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# Covanta Holding Corp. (CVA)

## Q4 2019 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, everyone, and welcome to Covanta Holding Corporation's Fourth Quarter 2019 Financial Results Conference Call and Webcast. An archived webcast will be available two hours after the end of the conference call and can be accessed through the Investor Relations section of the Covanta website at www.covanta.com. The transcript will also be archived on the company's website. [Operator Instructions] Please note this event is being recorded.

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, Andrew, and good morning, everyone. Welcome to Covanta's fourth quarter and full year 2019 conference call. Joining me on the call today will be Steve Jones, our President and CEO; and Brad Helgeson, our CFO. We will provide an operational and business update, review our financial results, and then take your question.

During their prepared remarks, Steve and Brad will be referencing certain slides that we prepared to supplement the audio portion of this call. Those slides can be accessed now or after the call on the Investor Relations section of our website, www.covanta.com. These prepared remarks should be listened to in conjunction with these slides.

Now, onto the Safe Harbor and other preliminary notes. The following discussion may contain forward-looking statements and our actual results may differ materially from this expectation. Information regarding factors that could cause such differences can be found in the company's reports and registration statements filed with the SEC.

The content of this conference call contains time-sensitive information that is only accurate as of the day of this live broadcast, February 21, 2020. We do not assume any obligation to update our forward-looking information unless required by law. Any redistribution, retransmission or rebroadcast of this call in any form without the express written consent of Covanta is prohibited.

The information presented includes non-GAAP financial measures. Because these measures are not calculated in accordance with US GAAP, they should not be considered in isolation from our financial statement, 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, the quarterly results are summarized on slide 3 and I'll begin my discussion on slide 4. We ended 2019 on a positive note generating $428 million of adjusted EBITDA and $140 million of free cash flow.

For 2020, we're initiating a full-year guidance of $415 million to $445 million for adjusted EBITDA, and $100 million to $140 million for free cash flow. Brad will go through the details of our results and outlook in a few minutes.

In 2019, we sustainably processed a record 21.4 million tons of waste. This was driven by a full-year contribution from the Palm Beach plant acquired in late 2018 and record production at 11 of our facilities, including several of our largest tip fee plant. Our plants also produced a record volume of electricity at almost 10 million megawatt hours fleet-wide.

Hereto, we saw record production at eight of our plants, including strong production at some of our service fee plants where much of the energy revenue was shared with our client communities. With the record production, we generated over 5% organic growth in adjusted EBITDA. This excludes commodity changes and the impact of business interruption insurance proceeds.

A major driver of the result in 2019 was the continued strength in the waste market and our team's focus on leveraging our strategically located assets to maximize value. In 2019, we increased tip fee prices over 5% on a same-store basis even with 60% of our capacity on long-term contracts with escalators are closer to 2%.

2019 saw a handful of meaningful waste contract extensions and re-pricing and we don't have a similar level of turnover coming this year. However, we will enjoy the rollover benefit of the 2019 deals during 2020 and expect same-store tip fee growth in the range of 4%.

A significant contributor to overall tip fee growth in 2019 was 11% same-store growth in profiled waste revenue delivered to the EfW plants by Covanta Environmental Solutions. As in the past, this was a mix of both price and volume growth and a continuing sign of increasing market demand for non-landfill solutions from commercial and industrial customers. We expect 2020 profiled waste growth to our Energy-from-Waste plants to be in the high-single digit.

Helping to drive our profiled waste growth is regulated medical waste or RMW. In 2019, we grew net RMW revenue to our EfW plants by over 40%. For 2020, we expect continued growth as we accelerate sales to newly permitted RMW capacity in our fleet. As I've said before, we're striving to become the clear leader in wholesale disposal for must-incinerate RMW in the US as pricing for this type of waste is significantly higher than municipal solid waste.

For much of 2019, we were buffeted by lower commodity prices, and the outlook remains challenging. Our strategy around commodities is unchanged as we look to drive volume growth, hedge where possible, and invest in differentiating our products to mitigate these headwinds. Energy prices remain under pressure with natural gas near $2 per million BTUs and likely to exit the winter with historically large storage level.

Importantly, we have continued to proactively manage our energy exposure, and we enter 2020 with only 1.1 million megawatt hours exposed, a lower level than we have had, historically. On a dollar basis, over 85% of our 2020 energy revenue is contracted or hedged. Included in our hedged revenue will be two more tranches of New Jersey basic generation service load that we won in the most recent auction. These incremental wins build on the program that we established in 2019 and provide price certainty and improved margins on approximately 500,000 megawatt hours annually through 2023.

