08-Aug-2023

NRG Energy, Inc. (NRG)

Q2 2023 Earnings Call

Copyright © 2001-2023 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

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

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

Rasesh Patel
President-Vivint Smart Home, NRG Energy, Inc.

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

OTHER PARTICIPANTS

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Shahriar Pourreza
Analyst, Guggenheim Partners

Angie Storozynski
Analyst, Seaport Global Securities LLC

Durgesh Chopra
Analyst, Evercore ISI

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the NRG Energy, Incorporated Second Quarter 2023 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Kevin Cole, Head of Treasury and Investor Relations. Please go ahead.

Kevin L. Cole

Senior Vice President, Treasurer & Head-Investor Relations, NRG Energy, Inc.

Thank you, Jada. Good morning and welcome to NRG Energy's second quarter 2023 earnings call. This morning's call will be 45 minutes in length and is being broadcast live over the phone and via webcast, which can be located in the Investors section of our website at www.nrg.com under Presentations and Webcasts. Please note that today's discussion may contain forward-looking statements which are based upon assumptions that we believe to be reasonable as of this date. Actual results may differ materially. We urge everyone to review the Safe Harbor in today's presentation as well as the risk factors in our SEC filings. We undertake no obligation to update these statements as a result of future events, except as required by law.

Copyright © 2001-2023 FactSet CallStreet, LLC

In addition, we will refer to both GAAP and non-GAAP financial measures. For information regarding our non-GAAP financial measures and reconciliations to the most directly comparable GAAP measures, please refer to today's presentation.

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

Mauricio Gutierrez

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

Thank you, Kevin. Good morning, everyone, and thank you for your interest in NRG. I'm joined this morning by Bruce Chung, Chief Financial Officer. Also on the call and available for questions are other members of our management team, including the heads of Home, Smart Home business and Policy. Just over a month ago, we held our Investor Day where we provided an update on our long-term consumer strategy. We outlined the strength of our core Energy business, how the acquisition of Vivint further enhances our energy platform and position us to capitalize on the convergence of electricity and the smart technologies in the home. Today, I am going to focus on the results for the second quarter, starting on slide 4 with our three key messages.

First, our business delivered strong quarterly results and we are now trending towards the end – the high end of our 2023 EBITDA guidance range. Next, the Vivint Smart Home integration is well underway and we are realizing early wins in our combined sales efforts. Finally, we are executing on our consumer strategy to deliver significant value to our shareholders. Moving to the second quarter results on slide 5. We delivered top decile safety performance and $819 million of adjusted EBITDA, a 112% increase from the same period last year, driven by excellent performance on our core Energy business and the addition of Vivint Smart Home. Bruce will provide additional details on the specific drivers, but our business benefited from strong plant operations, our enhanced supply strategy, customer growth, and favorable market conditions.

During the quarter, we began the integration of Vivint Smart Home, which has yielded solid early results. Our revenue and cost synergy programs are well underway and we are reaffirming the full plan targets. As a result of early wins in our growth initiatives, we are increasing our 2023 growth target to $60 million, doubling our previous expectation. Finally, we hosted our Investor Day in June, which included our five-year strategic plan and an update on our capital allocation framework. As a result of the sale of South Texas Project and our revised capital allocation plan, we are executing on a $2.7 billion share repurchase authorization and a $2.6 billion debt reduction plan. Through July, we were able to complete $50 million of share repurchases and $200 million of debt reduction.

As a result of the strong quarterly results and our position for the rest of the year, we are reaffirming our 2023 financial guidance with our EBITDA currently trading at the higher end of the range. Now, turning to slide 6 for an update on our Energy business. ERCOT has experienced record peak demand this summer, demonstrating robust load growth in our core Texas region on a weather-normalized basis. The electric grid has been stable through these record demands. During the quarter, thermal and wind generation performed close to expected levels, which kept power prices relatively muted. As I mentioned during Investor Day, we implemented changes to our supply strategy that have worked well for us. We were more conservative on our plant operations and took additional maintenance outages that resulted in better performance from our fleet.

We also purchased additional power above our expected load to give us more cushion against extreme weather. All of these have positioned us well this summer and for balance of the year. Parish Unit 8 is in testing mode and expected to come back to full service by the end of this month. On the regulatory front, the PUCT last week approved the much discussed rate solution, which establishes positive price floors at various levels of operating reserves. This eliminates negative pricing during many hours and should help existing dispatchable units. Looking

Copyright © 2001-2023 FactSet CallStreet, LLC

forward, ERCOT and the PUCT are moving ahead with the market design changes stemming from the recent legislative session. These changes were meant to increase reliability and incentivize new dispatchable generation.

