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Covanta Holding Corp. (CVA)

Q4 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Covanta Holding Corporation's Fourth 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 Relations section of the Covanta website at www.covanta.com. The transcript will also be archived on the company's website.

At this time, for opening remarks and introductions, I'd like to turn the call over to 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 fourth 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 comments, 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 of our website, www.covanta.com. These prepared comments should be listened to in conjunction with these slides.

Now, onto 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

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could cause such differences can be found in the company's reports and registration statements filed with the SEC.

The content of this conference call contains time-sensitive information that is only accurate as of the date of this live broadcast, February 23, 2018. 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 definitions of our non-GAAP measures and how we use them, as well as limitations as to their usefulness for comparative purposes, please see our press release, which was issued last night and was furnished to the SEC on Form 8-K.

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

Stephen J. Jones

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

Thanks, Dan, and good morning, everyone. For those of you using the web deck, please turn to slide 3. I'll provide a brief overview of our 2017 financial results along with an update on some of our strategic initiatives. Then I'll get into details on the waste, energy, and metals revenue lines and our operating expenses. Lastly, I'll close out with an update on our project development status and a longer-term view on our business outlook and strategic objectives.

In 2017, we finished the year with $408 million of adjusted EBITDA and $132 million of free cash flow. We're initiating 2018 guidance of adjusted EBITDA between $425 million and $455 million, free cash flow before working capital of $100 million to $130 million, and free cash flow between $70 million and $100 million. This guidance reflects the impact of the Green Investment Group's investment in the Dublin waste to energy facility, which closed on February 12.

Brad will go through the factors that drove our 2017 results in further detail. But I'll quickly highlight a few things. First and foremost, 2017 was a year of tremendous progress on our international development initiatives. As anticipated, the Dublin facility reached commercial operation at the beginning of the fourth quarter and plant performance to date has been even better than expected. This is a tremendous asset. The success and the strong economics of the plant were key factors in our partnering with GIG.

As we discussed in December, GIG invested €136 million in exchange for a 50% stake in that plant. At over 13 times forecasted adjusted EBITDA, this multiple is an example of the valuation these types of infrastructure assets can command in the market. This type of deal would not have been possible, if not for the outstanding execution of our experienced operations and project development teams.

We'll touch upon specific development milestones shortly, but I'd like to note that executing on these partnership projects is a key priority. Our respective teams are working tirelessly to further progress these projects and we're eager to share material updates with you throughout the year.

On the domestic front, we completed the installation of upgraded fire protection and suppression equipment at our Fairfax facility and returned it to service at the end of 2017. The timing of this recovery was longer than we

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expected and had collateral impacts on our 2017 performance, which I'll discuss in a few minutes. However, those issues are now in the rearview mirror and we expect Fairfax to be a key driver of 2018 organic growth.

Beyond Fairfax, our organic growth efforts remain in full swing. In the second quarter of 2017, we brought online our non-ferrous processing facility in eastern Pennsylvania. The results have been positive as we've been able to separate and monetize higher-value metals in order to generate notably higher net prices. We expect this plant to contribute further to 2018 performance, given a full year of operations and an increase in volumes processed.

At Covanta Environmental Solutions, we continue to expand our regional footprint and completed four acquisitions between 2017 and early 2018. Our environmental services revenue grew by 24% through increased utilization and cross-selling initiatives, and we expect that business to continue its momentum in 2018.

Before I move on to specifics about our markets, I'd like to take a moment and talk about our operations in 2017. As many of you are aware, aggregate plant performance was below our original expectations. This was largely driven by nearly a full year of downtime at Fairfax, which is one of our largest facilities.

To provide more context on our fleet performance, I want to highlight that the vast majority of our plants had excellent operations. In fact, 10 plants reached all-time records in terms of waste processing, including some of our largest tip fee plants like Hempstead, Delaware Valley, Essex, and Niagara. These larger plants drive a significant amount of shareholder value and are a focus area for us. This performance gives us confidence that we're maintaining our plants to deal with their life cycle needs and that we're effectively managing our assets.

In order to further improve our results as we move forward, we are taking or have taken the following steps. First, we have had tremendous success at plants that have implemented continuous improvement and we expect to drive these initiatives further through our fleet. Some form of CI is evident at all of our plants and several plants have implemented stable operations, which is a program where plants use statistical analysis to drive operating performance with a goal of operating at peak performance every day. The plants that have implemented this program are currently the best performing plants in our fleet and we're eager to replicate the success at other plants.

Second, we undertook a thorough fire protection review of our facilities and we will begin installing upgraded systems and equipment to reduce the likelihood and potential impact of future fires. This will take a few years to complete and we expect that for client facilities, the cost will be borne by the client. The benefits of these investments in terms of reducing downtime risk and improving safety far outweigh the costs.

Third, we'll continue to view our plant and contract portfolio to ensure that we're investing in the right plants, and that our operating contracts adequately compensate us for the costs and risks inherent in maintaining these plants. As we move forward, we will discontinue operations at certain facilities if we're not receiving a reasonable return for our efforts and expertise. We will also prioritize our plant investments in those facilities which are providing the highest return to shareholders. These are the plants where our shareholders expect us to focus more of our efforts.

Now, I'll get into the detail on markets and operations. I'll start with the waste business. Please turn to slide 4. 2017 represented another active year for contract negotiations during a period of strong waste industry fundamentals.

Earlier in the first half of the year, we extended the waste contract with one of our largest customers at our Delaware Valley facility and converted the SECONN facility to a tip fee plant. In both cases, we entered into

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shorter-term contracts that represented current disposal prices in those respective markets, and we expect those prices to further firm up over time.

More recently, we extended the service contracts on both the Lancaster and Harrisburg facilities for 15 years. The owner of both plants, the Lancaster County Solid Waste Management Authority is a highly progressive waste authority with an integrated waste management approach that values energy from waste as a sustainable waste solution, and Covanta as an operating partner. We are very pleased to continue our long-term relationship with them. And while their CEO, Jim Warner, is retiring at the end of the year, we'd like to recognize his leadership with the authority for many years and thank him for his passionate advocacy for sustainable waste solutions.

Unlike 2017, 2018 will not see any large contract expirations, except at Hennepin where we'll exit our role as the operator in early March. During 2017, we were able to drive $14 million in same-store price growth or 2.5% at our tip fee facilities. Recall, we're highly contracted on waste and inflation escalators are running about 1.5%.

So, most of the 2.5% price growth overall is coming from strong improvements in contract rollovers and increased uncontracted waste pricing, including strong spot markets and increased volumes and pricing of profiled waste. We expect favorable waste industry trends to continue into 2018 with same-store pricing increasing by around 3%. Volumes are generally strong and with growing pressure on transportation logistics, we expect the waste markets to be able to support further price growth.

As we committed to investors, Dublin operated for the entirety of the fourth quarter and processed nearly 190,000 tons of waste, while generating $19 million in revenue. This was slightly better than expected given the weakening of the dollar, strong throughput and better pricing. Full year same-store volumes at our tip fee plants declined 5.3% or $29 million, with Fairfax representing the majority of the net impact. Looking at our full year 2018 outlook, we expect to see over 1 million tons in improved volumes given a full year of Fairfax and Dublin.

As we discussed on the Q3 call, internalized profiled waste growth slowed in 2017, primarily due to the downtime at Fairfax. With Fairfax's recovery and through improving utilization of other plants in our fleet, we expect to see a re-acceleration of internalized profiled waste growth back to double digits in 2018. As I mentioned, the Covanta Environmental Solutions business also continued to grow its waste processing and site service business, with full year revenue growth of 24%.

