

26-Jul-2019

# Covanta Holding Corp. (CVA)

Q2 2019 Earnings Call

### **CORPORATE PARTICIPANTS**

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### MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, everyone, and welcome to Covanta Holding Corporation's Second Quarter 2019 Financial Results Conference Call and Webcast. An archived 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 introductions, I'd like to turn the call over to Mike, sorry, Dan Mannes, Covanta's Vice President of Investor Relations. Please go ahead, sir.

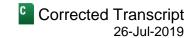
#### **Daniel Mannes**

Vice President-Investor Relations, Covanta Holding Corp.

Thank you, Carol, and good morning everyone. Welcome to Covanta's second quarter 2019 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 their 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 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 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 date of the live broadcast, July 26, 2019.

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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 limitations as to their usefulness for comparative purposes, please see our press release which we 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 web deck, our quarterly results are summarized on slide 3, and I'll begin my discussion on slide 4.

During the second quarter, we executed on our operating plan, generating \$94 million of adjusted EBITDA and \$21 million of free cash flow. Our core business of operating infrastructure is performing as well as it ever has, and we continue advancing on our long-term strategic growth objectives. While recent commodity price volatility, specifically for power and for our scrap metal, has impacted our financial results and outlook for the year, I'm very pleased with how the business is running.

As a result, we've lowered our outlook for 2019 adjusted EBITDA reflecting this specific impact. Our existing guidance for free cash flow was unchanged. Brad will go through the financial details behind this revision. But in summary, I want to emphasize that this change is only related to recent movements in commodity prices.

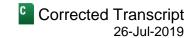
During the quarter, we processed 5.4 million tons of waste, a 7% increase over last year as a result of strong plant operations and the expansion of the portfolio. We continue to expect another full year of production record in 2019. Across the board, our outlook for tons processed, energy produced, metals recovered, and maintenance spend remains squarely in line with the expectations, as laid out entering the year.

As you know, the first half typically carries a higher level of planned maintenance activity, and consistent with that, we have now completed almost 60% of our expected maintenance for 2019. The business is firing on all cylinders as we enter the third and fourth quarters. Last quarter I announced that we agreed to divest our Springfield and Pittsfield, Massachusetts facilities as part of the fleet optimization program. In May, we completed this transaction.

We will continue to review our fleet and assets for opportunities to improve performance and/or reduce risk, whether contractually or by other means. However, we've already been successful in addressing much of the low-hanging fruit. So, I don't expect that we'll be announcing any further reductions in our portfolio in the near term. Our unique and irreplaceable asset base located in attractive northeast markets positions us to capitalize on very robust waste market conditions as evidenced by achieving over 5% same-store tip fee price improvements during the second quarter.

Remember that roughly 80% of our tip fee volume is contracted, and thereby limited to inflation-linked price escalation, which underscores the magnitude of this price move. We continue to push the volume and price of profile waste coming into our EfW plants, growing this revenue by over 8% in the quarter excluding the impact of facility divestitures. The essence of this business is to manage and process waste streams from generators,

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usually larger corporations, who will pay a premium to not go to a landfill either because the generator has sustainability and zero waste to landfill goals or the material must be safely destroyed.

As we've discussed, a promising market segment opportunity in the latter category is regulated medical waste, which was up close to 40% on a net revenue basis in the second quarter. Overall, we expect to grow profile waste revenue at our EfW plants in the high single digits in 2019.

As solid waste contracts end, we increasingly have opportunities to reset in line with higher market prices. This quarter we successfully re-contracted with two important and long-term customers; Boston and Philadelphia, for contracts through 2024 and 2025 respectfully. We will enjoy price levels higher than previous levels for both of these contracts, given our convenient asset locations and the increasing cost of transportation and disposal at alternative sites in those markets. In light of our success to date and municipal solid waste pricing and profile waste growth, we now expect full year same-store tip fee pricing to grow over 4% in 2019.

In addition to waste and plant operations, our metals and ash initiatives will be an important contributor to our organic growth this year. During the second quarter, we increased total metals recovery by 4%. And for the full year, we expect mid-single digit growth in total metals recovery. Non-ferrous recovery is a particularly important component of our growth within this line of business, given the much higher unit values and material in that stream.

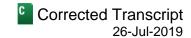
Our continued improvement in recovery stems from better utilization of our existing systems, installation of new equipment to refine the recovered tons, newer initiatives like mining ash that has not undergone metal recovery with our new mobile separation units, and ultimately the development and rollout of our Total Ash Processing System or TAPS. We also seek to improve realized prices for each ton of material recovered. To this end, we process effectively all of our non-ferrous and about a third of our ferrous before selling to market.

