



Vistra Corporation (NYSE:VST)



Investment Thesis



- Pairs strong business with “call option” on emerging renewables-based energy markets
 - Strong fundamentals and management
 - Core industry and business growth drivers
 - Incredibly compelling valuation

Recommendation: Buy

Current Share Price: \$18.83

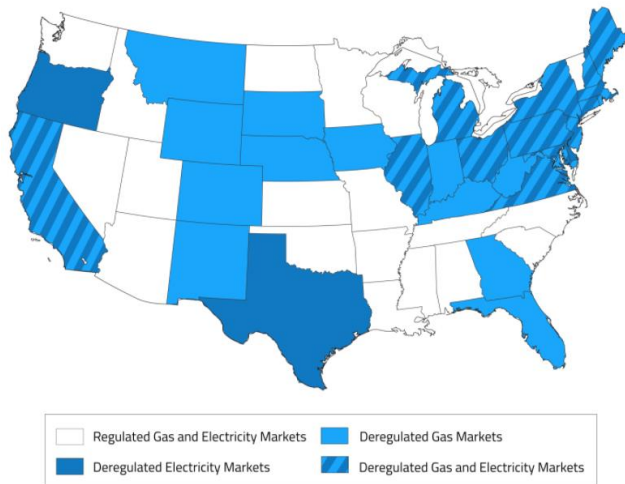
Price Target: \$27 (+43%)

Energy Markets

Regulated vs Deregulated

- In a regulated market,
 - Vertically integrated monopoly utilities cover the entire value chain with oversight from the FERC
 - Responsible for sourcing, generating, and distributing power to retail customers
- In a deregulated market,
 - Participants own power plants, but not transmission lines
 - Generators sell electricity in the wholesale market, and retail energy suppliers purchase it to sell to customers
 - Wholesale markets are operated by ISOs/RTOs

Lay of the Land



In-Depth Look into Deregulated Markets

- **Retail:** Customer Choice
 - Retail competition **lowers prices** & allows customers to **tailor their energy** to their preferences (e.g., renewables)
 - Independent companies sometimes require customers to sign **multi-year contracts**, locking them into a price
 - Note: customer choice only applies to the generation portion of a customer's utility bill
 - Transmission & distribution services handled by PU
- **Wholesale:** Creation of Competitive Wholesale Markets
 - As utilities and competitive retailers do not generate their own electricity, they must acquire power elsewhere
 - Centralized wholesale markets provide an economically efficient method of doing so
 - **ISO/RTOs replace PU as grid operators** & are operators of wholesale markets for electricity (regulated by FERC)
 - ISO/RTOs typically run **3 kinds of markets** that determine wholesale prices
 - Energy Markets
 - Day-ahead market (95% of transactions)
 - Real-time market (5%)
 - Capacity Markets
 - Ancillary Services Market

Company Overview

Business Model

- TX-based integrated retail & power generation (dereg)
 - Electricity generation and distribution at the lowest cost
 - Reduces commodity price effects and contributes to earnings and cash flow stability
- Serves 4.6 million customers, operates in 20 states & DC
- Generation fleet ~38,500 MW of generation capacity
- 6 segments (from greatest % of revenue to least)
 - Retail ERCOT (only energy market)
 - PJM NY/NE
 - MISO Asset Closure

Senior Management



Curtis A. "Curt" Morgan, CEO & Director (2016–)

- Ex-operating partner at Energy Capital Partners
- Turned around the OldCo after 2015 bankruptcy
- ~11% base pay



Jim Burke, President & CFO (2020–)

- Previously VST's COO, ex-CEO of TXU pre-2016
- In charge of M&A strategy
- ~15% base pay



Scott A. Hudson, President of Vistra Retail (2017–)

- Previously President of TXU Energy
- ~20% base pay

VST Value Chain

Sourcing

- Owns 12 TX surface lignite coal mines
- Purchases:
 - Nuclear (contracts for 2020-21 supply)
 - Natural gas (spot P. & near-term supply + transpo contract)

Generation

- Location (capacity)
 - ERCOT (18k MW)
 - PJM (11k MW)
 - NY/NE (5k MW)
 - MISO (3.5k MW)
 - CAISO (1k MW)

Retail & Wholesale

- Retail
 - Competitive pricing
 - 2/3 in TX, 31% of res and ~10% of biz in TX
 - No PPAs
- Wholesale
 - Energy & Capacity

Marketing and Sales

- Retail marketing:
 - Each brand handles their own marketing capabilities
 - Most are through "regular" channels
 - Direct selling (thru acquisition of Ambit)

Transmission & Customer Service

- Utilities take care of transmission
- One of lowest customer complaint rates
- Focus ample choice:
 - TXU Rewards
 - TXU Green Up
 - Diverse solar options

