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NRG Energy, Inc. (NRG)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the NRG Business Update Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

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

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

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

As this is a business update for NRG Energy, any statement made on this call that may pertain to NRG Yield will be provided from NRG's perspective. Please note that today's discussion may contain forward-looking statements which are based on assumptions that we believe to be reasonable as of this date. Actual results may differ materially. We urge everyone to review the Safe Harbor in today's presentation, as well as the risk factors in our SEC filings. We undertake no obligation to update these statements as a result of future events except as required by law.

In addition, we 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 press release.

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

Mauricio Gutierrez

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

Thank you, Kevin, and good morning, everyone. Joining me today is Kirk Andrews, our Chief Financial Officer, who will provide the financial portion of our presentation and be available for questions. Today marks an important step in NRG's transformation. Following the conclusion of a comprehensive business review process, we are announcing a plan that will significantly simplify our business and strengthen our position as the leading competitive power company. This plan is like no other strategic announcement our company has made in the past. This is because of the process we put in place.

This year, through the Business Review Committee, we had a unique opportunity to perform a comprehensive, rigorous evaluation of our business. This review was robust in both its scope and perspective. It spanned across all business units and included the input of the board and NRG management who were both focused on determining the right path forward for our business. This process, which I will detail further in my presentation, became a catalyst for change, deepening our collective perspective on the business and generating a compelling plan for transformation.

The transformation of our business is necessary, not because of today's challenging market conditions but because we need to strengthen our business for any market condition. This plan reinforces our commitment to running a flexible business that can and will adapt in order to drive value. Through this process, we determine that the best path to value requires refocusing on our integrated platform, rationalizing assets, reducing cost, and deleveraging while remain in position for opportunistic growth over the long term.

But before I get into the plan details, I want to take a moment to recognize all the hard work that has gone into today's announcement. This plan is the culmination of many months of relentless work by the board of directors, NRG management, and independent advisers to the committee. I want to give special recognition to my colleagues from the Business Review Committee for their time and dedication to this process. Their efforts have enabled us to provide you an update well ahead of our August 15 outside date. I am excited to share with you the steps that we're taking to make our business stronger and to create even greater value for all of our stakeholders today and, importantly, well into the future.

So, with that, let's turn to slide 3 for additional insight into our process. Our plan is the result of a four-month intensive review that has been a top priority for management and our board. As you recall, the Business Review Committee or BRC was formed in February as an ad hoc committee to the NRG Board of Directors. This committee was tasked with reviewing the entire business and recommending a plan of action to the full NRG Board in three key focus areas: operations and cost excellence; portfolio optimization; and capital structure and allocation.

The BRC process provided us the opportunity to start with a blank slate and take a fresh look at our business. We engage the board, management, and independent advisers and consultants to review every aspect of our business from how we are organized to how we operate. Collectively, we review thousands of financial and operational data points and we're able to identify 75 distinct savings and performance programs. And we maintain the philosophy that no business or asset was off limits during our evaluation.

The result of this process is a plan that will transform our business. And this plan was unanimously recommended by the BRC and fully supported and approved by the NRG Board of Directors. Importantly, the impacts of these plans are front-loaded and I can say that, today, many of our target objectives are already being implemented. I have the utmost confidence in the process we put in place. Our plan is comprehensive, well supported, and it provides a much clearer path to value for our investors.

Now, turning to our plan on slide 4. At its core, this multi-year transformation plan simplifies our business and better aligns our structure to the market environment. The three pillars of our plan follows the BRC three areas of focus. First, we are committed to reducing cost and improving operations with $855 million in recurring free cash flow accretive cost and margin enhancements. Second, we will be streamlining our portfolio with $2.5 billion to $4 billion in net asset sale proceeds including 6 gigawatts from our conventional asset and businesses and up to 100% monetization of our interest in NRG Yield and our renewables platform. And third, we're further simplifying and strengthening the balance sheet by removing close to $13 billion in total debt and reducing our target leverage ratio to 3 times.

All of these targets will be met with strong governance to ensure the plan's success which I will detail later in the presentation. I want to reiterate this is the right plan for NRG and the right approach for our evolving industry. Following full execution of our plan, NRG will have the leading integrated platform, low-cost structure, and best-in-class balance sheet needed not only to sustain, but thrive in today's highly dynamic competitive power sector.

Now, moving to slide 5, we have the before and after financial impacts of our plan which are significant. These pro forma results include the impact of our cost and margin enhancements, asset sales and deconsolidations, as well as our GenOn divestment. We will increase free cash flow by over 50% from current levels, remove close to 70% or $12 billion in net debt, and reduce total cost by 50% including cost from asset sales and deconsolidations. So, let me say this again, 50% more cash with 70% less debt and 50% less costs. Additionally, we will generate up to $6 billion in cumulative cash available for allocation, and this is after achieving our 3 times target leverage ratio.

Just to put this in perspective, total excess cash generated through 2020 is over 1.2 times our current market cap. This plan is undoubtedly transformational and it reinforces our objective that we manage this business for cash. And the more financial flexibility we have, the more value we can create for our shareholders.

I recognize that this plan is ambitious, but as we have laid it out on slide 6, it is also highly achievable. We have the right targets, the right oversight structure and the right team to execute on this plan. First, we have clear line of sight to over 80% of our $1 billion of cost and margin enhancement targets. We have identified over 75 specific value levers throughout our platform that will enable us to achieve our targets. Our plan places continued focus on safe and reliable operations by looking for efficiencies primarily in corporate and overhead cost and not plant-level costs. Additionally, we're targeting an enhanced competitive position from a cost perspective.

Next, we have put in place the support system and internal structure needed to ensure the successful implementation of our plan. Going forward, the BRC will be dissolved and the NRG Board will assume responsibility for tracking our plan's progress. We're forming a dedicated internal team to oversee our progress and provide monthly updates to the Finance and Risk Management Committee of the Board. In addition, we will provide quarterly updates on our progress to the market. And finally, we have a management team with a strong history of execution that is fully aligned and committed to achieving our plan.