With regard to non-ferrous, we recently began installing new separation equipment that enables further refinement of heavy metals by separating additional commodities like zinc, a valuable metal for which we have historically received no value. In advance of the start up of this new separation equipment, note that we've recently been stockpiling non-ferrous metals to feed the new equipment. This has had the impact of lowering non-ferrous volume and revenue in the second quarter, but will contribute to improved sales volumes and better realized prices in the third and fourth quarters.

Let me briefly update you on the status for our first TAPS installation. We're now receiving the equipment at our facility in Fairless Hills, Pennsylvania and expect to install and commission the equipment over the next several months. While we don't anticipate a significant financial contribution in 2019, we remain very excited about this technology and the broad-based opportunity to utilize it throughout the fleet. I look forward to providing more updates as we prove out the technology.

Over the last couple of months, we saw a rapid decline in the price of two of the main commodities that we sell. On ferrous, we saw a decline in the HMS index amid a destocking of U.S. steel service centers and a coincident pullback in demand for scrap by steel mills. Early indications are that steel prices will recover in August, and we would expect scrap demand and prices to firm as well. In the U.S., several steel makers have begun investing capital in new electric arc furnaces that should increase demand for ferrous scrap over the long-term. In the meantime, we'll continue to maximize recovery, improve quality, and look for ways to reduce market risk.

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On power, we also saw a drop in prices, which began early in the year and really accelerated in May and June. This decline has been driven by ample and growing natural gas production and normal to below normal electricity demand amid seasonally mild weather.

I'll conclude my remarks with an update on our UK development activities. While there are no major project announcements this quarter, I wanted to give you a few general updates and discuss market trends. Currently, we have two plants in construction, Rookery and Earls Gate. In both cases, we're now in the civil construction stage. And in the progress photo on the bottom right and on the cover of the slide presentation, you can see the civil work, including concrete forming, at Rookery. Construction is proceeding on plan; and as a reminder, we expect commercial operations in 2022.

In the quarter, we continued to make progress towards completing development and reaching financial close on the Protos and Newhurst projects later this year. At that point, we'll have all four of our previously announced UK projects in construction. As a reminder, our equity investment across these four projects is expected to total between \$150 million and \$200 million, which we expect to yield annual cash flow of \$40 million to \$50 million. These are very attractive investments.

On top of these four advanced projects, we continue to pursue multiple other UK projects in earlier stages of development. Given our world-class development and operations capabilities, our progress to-date in the UK and the strength of our partnership with GIG, we are well-positioned for further growth and remain an attractive potential partner for other developers. We've long discussed the UK policy drivers, including the landfill tax and a planned ban on biodegradable waste landfilling in Scotland in 2021. These drivers provide strong support for new EfW capacity.

Today, over 3 million metric tons per year are being exported to continental Europe in order to meet the growing gap in disposal capacity, with an annual capacity shortfall of over 5 million tons projected over the next decade. The largest outlet for exported waste, currently the Netherlands, has recently begun discussing a tax on imported waste for EfW processing. We believe that this could put further pressure on UK domestic waste prices and heighten the urgency for sustainable, long-term in-country solutions. For these reasons, while we're pleased with our progress so far, we see even more opportunity in this market in the future.

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

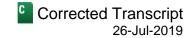
### Bradford J. Helgeson

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 for the quarter was \$467 million, up \$13 million from the second quarter of 2018. Organic growth, excluding the impact of commodities, contributed \$8 million as higher waste prices outweighed lower construction revenue in the quarter.

Commodities had a negative impact as we saw a \$9 million decline in revenue related to lower market prices for both energy and metals year-over-year. Transactions added \$13 million to revenue in the quarter with the September 2018 acquisition of the Palm Beach operations and Q1 startup of the Manhattan Marine Transfer Station partially offset by the impact of fleet optimization activities. Long-term contract transitions added \$1 million in the quarter.

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Moving on to slide 7, adjusted EBITDA was \$94 million in the quarter, a \$9 million decline compared to the second quarter of 2018. Excluding commodities, adjusted EBITDA declined by \$2 million organically, as the benefit of higher waste prices was offset by the timing of planned maintenance this quarter.

Looking ahead, we expect to show significantly positive year-over-year organic growth in the second half driven by waste prices and higher value for non-ferrous material as we further improve separation during processing.

