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# NRG Energy, Inc. (NRG)

Q1 2025 Earnings Call

## CORPORATE PARTICIPANTS

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NRG Energy, Inc.*

**Lawrence Stephen Coben**

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**Bruce Chung**

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*President-NRG Consumer, NRG Energy, Inc.*

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## OTHER PARTICIPANTS

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*Analyst, Guggenheim Partners*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and thank you for standing by. Welcome to the NRG Energy, Inc. First Quarter 2025 Business Update and Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions] Please be advised today's conference is being recorded.

I would now like to hand the conference over to Kevin Cole, head of Treasury and Investor Relations, to read the Safe Harbor and introduce the call. You may begin.

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**Kevin L. Cole**

*Senior Vice President, Corporate Finance-Treasury & Investor Relations, NRG Energy, Inc.*

Thank you. Good morning and welcome to NRG Energy's first quarter and Business Update Call. This morning's call is being broadcast live over the phone and via webcast. Today's webcast, presentation and press release can be located in the Investors section of our website at [www.nrg.com](http://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'll 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 now turn the call over to Larry Coben, NRG's Chair, President and CEO.

## Lawrence Stephen Coben

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

Thank you, Kevin. Good morning, everyone, and thank you for your interest in NRG. I'm joined today by Bruce Chung, our Chief Financial Officer. Other members of the management team are also on the line and available for questions. This morning marks a defining step for NRG. Alongside our outstanding first quarter results, we are announcing the acquisition of a portfolio of assets from LS Power, comprised of 13 gigawatts of natural gas generation and a 6 gigawatt commercial and industrial virtual power plant platform located across the Northeast and Texas. This acquisition expands our generation base, improves our ability to serve customers, positions us naturally long versus our retail load in all core markets and increases our asymmetric exposure to demand growth across US power markets.

Let's turn to slide 4 for the key takeaways of today's call. We delivered the strongest first quarter adjusted EBITDA in company history, surpassing last year's record by 30%. We are reaffirming our 2025 financial guidance ranges. Second, the acquisition of the LS Power portfolio reshapes our competitive position. It improves how we serve customers by doubling our own generation and materially strengthening our virtual power plant operations. This significantly expands our earnings potential and positions us to capture meaningful upside as power markets tighten.

Third, we are raising our five-year adjusted EPS compound annual growth rate to 14%, a 40% increase to the base plan we presented in February, reflecting the combined contributions of today's acquisition and the Rockland portfolio addition. This outlook maintains a flat view of power and capacity prices and does not include potential upsides such as rising prices, data centers and other large load contracts or success in our full TEF pipeline. Finally, we remain disciplined in capital allocation. We are maintaining a strong balance sheet, returning substantial capital to shareholders, investing in growth and positioning the business for sustained long-term value creation.

Turning to slide 5 with the quarterly results and key highlights. Adjusted EPS for the first quarter was \$2.68, an 84% increase compared to the first quarter of last year. This improvement was driven by strong asset performance, expanded consumer margins, favorable weather and natural gas optimization in the Northeast. We are reaffirming our 2025 financial guidance, reflecting strong year-to-date performance and the expected contribution from the Rockland acquisition.

First quarter results were exceptional and we are already tracking at the upper end of our full-year guidance ranges. This reflects disciplined execution on margins, supply optimization and strong operating performance across every aspect of our business. We delivered top decile safety performance and outstanding fleet reliability. Our third Texas Energy Fund project, Greens Bayou, was selected for due diligence review in March, bringing all three of our Brownfield projects into that program, totaling 1.5 gigawatts of capacity.

Separately, we secured an additional 1.2 gigawatts of GE Vernova turbine reservations, a direct result of accelerating customer conversations and rising demand signals. We now hold a total of 2.4 gigawatts of total slot reservations for projects that are expected to begin operations in 2029 and 2030. These slot reservations demonstrate confidence in our commercial discussions and ensure we can act quickly where long-term premium Power Purchase Agreements support new development. Finally, we completed \$445 million in share repurchases through April, leaving \$855 million remaining to be completed through the end of 2025.

With that, let's turn to the details of the acquisition starting on slide 7. We are acquiring 13 gigawatts of natural gas capacity and a 6 gigawatt C&I virtual power plant platform from LS Power for an enterprise value of approximately \$12 billion. This is a highly strategic acquisition that strengthens our position as one of the nation's

leading competitive power generators. We're acquiring these assets at a significant discount to new build cost, at an attractive valuation, and at the strategically opportune time to be adding high-quality, difficult-to-replicate resources into our portfolio as the sector enters into a period of sustained demand growth.

