Participants

Curt Morgan, President and CEO of Vistra Energy (VST)

Nate Abercrombie, The Stock Podcast

Interview Transcript

Nate: Curt, thank you so much for joining the podcast. It's a real honor to have you back on again and I really appreciate you taking the time.

Curt: Well, thank you for having me. I'm looking forward to the discussion. There's lots to talk about so we can dig right into the details.

Nate: Yeah. And there is a lot to talk about and your 3Q call, you had a lot of updates and believe me, I think I could spend probably two or three hours just picking your brain as to what's going on in the space and what's going on with Vistra specifically. But before we get to some of the more detailed questions, I was hoping that maybe you'd be able to just give a very brief business overview since there could be listeners that haven't listened to your previous interviews, so would just love to hear about the business and just really briefly on who you are and what your company does.

Curt: Yeah. Great. So thanks a lot Nate. We are an integrated energy company. I know that some people call ... used to call this IPPs, but we think of ourselves as an integrated energy company. We're in power and natural gas predominantly, but also coal and uranium because we have a nuclear plant. So we look ... we dabble in a lot of different energy commodities and we're now, I think since we talked last, we're now in 20 States and the District of Colombia, we're also in retail markets in Canada and in Japan. Which is a country that's recently restructuring their power markets. We are the largest competitive residential electric provider in the country. We serve, just nearly 5 million residential, commercial and industrial retail customers with electricity and gas. So, since Nate, the last time we talked, I think we've added, over 2 million customers to our portfolio. We also won the largest competitive power generators. So that's the integrated nature of the competitive power generation combined with the competitive retail business. And that's a, obviously the generation is all in the U.S. We have about 38,000 megawatts and we have a very diverse portfolio. We're natural gas predominantly now just about two thirds of our generation is natural gas and that's from a company that when I took over was probably closer to 70% coal.

Curt: So we made ... we've made a big pivot off of coal and into natural gas, which we can get into a little bit later. We also have the lowest cost nuclear plant here in ERCOT in Texas in Comanche peak. We also have, by the way, the lowest cost coal facility of grow also in Texas. And so those are two big base load facilities that we have. We're now in solar, we also have a portfolio of wind, but it's a through a purchase power agreements. And we ... I think we have become one of the leading players in battery energy storage because we have sites in California that are ideal for battery storage and given that California has a lot of solar and they need a dispatchable resources, quick-start resources to come on when the sun goes down. They've been supporting battery energy storage facilities and they're most landing site, we're doing a 300 megawatt but more importantly, 1,200 megawatt hour battery facility, it's just South of San Francisco.

Curt: So here we have very low cost and low heat rate gas plants as I mentioned, which means that they're in the money. And that's important for us because we are interested in trying to achieve a stable, consistent and somewhat predictable earnings stream. And that the ... in the money nature of our fleet allows us to forward hedge and to take some of the volatility out of the business. I think we're focused on being very disciplined. I think the IPPs of the past, bought at the wrong times of the cycles and they have very high leverage, which then when the market prices dropped, it put them in a really difficult position. And I think in this particular business, and because of all the uncertainty and the change in the markets, you have to play from a very low leverage. And so since we've come out of bankruptcy, that's been our number one focus is to make sure that we have a strong balance sheet and then of course to have the integrated business with the retail and wholesale merged together. And that integration really spells value for us because one is collateral efficient, but two, if you're selling to yourself, you're not getting the bad end of the bid ask spread.

Curt: And so there's not that bid-ask leakage that you'll see if you're just a long generator or a short retailer. It also allows you to manage the enormous risks that can sometimes flare up, especially in Texas if you're a short retailer that you have to manage that risk. And to having those assets combined with our commercial capability allows us to manage the risk in this sector, which is very important. And here we're driving to the two and a half times net debt to EBITDA, which has been the target that we put out there some time ago and we should buy the balance of 2020 be where we want to be on that. But I think more important than that, it puts us in a position that we'll be under consideration for investment grade ratings, which I think is also a visible sign that this company, the risk of this company is much lower than it used to be.

Curt: We convert about 65 cents of every dollar of adjusted EBITDA to adjusted free cash flow before growth. So that means after we service our debt and after we pay for maintenance capital, we're dropping down, about two thirds of our EBITDA to free cashflow. Which that allows us to either put it back into the company or to give it to investors ... give it back to investors, which we plan to do a large part of. I think that when you look at our EBITDA, which is over $3 billion a year, we're going to be converting roughly $2 billion a year in free cashflow. That's a heck of a lot of cash to generate. And we think that we can put about a quarter of that 2 billion back into the business. On an annual basis on average, which means, we have a billion ... roughly a billion and a half to do something with and we're going to have a strong dividend. We already do and we'll probably continue to keep that strong dividend. And then we'll look for other ways, whether it's through share repurchases or special dividends, we'll just have to see how that that plays out. But that's really kind of who we are and what we're about. We try to pair a strong commercial capability with risk management along with, very attractive asset base and combined with a very strong residential focused retail business. We think that's really the core to our business. And if you combine that with a strong balance sheet, that's really who Vistra is.

Nate: Yeah. I appreciate that. And I really appreciate you highlighting some of the portfolio changes since the last time we spoke. And then also just highlighting the capital allocation philosophy at a high level. And I personally think it's extremely compelling and it's one of the reasons why I'm a shareholder. But just before we move on, I was curious, are there any industry changes since the last time that we spoke that you'd like to talk about here? What's happened in your space, in your sector and to your point, if you can call it that, what's happened in your sector over the past 12 months that you think is interesting and worth talking about?

Curt: I think consolidation has been occurring in the retail side of the business. NRG and VST have somewhat in that regard. They have somewhat, consistent aspirations. I think we both would like to grow our retail business and I think having access to the customer is probably the most important thing for us as a business because on the generation side that technology is going to change over time. And we're already seeing that, which is the other thing that I believe that's happened in our sector is you can't wake up any morning without hearing an announcement of somebody and usually a big player or Google or Amazon or whoever it is some ... in entering into the power generation business by owning a renewable Vistra of some sort. And so you've seen that a lot of companies have gotten interested in our sector.