Company Overview

Historical Stock Price Performance



Historical Financials

	2016A	2017A	2018A	2019A	LTM
Revenue (mm)	5,164	5,430	9,144	11,809	11,779
EBITDA Margin	22.8	23.2	22.0	32.9	35.1
UFCF Margin ¹	23.4	13.9	17.8	13.0	14.3
Capex ² as %Rev	31.4%	12.1%	4.5%	12.7%	12.4%
Debt/EBITDA	4.0	3.5	5.7	2.9	2.6

Corporate Timeline

1. Vistra beats by \$0.03, beats on revenue
2. Dynergy and Vistra to merge in all-stock deal
3. Vistra beats by \$0.27, beats on revenue
4. Vistra misses by \$0.93, misses on revenue
5. Vistra sees <50% chance for Illinois bill shifting coal to solar
6. Vistra beats by \$0.07, beats on revenue
7. Vistra beats on revenue. VST acquisition of Ambit Energy
8. Vistra settles to retire Illinois coal plant to avoid litigation

1. As defined by S&P CapIQ

2. Includes cash acquisitions

Capitalization Structure

Cash & Cash Equivalents \$519

(in millions, as of Q3 2020)

Description of Debt	Principal Due	Leverage ²	% of Total Cap.	Weighted Average Rate	Maturity
Credit Facility	2,579	0.7x	13.5%	1.9%	-
3.550% Senior Secured Notes	1,500	0.4x	7.9%	3.6%	2024
3.700% Senior Secured Notes	800	0.2x	4.2%	3.7%	2027
4.300% Senior Secured Notes	800	0.2x	4.2%	4.3%	2029
5.000% Senior Unsecured Notes	1,300	0.4x	6.8%	5.0%	2027
5.500% Senior Unsecured Notes	1,000	0.3x	5.2%	5.5%	2026
5.625% Senior Unsecured Notes	1,300	0.4x	6.8%	5.6%	2027
8.82% Building Financing due Semiannually	10	0.0x	0.1%	8.8%	2022
Other ¹	1,421	0.4x	7.4%	-	-
Total Debt Outstanding	\$10,710	2.9x	55.2%	3.9%	-

Market Value of Equity 9,210

Total Enterprise Value \$19,401

Equity / Total Enterprise Value 47.5%

Weighted-Avg. Cash Cost of Debt 3.9%

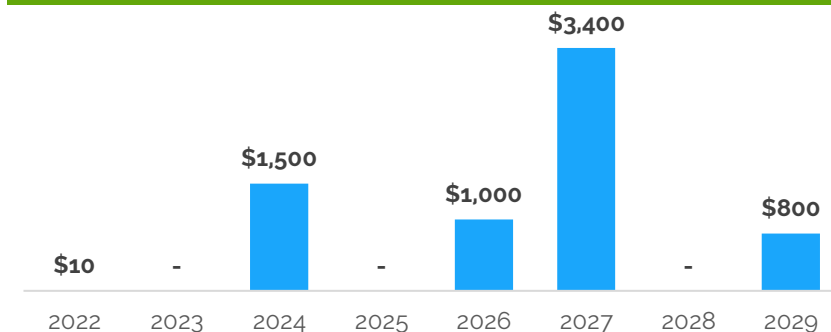
Cash Interest Coverage³ 3.0x

Cash Interest Expense 644

VST 2020E EBITDA 3,632

VST 2020E EBIT 1,963

Debt Maturity Profile



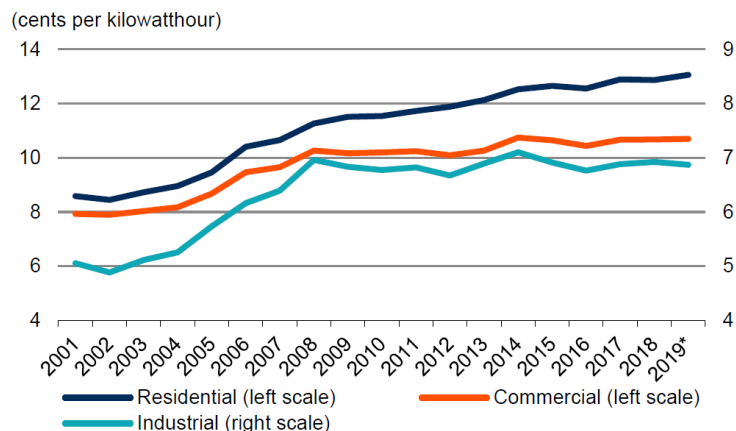
1. Includes leases, forward capacity agreements, equipment financing agreements, unamortized debt premiums/discounts/issuance, and amounts due currently

