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NRG Energy, Inc. (NRG)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to NRG Energy, Inc.'s Fourth Quarter and Full Year 2019 Earnings Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions] I'd now like to hand the conference over to your speaker for today, Kevin Cole, Head of Investor Relations. You may begin.

Kevin L. Cole

Senior Vice President, Investor Relations, NRG Energy, Inc.

Thank you, Towanda. Good morning and welcome to NRG Energy's fourth quarter and full year 2019 earnings call. This morning's call is scheduled for 45 minutes in length and to be broadcast live over the phone and via webcast, which can be located in the Investors section of our website at www.nrg.com under Presentations & Webcasts.

Please note that today's discussion may contain forward-looking statements, which are based on assumptions that we believe to be reasonable as of this date. Actual results may differ materially. We urge everyone to review the Safe Harbor in today's presentation, as well as 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 now with that, I'll turn the call over to Mauricio Gutierrez, NRG's President and CEO.

Mauricio Gutierrez

President & Chief Executive Officer, NRG Energy, Inc.

Thank you, Kevin, and good morning, everyone. And thank you for your interest in NRG. I'm joined this morning by Kirk Andrews, our Chief Financial Officer. Also on the call and available for questions, we have Elizabeth Killinger, Head of our Retail Mass business; and Chris Moser, Head of our Operations. This earnings call marks the four-year anniversary since we started a new direction for NRG. We have accomplished many things together. We refocus and streamline our business to better serve our customers. We significantly reduced our total debt and strengthened our balance sheet, which is now on a path to an investment grade rating.

We provided discipline and transparency on how we invest our capital, and most importantly, we have done it the right way for our employees and our stakeholders. The company has never been stronger or with a brighter future than it is today. I'd like to start by highlighting the key messages for the quarter on slide 3.

First, our integrated business delivered EBITDA in line with our 2019 expectations during a period of volatile market conditions further validating the benefits of integration between retail and wholesale. As such, we're also reaffirming 2020 guidance.

Second, we have a comprehensive sustainability framework with industry-leading carbon reduction goals. Given that I view this framework as foundational to our business and an integral part of our long-term strategy, I will provide additional details later in the presentation.

And third, we continue to execute our capital allocation strategy by adhering to our principles and our commitment to being excellence towards our shareholder capital.

Moving to the business and financial highlights on slide 4, beginning with our 2019 scorecard on the left hand side of the slide, we executed well on all our priorities. We delivered strong financial and operational results despite challenging market conditions during the summer. We also had our best safety year ever marking these the second back to back years of record performance. Congratulations to all my colleagues for this remarkable accomplishment.

With respect to our transformation plan, we deliver on our goals. We have now completed over 90% of the plan with all cost savings on working capital completed and $80 million of additional margin enhancement remaining to be achieved in 2020. After two years of focusing on rightsizing the business and strengthening our balance sheet, in 2019, we focused on perfecting our integrated business. We signed 1.6 gigawatts of medium-term solar PPAs in ERCOT, returned our Gregory plant to service ahead of the summer and acquired Stream Energy adding important capabilities to our retail portfolio.

We also announced the acceleration of our science-based carbon reduction goals to align with guidance from the new Intergovernmental Panel on Climate Change to limit global warming to 1.5 degree Celsius so as to avoid the worst effects of climate change. Finally, we continue to adhere to our capital allocation principles and provided additional transparency into our long-term capital allocation plan.

In 2019, we returned approximately $1.5 billion to shareholders through share repurchases and dividend. We also announced the increase of the dividend from $0.12 per share to $1.20 per share with the first payment made in the first quarter of 2020. During the fourth quarter, we received an upgrade from Moody's with a positive outlook, moving us closer to our goal of a solid investment grade rating.

On the right hand side of the slide, similar to how we have presented the financials throughout the year, EBITDA is shown on a same-store basis adjusted for asset sales and deconsolidations. We ended the year with $1.977 billion of EBITDA or 24% higher than last year. While we deliver on EBITDA, our free cash flow came in below our expected range due to timing issues with Kirk, which Kirk will address in greater detail later in the presentation.

