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Covanta Holding Corp. (CVA)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to Covanta Holding Corporation's Fourth Quarter and Full Year 2018 Financial Results Conference Call and Webcast.

An archived webcast will be available two after – two hours after the end of the conference call and can be accessed through the Investor Relations section of the Covanta website at www.covanta.com. A transcript will also be archived on the company's website.

At this time, for opening remarks and introductions, I'd like to turn the call over to Dan Mannes, Covanta's Vice President of Investor Relations. Please go ahead.

Daniel Mannes
Vice President-Investor Relations, Covanta Holding Corp.

Thank you, Emily, and good morning, everyone. Welcome to Covanta's fourth quarter and full year 2018 conference call. Joining me on the call today will be Steve Jones, our President and CEO and Brad Helgeson, our CFO. We will provide an operational and business update, review our financial results and then take your questions.

During our prepared remarks, Steve and Brad will be referencing certain slides that we prepared to supplement the audio portion of this call. Those slides can be accessed now or after the call in the Investor Relations section of our website, www.covanta.com. These prepared remarks should be listened to in conjunction with these slides.

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Now on to the Safe Harbor and other preliminary notes. The following discussions may contain forward-looking statements and our actual results may differ materially from those expectations. Information regarding factors that could cause such differences can be found in the company's reports and registration statements filed with the SEC. The content of this conference call contains time-sensitive information that is only accurate as of the day to this live broadcast, February 15, 2019. We do not assume any obligation to update our forward-looking information unless required by law.

Any redistribution or retransmission or rebroadcast of this call in any form without the express written consent of Covanta is prohibited. The information presented includes non-GAAP financial measures. Because these measures are not calculated in accordance with U.S. GAAP, they should not be considered in isolation from our financial statements, which have been prepared in accordance with GAAP. For more information regarding definitions of our non-GAAP measures and how we use them, as well as limitations as to their usefulness for comparative purposes, please see our press release, which was issued last night and was furnished to the SEC on Form 8-K.

With that, I'd like now to turn the call over to our President and CEO, Steve Jones. Steve?

Stephen J. Jones

President, Chief Executive Officer & Director, Covanta Holding Corp.

Thanks, Dan, and good morning, everyone. For those of you using Web deck, please turn to slide 3. We finished strong in 2018 generating $457 million of adjusted EBITDA and $100 million of free cash flow for the year. This performance, which came in at the top end of the guidance ranges, is a product of our team's hard work and dedication. And I want to take a minute to thank them for this great performance.

For 2019, we expect adjusted EBITDA in the range of $440 million to $465 million and free cash flow of $120 million to $145 million. As we discussed on the Q3 call, our outlook for adjusted EBITDA is roughly flat to 2018. However, as Brad will discuss in more detail, the midpoint of the guidance range for adjusted EBITDA actually reflects a nice underlying trend of growth when normalizing for the timing of the business interruption proceeds that we received in 2018. And, of course, the free cash flow range represents significant year-over-year improvement.

I'll now review some key business and strategic highlights, please turn to slide 4. From a performance perspective what a year, we set records seemingly across the board. We processed more waste, generated more energy and recovered more metals than we had in any other year in the history of the company. We processed a record 20.4 million tons reflecting a full year of Dublin operations, the addition of two large Palm Beach plants towards the end of the year and processing records at six different facilities, which is a credit to our operating teams and demonstrates how the continuous improvement initiatives are bearing fruit. We expect that you'll see more of the same in 2019 with even higher throughput given the full year contribution from Palm Beach.

We believe that safety, performance and operational performance go hand in hand and while the plant set production records in 2018, we also had the safest year in the history of the company. Our Energy-from-Waste plant saw a 31% reduction in incidents year-over-year. Our total case incident rate, which is a measure of the number of incidents to total hours worked, was at the lowest level in the company's history. This is a fantastic accomplishment. But safety is about what we do every day and we'll continue to strive for zero incidents in the future.

Our primary end market is sustainable waste disposal. And as I become known to say, it's a good time to be a waste company. Disposal options in many of the markets are decreasing and transportation costs are rising,

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which is a big advantage for our plants which are more proximate to population centers. This manifests itself in improved pricing and we're getting our fair share with same store tip fee pricing, up 3.5% in 2018. Remember that this is occurring even as the majority of our waste is under contract with price escalators running closer to 2% to 2.5%.

We expect similar pricing performance in 2019 and believe that there is substantial runway to continue to push pricing. From a client perspective, during 2018, we extended three service fee contracts totaling 1.1 million tons for an average duration of five years. In 2019, we have expiring service contracts at two plants that we own and we're currently in active negotiations with those client communities and look forward to reaching positive outcomes for both contracts. Beyond that, we don't have another service contract expiration until 2023. So this segment of our portfolio is well locked up.

Our Covanta Environmental Solutions business, or CES, continues to grow nicely. Revenue from processing higher value profile waste at the Energy-from-Waste plants grew another 10% in 2018. This growth was a product of approved diversification of outlets for profiled waste across the fleet, better internalization to our material processing facilities and a 26% growth in regulated medical waste. While this waste stream still represents less than 10% of our total internalized profiled waste, it is growing quickly and offers dramatically higher margins.

We expect our third permitted regulated medical waste plant to ramp up in 2019. And we plan to continue to expand our capacity to handle these waste streams by adding permits at other plants in the coming years. At the material processing facilities, we grew other environmental service revenue by 8% in 2018. And will look to further leverage these assets for mid-single digit revenue growth in 2019.

Lastly, we look forward to the startup of the New York City Marine Transfer Station in Manhattan in the second quarter. We're proud to continue to partner with New York City to provide a sustainable long-term waste solution. And once the facility is fully operational, we expect to receive an additional 170,000 tons annually into the system for ultimate processing at our Delaware Valley and Niagara sites. In total, our Energy-from-Waste plants will now manage roughly one-third of all waste collected by the City for disposal.

