

24-Jul-2020

NRG Energy, Inc. (NRG)

Acquisition of Direct Energy by NRG Energy, Inc.Call

CORPORATE PARTICIPANTS

Kevin L. Cole

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

Mauricio Gutierrez

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

Kirkland B. Andrews

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

OTHER PARTICIPANTS

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Shahriar Pourreza

Analyst, Guggenheim Partners

Steve Fleishman

Analyst, Wolfe Research LLC

Angie Storozynski

Analyst, Seaport Global

Jonathan Arnold

Analyst, Vertical Research

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the NRG Energy Inc.'s Business Update Call. At this time, all participants' lines are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Mr. Kevin Cole, Head of Investor relations. Please go ahead, sir.

Kevin L. Cole

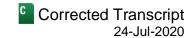
Senior Vice President, Investor Relations, NRG Energy, Inc.

Good morning, Catherine. Thank you. Good morning, and welcome to NRG's business update 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 & 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 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.

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And with that, I'll now 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. Good morning, everyone, and thank you for your interest in NRG. I'm joined this morning by Kirk Andrews, our Chief Financial Officer. Also on the call and available for questions, we have Elizabeth Killinger, Head of Retail Mass; and Chris Moser, Head of Operations.

Before we start, I'd like to take a moment and recognize the men and women of NRG who have been reporting to work during this pandemic at our power plants and customer care centers. On behalf of everyone, thank you for keeping the lights on during this difficult time.

Today, I'm pleased to share several important business updates as highlighted on slide 3. First, we have reached a definitive agreement to acquire Direct Energy, a highly complementary North American home and business retail company that advances our customer focus strategy and strengthens our integrated platform.

This is a compelling transaction that will greatly expand our retail footprint across North America and further diversify our product offerings and earnings. Second, this transaction will create significant shareholder value. It exceeds our stated investment on our hurdle rates and strengthens our path to achieving an investment grade and our credit rating. And finally, our integrated platform continues to deliver solid results. We are reaffirming our 2020 guidance and initiating 2021 guidance in line with expectations.

I'd like to go right into a summary of the Direct Energy acquisition on slide 5. This is the right transaction at the right time, and it represents a considerable opportunity for our business. Perfecting our integrated model means moving closer to the customer and rebalancing our retail generation portfolio. This transaction does exactly that. It greatly expands and enhances our retail business by adding over 3 million electric, natural gas, and service retail customers throughout the United States and Canada. It strengthens our core operating platform by creating a more balanced generation retail portfolio particularly in the Northeast where we can expand the capital-light renewable PPA strategy we have deployed in our company.

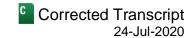
It adds a proven and well-established retail gas platform with national recognition and reach. It reduces our earnings mix from coal and keeps us on track to achieve our long-term emission reduction targets. And it creates significant value by leveraging our scalable operational platform. We expect to realize \$300 million of cost synergies per year.

This transaction is highly attractive and accretive. It exceeds our stated investment criteria, represents a multiple of 4.9 times EV to EBITDA after synergies, and a 28% free cash flow yield on our invested capital. Importantly, we will achieve our targeted credit metrics within 12 months of closing. The purchase price of \$3.6 billion to \$5 billion will be funded through a mix of debt, equity linked securities, and cash on hand. Kirk will provide more detail around these and what it means for our capital allocation plan and financials in 2020 and 2021.

The approvals required to close this transaction includes HSR, FERC and the Canada Competition Act. Additionally, Centrica will hold a shareholder vote on the transaction within the next month. We target closing by the end of 2020.

Turning to slide 6, I want to briefly talk about how this transaction fits within our overall strategic roadmap. Since I became CEO 4.5 years ago, we have transformed our business from a highly levered IPP to a more stable and predictable integrated power company. During this time, we simplified and streamlined our portfolio, strengthened

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our balance sheet, established a transparent and compelling capital allocation framework, and made sustainability an integral part of our foundation. Our overarching commitment was to make sure you knew who you were and where we were heading with no head scratches.

Along these lines, at our 2018 Analyst Day, we presented a strategic roadmap which you can see on this slide. With 2020 marking the final year of our three-year three-part transformation plan, we have now fully turned our attention to our next phase of redefining NRG and moving closer to the customer. Growing our retail businesses positions the company to benefit from current market trends and better integrate complementary and countercyclical parts of the value chain to further stabilize earnings, improve the quality of cash flows, and lower our overall business risk profile.

Today's announcement is consistent with our plan to rebalance our portfolio, reorganize around the customer, and continuously improve our business and cost structure, while maintaining financial discipline. It is just another step we're taking that demonstrates our commitment to creating a best-in-class, customer-focused, integrated energy organization.

