

08-Nov-2018

NRG Energy, Inc. (NRG)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the NRG Energy Incorporated Third Quarter 2018 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 follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Kevin Cole, Head of Investor Relations. Sir, you may begin.

Kevin L. Cole

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

Thank you, Joelle. Good morning and welcome to NRG Energy's third quarter 2018 earnings call. This morning's call is being broadcast live over the phone and via webcast, which can be located in the Investors section of our website at www.nrg.com, under Presentations and Webcasts.

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 as the risk factors in our SEC filings. We undertake no obligation 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.

And 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, and thank you for your interest in NRG.

Joining me this morning is Kirk Andrews, our Chief Financial Officer and also on the call and available for questions, we have Elizabeth Killinger, Head of our Retail Mass Business and Chris Moser, Head of Operations.

I'd like to start the call by highlighting the three key messages for today's presentation on slide 4.

First, we continue to demonstrate the earnings predictability of our integrated platform. We are narrowing our 2018 earnings guidance to the upper half of the range and initiating 2019 financial guidance above our transformation plan pro forma.

Second, we achieved a significant milestone in our efforts to right-size our business by closing on the sale of NRG Yield and Renewables. With the transformational plan, asset sales and cost savings nearly behind us, we're now pivoting to margin enhancement in 2019.

Finally, we are announcing an incremental \$500 million share repurchase in addition to the \$1 billion announced earlier in the year. This brings our total share repurchase program to \$1.5 billion and completes our 2018 capital allocation plan.

Moving to our third quarter business update on slide 5, as you can see on the left-hand side of the slide, during the third quarter, we delivered \$677 million of adjusted EBITDA or 23% higher than last year. This was primarily driven by higher realized power prices and continued execution on accretive cost savings initiatives while achieving top quartile safety results.

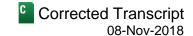
I am very pleased with the operational and financial performance of our integrated platform during a period of extreme price volatility. As we have discussed with you in the past, during periods of high prices, our Generation business benefits while our Retail business experiences some margin compression. It is exactly in this price environment that our platform demonstrates the benefits of the integrated model.

Our year-to-date result now stand at \$1.58 billion, a 34% increase from last year, allowing us to narrow our 2018 guidance range to \$1.7 billion to \$1.8 billion which is at the upper half of our previous range when adjusted for asset sales. This is also the first quarter that our financial statements start reflecting our new simplified business model. Our total corporate debt is now at \$6.5 billion or almost 60% lower than the previous quarter. This number includes \$640 million of deleveraging completed in the last two months.

During the third quarter we also launched the second \$500 million share repurchase, following the close of NRG Yield and Renewables transactions, which we expect to be completed by the end of the year. I continue to believe that our current stock price does not reflect the fundamental value of our business and presents the best return opportunity for our capital at this time.

Looking ahead into 2019, we're initiating adjusted EBITDA guidance of \$1.85 billion to \$2.05 billion. This range reflects the strong fundamentals in our core markets and the confidence we have in achieving our transformation goals. This is yet another example of the stability and strength of our integrated platform, which will provide close

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to \$2.6 billion of excess cash to be allocated in 2019. Later in the call, Kirk will provide additional details on both guidance ranges.

Turning to slide 6 with our transformation plan update; we continue to execute on the plan initiatives during the quarter and remain on track to achieve our full-year 2018 targets. Through September 30, we have realized \$375 million in cost savings, \$24 million in maintenance CapEx reductions and \$6 million in margin enhancement. Over the remainder of the year, we will continue to focus on executing our cost savings and maintenance CapEx programs, while ramping up our margin enhancement initiatives.

We continue to put in place the foundation for realizing margin improvement through multiple avenues, including expanding sales channels and products, streamlining transactions and enhancing IT systems for more sophisticated customer analytics.

With respect to asset sales, during the quarter, we closed on the sale of NRG Yield and Renewables. We expect to close South Central by year-end as it is moving through the approval process with the LPSC and FERC, and Carlsbad will reach COD in the fourth quarter and is expected to close in the first quarter of 2019.

We are also narrowing our asset sale proceeds from up to \$3.2 billion to \$3.1 billion. This is the result of having only Agua Caliente as the remaining assets with clear line of sight to close by year-end 2019. All other assets will remain in the portfolio at this time, given the improving market conditions. Finally, we are well on our way to achieve our leverage target of 3 times net debt to EBITDA by the end of 2018, after having executed our deleveraging objectives.

Now, turning to slide 7 for a closer look at this summer; as you can see on the slide, weather was warmer than normal across our core markets, which led to higher demand, particularly in Texas, where we set a new record peak load of 73,000 megawatts. While loads were robust, actual prices were mixed across markets compared to expectations.

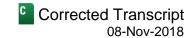
In ERCOT, real-time prices came in significantly lower, as you can see on the upper right-hand chart. A combination of near perfect performance by generators during the July heat wave and milder temperatures in August resulted in prices 77% lower than it was expected at the beginning of the summer.

In the west, California was a different story with prices settling well above expectations. This was mainly due to restricted gas deliverability. Looking ahead, we observe that the combination of once-through cooling unit retirements and the emergence of community-choice aggregators have resulted in recent increases to Western capacity prices. In the east, energy prices were pretty much in line with expectations and the focus is really on market reforms of both capacity and energy.

