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Covanta Holding Corp. (CVA)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Covanta Holding Corporation's Third Quarter 2018 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, Kelly. Good morning, and welcome to Covanta's third quarter 2018 conference call. Joining me on the call today will be Steve Jones, our President and CEO; and Brad Helgeson, our CFO. We will provide an operational and business update, review our financial results, and then take your questions. During their prepared remarks, Steve and Brad will be referencing certain slides that we prepared to supplement the audio portion of this call. Those slides can be accessed now or after the call on the Investor Relations section of our website, www.covanta.com. These prepared remarks should be listened to in conjunction with these slides. Now, on to the Safe Harbor and other preliminary notes. The following discussion may contain forward-looking statements and our actual results may differ materially from those expectations.

Information regarding factors that could cause such differences can be found in the company's reports and registration statements filed with the SEC. The content of this conference call contains time-sensitive information

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that is only accurate as of the date of this live broadcast, October 26 of 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 we issued last night and was furnished to the SEC on From-8K.

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

Stephen J. Jones

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

Thanks, Dan, and good morning everyone. For those of you using the web deck please turn to slide 3. I'll provide a brief overview of the financial results along with an update on our strategic initiatives. Then I'll provide more color on the key drivers that impacted this quarter. 2018 began with improved results and we've maintained that momentum. I am very pleased with the team's performance here at Covanta. We generated $122 million of adjusted EBITDA and $85 million of free cash flow during the third quarter and this performance is the product of record production at many of our facilities along with rising waste pricing and effective cost management. We are again reaffirming our full-year guidance and we expect the full-year adjusted EBITDA will be in the upper-end of our guidance range. The bedrock of our improved performance lies in the effectiveness of our operations.

We continue to invest capital and resources into our operations and this is bearing fruit. We've highlighted Fairfax a few times this year, partially to juxtapose with last year, but also because it's clear evidence that our investments are paying off. In 2018, in its 28th year of operations, the Fairfax facility will set records for waste processing and megawatt hours generated. But it's far from the only success story in the fleet as several of our large tip fee facilities are also performing at or near record levels. Another key success in the third quarter was our acquisition of the operating company for two large Energy-from-Waste plants in Palm Beach County, Florida. This acquisition represents a natural step for us as we leverage our leading operational capabilities to serve the Palm Beach County Solid Waste Authority.

The synergies of this acquisition are clear as we already had a large footprint in Florida. From a financial perspective, we expect attractive returns given the modest price tag of the acquisition. On the fleet optimization front, we agreed with our Long Beach California client to amend the operating agreement at the Long Beach plant, while also adding provisions for potential extension. When we announced the closure of the Warren County facility last quarter, we noted that closure is the least preferred option and that there are different solutions for each facility. This is one such solution. The city of Long Beach and Covanta will work together to increase the plant's capability to accept higher value profile waste. This is a win-win agreement that provides a more attractive economic partnership for both parties.

It is representative of one of the many ways in which our optimization efforts can lead to the improvement of our existing facilities rather than closure or exit. On the financing front, we executed on several important transactions this quarter, which Brad will describe further in a few minutes. Now, I'll get into detail on the markets and operations. I'll start with the Waste business. Please turn to slide 4. On the contract front, in addition to the Long Beach amendment, we also reached an agreement to extend the service fee contract at the Huntington Facility on Long Island. With limited disposal capacity on the island, this plant is a critical asset and provides attractively priced disposal relative to the alternative of long distance disposal at remote landfills. The agreement extends the contract by five years.

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The underlying economics are similar to the prior agreement but include modestly improved power sharing and metals opportunities for Covanta. Operationally and similar to last two quarters, we saw strong performance at the tip fee plants, which led to improved throughput. At Fairfax, we continued to expect a record year and overall the tip fee fleet performed well. This resulted in 5% same-store volume growth. At this point in the year, we now see better than originally forecasted tip fee volumes and are modestly increasing our tonnage and revenue outlook. Same-store tip fee prices increased by over 4% in the quarter; given how much of our volume is under long-term contract, this demonstrates the very strong pricing environment that we are in.

The primary components of this increase relate to improving contractual escalators, better pricing on new contracts, rising spot prices and continued growth in profiled waste. During the quarter, we saw strong flows from many of our residential contracts in excess of minimum volumes, which in some cases pushed out lower price commercial spot waste. This level of same-store price improvement is encouraging and the full year target remains for the same-store tip fee price to increase over 3%. On the service fee side, results were mostly as expected, but if you look to the fourth quarter and future periods, you should expect to see the impact of the Palm Beach plants providing $60 million of incremental annual revenue on over 1.7 million tons of waste. Due to this acquisition, we have also increased the outlook for 2018 service fee revenue.

The Covanta Environmental Solutions business had another strong quarter as we grow environmental services revenue by 9% on the same-store basis. At the same time, profiled waste into our Energy-from-Waste plants increased by over 10%. As we highlighted earlier this year, during the third quarter we began to accept and process regulated medical waste or sometimes we call it RMW at a third facility in our fleet and expect to ramp those volumes up over time. This is an important initiative given the attractive pricing for this type of waste, which is roughly 10 times higher than household waste. Further, we continue to look across our fleet for other plants where it might make sense to process RMW. Now let's move on to Energy. Please turn to slide 5. Energy volumes increased nicely year-over-year mostly in line with the increase in our waste tonnage.