On the metals revenue line, ferrous scrap, as measured by the HMS index, finished the year over $75 per ton lower than the average price in 2018. In February, the index price at $233 per ton, and we expect the full year to average between $200 and $250 per ton. As I've discussed in the past, domestic demand for scrap ferrous, as required to meet the needs of a number of in-construction mini-mills, will help to support this market over time.

On the non-ferrous side, we now sell an array of products as we utilize our processing capabilities to maximize the value of the underlying material. While scrap aluminum, our largest product by volume, saw index prices slip by 27% on average in 2019, we were able to stabilize our realized price per ton with a notably stronger mix in the fourth quarter. This was achieved as we began full operation of our most advanced separation technology late in the year.

Looking at 2020, the Old Cast index is likely to be lower again, having priced at $0.39 per pound in February. Given the full year availability of our separation technology, we expect our realized prices to be relatively flat year-over-year as we mitigate the impact of lower Old Cast through better mix. Further, we expect to continue to grow our nonferrous recovery rate so we have more saleable product including the initial volumes out of our total ash processing system or TAPS, which I'm pleased to announce is now commencing its start-up and early commissioning activities.

Brad will discuss the details related to our financial outlook, but I'd like to spend a moment on our maintenance outlook. When you look at our strong operating performance, a primary driver is our proactive use of resources to manage these facilities. Over the past few years, EfW maintenance spend has been flat and, in the case of this year, down as we executed against our long-term maintenance plans.

Over the next two years, pursuant to our long-term plans, we're focused on investing in our assets to ensure a continuation of our strong performance. Included in 2020's plan is the installation of a baghouse for our SEMASS facility. SEMASS is one of the largest and most profitable plants in our fleet and it sits in the Greater Boston area where waste prices are particularly strong, making it a crucial outlet for waste. It currently meets all emissions control regulations, but the cost of maintaining the current particulate control system, known as an electrostatic precipitator or ESP, is increasing.

As we look to the long-term future of the plant, it is the right time to make this an investment in newer technology. And to be clear, it is an investment. We expect that after installation it will increase reliability and performance while reducing maintenance expense.

Looking beyond this year, we have other projects that we plan to invest in that will likely keep our total maintenance spend in a similar range to 2020. We fundamentally believe that these investments are the right financial and operational decision. That said, we will continue to review these investments in light of conditions and fleet changes.

We also continue to focus our efforts on Lean Six Sigma to increase productivity and reduce operating expenses to help offset some of our plant investments. In 2019, we certified our largest number of Green Belts and delivered our highest growth productivity in our four-year continuous improvement journey. Much of our efforts in 2020 are centered on contractor productivity to ensure the effectiveness of maintenance work we are executing.

On the project development front, we've had a very eventful last 15 months. Recall that in December of 2017 we announced our partnership with Macquarie's Green Investment Group or GIG. And since then, we have moved into the execution phase on our joint development effort. Beginning with Earls Gate in late 2018, followed by Rookery in March 2019, and most recently, Newhurst, just over a week ago, we now have three projects in construction.

You've heard us say that the UK energy from waste market is extremely attractive and we believe this execution positions us well to be a major participant. I'm excited about this accomplishment and very proud and appreciative of our team's efforts.

Regarding our Protos project, we previously noted our expectation for it to reach financial close by year-end. It remains well advanced and our primary remaining development efforts relate to securing the necessary EPC arrangement. We'll provide further updates as appropriate later this year.

Outside of the four projects that I just mentioned, we continued to develop our pipeline in the UK and I hope to be in a position to discuss one or more of these in greater detail later this year as well. I also want to touch again on the US. We remain in active discussions with multiple client communities that are interested in new or replacement EfW capacity. As seen across the world, the development cycles can be long, but we believe the investment of time and resources now will be well worth it when we see new capacity again in this country.

Before we move on to financials, I want to take a moment and highlight the underlying sustainable nature of our business. Recently, major investors have come forward with their thoughts on the necessity for public companies to be more transparent around their broader impact to all stakeholders. As a company, Covanta wholeheartedly agreed, and in December, we issued our fifth comprehensive sustainability report or CSR. This is not an activity we undertake lightly nor is it one where we're just beginning to embrace.

Providing sustainable waste solutions and generating renewable energy is our core business and we remain committed to operating safely and sustainably and being transparent with our employees, municipal and commercial customers, host communities and shareholders. During 2019, we processed over 21 million tons of waste in our EfW plants and another 700,000 tons through our material processing facilities. In most cases, this is waste that would otherwise have gone to a landfill.

Our solutions utilize much less land and landfills and reduce life-cycle greenhouse gas emissions relative to landfills. This is a fundamental advantage of energy from waste and the cornerstone of our business.