Organic growth drove the majority of the benefit as we saw higher utilization of facilities through effective sales efforts. As a reminder, we completed three acquisitions in 2017 and recently closed on another early in 2018. These bolt-on acquisitions represent either regional or service line expansions that enable us to better meet our customers' needs. In 2018, we expect to see continued organic growth in this business.

Now let's move on to energy. Please turn to slide 5. For the year, same-store energy revenues slipped $15 million, primarily due to reduced generation at Fairfax which, of course, we expect to come back in 2018. On the positive side, pricing was down only 1% in 2017. As in the short term, power prices appear to have bottomed out. With the cold start to winter, natural gas prices were strong in December and January which supported power prices. While this near-term improvement was certainly welcome, we've not seen any material improvement in forward prices. We remain disciplined in our hedging strategy and we enter 2018 with only 1.5 million megawatt hours opened. This level of exposure is typical for us given our goal of managing commodity price volatility.

Our average hedge price for 2018 is slightly below that of 2017. To date, we've already hedged 1 million megawatt hours for 2019 and anticipate continue hedging as we move through the year. During 2017, we experienced several legacy power contracts moving to market. That totaled $28 million in headwinds. This was

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partially offset by an increased share of energy revenue at a few facilities. We expect 2018 to have a much smaller net impact of around $5 million of headwinds, net of increased capacity. As we look forward, our remaining contract portfolio is very long dated with no material expirations until the mid-2020s. This is a major change from the challenges we have faced over the last several years.

Lastly, since we frequently receive questions from investors about our long-term energy strategy, I'd like to take a moment to highlight some of our efforts. While waste markets make up the majority of our revenue, energy is a key part of our business. And for several years, we've been buffeted by low energy prices.

To address this, we have an initiative to seek solutions at each of our plants, both at the retail and wholesale level, to improve profitability while reducing volatility. These options run the gamut of identifying improved wholesale contract structures, supporting and participating in renewable energy programs, collaborating with commercial users on direct energy sales, and investigating retail energy sales.

As we think about the longer-term advantages of our facilities given their locations near energy demand, we are also in the early stages of looking at opportunities to use technology to optimize the value of our sites. We don't have a specific update on any of these items today, but look to hear more on these topics as these initiatives progress.

Let's move on to metals – on the metals business. Please turn to slide 6. For the year, metals were a positive source of revenue growth driven by strong pricing and improving recovery despite lower plant throughput. Same-store realized ferrous prices increased by 44% driven primarily by a 36% increase in the HMS index year-over-year.

Recovery volumes were roughly flat year-over-year even with plant downtime as we continue to optimize the separation equipment at our Energy-from-Waste plants. Notably, nine of our plants set records for ferrous recovery in 2017. Sales were a bit lower as we processed more material, leading to lower available product to sell. Looking into 2018, we expect an improvement in ferrous recovery giving greater plant throughput with the recovery of Fairfax, which will also result in greater sales volumes.

Market prices for ferrous were better than expected all year with the HMS #1 index averaging $268 per ton. In January and February of 2018, prices have remained elevated at an average price of $317 per ton. We believe some of this strength is likely seasonal and our full year expectation for HMS is in the $235 to $285 per ton range.

We're also closely watching the potential impact of ferrous and non-ferrous pricing from the Secretary of Commerce's Section 232 recommendation that further tariffs be placed on imported steel and aluminum from certain countries. Tariffs of this type would likely benefit domestic steel and aluminum prices and could improve demand for our products. However, the exact impact to us is highly dependent on how these recommendations are ultimately implemented.

On the non-ferrous side, same-store revenue increased by $11 million or 49% for the year. Non-ferrous recovery improved by 5% as we continue to deploy more non-ferrous recovery equipment and this more than offset plant downtime. Realized pricing improved by 74% on the year as we saw the benefit from our non-ferrous processing facility beginning late in the second quarter. Through this process, we are cleaning and separating the non-ferrous, allowing us to fully monetize the higher-value fractions like copper and even some precious metals that previously were bundled and sold with the lower-value fractions like aluminum.

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For 2018, we expect recovered volumes and sales volumes of non-ferrous to grow year-on-year, given both our investments in recovery systems and improved plant throughput. Currently, around 90% of our company-wide recovered non-ferrous is processed versus around 70% less than two months ago. We expect this percentage to move even higher as we complete internalization and benefit from a full year of operations at the processing facility. These two factors are expected to lead to another step-up in full year average realized pricing. We expect pricing to more than double as compared to 2016 pricing, which was before we began operating the non-ferrous processing equipment.

I know many of you are interested in the status of our Total Ash Processing System. We expect to receive the permit for the first unit in Pennsylvania this year with operations commencing in 2019. Simultaneously, we're looking to develop other regional locations. Once we've proven out the technology and economics, we will be positioned to move forward with these other units.

Let's now move on to maintenance and operating expenses. Please turn to slide 7. Total Energy-from-Waste maintenance spend for 2017, including both expense and CapEx, was $397 million versus $369 million in 2016. Maintenance costs were impacted by greater-than-expected downtime at a handful of plants. We also took the opportunity to accelerate some maintenance activity from 2018 into 2017 so that 2018's higher forecasted spend, which I mentioned last year, would be lessened.

During the third quarter, we noted that we would likely be toward the high end of our full year maintenance range. And based on the actions I noted, we ended the year a bit higher. We recognize it is difficult to precisely estimate maintenance activity, but a proactive and flexible maintenance approach is key to ensuring optimal asset utilization and profitable operations. We do not view these activities as discretionary and we believe that the actions taken in 2017 better position us for 2018 and beyond.

Our 2018 outlook for total maintenance cost is $390 million to $410 million, which is in line with or even potentially below our 2017 results when adjusted for inflation. It is also within our previously discussed three-year range. That said, relative to 2017, the range for 2018 is more tilted towards CapEx as opposed to expense.

Other plant operating expenses increased 7% compared to 2016, driven by growth in the Covanta Environmental Solutions platform, the startup of the non-ferrous processing facility, and one quarter of operations in Dublin. On a same-store basis, I'd like to note that other plant operating expenses in the Energy-from-Waste portfolio increased only 1% or below the rate of inflation.

Lastly, other operating expenses in 2017 included $30 million in insurance recoveries and $11 million in client settlements, both of which positively benefited adjusted EBITDA. We expect to receive another $10 million of business interruption recoveries related to the Fairfax event in 2018.

Before I hand the call off to Brad, I want to take the time to update you on our development activities and revisit a few components of our long-term outlook. Please turn to slide 8. First, as most of you saw, we closed on the initial investment by GIG into the Dublin project on February 12. We now own 50% of the Dublin project and continue to operate it. At the same time, we're working collaboratively with GIG on this and future projects.

The most advanced of these projects is Rookery which received its environmental permit on January 26. Site work has begun and we expect to move into full construction after project financing closes, which we expect to occur in the second quarter. We're excited about the progress we've made on Rookery. It is the largest of the projects in the pipeline and we expect it to represent the largest investment by Covanta given our 40% share.

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Beyond Rookery, I look forward to announcing continued progress across the pipeline in coming quarters as we and GIG hit key milestones and move projects forward. As a reminder, we expect to invest $150 million to $200 million in the partnership over the next several years and expect these projects to contribute $40 million to $50 million in free cash flow to Covanta.

In our existing fleet, we have reached a period of relative contract stability which we have not witnessed for many years. Following 2018, we have no material legacy energy contract expirations until mid next decade. In addition, while we have a few waste contracts that end in 2019, they are at service fee facilities that we own and we do not believe any of them will be a material headwind.