The acquisition of Direct Energy is highly complementary to our business, as you can see on slide 7. When complete, NRG will have the strongest collection of competitive power brands offering energy products and services in North America. NRG brands, including Reliant and Green Mountain, have been focused primarily on electricity customers with the highest concentration in Texas. The Direct Energy brands, including Airtron, significantly expands our mass and C&I footprint beyond electricity and outside of Texas. This portfolio not only enhances our current offerings, but it also adds complementary business such as natural gas.

Direct Energy operates one of the largest natural gas retail platforms in the country, which we see as a logical extension of our current product offerings. We have been impressed with the strong track record of Direct's retail gas business and expect they will benefit from operating on our platform and under our risk management program.

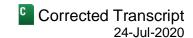
The combined portfolio will continue to be heavily weighted towards the residential customer, allowing of the opportunity to provide an unparalleled level of innovation across products and services. Both residential and business customers will be able to leverage our scope and design energy plans to fit their specific needs, taking consumer choice to a whole new level. And as we have seen time and time again, empowering customers with choice is both good for them and good for our business.

Before we move to the next slide, I want to briefly address the impact of COVID-19 on these consumer-facing platforms. Regarding NRG specifically, I have been impressed by the quick turn to digital selling when face-to-face marketing was paused due to state restrictions. The adaptability of the team to quickly evolve without missing a beat and deliver is a job well done.

For Direct Energy, I will limit my commentary, as we have not completed the acquisition. But I will say that we are comfortable with what we have seen and have taken the near-term impact of COVID-19 into our plans and expectations.

Now, turning to slide 8, this transaction provides a unique opportunity to achieve significant cost synergies, which we expect to total \$300 million per year. These significant savings are possible by leveraging our integrated model and disciplined cost management that we have applied since 2016 and throughout our transformation plan.

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Given the complementary nature of both businesses, we expect to leverage our consolidated platform and processes, preserve the value-added talent and capabilities from the acquisition, and focus our talent on optimizing the combined model.

One-time cost to achieve will be \$220 million, primarily for systems, process, and personnel consolidation costs. Our proven model of integration results in a streamlined operating model that provides cost-competitive products and places the customer at the center of everything we do.

Now, turning to slide 9, which provides the key pro forma run rate metrics. As you can see, this transaction creates tremendous shareholder value, while maintaining significant financial flexibility, with \$6 billion in excess cash generated through 2025, after achieving our target investment-grade metrics and growing our dividend at the midpoint of our 7% to 9% annual target.

On one final note before I move to our quarterly business updates, I would like to take a moment to say to the Direct Energy team, we look forward to welcoming you to the NRG family.

Moving to slide 11, I want to provide you with a preview of our year-to-date results and other businesses updates. As you can see on the left-hand side of the slide, during the quarter, we delivered \$574 million of adjusted EBITDA, 22% higher than the same period last year. The performance during the quarter was primarily driven by favorable weather, strong mass retail load as a result of stay-at-home restrictions, and lower sales and marketing costs due to timing.

Our year-to-date adjusted EBITDA results now stand at \$922 million, a 15% increase from last year. And as a result of our strong performance over the first half of the year, we are reaffirming our 2020 guidance ranges. We expect to post the full earnings material and 10-Q on August 6; and given today's comprehensive strategy and capital allocation update, do not currently expect to host a call.

Now, moving to the right side of the slide, while we typically wait until the third quarter to initiate next year's guidance, in light of today's acquisition announcement, we're initiating 2021 NRG standalone guidance of \$1.9 billion to \$2.1 billion adjusted EBITDA and \$1.275 billion to \$1.475 billion of free cash flow before growth. These guidance ranges further demonstrate our ability to deliver stable and predictable results through varying market conditions.

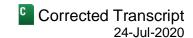
Moving to the bottom right portion of the slide, we're also announcing three strategic portfolio updates today. First, we are opportunistically buying out the Midwest Generation leases. As a reminder, these assets were acquired in 2014 as part of the Edison Mission transaction, and the leases have been in place since 2000.

Consistent with our efforts to simplify our balance sheet and achieve investment-grade credit rating, we have successfully negotiated to buy out the leases. This action creates greater operational and financial flexibility with the assets. We expect the net cash cost to be \$112 million.

Next, we expect to monetize Agua Caliente, which was previously delayed by the PG&E bankruptcy. We expect net proceeds from this asset to total \$120 million.

And finally, as we roll forward to 2021 capital allocation, we will be completing the Encina Site Improvement project, which began this year. We're allocating \$25 million in 2021, and following completion, we expect to monetize the site at a return significantly exceeding our hurdle rates.

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

Kirkland B. Andrews

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

Thank you, Mauricio. I'll begin on slide 13 by expanding just a bit on the summary of our second quarter highlights that Mauricio just provided, before providing a financial overview of the Direct acquisition.

