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Covanta Holding Corp. (CVA)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to Covanta Holding Corporation Third Quarter Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please also note, today's event is being recorded.

At this time, I'd like to turn the conference call over to Dan Mannes, Vice President of Investor Relations. Sir, please go ahead.

Daniel Mannes

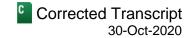
Vice President-Investor Relations, Covanta Holding Corp.

Thank you, and good morning. Welcome to Covanta's third quarter 2020 conference call and discussion of our recent announcements. Joining me on the call today will be Sam Zell, our Chairman of the Board; Mike Ranger, our President and CEO; and Brad Helgeson, our CFO. On today's call, Sam will discuss the most recent management transition and strategic review. Mike will provide color on his background and goals. And Brad will provide an operational and financial update. Afterwards, we'll take your questions.

During his prepared remarks, Brad will be referencing certain slides we prepared to supplement the audio portion of this call. These 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

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SEC. The content of this conference call contains time sensitive information that is only accurate as of the date of this live broadcast, October 30, 2020. 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 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 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 now like to turn the call over to our Chairman of the Board, Sam Zell. Sam?

Samuel Zell

Chairman of the Board, Covanta Holding Corp.

Good morning. Good morning, everybody. Happy Halloween to everybody. I'm doing the conference call today to discuss the changes we announced last night, which laid the foundation for the future of Covanta. Covanta is the world's leading waste energy company with operational expertise and a portfolio of irreplaceable assets that are unmatched in the industry. Our underlying business is fundamentally strong, which has been clearly demonstrated during the pandemic. We provide reliable essential service to our municipal commercial customers, generating consistent cash flow.

In addition, we have had very attractive growth opportunities ahead of us, particularly the expansion of our business in the United Kingdom. However, the board believes that the company's assets and growth potential have not been appropriately valued in the market. And therefore, we are announcing a strategic review with the objective of identifying the optimal path to maximize value for our shareholders.

The company has pursued several initiatives in recent years, growing our presence overseas, as well as expanding our capabilities in sustainable environmental services, metals recovery and processing, and the continuous improvement in core plant operations. These have created value in our business, but the value has not translated into our stock price in a demonstratable fashion. Now is the time in the company's evolution to reassess our strategy, to leverage our strength, to clarify our priorities. Everything will be on the table for review including our asset and operations growth priorities and capital structure.

To lead this review and the successful execution of any resulting actions, the board has appointed Mike Ranger as President and CEO. Mike joined the board in 2016, and we are very fortunate to have someone of his caliber ready to step in for this task. Mike has an ideal skillset for this and decades of experience in power and infrastructure spaces including waste energy, driving strategic and structural improvement in public and private companies. I'm excited about the opportunities for this company. I'm confident in our future direction under Mike's leadership.

I'd now like to turn it over to Michael.

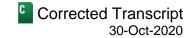
Michael W. Ranger

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

Thanks very much, Sam. Good morning, everyone. I'm very excited to be joining the management team in a leadership position at Covanta at this very important point in the company's future. As Sam mentioned, I know



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Covanta and its business well having been on the board for four years, and prior to that as a private equity investor, chaired the board of American Ref-Fuel, one of Covanta's primary legacy companies. Outside of Covanta, I've spent my entire career in investment banking and private equity and have focused on programs and transactions to unlock value at companies across many industries, but principally focused on energy, power and infrastructure businesses.

At its core, the Waste-to-Energy business is straightforward. We provide a sustainable environmentally superior alternative to landfill. We operate our facilities safely and reliably. Our fuel supply for generating renewable power is also our largest revenue source. Our assets are irreplaceable and are mutually beneficial customer relationships, especially with our host municipalities are decades long. However, this business has complexities in many areas that need to be assessed, and that will be my near-term focus. We are planning a comprehensive strategic review including operations, cost structure, assets, business lines, and geographies.

Cost structure is going to be very important in all this capital allocation policy and balance sheet targets. If we believe that course of action will increase shareholder value, we will pursue it. There are no specific preset expectations for this review, and it has no scheduled end date. As we reach conclusion to begin to execute our plans, we will communicate them clearly. As an initial step, we are streamlining and enhancing our executive management team. Derek Veenhof is now our Chief Operating Officer, assuming responsibility for all operational and commercial activities in our North American Waste-to-Energy business. This will drive improved accountability and more efficient decision making.