Curt: I think it's the most visible way for these companies to show that they are embracing climate change and that they are agreeing, focused. So that presents some risks. But it also presents opportunities for the company. And so I'd say, from our standpoint just to consolidation on the retail side has been interested but also the interest in the renewable side. I have to tell you, it reminds me a bit though of when all the CCGP were built in the late 90s in 1990s and then early 2000s. Where you had a lot of developers and a lot of people really didn't understand the markets or the business that we're spending, hundreds of millions of dollars investing in VSTs and then within a short period of time, many of those assets were in financial distress because they were not the natural owners of those assets. And even though on a spreadsheet, it looked really great when the actual reality occurred and they had to manage those assets and basis differentials and fuel and all the things that go into managing a power generation asset, they ... I think that it didn't turn out quite the way they thought. So I do think that even though we've got a lot of interest by people who are not really in this business right now, I think over time that'll settle out and you'll see more of the natural owners step in and take some of these assets over.

Curt: Maybe they manage it for, maybe they get them out of financial distress, but that's been a big deal. We also, I think since we spoke last, we finally had a somewhat of a summer here in ERCOT and I think that was a big deal because I think there was a lot of bearishness around the ERCOT market and summer and forward curves and come off and there were really few believers. And then we realize with the change in the operating reserve demand curve where they increase the slope of that curve. We saw some really high pricing. We had 12, 15 minute intervals that cleared at the price cap of $9,000 in ERCOT. So that was a big deal. We've also, as a company, we pay down, just a little bit under $1 billion of debt. So as I told you, we're heading toward that two and a half times net debt and then we've repriced about $10 billion of debt.

Curt: I think you remember we bought Dynegy they had over $10 billion of debt. It was all fairly high interest rate debt so it presented an opportunity for us to refinance that. And we've also done some things where we've refinanced some of their debt, into bonds that are secure bonds. But then when we become investment grade that security goes away, and we've also been refinancing some of our term loan debt because he can't be investment grade with a bunch of term loan debt. So we really worked hard on our balance sheet. The interest rate savings alone on the work that we've done will be almost $200 million a year of interest rate savings. There was a big value proposition there for us. I think the other thing I would mention that's a big deal for us is that we announced our greenhouse gas emissions reduction targets. We ... our target is to reduce by 50% by 2030 and by 80% by 2050 all against 2010 levels. And then we've also said that we do have an aspiration to be net zero. But the way we think about it is until technology and the markets can adjust and the policies of the States and federal government are constructive enough ... that, we don't know that you really can go down to a net zero on the power grid and still have a reliable grid. But if we can do that, we'll be fine with that because that's 30 years from now. Most of our assets are going to be 50 years plus older anyway, so we're going to have to retool our generation business in any of that. And so we feel like if the technology's there to be zero, emissions, greenhouse gas emissions from our assets, then we'll be able to do that through reinvestment in our business.

Curt: And what we did too, we announced the reductions targets recently and then we did something I don't think many people have done. We basically came out and said it gave a 10 year outlook on our Q3 earnings call to highlight the very limited impact on our EBITDA from reaching those 2030 emissions targets. We basically came right out and said this is the percentage of EBITDA that will be impacted. And then we also show the market, how much we'd have to reinvest just to replace that EBITDA, which is in the, low single digits of our free cash flow that we'd have to reinvest. And then we gave them a profile for what it would look like if we reinvested at that kind of 25% of our free cash flow level, which actually puts us in a position to grow our EBITDA.

Curt: And then last thing I'll tell you is Steve Fleishman and then came out with something which I thought was very good work that showed NRG and VST look like, on an EBITDA free cash flow per share with that kind of reinvestment profile. And also with the combination of that and buying back some of our shares. And I think that's a very powerful metric for people to look at. So we've been pretty darn busy since we talked to you last night. I think our company is in a much stronger position than it's ever been in and I think it's going to continue to get stronger in 2020. 2020 for us, Nate, is a year to strengthen the balance sheet and then as we approach the end of the year, we're going to give the market a good sense of what the long-term capital allocation plan for this company can be once we get to the debt target that we want to. And we think that's a pretty exciting picture that we're going to be able to pay.

Nate: Yeah. No ... I definitely ... and I ... I'm ... I appreciate the fact that you mentioned Steve Fleishman's report and just full disclosure, I interviewed Kirk Andrews at NRG last week and I brought it up and I think it's an extremely compelling sort of framing of the investment case for your company. And I'm glad you brought it up because I think the world of Steve and ... I had him on the program. I don't know if you had the chance to listen, but he came on for an interview last year, late last year. I guess it was about this time last year. But anyway, I think the world of that guy and think he did an amazing job with that report because I think that's one of the most compelling things about the investment case for your stock is just free cash flow per share could be massive in 20, well. I mean it's already really big right now, but going forward based on, kind of what you've described in terms of how much money you could invest into the business and then how much money you could spend in buying back shares and what that means for shareholder value is extremely significant. So anyway, I appreciate that very much.

Curt: I think Steve is obviously the top of the game there. And he's one of the few that I believe takes something that we do on an earnings call or whether it's a phone call or whatever and then he takes it and analyzes it and comes up with something that, at least from his vantage point is something the investors will be interested in. I think that's what he did in this instance. He took our 10 year outlook and he also ... just NRG announced with, how much money they were going to put back in their business and then they were going to buy back shares. And then Steve does, what he does and he analyzes it, does some modeling. I think Dan Ford another one that, that does that kind of work. And I think that's important for us. We need people like that because if we can ... look, I can sit here and say all these great things about our company and I believe them strongly as, I've invested in this thing in a big way. But it's also helpful when you have an independent party out there who's doing their own work and challenging, the numbers and all that. And then that they can say some things like what Steve did. It's really powerful.

Nate: So ... I love focusing on the positives, and this isn't a negative by any means, but last week the CDR report came out and I think this is maybe one development ... it's one development over the past 12 months, but there's been two of them because it comes out twice a year and everybody, a lot of investors keep their eyes on it and they think it's a really big deal. Which is ... what is the capacity, what is the reserve margin in ERCOT?

Nate: And I personally, I think it's a little bit interesting, a little bit humorous because your stock sold off after the announcement came out, which I didn't think was that negative because if you think about it, there's been ... sure there's been some capacity additions, especially in the form of solar but yourselves as well as in ERG announced PPA's within the solar space in ERCOT. Meaning the capacity that's being brought, at least some of the capacity that's being brought online in the future will be your capacity. But still, it's viewed as a negative by the market. And I would just love to get your thoughts because it's somewhat timely right now, but what are your thoughts on this CDR report?