As Mauricio mentioned, based on our year-to-date results and outlook over the balance of the year which, to be clear, includes lower expected COVID-related costs versus our last update, we are reaffirming our 2020 guidance ranges for EBITDA and free cash flow before growth.

Mauricio also mentioned, we've executed an agreement with the owner lessors of Powerton & Joliet to purchase those assets, thereby eliminating the lease obligations we assumed as a part of their acquisition. As a lessor, we have kept those assets in compliance with environmental regulations through [indiscernible] (16:00) controlled investments; and in the case of Joliet, by converting the units from coal to natural gas.

By purchasing these assets, we're able to eliminate the lease obligations, which are treated as debt for ratings purposes, thereby streamlining our balance sheet. Moreover, as owners, rather than lessors, we have a greater operational and strategic flexibility, thus providing us a greater range of alternatives to optimize their benefits to NRG going forward. The purchase of these assets will be funded with approximately \$112 million of NRG capital, with the balance of the buy-in funded with debt replacing the \$148 our lease obligation on a credit neutral basis.

Turning to slide 14, to complete the 2020 update, I'll briefly review 2020 capital allocation, which includes two notable changes. First, our investments increased primarily as a result of the Midwest Gen purchase. And second, we're reserving the remaining balance of 2020 capital of \$664 million in order to help fund the Direct acquisition, which we expect to close by early 2021. We recognize that this results in a partial decrease of the capital previously earmarked for share repurchases under our 50/50 allocation policy. However, as I'll demonstrate shortly, we are confident that this is a superior use of this capital versus repurchasing our own stock.

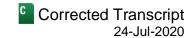
Turning to the Direct acquisition and starting with sources and uses on slide 15, the purchase price of Direct plus expected transaction cost and expenses leads us to total uses of \$3.775 billion. As shown on the right side of the side, we expect to fund this with the following sources of capital.

First, while we fully backstopped a bridge facility to fund the acquisition, our plan is to issue new secured and unsecured notes likely prior to closing to raise approximately \$2.4 billion towards the acquisition. However, we view approximately \$1.05 billion of this acquisition leveraged be temporary as we intend to delever by this amount using 2021 capital in order to rapidly return to our investment grade metrics within the first year. We view this as a capital allocation priority; and based on extensive discussions with the rating agencies who understand and appreciate this commitment, we expect favorable reports on NRG and the transaction in the very near future.

With this anticipated support from the agencies and our confidence in returning to our target metrics, we expect this will put us on track to potentially earn investment grade rating by late next year or early 2022 given the risk reducing impact of the transaction on our overall platform. We have also reserved approximately \$750 million in potential market sourced equity which is a base case we are showing as equity linked or convertible securities.

This was a critical component of our rating strategy and we will be focused on optimizing the structure and magnitude of this portion of the capital sources for the acquisition. We will look to balance equity treatment, ratings impact, and overall cost of capital, and we'll select the ideal structure based on market conditions as we

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move closer to closing the transaction. Finally, we will fund the balance of the purchase price with the 2020 excess capital I reviewed earlier.

Additionally, as noted on the slide, we'll be increasing our liquidity facilities in connection with the transaction as well with a total of \$3.5 billion in additional facilities supplemented by excess capacity on our existing revolver, all of which is primarily intended to fund letters of credit in connection with hedging activities.

Our analysis and long track record of efficient collateral management gives us high confidence in our ability to leverage these strengths to significantly reduce these requirements as we integrate Direct. This opportunity will be further enhanced as we move to investment grade as we expect at least \$1.5 billion in reduced collateral needs from an investment grade ratings upgrade alone. Finally, in order to ensure nimble access to cash liquidity, we are increasing our minimum cash which we deduct before calculating capital available for allocation by \$150 million, from \$500 million currently to \$650 million following the transaction.

Turning next to slide 16, I'll begin our review of the financial benefits of the Direct acquisition with an overview of the 2021 NRG standalone guidance Mauricio provided, which will provide a baseline for the acquisition impact. We're initiating 2021 guidance of \$1.9 billion to \$2.1 billion in adjusted EBITDA and 1.7 – oh, \$1.275 billion, rather, and \$1.475 billion in free cash flow before growth. Our standalone guidance is consistent with 2020 expected results despite the backwardated power price curves, further underscoring the resilience of our integrated model.

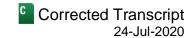
Although we expect to closed the Direct acquisition by early 2021, we expect to realize the full run rate impact of the transaction by 2023 due to the ramp-up in significant synergy benefits, as well as the decreasing incremental interest cost associated with the transaction, as we quickly repay a portion of the acquisition debt in 2021, in order to return to our investment grade credit metrics in the first year of the transaction. Given our strong confidence in the ongoing resilience of our integrated model, we'll use the midpoint of NRG's 2021 guidance to show the full run rate financial power of the combination, which we'll realize by 2023.