As we also announced yesterday, Owen Michaelson, a Covanta board member since 2018, located in the UK, will be joining management early next year to lead our growing business in the UK as President of Covanta Europe. These moves establish clear leadership in both regions, while highlighting the importance of our overseas operations. I appreciate the confidence of the board in moving forward on this strategic review and reporting back to you as the strategic review process has met milestones that we can acknowledge to you at that point in time.

With that, I'd like to turn this over to Brad Helgeson who will go through our third quarter results.

Bradford J. Helgeson

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

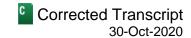
Thanks, Mike, and good morning, everyone. And for those using the Web deck, I'll begin on slide 3. During the third quarter, we reported \$128 million of adjusted EBITDA slightly above Q3 last year and \$3 million of free cash flow with \$84 million of free cash generated year-to-date.

In a challenging environment, we maintained our focus on operating safely and reliably. During the third quarter, we sustainably processed 5.5 million tons of waste at our Waste-to-Energy facilities consistent with last year. We are a critical disposal outlet for municipal solid waste in the major markets of the Northeast corridor, as well as for commercial and industrial customers that value our non-landfill waste solutions.

I'd like to share two recent examples of customers who chose Covanta for the strategic advantages that we offer including economics, proven reliability and reduced environmental footprint. On the waste side, we recently reached an agreement with the town of North Hempstead on Long Island for a long-term waste disposal contract at our Hempstead facility.

While proximate to our facility, the town has historically relied on long distance trucking of its waste to a landfill off the island. However, by contracting with us, the town is transitioning to a cost effective and sustainable local solution. From our perspective, the contract significantly reduces our need for spot waste supply at one of our key

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merchant plants locking in approximately 150,000 tons of largely residential waste at an attractive rate. It's a mutually beneficial outcome.

On the energy side, we recently agreed to a seven-year extension of a steam supply contract for a neighboring industrial facility at our Niagara plant. By continuing to purchase steam from us, this customer avoids the need to burn fossil fuel to meet its process needs, which has both environmental and economic benefits. From our perspective, selling steam is more efficient and economically attractive than selling power. These two examples are indicative of how our sustainable solutions drive value both for us and our customers.

During the quarter, we continued to see recovery in commercial and industrial waste volumes from the initial months of the pandemic. For us, this translates to higher average tip fees at our merchant plants, as the return of our normal commercial MSW and profiled waste volumes reduces our need to procure lower-priced replacement tons in the market. While softness remains in certain specific areas, at this point, we've largely returned to prepandemic levels.

During the quarter, we saw same-store tip fee growth of 3% on a year-over-year basis and we estimated the impact of the pandemic on our weighted average tip fee is now less than \$1 a ton. We saw 2% same-store growth on profiled waste revenue year-over-year, which represents a 10% sequential improvement from the second quarter.

From an end-market perspective, demand has remained strong in sectors such as consumer products and health care, while the automotive sector, which was one of the weakest during the second quarter is showing signs of recovery.

In our material processing facilities, environmental services revenue was down just 2% year-over-year and up 15% on a sequential basis from the second quarter given the recovery in our heavily industrial customer base. Importantly, as we discussed last quarter, our environmental solutions team has effectively flexed variable costs and was able to drive year-over-year EBITDA improvement in the quarter even on lower revenue. Operationally, the pandemic has presented numerous challenges including new safety protocols, and higher costs in several areas. However, our world-class operating team has navigated this difficult environment impressively.

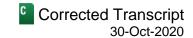
During the third quarter, even with a higher level of scheduled maintenance activity, we were able to achieve 93% waste to energy boiler availability, which was in line with last year. As previously noted, we expect maintenance expense this year to come in approximately \$15 million above initial estimates as a result of rescheduling outages from earlier in the year and the higher costs of performing these activities off cycle and with COVID protocols.

Our previously announced cost reduction program has partially offset these negative impacts with \$8 million reflected in the third quarter. In total, we've reduced costs by \$18 million with this program and expect a full year benefit of between \$20 million and \$25 million.

Before moving on to the financial details of the quarter, I'd like to provide a brief update on our UK growth activities. As you know, we have three facilities under construction in the UK right now. Construction at the Rookery project continues to progress on schedule and we anticipate commercial operations in 2022. At the Earls Gate project, construction has resumed following the COVID-related delays mandated by the Scottish government earlier this year. We'll provide updates on schedule for this project as construction progresses.