We continue to expect organic growth and adjusted EBITDA, excluding commodities, to be in our target range of 3% to 5% for the full year. Our outlook on this is unchanged. The headwind from commodity prices, as I just discussed, translated directly from revenue to the adjusted EBITDA line. The net impact of transactions was a \$2 million benefit to the quarter as the contribution from the Palm Beach acquisition and Manhattan Marine Transfer Station exceeded the impact of plant divestitures.

For the full year 2019, we now expect adjusted EBITDA in the range of \$420 million to \$445 million, representing a \$20 million reduction from our initial guidance, based solely on commodities. As Steve discussed, we saw a rapid decline in the price of power and ferrous scrap in the second quarter and we expect these lower prices to persist through the balance of the year. While prices appear to have bottomed with fundamentals firming for ferrous scrap in particular, we're revising our guidance based on where these markets stand today, not a potential recovery.

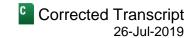
Looking at ferrous prices, our initial forecast ranges were at \$250 to \$300 per ton on the HMS index and realized prices of \$130 to \$160 per ton. As we began the year around \$300 per ton and market fundamentals were strong, including high domestic steel mill utilization rates, our base case underpinning our overall 2019 financial outlook was closer to the higher end of the HMS range. With HMS at \$230 per ton in July, we believe that the full year is now more likely to be in the lower end of our prior range which we are refining to \$250 to \$275 per ton as you can see on slide 15 in the appendix of this presentation.

Prices declined over 20% in the second quarter from April to July. And the decline in May alone represented a 2 standard deviation move based on historical monthly price volatility. Our realized price for ferrous sales are a function of the HMS index, but also the embedded fixed costs involved in transporting and processing the material. As a result, and as we've discussed in the past, when prices fall towards the lower end of historical price ranges, our effective percent of the index also declines. Of course, the opposite is true in a rising price environment.

Taking all of this into account, we now expect to realize \$110 to \$130 per ton of ferrous based on the new lower range of HMS. On nearly 400,000 tons of ferrous sold this year that implies a roughly \$10 million impact relative to initial guidance and results in a revised range of \$40 million to \$50 million for ferrous sales. We've also seen modest softness in scrap aluminum prices, but far less than ferrous and well within our initial line item guidance for non-ferrous revenue.

Regarding energy, our current expectation based on forward prices is that the full-year average price for market sales will be closer to \$26 per megawatt hour, a full \$5 lower than forward's entering the year and the midpoint of our prior range. When combined with slightly lower prices on certain hedged and contracted generation that retains some limited floating exposure, the overall impact is a \$10 million reduction as compared to initial expectations for the year. Similar to what we observed with ferrous, market energy prices have also moved lower by close to 2 standard deviations from the mean expectation based on implied market volatility going into the year.

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We maintain a highly disciplined risk management program for our power generation, and when we entered 2019 with 1.6 million megawatt hours of exposure or about a third of our overall merchant power portfolio, we calculated that to represent downside risk of approximately \$10 million with 95% statistical confidence. And that's essentially where we've ended up.

The good news is we now have only about 700,000 megawatt hours exposed for the remainder of the year, and we estimate relatively limited remaining potential downside for 2019. Needless to say, with two-thirds of our market generation hedged going into the year, our risk management program greatly reduced the potential impact of this market volatility on our results.

Under our program, we systematically layer on hedges out into the future on a rolling basis, as you can see on slide 14 in the appendix to this presentation. In addition to utilizing financial contracts such as floating fixed swaps, we continue to investigate new solutions to create incremental value in our portfolio and reduce risk. For example, this year we entered into a three-year wholesale load serving contract in New Jersey that provides us a longer-term, fixed-price hedge. Going forward, we'll potentially utilize more of these types of structures or other arrangements that leverage the base load and renewable aspects of our generation.

Turning to slide 8. Free cash flow was \$21 million for the quarter as compared to \$26 million in Q2 last year. While adjusted EBITDA was \$9 million lower in the quarter, this was partially offset by the semiannual dividend from Dublin, which we did not receive in the second quarter last year, as well as lower capital-type expenditures at client-owned facilities. Working capital was a net cash inflow in Q2 but not as favorable as it was last year.

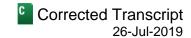
While we revised our adjusted EBITDA outlook by \$20 million, you will note that we have not changed our free cash flow guidance range which remains \$120 million to \$145 million. While the impact of commodities is the same on free cash flow, all else being equal, there are other factors impacting cash that can mitigate the commodity decline including many in our control. For example, our plants are operating very well this year, so it's fair to say that we're feeling optimistic about maintenance CapEx within our forecasted range.

