28-Jul-2017

Covanta Holding Corp. (CVA)

Q2 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Covanta Holding Corporation Second Quarter 2017 Financial Results Conference Call and Webcast. An archive webcast will be available 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. The transcript will also be archived on the company's website.

At this time, for opening remarks and introduction, 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 and good morning. Welcome to Covanta's second quarter 2017 conference call. Joining me on the call 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 their prepared remarks, Steve and Brad will be referencing certain slides that we prepared to supplement the audio portion of this call. Those files can be accessed now or after the call on the Investor Relations section of our website, www.covanta.com. These prepared remarks should be listened to in conjunction with these slides.

Now, on to the Safe Harbor and other preliminary notes. The following discussion may contain forward-looking statements and our actual results may differ materially from those expectations. Information regarding factors that can 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 date of this live broadcast, July 28, 2017. We do not assume any obligation to update our forward-looking information unless required by law. Any redistribution, retransmission or rebroadcast of this call in any form without the expressed 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 limitation 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 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 the webdeck, please turn to slide 3. I'll start off with a quick overview of our financial results and the key drivers impacting the quarter. Adjusted EBITDA for the quarter was $93 million, which represents an $11 million year-over-year improvement. Free cash flow was negative $21 million, down $16 million compared to the prior comparable period. These results were in line with our expectations and we are reaffirming our full-year 2017 guidance.

Our fleet exhibited strong operational performance in the quarter, and we continue to benefit from favorable waste markets, an impressive growth in the Covanta Environmental Solutions business. Insurance recoveries in the quarter helped to offset some of the impact of downtime events in this and prior periods in the Fairfax fire.

Commissioning of the new Dublin EfW facility continues and we remain on track for commercial operations by the start of Q4. We're currently processing waste and testing both boilers with synchronization of the Turbine generator to the Irish electrical grid to come shortly. As operations continue to stabilize following initial startup, we'll then move into performance testing of the facility.

Our initial schedule for plant commissioning left the room anticipation of the challenges that inevitably occur with a large complex infrastructure project like Dublin. This facility is one of the most technically advanced in the world and we're excited to provide the Dublin region with a clean sustainable waste management solution for decades to come.

At the Fairfax County facility, we completed the repair and replacement of the refuse cranes and are operationally ready to resume processing waste. We're now working with the Fairfax County Fire Marshal's Office to finalize plans for upgraded fire protection and suppression equipment. Once final, it will take approximately two months to install this equipment before we can restart the plant. We previously assumed a late Q2 restart. However, as this process has taken longer than initially anticipated, we're now expecting to restart in Q4.

As previously discussed, our property insurance program is structured to provide recovery of the cost to repairs and replacement, as well as lost income through business interruption coverage. We carry robust coverage for such events, so the net financial impact is minor. As we walk through the quarterly results and our full-year outlook on a line item basis, you will see that the downtime at Fairfax impacts top line revenue and the associated production metrics for waste volume processed, electricity produced and metals recovered. However, the key message here is that our outlook for annual adjusted EBITDA generation is unchanged due to expected recoveries under our insurance policies.

Waste markets remain strong. And during the quarter, we continued to drive positive same-store price growth, both from market improvements and increased volumes of profiled waste. The Covanta Environmental Solutions platform continues to perform well as it procures profiled waste and expands its service and processing capabilities.

The second quarter also marked the startup of our new non-ferrous processing facility in Eastern Pennsylvania. This facility, which is now processing over 70% of our recovered non-ferrous, is beginning to drive materially higher realized prices. On the business development front, we entered into an exclusive joint development agreement with Biffa, which is a leading UK integrated waste management company, for two new EfW facilities. We're excited about this partnership, which further enhances our pipeline of development opportunities in the robust UK energy from waste market.

Now I'll get into the detail on our markets and operations. I'll start with the waste business. Please turn to slide 4. In our waste contract portfolio, we reached a new five-year tip fee contract with one of the largest clients at our Delaware Valley, Pennsylvania facility. We're happy to continue to provide sustainable waste disposable services to this client, which represents over one quarter of the capacity at this very large plant.

On the environment services side, we're closing a small acquisition in the pharmaceutical space as we build out our network and service capabilities in this attractive growth market. We see great opportunities such as drug take back programs in this area.

During the quarter, EfW processing revenue was $4 million higher year-over-year, despite the downtime at Fairfax, which speaks to the overall performance of the fleet in the quarter. Same-store price growth was 3.3% in the quarter, driven by contractual escalation, higher spot market prices, and yet another quarter of 10% growth in profiled waste. The impact of lower volume due to the downtime at Fairfax was $8 million in the quarter, while the rest of the fleet saw higher availability and waste volumes processed year-over-year.

Contract transitions modestly benefited revenue as we were able to improve the pricing relative to some of our legacy contracts.

The Covanta Environmental Solutions platform produced yet another quarter of excellent performance. Effective sales efforts drove another quarter of double-digit growth in internalized profiled waste. At the same time, the material processing facilities and site services also grew over 20% with roughly equal contributions from organic growth and acquisitions.

