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NRG Energy, Inc. (NRG)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Kevin L. Cole
Senior Vice President-Investor Relations, NRG Energy, Inc.

Good morning. Thank you for joining us for our 2021 Investor Day. My name is Kevin Cole, Head of Investor Relations and today's event is 100% virtual and live from Houston. As you know, safety is our top priority. We've taken precautions to strictly follow both NRG and CDC COVID-19 guidelines to maintain a safe workspace inside the broadcast studio.

Today's event will consist of five sections totaling 90 minutes in length. First, Mauricio Gutierrez, President and CEO will frame NRG's unique opportunity to optimize and grow our network of 6 million customers. Following Mauricio's remarks, Elizabeth Killinger, Head of Home Retail and Rob Gaudette, Head of Business Retail will unpack the scale and scope of our moat to create unique customer value. And then Chris Moser, Head of Operations will discuss how we have reimagined our integrated strategy to further stabilize, optimize, and decarbonize our platform. Mauricio will conclude the presentation by discussing our compelling financial outlook. Following his closing remarks, we will welcome Q&A. At that time, I will prompt those from investment community wishing to ask a question to dial into the Q&A phone line using the dial-in provided. But please be aware that once you have dialed in you will need to mute your computer to avoid any echo or feedback.

Now finally the Safe Harbor. Today, we will be making forward-looking statements that we believe to be reasonable as of this date. We undertake no obligation to update these statements as a result of future events except as required by law. Today's presentation also contains both GAAP and non-GAAP financial measures with reconciliations to the most directly comparable GAAP measures, please refer to the Safe Harbor on slide 3 of today's presentation.

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

[Video Presentation] (00:01:57-00:03:10).

Mauricio Gutierrez

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

Good morning, everyone and welcome to our Virtual Investor Day. I want to thank you for joining us today and for your interest in NRG. This has been a challenging period for all of us with the ongoing global pandemic and winter storm Uri here in Texas. I hope you're all staying well and I look forward to seeing you in person soon. This is a very exciting time for NRG and it is my pleasure to share with you the next chapter in our evolution.

Since I became CEO six years ago, we have transformed our company from a complex story into one that is much simpler, and more focused on our core strengths. Along the way, we have shared with all of you our strategic priorities, the need for change and the key milestones that have held us accountable. As you can see, we have made significant progress in our strategy to get closer to the customer. Since our last Analyst Day in 2018 we have doubled the number of customers we serve. We have optimized our generation fleet to serve those customers. We have built an incredibly efficient operating platform and our balance sheet has never been stronger.

Our focus each day is making our business more valuable, more resilient and better prepared for the future. This morning we want to talk about how NRG is transforming into a consumer services company, the benefits of the business model, the significant opportunity around the consumer, and the potential value creation for our company. But before we talk about the future let's take a moment to review our progress over the past few years. We introduced this roadmap three years ago as a framework for the transformation of our business. In each phase, we had a clear sense of a strategic direction, disciplined execution and specific goals.

Over the past six years this management team has reduced costs by almost $1 billion, sold assets worth of $4 billion, reduced net debt by 70%, and returned nearly half of our market cap to our shareholders. We also deployed $4 billion of capital to help redefine our business.

I am very proud of what we have accomplished, but I'm even more certain the greatest opportunity is ahead of us. The next chapter of our evolution is one that is aimed at enhancing the current future value of our business. Our priorities are clear, we need to integrate the Direct Energy business and realize $300 million of synergies. Continue optimizing our generation portfolio and enhance the lifetime value for our customers. During this phase, we will exert the same level of rigor, discipline, and governance that we have successfully applied over the past six years.

Later in the presentation, I will discuss in more detail our business strategy and the specific steps we're taking to achieve our goals. But how we conduct our business is equally important to what we do, as it truly defines an organization. Our sustainable framework starts with a strong foundation, a set of corporate values that guide our decisions and our sustainability program that brings all our stakeholders working together with a common purpose.

I want to highlight a few areas of our foundation. At NRG, our people are the keystone for our success. We are relentless in our focus on building a culture where everyone feels safe, respected, and fulfilled. We are embracing the power of diversity as a way to better understand our customers and communities, while also making our team stronger. Diversity, equity, and inclusion is one of our core values. And this past year we injected a more robust sense of accountability. We took a fresh look at our policies, training, supply chain, and disclosures, took stock of where we are, and committed to continuously improve. Every voice matters and every person at NRG can make a difference.

On environmental stewardship, we're on a path to net zero by 2050. Our carbon reduction goals have been certified by the Science Based Targets initiative and are consistent with reductions needed to limit global warming to 1.5 degrees Celsius. We were the first company in our sector to have this certification, and also the first in North America to issue a Sustainability-Linked Bond which ties our emissions reductions to interest rate benefits. In 2020, our carbon emissions were lower than our 2025 target, five years ahead of plan. This is a great accomplishment, but there is much work to do, and we will continue to push forward in decarbonizing our business.

Over the past few years ESG has come into focus but as you can see for us it has always been part of who we are, and how we operate for quite some time. The 'how' is a necessary component for our success. One more thing, this week we published our 11th Sustainability Report, and it is available at nrg.com.

NRG has a very compelling value proposition, a unique consumer business that can deliver 15% to 20% annual growth in free cash flow per share over the next five years. A strong dividend growing at 7% to 9% per year. A best-in-class sustainability framework embedded in everything we do and a commitment to maintain a strong balance sheet and continue to be excellent stewards of your capital.

Now let me unpack each of these components so you can fully appreciate our potential. I want to begin with the three key takeaways for today's presentation. First, we have an advantaged consumer portfolio with a unique set of brands, products, and services, a shared common operating platform and a network of six million customers.

Next, we are uniquely positioned to capitalize on significant growth opportunities within our own customer network, and outside of our existing customer base in fragmented or underserved markets.

And finally, our ability to generate significant excess cash affords us the opportunity to grow and return significant capital to shareholders.

Now in this section, I will discuss in more detail our advantaged consumer platform, specifically the makeup of our portfolio, our scalable operating platform, and how we are transitioning to a consumer service company. So let's start with our portfolio of retail brands, products and services on slide 11.

I think some of you may be surprised to see the scale and scope of our operations both at home and in businesses. We're not just participating in these spaces, we're leading them with brands that are loved and well-established. In the power space, we're now the largest residential retail provider and the second largest business provider with over 4 million customers. We have a multi-brand strategy that allows us to provide tailored solutions for each customer segment.

Next is natural gas which has been growing steadily over the past few years particularly as a secondary product to power. With the acquisition of Direct Energy we became the number three residential provider and number one business provider. This segment delivers a nice diversification to our power business and has become core to our energy offering.

Power services or distributed solutions are offered primarily through Goal Zero, which is the market leader in portable power equipment. This business has grown tremendously in recent years as customers are increasingly seeking backup power solutions. We also have one of the largest demand response providers in the country allowing us to participate in both power supply and demand.

Finally, in home services, we are leading – we are the leading installer of new construction residential HVAC systems through the Airtron brand, and a participant in the home warranty market through HWA. These two businesses are a natural long-term extension to our portfolio as homeowners increasingly seek comprehensive solutions at home.

They are complementary to our core, and not only can be run from a common platform, but they bring our reach to all 50 states, not just competitive power markets.

Now, moving from our products and brands to operating platform. This is the engine driving our company and represents our core capabilities. Over the years, we have perfected each of them with data insights, systems, and market expertise. Through the combination of self supply capabilities, commercial expertise, risk management, customer support, and sales, these capabilities work together with data insights to constantly improve the customer experience. Our operating platform works behind the scenes to support our 6 million customers, and this has made us extremely efficient in our operations.

We have been able to scale up quickly and efficiently over time, improving our economics on a per customer basis. The platform has always been a driver behind our ability to execute significant cost and revenue synergies in M&A transactions. So, the combination of our cost to consumer portfolio and our unique operating platform, results in a strong track record of performance. We have been able to grow our total residential customer count steadily over time while also growing our earnings.

Even in challenging times, when many of our sales channels were closed during the pandemic due to social distancing requirements, we were able to optimize our portfolio and our platform through margin expansion and greater retention. We also have been recognized across our brands for delivering excellent customer experiences. Our Net Promoter Scores outpace other retail electric providers which tells us that customers place value in our brands.

To me, this recognition serves as an important validation that we are creating value for them in a way that other companies just cannot match. The bottom line is this, NRG has evolved into a unique consumer services company with a business platform that creates value in a way that cannot be easily replicated. As we move into offering adjacent products and services, you're likely to find it increasingly difficult to compare our business against our traditional peers. In order to share with you how we're thinking about our business today, we have identified several companies in the consumer services area focused on power services and home services that may be a better benchmark for us going forward.

As you can see from the key performance indicators in the table we compare well in some of the more traditional metrics such as retention rates and margins. But where I believe our company has a clear advantage is in the size of our customer network, the opportunity to optimize that network with additional products and services, and our ability to leverage our common operating platform in order to achieve significant economies of scale. This is what makes us unique compared to these other companies.

Our platform and portfolio gives us the flexibility to scale in many directions, but we need to ask which one creates the most sustainable value. Not only do we need to take full advantage of our current strengths and capabilities, we need to stay on top of macro trends and importantly our own customer needs.

So let's start with the current trends on slide 16, across all sectors we find consumers in the driver seat. They are demanding better experiences and sustainable solutions from socially conscious companies. This is driving many of the home and energy trends we're seeing today. We see the demand of our core product, electricity, growing at a rapid pace. De-carbonization of sectors like transportation and manufacturing, and the amount of electricity needed to support things like automation and cloud hosting will only accelerate this trend. Digital solutions are becoming the norm. They provide a seamless, at your fingertips experience where users feel informed and in control.

The home is no exception, everything is becoming connected and homeowners are looking for more ways to understand, interact with, and control all aspects of their home. Personalization is at a whole new level.

Beyond feeling in control, consumers want solutions that are tailored to their needs. We see this in everything from watching TV, to purchasing electricity. Cleaner, more resilient energy solutions are expected. A desire to be part of a better future. And the impact of more frequent extreme weather has changed how consumers think about energy in their homes. Now these trends give us a general direction about opportunities. But we need to listen to our own customers to be able to fine tune our path forward.