In addition, we continue to focus on optimizing working capital with both AR and AP as target areas for further improvement. Overall, while commodities will impact our results on free cash flow within the range, we feel good about the levers that we control in this area and therefore do not feel that it was necessary to revise guidance. With year-to-date free cash flow of \$27 million, our full year guidance implies significantly stronger cash flow in the second half of the year in line with our typical seasonal pattern.

Regardless of our 2019 results or short-term commodity price volatility, our long-term outlook for cash flow generation and its underlying business drivers are unchanged. Our announced target of \$250 million of free cash flow by the middle of next decade, which approximately represents a doubling of where we are today, is based on the very attractive set of opportunities that we see to grow the company organically and through new project development. Organic growth will be driven by tightening disposal markets in the northeast, expanding our Covanta Environmental Solutions business, improving metals recovery and sales, rolling out systems to process ash and turn a cost line into a substantial source of value, and running our plants more effectively and cost efficiently through continuous improvement initiatives.

On the development front, our UK efforts are proceeding consistent with our plans and we're excited about emerging opportunities that we see both domestically and in new international markets. None of these drivers are contingent upon a particular set of commodity price assumptions. So we don't think that it's necessary or appropriate to mark-to-market our long-term free cash flow target for quarterly or even annual moves in commodities.

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To the extent that this needs to be restated, we remain committed to our capital allocation plans and our dividend policy.

Now please turn to slide 9, where I'll review our growth investment activity. Over the first half of the year, we invested \$29 million in growth, most notably equipment to support the startup of the Manhattan Marine Transfer Station. To date, we've only spent \$1 million on TAPS, but with equipment being delivered and installed, we expect to increase spend in the second half with about another \$10 million of CapEx to follow in 2020 as we release holdback payments to the vendor. In the UK, we spent \$9 million year-to-date, which primarily represents our investment in Earls Gate where we have nearly fully funded our proportion of the equity as well as preconstruction site work at Rookery, Protos and Newhurst.

Now please turn to slide 10, where I'll provide a brief update on our balance sheet. At June 30, net debt was \$2.5 billion, up about \$40 million from Q1. Our consolidated leverage ratio was 6.0 times, up slightly from 5.9 times at March 31, and the senior credit facility covenant ratio was 2.6 times. Our available liquidity under our revolver was over \$350 million.

As I discussed last quarter, given our outlook for adjusted EBITDA and planned capital spend, we do not expect to see a year-over-year improvement in credit metrics in 2019. As we look ahead over the next few years and continue to execute on our strategic initiatives, we expect growing adjusted EBITDA and cash flow to drive improved metrics over time.

Before we turn it over to Q&A, I'd like to hand it back to Steve for some concluding comments.

### Stephen J. Jones

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

Thanks, Brad. I want to take a moment and reiterate a few things. First on an operational basis, we're performing very well this year. Waste markets are strong and we're effectively filling our plants with steadily higher price waste. We don't see this trend abating.

Second, as we look to the latter part of the year, we expect to combine these successes with the benefits of our metals processing investment and ultimately our first TAPS plant. These actions set the stage for organic growth in 2019 and beyond. When coupled with our progress in the UK, where we expect to refinance or close on two more projects this year, and the broader opportunities ahead of us, both domestically and internationally, I've never felt more excited about the future for Covanta.

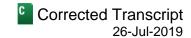
With that, operator, let's move on to the Q&A.

### QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question this morning comes from Tyler Brown from

Raymond James. Please go ahead. Patrick Tyler Brown Analyst, Raymond James & Associates, Inc. Hey. Good morning, guys. Stephen J. Jones President, Chief Executive Officer & Director, Covanta Holding Corp. Good morning. Bradford J. Helgeson Executive Vice President & Chief Financial Officer, Covanta Holding Corp. Good morning. Patrick Tyler Brown Analyst, Raymond James & Associates, Inc. Hey. Congrats, again, on another really strong performance in the waste segment, price up 5%. But as a point of clarification, were the Boston and Philly renewals in that 5% number or will those start kicking in maybe here in Q3? Stephen J. Jones President, Chief Executive Officer & Director, Covanta Holding Corp. Yeah. They take effect in July, so they're not in those numbers yet. Patrick Tyler Brown Analyst, Raymond James & Associates, Inc. Okay. And then, do those contracts have a CPI escalator tied to them as well, or is there a higher escalator than that? Stephen J. Jones President, Chief Executive Officer & Director, Covanta Holding Corp. No. CPI-type escalations. Patrick Tyler Brown Analyst, Raymond James & Associates, Inc. Okay. Okay. And then... Stephen J. Jones President, Chief Executive Officer & Director, Covanta Holding Corp.