On the next two slides, I want to talk to you about our comprehensive sustainability framework. It is one that expands across our business from operations and employees to customers and suppliers. Sustainability is embedded in our culture, aligned with our strategy and necessary for our long-term success. Beginning on the slide 5, our sustainability philosophy is guided by three core principles: Accountability, transparency and engagement.

So let me start with accountability. Good intentions are just not enough. We need goals that are clear and measurable. We have a few examples in this slide, including safety, environmental responsibility and our commitment to inclusion and diversity. You have heard me say these before. Safety is our number one priority. We measure and report our safety performance every quarter and we hold ourselves accountable to top decile performance.

In this way, we're able to take corrective actions to improve our performance in periods where we fall below our standards. Like safety, we have many other goals across our business that measure not just what we do but how we do it including our carbon reduction goals, which I will address in more detail in the next slide.

Measurable goals are important. But we also need to communicate our progress in a clear and transparent way. We do this every year with the release of our sustainability report. We were the first and only company in our sector to comply with the Sustainability Accounting Standards Board or SASB back in 2016. We were one of the first companies to publicly commit to the task force on climate-related financial disclosures or TCFD. And recently, we were awarded leadership level across all three Carbon Disclosure Projects or [ph] CDP (00:08:37) programs on climate risk, water security and supply chain engagement.

Finally, we are committed to engaging and investing in the communities where we live and do business, from major cities with large concentrations of customers to smaller communities that are home to our power plants and employees. In 2019 alone, we donated to almost 700 organizations. But we aren't just focused on monetary donations. We're also investing our time in the communities with over 11,000 volunteer hours by our employees across 264 organizations. We also participate with organizations like CECP, where we presented our sustainability framework and long-term strategy to investors. This engagement is something that makes us very proud and defines us as a company.

Now let me turn to slide 6. I want to talk to you about our decarbonization efforts as we transition our business away from traditional generation and closer to the retail customer. In September of last year, we accelerated our carbon reduction goals to confirm with a 1.5 degree trajectory. This means reducing our carbon emissions 50% by 2025 and to be net zero by 2050. These goals are some of the most ambitious in the sector and we're proud with the progress that we have made to date. We are already 83% of the way to our 2025 goal with clear line of sight to achieve it with our current portfolio.

Although our baseline is 2014, we have been decarbonizing our fleet since 2010 as you can see on the left hand side of the slide. We have reduced our carbon emissions by 40 million metric tons in just the last 10 years. That is the equivalent of taking 9 million cars off the road every year. As you can see, our actions move the needle. We will continue to share our progress and plans in the months to come.

From an earnings perspective, as we progress towards decarbonization, cogeneration is contributing less and less to our earnings. Moving to the right side of the slide, in just the last six years, coal as a percentage of our total revenues has decreased 55% and that is inclusive of capacity revenues. This is an important distinction as energy revenues have been the bulk of the decline and our coal assets in the East now act primarily as insurance for grid reliability and not for electric generation.

Finally, sustainability is an integral part of our culture and incorporated in our strategic decisions. We continue to take concrete actions to limit our own carbon footprint while also providing customers with cleaner energy choices such as electricity plants from renewable resources. I look forward to updating you on our progress in the future and be on the lookout for the release of our annual sustainability report in early May.

Now turning to slide 7, I want to provide you a brief update on our core markets. Beginning on the left side of the slide, as you can see on the chart, electric demand in ERCOT continues to grow at the fastest pace in the nation between 2% and 3% per year for the foreseeable future. Now, as you all know, the direct result of this robust load growth is a record tight supply-demand balance for reserve margin. This requires a tremendous amount of generation investments simply to maintain the current low reserve margin.