So, now, let's move to the first pillar of our plan, operations and cost excellence, starting on slide 7. Today, we're taking a significant step towards increasing our efficiency and strengthening our margins. Our plan includes cost and margin enhancements of $855 million and a reduction of approximately $200 million of SG&A from asset sales and divestitures. Importantly, this plan focuses on quick transformation with a vast majority of savings realized by year-end 2018. The results of our cost and margin optimization efforts will leave our business significantly strengthened on both an absolute and relative basis.

So, starting with the absolute improvements on slide 8. We evaluated every function and every business unit within our organization to determine where we could streamline our business and consolidate activities to become more efficient. Our review identified $590 million in total cost efficiencies with a significant portion coming from reductions in SG&A, particularly from our corporate segment. Beyond this, we found opportunities to become more efficient through levers such as streamlining our back office and support functions and increase outsourcing.

We have also identified $50 million of CapEx reductions through efforts such as optimizing our maintenance CapEx scheduling and procurement. Our identified value levers for cost and CapEx initiatives result in a clear path to $640 million in savings. In addition, we look beyond pure cost savings to opportunities to enhance our EBITDA margins, most notably in our retail business. Not only has our retail business been a steady source of cash flow each quarter and an increasingly critical part of the NRG platform, it has grown to become one of the leading retail franchises in the country. Our brands are healthy, our sale channels are growing and, most importantly, our platform is scalable.

The growth of this business has been fueled by periods of strong investment and that is exactly what we plan to do today. Our plan materially increases our investment in the retail business and enhances our scalable platform, specifically through technologies and capabilities that would further optimize our ability to target new customers and grow our business. This means everything from expanding existing product lines and sales channels to capturing additional synergies from our integrated platform. Through our blank slate evaluation of our business, we found that these advanced analytics and IT infrastructure along with a stronger alignment of the integration between retail and generation, we could drive at least $250 million of EBITDA expansion. I am confident in our ability to further enhance our retail leadership position.

Now, turning to slide 9, we are committed to executing our objectives in the shortest timeframe possible and have front-loaded the impacts of our plan. By the end of 2018, we will have realized 65% of our $855 million of improvements and over 90% by the end of 2019.

Beyond our recurring cost and margin enhancements, we have identified $370 million in onetime working capital improvements which will be fully realized by the end of 2019. These improvements include levers such as optimizing payments, collection terms, and enhanced inventory management. This onetime improvement more than offsets our cost to achieve of $290 million which represents only less than one-third of our total improvement plan.

On the right side of the page, we have the relative impacts of our plan. In addition to strengthening our absolute cost structure, the steps we're taking including the impacts of asset sales significantly enhances our competitive position. After our full plan is achieved, NRG will reduce its generation cost by 25%, making us the lowest cost competitive power generator on a dollar per KW basis.

Now, turning to the second pillar of our plan on slide 10. We summarized our portfolio optimization actions which include $2.5 billion to $4 billion in asset sales, net cash proceeds across our entire portfolio. Starting in our conventional fleet, we now have a clear path to divest 15 gigawatts of the GenOn portfolio through a process that was consistent with the three principles I laid out to you at the outset.

We currently expect the bankruptcy to run its course over the balance of 2017, enabling GenOn's transition away from NRG. We have also identified another 6 gigawatts of asset sales as part of our portfolio analysis. I can't comment on a specific asset for sale at this time, but what I can tell you is that we are in advanced stages of this process and these sales align with our strategy to better balance our generation and retail businesses.

Moving to renewables. Today, we're announcing that we have also launched a process to monetize 50% to 100% of our interest in NRG Yield and our renewables platform. Over the past several years in partnership with NRG Yield, we have been able to capitalize on opportunities in this fast-growing market by competitively developing and acquiring renewables and other contracted assets. Together, we have built one of the leading renewable platforms in the country. These are businesses with proven expertise and execution and our plan focuses on maximizing NRG's value in NRG Yield and the renewables platform.

Beyond optimizing value, our plan focuses on deconsolidating NRG Yield which will significantly reduce the complexity associated with the required consolidation of the higher leverage renewables business. This will simplify the business while maintaining our ability to provide comprehensive energy solutions to our retail customers. Throughout this process, we will remain a strong sponsor to NRG Yield and continue to meet the expectations of our key stakeholders in our renewables business. And it goes without saying, we are committed to pursuing the option that best meets our objectives and is able to create the most value for all stakeholders.

Although my details on our asset sales are necessarily limited today, these processes are well underway and I can share the significant associated debt and cost reductions we anticipate after executing on these plans, which we have outlined on slide 11.

Divesting and deconsolidating these assets in addition to GenOn will result in the removal of over $11 billion of debt from the NRG balance sheet, representing a 60% reduction. We also anticipate associated cost reductions of $1.4 billion from the NRG total cost structure, including $210 million of SG&A related to these assets. Reducing our headline debt and streamlining our cost greatly simplifies both the internal structure and the external perception of NRG, making our business easier to understand and model.

This has been my commitment to you and I am pleased with the progress this plan will bring. As you're thinking through the impacts of our asset sales and divestments, it is important to know the tax-efficient nature of our transactions. The proceeds from our plan will be tax-efficient. Given NRG's $10 billion NOL balance, which includes the GenOn worthless stock deduction, we have the expectation to be tax-efficient through the middle of the next decade.

The last pillar of our transformation plan focuses on our capital structure and capital allocation which we have summarized on slide 12. To ensure we're properly positioned through all market cycles, we are lowering our target corporate credit ratio to 3 times net corporate debt to corporate EBITDA. We believe this lower target leverage ratio will strengthen our position in our highly cyclical commodity-driven industry and position us to sustain over the longer term. We would expect to be at 3 times by the end of 2018.