Now looking forward on slide 8 and starting with our market outlook for ERCOT; as we have seen over the past year, reserve margins continue to tighten, driven by load growth, asset retirements, and additional delays or cancellations or new builds as developers are unable to justify long-term investments.

On the top left-hand chart, you can see that reserve margins continue to be significantly below ERCOT's target for several years, highlighting the need for additional generation. Currently, the PUCT is considering positive changes to the ORDC scarcity pricing mechanism, to ensure the right price signals are sent to market participants. These potential regulatory changes, combined with low future reserve margins have pushed forward prices higher, particularly in 2019 and 2020.

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This move has been almost entirely driven by increases in the summer prices, where the market is now implying between 8 to 9 hours of prices at the cap. We have actually taken this as an opportunity to increase our hedge levels in 2019 and 2020, providing us with even more predictability on our earnings going forward.

One area worth noting is that most of the current reserve margin is made up of capacity that comes from renewable generation. As you know, this is non-dispatchable capacity and therefore could potentially lead to fluctuations in the actual amount of generation available to serve load.

Now moving to the East, the focus is on regulatory changes for both capacity and energy markets. As you know, FERC has stated that the existing capacity market in PJM is unjust and unreasonable, due to the negative impact of subsidized units.

Let me reiterate that we believe a strong MOPR is the simplest and most effective way to reduce the harmful impact of subsidies on the capacity market.

PJM and New England are also focusing on fuel security, which should lead to additional revenues for generators that have on-site fuel capabilities. This is very much at play, but all these regulatory changes are designed to improve the current status quo and are positive for our portfolio.

Next month, it will be three years since I became CEO of the company and while this is not the quarter where we provide our capital allocation plan, I wanted to spend a minute talking about our capital allocation philosophy and track record, particularly in light of the financial flexibility that we have afforded ourselves in the past few years.

Turning to slide 9, you can see our capital allocation for the past three years. As you may recall, we initially focus on stabilizing our business by selling or closing underperforming assets, focusing on our core integrated business and strengthening our balance sheet. This resulted in most of our excess cash to be allocated to debt reduction in 2016 and 2017.

With the announcement of our transformation plan and the rightsizing of our business, we created significant excess capital that we returned to our shareholders in 2018 through share repurchases given the undervaluation of our own stock.

As we move into 2019 and given the excess cash potential of our business, which will be close to \$2.6 billion even after the incremental \$500 million share repurchase announced today, I want to reiterate to you that we will be absolutely disciplined in following our capital allocation principles that we have articulated to you and that you can see on this slide.

I look forward to providing you with our 2019 capital allocation plan on the fourth quarter earnings call as we have done in the past.

With that, I will turn it over to Kirk for our financial summary.

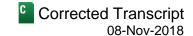
Kirkland B. Andrews

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

Thanks, Mauricio.

Turning first to the financial summary on slide 11, for the third quarter, NRG delivered \$677 million in adjusted EBITDA, a 23% increase over last year. Having successfully closed the sale of NRG Yield and Renewables in

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August, our quarterly and year-to-date results now no longer include the contribution from these businesses, which are now treated as discontinued operations as a result of the sale.

Through the first nine months of 2018, NRG has delivered nearly \$1.6 billion in adjusted EBITDA with approximately \$375 million of cost savings realized, which places us on track to achieving our 2018 cost savings target of \$500 million. With these solid results and the important summer months now behind us, we're also narrowing and revising our 2018 guidance toward the upper half of our previous range, which I'll discuss in greater detail shortly.

With the closing of NRG Yield and Renewables transaction, combined with \$640 million in discretionary debt redemptions which I'm pleased to announce, are now completed, we have now removed approximately \$10 billion of debt from NRG's balance sheet in 2018. This not only significantly simplifies NRG's balance sheet for our investors but makes the achievement of our 3 times net debt-to-EBITDA target in 2018 all the more transparent.

As you'll recall, part of our plan to achieve our target balance sheet ratio in 2018 included \$640 million in debt repayment, which we achieved following the third quarter in two parts. First, in October, we redeemed the remaining \$485 million balance of our 2022 senior notes, eliminating our nearest maturity in the process. Second, we repaid \$155 million of our term loan facility. We are required under the terms of this facility to offer a portion of the proceeds from certain assets sales to the lenders at par. In keeping with this requirement, we have made this offer, and through an arrangement with a financial institution, effectively capped the amount of redemptions for which NRG is responsible at \$155 million, which represents the balance required to achieve our debt reduction target for 2018.

As Mauricio mentioned earlier, we have now fully funded the second phase of our \$1 billion share buyback program. Following the closing of NRG Yield and Renewables, we put in place a \$500 million accelerated share repurchase program or ASR with a financial institution. NRG initially received a base number of shares which will be supplemented with additional shares based on the average price of our stock over the program. The financial institution is continuing to execute share repurchases under the ASR which will be completed by the end of 2018.

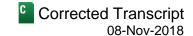
In addition, we now have a new authorization for an additional \$500 million in share purchases which will be executed between now and into 2019. This brings the total amount of 2018 excess capital allocated to share buybacks to \$1.5 billion or nearly 40% of our 2018 excess capital.