As you can see from the picture on the top right of this slide, the Newhurst project is off to an excellent start after only five months of construction and we're very excited about its progress to date. We expect commercial

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operations at Newhurst in 2023. On the development of the Protos project, we have commenced early works on the site and are in the final stages of the project financing process. We're still targeting financial close at this project by year end.

In summary, our very promising growth activities in the UK continues to move forward and our development team is focused on additional earlier stage projects to build our pipeline. We hope to be in a position to share details on new opportunities as they progress in coming guarters.

I'll now turn to reviewing quarterly financial results in a bit more detail beginning on slide 4. Total revenue in the quarter was \$491 million, up \$26 million or 6% from the third quarter of 2019, driven primarily by organic growth. Waste pricing contributed \$7 million with \$5 million related to higher tip fees and \$2 million from service fee escalation.

On the energy line, we saw a \$12 million increase in revenue associated with the additional tranches of wholesale load serving that we won at auction earlier this year. Service under these tranches began in June and benefited from strong residential electricity demand in the third quarter. Commodity prices increased revenue by \$2 million, primarily related to higher capacity rates. Market power and metals prices were largely flat year-over-year. Asset divestitures reduced revenue by \$1 million in the quarter, while long-term contract transitions added \$2 million.

Now, moving on to slide 5. Adjusted EBITDA was \$128 million in the quarter, up \$3 million compared to Q3 2019. Within organic growth of \$2 million, we benefited from the new wholesale load serving contracts, higher EBITDA from Covanta Environmental Solutions, and lower overhead on a year-over-year basis. These were partially offset by lower EBITDA in the Waste-to-Energy plants as higher waste revenue was offset by higher operating costs in the quarter including plant maintenance. Commodity prices were a net \$1 million benefit to adjusted EBITDA, while a long-term contract transition added \$1 million. Year-to-date, we've generated \$321 million of adjusted EBITDA.

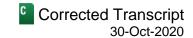
Looking at the fourth quarter, as we've discussed on previous earnings calls, you should expect higher plant maintenance expense compared to last year with the corresponding impact on revenue from the associated outage downtime. This is reflected in our full-year outlook on these line items included in the appendix to this presentation.

Now, turning to slide 6. Free cash flow was \$3 million in the quarter compared to \$22 million in Q3 2019. This delta was essentially driven by higher scheduled capital expenditures in the quarter. Consistent with my comments on maintenance expense, we also expect higher CapEx than typical in the fourth quarter. Again, this is entirely a function of our plant maintenance schedule this year, the timing of which was further impacted by outage deferrals from earlier in the year due to the pandemic.

Now, please turn to slide 7 where I'll briefly update our current growth investment activity. As discussed previously, we have focused our growth investment in 2020 on the UK projects in the start-up of our total ash processing facility or TAPS. We've spent \$11 million year-to-date on TAPS including \$3 million in Q3 and still anticipate approximately \$15 million in total this year. Year-to-date we've invested \$11 million in UK development, including initial spending on the Newhurst project and purchasing the land for the Protos project.

I'll wrap up my comments by touching on the balance sheet. Please turn to slide 8. At September 30, net debt was approximately \$2.5 billion, a \$37 million increase from June 30. Our consolidated leverage ratio was 6.0 times unchanged from the end of the second guarter and our senior credit facility covenant ratio was 1.9 times, down

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from Q2 as a result of a tax exempt bond refinancing that I'll describe in a moment. Liquidity remains very strong, \$444 million available under our revolving credit facility at quarter end.

During the third quarter, we executed two debt refinancing transactions that together reduced annual interest expense by approximately \$5 million, extended our debt maturity profile and increased structural flexibility. In the tax exempt market, we refinanced two series of bonds totaling \$129 million with new 20-year notes at an average coupon of 3.7%, reducing costs by approximately 150 basis points. In addition, as part of the refinancing, we removed the upstream operating subsidiary guarantees on the existing bonds, thereby reducing our balance of senior debt for purposes of the credit facility covenant ratio.

In a taxable bond market, we refinanced \$400 million of high-yield notes due 2024 with new 10-year notes due 2030, reducing the coupon from 5.875% to 5% flat. With these proactive transactions, we were able to capitalize on attractive debt market conditions and strong demand for Covanta credit. We will continue to look for opportunities to optimize our debt structure and reduce our cost of borrowing.