From our recent surveys, we know our customers want more from energy, and their homes. They want solar in their home, but find the process confusing, and they lack trust with many of the current providers. 70% want demand response as a way to save money or reduce environmental impact. But today market adoption is extremely limited. Half of millennials say they're willing to pay a significant premium for a full service offering that can bring peace of mind to their home but available options today are falling short. Importantly, when asked how they feel about NRG providing more of these services, they say they would trust NRG over pure plays when it comes to solutions like solar, storage, and home services.

So when we put it all together it's clear the home is at the center of it all. These emerging demands from consumers make us (sic) [up] the key touchpoints you see all around the home on slide 18. These are products and services that can be integrated to provide a better customer experience. Understanding demand response, optimizing home power sources, scheduling contractors, I mean, these things are complicated. It takes the right provider to simplify, build trust, and design solutions in a way that can create value for customers.

This is where we see a significant opportunity for us. We start with our foundation as a best-in-class integrated energy retailer, leverage our operating platform to become a trusted home partner for home services, and then broaden our offerings to become a provider of select home services.

On slide 19, we have laid out a roadmap for strategic priorities including execution of the power and home services opportunities. I will review return of capital in more detail in the financial sector (sic) [section]. Our near-term focus is on optimizing our core. This includes initiatives such as the Direct Energy integration, organic growth in power and gas and expanding our current customer base with dual fuel options. Then in 2022, we will execute the initiatives that allows us to grow from our core business. We will evaluate the most efficient go-to-market strategies to increase our presence in residential power services and home services.

So I will start with how we're optimizing the core. First, the entire organization remains focused on realizing the $300 million of synergies in Direct Energy. I have a very high level of confidence in our ability to deliver them, and we will continue to provide quarterly updates on our progress. Next, we have made significant progress in optimizing our generation portfolio to support our customer facing business. But we still have assets that are not a natural fit for our integrated platform. We will continue to divest or shut down these assets while also looking to expand our capital light or PPA strategy both in scale and geography.

Finally, we will continue to pursue organic power and gas growth. The Direct Energy transaction significantly strengthened our natural gas capabilities and created two actionable opportunities. The first is to increase our number of pure natural gas customers, which includes customers in regulated power states. The other is to expand our dual fuel product in our existing network of customers, as you can see in the right hand side of the chart. Dual fuel and other multi-product offers provide benefit to both our customers and to NRG. Customers see value in managing a single relationship simplifying their lives and providing convenience. NRG realizes value with additional margin, and higher retention rates. When we bundle the right products together, we can create a compelling value proposition for both parties.

This is an important concept to keep in mind as we talk about our growth opportunities next.

I'll start with power services. Our vision is to be the trusted partner for the home, designing integrated solutions that can include things like retail electricity, solar, batteries, and demand response. Years of firsthand experience with both power markets and consumer behavior is key to our success. We will also build our current digital experience so that all these services interact seamlessly. Keep in mind we already provide many of these services for C&I customers, and we're using those learnings to design our go-to-market strategy for the residential segment.

A similar theme is evolving in the home services where we already have a foundation. Customers want a simplified and more digital approach to managing their homes. They want someone to provide peace of mind. We see an opportunity to be that point of contact. We can use our current capabilities in home services, and build on our experience with power services to provide the peace of mind homeowners are looking for.

We actually looked at power services many years ago, but the markets have changed since then. Advances in technology have made integrated offerings more accessible to more customers and we believe the time is right for us to revisit the space. Execution will also be different. First, we need to sell the right products to the right customers and serve a real customer need. We cannot just try to add products and services to our core offering that have no value to the customer. Second, we need to be efficient and consider the value in strategic partnerships, rather than assume we need to own the entire value chain. And importantly, we will maintain transparency with our investors as we continue to develop more detailed execution plans.

So with that in mind, slide 22 summarizes why we believe these markets are the best path to durable value creation for us. These opportunities are closely connected to our core and address a real customer need. They are in large or growing markets with strong fundamentals like high margins, high retention, attractive scale. And they show opportunity for innovation where NRG can create a differentiated offering. But what we are really focused on is their ability to create an ecosystem that drives value to and from our core, sort of flywheel that not just expands the value of our core business, but protects it.

You can see this flywheel on the right-hand side of the slide. As we offer adjacent products and services, we can leverage our existing operating platform to access cost synergies. This economic advantage coupled with better insights and more personalization result in a better experience for our customers. For NRG, this advantage means broader insights into how customers interact with their homes, additional margin and better retention on our core product. And then the cycle repeats as we grow, creating a more valuable business.

So far, we have talked a lot about our portfolio, platform and vision. In the next few slides, I want to give some indication of the significant opportunity that we see in these markets. On the slide 23, we have a chart with a potential market opportunity expressed in millions of customers for each of our four focus areas. We think about our growth in two ways. One is greater adoption of integrated products with our existing customer network or among switched customers for power and gas. And the other is growing our customer base overall.

So let me walk through two examples. In home services, we believe there are about 30 million households eligible for home warranty and home services like HVAC within our core electricity states. We believe that 4 million of our own electric customers are eligible for these services. From where we are today, this provides tremendous room to grow just within our own customer network.

Now, let's look at natural gas. We know that 37 million homes are eligible to purchase competitive gas. Yet only 6 million have switched. This leaves significant upside for our gas business. The table on the right translate these opportunities in terms of EBITDA potential. Assuming we increase by 5% our secondary product offering to our existing customers, that alone is equivalent to roughly $140 million of EBITDA per year. Outside our current customer network, but still in our core electricity states, we see an even bigger opportunity. These are underserved and under penetrated markets where we know the rules, understand the customer, and have infrastructure ready to point toward growth.

So now let's look at what this could mean for our home business over the next few years. We expect to add 1 million new customers to our portfolio by 2025 through optimizing and growing from our core. We will also enhance the value of our customer portfolio by offering integrated solutions and doubling the share of our multiproduct customers. This opportunity represents an incremental $520 million of additional EBITDA at very attractive returns. We will provide additional details on our economics as we move closer to execution. We also wanted to provide some indication about expected margin for each additional product on top of our core single product offering.

You can see the ranges on the right hand side of the slide. The benefit is not just margins, but also the retention and shared cost benefit we achieve. This is exciting for our business. It provides a path for value creation and growth. I'm confident in our ability to play a role in the next evolution of power services and home services. We have the core capabilities in power, a scalable platform, a leading sales and marketing engine and an understanding of home services beyond just power. We know consumers want more. They already trust us with their power needs. And they would trust us with more.

We have the tools to be a better partner, build a better solution and overall create a better customer experience. Elizabeth, Rob, and Chris will now further unpack these individual components in their respective areas of expertise.

So with that I will turn it over to Elizabeth to talk about our home business.

Elizabeth R. Killinger

Executive Vice President-NRG Retail, NRG Energy, Inc.

Thank you, Mauricio. Hello I'm Elizabeth Killinger and I have the pleasure of leading NRG Home. Today I'll share the following with you. Additional insights into our leading home NRG and services platform, how we create customer value through innovation and personalization and how that gives us a unique advantage and positions us for growth in power services, natural gas services, and home services. Any way you slice it, we're the leading competitive home energy services company. We're six million customers strong, number one in competitive electricity, and number three in competitive natural gas. And we have the best team in the industry.

We also have strong niche positions within our overall rankings. As an example we over index on customers with solar and electric vehicles because we offer targeted plans and supporting services that they value. We are well-positioned to realize significant growth from the emerging trends because of our teams advantaged platform.

Mauricio discussed the unique operating platform that we have here at NRG. I'll describe how our organization provides leading support, sales, and customer experience capabilities. We've built and continuously improve a support platform that is second to none. We have robust operational capabilities required to participate in our market. And we're the only energy service provider with a national platform that can leverage processes, people, tools and systems across regions and product lines. We also have exceptional talent and tools in digital, data mining, and modeling that underpin our success to-date, and it will become even more critical as we move forward.

You get a sense for the scale of our business by the stats on the slide. And the good news is that we have the current scale to succeed, and we have the foundation to grow. And we can move fast to handle both organic and M&A growth.

Our sales platform consists of marketing, selling, care, and retention capabilities working in concert to keep our existing customers and add new ones. Marketing is all about generating interest and demand from our customers and prospects. In our distinct multi-brand platform, each brand has a clear job to do and we meet customers wherever they are with compelling offers.

Our sales channels work to convert that interest into new customers. And these include industry-leading call centers, digital channels, and direct contact as well as our strong presence with our face to face retail partner network.

And then finally, retention. That's something that is sometimes viewed only as a way to keep customers. Well that's certainly something we excel at. And you've seen that from our performance to date. We view retention as a key sales capability as well. We upserve the customer which means we deliver value at every interaction. We start by actively listening to really understand their need. As an example our team members and our digital AI tools, they're both trained to determine if a customer would appreciate an offer, a feature or even a service channel or maybe if they're interested in an add-on product or service that we have in our portfolio.

The final piece of our unique platform is what pulls it all together, the customer experience. We offer customers multiple channels through which they can interact with us and we reach out to them with data-driven proactive communications.

At our last Analyst Day in 2018, I talked about how improvements to our mobile capabilities would drive improved retention and we've delivered. We now have a robust mobile app experience for customers in Texas and in our East markets. Of course, all customers can gain insights and make choices regarding their energy usage in chat or get alerts through our brand specific apps. In addition, customers enrolled on rewards programs they can see their rewards through our app. Customers can access localized weather information through popular partnerships we have and customers can even connect their own energy-related devices such as Goal Zero products and electric vehicles. They can actually manage those from our app.

We've gone above and beyond even those initial plans and our retention performance has continued to improve. Finally customers see us out in the community. We contribute to or a volunteer with over a 150 organizations that are positively impacting millions of lives every day. One of the ways we measure our performance in customer experience is through the Net Promoter Score or NPS.

We research best-in-industry companies, learn from them, and each year, we get better and better. You may not realize it, but many utilities across the country actually have negative NPS ratings, and those that are positive they don't get much higher than 10. On the right side of the slide, you can see the NPS from brands that lead in consumer focused industries. Probably not many surprises for you on who those leaders are, but notice that most leaders have an NPS of between 45 and 75.

