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NRG Energy, Inc. (NRG)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the NRG Energy, Inc., Third Quarter 2025 Earnings Conference 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 first speaker today, Brendan Mulhern, Head of Investor Relations. Please go ahead.

Brendan Mulhern

Head of Investor Relations, NRG Energy, Inc.

Thank you. Good morning and welcome to NRG Energy's third quarter 2025 earnings call. This morning's call is being broadcast live over the phone and via webcast. The webcast presentation and our earnings release can be located in the Investor 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. 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 earnings release.

With that, I will now turn it over to Larry Coben, NRG's Chair, President and Chief Executive Officer.

Lawrence Stephen Coben

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

Thank you, Brendan. Good morning, everyone, and thank you for your continued interest in NRG. I'm joined today by Bruce Chung, our Chief Financial Officer and other members of our management team are also on the line and available to answer questions.

Let's start with the key messages on slide 4. Strong performance across all areas of the business led us to raise 2025 financial guidance by \$100 million in late September. This is the third consecutive year we have increased our full year outlook and today, we are reaffirming that higher range. We are also introducing 2026 guidance that aligns with our long-term growth targets. This represents NRG's standalone outlook and excludes any contribution from the LS Power acquisition. We will provide updated guidance that includes LS Power around the time of closing.

We expanded our data center power agreements this quarter, bringing total contracted capacity to 445 megawatts. We also rapidly grew our pipeline of potential projects under joint development and letters of intent to 5.4 gigawatts. Together, these actions build on the agreement announced in August and reflect rapidly growing momentum and validation of our data center strategy. The LS Power acquisition remains on track. Financings were executed in September on favorable terms, all regulatory filings have been submitted, and we expect to close in the first quarter of 2026.

Turning to slide 5. Adjusted EPS for the third quarter was 32% higher than the same period last year, and adjusted EBITDA reached the highest quarterly level in company history. I'd like to pause to congratulate all 18,000 of our employees for that achievement. Our results reflect strong performance across both Energy and Smart Home. In Energy, supply optimization and disciplined commercial execution drove margin improvement across both our Home and C&I businesses.

In Smart Home, growth was supported by expanding our customer base, record retention and continued momentum in our Home Virtual Power Plant initiative. We also delivered top decile safety performance and completed the loan agreement for our second Texas Energy Fund project. Year-to-date, adjusted EPS is 36% higher than last year, reflecting strong performance across all parts of the business, as well as continued cost discipline. These results keep us firmly on track to achieve our raised full year 2025 guidance ranges. On the right side of the slide, we are introducing 2026 guidance on a standalone basis. This serves as an interim view ahead of a full update after the LS Power acquisition closes, when we will provide guidance for the combined company.

Moving to slide 6 for an update on market conditions. ERCOT experienced a mild summer with moderate pricing and strong growth in overall power use. Total consumption across Texas has increased nearly 30% over the past five years, driven by residential, commercial and industrial demand, as electrification and onshoring of manufacturing accelerate. Data center development usage remains early with ramp schedules expected to add meaningful capacity over the next several years.

Looking ahead, power demand is projected to outpace new supply, keeping the market structurally tight and reinforcing the need for reliable, dispatchable generation. Policymakers are responding through initiatives such as Senate Bill 6 in Texas and similar efforts in other regions, focused on affordability, additionality and reliability. We are encouraged by the focus and progress being made to strengthen ERCOT and other competitive markets across the country. In this environment, NRG is expanding its portfolio of reliable and flexible capacity. Through the LS Power and Rockland acquisitions, the Texas Energy Fund projects and our Home Virtual Power Plant, we are adding 15 gigawatts of natural gas and 7 gigawatts of Virtual Power Plant capacity. We also see about 6 gigawatts of additional opportunities through the GE Vernova partnership and our final TEF project that is still under review. Together, these actions strengthen our platform and position NRG to meet rising customer demand and support large load growth, including data centers across ERCOT, PJM and other key markets.

Turning to slide 7. We expanded our data center customer portfolio through 150 megawatts of new premium long-term power agreements, bringing total contracted capacity to 445 megawatts across ERCOT and PJM. This builds on the framework announced last quarter with the same customer. These sites, located in Maryland and Illinois, support edge data center development with access to high-capacity fiber and proximity to major US cities. These projects will be built in PJM with operations beginning in 2028 and ramping through 2032. This agreement was signed above the midpoint of our prior \$70 to \$90 per megawatt hour target range.

Given continued strength in customer demand and higher forward power curves, we are raising our target for new long-term data center agreements to above \$80 per megawatt hour. This reflects sustained pricing improvement and NRG's leadership in providing reliable, long-term power solutions for large load customers. We are advancing numerous additional opportunities, including up to 5.4 gigawatts of new capacity for data centers through 2032 under our GE Vernova and Kiewit partnership, supporting the principle of additionality. Since last quarter, signed letters of intent have increased 35%, underscoring customer engagement from multiple hyperscalers and data center developers, as well as growing demand for new development. We also see several additional gigawatts of potential projects across our broader pipeline. As markets evolve toward bring your own generation models, NRG is leading the next phase of data center growth.

