Talen Energy Reports Fourth Quarter and Annual 2023 Results in Line with 2023 Guidance and Raises 2024 Guidance

March 14, 2024

HOUSTON, March 14, 2024 /PRNewswire/ -- Talen Energy Corporation ("Talen", "Company", "we", or "our") (OTCQX: TLNE), an independent power producer and infrastructure company committed to the energy transition, today reported its annual 2023 financial and operating results.

"Talen achieved its strongest financial performance ever in 2023, with over $1.1 billion of Adjusted EBITDA and $587 million of Adjusted Free Cash Flow, along with solid operating metrics," said Talen President and Chief Executive Officer Mac McFarland. "We also recently announced the sale of our 960-megawatt (MW) Cumulus data center campus to Amazon Web Services ("AWS"), unlocking significant value for Talen. This transaction provides an attractive return on our investment and vision in building Cumulus and creates value through the sale of clean carbon-free power from our top-decile Susquehanna nuclear plant."

"Proceeds from the Cumulus Data sale were used to pay off the Orion Energy Partners ("Orion") term loan borrowings at Cumulus Digital ("Cumulus Digital TLF"), unlocking earnings from our interest in the Nautilus operations that were previously used to service that debt. Furthermore, earnings and cash flow uplift from the AWS agreements start in 2024. Thus, we are raising our 2024 Adjusted EBITDA and Adjusted Free Cash Flow guidance ranges to include these incremental earnings," McFarland continued.

Key Highlights

- For the year ended December 31, 2023, reported Adjusted EBITDA of $1.121 billion and Adjusted Free Cash Flow of $587 million.
- For fourth quarter 2023, reported Adjusted EBITDA of $123 million and Adjusted Free Cash Flow of $(22) million.
- On March 4, 2024, announced the sale of Cumulus data center campus in northeast Pennsylvania to AWS for $650 million gross proceeds (approximately $361 million net to Talen, after certain related transactions, as described further below) and long-term contracts with AWS.
- Raising 2024 guidance ranges for Adjusted EBITDA to $640 - $840 million and Adjusted Free Cash Flow to $185 - $335 million.
- In December 2023, reached settlement with PPL on the Talen Montana litigation and received $115 million gross proceeds.
- Of the previously announced $300 million share repurchase program, 225,000 shares have been repurchased to date for approximately $14 million.

Summary of Financial and Operating Results (Unaudited)

	Three Months Ended December 31,	Year Ended December 31,
(Millions of Dollars Unless Otherwise Stated)	**2023**	**2023**
Adjusted EBITDA	$ 123	$ 1,121
Adjusted Free Cash Flow	$ (22)	$ 587
Total Generation (a)	7.7 TWh	32.5 TWh
Carbon-Free Generation	60 %	55 %
Equivalent Forced Outage Factor ("EFOF") (b)	11.5 %	5.5 %

(a) Generated MWhs sold after consumption for station use where applicable.

(b) EFOF is defined as the percentage of a given period in which a generating unit is not available due to forced outages and forced deratings. Represents all generation facilities, including our portion of partially-owned facilities.

Given the impacts of fresh start accounting and the implementation of the plan of reorganization on GAAP earnings in 2023, Talen believes its non-GAAP financial measures of Adjusted EBITDA and Adjusted Free Cash Flow are more meaningful in evaluating its performance. Talen's management team evaluates its financial and operating results utilizing these non-GAAP measures.

For the year ended December 31, 2023, Talen reported Adjusted EBITDA of $1.121 billion and Adjusted Free Cash Flow of $587 million. Talen met the midpoint of 2023 Adjusted EBITDA guidance and exceeded the high end of 2023 Adjusted Free Cash Flow guidance. In PJM, mild temperatures and ample gas supply drove lower market prices, but cash flows were protected by hedge program gains. The PJM segment earned Adjusted EBITDA of $1.063 billion in 2023. In ERCOT, the plants ran well during elevated periods of peak demand, especially in the summer, driving significant physical energy margin, though that was partly offset by outages and congestion costs. Together, the ERCOT and WECC segments earned Adjusted EBITDA of $109 million in 2023.