And I'm happy to tell you that Home's flagship brands they're in line with best-in-class consumer brands that you know and love with ratings of between 45 and 70. That should tell you that we're not your parents utility, we're a consumer service company. The bottom line is that customer experience is really where our platform comes together. We have the process, tools, people, and culture to compete, and as you can see from this slide, we lead.

Since some of you don't get the opportunity to make a choice about your energy solutions, I'd like to share a two-minute video compilation of one of our flagship brands, Reliant. This short clip shows how we take products that can be seen, or held, and we wrap and experience around it to make it personal. It goes fast, so you have to watch closely, but in this video, I hope you take note of the way customers experience our brand, and our leadership and marketing, the tools and assistance we provide to customers through our app, weekly e-mail, voice and through our team members. And the way consumers see our people making a difference in the community.

[Video Presentation] (00:39:39-00:41:42).

I hope you noticed our lovable mascot, Hugo, and the way we focus on what electricity means to people. You saw the variety of ways we offer customers to interact with us including apps, devices, weekly communications, and of course, a live person assisting a customer. And you saw how we make power personal, and how customers manage their whole energy lives through our tools. Leveraging this strong platform for service, sales, and customer experience, we create value for our customers by constantly testing, learning, and innovating personalized solutions to meet their needs. Our innovation process just like everything we do around here begins with the customer continuously improves and is rooted in sophisticated data capabilities.

I'll introduce you to three people to provide examples of how we innovate and personalize our offerings for customers. One note, I thought about picking a few of you whom I've met over the years and having some fun with personalizing offers. But I didn't want to expose the secret sauce of how we map people who do and do not enjoy sushi to electricity and natural gas plans. Kidding aside, let's get started.

First meet Kristyn, Jessica, and Roger. We personalized the customer's experience by developing a real understanding of them and creating offers that appeal to their personal preferences. Kristyn is a young doctor in Texas and her top priority is sustainability. Other things like price, service and the reputation of the company she does business with are important, but her sustainability dominates her preferences. No surprise Kristyn is a Green Mountain Energy customer. She's enrolled in our Go Local Solar Plan which provides her 100% solar energy generated around the corner from where she lives. She uses the app to keep up with the impact she's making and is enrolled in two of our premium programs; the Sun Club, which allows her to contribute to local organizations that help fund solar implementations. And the Texas Driver program, which provides her a convenient way to offset the carbon emissions of her daily commute.

Our second customer, Jessica also cares about sustainability. But puts more emphasis on whether she can trust the company, the level of innovative products and the personalized care available. She's a Reliant customer and has been for quite some time. She's enrolled in Reliant Truly Free Weekends, which meets her busy lifestyle. She participates in our Degrees of Difference program, which is a demand response program that gives her a little cash when she voluntarily reduces her usage. Oh! And she's happy to do what she can by upgrading her electricity to be 100% solar with the Make it Solar add-on.

Finally, Roger, he's busy with work and family and really just wants good value. His sister-in-law is one of thousands of XOOM independent business operators, and she and his brother introduced him to the fact that in Pennsylvania, he actually has a choice on who he buys electricity from. They also helped him see how XOOM is a great company to buy energy from. So he enrolled on the Sure Lock 24 Plan for both electricity and gas.

Now how do we know what offers to make to customers like Kristyn, Jessica and Roger. We have an industry-leading data mining capability that's the product of years of continuous improvement and a significant investment as part of our transformation program that I mentioned at the last Analyst Day. We start with our robust base of customer data. This includes typical demographic data, data about the customers' interactions with our processes. What we know about their sales experience, the app pages they visit, how often and why they call the call center, their energy usage, how they pay their bills and a lot more.

All of this enables us to provide a better experience to the customer. We also know and respect that this data is personal and it's confidential information. To keep the customers' data safe, our company places utmost importance on cybersecurity. Our infrastructure has been built with protecting customer data in mind. Also customers don't have to worry about us selling their data to others. We don't do that.

Switching gears to prospects, we start with less information about them. But the patterns from our 6 million existing customers are extremely helpful. And when combined with third-party data, leveraged by our data scientists and our artificial intelligence tools, we're able to identify actionable insights to put the right brand, offers and assistance in the right marketing, sales and service channels.

We also use these insights to up-serve or cross-serve with the right add-on products, as well as we use it for tactical optimization. For an example, we have artificial intelligence tools that reveal imminent shoppers, customers who may be at risk of leaving us. And we have tools that can discern and alert customers who would benefit from a different choice or a new service, which deepens and lengthens the customer relationship.

As an example, we increased customer loyalty when we proactively identified customers whose usage patterns had clearly changed due to the pandemic, like our friend, Jessica, who is moving from free weekends to free nights because of those changes. As you can imagine, these insights improve the customer experience and the value they receive, which makes them more likely to stay with us, recommend us and choose to buy more from us, because they know and trust our brands.

But how do we know what products and services to offer. We accomplished this with a well-tested innovation process that harnesses those data-driven insights that I mentioned, the direct customer feedback as well as market trends and competitive intelligence. When we identify something that needs a small agile team to test out a concept for just a few weeks or few months, so that we can make a decision whether we're going to go big, we put that in the incubation zone. This lets us stay small, nimble, with new and emerging ideas with timeboxes, so our investigation can ensure that we achieve the desired returns and results or we pivot.

An example of a product we launched from the incubation zone is carbon offset. We chartered a small team with exploring offset products, so we could determine how and why customers buy them. This informed how and where we offer customers those offset-based products today, including the Texas driver product that Green Mountain offers and our friend, Kristyn, that you met earlier subscribes to. This innovation process and our robust platform powered by industry-leading data mining capabilities allows us to personalize the experience for our customers today, peek around the corner or even skate to where the puck is going in order to create what consumers will want in the future.

Next, I'll bring all this together to show you how we drive growth in Home in the three areas Mauricio talked about earlier, power services, natural gas services and home services. A major source of growth will come from power services with the simple fact that consumption of our core product is rising. ERCOT is forecasting a 2% CAGR for load growth for the foreseeable future. And projections will continue to rise as we see the increase of electrification in the economy.

We are now at the point where EV adoption is upon us, with a 29% projected CAGR of EV adoption through the end of the decade. And you'll be interested to know that we at NRG over index on EV owners as customers, with 50% of EV owners choosing one of our NRG brands to power their home and their vehicles. Part of why we'll continue to win with customers is that we provide distinctive plans, features and tools for both current and emerging needs.

What you see on this slide are three shots from our Green Mountain app. It's part of our advantaged platform. This customer is an EV driver. Notice how we gamify the experience using a familiar badge concept to let customers earn recognition for their accomplishments. Next, you can see one of the unique ways we enable customers to review their energy usage using this heat map. So, you can see a quick visual on how your energy usage is shaped throughout each hour of the week.

And finally, you can see our integrated experience for EV owners. Among other features, EV customers can monitor their charging status and see both the environmental and financial impacts of their driving choices. There are other power services like residential solar and battery storage that are creating different opportunities for us as well. Some may see this as grid defection but we found it as an opportunity for grid services. In fact, with our advantaged platform, we have what we call energy integrator capabilities where we can help customers with the power services to meet their needs, creating value for them and for us.

One of the reasons we've pursued additional services to-date is that when we survey customers, they tell us they trust us and are willing to buy more services from us. In fact, 82% of respondents from our survey think that their energy provider is well positioned to offer whole home energy management. And the good news is that we don't have to build everything we offer to customers. Sometimes we deliver it through a concierge or a partner model and capture incremental value deepening the customer relationship.

There're some of our incubation efforts we have found that when we combine our leading positions in retail electricity and gas with solar and battery solutions for consumers, we can double or triple the value that both we and the customer realized from our relationship. We already know how to deliver a leading experience to solar customers because we have 42% market share in Texas and we serve 50% of customers in the state who have solar, demonstrating those customers trust us with their solar plans and our energy integrator capabilities.

Customers can also participate in demand response with us. We have two flavors, do-it-yourself, where they manually adjust their energy during an event, or autopilot, where they enroll their smart thermostat right from our app and we actually used that capability earlier this week. As always, customers remain in control and they get paid for their participation in the program. Demand response is also a nice tool for Chris and our supply management team during peak hours.

Moving to natural gas, we've achieved significant growth in our eastern US residential customer base over the last three years. We organically created a small portfolio of gas customers. We scaled it with XOOM and Stream and then we doubled that with our Direct Energy acquisition. Now, as a top three player in the US, we can grow our natural gas customers in two ways.

First, with a dual fuel opportunity that Mauricio mentioned, for those customers who are already buying electricity, we have a program to add on gas to their account and vice versa. Part of the customer experience in our NRG app that you can see on this slide is that customers can actually view and manage both fuels right from the same place, a capability they can only get from a company as consumer focused as NRG.

Second, we're leveraging data and analytics to identify customers that are eligible for natural gas and targeting likely prospects based on their market, usage, time of year and other predictive criteria. We do this for both dual fuel, as well as increasing our share in underpenetrated gas markets such as Georgia and Michigan. And our newest growth opportunity is home services. This is another golden opportunity that came to us with the Direct Energy acquisition.

While we've had small businesses in similar areas, it wasn't something you could call a platform and it definitely wasn't scaled. With the addition of home warranty of America and the HVAC company, AirTron, we can stand tall on a platform servicing hundreds of thousands of customers with availability in all 50 states. I hope you've seen that we've built an advantaged, scalable, support sales and customer retention and care platform. We've delivered leadership levels of customer experience. And we have unmatched innovation, personalization and data mining capabilities that allow us to drive value for our customers and for our bottom line.

With that, I'll pass the mic to Rob, who'll give you an overview of our B2B segment.

Robert J. Gaudette

Senior Vice President-NRG Business, NRG Energy, Inc.

Thank you, Elizabeth. Good morning, everybody. I'm Rob Gaudette, the Head of NRG Business. I'm really glad that you joined us today. Over the next few minutes, I'm going to walk you through the B2B side of NRG. Our incredible team of professionals across the continent is very proud of the platform we've built, the role that we play for our customers and for our company. If there are three points I want you to leave with, the first is when you consider the full complement of customer energy needs, we are the leading North American business-to-business retail energy platform.