We would also note that LS Power will receive a meaningful portion of the transaction consideration in NRG shares. LS Power will receive approximately \$2.8 billion of equity as consideration and own approximately 11% of NRG at closing. This is LS Power's largest single equity investment in firm history, which I think speaks for itself in terms of their confidence in our company's future. We welcome them as a future large shareholder in our company.

The acquisition is built on four key pillars. First, it more than doubles the size of our generation fleet, creating a pro forma portfolio of 25 gigawatts of owned capacity. Second, it enhances and magnifies our opportunity to create value in the emerging power market super-cycle by expanding our scale in key competitive regions, strengthening our large load strategy, and increasing our asymmetric upside opportunities. Third, it improves our credit risk profile, supporting a long-term net debt to adjusted EBITDA target of less than three times and a balanced capital allocation plan, including \$1 billion in annual share repurchases through our deleveraging period.

Fourth, it delivers immediate and substantial accretion, while establishing an even stronger foundation for sustained long-term growth. Let me take you through each of these pillars in detail, beginning on slide 8. This transaction transforms our portfolio. We are acquiring the largest privately held natural gas generation fleet and the leading C&I Virtual Power Plant platform. In the East, we are adding approximately 11 gigawatts of natural gas-fired capacity with 75% of that in PJM and the balance in NYISO and ISO-NE. These assets include some of the highest capacity factor combined cycle units and most efficient peakers in PJM. Several of the peakers also present opportunities for conversion and uprates to combined-cycle plants, improving long-term flexibility and value. In Texas, we are acquiring more than 2 gigawatts of capacity in the North Zone. This strengthens and diversifies our Houston-focused fleet and shifts our residential supply position to naturally long. These assets improve our ability to serve both large and small customers and give us more control over meeting demand in a tightening supply environment, while at the same time lowering our cost to serve.

The acquisition also includes CPower, the national leader in distributed energy optimization, with 6 gigawatts of commercial and industrial virtual power plant capacity. We believe this is the premier C&I VPP platform valued for its proprietary software and managing more than 2,000 customers across 60 grid programs. The business has 95% retention and a well-diversified customer base spanning commercial, industrial, government, education and healthcare sectors. As customer demand becomes more dynamic and the grid more constrained, we believe this capability will meaningfully grow in value. It gives us the tools and scale to serve customers, support reliability and compete in a market that increasingly values flexibility.

Pro forma, the combined portfolio gives NRG a balanced mix of resources and significant excess supply relative to our residential retail load. In Texas, we expect to generate enough output from our own plants to serve our residential retail load. In PJM, we will produce more than twice the energy required to serve our retail customers and the acquisition gives us embedded upside as market conditions evolve.

We're also impressed by the regulatory momentum in both markets. In Texas, SB6 is progressing and we see it as an important step toward improving transparency and clarifying how large loads connect to the system. In PJM, we're seeing constructive progress on key issues. We feel good about where both markets are headed.

Moving to slide 9, the transaction significantly strengthens NRG's ability to capture upside as demand grows. With the addition of this portfolio, we will hold the third largest natural gas generation portfolio in the East and Texas.

This puts us at competitive scale alongside other top players in this sector and enhances our position to meet rising load and respond to changing market conditions. We've already identified 1 gigawatt of potential uprates through converting peakers to combined cycle plants in the East, creating a clear path to expand output using existing sites and meeting large load additionality requests.

The acquisition meaningfully increases the number of sites available to support large loads in data centers, positioning us to meet the needs of hyperscalers and other large load customers and the emerging demand across our core markets. Importantly, none of these opportunities are incorporated into the accretion and growth metrics. Let me repeat that: none of these opportunities are incorporated into the accretion and growth metrics. Together, these advantages position NRG to capture value well beyond our base forecast, with multiple avenues for upside as markets tighten and customer demand for more customized supply solutions increases.

Turning to slide 10, beyond the strategic and operational drivers, we want to outline how this strengthens NRG's long-term financial foundation. What sets this acquisition apart is not just the quality of the assets, it is the way it accelerates our growth trajectory and reinforces our ability to deliver durable shareholder value. It exceeds our hurdle rates, produces immediate and substantial accretion, lowers risk and positions NRG for sustained financial strength. We are committed to a balanced capital allocation approach that prioritizes deleveraging and includes both substantial return of shareholder capital and growth investment. We expect to return at least \$1 billion annually to shareholders via share repurchases, while maintaining our target 7% to 9% annual dividend per share growth even through the deleveraging period. We are targeting \$3.7 billion of debt reduction related to the acquisition. Once we have achieved our targeted credit metrics, we plan to return to our 80% capital return and 20% growth allocation framework.