Now, let's move on to Energy. Please turn to slide 5. Contracted and market prices were higher on a year-over-year basis, while contract transitions represented another $7 million headwind as expected. The mild summer to-date on the back of a mild winter has led the high levels of natural gas in storage which continues to weigh on power prices. However, given our highly-hedged position, we have limited remaining exposure for the rest of the year. So we are tightening our range on forecasted open-market pricing.

We continue to actively hedge our exposure going forward. We've already hedged over 2.6 million megawatt hours of our production for 2018, which when combined with our contracted position, leaves only about 30% of the 2018 forecast for power output subject to market prices.

Let's move on to the Metals business on slide 6. In the area of ferrous metal, realized prices increased 13% on higher HMS Index prices year-on-year. This was offset by lower recovered volumes, as well as shipment timing from our centralized processing facility. We do not expect additional ferrous inventory builds, implying stronger sales volumes in the second half.

Ferrous prices remain strong, with the HMS number one index averaging $263 per ton in the second quarter. The HMS Index priced for July at $265 per ton. And with the year-to-date HMS prices now well ahead of the low end of our previous full-year forecast, we're tightening the range to $225 to $250 per ton.

U.S. steel mill utilization remains high and the demand for scrap has been solid. However, we do see some risk to pricing in the second half of the year, given the lower relative cost of competing materials like iron ore.

On the non-ferrous side, revenue declined by $2 million on a same-store basis. The quarter benefited from the start-up of the centralized non-ferrous processing facility, which largely drove a 38% increase in realized revenue per ton year-over-year. As previously discussed, processing also reduces the volumes sold, which offsets some of the price benefit. But the net trade-off represents significant additional value.

Another factor impacting the quarter is sales timing. One of the highest value fractions that we are now separating is copper. And the sales cycle for copper is longer as much as a client base is located in Europe. This can require 120 days to 150 days from initial departure to final completion of the sale. The cost and time of these greater logistics will more than pay for themselves in higher prices, but they depressed realized sales volumes in the second quarter.

As we move through the rest of the year, we should quickly lap the initial period of extended sales realization and we will also look for opportunities to sell the products in ways that reduce the lag without sacrificing value.

Let's now move on to maintenance and operating expenses. Please turn to slide 7. Total EfW maintenance spend in the quarter, including both expense and CapEx, was $110 million versus $109 million in Q2 2016. Looking at the full year, our outlook for EfW maintenance expense and maintenance CapEx is unchanged. First half total EfW maintenance spend represents 62% of the full year forecast, which is similar to our experience the last few years.

Other plant operating expenses increased 3.4% on a same-store basis, compared with Q2 2016, driven by expenses related to the growth in Covanta Environmental Solutions platform, the start-up of non-ferrous processing facility, and overall wage and benefit escalations. Same-store costs for EfW assets were relatively flat year-over-year.

During the second quarter, we recognized $20 million of insurance recoveries, which are recorded as a contra-expense in the other operating cost line. $17 million of these recoveries relate to business interruption claims, which are included in adjusted EBITDA. While we recognize significant amounts related to the Fairfax incident in the quarter, it will ultimately take time to completely settle the claim. Given the expected timing of coming back online, incremental recoveries are now expected to come later in the year and into 2018.

Looking ahead, I'll quickly wrap up with a note on our progress in building out our development pipeline. We recently signed a joint development agreement with Biffa to work exclusively on two new projects in the UK; one of which we've been developing, the Protos project near Liverpool, and one that Biffa has been developing the Newhurst project in Leicestershire, England. Biffa is a great partner for us as they have access to large volumes of waste and substantial local market knowledge, hence, providing a complementary skill set to our operational expertise. The venture will be structured with Biffa as the primary waste supplier and Covanta as the operator with both parties having equity position. From a timing perspective, these projects are likely behind the Rookery project, and we expect to have further updates on this promising opportunity sometime early next year.

In closing, at the midway point for the year, I can clearly say that we've made substantial progress in all areas of our strategic focus. So plant operations, capturing additional value from recovered metal, continuous improvement, growing our waste business and continuing to build a new project development pipeline. And we remain on track on our full-year financial plan.

With that, I'll turn the call over to Brad to discuss the second quarter financial results in more detail.

Bradford J. Helgeson

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

Thanks, Steve. Good morning, everyone. I'll begin our review of our second quarter 2017 financial performance with revenue on slide 9. Total revenue was $424 million in the quarter, up $6 million over Q2 2016. Revenue increased $9 million on an organic same-store basis. Within that amount, our core business activities, excluding commodity price changes, increased $3 million year-over-year.

The strong waste price growth and the expansion of our Environmental Solutions business more than offset a $15 million revenue loss from the downtime at Fairfax as well as the impact of a longer sales cycle for the overseas export processed non-ferrous.