With that, operator we'd like to move to the Q&A portion of the call.

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, at this time, we'll begin the question-and-answer session. [Operator Instructions] And our first question today comes from Noah Kaye from Oppenheimer. Please go ahead with your question.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Thanks. Good morning, everyone. And while I would certainly love to delve into the dynamics of the improving waste fundamentals in a moment, I'd like to begin with a question to Sam and to Mike as well if you want to address here. Sam, you said at the beginning of this call that the company's assets and growth potential were not appreciated by the market and that is really what's triggering the reassessment of the strategy and clarification of priorities here.

I guess, I would ask, what are the aspects of the business that you feel are particularly underappreciated? And how do you think about the company's structure going forward? You've now formally named a European market head. Obviously, that is where more of the new project growth is coming from. Maybe if you could just help us understand a little bit what exactly you think is underappreciated here? And whether this is a response to the market conditions or whether you think there's something structurally at Covanta that you're hoping to change?

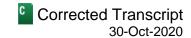
Samuel Zell

Chairman of the Board, Covanta Holding Corp.

Well, I think that – let's chime into your question one at a time. I think it's very obvious that we place a great deal of value on our British assets. They are performing just beautifully and we're right on our way or ahead of our original plan. A similar set of assets recently traded, that were finished, which is give or take 18 months to 24 months from now. Traded 18 times, which you know if you play any kind of analysis, I think you conclude that the British assets here are worth more than the stock price that you currently are trading at on the New York Stock Exchange. That's number one.



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Number two, I think that as in almost all situations the 80/20 rule applies. And we're confronted with a bunch of operating plants in the United States, 20% of them produced all the profit. And the question we have to ask ourselves is, is there benefit in maintaining the other 80% and in what way and how. That's certainly one of the questions we're asking.

The third area is we have a separate business, which is basically a waste transportation business that we've built and is growing very well and we feel that if that were separately looked upon as a business, that also would generate a higher value than what we're seeing. I mean you can't help, but look at the stock price and say okay, what are the pieces worth? And my judgment is that the pieces are worth significantly more than it's trading for and that we haven't adequately laid out a strategy that is giving the street confidence to, in effect, value our stock appropriately. So, that's really the essence of what we're doing here. We thought there was – require a really radical change in both management and how we go forward.

Michael was brought on the board originally because he had waste energy capabilities and knowledge and as he said, sold us American Ref-Fuel. So, we really had a perfect person there to address this question, and obviously, having all available to really put a stamp on a real operation in England, where the overall market conditions and political conditions are much more favorable to this business than they are in the United States. Michael?

Michael W. Ranger

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

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Thank you, Sam. I would only add that what this really, Sam summarized this very well, is each of our business lines have different characteristics. And what we're going to try to do is to focus on exactly what those characteristics are and how to manage them for their highest value, whether that be on a consolidated basis or if we have opportunities to segregate some of those businesses.

On top of that, by appointing Derek as the Chief Operating Officer for North American operations, we're bringing together both the commercial revenue side of our business and our expense side, so we can manage this on a margin basis. And as Sam pointed out, that will put a bright light on our portfolio optimization in North America to figure out, which plants are the most valuable to us and what the alternatives are to run those and then also to assess the viability of the rest of the portfolio. So, I think that's a very good way for Sam to have laid this out. And we're going to – by segregating the businesses and focusing on how they look on a stand-alone basis, that will help us better understand their value on a consolidated basis to Covanta.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Gentlemen, I think that's a very helpful explanation of what you're looking to do here, and it sounds like you may have some near-term steps that will help move this forward. So with that, let me just leave it and ask you quickly about the fundamentals outlook here. And effectively your waste services revenue outlook now is basically near the lower end of your pre-pandemic level, the outlook that you provided back in February. But to say it in another way, it looks like we're almost fully back on track here in terms of the waste side of the business. I just want to understand, as you look out maybe into next year thinking about contract structures and renewals, and what you're seeing now in mix, is there anything that prevents you from kind of getting back to, say, like a 3% type total year revenue growth in tip fee price next year? Is there anything we should be considering that would prevent you from doing that?