Second, as part of the integrated platform at NRG, our structure to promote customer experience and bring innovative value-added energy solutions to meet customer needs. And then third, in addition to innovation and incredible customer insight, our platform provides stable margins through long-term contracts and strong win rates, and we're focused on earning that right with our customers to make those contracts longer and win more deals.

So we're clearly the industry leader. We're the number two power retailer and we're a top 10 gas retailer. Nobody can deliver the two core energy products for business like we can. The numbers speak for themselves. And we're built to have deep conversations about our customers' needs, their costs and their goals. We uniquely bring the major energy products, the strength of the integrated platform and our customer focused culture to solve the challenges of the business customer.

This industry-leading platform creates value for the customer and for the company. And we deliver that every day. As the circle charts at the bottom show that value creation derives from a diverse customer base. We're capable of meeting the needs of many different types of businesses with specific products designed to meet the customer's sophistication or their primary buying behavior and their energy requirements. Now whether it's speed and flexibility needed by a manufacturer or sustainability for healthcare provider or risk reduction for school district, NRG Business can and does meet the specific needs of our customers.

You can see the range of industries that we serve and serving these customers we glean from them data and insights that ultimately inform where the energy transition is going. Each industry has its own set of needs and goals and nuances. Our business customers are seeing and trying the next big thing before it hits the masses. We see what works. We test new products and services, and ultimately, we design new solutions.

Now earlier Mauricio showed you a slide with five key components of the NRG platform, supply, optimization, support, sales and experience. Given the role of NRG Business, I'm going to focus on the last three and unique solution that we bring to business customers. We have a support capability that is the foundation of our business. It enables us to do high capacity invoicing, and we can also do specialized and complex billings to meet the needs of the customer.

Our systems have the capability of handling multiple commodities, solutions and billing types across the United States and Canada. Our scale creates efficiency. We process 1.5 million monthly transactions. We produce 320,000 invoices per month and we strive for continuous improvement in the areas of speed, clarity and customer experience. Now our sales effort is the engine that powers NRG Business. We have a national sales team that harnesses the breadth and depth of the NRG platform and makes complex energy markets simpler to our customers, whether they're the largest most sophisticated player looking for optionality or if they're a small to medium-sized business looking for price certainty.

We're organized into three regions, East, West and Texas, and we have 18 offices in total. This structure ensures that we can draw on the capability of the integrated platform and deliver that with local expertise. Some of our customers have local issues, local buying practices, local needs but that same customer is dealing with global pressures and issues and trends. Our structure enables them to manage both. We have broader capabilities and the local expertise that enables us to translate the issues from the national stage and make that solution happen at the local level.

In addition to that high touch, high capability, our sales platform handles over 40,000 interactions per month and we're always looking to get better. As an example, we built an interface that reduced the cost to serve on 70% of one particular channels requests. And finally, our unique customer experience. It is best-in-class across all channels and across the lifecycle of the relationship. We maintain a Net Promoter Score or NPS above 50. And we consistently lead our competition.

We've created useful online tools that, one, create value for the customer; two, make it easier to engage with us; and three, reduce our cost to serve them. We're proud of these tools and our customers tend to agree with over 71% of them enrolled. Now our impressive NPS scores and our enrollment numbers are a direct result of our focus on those we serve. We've carefully designed our experience, whether by human engagement or through the online portal, and we check in on our customers throughout their lifecycle.

We have over 50 touchpoints to ensure that whether we're talking to the broker, the buyer or the accounts payable professional, NRG Business is meeting their needs. It is a unique approach for this industry. Our lifecycle journey allows us to grow our customer relationships by adding value during onboarding, through the mid-lifecycle and into renewal. From the day a contract is signed, we support them with just-in-time communications that help them get the most out of their service. Once the energy starts flowing, that's where the real magic begins.

We engage and educate the customer on how to use online account management, both for day-to-day tasks like getting a bill, but also for activities like reviewing usage and planning for the future. This allows us to begin collecting data and developing insights that lead to value creation. Our renewal phase typically begins 12 months prior to the end of the contract term. We continue to engage on the here and now, but we start talking about renewing the contract while considering other products that now that we know more about their usage patterns or things about them may make more sense for the customer. That's our lifecycle.

We make onboarding as easy as possible. We collect data and share insights throughout the life of the contract. It leads to an early and informed renewal decision. Our lifecycle customer engagement is best-in-class and it truly provides a superior experience. So now let's talk about why. Why care about superior experience? What is the point of having all of this engagement with the business customer? Why have 50 touchpoints along the way? The short answer it's better win rates and longer term relationships. But beyond that, the customer experience platform and our engagement model provide three value drivers.

The first, weekly visibility and the macro moves around the business customer that might provide insights to translate to our 6 million customers across NRG. Sometimes we see trends that give us a head start on opportunities that are elsewhere. Often the business market is a flywheel for innovation in the energy business. The second is that the efforts we make to develop solutions lead to innovation that can be applicable more broadly across the integrated platform.

As an example, our efforts to find solar solutions for businesses contributed to our asset-light renewable strategy. And then, finally, this platform throws off ideas and drives collaboration with customers. A bespoke solution for one can often lead to a very successful product for the broader customer portfolio. One of those products is Renewable Select. And we had several requests from business customers to make it easier to use renewable energy. Many business customers just don't have enough demand for a large renewable project. They can't justify the time or the expense of signing a power purchase agreement. They don't have the expertise to manage the risk of a wholesale asset in addition to the retail load. But thanks to the NRG integrated platform, I am very proud to say we can do that for them.

Renewable Select has democratized renewable energy. We manage the complexity of renewables with our platform and create products for our customers to give them what they seek. This is what competitive markets enable. This is what the integrated platform which NRG pioneered empowers. This is why we listen and engage, and it worked. We now have 36 large C&I customers with a collective 600 megawatts of peak load and about 3 terawatt hours of annual electricity flowing.

And we are just getting started. We'll continue to market our Renewable Select product and we plan to offer it to even smaller customers, so that they may take part in the sustainable energy transition. Another great attribute of the Renewable Select product is that the average length of these contracts is nine years, extending the contracted portfolio and furthering the long-term stability of our business.

So I've discussed the scale of the business, the platform that we have and unique customer engagement model that creates value. Let's touch on the long-term foundation that we're built on. We have a strong and stable history of contracting almost 100 million megawatts or more every year. We have a great track record on natural gas volumes as well. You can see we have maintained stable margins for both power and gas. We have a long history of working with customers, and given the recent platform upgrades and the change in customer experience model that I discussed earlier, I expect those trends to continue.

On the right side of the chart, you can see we have very strong renewal win rates. When it's time for our customer to renew their contract, whether that's in four months or in four years, when they decide, 85% of the time for gas and 75% of the time for power, our customer chooses to remain with NRG. We all know that this industry is a relationship business and ours are long lasting.

When we look at the volume weighted average length of our relationships, it's nine years for gas, six years for power. Some of our relationships date back to the deregulation of the market, so for them 24 years in both power and gas. We also have customers that we were there when they formed their business, so maybe three or five years ago, and we're adding brand new ones every month. Some customers are just beginning their energy journey with us. For others, we've been part of their journey for a long time and I plan to be there in the future.

Thank you for taking the time to listen. My colleagues and I are very proud of what we've built. The way we serve our customers and the future we have in front of us. We are the market-leading platform that benefits from our customer portfolio and an integrated NRG. We have a unique approach to customer experience and engagement that leads to innovation and value creation. And we are focused on stable long-term margin while continuing to increase value for our customers and for our company.

I'll now turn it over to Chris, who will talk about his part of the integrated platform.

Chris Moser

Executive Vice President-Operations, NRG Energy, Inc.

Thank you, Rob. Good morning, everyone. My name is Chris Moser, EVP of Operations. I'm happy to be here today to talk to you about how we manage supply and optimization in support of the good work Elizabeth and Rob are doing. Let's take a look at the key takeaways and then dive into the meat of the presentation. First, we have a best-in-class risk management organization, supported by assets, informed by proprietary data and is of a scale that is hard to replicate.

Second, we continue to evolve our integrated operating model as our retail customers' needs change and as the markets change around us. As you've already heard, we now have 6 million customers and a growing expanse of retail offerings. At the same time our markets have seen a radical transformation. And so our thoughts on how best to supply our growing retail load have evolved as well. It was not that long ago that NRG had over 50,000 megawatts of generation capacity, but by next year, we'll have trimmed that to a purposeful 14,000.

Finally, we take our decarbonization goals very seriously. As such, we continue to make progress, having already reached our first reduction milestone of 50% a few years early. So, let's dive in and take a look at the portfolios we manage. On the left is a map of the power side of the house and on the right is a map of our gas platform. Let's focus on power first. The shaded states indicate where we're actively serving retail customers, while the dots depict our power plants. The mix of physical plants and financial supply we deploy varies by market and is carefully chosen based on the customers we're serving and relevant market idiosyncrasies.

As for gas, post Direct, we've become a major player. Our people, assets and knowledge keep the business solidly in the top 10 in terms of gas volume marketed year after year. The map on the right shows our transportation network, which allows us to connect and optimize storage to meet customers' needs and maximize value. This web of gas assets allows us a tremendous amount of flexibility and can create upside in volatile conditions.

As we mentioned earlier, by adding DE to the portfolio, we've further diversified our retail concentration beyond our historical ERCOT power base. But managing this broad base of assets takes a unique set of skills, capabilities to do it right. We use this combination of people, assets and information to mitigate risk and consistently create value. As you can see our two platforms are large, complex and hard to replicate. We may have built them up over the past many years and through many transactions. Aside benefit of having gone through so many transactions is that we've been able to build a highly experienced commercial organization in each region where we serve customers.

We have the best of the best from NRG, Reliant, Mirant, GenOn, Strategic, Energy Plus, Edison Mission, Hess, and Direct Energy, all of whom come together to form a profoundly talented team with deeply rooted knowledge across all markets. This team leverages our physical assets, our load and our proprietary data to deliver value to customers and steady cash flows for our shareholders. For both power and gas, we use a base of assets and combine that with products from the market to reduce risk and to decrease the cost to serve our retail customers.