As you would expect, record waste throughput and limited plant downtime translated into record energy production in 2018. With modest improvements in market energy prices, we had a better than expected year for energy revenue. That said, even with this recent cold snap, energy prices remain subdued and our primary goal is to manage risk and volatility.

We entered 2019 well hedged and at rates slightly better than the hedges realized in 2018. For the year, nearly 85% of the forecasted energy revenue is already contracted or hedged. From a long-term contract perspective, we have excellent visibility with no material contract maturities until 2024. As we noted in prior quarters, capacity payments will be lower in 2019 based on the auction results from three years ago. Our outlook is for similar levels of realized price – of realized capacity prices for the next two to three years.

And lastly, we continue to explore opportunities to improve pricing from our energy either from its Green attributes or premium locations and expect to have more to highlight in future quarters in this area. We continue to advance our capabilities and performance in metals recovery and processing in 2018, setting yet another record for recovered volumes.

Adjusted for client revenue sharing, we recovered over 470,000 tons of metal, representing a 9% increase over 2017. We continue to find new opportunities to increase metal recovery, particularly on the non-ferrous side through selective additions of equipment at facilities.

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Prices for the ferrous and non-ferrous material have been impacted by different market forces, dictating how we have reacted to minimize volatility and maximize value. Ferrous has been an easier story as the tariffs on imported steel have supported domestic steel production and thus demand for our products as an input. The HMS index averaged over $300 per ton for the year in 2018. And while prices are likely to soften a bit in 2019, we expect relative stability in ferrous prices to continue, resulting in a favorable overall environment for this business.

Non-ferrous has been a bit more complex, as demand for scrap aluminum has declined and prices softened due to policy changes in China. However, the team has successfully found ways to add value to our product via improved separation. And in spite of persistently low prices for scrap aluminum, we expect realized non-ferrous prices and total revenues to be higher in 2019.

We're often asked how much exposure do we really have the market prices for metals. So I'd like to provide some context. On ferrous, the current HMS of nearly $300 per ton is approximately at the 10-year average. While this isn't an exact science, we estimate that a $25 per ton move in HMS on an annual basis would have a $4 million to $5 million impact to revenue, implying that movements to the historical highs or lows represent approximately $15 million to $20 million of upside or downside.

On non-ferrous, we saw a number of products that most correlate either to aluminum or copper. Scrap aluminum prices are already at 10-year lows and appear to have bottomed, so we see more potential for upside than downside from current levels. Copper prices are slightly below the 10-year average. And a $0.25 per pound move in copper prices would likely impact revenue by around $2 million to $3 million annually, positively or negatively.

One of benefits of our metals program is that we diversified our exposure across multiple metals and geographic end markets, while we increased our product quality and volume. These efforts make metals a more durable and valuable line of business for us going forward.

Earlier this year, we began constructing our first Total Ash Processing System or TAPS as we refer to it. Construction is likely to take most of the first half of the year and we'll commission it in the second half. We do not expect the material financial contribution in 2019. However, we're very excited about its potential to increase metal recovery and reduce our ash hauling and disposal costs and hope that this is the first of several such facilities.

While we work through construction and commissioning in the first location, we're working in parallel to develop other sites in the fleet that could make sense for additional systems once the first facility is in operations.

On the top of the plant maintenance, our total Energy-from-Waste maintenance spend was less than 2% – was up less than 2% in 2018 as compared to the prior year, even as we added the Dublin and Palm Beach plants. The outlook for 2019 is similar, adjusting for inflation and the full year impact of the large Palm Beach facilities. This level of maintenance spend is in line with the previously discussed plan and the overall long-term trajectory is unchanged. All else equal, we expect total EfW maintenance spend to continue to increase at an inflation-type rate over time, plus or minus.

As we've discussed, our current level of maintenance activity is appropriate to cover both routine maintenance and long-term asset reinvestment, as we seek to ensure that our plants will continue to run at peak performance for decades to come.

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One facet of managing costs and risk is managing the size and composition of our fleet. You've been hearing from me for some time that I want to take action on the lower profit facilities. And in 2018, those efforts began to yield tangible changes. We successfully amended our agreement with the City of Long Beach and this new arrangement represents a model for how we'd like to structure the client facility agreements, with appropriate risk allocation, long-term reinvestment by the client and shared upside for new revenue opportunities.

In Palm Beach, Florida, we've gotten off to a great start with the new client. These large facilities fit perfectly into our existing footprint, are operating well and offer attractive opportunities for improvement going forward. During the second quarter of 2019, we plan to mothball the Warren County, New Jersey facility. We've already announced this decision, so there's no change there. Shutting down the operations at a facility is a difficult decision. But in this case, it's the right decision from a risk/reward standpoint.

Lastly, during 2018, we signed or closed on the sale of the hydro operations and of three transfer stations as we look to redeploy capital invested in non-core assets for higher returns elsewhere. Note that while our transfer stations represent a critical component of our overall waste sourcing operations, these facilities were no longer strategic for our assets and represent greater value in the hands of other waste companies.

To be clear, we're not done yet. There are many ways to improve the economics of the assets and we're pursuing multiple paths at other facilities that need improvement. Expect to hear more from us on this topic as we move through 2019.

Finally, I'd like to discuss the progress we've made on our UK pipeline. In late December, we announced that we had reached financial close of the Earls Gate Energy Centre. Located in Grangemouth, Scotland, Earls Gate will have the capacity to process approximately 215,000 metric tons of waste per year and generate 21.5 megawatts equivalent of power. I say megawatts equivalent because this plant will sell both power and steam.

The majority of the facility's waste is contracted with municipalities and local haulers, while the energy output is secured under long-term agreements. We expect the facility to be in service by late 2021 and we're extremely excited to have our first UK project investment moving forward.

Regarding the Rookery project in Bedfordshire, England, the High Court denied a court challenge to the issuance of our operating permit in November. The local opposition group is now appealing this decision and we expect this to play out over the course of 2019. We agree with the environmental agency's position that the challenge to their very thorough process is without merit. And we've received strong legal advice supporting this.

