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Covanta Holding Corp. (CVA)

Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Covanta Holding Corporation's Third Quarter 2017 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 Relation Section of the Covanta's 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 would 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 third quarter 2017 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, onto the Safe Harbor and other preliminary notes.

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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 day of this live broadcast, October 2017 (sic) [27], 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 express written consent of Covanta is prohibited. The information presented includes non-GAAP financial measures. Because these measures are not calculated in accordance with U.S. GAAP, they should not be considered in isolation from our financial statements, which have been prepared in accordance with GAAP. For more information regarding definition of our non-GAAP measures and how we use them, as well as limitations as to their usefulness for comparative purposes, please see our press release, which was issued last night, and was furnished to the SEC on Form 8-K.

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

Stephen J. Jones

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

Thanks, Dan, and good morning, everyone. For those of you using Web deck, please turn to slide 3. I'll start off with a quick overview of the financial results and the key drivers impacting the quarter.

Adjusted EBITDA for the quarter was $117 million, and free cash flow was $68 million. With solid visibility on the fourth quarter we are reaffirming our full year outlook.

The highlight of the past few months at Covanta is undoubtedly the Dublin Energy-from-Waste facility progressing through its commissioning process and transitioning to commercial operations. During commissioning in the third quarter, operations ran smoothly and we processed nearly 100,000 tons of waste and generated over 35,000 megawatt hours of power. We successfully completed our 30-day performance demonstration test earlier this month and the results of our emissions test are significantly below our permit limits. We posted these emissions results to our Dublin EFW website.

In line with our previous guidance, we expect a full fourth quarter production and financial contribution from the plant. We're very proud and excited to be in a position to provide this sustainable waste management and renewable energy solution for the Dublin region for decades to come.

I'm also extremely thankful to our many Covanta employees and our partners at Dublin City Council, whose ceaseless efforts over the many years made this possible. In my view, this is quite an accomplishment.

As an update on the status of the Fairfax facility, we secured approval earlier to this month with the County for the installation of the new fire detection and suppression equipment. At this point, we expect the facility to return to service around the end of the year. This timeline is much longer than we had originally expected, so bears further discussion.

If you recall, the first quarter earnings call in April, we expected the facility to come back online later in the second quarter. Given the nature of the damage, we could have achieved that. However, working through the process to agree to a fire protection plan simply took far longer than we expected.

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The application of fire codes to the facility was not straightforward given the unique nature of the facility in the County, so extensive education and discussion was required. The most important message here is that installation of the new fire protection and suppression system is underway and we're on track to resume normal operations in another couple of months. We'll do this as quickly as possible.

As a result of all this, the overall financial impact in 2017 will end up greater than previously anticipated, even when accounting for insurance coverage. Brad will review this in more detail.

With the exception of power prices, we see continued strength across all end markets. Market prices for waste disposal continue to firm and we expect our realized price to outpace general MSW pricing trend as we supplement MSW with growing volumes of profiled waste. The Covanta Environmental Solutions business, or CES, is also seeing increased opportunities for site services and materials processing.

Lastly, metals prices are firm and this quarter's results highlight the pricing improvements from the investment in non-ferrous processing.

Now I'll get into the detail on the markets and operations. I'll start with the waste business. Please turn to slide 4.

During the quarter same store EfW price growth was $8 million or 3.2%. However, this was offset by lower volumes in the quarter primarily related to the downtime at Fairfax, which reduced revenue by $9 million. The Covanta Environmental Solutions business produced another solid quarter though it faced some challenges with availability of internal disposal capacity due to the downtime at Fairfax as well as an outage at another key profiled waste plant.

Pricing for all profiled waste grew double-digits year-over-year and total profiled waste revenue grew 7%. However, as a result of lower volumes in the quarter, internal EfW profiled waste revenue growth slowed to 2.4% year-over-year. The launch of Fairfax alone created a mid-single digit year-over-year revenue headwind to internalize EfW profiled waste, which will continue to impact us through the year-end.

While the Fairfax event was primarily or certainly an anomaly, we're working to improve the flexibility of our profiled waste business by expanding the network of material processing facilities, and increasing the number of EfW facilities that accept these high-priced waste streams, as well as identifying incremental third-party disposal options.

With Fairfax's recovery in 2018, increased usage of incremental facilities throughout the fleet and expanded logistics capabilities, we expect to return to more typical pace of internalized profiled waste growth.

Environmental Services, which includes the balance of the CES business and represents our non-internalized materials management and industrial field services, exhibited strong growth of approximately 25%, as we continue to successfully integrate the CES acquisition and expand our footprint and service capabilities.