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But as you can imagine, and we don't want to get into a lot of details on the specific contract, but particularly in Boston, the price increase was pretty significant. So, we're - that market has tightened up significantly over the

ast couple of years.	
Patrick Tyler Brown Analyst, Raymond James & Associates, Inc.	C
Right. Right. Absolutely. And then, so I appreciate that	
Stephen J. Jones President, Chief Executive Officer & Director, Covanta Holding Corp.	A
know you're aware of that. So, yeah.	
Patrick Tyler Brown Analyst, Raymond James & Associates, Inc.	
yeah. Yes. But I appreciate the preponderance of your contracts are really tied up in any given year, but a go out to 2020, are there any other more notable waste contract maturities that come up, particularly in the northeast, that we should be watching?	s we
Stephen J. Jones President, Chief Executive Officer & Director, Covanta Holding Corp.	<b>/</b>
No, I don't think so. But you will see – that whole market has moved up, so you'll see on spot prices and	

opportunities. But one of the things we're going to be looking at is how do we back down some of our contracted volumes and make space for un-contracted at higher prices or profile waste. So, we're really in the process in all of our plants of pocket switching between higher-priced waste now and moving out kind of the lower-priced waste.

Bradford J. Helgeson Executive Vice President & Chief Financial Officer, Covanta Holding Corp. Tyler, this is Brad... Patrick Tyler Brown Analyst, Raymond James & Associates, Inc. Right. Right.

Executive Vice President & Chief Financial Officer, Covanta Holding Corp. ...yeah. Also, I'd note that that in New England, a higher proportion – compared to some other major markets that

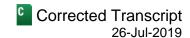
we're in, a higher proportion of our contracts are commercial contracts. Those tend to be shorter duration. So, just as a function of that, you end up with more regular price resetting in New England as compared to, say, for example Long Island, just based on our contracts.

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

Bradford J. Helgeson

Right. Right. Okay. That's kind of – I was getting at. So, considering that you had some fairly sizable resets, CPI is pretty healthy, profiled waste keeps building. I mean, is it safe to assume that off into 2020 that waste pricing really should be maybe above that long-term trend in terms of your growth?

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#### Stephen J. Jones

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

Yeah, I think that's right. I think you'll see – I mean, we're – we've moved our waste percentage up to 4% this year. I think you're going to see on – it'll be on the heavier side.

### Patrick Tyler Brown

Analyst, Raymond James & Associates, Inc.

Okay. All right, guys. I appreciate it. Thank you.

Stephen J. Jones

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

Thanks.

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

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Thanks. Good morning. So on energy, I think there was some good detail in your comments and I just want to delve into that a little bit further. You've hedged, it looks like, about a third of your at-market exposure for 2020, already. You entered this year with two-thirds hedged. At current prices, in what level of open market exposure should we assume you're comfortable with entering 2020? And then, maybe you can talk a little about some of the opportunities further to hedge at or find higher value for some of this energy, whether its credits or additional opportunities like you've pursued in New Jersey?

#### Bradford J. Helgeson

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

Yeah. Hey, Noah, it's Brad. I'll at least take the first part. So, at a high level, I think you can generally expect us to enter next year at about the same level we did this year. But the way we managed the risk management is it isn't predicated on a specific hedge ratio on a megawatt hour basis. We calculate what we think the potential revenue exposure is based on market volatility, and then ultimately, and this becomes more and more relevant, unfortunately, where prices are now, where the absolute level of prices are.

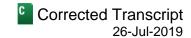
So, I think when the – when market prices are lower, and this isn't really a kind of a decision that we're making on the fly, but just what the model would tell us is that at lower prices we're generally probably going to be hedging less just because there's less exposure by definition. But really in summary the answer is you should expect us to generally have about the same megawatt hour exposure again at a high level heading into next year.

Stephen J. Jones

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

And on the second part of your question, we're actively looking at ways to sell directly to customers, and there's some rule changes that need to occur. But there are customers and we've talked to them who are interested in the fact that we're base load and also the green attributes associated with our operations. So, those activities are underway. In certain places, we're looking at micro grids and where we can supply in a micro grid situation, there's a place — New Jersey is looking at that right now.

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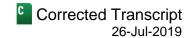
We have opportunities to sell steam. Steam has to be more valuable than the electrons at this point. We were close to actually doing a deal in the DelVal – at the Delaware Valley facility, but that didn't completely pan out. But there are opportunities for us to sell steam. So, we've got business development teams looking in and around our plants for a steam host.