Starting with 2021, based on the assumption of a January 1 close, we expect Direct Energy to contribute an incremental \$500 million in adjusted EBITDA. This consists of three components. First, baseline or run rate EBITDA before synergies of \$440 million. Second, we expect nearly half of the full amount of synergies or proximately \$135 million in the first year of the acquisition. And finally, having assessed and risk-adjusted our expectations for Direct's 2021 financial results to allow for the possible impact of various COVID-19 outcomes, we've made a downward adjustment to the 2021 expected EBITDA of approximately \$75 million.

We view these assumptions as potentially conservative; and should this possible impact update or moderate, we may see upside to the 2021 contribution from Direct. As we increase to the full impact of synergies over the next two years, we expect Direct to contribute a total of \$740 million in adjusted EBITDA or just under 5 times adjusted EBITDA based on the purchase price, leading to \$2.740 billion in total pro forma adjusted run rate EBITDA in 2023.

Turning to free cash flow before growth, in 2021, we expect Direct to contribute \$240 million in incremental cash flow after deducting incremental acquisition debt interest of approximately \$150 million, dividends on the new convertible preferred, and other cash flow items. As we will be repaying approximately \$1.05 billion of debt in 2021 in order to return to our target credit metrics in the first year, we will realize approximately \$50 million in lower interest from the acquisition going forward.

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We will, however, likely reduce or realize, rather, this reduction in interest by repaying higher coupon legacy NRG unsecured notes, which will become callable next year, helping us optimize interest savings from delevering. These savings, combined with the full impact of synergies, drive the run rate incremental free cash flow before growth from the acquisition to \$540 million by 2023.

As shown in the lower left of the slide, after giving effect for NRG capital allocated to the transaction, which totals approximately \$1.94 billion, the run rate incremental free cash flow before growth from Direct implies a 28% free cash flow yield as compared to an approximate 17% yield on NRG shares at the current price, helping to underscore not only the compelling financial impact of the transaction on an absolute basis but, more importantly, relative to repurchasing our own stock with this excess capital as well.

Moreover, as we recognize, we must fully consider the financial impact of allocating capital to this transaction on a relative basis. To further illustrate this, on the lower right corner of the slide, we've compared the free cash flow per share impact of repurchasing shares with the capital allocated toward Direct using share prices ranging from the current level in the mid-\$30s to \$42 a share which is the 52-week high. As you can see, this implies a run rate impact of the Direct acquisition of approximately 8% to 13% accretion to free cash flow per share importantly on this relative basis.

Finally, by acquiring Direct, we are also able to use our substantial surplus of net operating losses to shield incremental cash taxes over most of the remaining decade, thereby accelerating their use and driving additional positive after-tax NPV of approximately \$100 million versus the longer timeframe over which we would have used them on a standalone basis.

However, despite this accelerated use of NRG's NOLs, we do not expect to become a full cash taxpayer on a combined basis until late in this decade, providing ongoing substantial tax run rate, even when combined.

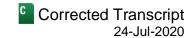
Turning to 2021 capital allocation on slide 17, starting with the midpoint of 2021 free cash flow before growth, which I reviewed earlier, we expect to supplement this excess capital through the planned sale of our remaining interest in Agua Caliente in early 2021, thereby augmenting capital available for allocation by an expected net \$120 million and leading to \$1.72 billion in excess cash before deducting the increase of minimum cash of \$150 million.

This deduction leaves us at \$1.57 billion in incremental 2021 capital available for allocation which will be first allocated to reducing debt in order to return balance sheet metrics to our target levels. As I mentioned previously, as opposed to repaying lower cost debt, we'll issue to fund Direct, will augment the interest savings power by most likely targeting that higher coupon legacy unsecured debt, which is callable in 2021. We then reserve \$317 million for dividends based on the midpoint of our targeted dividend growth rate range of 7% to 9%.

Finally, we have approximately \$200 million in identified investments primarily consisting of costs to achieve in connection with generating synergies from the Direct acquisition, leaving us then fully allocated for 2021. Following our return to investment grade metrics in 2021, we plan to resume our policy of returning 50% of excess capital to shareholders, with the remaining balance reserve for additional growth opportunities, but remain flexible in increasing capital return to shareholders should superior investment opportunities not materialize.

Finally, turning to our credit profile on slide 17 and our continuing focus on maintaining our credit ratio and remaining on track to achieve investment grade, as shown on the table for 2021, on a standalone basis, we will be at the more favorable end of our targeted range of 2.5 times to 2.75 times net debt to corporate EBITDA. When we then add the impact of this transaction or approximately \$1.5 billion of incremental debt, which is net of

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almost \$1.1 billion in deleveraging in 2021, and \$500 million of incremental EBITDA, which was – does not yet reflect the entire expected run rate synergies, our forecasted net debt to corporate EBITDA at the end of 2021 on a combined basis will be close to the midpoint of our targeted range.