As a large participant in the market, we are looking to facilitate solar new builds to improve reliability and rebalance our portfolio by entering into medium-term PPAs. These PPAs enabled the developers to obtain cost-effective financing and tax equity to economically develop the project. And for us, they complement our generation profile, lower our cost structure and allows us to better serve our customers.

From an overall market perspective, we expect ERCOT to remain tight and volatile for the foreseeable future. Our integrated platform is well positioned to thrive during this volatile and emerging renewable build cycle.

Moving to the right side of the slide, we are seeing steady progress in all of our core markets with FERC, ISOs and states addressing the current market design and adapting it to be evolved grid of the future. While progress has not been perfect, we support efforts that create durable markets that benefit consumers and foster the transition to a cleaner and sustainable energy future. In ERCOT, regulators continue to refine their scarcity pricing mechanism to incentivize new generation, which is predominantly renewable and intermittent while adequately compensating existing resources that provide firm or dispatchable generation.

In the East, FERC issued a ruling on the PJM capacity market proceeding, which resulted from its finding that current market design is unjust and unreasonable. This ruling seeks to correctly account for resources that receive state subsidies, particularly out of markets nuclear subsidies that stifle development of renewable energy and distorts the integrity of competitive markets. This ruling is just the most recent in a series of market reforms that PJM and FERC have undertaken since 2004 to protect the integrity of competitive markets.

Moving to capital allocation on slide 8, you can see that our track record is directly in line with our roadmap to value creation of stabilize, rightsize and now redefine our company. During 2019, we achieved our investment grade credit metric target. We announced the highly accretive Stream retail transaction and closed it within three months. And in line with my commitment to returning capital, we increased our dividend tenfold and executed $1.44 billion in share repurchases.

For our 2020 capital allocation plan, we are already executing. We paid our first dividend under our recently announced $1.20 per share with 7% to 9% annual growth dividend policy. We have already begun executing share repurchases under our current $400 million share buyback program consistent with a 50% return of capital commitment. And like in 2019 and every year since I took over as CEO, you can expect disciplined and timely allocation of our excess uncommitted capital as we earn it throughout the year.

Last, I want to remind everyone about our capital allocation framework on the right side of the slide. As you can see on the waterfall, we remain committed to maintaining top docile safety and operational excellence. We will continue to have a strong balance sheet, having now achieved investment grade credit metrics. And last quarter, we provided enhanced visibility into our long-term capital return philosophy, at least 50% will be returned through our mix of dividends and share repurchases. For the other 50%, we remain committed to our growth investment criteria, which must meet or exceed our financial thresholds and be consistent with our core strategy, or it will be returned to shareholders.

Now, given that the seasonality of our cash flows and liquidity ultimately [ph] inform (00:17:51) capital allocation, it is my intention for the 50% return of capital to be allocated more programmatically with a dividend paid quarterly and share repurchases throughout the year. At the risk of being redundant, as we have consistently said on nearly every earnings call and every meeting, we are committed to being prudent allocators of shareholder capital. We will continue to demonstrate our discipline by adhering to our stated principles and allocate capital to opportunities that maximizes long-term value for your investment. That's our mindset.

So with that, I will turn it over to Kirk for the financial review.

Kirkland B. Andrews

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

Thank you, Mauricio. Turning to the financial summary on slide 10, NRG finished 2019 with $1.977 billion in adjusted EBITDA and $1.212 billion in free cash flow before growth. Retail delivered $920 million in adjusted EBITDA, a $32 million decrease versus 2018, largely due to higher supply costs in the ERCOT region. Highlighting the benefits of our integrated platform, higher wholesale prices, particularly in ERCOT, benefited our generation segment which delivered $1.057 billion in 2019.

Moreover, as our prior year 2018 generation results included approximately $180 million in EBITDA from assets subsequently sold as well as [indiscernible] (00:19:34) results prior to their deconsolidation. On a same-store basis, our 2019 generation EBITDA results represented over a $400 million year-over-year increase in EBITDA.