Key among these programs is PCM, the Performance Credit Mechanism, which will now go through a rulemaking process prior to being implemented. Another major program coming from the legislator was the Texas Energy Fund, a program of low interest rate loans and completion bonuses for new generation. Prior to its implementation, the Texas Energy Fund must first be approved as a ballot measure by the public in November election. On slide 7, we are introducing our new scorecard for the growth and cost initiatives. These will be updated on a quarterly basis with our progress. I have been very impressed with the level of collaboration and integration between our Energy and Smart Home teams. During the Investor Day, we discussed the makeup of our $300 million growth program, 50% coming from organic growth at historical levels, and 50% from cross-sell activities.

For the quarter, Energy and Smart Home grew at historical target levels and in line with our plan. For the cross-sell activities, we have seen some early successes. As such, we are increasing our growth target in 2023 from $30 million to $60 million. Our Energy and Smart Home call centers have begun transferring warm leads to each other and we are seeing positive customer conversion rates on qualified leads of around 6%. And with the addition of the DIY system introduced during the quarter, conversion rates are now moving closer to 10% as this system is a good entry point to upsell and create more stickiness with the customer. One of the best examples of cross-selling and leveraging capabilities across NRG is the Vivint Protection Plan. This is an equipment protection plan that leverages NRG's current capabilities. Vivint launched this program in the second quarter and we are already at 120,000 plans sold.

This is a new revenue stream with very little cost. Our focus for the remainder of the year is to continue testing different bundles and offers before we scale it up in 2024. We are very encouraged on what we're seeing across the two businesses and the opportunities that are arising inside the home. One of the commitments during our Investor Day was to provide additional disclosures on our Vivint Smart Home business. On slide 8, we have provided key performance indicators comparing quarter-over-quarter. As you can see, we have performed exceptionally well during the quarter with subscribers growing 7% and recurring service margins up 9%. Our customers are engaging more with our platform and are staying for a longer period of time. Acquisition costs are higher due to the impact of higher interest rates and more products being sold, but they were more than offset by higher revenue on new subscribers.

Overall, the profitability of the business is very strong. On the right-hand side is our Vivint Smart Home pro forma free cash flow projection through 2025. Our target is to grow customer count in line with historical performance, around 7%, while we continue to increase margin contribution and reduce overall cost of acquiring and servicing customers. We expect to more than triple the cash flow generated from the business over the next three years. It will provide NRG an earnings stream that is stable, predictable over a long period of time and, importantly, diversified from our current Energy business. Turning to slide 9, our Investor Day focused on our commitment to operating excellence, disciplined growth, and maximizing shareholder returns. I want to provide you some of the key highlights of the event. We outlined a three-part strategic plan to optimize our integrated energy model, grow Energy and Smart Home, and increase return of capital while achieving an investment grade balance sheet.

Our integrated energy model has evolved in the last seven years, providing more durable earnings. We have strengthened our supply portfolio with the right mix of assets to better serve our customer load. The recent sale of our Interest in South Texas Project is a great example of our ability to optimize our platform and maximize shareholder value through monetizing an asset whose attributes can be readily replicated and replaced in the

Copyright © 2001-2023 FactSet CallStreet, LLC

market. At the same time, we are signing renewable PPAs and evaluating dispatchable capacity development projects that better match our hedging needs. We outline our growth program for Energy and Smart Home, capitalizing on the convergence of electricity and smart technologies inside the home. We are going to use Vivint Smart Home technology platform to connect all of our products and services into a seamless experience for our customers. These will result in higher customer lifetime value.

Finally, we announced an update to our capital allocation framework with 80% of capital available for allocation now returned to shareholders. With the acquisition of Vivint complete, we have line of sight to the investment needs of the company going forward, with growth investments using only 20% of capital available for allocation. Consistent with this change, we increased our share repurchase authorization to $2.7 billion to be completed through 2025. We also accelerated the achievement of our investment-grade credit metrics targets to 2025.

I will pass it over to Bruce for the financial review.