For the full year outlook, we have modestly reduced EfW volumes given the previously discussed items. Offsetting this, the pace of growth in Environmental Services is stronger than we previously expected, leaving full year total waste and service revenue mostly unchanged from previous expectation. These forecasts include a full quarter's contribution from Dublin as they have all year.

Now let's move on to energy, please turn to slide 5. Softer energy prices, impacted by the very mild summer in the Northeast this year, were a $3 million headwind, while volume, again, was impacted by the downtime at Fairfax.

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This was partially offset by improved year-over-year production at other plants in the fleet. Separately, as we expected, contract transitions represented another $8 million headwind.

As we previously discussed, we're actively managing our exposure and have further reduced the 2017 and 2018 open market position. We've already hedged approximately 3 million megawatt hours of our production for 2018, which when combined with our contracted position, leaves only 25% of our 2018 forecast for power output subject to market prices.

Similar to waste, we have modestly reduced our full year volume outlook due to the downtime at Fairfax. However, the fourth quarter will benefit from a full quarter of electric revenue from Dublin.

Let's now move on to the metals business on slide 6. Same store realized ferrous prices increased 38%, driven primarily by a 30% increase in HMS Index prices year-over-year. Last quarter, we noted an expectation for some draw-down in ferrous inventory in the second half of the year, and this has begun to play out with a sequential 19% increase in ferrous sales volumes compared to the second quarter.

Market prices for ferrous were strong in the quarter, with the HMS #1 Index averaging $275 per ton. As prices have remained firm, we are slightly raising our expectations for the full year average to $250 to $260 per ton.

On the non-ferrous side, revenue increased by $4 million or 74% on a same store basis. The quarter benefited from improved pricing, as we sold higher value material after processing at the new centralized non-ferrous processing facility. This led to realized revenue per ton more than doubling versus last year. As previously discussed, processing also reduces volumes sold, but the net tradeoff clearly represents significant additional value.

We're expecting a stronger realized non-ferrous pricing in the fourth quarter as we increase internalization of non-ferrous materials to the processing facilities. This improvement is reflected in our full year guidance range.

Let's now move onto maintenance and operating expenses. Please turn to slide 7. Total EfW maintenance spend in the quarter, including both expense and CapEx, was $69 million versus $58 million in Q3 2016. Maintenance costs were impacted by work at Fairfax during the continued downtime and increased maintenance scope at certain facilities.

Looking at the full year, our outlook for EfW maintenance expense and maintenance CapEx remains at $365 million to $385 million, though we now expect to be at the top end of that range. Importantly, this is also well within the $365 million to $415 million three year range that we provided at the beginning of the year. And we reiterate that this range is appropriate for setting longer-term expectations.

Other plant operating expenses increased 8% on a same store basis compared with Q3 2016, driven by expenses related to growth in the Covanta Environmental Solutions platform, the startup of the non-ferrous processing facility, and normal wage and benefit escalation. Same store costs for the EfW business were relatively flat year-over-year.

During the third quarter, we recognized $2 million in insurance recoveries. Incremental recoveries are expected to come later in the year, with some receipts expected in 2018. Lastly, we reached a settlement with a client related to a previously disclosed contract dispute, which resulted in an $8 million benefit.

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Before I hand the call off to Brad, I want to revisit a few drivers of our business outlook. First, in our international development efforts, we continue to make progress. The most advanced project, Rookery, is now closer to construction. The final environmental permit is expected later this year or early next year, and we are finalizing project contracts and arranging financing. This should put us in a position to move into construction in the first half of 2018. Look to hear more about the financing of this project and the UK pipeline as we get a little closer.

Second, on the fourth quarter 2016 call we noted that we expected to generate 3% to 5% organic growth annually, excluding the impact of commodity prices. This remains our expectation as an annual average. Absolutely nothing has changed in that regard. However, the impact of the Fairfax facility, essentially being down for most of the year, along with the expected deferral of some Fairfax insurance recovery into 2018, will likely push us below the growth target in 2017. But, the impact of this event is temporary.

We believe that we're making the right investments in our facilities to maintain the operating performance and drive improved results and are highly confident in a long-term organic growth trajectory in the business and a return to this type of growth or better in 2018. And again, notwithstanding the impact of Fairfax, we're reaffirming our overall guidance ranges for this year.

Lastly, we're particularly gratified to transition the Dublin plant to commercial operations, in line with the original expectations we laid out. This sets the stage for improved financial results in 2018 while adding momentum to our development efforts.