In any event, we view this as an issue of process only, not whether the plant will have the rights to operate. Therefore, we're pursuing options to proceed to financial close and commence construction of this much needed infrastructure prior to the end of the appeals process.

Our two projects in the partnership with Biffa, Protos and Newhurst continue to make progress as well. We just received the operating permit for Protos and expect to move towards financial close once it has cleared the standard 90-day judicial review period. The Newhurst project awaits a draft permit, following an application to vary the existing permit, which will then be subject to consultation. In both cases, we look to be in position to reach financial close in 2019.

Echoing comments I've made in the past, I expect to move all three of these additional advanced projects into construction by the end 2019. And when in operation, along with Earls Gate, we expect our UK investments in total to generate $40 million to $50 million in cash annually.

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The excitement in the investors' community around the execution of our long-term strategic plan with the UK project is well-founded. We look forward to keeping you updated as our pipeline progresses. We consider continued international development to be critical to our long-term growth plan.

With that, I'll hand the call over to Brad to discuss the financial results and outlook in greater detail.

Bradford J. Helgeson

Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

Thanks, Steve. Good morning, everyone. I'll begin my review of our financial performance with revenue on slide 6. Total revenue was $1.87 billion for the year, up $116 million or 6.6% compared to 2017. Organic growth, excluding the impact of commodities, accounted for the majority of the improvement. Record EfW plant production including the full year of operations at Fairfax and an environment of stronger waste prices with same store tip fee price growth of 3.5% drove the increase.

Commodity prices had a modestly positive net impact as we saw a $9 million benefit from metals with strong ferrous index prices outweighing softness in non-ferrous, partially offset by a $4 million impact from lower energy prices with slightly lower prices on hedges and under contracts with caps and floors as compared to 2017.

Over the course of the year, Dublin generated $10 million of incremental service revenue, net of its contribution in Q4 2017 while the newly acquired Palm Beach operations added $17 million for the year. Long-term contract transitions represented a net revenue reduction as the previously discussed transition of a client facility to another operator earlier this year and the expiration of a legacy power contract contributed to a $21 million headwind.

Moving on to slide 7, adjusted EBITDA was $457 million in 2018, exceeding our guidance range and representing an increase of $49 million year-over-year. Excluding commodity prices, adjusted EBITDA grew by $44 million organically, again driven by a strong plant production particularly at Fairfax and the inclusion of $17 million in business interruption insurance proceeds during 2018 relating to the fire in 2017.

Excluding the benefit of the business interruption insurance in 2018, we grew adjusted EBITDA by over 6% organically before commodities surpassing our 3% to 5% annual organic growth target. The net benefit from ferrous metal prices and modest headwind from energy prices, as I just discussed, translated directly from revenue to the adjusted EBITDA line.

The Dublin facility contributed $22 million of incremental adjusted EBITDA in the year which comprised both our O&M services and the proportional adjusted EBITDA from our 50% JV ownership in the project company.

Contract transitions represented a $22 million headwind on a year-over-year basis, half of which related to the client settlement benefit that we received in 2017 with most of the balance relating to the expiration of a legacy power contract and lower contractual client project debt service payments.

Turning to slide 8, free cash flow was $100 million for the year at the top end of our guidance range compared to $132 million in 2017. The primary driver of the change was working capital which represented a net $56 million headwind on a year-over-year basis with a $12 million cash outflow in 2018 compared to a $44 million cash flow benefit in the prior year.

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As discussed when we set guidance going into the year, we initially planned for a $20 million to $40 million net use of cash in working capital in 2018, but this anticipated outflow was mitigated by very strong accounts receivable collection performance driving a five-day reduction in days sales outstanding.

Stepping back from the working capital noise, underlying free cash flow grew by $24 million or over 25% year-over-year. That's the real story here. This was driven by strong organic growth and adjusted EBITDA as well as the first cash distribution received from the Dublin project, partially offset by higher maintenance CapEx year-over-year.

Now, please turn to slide 9 where I'll review our growth investment activity. During 2018, we invested $23 million in organic growth projects primarily for increased metal recovery and opportunities in our Covanta Environmental Solutions business including expanding further into regulated medical waste. We expect to spend a similar amount in 2019 and believe that this represents an appropriate expectation for recurring spend in these areas for the next few years before taking into account larger discrete projects.

These investments tend to be small individually but have very attractive returns and quick paybacks. For larger projects, the first to come online will be the New York City Marine Transfer Station or MTS in Manhattan. We expect to spend about $30 million on the project in total, primarily for additional transportation equipment needed to add service at this second MTS. $13 million was already spent in 2018 with the balance to come during the first half of 2019.

As you heard from Steve earlier, we received a permit for our first TAPS site and have commenced investment to purchase equipment and build out the system. We expect to spend around $15 million in 2019 and approximately $25 million in total through 2020. We invested $21 million into our UK development pipeline in 2018, including early site work at Rookery and the initial equity contributions and our entry premium for Earls Gate.

The 2019 outlook shown here for UK spend of $10 million represents just the remaining investment into Earls Gate and does not yet include the commencement of full construction on Rookery, Protos or Newhurst. Once we reach financial close on these projects, we intend to update this forecast. Overall, we expect the four projects to require a total equity contribution of $150 million to $200 million.

Note that the funding for Earls Gate is front loaded, but the investment profile for the other projects will likely differ. We expect Protos and Newhurst to be generally ratable over the life of construction, while Rookery would likely be backend weighted. We'll provide more of these details as projects reach financial close.

Acquisition activity totaled $50 million during 2018, primarily reflecting the acquisition of the Palm Beach operations. As usual, we won't be providing a specific outlook for this line in 2019, and instead we'll update it only as specific transactions take place. However, you can expect that acquisition activity would be relatively limited in 2019 given our other investment priorities. Please note that we're also highlighting asset sale proceeds here as they will provide incremental funding for our capital spend. During 2018, we monetized nearly $200 million most significantly from the sale of a 50% stake in the Dublin project.