Turning to slide 8. The LS Power acquisition remains firmly on track for a first quarter 2026 close. It strengthens our platform, broadens our earnings base, and extends our reach across key competitive markets. It reinforces our position as one of the largest competitive generators in the country and increases our leverage to long-term demand growth. At announcement, the acquisition was immediately accretive across all key metrics, reflecting portfolio quality and an attractive purchase multiple.

We also unveiled a 14% EPS CAGR through 2029, which does not, I repeat, does not include any contribution from data centers and reflects pricing assumptions that are below current market levels. These factors, along with other upside opportunities, underscore the significant potential ahead. Since announcement, incremental benefits, including 100% bonus depreciation, have further enhanced the economics. All required filings have been submitted and financing was completed on terms better than originally projected. The transaction positions NRG for stronger long-term growth, greater scale, and enhanced value creation as we bring the two platforms together.

With that, I'll turn it over to Bruce for the financial review.

Bruce Chung

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

Thank you, Larry. Beginning with slide 10, NRG delivered strong financial and operational performance in the third quarter with \$2.78 in adjusted earnings per share and \$1.205 billion in adjusted EBITDA, representing a 32% and 14% increase from the same quarter of 2024, respectively. Adjusted net income was \$537 million and free cash flow before growth was \$828 million. Through the first three quarters of 2025, NRG delivered \$7.17 of adjusted earnings per share and over \$3.2 billion of adjusted EBITDA, a year-over-year increase of 36% and 12%, respectively. Our exceptional quarterly and year-to-date financial performance reflects continued execution in all of our businesses, driven primarily by a mix of expanded margins, favorable weather, and excellent commercial and operational execution.

Our Texas segment delivered third quarter and year-to-date adjusted EBITDA of \$807 million and \$1.618 billion, respectively, representing an improvement of 38% and 29% from the same period in 2024. These results were driven by margin expansion across our operations in the region, with lower realized supply costs and excellent optimization despite low summer volatility. The East segment contributed adjusted EBITDA of \$107 million in the third quarter and \$680 million through the first three quarters of 2025. These results reflect a modest decline from the same period of 2024, primarily driven by the net impact of higher supply costs throughout the region, partially offset by increased capacity revenues at our plants and favorable weather in the first quarter, which benefited our natural gas business.

Our West/Services/Other segment had adjusted EBITDA of \$19 million in the third quarter and \$139 million for the first three quarters of 2025. The segment realized higher retail power margins, which were offset by the absence of earnings from the sale of our Airtron business in 2024, and the lease expiration at the Cottonwood facility in May 2025 when compared to the same periods of the prior year. Our Smart Home business posted another impressive quarter and executed brilliantly through the key summer selling season, achieving adjusted EBITDA of \$272 million in the third quarter and \$803 million through the first three quarters of 2025. The segment continues to see record new customer adds and retention rates as well as expanded net service margins.

Our consolidated free cash flow before growth was \$828 million for the quarter and \$2.035 billion for the first three quarters of 2025. Year-to-date free cash flow before growth exceeded the same period in 2024 by \$597 million or 42%. The year-over-year increase is primarily driven by the higher year-to-date adjusted EBITDA, favorable working capital timing, and receipt of the remaining insurance proceeds from our Parish Unit 8 claims. We expect

some of the year-over-year favorability to moderate as working capital timing normalizes in the fourth quarter and as we continue to invest in our plants through our scheduled maintenance program.

Looking to the remainder of 2025, we are reaffirming the increased financial guidance we announced last month with ranges of \$7.55 to \$8.15 for adjusted EPS, \$3.875 billion to \$4.025 billion for adjusted EBITDA, and \$2.1 billion to \$2.25 billion for free cash flow before growth.

Moving to slide 11 for updates to our capital allocations for the remainder of 2025. This has been updated to reflect the new midpoint of our raised free cash flow before growth guidance target, setting the total capital available for allocation in 2025 at \$2.7 billion. Note that this slide excludes proceeds received from the \$4.9 billion of new debt raised in October, most of which will be allocated to fund the cash portion of the pending LS Power transaction.

The few other updates from what I shared in our second quarter call are denoted in light blue, starting with an update to liability management. The \$52 million increase primarily reflects transaction costs and financing fees associated with the LS Power transaction. Integration costs increased by \$20 million due to a shift in spend from 2024 to 2025. The net total remains largely consistent with our communicated expectation between the two years. We remain on track to execute the full \$1.3 billion in share repurchases slated in 2025. Through October 31, we have executed \$1.084 billion in share repurchases or nearly 85% of our planned annual total at a weighted average price of \$125.35 and expect to complete the full amount of share repurchases by the end of the year.