Turning to slide 11 for a summary of headline metrics, this is an exceptionally accretive acquisition that delivers significant immediate value, including \$1.6 billion of incremental adjusted EBITDA, \$1 billion of free cash flow before growth and double-digit percentage accretion in adjusted EPS and free cash flow per share. Over the medium and long term, it lifts our adjusted EPS compound annual growth rate by 40%, bringing it to 14% through 2029 and to repeat, this 14% growth rate does not include any additional upside opportunities, such as rising power prices or data centers.

With that, I'll turn it over to the man who today is the most famous Bruce from New Jersey, Bruce Chung to walk you through the financial details.

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## Bruce Chung

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

Thank you, Larry. Before turning to our exciting announcement today, I'm going to provide a brief overview of our fantastic first quarter financial results. Turning to slide 13, I am pleased to share that NRG delivered record first quarter financial results, with \$2.68 in adjusted earnings per share and over \$1.1 billion in adjusted EBITDA. Adjusted net income was \$531 million and free cash flow before growth was \$293 million. Compared to the first quarter of last year, we achieved an impressive 84% increase in adjusted EPS and a 30% increase in adjusted EBITDA.

Each of our segments executed exceptionally in the first quarter and produced strong financial results over the prior year. Our results were driven by a mix of expanded margins, favorable weather and excellent commercial optimization in our East, West and Texas segments, as well as continued customer growth and net service margin expansion in our Smart Home segment. First quarter 2025 free cash flow before growth exceeded the same period in 2024 by \$333 million, largely driven by our strong EBITDA growth and the timing of certain working capital items. With the strong performance delivered in the first quarter, we are reaffirming our 2025

financial guidance across all metrics, while also noting that we are trending at the upper end of our guidance range. I look forward to providing you updates on subsequent earnings calls.

Turning to 2025 capital allocation, there are minimal changes to our original capital allocation outlook compared to what I shared in our February call. We began 2025 with \$525 million in unallocated excess cash from the prior year, largely driven by the Airtron divestiture that closed in the fourth quarter. When combined with the midpoint of our free cash flow before growth guidance, that brought the starting 2025 capital allocation – capital available for allocation to over \$2.6 billion. Our plan to execute \$1.3 billion in share repurchases remains unchanged.

Through April 30, we executed \$445 million in share repurchases. We generally manage our share repurchases through periodic 10b5-1 trading plans, which enables a more programmatic and regular approach to when we are buying in the market. We enter into these plans during open windows when we do not possess material non-public information. These plans will execute over several months or longer and are designed to allow for the continued execution of share repurchases if or when we come into possession of material non-public information during such period.

Wrapping up the slide, we are showing a slight change from the chart presented during our last earnings call to reflect financing fees related to our liability management program and incremental capital for our new build program, which includes amounts for turbine reservation slot for the GEV/Kiewit partnership we announced last quarter. Finally, we are showing \$40 million of unallocated capital which we will allocate over the course of the year.

Moving to slide 15 for a look at the key terms of the acquisition we're announcing today. I echo Larry's excitement that NRG will be acquiring a transformative 13 gigawatt portfolio, adding diversity and scale to our generation strategy, while also acquiring the premier C&I VPP platform in the US. This is a highly complementary and strategic acquisition and a very compelling transaction from a financial perspective.

As you can see on the slide, enterprise value for the portfolio is \$12 billion, representing a very attractive multiple of 7.5 times 2026 EV/EBITDA. The enterprise value includes \$2.8 billion of stock consideration, which is based on 24.25 million shares that we will issue to LS Power multiplied by the 10-day trailing volume weighted average price as of last Friday. In addition to the stock consideration, the enterprise value includes \$3.2 billion of existing debt at the acquired companies and \$6.4 billion of cash consideration paid to LS Power, less approximately \$400 million of the NPV of tax benefits generated directly as a result of the acquisition.

The acquisition is highly accretive, with 18% accretion to adjusted EPS in year one and adds \$1.85 per share on a run rate basis. On free cash flow before growth per share, the transaction is more than 20% accretive in year one and adds \$3.25 per share on a run rate basis. As a result of the highly accretive nature of the acquisition, we are raising our long-term adjusted EPS and free cash flow per share growth rates to greater than 14% and that's before upside opportunities. The acquisition significantly enhances NRG's credit profile and helps support a long-term leverage target of less than 3 times net debt to EBITDA.