Recycled metal prices represented a $3 million tailwind as we saw improved markets for both ferrous and non-ferrous materials. Energy prices drove a further $3 million increase year-over-year as we experienced modestly higher market power prices and some improvement under power contracts that have market linkage.

In addition to organic growth, the three small environmental services acquisitions we completed in the first half contributed $2 million in the quarter. Contract transitions were a net $5 million headwind year-over-year as the $8 million impact of long-term power contracts rolling off was partially offset by the benefit of increased energy revenue share following service contract expirations and also improved pricing on new waste contracts.

Moving on to slide 10. Adjusted EBITDA was $93 million in the quarter, an $11 million compared to the same period last year. On a same-store basis, adjusted EBITDA was $15 million higher year-over-year. Excluding the benefit from higher commodity prices, adjusted EBITDA related to core business activities was higher by $9 million in the quarter.

In addition to the items that benefited revenue, we also received $17 million of business interruption insurance proceeds in the quarter, which offset loss revenue from the downtime at Fairfax. Commodity prices were a net benefit to adjusted EBITDA with metals and energy prices each contributing $3 million on a year-over-year basis. Transactions had a modest net impact on the quarter, adding $1 million to adjusted EBITDA. Contract transitions represented a $5 million net decline as an $8 million negative impact from the expiration of above-market long-term power contracts was partially offset by Waste & Service contract transitions. Overall, adjusted EBITDA is tracking on plan. So we reaffirm our full-year guidance range of $400 million to $440 million as Steve had mentioned.

Before moving on, I'd like to provide a little more color on the business interruption insurance proceeds both in the quarter and for the balance of the year. Of the $17 million in BI proceeds received in the quarter, $10 million related to Fairfax and represents the recovery of loss revenue net of variable costs to production. The balance of the proceeds related to two other events, which occurred in 2016 and early 2017, which we had mentioned in our last quarterly call, so it was a bit of a timing benefit in the quarter from those.

We expect to receive incremental proceeds, while the Fairfax facility remains down with the overall amount of the claim dependent upon when the plant returns to service. For modeling purposes, we believe that $10 million represents a rough but fair approximation of the amount that will ultimately be recoverable under our insurance for each 90 days of downtime.

As Steve mentioned, we've revised our full-year forecasts for revenue to adjust the longer downtime at Fairfax, so please take that into account as well. As for the timing of business interruption recoveries, which drive the accounting and impact on adjusted EBITDA, we currently anticipate the receipts for the balance of the year will be more heavily weighted towards Q4 with final recoveries not expected until 2018. This would impact our adjusted EBITDA reported in calendar 2017. But, again, we're reaffirming guidance taking this into consideration.

Turning to slide 11. Free cash flow was negative $21 million in the second quarter compared to negative $5 million in the prior year. Excluding changes in working capital, free cash flow was $2 million lower year-over-year. While adjusted EBITDA was higher, maintenance CapEx was higher as well. As previously discussed, this primarily relates to the timing of scheduled projects.

Note that we maintained our full-year outlook for maintenance spend. We also reaffirmed our full-year guidance range for free cash flow of $100 million to $150 million, which implies a much stronger second half. This is typical given the seasonality of our business.

Turning to slide 12, our growth investment outlook is unchanged from our first quarter call. The Dublin project remains on schedule and the funding for the remaining CapEx is already in place through non-recourse project debt.

We continue to advance on our opportunities to make very high return organic growth investments particularly in the metals, ash management, and Environmental Solutions areas. However, we also remain prudent and selective with our growth investments, pursuing our long-term strategic objectives, while also prioritizing balance sheet deleveraging going forward.

With that, as a segue, I'll conclude with an overview of our balance sheet and leverage ratios on slide 13. Net debt increased by a little over $125 million in Q2 to $2.79 billion. This was on plan given the continued drawdown of non-recourse project debt to fund the construction of the Dublin facility, as well as our seasonally negative free cash flow in Q2. The net debt to adjusted EBITDA ratio at the end of Q2 was 7 times.

As I said in our last earnings call, we expect leverage to peak, either this quarter or in Q3, while the fourth quarter will commence a trend of sequential improvement with leverage expected to move back down below 6 times as we exit 2018.

The leverage ratio covenant under our senior secured credit facility was 3.5 times at June 30 versus a covenant limit of 4 times. This covenant excludes both the unsecured holding company debt, as well as the project debt at Dublin with the latter to be included in the ratio once the facility has been operational for a year.

Additionally, we continue to maintain substantial liquidity with $335 million in undrawn capacity under our revolving credit facility.

With that, operator, we'll pause and open the lines for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Tyler Brown with 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, Tyler.

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, Steve. I'm not sure if Derek is in the room, but it looks like he deserves a big thumbs-up on the MSW pricing.

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

A

Yeah.

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

Q

But just looking specifically at the contractual rates, it was up a very healthy 4%. Can you talk about some of the dynamics that influenced that number? I'm just curious if there was a little bit of mix, or contract resets, or just how we should think about that number going forward?