But apart from our plans to strengthen our capital structure, our plan also provides more specificity on our approach to capital allocation going forward. There will absolutely be no head scratchers when it comes to capital allocation at NRG. As is always our foremost focus, we will allocate capital in a way that maintains the highest level of safety performance possible and allows us to continue our operational excellence. After meeting these requirements, our capital allocation will focus on achieving our 3 times leverage ratio. Once we have achieved these two priorities, we will look to invest in projects with proven technologies, quick paybacks, and target unlevered pre-tax return of at least 12% to 15%. If we do not have a compelling investment opportunity, we will focus on returning capital to our shareholders.

So, with that, I will turn it over to Kirk to review the financial impacts of our plan.

Kirkland B. Andrews

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

Thank you, Mauricio, and good morning, everyone. Slide 14 provides a summary of the key financial metrics that Mauricio highlighted earlier and I'll be providing more details behind these numbers on the slides which follow in my section of the presentation. With that, turning to slide 15, I'd like to provide a pro forma view of our key financial metrics and cost detail after giving a full effect to both the elimination of GenOn and the transformation plan we're announcing today.

Starting with the midpoint of our 2017 guidance as the base and moving from left to right. We first eliminate entirely the financial impact of GenOn. Of note, although GenOn, on a stand-alone basis, was expected to generate approximately $130 million of EBITDA, this is inclusive of the annual shared service expense to GenOn which is eliminated in our consolidated results. And consequently, we must add back the $190 million shared service expense contained in GenOn's standalone EBITDA. And thus, GenOn's contribution to our latest consolidated EBITDA guidance was $320 million.

Moving to the impact of the asset sale portion of the transformation plan, assuming a 100% sale of NRG Yield and renewables and the sale of the balance of conventional assets earmarked for divestment, these assets represent approximately $1.4 billion of EBITDA and $745 million of consolidated free cash flow. The sale of these assets will also result in the elimination of approximately $8.7 billion of non-recourse debt from our consolidated balance sheet.

Next, we add the full impact of the cost reduction and margin enhancement elements of our transformation plan which, on a full run rate basis, contribute $805 million in EBITDA and $855 million in free cash flow after including $50 million in reduced maintenance capital expenditures.

Finally, we include the impact of interest savings and debt reduction, which includes $600 million of debt reduction as a part of our previously announced 2017 capital allocation plan, $640 million of additional debt to be repaid to achieve our new target 3 times net debt-to-EBITDA ratio, and $125 million of corporate revolver repaid as a result of the GenOn restructuring. The balance of debt reduced consist of expected debt amortization from 2018 to 2020.

The resulting financials in the final column represent a pro-forma view of 2020 using midpoint 2017 guidance as a base and the full effect of the transformation plan which results in over $1.8 billion in EBITDA and approximately $1.2 billion in free cash flow before growth, a greater than 50% increase versus 2017 guidance.

The transformation plan also meaningfully improves free cash flow efficiency as $2 out of every $3 of EBITDA translate into cash flow on a pro forma basis as compared to less than $0.30 on a $1 in 2017. Please note that the simplification benefits of the plan also mean that we would no longer have to draw a distinction between consolidated free cash flow and cash flow to NRG due to the elimination of both subsidiary level debt and cash traps as a result of divestitures. Importantly, these pro forma financials are prior to giving any effect of over $6.3 billion in excess capital for our allocation in 2020, which I will review in greater detail on the next slide.

Turning then to slide 16, as Mauricio described earlier, after achieving our new target 3 times net debt-to-EBITDA ratio, we expect the transformation plan to result in up to $6.3 billion in excess cash or capital available for allocation by 2020, with over 60% of this excess cash or approximately $4 billion expected in 2018. This excess cash combined with the enhanced balance sheet strength provides significant financial flexibility for opportunistic reinvestment and compelling returns and return of capital to our shareholders.

The sources of this cash as shown in the table at the bottom of the slide include 2017 base free cash flow from retained businesses, the expected cash accretion by year from the transformation plan, interest savings associated with debt reduction, and the substantial asset sale proceeds, all of which we expect to receive in 2018. The uses of this capital include ongoing debt amortization, the required debt reduction in order to achieve our target ratio, ongoing dividends at the current rate, future funding of the GenOn pension plan as part of the settlement and, finally, committed growth investments which largely consists of our Carlsbad contracted gas plant in California.

Turning next to slide 17 and beginning with our previous guidance on 2017 corporate credit metrics, moving again from left to right, we provide here a detailed pro forma view of our balance sheet and credit ratio. First, giving effect to the GenOn settlement, we eliminate $125 million of corporate debt due to the repayment of our corporate revolver which was temporarily drawn to support a corresponding draw under the GenOn intercompany credit facility. As a part of the settlement, the intercompany revolver is to be repaid in full and canceled upon GenOn's emergence from bankruptcy. GenOn's contribution to EBITDA, as I described earlier, is also eliminated.

Next, we give effect to the impact of asset sales including $640 million of deleveraging largely resulting from the elimination of EBITDA associated with those assets in order to achieve our target net-debt-to-EBITDA ratio of 3 times. We also eliminate the contribution to both consolidated EBITDA and corporate EBITDA associated with the assets targeted for divestiture. Finally, the full run rate impact of the transformation plan adds $805 million of EBITDA to our ratio denominator which is just under $2 billion in corporate EBITDA on a pro forma basis.

Our pro forma debt balance, as shown in the final column is approximately $6.5 billion. And due to the elimination of non-recourse debt resulting from asset sales and the GenOn restructuring, this now represents our consolidated pro forma debt balance. In other words, on a pro forma basis, there will no longer be the need to draw a distinction between corporate or recourse debt and consolidated debt. And our consolidated net debt balance will have been reduced by nearly 70% or approximately $12 billion. For purposes of net debt, we have included our target cash balance of $500 million which we maintain for collateral postings and other liquidity needs.

As a result of the elimination of the GenOn revolver as well as improved collateral efficiencies, we have now reduced this target cash balance from $700 million previously to $500 million going forward. Importantly, this target cash excludes the remaining excess cash of up to $6.3 billion which, having achieved our target ratio of 3 times, is expected to be fully available for reinvestment and return of shareholder capital.