We expect all three rating agencies to affirm our credit rating – our current credit ratings. From a capital allocation perspective, we remain committed to maintaining both a strong balance sheet and a robust return of capital program. As such, we expect to execute \$1 billion in annual share repurchases while aggressively repaying \$3.7 billion of debt over 24 to 36 months post-closing until we achieve our target credit metrics. Upon achieving our target credit metrics, we expect to return to our 80/20 capital allocation framework. Finally, we anticipate closing the transaction during the first quarter of 2026 after the receipt of various regulatory approvals.

Turning to an overview of our acquisition financing plan on slide 16. The acquisition will be funded through the issuance of NRG stock to LS Power, \$6.4 billion of new secured and unsecured debt financings and the assumption of \$3.2 billion of existing debt. The stock consideration represents 23% of the total enterprise value and reflects LS Power's strong conviction in NRG's post-acquisition value. The funding plan for the new debt is designed to preserve credit quality and maintain our commitment to a strong balance sheet. We expect to be opportunistic in the market between now and the anticipated closing date to place permanent financing at compelling rates, while also maximizing prepayment flexibility given our aggressive deleveraging plan post-closing.

Our investment-grade senior secured rating will allow us to tap the very liquid and cost-effective investment-grade debt market, which greatly enhances our ability to place permanent debt for the transaction. As always, the strength of our balance sheet remains a top priority. Consistent with the views of the rating agencies, we firmly believe this acquisition enhances our credit profile and mitigates key financial risks. We intend to reduce debt by \$3.7 billion within 24 to 36 months after closing to ensure we achieve our long-term target investment-grade credit metrics.

Based on our analysis, this is very achievable and does not rely on any significant power and capacity price increases, nor does the plan rely on achieving any cost or revenue synergies associated with the acquisition. Furthermore, we expect the transaction to provide at least \$500 million of potential collateral efficiencies, translating into tens of millions of dollars in carrying cost savings annually. We have not included any of this in our pro forma. The combination of the strong free cash flow generation of the combined businesses, our financing plan and its associated debt reduction creates tremendous flexibility to maintain a robust return of capital program post-closing.

As I said earlier, we intend to execute \$1 billion of share repurchases annually through the deleveraging period, while continuing to grow our common dividend per share 7% to 9%. On slide 17, we provide an overview of how the transaction impacts our long-term adjusted EPS growth trajectory. The transaction is immediately accretive by 18% in year one and will add \$1.85 per share of incremental run rate earnings by 2029. Combined with the recent acquisition of the Rockland, Texas portfolio, this acquisition will increase our long-term adjusted EPS growth rate from greater than 10% to greater than 14%.

What is noteworthy is that 80% of our long-term growth will come from our previously announced organic growth plan and the accretive earnings from our acquisitions, with the remaining 20% attributed to our return of capital program. Recall that this metric was closer to 50/50 back in our third quarter earnings call, thereby demonstrating how this transaction significantly enhances the source of our long-term earnings growth and substantially reduces the impact that an increasing share price would have on our ability to achieve our adjusted EPS growth targets.

For example, if today our stock price were to only partially close its valuation discount and reach \$200 per share, our compound annual growth rate would be around 12%. Furthermore, this uplift in our growth rate only considers the accretion of the transaction itself based on flat power markets. Consistent with the 10% CAGR we unpacked in our third quarter 2024 earnings call, our raised adjusted EPS growth rate does not account for any potential upside related to increases in energy and capacity prices, as well as any impacts from our data center and large load strategy.

Moving on to pro forma capital allocation on slide 18, as highlighted earlier, the portfolio we are acquiring will add \$1 billion of annual free cash flow on a run rate basis. This results in \$4 billion of incremental free cash flow before growth for the 2026 to 2029 period, which when added to our standalone capital available for allocation,

results in \$13.3 billion of excess cash. As discussed earlier, we will aggressively reduce debt by \$3.7 billion over the next 24 to 36 months.

Despite the incremental debt reduction, our return of capital program remains largely unchanged from what we discussed on our third quarter earnings call. The pro forma plan provides for \$7.4 billion of return of capital, comprised of \$5.7 billion in share repurchases and \$1.7 billion of common dividends. Forecasted expenditures for growth investments remains at \$1.3 billion for the period. The free cash flow from the acquired portfolio will materially enhance NRG's capital return and growth investment flexibility following the deleveraging period in 2029 and beyond, putting NRG on solid footing for sustained earnings per share growth. Finally, we forecast \$400 million of remaining CAFA, which we will allocate as appropriate in the given period.