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

A

So a little bit of both, right? So we had some contract resets. Some of the contracts that we're signing now and we've talked about SECONN and then the Del Val contractor. We're seeing higher pricing; the market's tightening up. It's a good time to be a waste company. You probably saw that with some of the other companies that you follow. So that's all driving that contracted pricing up. On the uncontracted, it's really in – spot markets tightening up and profiled waste has been having good performance. We're going to focus on our profiled waste pricing this year. And that's coming through fairly clearly.

I don't know, Brad, if you want to add to that? Okay.

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

[indiscernible] (22:46). Okay.

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

Yeah, it's been a good climate out there for pricing.

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

Yeah. Yeah. Good momentum. Okay. And then, Steve, I know it's kind of hard to see, but it feels like the fleet ran really well this quarter outside of Fairfax. I was just curious, if you can maybe give us some color on the operations ex-Fairfax, maybe on boiler or turbine availability, and do you think that momentum can continue?

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

I don't want to give you an exact number on that, but we had really good performance with respect to the plants, right? So except for Fairfax – and I think I mentioned on last quarter's call, there's only some level of things going on on the plant. I get a morning report and follow that as we go through the quarter, but it's been pretty strong. I think probably we're in a record availability range right now if you exclude Fairfax. So I think Mike de Castro and his team, the supply chain team, have been doing a really nice job of running the plants. And quite frankly, I think we've been smarter in how we're spending our money on the plants, and that's coming through on better on-time, on-stream availability with the plants.

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

Okay. Okay. Now that's great. And then just the last one. So, Brad, a couple of housekeeping items. I just want to make sure I'm straight on the model for Q4 assuming a full quarter of contribution from Dublin. So a couple of questions here. First, how much should we expect D&A to step up? Two, how much should we expect the book interest expenses to step up? And then, third, I'm kind of, I guess, a dummy on this, but how are the preferreds going to be treated on the income statement and where actually do those even show up on the cash flow?

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

Yeah. So I'll start with EBITDA, our guidance has been for Dublin to contribute on a full-year basis, $60 million of EBITDA, while $20 million – and I'll kind of stick with the full year, and then we'll get to the fourth quarter. On an annual basis, the interest expense on the project debt is about $20 million. And then about $10 million is the – U.S. dollars is the preferred dividends. So remaining free cash flow of $30 million.

On an EBITDA basis, assuming a full fourth quarter of operations, which is what we're targeting, that would roughly equate to $15 million of EBITDA. And then, the P&L impact of the interest, and the preferred would be at the same way. The preferred, actually, it's not going to run through the interest expense line. It will run through, I believe, the other expense. But it'll flow through the cash flow statement. So it will all be "above the line" in the calculation of free cash flow.

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

Q

Okay. Okay. Good color. I will hop back in the queue. Thanks.

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

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Thanks. Good morning, gentlemen. Congratulations on a strong execution. To Dublin, very good to see that the plant is still on track for full quarter production in 4Q. But just for folks who are maybe not familiar, you mentioned a couple of the steps that need to happen. Typically, at this stage, is there anything that we should be cognizant of that could maybe push that out a little bit just in your experience in ramping these things? How should we be thinking about the profitability here to hit that mark?

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

A

Well, commissioning, generally has a lot of puts and takes to it. We actually had built extra time in commissioning and – as we look at this plant, so the five weeks or so that we couldn't burn waste. So we can do other commissioning by the way and finish up construction activity during that period of time, which we did. But that's still left us time to hit our Q4 start as we talked about.

So what you'll see now, what's going on out there now is we're burning waste. We burn waste in both boilers. Boiler one is currently burning waste. Boiler two, we're tuning that up. The next real step in the process is synchronizing the turbine, and that will happen over the next week or so. And then after that, we'll move into performance testing. So that's the sequence of events. We're comfortable that we still got plenty of time to hit the Q4 – beginning Q4 start time. And so we'll work through that process. There could be puts and takes additionally, but we feel even with additional puts and takes, we're on track for the Q4 start.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thanks very much. Maybe turning to cost items. I think in the past, you've given us some idea of where you're at piloting beneficial ash for use. Can you give us sort of an update there on where those efforts stand?

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

A

Yeah. So we're in the permitting process now, particularly looking at – of the primary site, we'd like to utilize is the Fairless Hills facility. So where we have that ferrous and the non-ferrous processing systems. I'd like to put the ash processing there also. So we're working with the State of Pennsylvania on the permitting that's going on there. I'm hoping or expecting that we'll get done that through the end of this year. And then we'll start to – and at the same time, we're designing the system or buy the equipment in around that end of the year timeframe and then assemble it into next year. So we're probably talking later next year by the time we start operations, if all goes as planned.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

And if I could just sneak one more, and since you mentioned permitting, I understand that the public consult period for the Rookery environmental permit has closed. Not sure what that implies in terms of a timeframe for decision. But I have to ask how optimistic are you at this point in getting that environmental permit and being able to move forward with the project?