Other related activities increased due to higher tax withholdings related to equity compensation, resulting from the increase in our share price. The increase in the revenue synergy growth plan reflects strong customer growth our Smart Home segment has delivered through the year. Customer growth for the business was 9% year-over-year, well surpassing the targeted 5% to 6% net customer growth embedded in our growth plan. On other investments, we are showing a net \$30 million inflow of capital related to our Texas new build program. As you may recall, the stipulated capital structure for projects under the Texas Energy Fund program is 60/40 debt-to-equity.

In order to get our TEF projects to that target capital structure, the initial disbursement under the loan took into account previously spent development costs. Given that catch-up mechanism under the loan, the disbursements we received in 2025 exceeded the amount of capital we expect to spend on the project, therefore resulting in a net inflow of capital for the year. Finally, we are on track to finish the year with \$158 million of unallocated capital, which we currently plan to roll over into 2026 and deploy as part of our 2026 capital allocation plan.

Turning to the next slide, we are initiating our 2026 NRG standalone financial guidance at ranges of \$3.925 billion to \$4.175 billion for adjusted EBITDA, representing a midpoint of \$4.05 billion, and free cash flow before growth of \$1.975 billion to \$2.225 billion, representing a midpoint of \$2.1 billion. We are not providing standalone EPS guidance as we acknowledge that EPS will change materially with the closing of the LS Power transaction due to associated accounting adjustments, pro forma capital allocation, and other matters impacting any per share financial metrics.

As you can see on the slide, we have included the same adjusted EBITDA and free cash flow before growth for the acquisition, which we provided when we originally announced the transaction in May. This combined with the 2026 NRG standalone guidance that we are initiating today, should remind people of the pro forma company's earnings profile. We will provide an updated pro forma view once the transaction is closed, which will include updates to items like energy and capacity prices, accelerated depreciation benefits, and pro forma capital allocation, among others.

On the bottom of the page, we have provided walks from the midpoint of our original 2025 guidance to the midpoint of our new 2026 guidance on a standalone NRG basis. For adjusted EBITDA, the net \$200 million increase year-over-year is primarily driven by the addition of the Rockland assets acquired earlier in the year, the impact of higher power pricing in our Texas segment, and the continued execution of our existing \$750 million growth plan. The impact of higher power pricing in Texas that we are showing is consistent with the sensitivities we have provided in our previous earnings materials and reflect an increase in around the clock pricing from the \$47 we previously used to \$53 per megawatt hour, which reflects Texas pricing at the end of July.

The sum total of these year-over-year increases is slightly offset by other minor drivers, such as regulatory developments negatively impacting the Maryland and New York competitive retail markets and tariff impacts on our businesses. On free cash flow before growth, we expect strong year-over-year growth from core operations amounting to \$145 million, comprised of the previously discussed EBITDA growth, partially offset by the continued investment in our generation fleet. After taking into account higher cash interest in taxes, we forecast free cash flow before growth to be flat year-over-year. The higher cash interest is largely driven by refinancing of very low cost debt that was issued when the Fed funds rate hovered near zero percent. The increase in cash taxes primarily relates to fewer federal tax credits available to offset income than in prior years. Just to reiterate, we will provide a more detailed update on pro forma financial metrics once we close the acquisition. I look forward to sharing that update with you soon.

Moving to slide 13 for a brief discussion on 2026 NRG standalone capital allocation. The key takeaway here is that, we remain committed to our return of capital program through share repurchases of \$1 billion and our planned 7% to 9% annualized growth of the common dividend per share. This is the case both on a standalone and pro forma basis. I am also pleased to share that our Board has approved a new \$3 billion share repurchase authorization to be executed through 2028. As you can imagine, certain elements of this chart, such as the starting point for excess cash and liability management will look very different after we close the acquisition. As such, I do not intend to go further into detail on this slide. We will provide a fulsome update on capital allocation alongside our key financial metrics once we close on the LS asset acquisition.

In closing, NRG has delivered outstanding financial and operational results through the first three quarters of this year, and we are poised to finish the year on a high note. The standalone 2026 financial guidance and capital allocation outlook I have shared today further demonstrates the solid growth and continued performance of our standalone base business. I look forward to providing you updated and detailed guidance for 2026 that includes the assets we are acquiring from LS Power following the closing of the transaction.

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

Lawrence Stephen Coben

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

Thank you, Bruce. Turning to slide 15. 2025 has been an outstanding year across every part of our business and our outlook continues to improve. Our near-term focus is on completing the LS Power acquisition and providing you with an updated long-term outlook following the close. We also continue expanding our data center portfolio, advancing our Texas Energy projects, including completing the construction of the T.H. Wharton project, and returning at least \$1.3 billion to shareholders. These priorities reflect the disciplined approach to growth and capital allocation as we position NRG for 2026 and beyond, continuing to build a company defined by consistent execution and accelerating value creation.

With that, we'll now 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] Our first question comes from Shar Pourreza with Wells Fargo. Please go ahead.

Shahriar Pourreza

Analyst, Wells Fargo

Hey, guys. Good morning.