Remaining within our targeted credit metrics by the end of 2021 underscores our commitment to continuing on a path to achieving investment grade in the near future, which we now expect would be possible at the end of 2021, or early 2022, based on our continuing dialogue with the rating agencies about the strength of our integrated platform and this business risk reducing transaction.

Mauricio, I'll turn it back to you.

Mauricio Gutierrez

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

Thank you, Kirk. I mean, before moving to closing remarks, I want to review our capital allocation roadmap on slide 20. Our capital allocation framework remains unchanged. It was built up on our long-term commitment of value creation. As you can see in the bar chart on the left, we have been disciplined in deploying every dollar of our excess capital and adhering to our capital allocation principles. If you recall, my first commitment to you nearly five years ago was to first leave no doubt in our balance sheet strength, and we have done that.

Next, it was to use our tremendous financial flexibility to deploy our excess cash in good, sound investments that meet our financial thresholds and are consistent with our strategy. If this was not an option, we would return capital back to shareholders. And we did, resulting in a nearly 25% reduction in our share count. Today's investment is consistent with our strategy and exceeds all financial hurdle rates. We're using our financial flexibility to fund the project and expect to complete the deleveraging program in 2021.

Then, we would return to our target 50% growth and 50% return of capital objective in 2022. Our dividend policy remains unchanged at 7% to 9% annual growth. This is a great transaction for NRG and will be a source of value creation for all our stakeholders in the years to come.

In closing, on slide 21, I believe today's business update is another example of how everyone here at NRG remains focused on creating sustainable long-term value. This transaction is the right transaction. It expands our geographic reach and product offerings. It diversifies our business and reduces financial risks. It provides opportunities for significant synergies, enhancing our cost competitiveness, and unlocking further value for our customers. It improves our path to investment grade and resilience once achieved. It enhances opportunities for organic growth and our ability to thrive through an increasingly cleaner and electrified economy. And it will create significant and sustainable shareholder value.

Thank you for your time today. And I also look forward to providing all our stakeholders more information during our Analyst Day in early 2021.

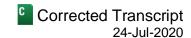
Catherine, with that, we're ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Julien Smith with Bank of America. Your line is open. Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch Hey. Good morning. Congratulations, team. Well done. Perhaps just a couple quick questions... Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc. Thank you, Julien. Good morning. Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch Yeah. Thank you so much. So, a couple quick questions. First, I suppose at the outset, the generation alignment, I know you talk about changing around some of the collateral facilities here over time, but how do you think about the generation alignment and the strategy on that front as it aligns with collateral benefits? And then, secondarily, can you talk about the synergies? I mean, obviously, the synergy number here is very large relative to the underlying adjusted EBITDA we're starting with. How do you think about the confidence and line of sight to get into that, and frankly even what are the parameters or standard deviation around that as you think about it? **Mauricio Gutierrez** President, Chief Executive Officer & Director, NRG Energy, Inc. Yes. So, let me start with the first one. I mean, the Direct Energy transaction has significant customers in the East region, which helps us balance our generation and our retail. I mean, you have heard me said before that we have an imbalance, our generation is bigger in the East. So, this transaction really brings that into balance and allows us to do and replicate what we have done in Texas by pointing generation to retail. So, in that respect, this transaction is very, very complementary. With respect to the synergies, I mean, since the deal is not done yet, I want to make sure that I limit my comments on that and – but I would be – I'm looking forward to share with you in – once the transaction closes and in the Analyst Day, I will be – I will provide a lot more clarity. Having said that, as you can tell, this transaction is very complementary. It leverages our operating platform, and I think we can achieve significant synergies on processes and systems. I can tell you, Julien, that I am very, very confident in achieving these synergies. And, as you know, we have been integrating some of the retail acquisitions in the past couple of months with XOOM and Stream. So, we have a process nailed down to be able to achieve these synergies. And, I mean, I can't tell you how confident I feel about this, but I will be able to share a whole lot more in our Analyst Day and when it closes.

Kirk, do you...

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Kirkland B. Andrews

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

Yeah. Mauricio, the only thing I'd add to that, Julien, is, as Mauricio said, we've undertaken the same rigor and diligence that we have, not only in previous transactions, but what we undertook in the context of the transformation plan.

What also gives me confidence [indiscernible] (35:47), the cost to achieve relative to the synergy is relatively comparable. And, as Mauricio said, it's the same process. And, most importantly to me, as the CFO, we have the same team and leader leading the tracking, and we're approaching this from a what gets measured gets done standpoint. So, we're going to track this exactly the same way with the same rigor we did in the transformation plan.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

And just a quick clarification, if you don't mind. With respect to the 2020 and 2021 capital allocation, I mean, you went through some good detail there. It doesn't seem that there's a lot of latitude for buybacks. Just want to make sure that I'm looking at this correctly.