This is another example of the benefit of improved throughput. As we look to the full year, we've increased the projected energy revenue to reflect better volumes and to a lesser extent the higher market price. Realized price was lower year-over-year as expected, but we saw some improvement in market prices due to favorable weather. The forward curve has also improved somewhat, but remains backward dated as growth in natural gas production continues unabated. In this environment, we remain active in managing risk and we have now hedged 2.4 million megawatt hours of generation for 2019. At the same time, we continue to look for opportunities to contract our megawatts at prices that reflect both our renewable and locational attributes. Now, let's move on to the Metals business on slide 6. Metals recovery continues to improve with 14% and 29% improvements in ferrous and non-ferrous recovery respectively.

While a good portion of this relates to the improved throughput at Fairfax, we're seeing better volumes at other sites as well. On ferrous, same-store revenues grew 12% primarily due to increased sales volumes. As we noted last quarter, U.S. scrap demand remains firm as domestic steel producers run at high utilization rates given reduced competition from imported steel. The October Heavy Melting Steel or HMS Index priced at $313 per ton and we have now revised our full year outlook to $300 to $325 per ton. In non-ferrous, we recognized higher prices due to increased separation and sales of higher value products, but this was offset by lower sales volumes in the quarter as we continue to adjust the end market distribution of the product which impacted the timing of sales. On the pricing side, we have recently seen softness in scrap aluminum prices with the Old Cast Index now trading at around $0.44 per pound. In light of the pricing move in the Old Cast Index and the timing shifts related to the higher value products, we are slightly reducing the revenue outlook for non-ferrous.

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To give some context around the non-ferrous business, the aluminum content of the non-ferrous materials represents a higher percentage of the volume than it does the revenue. This is because we now separate out the higher value metals at our processing facility. Let's move on to maintenance and operating expense, please turn the slide 7. Total Energy-from-Waste maintenance spending fourth quarter including both expense in CapEx was $67 million versus $69 million last year. During the third quarter, we had our first major planned outages at the two boilers in Dublin and we are very pleased with their condition and operations. The operating expertise and capabilities we've developed over three decades of U.S. operations have clearly translated to the Irish market. We look forward to similar operating successes in the UK.

At this point in the year the majority of our maintenance activity is now complete and has been executed as planned. Relative to our full-year outlook for spend, we expect to be at the upper end of the range. A key driver of this is the inclusion of the two large Palm Beach plants, which will add around $5 million of maintenance during the quarter. While these plants are very well maintained, the normal maintenance schedule developed prior to our taking over operations include significant planned outage activities during the fourth quarter, including major outages at four of the five boilers. Outside of maintenance, other plant operating expenses increased 4% year-over-year, this includes the impact of a full quarter of operations at the Dublin facility. Looking to the balance of the year, you should expect an increase in Energy-from-Waste operating costs due to the addition of the Palm Beach plants.

Before I hand this off to Brad, I also wanted to provide an update on our UK development efforts. First, I'd like to mention our involvement in a new project near Edinburgh, Scotland that is referred to as the Earls Gate Energy Center project. We've been engaged in the development of this 215,000 metric ton per year facility in conjunction with the Green Investment Group for GIG and their partner Brockwell Energy. Due to our partnership with GIG, we have the right to invest in this project when it reaches financial close in the coming months. We expect to own 25% of the equity and it is a fourth of the advanced projects we have previously discussed. This project is far along in development with planning and permits in hand as well as an agreement for long-term waste supplies. The project will sell the bulk of its power and all of its steam to a neighboring chemical facility under a long-term energy supply agreement.

This provides a highly stable income stream which anchors the economics of this business. More information will be forthcoming when the project reaches financial close. At this point, it is likely to be our first – the first of our UK projects to reach that milestone. We are excited to participate in this project and it demonstrates one of the many benefits of the partnership with GIG. Second, the Rookery project; a hearing was held two weeks ago relating to a claim challenging the Environment Agency's issuance of an operating permit. During this hearing, the Environment Agency vigorously defended its process in issuing the permit and we're confident that the court will rule in the Agency's favor.

We expect to receive the court's decision shortly and regardless of the decision, we expect to reach finance close in 2019. Lastly, we continue to make progress on both Protos and Newhurst, the two projects where we are partnered with Biffa. Those projects are well-advanced in modifying your existing operating permits which are expected to be issued by the Environment Agency in the coming months. With waste agreements supported by Biffa, these two projects are also well-positioned for reaching financial close in 2019. As you can tell, we remain quite busy on the development front and we look forward to sharing more details with you.

With that, I'll turn the call over to Brad to discuss the quarterly results in greater detail.

Bradford J. Helgeson

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

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Thanks, Steve. Good morning everyone. I'll begin my review of our third quarter financial performance with revenue on slide 9. Total revenue was $456 million in the quarter, up $27 million or 6% over last year. Organic growth accounted for virtually all of the improvement with consistent fleet operating performance yielding higher waste, energy, and metals volumes in an environment of stronger waste prices. Commodity prices had a net zero impact as the $2 million benefit from higher metal sales prices was offset by $2 million from lower energy prices. Similar to last quarter, operating the Dublin facility generated $7 million of incremental service revenue year-over-year, while the Palm Beach operations added $2 million in the quarter after closing in mid-September. Long-term contract transitions represented a net revenue reduction with the previously discussed transition of a client facility to another operator earlier this year and the roll off of our legacy power contracts resulting in a $7 million headwind.