Bruce Chung

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

Thank you, Mauricio. NRG builds on a solid first quarter with strong results in the second quarter that materially exceeded performance from last year. The company generated consolidated adjusted EBITDA of $819 million in the quarter, which is $433 million higher than the second quarter of 2022. As you can see in the chart at the bottom of the page, legacy NRG results once again included the impact of asset sales and retirements in the second quarter of 2022, totaling $30 million. The quarter also reflected $60 million of benefit compared to Q2 2022 from the reversal of transitory items such as coal constraints and increased ancillary expenses. Strong performance in our core Energy business resulted in $186 million of uplift from the prior year. That uplift was driven by lower supply costs and improved plant performance relative to 2022. Finally, the remaining year-over-year increase to consolidated results is attributable to Vivint EBITDA of $217 million, which was not included in our 2022 results.

Looking at our segments and starting with Texas, adjusted EBITDA increased by $241 million versus the prior year on the back of higher gross margin of $273 million. As outlined earlier, meaningful unit margin expansion from lower supply costs coupled with improved plant performance were the primary drivers for the increase in gross margin. This increase in gross margin was partially offset by increased OpEx from the timing of plant outages and higher insurance premiums. In the East/West segment, adjusted EBITDA declined $25 million versus last year, driven primarily by asset sales and retirements. Similar to Texas, gross margin increased year-over-year and lower power supply costs more than offset the negative impact of volume declines due to mild weather.

In Q2, Vivint continued to deliver strong financial results, contributing $217 million in adjusted EBITDA. Revenue grew 12% year-over-year, driven by favorable retention and higher recurring monthly revenue per subscriber, which combined with reductions in monthly service cost per customer drove a 14% increase in adjusted EBITDA compared to Q2 2022. Lastly, with average subscriber growth of 7% year-over-year, Vivint recently achieved the key milestone, surpassing 2 million customers. NRG's free cash flow before growth for the quarter was $425 million, a year-over-year increase of $328 million, primarily driven by the increase in adjusted EBITDA. In addition to improved EBITDA, falling gas prices have reduced cash outflows for gas inventory that is typically built in the second quarter. Finally, building on our strong year-to-date results, we are reaffirming our adjusted EBITDA and free cash flow before growth guidance for 2023.

Now, turning to slide 12 for a brief update on our 2023 allocation, capital allocation. You will notice that the numbers shown on this slide align with the guidance we gave during our June Investor Day presentation. I would call your attention to the progress we've made so far on debt reduction and share repurchases. Through July 31,

Copyright © 2001-2023 FactSet CallStreet, LLC

we have paid down $200 million of debt and remain on track to complete our target of $1.4 billion in debt reduction for 2023. Additionally, we executed $50 million of share repurchase purchases in July as part of our $2.7 billion share repurchase authorization through 2025. Quickly turning to slide 13, our credit profile has not changed meaningfully since our last earnings call. As a result, this slide has not substantially changed since our last update, except for an update to the adjustments to capture the non-cash fulfillment amortization costs that are included in adjusted EBITDA as a result of the EBITDA harmonization we did last quarter.

We remain on track to achieve our 2023 targeted leverage ratio and we reiterate our commitment to achieving investment-grade credit metrics by the end of 2025. Before turning it back to Mauricio, I wanted to be sure to augment his earlier comments regarding our commitment to enhanced disclosure, especially with respect to Vivint. As part of that commitment, you will see in the appendix of the presentation some new disclosure providing key metrics related to Vivint. We will continue to provide these key metrics on a quarterly basis, and we look forward to working with you to help you understand how these metrics drive the financial results of the business.

With that, I'll turn it back to you, Mauricio.

Mauricio Gutierrez

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

Thank you, Bruce. Turning to slide 15, I want to provide a few closing thoughts on our 2023 priorities scorecard. As you can see, our team has remained focused on execution as evidenced by our strong results for the quarter. Our core Energy business is well-positioned for the summer. The integration of Vivint is off to a good start and we're working towards closing the sale of STP by the end of the year. We will remain focused on executing our strategic plan that creates significant shareholder value. I look forward to updating you on our progress. So with that, I want to thank you for your time and interest in NRG. Jada, we're now ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will conduct the question-and-answer session. [Operator Instructions] Your first question comes from Julien Dumoulin-Smith of BofA. Please go ahead.

Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Q

Hey, good morning, team. Thank you very much for the time. Appreciate it as always. Maybe just first off, just thank you for all the details on Vivint. Can you talk a little bit about your 6% conversion rate [indiscernible] (00:19:28)? Just how does that compare versus expectations and just perhaps provide a little bit of context.

Mauricio Gutierrez

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

A

Sure. Good morning, Julien. So in conversion rates...

Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Q

... [ph] additional like KPIs (00:19:39).