Turning next to an update on our 2018 guidance which you'll find on slide 12, given the significant impact of deconsolidation, resulting from asset sales and our reported results in 2018, I'd like to first take a moment to provide you some context of our revised 2018 guidance. Looking at the table at the top of the slide and moving from left to right, we start with our previous guidance for 2018 which has remained unchanged since we first provided it about a year ago.

That consulted guidance, included the expected full-year contribution from all of our businesses, including those which have now been sold. As you may recall from previous quarters, we have disclosed to you the full-year impact to the midpoint of our guidance from these 2018 asset sales which included everything we've closed on todate such as NRG Yield, Renewables and our Boston Trading business or BETM, as well as our South Central business.

Following the closing of South Central, which we continue to expect toward the end of 2018, the results of this business will also be treated as discontinued operations and will not appear in our results for the year. That

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second column reflects the midpoint EBITDA and free cash flow from these businesses based on our prior guidance or \$1.2 billion and \$590 million in EBITDA and free cash flow respectively.

Deducting these amounts from our prior guidance allows you to see the contribution to that prior guidance range from businesses retained in 2018, which is reflected in the third column entitled, previous guidance adjusted for asset sales. This should provide you some context and reference for comparison for our revised 2018 guidance shown in the last column on the right.

Based on the performance of our remaining businesses and our expectations for the balance of the year, our updated and narrowed guidance for 2018 is \$1.7 billion to 1.8 billion in adjusted EBITDA and \$1.05 billion to \$1.15 billion of free cash flow. Importantly, this revised guidance reflects the upper half of our previous guidance range adjusted for asset sales.

Finally, at the bottom of the slide, there are a couple of items to note with respect to our 2018 revised guidance, which should also provide you some context when I review our 2019 financial guidance in a few moments. First, our revised guidance for 2018 still reflects the contribution from Agua Caliente, which we expect to sell to NRG Yield or Clearway in early 2019, as well as the partial year contribution from BETM, which was sold during 2018.

In total, these two items represent approximately \$120 million in adjusted EBITDA included within both the Generation segment, as well as our consolidated revised guidance. As BETM has now been sold and we expect Agua Caliente to be sold early in 2019, neither of these two items will contribute to our results going forward, and are thus not included in our 2019 financial guidance.

Second, as you recall, we closed on XOOM Energy in mid-2018, which we expect to contribute approximately \$25 million to our 2018 results. However, as we indicated when we announced the XOOM transaction during Analyst Day, we expect the full-year impact of XOOM to be approximately \$45 million and our 2019 guidance reflects that.

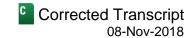
So, with that as a backdrop, I'd like to turn to 2019 guidance which you'll find on slide 13. 2019 will be the first year since we announced the transformation plan that our financial results will reflect our retained businesses and are simplified and further strengthen the balance sheet. Our guidance for 2019 is \$1.85 billion to \$2.05 billion in adjusted EBITDA, with \$850 million to \$950 million from Generation, and \$1 billion to \$1.1 billion from Retail. In the upper right of this slide, we provided a walk to help you understand our 2019 EBITDA guidance compared to our previous 2018 pro forma that was based on our original 2018 guidance.

Our previous 2018 pro forma EBITDA, which was most recently found in our second quarter presentation, was \$1.6 billion. To bridge to the \$1.95 billion midpoint of 2019 guidance, we add two items. First, our 2019 guidance reflects the incremental impact of transformation plan initiatives versus 2018, which totaled \$195 million. As you may recall, this consists of \$500 million in 2018 cost savings, increasing to the \$590 million run rate in 2019, and \$30 million in 2018 margin enhancement which increases to \$135 million in 2019.

Second, to arrive at the midpoint of 2019 guidance, we add \$150 million, which reflects the combined impact of increased power prices in 2019. Specifically, these increased prices benefit Generation EBITDA, just partially offset by higher supply costs that they represent for Retail. While we expect these higher supply costs to modestly impact 2019 Retail guidance, we expect them to be recoverable beyond 2019.

Next on slide 14, I'd like to provide a brief update on 2018 capital allocation. As usual, you'll find all the changes to this update versus the update we previously provided in the second quarter, highlighted in blue. As you can see, primarily driven by a \$500 million increase in capital allocated to share repurchases, which reflects a reserve for

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our new buyback authorization. We have now fully allocated our 2018 excess capital with approximately \$80 million of total capital allocated toward our deleveraging targets and returning capital to shareholders, primarily through share buybacks.

The remaining changes since our last update are summarized in the upper right of the slide, and primarily consists of the following: First, as shown in Item A, based on discussions with NRG Yield or Clearway and the expected COD for Carlsbad later this year, we now expect to close on the sale of that asset in the first quarter, which shifts about \$365 million in capital from 2018 to early 2019.

Next, based on the increase in 2018 EBITDA, which positively impacts our leverage ratio, we are able to reduce the temporary cash reserve needed to achieve this ratio in 2018 by approximately \$150 million. This is partially offset by about \$45 million of debt premiums and fees associated with both the \$640 million in debt redemptions I've mentioned earlier as well as other liability management activities year-to-date.