Last year, we also provided a three-year maintenance goal and an initiative to double Covanta's free cash flow by mid next decade. At this point, I think it's appropriate to discuss and provide updates on these expectations. Our updated three-year range for annual Energy-from-Waste maintenance spend is $385 million to $425 million, effectively representing a normal inflation adjustment relative to our previous range. Within this range, we will prioritize proactive value-added maintenance at our most profitable facilities. Further, we will review our plans, our fleet ownership, and contractual relationships to find opportunities to improve cash flow and reduce cost.

As discussed in the announcement of the GIG transaction, we see the UK pipeline as a meaningful contributor towards our long-term goal of doubling our free cash flow, which translates to a specific target of $250 million of free cash flow by mid next decade. In addition to the very promising UK development pipeline, we expect meaningful contribution from our organic growth initiatives and favorable long-term waste disposal market dynamics in the Northeast over this timeframe.

With that, I'll turn the call over to Brad to discuss the 2017 results and the outlook for 2018 in more detail.

Bradford J. Helgeson

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

Thanks, Steve. Good morning, everyone. Before I get into the numbers, I want to briefly highlight a few areas where we've enhanced our disclosures to better represent the business and improve the transparency of our financials. First, you'll notice that we expanded our disclosure of EfW waste and service revenue to break out tip fee revenues and service fee revenues.

Tip fee revenue is generated at merchant plants we were paid on a per ton basis, so this revenue is volume dependent and is where market waste pricing and our profiled waste initiatives have a clear impact. Service fees generally represent a fixed monthly revenue stream regardless of volume, with some variability based on performance incentives and annual inflation linked price escalators. We also now provide revenue per ton guidance for tip fee revenues specifically, rather than an average for all EfW waste revenue. This information should be more useful as you analyze and model our business.

Second, in the non-GAAP reconciliation section of our web deck, we're providing a walk for our 2018 guidance ranges from adjusted EBITDA to free cash flow, which provides some useful line items, including the adjusted EBITDA and cash flow contributions from our joint venture with GIG and capital type expenditures at client owned facilities. We believe this disclosure will enable you to better forecast our business going forward.

Lastly, we're now explicitly providing guidance to free cash flow before working capital in addition to our existing free cash flow metric. As I'll get into in a couple minutes, working capital movements can add significant volatility to our cash flow in a given period both positively as we saw in 2016 and 2017, and negatively as we expect this year. Working capital efficiency is an important part of our business and will always be an area of focus, but

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looking at our cash generation before working capital provides additional color on underlying long-run performance.

Now, I'll begin my review of our 2017 financial performance with revenue on slide 10. Total revenue was $1.75 billion in 2017, up $53 million over 2016. Before commodity prices, the top line grew $24 million organically with improved waste pricing, growth in environmental services revenue, strong performance at our non-ferrous processing facility, and increased construction activities more than offsetting the downtime at Fairfax. Recycled metal prices primarily for ferrous material provided a further $15 million benefit, while energy was a small net positive as increased capacity revenue offset slightly lower power prices.

During the fourth quarter, we generated $30 million of revenue at Dublin, which was the primary year-over-year driver of growth in the transactions category. As anticipated, long-term contract transitions represented a net $19 million headwind in 2017 as the expiration of several legacy power agreements more than offset higher pricing and improved energy sharing under new waste and service arrangements.

Moving on to slide 11, adjusted EBITDA was $408 million for the full year in 2017, coming in just below 2016. On an organic same-store basis, adjusted EBITDA was $14 million lower than last year. Before commodity prices, core business results year-over-year were significantly impacted by the downtime at Fairfax and a few other facilities, as Steve described, which hit revenue, maintenance and other operating costs. Commodity prices partially offset these issues.

We noted on our third quarter earnings call that we did not expect to reach our target of 3% to 5% organic adjusted EBITDA growth for 2017. Clearly, the biggest contributor to this shortfall was the downtime at Fairfax. This effectively had a double impact on our performance relative to our initial expectations as Fairfax not only represented a meaningful headwind relative to 2016, but as previously discussed, we had anticipated significantly improved performance in 2017 given the investments we made in 2016. The downtime also had a collateral impact on the profiled waste business.

All in, including the delay of an estimated $10 million in business interruption insurance recoveries into 2018, the net impact of Fairfax alone in 2017 was over $20 million relative to our initial expectations for the year. The fourth quarter operations of Dublin added about $20 million in adjusted EBITDA, which was the primary year-over-year driver of growth in the transactions category. I'll note that this contribution should not be viewed as a quarterly run rate for the project, as limited downtime and limited contractual energy sharing benefited results in the quarter. Lastly, contract transitions were a net headwind year-over-year as the settlement of our contract dispute with Hennepin County and improved terms on new waste contracts only partially offset the negative impacts related to the expiration of legacy power contracts.

Turning to slide 12, free cash flow was $132 million in 2017 compared to $176 million in the prior year. Before changes in working capital, free cash flow was $88 million, down $47 million year-over-year. Since adjusted EBITDA was roughly flat with 2016, this decline was primarily driven by increased maintenance CapEx, interest expense at Dublin as the project moved into operations in Q4, and the fact that Dublin adjusted EBITDA did not translate into cash flow in the quarter given the timing of project distributions. In other words, cash generated in Dublin was still held in project restricted funds at year-end.

Working capital improved free cash flow by $44 million in 2017. I would note that working capital has now benefited free cash flow by $85 million cumulatively over the past two years. While we'll continue to manage our working capital as efficiently as possible, we expect some normalization of this cumulative benefit to occur in 2018, which is reflected in our cash flow outlook for this year.

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Moving on to our growth investments, please turn to slide 13. Growth spend was over $80 million lower in 2017 as compared to 2016, largely as a result of the wind-down and completion of Dublin facility construction last year. As we look ahead, we expect to spend around $20 million of organic growth capital in areas like non-ferrous recovery systems and expansions of material processing facilities in the CES business. We also made a small CES acquisition early this year that complements and expands our existing capabilities in Canada.

Not included in our current 2018 spend forecast are several potential investments that need to achieve further milestones before moving forward. At the top of that list is the Rookery project. With the environmental permit in hand, we're now working towards financial close in the second quarter. Once we reach that point, we'll provide more detail on the project financing and the expected timing and amount of our equity investment.

For our first ash processing facility, the key next step is receipt of our permit from the state of Pennsylvania which we expect later this year. At that point, when we're ready to commence construction, we'll announce the amount and timing of the investment this year and the expected financial benefits from the system next year and beyond. Similarly, we expect to receive the notice to proceed for the Manhattan marine transfer station in 2018, and at that point, we'll update our expectations for that growth spend as well.

Overall, we have several opportunities to invest capital at very attractive risk-adjusted returns, and we believe that capitalizing on these opportunities to grow the company is the best path for increasing shareholder value. However, we're also prioritizing meaningful balance sheet improvement over time. So, balancing these objectives will continue to be highly disciplined in our approach focusing resources and capital on the most strategic and accretive opportunities.

With that as a segue, please turn to slide 14 where I'll discuss our balance sheet. At December 31, 2017, net debt was under $2.5 billion, down $343 million when compared to September 30. This was primarily driven by the removal of Dublin project debt, which was reclassified to liabilities held for sale on the balance sheet at year-end, as well as strong cash flow in the fourth quarter.

Our consolidated net debt to adjusted EBITDA leverage ratio at the end of 2017 was 6.4 times versus 7.2 times at September 30. I'll note that this ratio is calculated excluding the Dublin project debt, but also excluding the adjusted EBITDA contribution from Dublin in the fourth quarter.