Turning to slide 19 for a brief overview on pro forma credit profile, the physical attributes of the acquired generation assets, additional earnings diversity from the portfolio and incremental scale to NRG's platform will translate into a more enhanced credit position for NRG as a whole. The aforementioned credit-enhancing attributes of this acquisition support a long-term investment-grade, target credit metric of less than 3 times net debt to EBITDA, up from our current target range of 2.5 to 2.75 times.

As you can see from the table, both our standalone and pro forma plans ensure that we achieve our targeted credit metrics. On a pro forma run rate basis, we will add \$6.4 billion of incremental debt supported by the additional EBITDA from this acquisition and the Rockland portfolio acquisition. The \$3.7 billion of incremental debt reduction in the pro forma column will be done through internally generated cash flows over a 24- to 36-month period after closing. This debt reduction is an important component of our pro forma capital allocation plan and demonstrates our commitment to a strong balance sheet.

We expect all three rating agencies to affirm our credit ratings, which was a critical component to our evaluation of this transaction. Our high BB unsecured and investment-grade secured credit ratings have historically provided advantageous access and pricing in the debt markets. Our acquisition financing and pro forma debt reduction plans were carefully crafted to ensure that we will maintain good access to those markets. NRG continues to produce impressive financial results and the highly complementary and accretive transaction we announced today further enhances our earnings profile, while enabling NRG to maintain a strong balance sheet and continued significant return of capital.

I look forward to updating you throughout the balance of the year.

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

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## Lawrence Stephen Coben

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

Thank you, Bruce. I think you can say our Bruce is not dancing in the dark. Continuing on slide 21, our long-term outlook, as we have outlined today, this acquisition supercharges our outlook to 14% compound annual growth in adjusted EPS and free cash flow before growth per share through 2029, while reducing our overall risk. These are very achievable targets built on a stronger platform, greater scale and a more flexible asset base. Our increased growth forecast reflects contributions from the acquisition portfolio and Rockland being added to our base plan that we rolled out last November. Again, it does not include upside from rising power prices, premium large load contracts or execution of our full TEF development pipeline. We have the scale, reach and balance sheet to lead through the most dynamic period this sector has ever seen. Today's announcement significantly strengthens our earnings power, improves our risk profile, and expands our ability to return capital to shareholders. But more than that, it unlocks significantly more potential in a market entering a period of sustained structural growth.

Before we open the line for questions, I want to recognize Rasesh Patel, who is retiring this week. Rasesh played a central role in the successful integration of Vivint and in building the country's leading smart home and retail energy platform. His strategic clarity, steady hand and focus on execution have helped define the NRG we are building today. We will miss him for that and for his friendship. On behalf of all of us, thank you, Rasesh. We wish you and your family the very best and we're proud to have you remain part of the NRG family as a customer and long-term shareholder. We expect to name Rasesh's successor by the end of the second quarter. Operator, we're ready for questions.

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question comes from Julien Dumoulin-Smith with Jefferies. Your line is open.

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**Julien Dumoulin-Smith**

*Analyst, Jefferies LLC*

Q

Hey, team. Good morning. Thank you guys so much for the time. Nicely done.

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**Lawrence Stephen Coben**

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

A

Thank you, Julien. Good morning. How are you?

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**Julien Dumoulin-Smith**

*Analyst, Jefferies LLC*

Q

Hey, hey. Great, Larry. Thank you so much. Hey, so let's dig right in here. So just first off, in that EBITDA real quick, I just want to make sure I heard a couple of things right and if you can clarify. So you're assuming \$50.47 for the PJM and ERCOT, respectively? I think that's below market forwards today. Just want to try to understand a little bit on that. And then separately in that EBITDA, what portion is CPower and how do you think about growth there, as well as how do you think about the synergies? I think you're not including anything in that \$1.6 billion number, but do you want to just break down that EBITDA and the acquisition a little bit and just think about the various meaningful levers, if you don't mind?

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**Lawrence Stephen Coben**

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

A

Sure. I can start and then [indiscernible] (00:32:04) I think there's about four questions in there, Julien, but let me try to get to them all. We wanted to use the same pricing that we've been using when we rolled out our plan so that it will be simple for shareholders to compare them apples to apples that really show the power of this acquisition. Obviously, if we raised the pricing to current market, all the numbers would be significantly higher. But we choose not to do that to make the comparative life for everybody far, far simpler.

Second question was CPower, I think. We're really excited about what CPower represents. I don't – I think we've seen VPP be a very powerful tool for us already, both on the C&I side and beginning to roll it out now on the residential side and I think stay tuned, we'll be rolling out some more thoughts on VPP as the year goes on.

