Just Energy
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Operator: Good afternoon, ladies and gentlemen, and welcome to the Just Energy Group conference call to discuss the first quarter results for the period ended June 30, 2011. As a reminder, all lines are on "listen only" mode. We will open up the lines for questions and comments at the end of the presentation. If you need technical assistance for any reason, please press "star 0" to speak with an Operator. I would now like to turn the meeting over to Ms. Rebecca McDonald. Go ahead, Ms. MacDonald.

Ms. Rebecca MacDonald: Good afternoon, everyone. With me this afternoon is Ken Hartwick, our CEO, and Beth Summers, our CFO. Ken and I will make a short presentation and then we will open the call to questions.

Let me preface the call by telling you that our earnings release and potentially our answers to your questions will contain forward-looking financial information. This information may eventually prove to be inaccurate, so please read the disclaimer regarding such information at the bottom of our press releases. Faced with this week's challenging capital market, we are pleased to report a very solid first quarter with double digit growth in all our key operating measures. While these results obviously do not make us immune to the general market sentiment, our belief that the combination of ongoing solid performance and a very high dividend leaves Just Energy as an attractive option for those seeking a relatively safe haven for equity investment.

As has been the theme of this call for several quarters, I want to talk about our diversification program we began two years ago. At that time we faced a North American market with very low and stable gas and electricity prices and few opportunities for growth in our core residential market. Rather than trying to wait out this price environment, we took an aggressive action to broaden the base of our business and add new sources of revenue and margin. I want to take this opportunity to review how this diversification has shaped the Just Energy you see today. One of our first steps was the acquisition of Universal Energy. The purchase stabilized the market for door-to-door agents allowing us to rebuild our residential sales force over the year thus far. Universal also brought a base for accelerated entry into several in New York State accelerating our growth south of the border. Universal also had begun a water heater business which when combined with our own gave us a new entry point into the home. The business has grown from 0 to 131,000 installed units and was a major contributor to growth this quarter.

Our second acquisition one year ago was Hudson Energy. Hudson gave us a platform to pursue large commercial customers through new channels which did not cannibalize our existing sales efforts. This broker channel has a great success exceeding our expectation at the time of the purchase. The business generates the same very high returns on invested capital which our investors are used to. In addition to expanding into home services and commercial energy, we have also broadened our product line. Our very successful green energy offerings now make up 9 percent of our residential gas book and 10 percent of our electricity volumes. These profitable products allow us to maintain margins at a time where our standard offerings are pressured by very old utility prices. We have also developed flexible short-term and variable price products to enhance our renewal rates and reduce attrition. The results of these steps can be seen in the growth of our customer base. The first quarter saw Just Energy at 227,000 new customers. This is the fifth consecutive quarter with over 200,000 additions. This compares to the average quarter additions of 125,000 in the fiscal 2010 and is more customers than Just Energy had in total when we went public 10 years ago. We should turn Just Energy into much more flexible growth vehicle and have done so without sacrificing our profitability. I will now have Ken go through the highlights of the quarter. We will then be happy to answer any of your questions.

Mr. Ken Hartwick: Thanks, Rebecca. The first quarter results that you see today mark a very solid start to the year. As Rebecca pointed out, we generated double digit growth in all our key operating measures. This puts ahead of our annual 5 percent target growth for both margin and adjusted EBITDA after three months. Our sales are up 3 percent as lower price points on recently signed customers continue to work through our book. This compared to a 9 percent growth in our customer base, which reflects our growth in volumes delivered. The record warm winter of 2009/10 adversely affected last year's results. This year has seen a return to the normal weather. This resulted in normal gas usage and much higher gas margins. The comparable quarter a year ago had substantial losses on the sale of excess gas. Overall our margins were up 17 percent or 14 percent per share higher than our customer growth due to the weather noted above and continued rapid growth over our national home services business.