Going forward, we'll calculate this leverage ratio, including contribution from the joint venture with GIG only to the extent of cash dividends actually received, not proportional EBITDA of the projects as the project debt will not be consolidated. The leverage ratio under our senior secured credit facility was 3.6 times at December 31 versus the covenant limit of 4 times. As a reminder, the covenant excludes the $1.2 billion of unsecured holding company notes.

As we look forward, we expect both ratios to improve meaningfully this year, as we target to reduce the consolidated leverage ratio below 6 times and the credit facility covenant ratio to roughly 3 times. We already repatriated all of the proceeds from GIG's investment into the joint venture and the Dublin project nearly $170 million and repaid outstanding revolver borrowings. So, the benefits of this transaction for our credit metrics will be seen immediately in Q1.

Now, I'll review our 2018 guidance ranges starting with adjusted EBITDA. Please turn to slide 15. We expect to generate adjusted EBITDA of $425 million to $455 million, which represents 8% growth over 2017 at the midpoint of the range. The largest driver of this improvement will be core organic growth. Of the $40 million to $50 million in

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improvement, we expect Fairfax alone to represent around $30 million, including $10 million of residual business interruption insurance recoveries relating to the downtime in 2017.

The balance of the core organic growth will be driven by a full year of non-ferrous processing, re-acceleration of profiled waste growth and strong waste pricing in general, and continued growth in environmental services. As you can see, we expect to be meaningfully above our stated annual target of 3% to 5% organic growth which will balance out the issues we encountered in 2017.

We expect commodity prices to be a modest headwind. Spot energy prices look to be a bit higher in 2018, but our hedges are below 2017 levels and we expect a modest reduction in prices in the portion of our contracted portfolio that is subject to some variability between caps and floors. For metals, we expect roughly flat market prices for both ferrous and non-ferrous relative to 2017.

With a full year of operations, Dublin is expected to drive around $25 million of additional adjusted EBITDA year-over-year. Recall that the total contribution from Dublin following the GIG transaction includes two components: the service fee were paid to operate the plant which will include consolidated revenue and expense, and our 50% proportional share of the adjusted EBITDA of the project company. As you can see in the non-GAAP reconciliation on slide 20 of this presentation, we expect the proportional adjusted EBITDA from the Dublin project company for the period after closing on the joint venture in February to be $25 million to $30 million in calendar 2018.

Adjusted EBITDA in 2017 reflected the $11 million settlement of our contract dispute, so that represents a year-over-year negative variance that is reflected in this bridge as a service contract transition. Waste and service contract transitions also include the last material roll-off of debt service revenue at a client service plant that we own, specifically the Babylon plant on Long Island. On the power side, we have a $5 million remaining headwind from the expiration of a power contract in New England in 2017. As Steve discussed, after this we have no more meaningful legacy power contracts expiring until the mid-2020s.

As it relates to the cadence of our results, we expect 2018 to have the typical second half tilt, as we take the larger portion of our planned maintenance activity in the first and second quarters. That said, we expect the first quarter of 2018 to show significant year-over-year improvement in adjusted EBITDA relative to the first quarter of 2017, given the operations at Dublin and Fairfax.

I'll conclude my prepared remarks with our free cash flow guidance on slide 16. We're initiating guidance on free cash flow before working capital at $100 million to $130 million in 2018, which compares to $88 million in 2017. This increase will be driven primarily by improved adjusted EBITDA, but not all of that improvement will translate to cash as the free cash flow contribution from the Dublin project after accounting deconsolidation will equal cash distributions, not our proportional share of EBITDA.

In addition, cash flow generated by the Dublin project prior to the GIG transaction closing was held in restricted cash under the project financing structure that will not flow to free cash flow this year. Overall in 2018, Dublin will contribute $40 million to $45 million to adjusted EBITDA, while the free cash flow contribution will be closer to $10 million. As we move into 2019, that should normalize to the annual run rate of $10 million to $15 million that we'd previously announced.

As Steve discussed, we expect our maintenance CapEx when including the impact of capital type expenditures at client owned facilities to be about $10 million higher this year plus or minus. You'll see that we show $25 million positive year-over-year delta labeled as other. This essentially consists of a comparatively lower build in restricted

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cash balances at Dublin in 2018 versus 2017, as well as some other items related to differences between adjusted EBITDA and cash flow. Nothing material to note from a business standpoint, just completing the bridge to align the cash flow numbers.

As I mentioned earlier, we anticipate a reversal of a portion of the significant benefits we've generated from working capital over the past two years. Based on an expected working capital cash outflow of $20 million to $40 million in 2018, we're guiding free cash flow to a range of $70 million to $100 million.

I'd be remiss not to recognize that our 2018 guidance for free cash flow before working capital is modestly below the current annual amount of our dividend payout. This is a short-term phenomenon. While our immediate focus is on 2018, the company's long-term trajectory is towards doubling free cash flow over the next several years. This is a long-term business. And it's over this timeframe where we expect to create meaningful shareholder value.

When we made the decision to generate funding for our international development through the GIG transaction, we knew that this would come at the cost of some near-term reported free cash flow. However, we believe that recycling invested capital at a very attractive multiple with the coincident improvement in our balance sheet and liquidity more than justified this over the near term. This joint venture was not about the next year or two for Covanta, it's about setting ourselves up for the next 20 years.

To reiterate once again, we have no plan to adjust our dividend policy. As with our strategy and the nature of our business, dividend policy is a long-term decision and commitment, not one based on near-term results when our long-term trajectory is clear. We're highly confident in our business plan and these assets and we intend to grow sustainable cash flow generation to where we eventually will resume growing our dividend payout. In the meantime, we remain focused on near-term execution and continuing to cultivate our very attractive long-term opportunities.

With that, operator, we'd like to open up the call to questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Tyler Brown. Please state your company. Your line is open.

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

Q

[audio gap] (40:44) James. Good to talk to you guys.

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

A

Hey, Tyler. How are you today?

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

A

Good morning, Tyler.

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

Q

Hey. Hey, Brad, so, on free cash flow, I just want to make sure that I understand it. So, you are expecting, call it, $40 million to $45 million of EBITDA from Dublin in the midpoint, but the cash associated with that EBITDA is only about $10 million, is that correct?

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

A

That's correct. Yeah. Yeah.

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

Q

Okay. So...

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

A

Yeah. Post the deconsolidation, for accounting purposes of the project, our reported free cash flow, as we have the metric defined, is essentially just equal to the actual cash dividends received.

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

Q

Okay. Right. So, will that gap narrow as time goes on?

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

A

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It will, yeah. As I just mentioned, actually we expect on a normalized basis to be in the probably $10 million to $15 million and probably towards the upper end of that range on an annual basis exiting 2018. The reason 2018, by the way, is a little bit depressed, it has to do with the timing of distribution dates that are laid out in the project financing arrangements. So, it's a bit of a timing nuance impacting this year. But long term, the run rate is what we already talked about.

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

Okay. Okay. And then, I think I've asked you this before, but can you explain how CPI runs through the model? So, Steve, I think you mentioned that the escalator was up 1.5%, but CPI is obviously trending above 2%. So, is the difference a lag or how exactly does it work?

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

Yeah. There's two differences. One, yes, our contracts don't adjust real time. There is a lag. Typically, a lot of our contracts are reset at mid-year. But also we can generalize about the trend of CPI nationally, but the reality is that each of our contracts with a few exceptions, but most contracts are based on local or regional escalators, could be CPI, could be PPI, could be labor cost escalators. It really runs the gamut as far as the basket of escalators that we [ph] referred (42:41) you. So, I think a national CPI type escalator can give you a sense for the direction.