In our CSR, we highlight our successes, but we're not content to rest on our laurels. We shared several programs and targets that will enhance our value proposition and overall sustainability. Our key initiative is to undertake five incremental projects to further reduce emissions at our facilities below their current level which are already inside of regulatory requirement.

We're also committed to further increase our rate of recycling and material recovery. We already separate and sell over 500,000 tons of total metals annually but we believe there is substantially more opportunity. With the start-up of TAPS, we expect to further increase metal recovery and reduce the need for our residue to be disposed of in landfills. We will provide updates on TAPS later in the year as we focus on ramping up this first-of-a-kind facility. But we're excited to be in start-up mode and processing ash as we speak.

We're also looking at options outside of TAPS to reuse our residual ash and have recent success in diverting a portion of the ash at one plant for use in cement production.

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

### Bradford J. Helgeson

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

Thanks, Steve. Good morning, everyone. I'll begin my review of our financial performance with revenue on slide 6. Total revenue in 2019 was $1.87 billion, essentially flat year-over-year. Organic growth excluding the impact of commodities contributed $19 million as higher waste prices and record EfW plant production outpaced lower construction revenue.

Commodities had a significant negative impact as we saw a $37 million decline related to lower market prices for energy and metal. On a year-over-year basis, the average power price across PJM and the New England ISO was down approximately 30%. The ferrous scrap HMS #1 Index declined by over 20%. And the Old Cast high side scrap aluminum index was down over 25%. This all weighed heavily on our results in 2019.

Transactions added $21 million to revenue with the acquisition of the Palm Beach facility operating contract in late-2018 and the Q1 start-up of the Manhattan Marine Transfer Station, partially offset by asset divestitures and the consolidation of the Dublin project for accounting purposes.

Moving on to slide 7. Adjusted EBITDA was $428 million in 2019, a $29 million decline compared to 2018. Excluding commodities, adjusted EBITDA improved by $6 million organically as the benefit of higher waste prices and plant production more than offset higher expense from plant maintenance.

Peeling the onion a bit further recall that 2018 benefited from substantial business interruption insurance proceeds related to the fire at our Fairfax facility in 2017. Normalizing to exclude that impact on the year-over-year comparison, core business organic growth was over 5% in 2019. The $37 million headwind from commodity prices that I just discussed translated directly from revenue to the adjusted EBITDA line.

The net benefit from transactions was $7 million of the contributions from the Palm Beach acquisition and Manhattan MTS were partially offset again by divestitures and the deconsolidation of Dublin. Long-term contract transitions were a $4 million headwind in 2019, primarily due to the roll off of debt service revenue previously earned under our service fee contract at the Babylon, New York facility.

Turning to slide 8, free cash flow was $140 million in 2019 compared to $100 million in 2018. While adjusted EBITDA declined by $28 million, lower maintenance CapEx and a net cash inflow from working capital and restricted funds drove the year-over-year increase.

I'd like to take a minute and talk in more detail about working capital. We mentioned during our third quarter earnings call that we expected working capital and restricted funds to be a net benefit for the year and, in total, these ended up contributing $32 million to cash flow in 2019.

The most visible component of this was our initiation of an AR securitization program in December under which we sold $100 million of receivable. This transaction offered us a lower effective cost of funding as compared to our revolving credit facility while expanding and diversifying our liquidity sources.

From a cash flow standpoint, it also provides us with the ability to accelerate our ongoing reduction in net working capital. We intend to maintain this facility at its current size at a minimum and may look to expand it if possible in the future. Outside of the AR securitization, working capital was a headwind in 2019, in particular due to the final settlement of the Durham York construction litigation as well as the timing of accounts payable and certain interest payments around year-end.

Now, please turn to slide 9 where I'll review our growth investment activity. During 2019, we invested $13 million in organic growth projects, including expanding capacity at previously acquired facilities in our Environmental Solutions business and building out non-ferrous metal separation and processing capabilities at our Fairless Hills location. We expect a similar level of spend on these types of projects in 2020.

We also invested $19 million to prepare for the start-up of the Manhattan Marine Transfer Station purchasing transportation equipment needed to handle the additional volume. As you can see in our outlook for 2020, this spend is now complete.

On TAPS, we spent $9 million in 2019 and expect another $15 million during 2020. Given the timing of start-up, payments have been deferred until final equipment has been delivered and passed its performance test. During 2019, we invested $17 million in international development, including early site work for Rookery, Newhurst and Protos, as well as equity investments in the Earls Gate and Zhao County, China project. We expect to invest about $10 million in Newhurst in 2020 as it commences construction, which represents about a third of our anticipated equity in that project.

