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NRG Energy Inc. Q3 2008 Earnings Conference Call Transcript

Question-and-Answer Session

[Operator Instructions]. Our first question comes from Nitin Dahiya of Barclays. Please proceed with your question.

Nitin Dahiya - Barclays

Good morning.

David Crane - President and Chief Executive Officer

Good morning.

Nitin Dahiya - Barclays

Clint, from a GAAP structure point of view, I mean obviously you have pretty moderate leverage and very solid liquidity which is great in this environment, but as you mentioned the market is pretty tough, could you share your updated thoughts on what your ideal GAAP structure looks like in terms of leverage and minimum desired liquidity and how that relates to any distressed opportunities that might come your way in terms of acquisitions?

Clint Freeland - Chief Financial Officer and Senior Vice President

Sure Nitin, I think at this point I don't know that we really view our optimal capital structure any differently than how we've expressed it in the past. We have maintained target net debt to cap ranges of say 45% to 60%. Obviously we're around the 50% level now, so we're very happy with that. On a debt to EBITDA basis, we looked at target around 3.5 times, maybe a little bit lower and that gives us optimal pricing on our first lane structure. So I think at this point we're happy with our capital structure targets.

On the liquidity front, I think one of the things we have always said is that we believe for this business given the capital intensity and given the collateral requirements that we have here, there are optimal liquidity and we tend to focus on cash balances. It is somewhere between \$500 million and a \$1 billion in cash on hand. I would say that in the current environment though, I would say that I would tend to prefer to be on the upper end of that, which obviously we're very comfortably within this point frankly a little bit over.

Nitin Dahiya - Barclays

And at this time in terms of any acquisition opportunities?

Clint Freeland - Chief Financial Officer and Senior Vice President

Well, acquisition... the present market environment in terms of the cost of debt is obviously one that's a factor in any acquisition out there. I think... presuming that you're talking about acquisition opportunities in the independent power space, I believe that every company but one has changed its control clauses that would require their debt to be refinanced and that's an expensive proposition that you have to take into account in M&A activity.

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