Our consolidated 2019 results also include the benefit of the full run rate of $590 million from cost savings as well as $135 million of margin enhancement from our transformation plan. 2019 free cash flow before growth was $1.212 billion. Although these results represent a $92 million increase over 2018, free cash flow fell short of our guidance range of $1.25 billion to $1.35 billion due to the impact of a delay in the timing of certain cash flow items, which will now contribute to 2020 free cash flow.

In total, on a net basis, the impact of these timing-related items was approximately $60 million. The largest component of these items was to delay in the receipt of $34 million in A and B credit refunds due to NRG in 2019 as a result of the Tax Reform and Jobs Act. NRG filed the required documentation associated with these refunds on time and we fully expect to receive them in 2020. The balance of the net timing impact primarily consists of other working capital-related items which we now expect in 2020. And as a result, the full amount of the $60 million will be realized in this year.

Turning to an update on share repurchase activity, we completed the latest $250 million share repurchase program announced in 2019 and have now turned toward executing on programmatic share repurchases in 2020 as a part of our revised capital allocation framework announced last quarter.

This framework includes our commitment to returning at least 50% of the annual free cash flow to our shareholders through a combination of our increased dividend and ongoing share repurchases. As a result, in 2020, we expect to execute on approximately $380 million of incremental share repurchases, which I'll explain in greater detail in a few moment.

In 2019, we reduced debt by $600 million and achieved our target investment grade metrics for the year. We also realized an important milestone as we continue toward our goal to align our ratings with our credit metrics and our reduced risk profile, as we received an upgrade from Moody's to Ba1, one notch below investment grade with a positive outlook.

Finally, as Mauricio mentioned in his opening remarks, we're reaffirming our 2020 adjusted – consolidated adjusted EBITDA guidance range of $1.9 billion to $2.1 billion and consolidated free cash flow before growth guidance of $1.275 billion to $1.475 billion.

Turning to slide 12 for a final summary of 2019 capital allocation, with changes since our prior update highlighted in blue, after adjusting for 2019 actual cash flow results, our total 2019 excess capital available was $2.845 billion and was allocated as follows: Just over $700 million or approximately 25% was used to fund reductions in total debt in order to achieve our target investment grade metrics. $1.44 billion, representing just over 50% of total capital was used to fund share repurchases during 2019. We ended the year with $60 million remaining under the most recent $250 million buyback program and have completed these repurchases during early 2020.

Dividends in 2019 under the prior dividend policy represented the balance of return of shareholder capital and of course will represent a significantly more robust component of capital allocation going forward. $551 million was allocated to growth in other investments or approximately a $30 million increase versus our prior update, reflecting M&A fees and other integration costs associated with our retail acquisition. After a slight shift in transformation plan cost to achieve from 2019 to 2020, we ended 2019 with $35 million in unallocated capital, which will be part of the 2020 summary and I'll now turn to that on slide 12.

As shown on the left of slide 12, the combination of $35 million carried over from 2019 plus the midpoint of our 2020 free cash flow guidance leads to just over $1.4 billion in capital available for allocation in 2020. As I mentioned before, we ended 2019 with the $60 million balance remaining under our latest buyback program, which has now been completed in 2020. Adjusting for that 2019 carryover, we have $1.35 billion in 2020 capital remaining to be allocated, to which we then apply our framework of 50% return of shareholder capital and 50% toward potential value accretive investment opportunities.

$675 million will be returned to shareholders in 2020 via our increased dividend for $295 million and the balance of $380 million through ongoing share repurchases, of which we have executed $62 million year to date. The remaining 50% of excess capital is available for potential investment opportunities, of which only $61 million are currently identified.

As shown in the box below the chart, this consists of the balance of cost to achieve associated with the transformation plan, our ongoing commitment to legacy GenOn pension obligations and cost associated with readying the site of our retired and senior generating station in California to be marketed for redevelopment. This site is located in San Diego County and is a prime location for real estate developer.