Curt: Well I think it is just a part of a bigger issue for us in the power generation business and it's a bit of a unique thing and that's ... it's probably true of all commodity businesses, but I think it's more focused on in the power of business, which is the forward curves and everybody is so focused on the forward curves. And the problem with that is that once you get out, 18 months to two years in just about any market. Look the liquidity out there is very low. And so the transactions that make up the forward curves in many cases are not indicative of where those markets will ultimately settle when you get in ... get into those as being the prompt year. So, and the CDR just feeds into that. I think it ... that ERCOT is trying to do a good thing with this, but I think people need to understand what the CDR is and I think the CDR is not something that you should take and then model and say that's what the world's going to look like.

Curt: I mean, good example of that is ERCOT came out and said in 2018 that only, or just a little bit over 40% of what they had coming online in 2018 actually happened. And that is pretty ... that's pretty standard for any given year. And so I think if you take that and you run with it and the details of it ... it really don't get a good picture. There's certain details about it as well. So if what's it take to qualify for a new build? For example, if you have an internet ... interconnection agreement and I guess access to water if you're a thermo asset, but if you're not, if you just think about any kind of renewable, you just need an interconnection agreement. Well that doesn't do anything to do to run the economics. The way we do it is we look to see whether we think that the project is economic because that tells us whether we think that they can ... whether the project can get financing.

Curt: The other thing is nothing in this has been built on a merchant basis from a renewable standpoint. They've all been built by PPA's. I think one of the longer term issues in our market is going to be when the PPA market is dried up, when there are no more people doing, PPAs which I think will happen at some point in time. And when that happens, are we going to be able to get merchant renewables built? We assumed in our 10 year outlook that you do, we've assumed more than half of ERCOT's total capacity is built out again, meaning 50,000 megawatts will get built out over the next 10 years in ERCOT of renewal. And the only way that ... yeah, the only ... and you still get pricing in the mid thirties per megawatt hour. And so that's the other point I wanted to make is ... is that when you take a market and you shifted significantly from dispatchable thermal assets to a significant amount of zero marginal cost, intermittent resources, it changes the dynamic of what equilibrium looks like from a reserve margin standpoint. And we saw that this summer in ERCOT, the reason prices actually were high in ERCOT really was not a weather thing. Weather it was warm, but it wasn't extraordinarily warm to get to $9,000 a megawatt hour. What happened is his wind didn't show up. It was 10% of nameplate capacity on the days where we saw these price excursions. And so when you start to add more and more of the renewables, and by the way, when wind doesn't blow, it's not just one wind farm.

Curt: Like if you have a ... an outage and a thermal resource, it's isolated to that one plant if you have a forced outage. But when wind doesn't blow in ERCOT it's coincidence, which means all the other wind isn't blowing either because the wind patterns across Texas are pretty consistent. And so as a class you see all this wind production go down and that creates and puts stress on the system. And as you push more and more of the thermal assets further right on the curve and some retire and you have more intermittent resources, it's going to change how much of a reserve margin we need to actually run the system. And frankly ERCOT hasn't even recognized that yet.

Curt: They have not come out and I believe they need to come at some point in time and to say that this 13.85% reserve margin is going to be something higher when they have a market that is largely intermittent in nature. So I think, you got to dig in a little bit and you have to do the modeling and you have to do the sophisticated modeling. And we've done that and we actually stress the system in our tenure outlook. We put a bunch of new build in and still have a robust market. And the reason the market is robust is that you're going to see a lot more higher priced periods of time. And so even though the average price in ERCOT might be potentially could be lower because you have more zero marginal cost resources entering the market. The average as picked is actually distorted and is higher because you have more high priced hours when your intermittent resources don't perform. And that's just going to happen. There's going to be a week or so out of every summer where you're going to have that happen and you're going to see pricing it go extraordinarily high because average pricing in ERCOT let's call it ... in the summer months, let's call it maybe a hundred dollars but the real issue is how many hours are there at $9,000 or $5,000 or 6,000 and that is actually going to increase. What's going to create much more volatility in the market. And for companies like us that have assets that do well in that type of environment, as long as they run well, we are going to do well in that kind of environment. We tried to paint that picture, so I think the CDR is sometimes misused. I think it can be misleading. I think that ERCOT is trying to do the right thing and give people what the state of the market looks like.

Curt: The other thing they did Nate is, they include certain resources that we don't think will go certainly thermal assets are in there. They don't drop out some assets just because you actually have to put in your notice of suspension in order to be taken out as a retirement. Yet we know that two assets that are still in the CDR that over a thousand megawatts are still in the CDR and they did something very surprising after this summer. They actually increased the effective megawatts from renewables, and said that you knew you were going to get more megawatts out of wind and solar and they broke it into three different categories. This is right on the heels of a summer where the big issue for the summer was the fact that wind didn't show up during some very hot periods of time. So I've found that to be, somewhat interesting as well to make those changes after this summer. But I think it is misleading. I think it's overemphasized. I will tell you though that this particular CDR when it came out has had less effect in my opinion on the market than the previous one. I think the previous one really caught people by surprise, but this one I think people now kind of understand, what it is. For our us, our stock price has been somewhat, I think affected by that recently, but it's been more effected by the fact that Brookfield, which was one of our large holders because they have more than 10% of the shares of Vistra had the cell in a big block.

Curt: And unfortunately the bank that took that on did not have a plan to then re market it and they'd dumped, 20 million shares, onto the market. And whenever that happens, that's a huge amount because our daily, trading volumes are somewhere in the four to five million shares. And so, you're talking about five times that volume hitting the market in a very short period of time. All of which was trying to find somebody to buy. And the long investors that were coveting, they don't buy like that.

Curt: They don't buy ... they do a lot of study and then they come into it over time. And so I think we've had a mismatch in supply and demand on our stock the last few days. But I don't know that the CDRs had that big of an impact. I think we haven't received that many calls about the CDR this time. But nevertheless, it is a data point out there and I think it's misunderstood and I think it's misused and I think it can be misleading. And it's our job though to educate people on what it really is.