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

Usually, the permit that's trickiest to get is the planning permit. And so, on Rookery, we've had that. So we expect to get the environmental permit. It's usually the buck for the passing of time, going through the procedure, you get the environmental permit. So we expect we'll get that.

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

Okay. Great. Thank you so much.

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

Yeah. No problem, Noah.

Operator: Your next question comes from the line of David Katter with Baird. Your line is open.

David Katter
Analyst, Robert W. Baird & Co., Inc. (Broker)
Q

Hi, guys. Thank you for taking the question and congrats on the quarter.

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

Thank you.

David Katter
Analyst, Robert W. Baird & Co., Inc. (Broker)
Q

I was hoping to discuss Fairfax quickly, and if you guys could – I know you briefly touched on the timeline for what needs to happen and to come back online, how should we view any potential risks there and when might you know – have a firmer idea of when it will get online?

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

So, at this point, we're ready to process waste. I think I'd mentioned early on, we had damage to the cranes, the three cranes out there, the three cranes that are on site, but we're really working with the Fire Marshal's Office now in Fairfax County about the installation of the fire protection and suppression equipment.

So if you think about this, it's been 25 years since this facility was built. So code's changed a little bit. And we're also looking and there's new technology out there to take this to another level of protection. So we're working through all that with the Fire Marshal. We're hoping – well, I'll hear from them shortly. We've been back and forth on a number of different iterations. And as I mentioned in my prepared remarks, once we get the green light, it'll take about two months to install that equipment – the suppression equipment.

Really, with our insurance coverage, there's really no real risk. The financial impact is – net financial impact is minor. And there's no limitations on our insurance recovery. So it's not like the business interruption will hit a drop-dead date. So none of that comes into play. So we're really just working on the interface with the Fire Marshal's Office at this point.

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

A

Yeah. I'll just add to that. I think the net financial impact is going to be essentially neutral. That's not to say that everybody isn't aligned in having the plant come back up as soon as possible. We have every available resource focused on exactly that. But financially, it'll net out. I think the only impact you'll see is just around maybe some lumpiness quarter-to-quarter, and then, potentially, over the end of the calendar year depending on the timing of the insurance recoveries.

David Katter
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Got it. Thank you. That was helpful. And if I can have one more question, I was hoping maybe you guys can provide a little more colorful on Biffa, your project development pipeline in general. Are you comfortable with where you stand? Thanks.

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

A

Yeah. And one of the reasons I wanted to at least mention the Biffa Joint Development Agreement, as Biffa mentioned it a month or so ago. So one of the things I talked about when I first started at August Investor Day was that I wanted to get a more robust business development pipeline.

Biffa is the next step in that process. It's a setup similar to what we have with Veolia. Biffa brings the waste management expertise. We bring the energy from waste expertise. So I think it's a good potential partnership. Those projects are out after rookery.

And just so to be clear, we've realized that our balance sheet is under some pressure. So we get it that we need to be cognizant of how we might fund these. And we're not even at the stage of even thinking about how that's all going to play out. But we get it that we have to be careful in how we proceed with these projects from that perspective.

David Katter
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Excellent. Thank you, guys.

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

A

Sure.

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

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

Q

Thanks for taking my questions, Steve, Brad, and Dan. Hey, Brad. On the page 13, where you show the leverage, the 3.5x, that's the senior credit. That's all the holding company debt. And so that's the way to think about that just so I'm remembering that correctly?

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

A

It excludes the holding company debt. So it's a secure debt at Covanta Energy LLC, the main operating subsidiary holding company. So take out the $1.2 billion of high yield and then also take out the drawn project debt for Dublin until we get an anniversary of LTM EBITDA contributing.

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

Q

All right. So is there another way to slice this? When I think about the project that it's aligned to a set of cash flows, so that really – it doesn't really have a risk because it's tied to Dublin. And my thought is you have a fair amount of room at the holding company to fund this growth opportunity, so if you chose to – need to access equity that way using your balance sheet, not common equity, but, I mean, just the cash you're going to invest for the equity. Am I correct in that?

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

A

I think so. I want to be really clear. We are really prioritizing de-levering the balance sheet from where we are today. I think the business model, the balance sheet is set up to support 7 times. There are no issues practically speaking associated with that. But it doesn't leave us in a place that has the kind of flexibility that we want. So that ratio needs to and will go down.

That being said, I think, the high yield deal we did in March was a great example. We were above 6 times, approaching 7 times at that point in time. I've been very open, of course, what the trend of the leverage was going to be for the balance of the year. And we refinanced 7.25% notes at 5.875%, the deal was 10 times oversubscribed. So I think the credit markets would agree with you. That being said, that's not something we take for granted, and this balance sheet will be de-levered as we exit this year and into next year.