After the customers' needs are met, we continue to optimize the remaining portfolio to create as much value as possible. Having touched on the commercial expertise already, it's worth noting that the same integration benefits have accrued to the rest of my organization as well, like plant operations, where we have assembled a world-class team that manages our power plants. Likewise, asset management and our engineering, procurement and construction team keep us informed about the cutting edge of technological developments in the industry.

This ability to see what's coming around the bend is crucial as we consider what platform we should have in the future. Along those lines, we've made great strides in evolving our integrated platform to best meet the needs of customers while keeping the characteristics of the market in mind. On the left side of the page is Texas, on the right side of this slide is the East.

Starting in Texas, you can see a line graph that shows the daily min and the daily max loads over the course of an entire year, and the bar chart that shows the snapshot of supply versus load during the peak hour. In Texas, the load we serve is heavily residential, which is very weather sensitive, and given that Texas is an energy only market, the price volatility can be extreme. We think it's important to have a mix of physical assets we operate and maintain as well as financial assets such as power purchase agreements to manage this peaky load in a volatile market.

But with high energy price volatility, buying financial options can be very expensive and so it makes sense to self-supply the necessary flexibility through our own physical power plants. Aside from lots of price volatility, Texas also has lots of developers with access to cheap money and slim returns ready to pour money into renewables, and so, we're happy to rent the output of those plants for the medium term.

This is exactly how we built up the Texas supply portfolio, physical machines that match seasonal or intraday load swings plus renewable PPAs that we bought at value. In the East, our load is much more commercial and industrial, and as a consequence, less weather sensitive. When you combine a flatter load with the fact that the East has capacity markets that further dampen energy price volatility, we're more comfortable having fewer physical assets as you can see in the bar chart. In the East, the cost of buying the optionality we need is cheaper and so we choose to own less physical generation compared to Texas.

Again, we continue to evolve our supply portfolio based on the markets we're in and the customers we're serving. But getting back to Texas for a minute, I would be remiss if I didn't mention February's winter storm and the lessons we took from it. While our diversified supply portfolio performed well and mitigated much of the negative market outcomes, a few truths were uncovered during winter storm Uri. It's clear that both physical and financial supply have their own unique risks.

Owning physical assets means accepting the operational risk, they may not run as expected. To mitigate this risk, it's important to have a great operational team, as I mentioned before, as well as a diversified mix of assets in terms of size, location and fuel. You can't avoid operational risk entirely by opting for a supply strategy that's strictly financial, but financial supply has inherent risks as well. Buying power or using more complex financial products means you're relying on a counterparty to deliver on their commitments to you.

They need to deliver the power you bought or properly settle the swap they sold. Counterparty strength is especially important when the system becomes stressed. But beyond that mixing in strong bilateral counterparties and using the exchange can help limit counterparty risk. As I've detailed both physical and financial supply have their own risks and so we've intentionally chosen a mix of both as well as a mix within each category. For example, physically, we purposefully have a diversity of locations, fuel, sizes, start times, et cetera. Financially, we have a range of both products and counterparties.

In short, having a diversity of physical and financial supply for ERCOT is the right answer. But, even that is not enough. Simply put, Uri exposed some flaws in the market and I'm happy to report that many of those are getting fixed. In our last earnings call, we noted three major areas of needed improvement coming before the legislature in response to the winter storm, system hardening, better communications and market design changes. Well, I'm happy to say that Senate Bill 2 and Senate Bill 3 became law last week and we were full participants in that effort.

As a reminder, Senate Bill 2 will reform ERCOT's board making it more independent. While Senate Bill 3 addresses a myriad of topics including weatherization of power and gas facilities, the creation of a outage alert system and a new market price circuit breaker, as well as it even asked ERCOT to design a product meant to compensate dispatchable generation.

Passage of these bills plus bills on securitization, one of which was signed yesterday, and other market tweaks coming at the ERCOT level should help prevent another situation like last February. As you may know, ERCOT made headlines again earlier this week when strong temperatures, record load, very little wind production and some thermal unit outages combined to cause strong prices. But this is how the market is meant to work.

I'm happy to report that so far there have been no blackouts, no energy emergency alerts, no co-op defaults and no unhedgeable uplift created. I commend ERCOT for being more proactive with its communications this week. But I believe it's important to have enough dispatchable generation to help balance the market, and we look forward to ERCOT designing and implementing new market products called for by SB3, which should help boost revenues for dispatchable generation.

Turning to slide 64, on the left, you can see our progress to-date in meeting our decarbonization goals. As a reminder, we have two stated decarbonization goals. First, to reduce carbon by 50% by 2025 compared to a 2014 baseline. And second, to reach net zero carbon by 2050. Alongside those goals, we're advancing our portfolio to meet the environmental objectives of customers as well, having signed over 2,000 megawatts worth of renewable PPAs in Texas.

Adding that contractive solar to the portfolio doesn't show up on the charts on the left because of how carbon accounting is done. But as Rob mentioned, it allowed us to design the Renewable Select product, which creates value for customers and for us as well. We are making good progress. By the end of 2020, as Mauricio mentioned, we were already a little beyond our 2025 carbon reduction goal.

Looking forward, the levers we will use to reach net zero by 2050 include many of the steps we've taken already, running fossil plants less due to market conditions, converting plants from one fuel to another, we're keeping an eye on hydrogen, and closing uneconomic plants, which brings me to the right side of the slide. Given the recent PJM auction results, I'm announcing the expected retirement of Indian River 4, Waukegan 7, Waukegan 8, and Will County 4 in June of 2022. These plants collectively constitute about 1,600 megawatts of dispatchable generation and about 50% of our coal fleet in PJM.

While this is a difficult day, I would personally like to thank all of the employees past and present at these plants for operating them safely and reliably over their many, many decades of service. NRG continues to evaluate the viability of the rest of its PJM portfolio in light of very poor auction prices, state subsidies, and other market distortions. Other announcements may follow if market conditions do not improve. In the meantime, we plan to proactively preserve the value of these generation sites which may include potential redevelopment for renewables or storage.

Before I hand it back to Mauricio, I want to make sure you leave with the confidence that the team, the assets, and platform NRG has assembled puts us in a position to deliver value to customers and our shareholders. We've demonstrated that we're adaptable in wildly changing markets and customer needs, all while doing our part to address climate change.

Back over to you, Mauricio.

Mauricio Gutierrez

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

Thank you, Chris, Rob and Elizabeth. Well done. Today, you have heard a lot about our advantaged consumer platform and how we are uniquely positioned to capitalize on the market opportunity around the future customer needs. I want to close our presentation by providing you the financial impact of our strategy and how we're creating compelling value for our shareholders.

I want to start with the excess cash outlook of our company. We expect to generate cash in excess of the financial needs of our business almost equivalent to our current market capitalization over the next four years. As you can see on the chart, we have become a simplified recurring free cash flow machine with a clear compelling capital allocation principles.

We believe this pro forma outlook is more than illustrative. It is achievable. Before we go into the assumptions and growth outlook on the next slides, I'd like to take a few moments to talk about our capital allocation philosophy. As I know we have a mix of existing and new investors watching today. Our capital allocation framework show on the right-hand side of the slide is simple and transparent. We allocate capital to the maximum return opportunity. That is and always will be the foundation of our capital allocation philosophy.

Beyond safety and operational excellence, the first use of capital for allocation is to achieve and maintain a strong balance sheet. There are two ways we can accomplish this, debt reduction and EBITDA growth. In 2021, we will reduce our net debt to achieve a strong balance sheet of 3 times net debt-to-adjusted EBITDA, and then, by 2023, grow into our target investment grade credit metrics of 2.5 to 2.75, primarily through the full realization of Direct Energy's run rate earnings. This is new information.

And now, with this clarity, the rest of our excess cash will be available for allocation through our 50% opportunistic and 50% return of capital framework. On return of capital, I believe a long-term commitment to our shareholders through a strong dividend policy complemented by significant share repurchases is an important attribute for both value creation and broadening our shareholder base. Our policy is to grow our dividend per share 7% to 9%, which is inside our free cash flow per share growth rate and implies a decreasing payout ratio.

Opportunistic growth per share can be achieved through both, investment and/or share repurchases. Investments must first be consistent with our strategy. Second, meet or exceed our stated hurdle rates of 12% to 15% unlevered pre-tax return. And third, exceed the return of buying back our own stock. Let me say it again, investments must also exceed the hurdle rate implied by our stock. It is that simple.

Now with that context, we expect to generate more than $8 billion in excess cash from 2022 to 2025. We're currently authorized to return 50% or $4 billion to our shareholders through share repurchases and dividends. The remaining $4 billion of unlevered capital is available to grow through investments and/or share repurchases. As I discussed earlier, we have earmarked roughly $2 billion of capital allocation to execute our home growth plan and implied returns well in excess of our hurdle rates, with the remaining $2 billion to be deployed to the maximum return opportunity.

Slide 68 provides a roadmap on how we achieve the 15% to 20% growth rate in free cash flow per share during this period. As you can see on the waterfall chart, we expect to double our free cash flow per share by 2025. We start by integrating Direct Energy, executing on synergies and then applying our capital allocation framework to our excess cash. We also continue to high grade our business by modestly increasing our free cash flow conversion rate during this time.

As part of this pro forma for simplicity and in order to provide you better visibility on our core business, we removed the financial contribution of our PJM fleet beginning in 2023 given the result of the most recent capacity auction. In the future, you should expect our disclosures to be complemented with a more standard per share metric such as adjusted earnings per share, which better captures the financial flexibility that we have between growth investments and share repurchases. We will also enhance key performance metrics to provide more clarity and visibility into both our home and business integrated operations.

Over the past five years, NRG has been a growth and execution story with 26% annual growth rate on free cash flow per share. We expect to continue our total return story for the next five years consisting of 15% to 20% annual growth rate in free cash flow per share plus 7% to 9% annual growth in our dividend.