Finally, we have reduced the expected allocation to transformation plan cost to achieve by \$60 million, which we now expect to incur as a part of 2019 cap allocation, which I'll review next on slide 15.

Turning to 2019 excess capital on slide 15, we begin with capital available of \$1.4 billion, which is comprised of the midpoint of our 2019 free cash flow guidance plus about \$70 million of unallocated 2018 capital from the previous slide.

Next, we add \$485 million in 2019 asset sale proceeds, which consists of approximately \$365 million for Carlsbad and \$120 million for Agua Caliente. Both of which are expected to close in the first quarter. Next is the full release of the remaining \$915 million in 2018 cash temporarily reserved to ensure our 3 times ratio.

Our higher midpoint EBITDA for 2019 allows us to fully release this remaining balance next year for capital allocation, as we will not require any excess cash in 2019 beyond simply our \$500 million minimum cash balance to achieve our 3 times net debt to EBITDA ratio.

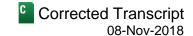
I'll review all of this in further detail on the next slide, however it's important to note that as you may recall, our previous expectation, which was based on our pro forma cash walk was with – that we would still need to reserve about \$450 million in capital or cash in 2019 for credit ratio purposes, making this capital previously unavailable until 2020.

Our more robust EBITDA reflected in that 2019 guidance allows us to release this capital for allocation effectively one year earlier than previously expected, and is the reason why although we've now allocated an additional \$500 million toward share repurchases, our cumulative excess capital through 2019 remains unchanged from our previous walk at \$2.6 billion.

Finally, turning to an update on our corporate credit metrics on slide 16. In column one, we've updated our 2018 ratio calculation, to reflect our increased revised pro forma EBITDA, which again allows us to reduce our 2018 cash reserve while maintaining three times net debt-to-EBITDA.

Our pro forma 2018 debt reflects the third quarter balance reduced by \$640 million in debt redemptions now completed, leading to \$6.5 billion in total corporate debt at year-end 2018, which, after deducting our minimum cash of \$500 million and \$950 million of additional cash temporarily reserved in 2018 leads to \$5.1 billion in 2018 net debt.

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For debt ratio purposes, we have adjusted our midpoint of our revised 2018 guidance range to reflect the removal of EBITDA from asset sales which still remains in our 2018 guidance, specifically Agua Caliente and BETM. And we've also added \$20 million to adjust for the full year effect of XOOM. In total, this net adjustment of \$100 million leads to pro forma adjusted EBITDA for ratio purposes of \$1.65 billion for 2018.

As we've done in prior quarters, we continue to adjust the EBITDA for ratio purposes, to reflect the impact of Midwest Gen capacity modernization which will only be necessary through 2019 as that is the final year of capacity sold forward, after which, we will count 100% of Midwest Gen EBITDA towards this ratio.

Turning to 2019, as I mentioned earlier that \$300 million increase in adjusted EBITDA based on the midpoint of 2019 guidance allows us to fully release that remaining \$915 million of cash reserve, or basically three times the increased EBITDA, making this cash available for further allocation in 2019, while permitting us to maintain that important three times net debt-to-EBITDA ratio.

Finally, as a reminder, in 2020 we still expect an additional \$80 million in EBITDA for margin enhancement programs which increases to \$215 million in 2020 versus \$135 million in 2019. This additional upside, combined with the strength and resiliency of our integrated Retail and Generation platform, helps ensure that we can maintain and improve on our credit metrics without the need for additional capital in 2020.

And with that, I'll turn it back to Mauricio for his closing remarks.

Mauricio Gutierrez

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

Thank you, Kirk. A few closing thoughts on our 2018 scorecard on slide 18. As you can tell, it has been quite a busy year so far and we have made excellent progress across the board on our 2018 priorities. I am very pleased with what our team have been able to accomplish. As I look forward to 2019, we're focusing our efforts into three key areas, redefining our business by further perfecting our integrated model; shifting the focus of our transformation plan to margin enhancement and completing the announced asset sales; and finally, disciplined allocation of the significant excess capital that we will have available.

I am very excited about the future of our company. I want to thank you for your time and interest in NRG. So, with that, Joelle, we're ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator : Thank you. [Operator Instructions] Our first question comes from Julien Dumoulin-Smith with Bank of America Merrill Lynch. Your line is now open.	
Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch	Q
Hey, good morning, team. How are you?	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Good morning, Julien.	
Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch	C
Hey, excellent. Hey, wanted to follow up a little bit on just the hedges here. I wanted to understa what's going on in Texas on 2020? There's been a little bit of a change in the weighted average on a per-megawatt-hour basis. It seems as if you've largely kept the hedge percentage intact, but elaborate a little bit here?	hedge price there
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	Д
Sure. Well, as we were discussing – I mean, we're seeing power prices increase in 2019 and 20 have taken this opportunity to increase our hedges, and you know, most of the move has been a summer. So, you can expect that the hedges that we have put in place have been really around September strip. But, Chris, I mean, are there any – anything else, more details around our hedge then some of the dynamics you're seeing particularly in 2020?	around the the June through
Chris Moser Executive Vice President, Operations, NRG Energy, Inc.	Д
Yeah. I think when we're looking at hedging, we're looking at trying to lock in good numbers aga generation with the idea that we'll still leave some – you know, to cover up operational risk and leave obviously in combination with buying options, and weather options, and outage insurance, and the What you probably – and we can dig into this later, Julien, but what you're probably looking at is take off the summers, especially in 2019, we were also doing longer dated pieces, not just summer done at a lower level. Obviously I'm selling April off-peak or around-the-clock, that's going to mo down a little bit.	oad variability, he rest of that. , is as we try and ner. Those are
Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch	Q
Got it. So, that explains the move from \$42 to \$36?	
Chris Moser Executive Vice President, Operations, NRG Energy, Inc.	Д

