our capital deployment and capital allocation, it's just using those principles that we have already articulated to you. We need to make sure that our business is performing at

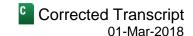
Now that we have line of sight after the asset sales on our credit metrics, then it gives us the opportunity to start thinking about growth or returning capital to shareholders. And in the returning capital to shareholders bucket, I mean, we have the share buybacks or a dividend. And right now, just given where the stock is, we have opted to execute on share repurchases, but dividends are a very viable way to returning capital to shareholders.

We're going to continue evaluating that throughout the year. And once we finish with our initiatives and complete the repositioning of our portfolio, then we will have a robust conversation internally and with our board of directors

the operating and financial level that we want.

President, Chief Executive Officer & Director, NRG Energy, Inc.

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to see what is the best way to return capital to shareholders. But, hopefully, the announcements that we're making today demonstrate and are clear examples of our commitment to be very disciplined when it comes to capital allocation

# Antoine Aurimond Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc. Got it. And then, can you give us a bit more detail on the \$215 million Retail EBITDA enhancement in terms of how you plan to achieve that and whether the timing you laid out previously has changed at all? Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Yeah. So, you're talking about the margin enhancement for Retail, right? Antoine Aurimond Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc. Right.

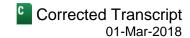
Yes. We provided some information about that when we announced the Transformation Plan and in subsequent calls. I would tell you that we're investing heavily in our Retail business both on our asset sale channels and our IT platform, and just the further integration of Generation and Retail, which helps us manage – or better manage and optimize our margins.

In the Analyst Day, one of our objective is to provide you a lot more visibility and clarity in terms of how do we plan to achieve that \$250 million. The only point that I also have made in the past is, if you look at what we have achieved the last three years, we actually grew our Retail business by \$200 million.

So, what we're saying is, in the next three years, we're going to grow it by another \$200 million. We have done it before. It's achievable, but I am very mindful that we need to provide a lot more specificity about how we're going to do that. And I intend to do that with my colleagues, particularly Elizabeth and Rob, as responsibles of the Retail businesses, to provide more specificity about how we're going to do it.

businesses, to provide more specificity about how we're going to do it.	
Antoine Aurimond Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.	Q
Great. Thank you very much.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Thank you, Antoine.	
Operator: Thank you. Our next question comes from Greg Gordon of Evercore ISI.	Your line is now open.
Greg Gordon Analyst, Evercore ISI	Q
Thanks. Good morning.	

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Mauricio Gutierrez

President, Chief Executive Officer & Director, NRG Energy, Inc.

А

Hey. Good morning, Greg.

Greg Gordon Analyst, Evercore ISI Q

Just a little bit of clean up on the Q4 and fiscal year results. The EBITDA came in a bit below the guidance range, but despite that the free cash flow was quite robust. Can I attribute that to that write-down that you guys called out in Q4 that was non-cash to \$60 million as being sort of the key thing that took you down below the range?

Kirkland B. Andrews

Chief Financial Officer & Executive Vice President, NRG Energy, Inc.



Yeah. Greg, it's Kirk. That's correct. I mean that's one of the reasons why I highlighted that non-cash, obviously, non-recurring impairment charge, which – the larger impairments on the fixed assets, that's just the acceleration of depreciation, which isn't part of EBITDA. But because that's inventory which would normally go through COGS, we chose to leave that obviously as part of our deduct to get to EBITDA, but obviously highlighting the fact that that's one-time and non-cash.

A couple of other elements as we roll through the statement of other [indiscernible] (40:08) which are non-cash, we made an accrual for potential liquidated damages due to the delay of the Carlsbad project. I think that was like ZIP Code of \$20 million of accrual towards the year end. And the remainder of sort of the unexpected variances, if you want to call it that for lack of a better term, we had is largely related to really the Renewables side, which is really still consolidated. We had some delays in projects reaching COD, which obviously delays their contribution of EBITDA. But overall, the main one to highlight is the \$60 million you started with.

Greg Gordon



Analyst, Evercore ISI

Right. Two more questions. On the \$600-and-change million, that's currently unallocated. I presume you're going to give us some more guidance on how you're going to allocate that capital at the Analyst Day. And so it's sort of been held back and so you can give us a sense of how you're focusing the business strategy and therefore where you're going to allocate those dollars?

Mauricio Gutierrez

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President, Chief Executive Officer & Director, NRG Energy, Inc.

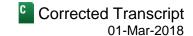
Yes, Greg. I mean, we'll provide you some more clarity during the Analyst Day, but what I can tell you today is we're going to be applying the same capital allocation principle that we have applied to date. So, while we will do that on the Analyst Day, I don't think you should expect any big surprises in terms of the disciplined approach that we're taking on capital allocation.