Kirkland B. Andrews

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

Yes. I acknowledge you on that, Julien, that's why, as I mentioned when I went through 2020, not lost on me that some portion of that initial capital coming out of the 2021 – 2020 [ph] coppers (36:37), for which we're now fully allocated, was previously earmarked to share buybacks. That's why, first focus for me on the financial analysis was ensuring that we had a transaction that measured up relative to our own stock.

And given the priority to deleveraging and what we believe is a superior long-term sustainable impact on shareholder value, and that's getting to that investment grade rating, we are temporarily but very dedicated to prioritizing that deleveraging capital I mentioned before. But, importantly, I also underscore it, as I think Mauricio did, once we get through that period of time, we expect a return; and remembering that we are continuing to deliver capital back to our shareholders through our more robust and growing dividend. But beyond 2021, once we get back to those ratios, and we will, we have an opportunity to go back to our 50/50 plan, supplementing the dividend and the buybacks.

Mauricio Gutierrez

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

Yeah. And I think that's the important part is, we're maintaining the dividend with a 7% to 9% growth. And after 2021, we will go back to our capital allocation framework of 50% growth, 50% return of capital to shareholders. So, we have not changed our capital allocation framework.

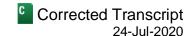
Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Thank you, guys. Yeah.

Operator: Thank you. And our next question comes from Shar Pourreza with Guggenheim Partners. Your line is open.

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Shahriar Pourreza

Analyst, Guggenheim Partners

Q

Hey. Good morning, guys.

Mauricio Gutierrez

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

Α

Good morning, Shar.

Shahriar Pourreza

Analyst, Guggenheim Partners

Q

Just couple of questions here. First off, post this deal, what is this, like, more specifically view in the East, more of your generation to load match? And what I'm trying to get at is, longer-term, some of the older assets may retire, do you envision this becoming more of a retail platform, an asset-light strategy in the East? And then, do you – is there any interest there in trying to monetize the Canadian clients, the services business? And I have a follow-up.

Mauricio Gutierrez

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



Well, I mean, the – this rebalances the position that we have in the East, but also gives us an opportunity to expand our capital-light PPA renewable strategy that we have deployed very successfully in Texas. We will expand that to the East.

I mean, remember, Shar, we don't have to – I believe in the integrated platform today as much as I did yesterday and a year ago. But it doesn't mean that we have to own every single asset. We can own the asset, we can rent it, and then, we can also lean on the bilateral wholesale market. So, we have that optionality, and we're going to do what we believe is the most cost-efficient and profit-maximizing way of doing it. So, I feel very, very comfortable that – now that we have this platform, we're going to be able to optimize it like we have optimized ERCOT.

Your second question was about the makeup of the businesses. What I can tell you today, Shar, is I'm really, really excited about the platform that we are acquiring today. And this is no different than what we do in NRG. We're constantly evaluating and optimizing our portfolio. And once the Direct Energy is part of NRG, we're going to do the same thing, with the same rigor, and – but at this point, I am really excited about the entire business that we're acquiring.

Shahriar Pourreza

Analyst, Guggenheim Partners



Got it. And then, just from a strategic perspective, the 2021 [ph] capital (40:16) allocation is kind of obligated now, but you plan on kind of reverting to the current 50/50 growth capital return plans. I mean, could we see this kind of dial – turn back a little bit to return to capital? Why keep the door even open to so much growth now that you've done this deal, at this juncture, why not just guide to 100% return of capital?

Mauricio Gutierrez

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



I mean, that's a possibility, but we're talking about 2022, and there is a lot of things that can happen between now and 2022. I mean, we're laser focused right now on closing this transaction, on integrating this transaction, on achieving all the synergies, because we believe that that creates significant shareholder value, superior to any – to a share buyback. And when we get closer to 2022, we're going to evaluate the opportunities.

But, Kirk, I mean, do you have anything else on the...

Kirkland B. Andrews

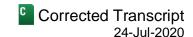
Chief Financial Officer & Executive Vice President, NRG Energy, Inc.

Yeah. I mean, certainly, the – reiterating the 50/50 program is important, and not to belie our intentions because, obviously, we make those decisions when the time comes. But I think it's important to illustrate the order of magnitude here since we're not increasing the common share count that if you extrapolate that run rate free cash flow and take out since we're basically back to zero bubble on our objectives from a balance sheet standpoint beyond 2021, if you begin the additive effect of that ongoing cash flow as [indiscernible] (41:42) now resilient and diversified platform on a robust basis, I think it doesn't take very many years, because even after you deduct for the dividend, you can add those numbers up on flexibility of cash flow.