Looking to 2019, while we have not explicitly listed any asset sales, we do expect to include any premiums paid to us by GIG when we reach financial close on Rookery, Protos and Newhurst. These proceeds will help fund a portion of the $150 million to $200 million of UK project equity spend.

Please turn to slide 10 where I'll provide an update on our balance sheet. At December 31, net debt was a little over $2.4 billion, down $31 million from December 2017. Our treasury team had a busy year completing three

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important refinancing transactions totaling approximately $2 billion which combine to extend our maturity profile, reduce interest cost and improve our liquidity and flexibility going forward. We'll continue to look proactively for opportunities like these to optimize our capital structure.

At year-end, our consolidated leverage ratio was 5.6 times down from 6.4 times at the end of 2017. The senior credit facility covenant ratio ended the year at 2.2 times, which is almost a turn-and-a-half lower than the 3.6 times we had at the end of 2017. At year-end, our available liquidity under our revolver was nearly $450 million.

Considering our planned investments in 2019 and the expectation for adjusted EBITDA to be roughly flat year-over-year, we expect our 2019 leverage ratios to remain similar to current levels. Remember that we've reduced consolidated leverage by one-and-a-half turns from its peak in 2017. And as we continue to drive adjusted EBITDA and free cash flow growth, these metrics will improve further over time towards our long-term goal of 4 times.

However, in the near term, we believe that the best path for maximizing long-term value for shareholders is to execute on our attractive investment opportunities while our joint venture with GIG minimizes the near term impact on our balance sheet.

Now please turn to slide 11 where I'll talk about our 2019 outlook for adjusted EBITDA in a little more detail. We're initiating 2019 guidance for adjusted EBITDA of $440 million to $465 million. As previewed on our third quarter call, this outlook is similar to 2018 results.

Organic growth, excluding commodities, is expected to contribute $10 million to $20 million for the year, again driven by a strong EfW facility production, increased metal recovery and improving waste prices. Note that this growth is net of the year-over-year headwind from Fairfax business interruption insurance proceeds received in 2018, which I'll discuss in further detail shortly.

At the midpoint of this net organic growth range, we should be towards the lower end of our annual target of 3% to 5%. However, excluding Fairfax insurance from the year-over-year comparison, we'd expect to come in at the top or even above the range again this year.

Commodity pricing is expected to weigh on growth this year. As previously discussed, we expect capacity payments to be lower by about $10 million year-over-year with variability up or down from that number based on market power prices for our open position. Metals index prices are expected to represent a $5 million to $15 million headwind based on the outlook for modestly softer ferrous and scrap aluminum prices.

Our recent investment in the Palm Beach operating contracts and the startup of the New York City MTS will contribute about $15 million incrementally in 2019. This will be partially offset by the 2018 sale of 50% of the Dublin facility since we owned 100% of the plant for the first six weeks of 2018.

We will also see a few million in headwinds to 2019 results from fleet optimization efforts, including the shutdown of the Warren facility. However, as Steve discussed, these activities will allow us to reduce risk and reallocate resources to other more profitable facilities which will benefit the company in the longer term.

Lastly, transitions will again be a small net negative primarily due to lower contractual client project debt service payments. After 2019, we no longer see this as a material headwind, which if you've been a long-term investor or analyst following Covanta, is quite a milestone. This item has represented an adjusted EBITDA headwind of over $100 million over time.

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Before I move on, I want to mention that the first quarter of 2019 will be a normal first quarter for us, with a typically high level of planned maintenance in the busy outage season. When comparing to Q1 2018, remember that we had the benefit of insurance recoveries and owning 100% of Dublin for a portion of the quarter last year. Also, energy prices were higher in Q1 2018 than we've experienced so far this year.

Overall, this will make Q1 2019 adjusted EBITDA lower than last year. This outlook is fully accounted for in our full year 2019 guidance which implies that the balance of 2019 will likely be favorable.

With slide 12, I'd like to take a moment to illuminate the underlying trend of consistent growth in adjusted EBITDA that has been masked somewhat by the timing of insurance proceeds related to the Fairfax facility fire in 2017.

To recap, we received $17 million of business interruption insurance proceeds in 2018 to reimburse us for amounts that we would have otherwise earned in 2017 if the plant were operational at historical levels. In effect, the delay in collecting insurance had the impact of reducing 2017 and increasing 2018 results.

For purposes of this discussion, if we take the simple step of moving the $17 million received in 2018 back into 2017 when the downtime occurred, you get a very different picture. Looking at the chart on the right, which adjusts for the timing impact of insurance proceeds, you can see that our adjusted EBITDA trends has been consistently higher, which we expect to continue in 2019 as organic growth and our investments are more than offsetting commodity headwinds and contract transitions.

Now, please turn to slide 13 for a walk from 2018 free cash flow to our guidance for 2019. We expect to grow free cash flow to between $120 million and $145 million this year, in line with our preliminary 2019 comments on the Q3 earnings call.

With adjusted EBITDA in a similar range to 2018, anticipated free cash flow improvement is driven primarily by lower maintenance CapEx year-over-year and improved cash flow from working capital, which we expect to be flat or a slight positive to cash flow in 2019.

I'll conclude it by looking beyond this year and restating our long-term target of getting $250 million of sustainable annual free cash flow by the middle of next decade. Our steady progress on key strategic initiatives over the next few years, including steps in the UK, are the building blocks toward that goal. And we believe that the path to this target will become more clear as we move forward and continue to demonstrate tangible successes.

With that, operator, we'd like to move to Q&A.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from the line of Tyler Brown from Raymond James. Your line is open.

Patrick Tyler Brown
Analyst, Raymond James & Associates, Inc.
Q

Hey. Good morning, guys.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

Good morning.

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.
A

Good morning, Tyler.

Patrick Tyler Brown
Analyst, Raymond James & Associates, Inc.
Q

Hey, first off, congrats to all of you, really exciting to see all the progress. But, hey, Brad just same store pricing was up a very solid 3.5%. I appreciate the 3% guidance for 2019, but I'm curious about, say, the next three to five years. I know you guys have a couple of large merchant waste contracts to re-price this year. You've been trying to shorten your contract lengths. But conceptually is there any reason to think that that 3-plus percent same store pricing baseline really isn't reasonable to think about even past 2019?