With that, I'll turn the call over to Brad to discuss the third 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 my review of our third quarter financial performance with revenue on slide 9.

Total revenue was $429 million in the quarter, an $8 million improvement over Q3 2016. Revenue increased $12 million on an organic same store basis. Within that amount, our core business activities excluding commodity price changes, increased revenue by $10 million year-over-year. Waste price growth, improved metals pricing through processing, and the ongoing expansion of our Environmental Solutions business, more than offset the downtime at Fairfax on the revenue line.

Recycled metal prices represented a $3 million benefit as we saw improved markets for ferrous, while energy prices were down $1 million overall with lower prices for electricity sales partially offset by higher capacity payments.

Outside of organic growth, the three small Environmental Services acquisitions we completed earlier this year contributed $3 million in the quarter. Contract transitions were a net $6 million headwind year-over-year as a $9 million impact of long-term power contracts rolling off was partially offset by increased energy revenue share following service contract expiration and improved pricing on new waste contracts.

Moving on to slide 10. Adjusted EBITDA was $117 million in the quarter, a $7 million decline compared to the same period last year. On an organic same store basis, adjusted EBITDA was $9 million lower than last year. Excluding the benefit from higher commodity prices, the decline related to core business activities was $11 million in the quarter.

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The primary driver was the downtime at Fairfax, which had little offset from business interruption insurance in the quarter due to the timing of recoveries, as we had flagged on our last earnings call. As a result, the negative impact of Fairfax downtime was $7 million year-over-year.

Combined with the impact of Hurricane Irma on a couple of our plants in Florida, which was approximately $2 million in the quarter as well as higher maintenance, these factors more than offset improved waste pricing and the benefit of non-ferrous processing. Commodity prices were a net benefit to adjusted EBITDA through stronger metals prices outweighing slightly softer energy prices.

Contract transitions were effectively flat year-over-year, as the gain from the settlement of a dispute regarding an expiring contract and improved terms on new waste contracts offset the negative impact of the expiration of above market long-term power contract.

Looking ahead to organic growth for the year, as Steve mentioned, it's unlikely that we'll reach our annual target of 3% to 5% from core business activities excluding commodity prices. The main driver of this is downtime at Fairfax, which has far exceeded our initial estimates.

Since we previously stated that Fairfax would not represent a major financial impact for the year, this clearly warrants a deeper explanation. When we provided initial guidance for the year, Fairfax had just had the fire and we believed we'd be able to return to service around mid-year. At that point, our forecast reflected a net impact of approximately $5 million including the business interruption deductible, and we assumed all insurance claims will be resolved in 2017.

In addition, with the plant back up and running in the second half, we would benefit from significantly improved year-over-year performance versus 2016. As we discussed at this time last year, we made significant investment in the plant in 2016, along with a transition to a merchant structure and generating a return on that investment in the form of better plant production and higher profiled waste volumes was anticipated as a key driver in our growth plan for 2017.

However, as discussed, the process of securing approval of a fire protection plan with the County simply took much longer than anticipated, which was out of our control. Ultimately, this will likely push the timeline for returning to full plant operations all the way to the end of the year by the time we complete the fire system installation, restart, and ramp up to full load.

As a result, the overall financial impact in 2017 has grown substantially for two reasons. First, we now expect to collect a portion of our business interruption insurance in 2018, which we had mentioned as a possibility on our last earnings call. This could total $5 million to $10 million. Note that this is purely a timing issue, as any slippage from 2017 will benefit results in 2018 dollar for dollar.

Second, we will not be able to recognize any of our expected year-over-year operational improvement in 2017, which includes growth in profiled waste volumes. That represents another $10 million as compared to our initial expectations when the event occurred. All in, this totals about $15 million to $20 million relative to our initial guidance, and that will simply be too much to overcome for purposes of our stated organic growth target.

The good news, of course, is that this is a one-time event. In the history of Covanta, we've never had an operational event of this scale and time delay, and we look forward to heading into 2018 with a plant that's positioned to generate record performance following the investments we made in 2016.

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Notwithstanding Fairfax, we're reaffirming our full year guidance range of $400 million to $440 million. Where exactly we come out will depend in part on the timing and amount of insurance recovery, but we're likely to end up below the midpoint.

Lastly, as you think about the fourth quarter, we would expect it to be our strongest quarter of the year with a full contribution of roughly $15 million from Dublin and the potential benefit of $5 million to $10 million of additional business interruption insurance recoveries for Fairfax.