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

Q

Okay. Fair enough. So as I think about the Rookery spend, because that's the next one, if I remember correctly, it's about 80% of the size of Dublin. So to kind of oversimplifying this, take 80% of the dollar, total dollar numbers and then think about it as two-thirds, one-third is debt-to-equity, and then, layer that in over a three-year period starting 2018, 2019, 2020, and then it goes live in 2021. That's an oversimplified way to approach it, but is that a reasonable approach?

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

A

Yeah, it is. The one additional calculation is to adjust for the fact that we're not 100% of the equity. So take your 30%, multiply that by – assume 80% for our majority of the stake in the project.

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

Q

Okay. And...

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

A

We're looking at different options as far as when the timing of the equity would go in. But you're assuming for long-term modeling purposes, I think what you described is entirely appropriate.

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

Q

Okay. Fair enough. And then, again for – because Dublin is starting in October 1, this makes thinking about this year-over-year change a little more complicated. So I'm creating a scenario. Dublin goes live fully effective January 1; 2017 free cash flow comes at your midpoint, so what's that? $125 million. What's the incremental contribution from Dublin to free cash flow in 2018, starting with $125 million, and then add Dublin, factoring in that there's cash interest and cash dividend has to be paid out.

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

A

Yeah. So the full-year free cash flow contribution, I actually mentioned this a few minutes ago is $30 million. So if you start in Jan 1 or before Jan 1 obviously, we'd see contribution from Dublin of $30 million in calendar 2018. If you want to think about it in terms of the kind of the difference in the anniversary, if we start at October 1 versus Jan 1 becomes a little more complicated with the timing of some of the initial working capital, timing of interest payment, so there's a working capital element to this that adds some variability. But on a full-year basis, it's the $30 million.

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

Q

Okay. So I start with – if you do the midpoint at $125 million, I start with a $155 million is the starting place before any growth for 2018?

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

A

Yeah. That's right.

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

Q

That's the way to think about it. Okay. And then, Steve, with regards to the waste markets, you have 10 transfer stations that takes in lots of volumes that some goes to your own plants. But given how good the markets are, I'm presuming your transportations are doing very well. You have an eye on the underlying garbage market.

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

A

Yeah. And you probably heard it from some of the other companies that you're following. There's a lot of waste volume out there right now, which gives – and you can see that then coming through on pricing. So, yeah, as I've been saying to folks over the last year or so, it's really clear in this quarter, it's a good time to be a waste company.

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

Q

And that allows you to walk out some of that merchant pricing...

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

A

Right.

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

Q

...as well even on MSW, this isn't just profiled waste doing this. You're getting some help on the MSW side, too?

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

A

That's correct. Yeah.

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

Q

Okay. And then, on the $2.6 million that's hedged for 2018, can you give us a rate so we can start factoring that into our models since it's a known?

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

A

Yeah. We're in the low-$30s.

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

Q

$33?

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

A

That's low-$30s. Yeah.

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

Q

Yeah. Yeah. Dollars matter, guys. So that's...

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

A

Kind of.

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

A

We're just chuckling.

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

Q

Yeah.

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

A

Yeah. Look, we haven't given 2018 guidance as you know. So I think as we approach the end of the year, and we're wrapping up our hedging activity for next year, we'll think about giving some advanced guidance on that number.

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

A

Yeah.

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

Q

All right. The last item, so you're not, per se, shipping volume – the recycled volume to China. But China's going to reply to the WTO since there are other efforts to try and clean up the residual showing up and stuff being shipped for them for reuse...

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

A

Yeah.

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

Q

The one that, again, becomes kind of interesting for you is on the steel side and the scrap steel side to the degree that any of that might end up in China in electric car furnaces. Is there any concern on your part that any of this effort closes down some of that part of the export market? I'm less worried about fiber – high-quality fiber, and high-quality plastics. But the steel market seems the one that might be leaving a little more at risk?

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

A

We looked at this. And we don't think it's going to have a big impact. We don't have that much ferrous that's going to China. So...

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

Q

Okay.

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

A

...we don't think it'll have a big impact. And then on the other side of that, you have, what is it, Executive Order 232, which is they're looking at – and that actually may limit some of the steel coming into the U.S. I think that President Trump is looking at that. So it's interesting there are some gives and takes from a trade standpoint that are out there right now. And we're watching all that.

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

Q

Okay. Thank you very much.

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

A

Thanks.

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

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

Q

Thanks so much. Just wanted to circle back to the discussion you have on your profiled waste business. It's been making some nice contribution to those in terms of volume and pricing. Can you remind us roughly what that contribution is, maybe as a percentage of tonnage, and where do you think that will be over time?

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

A

Say that again? I'm sorry.

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

Q

I'm sorry. Looking at your profiled waste contribution...

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

A

Right.

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

Q

I'm just wondering what it is as a percentage of the tonnage that you process and where you think that can grow over time?

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

A

Yes. It's – out of the 20 million tons that we process, it's about 1 million.

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

Q

Okay. So still relatively small but obviously...