As with our successful sale of the Potrero site outside San Francisco just a few years ago, the Encina site represents a similar compelling opportunity for monetization. The balance of $614 million in unallocated capital remains available for accretive investment opportunities. However, should we be unable to find sufficient magnitude of strategically consistent value-enhancing opportunities, which exceed both our hurdle rate as well as the opportunity cost of our own stock, we intend to allocate any remaining balance of this capital to our shareholders.

Finally turning to slide 13, based on 2019 actual results, we ended the year near the midpoint of our target investment grade metric range. For 2020, we remain on track to further strengthen our investment grade credit metrics to 2.5 times net debt to EBITDA, making 2020 the second year of achieving investment grade credit metrics for NRG. Importantly, we expect to achieve these results without the need for additional capital allocation toward debt reduction. We continue to believe that the combination of our stable cash flows and strong credit metrics along with the continued execution places us in a position to build on our recent ratings upgrade toward achieving investment grade ratings over the next 12 to 18 months.

And with that, I'll turn it back to Mauricio.

Mauricio Gutierrez

President & Chief Executive Officer, NRG Energy, Inc.

Thank you, Kirk. Turning to slide 15, I want to provide you a few closing thoughts on our 2020 priorities and expectations. As always, our top priority remains delivering on our financial and operational objectives and adhering to our capital allocation principles. In addition to completing our transformation plan, we remain focused on further perfecting and growing our business. These means rebalancing our current portfolio through additional asset optimization efforts and growing our customer base with compelling retail products, supported by capital-light generation supply. With a large asset sales completed, we're looking at further optimizing single assets and our real estate portfolio at large. An example of that is what we're doing at the Encina site getting it ready for commercial redevelopment and the development on sale of Canal 3.

These type of projects are generally highly accretive, don't use permanent capital and further simplify our story. We will also continue to enhance and simplify our disclosures to better align with the way we manage our integrated business. In the next earnings call, we will provide additional disclosures around our ERCOT platform.

Finally, and like I said earlier, our company today is stronger than it has ever been. We have the financial flexibility to continue perfecting our platform to make it simpler and more predictable while consistently returning significant capital to shareholders. I am very excited for 2020 and the future of our company, and I want to thank you for your time and interest in NRG.

With that, Towanda, we're now ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Michael Lapides with Goldman Sachs. Your line is open.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Thanks for taking my question. I really have two. One is how far into the year will you kind of seek growth-related opportunities before you decide to pivot and utilize that capital for share buybacks? That's question one.

Question two, just wanted to think about the asset base and how you're looking at whether it's the – some of the fossil plants in the Northeast or some of the gas plants in California, what could potentially not be a long-term core asset for NRG?

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

A

Yeah, Michael. Good morning and thank you for your questions. I mean the first one related to the timing on whether we allocate this capital to grow or we reallocate it to share buybacks. I think during the second half of the year, we're going to have more clarity in whether we have actionable growth opportunities that not only meet our financial thresholds but are better than the opportunity cost of buying our own shares. So, I think at that time we will now start reallocating the capital to share buybacks.

And then with respect to your second – yeah, with respect to your second question about, I think it's more broadly just what is core generation in our portfolio. I think in the past I said Texas is pretty well balanced and we're actually complementing our supply generation with PPAs in the East and particularly California. I mean in the East, we – our generation is bigger than our retail supply. So either we grow our retail or we reduce our generation position and we're evaluating that.

Now keep in mind that the model that we have going forward is we really want generation that serves our purpose and that purpose is to better serve our customers in the most cost-efficient way. So, we're constantly and continuously going to evaluate our generation portfolio in light of that priority. California is less strategic, less core, because we don't have a retail business, so while we have benefited from an increasing capacity price in California, we're going to continuously evaluate that portfolio through the lenses of our long-term strategic goals.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you very much for that. And then finally, when you're looking at cost management opportunities kind of longer term, where do you think the greatest opportunities exist and I'm thinking kind of post 2020?