Q

Lawrence Stephen Coben

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

Shar, welcome back to the workforce.

A

Shahriar Pourreza

Analyst, Wells Fargo

I'm ready to go back to garden leave, to be honest.

Q

Lawrence Stephen Coben

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

Yeah. I want to see the flower, Shar. I want to see the flowers.

A

Shahriar Pourreza

Analyst, Wells Fargo

There you go. Good morning, Bruce. Good morning, Rob, too.

Q

Bruce Chung

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

Good morning.

A

Robert J. Gaudette

Executive Vice President & President of NRG Business and Wholesale Operations, NRG Energy, Inc.

Good morning.

A

Shahriar Pourreza

Analyst, Wells Fargo

So, Larry, just, do you think 2026 is kind of that year you are going to be able to announce a data center agreement that includes new development as part of your GEV-Kiewit partnership?

Q

Lawrence Stephen Coben

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

Yes.

A

Shahriar Pourreza

Analyst, Wells Fargo

You tongue-tied me again.

Q

Lawrence Stephen Coben

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

Well, Shar, you'll remember the last time I gave you a one-word answer, it showed up. So, I'm giving you a one-word answer.

A

Shahriar Pourreza

Analyst, Wells Fargo

Any sense around timing next year? Are we thinking back half or earlier part of the year?

Q

Lawrence Stephen Coben

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

It's hard to tell, Shar, as my good friend Mac said yesterday, these are complex, but super excited by the process, and never been more sure.

A

Shahriar Pourreza

Analyst, Wells Fargo

Got it. Okay. That's helpful. And then just lastly, just maybe share a little bit more about sort of the announced data center deals, how they kind of compare to those announced by your peers? So, a little bit more color around the margins given other peer deals have come with generation linkages? Thanks.

Q

Lawrence Stephen Coben

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

Yeah. We put a little slide in the appendix which kind of talks about margin and pricing. We're – this is very similar to the one that we announced last quarter, just locationally different, premium margin as a result. Different things go into getting our premium margin on any deal, including land, including our commercial acumen. I mean, I really need to say, we have the best commercial team in the business at both gas and electricity, being able to really meet customer needs in a flexible way. All of those lead to the margin that you see on that appendix, Shar.

A

Shahriar Pourreza

Analyst, Wells Fargo

Got it. Okay. That is super helpful. Appreciate that, Larry. Bruce, keep working hard. I like what I'm seeing here. Thanks, guys.

Q

Operator: Our next question comes from Julien Dumoulin-Smith with Jefferies. Please go ahead.

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Hey. Good morning, team. How are you guys all doing? Here we go.

Q

Lawrence Stephen Coben

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

A

Good, Julien. How are you?

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Q

Quite well. Quite well. We're slaving away here, as they say. Let's – look, I – look, let me jump back to the – let me ask the same question that our buddy just asked a second ago in a different way. Look, as far as GEV goes, in this Kiewit partnership, did you have a certain timeframe that you need to move some of those equipment, use it or lose it, if you will? Can you speak to that a little bit? Because I think that's probably an important nuance to speak to when you talk about your confidence and the timelines under which you're operating to execute on this.

Lawrence Stephen Coben

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

A

Look, Julien, we haven't disclosed any timelines, but we're – I'm very confident that we're going to meet all of the timelines that are required under that agreement. But I – what you're really trying to do, Julien, I know is pin me to a month and I'm not going to let you do that.

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Q

Absolutely. I need to – you know we're all trying, I mean, Shar did his best at it, too.

Lawrence Stephen Coben

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

A

I appreciate the effort. It was well done, but...

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Q

Not quite there. I got it. Well, look, let me ask you this way. As far as it goes with the Build Your Own Power, BYOP, as we're calling it, right? There's clearly been an evolution in the marketplace, when you think about the scope of what's possible here. Again, I know folks have been looking at co-located opportunities the last couple of years, but now we think we firmly shifted, how meaningful, right, we've seen a few announcements here with a couple of hundred megawatts here, a couple of hundred megawatts this quarter. I mean, when you say you're going to deliver updates next year, can you speak to BYOP and the scale of what's at hand here in terms of really building out contracted gen?

Lawrence Stephen Coben

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

A

Sure. Look, so starting with the GEV-Kiewit deal, Julien, that's 5.4 gigs. So, that's a good place to start from. I mean, there are some things that could be added to that in a variety of ways that we're looking at. But I think if we brought even 5.4 gigs to the table, you would be and everyone would be super happy for us. So, I mean, the scale, I mean, that's kind of the scale that we're focused on right now, but we are looking at opportunities to see how we can make that even greater.

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Q

Got it. And then, let me just shift this slightly. When you think about the focus here, I mean, a lot of conversations been around your portfolio in Texas and ERCOT specifically. Can you speak a little bit more broadly? Obviously,

you guys have Illinois sites. PJM is talking increasingly about bringing new assets to Illinois just passed legislation in recent weeks, for instance. Is there an opportunity in the PJM portfolio to both add gas and storage specifically and perhaps tap into some of these developments that have been recently afoot to kind of quell the state's needs for new capacity?