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Corrected Transcript
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Yeah.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

The bulk of it. Okay. Excellent. And then just secondly here, Mauricio, I mean, I think folks are taking note this morning of some of the changes on the board, but I also take note of your commentary earlier with respect to continued execution of the transformation plan. You've announced for the first time here, your 2019 full-year EBITDA, how do you think about continuing some of the cost savings that we've seen in 2018 into 2019? How do you think about what's reflected and ultimately, is there anything to be read from the changes on board here – I mean, on the board composition this morning too.

Mauricio Gutierrez

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



Well, I don't think there is anything to read on the board composition. The entire board supported the transformation plan, including myself. Management is committed to executing our transformation plan and I think we have done excellent progress, with the – John decided to step down from the board and what I can tell you is that he's been a good and insightful board member and I look forward to continue having him as a long-term shareholder.

So, I think we have the support from our shareholders in terms of our transformation plan, the direction that we are – that we're going. Did that answer all your question, Julien? I know that it was – I think a two or three-part question.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch



Well, I – yeah. Well, I mean, maybe the – to be a little bit more direct about this, how are your transformation plans shaping up for further cost savings into 2019? Obviously you're holding on to a few more assets than you originally anticipated; does that provide for incremental cost savings and are you continuing to evaluate that at a board or even within the company from a cost savings perspective?

Mauricio Gutierrez

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



Yes. So, with respect to the cost savings or on the transformation plan, we have line of sight on the \$590 million. We're executing to that and that's going to start doing in – we're going to do that in 2019. Obviously, our cost savings, this is something that is a continuous improvement process. It doesn't end with a transformation plan. We're always looking at doing things more efficiently. So, we're going to continue doing that.

And if there is an opportunity to reduce the cost on some of the assets that we're retaining, believe me, I mean, we are already looking at that and then evaluating that.

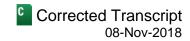
So, I am very confident that we're going to achieve our numbers by – in 2019 and I am very confident also of the culture that we have on continuous improvement that I believe, you know, before transformation plan was for NRG and this is something that we all feel very strongly. So, I don't think you should expect that, you know, after the transformation plan this is basically done and over.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

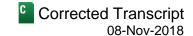


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Excellent. All right. I'll leave it there. Thank you all.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Thank you, Julien.	A
Operator: Thank you. Our next question comes from Greg Gordon with Evercore ISI. Your line is now operator.	pen.
Phil Covello Analyst, Evercore Group LLC Good morning, guys. It's actually Phil here for Greg.	Q
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Thank you, Greg.	A
Phil Covello Analyst, Evercore Group LLC Phil. But	Q
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Phil, I'm sorry. Phil. We're getting a little echo here on our end.	A
Phil Covello Analyst, Evercore Group LLC Okay. Let me try to adjust my headset. Anyway, congrats on the quarter. I just want to clarify a couple of i you discussed. So, to be clear, the incremental \$500 million announced today, that's not allocated, it's not into the \$2.6 billion CAFA that you're allocating for 2019.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. That is correct.	A
Phil Covello Analyst, Evercore Group LLC So, theoretically, if you were to use all that for buybacks, you can allocate north of \$3 billion from here.	Q
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Yes. I mean, the \$500 million plus \$2.6 billion, yes, that's correct.	A
Phil Covello Analyst, Evercore Group LLC Got you. In the 2019 guidance you laid out, is that marked to end of the quarter curves?	Q

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Mauricio Gutierrez

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

А

Yes.

Phil Covello

Analyst, Evercore Group LLC

Q

Okay. So is it fair to say that where we sit from here today that curves look still a little bit better on a fresher mark-to-market or how are you – what are you seeing...

Mauricio Gutierrez

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



Yes. I mean, I would say that they are just a tad better, but keep in mind, when you're looking at the 2019 guidance, you have to take up a few things into consideration. Number one is power curves; number two, the level of hedges that we have. So, I mean it's not just one, and obviously supply cost for our Retail business. So, I mean, there's multiple things that you need to take into consideration, so it's not just one-dimensional.

Phil Covello

Analyst, Evercore Group LLC



Understood. And I guess to that point, I mean, yeah, Kirk, your commentary on Retail essentially with the higher wholesale prices going into 2019, you won't be able to capture that 1:1 on the Retail side next year, but as you move through time, you can start to work that into future rates. So it's kind of a margin lag. Am I thinking about that correctly?

