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Covanta Holding Corporation Reports 2022 First Quarter Results

MORRISTOWN, NJ, May 27, 2022 - Covanta Holding Corporation ("Covanta" or the "Company"), a world leader in sustainable waste and energy solutions, reported financial results today for the three months ended March 31, 2022.

	Three Months Ended March 31,	
	2022	2021
	(Unaudited, \$ in millions) ⁽¹⁾	
Revenue	\$551	\$498
Net (loss) income	\$(85)	\$2
Adjusted EBITDA	\$98	\$98
Net cash provided by operating activities	\$46	\$52
Free Cash Flow	\$2	\$17
Adjusted Free Cash Flow	\$(6)	\$10

⁽¹⁾ Covanta's operating results for the three months ended March 31, 2022 are distinguished from the same period in the prior year due to EQT's acquisition of Covanta on November 30, 2021. As a result of the revaluation of net assets acquired at fair value at the time of the acquisition, the US GAAP operating results for the current period are presented on a measurement basis different than the prior year period and are, therefore, not comparable.

Reconciliations of non-GAAP measures can be found in the exhibits to this release.

Key Highlights

- Benefiting from very strong prices for energy and recycled metals
- Average waste-to-energy tip fees up over 5%
- Sustainably processed 5 million tons in waste-to-energy plants during heavy outage season
- Completed opportunistic refinancing of notes due 2027 with add-on to benchmark 2029 issue
- Increased Revolving Credit Facility by \$140 million to \$600 million, enhancing liquidity

About Covanta

Covanta is a leader in sustainable materials management providing environmental solutions to businesses and communities across North America. Through its network of facilities and state-of-the-art services, Covanta is a single-source partner in solving today's most complex environmental challenges. For more information, visit www.covanta.com.

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this earnings release may constitute forward looking statements. The forward-looking statements contained in this earnings release are made only as of the date hereof and Covanta does not have, or undertake, any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law. Forward-looking statements are not guarantees of future actions, performance or results. Actual actions, performance or results may differ materially from those expressed or implied by forward-looking statements.

Investor Contact

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Covanta Holding Corporation
Consolidated Statements of Operations

Exhibit 1

	Three Months Ended March 31,	
	2022	2021
	(Unaudited, in millions)	
OPERATING REVENUE:		
Waste revenue	\$ 365	\$ 343
Energy revenue	137	104
Materials sales revenue	38	36
Services revenue	11	15
Total operating revenue	<u>551</u>	<u>498</u>
OPERATING EXPENSE:		
Cost of operations	423	398
Other operating expense (income), net	6	(4)
General and administrative expense	33	33
Depreciation and amortization expense, net	134	57
Total operating expense	<u>596</u>	<u>484</u>
Operating (loss) income	<u>(45)</u>	<u>14</u>
OTHER EXPENSE:		
Interest expense, net	(38)	(31)
Loss on extinguishment of debt ^(a)	(2)	—
Other expense	(1)	—
Total other expense	<u>(41)</u>	<u>(31)</u>
Loss before income tax benefit and equity in net income from unconsolidated investments	<u>(86)</u>	<u>(17)</u>
Income tax (expense) benefit	(5)	18
Equity in net income from unconsolidated investments	6	1
NET (LOSS) INCOME	<u>\$ (85)</u>	<u>\$ 2</u>

(a) For additional information, see Exhibit 4 of this earnings release.

	March 31, 2022	December 31, 2021
ASSETS		
(Unaudited, in millions)		
Current:		
Cash and cash equivalents	\$ 65	\$ 42
Restricted funds held in trust	27	119
Receivables (less allowances of \$7 and \$7, respectively)	266	280
Prepaid expenses and other current assets	82	89
Total Current Assets	440	530
Property, plant and equipment, net	2,532	2,561
Restricted funds held in trust	110	116
Intangible assets, net	30	30
Goodwill	2,501	2,566
Other assets	794	705
Total Assets	\$ 6,407	\$ 6,508
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	\$ 108	\$ 128
Current portion of project debt	9	9
Accounts payable	80	66
Accrued expenses and other current liabilities	385	341
Total Current Liabilities	582	544
Long-term debt	3,137	3,116
Project debt	105	106
Deferred income taxes	316	342
Other liabilities	212	174
Total Liabilities	4,352	4,282
Equity:		
Additional paid-in capital	2,277	2,277
Accumulated other comprehensive (loss) income	(72)	14
Accumulated deficit	(150)	(65)
Total Equity	2,055	2,226
Total Liabilities and Equity	\$ 6,407	\$ 6,508

Three Months Ended March 31,
2022 **2021**

(Unaudited, in millions)

OPERATING ACTIVITIES:

Net (loss) income	\$ (85)	\$ 2
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	134	57
Amortization of deferred debt financing costs	2	1
Loss on extinguishment of debt ^(a)	2	—
Stock-based compensation expense	—	9
Equity in net income from unconsolidated investments	(6)	(1)
Deferred income taxes	4	(20)
Other, net	(13)	(3)
Changes in working capital	8	7
Net cash provided by operating activities	46	52