And then lastly, and this is interesting, and we're kind of working on this right now, is these folks who are doing cryptocurrencies need a lot of power. And so, we actually went out with an RFP to look to sell power to some of those folks. They've modularized their servers, and they can pull them up and plug in and they're looking for inexpensive power. And so, we can sell higher than the grid pricing that we're getting and still everyone's happy with the deal. So, a lot of activities in and around that space right now, because quite frankly selling to the grid is as you see what happened in this particular – in the first and second quarter of this year is not a great option really.

Noah Kaye Analyst, Oppenheimer & Co., Inc.	Q			
Yeah. And I think those cryptocurrencies are drawing down the equivalent power of a medium-sized country at this point, and only going to grow, so that's interesting.				
Stephen J. Jones President, Chief Executive Officer & Director, Covanta Holding Corp.	A			
Yeah. It's an interesting				
Noah Kaye Analyst, Oppenheimer & Co., Inc.	Q			
Well, good luck on that front.				
Stephen J. Jones President, Chief Executive Officer & Director, Covanta Holding Corp.	A			
Yeah.				
Noah Kaye Analyst, Oppenheimer & Co., Inc.	Q			
Yeah. Sorry, Steve.				
Stephen J. Jones President, Chief Executive Officer & Director, Covanta Holding Corp.	A			
Thank you. No, no. Go ahead.				
Noah Kaye Analyst, Oppenheimer & Co., Inc.	Q			

But on your UK pipeline, first, really two part, wanted to ask about Protos. I mean as I understand the environmental permit, traditional review period has passed. So really, if you could give us kind of color on what needs to happen there to get to financial close at this point? And then, on kind of your comments that are intriguing around further opportunities, I'm just curious, how are those opportunities originating or coming to you? Is it your own BD folks? Is it through some of the partnerships that you carved out for your existing plants and maybe just some color on that?

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#### Stephen J. Jones

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

Yes. So on Protos, we do have the operating permit. We actually have the operating permit on Newhurst also. Newhurst is about two-thirds of the way through the judicial review period. So we're not through the judicial review period on Newhurst, so I wanted to mention that. But on Protos, we're in the process now of finalizing the various documents, the waste contracts. We're expecting kind of August, September timeframe to actually get the financial closed. So we're narrowing in on completing the Protos project here. We're in a very good spot.

If you look at other opportunities, and we mentioned this a little bit in my prepared remarks, the UK has got a number of opportunities. So the GIG partnership is going quite well. They're bringing additional projects to us now. And so, there's opportunities you'll be hearing from us from that perspective. And then as you start to look around the world, I mean we've mentioned the Philippines in the past, we're still waiting on the concession agreement in the Philippines. And then China is starting to heat up, we have some opportunities in China that are starting to take some shape.

So, and what I'm trying to do is the UK market and the pipeline is good and robust. I'm starting to look at what's the next section of the pipeline we need to fill from a business development standpoint, so. And because of our size being the largest energy-from-waste company in the world and our capabilities, we get invited to participate in a lot of opportunities. And our partnership with Macquarie/the Green Investment Group has just really allowed us to go into even further spots to do deals.

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Analyst, Oppenheimer & Co., Inc.

Okay. That's very helpful. Thanks.

Stephen J. Jones

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

Thank you.

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.

Thank you, gentlemen, for taking the questions. On free cash flow, could you tackle two pieces? So, a \$20 million reduction in the EBITDA it's all price-related to commodities, so that's all cash, reaffirm \$120 million to \$140 million; midpoint, \$130 million; take out \$20 million, you're at \$110 million. So, what's happening to cover the differential there? And the part B of that is, how do you feel about your \$250 million target that's out 2024?

Bradford J. Helgeson

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

Yeah. Hi, Michael. It's Brad. Yes, so the free cash range, \$120 million to \$145 million, midpoint low \$130s; \$20 million impact on EBITDA that translates dollar for dollar to the same impact on free cash will make up – we expect to make up a good chunk of that with some of the other things that impact on cash. I touched on this in the prepared remarks. And we're feeling good about how we're coming in within our range on maintenance CapEx just based on how the plants are running and how the outage schedule has progressed.

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And then again working capital, I mean as you know, that's been a real focus of ours for – going on two, three years now. We think there's still a lot of opportunity particularly on the AR side for us to continue to wring some efficiencies out of working capital. So, we're looking to those two things as really I think the most prominent examples to make up, like I said at least a portion of the \$20 million headwind such that we thought the initial range was still valid.