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.
A

No. I think that is a reasonable assumption.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

Yeah.

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.
A

The contracted portion of the portfolio escalates at inflation. So, 2% to 2.5%. But given the dynamics in our markets that we've talked about repeatedly, we see the ability to move price substantially, particularly as you point, as contracts roll over. So, overall, we'd look to exceed inflation by the amount that we're demonstrating last year and expecting for this year.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

Yeah. I think you're going to see, Tyler, particularly in North, a lot of pricing moving up – pricing moving up pretty significantly. And then also, our profiled waste business continues to click along, 10% growth again this year.

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Regulated medical waste, drug take-back programs and there's just a lot that's driving that business and will continue to drive it for the foreseeable future.

Patrick Tyler Brown
Analyst, Raymond James & Associates, Inc.

Q

Right. Okay. Good. And then, on the energy side, I just want to make sure I have it as well. But at this point, virtually all the big contract transitions are behind us, all that noise has largely sunset, at least until the mid-2020s. So is there any reason here not to believe that the 2 million contracted megawatt hours will continue to see a price around $65? And you've already given us capacity revenues. So the only thing that really moves in that piece is basically market prices and the rolling average impact on hedge prices?

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

Yeah.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

That's correct.

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

That's the right way to look at it.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Yeah. That's the way to look at it.

Patrick Tyler Brown
Analyst, Raymond James & Associates, Inc.

Q

Okay. Just wanted to make sure I had that. And then maybe my last one, for Steve, it feels like coming off of Fairfax, you guys have really hit your stride or really humming from an operations perspective. I'm sure you can appreciate that it's a little hard for us to see the changes from the outside looking in, but can you talk about some of the continuous improvement initiatives that are really bearing fruit? And then, despite running well, where do you think there's still opportunity to improve?

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Yeah. So, we've only rolled out things like stable operations, and you heard me talk about this before, this is as if you had the best operator on the board every minute of the day. And so – because – I mean think about the fact that if you allow the linear programming model to run the plant, it's probably better than a person running it, right? You obviously need a person sitting there. But with the smart equipment now, it's just more efficient and effective to run that way with the computer and the programming model. So – and that's what stable operation is. And so we've rolled that out to our biggest plant – those profitable plants, but we haven't really taken that through the whole fleet yet.

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So actually, this past year, our continued improvement gross productivity was at the highest level ever. So – and we've been at it for since I walked in the door, so, say, three, four years. And we're just starting to hit stride now on the ability to take these tools and apply them to problems that we have in the plant or just day-to-day operations so that you get the most out of the plant every day.

So, there's a pretty long runway I think it's not a couple years, it's a lot of years where we're going to be able to continue working with Lean Six Sigma tools to make our operations more effective. And we talk a lot around here. We talk a lot about operational discipline now, how do we make sure that we've got disciplined operations at all of our plants.

Patrick Tyler Brown
Analyst, Raymond James & Associates, Inc.
Q

All right. Yeah. No, that's great. Congratulations and thank you.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

Thanks.

Operator: Our next question comes from the line of Brian Lee from Goldman Sachs. Your line is open.

Brian Lee
Analyst, Goldman Sachs & Co. LLC
Q

Hey, guys. Thanks for taking the questions. Good morning.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

Good morning.

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.
A

Morning.

Brian Lee
Analyst, Goldman Sachs & Co. LLC
Q

Morning. Couple from me just on the UK development pipeline. Just first off, could you remind us what the contracted status of each of the facilities is today?

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

How much waste is locked in? I'm sorry. Couldn't hear you that well, Brian. So, if you look at each of the projects has waste locked up probably to like a 70-plus level, in that range. It depends on the project. But I mean that's the first thing that we go out and do is make sure that we've got access to the waste.

And so, if you look – and you'll see that what we've tried to do is partner with waste companies, right, because they need as – the UK is eliminating landfill capacity. The waste companies are good at getting waste on wheels and rolling the trucks around to picking up waste. But they need access to disposal capacity. So, if you look at

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Rookery, Veolia is involved in that. Protos and Newhurst, it's Biffa and then up in Earls Gate, there's a couple of different local haulers. But all the waste, that's the first thing we go out and do is get that waste locked up.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Appreciate that. And then I guess related to that with the Brexit uncertainty in the region. I know that's been an ongoing issue but does the outcome there have any potential impact for raising debt financing or the cost of that financing? Just maybe how you're thinking about that situation.

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

Yeah. Hey, Brian, it's Brad. I mean like everybody else, we're waiting eagerly to see how this plays out. We haven't seen any real impact so far and we don't expect it to impact our ability to raise funding in installing for the projects. So, yeah, but I think the long-term implications for the UK remains a question and we're watching just like everyone else.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

And one of the interesting things is there was an article in the Guardian a couple weeks ago with respect to the fact that there's roughly 3.5 million tons that leaves the UK to the Continent and there is some – and so you need a permit or a license to move that to the extent there's a hard Brexit that waste won't move as easily. And so there was concerns and this played out in the Guardian article about waste kind of getting caught up in the system and what happens to it. So there could be – there could be pros and cons associated with how Brexit plays out depending on where we go in the next couple several weeks here.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Understood. No, that's helpful context. Just maybe last question for me and then I'll pass it on. I know you guys get this question from time to time, and it seems like it's still a point of contention for some investors on the stock. But is there any flexibility particularly as you start to have to commit capital to the UK pipeline over the next few years? But around the dividend policy, just any sort of flexibility to consider temporary shifts and how much of a priority that is within your capital allocation strategy overall? Is that on the agenda at – by any means there, has the board entertained this as the potential option to move closer toward again having to put the capital into UK facility?