Copyright © 2001-2023 FactSet CallStreet, LLC

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

A

Right. So, Julien, in terms of the conversion rates, this is what we've been able to achieve on qualified leads so far. This is higher than what we expected. If you recall, our cross-sell target was around a 3% penetration, so this is above that. Obviously this is early, but we're very encouraged by the success that we've had so far. This is Smart Home customers buying Energy and Energy buying Smart Home. With the addition of the DIY system that Vivint introduced, we're actually seeing an increase of those conversion rates because it allows us to have an entry point, a cheaper entry point that we can use to upsell and create more stickiness with the customer. So we're very, very encouraged by what we're seeing so far. At the same time, some of the secondary products like the Protection Plan from Vivint had tremendous success.

And that's why when you combine all these with our organic growth, I felt compelled to increase our targets for 2023. So we are seeing results faster than what we expected initially; very, very encouraging.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Excellent. Thank you so much again, really appreciate it. Sorry about the phone. And then related, can you talk a little bit about your commitment to building new generation in Texas? I mean, obviously, you want to see a corresponding support from the state here. Just where do we stand on that investment, follow through as well as just the ROFR or any potential commentary around the petition from your co-owners on STP?

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

A

So let me start with the development projects. As you know, we have three development projects that are in late stages of development. I mean, one of them is shovel-ready. We have positioned ourselves to capitalize on the market design changes that our companies has put forward, both in PCM and the new loan program. As I mentioned, we need more clarity on both of these fronts before we can actually move forward with these projects, but I am very pleased with how the team has positioned these projects and they're ready. This is exactly the type of generation, exactly the right attributes that we need to manage our load. This is [indiscernible] (00:22:17) competing capacity, so load-following type of attributes and I'm just very pleased that the team has put us in this position to be able to make that decision.

I think your second question was around the claims of our partners at STP. Let me be very clear; we believe that the claims are without merit and we expect to close the sale of our interest in STP by the end of the year.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Got it. And just to clarify, it says you're not committed yet on making the repowering investments here?

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

A

No, not yet.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

All right. Fair enough. I will leave it there. Thank you, guys.

Copyright © 2001-2023 FactSet CallStreet, LLC

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

Thank you, Julien.

Operator: Thank you. One moment for our next question. Our next question comes from Shar Pourreza of Guggenheim Partners. Please go ahead.

Shahriar Pourreza
Analyst, Guggenheim Partners
Q

Hey, guys. Good morning.

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

Good morning, Shar.

Shahriar Pourreza
Analyst, Guggenheim Partners
Q

Good morning, Mauricio. Just one on STP, just a quick follow-up on Julien's question. If, for instance, if there is a delay and we have to book-end this, right? I mean, obviously, there's a level of confidence; we heard the prepared remarks. Could a delay impact anything on the capital allocation side as we're thinking about it, so even on the buyback side, assuming there could be a delay?

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

Well, I mean, I'm not going to speculate on that. Like I said, the claims are without merit. Our plan is to close by the end of the year. And as we have done in the past, we will deploy capital when we have it, right? So, right now, our focus is on the share buyback and the debt reduction program that we have for 2023. As you saw, since we over-performed during the second quarter, we were able to allocate $50 million to share buybacks. If that over-performance continues, we will continue to allocating capital to share buybacks until we close the sale of STP, which is really an event that will increase substantially the capital that we have available to be deployed.

Shahriar Pourreza
Analyst, Guggenheim Partners
Q

Got it. Okay. Perfect. And then, Mauricio, you guys obviously booked some significant margin expansion this quarter. Could we just dig a little bit further into the $186 million you're calling out, maybe just both geographically, Texas versus East and/or by function? So does that also include near-term portfolio optimization like training or is it really true longer-term margin expansion? So put it all together, how durable is that?

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

Yeah. Let me start and then I'll pass it over to Bruce for the specifics. I think the team did just a fantastic job in managing margin, both in terms of revenue optimization and also the enhanced supply – diversified supply strategy that we have in our commercial team allowed us to realize lower supply costs. So really, really good management all around and our plants perform as expected, which I think does what we expect going forward. But Bruce, any other additional details?

Copyright © 2001-2023 FactSet CallStreet, LLC

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

A

Yeah, sure. So when you think about the $186 million, the preponderance of that really came out of Texas, not surprisingly, as you think about year-over-year with the improved plant performance, that's going to translate into a much better setup for us to be able to service our supply obligations appropriately. Just to give you a little bit of context, as you look at the power price landscape year-over-year between the two quarters, you'll see that around the clock prices in ERCOT were about 50% lower, which really helped us optimize how we service our load. And then to your point about the question on durability, look, the reality is, as long as our plants perform, our margins should be durable. And so that's what we continue to intend to do and continue to plan around. So, on the East, there was some margin expansion as well on the C&I side.