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

A

500,000 to 1 million. Yeah. So relatively small. One of the things I've talked about in the past is we can add another million without – as we bring more volume in. So we've got a pretty long runway, if you think about 10% to 15% growth year-over-year and that's what we've seen over the last couple of years in that range. So we've got a pretty long runway.

But then, what we'll do is we're really looking at outpass that next million tons. How do we move around some of the MSW contracts that we have in place, so we can create more room for profiled waste. So we've got a pretty good runway from a potential volume standpoint.

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

A

And given that the pricing of that material, it punches far above its weight from a revenue standpoint. As Steve said, it's about 5% of the volume processed in the plants. It's over 10% of our revenue.

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

So over a $100 a ton on average. So, of course, every incremental ton that we bring in has a pretty meaningful impact from a mix standpoint.

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

Q

Actually, that was going to be my next question. So I appreciate that. And then, just maybe just one follow-up. On the Fairfax impact, I just want to make sure I have the math straight. In the quarter, it was a detrimental impact of about $8 million on the waste side and $7 million in energy. And that's how we get the $15 million total, is that correct?

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

A

Yeah. That's right. That's right, yeah.

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

Q

So in terms of the changes you made to your revenue outlook for this year, that was pretty much it? Or is there anything else? Obviously, I know there's been some pricing changes. But anything else we need to know about besides the Fairfax impact?

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

A

No, no. We're operating right down the middle in terms of our plant. As Steve commented earlier, if you exclude Fairfax, the plants are running great.

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

So, no, if not for the Fairfax adjustment, we'd be right in the middle of what we had thought at the beginning of the year.

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

A

Yeah. The interesting thing on Fairfax is it's not running, but we insured for these kind of events. And so the insurance is filling in the hole, if you will, right? And I know it's tough when you're trying to run your models and do the analysis, but that's generally what's happened here is we insured for this type of event. And except for the – when you think about business interruption, except for the 15-day deductible, if you will, we're kind of covered.

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

Q

Okay. That's very helpful. Thank you so much.

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

A

Yeah. No problem.

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

Brian Lee
Analyst, Goldman Sachs & Co.

Q

Hey, guys. Thanks taking the questions. I had a couple...

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

A

Hey, Brian.

Brian Lee
Analyst, Goldman Sachs & Co.

Q

Hey. Hey. Good morning. A couple of them here. First off, the maintenance spend in CapEx, you guys have always laid that out pretty well. Just wondering with York and Dublin not in the numbers for the first time starting in 2018, what we should think about in terms of the new normal for growth rate CapEx trends from here? I know if I look at just the past few years organic and acquisitions, as you guys break it out, has been around $45 million to

$55 million a year. So I was just wondering if that's a right base range to think about or how we should be forecasting that?

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

Yeah. Brian, it's Brad. You mean – you're referring to the Durham York facility?

Brian Lee Q
Analyst, Goldman Sachs & Co.

Yes. Sorry, Durham York and Dublin.

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

You're right. Durham York and Dublin now being in the fleet [ph] plate 00:45:40, if you will, right?

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

Yeah.

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

So at the beginning of the year, we laid out a range – a fairly wide range, and there's reason for that which I'll get to in a second. But we laid out a range for the next three years, which included everything that was on the horizon at that point in time, including Dublin, including Durham York.

But the reason for the width of our range is just the timing of these projects at some of the plants. If we have a major turbine outage at a plant, that could be a $5 million item. You have a few of those. There's some lumpiness when you look at it over time. So I think the important thing is that the current level of spend within the range that we've laid out is the level of spend that we think is appropriate to be investing in the project.

Brian Lee Q
Analyst, Goldman Sachs & Co.

Okay. I thought you guys had quantified the maintenance spend pretty clearly. Maybe I missed it, but have you guys also quantified the range of growth CapEx that you expect for the next few years?

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

Sorry, I think maybe I missed that part of your question. No, we haven't. I think if you look at our spending this year, I think what we've said in the past is that the $30 million, plus or minus, around that number, is probably a good assumption for – I hope for -hope, meaning, hopefully we continue to have these kinds of opportunities in metals and in Covanta Environmental Solutions. That's probably a good assumption for that level of spend for those types of projects. Of course, the Dublin project is winding up. As we enter next year, there'll be no more CapEx for Dublin, because the project will be built. And then, any other large project development CapEx will be based on – will obviously be based on if and when we're moving forward with the new project in the UK.

Brian Lee
Analyst, Goldman Sachs & Co.
Q

Okay. Great. And then, I guess, to follow up on a few of the earlier questions on the UK opportunities, with Rookery and the two new Biffa projects under JDA, it sounds like you're making good progress there. So wondering if you could remind us, which plans you're targeting to be a majority equity investor versus a minority investor. And then, depending on the size of the capital commitment, are there scenarios where your investment in these projects would potentially necessitate a change to the dividend policy, just thinking about your earlier comments, Brad, about balancing your de-levering priority, but not wanting to necessarily forgo growth opportunities because of that?