Lawrence Stephen Coben

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

A

Absolutely, Julien. And we are working hard on that and will really accelerate those efforts, of course, once LS closes. Because until we own the generation assets there, that will really vault us into being a significant player. But we're – there is no grass growing under our feet there in the meantime.

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Q

Got it. All right. In the Illinois legislation, is there something for you guys to do there specifically, to ask that more pointedly?

Lawrence Stephen Coben

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

A

I don't think the legislation is really going to be the driver of this, Julien. So – but, as you know, we do have sites in Illinois, so.

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Q

Absolutely. All right. I'll leave it there. Thank you, guys, very much. All the best. See you soon.

Lawrence Stephen Coben

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

A

Thanks, Julien.

Operator: Thank you. Our next question comes from Angie Storzynski with Seaport. Please go ahead.

Angie Storzynski

Analyst, Seaport Global Securities LLC

Q

Thank you. So, first of all, no longer...

Lawrence Stephen Coben

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

A

Good morning, Angie.

Angie Storzynski

Analyst, Seaport Global Securities LLC

Q

Good morning. No longer see the slide showing the sensitivity of your gross margin to changes in forward power curves. I mean, we've had finally the move in curves we had waited for. And so, I'm just wondering, if anything has changed there? Are you waiting to update it for your enlarged portfolio? Any comments?

Bruce Chung

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

Angie, you just hit the nail on the head. We are waiting to update it for our enlarged portfolio.

A

Angie Storzynski

Analyst, Seaport Global Securities LLC

Okay. And you're not going to give me any sense, how especially the PJM price is moving, how they are impacting the pro forma EBITDA of the company for now?

Q

Bruce Chung

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

Not at this stage. Well, certainly, we will provide, obviously, a very fulsome update soon after we close on the transaction.

A

Angie Storzynski

Analyst, Seaport Global Securities LLC

Okay. And then the second thing is, so we've had some companies – new power companies, or pretending to be new power companies, that have aspirations to build gas plants without any prior expertise in power. So, I mean, it is surprising that they could be ahead of you in the pecking order. It's not for the fact that you guys actually have sites, have equipment, know how to hedge gas, et cetera. So, is it that – they just talk more about their opportunities versus you guys or do you still feel like you have a head start over those companies?

Q

Lawrence Stephen Coben

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

Angie, I am convinced that we're in great position to do what I was describing. We've been at this a long time, so have you. There's a lot of announcements. When I actually see, to use Sam Altman's new term, electrons flowing, then I will actually believe that they're real or you will see steel in the ground. But we're not one, we tell you what we've done. We don't tell you what we're going to do and that's kind of my philosophy in all this. So, there is going to be a lot of announcements because a lot of people think they are data center and power developers. Some of those probably real. But I'm very, very comfortable with where we sit in the pecking order, both with respect to building power plants and with respect to hyperscalers.

A

Angie Storzynski

Analyst, Seaport Global Securities LLC

Okay. And then one more, I mean, we are still seeing a lot of assets, private assets being offered to companies like you, hopefully. You do have a large pending acquisition and I'm just wondering if you would still have interest in single asset transactions before the LS Power transaction closes?

Q

Lawrence Stephen Coben

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

We look at everything. And if there's something that's economically attractive that's a great fit for our portfolio, we would be interested. We don't feel we need to add any additional capacity given the LS acquisition, the Rockland acquisition and the TEF projects. But, we are always opportunistic when these things are out there.

A

Angie Storzynski

Analyst, Seaport Global Securities LLC

Q

And then lastly, Bruce, you mentioned the free cash flow guidance for 2026 and the fact that you're sort of running out of the tax shield. I mean, the LS Power transaction brings the tax shield, right, so there would be, presumably, an improvement to the free cash flow generation of the current business on the back of that transaction, is that fair?

Bruce Chung

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

A

Yeah. I think that's generally a fair statement, Angie. The one thing that I'll just clarify for you is, that uptick in cash tax that we talked about on a standalone basis, isn't necessarily related to our NOLs disappearing. It's really more about certain tax credits that we had from our days when we owned renewable assets that eventually expired. And so, regardless of the LS transaction, we're still going to have a very sizable NOL position. But clearly, the LS transaction is going to give us even more, which should anear to a cash flow benefit.

Angie Storzynski

Analyst, Seaport Global Securities LLC

Q

Okay. Very good. Thank you.

Operator: Your next question comes from James West with Melius Research. Please go ahead.

James West

Analyst, Melius Research LLC

Q

Hey. Good morning, guys.

Lawrence Stephen Coben

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

A

Good morning. How are you?