**Greg Gordon** 

Analyst, Evercore ISI

Great. And my last question, I think Stephen Byrd alluded to this earlier, just to be a little bit more direct. It's always been in hindsight over the years, a mistake to get too excited too early in the year in terms of guidance ranges and changing them. But forward curves and power market dynamics have improved quite significantly since you gave the guidance range. So, can you give us any sense of, given how you've hedged the portfolio,

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whether forward curves were to hold up at these levels for the remainder of the year? Where would you sort of be within the guidance range or is it just too early in the year and you don't want to get too excited about it?

Mauricio Gutierrez
President, Chief Executive Officer & Director, NRG Energy, Inc.

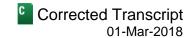
Well, I mean, first of all, we're very comfortable with the guidance that we have provided today. That's why we're reaffirming it. Number two, we're not going to tell you specifically how we are positioning ourselves for the summer. I mean, we provided you the cash disclosures on the appendix. And as you can tell, we are roughly about 30% open on our total portfolio for heat rate exposure.

So, the commercial team, and Chris Moser is managing very closely the position in the summer. Now, with the further integrations that we have between Generation and Retail, we have a pretty good line of sight in terms of the needs that our Retail business needs – has to mitigate any potential impact on it. But where I stand today, I just feel very, very comfortable with the position of our business and the guidance that we have provided to you.

	, ,
Greg Gordon  Analyst, Evercore ISI  Okay. Thank you, guys. Have a great morning.	Q
Kirkland B. Andrews Chief Financial Officer & Executive Vice President, NRG Energy, Inc. Thanks.	A
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Thank you, Greg.	A
<b>Operator:</b> Thank you. And our next question comes from Steve Fleish open.	man of Wolfe Research. Your line is now
Steve Fleishman  Analyst, Wolfe Research LLC  Yeah. Hi. Good morning.	Q
Mauricio Gutierrez  President, Chief Executive Officer & Director, NRG Energy, Inc.  Hey. Good morning, Steve.	A
Steve Fleishman  Analyst, Wolfe Research LLC	Q

Hey, Mauricio. So the – just, I know I've asked this in the past, but just you do give the continued benefits of the cost cutting and the margin enhancement out to 2020. Just the base business, excluding that, and I know there's a lot of moving parts, but is it fair – in the past, we've talked about it being kind of assume flattish off of the base in 2017, 2018. Is that still kind of a fair thing to do, or any guidance there on other drivers?

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#### Kirkland B. Andrews

Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

Yeah, Steve. It's Kirk. I mean, obviously, you already referenced sort of the on-to-come aspect of the Transformation Plan, that \$275 million. But setting the Transformation Plan trajectory to the side, yes, we feel comfortable with the underpinnings of the base business, which is what informed our confidence to sort of reaffirm using that as an anchor in that roll-forward walk that I provided for you. Our outlook is consistent with that perspective over the long-term beyond 2018, yes.

Steve Fleishman

Analyst, Wolfe Research LLC

Okay, great. And then one more question on ERCOT and specific really to the summer peak. Could you talk about your generation-to-load match at summer peak days, periods, et cetera, in terms of protecting in the event there is high-volume spiky pricing?

Chris Moser

Executive Vice President, Operations, NRG Energy, Inc.

Hey, Steve. Chris Moser here. I would think of it this way. With the integrated portfolio, the final position in any given hour is going to depend on where the Retail actuals come in and how the units perform in that given random hour out of the 700 on-peak hours we're going to see. If it's a high-load, high-price situation, we're set up to be – we're just fine in that situation. If it is extreme load and extreme price, that's going to limit the upside as the unit's length ends up covering and protecting Retail margin, so. But in an extreme load, extreme price situation in 2018, that should have some carry-forward and bleed through into 2019 and beyond, which should give us some pretty good hedging opportunities in the forwards. And keep in mind, that's an area where Retail retains a lot of pricing flexibility, given that they haven't sold everything out up there yet. So, I feel like we're in a pretty good shape right now.

Steve Fleishman

Analyst, Wolfe Research LLC

Okay. One last question, and you may want to leave this to the Analyst Day, but just your main peer company talked a little bit about, thinking about whether they might want to look to investment-grade credit metrics or rating in the future. Is that a priority for you at all, or is that really not something that you're focused on?

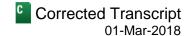
Kirkland B. Andrews

Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

Yeah. Steve, it's Kirk. Not primarily focused on it. I mean, certainly, improvements in credit ratings are something we certainly do aspire to from a cost of capital and reliability of access in the market as you sort of leg up the scale, if you will. But I think we feel comfortable with sort of the ZIP code of that BB ratio, striking the right balance between delivering the right equity return to our shareholders on the one hand and managing the risk of the balance sheet on the other, and most importantly, maintaining our confidence in the access to reasonably priced capital even through the cycle.