There was a third question, Julien, I'm sorry, I can't remember what it was.

**Julien Dumoulin-Smith**

*Analyst, Jefferies LLC*

Q

[indiscernible] (00:33:02) Well, actually what's the – yeah, exactly.

**Lawrence Stephen Coben**

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

A

Synergies was the third one? Julien we expect to find some synergies, but this is not a deal predicated on synergies in any way, shape or form and if we – we're assuming zero and still selling the power, anything else will be additional benefit to our stockholders.

**Julien Dumoulin-Smith**

*Analyst, Jefferies LLC*

Q

Got it. And then separate more a strategic one. I mean, how do you think about doing more? You've done a couple things here in quick succession here and I mean that both in power, but also specifically retail. How do you think about this enabling you, right, because this kind of flips the equation from earlier to do more retail, conceivably, right, whether that's organically build out more retail presence or inorganically. Any thoughts there.

**Lawrence Stephen Coben**

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

A

Do you want more, Julien? [indiscernible] (00:33:55) Well, Julien, I think what that does is actually give us enormous amounts of optionality across all of our customer bases, be it in the home or in the C&I book. It enables us to customize longer-term solutions for people who want those in CPower markets. So, I think it actually puts us in a position where we can grow across our spectrum of customers. Again, we didn't really assume that in this beyond the growth plan that we had rolled out a couple months back. But putting all that together, we're super confident about the opportunity set that this provides to us. I mean, I think it's exponentially higher. I mean, we've doubled the portfolio, but more than doubled the opportunity.

**Julien Dumoulin-Smith**

*Analyst, Jefferies LLC*

Q

Yeah, absolutely. And just clarifying there, some of the amount of growth reflected in retail or CPower, what have you in your projected assumptions here? Can you break that down and clarify that within the organic piece of your longer-term target?

**Lawrence Stephen Coben**

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

A

Yes. If you take zero and then multiply it by zero, that's the answer, it's zero.

**Julien Dumoulin-Smith**

*Analyst, Jefferies LLC*

Q

Okay.

**Lawrence Stephen Coben**

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

A

We have not put any...

**Julien Dumoulin-Smith**

*Analyst, Jefferies LLC*

Just needed to clarify.

Q

**Lawrence Stephen Coben**

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

We have not put any growth into that sorry, Julien. Zero is the correct answer.

A

**Julien Dumoulin-Smith**

*Analyst, Jefferies LLC*

Great. Yeah. Excellent. Thank you, guys, for that. Appreciate it. Nicely done again.

Q

**Lawrence Stephen Coben**

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

Thank you, Julien.

A

**Operator:** One moment for our next question. Our next question comes from Shar Pourreza with Guggenheim Partners. Your line is open.

**Shahriar Pourreza**

*Analyst, Guggenheim Partners*

Hey, guys. Good morning.

Q

**Lawrence Stephen Coben**

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

Good morning, Shar. How are you?

A

**Shahriar Pourreza**

*Analyst, Guggenheim Partners*

Good. I don't think I'll ever question whether Bruce is working hard enough after today's announcement.

Q

**Lawrence Stephen Coben**

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

Damn straight, Shar. He is trying to get that bonus back.

A

**Shahriar Pourreza**

*Analyst, Guggenheim Partners*

There he goes. There he goes. Larry, this deal seems like it's another huge vote of confidence, I guess, for the industry in the Eastern generation. I guess what has changed – what was it that changed the company's views on your position in Eastern market? Is it capacity, energy volatility, the price? Just trying to understand a little bit more on your views on Eastern markets, how that's evolved, especially on the heels of some of the PJM states floating opportunities for wires companies to own generation, which to me seems like a bit of a tail risk [indiscernible] (00:36:17)?

Q

**Lawrence Stephen Coben**

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

A

Yeah. Look, Shar, I think we've always, as we've said, liked PJM market, we just weren't really in a position to be a strong generation player in it. The developments that are going on, be they for data centers, be they for large load, be they for tightening capacity markets, be they for the recent settlement on capacity all give us a great deal of comfort on where this has to go. And so we also – we run a lot of sensitivities. It won't surprise you. We don't need exorbitant capacity or energy prices for this to be an exceptionally, exceptionally accretive transaction. PJM is probably where we have the most asymmetric gearing to the upside and so that's why we like it. We don't see any way that market can't tighten, but even if it doesn't, this is an exceptionally accretive transaction.

**Shahriar Pourreza**

*Analyst, Guggenheim Partners*

Q

Got it. Got it. And then are there any large – is there any large customer or co-location deal tied to these assets, either ones you're inheriting from LS or ones that you've been working on, but just didn't previously have the Gen 4?