James West

Analyst, Melius Research LLC

Q

Doing all right. Thanks. Thanks, Larry. Larry, in your prepared comments, both at the beginning and the end, I think you made it very clear that you guys are not just standing still waiting to close LS, but you got a lot of other things going on. If you were to kind of rank order what you're most excited about outside of that transaction, what would you say the top kind of one, two, three other things, other items that you're waiting to hopefully announce to us in the near term?

Lawrence Stephen Coben

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

A

I'm going to do them in no particular order, because otherwise that's like picking favorites among your kids.

James West

Analyst, Melius Research LLC

Q

Understood. Okay.

Lawrence Stephen Coben

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

A

I mean, we have, both on the C&I and on the retail side and Energy and in Smart Home, we have a lot of – people kind of lost sight of, we have a very exciting growth plan where we're killing it. Second, our residential VPP excites me tremendously. And after LS close, I'm also even more excited about our demand response potential. So, I look at all of those things as – and I guess, the fourth thing I would say is, bringing our first TEF project online and making progress on the other two. So, there's a lot going on here that we don't – we haven't even begun to put into our numbers.

And so, even if there were no – I just, as a reminder, even if there were no data centers at all and no changes in power prices, we're still showing a 14% CAGR and we still have a double-digit free cash flow discount rate. So, I'm – sorry, I'm super excited about that. I don't know where I could get in the market such as – with not much downside those kind of numbers, leaving out all the other great things that we're doing. So, I am as bullish as I've ever been.

James West

Analyst, Melius Research LLC

Q

Okay. Good to hear. I'll leave it there.

Lawrence Stephen Coben

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

A

Great.

Operator: Thank you. Your next question comes from Nick Campanella with Barclays. Please go ahead.

Nicholas Campanella

Analyst, Barclays Capital, Inc.

Q

Hey, morning. Thanks for taking my question.

Lawrence Stephen Coben

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

A

Good morning, Nick. How are you?

Nicholas Campanella

Analyst, Barclays Capital, Inc.

Q

I'm doing well. I'm doing well. Hope you're well, too. Maybe I can just follow up on the BYOP combo, just your conversation with policymakers at the states you operate in. How does that look in terms of BYOP? How are the customer conversations evolved over the last six months? And is it a fair assumption that all deals going forward just need some type of additionality in this space now or how would you kind of frame that?

Lawrence Stephen Coben

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

A

I mean, I don't – speaking to all deals is hard, but it starts with the Secretary of Energy who's been very, very explicit on this. And I think as regulators more and more look at the affordability question and how to distribute the cost of this new power, the simplest way to do it and the fairest way to do it, I think, is probably bring your own

gen, now whether that's megawatt hour, per megawatt hour or 75% or 50% or some other measure, I think, remains to be seen.

But I think every policymaker is looking at this for two reasons. One is the affordability factor, and two is, everyone knows they need new power. Everyone knows they need new infrastructure. So, to the extent if you're the governor of, say, New Jersey or Pennsylvania or somewhere like that, you would rather spread that cost across Amazon or Metas or Googles or Microsofts, billions of customers around the world rather than your own ratepayers.

So, this is a trend that we started talking about a year ago and prepared for it with our GEV and Kiewit joint venture. And it's now really coming home to roost and accelerating in the last few months.

Nicholas Campanella

Analyst, Barclays Capital, Inc.

Q

Definitely recognize that. Thanks for those thoughts. So, maybe just with PJM being a more important jurisdiction pro forma this LS Power deal. Can you talk about the capacity auction and just the prospects and timing for the collar to potentially be extended, or just what you're advocating for with stakeholders, where you think the industry is heading, and ultimately, what outcome you think would be good for the industry? Thanks.

Robert J. Gaudette

Executive Vice President & President of NRG Business and Wholesale Operations, NRG Energy, Inc.

A

Hey. It's Rob. Look, nothing's changed since the last auction, as far as supply and demand. So, I would expect that, that means that we're going to price at the top of that cap and collar. As far as long term goes, they're looking at lots of different ways to solve the equation. Ultimately, we – everybody is generally concerned about reliability and they're concerned about things like affordability. But in order to get reliability, you have to have price signals. And so, the market has to reflect something for something to get built. As far as the collar being extended, we were supportive of the collar last time. I could see it being extended again because it provides certainty for everyone in the market. Whether or not the top end of that collar is at the right place, that's yet to be determined.

Nicholas Campanella

Analyst, Barclays Capital, Inc.

Q

Thanks for the thoughts.

Operator: Thank you. Our next question comes from Carly Davenport with Goldman Sachs. Please go ahead.

Carly Davenport

Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning. Thank you for taking the questions.

Lawrence Stephen Coben

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

A

Good morning, Carly. How are you?

Carly Davenport

Analyst, Goldman Sachs & Co. LLC

Q

Doing well. Thanks. Hope you are, too. Larry, you mentioned before your excitement about the resi VPP program and the pilot there. I guess, any updates on how that's tracking in terms of uptake, and if that's something that we should expect to see sort of regular updates on in subsequent calls?