Turning to slide 11, free cash flow was $68 million in the third quarter compared to $74 million in the prior year. Excluding changes in working capital, free cash flow was $15 million lower year-over-year, driven primarily by lower adjusted EBITDA and higher maintenance CapEx in the quarter. For the full year we are reaffirming our guidance range for free cash flow of $100 million to $150 million. This implies a substantial portion of our cash flow will come in the fourth quarter, which is in line with historical seasonality, and will be supported by our strongest quarter of adjusted EBITDA.

Turning to slide 12, the estimate for completing Dublin construction this year increased by $15 million in U.S. dollar terms given the stronger euro, as well as some small scope changes. Around $25 million is left to be spent in the fourth quarter and will be funded entirely by the final draw-down of our non-recourse project debt facility.

Looking ahead, we continue to explore opportunities to invest in our assets to drive organic growth at attractive returns and anticipate continued spend in future years in Environmental Solutions, metals and ash processing, and plant optimization. However, whether looking at organic growth, greenfield EfW projects, or acquisitions, we will be highly disciplined on project returns and risks as we seek to strike the right balance between growth and balance sheet improvement over time.

As it relates to our UK project development pipeline, we get a lot of questions about our financing plans for these meaningful investment opportunities in light of our balance sheet position, so I'd like to clarify a few things.

First of all, as a general matter, we believe that the projects we're developing will be well structured, high return investments that will attract capital in many forms. The current market environment for infrastructure finance is very robust, so we'll have a range of attractive financing options at the project level.

Second, when we move forward with the Rookery project, or any other major investment, we will do so only with a comprehensive financing plan that will be clearly presented to our capital holders. Any plan must allow us to invest in accordance with our strategic objectives without impacting our commitment to improving the balance sheet and to our dividend payout. It must achieve all of these objectives, not just one. We're currently evaluating alternatives for this.

Third, I can confirm that none of the funding strategies that we're currently contemplating includes a public equity issuance.

I'll conclude my prepared remarks with a review of our balance sheet and leverage ratios on slide 13. Net debt as of September 30 increased $22 million compared to June 30. Our consolidated net debt to adjusted EBITDA ratio at the end of Q3 was 7.2 times, and as I've mentioned before, we expect this to represent the high watermark, as improved performance and stronger free cash flow in Q4 will commence a trajectory of improvement in this ratio. With Dublin now online, this is the turning point.

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The leverage ratio covenant under our senior secured credit facility was 3.6 times at September 30 versus the covenant limit of 4 times. The covenant only relates to our secured debt and excludes the $1.2 billion of unsecured holding company debt as well as over $300 million of project debt at Dublin. As with the consolidated ratio, we expect that improved adjusted EBITDA and cash flow will drive this ratio lower beginning next quarter.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Noah Kaye from Oppenheimer & Company. Your line is open.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Good morning. Thanks for taking my questions. And first, congratulations on [ph] ending of (24:09) Dublin. Well done. If we could turn to the project pipeline, as you mentioned, both Steve and Brad in your prepared remarks, that it does look to be some near term opportunity here. Just talking about Rookery, I think you mentioned Steve that if you secure the environmental permit, construction could potentially begin as early as the first half of 2018. Can you just kind of remind us, is three years kind of the right timeframe for a plant like that to stand up and be ramped?

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

A

Yes. That's about right. I mean, so the next step in the process here is, we're expecting the permit to be – the environmental permit to be issued. And then it goes through kind of an appeal, a 90-day consent appeal process. And then you can kind of kick-off the project. Although some people – I understand some people kick it off during that 90-day appeal process, but – and then it's about three years to construct the plant.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Understood. And then with a couple of other projects that you've identified, or your waste partner in the UK has identified, where are those in terms of that environmental permit process?

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

A

So they are earlier stages in that process that we announced last quarter that there's two other projects that we're now working on with Biffa as the waste supplier. These plants are about – so if you think about plant sizes, Dublin is 600,000 metric ton, Rookery is about 90% of that, so 500,000-something metric ton. The two with Biffa are in the 350,000 ton per year range. And we're kind of working with Biffa now on figuring out how we're going to move forward with those projects, what the structures look like. So that's a little further back in the pipeline than Rookery.

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

A

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And, Noah, just a reminder is, because you asked about the permit, but all three of those plants have planning – for all three of those developments have planning permits, which is far and away that's more difficult hurdle as compared to the environmental permit.