Nate: Yeah. And while it is an idiotic way to think about your stock price and the performance of your shares longer term, when is sort of these ... this has been kind of a headwind for VST's stock, not the fundamentals, not for management, not for anything other than, maybe just investor perspective. But when are these large shareholders ... when are they going to be done divesting their stake? Or at least the large really large positions, when is that headwind going to go away?

Curt: So I think we're largely there and frankly this one surprised us a little bit because I know that Brookfield is a large holder of our stock and ... but they're also our long term investors. The reality of the situation is that they made a decision after they bought Oaktree. If you remember, Oaktree was one of our top three owners as well coming out of bankruptcy. And when they put their two ... they put their two positions together. They basically said, look, we're, overweight VST then what we want to be. And they had some capital allocation needs and they would like to get below 10% so they don't have some of these reporting requirements if they buy and sell VST shares. So this is just one of those tactical issues that happened. And unfortunately it happened when it did, but it was bound to happen anyway once they bought Oaktree.

Curt: They seem to want to hold the remainder of what they have or the bulk of that longer term. So I feel like ... I look at this as from a glass half full standpoint and I say to myself, well, it was going to happen. Brookfield wasn't going to sit on all this stock forever and we got it out of the way. And I do believe we'll climb our way back out of this because nothing has changed fundamentally about the value of this company. In fact, I don't think we're even close to being, even prior to this sell down, we were even close to being at fundamental value. So we'll survive this. But when I look at the big guys, Apollo has sold down significantly. I think they're below 10 million shares now. And that's from a position of over 50 million shares. Oaktree is a little over 20 million shares at the gain from a position of, 50 million or so. And then we've seen a recent trade by Brookfield that I think gets them into the position where they can manage themselves longterm. And the rest of the people that have owned the shares have come out, most of them have already done all their selling. So I think, and I've said this earlier, I think the balance in 19 really we're going to have most of that selling activity out of our way and I think we'll be able to handle any selling activity beyond that.

Curt: The one thing that I should mention, Brookfield cannot do when they were 10 or they're in 10% holder or more, is they have to, they have to basically disclose every single trade that they do. And they actually had a limit on how much they could sell on this time around. If they go below 10% they don't have to disclose trades and that allows them to do what Oak Tree and Apollo have been doing, which is, they'll sell some on a daily basis that has had no impact on our stock price at all because they wait to see what the demand looks like. And so I look forward to the day when they get to that position and that position is coming very soon and they don't have to do a lot to get to that position. So I feel like we're at a really good position. I knew it was going to take the balance at 19 so while we did the big buyback program. I think we accomplished what we wanted to do with that. And so I'm looking forward in 20 where we get ... in 2020 where, we're going to reduce our debt and then we'll be able to get on a more long-term capital allocation plan, which I'm excited about.

Nate: VST's made two meaningful retail business acquisitions over the past 12 to 18 months. And I'd love to hear your thoughts on just, what the rationale was and what is the appropriate level of, retail degeneration in your perspective.

Curt: Yeah. So, as I mentioned earlier, retail's really important part of our long-term story. And I'll tell you the biggest reason that ... first of all, we have a good capability in it. We have a tremendous retail business with a lot of really good people and we understand that business very well. So when you think about strategy ... strategy is taking a market opportunity and then exploiting it, using capabilities. And I think in this particular instance it made a lot of sense for us to grow our retail business outside of ERCOT but even inside of ERCOT. But especially after the Dynegy deal where we have a lot of long generation that we were looking to sell and I think of retail business as offering three distinct channels to sell our long generation position. You've got the commercial and industrial, which is the lower ... lowest margin of the three different channels you have the small business, which actually has very good margins and then residential, which has the highest margins. And then you compare that to the wholesale markets where you can sell through the wholesale markets or you can sell through some of these load auctions that the states do, the default service providers and they tend to have lower margins even yet. And so we wanted to move ourselves from the low end of the margin spectrum, which is the wholesale markets.

Curt: By the way it's also the least collateral efficient because you have to post collateral if you're hedging in the wholesale markets because you're usually doing it with investment grade counterparties like banks and they require a lot of posting of capital. So it's an inefficient channel for us to sell into. And we wanted to shift from selling exclusively into those markets outside of ERCOT into the retail arena. And we were able to do that first with Crius, which that was largely what that Crius play was about. Was to getting us outside of ERCOT and getting some scale so that we can then, grow organically beyond that. And then we also wanted a quality, retail business that thought about retail the way we do. And we found that in Crius. So we think it was the best of all of them that were out there at the time. We were able to make that happen in that expanded us, as I said to many States that can take advantage now of our long a generation or our generation position. And it was a little bit different.

Curt: And it was a ERCOT play, roughly 60% of Ambit's business was in ERCOT and it was mainly residential. So it was a nice play inside of ERCOT. It also got us into the multi-level marketing or direct marketing. Some people may think of Mary Kay when you think about that type of marketing, but that was the one channel we did not have. And so we wanted to get into that. And we know these guys because they are headquartered in Dallas and we were good friends with them and we think they have the best multilevel marketing franchise in the business. And so once again we feel like we added to extremely good businesses for slightly different reasons, but it expanded obviously our retail presence, approach ... not just customers, but when you put these two together we'll be somewhere and when you put synergies in there, we'll be close to $250 million of EBITDA that we added out of that.

Curt: So the other thing it does is that because the retail margins tend to be constant over time, that it takes the some of the commodity price risk exposure out of our business as well. The last thing I'd say is just given our scale on the residential side, the synergies are significant as a percentage of EBITDA that we can get out of both of these acquisitions. And the last thing is that these short retailers, their trade at very low multiples. So we're able to buy them at a low multiple and then we believe that we will get the average multiple of VST. And the reason we believe this is that I think that the retailers, the short retailers are priced appropriately at the low multiples because they don't have the risk management capabilities that we do. They don't have the scale that we do, they don't have the assets to back it up. And so they are much more volatile on their own.

Curt: When you put that inside our business with our generation and that changes the whole complexion and then of course we can run their business without their back office and we can reduce costs significantly. So that's why I think the value of retail in our portfolio is much higher than retailers on a standalone basis. And it's why I think we believe we're going to be able to do more retail deals in the future.