I want to close by summarizing our compelling value proposition. We have created an advantaged consumer business with a portfolio of respected brands and diverse products and services for nearly 6 million customers. We are positioned to grow in large and attractive markets where we can leverage our existing operating platform to achieve higher margins and longer tenure customers. We have the financial flexibility to invest capital at attractive returns while returning significant capital to shareholders. And we have the right people and the right platform to create sustainable value for all stakeholders.

Thank you for your attention and your interest in NRG. So with that, I pass it back to our host, Kevin Cole.

Kevin L. Cole
Senior Vice President-Investor Relations, NRG Energy, Inc.

Thank you, Mauricio. We'll now open the lines for 45 minutes of Q&A. As a reminder, for those from the investment community wishing to ask a question, please dial into the Q&A phone line now using the dial in provided. Again, please be aware that once you've dialed in, you'll need to mute your computer to avoid any echo or feedback. We'll now pause for about 90 seconds to arrange the stage and allow for the investors to dial in. Thank you.

Operator: [Operator Instructions] Please stand by while we compile the Q&A roster.

Kevin L. Cole
Senior Vice President-Investor Relations, NRG Energy, Inc.

Welcome back. We'll now begin the Q&A session. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will take our first questions from Julien Dumoulin-Smith with Bank of America. Your line is open.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Hey. Good morning team, and thank you for the opportunity. Congratulations and well done. Perhaps if I can kick it off here with respect to the capital allocation plan, I mean just $8 billion is an impressive number. Can you talk about some of the investments, right, the non-buyback piece that you're thinking about, and how much of that might come in the form of organic investments, right?

I think earlier in the slide presentation you talked about $520 million of growth above and beyond Direct Energy. And you kind of alluded to $2 billion of capital to make that happen on the retail side although admittedly that's more of an organic. Can you try to reconcile a little bit of what specifically is in that $2 billion of capital to get that $520 million, and ultimately, what else is there in terms of organic investments that you see out there that conceptually you're thinking about?

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

A

Yes. Thank you, Julien, and thank you for joining. So, as I said, I mean, we have earmarked about $2 billion for growth, that's both – it's primarily organic growth. First is growing our core, growing our power and natural gas and dual fuel customers. So that will be the first priority. And then secondly, we're going to look at power services and home services, I would say in the second half of the planning period. So that's how you need to think about it.

This is primarily organic, and obviously, we're always going to be looking at inorganic opportunities, but we don't have anything right now identify on that. This is mostly organic. And as you alluded to, this creates $520 million of incremental EBITDA. I mean, this is well, well in excess of our 12% to 15% return that we have outlined on our capital allocation policy. And that is actually embedded in the outlook that we provided to you today. What we use is 12% to 15%, so this is in excess and it will be additional to what we are – what we show you today.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Got it. And can you talk a little bit more about the buyback tension relative to capital investments? I mean, it seems like, I mean, you took anywhere close to $8 billion and put that back into buyback. Certainly, the returns would be pretty meaningful here. Can you talk about the decision on that 12% to 15% relative? Obviously, I know the stock is moving around, but it would seem to imply – well, obviously, you say it's 90% of the market cap.

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

A

Yes. Well, I mean, the $2 billion investment that we have, is well in excess of that 12% to 15%. I mean you can do the math very quickly, but this is in the mid to high teens levered returns. And so, that's how we think about the investment on that. In terms of the share repurchases, as I said before, I mean that's a very important component of our capital allocation and our value proposition.

We have right now earmarked during the planning period close to $2.7 billion on share buybacks. And we have an incremental $2 billion that we haven't earmarked for anything. And our principal is very, very simple. We're going to deploy capital to the maximum return opportunity. And the $2 billion that we have earmarked for this growth is at very, very attractive returns.

Now, one thing that perhaps the model and the $520 million don't necessarily capture completely is that when you make the investment, there is about a year lag. So, I mean that's something that our outlook didn't capture completely for because we it only run through 2025. But just keep that in mind.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Yeah. Excellent. Sorry, one more financial thing, just the nuance here. You guys kind of alluded to a little bit north of $2.7 billion in EBITDA going back to the Direct Energy acquisition, looking at 2023. Now, a few different things have moved around including what seems like a higher organic offset by some asset sales et cetera. Can you talk about how you're trending against maybe some of that earlier sort of preliminary targets?

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

A

Yes. Well, I mean the first priority is to integrate the Direct Energy acquisition and achieve the $300 million of synergies. Just by doing that, we basically have the outlook that we provided you today, so that's our first priority, first and foremost. Then we have identified these growth investments. But I would say they'll come in the second half of the planning period, closer to 2023 and 2024, once we define the go-to-market strategy for power services and home services.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Got it. Last quick, when you say go-to-market, are you saying that you're going to get involved in the residential solar business? Just want to understand exactly sort of the scope of it. And I know it's preliminary but I just want to make sure we're a little bit clear on terms here.

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

Yes. Well, I mean, power services includes storage, backup generation and certainly residential solar. The way I think about these adjacent products and services is that we need to find partners. We don't have to vertically integrate on every single part of the value chain. Find partners where we can actually apply and bring our strengths and they can bring their strengths, and it's clear that our strength is sales and marketing innovative products, and then incredible customer experience that Elizabeth already talked about.

And we're going to look at partners specifically for residential solar that can take the installation and the financing. We have done that in the past and we know that that's not one of our strengths. And we're going to be focused on our strengths. We're going to be very disciplined around finding those strategic partners. And one big difference between how we approached it in the past and how we are approaching it today is execution. We don't have to do everything. And, obviously, timing is everything. So timing and execution is everything in our business. And the timing we believe is right for some of these products and services that are more accessible and more affordable to our customers. So, that's how I think about these adjacent products and services, Julien.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch
Q

Excellent. Well, congrats, again. Thanks, guys.

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

Thank you, Julien.

Operator: Our next question comes from Shar Pourreza with Guggenheim Partners. Your line is open.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC
Q

Hey, good morning, guys. Can you hear me?

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

Yes. We can.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC
Q

Just a couple of questions. Mauricio, what are your expectations for outcomes, maybe even cash amounts from the ongoing securitization process in Texas now that the legislation is getting put in place? How should we sort of think about the use of cash you could be recovering?

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

So, we provided a range in our last earnings call, $275 million to $475 million as potential mitigants to the impact that we had from winter storm Uri. Obviously, there's been great, great progress from the Texas legislature, not just in terms of mitigating the financial impact, but also making our market a lot stronger as Chris described.

I think it's a little too premature how that money is going to be allocated to market participants. But certainly we're already starting to think about it. And we will provide you an update once we have more clarity in terms of how it's going to be allocated. But for now, I think that range is pretty in line with our expectations today and that's what you should use as your baseline, Shar.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it. We typically thought of growth capital under sort of that 50/50 framework is going exclusively to retail customer acquisitions. So how should we think about maybe the inorganic opportunities on power services and home services lines? I mean, would you expand the warranty business as you kind of hit your thresholds? Just trying to get a little bit of an overall sense especially if the opportunities on the retail side get smaller and do you think they'll get smaller?

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

A

Well, as I said, I mean, I think there is an incredible opportunity on the power services and the home services side. It's not like we're creating a demand. The demand is there. The need is there. It's just that it's being right now unmet. These are unmet needs by our customers and we want to be the company that provide these comprehensive products and services and experiences grounded on the operating platform that we have and the incredible customer experience that we provide to our customers. So, as we think about the way we're going to grow on home and power services, I mean we've depicted some of the touchpoints. So, Elizabeth, I don't know if you want to expand a little bit on that.

Elizabeth R. Killinger
Executive Vice President-NRG Retail, NRG Energy, Inc.

A

Yeah. So as we think about growth, you can think about inorganic growth coming if there's a product or service that we think we can deliver better that way. There's capabilities just how we take products and services to market. Customers, you've seen us do that in the past and then finally regions or markets that, that maybe we don't have the coverage we think we can have to bring that value to customers in other markets. So there's a full wheel of opportunities. I think the important thing is we're going to be very diligent and looking at what the opportunities are and making sure that they really enhance our platform to continue to grow from here.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it. And then the Direct deal came with not a significant footprint in Canada. Just curious as you've gotten a little bit more familiar with the business, is that something we should view as core or something that could be shed over time? Conversely, would you be interested in growing north of the border?

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

A

I mean we're always looking at optimizing our portfolio. I mean that's a priority for us. We have demonstrated that over the past six years. We're going to continue to do that. Elizabeth and Rob, you both handle and manage our Canadian business. I don't know if you want to just provide a little bit about color on the scale and scope of that operation. But, I mean I will say, Shar, that we're always looking at optimizing our portfolio and if we cannot generate significant value and somebody else can, we are always going to be driven by maximizing value for our shareholders. Elizabeth?

Elizabeth R. Killinger
Executive Vice President-NRG Retail, NRG Energy, Inc.

A

Yeah. I would say we had a very small presence in Canada before the Direct acquisition. We now have scale in the home segment. So hundreds of thousands of customers buying both electricity and natural gas as well as the regulated segment and there are opportunities to grow. So we really do see ourselves today as a North American consumer energy services provider. And I think that you can expect that from us. But as Mauricio said, if ever we determine that it doesn't make sense, obviously, we're going to do the right thing.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it. Yeah.

Robert J. Gaudette
Senior Vice President-NRG Business, NRG Energy, Inc.

A

On the business side we actually have a very strong gas and power platform in Canada. Direct had a great business, now NRG does, and we have a great platform. We have a good set of customers. Those markets are interesting and we've really good people. So, to be honest, when we look at that part of the segment, it's very, very important to what we're trying to do. But I will echo what Mauricio and Elizabeth said, we're always looking at the portfolio and finding ways to optimize to make sure we're putting our money in the right place.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it.

Elizabeth R. Killinger
Executive Vice President-NRG Retail, NRG Energy, Inc.

A

Yeah, our talent in Canada is exceptional. We're really excited to share those lessons learned across regions as well.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it. Last question, Elizabeth, just obviously as everyone kind of digest what happened this past winter. We faced obviously some tightness in this summer. Are you seeing any kind of shifts in the broader retail margins in ERCOT?

Elizabeth R. Killinger
Executive Vice President-NRG Retail, NRG Energy, Inc.