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

Right. Right. And, Brad, I think your commentary around the financing was very helpful. We are getting a lot of questions on that, obviously. But, I guess, I just want to ask a very clear question. Do you believe at this point you have a viable plan to provide the equity portion of the finance for Rookery without cutting the dividend?

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

Yes. Yes, that's certainly the objective.

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

Okay. Okay. Excellent. I'll turn it over. Thank you so much.

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

Thanks, Noah.

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

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

Hey. Good morning, guys.

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

Good morning, Tyler.

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

Good morning.

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

Hey, Brad, so I think this year you guys are guiding to around 19 million tons of waste processed and I know there's quite a few moving pieces here. So you've got Fairfax coming back online, Dublin, and maybe Hennepin County transitioning away. But, basically, based on the fleet today, how should we think about that annual tons processed maybe going forward?

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

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Yeah. I mean we'll put out a precise number, of course, when we put out guidance for next year. But you should expect that to be approaching approximately 20 million tons.

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

Okay. And then can you remind us how much just in 2017 special and profiled waste is of that 19 million tons?

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

Yes, so it was about 800,000, I think is what we expect for the full year.

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

Okay. Perfect. And then, Brad, if you can maybe again indulge me here a little bit. If we just think about the pieces for next year, I mean, we've got this 3% to 5% organic growth. I'm not sure if that includes maybe the Hennepin transition or not but you've got this positive impact from Fairfax, continuous improvement, profiled waste, et cetera. Then we maybe add Dublin in and we take a little bit more away from the Northeast transition that hangs over in 2018, I think. And then whatever we think on power and metal prices. But are those basically the pieces to the bridge? And is there anything that I'm missing in that?

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

No. I mean, you hit the big pieces and all that – we've, of course, we've talked about in the past. The one point I'll clarify is that the Hennepin transition, that's outside of what we talk about as organic growth. So the 3% to 5% stands on its own. If you include the Hennepin, the impact of the Hennepin transition year-over-year, you end up with a number of about $15 million year-over-year as a negative headwind on waste transitions. And then a number, like we talked about, between 5 and 10 probably on the remainder of the power contract roll-offs.

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

Okay. And the Fairfax though would be kind of included in that 3% to 5%?

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

Fairfax would be included in the 3% to 5%, but I would point out that given the fact that Fairfax will be down this entire year, we really expect that plant to be running at record production, given all the investment that we made in it in 2016, and the fact that we're going to be getting some insurance recoveries falling into 2018. I'm not going to go ahead and put out 2018 guidance yet, but I expect what you'll hear us saying next year is that our expectation is to hopefully do better than 3% to 5%.

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

Right. Okay. No, I just wanted to kind of go over the pieces. But I appreciate. I'll hop back in queue.

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

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

Q

Thank you, Steve and Brad, for taking my questions and good morning. Could you help us with – what is the – if you have 3 million megawatt hours hedged, what is the hedge rate for 2018?

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

A

It's roughly – hi, Michael, it's Brad. Roughly 32 to 34. So a touch higher than we hedged for this year, but relatively consistent.

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

Q

Okay. And then in that three-year range you talk about and total maintenance spending, $365 million to $415 million. If I'm year one's at $385 million, how do I think about two and three in relationship to that range?

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

A

So we still expect the same shaping of that range that I talked about before, a little higher in 2018 and then coming back down in 2019. And we'll give – we'll tighten up our guidance around that as we, on, obviously, on 2018 when we come out with 2018 guidance. But that's directionally where it will head.

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

Q

Okay. And then, Brad, I just want to make sure I understood the insurance comment. Is it $5 million to $10 million total or its $5 million to $10 million potentially in 2018 and there's still some that could happen in 2017?

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

A

Yeah. So let me just lay out the components. So by quarter we recorded $10 million that impacted us on EBITDA positively, obviously as an offset to the impact of the downtime. $10 million in the second quarter, just $2 million this quarter. We weren't sure if we were going to receive any, but we ended up with $2 million. Our expectation is $5 million to $10 million in the fourth quarter and then another $5 million to $10 million next year. That's our best estimate as we sit here today.

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

Q

Okay. That's what I didn't understand as whether you were talking pieces or total. And then last one for me, you're framing a return to a typical profiled internalized growth rate. What would you define that growth rate as being?

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

A

Double-digit. Yes. You know, what's interesting, there's no issue in sourcing profiled waste. The issue we had this year, or this quarter, was finding a home for it after we got our hands on it. So, and Fairfax, we were doing well through the first two quarters, but with Fairfax and this other facility, which is a large profiled waste facility also being down, it kind of caught up to us a little bit.