Looking at our overall investment in the UK, we had previously discussed a range of $150 million to $200 million for the first four projects. There's still some flex in these numbers as we haven't reached financial close on Protos. But given what is known on ownership splits and foreign exchange rates, it appears that we will likely come in at the lower end of that range when accounting for all four projects.

Consistent with a lower investment in US dollar terms, we also expect to be closer to the low end of our initial expected range of $40 million to $50 million in free cash flow contribution from the four projects.

During 2019, we generated approximately $50 million in cash from the premium and development success we received at financial close for Rookery, as well as additional asset sales. Approximately $22 million of this amount remains at our joint venture in the UK and, therefore, for accounting purposes will not be reflected as proceeds until it's reinvested. When combined with the premium received at financial close for Newhurst, we don't expect that our investments in the UK will require parent company funding until at least next year.

Now please turn to slide 10 where I'll provide an update on our balance sheet. At year-end, net debt was $2.5 billion, up $45 million from year-end 2018. Our consolidated leverage ratio was 6.1 times, which is consistent with where it's been for most of the year. And the senior credit facility covenant ratio was 2.2 times, which is flat year-over-year. Our available liquidity under our revolver was nearly $500 million at December 31. Given our financial outlook, we expect our consolidated leverage ratio to remain at or above 6 times for the balance of 2020.

Now, please return to slide 11 where I'll talk about our 2020 outlook for adjusted EBITDA in more detail. As announced yesterday, we are initiating 2020 adjusted EBITDA guidance of $415 million to $445 million. The midpoint of this range is roughly flat to 2019 results. Organic growth, excluding commodities, is expected to contribute $5 million to $15 million for the year, driven by strong EfW facility production, rising waste prices, growth in profiled waste volumes, and increased metal recovery.

Commodities are expected to weigh on our overall growth with energy prices likely to be lower again in 2020. So, as Steve mentioned, we have a smaller open market position going into the year than we normally carry. We also expect metals prices to be anywhere from flat to a $10 million headwind.

Transactions and transitions are expected to contribute $5 million of additional adjusted EBITDA in 2020 driven by the full-year impact of the Manhattan MTS and improved economics following a service fee contract transition.

Now, please turn to slide 12 for a walk from 2019 free cash flow to our guidance for 2020. We expect free cash flow between $100 million and $140 million this year. With adjusted EBITDA expected to be in a similar range to 2019, higher maintenance CapEx in 2020 will be somewhat offset by incremental cash flow from working capital. I want to pause for a moment to discuss both of these items.

As Steve mentioned, 2020 maintenance activity will include a few large capital projects which will drive full-year maintenance spend to a range of $430 million to $450 million. This is a step-up from 2019 levels, though some context around this increase is appropriate.

Recall that between 2017 and 2019, over a three-year period, we effectively kept our total EfW maintenance spend flat at approximately $400 million annually. Going forward, with other major projects in our long-term plan, we expect maintenance spend to reset to this new range, plus or minus, for the next several years. A long-term trend analysis looking both historically and going forward shows the CAGR on maintenance spend in the 3% range over time though as 2020 demonstrates year-to-year changes can be very lumpy depending on the timing of large capital projects.

As you think about our business model going forward, keep in mind that several of these major maintenance projects should also be viewed as investments that will help improve operations and support continued growth as Steve discussed earlier.

Regarding working capital, 2019 was a positive year particularly given the benefits of a new AR securitization facility. However, we also had some significant payable outflows in 2019, as I mentioned a few minutes ago, which will not recur in 2020. We believe that the combination of a more typical payables balance and a potential expansion of the AR securitization program will enable us to drive incremental free cash flow from working capital in 2020 to fund the increased investment in our plants.

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

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] The first question comes from Tyler Brown of Raymond James. Please go ahead.

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

Q

Hey. Good morning, guys.

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

A

Good morning.

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

A

Good morning, Tyler.

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

Q

Hey. Yeah. Hey, Brad. Really appreciate the EBITDA bridges, they're extremely helpful. But if we come back to the $5 million to $15 million in organic EBITDA growth, I mean that is below your stated target of 3% to 5%, maybe insurance recoveries in 2019 are a part of that story but maybe so too is lower P&L maintenance expense in 2020. But can you maybe talk about some of the puts and takes that are only getting you to the plus $5 million to $15 million?

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

A

Yeah. Sure. So, the ups and downs of P&L maintenance expense are sort of incorporated in the 3% to 5% that we think about year-to-year. 2019 I guess I'll start off and point out that if you back out – completely back out the Fairfax insurance, we grew it a little over 5%.