Mauricio Gutierrez

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



Yeah. That's correct and I mean, let me just – I mean as we have seen different prices is going to change a little bit the distribution between Generation and Retail in our earnings, but keep in mind, I mean from my perspective, what we are focused on is having an earnings profile that is stable and predictable for the integrated platform.

So, if power prices are increasing, it benefits power generation business perhaps more than any part of Retail business and truly it's the other way. So – but at the end of the day, what we are focused on is the total earnings line of the integrated platform, and this is what we want to demonstrate, you know, the stability and predictability of our platform, which I think, we have done in 2018 and with the guidance we're providing today, it's a reaffirmation of that.

Phil Covello



Analyst, Evercore Group LLC

Sure. And you've done a good job of that so far for sure. Last question, and then I'll cede the floor. Can you just provide any color or commentary around the 2020 trajectory from here, relative to 2019?

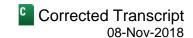
Mauricio Gutierrez



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

I mean, what I will tell you, since we're only introducing 2019 guidance today, is, some of the drivers that you should be looking at for 2020 obviously is power prices, the hedges and something that Kirk was mentioning, which is, you know, some of the compression that we get by higher power prices in our Retail business. But aside

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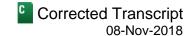
from that, I will not – obviously, if the assumptions are the same in 2020 than in 2019, then you can make an inference of that.

Obviously, you also have the incremental transformation plan targets that we have going in 2020, but I'm not

going to - I'm not going to - and I'm not going to be providing 2020 guidance in the call. Phil Covello Analyst, Evercore Group LLC Understood. Thanks, guys. Congrats. Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Thank you. Operator: Thank you. Our next question comes from Abe Azar with Deutsche Bank. Your line is now open. Abe C. Azar Analyst, Deutsche Bank Securities, Inc. Good morning. Congratulations. Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Thank you, Abe. Good morning. Abe C. Azar Analyst, Deutsche Bank Securities, Inc. Thanks. With the backwardation in the Texas prices, at least the ones that are quoted right now, can you remind us what Retail's positive sensitivity is for lower prices, you know, absent the margin enhancement program? Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Yeah. I mean, we haven't provided the specific sensitivity on our Retail business because - I mean, there is a number of things that come into play; it's not just the cost of our sales, but also you have to look at where your margins are, your attrition rates, your bad debts. So, it's not - I wouldn't say that it's as direct or as directly correlated as CDC in the Generation business. I mean, there is a lot more variable that needs to be taken into consideration. So, I think what I will tell you is, the benefits that we see on the Generation business tends to be one-to-one when power prices increase, and we have ability to pass some of that to our Retail customers, so, it's not one-to-one. That's why we say our Generation business tends to benefit more than it impacts our Retail business, but that's - I think that's the dynamic that - and the complementary nature of our business. And that's the level of detail that we're comfortable providing. Abe C. Azar

Analyst, Deutsche Bank Securities, Inc.

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Got it. And then on 2018, the implied Q4 guidance is a lot lower than Retail and Generation have done in the prior years; is there something unique about this year in Q4?

Kirkland B. Andrews

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

No. Nothing unique at all. It's kind of difficult to extrapolate from there, because remember – and again I'm not sure if you're referencing, when you talk about Retail and Generation, those two being the significant component parts of our overall performance in our guidance. In the past, Retail is basically same store from that perspective, but as a reminder, Generation, which we used to call Generation & Renewables for an obvious reason, included

everything.

So, I'm not sure whether you're accounting for the fact that we've significantly streamlined and changed the overall makeup of the portfolio, but in the context of the assets that remain, which is a phrase or a term that I used in my remarks, fourth quarter is in line with what we would normally expect. Just a lot of noise with things moving in and out this quarter.

Abe C. Azar

Analyst, Deutsche Bank Securities, Inc.

Understood. Thank you.

Operator: Thank you. Our next question comes from Angie Storozynski with Macquarie. Your line is now open.

Angie Storozynski

Analyst, Macquarie Capital (USA), Inc.

Thank you. So, two questions. So, one is, in the past you've mentioned that you were planning to acquire some retail businesses in the Northeast. Well, you haven't announced anything yet and just wondering if we're waiting for cash to come in from the Louisiana assets or if there's any other limiting factor here.

And also, if you could put it in the context, so you have \$2.6 billion in cash to be allocated. I understand that there are only really two ways to allocate it; one is that retail acquisition and the other one is buybacks, and is it safe to say that given the size of retail books that are available, only about maybe \$700 million of that could be spent on Retail?

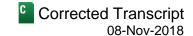
Mauricio Gutierrez

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

Yes. Good morning, Angie. So, let me tackle your – the first part of your question. Just to be completely clear, what I have said in the past is that we're going to be looking at perfecting our integrated model. In the East, we have more Generation than Retail, so we can actually achieve that rebalancing in two ways. We can either grow our Retail business or we can reduce our Generation business. Both are available to us, and we know that the retail space has been very active, but – and if we see something that is consistent with our portfolio and meets our capital allocation and hurdle rates, then we're going to evaluate. But there are different ways that we can perfect our model, and we're not locked in or – to one specific one.