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

And on the \$250 million question Mike...

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

Okay...

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

Analyst, Stifel, Nicolaus & Co., Inc.

Yeah. No, no, that's what I was going to ask about – to remind you...

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

Analyst, Stifel, Nicolaus & Co., Inc.

Yeah. No, no, that's what I was going to ask about – to remind you...

Yeah. On the \$250 million, so if you look at what's driving that – but so we feel good about the \$250 million. If you look at what it's driving at on the organic side we've got tightening disposal markets in the Northeast, our Environmental Solutions business is growing, it grew 8% this quarter. We're having improved metals recovery in sales. We're rolling out the Total Ash Processing System which will – as Brad mentioned, it will turn cost line into a source of value. And our plants are running more effectively and efficiently through the continuous improvement efforts. So if you look at that, that funds the 3% to 5% organic growth target.

If you look at 2018, we hit 11%. Now we – now in all fairness, we had Fairfax tailwinds. So even if you take those out, we were at 6%. So and we're backend loaded this year, I'll point that out. But we feel good about the organic growth drivers that are feeding that target. And as I just mentioned, we feel real good about the UK development efforts. We expect to have all four projects in construction by the end of this year and we have incremental projects that are coming into the pipeline.

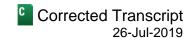
So when you start to stack all that up, I'm feeling very good about the \$250 million and we're doing a lot now to drive execution around these various activities that will fund that \$250 million number.

#### Michael E. Hoffman

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. So for me to summarize, \$45 million is coming from development, \$75 million would come from U.S. kind of divided by 5, \$15 million a year and you've just laid out...

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Stephen J. Jones President, Chief Executive Officer & Director, Covanta Holding Corp.	A
Right.	
Michael E. Hoffman  Analyst, Stifel, Nicolaus & Co., Inc.	Q
the pieces that contribute to that [ph] \$15 million (37:25) a year. Okay. Second	
Stephen J. Jones President, Chief Executive Officer & Director, Covanta Holding Corp.	A
Correct.	
Michael E. Hoffman Analyst, Stifel, Nicolaus & Co., Inc.	Q

...on the development side, Veolia has just had some disappointing news on permission. Is there a re-true of a sentiment change or was there something unique about that one in Herefordshire that – why they got denied? How do we think about what that means?

Stephen J. Jones

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

Yeah, I think they didn't get planning approval on one of their plants. That's always specific to the location and the specifics associated with that development. We're not seeing any of that. That's one of the reasons I laid out some of the drivers, particularly this 3 million tons that goes to Continental Europe is that there's going to be a real need for – on Island, in the UK energy-from-waste solutions or disposal solutions in general but energy-from-waste is where they're headed over the next couple of years.

And quite frankly, depending on how Brexit plays out, that – and where the pound goes, that could make moving that 3 million tons even more difficult in the short term which will basically play further into the energy-from-waste story. So again, Veolia's situation I think is fairly unique to what – their project development in the UK.

Stephen J. Jones

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

Yeah, Michael. I think if that situation – I won't get into the specifics of it, but if that situation points to any underlying themes in the UK, it's that it's really hard to get planning permission for these sites, notwithstanding the significant need for new infrastructure in the country. So, I think if anything, that just highlights how valuable the sites are that we have, and others, where we have planning permission.

Michael E. Hoffman

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. If I could ask one more, just real quick. If you looked out five years and you thought about the percentage of your tons that's under contract that's in New England that would benefit from, as that rolls off, it's pretty meaningful improvement that happened with the Boston contract. How would you frame that, which helps support the thesis that you can do 5% a year?

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#### Bradford J. Helgeson

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

I think in New England, it's safe to assume that, really, I think all of the - generally speaking, all of the contracted volume will have a tailwind to it over a five-year timeframe. So not sure how much more precise I can get with it than that. But the tailwind is pretty strong in New England, and frankly, is also, I think, at our back in our other markets as well; just, of course, most acute in New England.

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

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

Brian Lee Analyst, Goldman Sachs & Co. LLC

Hey, guys. Good morning; thanks for taking the questions.

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

Good morning.

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

Good morning.

Brian Lee Analyst, Goldman Sachs & Co. LLC

Good morning. Maybe just a couple of follow-ups here on the waste pricing side. First, on the 4% ASP view, just wanted to make sure I understood the dynamics and the trajectory here. Tip fees were down a smidge in 1Q, if I recall correctly, and then up 5% this quarter. So you're basically implying that you'd be up more than 5% in the

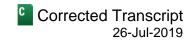
back half of this year, sort of like 6%, to get to that 4% full year view, is that fair?