Lawrence Stephen Coben

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

Yeah. I'm going to kick that over to Brad.

A

Brad Bentley

Executive Vice President & President of NRG Consumer, NRG Energy, Inc.

Hi. Thank you. Yeah. No, we've been very pleased with the progress on VPP. So, as you're aware, we did raise guidance earlier this year for the balance of 2025. So, we went from 20 megawatts to 150 megawatt and we remain on track for 1 gig by year end. We received a lot of...

A

Bruce Chung

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

2035...

A

Brad Bentley

Executive Vice President & President of NRG Consumer, NRG Energy, Inc.

By 2035. We received a lot of great feedback from customers about the value and the experience of our offering. So, we're really excited about that. We're actually installing more customers than anticipated. And I think as we had shared in our last earnings, we're actually seeing the upgrade of additional equipment kind of 2x our expectation. But apart from that, we're also piloting some additional new home automation offering, which not only deliver the demand response, but will also help reduce home energy consumption, which will enable us to offer customers home energy saving.

A

So, as affordability and grid capacity become more critical NRG will really have the only solution to meet those needs to be able to reduce energy consumption and save customer's money. So we're really excited about piloting that, not just in Texas, but we will also be taking that out to the East early next year.

Carly Davenport

Analyst, Goldman Sachs & Co. LLC

Great. Okay. That's super helpful. Thanks for that. And then maybe just on the data center pipeline, you have one agreement with first delivery in 2026, another in 2028. I guess, is there any trend that you're seeing in terms of when customers are looking to be energized on these fields?

Q

Lawrence Stephen Coben

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

I mean, I think, they're looking to be energized as quickly as possible. But there are some bottlenecks of, as you know, with interconnection and things of that nature as well as if you do really need to bring your own power plant, obviously, that doesn't occur in a day. So, I think, customers would love to start ramping yesterday and they're doing what they can to do that. But I think, if I look at a graph from now through 2031, there's more and more power coming on ramping each of those years. So, I don't think anybody comes to the table thinking, well, we really want to start in 2033, but I think they're also realistic about building their own businesses and the constraints that exist.

A

Carly Davenport

Analyst, Goldman Sachs & Co. LLC

Got it. Great. Thank you so much.

Q

Operator: Thank you. Our next question comes from David Arcaro with Morgan Stanley. Please go ahead.

David Arcaro

Analyst, Morgan Stanley & Co. LLC

Oh hey. Thanks. Good morning.

Q

Lawrence Stephen Coben

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

Good morning, David.

A

David Arcaro

Analyst, Morgan Stanley & Co. LLC

When you say that you're – let's see, on the data center power agreements increasing your kind of expectation for pricing to now be above \$80 a megawatt hour, what's that reflecting? Is that a reflection of where market prices have gone? And just thinking about the upper end of your prior \$70 to \$90 range, like does that upper end go up as well? Kind of curious, just like would you be repricing like Bring Your Own Power type deals also upward?

Q

Lawrence Stephen Coben

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

Well, I think everything is pricing upward as a result of increasing demand. If you look at the capital expenditure announcements by the hyperscalers, they continue to rapidly increase across the board. I think it's a recognition from people of the commercial of our rather unique ability commercially to supply them in ways that they want to be supplied and to bring new power to the table. And just really heightened interest from multiple hyperscalers and developers in a very accelerating fashion, just kind of using the basic laws of supply and demand. So, all of those are factors that led us to raise this really to kind of take the top of the range and raise the bottom of the range.

A

David Arcaro

Analyst, Morgan Stanley & Co. LLC

Got it. Okay. Great. That's helpful. Then separately, I was just wondering if you could comment on the retail competitive backdrop – retail – your outlook for retail margins from here, can they remain strong looking on into your forecast?

Q

Brad Bentley

Executive Vice President & President of NRG Consumer, NRG Energy, Inc.

Yeah. We have – this is Brad. We continue to see strong margins in Texas and we have had – primarily because it's a competitive marketplace, as those prices have gone up, we've been able to maintain those margins. As I mentioned earlier, we are looking at solutions to help give some customers relief in terms of helping reduce energy consumption. As we know, affordability will be a challenge as everyone does raise prices. In the East, a little bit different dynamics when we're up against the price to compare. And so, that one, we have seen a little bit of margin erosion that we are managing very closely.

A

But as I mentioned earlier, being able to bring an integrated value proposition to the consumer that gets beyond competing for price per kilowatt hour and gives them a solution that actually brings their energy consumption down and gives them home protection and home automation in the home. We believe that's the solution that we will be able to scale and slightly change the conversation. So, a little bit different dynamic, as you know, between the East and what we see in Texas.

David Arcaro

Analyst, Morgan Stanley & Co. LLC

Q

Yes. Okay. Great. Thank you.

Operator: Thank you. Our next question comes from Ryan Levine with Citi. Please go ahead.

Ryan Levine

Analyst, Citigroup Global Markets, Inc.

Q

Good morning.