Moving on to slide 10, adjusted EBITDA was $122 million in the quarter, an increase of $5 million year-over-year. Excluding commodity prices, adjusted EBITDA grew $11 million organically, again driven by strong plant production particularly at Fairfax. The Dublin facility contributed $7 million of adjusted EBITDA in the quarter which comprised both our O&M services and the proportional EBITDA from our 50% JV ownership in the project company. Contract transitions represented a $13 million decline in aggregate, $9 million of which related to last year's client settlement that benefited Q3 2017 with the balance relating to a legacy power contract roll off and reduction in contractual client project debt service payments.

Consistent with our comments last quarter, the year is progressing very well and we expect adjusted EBITDA for 2018 to be in the upper end of our original guidance range. Given year-to-date performance, our full year outlook implies that adjusted EBITDA for the fourth quarter will be lower than the fourth quarter of 2017. Recall that in last year's fourth quarter, we owned a 100% of the Dublin project for the entire quarter. In addition, we expect the timing of non-ferrous metal shipments to result in lower product sales in the fourth quarter this year as compared to Q4 2017. Turning to slide 11, free cash flow was $85 million in the quarter, which represented a $17 million increase over last year. The primary driver in the quarter was working capital, which contributed $17 million on a comparable year-over-year basis.

You'll recall that we still expect working capital to be a net headwind for the full year. Excluding the impact of working capital, free cash flow was roughly flat year-over-year as the $5 million increase in adjusted EBITDA included proportional EBITDA from the Dublin project, which will not contribute to free cash flow until it distributes dividends in the fourth quarter. Maintenance capital expenditures were lower year-over-year, which was partially offset by certain other items including higher cash interest expense. Now, please turn to slide 12, where I'll review our growth investment activity. For 2018, we plan to invest around $25 million in organic growth projects relating primarily to material processing facilities in our CES business and increased metal recovery. This does not yet include any forecasted spend for the first total ash processing system as we await final permitting.

As previously discussed, we expect to invest a total of approximately $35 million in transportation equipment to prepare for commencement of operations at the Manhattan Marine Transfer Station. Approximately $10 million of that will incur in 2018, most of which was already spent in the third quarter with the remainder to come in early 2019. I'll point out that we added a new line for U.K. investments on this slide. In 2017 and 2018, this primarily represents early site preparation work for the Rookery project. Once we move projects into full construction, we'll provide a more detailed outlook for the amounts and timing of anticipated equity investments in each project. Lastly, you'll see that the amount for acquisitions has been updated to include the Palm Beach County operating contracts.

As we've increasingly pursued opportunities to recycle capital and we'll continue to do so as we look to refocus our resources on our core and most profitable operations, we've added a line highlighting asset sale proceeds. In

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2018, the most significant transaction was our sale of a 50% stake in the Dublin project, which generated proceeds of approximately $170 million. Note that we expect to complete a couple of pending sales of smaller non-core assets by year end. Please turn to slide 13, where I'll provide an update on our balance sheet. At September 30, net debt was a little over $2.4 billion, up $13 million from June 30. Our Treasury team has been very active over the past few months executing on three important refinancing transactions with the final one closed in just last week. As we continue to seek to optimize our capital structure, these transactions serve to extend our maturity profile, reduce interest costs and improve our liquidity and flexibility going forward.

First, we refinanced our corporate credit facilities, which include our revolver and a bank term loan. The aggregate facility size was increased to $1.3 billion from $1.2 billion. The pricing grid for the revolver was reduced by 25 basis points and maturities were extended from March 2020 to August 2023. Second, we refinanced $335 million in outstanding tax exempt debt with new notes of the same maturities ranging between 2024 and 2042, reducing interest costs by approximately 50 basis points. On a weighted average basis, the new notes carry a coupon of 4.58% at a maturity of 21 years, so represent very attractive long-term financing. And unlike the previous bonds, the new notes are not guaranteed by our operating subsidiaries, so therefore not included in our senior credit facility leverage covenant ratio, which generates further savings by lowering the pricing on our revolver.

Lastly, earlier this month, we issued $400 million in new senior unsecured notes due 2027 at a coupon of 6% in order to refinance our outstanding 6.375% notes due 2022. The net impact of these transactions was to extend the weighted average maturity of our debt structure to over 10 years and we now have no material debt maturities until 2023. And since we refinanced all three issues at lower rates, we expect total annual cash interest savings of approximately $5 million. These transactions again demonstrated the tremendous support and confidence that we enjoy in the bank and debt capital markets. At quarter end, our consolidated leverage ratio was 5.8 times, which was slightly higher than June 30. The senior credit facility covenant ratio ended the quarter at 2.1 times, which is almost a full turn lower than where it stood at the end of the second quarter largely driven by the tax exempt debt refinancing that I just described.

At quarter end, our available liquidity under our revolver was nearly $450 million. I'll conclude with some preliminary comments regarding our 2019 financial outlook. While it's too early to give specific guidance ranges, it does make sense to remind you of some key factors as you look ahead to next year. On an adjusted EBITDA basis, we continue to target 3% to 5% annual organic growth. However, the pace of growth year-over-year in 2019 will be impacted by the lapping of Fairfax insurance proceeds in 2018. We'll benefit from a full year of the Palm Beach operating contracts, as well as a partial year contribution from the new Manhattan Marine transfer station. Together, we expect those to contribute approximately $15 million.