Bradford J. Helgeson

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

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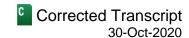


Hi, Noah. It's Brad. No, nothing specific to us certainly. I think as we've seen through this year and as we've talked about it, I think that the story for us on the waste line and across the business, but focusing on the waste line is going to be the story of the macroenvironment, what does the economic recovery look like going into next year, where are we with the pandemic, et cetera. So, all else being equal, to look at it that way, there's no reason why we wouldn't resume the growth trajectory on the waste line that we've talked about because all of the specific drivers to Covanta, the secular drivers for Covanta are entirely unchanged.

Noah Kaye Analyst, Oppenheimer & Co., Inc.	Q
All right. I'll leave it there. Thank you.	
Bradford J. Helgeson Executive Vice President & Chief Financial Officer, Covanta Holding Corp.	A
Thanks, Noah.	
Operator: Our next question comes from Michael Hoffman from Stifel. Plea	se go ahead with your question.
Michael E. Hoffman Analyst, Stifel, Nicolaus & Co., Inc.	Q
Thanks very much. Brad, with regards to the outlook, just to be more specific store tip fee growth outlook that should translate into sort of \$10 million to \$1 annually. And what I think I heard is you're back at that point again.	
Bradford J. Helgeson Executive Vice President & Chief Financial Officer, Covanta Holding Corp.	A
Yeah. Essentially, that's right. I think the one caveat I would put on that is we say. We're not all the way back. So, we're not all the way back across the en you know, a ton of profiled waste is very impactful for us overall on the growt that as the caveat, yeah, I think we are essentially back to where we were ar fashion again with the other caveat that this is all subject to the direction of the	nd markets on profiled waste. And as th rate and average tip fee. So, with and looking at the future in a similar
Michael E. Hoffman Analyst, Stifel, Nicolaus & Co., Inc.	Q
Right. And just to remind everybody, the profiled waste and I'm oversimplifying sold at a high average tip fee.	ng it, it's drugs, money, and clothes
Bradford J. Helgeson Executive Vice President & Chief Financial Officer, Covanta Holding Corp.	A
Yeah.	
Michael E. Hoffman Analyst, Stifel, Nicolaus & Co., Inc.	Q
And if that was back to pre-COVID, does that close that dollar gap or does it	exceed it?

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

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Bradford J. Helgeson Executive Vice President & Chief Financial Officer, Covanta Holding Corp.	Д
Well, what we're talking about is sort of the gap to where we were, so	
Michael E. Hoffman Analyst, Stifel, Nicolaus & Co., Inc.	Q
Right.	
Bradford J. Helgeson Executive Vice President & Chief Financial Officer, Covanta Holding Corp.	Д
Yeah. So, once that gap is closed, we're fully back to where we were.	
Michael E. Hoffman Analyst, Stifel, Nicolaus & Co., Inc.	Q
No, no, no. But profiled waste were 100% back, does that only cover it or more than cover that gap?	
Bradford J. Helgeson	Λ

Well yeah, maybe we're talking past each other. So, we anticipate annual growth in profiled waste going forward. So, essentially, if we're back to where we were pre-COVID, we've lost the year essentially from a growth perspective. But we would expect the future to resume the trajectory. I'm not sure if I'm answering your question.

Michael E. Hoffman

Analyst, Stifel, Nicolaus & Co., Inc.

No, I'm probably not asking it very well. So, I'll shift gears and move over to Sam and Michael. So, Sam, a colleague of mine, a friend of yours Otto Shooter says that you always make the comment, it's all about the cash flow. So, what do you think this portfolio is supposed to be doing cash flow wise? And what do you think the right target leverage ratio is, total debt leverage ratio, for whatever the surviving portfolio looks like?

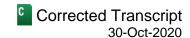
Samuel Zell
Chairman of the Board, Covanta Holding Corp.

If I knew the answer to your questions, then I wouldn't need to do what we're doing. Obviously, I don't believe we have maximized our cash flow. Obviously, I believe we are spending money maybe that should be spent by our partners who own the facilities not us as operators. I just, you know, I think that there's a number of things going on here that we need to act and analyze and focus on.

There is no question that ultimately I measure every company I've ever been involved with based on understanding of cash flow, and this one is no different. And I think what you're seeing here is a pretty radical change in direction with the goal of maximizing value and if the answer is that we can't get that value as a stock price then we'll [indiscernible] (00:30:58) cash and move on.

So, I think, we're not taking anything off the table. We think there's a great opportunity here and we like the quality of the assets we have. We're not packaging them, as well as we should be. We're changing management here with the goal of reaching those objectives.