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But, again, there's plenty of profiled waste out there. And one of the things we're doing now is we're investing in our material processing facilities, and also trying to get third-party Energy-from-Waste plants, from not our Energy-from-Waste plants, to participate in this profiled waste business so that we can have a more robust network of recipient for profiled waste, and that will allow us to be a little more stable with our customers, too, right? Because if we have a plant that goes out like Fairfax, that disrupts our customer base in a lot of respects.

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

Q

Fair enough. And lastly, on the ash handling investments you're making, where do we stand on capturing any benefit of that?

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

A

Probably late next year, early 2019. We're in the – we're looking at several different sites. One of the sites is in Pennsylvania and we're not far from getting guidance on what the right permitting strategy is there. We'll file our permit here in the not too distant future, and then it's probably, I'd say 9 to 12 months. We'll probably pre-order some of the equipment. We're feeling pretty good about where things are headed on that ash processing system, so we'll start to have – we're going to try to kind of cut the cycle time down, if you will, by pre-ordering some of the equipment.

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, Michael.

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

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

Q

Hi. Thanks for taking my question.

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

A

Hi, Ben.

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

Q

Could you guys just talk a little bit about maintenance CapEx? It's elevated for this year and you guys [ph] get picked on (33:33) about that, and just how we should think about that as we head into next year, if we should think about going up or they're kind of same type of levels?

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

A

So as we've talked about before, we maintain a pretty robust multi-year maintenance plan, and we've shared this with you folks before. It's – we look in great detail down through the plant level out three, and then actually five years, and we're going to move it to 10 years now on what we need to do at different facilities, so. And we've worked through that process during the year and do the maintenance.

I'd say, you know, if you look at this year, for example, through September 30, about a third of our plants are higher than we expected in maintenance and that effectively has been driven by when you pop open a piece of equipment, there's discoverable issues that occur. Like you realize you have to do more to a turbine or do more within a boiler. That means about two-thirds of our plants were at or lower than where they had projected as of 9/30, and this is year-on-year versus last year.

So as we go forward to next year, we're going through the same process now. As I mentioned a little earlier, if you look at our three-year guidance that we started to give $365 million to $415 million, we expect next year will be a little higher and then it will start to come back down again. Next year is, has a number of different activities, for example, some turbine generator major outages that we have to do. And so, so it'll go a little higher and then come back down again is our expectation.

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

Q

Okay. Great. Thanks very much.

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

A

Yes, sure.

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

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

Q

Thanks so much. Just wanted to go back to Fairfax for a second. So let's assume that you're kind of up and running by the end of this year, beginning in next year. How long is it going to take that plant to kind of get back to pre-fire levels?

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

A

By the end of the year. That's all built in. I would tell you right now, and I've looked at the timeline on putting in this fire suppression equipment, we'll be done putting that in – sometime in November and then we'll start to – it's kind of a plant startup, right? We got to restart the plant after it's been down for a period of time. So, when we give you end of the year at, the restart, that's back to full operations.

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

Q

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Okay. That's great to hear. And then just a small item on Rookery regarding the environmental permit. I know there was a delay in terms of the comment period. Do you foresee any kind of issues in terms of getting that permit?

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

A

No. No, we don't.

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

Q

Okay.

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

A

And Brad had mentioned it, the tougher permit to get is the planning permit and we have that for Rookery and the two Biffa projects. The environmental permit is easier to get and you really need to go through a process in order to get it, and we're in the midst of that process now.

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

Q

Okay. Great. Thanks for the color.

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

A

Yes. Sure.

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

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Thanks for taking the questions.

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

A

Hey, Brian. Morning.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning. Just one more for me on Fairfax, just so we all have our ducks in a row. The full year EBITDA expectation for Fairfax heading into fiscal 2017, can you quantify sort of what that was and where you're falling out here with the impact of the delayed insurance recovery proceeds? And then you also mentioned the – coming into the year you had $10 million incremental opportunity from operational improvements at that facility. So just trying to square where the base is for this year that we should be modeling off of to think about how much more catch-up you'll get as Fairfax is in normal operational mode for all of 2018?

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

A

Sure. Hey, Brian. It's Brad. So we stopped short of providing specific profit numbers for individual plants, and there are a number of reasons why we do that. But you hit I think on the key numbers. Our expectation for 2017 reflected, actually it was a little more than $10 million of year-over-year benefit just from running at our expectation of better production after the investments we've made in 2016. So when you think about modeling it, that $10 million is going to be a benefit that we would expect as a part of the overall 3% to 5%, or 3% to 5% plus organic growth next year.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Okay. Fair enough. And then just a couple of housekeeping things. On the settlement that was announced, $8 million, that impacted this quarter, any residual impacts from that in future quarters? Or is that complete? And also, was that embedded in the [ph] EfW (38:42) that you would capture that this year?