Somewhat offsetting these drivers, we'll see reduced adjusted EBITDA from the Dublin project as recall that we owned a 100% of the project for some of the first quarter this year, lower energy capacity revenue of $5 million to $10 million, which we discussed last quarter and lower construction revenue. Combined with the current outlook for commodity prices including the recent weakness in non-ferrous, which would translate into a potential $5 million to $10 million headwind next year, we generally expect adjusted EBITDA in 2019 to be similar to 2018. On free cash flow, the overall outlook is different as we expect results to be meaningfully higher next year.

The biggest driver will simply be the abating of the working capital headwinds in 2018 with additional benefits from lower interest expense and maintenance CapEx. We're targeting free cash flow above $130 million in 2019. Lastly, while 2018 and 2019 are important, we're most focused on our long-term target of $250 million of sustainable annual free cash flow by the middle of next decade and we believe that our steady progress on key strategic initiatives, both this year and next, are important building blocks towards that goal.

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

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Your first question comes from the line of Tyler Brown from Raymond James. Please go ahead. Your line is open.

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

Hey, good morning.

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

Good morning.

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

Hey, Brad, thank you for the comments on 2019. But to clarify, so what all is in the 3% to 5% organic growth numbers? I mean are you including the MTS, Palm Beach, Insurance, Dublin, is all of that included in 3% to 5% or is that thought of separately?

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

The – most of the items you listed are thought of separately. So I mentioned, Palm Beach and the New York City MTS. Those together viewed outside of the organic growth are going to contribute, we think about $15 million next year and Dublin, we treat outside of organic as well. So organic would be – most of the things that we talk about in terms of what we're doing to improve the operation. So it's waste pricing, it's profiled waste, it's growth in CES, it's growth in metals recovery and it's just running the plants at better production and more cost efficiently, those are really the biggest drivers.

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

Yeah, [indiscernible] (00:26:09) continuous improvement goes into that, stable operations around the plants that were – where we've instituted stable operations and they're mostly the large tip fee plants.

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

Okay. And then...

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

But Tyler you – yeah, I mean you touched on one thing that's important and I touched on it a bit in the schedule in the scripted remarks which is that, that does reflect insurance. We don't necessarily pull that out.

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

Yes, yeah.

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

So that will be a bit of a headwind within the 3% to 5% as we look ahead to next year.

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

Right. Okay. That's helpful. And then Steve just a quick update on TAPS; where maybe are we on that? Do you have a permit or where are we there?

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

Yeah, we're still waiting for the Site Specific Permit. Pennsylvania has worked with us to issue the general permit under – for these types of activities. We're expecting to get the Site Specific Permit here shortly. We have been working with the vendor on the equipment to put it into module form so that we can construct more quickly. So we're still looking at constructing into early – early next year, first quarter of next year. So, it's still moving along. It's a new permit, so there's probably more questions than answers that go back and forth between us and the environmental authority then in a kind of standard case because this is a new endeavor, if you will.

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

Right. Okay, that's helpful. And then, so again, congrats on the tip fee waste pricing. The team is obviously doing a great job there.

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

Thanks.

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

Yeah. But real quick, can we unpack that 4%? So you mentioned a number of factors really drove the increase, but maybe how much of it was from just better CPI? How much from maybe increased spot waste and then maybe how much from profiled waste mix shifts, if you can?

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

Yeah, hey, Tyler. It's Brad. It's really all of the above. So, and it's consistent with the themes that have been developing here over the last year or two. So, CPI has been running higher. We saw CPI north of 2% year-over-year on average across the contracted waste volumes. Some of its profiled waste; we were up about 10% year-over-year on profiled waste, that obviously is a big driver from a mix shift standpoint. Spot waste pricing is much, much higher. And we're seeing double digits in many of our key markets. I think you're aware of that. And then another factor of it – it further drives mix that people may not necessarily be thinking of these situations where we

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have contracts with municipal waste suppliers that are more favorably priced than spot waste, even with stronger spot waste prices. And so, as we see higher volumes from the contracted waste, that's another factor along with profiled waste that pushes spot waste out of the plant. So, that's actually been a nice tailwind as well.

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

I mean it's truly been a very strong pricing market, Tyler. So...

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

Right.

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

We've been pleased by that and you're seeing that from some of our competitors still in the last couple of days.

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

Right. And then maybe just a last one Brad, on the balance sheet. What is today your total variable rate exposure? And do you have offhand what maybe 100 basis point move in LIBOR would mean to cash interest?

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

Yeah. So it's really our – our only floating rate debt is, is under our credit facility, which is about $600 million drawn thereabouts, so that math is easy on a basis points.

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

Okay.

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

Yeah. So...

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

Okay, all right. Thanks guys.

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

So we're about 80% fixed.

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

Okay. Thanks.

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

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

Q

Since my colleague just redefined the conversation of one or two questions, I've got a couple too. Stability, I have this sense is you'll start to see the performance of the business that if you were looking at KPIs comparatively, Steve, you could truly stand up and look at your senior leadership team and say, we are operating a much more stable business. How would you respond to that? And what are the things that we see externally that give us confidence on sustainable?