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Michael E. Hoffman

Analyst, Stifel, Nicolaus & Co., Inc.

And do you have a target leverage that you would like to be?

Michael W. Ranger

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

I'll answer that. This is Mike. Michael, so, I think the answer to that would be depending upon the valuation of the components of the business and how we would realize on those would send us in the direction of being able to target what we want the capital structure to look like. And clearly, from a leverage perspective, the target's going to be lower than we presently are today. I mean that's going to be one of the clear objectives of this, is to bring our leverage levels in line with our cash flow ability and our generation of EBITDA. So, that's going to exactly be the way we look at this from almost an equation point of view.

Michael E. Hoffman

Analyst, Stifel, Nicolaus & Co., Inc.

And one last one for me is when you say strategic view, everybody immediately jumps to the conclusion and possible sale. I'm not necessarily hearing that's really the objective, it's be public, but be smaller, leaner, better baseline free cash flow with a growth profile.

Samuel Zell

Chairman of the Board, Covanta Holding Corp.

Well, let's be very honest. Being public is not cheap, and [indiscernible] (00:32:34) you want to be public is because you get a value and you'd have liquidity. If we're not getting that, then we have to reassess and look at the question from every perspective. And that's what we're saying we're doing.

Michael E. Hoffman

Analyst, Stifel, Nicolaus & Co., Inc.

Yeah. Okay.

Michael W. Ranger

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

And we'll be responsive to the indications of value from the markets in either our components or in totality. So, that you'd be – have to be responsive to that if your objective here is to maximize shareholder value.

Michael E. Hoffman

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Very good. Thank you very much. Good luck.

Samuel Zell

Chairman of the Board, Covanta Holding Corp.

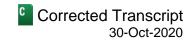
Thank you.

Michael W. Ranger

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

Thanks, Michael.

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Operator: And our next question comes from Jeff Silber from BMO Capital Markets. Please go ahead with your question.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Thank you so much. First of all, thank you for clarifying some of the answers before and I think they were very helpful. My first question is for Sam and for Mike. Sam, I think you said many times that you thought that there was more value in this company than the market was attributing it. Why make this move now? Why wasn't this done 6 months ago, 12 months ago. I'm just curious in terms of the timing.

Samuel Zell

Chairman of the Board, Covanta Holding Corp.

Well, the reality is that every decision I've ever made in retrospect should have been done 12 or 24 months ago. I think that the extreme difference between what we think the value is and the price the stock trades at has certainly been a major incentive for us to take the steps that we've taken. So, it's one thing if you think you're 20% undervalued, it's another thing if you think that the spread is 100% or whatever it might be.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

All right, fair enough. I appreciate that. Let me shift over just to the business. I know the company had withdrawn guidance. You've not reinstituted that as of yet. What would you have to see before reinstating guidance? Does this strategic review kind of put that on the side? I'm just curious your thought process.

Bradford J. Helgeson

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

Yeah. Hey, Jeff, it's Brad. Really I'll answer it in two parts addressing 2020 and 2021 separately. So, for 2020 at this point in the year here at the end of October and given our results year-to-date, and I think what's pretty clear in the actual results in terms of the recovery of the business. Frankly, we felt that reinstituting guidance was probably unnecessary. It also would be inconsistent with our policy historically where we don't really – we don't really focus on quarter-to-quarter and – to reinstitute formal guidance were in effect at this point giving quarterly guidance, which, again, we just thought, given where we are in the year and also given the other things that we're talking about on this conference call probably wasn't necessary.

For 2021, a different question because of course our typical approach is to give financial guidance for the coming year when we report fourth quarter earnings in the first quarter. Given the current level of macro uncertainty, it's really difficult for us to say I think today where we think we're going to be both from that perspective and also depending on where we are in the strategic review and the direction that may be heading. It's difficult to say it today what will be specifically a position to give next year. I think it's safe to say we will be giving more of an outlook for next year in February when we report earnings because the specific nature of it is TBD.

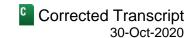
Michael W. Ranger

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

So, Jeff as we sit here on October 30, you can imagine that with the changes announced yesterday our budgeting process for next year will begin anew in earnest on Monday, and so that will reflect some of the objectives and what we think the wins can be in the strategic review going into it. So, we're making it as we speak right now, but



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your observation that the strategic review will have impact on what we think the budget should look like and what guidance could possibly be for 2021.