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

A

So there is no lingering impact one way or the other that reached the settlement. And we've been paid the settlement. So that's done. We certainly – this dispute was ongoing as we entered the year. I suppose you could think of it as we had a probability-weighted assumption around this, like we do to any number of things that may or may not happen in the year. So I'd say it wasn't maybe specifically pointed out as part of our guidance range, but it's factored in along with many, many other things again into our overall thoughts on the range.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Makes sense. And then last one from me, I'll pass it on. I think you mentioned the euro, but the CapEx related to Dublin, it was up $15 million versus the outlook provided last quarter. Any drivers you can speak to? And also, should we expect any residual growth CapEx related to that facility in 2018? Thank you.

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

A

Yes. Well, I'll take the last part first. No. Construction is being completed. Obviously, as we've talked about the plant is in commercial operation, but we're still making final payments to subcontractors and so on. There was some slight scope increases just as you finish up the project. There's some change orders. Nothing individually that I think warrants more explanation. It's just sort of general scope expansion. I think in the scheme of things though it was a very small percentage of the overall project size. But in any event, of course, we're wrapping it up here in the fourth quarter.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

All Right. Thanks, guys.

Operator: Your next question comes from the line of Yilma Abebe from JPMorgan. Your line is open.

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Yilma Abebe
Analyst, JPMorgan Securities LLC

Q

Thank you. Good morning. Looking at the various projects that you have and then the pipeline going forward, how much of the financing should we expect to see on the balance sheet over the next call it 12 months?

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

A

So our baseline approach for these on an individual project level is to finance them primarily with, of course, non-recourse project debt. Generally the way these projects are structured, the projects we're developing are merchant projects with underpinning of long-term waste contracts. They are not pure PPPs. So with that structure, they generally support, you could for modeling purposes 2/3s to 70%, maybe 75% of the capital can be raised with project debt.

Then the question becomes, how do we fund our equity? And that's where we're considering a range of options both at the project level and at the corporate level, so that we can fund the projects and we can continue on the path of – as is our plan next year and beyond, continue on that path of improving the balance sheet.

Yilma Abebe
Analyst, JPMorgan Securities LLC

Q

But just to put a fine-tune on that. If we look at 2018, would we expect to see the financing happen? Or is this more 2019 and beyond?

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

A

You'll see the – if the project is going to move forward in the first – I'm talking about Rookery, specifically. If the project is going to move forward in the first half of 2018, which we expect it will, we're going to have a financing plan in place ahead of that.

Yilma Abebe
Analyst, JPMorgan Securities LLC

Q

Okay. Okay. And then I guess in that context, and you talked about leverage being at the high point currently and then trending down from here. How does that change with that financing in the first half of 2018?

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

A

It's really impossible to get into the specific impact of the plan until we lay out the plan. So hard to answer that question. But again, I'll just go back to what I said a minute ago that we're committed to having those leverage ratios move down. I think that's the point.

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

A

Yes. We're focused on that.

Yilma Abebe
Analyst, JPMorgan Securities LLC

Q

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Okay. Okay. And then one last one. In total, for that particularly project in the first half of 2018, how much – what are we talking about in terms of the total project size?

....

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

A

What we've talked about in the past, and when we're at the point where we're moving forward, we'll lay this out in more detail. But we've talked about it in the past is that Rookery is roughly comparable to the size of Dublin. It's about 80% to 90% of the size of Dublin. So if you look at the capital cost of Dublin, take 80% to 90% of that, you're looking at ballpark $500 million. We're going to have project level leverage, we have a partner. We're partnering with Veolia in that project, so you can make some assumptions around both of those to come to what our equity investment requirement will be. But again, when we get to that point, we'll lay all that out very clearly.

....

Yilma Abebe
Analyst, JPMorgan Securities LLC

Q

Okay. And that's really the only financing expected in 2018, right? The other projects are in 2019 and beyond, is that true?

....

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

A

To be determined, but I think as we sit here today that's probably a good assumption.

....

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

A

That's probably – yes, that's probably a good assumption, going forward.

....

Yilma Abebe
Analyst, JPMorgan Securities LLC

Q

Okay. Well thank you very much. That's all I had.