To your second question around what we can do with our excess cash in 2019, I would say that there are three different ways that we can allocate it. One, we can always find opportunities to grow our portfolio, our business, if they are compelling. Two, we can return capital to shareholders both ways, share buybacks, given the

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undervaluation of our stock, it is today and as a preferred one, but we also have another avenue, and we are open to it if it's dividends.

And then finally, we also have to evaluate, you know, continue paying down debt, and while we are completely comfortable with 3 times today, that doesn't mean that, in the future, it's something that we just set it and forget it. So, that's what I would characterize our capital allocation for 2019 or at least the philosophy.

Angie Storozynski Analyst, Macquarie Capital (USA), Inc. Okay. And on an unrelated note, Midwest Gen, so, PJM will be reforming its MOPAR rule. It does sound like Illinois might be leaning towards stripping out all of their nuclear plants from the PJM auction, keeping the Illinois customers basically neutral as far as their capacity payments, which I understand, that the capacity payments

would be coming then from coal plants like the ones that Midwest Gen owns. So, in that context, how do you see the earnings power of this portfolio going forward?

Mauricio Gutierrez

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

Okay. Chris, do you want to take that?

Chris Moser
Executive Vice President, Operations, NRG Energy, Inc.

Yeah. Angie, for that to happen, you need to believe two different things. You need to believe that Illinois is willing to quintuple the number of nuclear subsidies that they're already providing from 2,000 to give or take 10,000, which is hopefully a stretch. And then, you also have to believe that FERC will allow a state to subsidize one particular set of generation and crush wholesale prices, which is in direct opposition to what they've written in the past – previous three orders. So, I mean I think that's very theoretical, and I think there's a lot of wood to chop to get from here to there.

Praful Mehta	
Operator: Thank you. Our next question comes from Praful Mehta with Citigroup. You	our line is now open.
Thank you, Angie.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Okay. Thank you.	
Angie Storozynski Analyst, Macquarie Capital (USA), Inc.	Q

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Thanks so much. Hi, guys.

Mauricio Gutierrez

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

Hey. Good morning, Praful.

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Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Good morning. So, I mainly wanted to get to the hedging a little bit, and link that with the drop we saw in the 2020 hedge prices. I guess you talked about, and we all know about the tight reserve margins in ERCOT; given that tight reserve margin, I would guess that your preference would be to keep it more open to benefit from tightening prices in the curves in 2020, and clearly the curve is right now are backwardated.

So, I guess, just wanted to understand more broadly the hedging policy views, and then secondly, a little bit more clarity of the almost \$6 drop in 2020, kind of what prompted that hedging if you're kind of seeing this more broader tightening in ERCOT?

Mauricio Gutierrez

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

Okay.

Chris Moser

Executive Vice President, Operations, NRG Energy, Inc.

Praful, Chris again. So if you're looking at back on page 24 and you look at total Generation portfolio, when you look at the open heat rate, you'll see that 2020 went from pretty darn low to 27%, and nuclear went from relatively low to 36%. So what you have is two different moving pieces here.

What you've got is a big hunk of hedges that went in, that were arguably not just summer, but they were full year, on-peak around the clock kind of numbers. And you also have the lot of small numbers which is, if you have a small number that was only summer, and then you mix that with a full year piece, which was, you know, and that second quantum was bigger than the first quantum, you're going to get a move there. Trust me, when we're selling 2020, the summers are included. So we're locking in – we're locking in big chunks of value.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Got you. That's helpful. And so more broadly, just understanding the 2020 and just the hedging policy in general, is there a view that ERCOT is going to tighten further and that curves don't reflect that today and you want to keep more open or do you feel that the curves are relatively opportunistic or wherever there is an opportunity, you would go in and lock in further hedges?

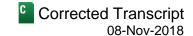
Chris Moser

Executive Vice President, Operations, NRG Energy, Inc.

No, fair question. I mean, I think if you look at the position where we're sitting, 30% – basically 27% to 36% hedged depending on which chunk of the portfolio, coal and nuke or total, you know, I think that we're saying that this thing has some room to run, so we're only 27% hedged.

Now, I will say that we've seen a nice price rally since the summer and there's plenty of expectation that the PUCT, later today, may make some changes to the ORDC pricing mechanics and we're hopeful that they do because newbuilds are either being pushed off or cancelled. So, something needs to happen and we – I encourage the PUCT to take action.

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Mauricio Gutierrez

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

Praful, and let me just add; in 2020 we are 70% open. I think that should give you an indication, our view in the Texas market. We continue to see that is very constructive, but we want to be prudent. We saw a pretty significant increase in 2020 on prices. We reacted to it, we were opportunistic, we laid out some hedges, but keep in mind, we're still 70% open.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Got you. That's helpful. And then just on capital allocation more broadly, clearly there is both a growth opportunity and a potential to buy back shares. From a growth perspective, is Retail the only direction you see or are there other avenues of growth that we should be thinking about, that will hit your return thresholds that you could also kind of look at?

Mauricio Gutierrez

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

I mean there is – we see multiple avenues. I mean, clearly the one that has been getting more headlines is Retail, just because of the value proposition where Retail is today, the implied valuations that we have, and the fact that we can actually put it in our Retail business that is scalable. So, we can achieve significant cost synergies.