Nate: I appreciate the explanation and I ... just within the context of future potential acquisitions, maybe in the retail space, maybe even investing in renewables. I'd love to hear your thoughts on just the metrics that you use to weigh the cheapness of VST stock versus growth projects. And ... sorry, I'm going to add another crack caveat on this, but so how do you weigh the cheapness of your stock versus growth and then within the context of when you reach two and a half times leverage, which is your target, how are you thinking about investing VST's capital, maybe late 2020 early 2021.

Curt: Yeah. Okay. So I'll talk about sort of how you think of how we think about it anyway analytically. Because I think that will inform you on kind of how we as a company kind of go about our business. But just from a pure, standpoint of looking at which is the better use of our capital and has better economics. For us we're quantitative in nature, we're analytical in nature and so, we look at ... and by the way, every growth opportunity is looked relative to buying back our shares. So, to us, if it can't beat that under different scenarios, then we should be buying back our shares in our opinion right now because our ... we think our stock is cheap. And so that ought to be the first order of business. But in all the modeling and exercises, there's ... you have to make assumptions and if you're going to buy back your shares, the reason that you would buy back your shares is that obviously you think over time that your share price is going to improve. But nobody has a crystal ball. You don't know what it's going to go to. But what it does force you to do is to do the analysis, to show what the range of outcomes will be on your share price.

Curt: And then so if you buy back your shares at $25 and you think you're going to be at 30 or 32 in two or three years, that has a particular return profile to it. And then you compare that return profile and we look at multiple scenarios. But you then look at that, what is the return profile of the investment? That would be the alternative use of money. And we do that on everything that we look at. And so with Crius and Ambit, we looked at what we thought the economics of those two transactions would look like, which were very strong returns relative to buying back our shares and that in our view under reasonable scenarios we felt like those two were a better use of capital at the time than using that money to buy back shares. Now if you're flush with money you could have the luxury which you've got to the point of what's it look like when you get to the end of 20 and you have a lot of capital. It may be a little bit different calculus because you also are trying to build your business and grow your business strategically. At the same time you can be buying back your shares and it's not necessarily a cannibalization of one strategy versus another, but we're tight capital right now from the standpoint we want to pay down our debt, we want to buy back shares and we want to reinvest in our business and so we have to do that kind of calculus to try to figure out which is the better use of our money at the time.

Curt: In both instances we felt like it was a better use of capital. So that's how we go about it and that's how we're going to continue to look at it though by the way. We'll continue to run the economics and we have criteria that we have said to the market five to 600 basis points above cost to equity, but I will tell you in both Crius and Ambit, it was well above that because that wasn't just ... that wasn't the only hurdle rate we were using.

Curt: We were also looking at it relative to buying back our shares and in both, I guess in both instances we felt like what we were going to get out of those two acquisitions was greater than buying back our shares but still buying back our shares. And I think it's probably going to be the same when we get through 2020 and paying down our debt. My guess is, it'll still look attractive to us to buy back our shares. So I would expect as we get through the balance of 2020 we'll announce a capital allocation plan that will have some reinvestment in our business, some buying back of shares. And I wouldn't be surprised to see us increase the yield on our dividends as well. I think ... but we'll have to see all this has to go through, board discussion in the back after 2020 is when we'll have that serious discussion.

Curt: But I think we can do all three of those. And I think it would be hard for us to find other sectors and other companies that can generate this kind of cashflow and have that kind of a diverse capital allocation plan where you're returning a significant amount of money back to shareholders and also putting back into the business, a significant amount of capital all while you're maintaining your asset base and allowing ... that allows you to generate the same level of EBITDA on a year by year basis. That's a pretty unique feature for our company and I don't know that people have completely focused on it, but we believe they will as time goes on.

Nate: Yeah. I personally completely agree, but I am curious from your perspective just what the biggest legitimate risks are that maybe you've heard from investors that you respect, that they sort of pose to you as obstacles to achieving the value creation that you're targeting. So another way to put it is just anybody who reads Steve Fleischmann's report and looks at the free cash flow per share growth that your company will generate over time. What are some legitimate reasons as to are ... legitimate counter-arguments to the investment thesis that's laid out?

Curt: Yeah. So, unfortunately there's a few, and I'd say some that I think are legitimate things to worry about, which I worry about. And then some of which I think are legacy concerns of investors. The reality of this is the old IPP model with a lot of leverage and poor investment decisions, drove a lot of the long only investors out of our business and we're trying to get them back in. And why does that matter? I think you can see it in our stock price today. We still have a number of hedge funds that are in our business. They tend to trade on quarterly catalyst, as they call it. They're constantly looking for what's the next shiny object and they want you to change your strategy. If the wind blows one way or another. And a lot of our daily trading activity is with these individuals so that they're hedge funds and then the long investors because they do a much more deliberate strategy. The timing of a hedge funds, selling and buying is different than a long-term investor. And so I think there's a fight for our company right now. We've been, I think with the selling pressure we've had from legacy shareholders and then also a significant amount of hedge funds in our stock. I'm shocked that we've been able to double our stock price and I'm proud of that. But I think to go to the next level, we have to generate a lot of demand from investors that are long oriented. And I think we've been successful with that and we need to get the selling shareholders out of our stock, which I think we've been successful, but there's a little more work to do beyond that. I think then there's an education process about why, because we're such a small sector, why should we own you? The long investors are saying, why should we own you? And what are the risks of that?

Curt: The heads runs are still prone to sell. We'll buy on forward curves. But I think that's slowly going to move, especially as we execute our ability to hedge longer term and to reduce the amount of risk in our business. And as we become investment grade, I think that's the most visible sign that the company has very low risk.

Curt: And I think that will be good for long investors, not only to invest but to increase their investment and to own our stock at a lower free cash flow yield than what it is today at 15%. now some of the risks of the past, and we're still living with, bad investments and people were still conditioned. It's amazing to me, largely hedge funds, but when they see lower commodity prices, they still think that we're, the IPPs in the past and that we've got all this debt and that is going to create financial distress. So they seem to react to it and want to run for the hills when in fact this company is nowhere near that they were carrying six, seven times debt. We're carrying, two and a half. So it's a really different business. So that's a perceived risk that I think is still out there. The legitimate risk in our business, it's still, somewhat commodity price, risk exposure and it's been ... for me it's more of a longer term risk, not the short term risk because we can hedge in the short run and manage that price risk exposure and we're in a really good place in ERCOT I believe because the market is still tight and we're going to see a lot of volatility in pricing and we're positioned well to deal with that. It would be more if there was a long-term sustainable recession that really had a big impact.