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

Correct.

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

Probably with a bit of a lag as you pointed out, but it isn't necessarily a precise correlation.

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

Okay. But it should – I guess, in theory, it should improve as time maybe moves forward.

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

Absolutely. Yeah.

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

Okay.

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

Yeah. I think you're going to see more of an inflationary environment. I mean, the risk that's out there for some companies, for us that's a benefit as pricing through those contracts, through those contract mechanisms will be supported.

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

Q

Right. Okay. Good. And then maybe my last question, so I appreciate you guys laying out the $250 million in long-range free cash, but can you help me bridge versus the $115 million midpoint working cap neutral? So, does that include Rookery, maybe the Biffa 1, Biffa 2 organic growth or are you assuming current metal prices, electricity prices, basically what are some of the puts and takes in there?

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

A

Yeah. I mean, the main drivers are the ones that we talk about pretty consistently. Certainly, the UK pipeline we expect to be a meaningful contributor. When we announced the GIG transaction, we announced that we expected $40 million to $50 million of contribution ultimately in terms of cash flow, actual cash distributions to the parent company when the pipeline is built out. So, that's certainly a driver.

Really, the organic growth initiatives over this period of time are the other big driver. That's all the initiatives across metals, across profiled waste, ash processing. And we think that over that kind of timeframe, especially as we move into next decade, the waste disposal dynamics in our markets, particularly in New England, are going to be very, very supportive.

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

Q

Right.

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

A

Let me add to that a little bit, Tyler. So, if you think about it, you've got a bunch of large chunks of free cash flow that come on stream when the UK development projects come on stream, right? But in the meantime, in our base business, there's a series of levers. And Brad mentioned a few of them, right? So, profiled waste growth, we'd said we expect that profiled waste to grow double digits. Continuous improvement, I mentioned the stable operations activities and how we're going to expand those to even more of our large tip fee facilities. Increased metal volumes, think the non-ferrous system in Pennsylvania.

Our environmental service business has been very strong. That'll continue to add free cash flow between now and when the first big projects come on. The next New York City marine transfer station start-up, the TAP system, strong waste markets, as Brad mentioned, particularly in the Northeast where we have a great footprint, and then delivering on some of these energy initiatives that I kind of mentioned briefly.

So, that will give you a sense of the levers that we can pull, and that value will all go towards the $250 million of free cash flow.

If you take a look at slide 15, just to give you a sense what this might all mean. If you look at slide 15 and note the core business column, that column represents our net organic growth, and you'll see it's well above the 3% to 5% growth target that we set out. So, I think as you go through 2018 here, you're going to see us starting to hit on all cylinders as it relates to these kind of base – these levers that we can pull at our base business. And then, as I said, when the series of UK projects come on stream, larger amounts or kind of bigger chunks of free cash flow will be delivered to the P&L. That's how I see it playing out.

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

Okay. So...

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

And then, Tyler, one point I'll clarify just because you included it in your question. We don't expect or we don't assume in that target any improvement in commodity prices.

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

Right.

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

Obviously, if we get a – over that timeframe, if we get a move in energy prices, that would certainly help a lot, but we don't count on it. And I'll also point out on this topic generally, a big part of our ability to grow over this period of time is going to be the fact that we're not going to have the stiff headwind of contract transitions year over year over year which we've had for the last decade.

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

Right. Right.

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

So, that's going to be a big help.

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

Yeah. So, we feel pretty good about where we sit right now.

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

Okay. And then maybe the last one – truly the last one, what is the cash tax assumption in that, call it, mid-2020s timeframe?

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

Yeah. So, it's obviously a long way away, but we actually expect at this point our NOL to be shielding our federal cash tax liabilities at least into that timeframe.

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

Okay.

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

A

So, yeah, I think we'd obviously have to be closer to have a little bit better visibility on the exact life of the NOL, but it certainly has continued to shield us and will continue to do so for a while.

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

Q

Okay. Perfect. Thank you, guys.

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

A

Sure.

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

A

Sure.

Operator: Your next question comes from Michael Hoffman. Please state your company. Your line is open.

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

Q

Hi. It's Stifel. Thank you, Steve, Brad and Dan, for taking the questions. If I could just...

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

A

Hi, Michael.

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

Q

Hi, guys. If I could circle back to Tyler's question just to get a starting point. So, the waterfall should start with $120 million. If I'm looking at your slide, I think it's 15, is that the right way – so I start with the $120 million, then add in whatever I'm adding to get out to the $250 million?

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

A

Yes. That's right. That's in the ballpark there.

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

Q

Okay. So, then the right way to think of that is $40 million to $50 million is UK projects. That leaves you another $80 million net as your organic growth.

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

A

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Yeah.

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

That's just the simple math. Okay. All right. That helps.

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

That's correct.

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

Okay. And then with regards to the – I'd like to just – the disaggregation in the model, I get the point of you're a big waste company on one end of the business so let's focus on how we leverage it. So, talk about this trend, if you will, in tip fee, the spot tip fee and sort of where is it today and what your thoughts are in the context of that incremental $80 million that's from growth with the role of the tip fee in that, where do you think it's going on a relative basis? If we're $60, $70 a ton spot market today, where do you think that goes?

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

Well, I mean, one of the points I was trying to make is the waste markets continue to be strong. I mean, if you listen to Waste Management or Waste Connections, which I know you do, Michael, they're saying the same thing. Pricing has been strong, especially in the New England markets, and you and I have talked about that before. Also in the profiled waste markets which, quite frankly, we didn't play as much in profiled waste last year because Fairfax was down.

Our merchant plants and transfer stations continue to be full. I think we talked about that a few calls ago, and where possible we're pushing spot prices. So, we're remaining active in repricing expiring contracts. And so, we see upside around this opportunity. I'm a little reluctant to give you where I think the pricing is going to go. But I do think directionally, we're headed north of where we are today. And again particularly in that Northeast market where I think as you pointed out some of your earlier writings that that market's really tightening up, and I think Massachusetts is running out of landfills in the next five years or so. So, it's getting pretty tight up there.

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

Okay. So, on that being Massachusetts, and I'm not sure they'd succeed in doing this, but they're trying. The legislator is...

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

Right.

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

...trying to pass a no-pipeline bill that also is linked to 100% renewables. And their goal is that that 100% renewables would be by 2030. What's the implication? If they actually pull this off and it's coming out of

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committee, so whether it gets passed by the full government, it remains to be seen. But if it happens and it gets passed, what's the implications for Covanta? Do they deem waste energy as renewable?

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

Yeah. Yes, they do. And quite frankly, you're going to see upward pressure on power pricing. And I think there'll be some advantages. I mean, we've been up there doing some lobbying work to talk to the government about how does Energy-from-Waste fit into there, where they want to go in the future from both a power production standpoint and also because they're running out of – the landfills are closing up.

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

Okay. So, you don't – if this happens, this is a net positive, it's not a negative?

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

That's correct.

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

Okay. And then, with regards to the metals opportunity, if you look at where you are in recovered volume today, where do you think that number can go in that five-year sort of view as opportunity? And I'm not asking to predict pricing, but just the recovered volume opportunity, what does that look like in five years between ferrous and non-ferrous?

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

Yeah. Michael, it's Brad. Without putting a specific number to it, I'd say directionally, ferrous, there probably isn't a significant remaining opportunity for recovering additional material.

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

That will grow it like GDP kind of couple percent or so a year.