Turning to the next section of the presentation for an update on 2017 guidance and beginning on slide 19, we are revising 2017 guidance to reflect the impact of both the GenOn restructuring, as well as the 2017 impact of the transformation plan. These are the only two changes to our previous guidance which is otherwise maintained. That said, as indicated on our first quarter earnings call, our expectations for the balance of the year still place us at the lower end of that range.

Starting with our guidance from the first quarter call and moving from left to right, we are adjusting EBITDA and free cash flow to reflect the impact of the GenOn settlement which includes two components. First, the deconsolidation of GenOn as a result of the bankruptcy filing; and second, the changes in shared service payments resulting from the settlement.

Due to the deconsolidation, GenOn's contribution to consolidated EBITDA of $320 million, as I reviewed earlier, would be eliminated. We now add back GenOn's negative free cash flow contribution of $130 million to consolidated free cash flow before growth.

Turning to the impact associated with shared services, these payments by GenOn were previously eliminated in consolidation for accounting purposes and thus did not impact consolidated results. However, as a result of deconsolidation, total 2017 shared service payments by GenOn will be accounted for as income to NRG and included in our results for the year. Shared service revenues for 2017 total approximately $120 million, which represents a combination of shared service revenues of $90 million received prior to the settlement and approximately $30 million over the balance of the year, assuming four months of revenues at the revised annualized rate of $84 million, and assuming GenOn emergence from bankruptcy in early November after which, pursuant to the settlement, NRG is obligated to provide services at no charge for up to two months.

Turning to the impact of the transformation plan, we expect $65 million in incremental EBITDA and $240 million of incremental free cash flow before growth, which includes both the EBITDA impact of cost savings, as well as $175 million of working capital improvements, representing the 2017 portion of the $370 million in total working capital improvements within the transformation plan.

Giving effect to both GenOn and the impact of the transformation plan, our revised 2017 EBITDA guidance range is $2.565 billion to $2.765 billion. Consolidated free cash flow guidance is approximately $1.3 billion to $1.5 billion, and NRG-level free cash flow before growth is now $870 million to just over $1 billion, a 20% improvement versus prior 2017 guidance.

Finally, turning to slide 20, I'll briefly update our 2017 capital allocation. As we do with each update, changes since the prior update provided on our first quarter call are highlighted in blue. These changes are primarily associated with GenOn and the transformation plan. Beginning with sources on the left of the chart, our expected capital from existing sources has now increased by $370 million versus our first quarter update due to the increase in free cash flow from the transformation plan and the reduction in our target cash balance of $200 million I mentioned earlier.

The reduction in target cash makes this amount now available for capital allocation. These increases are partially offset by the $70 million reduction in GenOn shared service revenues resulting from the settlement. This increase in available capital helps fund the GenOn settlement payments including the settlement amount, $27 million credit, and pension contribution. Allocated capital also increases by $115 million due to 2017 cost to achieve associated with the transformation plan.

This increase, however, is largely offset by the termination of our Bacliff peaker project in Texas which was previously expected to require approximately $100 million of 2017 capital.

In total, increases in capital sources more than offset increases in allocation resulting an increase in the expected year-end 2017 excess cash which, based on midpoint NRG-level free cash flow, is expected to be $129 million.

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

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

Thank you, Kirk. Turning to slide 22, I wanted to provide just a few closing thoughts as I know we have provided you with a great deal of information today. With this plan, we now have a clear path to success in our industry. Our business will be simplified and able to thrive under any market cycle. Our low-cost structure, balanced generation and retail portfolio, and significantly strengthened balance sheet will make us the leader in our space. And importantly, we will have created the financial flexibility to respond to market opportunities in the future.

We have the right team in place to execute on our objectives and our focus remains on our ability to create value today and over the longer term. With the potential for this plan to generate over $6 billion in cash available for allocation, I am very optimistic about the prospects for our company.

On a final note, I recognize that there is still elements of our plan that are better discussed once we have more clarity on our asset sales. I am committed to providing you a more robust, strategic discussion through an Analyst Day which will occur as we get further through these processes.

Thank you for your interest in NRG. And, operator, we can now open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Greg Gordon with Evercore. Your line is open.

Greg Gordon
Analyst, Evercore ISI
Q

Good morning, guys. Congratulations. Looks like a robust process resulted in a fantastic plan. A couple of questions for you.

Kirkland B. Andrews
Executive Vice President and Chief Financial Officer, NRG Energy, Inc.
A

Sure. Thank you.

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

Greg, good morning.

Greg Gordon
Analyst, Evercore ISI
Q

What are the milestones that we need to look for that will give us a sense of whether you're going to fully divest your stake in NYLD and the ROFO assets or pursue more of a sell-down strategy where you get down below 50%? How do we think about that and the timing and when we'll get some clarity?

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

Yes. No. That's a good question, Greg. Well, as I said already in my prepared remarks, we have actually launched pilot processes on asset sales including our sale of our interest in Yield from 50% to 100% and our entire renewables platform.

The process is well underway. We have engaged our advisors. My expectation is that it's going to transpire through Q3 and we will have more clarity towards the fourth quarter. But as you can appreciate, just the size of our portfolio and the company and NRG Yield, the closing, you should expect that to happen in 2018. But as I said, I mean, my expectation is that sometime in the fourth quarter, I'm going to be able to provide you a lot more visibility and a lot more details, not only around that process, but the other asset sale processes that we're now fully engaged and, in many cases, in already advanced stages.

Greg Gordon
Analyst, Evercore ISI

Q

Great. My second question just goes to – this is a very clear presentation, but I just want to be sure...

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

A

Okay.

Greg Gordon
Analyst, Evercore ISI

Q

...that if you're 100% successful with this plan, you expect $6.3 billion of cash to be available for redeployment after you achieved the 3 times net debt-to-EBITDA target which means, essentially, you'll generate more cash than you have debt by year-end 2020. I just want to make sure I'm reading that correctly. Is that right?

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

A

Yes. That is correct, Greg. You read it exactly as we wanted you to understand it.