Talen achieved solid operational performance and a continued emphasis on safety throughout 2023, with an OSHA Total Recordable Incident Rate of 0.6 (defined as the number of recordable incidents x 200,000 / total number of manhours worked). Fleet EFOF was 5.5%, impacted by unplanned outages at our Nueces Bay and Susquehanna generation facilities. Total generation was 32.5 terawatt hours (TWh), with 55% from carbon-free nuclear generation at Susquehanna.

Raising 2024 Guidance

($ in millions)	**Range**
Adjusted EBITDA	$640 – $840
Adjusted Free Cash Flow	$185 – $335

Talen is raising 2024 Adjusted EBITDA and Adjusted Free Cash Flow guidance ranges above the amounts announced in our third quarter 2023 earnings. The increase is driven by adding earnings from the AWS agreements and our existing Nautilus operations, along with incremental expected capacity revenues from the recent PJM secondary auction for 2024/2025. The new range for 2024 Adjusted EBITDA is $640 to $840 million and the new range for Adjusted Free Cash Flow is $185 to $335 million.

Data Center Campus Sale

On March 1, 2024, Talen sold the physical and intangible assets of Cumulus Data, which includes a zero-carbon data center campus currently being developed adjacent to Susquehanna, to AWS for gross proceeds of $650 million, $300 million of which is to be held in escrow until the achievement of certain development milestones that are expected to be achieved in 2024. Uses of the sale proceeds include repayment of the Cumulus Digital TLF in the amount of $186 million, the purchase of Orion's approximately 5% common equity in Cumulus Digital, distributions to minority interests, and payment of transaction fees, taxes and other costs. After these uses, net proceeds to Talen are estimated to be approximately $361 million, which will be deployed in line with Talen's capital allocation and shareholder returns strategy.

In connection with the sale, Talen entered into a power purchase agreement to supply up to 960 MW of long-term, carbon-free power to the data center campus from Susquehanna. Talen and AWS agreed to fixed-price power commitments that increase in 120 MW increments over several years. AWS has a one-time option to cap commitments at 480 MW. Talen also entered into a separate agreement with AWS through which we will receive additional revenue from AWS related to sales of carbon-free energy to the grid.

PPL/Talen Montana Litigation Settlement

In December 2023, Talen reached a litigation settlement with PPL. Under the terms of the settlement agreement, PPL paid Talen Montana $115 million in cash in exchange for a full release of Talen Montana's claims against PPL. Talen Montana paid $11 million of the settlement to the general unsecured creditors trust that was established pursuant to the Plan of Reorganization, resulting in $104 million net proceeds to Talen.

Update on Share Repurchase Program

In October 2023, the Board of Directors approved a share repurchase program authorizing Talen to repurchase up to $300 million of the Company's outstanding common stock through December 31, 2025. In January 2024, the Company repurchased 225,000 shares for approximately $14 million at a weighted average price of approximately $63/share, excluding broker fees.

Balance Sheet and Liquidity

Talen is focused on maintaining a strong balance sheet, targeting a net leverage ratio of less than 3.5x net debt-to-Adjusted EBITDA, along with maintaining ample liquidity. As of March 8, 2024, Talen had total available liquidity of approximately $1 billion, comprised of $459 million of unrestricted cash and $544 million of available capacity under our revolving credit facility, net of outstanding letters of credit. Talen's current net leverage ratio, utilizing 2023 Adjusted EBITDA and net debt balances as of March 8, 2024, is approximately 1.6x.

Update on Hedging Activities and Nuclear Fuel Supply

As of February 29, 2024, Talen had hedged approximately 80% of its expected generation volumes for the balance of 2024 and approximately 32% in

2025. Talen's hedging program is a key component of the Company's comprehensive fiscal policy and supports the objective of locking in future earnings and cash flows while maintaining upside optionality.

As an update on nuclear fuel supply activities, Talen has eliminated its exposure to all Russia-related counterparties. Currently, Talen's nuclear fuel cycle is 100% contracted through the 2025 fuel load and at least 80% contracted through 2028.