A

As a result – we haven't seen anything as a result of this storm. I mean I think we've said to you several times you can rely on some strong margins and see us continue to deliver and as we've done recently expand.

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

A

But, yes – I mean, Shar, keep in mind the biggest impact on the storm was really not on the competitive side and it was not on the competitive company. It was in the public – it was in the public power. That's where you have the issue and there was a clear stark contrast in terms of the benefits to consumers in general between the competitive framework and the public power framework, which they're going to look at passing the impact directly to consumers.

I mean the competitive space shielded, 99% of customers were shielded from this type of price volatility. So, from my perspective, the retailers in Texas were not necessarily impacted. I mean perhaps one or two that were offering specific products that I think they're going to be banned going forward. But that's why we're not seeing big – I guess a big disruption in the retail market here in Texas.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Terrific. Thank you, guys. Congrats on the messaging today.

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

A

Thank you.

Operator: Our next question comes from Angie Storozynski with Seaport Global. Your line is now open.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Thank you. My first question is the some type of clarification here on slide 68, did you assume in those recurring free cash flow per share numbers the deployment of that $2 billion of cash flow that – again, it's sort of undecided, is this going to be buybacks or investments?

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

A

Yes. Just to be completely clear, the outlook that we provided assumes that we're going to use our excess cash based on the capital allocation framework that we have. So the capital for growth that you see there implies a 12% to 15% return on that capital. The $2 billion that we have earmarked has returns a lot higher than that. So this outlook would actually be – it would be much better when we deploy that capital at those returns. That's a great question, Angie, and I hope that that clarifies the difference between what we have in the outlook and what we have earmarked for growth in the slides on home services, power services and both growing our core.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Perfect. And then – okay. So the question about the generation retirement – asset retirement, I mean, so, clearly based on the outcome of the PJM capacity auction, this market is very oversupplied with power. Hence your short position there or increasingly short position there is maybe okay. In ERCOT, yes, you're not retiring any assets, but you're already short and we're seeing some signs of this lately that load is coming back, and again, like, I hear the debate that this is weather or this is COVID, but talk about your short position, and again, I heard that Chris' comments about how you can manage it, but I mean you are shedding generation assets and your retail book has never been bigger. So, how can we be comfortable with this?

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

A

Okay. Well, let's start – I'll start and then I'll kick it off to Chris. I wouldn't characterize our position as short, Angie. We have a balanced portfolio and not every load that we serve, we have to produce the megawatt in house, so we can contract. So we have generation assets that we own and we have contracted assets. Both have different risk profiles. But I'll let Chris expand on it. I just wanted to make sure that this characterization that somehow we're short power, we're not short power. We're always balanced against our retail load.

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

Yeah. It's – think of it like this, as we're going towards, as Rob is signing deals or Elizabeth is filling her load a year in and year out with the sales machine that we have, it's about making sure that we're getting that covered and it's about doing it at the best price we can. Now, listen, in Texas, like I said in my remarks, the cost of optionality is really, really high. And so, it's excellent for us to lean on the assets that we've got to be able to, to cover it.

In PJM, the cost of options isn't nearly as much. And so, we can lean a heck of a lot more on that. So, we're much more comfortable serving a very flattish load in the East because of the setup in the market and the lack of any real price volatility. And in Texas, we've got a lot more coverage as you can see on, I don't know what page it was, I think it's 60, 63, 64 something like that. And that's what it boils down to is we're looking at the best option to cover the load that we have in the markets that we're in.

And that means in Texas, the combination of renewable PPAs, and our plants and other products, and then in PJM and in the Northeast, we're going to serve it with less plants and some offtakes and just straight from the market because the options are available at a reasonable pricing. That's kind of how we're looking at it is we're trying to match, what load are we serving, what do the markets look like and how best we do imagine for the best price.

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

Yeah. And, Chris, I mean one of the big lessons learned from winter storm Uri was diversification of our supply portfolio, not just in terms of assets owned but also a contracted assets, geography, location within Texas, size, I mean that really mitigates the impact, either operational risk if you own assets or counterparty risk if you contracted them.

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

Yeah. Having different fuel assets, different sizes and different spots it spreads the risk around, so you don't get snake bit too hard on any given one. That's right.

Angie Storozynski
Analyst, Seaport Global Securities LLC
Q

And just one last question to Elizabeth, I mean I appreciate the value of the brand and how that helps with customer retention, but I'm just honestly debating myself given what happened this winter in Texas that customers who had retail contracts with lesser brands didn't really get much of a hit if any from what has happened, and is there – how do you think this storm has impacted your brand and your ability to maybe charge slightly higher margins given the brand and given the stability of the platform, again following this retail experience in February?

Elizabeth R. Killinger
Executive Vice President-NRG Retail, NRG Energy, Inc.

A

Yeah. So, thanks, Angie. So two things. The first I would tell you is that customers woke up about energy. Customers now care more about power in their homes than they have since – I've been in the business. So they care and are interested. They're also interested in some of these other power and home services more so than they have been. So that's one aspect. And then the other aspect is because it's more important who they buy from, and what that company does, and how they operate, and their strength and health matters more. So I actually think wow, it woke people up so that now they care and that really is a perfect opportunity for us to continue to deliver what we count on and to extend the value that we create for them.

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

A

And just one thing that I would add Angie, I mean going back to the impact – the economic impact to customers – to our customers. I mean we didn't have any of the products that were tied to an index – that had a significant impact on customers, I mean, our customers were primarily on fixed price, they were not exposed to that and you get a lot of loyalty and value on that.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Very good. Thank you, guys.

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

A

Thank you, Angie.

Operator: Our next question comes from Michael Lapides with Goldman Sachs. Your line is open.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Thanks for taking my question. I think I want to be – I want to follow-up on follow up on Julien's, which is the conversation about the $2.7 billion or so as you know in 2023 EBITDA. Can you...

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

A

Michael, we're having trouble hearing you. I don't know if you can speak louder, but you're coming through in a very, very low.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Is this better? Sorry about that. If you can hear me now, my question is very basic. Can you confirm that $2.7 billion to $2.9 billion in EBITDA for 2023?

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

A

Yeah. I mean, we have provided here a pro forma. And I want to be very clear Michael. I mean, we don't provide three-year forward guidance. But I think we have provided elements that allow you to see what are the key levers that could potentially or the key variables that could potentially impact our portfolio.

So the first one is Direct Energy. And we have provided a lot of transparency and visibility in terms of the buildup between 2020 and 2023 in terms of EBITDA uplift. And that's clear.

The second thing, it is the asset sale process that we have right now on the Northeast.

And then finally, the Midwest Generation portfolio. And we wanted to provide additional clarity in pulling it out from this outlook. Now, keep in mind, I mean, the Midwest Generation portfolio is close to about a $100 million of cash impact. So is very small compared to our total number.

So without telling you that we're confirming that $2.7 billion specifically I think we have provided you the elements and the variables that could potentially change that. But I mean, I feel incredibly, incredibly comfortable with the realization of the $300 million of synergies and the integration of Direct Energy and their EBITDA run rate. And that is by far the biggest contributor between 2020 and 2023.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. And just a quick follow-up. The $2 billion of investment, is that capital, or is that OpEx, or is it a mix because this is a retail business, and things like customer acquisition or a lot of new product rollout that's not necessarily ownership of a physical asset. That sounds and feels more like it would be OpEx. So the cash flow impact of that might not be the same just given the tax shield, but also the EBITDA impact would be very different. I'm just trying to think about how things will flow through the financial statements?

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

A

Right. I mean, it is a mix. But I would say it's going to – as we move into the consumer side or the customer business it's going to look and feel more like OpEx and less like CapEx like we have done in the past. Obviously the – this is primarily made by organic growth, and we're always looking at inorganic growth. But that's really opportunistic. That's not part of this $2 billion. This is basically an opportunity that we see in five specific places growing power, natural gas, and dual fuel. That is going to be the main priority. That's what I call the low hanging fruit. That's what we do. And this is going to be our focus in 2021-2022.

And then when we move into home services and power services, the back half of the planning period, we are going to pilot, we're going to test it, and then we're going to scale up. It's not like we're going to go and start deploying this capital in size. So you should expect that deployment in the latter part of the planning period.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And so, if I think about it, and you made the comment that there could be a year lag in some of these investments before you start getting the return on them that you anticipate. What that lag would do is, you'd see a step up in SG&A or a step up in operating costs which would weigh on EBITDA, but wouldn't necessarily have a bigger impact than if you capitalized it on the cash flow statement. And then the following year if you've got your return hurdles correct or even above those return hurdles, you'd see a bigger step up in EBITDA. Am I just kind of trying to think through what you're talking about your model being, and trying to flow that through over the next couple of years. Or is that more of a 2024-2025 event where you might see a sizable step up in OpEx or G&A that would then get a return on it the following year?

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

A

Yes. Well, two things because people – I see that people are talking about this $2 billion and then the outlook that we have provided. The outlook that we have provided and then you see on the roadmap for the free cash flow per share growth. We're using our capital allocation principle. That's the 12% to 15% return. And that model for obvious reasons I mean, when you're deploying capital in 2024 or 2025, there is a year lag.

So, when you look at the growth in free cash flow per share when we double it from $6 per share to $12 per share that is actually higher because that $12 per share, it doesn't have the full impact of the capital deployment that our 50-50 framework dictates. Now, the $2 billion and the opportunity that we have identified is much greater, I mean much greater than that 12% to 15%. So, think of that as upside from the outlook of free cash flow per share that we have provided; significant upside. But we wanted to just be consistent and aligned with our capital allocation principles.

Obviously, we're going to be providing additional disclosures because I mean not just our business and the way we're organizing ourselves have changed around customer segments, we're going to be providing additional disclosures on home, on business, but also the flavor of our growth is changing. It's going to look more like OpEx. So, we will be providing you additional disclosures on that. So, you can understand the impact.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thanks, Mauricio.

Operator: And next question comes from John Arnold with Vesco Research (sic) [Vertical Research]. Your line is open.