Greg Gordon
Analyst, Evercore ISI

Q

Great. And then if you hit your target, free cash flow numbers, I mean, you're targeting a little over $1.2 billion of free cash flow before growth under the base plan. But at the target cash returns on that type of cash redeployment, you could create anywhere between $9 billion and $15 billion of incremental enterprise value at a 9% to 10% free cash flow yield. I mean, essentially, I'm looking at $6.3 billion of cash that are deployed with the returns you're targeting could create upwards of $10 billion enterprise value where you could buy back half the two-thirds of the stock of the company by 2020 depending on the share price. How do you determine what the best course of action is going to be and when do we know whether we're going to just get sort of an aggressive share buyback or whether you see those types of IRRs in the marketplace for assets that fits your profile?

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

A

No, that's – so, Greg, first of all, as we laid out this plan, that is our primary focus right now and our priority. So, I'm executing this plan and afforded that financial flexibility that you just described. First and foremost, we have to get to our target leverage ratio of 3 times. We feel that we can achieve that by the end of 2018 which – just given the front-loaded nature of this plan – we'll start seeing that excess cash pretty quickly.

As we go through that, of course, we're always going to evaluate opportunities that we have. But as I said before, I am committed to returning capital to shareholders and I am flexible on how I do that, whether it's share buybacks, whether it's one-time special dividend. It is going to depend on the environment at that point in time, not just the share price but the opportunities that we have available to us. Kirk, I mean, is there something else that you want to add?

Kirkland B. Andrews
Executive Vice President and Chief Financial Officer, NRG Energy, Inc.

A

No. I mean, I think you hit it on the right thing. I mean, one of the things – may have informed your question, Greg, which is why we highlight it just for illustrative purposes, I think it was page 12 of Mauricio's section. Assuming the full deployment of that $6.3 billion at that self-prescribed return threshold, that implies at the midpoint another $1.2 billion of free cash flow before growth. So, that effectively means that fully deploying that $6.3 billion and reinvestment of that rate doubles free cash flow before growth on a pro forma basis. So, I just want to make that clear.

I think, as Mauricio pointed out, we'd look at fact [indiscernible] (42:16) at that time as we build that cash, and as we've been practicing during the past and talked about, we have pivoted towards looking at our current stock price and the prospects of our businesses on go-forward basis as the establishment of a hurdle rate.

We know what the financial forecast of the existing base business is, we know what our market cap is. That implies a financial return. So, if we're going to consider reinvesting that capital in new projects, that not only has to meet the standards we've set for ourselves but it also has to compare favorably not only on that absolute basis but on a relative basis, and that means relative to what we see in terms of the implicit return based on our current market cap and the financial prospects of the businesses that exist today. And I think we'd apply that discipline going forward in making the determination between those two pivot points, returning the capital or reinvesting.

Greg Gordon
Analyst, Evercore ISI

Q

That's fantastic. Thank you very much. I'm sure there's a lot of other questions, I'll [indiscernible] (43:11) .

Kirkland B. Andrews
Executive Vice President and Chief Financial Officer, NRG Energy, Inc.

A

All right. Thank you, Greg.

Operator: Thank you. Our next question comes from the line of Angie Storozynski with Macquarie.

Your line is open.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

Q

Thank you. So, first, the question that Greg asked, I mean, it's kind of interesting because you're showing that net debt-to-EBITDA metric which should be capturing the cash, and I understand what you're trying to say that there's excess cash above that level. So, why not just show what you think will be the net debt-to-EBITDA multiple by 2020, inclusive of that incremental cash?

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

Yes. Kirk?

Kirkland B. Andrews
Executive Vice President and Chief Financial Officer, NRG Energy, Inc. A

Well, I mean, as Greg appropriately pointed out, the total amount of that cash if you count it on a net debt basis basically exceeds the entire amount of debt at the end of the day. So, that...

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc. Q

Okay. So, you basically have zero net debt, and then less than...

Kirkland B. Andrews
Executive Vice President and Chief Financial Officer, NRG Energy, Inc. A

Yeah. That ratio would go to zero, right?

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc. Q

Okay.

Kirkland B. Andrews
Executive Vice President and Chief Financial Officer, NRG Energy, Inc. A

That is not, obviously, what we're targeting on a go-forward basis which is why we are – implicitly, we are satisfied with that ratio just based upon our target cash balance of $500 million. And so, that implicitly assumes we are free to deploy that capital into what I've – sometimes even to this we call, the other two legs of the stool, either returning it to our shareholders or reinvesting in the business.

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

And, Angie...

Kirkland B. Andrews
Executive Vice President and Chief Financial Officer, NRG Energy, Inc. A

But you're correct, it would basically be a zero ratio if you include that cash on a net debt...

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc. Q

Okay.

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

Right. And I think that was a good point. And, Angie, I mean, what I wanted to highlight was after we meet the guidelines that we set out for ourselves in terms of capital allocation, what is the excess cash that we have to reinvest in the business or return capital to shareholders? I mean, that's what we wanted to show.

And of course, the way we have laid it out here [ph] give us (44:57) in 2017 guidance, this is the incremental impact of the plan and everybody will have to make an assessment on how 2020 is going to look like. But I think we have characterized 2017 as the trough given where we see current market curves. So, I think it is important that as you think about 2020, people also take into consideration if they're on perspective in terms of commodity prices and commodity markets.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. And not to be skeptical here but, okay, you're not going to be investing more in renewables, okay. So, what is in the power industry that can give you a 10% to 15% return on invested capital besides renewables?

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

A

Well, I mean, I think very quickly – as we go through this prolonged period of low commodity prices, you can appreciate that there will be opportunities in both the generation and the retail sectors that we can deploy that capital. What this allows us to do is have that financial strength, have financial flexibility when those opportunities arise. And that's why we are going as fast as we can on executing this plan, so we can actually have that financial flexibility as soon as possible because we believe that given the prolonged low commodity price environment, there will be opportunities in the market with those type of returns. And we want to be there and ready to deploy this capital, which you now see that is substantial and very few other participants could match. So, that is the opportunity that we want to afford ourselves.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. And my last question, I know that you cannot talk about which assets are being sold, but we haven't seen any announcements about retirements of assets. I mean, you mentioned you went through every single asset you own and we haven't, for instance, heard about retirement of plans in ERCOT. Are those still coming? Are you trying to sell some of the assets or is it just that you've concluded that there is no need to optimize your Texas generation portfolio?