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

A

Yeah, that's a good point. I said in my prepared remarks, I'm very pleased with the operations performance this year. Now, that's not to mean we don't have issues at plants but what we're doing is we're focusing our investment on our larger tip fee plants. And so we're – the shareholder, you'd want us to do that, you want us to look at those plants where we get the highest returns and make sure that those plants are running in peak form. And that's what we're doing this year and that's where our maintenance is focused. And then on the other side of that and this goes to plant optimization, you're seeing this on the – on the kind of the other end of the spectrum, look at plants that where we're really not getting paid for the work that we're taking on or not getting paid, what I can view as the reasonable return. And we're starting to look at either fixing those plants like in the case of Long Beach, and that's a great success story quite frankly because of the profile waste markets, it's very good in California or we're going to shut them down like in the Warren situation. And that's why you saw the impairment charges, that's all going to the fact that we're looking at these – the other end of the curve and starting to take off that tail of the curve if you will, either fixing it or looking to exit agreements at the end of our contractual obligations.

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

Q

Well, so you opened up my next question which is impairment. So, you took one in this quarter. I'm assuming you're not prepared to talk about sites, but...

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

A

Yeah.

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

Q

...how far done are we on impairing? Is there more of that to come or have you got that kind of in hand and then we'll hear about whatever you're going to do when you do it?

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

A

There is a couple more facilities that we're looking at. I think it's well in hand at this point. There's a couple more facilities depending if we, I mean our preference isn't – to close these facilities. Our preference is to either make

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them better or to sell them effectively. And so, we're kind of looking, we're working through that now. So, a little bit more to come, the sale process obviously takes a little longer from that perspective. But we've hit some of the lower ranking plants already and that's why you're seeing these impairments that have come through over the last couple of quarters.

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

A

Yeah. Michael, it's Brad. I think as you know the way the accounting works, we have to look at the carrying value of these assets on our balance sheet based on our long-term view of the cash flows and that can evolve as you have a fluid situation of assessing what maybe the long-term plan for a plant may be. So, of course, there are other plants that we're looking at. As Steve said, there are many tools in the toolbox to improve the plants. Shutting or selling isn't – aren't the only tools. So, I think the possibility is certainly there that we would change our assessment of the long-term cash flows of other plants. That being said, as Steve also said, I think our expectation as we sit here today is that the impairment activity is more in the rearview mirror than looking ahead.

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

Q

So, to word it another way, $49 million this time and if there is another one it's a smaller number?

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

A

We'll have to see what happens. So I want to make sure I caveat that appropriately, but yeah, that's what we're saying.

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

Q

Okay. And then your only real true major competitor has just changed hands in the context of who owns it. Does that ownership change have any implications to the competitive environment for you both domestically as in UK since they are a big developer in the UK?

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

A

I don't think so. I mean, one of the things that's come up is, it was – we're a partner with GIG and Macquarie was the announced buyer of Wheelabrator. Just so people know, these are entirely separate entities. They have a pretty big wall between them. So, I wanted to make that clear because a lot of people have been saying, well, [ph] geez, does this (00:34:32) impact your GIG relationship. It doesn't have any impact at all. In fact the GIG guys are asking us about what's happening on the Macquarie side because they have such an effective wall between them. So, I don't see any impact. I mean, Wheelabrator has always been a good competitor. They'll continue to be a good competitor under the Macquarie infrastructure partner ownership.

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

Q

Brad, and since you gave us some insights on 2019, would you share with us what the $2.4 million is hedged at so we can tighten that part of the model?

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

A

Yeah, it's actually pretty consistent with where we've hedged for this year.

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

Q

Okay. Thanks.

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

A

And that – yeah, more or less and then – and that comment actually would apply as well to the contracted line. So, from a pricing standpoint, I think we – when we look at the forward curve, we see a little bit of softness year-over-year on the market piece, but as far as the hedges that we've booked and the contract, it should look substantially similar to this year.

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

Q

All right. And then last one from me Steve. What is structural that might limit your ability to continue to drive the aggregate same-store price at the pace we're looking at? What limitation is in the model, but you'd bump up against being able to do that?

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

A

Well, part of it is that the number of contracts or volume we have under contract. So that's why, I mean, if you start to run the numbers, you'll see this was a particularly strong pricing period because we have a number of contracts – a lot of the volume is under contract already. So that could be – that's a limiter. In a market like this, I'd rather have less waste under contract quite frankly because the pricing is so strong. But there is a lot of advantages to have in the waste under contract particularly because these are power plants and they need a fuel supply. So, the other side of this, profiled waste has been doing very well. We continue to need as a company to bring profiled waste into different plants. We have several plants that are kind of our key profiled waste plants. And so, as a group, I've been challenging the team saying, all right, what other plants do we need to open up to profiled waste acceptance and that can be tricky. I mean, there is different technology in some of these plants and some of them are better profiled waste than others.

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

Q

All right. Thank you very much for taking my two questions.

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

Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Hey. Good morning, Steve and Brad.

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

Good morning.

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

Nice job on the execution this quarter.

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

Thank you.

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

Maybe we could start with the UK project pipeline. The new project – well, not new project, the project you mentioned – led by Brockwell.

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

Okay.