INVESTING ACTIVITIES:

Purchase of property, plant and equipment	(38)	(43)
Investment in equity affiliates	(77)	(1)
Other, net	10	(1)
Net cash used in investing activities	(105)	(45)

FINANCING ACTIVITIES:

Proceeds from borrowings on long-term debt	470	—
Proceeds from borrowings on revolving credit facility	190	97
Payments on long-term debt	(424)	(5)
Payments on revolving credit facility	(236)	(69)
Payments on project debt	(2)	(1)
Payment of deferred financing costs	(5)	—
Cash dividends paid to stockholders	—	(11)
Payments of insurance premium financing	(10)	(9)
Other, net	2	(8)
Net cash used in financing activities	(15)	(6)
Effect of exchange rate changes on cash, cash equivalents and restricted funds	(1)	(1)
Net decrease in cash, cash equivalents and restricted funds	(75)	—
Cash, cash equivalents and restricted funds at beginning of period	277	72
Cash, cash equivalents and restricted funds at end of period	\$ 202	\$ 72

(a) For additional information, see Exhibit 4 of this earnings release.

Consolidated Reconciliation of Net (Loss) Income and Net Cash Provided by Operating Activities to Adjusted EBITDA

	Three Months Ended March 31,	
	2022	2021
(Unaudited, in millions)		
Net (loss) income	\$ (85)	\$ 2
Depreciation and amortization expense, net	134	57
Interest expense, net	38	31
Income tax expense (benefit)	5	(18)
Loss on extinguishment of debt	2	—
Loss (gain) on sale of assets	4	(1)
Accretion expense	—	1
Business development and transaction costs	7	2
Severance and reorganization costs	2	4
Stock-based compensation expense	—	9
Equity in net income from unconsolidated investments	(6)	(1)
Capital type expenditures at client owned facilities ^(a)	15	14
Energy hedge amortization ^(b)	(21)	—
Other ^(c)	3	(2)
Adjusted EBITDA	\$ 98	\$ 98

**Last Twelve Months
March 31,
2022**
(Unaudited, in millions)

Adjusted EBITDA	\$ 511
Less: Europe and Asia	(6)
Cost reductions	10
Revenue and pricing adjustments	20
Growth investments	20
Pro forma Adjusted EBITDA^(d)	\$ 555

- (a) Adjustment for capital equipment related expenditures at our service fee operated facilities which are capitalized at facilities that we own.
- (b) Represents the unwinding of liability relating to off-market energy hedges acquired.
- (c) Reflects add-backs under the definitions in our credit agreement and the indenture governing the 2029 Notes.
- (d) Reflects Consolidated EBITDA as defined in the indenture governing the 2029 Notes and Consolidated Adjusted EBITDA as defined in our credit agreement.

	Three Months Ended March 31,	
	2022	2021
(Unaudited, in millions)		
Net cash provided by operating activities	\$ 46	\$ 52
Capital type expenditures at client owned facilities ^(a)	15	14
Cash paid for interest	47	52
Cash paid for taxes	1	1
Adjustments for working capital and other	(11)	(21)
Adjusted EBITDA	\$ 98	\$ 98

- (a) See *Adjusted EBITDA reconciliation above - Note (a)*.

Covanta Holding Corporation
Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

Exhibit 5

	Three Months Ended March 31,	
	2022	2021
(Unaudited, in millions)		
Net cash provided by operating activities	\$ 46	\$ 52
Maintenance capital expenditures ^(a)	(44)	(35)
Free Cash Flow	2	17
Less: Changes in working capital	(8)	(7)
Adjusted Free Cash Flow	\$ (6)	\$ 10

(a) Purchases of property, plant and equipment are also referred to as capital expenditures. Capital expenditures that primarily maintain existing facilities are classified as maintenance capital expenditures. The following table provides the components of total purchases of property, plant and equipment:

	Three Months Ended March 31,	
	2022	2021
(Unaudited, in millions)		
Maintenance capital expenditures	\$ (44)	\$ (35)
Net impact of accruals	7	(7)
Growth capital investments	(1)	(1)
Total purchases of property, plant and equipment	\$ (38)	\$ (43)

Covanta Holding Corporation
Supplemental Information

Exhibit 6

	Three Months Ended March 31,	
	2022	2021
	(Unaudited, in millions)	
REVENUE:		
Waste:		
Tip fees	\$ 165	\$ 159
Service fees	132	123
Waste to energy processing	297	282
Materials processing and recycling	29	25
Waste handling and disposal	69	67
Intercompany	(30)	(30)
Total waste revenue	365	343
Energy:		
Energy sales	93	76
Capacity	11	10
Wholesale load serving ⁽¹⁾	1	11
Renewable energy credits	12	7
Hedge amortization and other	21	—
Total energy revenue	137	104
Materials sales:		
Ferrous	23	22
Non-ferrous	14	13
Total materials sales revenue	38	36
Services revenue	11	15
Total revenue	\$ 551	\$ 498
OPERATING EXPENSE:		
Cost of operations:		
Wages & benefits	\$ 132	\$ 125
Maintenance	115	105
Other operating costs	176	167
Cost of operations	423	398
Other operating expense (income), net	6	(4)
General and administrative	33	33
Depreciation and amortization	134	57
Total operating expense	596	484
Operating (loss) income	\$ (45)	\$ 14

(1) Includes wholesale energy load serving revenue, such as transmission and ancillaries, not included in Energy sales line.