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

Yeah. So with respect to the splits on the Rookery project, we will be a majority owner of the equity in that project. On the Biffa project, to be determined, still. And I don't expect at all that our dividend will be impacted by this. And I mentioned in one of the earlier questions, we get it that we've got the dividend, we've got pressure on our credit ratios. We're working through now on how to best navigate those various points, so more to come on that. But we're cognizant of the issues.

Brian Lee
Analyst, Goldman Sachs & Co.
Q

Okay. And just quickly and I'll pass it on. I know you alluded to this, not sure if you can provide a bit more color, but the timing for any potential equity investment on your part. It sounds like there's some optionality there. But is it typically at the start of construction or what sort of options would you have to space that out and over what type of timeframe? Thanks, guys.

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

It can actually be structured across the full spectrum. So you can have equity go in first, which is the way we did Dublin. We could structure a bridge for the equity with an LC backing, have it come in at the end, or we could do a pro rata. So it's actually – the full menu is on the table for us.

Brian Lee
Analyst, Goldman Sachs & Co.
Q

All right. Thank you, guys.

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

Thanks.

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

Thanks.

Operator: Your first question comes from the line of Tyler Brown with Raymond James. Your line is open.

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

Hey. I just had a quick follow-up, Brad.

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

Sure.

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

When we think about Fairfax next year versus this year, would you expect Fairfax to be a net good guide to 2018 EBITDA, despite the insurance recoveries? And what I mean by that is it seems like you had to eat a couple weeks of downtime. You've got deductibles. I'm not totally sure, but it doesn't feel like the recoveries fully cover both variable and fixed cost. Plus, I think Fairfax should be running much better post the upgrade. So wouldn't it be at least a few million dollar good guide next year?

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

Absolutely, we would expect it would be a positive, and you hit on the reason. We've accelerated some work into this year. Of course, we're now halfway through the replacements on the fabric baghouses, which before the plant went down, were having a material positive impact on the plant's production. So we feel actually as good as we felt about that project in a very long time. We just need to get it back up and running now.

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

Yeah.

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

Okay. Okay. Is Fairfax a special waste plant?

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

Yes.

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

Yeah. And actually...

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

Do the insurance...

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

Yeah. If you look at our special waste results, we grew it 10% this quarter. It would have been higher if Fairfax was online.

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

Q

Okay. Do the insurance companies contemplate that?

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

A

We're still working on that. That's a very good question. Of course, that's our position. And we've talked to them about it. So we'll see how that plays out, but that's a good question. I don't know if you have something more to add to that.

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

A

Well, just that – and I don't want to parse it too finely. But certainly it's our position that the recovery should cover all of the lost revenue streams. Though – the way the insurance company looks at it is based on historical results. So what we're not going to get is the lost opportunity for growth.

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

A

Yeah. The kick-off that would have occurred. So that's the discussions we're having with them now.

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

Q

Okay. All right. Thank you very much.

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

A

Thanks, Tyler.

Operator: Your next question comes from the line of Barbara Noverini with Morningstar. Your line is open.

Barbara Noverini
Analyst, Morningstar, Inc. (Research)

Q

Hey. Good morning, everybody.

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

A

Good morning.

Barbara Noverini
Analyst, Morningstar, Inc. (Research)

Q

You mentioned the small acquisition in pharma waste that you made in the quarter, how much of your environmental services business comes from servicing pharma waste at the moment? And maybe can you talk a little bit about the types of assets you're looking for when identifying or contemplating further M&A in the pharma waste space?

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

A

Yeah. It's pretty small at this point, Barbara, in the kind of the grand scheme of revenues both in Covanta Environmental Solutions and the overall company, obviously. This area is – a lot of interest to it. The tipping fees are high, and you've seen a number of governors talk about the opioid crisis . And in the pharma space, a lot of its drug take-back activities where there's DEA-controlled substances.

And you're just seeing more and more interest in that space just to try to get more of a grip on what happens with pharmaceuticals that are out of spec, or trial drugs, things like that. So with this acquisition, it's our second – it's called a DEA Reverse Distribution, the center, and it's got special – you need special permits and things like that.

Again, particularly because of the interest in the opioid epidemic, I think you're going to see more regulation coming down the pike from the government requiring more control over what happens to these drugs after they get into commerce. And these two DEA Reverse Distribution centers we have partake in that area. So we're pretty excited about it. And we'll continue to look to build that out as time goes on here. So we're looking for those types of assets that have certain DEA licenses.

Barbara Noverini
Analyst, Morningstar, Inc. (Research)

Q

Got you. Thanks. That's interesting. Thanks.

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

A

Sure.

Operator: There are no further questions. I will turn the call back over to Mr. Steve Jones for closing remarks.

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

Listen, we appreciate everybody's participation today. We know you're busy so thanks for taking the time to listen to our discussion about the company and have a good rest of the day and a good weekend. Thanks so much.

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