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Yeah. I mean we look at this dividend policy every – all the time, but in kind of more formally December of every year. We're committed to the dividend. I don't think you're going to see a change there. I think what you hear is quite frankly our net debt to adjusted EBITDA higher than people like. As Brad pointed out in his prepared remarks, we also have these great projects in the UK.

So, at least for 2019, we'll be – we're going to – our dividend is, as I said, we're committed to it. When we focused on advancing these accretive UK projects and at least in 2019, I don't think you're going to see our net debt to adjusted EBITDA move that much. It'll be kind of in the range that it is today. But we're – it's not lost on us, by the way. And I'd like to say [indiscernible] (00:41:21) it's not lost on us, and the board that we need to move that number down as we move through time here, that net debt to adjusted EBITDA number.

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Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

Yeah, and Brian, it's Brad. I'll just add to that, that yeah I think the real consequence of a capital allocation policy that is weighted towards paying back capital to shareholders would be in theory that it got in the away of us being able to invest in the opportunity you have in front of us. But that's not happening. You saw how we were able to refinance frankly most of our balance sheet this year to really strengthen and improve our capital structure with our partnership with GIG and the credit strength of the UK projects is being financed very efficiently. So, really sort of set things up where, yeah not withstanding I think the optics of the dividend versus free cash flow here in the near term, we've – we set things up where we think we can achieve, or we know we can achieve both – both goals of continuing to payout and strengthening the payout and then making sure that, that doesn't stand in the way of our investment opportunities.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

All right. Thanks, guys.

Operator: Our next question comes from the line of Michael Hoffman from Stifel. Your line is open.

Michael E. Hoffman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning, gentlemen. Thanks for the questions.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Morning.

Michael E. Hoffman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

You all love to talk about waterfalls. So I'd like to ask the question in – and I think they're very useful. In the context of a waterfall, if you think about a baseline of midpoint round numbers $450 million as the starting EBITDA today, you have a goal to grow free cash to $250 million, to accomplish that before we get the benefit of the $40 million to $50 million from the UK, domestic organic growth has to hold 3% or 4% growth rate in EBITDA. Can you waterfall us the progression of that over the next three years? How we think where that's coming from at a high level so we can appreciate what you've got in front of you to support that?

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

Yeah. Hey, Michael, it's Brad. That's exactly right. So we look at – set aside the UK for a second. Yeah, we're looking at the organic rate of growth of the business. We put out 3% to 5% target. Of course, we repeat that in 2018 and feel pretty good, adjusting for insurance about hitting that or beating it again this year. And if we intentionally speed away from putting too fine a point on how much of that 3% to 5% is going to come from the different pillars of the growth strategy. But it's really all the things that we've been talking about. It's continuous improvement in plants. It's metal recovery. It's waste prices and that's obviously the underlying dynamics in our core markets in the Northeast as well as the opportunities to grow profiled waste into the plants and grow the CES business more broadly. So – I know that probably doesn't precisely answer your question, but we think we have lot of arrows in the quiver, if you will, to make sure that we're hitting that 3% to 5% for the foreseeable future.

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Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Yeah, we feel – I feel personally pretty – I mean real good about this. I think we have enough leverage to pull when you look at some of the things that Brad just laid out. I talked about continuous improvement before but we have tax out there, more metals recovery, profiled waste, the CES business is growing well with 10% again this year. So I think we're in real good shape with respect to that part of funneling or as you put it waterfall to the $250 million free cash flow.

Michael E. Hoffman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

And just to be clear I mean if I – the simple math is, if I take the midpoint this year at $130 million, you kind of have to get $70 million from domestic and then the other $50 million comes from development. And...

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

Yeah.

Michael E. Hoffman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

...so you really need that 3% to 5% to get that domestic piece...

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

Yeah.

Michael E. Hoffman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

...right? That's the right way to think about it?

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

That's exactly the way – that's exactly the way I'm thinking about it.

Michael E. Hoffman
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And then can we talk about the debt just a little bit? I mean we do need to acknowledge that we're – that very good total leverage probably ticks up some. But if you can do this 3% to 5% that helps temper that rising more, it stabilizes. And then as UK comes on, we start that steady progression back down towards ultimate goal of 4%?

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

Yeah. That's right. And – yeah. As I commented in the prepared remarks, we wouldn't really expect to be lower – plus or minus, we wouldn't expect to be lower as we exit 2019 than we are today. But that being said, the expectation isn't that we won't see improvement until the UK projects coming – come online in three years. I think

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that will certainly accelerate that process. But we're going to be looking to – based on the growth in the domestic business, we're going to be looking to grow EBITDA, cash flow and thus be working – working our way down on leverage. And then with the UK, again, coming on – that should really accelerate us towards that long-term target.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

In a lot of respects we're kind of growing into where we want to get to. I mean there's other ways to do it. You see us actually sell assets, right? So that's one of the things I've been pushing hard on is underperforming assets or assets that don't make a lot of sense for us, we're selling those. But I think what really will get us mainly the 4 times range is this 3% to 5% growth and ultimately the UK projects, but we'll kind of grow into the balance sheet a little bit here.

Michael E. Hoffman
Analyst, Stifel, Nicolaus & Co., Inc.
Q

But to be clear, the market should take in stride that 5%, 6%, probably less, might go to 6%, but then stabilizes and starts working its way back down again gradually before UK comes in, and then it steps down a little more aggressively. That's – nobody should be alarmed by that because you are going to spend some money on – that's going to come in as debt for the projects?

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

Yeah, that's directionally – that's directionally how we're thinking about it. I think that's – I think that's a fair statement.

Michael E. Hoffman
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. That's what I needed to know. Thanks.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

Thanks.

Operator: Our next question comes from the line of Noah Kaye from Oppenheimer. Your line is open.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.
Q

Hey, good morning. Thanks for taking the questions.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

Good morning.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.
Q

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Steve, let me just follow-up on something you just mentioned around really optimizing the domestic waste energy fleet footprint. Now that the Wheelabrator sale to Macquarie is final, and, of course with the disambiguation that it's not the same Macquarie that you're partnering with for the UK project...