Jonathan Arnold
Analyst, Vertical Research Partners LLC

Q

Hi. Good morning, guys. I had a question on retention trends. Elizabeth mentioned that you – you have improved. Can you just give us a little reminder of what that 75% to 80% number you're currently targeting? How it looked like in the past and – and maybe just dig a little sort of further into it. I mean we're kind of effectively winning new customers and then losing more or less the same people every year or is your retention better on the new wins versus older, longer duration customers, could I just try to get a little more sense on that.

Elizabeth R. Killinger
Executive Vice President-NRG Retail, NRG Energy, Inc.

A

Yeah. So the way to think about retention is twofold. First, we look at retention like first serving the needs of the customer. And then we look at extending their lifetime. And what you saw in I think, Mauricio's slides, the 75% to 80% is really what we're keeping beyond a year, and so our objective, and what we're focused on is continuing increase that.

We were at lower levels before that, we've also – our portfolio has changed quite a bit with the acquisition of XOOM, and Stream, and now Direct Energy, and so we're working on just making that number better and better. All of the research we've been able to do internally shows that we're best-in-class at retention especially if you look at what is publicly available in the markets, and so we're right now, and that's really why focused on leveraging our data platform, and continuously improving, continuing to beat whatever benchmarks we can find. And that's really what we're focused on.

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

A

And just to add, I mean, the way we're moving to these adjacent products and services is twofold, the value is twofold. It is accessing increasing margin from selling additional products and services, but the knock-on effect of that is increasing retention in our core product. So and we provided, we wanted to provide some indication in terms of what is the impact on retention that is right now not captured in that EBITDA per customer that we provided, but over time I think the concept of customer lifetime value which really brings that, the time dimension into the fold we're going to provide, and we're going to have a conversation about that going forward, but I think this is a really good start in terms of you thinking about the impact of these adjacent products and services both in terms of margin expansion and longer tenure relationships.

Elizabeth R. Killinger
Executive Vice President-NRG Retail, NRG Energy, Inc.

A

Yes. We see a 10% to 20% improvement in retention when we have these valuable secondary products, so it's material and we do expect that to continue.

Jonathan Arnold
Analyst, Vertical Research Partners LLC

Q

And then, anything you can say Elizabeth on whether your retention is better on your new wins from the past couple of years or whether it's – whether those are kind of the switching customers? And so by definition, it's not quite as good as the average?

Elizabeth R. Killinger
Executive Vice President-NRG Retail, NRG Energy, Inc.

A

We can see clearly that acquisitions, customer acquisitions during 2020 and 2021, we are seeing greater retention in those portfolios. The new customers as they come in, we're all working on. I mean, that's – as you guys know, that's what we focused on with our transformation effort, and so many people across the organization are focused on just inching that retention a month, a day, a year, two years, five years just keeping on focus. But it's about upserving. It's listening to what they want, giving them value. And if you – you can think about it from your own personal experiences, who do you want to work with. Somebody who's helping you and wants to do more for you or somebody who's just going to get off the phone or get off the website, we're who people want to work with.

Jonathan Arnold
Analyst, Vertical Research Partners LLC

Q

Great. Thank you. And if I could just add one other thing. You had a comment on one of the slides that you're going to sort of talk about 2021 capital allocation some point in the second half. Mauricio, can you maybe give us some pointers, A, sort of what do you think the timing for that communication is and B, are you sort of erring one way or another? I know that sounds like some of this investment is a bit more further out in the plan, so I was just curious how to think? I think you had a number from the first quarter that was sort of just shy of $400 million that you haven't yet allocated.

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

Right. So I mean part of the value proposition for us is to have a very strong balance sheet, and we achieve that by getting to our investment grade credit metrics of 2.5 times to 2.75 times. We expect that now to be reached later in the planning period. Right now our goal is to get to the 3 times by the end of the year that will – we're going to deploy just shy of $400 million to get there. But I mean there's still some uncertainty around or lack of clarity when we're going to see some of the cash coming in the door, specifically around the asset sales of – in the Northeast. Once we know when we close, and cash has been exchanged, or we have a lot more clarity, then I will be able to talk to you about how we're going to deploy that capital later in the year.

That's why I mentioned, I mean, I think there is an opportunity to have that conversation. But today, I don't know exactly when it's going to happen. I know that it is – we're targeting the fourth quarter, but we're – we need to we need to have a little bit more clarity. I expect to provide you an update, perhaps, in the next earnings call.

Jonathan Arnold
Analyst, Vertical Research Partners LLC
Q

Okay. Thank you.

Operator: Our next question comes from Durgesh Chopra with Evercore ISI. Your line is open.

Durgesh Chopra
Analyst, Evercore Group LLC
Q

Hey. Good morning team. Thanks for the update. Quick clarification for me, actually two, slide 67, just to be clear, right. It's very clear $4 billion in excess cash towards dividend and share purchases that's clear. The $4 billion on top of that $2 billion is already earmarked for projects at 12% to 15% that leaves you with an additional $2 billion. So are we saying that the share purchases could be $2.7 billion plus $2 billion like what are we doing with the rest $2 billion left there? Appreciate some clarity.

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

Yeah. No that's a great comment and let me see if I can clarify a little bit more. The outlook that we're providing on that page is basically using the $8 billion of excess cash, using our capital allocation principles. So we are basically reinvesting every year 50% of our excess cash to projects of 12% to 15%. So it has nothing to do with the $2 billion that we have earmarked which are at very, very attractive returns in excess of that. Now what this represents is just using that excess cash with our capital within the prism of our capital allocation.

Now this can be improved if we deploy those $2 billion at those returns. I mean, there is an increase in the excess cash that is available for distribution or for reinvestment. So I hope that that clarifies it. Now, right now, we have identified $2 billion. The other $2 billion can – we'll be opportunistic. But to be completely candid, even the $2 billion that we have earmarked that are on the second half of that planning period, we're going to go through a pilot phase. We're going to test the home services and the power services. And then we're going to determine how we're going to move forward.

So that's why I was very careful in saying that that's earmarked for growth. If I feel that there is a more compelling investment for our excess cash than that, we're going to deploy it. I am going to remain completely flexible.

Durgesh Chopra
Analyst, Evercore Group LLC

Q

Got it. Okay.

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

A

If I can just add something on growth versus share buybacks, I mean, I think, Elizabeth already talked about the value that some of these services create to our company. And if we can extend the lifetime of customers and access more margin, then our entire business is a lot more valuable. And there is an opportunity to revalue the multiple that we trade today. So when you compare share buybacks and capital for growth, just keep in mind that all of this capital for growth is going to products and services. That is going to create a more sustainable and we think a more valuable business that can translate in multiple expansion as opposed to, just when you're comparing those two, those two options that you have. But again, I mean, my principle, as I said, is very, very simple believe it or not, it is, it's just for deploying it to the most attractive investment at any point in time. And that includes also, our own company and buying back stock.

Durgesh Chopra
Analyst, Evercore Group LLC

Q

That's super helpful, Mauricio. So and I guess fast forward to 2025, is it fair to say that if you execute on this plan that you would have done share buybacks of $2.7 billion or greater?

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

A

I'm sorry, can you repeat the question please.

Durgesh Chopra
Analyst, Evercore Group LLC

Q

I'm just trying to see if, sort of, as you roll through this plan through 2025, is it fair to kind of assume in our models that you would have brought back – bought back shares of – in the amount of $2.7 billion or greater?

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

A

I think that's fair to say.

Durgesh Chopra
Analyst, Evercore Group LLC

Q

Okay. One last, quick clarification. The debt to EBITDA metrics, 2.5 to 2.75, I think in one of your previous calls, you might have sort of targeted that to be in the 2022 range, is that still the case?

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

A

Well, two things. The first one is in 2021 our target is 3 times. That's what we're going to reduce a bit. Beyond 2021 we actually don't have to deploy capital to get to our credit metrics. We're going to achieve that by EBITDA growth. And the single biggest driver of that is the Direct Energy synergies achieving the Direct Energy run rate. So we don't even have to invest incremental capital on growth to achieve that 2.5 to 2.75 in 2022 (sic) [2023].

We're going to achieve that by just executing on Direct Energy. And that's why that's the most important and that's the primary focus of the entire management team in the next call it 12 months to 18 months.

Durgesh Chopra
Analyst, Evercore Group LLC

Q

Understood. Thank you very much. Appreciate the time.

Operator: Our last question comes from the line of Antoine Aurimond with Bank of America. Your line is open.

Antoine Aurimond
Analyst, BofA Securities, Inc.

Q

Hey guys thank you for taking my question. Just to follow-up on the credit side. So did you have any sort of updates on your conversation with the agencies in terms of what timeline we should expect for an IG rating?

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

A

Yes. Antoine, so when we look at putting this schedule, obviously that was informed by the conversations we've had with the rating agencies we are committed to having a strong balance sheet. We are committed to this – achieving our credit metrics. The credit ratings are out of our control. So I have to focus only on achieving the credit metrics. But it is, I mean, we both recognize that the Storm Uri had an impact in terms of the timing and the trajectory when we could potentially have those ratings. And this schedule really just aligns with those conversations that we've had. So I think there's been a delay of let's call it one to two years. And this reflects that delay. So we don't have to get our metrics in 2021, and we're just realigning with, I guess with the conversations we've had there with the rating agencies and their expectations.

Antoine Aurimond
Analyst, BofA Securities, Inc.

Q

Understood. Thanks Mauricio.

Operator: That concludes the Q&A portion of today's program. I will now turn the program over to Mauricio Gutierrez for closing remarks.

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

Well first of all, thank you for joining us. This has been a very exciting journey so far. And as I said in my prepared remarks, I think the outlook for the company has never looked brighter. We are starting this conversation. We're opening a new chapter. And all of us, we want to, we're going to have a lot more of these type of dialogues. We're going to provide you additional information. But this is really just the beginning of those conversations.

We have built a tremendous, tremendous platform. And we have the opportunity to actually access markets that are very attractive in terms of scale where we are not constrained by our current market share. So we're very excited about that opportunity. But more importantly, we're excited about the financial flexibility that this management team has been able to create over the past six years. That's really what puts us in this position to create even more value to all of you. So with that, I want to thank you for joining us today. And I look forward to seeing you in person soon.