Curt: And ... while that can happen, we can't control that. But what we can do is manage that by doing as much forward hedging as we possibly can. But I do think pro ... commodity price risk exposure is always going to be something that we're going to have to effectively manage. The thing it really concerns me more though is that where you have external parties, elected officials and regulators alike who cannot resist having their hands in the power industry, especially now that it's moving to renewables and it's tied to this almost religious fervor over climate change and it just attracts all this attention and I've found when you get that kind of intervention, which is uncontrollable risk for an investor, that's a dangerous thing. So you have to be able to manage it as best you can and I think our company has done that. You also ... that's why you have to be low debt and you have to be integrated and you have to be nimble and you have to be willing to make different moves with your portfolio depending on that type of risk and manage through it. I think we can do that, but that's ... that is a legitimate risk and it's one that does concern me and it's why I spend a lot of my time meeting with elected officials and regulators because we have to work very hard at controlling that.

Curt: The good news of all that is ... is that because we're almost 60% EBITDA in Texas. The Texas elected officials and regulators are as good as it gets, there's about as stable as it gets and they're pro markets. The bigger concerns are when you get into the PJM States where you have, some pretty activist states out there doing things like nuclear ZECs and you know who those those states are.

Curt: But I will also tell you that what I've been very pleased with is that the federal energy regulatory commission, the FERC has done a remarkable job over the last several years of trying to mitigate that risk and we need them to continue to do that. I expect them to do that with their PJM order that comes out. I think CASPR in ISO New England was a very well thought out and a very good construct. I think it was protected. We need to extend that though to existing resources, not just new resources. And then I think PJM, I think FERC was going to come out without what I expect to be a very balanced order. That doesn't really increase the amount of capacity payments that we get today, but that it protects us from the downside of out of market activity. And that's what I would expect it to be. I think PJM has been a really good market. It's had very good returns. It's returned two thirds to three quarters of new build, to combined cycle plants for several years. That's pretty darn good in a market that almost has 30% reserve margins. So I'm not expecting a big windfall, but I'm expecting the FERC to defend against the price distortions that can occur without of market activity by States that have, absolute power to tax and then to spend and also have gone as far as to mandate that the resources that they give money to actually offer into the capacity markets at below their cost. And so somebody has to defend that and I think FERC's done a reasonably good job of it and I expect them to continue to do that to future.

Nate: Yeah. I appreciate that. And I'm really looking forward to seeing what the results are out of, the future votes, the upcoming votes. Because I think ... unfortunately for your business, investors view potential rulings out of FERC as potential headwind. But at the end of the day it's really great to see these, free market types of people who are in positions where they can influence where markets go from here.

Curt: The FERC should put a market in place that provides a opportunity for resources to earn a fair return. And when they do that, they should look at it as if resources can earn money from energy, they can work, they can earn money from capacity and they can earn money from ancillary services. They shouldn't assume that you ... that you're going to earn money from just one of those.

Curt: And I think what's happened is, is that many of the generators who have high heat rate units that in Texas would have shut down or maybe rightly should shut down in PJM, have been bullied by a very robust capacity market beyond probably what it should be. But there should be no expectation from those resources. And FERC should not try to support a set of resources that are not running for energy. And so they have very little value coming out of energy and should support that with, bigger payments out of just one of those revenue streams. And because that's a choice that people make. We went out and we bought Dynegy and one of our reasons we did that is because Dynegy had the best set of combined cycle plants in PJM. And so we, knew what we were getting assets that were deeply in the money and that earned money from all three of those buckets. And others could do that too. They could put their balance sheet to work and they could go out and buy Dynegy or other assets. And they could get assets that are actually making good money because they're getting it from all three of those buckets. But you should not assume that if you're only earning money on the capacity market alone, that somehow you have that that should support you by giving you more and more money out of the capacity market.

Curt: I think that's flawed thinking and it's not going to lead to a good market. And I think where that leads to ultimately is States are going to reject that and they're going to leave PJMs if they continue to stuff money into the capacity market because those States don't like capacity markets anyway because they're ... they believe that they're there markets that keep assets that don't run alive. They'd much rather pay them for energy and not capacity. And I think PJM was headed down that path by trying to improve the energy markets, which I think they're still trying to do. And I think they will, but you can't expect to get it all out of the capacity market. And that's why we believe that what will come out a far will be balanced. But it will be protective more than it will be enhancing of the capacity market.

Nate: I appreciate that. So could you talk just a little bit about the timing and hitting investment grade? Obviously two and a half times leverage by the end of 2020 but full disclosure, I spoke to Kirk Andrews and I could tell during the previous investor call that they had that their company had ... he was clearly frustrated with rating agencies inability to see the new business model as it is. And so I'd just love to hear your thoughts on just the timing. And then on top of that, just apart from lower interest rates, what do you think investment grade will mean for your business?

Curt: Yeah. So one thing I will say is that the timing of investment grade I've always felt was something in more of a 2021 maybe even 22 and I'll tell you why because the agencies have been fairly open about this in particular S&P that part of what they were going to need was not just leverage at two and a half times, but they were going to need to see the business model play out over, a four or five year period, which they believe was a cycle. And they also wanted to see that we were committed and that we were willing to follow through on maintaining our leverage and our financial discipline, and that we were also able to hit our earnings targets and the manage the risk of the business. So we've always been kind of on this track for that timeline.