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

A

Yeah. Well, let me be clear about the principles that we're using on asset sales. First and foremost, we want to do that at value. We did it in 2016. We sold $0.5 billion of asset sales and we did it where we felt that the new owner ascribe a different value for those asset that we did.

As we look forward, we want to use the same principle where we have assets that perhaps it creates more value in other people's hands, number one. Number two, we want to make sure that the assets that we sell are just – they're just not consistent with the efficiencies that we are seeking in this plan, both operational and financial efficiencies.

Now, in terms of asset retirements, Angie, and you and I had this conversation in the past, and I don't think anybody can tell that we haven't retired assets because we have retired thousands of megawatts from the market.

So, your question is specifically in Texas. I said that my objective here is to perfect the integrative platform or generation and retail. I think with the process that we have with GenOn and the 6 gigawatts of asset sales that we have, we will get closer to recalibrating our position in the northeast. But in Texas, I feel very comfortable with the balance that we have between generation and retail.

And make no mistake, if I have a plan that is uneconomic, we will retire. We announced our retirement earlier this year or last year. It went into an RMR contract. But as soon as it came out that RMR contract, we retired the asset because it was uneconomic. I do expect that in Texas, perhaps, you will see other assets that are retired.

But just keep in mind that our portfolio is a pretty low-cost baseload portfolio in Texas. We have the scale, we have the environmental CapEx already invested in those plants. And we have our retail business and a [ph] match (49:50) business that just allow us to optimize and manage better that integrated platform. But as I said, if there is a plant that we just don't feel that the prospect is the right one, we will not hesitate in shutting it down.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.
Q

Okay. Understood. Thank you.

Operator: Thank you. Our next question comes from the line of Stephen Byrd with Morgan Stanley. Your line is open.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC
Q

Hey. Congratulations on a great plan and great presentation.

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

Thank you, Stephen. Good morning.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC
Q

Good morning. So, sorry to go back to cash, but we are talking about a large amount of money, I want to make sure I understand it. So, if we could just go to slide 16. If I'm understanding this slide correctly, is this effectively the best gauge of the cash flow that should be available to shareholders while you're still achieving your debt reduction targets? That is – you show where your net debt is going. And a lot of that net debt is going to come from just assets being sold that have a lot of debt associated with them. So, I guess, is it fair to think of slide 16 as the best representation of the cash available to shareholders or is there a better way to think about that?

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

No, I mean, this is – we want to provide a timeline, year-by-year uses and sources of cash to give investors the opportunity to see how this plan will flow to the bottom line, specifically to cash. But Kirk, I mean, is there anything else that you want to add in this slide. I hope, Stephen, that this disclosure has been – and I just wanted to make sure that we didn't leave anything for interpretation, that we seen – for being a little bit more transparent and open and clear than not. But Kirk?

Kirkland B. Andrews
Executive Vice President and Chief Financial Officer, NRG Energy, Inc.
A

Sure. I mean, the only thing I'd add, Stephen, is yeah, this is probably your best representation of that cash build over time. As I noted, we used the 2017 component of free cash flow before growth as a base from what I called retained businesses, sort of that starting point.

As Mauricio has pointed out, we still see 2017 as a trough year, so that's probably a good baseline to gauge the incremental impacts of the plan here.

But as you, I think, implicitly pointed out, I mean, one of the things I noted in my remarks is, yes, we do plan on incrementally increasing or deleveraging plans beyond what's already in the 2017 calendar, largely due to the fact that we have to acknowledge that some of the EBITDA is moving or going with the assets we're selling.

But there is an offset to that, and that's the fact that denominator, as I often say, matters. And in many cases, in this case, three times more matters more. And the effect of the impact of that plan on a full run rate basis, that $805 million of EBITDA, that is a powerful and positive impact on achieving that ratio as well.

But as we move forward, the numbers, using that baseline of the retained businesses as a gauge, that's probably your best view of how that cash builds over time up to ultimately that excess cash of $6.3 billion by the end of 2020. And again, that's assuming, in this scenario, the 100% sales scenario view.

Stephen Calder Byrd — Q
Analyst, Morgan Stanley & Co. LLC

Understood, Kirk. And in that slide, there's a lot of the asset sales proceed listed there. Should we be presuming that's available for shareholders, i.e., it's not that large amount of money showing there is not required to achieve your net debt reduction targets?

Kirkland B. Andrews — A
Executive Vice President and Chief Financial Officer, NRG Energy, Inc.

Yeah. That's very important to emphasize. So, in terms of sources and that's how we showed it, as sources and uses. So, I think in 2018, we showed the entirety of the incremental deleveraging required as a use. So, that means that excess cash balance that you see at the end of 2018 are just over $4 billion is after deploying the cash necessary to get to that target. So, this is excess cash in excess of what's necessary to get to that 3 times ratio.

Stephen Calder Byrd — Q
Analyst, Morgan Stanley & Co. LLC

Beautiful. And if I could, just one separate follow-up. When I think about what your platform looks like pro forma – obviously, you're exiting GenOn – should I think of your – I'm thinking about PJM in the northeast specifically. Should I think of your platform as being able to absorb or to be part of a broader business or has this optimization resulted?

Let's say that you did desire to have greater diversity and your asset base actually grew in PJM quite a bit. Does your platform pro forma here sort of permit that or have you downside to the extent that it would be challenging to sort of scale in to a bigger presence in PJM?

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

Well, that's a good observation, Stephen. And first of all, it's not that we're exiting completely any of the Nordics markets. Our infrastructure and capabilities are going to remain. I mean, we're going to have assets in PJM, New York, New England but at a considerably reduced scale than before.