Earnings Call

The Company will hold an earnings call on Thursday, March 14, 2023, at 3:00 p.m. EDT (2:00 p.m. CDT). To participate in the call, please register for the webcast here. Participants can also join by phone by registering here prior to the start time of the call to receive a conference call dial-in number. For those unable to participate in the live event, a digital replay of the earnings call will be archived for approximately one year and will be available on Talen's Investor Relations website at https://talenenergy.investorroom.com/financials-presentations.

About Talen

Talen owns and operates approximately12.4 gigawatts of power infrastructure in the United States. We produce and sell electricity, capacity, and ancillary services into wholesale U.S. power markets, including PJM, ERCOT and WECC, with our generation fleet principally located in the Mid-Atlantic, Texas and Montana. While the majority of our power is already generated at our zero-carbon, low-cost Susquehanna nuclear facility and other lower-carbon gas-fired facilities, we are reducing the carbon profile of our fleet through conversions and retirements of our wholly owned coal facilities. Talen is headquartered in Houston, Texas. For more information visit www.talenenergy.com.

Talen trades on the OTCQX® Best Market under the ticker "TLNE." OTCQX companies meet high financial standards, follow best practice corporate governance, demonstrate compliance with U.S. securities laws, and have a professional third-party sponsor introduction. Investors can find current financial disclosures and Real-Time Level 2 quotes for the Company on www.otcmarkets.com/stock/TLNE/overview.

Additional Information

For additional information and updates about Talen, please visit our Investor Relations webpage at https://talenenergy.investorroom.com, or contact:

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TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Successor	**Successor**	**Predecessor**
	Three Months Ended	**May 18 through December 31,**	**January 1 through May 17,**
(Millions of Dollars, except share data)	**2023**	**2023**	**2023**
Capacity revenues	$ 63	$ 133	$ 108
Energy and other revenues	368	1,156	1,042
Unrealized gain (loss) on derivative instruments	96	55	60
Operating Revenues	**527**	**1,344**	**1,210**
Energy Expenses			
Fuel and energy purchases	(114)	(424)	(176)
Nuclear fuel amortization	(36)	(108)	(33)

Unrealized gain (loss) on derivative instruments	(1)	(3)	(123)
Total Energy Expenses	**(151)**	**(535)**	**(332)**
Operating Expenses			
Operation, maintenance and development	(149)	(358)	(285)
General and administrative	(38)	(93)	(51)
Depreciation, amortization and accretion	(71)	(165)	(200)
Impairments	(1)	(3)	(381)
Other operating income (expense), net	(19)	(30)	(37)
Operating Income (Loss)	**98**	**160**	**(76)**
Nuclear decommissioning trust funds gain (loss), net	93	108	57
Interest expense and other finance charges	(75)	(176)	(163)
Reorganization income (expense), net	—	—	799
Other non-operating income (expense), net	120	102	60
Income (Loss) Before Income Taxes	**236**	**194**	**677**
Income tax benefit (expense)	(48)	(51)	(212)
Net Income (Loss)	**188**	**143**	**465**
Less: Net income (loss) attributable to noncontrolling interest	6	9	(14)
Net Income (Loss) Attributable to Stockholders (Successor) / Member (Predecessor)	**$ 182**	**$ 134**	**$ 479**
Per Common Share (Successor)			
Net Income (Loss) Attributable to Stockholders - Basic	$ 3.08	$ 2.27	N/A
Net Income (Loss) Attributable to Stockholders - Diluted	$ 3.08	$ 2.26	N/A
Weighted-Average Number of Common Shares Outstanding - Basic (in thousands)	59,029	59,029	N/A
Weighted-Average Number of Common Shares Outstanding - Diluted (in thousands)	59,029	59,399	N/A