We have seen C&I customers sign up contracts at better margins for us alongside the optimization activities that Mauricio had referred to. So, overall, preponderance of it came from Texas, but some amount in the East as well.

Shahriar Pourreza
Analyst, Guggenheim Partners

Q

Perfect. Fantastic result, guys. Appreciate it. Have a good morning.

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

A

Thank you, Shar.

Operator: Thank you. One moment please. Our next question comes from Angie Storozynski of Seaport. Please go ahead.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Thank you. Good morning. So you guys maintained the guidance range, but is it fair to assume that you are tracking above the midpoint both from the EBITDA and free cash flow perspective?

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

A

Yes. Good morning, Angie. So, yes, we're reaffirming our guidance ranges at this point. I have indicated that we're trending towards the high end of the guidance. Obviously, the third quarter is a very important quarter. We are well positioned for it. Our plants are performing well. Our supply strategy is working well for us. But we'll have an opportunity to update you on our results in the third quarter call. So far, I am very pleased with how the business has performed across all business segments, generation, retail, our Smart Home and – but third quarter, the summer is very important as you'll appreciate given the extreme weather that we have seen. But so far, the business is performing very well.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Okay. Moving on to the margin expansion on the retail side, and I appreciate that most of it comes from Texas, but we've heard from some other retailers comments about the particular margin expansion for full requirement contracts. Remind us, please, if you actually have any of those, probably more in the East? But again, just I don't even recall.

Copyright © 2001-2023 FactSet CallStreet, LLC

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

A

I mean, we have – remember, the full requirement is really C&I. We serve C&I customers across Texas and the East. I think Bruce already mentioned that what we are seeing is higher margins because there is greater volatility in the market, right, both in Texas and in the East. So, greater volatility means higher load following premiums, which means higher margins on the customers. This is a trend that we are also seeing in our business. And, again, the changes that we made to our [ph] diversified supply (00:30:00) strategy are working really well, both for C&I but also for residential customers.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Okay. And then on Vivint, why is there such a meaningful increase in the acquisition costs for customers?

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

A

Yes. So, I mean, the increase is twofold. Number one, you have higher interest rates; and then number two, the customers are buying more products and that's a really good thing. Now, what you also should be able to see on the KPIs that we're providing you, our revenues are also higher. And by the way, much higher than that increase. So, net-net, it's an increase on profitability, but, Rasesh, perhaps you want to just provide a little bit more color?

Rasesh Patel
President-Vivint Smart Home, NRG Energy, Inc.

A

Yeah. Thank you, Mauricio. You said it well, what we're seeing is customers more engaged in buying more services in the home. I think you can see through the KPIs that the monthly recurring service margin per customer is up 9% and that's 9% across the entire customer base. When we look at our customer acquisition cohort, it's up more substantively than that. And so, you can think of this as the increased acquisition cost will drive over $250 of incremental revenue over the life of the customer. And so we feel very good about the engagement level and the margin expansion in the base.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Great. Thank you.

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

A

Thank you, Angie.

Operator: Thank you. One moment for our next question. Your next question comes from Durgesh Chopra of Evercore ISI. Please go ahead.

Durgesh Chopra
Analyst, Evercore ISI

Q

Hey, team. Good morning. Thanks for taking my questions.

Copyright © 2001-2023 FactSet CallStreet, LLC

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

Hey. Good morning, Durgesh.

Durgesh Chopra
Analyst, Evercore ISI
Q

Hey. Good morning, Mauricio. You've answered all the other questions I had. Just maybe real quick. Obviously, you're very confident in 2023 here, so Parish Unit 8, probably you don't see that as a meaningful impact. But the in-service is getting pushed, I think the last target was end of July; we moved it slightly to this month. Just can you talk about what's going on there?

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

Yeah. So, I mean, [ph] we synced-off (00:32:33) the unit in middle of July. We are working right now through additional testing. And as you can appreciate, this was basically a rebuild of entire generator, but I'm confident that we're going to come back at the end of August. In terms of planning, you're correct; we actually took all the necessary steps to manage our load in the market at really good economics. So I feel that even if Parish comes back at the end of the month, it's not going to have an impact on the guidance that we provided you today.