And within a couple, three years, you start to get something close to the current market cap of the company. Again, not to say we intend to do that, but I'm just illustrating what that means by the order of magnitude over a relatively short period of time after we get past this deleveraging period.

relatively short period of time after we get past this deleveraging period	1.
Shahriar Pourreza Analyst, Guggenheim Partners	Q
Terrific. Thanks, guys. I'll jump back in the queue. Congrats on the trans	nsaction.
Kirkland B. Andrews Chief Financial Officer & Executive Vice President, NRG Energy, Inc.	A
You bet. Thanks, Shar. Appreciate it.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Thanks, Shar.	
Operator: Thank you. Our next question comes from Steve Fleishma	n with Wolfe Research. Your line is open.
Steve Fleishman Analyst, Wolfe Research LLC	Q
Yeah. Hey. Good morning.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Good morning, Steve.	
Steve Fleishman Analyst, Wolfe Research LLC	Q
Hey. Congrats, Mauricio.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A

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Thanks.

Steve Fleishman

Analyst, Wolfe Research LLC

So, couple things. Just, can you talk a little bit about if we have to be wary at all of market power issues, I guess, particularly in Texas?

Mauricio Gutierrez

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

Sure. I mean, I'm not wary about that. I mean, this transaction is primarily a niche transaction. Keep in mind that, in Texas, it's a very highly competitive market. We have hundreds of [ph] reps (42:56) and it has a very low barrier to entry. So, I am not concerned about market power in Texas.

Steve Fleishman

Analyst, Wolfe Research LLC

Okay. And then, is there like a break-up fee in case somebody else tries to pay for this?

Mauricio Gutierrez

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

Yes, there is, and we will be providing that. That will be filed and you're going to be able to see that.

Steve Fleishman

Analyst, Wolfe Research LLC

Okay. You mentioned up-front how this changes your mix of – reduces your mix of GHG and coal in the company. Could you maybe give a little more color on that aspect?

Mauricio Gutierrez

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

Yeah. I mean, the one thing is, as a percentage of our total EBITDA, it reduces the carbon intensity of the organization. So, this is – when I talk about it on a relative basis to the size of the organization, I mean, they don't own any generation assets. And so, basically, that gives us the opportunity, as I was saying, to expand our capital-light renewable PPA strategy, which obviously will be low carbon by definition in the East. So, that's how we intend to continue to be on a path on our carbon reduction target that we have to be net zero by 2050.

Steve Fleishman

Analyst, Wolfe Research LLC

Great. And then, just last, quickly on the synergies, could you maybe give a little color of the mix between, like, I guess, cost versus revenue or overhead versus, like, Direct to run your business better essentially?

Steve Fleishman

Analyst, Wolfe Research LLC

Yeah. I mean, Steve, I hope that you're appreciative. I mean, the deal is not done, so providing a lot more information at this point is perhaps not good. But what I can tell you is that, these are complementary businesses, right. So, the underlying operating platform of invoice and billing, customer care, IT systems, I mean, this is going to be very focused on systems and processes. We are acquiring a very, very respected and well-run business,

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and we want to maintain the talent that has built this business. So, I think, you should be thinking about these more as systems and process and less about people.

Steve Fleishman Analyst, Wolfe Research LLC	Q
Great. Thanks so much.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Thank you, Steve.	
Operator: Our next question comes from Angle Storozynski with Seapo	ort. Your line is open.
Angie Storozynski Analyst, Seaport Global	Q
Hey. Good morning. So, I have a – like a	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	A
Good morning, Angie.	
Angie Storozynski Analyst, Seaport Global	Q

Good morning. I have a bigger picture question. So, Centrica has already actually disclosed the – this breakup fee at only \$30 million. It seems like Direct Energy is a unique or one-of-a-kind retail asset in the US, at least. So, I'm a little bit surprised, frankly, that we haven't heard of one more chatter around it or two, more interest from integrated oil and gas companies as this would be an obvious attempt to enter the electric retail market if they were interested. So, that's one.

And secondly, so, is the strategy to become basically like a nationwide retail – electric retail and natural gas retail provider and, hence, your pursuits of your exposure to the Northeast, is it – I mean, I'm basically trying to understand if there's like a longer-term strategy just not to be only a Texas-focused retail book, but actually attempt to grow the business across the country. Thank you.

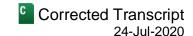
Mauricio Gutierrez

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

Yes, Angie. So, let me start with your first question around the possible [indiscernible] (47:07) for this business. And what I can tell you is that as you can appreciate, this transaction hangs on our ability to achieve the synergies that rely on combining the operating platforms and leveraging the operating platforms. I don't think there is anyone else out there that is going to be able to create this value given our platform.