At the end of 2019, we caught a tailwind from a couple of HR-related items that nudged that up a little bit. We don't expect those to recur in 2020. So, that's a bit of a headwind. It wasn't significant enough where we thought it was necessary to call it out in the materials. But if you adjust for that in the year-to-year, we're sort of in the 3% to 4% range across both 2019 and 2020.

So, I think when you think about the 3% to 5% as at a long-term range, there may be certain discrete onetime items at a particular year that may nudge just up or down, above or below that range as we've seen. But over time and smoothing for those items we feel like we've been squarely in it.

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

Q

Okay. So...

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

A

Yeah. And we feel good about the levers that we have to pull there, too. When you think about profiled waste, regulated medical waste, Covanta Environmental Solutions, generally, metals recovery, TAPs now – TAPS is – yesterday they brought me some of the first offshoots or production from TAPS, and so TAPS is coming along now. So, all those organic growth activities are moving along quite nicely. So, I think we'll be in good shape from that target standpoint.

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

Q

Okay. So, no change at all from the 3% to 5% long term?

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

A

No, no.

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

Q

No. Okay. Okay.

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

A

I think we'll do well there.

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

Q

Okay. And then maybe my follow-ups, on working capital, I know you talked about it a bit. But if I look at the free cash flow waterfall not the bridge, but if I walk down from EBITDA to free cash you have a positive $40 million to $60 million working capital in 2020. It seems like a big positive.

Again, I'm kind of looking just for a little more color on what is driving that. Is there additional factoring baked into that or were you going to kind of squeeze the juice from the balance sheet?

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

A

Yeah. Tyler, it's really two areas. In fact, the bigger one is really a reversal of the outflow that we saw in 2019. Of course, we had the outflow for – to close out the Durham, York matter. That's not going to recur obviously in 2020.

And just the timing of payments against outstanding AP and some of our interest payments, a lot of those ended up kind of hitting us at the end of 2019, and that should benefit us correspondingly in 2020.

That's probably the biggest piece of it. Frankly, we are going to look at expanding the securitization facility. It just makes sense for us to do that and feel like $25 million increase is a reasonable expectation. That's one that we have to increase it. But it's also probably not one that we necessarily need to hit in order to hit our guidance.

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

Q

Okay. Okay. No. That's very helpful. Thank you for the time.

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

A

Thanks.

**Operator**: The next question comes from Michael Hoffman of Stifel. Please go ahead.

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

Q

Hi. Thank you, Steve, Brad, Dan. I'd like to talk about cash flow and revisiting a goal you had said of $250 million mid-decade and that's this decade now. And then I think about taking the midpoint of last year's guidance is $130 million you beat it by $10 million. But if I say the run rate is $130 million and I look at this above level of maintenance for what three or five years or two to three.

I'm trying to get a feel for is this the waste business generating $10 million of incremental free cash at the moment and it's just being eaten up for the next two or three years and it's above average maintenance. And then I [indiscernible] (00:30:18) plus $40 million from the UK, is that the way to think about this still?

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

A

Yeah. Hi, Michael. It's Brad. I'll make a couple of comments. So, relative to how you're probably thinking about it and even modeling it, there's really no change. So, the maintenance spend, again I kind of touched on this in the prepared remarks, if you look over time, so looking back the last three years and as we look ahead, we talk specifically only about 2020 today.

But as we look forward, we see that escalating on an annual rate of about 3%. But what we've seen is it's been – it was flat for three years and it kind of took a big step up. So, when you think about – look at projecting this business out to the middle of next decade, I think the expectation for what the ultimate maintenance requirements of the portfolio are going to be probably shouldn't really change. It's just that we kind of are getting ahead of some of these items and jumped up towards that level more quickly than people had probably modeled. I think that's the biggest issue in 2020 on maintenance.

As far as the other drivers that are going to get us there, organic growth, and Steve just reiterated this, we feel as good as we ever have about the organic growth initiatives, the 3% to 5% on EBITDA. You can do that math on how it falls down to free cash, and then the UK project.

So, I commented in the prepared remarks that our $40 million to $50 million range, including all four projects is probably now more like $40 million as we finalized our split of the equity and as FX has moved around. Of course, we haven't financially closed Protos yet and that's included in that number, but those are still the drivers.

So, when we look at those against the $250 million, what we're left with is commodity prices. When we publicly set the goalpost of $250 million, that was explicitly based on commodity prices as they were at that time, the commodity price outlook as it stood at that time.