That has two impacts. One, it affords us the opportunity to rethink what is the right composition of our portfolio in the northeast. It also, in this process, recalibrates our generation and our retail platform. And I have said in the past that our generation business was multiples of our retail business in the northeast. So, with this first step, we recalibrate and we can actually think about expanding in the northeast in a more holistic way as an integrated portfolio.

So, I think it just opens the realm of possibilities for us. And as you pointed out in your previous question, the capital that we have available to deploy is front-loaded. So, we don't have to wait a whole lot of time to start thinking about how to grow our presence in the northeast.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Perfect. Thank you very much.

Operator: Thank you. Our next question comes from the line of Steve Fleishman with Wolfe Research. Your line is open.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah. Hi. Good morning. Congratulations.

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

A

Good morning, Steve.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah. So, just a couple of questions on me. On the deconsolidation of NRG Yield, do you need to sell 100% to achieve that or could you sell the 50% and still deconsolidate it?

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

A

Steve, I mean, I think that's the range that we put with that in mind. One of the principles and objective that we have is to deconsolidate it. So, the 50% will allow us to deconsolidate.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Great. And just you've talked in the past about maybe some issues at NRG Yield and monetizing it due to the control and having the voting control. Is that just not as much of an impediment to monetizing or deconsolidating?

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

A

I mean, I think that's one of the variables that we will take into consideration as we look at the different options between selling 50% or 100%. I mean, the market will – in this process, the market will tell us how they perceive this friction cost that is primarily a change of control risk. So, I think it's perhaps a little too early to tell you specifically how it's going to work because a lot of it is going to be the intel that we receive from this process. And we're going to weigh that. And our objective is to take advantage of this opportunity that we have to maximize value for our shareholders. And we believe that we can do that by enhancing the value of NRG Yield.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay.

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

A

So, that's our objective. And of course, as I said, secondary to that is deconsolidating. And we have to make sure that – I mean, we still have a very thriving retail C&I business that we need to make sure that we have access to onsite renewable energy to continue offering comprehensive solutions to our customers. So, those are the three things that will inform our decision.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

And just is there anything you can say to the NRG Yield public holders in terms of just how they should think about this process at NRG?

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

A

Yes, No. I mean, as I said, I mean, I think this is a win-win process because the largest shareholder of Yield, it is in our best interest to enhance the value of Yield through this process because that way we maximize the value through our shareholders. We're completely aligned on this. And as a matter of fact, Yield is working closely with us in this process due to that alignment.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Great.

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

A

So, I feel very confident that we have put the right framework to maximize value for all shareholders.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay. One last overall question, just the numbers as you present are very compelling. Just in terms of execution risks on this plan, the cost cuts, the margin improvements, the asset sale values, can you just talk to just how much execution risks do you see?

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

A

Yes. Well, I mean, what I will tell is that this plan – the good thing of this plan is the vast majority is in our control. Specifically, the cost reductions, margin enhancements will actually be a tremendous amount of work throughout the business review process to have clear line of sight on the vast majority of what we're announcing today. And we have over 80% of these dollars completely identified with very specific work plans and work processes to it.

So, I feel very comfortable that our destiny is in our hands and the success and execution of this plan is in our hands. Obviously, in the sales processes, it's going to depend on the market appetite for these assets.

What I will tell you is that we have initiated all of those processes in parallel. We're running as fast as we can because we want to make sure that we have that financial flexibility that I've been describing. And so far, it's encouraging what I am seeing. That's as far as I can tell you in terms of those sales processes.

Steve Fleishman Q
Analyst, Wolfe Research LLC

Thank you.

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

Thank you, Steve.

Operator: Thank you. Our next question comes from the line of Abe Azar with Deutsche Bank. Your line is open.

Abe C. Azar Q
Analyst, Deutsche Bank Securities, Inc.

Great. Good morning, and congratulations for embarking on this difficult journey to position NRG for future success.

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

Thanks, Abe.

Abe C. Azar Q
Analyst, Deutsche Bank Securities, Inc.

Can you provide some further details or examples of some of the margin enhancement plan and how – I'll stop there.

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

Yeah. So, as you all know and have appreciated, I think over the past couple of years, we have been able to build a retail franchise that is second to none in our industry and with incredible recognition of all our brands. But through this process, as I have already mentioned, I mean, we went in with a completely fresh perspective on our business. And with a completely open attitude, no constraints, no previous constraints around what the business should look like, and that was the case for retail.

While we acknowledge that we have a great retail business or good retail business, there is always room for improvement. And I think through this process, we identified that investing heavily on IT systems and analytics, we can actually enhance the margins that come from that business, both in terms of retaining customers, attracting new customers, and optimizing margins including the further integration of our generation and retail business. So, that's what gives us a lot of comfort. This fresh perspective, this openness that myself and the entire management team and the board of directors had as we went through this process.

Now, this is not new for NRG. I mean, over the last three years, we actually have grown the business close to $200 million. So, the target that we're putting right now for the next three years has been achieved by us in the past, and I am comfortable with the focus and the investment that we're making. We will get to the target that we're announcing today. So, I feel pretty good with the work that has been done in the retail business.

Abe C. Azar
Analyst, Deutsche Bank Securities, Inc.
Q

Great. And then looking at the generation portfolio post divestments, are there any holes in the portfolio you'd like to fill in or would you be short with the retail book in any market in particular?

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

No. I mean, if you look at Texas, we have a pretty balanced generation-retail business. Even in the northeast, without GenOn and some of the asset sales that we have, our generation business still can support our retail load. I mean, if there is something that I would focus on is the mid-merit part of our fleet. And I said that we're primarily base load and peaking. I would love to get some mid-merit assets, but I am only going to do it at value. If we can get that at significant value, then we'll be looking for it.

But right now, the focus is on creating that financial flexibility, on executing this plan, and then we will look for the opportunities that I'm sure will be available to us in the market.

Abe C. Azar
Analyst, Deutsche Bank Securities, Inc.
Q

Great. Congratulations.

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

Thank you.