I mean, with respect to your question around strategy, I mean, this is pretty much in line and consistent with the roadmap that I provided back in the Analyst Day of 2018. And that's why I felt that it was necessary to put it on this deck, so you can see that trajectory. I mean, we want to move closer to the – our customer. We believe that the megatrends that we're seeing support that move on the energy value chain. And if you think about what this

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transaction does for us, it doubles the size of our retail mass business. It balances our generation and retail portfolio in the East. It adds a very well-respected national gas retail platform.

It expands our product offering beyond just electricity and natural gas and other services that allows us to reduce the acquisition cost and increases the stickiness with customers. And it grows our C&I business at a time when you're seeing more on-shoring of manufacturing in the United States given the supply chain environment or more hostile environment in the world.

And we are achieving all of that at a very attractive multiple of 4.9 times, exceeding our investment hurdle rates, achieving a free cash flow yield on the capital of almost 30%. And all of that, we will get back to our targeted credit metrics within 12 months. I mean, to me, that is an exciting, exciting value proposition, exciting acquisition. And obviously now, we will be focusing on getting the approvals that are necessary, closing the transaction and focusing on the integration of this business.

Angie Storozynski

Analyst, Seaport Global

Can I just ask one follow-up? So, given we've seen some examples, especially in the North of deterioration in the competitive retail environment for electric retailers, mostly related to Just Energy. I mean, did you take into account that there could be some, I don't know, either compression or more difficult regulatory backdrop, some of the retail expansion in the Northeast? And how does Direct Energy's existing portfolio overlap with some of those more troubled retail jurisdictions like, I don't know, New York, Illinois maybe?

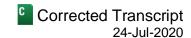
Mauricio Gutierrez

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

I mean, we have a – I mean, we already have a presence in the East markets, Angie. And we are very well aware of the dynamics. We're very well aware of the economics. I think what it does, it provides us incremental scale, which allows us to lower our costs. And given the expansion on products, we're able to create more stickiness and lower attrition on our customers. So, I feel that the platform that we have plus the knowledge that we already have in the East with our retail presence, I mean, this is – like you say, this is a very unique opportunity. And yes, we're very, very excited about reaching this agreement.

Angie Storozynski Analyst, Seaport Global	Q
Thank you.	
Operator: Thank you. Our next question comes from Jonathan Arnold with	h Vertical Research. Your line is open.
Jonathan Arnold Analyst, Vertical Research	Q
Hey. Good morning, guys.	
Mauricio Gutierrez President, Chief Executive Officer & Director, NRG Energy, Inc.	Α
Hey. Good morning, Jonathan.	

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Jonathan Arnold

Analyst, Vertical Research

Just a quick – as a lot of my things were asked and answered, but just to pick up that recent theme. I think it's fair to say that Direct, Mauricio, probably hasn't executed as consistently as you have in terms of retention and holding the size of the book. And I'm just curious why are you confident that you can sort of bring them closer to where you are, or is it more the ability to cross-sell and things like that which you were just talking about that makes that sort of a risk reducer rather than – yeah, is there a concern that your portfolio might be a little lower quality when these things together? I just like to hear how you answer to that.

Mauricio Gutierrez

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

Well, I think Direct Energy is a high quality retailer that is very well-run. And what we have here is an opportunity to bring two complementary businesses to really focus on the operating platform, achieve cost efficiencies. But at the same time, this provides us greater geographic diversity, provides us a wider basket of product offering. And I think that's when it's going to be essential as we go to the East market and other markets is to really broaden the offering that we are providing to our customers.

I mean, the more products you offer, the lowest – the lower the acquisition cost is and the greater the stickiness you can create with these customers. So, I actually think that their brand is a very well-respected brand, very well-run. But, I think, we have an opportunity to really combine then to and create something that is pretty special and that I don't think we have seen in the electric or – and in – and now, natural gas and services space.

Jonathan Arnold

Analyst, Vertical Research

Great. Thank you. And if I could just come back to – Steve asked about this, the nature of the synergies and on your slide there that, I think, there are five bullets, and they all seem to be cost items. So, can you – I mean, are you assuming in that \$300 million, they're very much at all for revenue, sort of what you will call revenue synergies in kind of prior deals or is that more just – is it really just a cost number?

Mauricio Gutierrez

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

No. These are all cost synergies and there is no revenue.

Jonathan Arnold

Analyst, Vertical Research

Okay. Thank you for that.

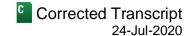
Operator: Thank you. We have now reached the end of the hour. I will turn the call back to Mauricio Gutierrez for closing remarks.

Mauricio Gutierrez

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

Thank you, Catherine, and thank you all for joining us today in this very exciting moment for NRG, and I look forward to talking to you about this acquisition in the future. Thank you.

Acquisition of Direct Energy by NRG Energy, Inc.Call



Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.

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