Curt: And I ... I'm not speaking for NRG, I'm speaking for VST right now. But it's not surprising to me that NRG might be getting a push back here just because I think it's more than just hitting the two and a half times. I think it is about seeing the business model play out. But I understand the frustration that Kirk has and I can appreciate it, but for us, we think of it this way, we've got two notches to go and so we're really focused on the double B plus and we know what we need to do to get there. We think in the first part of 2020 that we can get there and that's through execution and hitting our numbers and financial discipline and continuing to pay down our debt, all the things that we need to do. And then we think it's a year plus to get to the investment grade. Again we still have to execute through all that, continue to pay down our debt and to get our balance sheet in order. But that's kind of the timing for us. So it's a ... I would say it's a 2021 back half of 2021, 22 thing for us to get to investment grade. If it happened sooner than that, hallelujah. But I ... I'm not sure it will. And so for us it's really trying to get to that next step because you can't get to the investment grade without getting to the double B plus. So we're very focused on doing what we need to do to get there. And I think NRG is to get to that too. So I think both of us are doing what we need to do. They've gotten to the two and a half times quicker. But I also think there's more to it than that as I had said. I think you also have to demonstrate that the model actually works over a sufficient period of time.

Curt: And remember these agencies, it's not just the analysts that follow us all the time at these agencies. It's also the committees that they have to go to. And many of these committees have been in situations where they've had to downgrade, downgrade and downgrade the IPPs and then they saw those IPPs go into bankruptcy. All of the publicly traded IPPs had been in and out of bankruptcy and so there's still some legacy views just like there is from investors, long investors, they still have some concerns about whether we're going to follow through and do what we say. And so that's why I think it's going to take time. I like where we are and I like, how we're positioned to get where we need to be. Because I think the timing works pretty well for us as we bring down our debt. And then I think we're well positioned at 19 to have good numbers and we're well positioned for 2020 to also have good numbers. I think ERCOT is our biggest market and it's continues to look very strong and so I think the company is about as good a place as it could be to get there. It's just going to take time. Now in terms of what we get out of it, I think the credit spreads are really not all that attractive. I mean you get a little bit of lower interest. That's not why we're doing this.

Curt: To be quite honest with you it is all about trying to take the risk premium that people have in mind when they buy our stock. And that's why I think we trade at a yield of 15% on our free cashflow. Whereas other energy commodity capital intensive businesses trade in the single digits and Nate, if you just take our company from a 15% free cash flow yield to a 10% free cashflow yield, that's not even getting into the single digits. That's $7 billion of value. And so from my standpoint, the reason we trade at 15% is because there's a risk premium. Now, I think getting the investment grade is one piece of the puzzle to demonstrate to investors that we are not a risky proposition for them. That we are actually a very strong stable company. The other thing we have to demonstrate is our ability to manage through the change in technology in our sector. Especially on the generation side, I think we can do that through investment.

Curt: But also we did that with our 10 year outlook that we did on the Q3 call. So I tried to show investors that we have staying power here, we've got great assets, we can maneuver through all this and then we have this great free cashflow that we can invest a quarter of it and replace our generation over time in a very orderly and disciplined fashion. If we can do all those things, I think people will begin to realize, that we aren't that big risk. So we really don't require a 15% precast low yield, but a 10% free cashflow yield. And that's the biggest thing we can do right now Nate in order to increase our stock value.

Curt: So in my mind, investment grade ratings are all about the value of the equity and we have to show that we have the stability and strength to get there. And that is part of the puzzle to get us to trade at a better free cash flow yield and that's good for an equity investors. So this is an equity move in my mind as much as it is for the creditors.

Nate: Yeah. I just did some quick math and looking at ... again going back to Steve Fleischmann's report where he has free cash flow per share at $5 and 5 cents in 2022 assuming you guys hit investment grade and you come, somewhat close to at least what regulated utilities are trading for today. Still a pretty significant discount to what they're trading today. Just call it a 6% free cashflow yield in your stocks at like 84 bucks, which is just pretty mind blowing whenever you think about it. But which is also one of the reasons why I really do appreciate the fact that you highlight your thoughts on the value of your stock during earnings calls, which again, like people might be listening to this podcast episode and thinking that I'm just pounding Vistra's chest. But I think it's ... I personally think it's a screaming value by, but I'm especially given the fact that you guys have done what you've done with the business model and you've created such a stable portfolio of cash flows and the business itself is integrated and really hard to replicate.

Nate: I mean people look at retail businesses and they may have some view as to, barriers to entry being low. But the barriers to entry to creating what you guys have created are extremely significant and I don't think that's valued within the market. So given the value in your business and maybe some of your peers, what do you think that the integrated power producers are going to be public companies five years out from here? Assuming your share price stays where it is, do you think that private equity is going to come in and just say, okay, well this business just is completely misunderstood by the market and there won't be a integrated power producer publicly traded anymore?

Curt: I don't know Nate. When I started this gig, I would've said I and ... I'm a glass half full person. I really felt strongly that we could make it in public markets. I ... and I still believe that and days like or weeks like, the last week or so sometimes make you think twice about it when you don't trade anywhere near your fundamental value and then you come off because of some technical issue. But I still believe it's that phenomenon who owns us and I think that's going to change over time. I have a lot of faith that we can execute and then we can sell this story and that ultimately that people are going to own it at a fair precast low yield, which will realize the full value of the potential of the company. And I think, we're a couple of years away from making that decision, but I can also say that the management team and the board are not going to sit, idling around if we're not advancing toward that target over the next couple of years. And maybe because it is such a small sector, may be people don't feel like they need to own the stock and maybe they don't think that a competitive integrated power company is something they want to own.

Curt: If that's the case, then your private owners, if something like this will do quite well because of the amount of cash it generates and that's another way to play it. There's some really very good companies that have been private companies and people have done quite well. And so, I think we have to put, as I said before, when Steve asked his question, I think you have to put all the ideas on the table to unlock the value of a company for your stakeholders and for the employees of the company too, that sweated out every day. So that's what I intend to do. And that's what we're going to work toward. And I know the board that we have that they feel the same way about it. So we'll see whether we get there or not. In terms of the public market thing, I will still have faith. We'll get there, but if not, we're going to have to consider all of the above.

Nate: So I just have a couple of closing questions for you here. And I guess first of all, I'm just curious from your perspective, you speak to a lot of investors and oftentimes as a CEO you walk away from a meeting thinking, why didn't they ask this question? And, and I just love to hear from your perspective, what's the most important question that you never hear or never gets asked and....