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

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thank you. Good morning.

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

Hey. Good morning, Ali.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Morning. Mauricio, first, just to clarify, the potential sale of your ownership in NRG Yield and the renewable portfolio that still resides with NRG at this point, are those tied together or are these two separate transactions?

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

A

Well, first of all, the ROFO pipeline is tied to Yield. And of course, what we call internally, the development company and the operating company, they're not necessarily tied together. But as I look at this process, I want to make sure that we maximize the value that we can get and I think it's fair to assume that we're looking at the entire package to be able to attract the maximum amount of interested parties in this process. And so, you should think about the development company, the operating company, and Yield as an integral part of the proposition that we have in the market.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

I see. Okay. And then secondly, you alluded to the fact that you're selling assets for value, et cetera. When you look at some of the recent transaction that have transpired, frankly, the valuations on those have been somewhat underwhelming. And I don't know, does that, in any way, influence or impact either your ability to transact or the value that you're assigning to those assets that you're monetizing?

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

A

Look, my guiding principle here is that we're going to monetize these assets and we're going to execute only if they're NPV positive. And we have to create value through these processes. We are not forced to sell any of these assets and we are opportunistic in the market. We think that we have a very compelling value proposition in the assets that we're selling. And so far, I've been encouraged by their processes. So, I mean, that's what I can tell you today, Ali, in terms of our asset sale process.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Then as you point out very clearly, you're going to end up with significant amount of excess cash. And if I understand correctly, the residual remaining portfolio is going to be conventional base load peaking assets and a large retail platform. Given your experience as you've seen how public markets have looked at this business have tended to overreact to the cyclical moves that we see out there in the market on the commodity side, with that kind of portfolio, do you think public market is still the right platform, or is it probably ultimately better in private hands?

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

A

Look, Ali, what I will tell you is that myself and the entire management team is focused in this plan. I think this plan is the one that can create the most value for our shareholders. That is my focus, that is my priority. And any other speculation about whether there is a different type of ownership on this portfolio, it's not part of my priorities right now. It's executing the plan. And I think this is the best path to value creation that I can provide to our shareholders.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Got it. And last question, just to clarify the range of proceeds on asset sale, $2.5 billion to $4 billion. If I read this right, that range is almost entirely – that delta is almost entirely driven by whether you sell between 50% to 100% of Yield and renewables. Did I read that correctly?

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

Yeah. I mean, I think that's a fair assumption.

Ali Agha
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Understood. Thank you.

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

Thank you, Ali.

Operator: Thank you. And we do have time for one last question. Our final question comes from the line of Michael Lapides with Goldman Sachs. Your line is open.

Michael Lapides
Analyst, Goldman Sachs & Co.
Q

Hey, guys. Thanks for taking my questions. Congrats on the...

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

Hey. Good morning, Michael.

Michael Lapides
Analyst, Goldman Sachs & Co.
Q

Good morning. I actually have two. One is bigger which is, what's core? Is core – if I think about NRG in 2020 and beyond, is core simply Texas wholesale, Texas retail, ComEd, and then the scattering of conventional assets kind of in the New York City area, the few in New England, and kind of one or two in California? Is that the right way to think about what core NRG looks like when this all plays out?

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

Michael, I think what you should think about what's core is – and I said this in the past, I think in order to be successful in the competitive power space, we have evolved from just being solely an IPP to an integrated platform. So, what is core is perfecting that integrated platform of generation and retail. And we're always going to be focused on the market – the most attractive markets. Today, from my perspective, the most attractive market is Texas and a few buckets in the Northeast. Tomorrow, that may change. The Northeast could become a lot more attractive and perhaps other markets.

So, I think what you should take out from this presentation is core is the model that we pioneer when we put together NRG and Reliant back in 2009. And it has now been validated I believe by every single independent power producer in our space. So, that's what is core to me.

And of course, in the retail offering, there is a large component of comprehensive solutions. That takes the form of demand response, on-site generation whether it's renewable or whether it's thermal. I think it is important that as we move forward, we maintain our ability to continue giving our customers the one-stop shop that we have been able to assemble for our retail C&I business and, for that matter, our retail residential business. So, I hope that that clarifies to you what's core.

Michael Lapides
Analyst, Goldman Sachs & Co.

Q

Yeah and I'll follow up offline because I was just kind of taking the existing today's asset base of NRG both conventional assets and kind of the mix of retail around the country, and trying to think about if I just start with your existing base and think about all the changes what you kind of view as core. I think I get the point.

My other question deals with potential divestiture of NRG Yield. Can you talk about the underlying PPAs for a lot of those contracts, the operating assets at N Yield? And what potential hurdles or challenges that NRG is no longer controlling NRG Yield might exist embedded within some of those PPAs?

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

A

Yeah. No. I mean, I think we have alluded this in the past and it's the change of control, that could be on those PPAs. And how that gets value, how that gets treated, it's going to be so dependent on the final structure, the potential partner or buyer. I mean, it is just too early to say anything more than that, Michael.

Michael Lapides
Analyst, Goldman Sachs & Co.

Q

Okay. Is there a scenario where you would continue being the operator of the assets but not necessarily the owner of the assets?

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

A

That's going to depend on the process that we're running and the interest that we receive. And of course, this will be a conversation between two parties. So, I can't – I mean, I will just be completely speculating on that respect.

So, I suggest that we just let the process work. And I commit to you that towards the fourth quarter, I'll have a lot more information than that. And that's why it was so important to me to put the commitment of having an Analyst Day after this asset sale processes, that we have a little bit more line of sight and more clarity around those asset sale processes because I know that there will be a lot of questions around, well, so then what then, what happens? And so, I hope that you are highly committed to that Analyst Day. It satisfies you at least for the time being, Michael.

Michael Lapides
Analyst, Goldman Sachs & Co.

Q

Got it. Guys, once again, congratulations on today's announcement. Thank you for taking the time. Much appreciated for taking my questions.

Mauricio Gutierrez

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

Great. Thank you, Michael, and thank you, everyone for your interest in NRG.

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