That's not to say we continue to look towards that. I mean, as I think I maybe even said in a prior call, maybe the last call we had, we don't look at our credit ratio objectives as a set it and forget it. We continue to review those in the context of what we see, including, but not limited to, the fact that obviously the tax shield is not quite as robust today as it was a few months ago by virtue of the Tax Reform Act.

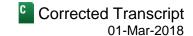
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So that's in constant review, but I think suffice to say, that's not a primary focus. We're comfortable with our BB target. Steve Fleishman Analyst, Wolfe Research LLC Great. Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. And, Steve, let me just add that we have been very clear about our priorities. We have communicated that to all of you. Those priorities are right now on execution. That's our focus right now is to execute on those priorities. And as Kirk mentioned, I mean, once we have demonstrated that we've delivered on those commitments that we've made, then we will reevaluate. But for now, our priorities are very clear and we're executing towards them. Steve Fleishman Analyst, Wolfe Research LLC Thank you. Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Thank you, Steve. **Operator**: Thank you. And our next question comes from Shar Pourreza of Guggenheim. Your line is now open. Shahriar Pourreza Analyst, Guggenheim Partners Hey, guys. Good morning. Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Hey. Good morning, Shar. Shahriar Pourreza Analyst, Guggenheim Partners So most of my questions were answered, but just on sort of the dividend and just a quick follow-up. Is there longevity in the token dividend? So like as you sort of think about returning capital and assuming you decide it's more economic to buy back shares, why sort of retain this token dividend? Should we sort of think about it as either you potentially looking to enact a higher payout ratio and maybe growing that dividend, given what your cash flow profile is, or removing the policy altogether? So why keep this dividend if you're going to maintain it at such a low level? Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.

No, that is a good observation, Shar. And we actually have been having conversations internally about that. And as you can appreciate, we're going to have – we're going to be talking to you in a more comprehensive basis

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around our capital allocation program, but importantly, in the context of our long-term strategy and long-term prospects that the company has. So, this is something that we're going to be getting into more detail at the Analyst Day.

Shahriar Pourreza

Analyst, Guggenheim Partners

Okay. That's helpful. And then, Kirk, let me just follow-up real quick on sort of your leverage targets, like – and outside of ratings, you do have a peer that's noticeably shooting below that. You've got the integrated utility GenCos that are certainly leaner. You have other cyclical industries that have tighter metrics. Is 3 turns really optimal outside of ratings, especially given that you're kind of left without an industry, a sector, and eventually, going to have to benchmark yourself with other cyclical industries as you project sort of this message to investors? So, what is optimal? Is 3 turns still optimal, or is your thought process should it evolve?

Kirkland B. Andrews

Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

Well, to avoid repeating some of the things I said in response to Steve's question, we are comfortable and reaffirming that 3 times target. And what informs our thinking beyond what I've talked about in the past about striking the right balance and everything else is cash flow context matters to us at the end of the day. And both Mauricio and I again reiterated how pleased we are with what the knock-on effect of what we're doing in the Transformation Plan means in our ability to more efficiently translate EBITDA to free cash flow.

And legging towards two-thirds or \$0.67 of every \$1 translating, that makes a big difference. So, if I'm comparing apples-to-apples to somebody else's at a 2 times net debt-to-EBITDA ratio, but they're converting \$0.35 on every \$1 where I'm converting \$0.70, that calibration factor on cash flow, I think, is important not to ignore because it certainly informs our thinking. And while EBITDA is a nice statistic, cash rules the day in terms of financial flexibility. And that I think is a distinction that's worth repeating.

Shahriar Pourreza

Analyst, Guggenheim Partners

Okay. That's helpful. Congrats, guys, on executing on the plan so far.

Mauricio Gutierrez

President, Chief Executive Officer & Director, NRG Energy, Inc.

Okay, Thank you, Shar.

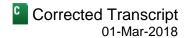
**Operator**: Thank you. And our next question comes from Angie Storozynski of Macquarie. Your line is now open.

Angie Storozynski

Analyst, Macquarie Capital (USA), Inc.

Thank you. I wanted to go back to the sensitivity of earnings to changes in heat rates. So, when I look at slide 24, where you show the sensitivity of your margins, especially for the Texas business, it seems largely unchanged versus what you showed us, I think, during the financial update – actually, during the third quarter earnings call. And you had a pretty meaningful move in heat rates in Texas. So, the sensitivity versus the levels at the end of the year, is this versus the current guidance? What is the basis for that sensitivity?