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

Yeah. As we understand I mean, I believe the sponsor – the ownership of the sponsor actually changed hands pretty recently. So is it – this point kind of – that's the main gating factor to financial close just that you had to change the sponsorship or are there any other gating factors – environmental permit or otherwise that would keep this from financial close?

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

Yeah, the change of ownership was not a gating factor. That's – I'm glad it's finished because – that's one less complication. It's hard to do – do business development when one of the owners is kind of changing the ownership. So we're glad that that's settled now. Really on Earls Gate, we're kind of in the final stages here. We've got the planning permit, operating permit, we're working through some final issues. So we're expecting that by the end of this year we'll get the financial close on that. And so there's not a whole lot left to do on that one. Now that plant, it's a little smaller, right, 215,000 metric tons, but it looks like it will be the first one in the construction process.

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

Right. And if I assume something like – 40% equity, so at 25% is that, you guys are basically 10% of the cap stack or this isn't a huge investment, right, should be maybe around $20 million or so. Is that kind of order of magnitude right area?

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

Yeah, Noah, so when it reaches – this is Brad. Hey, Noah, when it reaches financial close, we'll spell that out, but I think your assumptions are good.

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

Yeah, it's in the ballpark.

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

Okay. Turning to 2019, appreciate kind of the commentary; first, I just want to make sure I heard you correctly that you're thinking EBITDA levels will probably be pretty comparable to 2018, is that right?

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

That's correct.

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

Okay. So just to understand a couple of the moving parts there, I think in the last quarter we talked about Dublin and MTS, maybe kind of being a wash – the baseline number for this year was kind of inclusive of the $10 million insurance recovery from Fairfax. Then you have kind of Palm Beach coming on. You did mention the $10 million drop down in capacity revenues but if I kind of do all of that, it still feels like we're missing a piece here of some headwind that maybe we didn't have in our models. So is that metals? What else are we kind of missing that would kind of keep EBITDA flattish?

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

Yeah, so I think one piece that's missing there that I mentioned quickly and Steve touched on that the market right now for non-ferrous, if you – of course, we have to see how the year plays out, but if you extrapolate current prices on non-ferrous to next year, it's a $5 million to $10 million headwind. So that's probably the biggest missing piece...

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

Yeah. That's a good point.

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

...that you're – that you don't – hadn't had or may not have had.

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

Okay. So that's just a commodity issue.

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

Yeah.

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

That's helpful. And then finally if I could sneak one more in – on the free cash flow. You talked about maintenance levels coming down. Is that on an absolute basis? If so, what drives that? And then does working capital actually swing to a positive next year? Are you just kind of thinking about it as neutral?

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

Yeah. So on maintenance CapEx and we have talked about this with regard to 2018. The 2018 really just as a function of what we had planned in the year with a heavy capital versus expense year. And we think 2019, the profile, sitting here today in October looks – looks a little different looks a little different where there will be a little more expense, of course, the expenses is covered off in our organic growth outlook on EBITDA and then a little less CapEx.

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

Capital, yeah.

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

Yeah. And then I'm sorry, your other question?

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

Working capital, does that actually [indiscernible] (00:41:39) benefit or yeah?

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

Yeah. I mean, it's still early, but we're generally thinking about it as being neutral. So really it's – the absence of a negative I think will be the driver.

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

Okay. So if you are sort of targeting that $130 million range, you're pretty close to covering your dividend there? Okay, great. That's all I had. Thank you so much.

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

And there's a meaningful increase in free cash flow next year. So we wanted to make that clear. I know there was some consternation this year when we didn't cover the dividend. We expect to cover that next year.

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Noah Kaye
Analyst, Oppenheimer & Co., Inc.

Q

Okay, perfect. Thank you so much.

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

A

Thank you.

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

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

Q

Thank you so much. Appreciate a lot of the details you're giving us. I just wanted to focus on one area and that's potential new acquisitions. Are there any other Palm Beach like plants out there that you might be looking at?

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

A

Not of – yeah, nothing off hand, particularly in the U.S. I mean, if anything you're going to see us probably get out of some tonnage – some point it's over time rather than add. Now, it's interesting, Palm Beach was a – you guys can run the numbers, Palm Beach was a very good deal, right, from an EBITDA standpoint. And so we were able to get favorable acquisition price, EBITDA coming along with it. It's in our backyard, if you will, with Florida, we have six plants already. So there are synergies associated with outages at Palm Beach and outages at our other plants. So fairly unique, that was a fairly unique situation, Jeff.

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

Q

Okay, great. And then you mentioned getting out of some tonnage so I'll ask the flipside question. If you do that and if there are divestitures what would be the priorities for the use of those proceeds?

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

A

Well, quite frankly, paying down debt. We'll continue to look at that. And I talked about this a little bit – I like to shorten the bench if you will. I mean, we've got our supply chain folks who are focused on our largest tip fee facilities; some of these plants are down the other side of the curve from a maintenance standpoint or an operations standpoint if you like; nice to lighten the load a little bit for these – for our supply chain folks. And these plants that we're really not getting the right returns on, primarily because no fault of the operations teams at these plants. It's really been power pricing in a lot of cases isn't very good and it's meant that these plants probably – this is a higher value owner or probably get shut down or in the case of Long Beach, for example, we were able to restrike the deal to make it more profitable.