2. Debt/EBITDA

3. EBIT/Interest

Key Industry Drivers

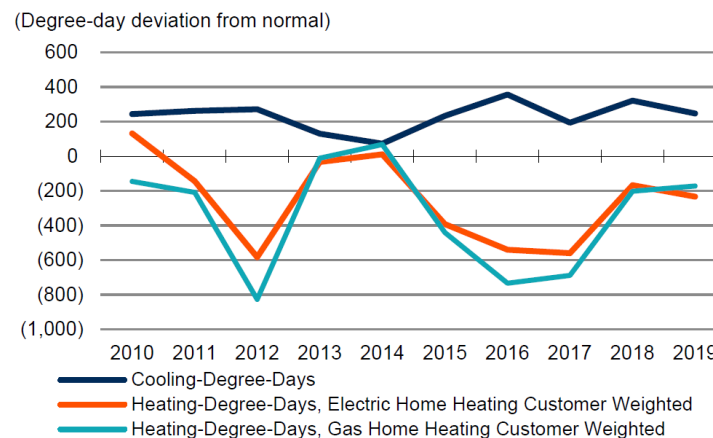
Customer Electric Rates



*Data through October.

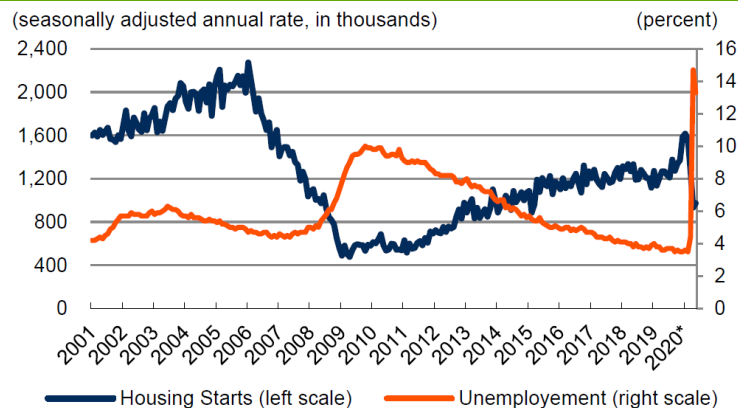
Source: U.S. Energy Information Administration

Degree Day Statistics



Source: CFRA calculations, National Oceanic and Atmospheric Administration's National Weather Service and Climate Prediction Center

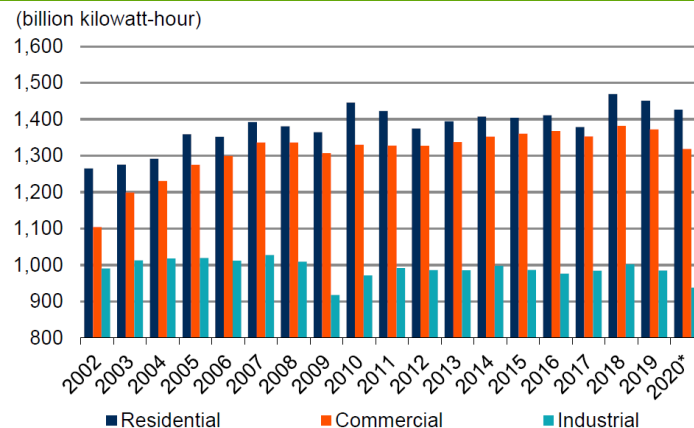
Housing Starts and Unemployment



* Data through May.

Source: U.S. Department of Commerce

Electricity Usage by Customer Class



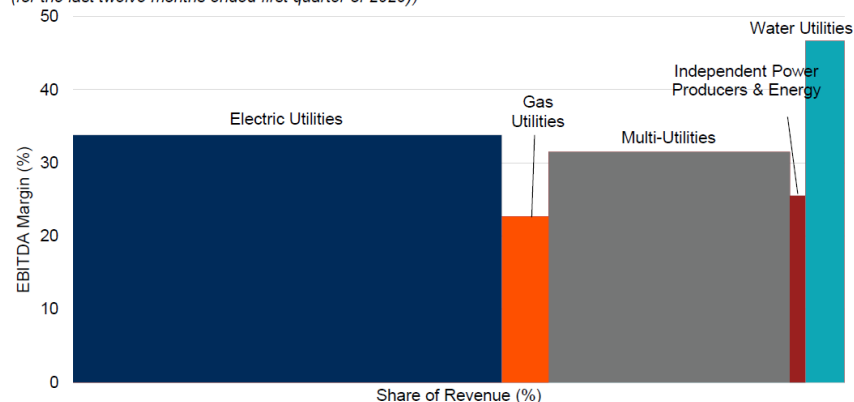
*Last twelve months ended May 2020.