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TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Millions of Dollars. except share data)	Successor December 31, 2023
Assets	
Cash and cash equivalents	$ 400
Restricted cash and cash equivalents (Note 20)	501
Accounts receivable, net (Note 6)	137
Inventory, net (Note 8)	375
Derivative instruments (Notes 5 and 14)	89
Other current assets	52
Total current assets	**1,554**
Property, plant and equipment, net (Note 10)	3,839
Nuclear decommissioning trust funds (Notes 9 and 14)	1,575
Derivative instruments (Notes 5 and 14)	6
Other noncurrent assets	147
Total Assets	**$ 7,121**
Liabilities and Equity	
Long-term debt, due within one year (Notes 13 and 14)	9
Accrued interest	32
Accounts payable and other accrued liabilities	344
Derivative instruments (Notes 5 and 14)	32
Other current liabilities	69
Total current liabilities	**486**
Long-term debt (Notes 13 and 14)	2,811
Derivative instruments (Notes 5 and 14)	11
Postretirement benefit obligations (Note 15)	368
Asset retirement obligations and accrued environmental costs (Note 11)	469

Deferred income taxes (Note 7)	407
Other noncurrent liabilities	35
Total Liabilities	**4,587**
Stockholders' (Successor) / Member's (Predecessor) Equity	
Common stock - $0.001 par value (a) (Note 16)	—
Additional paid-in capital	2,346
Accumulated retained earnings (deficit)	134
Accumulated other comprehensive income (loss)	(23)
Total Stockholders'(Successor) / Member's (Predecessor) Equity	**2,457**
Noncontrolling interests	**77**
Total Equity	**2,534**
Total Liabilities and Equity	**$ 7,121**

(a) As of December 31, 2023: 350,000,000 shares authorized; 59,028,843 shares issued and outstanding.

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TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor	**Predecessor**
	May 18 through December 31,	**January 1 through May 17,**
(Millions of Dollars)	**2023**	**2023**
Operating Activities		
Net income (loss)	$ 143	$ 465
Non-cash reconciliation adjustments:		
Unrealized (gains) losses on derivative instruments	(40)	65
Nuclear fuel amortization	108	33
Depreciation, amortization and accretion	157	208

Impairments	3	381
Nuclear decommissioning trust funds (gain) loss, net (excluding interest and fees)	(78)	(43)
Deferred income taxes	55	195
Reorganization (income) expense, net	—	(933)
Other	—	(43)
Changes in assets and liabilities:		
Accounts receivable, net	8	261
Inventory, net	(68)	10
Other assets	147	103
Accounts payable and accrued liabilities	(49)	(74)
Accrued interest	28	(124)
Other liabilities	(12)	(42)
Net cash provided by (used in) operating activities	**402**	**462**
Investing Activities		
Property, plant and equipment expenditures	(116)	(138)
Nuclear fuel expenditures	(45)	(49)
Nuclear decommissioning trust funds investment sale proceeds	1,265	949
Nuclear decommissioning trust funds investment purchases	(1,290)	(959)
Equity investments in affiliates	(5)	(8)
Proceeds from the sale of non-core assets	8	46
Other investing activities	12	2
Net cash provided by (used in) investing activities	**(171)**	**(157)**
Financing Activities		
Contributions from member	—	1,393
Exit Financings proceeds, net of discount	—	2,219
Repayment of Prepetition Secured Indebtedness	—	(3,898)
Payment of make-whole premiums on Prepetition Secured Indebtedness	—	(152)

TLB proceeds, net	288	—
LMBE-MC TLB payments	(294)	(7)
Deferred finance costs	(7)	(74)
Repurchase of warrants	(40)	—
Repurchase of Riverstone noncontrolling interest	(19)	—
Derivatives with financing elements	—	(20)
Other	3	—
Net cash provided by (used in) financing activities	**(84)**	**(539)**
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash and Cash Equivalents	**147**	**(234)**
Beginning of period cash and cash equivalents and restricted cash and cash equivalents	754	988
End of period cash and cash equivalents and restricted cash and cash equivalents	$ 901	$ 754

Non-GAAP Financial Measures

We include Adjusted EBITDA, which the Company uses as a measure of its performance and is not a financial measure prepared under GAAP, in these Interim Financial Statements. Non-GAAP financial measures do not have definitions under GAAP and may be defined and calculated differently by, and not be comparable to, similarly titled measures used by other companies. Non-GAAP measures are not intended to replace the most comparable GAAP measures as indicators of performance. Generally, non-GAAP financial measures are numerical measures of financial performance, financial position, or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. Management cautions readers of this financial information not to place undue reliance on this non-GAAP financial measure, but to also consider them along with their most directly comparable GAAP financial measure. Non-GAAP measures have limitations as an analytical tool and should not be considered in isolation or as a substitute for analyzing our results as reported under GAAP.