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

Yeah. And because we're optimizing the systems and doing better and better, but we have robust collection at basically all of the recovery – rather basically all of the facilities at this point. Non-ferrous, there's still a lot of opportunity, I'd say, first off at the plants. That's obviously the first step. But then as we're continuing to process more at Fairless Hills, and then also once we start to move into the Total Ash Processing System, we have additional sort of steps to take more and more metal out of the waste stream and then, of course, the ash stream.

I would say that as you get further down that line, you're probably not talking about huge volumes in terms of thousands of tons, but you're talking about very, very high-priced materials, including precious metals in the case of the Total Ash Processing System. So, I guess that was an elaborate non-answer, but I think you'll probably see some meaningful growth in non-ferrous still over the next few years.

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

A

Yeah.

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

A

Ferrous is close to topping out.

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

A

I think we mentioned it a while back, ferrous is kind of in the late innings of the baseball game, non-ferrous is probably in the middle innings. And quite frankly – and you see it with pricing, last year's non-ferrous pricing as the Pennsylvania system came on stream went way up and you're going see it to kind of going way up again in 2018.

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

Q

Okay. So, you've actually had my follow-on to that. But just to be clear, do you think that the non-ferrous potentially could double in that five-year timeframe, is that sort of the potential?

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

A

No. Not in terms of volume recovered.

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

Q

Okay.

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

A

No.

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

Q

All right. And then on the price, how much of the price was [ph] the improvements (53:45) because you're processing as opposed to the absolute price of the underlying commodity rose?

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

A

On non-ferrous, actually, the underlying commodity price was basically flat.

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

A

Yeah. Processing.

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

Okay. So, I just wanted to draw that point...

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

Yeah.

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

...because I think it's important.

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

Yeah. Good point.

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

And then, lastly, just so I was clear, Brad, all the cash you receive from GIG, you've paid off debt already or is it actually sitting on the balance sheet?

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

No, we paid off debt already.

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

Okay. All right. Great. Thanks for taking my questions.

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

Thanks, Michael.

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

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

Thanks. Hi, Steve.

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

Hi, Noah.

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Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

You mentioned before that you're going to be replicating stable performance at other plants. Can you just detail for us what percentage of your total plants or your tip fee plants you've already got in operations and then maybe what the operating savings might be from that initiative?

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

A

Yeah. So, if you look at our – and I kind of said it a few different ways and Brad said it, we're really starting to focus on our top tip fee plants, right? So, there are certain plants that from a shareholder standpoint you really want us to focus on. And so I'd say – let's say it's 15 plants, it's in that range. About half of those plants we've started stable operation. So, when I – I do a lot of plant visits. I'll go out to the plants and they'll talk to me about their stable operations activities. So, maybe at about half of those plants, they are undertaking stable operations with black belts, Lean Six Sigma Black Belts. We want to expand that to the full set of 15 plants.

And it depends on the plant. Each plant has different drivers on – when you do stable operations, what are the parameters or factors that allow you to operate that plant better? I think a couple years ago, I told CI as a general category, we were looking at a $10 million savings across that. We can continue to move that up over time. You can think about that as moving up even further as we go through each year.

I don't want to put a specific number on that because that ultimately then flows into the 3% to 5% net organic growth target. But all those things are going to feed that 3% to 5%, which is why I keep – I referred folks to slide 15, because you can see as we're getting into – 2017, we've been hit on that. But 2018, we're going to catch back up. It's going to be a strong year for net organic growth and CI is part of that process.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. And just to clarify, is that $10 million a one-time improvement or is that an annual opportunity?

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

A

So, what you do in CI, every year we set, we start from zero again, we set another goal. In the first year, I've mentioned – the first year goal was $10 million. But then every year, you start over again. You don't get credit for that again if you're in the CI team which makes it challenging for them, but every year we reset the target. And you could imagine as we've gone over the last couple years here, that target has moved north of $10 million.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. And then, I mean in the past you've talked about the ash beneficial reuse opportunity as taking out $90 million to $100 million of line item kind of taking out some of the costs there. Can you maybe just indicate for us what percentage of your plant capacity that first facility could be able to handle?

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

A

About 20%. We probably need five of these or so – of these TAPS plants to cover our fleet and – the fleet that we operate, so including the client plants where we just operate.

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Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

And is that completely – once they're up, is that completely knocking out that cost item or does it substantially lower it? I mean, how do we think about that?

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

A

It substantially lowers it. I think I've mentioned this before, when you – and we run a bunch of trials on this. When you actually take the ash, you reduce it by 65%, 70%. So, you still have a 30% residual that you – and now the guys are telling me, folks here are telling me, we'll be able to figure out something to do with that, but my assumption is that still needs to be disposed of. And we'll see if we can – through continuous improvement, we'll see if we can whittle that down further. But, yeah, you still have about a 30% residual ash that you probably need to dispose of.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Okay. And maybe a last one for me, I mean, as we think about the announcements coming around project financing, I mean, base rates are up, but spreads had actually kind of come in, and now you've got Dublin to point to sort of a solid UK operating – solid European operating project. So, can you just generally talk to what you are expecting for kind of the debt rates around Rookery? Should they be fairly comparable to Dublin? Do you see room for improvement or is kind of the rise in base rates too much to overcome?

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

A

Hey, Noah, it's Brad. So, the rise in base rates has been, certainly, I think more acute in the U.S. than it has been in Eurozone and the UK. I don't think you should expect rates to be quite as attractive as they were for the Dublin refinancing for a couple reasons. One, it's euro financing versus sterling; and number two, Dublin of course was into operations whereas the Rookery project, which is obviously the next one up, is going to be heading into construction. So, there's a different credit analysis that goes into that.

I mean, the Dublin project financing – let's step back, the Dublin project financing is 15 years at 3%. So, that's a pretty low bar for us to get down to on any financing in the future. But I think by any historical comparison, we expect the project financing for Rookery – bit hard to predict much farther beyond that. But looking at the project financing we're pulling together for that project, we expect that to look very attractive.

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thank you so much.

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

A

One other thing, too...

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Okay.

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

...just to add a little color, we have a pretty strong bank group together for the Rookery project. I want to give people a sense, we're not going to sit around waiting for the appeal period to run. We're already moving dirt out there. We've got a good bank group. Actually three-quarters of the bank group have already received credit approval. So, we're going to be lined up and ready to go as we move through this judicial review process.

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

Great. Thank you so much for that.

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

Sure.

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

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

Hey, thanks and good morning, guys.

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

Good morning, Ben.

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

I have a question on 2019 cash flow. I know you guys don't want to give guidance, but are there headwinds in electricity that we should factor in as we're thinking? I know you laid out kind of the strategy to get to $250 million of cash flow. I'm just trying to think about the cadence between where we are today and getting there.

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

I don't think so, I really don't. I think we're kind of still bouncing around the low end of the curve on natural gas, for example, which is driving power prices. So, I think we're in reasonably good shape there from power perspective. And like I said, I think waste markets, you're going to see more upward pressure on pricing, so that'll be good for us. Metals will be interesting as we go through this year.

If President Trump and the Secretary of Commerce, Ross, end up doing something on the Section 232, that could have an upward impact on metals. Bush did some – I was doing some research the other day, Bush did something back in – under Section 201, I believe it is, back in the early 2000s and it had a big positive impact if you're us on both ferrous and non-ferrous pricing.

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

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Another item in the model, Ben, that I think you probably already have, but when you think about 2019 is, of course, the expectation that the Manhattan transfer station is going to be coming online.

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

Q

Right. Right. And this might be premature, too, but just thinking about the transaction you did with Dublin, are there any plants in the U.S. that you could do a similar type transaction with?