Source: U.S. Energy Information Administration

Industry Trends

Profit-Pool Map of S&P 1500 Utilities

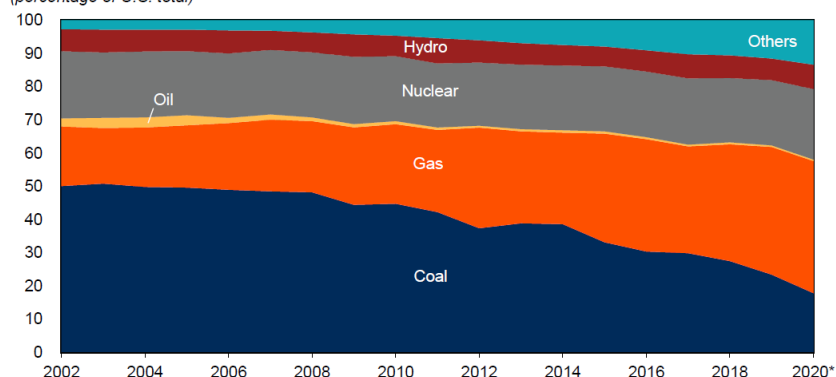
(for the last twelve months ended first quarter of 2020)



Source: CFRA estimates, S&P Global Market Intelligence

Out with the coal, in with the new

(percentage of U.S. total)

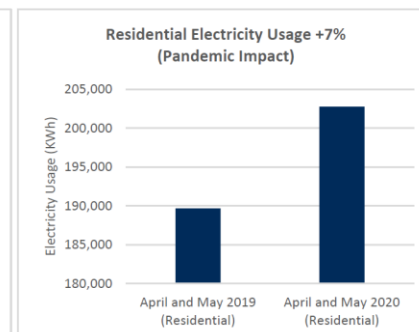
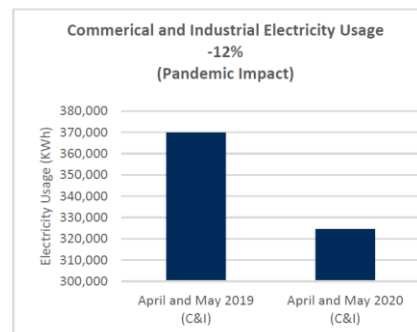


*Annualized based on January to March data.

Source: U.S. Energy Information Administration

Operating Environment

- The EIA forecasts 4.2% less electricity consumption in the United States in 2020 compared to 2019 due to Covid-19 restrictions
- The commercial sector is expected to fall 7.0%, while the industrial sector is expected to fall by 5.6%
 - Commercial and industrial (C&I) demand is affected by closures and/or shortened operating hours of nonessential businesses
 - On the other hand, residential consumption is generally increasing due to shelter-in-place orders resulting in school closures and working from home
 - On average, declines in C&I volumes outweigh gains in Res.
- According to the EIA, residential sector retail electricity sales in 2020 will be like 2019 as less electricity used for heating in the first quarter is offset by more consumption during the rest of the year as a result of people spending more time at home
- Total U.S. electricity consumption is expected to rise by 1.5% in 2021



Strategic Outlook

1

Development Opportunities

- Retail: Vistra is planning to grow organically and through opportunistic M&A transactions
- Texas: growth will be driven by current and future investments in solar and battery energy storage
- East: growth can be driven by IL Coal to Solar Act; West: growth will be driven by battery energy
- Vistra's development, commercial, and operational capabilities, combined with its advantaged projects and strong customer relationships, make Vistra a natural owner of renewable assets
 - ~2,000 MW of solar and storage projects just in TX under development or in the pipeline
 - >1,000 MW of energy expansion opportunity at existing sites in California

2

Transformational Growth & Portfolio Rebalancing

- ~\$500 million of average annual equity investment in transformational growth capital is expected to generate at least \$900 million to \$1 billion in incremental EBITDA by 2030
- Reducing Coal Exposure
 - Vistra plans to retire an incremental ~6,800 MW of coal assets between now and 2030 for a total of ~19,000 MW of coal and gas retirements since 2010 (<10% of portfolio by 2030)
 - Vistra accelerated its 2030 and 2050 GHG emissions reduction targets, complemented by the significant investments in renewables and batteries
- Vistra has begun the development of nearly 1,000 MW of solar and energy storage projects in TX

3

Disciplined Capital Allocation & Visionary Management Team

	Growth Investment	Asset Type	Details
Acquisitions	Odessa Power Plant	CCGT	1,054 MW
	Dynegy	Generation and Retail	26 GW of power generation and 30 TWh of retail volume
	Crius & Ambit (2019)	Retail	21 TWh; expansion into 20 states
Investments	Upton 2	Solar & Energy Storage	180 MW
	Moss Landing	Energy Storage	400 MW
	Oakland	Energy Storage	36.25 MW