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

A

And Jeff it's Brad. One point I'll make and we've talked about this in recent quarters, but I just want to make sure it's understood so that your expectations are appropriate. When we talk about the portfolio optimization strategy

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and looking at alternatives for plants, there may be scenarios where we sell assets and generate proceeds. But really the focus of that overall effort is about refocusing resources and being more profitable and more predictable in many cases, not necessarily as an asset sale proceed generator.

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

Q

Got it. And then just a couple of quick numbers questions. I just wanted to reconfirm the BI proceeds that you've gotten this year, you expect to get this year, can you just remind us what they are and what quarters they came in? And also are we expecting any more headwinds from contract transitions next year? Thanks.

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

A

Yeah. So, yeah, on the insurance we – in the beginning of the year we had said we expect $10 million of insurance recoveries under our BI coverage for the Fairfax incident. We collected $6 million of the $10 million in the first quarter, with the remainder to come in the second half. We haven't yet collected it. So, we're expecting it in the fourth quarter. I would say though that we're a little more bullish with regard to the ultimate amount of the recovery. So, we're looking to potentially collect more than $10 million but we'll have to see where that ends up. Regarding contract transitions, really nothing significant.

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

A

Yeah, nothing.

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

A

I think this is a – Jeff, I know you're relatively new to our coverage, but having come through about a decade of these contract transitions, it's pretty nice to be talking about a coming year and not even be mentioning contract transitions. So, that's kind of where we've come.

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

Q

All right, that's great to hear. Thanks so much.

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

A

Thanks, Jeff.

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

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

Q

Hi. Good morning, and thanks for taking my question.

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

A

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Good morning.

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

Q

I apologize if I've missed this. I'm just trying to think about next year's CapEx. I know – thank you for the $130 million free cash flow number, but for the growth CapEx do you include that number?

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

A

No, that's just maintenance CapEx.

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

Q

And so, when I think about that, and then how do I think about the dividend as well at the same time. How do you guys balance those things going forward?

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

A

Yeah. So, well, so the way we look at maintenance CapEx versus growth CapEx is, to the extent that we're taking free cash flow, which deducts maintenance CapEx and we're reinvesting that in the business, that's really just going to ultimately grow the cash flow that's going to support the dividend going forward. So, we kind of look at it as a supporting future dividends as opposed to necessarily something that's impacting our ability to pay current dividends. That's the way we look at it.

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

Q

And so, I guess saying it a little differently that should we think about leverage going up slightly because of that?

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

A

Potentially, we're...

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

A

Sorry, go ahead.

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

Q

But what, I'm sorry?

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

A

Yes. So, I think it depends on what assumptions you want to make about the level of our growth investment going forward. But during a period of time, when our generated free cash flow is primarily allocated to paying current dividends, then we'd be – that implies that we'd be financing growth investment though. Certainly, the plan and

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expectation is that the investments we're making, whether you look at in the metals business or certainly in the UK, those investments are ultimately de-levering over time and supportive to cash flow.

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

Q

Got you. And then, could you just explain to me the working capital change? It gives us the debt because [indiscernible] (00:48:54) flat EBITDA – let's say, flat EBITDA next year. And then, you're calling out the working capital and I saw in one of the slides, you're getting extra $30 million and why is that headwind change? [indiscernible] (00:49:09).

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

A

Yeah. Well, so for this year, we talked about this at the beginning of the year. We had substantially reduced net working capital over the previous two years by the tune of about $70 million. And so we saw in the first quarter this year that we ended up giving some of that back. There are things we're doing particularly on the collection side where we're looking to continue to be as working capital efficient as possible. But there was some of a give back this year. And so, if we simply look at next year as being neutral from a working capital standpoint and then you think about the things that are growing. And I touched – I mentioned a couple of them, lower maintenance CapEx, lower cash interest expense. There are some other things that are going to grow that free cash flow excluding working capital line. And so – net-net that then puts our expectation to be north of the $130 million bogey.

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

Q

Got it, got it. Thanks, Brad. I appreciate it.

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

A

Sure, sure.

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

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Good morning. Thanks for taking the questions. Maybe just to follow-up on Ben's questions around growth CapEx, I was just wondering if you guys had any sort of early read on the growth CapEx number for 2019 that you're willing to walk us through? Just trying to get a sense for maybe what the sort of baseline level is? You mentioned $25 million for Manhattan, that's going to happen in 2019. We have the potential for the ash processing investment and then I guess if all the UK assets reach financial close in 2019 like you're expecting, would you anticipate full funding of your equity commitment in 2019? Just trying to get a sense for how you expect the $150 million to $200 million to phase in over time?

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

A

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Sure, yeah. And Brian, it's Brad. You've already hit on really the big ones out there that we talked about. So the specifics of when we would be investing the equity depends on how we structure the project financing. Though our expectation is they wouldn't necessarily all go in immediately that for some of the projects, it may go in pro-rata over time. We may even enter into an arrangement to backend loaded. So that's kind of up in the air, but I wouldn't assume it all comes next year. That would be too aggressive. The total ash processing system you mentioned, we've talked about that is a $20 million to $25 million investment, when that moves forward, which we expect next year.