....

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

A

Sure. Thanks.

....

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

....

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

Q

Hey, guys. Just a quick follow-up here. Well, Steve, I know it's early, but what all kind of growth CapEx buckets should we think about next year? So will [ph] TAPS (44:12) be in there? Will New York, will there be any additional spending there? And then I guess, Rookery? But specifically, how much do you plan to spend on the TAPS facility?

....

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

A

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So the three that you mentioned, I'm expecting they'll all be in the buckets next year, right? So let's talk about New York for a second; they're getting close to finishing construction, we're expecting a notice to proceed. I think a lot of people have forgotten about the second marine transfer station, which is interesting. But, you know, and I saw some pictures the other day and they're pretty far along in construction, so we'll expect to get a notice to proceed. And then it'll take us 9, 12 months to buy some of the equipment.

Brad just talked about Rookery; again, we're expecting that gets kicked off into construction in the first half of 2018.

And then on the [ph] TAPs (44:59) project, like I mentioned, we're feeling pretty good about things from a permitting standpoint. Again, we're looking at a couple of different options on sites, but one of the likely sites is the Fairless facility in Pennsylvania, so we've been working with some of the Pennsylvania DEP folks on permitting. That facility will probably cost about $20 million and we're kind of just squaring those numbers out now, so – and you'll see some of that coming through, obviously, if we get the permit, that'll be coming through in 2018 also.

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

A

And for New York City, for the marine...

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

A

Okay. What's the number?

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

A

[indiscernible] (45:34) yes, just as a reminder, we're looking at probably about $30 million of equipment purchases. All that equipment will be leased, but likely be structured as we did with the equipment for the Queens transfer station as capital leases, so it will be on balance sheet, but we'll be leasing that equipment.

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

Q

Okay. That's – that...

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

A

Yes. Just to remind folks, once – that's about $5 million of incremental EBITDA once that second marine transfer station gets started up. So, we're looking forward to it.

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

Q

Okay. And that's for the barges and containers, et cetera?

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

A

Yes. Yes. That's right. That's right, Tyler.

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

And then, so, Brad, look, I'm just a dense sell side analyst, but on Rookery are there financing structures that can somehow keep the leverage optics at bay? I mean, I'm not even sure I know what I'm asking, but are there some financing options where, again, we don't have to replay the whole Dublin leverage issue? And then, on the equity, why not just post that towards the end instead of posting up front?

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

Yes. I think I'll answer that by saying there are a range of options, again both at the project level and corporately, and so yes, I guess, is the answer to that.

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

The answer to that, yes.

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

But we're reviewing probably most of the options you could dream of.

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

Okay. All right. Look forward to hearing more. Thanks.

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 from Morningstar. Your line is open.

Barbara Noverini
Analyst, Morningstar, Inc. (Research)
Q

Hey. Good morning. Just a quick one from me.

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

Good morning.

Barbara Noverini
Analyst, Morningstar, Inc. (Research)
Q

Stephen, you had talked about your maintenance plans for the fleet. And I'm curious, how many of your plants could benefit from an upgraded fire suppression system like what you're planning to install at Fairfax? And whether that's baked into your near to mid-term CapEx plans already?

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

A

Yes. That's a really good question, because I've been working with the team here on taking the learnings that we were able to achieve or develop at Fairfax and start to roll those out across the fleet. Realize that in a number of our plants, so a little less than half, are owned by other folks. We just operate the plant. So the decision to put in the fire suppression is going to be their decision and their capital. But our plants, we're going to start to look now at rolling that out. And realize that this is infrared cameras, different deluge systems. They're not very expensive. To fit out – to kit out a facility is probably less than $0.5 million. And so – because a lot of that technology has gotten cheaper, particularly around the cameras. And so we're looking at that now and starting to roll that out. I think that's an important upgrade to our plants as we move forward.

Barbara Noverini
Analyst, Morningstar, Inc. (Research)

Q

All Right. Thanks a lot.

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

A

Thanks, Barbara.

Operator: There are no further questions at this time. I now turn the call back over to Steve Jones.

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

Listen, I'd like to thank everybody for joining us today. Again, we're really proud and excited about Dublin as it's come into operation. I mentioned previously that this is a transition year where Dublin coming on-stream then allows us to do a number of other things. So we're looking forward to that as we move through the rest of 2017 and into 2018. Again, thanks for taking the time. We know folks are busy. Thanks for joining us and trying to understand and appreciate what we're doing here at Covanta. So thanks, and have a good rest of the day.

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

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