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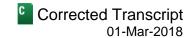
Chris Moser Executive Vice President, Operations, NRG Energy, Inc.	Д	
This is Chris, Angie. I believe that that is as of this week – are you looking at the heat rate sensitivity, \$54 mill Texas 2018?		
Angie Storozynski Analyst, Macquarie Capital (USA), Inc.	Q	
Yes.		
Chris Moser Executive Vice President, Operations, NRG Energy, Inc.	Д	
That's what you're looking at? Yeah, think of it as \$54 million from what is arguably a higher spot.		
Angie Storozynski Analyst, Macquarie Capital (USA), Inc.	Q	
Okay.		
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	Д	
And, Angie, let me just – because you were talking about comparing against previous disclosures, so I thin important to mention that in this new hedge disclosure, I think we pulled out some of the portfolios or asset we're selling, particularly the LaGen business. So, I just want to make sure that the team is working with you as you're looking at previous disclosures with new disclosures that you're comparing apples-to-apples. And new hedge disclosure I believe does not include the businesses that are held for sale now. But that's an important piece of information, Angie.	ts that ou, too, d this	
Angie Storozynski Analyst, Macquarie Capital (USA), Inc.	Q	
Okay. But there's nothing being sold in Texas, right? I mean, Texas Generation assets are intact. So you're saying that the	9	
Chris Moser Executive Vice President, Operations, NRG Energy, Inc.	Д	
Angie, we can		
Angie Storozynski Analyst, Macquarie Capital (USA), Inc.	Q	
Okay.		
Chris Moser Executive Vice President, Operations, NRG Energy, Inc.	Д	

We can – let me just make sure – I am looking at the third quarter 2017 earnings presentation where the heat rate sensitivity for Texas and South Central is \$62 million and the one that you have in front of you with the \$54 million



is Texas only. But we can run this down off the call, if you like.

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Angie Storozynski	Q
Analyst, Macquarie Capital (USA), Inc.  Okay. Thank you.	
Chris Moser Executive Vice President, Operations, NRG Energy, Inc.	A
Okay.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Thank you, Angie.	
Operator: Thank you. And we have time for one more question. Ou Azar with Deutsche Bank. Your line is now open.	ur final question comes from the line of Abe
Abe C. Azar  Analyst, Deutsche Bank Securities, Inc.	Q
Good morning. Congratulations.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Thank you, Abe.	
Abe C. Azar  Analyst, Deutsche Bank Securities, Inc.	Q
Just following up on your hedge profile, you remain more open for no years. Is this a reflection of your view that there's potentially more imliquidity or something else?	•
Chris Moser Executive Vice President, Operations, NRG Energy, Inc.	A

No. It's two things and it goes to a little bit of what I was just talking to Angie about the – if you're looking at the previous quarters, they would have had South Central included in that. And given that South Central has a pretty big short position in it against the co-op contracts, when you pull that out and you're just looking at Texas by itself or Texas and the rest of the pro forma situation, it'll look slightly less hedged. But given that South Central is, give

or take, a 20% kind of a number, if you look back at 4Q 2016 for 2018, we were about 44% hedged gas.

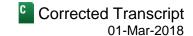
And if now we're at 4Q 2017, looking at 2019, it's kind of 26%. So, that give or take, rough and tough, looks pretty similar to where we were on an apples-to-apples basis. Unfortunately, Q4 2017, Q4 2016 aren't apples-to-apples because of the South Central being pulled out of the numbers on the 2017 number.

#### Mauricio Gutierrez

President, Chief Executive Officer & Director, NRG Energy, Inc.

Yeah. But I think it's fair to say that we were expecting a market tightening in Texas. We knew that the chronic prices that we experienced over six years were going to accelerate retirements or slow down new-builds. We

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positioned ourselves correctly. I think we will see the benefits in our portfolio. And we will execute on our strategy – on our hedging strategy just the way we have executed in the past.

We're opportunistic based on our commodity price yield. We manage our credit ratios and our balance sheet. And now, we also have to be mindful that the synergies that exist between matching Generation and Retail. So, these are the three legs of our strategic hedging program. We are not deviating from that. And I think you should expect as the year progresses and the market reprices itself or re-rates itself that we will execute accordingly.

Abe C. Azar

Analyst, Deutsche Bank Securities, Inc.

Great. And that's all. I will see you at the end of the month.

Mauricio Gutierrez

Α

President, Chief Executive Officer & Director, NRG Energy, Inc.

Okay, great. Thank you, Abe.

**Operator:** Thank you. And this does conclude our question-and-answer session. I would now like to turn the call back over to Mauricio Gutierrez for any closing remarks.

#### Mauricio Gutierrez

President, Chief Executive Officer & Director, NRG Energy, Inc.

Great. Thank you, Sonia, and thank you again for your interest in NRG. We're very excited about the changes that we have made in our portfolio and our business. And I look forward to talking to all of you at the end of the month. Thank you.

**Operator:** Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.

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