Jeffrev M. Silber

Analyst, BMO Capital Markets Corp.

Okay. Appreciate the color. Thanks so much.

Michael W. Ranger

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

Thanks, Jeff.

Operator: Our next question comes from Mario Cortellacci from Jefferies. Please go ahead with your question.

Mario Cortellacci

Analyst, Jefferies LLC

Hi. Thank you for the time. Mike, I was just curious to know and maybe you can give us some examples, I guess, strategic reviews you have done in the past are maybe some examples of turnover that you've been involved in, what went right, what went wrong. What did you realize was wrong, and how do you think you'd fix that?

Michael W. Ranger

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

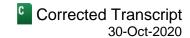
You know it's a – unfortunately, there's a once-upon-a-time answer to this too because it's been a long career. But clearly in the energy and power space whether you go back to the cancellation of the Midland nuclear plant by CMS Energy and the financing and conception of the Midland cogeneration venture and how that worked. And in that circumstance, we took our investment banking fee and stock appreciation rights because we wanted to be on the same side of the table as the company.

And then probably the two to really point out would be taking El Paso Electric out of bankruptcy, which we did a top to bottom, at DLJ top to bottom, reworking the entire capital structure, paid out all the investors in cash, and then had the upside for those that were below the line of demarcation of value that they participated in the equity of the company.

And then probably the most dramatic but a couple others would be the Niagara Mohawk situation where we initiated the restructuring with the management team there in 1996 that culminated in buying out \$10 billion worth of independent power contracts, recapitalizing the company, selling their generation assets and culminated in an M&A transaction, the National Grid bought the company for 3 times what the price of the stock was when we took the assignment. And once again, that was another circumstance where we took our investment banking fee and stock appreciation right. So, been down that path of incentives before.

And then at TXU, we were brought in at DLJ Merchant Banking and I joined the board of TXU after we made a \$750 million investment to create liquidity for the company after having bankrupted their UK operations back then and that was in 2002. And then, I chaired the special committee in 2007 that resulted in the sale of that company and a going private transaction to KKR, TPG and Goldman Sachs. And then on a much smaller scale, the wind business that we owned at Catamount Energy resulted in a sale to Duke in 2008. And then, we just – at Diamond Castle just sold the operations of KDC Solar that we started from scratch in 2010.

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So, I've been down this path before and just to illuminate what the role I'm playing because I think that the compensation structure that Sam offered and I willingly accepted, I've been down this path before is I'm going to have a salary of \$1 a year and \$1 million options. So, my compensation is completely contingent upon our ability to execute on the strategic review results and to generate shareholder value.

Mario Cortellacci
Analyst, Jefferies LLC

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Great. And then, just one more for you, Mike. I know the review is indefinite. Obviously, we're going to get investor calls about I guess what we think our timing is for how this could play out. And I know you don't want to obviously back yourself into a corner with a timeline, but maybe if you could just give us a sense for I guess how long do you expect to sit in the CEO seat. Are you our guy for the foreseeable future? Or if and when somebody else does fill into the CEO role, I guess what would you guys look for in the next CEO, whether it'd be experience or

Michael W. Ranger

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

types of quality of management? Just any color there would be super helpful.

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Well, clearly that would be contingent upon what the company looks like after executing on the strategic review. And I'm just going to be around till that's done. So, that – I think that's completely different. I mean, just imagine what the various outcomes could be if you're exclusively a UK company at that point in time, if you're exclusively a North American business, or you sold one of the components of the business already. You'd be looking for the skill set that was required depending upon the outcome of the execution and what assets are needed to be managed and what the company looks like then.

Mario Cortellacci



Analyst, Jefferies LLC

Thank you. And if I could just squeeze in just one more, just to kind of take advantage of the fact that we do have Sam on the phone today and obviously ESG is a huge investor focus right now. It's becoming much more of a focus for long term investors as well. And Dan actually does a great job with getting the message across of how Covanta is positioned. But, Sam, I'd love to get your take on just the topic in general and then how you see Covanta playing a role in not only the emissions portion of the equation, but I guess in other areas and how they can – and how Covanta plays in there?

Samuel Zell

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Chairman of the Board, Covanta Holding Corp.