Adjusted EBITDA

We use Adjusted EBITDA to: (i) assist in comparing operating performance and readily view operating trends on a consistent basis from period to period without certain items that may distort financial results; (ii) plan and forecast overall expectations and evaluate actual results against such expectations; (iii) communicate with our Board of Directors, shareholders, creditors, analysts, and the broader financial community concerning our financial performance; (iv) set performance metrics for the Company's annual short-term incentive compensation; and (v) assess compliance with our indebtedness.

Adjusted EBITDA is computed as net income (loss) adjusted, among other things, for certain: (i) nonrecurring charges; (ii) non-recurring gains; (iii) non-cash and other items; (iv) unusual market events; (v) any depreciation, amortization, or accretion; (vi) mark-to-market gains or losses; (vii) gains and losses on the NDT; (viii) gains and losses on asset sales, dispositions, and asset retirement; (ix) impairments, obsolescence, and net realizable value charges; (x) interest expense; (xi) income taxes; (xii) legal settlements, liquidated damages, and contractual terminations; (xiii) development expenses; (xiv) Cumulus Digital and noncontrolling interests, except where otherwise noted; and (xv) other adjustments. Such adjustments are computed consistently with the provisions of our indebtedness to the extent that they can be derived from the financial records of the business.

Additionally, we believe investors commonly adjust net income (loss) information to eliminate the effect of nonrecurring restructuring expenses, and other non-cash charges which vary widely from company to company, from period to period, and impair comparability. We believe Adjusted EBITDA is useful to investors and other users of the financial statements to evaluate our operating performance because it provides an additional tool to compare business performance across companies and across periods. Adjusted EBITDA is widely used by investors to measure a company's operating performance without regard to such items described above. These adjustments can vary substantially from company to company depending upon accounting policies, book value of assets, capital structure and the method by which assets were acquired.

Adjusted Free Cash Flow

Adjusted Free Cash Flow, a key non-GAAP financial measure, is a useful metric utilized by our chief operating decision makers to evaluate cash flow activities. Adjusted Free Cash Flow is computed by Adjusted EBITDA reduced by capital expenditures including nuclear fuel but excluding development, growth and (or) conversion capital expenditures, cash payments for interest and finance charges, cash payments for taxes (excluding income taxes paid from the nuclear facility decommissioning trust ("NDT") and pension contributions.

We believe Adjusted Free Cash Flow is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to determine a company's ability to meet future obligations and to compare business performance across companies and across periods. Adjusted Free Cash Flow is widely used by investors to measure a company's levered cash flow without regard to items such as ARO settlements; income taxes paid from the NDT; nonrecurring development, growth and conversion expenditures; and cash proceeds or payments for the sale or purchase of assets, which can vary substantially from company to company and period to period depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired.

For a reconciliation of Adjusted EBITDA to the most comparable GAAP financial measure, please refer to the reconciliations at the end of this earnings release. Adjusted EBITDA is not intended to replace "Net Income Attributable to Stockholders (Successor) / Member (Predecessor)," which is the most comparable measure calculated and presented in accordance with GAAP.

Forward Looking Statements

This communication contains forward-looking statements within the meaning of the federal securities laws, which statements are subject to substantial risks and uncertainties. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this communication, or incorporated by reference into this communication, are forward-looking statements. Throughout this communication, we have attempted to identify forward-looking statements by using words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "forecasts," "goal," "intend," "may," "plan," "potential," "predict," "project," "seek," "should," "will," or other forms of these words or similar words or expressions or the negative thereof, although not all forward-looking statements contain these terms. Forward-looking statements address future events and conditions concerning, among other things capital expenditures, earnings, litigation, regulatory matters, hedging, liquidity and capital resources and accounting matters. Forward-looking statements are subject to substantial risks and uncertainties that could cause our future business, financial condition, results of operations or performance to differ materially from our historical results or those expressed or implied in any forward-looking statement contained in this communication. All of our forward-looking statements include assumptions underlying or relating to such statements that may cause actual results to differ materially from expectations, and are subject to numerous factors that present considerable risks and uncertainties.