Durgesh Chopra
Analyst, Evercore ISI
Q

Okay. That's all I had. I appreciate the color. Thank you, Mauricio.

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

Thank you, Durgesh.

Operator: One moment for our next question please. Your next question comes from David Arcaro of Morgan Stanley. Please go ahead.

David Arcaro
Analyst, Morgan Stanley & Co. LLC
Q

Hey, good morning. Thanks for taking my questions.

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

Good morning, David.

David Arcaro
Analyst, Morgan Stanley & Co. LLC
Q

On the Smart Home business, I was wondering if you could speak to what the free cash flow before growth was for the quarter there or any color on the free cash flow conversion you're seeing from EBITDA. Wondering how you're trending versus the full year $140 million pro forma target there.

Copyright © 2001-2023 FactSet CallStreet, LLC

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

A

Sure. Bruce?

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

A

Yeah. David, so as you know, we don't report free cash flow before growth for any individual segment of the company. But based on what we are seeing given the outperformance on the EBITDA side, we would expect to achieve the free cash flow before growth guidance that we had provided in our first quarter earnings call.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. Thanks for that. And then on the retail energy side of the business, wondering if you could give an update on how customer retention and overall customer additions were trending in the quarter. And curious if you've seen any new entrants start to pop up, particularly in ERCOT, and any kind of change in the competitive landscape there recently.

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

A

Sure. I'll pass it over to Elizabeth, but I will say that our KPIs on our retail energy business are pretty much in line with our expectation, including customer growth. But Elizabeth, can you provide more details?

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

A

Sure. Thanks, David. We actually saw really strong customer retention rates, consistent with last year's performance, consistent with what we expected in the budget. And for customer acquisition, we have a little bit of over-performance for the quarter and we're really building that momentum to achieve that low single-digit customer growth between year-end 2022 and 2023. As far as competitive landscape, we see a normal, healthy competitive market in Texas. It's pretty consistent that every year we'll see a new player add billboards in the market or start doing something different, but there isn't anything materially different. We do see competitors like Shell and others that are larger competitors which we appreciate because overall, that strengthens the market. But our performance is strong and our leading digital experience and leading customer acquisition and retention help us win in the marketplace.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks. Really appreciate it.

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

A

Thank you.

Operator: One moment for our last question. Our final question comes from Ryan Levine of Citi. Please go ahead.

Copyright © 2001-2023 FactSet CallStreet, LLC

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

Good morning.

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

A

Good morning, Ryan.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

Good morning. What drove the monthly recurring net service cost versus per subscriber reduction by 22%? And was that largely in line with what you were anticipating or is there any outsized movement this quarter?

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

A

Yeah, Ryan. So the primary drivers of that reduction, about 50% of that really is a function of fewer truck rolls and reduced supply chain constraints. We probably realized about 25% fewer truck rolls than we had in the past. The other 50% – or the other 50% of the favorability really results from the ending of our payments to Alarm.com which had started towards the second half of last year.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

Is the Q2 2023 number more likely to continue on a go-forward basis? Are there any trends that we should look for as we look into forecast time periods?

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

A

Yes. So, Rasesh, why don't you take that one?

Rasesh Patel
President-Vivint Smart Home, NRG Energy, Inc.

A

Yeah, you bet. We feel very good about where net service cost per subscriber is and we would expect the current rate at which we are to continue. The favorability we've seen is durable. And it's a perfect thing when you see customers buying more products and you see higher penetration of your service, while simultaneously, you see the cost to serve going down and that's exactly what's driving the margin expansion. And so we feel really good about the trends and we think that is sustainable.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

So, if I'm hearing you correctly, you continue to see fewer truck rolls and decreasing number of truck rolls on a go-forward basis as a driver, or am I misinterpreting that?

Rasesh Patel
President-Vivint Smart Home, NRG Energy, Inc.

A

Copyright © 2001-2023 FactSet CallStreet, LLC

That's right. So we look at this on a per customer basis and we would expect to see this lower that we have achieved for both contact rate calls as well as truck rolls to continue. We've recently started a virtual technician pilot, which really allows us to serve the customers' needs without ever rolling a truck. And we're seeing very promising results from that. And so, this is sort of a new benchmark for the business.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

Thanks for the clarity.

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

A

Thank you, Ryan.

Operator: Thank you. I would now like to turn the call back to Mauricio Gutierrez, President and CEO, for closing remarks.

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

Thank you, Jada, and thank you, everyone, for your interest and your time today. And I look forward to speaking with all of you in the days and weeks to come. Thank you.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.