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

A

Yes. Yes. And one of the things that – it was kind of oblique in the slides that we put out for the group – when we announced the Green Investment Group transaction, but we said this is a replicatable transaction with the Green Investment Group. And so, I've actually sat down with them already and we're talking about where else could we combine forces, what other geographies. So, we're looking at different things around our plant fleet and other ways to extract more value.

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

Q

Got it. And then finally, just kind of housekeeping, Brad, on the working capital, I mean how should we think about that going forward, the difference in cash flow to the working capital?

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

A

Yeah. I think a fair assumption for modeling purposes certainly is that, we have a bit of a course correction happening, as well as a couple of discrete items flowing through in 2018. Once we get beyond 2018, it really should normalize to effectively neutral plus/minus and you want to think about a range of, maybe it's plus 10 or 20 one year, it's minus 10 or 20 another year, but essentially zero as a base case assumption in 2019 and beyond. It really should settle down as compared to what we've been seeing the last couple of years.

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

A

Yeah. Let me say something a little bit about working capital, too, because I've been driving a lot of this. I think we've done a really nice job managing working capital over the last couple of years. And effectively, think about it this way, we want to collect our cash faster. I think I mentioned that a few calls ago. And we want to hold on to it longer.

And so, the holding on to it longer can be tricky and that's where you see us correct a little bit. I mean, you have to pay employees. You have to pay vendors. I mean, you can't hold on to it forever. And so, we're in that process now of kind of balancing that out. But I mean we've done a nice job with the working capital improvements that we've had here at the company. I've been pleased by that.

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

Q

Thanks, guys.

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

A

Thanks, Ben.

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

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

Q

Thanks so much. Just want to follow up a little bit on that last question again. I know you're not talking about 2019. But what you know now, I know there's a lot of puts and takes, do you think free cash will get back up to the level you'll be able to cover your dividend next year?

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

A

Well, let me say it is about – because there's a fair question that's been floating around since we sent out results last night, which Brad addressed a little bit, but I'd like to talk about. When we made the decision to generate funding for the international business development, so the GIG transaction, management and the board knew this would come at a cost related to some near-term cash flow.

However, I think our view was recycling the cash at an attractive multiple – and you all know that we sold this at 13 times – and improving our balance sheet and liquidity. So, reducing our net debt to adjusted EBITDA because that was a question we got from lots of investors that we've gotten too high with that metric. Getting some improvements in those areas more than offset the reduction in EBITDA and free cash flow. So, we elected to sell Dublin – one-half of Dublin. We got the benefits that I mentioned, but you've seen at least an impact in EBITDA and free cash flow in 2018.

We also made it clear that recycling the Dublin capital allows us to grow free cash flow substantially by the mid-2020s and we've put a number on that today, right, so the $250 million in free cash flow. I talked a little bit about the levers we'll pull before the UK projects come on. And when they come on, we'll get even more cash flow that come in there.

But realize – but note a few things, when management with the board – works with the board and we set the dividend at a level that it's set at now, we did that so it could be sustained over the long term. It's not based on one year. Our guidance for free cash flow before working capital in 2018 is $100 million to $130 million. I think given our improved balance sheet, which was enabled by the GIG transaction and Dublin sale, we have more than ample liquidity to bridge any short-term needs related to the dividend. Also note that the Dublin sale occurred and someone asked this earlier, so it generated $170 million or so in cash which we now hold.

So, some of these questions, Jeff, had come up when we initiated the call associated with the Green Investment Group transaction. And I think Sam got some questions kind of in the area of free cash flow, dividend policy, and I think he was pretty clear about his views on our current dividend during the investor call. So, I wanted to be really clear right now. We set the dividend to be sustainable over the longer term and we're committed to the dividend. And so I hope that clears up a little bit of the concern associated with maybe 2018's low on free cash flow before working capital and how that may impact a dividend.

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

A

And, Jeff, it's Brad. Let me add a bit to that and I'll answer your question in a certain sense. So, we're not giving out 2019 guidance, so I'm not going to answer that question directly as regards to 2019. As I talked about, as Steve just talked about, we think about the dividend policy in terms of a decade period of time, not 2017, 2018 or even 2019.

And every time we get on the phone with the public markets, we reiterate how we look at the dividend policy, how we look at it going forward, and reiterate our commitment to it. And you heard from our chairman directly in December the same message. That being said, we recognize that every quarter that passes where the near-term cash flow is below that dividend payout, even if it's small and even if we have a clearly stated trajectory to change that, we're going to get the question.

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

A

Right.

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

A

And so, it's not lost on us that the way to stop getting the question is to change that. And so that's what we're focused on. We hope to do it as soon as possible and move along on that trajectory that we keep talking about.

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

Q

All right. Really – I'm sorry, go ahead.

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

A

This is on us, we got to fix that. And we will get it fixed.

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

Q

All right. I think you've made it clear. I do appreciate that. Just a couple quick follow-ups. On tax reform again, I know you guys are not a taxpayer federally and hopefully won't be for a while. Are there any other benefits or maybe detriments from tax reform? I'm thinking specifically about accelerated depreciation or cash repatriation.

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

A

Yeah. So, you're right that really how the changes to the tax code at the – thinking about federal taxes domestically, how that impacts us is really around – the way I look at it is the life of the NOL. Obviously, there's no cash tax implication for a while for us. Net-net, really, there are two big drivers, one negative, one positive for us. One is the limitation on interest deduction which based on our current balance sheet, that impacts us and will for the foreseeable future. Of course, we do benefit from bonus depreciation. That's obviously a timing issue, but we do benefit from that over this timeframe.

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So, net-net, I would say that the – as we look at the numbers today and when you're looking out over a decade-long timeframe, which we do in tax planning, it can certainly change. But we think the – on balance, it's modestly negative when you think about the impact of the legislation that impact our taxable income. Obviously, once we get to the point we're a taxpayer, paying at a 21% rate instead of a 35% rate would be beneficial in terms of our P&L and balance sheet at year-end. You saw that with the revaluation of our deferred tax liabilities where we took a $200 million benefit through our tax provision related to the reduction in the corporate rate.

I think internationally, because that's another area where it could potentially impact us, net-net, I think it will be positive for us. We see probably greater flexibility to repatriate earnings in the future, though I would say that our reaction to the legislation has been – it's been awful lot more complicated than what was advertised, from our perspective. It was advertised as we're going to go to a territorial system and everything is going to be straightforward. That's not the case. There's a lot that we have to navigate. But net-net, we think we'll come out ahead.

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

Q

All right. And then one more quick one, you mentioned some of the maintenance spend that was accelerated, a push-forward from 2018 into 2017. Did you quantify that?

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

A

No, we didn't.

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

Q

Is it possible to do that?

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

A

It was a few million dollars.

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

Q

Few million. Okay. All right. Great. Thank you so much.

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

A

Yeah. No problem.

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

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning, guys. Thanks for taking the questions.

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

A

Good morning, Brian.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning. A couple modeling questions from my end. Just, Brad, on 4Q, there was a pretty meaningful uptick in the revenue per ton as you guys reported for EfW. I know Dublin clearly played a role in that, but given the volumes you quantified, I wasn't able to reconcile. So, wondering if there's any other moving pieces in the math for this quarter.

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

A

Certainly, Dublin is the biggest factor. We had Dublin coming on with – it's just one plant. It's a good-sized plant, but it's just one plant. But those tip fees in U.S. dollar terms are about $120 a ton. So, that is meaningful in the weighted average. And also, if you're comparing it year-over-year, of course, the fourth quarter didn't have Fairfax. And within our domestic portfolio, Fairfax is on the – below the median in terms of average waste pricing on a facility-by-facility basis. Those are really the two drivers.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Okay. Fair enough. And then speaking of Fairfax, I know you referenced – Steve referenced slide 15 a number of times, the $40 million to $50 million of organic adjusted EBITDA growth that you're going to see in 2018. Could you – I might have missed this, but did you quantify what Fairfax is as a number embedded in the $40 million to $50 million?