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

A

I think, first, I'm assuming you're talking about opportunities for growth or is that what you're referring to, Michael?

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

No. I'm talking about cost management. So reducing OpEx...

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

A

Oh! Cost management?

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

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

A

Okay. Well, a couple of things, we've been completely focused right now on executing our transformation right now. So, I mean I'm very pleased with the progress that we have made. We're not done yet. We've got to deliver on the margin enhancement. As we finalize that, we're going to start looking at how do we – where other opportunities are, as we integrate the portfolio and simplify the story, even beyond the – let's call it the big asset sales, I think there is an opportunity to further streamline the inner workings of our organization, which will translate in cost savings.

Michael Lapides
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you, guys. Much appreciate it.

Operator: Thank you. Our next question comes from the line of Praful Mehta with Citigroup. Your line is open.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Thanks so much. Hi, guys.

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

A

Good morning.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Can you hear me?

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

A

Yes, good morning.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Q

Okay, morning. All right. So, the first question was on PJM and, Mauricio, you talked about the assets are basically getting more capacity rather than energy. Given the uncertainty with what's happening with the FERC ruling [indiscernible] (00:34:02) capacity auctions and the capacity market, do you see any concern that if every state were to step away from the PJM capacity market that it has a risk for you in terms of your capacity revenue or kind of how do you see that playing out?

Mauricio Gutierrez

President & Chief Executive Officer, NRG Energy, Inc.

A

Yes. So, well, let me provide just a little bit of context and perhaps I'll turn it over to Chris to talk about how it's going to play out. I mean I want to remind everyone that our total exposure to PJM is less than 5% of our EBITDA. While we have been very active on the PJM discussion, I also are mindful that is the exposure that we have is just less than 5% of our EBITDA, so we need to allocate resources accordingly to that. Having said that, I will tell you that I was very pleased with the third quarter. I think it is very consistent with what they have done in previous years, which is maintain the integrity of competitive markets, which have greatly benefited consumers across the PJM footprint.

So with that said, Chris, in terms of what to expect next?

Chris Moser

Executive Vice President, Operations, NRG Energy, Inc.

A

Hey, Praful. It's Chris. I would say that I agree with Mauricio there that the FERC MOPR ruling was positive for competitive markets and should help mitigate some of the impact of handouts to some local utilities. You're talking about states pulling out arguably that's the FRR process and I think as states look at that, they may see that the FRR is an inferior alternative for consumers [ph] who are a (00:35:35) region wide capacity market.

I mean, if you look at the history of FRRs, they've consistently cost the consumers in that area 3 times to 10 times the prevailing auction rate. They shift risk on to a captive set of ratepayers locked into local monopoly. The latest numbers I saw from the IMM indicates that the nukes that are getting [indiscernible] (00:35:53) right now are profitable without them, so it's unclear to me why an FRR would be the choice of anybody except the ones receiving those subsidies. So, yeah, there's obviously a lot of smoke around this right now and a lot of states are talking about it. But, I mean, if you dig into what FRRs have done in the past and what they're expected to do in the future, it doesn't seem like a great idea for me.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Q

Got it. Well, super helpful color there. Maybe moving on to more strategic question, which is, as you know, ESG and you've talked about it as well in your slides, has become a big focus, investor focus has changed and continues to change with environmental becoming a big factor. Do you see at some point going private is an option that you would consider, or how would you look at that go private given how generally investor perception is changed over time?

Mauricio Gutierrez

President & Chief Executive Officer, NRG Energy, Inc.

A

Yeah. Well, first, I agree that ESG has gotten a lot of focus lately. For us, this has been a focus of the company since I became CEO. I mean as you can see from the progress and the details that I provided today on the presentation, I mean you don't build this overnight. This is the result of 3.5 years – 4 years of intense work and intense focus on ESG. So, not only it's important for us, it's foundational and it's embedded in everything that we do.