Clearly, commodities have moved against us pretty meaningfully. We commented on this on the last earnings call in October and commodities have gotten even more challenging for us actually since then. We were doing some math on this to kind of rewind to when we had established the $250 million and we calculate the commodities on a longer-term basis have impacted us by probably well over $50 million.

So, you can take that number and translate that how you want to – and again, this is essentially what we said on the last earnings call, translate that into – you could mark that target lower based on commodities or translate it into which is going to take us more time.

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

Q

Okay. And then I'd switch gears. You brought up commodities, if you take the spot market where it is today in energy and your metals today, how big of a headwind am I looking at going into next year off the energy piece when I'm playing with a midpoint of about $22 on the spot market? So, what's that drag the hedge came down to and what have you? How do I think about that given what you know you have in place?

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

A

Yeah. So, we're not getting too specific on 2021 today. But the way to look at it is if you look at where prices have been, if you look at our hedge price for this year, of course our hedge price for next year is going to be lower. So, in a falling market, and this is the point of the hedging program, we're not feeling all the impact immediately.

So, it's really if you want to look at, as a rough rule of thumb, kind of look at where the curve was last year which is when we were putting in place the bulk of our forward sales for 2021, we're going to continue to do that this year, compare that to the forward curve for next year.

I think as we move through the year, we'll put a finer point on that. But that's the analysis you would do to look at how much remains, again, if the curves remain as they are today how much remains for us to absorb going forward.

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

Q

Okay. Thank you very much.

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

A

Thank you.

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**Operator**: The next question comes from Noah Kaye of Oppenheimer. Please go ahead.

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

Q

Thanks for taking a couple questions here. I guess first to clarify the abilities of Protos. These are not regulatory. These are negotiations with the EPC contractor. Is that correct? And do you have the project financing in place?

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

A

Yes. So, these are discussions with the EPC arrangement. So, we're working on that now. The financing was largely completed. It was really just around the EPC arrangement. In fact, the financing group from Protos, we can kind of them – that group on to Newhurst, and that's why we were able to close Newhurst so quickly. We just kind of pivoted – as we ran into the issues on the EPC arrangement, we just kind of pivoted to Newhurst and got that closed instead.

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

Q

Okay. Thanks. And then for the other three projects that reached financial close, is there – is it generally from a timetable perspective for them to reach COD? Is it something like Earls Gate in 2021? Rookery, mid-2022; Newhurst, mid-2023? Is that kind of the right way to think about it?

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

A

Yeah, that's generally the sequence, as you look at those projects and how they're going to move into construction.

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

Q

Okay. Great. Then on profiled waste, just how do you think about levers to – less than 11% organic growth last year was great and high single-digit this year. What are some levers you have to maybe reaccelerate the growth and kind of maintain that double-digit?

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

A

I think we're being a little conservative this year on where we're going to be on profiled waste. We actually have brought in a new sales VP and I think he's got a number of – he's got a lot of experience in a number of different ideas on how to drive more profiled waste into our energy-from-waste plants.

And quite frankly – and that's why we talked about our sustainability report, you're seeing more and more companies focused on sustainability, and they're looking for a non-landfill solution. And that in and of itself, that kind of focused on reducing greenhouse gases because, as you well know, 1 ton of waste not going into a landfill and instead going to an energy-from-waste plant is beneficial from a greenhouse gas standpoint. That movement in society is going to continue to help us from a profiled waste standpoint.

So, we feel pretty good about where things are headed in that direction.

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

Q

Okay. Should I assume that there's pretty much no TAPS benefit in the guide for this year? And I guess a bigger question on that is when do you think you'll have them [ph] all approved out sufficient (00:37:39) to make investment in additional plants?

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

Yeah. Good question. We're being conservative on this, too. We don't have any benefit for TAPS in 2020. And we've talked before there's – this is worth roughly $7 million of EBITDA on this first TAPS plant. I mentioned that they brought yesterday some of the output from the – what we call the wash system, so, this is a metals recovery and it's fascinating there's iron and there's – and it's kind of then interposed, laced with a lot of copper. So, it looks like things are moving along quite nicely there.

As we start to – we'll prove that out as we go through 2020. That's why we kind of laid off of putting any benefit in the 2020 numbers. So, we'll prove that out during 2020. And then quite frankly we've got a discussion on Monday about the next TAPS system. One of our client communities is interested in moving forward on TAPS. And so, we'll talk about a proposal on Monday on what the next investment might be.

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

Okay. Maybe let me ask a question about tip fee pricing relative to maintenance spend? This going to be my last one. So, over the last several quarters we've seen, you've seen a really nice uptake in pricing in solid waste disposal and there's a number of reasons for that. Certainly, one is increasing cost pressures at the landfill. There's also a tightening disposal capacity, frankly, in a lot of regions including the ones where you sit.