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

A

Yeah. Yeah, we did. We think it's about $30 million.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Okay. Thanks. And last one for me. Just on the updated EfW maintenance spend three-year outlook here, is there a split between expense and CapEx that we should sort of be assuming going forward? I know you mentioned the higher mix of CapEx in 2018. But as we think about the out-years, is that mix expected to stay relatively constant or does it revert back to a lesser mix of CapEx post-2018?

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

A

I think for modeling purposes, it's probably fair to assume the relative split in our 2018 guidance. Over time, you'll probably see a continued gradual shift, relatively speaking, to CapEx relative to regular expense to maintenance expense. But for modeling purposes, you could just assume that 2018 holds true.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

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Okay. All right. Thanks, guys. That's all I had.

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

A

Thanks, Brian.

Operator: [Operator Instructions] Your next question comes from Andrew Buscaglia from Credit Suisse. Your line is open.

Andrew E. Buscaglia
Analyst, Credit Suisse

Q

Hey, guys. Thanks for taking my questions.

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

A

Hey, Andrew.

Andrew E. Buscaglia
Analyst, Credit Suisse

A

Can you just talk about one thing; you're talking about looking into some of your more profitable facilities, investing in them. How about the less profitable ones? Is there an opportunity here to maybe let some of those go or think more strategically about those over the long term and as you look at your cash flow a decade out, that could meaningfully contribute to that whole play?

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

A

Yeah. There is. And you saw us do some of this already, so that we sold the China assets. They weren't necessarily not profitable, but you saw us shut down Wallingford before I got here. The Pittsfield facility was – we kind of redid the contracts there because of the lower level of EBITDA and free cash flow. And quite frankly, I'm looking real closely at the bottom half of the curve to see what types of things we can do around that part of our plants.

Because if you think about this, I feel strongly that – and Hennepin is another good example, right? Hennepin, we could have stepped back in to be the operator of that plant. We elected not to. We had our last look or right of first refusal where we could have triggered some of that. So, what I'm really putting a lot of pressure on the team is look at the bottom end of our plants and figure out either how we get paid, I think, more fairly for the expertise that we bring and the work that we do. And I think in some cases, that's not the case.

And I think you're going to see during 2018 that we're going to be addressing some of these facilities. And it doesn't have a big – because of the EBITDA and free cash flow, it doesn't have a big impact on that side. But it's interesting, it may have a more material impact on the maintenance side because we're continuing to maintain these plants. And so we're spending money on these plants. In my view, we're not really getting compensated or our shareholders are not getting compensated for the work that we're undertaking.

Andrew E. Buscaglia
Analyst, Credit Suisse

Q

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Okay. I mean, when you say addressing them, you mean deciding what to do with them or figuring out ways to make them more profitable?

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

Yeah.

Andrew E. Buscaglia
Analyst, Credit Suisse
Q

Okay.

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

Well, either one. So, Pittsfield is a good example. We had looked at shutting that plant down and then we're able to get some more value from one of the off-takers of the steam. And so, we ended up re-cutting the deal around that. But there may be cases, quite frankly, in 2018 where we can't find additional value and we will shut plants down.

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

If needed.

Andrew E. Buscaglia
Analyst, Credit Suisse
Q

Okay. Got it.

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

Yeah.

Andrew E. Buscaglia
Analyst, Credit Suisse
Q

All right. That's it from me. Thanks, guys.

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

Thanks.

Operator: [Operator Instructions] Your next question comes from Michael Hoffman. Please state your company. Your line is open.

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

[audio gap] (01:17:19) for the two follow-ups. So, just to be clear on the free cash flow outlook, I get you're not forecasting 2019, but given your working capital conversation that it should be relatively neutral. Then logically,

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I'm starting at the $100 million to $120 million, and then I add in and subtract whatever the puts and takes are for growth, contract renewals, et cetera. But that's my starting point, right?

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

A

Yeah. Exactly.

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

A

Yeah.

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

A

The $100 million to $130 million, and that's part of the reason why, given the working capital volatility, we wanted to increase the emphasis on that metric because it will make it a lot easier for you to think about how does that translate into going forward on a run rate basis.

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

Q

Okay. And then if I walk through the – you want to do 3% to 5% organic growth, then the operating leverage is supposed to come through from that. But I can get to a reasonable comfort zone that I'm probably covering the dividend.

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

A

We think you should get there, yeah.

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

A

Yeah.

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

Q

Yeah. Okay. I just wanted to follow up the logic. I know you're not forecasting. And then lastly...

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

A

No problem.

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

Q

...on environmental services and profiled waste, how do you feel about the sort of where are you before you're peaking out on that? I mean, it's sort of in the same context, the way you framed ferrous metals, to me. Where are we in that opportunity?

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

We're probably in the early to middle innings, right? So, you can use a baseball analogy. We've got – we process 20 million tons a year. A million of that is profiled waste right now. We were down on that obviously because Fairfax was out last year. That should come back very strongly and over the next couple of years, we'll look at where we can back out MSW and do a pocket switch with profiled waste and they'll be enough.

I'd say there's easily five years into the future where we're going to be doing those types of activities where we're backing out MSW and adding in profiled waste. And at some point, it's probably beyond a reasonable timeframe we'll run into a restriction, but it's – I can't even see that far out.

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

Okay. So, a million – based on that analogy, a million becomes 2 out five years.

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

I don't know if it becomes 2, but we're heading in that direction.

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

Okay. All right. That's...

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

Michael, I think you referenced back to the metals discussion. I think it's analogous actually to what I was talking about on non-ferrous in the sense that you may not necessarily see us double the amount of profiled waste tons that we process in the Energy-from-Waste plants. We'll be processing more and more in the MPFs. But I think the nature of what we take in is likely to be skewed more towards higher priced material.

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

Yeah. That's a good point. Yeah.

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

We're really emphasizing growing in the regulated medical waste area and in pharmaceuticals. And obviously, pharmaceuticals is a great example where that doesn't come in large volumes, it comes at very, very high price points. And so, you'll see us really focused on growing the revenue. We may double the revenue, but we're likely not to double the volume.

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

Yeah. It's a good point.

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

Q

Okay.

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

A

You have to look at some of these. We're really focused on higher-priced waste streams that can go and be disposed of at Energy-from-Waste facilities.

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

Q

And I'm assuming one of the reasons is, is that a moderated – somewhat moderated pace is you're seeking permanent repeatable as opposed to one-time pop?

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

A

Yeah. Yeah, exactly. And we're looking – you guys have heard me say this – or folks who've heard me say this, in the pharmaceutical side, it's really opioid crisis is driving some of the business, drug take-back programs, things like that. And then on other types of profiled waste, it's those companies who really want to be more sustainable and that's driving that business. And again, we're looking at with the highest-priced waste is to come in, in order to do a pocket switch with waste we're already taking.

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

Q

Okay. That's great. Thanks for the extra questions. Appreciate it.

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

A

Yeah. No problem, Michael.

Operator: [Operator Instructions] We do not have any questions over the phone at this time. I will turn the call over to the presenters.

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

Well, this is Steve Jones again. Thanks again. Thanks for taking the time today. I know folks are busy. We appreciate your interest in the company and as you can hear, we're excited about the future. So, thanks for dialing in today and I wish everyone a very nice weekend. Take care.

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

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