**Lawrence Stephen Coben**

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

A

Nothing yet, Shar.

**Shahriar Pourreza**

*Analyst, Guggenheim Partners*

Q

All right.

**Lawrence Stephen Coben**

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

A

We believe it will definitely enhance our large load and data center strategy, but nothing we're prepared to talk about at this time.

**Shahriar Pourreza**

*Analyst, Guggenheim Partners*

Q

Okay. Perfect. And then just lastly, I guess, how do you go about unlocking the \$500 million in collateral efficiency, does it require to hit IG first, any just rough guidance on how to at least think about potential synergies there? Thanks.

**Bruce Chung**

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

A

Yeah, no, Shar. It's Bruce, I think that's really just a function of having generation now alongside a pretty significant C&I book and being able to sort of match that up appropriately. That is – that's something that we're going to be able to do just by our own internal means.

**Shahriar Pourreza**

*Analyst, Guggenheim Partners*

Q

Got it. Perfect. Big congrats, guys. Larry, everything. Bruce, I'm very proud of you this morning. Thanks, guys.

**Bruce Chung**

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

A

Thank you, Shar. I feel like such a good son now.

**Lawrence Stephen Coben**

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

A

Thanks Shar.

**Operator:** One moment for our next question. Our next question comes from Steve Fleishman with Wolfe Research. Your line is open.

**Steve Fleishman**

*Analyst, Wolfe Research LLC*

Q

Yeah. Hi, guys. Congrats.

**Lawrence Stephen Coben**

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

A

Thank you, Steve.

**Steve Fleishman**

*Analyst, Wolfe Research LLC*

Q

Congrats to Larry and team. So I guess my data center question was just asked. Just a couple other details. The shares that you're issuing, is there that just – that fixed amount of shares, there's no like collars or anything else like that correlated to it?

**Lawrence Stephen Coben**

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

A

Correct.

**Steve Fleishman**

*Analyst, Wolfe Research LLC*

Q

That is good. And then just could you just go through the path of deleveraging in terms of just like where are you after year one of closing? And then how do you then get down to the three times?

**Bruce Chung**

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

A

Yeah, I see. So like I said we're going to be deleveraging through internally generated cash flow. Year one after close, we will probably be right around 3.5 times and then we'll tick down steadily over the following two years until we get to three times.

**Steve Fleishman**

*Analyst, Wolfe Research LLC*

Q

Okay. So not that far off to three. Yeah. Good. And then I guess you touched on it a little bit, but just on the data center strategy that you have been talking about – well, I guess the two strategies you've been talking about previously, first, the data centers, it sounds like you're hoping to lock those up in Q2. The Menlo and the PowLan,

and then also just the new build strategy. So, even you're still bullish on pursuing continued new build generation, even as we've seen prices go up and the like for the cost of new build.

**Lawrence Stephen Coben**

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

A

We are. We think that additionality is still going to be a big part of people's data center strategies going forward and we now have the optionality to be able to do that and we are continuing to – all the things we said about data centers in the last call, let me just reaffirm and reiterate those. I mean, our view on data centers hasn't changed. Obviously, we didn't spend much time on it in this presentation because there were some other things to talk about.

**Steve Fleishman**

*Analyst, Wolfe Research LLC*

Q

Understood. Great. Congrats again.

**Lawrence Stephen Coben**

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

A

Thank you, Steve.

**Operator:** One moment for our next question. Our final question comes from David Arcaro with Morgan Stanley. Your line is open.

**David Arcaro**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hey. Thanks so much. Good morning.

**Lawrence Stephen Coben**

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

A

Hi, David. How are you?

**David Arcaro**

*Analyst, Morgan Stanley & Co. LLC*

Q

Good, good. Congratulations. Hey, I was thinking or I was wondering at a higher strategic level how does your – how does the overall NRG portfolio look in your view right now? There have been – it seems like a bunch of transformations now over the last couple of years. After this acquisition, is this a good balance? Are there holes or opportunities versus what you think the overall kind of ideal NRG portfolio looks like?

**Lawrence Stephen Coben**

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

A

Yeah, look, I think we really like where we sit in the portfolio both in terms of exposure to markets, large loads, data centers and then layering in on top of that the optionality we have with GEV and Kiewit to provide additionality. So we really like where we sit in every segment of the market, be it generation, be it large load, be it data center, be it retail. We're really quite pleased with the way this portfolio enables us to compete across the board in every competitive market we want to be in.