Lawrence Stephen Coben

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

A

Hi, Ryan.

Ryan Levine

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Hoping to follow up on the Smart Home business. It's good to see the 9% annual year-over-year growth there. What are you assuming through 2026 standalone business contribution for Smart Home growth, and how do you see that trend evolving into your longer-term outlook?

Brad Bentley

Executive Vice President & President of NRG Consumer, NRG Energy, Inc.

A

Yeah. In terms of customer counts, we're assuming something very similar to what we saw this year. We've seen really strong growth across really all of our channels of distribution. We're also launching more of a good, better, best. Historically, Vivint has been pushing the higher end systems. But we're able to, as I mentioned earlier, offer a much more affordable entry level offering that not only gives customers some security protection, but also that energy and management savings that I touched on. So, with the additional kind of good, better, best, it opens up new channels of distribution. And so, we expect really strong growth in 2026 as well.

Bruce Chung

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

A

Yeah. Hey, Ryan. I just want to remind, when we announced that \$750 million growth plan, we had indicated Smart Home net customer growth to be in that 5% to 6% range. And so, I think when Brad alludes to the customer growth that we're assuming for 2026, it's still going to be pretty consistent with that original growth plan.

Ryan Levine

Analyst, Citigroup Global Markets, Inc.

Q

Okay.

Bruce Chung

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

Probably on the higher end.

A

Ryan Levine

Analyst, Citigroup Global Markets, Inc.

Thank you. Thank you. And then in terms of the hyperscaler data center conversations, appreciate the additional guidance around pricing and momentum. But in terms of duration of the contracts, are you seeing any change there around the tenor of contracts that the customers are looking for as demand has continued to accelerate?

Q

Lawrence Stephen Coben

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

No. We still continue to see people wanting at least 10 years, some even more than that. So, if anything, tenure will be increasing, particularly if you're going to bring your own generation. You really need a longer tenured contract in order to drive your own cost down. So, we're seeing longer contracts, not shorter ones, Ryan.

A

Ryan Levine

Analyst, Citigroup Global Markets, Inc.

Okay. And anything around inflation provisions, are they becoming the more standardized around some of the other commercial terms embedded in these contracts?

Q

Lawrence Stephen Coben

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

I mean, we are do – we are – most of the contracts are going to be allowing us to pass through and allow us to keep our margins relatively fixed, kind of across the board for a variety of factors.

A

Ryan Levine

Analyst, Citigroup Global Markets, Inc.

Okay. Great. Thanks for the time.

Q

Operator: Our final question comes from Andrew Weisel with Scotiabank. Please go ahead.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Hey. Good morning, everyone. Thanks for including me.

Q

Lawrence Stephen Coben

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

Good morning. Welcome.

A

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

First question on buybacks, I see that you're guiding to a moderation in next year to \$1 billion. I think you previously alluded to that. Forgive me, I'm still a bit new to the story. Is that a function of LS Power and TEF

Q

CapEx, which is sort of one-time in nature or should we think of the billion as a good run rate going forward? I can do the math, \$3 billion through 2028 kind of implies that. But how are you thinking about this longer term?

Bruce Chung

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

A

Yeah. It's really just staying consistent with what we had indicated when we announced the LS Power transaction, Andrew. We've indicated buybacks of \$1 billion per year until we get through our de-leveraging. And so, that's all we just wanted to keep it consistent, recognizing that we were going to be updating capital allocation once we close.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Q

Okay. That makes sense. And similarly, on that last point there, you said that you'll update all the financials when LS Power closes. Does that mean like an 8-K or press release as soon as it closes? Or are you talking about the 4Q update in February?

Bruce Chung

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

A

I think it's really just going to be dependent on when we actually close and how that timing lines up with when we might otherwise regularly report earnings, fourth quarter earnings. And so, we'll assess based on where things are lining up with respect to close to figure out what's the best way to communicate with the investment community will be.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Q

Okay. That makes sense. And one last one, you covered a lot of good details, so this is kind of a nuanced one. But I'm seeing some headlines that potential sale of the Gladstone asset in Australia. A lot of people might not even remember that you have that, but how are you thinking about that asset and could there be value there?

Bruce Chung

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

A

Look, I mean, we don't – to the extent that there is value, it's really more – it's going to be nominal at best. I wouldn't necessarily think of that as being a particularly significant driver. And if anything, it's really to more to just continue to simplify our portfolio and streamline our operation.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Q

Okay. Very good. Thank you so much.

Lawrence Stephen Coben

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

A

Thank you.

Bruce Chung

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

A

Thank you.

Operator: Thank you. I'm showing no further questions at time. I now like to turn it back to Larry Coben for closing remarks.

Lawrence Stephen Coben

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

I want to thank you all for taking the time to listen and for your interest in NRG. I have never been more excited about our prospects as we are today. And I look forward to seeing you all on roadshows and wherever, so that we can discuss them in more detail. Thank you, operator. And thank you, everyone.

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

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