Curt: Yeah. That's a good question. And I would say ... and this may not be exactly the question that I would like to see more than some probing by in particularly the sell side analysts, but also just maybe in investor displeasure. And it gets back to my point that I was making to you earlier in the podcast about the intrusion in the markets by state sponsored resources. And I ... I'll tell you why I'm saying this is that, I see sales side analysts, they'll talk about, for example, Exelon getting their zero emission credits and that, it's a good thing that Illinois is likely to give them, more subsidies, on their nuclear units. Now I kind of understand that because you're really kind of ... you're out there saying, what's going to happen with Exelon stock price.

Curt: And so, you're just giving investors feedback on what you think the prospects are that they're going to get paid a subsidy. But what I find to be more disturbing than anything is that I can't think of any sector in the economy where if a government that has absolute power came in and said two things, one is we're going to come in and bail out the competition and give them subsidies to keep them alive. And then the more absurd thing is that we're going to tell them to take some of that subsidy and use it to undercut their pricing in the market. And that's exactly what's going on right now with states. And then people want to argue that somehow is okay that States have the right to do that. And in my view, states don't have the right to do that.

Curt: They have the right to have their own energy policy, but they don't have the right to distort. And to basically use their absolute power to manipulate the pricing and competitive markets. And I have not seen anybody write about that or say, something is just not right here. This ... how can this be? Where's the department of justice saying that this is not right? I mean for crying out loud, we had the president wanting to do subsidies for nuclear and coal and it seems as if it's okay in the power markets. And it gets back to what I said earlier, which is I still believe that some people still believe that we're in regulated markets where you have monopoly entities and you can do those sorts of things, but these are competitive markets and then they use the excuse by the way, that, well it's not perfectly competitive. Well... that's crazy. No competitive market in the U.S. is perfectly competitive. All of them have some level of oversight by government authorities or intervention by government authorities at some level. So it just, it's really, no one really ever really engages in whether that's fair or not or has written anything on the idea that somehow how can this happen where, States can, can do this and use their absolute power to distort these markets and that somehow we have to let them do that. So that is something that in my mind is a difficult issue to deal with and no one really has talked to me about it. I haven't had one person say to me, how can this be? How can we help in this? Now it's a little bit disappointing to be honest with you.

Nate: For you specifically, professionally or even personally, what has helped you get to the position that you're at today?

Curt: Well, look I ... that's a very good question. I'll try to be, pretty pithy on this. But I think some of it was, just my upbringing and my parents and in particular my dad, he's one of these people that, commitment and hard work. And he used to tell me when I didn't want to do something they wanted me to do, he'd say, because it was maybe below me. I guess he would say it all pays the same. You work just as hard for the little things as you do for the big things. And when that happens, people will notice you. So I'd say that was a big deal for me. And look, I will also tell you, Nate, I didn't really know what I was doing in my professional career.

Curt: I kind of, wandered through it a little bit. I was good at accounting and so I became an accounting major. And then I got into the ... into accounting. That was a really good place to learn the business. I went to a really good company, the AMACO corporation is now BP AMACO and they were a great training ground for, especially for financial talent. And the bigger break though is it for me was when I left there to go into the power business and the power industry was restructuring in Texas. And I went to a company called Houston industries that became reliant. And what happened is I brought a set of skills and setting strategy and competitive markets and a company that was looking for my kind of talent. And so I was able to move very quickly. And then there was a gentleman named Steve Nave who I worked with who was a mentor of mine, a brilliant guy, and I learned a ton from him. And that I ... that my professional career and the trajectory of that career changed immensely. When I made that move, I took a risk, I went into a newly restructured industry and my skill sets worked well within that. And I got lucky that I worked for a ... an individual that really didn't care about politics and cared more about what you brought to the table every day.

Curt: And I was able to advance. And then the next thing is I was brought into Mirant who was in bankruptcy and the creditors and the board of Mirant brought me in and I was able to lead them through a really tough restructuring. And that was a true restructuring and bankruptcy restructuring. And I learned more in those two years probably, and I did and all the, whatever it was 15 years prior to that. Bankruptcy's have a way of bringing that out in and especially how to manage across a diverse set of stakeholders. But how ... so how to rally ... how do you rally people around you and the company that is going through a very tough period of time and get them to kind of turn the tables and move forward in a positive way. And that show, for me ... that gave me a lot of confidence in my leadership skills. I technically I was very good, but it also showed my ability that I could lead people, that they would follow me and that would really set the stage. Those two events going to rely on going to Mirant really where the building block for me to advance in my career.

Curt: And of course then from there, I've had some really good opportunities after that. I went to ECP, we did ... we built two really good companies that were wildly successful. And so that was great. And then the last one was coming here, which was probably the best decision I've ever made. Because I've gotten a little bit older and wiser, but I would not have come to this company without it. The TXU energy retail business. And I also wouldn't have come there if the creditors were going to lever the company up. And so I was able to convince them that the right thing to do was to play this game with strong balance sheet and not get over levered. And they bought into it. And I think our company has done well since then. So that's a bit of the path. But those events that happen around, Mirant and relied I think were really game changing.

Curt: And I appreciate my opportunity at AMACO because there it was a really great place to learn a lot of the basics of strategy and economics and all that and all those kinds of built up to where I am today. But I have to admit to you that I didn't ... I was not one of these people that had a grand plan. I was just lucky enough and blessed enough to have the qualities to be able to do the things, with the intellect and then leadership skills and lucky that I was paired up with people throughout my career who cared about me, who gave me opportunity. And that's the other thing. Opportunity is everything. And without opportunity there's not hope and without hope there's nothing. And I got a lot of opportunity and that built a lot of confidence in me and I had a lot of hope and all those things, stuck with me. And here I am today. I'm very happy about where I'm at today and I think we have a lot of great things ahead of us at Vistra.

Nate: Yeah. I really appreciate that and I love that quote. Without opportunity, there is no hope and without hope, there's nothing I agree with that. Well, it's been an absolute pleasure, Curt. Really loved talking to you and love hearing your thoughts on the market and I can't say thanks enough. So, sincerely, thanks.

Curt: Well look, I like doing this Nate. We'll do it again and appreciate the opportunity. Enjoy doing it. This is a good timing for us to ... with our stock kind of coming off a little bit to get our message back out there. So it's been helpful to us, but I do appreciate it.

Nate: A million thanks Curt. Really.

Curt: All right, you take care.

Nate: All right, you too. Bye now.

Curt: Bye.