**David Arcaro**

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay, great. Understood. And then I was wondering, is there – if you were to – are you able to give if you were to mark-to-market just what the EBITDA and cash flow uplift would be on the current forward curves? And maybe a bit of a follow-on to that. But a lot of the new assets are peakers and you've got a decent amount of exposure here to the PJM capacity auction. Wondering if you could talk about just how much exposure there is, what's the sensitivity to capacity prices here and kind of how do you look at the outlook for PJM capacity?

**Lawrence Stephen Coben**

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

A

Look, I don't think we are – the assumptions that we've utilized and that you can see in some of the appendices really are particularly aggressive or require high levels of capacity auction. You could run this across a series of sensitivities, David, and it's – you're still going to get this incredible double-digit accretive outcomes that we're looking at here. So, I think we'll end up providing some more color over time as that – exactly how those sensitivities work. But we're super confident that across a wide variety of potential outcomes in the market, this is an outstandingly good transaction. Bruce, do you want to add anything to that?

**Bruce Chung**

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

A

Yeah. David in terms of the – your point about this portfolio having a good number of peakers, that's correct. But if you think about the gross margin associated with the portfolio, it's actually probably more 55% energy, 45% capacity and that's in large part because of – the CCGTs that are in the portfolio are very efficient and have very high runtime. So you can think about it that way.

**David Arcaro**

*Analyst, Morgan Stanley & Co. LLC*

Q

Got it. Got it. That's helpful. Thanks. And maybe just sneak in one more, just thinking about the incremental free cash flow before growth, it seems like a good portion of the incremental free cash flow is going toward debt pay down. But essentially, as you get out after that 24 to 36 months, that's going – no further commitments at that point, at that point, it's incremental kind of to be used toward your overall capital allocation framework, the 80/20.

**Bruce Chung**

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

A

Yeah, that's right. That's what we said. We said post the deleveraging period, we would expect to go back to that 80/20 framework.

**David Arcaro**

*Analyst, Morgan Stanley & Co. LLC*

Q

Excellent. Thanks so much. Appreciate it.

**Operator:** And pardon me, we did have someone else queue for questions. So one moment for our next question. Our next question comes from Carly Davenport from Goldman Sachs. Your line is open.

**Carly Davenport**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey, good morning.

**Lawrence Stephen Coben**

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

A

Good morning.

**Carly Davenport**

*Analyst, Goldman Sachs & Co. LLC*

Q

Good morning. Thanks so much for taking the questions. Maybe just one from me, just on the standalone business on the Home VPP opportunity. Can you just talk a little bit about tracking post-launch in terms of the uptake and how you feel about the ultimate margin opportunity there relative to what you've laid out on prior calls?

**Lawrence Stephen Coben**

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

A

Carly, I'm going to let Rasesh answer that because this is going to be the last question he gets to answer on a call. So, thank you for asking.

**Rasesh Patel**

*President-NRG Consumer, NRG Energy, Inc.*

A

On that note, Carly, I feel incredibly bullish about where we sit on the Home VPP opportunity. If you recall the third quarter earnings call, we had stated that we expect to exit this year with about 20 megawatts of VPP capacity growing to 300 by the end of 2027. We're right now expecting to exit this year with 150 megawatts of residential demand response capacity. So, we're tracking really well – the reception from consumers has been outstanding because essentially this is incremental value-add for the customer. They're getting a smart thermostat, a doorbell camera, a free installation, all as a part of being an NRG customer. And in fact, we have been moderating our – the demand just so that we can hire enough installers in Texas to fulfill the customer demand.

And then lastly, in terms of kind of the margin and earnings part of this, the thing that has really surprised us in a positive way is, of the customer that has taken this value proposition from us, close to half were already upgraded to other recurring revenue services within the NRG family. And so this not only helps us moderate supply cost, gives us a differentiated and a secure value prop with the retail customer, but we're now getting incremental recurring revenue and margin for the customer. So, all systems are a go. We launch the offering across the state and across all channels at the start of this month and we're hiring as fast as we can to ensure that we can fulfill the demand.

**Carly Davenport**

*Analyst, Goldman Sachs & Co. LLC*

Q

That's great. Appreciate that and I'll leave it there. Thank you.

**Lawrence Stephen Coben**

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

A

Thank you.

**Operator:** I'm not showing any further questions at this time. I'd like to turn the call back over to Larry Coben.

## Lawrence Stephen Coben

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

Thank you all for your interest in NRG. I think you can hear the palpable excitement that we have in the room for this transaction and the opportunities that it provides us. We look forward to providing you more information in the days and quarters ahead and really thank you all for being shareholders of NRG.

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

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