The reconciliation from "Net Income (Loss)" presented on the Consolidated Statements of Operations to Adjusted EBITDA for the periods were:

	Three Months Ended December 31, 2023	**Year Ended December 31, 2023**
Net Income (Loss)	**$ 188**	**$ 608**
Less: Bankruptcy, Liability Management, and Restructuring Activities		
Reorganization (gain) loss, net [a]	—	(799)
Operational and other restructuring activities [b]	17	55
Bankruptcy exit fees	1	10
Total Bankruptcy, Liability Management, and Restructuring Activities	**$ 18**	**$ (734)**
Other Adjustments		
Interest expense and other finance charges	75	344
Income tax (benefit) expense	48	263
Depreciation, amortization and accretion	71	365
Nuclear fuel amortization	36	141
Unrealized (gain) loss on commodity derivative contracts	(95)	11
Nuclear decommissioning trust funds (gain) loss, net	(93)	(165)
Stock-based and other long-term incentive compensation expense	10	21
Environmental and ARO revisions on fully depreciated property, plant and equipment [c]	5	5
(Gain) loss on non-core asset sales, net [d]	(7)	(57)

Non-cash impairments [e]	1	384
Legal settlements and litigation costs [f]	(101)	(83)
Unusual market events [g]	(20)	(5)
Net periodic defined benefit cost [h]	1	(1)
Development expenses	—	17
Non-cash fuel inventory net realizable value and obsolescence charges [i]	3	60
Cumulus Digital activities and noncontrolling interest	(20)	(56)
Other	3	3
Total Adjusted EBITDA	**$ 123**	**$ 1,121**
Capital expenditures, net	(41)	(208)
Interest and finance charge payments	(96)	(305)
Tax payments	(2)	(10)
Pension contributions	(6)	(11)
Total Adjusted Free Cash Flow	**$ (22)**	**$ 587**

(a) See Note 3 in Notes to the Annual Financial Statements for additional information.

(b) See Note 3 in Notes to the Annual Financial Statements for additional information.

(c) See Note 11 in Notes to the Annual Financial Statements for additional information.

(d) See Note 22 in Notes to the Annual Financial Statements for additional information.

(e) See Note 10 in Notes to the Annual Financial Statements for additional information.

(f) See Note 12 in Notes to the Annual Financial Statements for additional information.

(g) Represents the effect of market losses and settlements for Winter Storm Elliott that occurred in 2022.

(h) Consists of postretirement benefits service cost and postretirement benefits gain (loss).

(i) See Note 8 in Notes to the Annual Financial Statements for additional information.

Adjusted EBITDA / Adjusted Free Cash Flow Reconciliation: 2024 Guidance

	2024E	
(Millions of dollars)	**Low**	**High**
Net Income (Loss)	**$ 20**	**$ 220**
Adjustments		
Interest expense and other finance charges	$ 270	$ 270
Income tax (benefit) expense	25	25
Depreciation, amortization and accretion	290	290
Nuclear fuel amortization	90	90
Unrealized (gain) loss on commodity derivative contracts	(45)	(45)
Other	(10)	(10)
Adjusted EBITDA	**$ 640**	**$ 840**
Capital expenditures, net (a)	$ (165)	$ (195)
Interest and finance charge payments (b)	(245)	(245)
Tax payments	(10)	(20)
Pension contributions	(35)	(45)
Adjusted Free Cash Flow	**$ 185**	**$ 335**

(a) Updated guidance includes our interest in Nautilus operations but there are no go-forward capital expenditures expected.

(b) Excluding income taxes paid from the NDT.

SOURCE Talen Energy Corporation