As we stated at the time of the Hudson acquisition, the administrative cost of a commercial book is much lower than that of a residential. The quarter reflects that reality. Our administrative costs were down 2 percent year-over-year despite the 9 percent growth in our customer base. This operating leverage allowed us to grow our key operating measure, adjusted EBITDA by 20 percent per share versus the 14 percent gross margin growth. Other aspects of our operation, such as bad debt, were also well under control. Losses were 2.8 percent on the 40 percent of our sales where we bear this risk. This is right in our target range. Our attrition rates were in line with management's expectations and down significantly from the first quarter of fiscal 2011. U.S. natural gas attrition, our market most affected by the housing crisis, was down to an annual 21 percent from the 28 percent; the rate reported a year ago. We expect this downward trend in attrition will continue as our customers renew at prices more in line with the current market. Renewal rates were soft, averaging under 70 percent. The current stable low commodity price environment is the worst for our core products; however, we have focused on renewals by giving the customer a range of options, including blend and extend pricing and our new Just Clean products.

One year ago I said that a more diverse customer base would reduce the potential impact of any specific jurisdiction, whether it be to regulation, sales, success, or weather. This would make Just Energy even more stable and predictable as we headed into the future as a high dividend yield corporation. This has clearly proven to be the case. We have maintained and intend to continue paying our $1.24 annual dividend. Our cash position sits at $76 million and our bank lines are drawing $63 million on a $350 million credit facility. We remain in very solid financial position. Just Energy is profitable, growing, and solidly financed. We plan to continue to look for new diversification opportunities. We are confident that the future is very bright for our business, regardless of economic conditions. We will work hard in the coming months to bring this message to investors across North America. We will now open for questions.

Operator: Thank you. Ladies and gentlemen, at this time, if you would like to ask a question, please press "01" on your telephone keypad. Again, to ask a question, "01" on your telephone keypad. Our first question is from Kevin [PH] Charing. Go ahead, please. Your line is open.

Mr. Kevin Charing: Hi. Good afternoon.

Ms**. Rebecca MacDonald:** Hi.

Mr. Kevin Charing: I had a question, following on the last comments there. Could you speak to some of the diversification opportunities you are looking at and what specific areas or markets you're looking to expand into?

Mr. Ken Hartwick: Sure. If I start with the commodity side of our business, we are continuing to expand our Hudson footprint across the jurisdictions where we have licenses and I'd say we have probably four or five markets where the team is building into, which will broaden out the commercial base. On the consumer residential side of our business, we have recently opened up in Massachusetts, Pennsylvania, and will look to again expand our sales organizations further into those markets. And then across our home services businesses are being to look at where there are opportunities to expand that business beyond Ontario. So, it's sort of the range of businesses that we're in, but we think there is room for continued geographic expansion.

Mr. Kevin Charing: Oh, that's very helpful. And on the acquisition front, given I guess the more bearish outlook on the economy over the last couple of weeks, are you seeing this as an opportunity to pick up assets? Or are you looking at this opportunity to potentially take a more conservative approach to how you look at acquisitions?

Mr. Ken Hartwick: I think it's both. So, first of all, we're very conservative in our nature and in our planning, which we have always been as a company to ensure that we can meet the growth needs of each of the business lines that we are in. Having said that, when we get into a weak market like this where maybe capital becomes more constrained to some of our competitors across the industry, which we would anticipate being the case, we also think that creates acquisition opportunities. But again, as we look at that, the acquisition, we have very high standards as far as what the acquisition needs to add to us as far as a new product or sales line and are fortunate enough, as I mentioned, through what our cash positions are to be able to be very selective. But certainly weak market times create, I think, opportunities for us ahead of a lot of others.

Mr. Kevin Charing: Okay. And I'm switching gears here to your various environment product. It seems like there's a pressure to remove a lot of these energy subsides you see in North America, whether it's the ethanol or solar. What risk does it pose to your Just Green product or your solar initiative or even to your ethanol plant out in Saskatchewan?

Mr. Ken Hartwick: Yeah, I think if we start with the core products, Just Green Clean products, we don't think it has any impact at all. So, from our standpoint, what we see is the consumer demand for going green and buying, whether it's carbon offsets or rec's offset the impact of the house or some businesses; that's being driven by the consumer. And there are sufficient projects available throughout North America for us to be able to procure the necessary green attributes to continue to expand that. You're right, though, on the subsidization part, if some of the credits around, say, solar in the U.S. were to be removed entirely, it definitely would impair the economic performance of those types of projects going forward, but again, in that case, if it didn't meet the hurdle that we would expect, we would just simply keep the projects that we have, that are in place, and decide then whether or not we expand, but that would be something that affects the entire industry and so on. On the ethanol side, I think the move on the ethanol is really U.S. driven, so we don't see anything in Canada that it's going to affect the limited subsidization we get for our current ethanol facility.