And then there's the category of organic growth investments, again, in the CES business and in the metals business primarily. I think you're going to see that – a $25 million expectation for this year. You're probably going to see that number drift down over time just as we have less and less low hanging fruit, if you will, particularly on plant metal recovery. But we're going to look to continue to invest in the CES business and there will be further opportunities in metal recovery. But that's another amount that you should be mindful of that we haven't given a specific target for next year, but will – we hope to be spending something for that.

Brian Lee
Analyst, Goldman Sachs & Co. LLC
Q

Okay. No, that's helpful. That gives us some sense for what to work around. Just second question for me was a bit more housekeeping on the Palm Beach facilities, you closed on that in September, if I recall and so Q4 you're getting a full quarter impact. Is there any seasonality on those two particular assets? Just wondering because it seems like the incremental volume step up on the service fee side is a little bit lower than what would be implied by the annualized 1.7 million tons of volume that the facilities handle. Thank you.

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

Sure. Yeah. There is not really seasonality on the revenue line. I think for modeling purposes you can take the $60 million of annual revenue and divide by four. There is seasonality to the EBITDA line and that's really driven by the maintenance outage schedule and there is a significant amount of, which we touched on, outage activity in the fourth quarter actually. So, that will limit the EBITDA contribution from the contracts here for the rest of the year.

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

Yeah. That's what you're seeing, Steve. For the five boilers out there, I mentioned this are going through maintenance and that was already kind of pre-programmed before we took over so will follow through that – with that program here in the fourth quarter.

Brian Lee
Analyst, Goldman Sachs & Co. LLC
Q

Okay. Yeah, that makes sense. Thank you.

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

Thanks, Brian.

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Operator: Your next question comes from the line of Scott Levine from Bloomberg. Please go ahead. Your line is open.

Scott Levine
Analyst, Bloomberg LP

Q

Hi. Good morning, guys.

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

A

Good morning.

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

A

Good morning, Scott.

Scott Levine
Analyst, Bloomberg LP

Q

So you gave a pretty good rundown of the UK outlook. I was wondering if you could comment on whether you see any opportunities for new development, many of your other major markets including, I think you mentioned Australia and Asia in the past, just maybe a little bit more of a broader geographic overview of your development opportunity?

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

A

Yeah, sure. You see in some other geographies, Energy-from-Waste have been a little more accepted than in the U.S. Although in U.S., I'd tell you there's – there's several projects that we're looking at now, mostly expansions of existing facility. I don't think you're going to see a lot of new greenfield sites in the U.S. But as you start to look around the world there's opportunities in the Philippines that we're working on with Macquarie. You saw that there was an opportunity in Australia. We quite frankly passed on it. The returns were – going all that way for the returns that were involved at the end of the day didn't seem to make sense. And one of the things I've been insisting on with the business development team here is I don't want the orphan project, so I want to make sure if we're going to go into a region that there's going to be multiple projects.

So, if you think about the Philippines, Southeast Asia, China, I mean there'll be some opportunities, particularly in China, it's a pretty big market and we're certainly looking at that now. The projects tend to be less expensive in a place like China, because of some of the efficiencies and labor costs are cheaper. And so, the investments aren't quite as big, but they're the major markets. I mean, you're seeing – we get opportunities as – opportunities are popping up in India, in Middle East actually and in Latin America. We watch those all very carefully. And at some point, they'll start to move forward. But a lot of those projects that you'll see in the papers are still kind of early stages. So, we'll monitor those and jump in when and if they – we think they're going to move to financial close.

Scott Levine
Analyst, Bloomberg LP

Q

Got it. Thanks. One follow-up; on the outlook for capital allocation, I know you guys have made some headway in de-levering since the GIG transaction. But so leverage I guess above target levels and maybe not coming down much next year, hereafter, I mean, just big bigger picture; when might additional capital returns enter the picture?

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You kind of need to beat (sic) [meet] your target levels for leverage, and are they the same as they were a couple of years ago? I think you guys are talking about net leverage down 4 times range or thereabouts?

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

Yeah. Yeah. I think we don't have any firm criteria even internally, so certainly not externally around what would trigger our decision to, for example, grow our dividend, but fair to say we want to make a good deal more progress on de-levering the balance sheet number one, and then growing sustainable free cash flow, number two. We have a clear path to do that, which we talked about of course, but we want to be further down that path before we would even consider increasing payouts.

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

Yeah. I mean we are committed to our – the doubling of the free cash flow. We mentioned that or announced that when we talked about the GIG transaction too. So, we're still on track for the $250 million of free cash flow. And as we start to move down that path – a lot of this will be organic growth, net organic growth. Some of the projects that we talked about today, some of the non-EfW development projects and then the UK projects. So, as we start to get a little more visibility on how all that's playing out, we'll obviously look more closely at that dividend and changing our dividend policy – our dividend payout.

Scott Levine
Analyst, Bloomberg LP
Q

Understood. Thanks, guys.

Operator: There no further questions at this time. I will now turn the call over to Steve Jones for closing comments.

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

Great. Thank you. As always, we appreciate your participation on this call and your interest in Covanta. I remain optimistic about the strides we've made in our performance year-to-date. The team is focused on ending the year strong and positioning the company to build on this success in 2019 and into future. We look forward to seeing you on the road during the fourth quarter. We're going to have a number of fourth quarter events that we're going to participate in and we'll also talk to you on our fourth quarter update in mid-February. So, thanks again for spending time with us, and have a good weekend. Thanks.

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

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