Note: Certain amounts may not total due to rounding.

Covanta Holding Corporation
WtE Operating Metrics

Exhibit 7

	Three Months Ended March 31,	
	2022	2021
(Unaudited)		
WtE Waste		
Tons: (in millions)		
Tip fee - contracted	1.95	1.95
Tip fee - uncontracted	0.56	0.59
Service fee	2.57	2.52
Total tons	5.08	5.06
WtE tip fee per ton:		
Contracted	\$ 58.95	\$ 57.21
Uncontracted	\$ 83.24	\$ 74.07
Average revenue per ton	\$ 64.34	\$ 61.12
WtE Energy		
Energy sales: (MWh in millions)		
Contracted	0.45	0.49
Hedged	0.77	0.82
Market	0.21	0.25
Total energy sales	1.43	1.56
Market sales by geography: (MWh in millions)		
PJM East	0.1	0.1
NEPOOL	—	—
NYISO	0.1	0.1
Other	0.1	0.1
Revenue per MWh: (excludes capacity)		
Contracted	\$ 78.16	\$ 68.12
Hedged	\$ 58.43	\$ 43.37
Market	\$ 59.77	\$ 26.68
Average revenue per MWh	\$ 64.91	\$ 48.52
Materials		
Tons recovered, net: (in thousands)		
Ferrous	111.6	114.1
Non-ferrous	10.6	10.6
Tons sold, net: (in thousands)		
Ferrous	97.4	104.2
Non-ferrous	7.4	8.0
Revenue per ton: (\$ in millions)		
Ferrous	\$ 240	\$ 213
Non-ferrous	\$ 1,910	\$ 1,656

Note: Waste volume includes solid tons only. Materials and energy volume are presented net of client revenue sharing. Steam sales are converted to MWh equivalent at an assumed average rate of 11 klbs of steam / MWh. Hedged energy sales includes the energy component of wholesale load serving. Uncontracted energy sales include sales under PPAs that are based on market prices.

Note: Certain amounts may not total due to rounding.

Covanta Holding Corporation
Capitalization Summary

Exhibit 8

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(Unaudited, in millions)		
Cash and cash equivalents	\$ 65	\$ 42	\$ 55
Restricted funds held in trust	137	235	17
Corporate debt:			
Secured	\$ 1,583	\$ 1,640	\$ 691
Unsecured	1,709	1,644	1,744
Total corporate debt	\$ 3,292	\$ 3,284	\$ 2,435
Domestic project debt	114	115	123
Total debt	\$ 3,406	\$ 3,399	\$ 2,558
Net debt ^(a)	\$ 3,265		
Pro forma Adjusted EBITDA ^(b)	\$ 555		
Total leverage ratio ^(c)	5.88x		

(a) Reflects Consolidated Total Debt as defined in the indenture governing the 2029 Notes and excludes debt and cash balances of European and Asian unrestricted subsidiaries.

(b) Reflects Consolidated EBITDA as defined in the indenture governing the 2029 Notes and Consolidated Adjusted EBITDA as defined in our credit agreement. See Exhibit 4 for details.

(c) Reflects the Total Consolidated Debt Ratio as defined in the indenture governing the 2029 Notes and the Total Leverage Ratio as defined in our credit agreement.

Discussion of Non-GAAP Financial Measures

We use a number of different financial measures, both United States generally accepted accounting principles (“GAAP”) and non-GAAP, in assessing the overall performance of our business. To supplement our assessment of results prepared in accordance with GAAP, we use the measures of Adjusted EBITDA, Pro forma Adjusted EBITDA and Adjusted Free Cash Flow which are non-GAAP measures. The non-GAAP financial measures of Adjusted EBITDA, Pro forma Adjusted EBITDA, Free Cash Flow and Adjusted Free Cash Flow used in this release, are not intended as a substitute or as an alternative to net income or cash flow provided by operating activities as indicators of our performance or liquidity or any other measures of performance or liquidity derived in accordance with GAAP. In addition, our non-GAAP financial measures may be different from non-GAAP measures used by other companies, limiting their usefulness for comparison purposes. The presentations of Adjusted EBITDA, Pro forma Adjusted EBITDA, Free Cash Flow and Adjusted Free Cash Flow are intended to enhance the usefulness of our financial information by providing measures which management internally use to assess and evaluate the overall performance of its business and those of possible acquisition or divestiture candidates, and highlight trends in the overall business.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this earnings release may constitute forward looking statements. The forward-looking statements contained in this earnings release are made only as of the date hereof and Covanta does not have, or undertake, any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law. Forward-looking statements are not guarantees of future actions, performance or results. Actual actions, performance or results may differ materially from those expressed or implied by forward-looking statements.