And I want to ask about that as a kind of a background factor, thinking about your own operating cost, your maintenance spend cost is, as you said, going to rise at around a 3% CAGR, which is reasonable. Your escalators on these contracts in municipalities are going up at 2% and it just strikes me that that is really kind of out of step with the current waste price trend.

Now, obviously, when this contracts come up for renewal, you can have those discussions. But what about and is it time to have more candid discussions with municipalities about moving tip fee price escalators over to an alternative index in a way that a lot of these solid waste [indiscernible] (00:40:11) collection?

And don't you theoretically have some leverage in these discussions? And you talked before about sustainability, I mean it's really you or the landfill in Ohio [ph] for a lot of these (00:40:22) municipalities. So, what about that potential? How are you guys thinking about that and what is there for a potential upside in not just kind of the contract renewals but maybe even some migration to a more appropriate inflation index?

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

Yeah. You've hit on something that we have been pushing on is that the – if you look – and I mentioned it in my prepared remarks, these underlying escalators or indices on some of these client community contracts is only 2%. So, there is – they are under running what I think should be the market pricing in a lot of places on waste pricing, what the waste increases are – what's occurring out there.

So, we are looking at different indices. Any chance we get to – as the contracts rollover, we're talking to these client communities about what the market is today. So, there is an opportunity there and we'll continue to push on that.

I mean, that's one of the reasons – I talked about – previously about underperforming assets. In some of these communities, we are, in my view, we're underperforming where we should be on our operations services agreement. And so, there's a lot of focus now on how do we improve some of these service agreements and whether it's the indices or just getting paid more for the services that we provide because they're unique services. That's something that we're really focused on right now.

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

Q

Okay. Thanks very much for the discussion.

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

A

Thanks.

**Operator**: The next question comes from Jeff Silber of BMO Capital. Please go ahead.

**Jeffrey M. Silber**
*Analyst, BMO Capital Markets (United States)*

Q

Thanks so much. I wanted to go back to volume and discussion on the waste side. First of all, on slide 14, you're giving guidance for EfW tons for this year, it's roughly in line with what you did last year, the low end of range is a little bit lower. Are you being conservative? Is this what you can just process from a capacity perspective? If you can just give us a little color on that, that'll be great.

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

A

Yeah. Hey, Jeff. It's Brad. So, on the tip fee revenue line, it's going to be plus or minus where we've been processing. We're looking to inch the ball forward on our plant production over time. As Steve commented, we've said for the last couple of years now we've been seeing record production in some of these plants.

But if you really step back and you think about it across the span of our portfolio compared to our overall volume, these are incremental increases. Now they're very powerful financially given the operating leverage in the asset, but that's really what we're looking at.

And then a layer over the top of that in a given year, it depends on do you have a big plant that's taking a lot of downtime because of the long-term scheduled maintenance that it has planned for that year or not. So, that'll move it around.

And then on service fees, that's really the where we see a bigger increase and that's the Palm Beach, the rollover, remaining rollover of the Palm Beach plant.

**Jeffrey M. Silber**
*Analyst, BMO Capital Markets (United States)*

Q

Okay, that's helpful. And then in terms of the mix, you mentioned profiled waste and specifically RMW being a faster growth component. Can you just remind us what the mix is for both of those as a percentage of the volume you process? And also, just generally, what the price differential is on those waste streams? Thanks.

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

A

So, profiled waste is about 10% of our overall waste. Well, yes, about 5%. Our goal is to get it to 10%. So, we're kind of on that journey, about 1 million tons of profiled waste.

And then regulated medical waste is probably 5% of that. It's still small in the scheme of things. But if you look at regulated medical waste, we'll get about 10 times the pricing there as we would get for municipal solid waste. And if you look at profiled waste, we'd get 2 to 3 times the pricing we get on municipal solid waste; profiled waste versus – compared to municipal solid waste. So, that's the pricing scheme.

**Jeffrey M. Silber**
*Analyst, BMO Capital Markets (United States)*

Q

Okay. Great. That's very helpful. And just my last question is on the cash flow specifically the dividend. Your guidance for this year incorporates a dividend payment, though at the high end. And then we talked about increased maintenance spend going forward. I just want to make sure if you can reconfirm your expectations for being able to make those dividend payments over time. Thanks.

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

A

Yes, Jeff, it's Brad. I think we have our, first of all, underlying business model. But specifically for this, our balance sheet is set up to navigate through a period like this where we have a number of factors hitting us. You mentioned the maintenance but it's really commodity prices. It's what's been I think the result of the kind of the comparison here of free cash against the dividend that's obviously tighter than we would we would like and tighter than we expect it to be in the future.