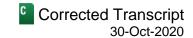
Well, ESG has become a very important analysis point for every investor in every investment. The fact that we're in the waste energy business really means that we're in the landfill closing business. And there are lot of great swords that you can fall on. I can imagine one as good from an ESG point of view as we're trying to close all America's landfills. And that's exactly what's driving our business in Europe. So, I think that and the fact that we have a very good track record of eliminating dioxins and making us very clean. So, during President Obama's term in the beginning and they were working on a program to encourage cleaner generation, waste energy was classified as a positive not a negative, and that's really what we are going forward.

Mario Cortellacci

Analyst, Jefferies LLC

Great. Thank you so much.

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Operator: [Operator Instructions] Our next question comes from Brian Lee from Goldman Sachs. Please go ahead with your question.

Brian Lee

Analyst, Goldman Sachs & Co. LLC

Hey, everyone. Good morning. Thanks for taking the questions. Maybe for Sam and Mike just to start off on the strategic review here at a high level, can you speak to sort of capital allocation, how it fits into the priorities. Just how you're thinking about maybe growth CapEx, dividends, do they remain a staple here or could those be adjusted further? And then also maybe some thoughts around delevering just, what are sort of the priorities going to be across some of those key buckets?

Michael W. Ranger

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

Yeah. So, let me – Sam, I'll take that. This is Mike. The question is a good one because once again if for example you were able to realize on the sale of a component of the business at a multiple differential from where the company presently trades and have cash on hand at that point, you would use that as a way to rationalize your capital structure and deal with it at that point in time. I don't think that this is, by definition, a balance sheet restructuring in that regard, but it will give the company options it presently doesn't have if there was cash on hand and we're able to maintain EBITDA at levels that should generate shareholder value enhancement.

On the question of capital allocation though, so when you – that's what the portfolio optimization is really all about when you think about it is are we allocating capital to keep plants running that are producing profitability that warrants that capital investment. So, that's one of the first things that we're going to be looking at is, are we maintaining a portion of our fleet that's aging in a way that is capital destroying because we're investing more than what the profitability opportunities are.

So, I think that that will be the core because that's where 85% of our EBITDA comes from. That's going to be the core of what this early stage review will be is to rationalize the allocation of that capital to maintain those operations. So, hopefully that will result in making some pretty tough decisions about what assets to focus on and what assets will take us to the future.

Brian Lee

Analyst, Goldman Sachs & Co. LLC

Okay. That's great. Appreciate that context. And then, you know, sort of a segue into the second question I have. But you mentioned Sam during some of – the Q&A, the 80/20 rule and that's consistent with what Mike just sort of laid out as well. I mean the management team had been doing some minor tweaking on the portfolio here and there in the US today. But it sounds like this is just going to be a much more wholesale, maybe shrink to grow type of strategy. Is that the fair characterization?

And then, secondly, there had also been some discussion especially in recent calls that maybe not in the immediate term, but in the medium term and long-term that the US could be a source of growth for WfE plants again. Is that strategy sort of off the table or has that thought process changing here as part of the strategic review? Thank you.

Michael W. Ranger

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

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No. That thought process has not changed at all. And instead of shrink to greatness, I would say would be to reallocate priorities to greatness would be a better way to think about it in that regard. Just because – if we ever were valued on the number of plants that we own and operate; that's not a value measure. So, it's going to be what those manufacturing facilities that take the waste and produce the electricity, what they can provide to the portfolio. And do they warrant the continued fueling of more capital into them.

Brian Lee Analyst, Goldman Sachs & Co. LLC	Q
Okay, thanks. I'll pass it on.	
Michael W. Ranger President, Chief Executive Officer & Director, Covanta Holding Corp.	A
Thank you.	

Operator: And, ladies and gentlemen, at this time I'm showing no additional questions. I'd like to turn the conference call back over to Mike Ranger for any closing remarks.

Michael W. Ranger

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

Great. Thanks very much. Well, obviously we're very excited about this new chapter in this inflection point in Covanta's history. And really look forward to rolling our sleeves up and getting involved in taking a completely new look at the business and scrub it down to as – to its bare bones and figure out what makes the most sense. And clearly once again, this is all about unlocking value for shareholders and that will be our guiding principle in this process.

So, with that, thank you very much for your time and attention and your support of Covanta. Thank you.

Operator: And ladies and gentlemen, the conference has now concluded. We do thank you for attending today's presentation. You may now disconnect your lines.

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