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

Right.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.
Q

...presumably, those folks are looking to optimize the portfolio they've just bought as well. How are you thinking about the prospect of asset swaps or any kind of exchange of the assets between your two companies?

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.
A

I mean we had discussions with them about that. I'm – certainly that makes sense in some cases particularly if you can synergies associated with it. I mean one of the reasons we are most interested in Palm Beach was because it was kind of in our sweet spot with the number of plants that we operate in Florida. So there might be cases where they've got more operations in certain areas than we do and they can make a facility more profitable than we can because of their existing operations. So we'll certainly look at that with them. Honestly, we'd have to pass any trust scrutiny around any type of swap. So that's always – that always gets a little – a little tricky.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.
Q

Right. Right. And then just maybe a follow-up question to Michael – Michael's question around the leverage. It's my understanding that given the JV structure, the debt for the UK project is not going to go on your balance sheet. We're really talking about impact to your net cash as you put more of the cash on your balance sheet to work for equity in those projects. Is that correct?

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.
A

Yeah. It's exactly right. Yeah.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.
Q

Okay. So the upward impact to leverage from debt may actually be somewhat muted and as you see those projects come closer to becoming online?

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.
A

Certainly, over the course of the three-year construction period, yeah, that's our expectation.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.
Q

Okay.

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Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

And you have equity going in at different times too. So that's why Brad mentioned this in his prepared remarks. In some projects it's front loaded, some it's ratable and then some it's back loaded. So I mean we're – we'll manage that a little bit that way.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. And then specific to Rookery, Steve, I guess here with the appeal of the appeal you mentioned possibly finding a way to move forward. The question is really have you found precedents for projects like this or in a similar profile to proceed even with the sort of legal status a little bit up in the air. Would that entail...

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Yeah. Yeah, I mean, there's people who will take on the risk. There's also other ways to kind of deal with the risk. I mean the bottom line is we're pretty comfortable after looking at the High Court's ruling in November and then talking to our counsel that, ultimately, we'll get an operating permit. Realize, too, we don't need the operating permit until we're in operations. So we've got a long period of time here during construction where we can sort this all out. So there are people who will close without the operating permit depending on where they see the ultimate risk.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Okay. So, your comment that this will play out over the course of 2019, again, that we shouldn't read too much into that from a timing perspective, that this is an end 2019 event, it could come earlier than that?

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Yeah. I'm expecting it will come earlier than that. That's my current view. Yeah.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thanks very much. Appreciate it.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Sure. No problem.

Operator: Our next question comes from the line of Jeff Silber from BMO Capital Markets. Your line is open.

Jeffrey Marc Silber
Analyst, BMO Capital Markets (United States)

Q

Thanks so much. Wanted to focus on TAPS. I know you mentioned the construction is in the first half of this year. It's not going – it's commissioned second half of next year. But going forward, what kind of financial impact do you think that'll have on your business?

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Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

So, the first one will probably be $5 million to $7 million of EBITDA. Now, we'll see. It'll be interesting because I think there'll be some upside associated with it as we start to shake out the system. So we're in construction now. We'll start to do the commissioning end of the second quarter, into the third quarter and then we'll see how much throughput we can get through the equipment. My current view is we'll probably do better with throughput from some of the things that occurred. So that'll – so $5 million to $7 million I think is kind of our base case at this point, $5 million to $7 million of additional EBITDA.

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

Yeah. And Jeff, this is Brad. Looking at the model for these systems, they're really based on, in theory, three new revenue streams. We've made the investment case based on two of the three. So that's kind of what Steve was alluding to. So it's really enhanced metal recovery, particularly small fractions of heavy and high-value metal on the non-ferrous side.

Number two is, of course, offsetting disposal cost – that disposal cost to the extent that we're able to beneficially reuse the material. And the third, which we haven't really banked on, is the market value of that reusable material for things such as construction aggregates. So it's going to take us some time not only to be getting the project up and running and working out some of the inevitable kinks, but also from a market development standpoint, developing out those revenue streams.

So $5 million to $7 million is kind of what we see based on the model today. We'll need to kind of get through the commissioning period and probably towards the back half of this year, we'll have a much better sense for how good we feel about that 5% to 7%. But then, again, as Steve alluded to, we think our longer-term opportunity here is even bigger, is higher.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Yeah.

Jeffrey Marc Silber
Analyst, BMO Capital Markets (United States)

Q

All right. Great. And I know you don't give quarterly guidance. Unfortunately, we have to model by quarter. Is there anything to call out seasonally this year that might be different from last year? And if also you can remind us on the cadence of the BI insurance or the insurance proceeds, when you got them last year during the quarter? Thanks.

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

Yeah. So Jeff, so for the first quarter, I mean there were a couple items. One was the Dublin. If you recall, the Dublin sell down didn't close until right around this time last year. So, we had – it is about $5 million of contribution from the consolidation of Dublin from the beginning of the first quarter. So that will lap from an anniversary standpoint. This $7 million, we're going to call a business interruption collection for the Fairfax fire. As we look at 2018 and how do you think about the year-over-year as we move through 2019, of course, we collected another

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$10 million or so in the fourth quarter from the insurance. So that's something to look out for moving through the year.

I also commented on the strength in energy prices that we saw first quarter last year. That's probably less of an impact year-over-year comparatively, but we wanted to flag it. And then, maintenance really should be typical trend. There's always a little bit of movement, but nothing as we move into 2019 that we think is worth highlighting.

Jeffrey Marc Silber
Analyst, BMO Capital Markets (United States)

Q

Okay. Appreciate that. Thanks so much.

Operator: Our next question comes from the line of Ben Kallo from Baird. Your line is open.

Benjamin Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

Hey, good morning. I don't want to put the cart before the horse, but you got a lot of projects going on. So I just kind of want to know what the development team is doing kind of for the next level. And I know that's easy from my ivory tower here, so thanks for any kind of color of future projects out there you guys are developing. And then on TAPS, could you just talked about how you guys view the overall addressable market there?