It's not a funding issue for us. I mean as I mentioned, we have $500 million of liquidity on the revolver. We have ample and ready capital market access. We don't look to be tapping our balance sheet for this, but it's a temporary phenomenon and that's how we look at it.

**Jeffrey M. Silber**
*Analyst, BMO Capital Markets (United States)*

Q

Okay, great.

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

A

I will say that we – I want to be clear we are committed to the dividend. We've got visibility over the long term for increased free cash flow. And so, we'll continue to execute on the various projects. I mentioned profiled waste, regulated medical waste, the metals areas, waste generally and then our work in the UK.

I mean if you think about it over the last 18 months, I don't think there's anybody who's been able to close on three projects over the last 18 months. So, we've got a lot of visibility from a free cash flow standpoint on where that's going to increase.

**Jeffrey M. Silber**
*Analyst, BMO Capital Markets (United States)*

Q

All right. Appreciate the color. Thanks.

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

A

Thanks.

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**Operator**: The next question comes from Mario Cortellacci of Jefferies. Please go ahead.

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**Mario Cortellacci**
*Analyst, Jefferies LLC*

Q

Hi. Thanks for the time. Just maybe you can give us a little more detail on the maintenance spend and I think you guys mentioned that you expect to see some savings after the investments are made. Just wonder if you could quantify or give us a sense of how much savings you expect to recognize and maybe the timing of that as the investments potentially roll off. And maybe are there additional facilities that also need to be converted or have the same type of investment made on them?

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

A

Yeah. It's interesting. I struggled – I contemplated arguing with our accounting team on whether the SEMASS baghouse was a growth investment or maintenance and we decided not to get into that. There are going to be increased productivity and efficiencies associated with the baghouse. But the baghouse really is an investment in a tip fee market. That's a great tip fee market. And so, you're going to see us make those types of investments in plants like SEMASS in order to make sure that those plants are in top shape. And we're going to continue to make those investments.

As Brad pointed out, if you look at this kind of maintenance generally, we've been flat to even down this year on maintenance spend. So, we've been able to, I think, show that we're able to manage our maintenance budget at the same time hitting record production. So, 2019 was record production and we were down on maintenance spend. So, we'll continue to look at our fleet of plants that way. We'll spend more money on our best plant to make sure that from a financial standpoint we're hitting on all cylinders.

You asked about whether there's other, in effect, baghouses required. There's one other facility that has an ESP, that's the electrostatic precipitator. It runs within its rules and regulations, but we're looking at whether we'd make an investment in a baghouse in that facility.

It's in a good market. There's other revenue opportunities in that market that will come into play if we decide to make that investment, but we haven't decided to do that completely just yet. We'll kind of monitor that situation. But that additional baghouse is kind of baked into this $430 million to $450 million as we look out the next couple of years.

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**Mario Cortellacci**
*Analyst, Jefferies LLC*

Q

Great. And then just one more and I'll turn it over. I know you guys announced the Zhao County project in December. I just wanted to see if you can give us a little more color on the landscape and opportunity that there is over in China. Maybe if you can – I don't know if you have an idea of how big you think China could be for Covanta overall and maybe some of the hurdles that you see in getting business done over there.

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

A

Yes, it's a big market. China is going to build about 200 plants over the next five to seven years. There's a lot of government support for energy from waste in China. Zhao County is a small – if you look at the investments over there, they tend to be a third of what they would be in kind of in the Western markets. And so, they're not as impactful unless you do a lot of them. So, we'll look at the marketplace.

I would tell you that our focus really is on the UK market right now. With the success we've had there, the UK market is moving along quite nicely. We'll start to look at – and really China or you look at the Philippines or Southeast Asia or some other areas around the world, they're really an analysis on where is the next market for us once the UK market kind of wraps up its investment activities.

So, big market in China. We're the biggest player in energy from waste. So, we figured we'd reintroduce ourselves to that marketplace. As you may know, we were in China previously, but as we look going forward, the UK markets probably – you're going to hear more about the UK market than the China market from us.

**Mario Cortellacci**
*Analyst, Jefferies LLC*

Q

Great. Thank you so much.

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

A

Sure.

**Operator**: This concludes our question-and-answer session. I would like to turn the conference back over to Steve Jones, President and CEO, for any closing remarks.

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

Thanks. Thanks for joining us on the call this morning. Your continued interest in Covanta is appreciated. We look forward to seeing many of you on the road over the coming months. Have a good day and a good weekend. Thanks.

**Operator**: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.