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

Not quite. So let me - it's Brad. Let me tell you how we look at it. So on a same-store basis, tip fees were up similarly in the first quarter. So we've really seen 5% growth, on average, really across the first half. So based on that, we – you can extrapolate that we feel pretty good about our outlook to be north of 4% for the year. I think what you're looking at is we calculate the waste revenue divided by tons for, as you say, an average sales price. There are other factors, like mix, that did impact on that number, like for example, the Dublin projects, we had consolidated results impacting us in the prior year, but not in this year as we de-consolidated that project.

So there are other ins and outs that impact on that average price that, over time, will mirror what we calculate as being the real same-store increase. But in a particular quarter, there may be a disconnect.

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#### **Brian Lee**

Analyst, Goldman Sachs & Co. LLC

Okay. Fair enough. So, there is a couple of things to normalize for in 1Q. Got it. And then, maybe just a second question on the un-contracted side. This is a waste stream here, it seems like, that you've seen much more volatile pricing swings, obviously to the upside. It would imply that, since you're not taking up your overall price per ton forecast for the year, that the un-contracted side maybe slows a bit in the second half, given the stronger tip fee pricing view and, again, the overall price per ton range for the year remaining unchanged. Is that the right read or can you maybe talk about how to think about the un-contracted side as we move through the year?

#### Bradford J. Helgeson

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

Yeah. I think the takeaway you should have from our commentary, both last quarter and this quarter, is that waste prices are stronger than what we had expected going into the year. Obviously, we view that as a nice source of upside for us, but it's been even a little bit better. It hasn't been better to the point where we felt compelled to adjust the ranges. So, that then implied that we feel good about prices towards probably the higher ends of those ranges we put out at the beginning of the year.

And the un-contracted is going to be a big driver of that. I mean, that's where you see the profiled waste growth really taking effect. So of course, the contracted, as we reset prices, you'll see that average sales price move higher, but within a short period of time, that really just reflects CPI escalation.

#### Brian Lee

Analyst, Goldman Sachs & Co. LLC

Okay. Fair enough. Thanks, guys.

#### Bradford J. Helgeson

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

Thank you.

Operator: Our next question comes from Jeff Silber from BMO Capital Markets. Please go ahead.

#### Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Thanks so much. Just wanted to go back to the free cash flow guidance, I just want to clarify something. If you come in towards the low end of the range or, God forbid, even below that, obviously, there wouldn't be enough free cash flow to pay the dividend this year. But you still have more than enough capacity to cover that in case we do have a shortfall, correct?

#### Stephen J. Jones

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

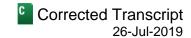
That's correct. Yeah. I mean as we mentioned the \$350 million in the revolver. So, I mean we have plenty of liquidity.

#### Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)



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Okay. Great. I just wanted to get that out there. Appreciate that. And then also in the comments about the balance sheet, I think you said that we should not expect any change in your credit metrics on a year-over-year basis. What about the rest of the year from the end of Q2 levels? Is that something we should just be modeling in to keep leverage at these levels?

Bradford J. Helgeson

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

Yeah, plus or minus.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Okay. All right. That's helpful. And then, finally, just one small follow-up. I know you don't want to get into the specific contractual discussions, but on Boston and Philadelphia, can you give us kind of a rough range what those contracts are as a percentage of your contracted volume?

Bradford J. Helgeson

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

Those contracts – Jeff, its Brad. So, those contracts are actually in the scheme of things not terribly large. Boston is about 200,000 tons, and Philadelphia is in that ballpark, a little bit more. I think the value of us highlighting those is really, I think is just that they're bellwethers for those markets. So, have – broader implications that can be extrapolated for those wider markets. But in and off themselves, you're not going to see an overall meaningful impact on the total results.

Stephen J. Jones

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

Yeah. They really set the stage for kind of the rest of the market because that information is – does get out there on the pricing.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Okay, great. That's helpful. Appreciate that, thanks so much.

Stephen J. Jones

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

Thanks, Jeff.

Bradford J. Helgeson

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

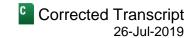
Thanks, Jeff.

**Operator:** And we have no further questions in queue at this time. I'll turn the call back for closing remarks.

Stephen J. Jones

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

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I'd like to thank you again for joining us on our call today and for your continued interest in our company. I'm excited about the progress and the opportunities ahead for us. Hope you all enjoy the remainder of the summer and we look forward to seeing you over the next couple of months, and please reach out if you have any questions. Thanks for joining us.

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

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