To your second question around going private, right now, it's not lost on me that where our stock price is and the difference between that it really doesn't reflect the fundamental value of our company. We continued to be focused on executing and delivering on our results. We believe that the value proposition that we have of a business that is balanced between generation and retail, that provides a stable and predictable earnings, with a investment grade metric balance sheet and a meaningful return of capital shareholders is compelling. And if that doesn't translate, we will evaluate all options. My goal – my mandate is to maximize shareholder value and everything that we do and all the decisions that we take on allocating capital is with that mindset. So, I mean right now we're going to be focused on executing but it's not lost on me that at some point we will have to evaluate all options.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Got you. And just to clarify on that when you say to evaluate all options, is there a time window we should be thinking about in terms of if the public market works or not, how should we think about that?

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

A

Yes. I mean, right now, we're still in the final year of a three-year transformation plan that we have done. We are on a path to achieving investment grade credit rating. I think when we start seeing the – all of those things finalizing and, obviously, we already provided enhanced visibility on our capital allocation. So when these things start, all visible to shareholders and we just don't see – we continue to see a significant gap between the stock price and the fundamental value of our company, I think that will be the time to start evaluating all other options.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Very helpful. Very clear. Thanks so much, Mauricio.

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

A

Thank you.

Operator: Thank you. [Operator Instructions] Our final question comes from the line of Julien Dumoulin-Smith of Bank of America. Your line is open.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Hey. Good morning, team. Thanks for the time again. Just following up on sort of the cap allocation conversations here, can we talk a little bit more about the unallocated piece and just how you think about finding opportunities that meet this more stringent hurdle rate? And again, I'll say it, I mean, I appreciate the capital allocation diligence that you've articulated here, but given just how high of a threshold that is, how do you think about maybe the timing but also related to that the opportunities that that might be available at that sort of 15% beyond just retail? It would seem as if buybacks would be the obvious default here and so, any thoughts on that?

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

A

Yeah, Julien. Well, first of all, the recent price of our stock is never lost on me and particularly when it comes to capital allocation. So, as I think about these growth opportunities as I said before and not only they have to meet our financial hurdles, but they need to be superior to the cost of not buying back our own shares. So, having said that, there are some areas of opportunities that are consistent with our long-term strategy. I will say that retail while there has been a lot of consolidation, there's still some opportunities I would say in the small to medium-size companies. And given the scale that we have and the scope of our operational platform, we can achieve significant synergies when looking at these opportunities.

I don't see the same attractive opportunities in the generation side. That's why we have been executing on our capital-light PPA strategy. So, I mean, I don't disagree with you. I mean, particularly with the recent performance of our stock price, it makes it so much harder to allocate capital to growth, or in this case, it makes the probability of reallocating that capital from growth to share buybacks much more probable.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Got it and if I can follow up on one more niche type issue here, how are you thinking about New York ultimately given some of the new regs and compliance and just strategic options broadly?

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

A

Hey Julien, Chris here. If you go look at the 10-K, there's a line in there that says in effect late last year New York finalized the more stringent NOx regulation that will result in the retirement of the asset of the story at Pratt & Whitney's in early 2023.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Okay. All right. So, it's pretty definitive?

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

A

Yeah. I mean the filing will go in, in a couple of days, but that line is in the 10-K somewhere.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Okay. All right. Excellent. Thank you all very much.

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

A

No. Yes. The one thing that I will say just keep in mind that asset is very valuable [indiscernible] (00:42:39), and as we always do with our portfolio, we try to evaluate what is the most profit maximizing way of looking at these real estate sites.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

[indiscernible] (00:42:58).

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

A

Thank you, Julien.

Operator: Thank you. Due to the interest of time, that is all the time we have for questions. I would now like to turn the call over to Mauricio Gutierrez for closing.

Mauricio Gutierrez

President & Chief Executive Officer, NRG Energy, Inc.

Thank you, Towanda. Once again, thank you very much for your interest in NRG and I look forward to continuing our conversation. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect. Everyone, have a wonderful day.