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Sure. With respect to project development, we're looking at other projects in the UK. So there were other projects that GIG was working on when we're looking at other projects. So the UK market needs more energy from waste. There's probably – I'd say there's probably a 5-year to 10-year window in the UK where there's going to be more energy from waste projects. So we'll get these four rolling. And then, there's some other earlier development phased projects that we'll bring forward. There's also projects outside the U.S. That's why I mentioned in the very end I think international business development is important to our growth story.

So, you may have seen that in the Philippines. We're working with Macquarie and Metro Pacific. We've been awarded the Energy-from-Waste plant in Quezon City, so outside of – in Manila area. And so we're working on that project. That'll take a few years to work its way through, getting all the permits and the financing set up and things like that. But there's going to be a number of projects in Southeast Asia that are potentially projects that we'll participate in.

So, there's a lot going on. I think you're going to see some in South America. We've recently seen an uptick in activity there. So I think the UK is going to be our focus. We'll do a lot of value creation if we focus on the UK for the next few years, but you're going to see some of these other locations start coming into play as the UK finishes their development of disposal – energy from waste disposal plants.

On TAPS, the – yeah, TAPS – what was TAPS?

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

The total market size potential.

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Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Total market size. So this particular plant will take ash from four of our facilities. We'll probably need another four, maybe five facilities depending on location. So, right now, Ben, what we're doing is we're looking at the various spots in our fleet where we can site plan, whether they're out our Energy-from-Waste facilities or – and then feed those regionally.

So, I would say this plant plus another four potentially will round out our fleet. And then – but frankly there's – there's – what does Wheelabrator do, maybe we can start to source ash of some other facility and run that to our plant. So there might be other opportunities to take this a little wider than our own facilities.

Benjamin Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

And I guess just back to the first question on pipeline. Just as far as cadence goes of development because we had Dublin. It was the first and then all of a sudden we got four projects here the next couple years. Is it going to be more of a steady state kind of announcement of progress on projects you think than what the last 10 years?

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Yes. And that part of my goal is to get more projects in the development pipeline and then kind of have a steady growth of new plants coming on. I mean because we're – we're the largest or the biggest Energy-from-Waste company in the world and focused just on Energy-from-Waste, we get invited to participate in a number of projects. Some of them are further along in development and we kind of jump on the train as it's moving. Some are earlier in development but we're going to look a little more closely now at filling that pipeline, so we that we have a steady state of growth of new Energy-from-Waste plants as time goes on.

Benjamin Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thank you.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Thanks, Ben.

Operator: And our last question comes from the line of Moses Sutton from Barclays. Your line is open.

Moses Sutton
Analyst, Barclays Capital, Inc.

Q

Good morning. Could you talk a bit about the...

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Good morning.

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Moses Sutton
Analyst, Barclays Capital, Inc.

Q

...IRRs expected at each of the UK projects assuming things continue to move along on time and your in-construction by year-end at all of them?

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

Yeah. Hey, Moses, it's Brad. So we're looking at cash on cash IRRs on our equity investments. This varies by project and I'm not going to get into project by project, but overall we're generally looking in the low to mid-teens IRRs, which given the way these projects are structured and buttoned up from a contractual standpoint, we find those risk adjusted returns to be very attractive.

Moses Sutton
Analyst, Barclays Capital, Inc.

Q

Got it. Is it fair to say that Earls Gate will be lower IRR than, say, Rookery assuming that you have no issue with Rookery -

---

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Yeah. I think that's – I mean the Earls Gate – we think the Earls Gate investment is attractive. But, yeah, that's a fair assumption and there are a couple reasons for that. One is, of course, first and foremost, the size. It is more – generally more profitable at a higher return to build these projects bigger. Of course, we only build them to the size of the market needs. So, that's why Earls Gate is smaller. But you would expect a general better – generally speaking the better return profile for a bigger plant at Rookery. Also Rookery was our project that we've been developing, Earls Gate, we stepped into. So the nature of our arrangement, again, with the Green Investment Group is that the partner that has been developing the project, the other partner will pay a premium based on a target IRR to buy into the project. So we'll get a nice return on our – both our divest – our development dollars that we've spent and our sweat equity in Rookery, which will help the overall return for us.

Moses Sutton
Analyst, Barclays Capital, Inc.

Q

Got it. Thanks. And regarding the potential asset sales throughout 2019. I know you mentioned you'd give more details throughout the year. Is there perhaps a target range of proceeds for 2019 or 2020? I'm not sure if you're willing to put a number to that yet.

Bradford J. Helgeson
Executive Vice President & Chief Financial Officer, Covanta Holding Corp.

A

Yeah, not necessarily. So there are a couple of components to it. As we mentioned on the call – on the prepared remarks in the call, we are in the process of monetizing some non-core assets, our hydro assets. We closed one in 2018. There's another one that's just awaiting approval. So we'll be closing it here in the early part of 2019. We mentioned three transfer stations that we're selling. Not all those are closed either. So, we'll be kind of finishing off those non-core asset sales. And then if and as the UK projects come online or rather move into past financial closing into construction, we'll be reflecting the premiums that we'll earn by selling down those projects in the context of our GIG partnership as those move forward.

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Yeah, beyond that, we don't have any specific targets. But, as Steve mentioned, we have open minds and open eyes for opportunities where we can – we could recycle capital for better returns for us if there're assets that make sense in other hands. So if any of those opportunities move forward, we'll just refresh at that point.

Moses Sutton
Analyst, Barclays Capital, Inc.

Q

Thanks. Appreciate the color.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

A

Thanks.

Operator: And there are no further questions at this time. I will turn the call back over to Steve Jones for closing remarks.

Stephen J. Jones
President, Chief Executive Officer & Director, Covanta Holding Corp.

Thank you for joining us today. And, as always, we appreciate your participation and interest. As we discussed, we're making real progress on our strategic initiatives and we expect 2019 to be an important year in continuing this momentum.

Thank you again and we look forward to seeing and talking to all of you in the coming months.

Operator: And this concludes today's conference call. You may now disconnect.

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