But we see opportunities in other areas, we're evaluating them particularly on the business – business solutions side, working with our customers, and the one thing that I will say is Generation perhaps is limited, given the very long-term nature of the investments and the fact that we have – we're adhering to our capital allocation principles.

So, I would characterize it that way and that informs more or less where we start we're looking at – where we are looking at possible opportunities.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Got you. Super helpful. Thank you, guys.

Mauricio Gutierrez

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

Thank you.

Operator: Thank you. Our last question comes from the line of Ali Agha with SunTrust. Your line is now open.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

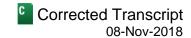
Thank you. Good morning.

Mauricio Gutierrez

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

Good morning, Ali.

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Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Good morning. First up, Kirk, I guess just wanted to clarify the slide 12 numbers you gave us, as you walked from the pro forma to the actual guidance for 2018. So, if I read that right, there's about \$145 million of EBITDA that you're adding back in for the BETM and so on and so forth, but the midpoint of the two adjusted guidances only went up by \$55 million. So, what am I missing there in that math?

Kirkland B. Andrews

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

I think the way that you've summarized that is effectively correct, right? Nominally speaking, you have a significant – a more significant increase, but thinking about it – and perhaps this is where you're going – thinking about – ignoring the nonrecurring elements, right? When I talk about nonrecurring elements, I'm talking about Agua Caliente, I'm talking about the BETM, the Boston Energy Trading business, which still is reflected in our numbers even though it was sold intra-year.

Yeah, you've got about \$50 million of sort of same-store outperformance, which is why I characterize it as towards the upper half of our previous range on an apples-to-apples basis, right? That was part of the reason why I unpacked that because, nominally speaking, relative to the \$1.6 billion pro forma, it looks like \$150 million higher, but when you adjust that for the asset sales, your number is probably the right way to think about that on a same-store basis – if that makes sense, Ali.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Yeah. But then, Kirk, if you take it to your next column, the updated and narrowed guidance column, you know, that number – shouldn't that – if you took the column before that, this previous guidance adjustment column, and moved right, shouldn't that have gone up by that \$140 million that you're adding in there?

Kirkland B. Andrews

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

No, it's the opposite.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Okay. I'll come back to you guys on that.

Kirkland B. Andrews

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

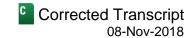
Yeah. I know we'd get a follow-up call, but I'm happy to try to make that clearer.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Yeah. A separate question; I know that, obviously, you guys are not giving 2020 guidance here, but just in the context of your net debt EBITDA targets, certainly on the 2019 numbers, you're hitting those targets as the way you've laid out to us, but if this backwardation in the forward curve continues even with the margin enhancement improvement, I mean the sense is directionally 2020 EBITDA is slightly lower than 2019. So, does that figure into your calculations thinking about net debt to EBITDA if you were to use a 2020 denominator versus 2019, and how

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you might think about capital allocation in 2019 and maybe lay down more debt than you're currently showing us? Is that a fair way to think about this dynamic?

Kirkland B. Andrews

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

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I know the direction you're coming from. A couple of things of note, right. As I mentioned, you got \$80 million of margin enhancement from 2019 to 2020. That's \$135 million of margin enhancements in the 2019 number, going to \$215 million in 2020, right? That's \$240 million of debt capacity right there and I think we'll sort of take that as it comes going forward, but certainly, that provides a pretty significant cushion having achieved that in 2019 to get to that 3 times net debt to EBITDA ratio.

But I don't feel at all that we're going to need to allocate additional capital to maintain the 3 times. As Mauricio said, we will always continue to reevaluate the three as we move forward. So, my bias would believe – would be if there is any additional delevering, it would be by our choice as opposed to, for a lack of a better phrase, by necessity in terms of just maintaining the three times, if that makes sense.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

That makes sense. Yes. Last question, Mauricio, as you look at all this excess capital that you are accumulating and as you said, the growth opportunities are fairly limited, Retail right now makes sense, but there isn't that much Retail; if we keep going down this road, and I'm not just talking 2019, but longer-term, is there a scenario where you just buy out and you know, just take the company private? I mean if you keep buying back stock with excess capital, where do we end then?

Mauricio Gutierrez

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



Well – I mean I think our focus right now, like I said in the past, is to execute on our transformation plan and then as we laid out the long-term strategy of the company, it's very compelling. This is where we believe we can create maximum shareholder value. I will tell you, as you just mentioned, the excess capital that we have, and it's a – it's going to be – it's a priority for the board and for us, how to allocate this capital.

I've said it on the call and I will reiterate that again, from where our stock is valued today, it does not reflect the fundamental value and buying back our stock is still the most compelling opportunity. So, this is where we're focused and as we progress in 2019, if we see opportunities, if we see other alternatives, we always have to look at them through the prism and through the barometer of the implied returns that we have in our own stock.

So, we believe that we're on the right track, we have the right priorities, we're executing well, we have the right team and I'm just very pleased where the company is going.

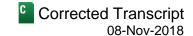
Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Thank you.

Operator: Thank you. I would now like to turn the call back over to Mauricio Gutierrez for any closing remarks.

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Mauricio Gutierrez

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

Thank you, Joelle. Well, I want to thank you all for your interest in NRG. Look forward to talking to you in the future. Thank you and have a great weekend.

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

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