Mr. Kevin [PH] Charing: And lastly, just a housekeeping question here, how should we be looking at operating rates for the remainder of the year for the ethanol plant? And does that mean that shutdown you took in Q1 an annual occurrence?

Mr. Ken Hartwick: Yes, that was a planned outage that we had for a period of time and was specific to Q1, so we do not have any significant planned outages for the balance of our fiscal year.

Mr. Kevin Charing: Okay. And should we expect an operating rate closer to 85, 90 percent for the back half or, I guess, the remaining three quarters?

Mr. Ken Hartwick: Yeah. I think if you look back to Q4 of last year that it is somewhere between 80 and 90. I think we'd be very satisfied with. There's always points of time where the plant needs to come down for a day or two, but I think we're very comfortable that the plant, when I should say perform at that level and there's, like I say, with any mechanical plant, there's always risks, but nothing planned.

Mr. Kevin Charing: Okay. And I guess any update on the potential sale of this asset?

Mr. Ken Hartwick: No. Like I said, we said the task at hand was to have it operate the way we want it to run, which we think the key mode there has done a great job with the plant and then, like I say, we continue to explore opportunities and ideas, but while it's cash flow policy, that's a more enjoyable task.

Mr. Kevin Charing: And that's it for me. Thank you very much.

Mr. Ken Hartwick: Thank you.

Operator: The next question is from Marko Pencak. Go ahead, please. Your line is open.

Mr. Marko Pencak: Thank you. Good afternoon. I have a few modeling questions and then some big picture questions. The first is: Where are your weak prices running right now?

Mr. Ken Hartwick: These are the weak prices? So, in some cases, yeah, so some of the weak prices right now on the spot market are in between 540 and 560. We have some contracts that are below that that we had contracted for awhile back, but as far as the continual fee into the plant, that's sort of roughly in that range.

Mr. Marko Pencak: Okay. And can you tell me what your DDG prices were realized in the quarter?

Ms. Beth Summers: They were roughly in the range, I mean, between, it just depends through time, but they were roughly in between $190 and $200. They were higher than you might typically see in other periods of time.

Mr. Marko Pencak: Right. My third question is: Can you tell me now that you have some experience with Hudson, how should we think about the average commercial customer term is? I mean, I know it's customized per customer, but I'm just trying to get a rough metric.

Mr. Ken Hartwick: Yeah, I think what we're seeing on the commercial segment is that the commercial customers are increasingly trying to push their term out, so we would anticipate that over time or right now that the terms would range in that 3, maybe a little bit longer range. So, but like I say, in a low gas environment, we're seeing a number of customers want to go out to the full breadth, the five year term, so but like I say, it's starting to look, term-wise, more similar to what we see on the residential side.

Mr. Marko Pencak: Okay. And the weather in the current quarter in North America has been very hot, so I'm just wondering has the consumption been running higher than normal? And do you think you might be able to pick up a "surplus profit" being able to procure in the spot market and sell at your contracted prices?

Mr. Ken Hartwick: No, the specific market where it is the most volatile is Texas and where prices over a few days in the quarter have been the $2,000 to $3,000 range. Our specific hedging strategy, which our supply team has done a very good job on, is to ensure that that volatility is removed through the options we put in place. So, we might pick up a little bit through usage, but that is offset by just the power prices in general that have happened in Texas, which again, we've mitigated through our hedging strategy. So, we think the nap of it will be that our customer margins come in right in line where we had anticipated they would be, which is what we try to hedge to, and might pick up a little bit more usage in the process, but we don't expect a windfall and, quite happily, we will not have a negative drain as a result of it.

Mr. Marko Pencak: And you wouldn't get any pick-up in Ontario from that?

Mr. Ken Hartwick: Yeah, in Ontario, for most of our customer contracts, we balance or we have a balanced product, which balances the consumption, both positive or negative back to the customer. So, in that way, and again, so we get the margin that we hope to get.

Mr. Marko Pencak: Okay. Okay. My big picture question is: I mean, you've commented on the challenge with renewing and signing up new customers, given where spot prices are, and if you look over the last two years, I mean, clearly your margin per customer, I'm talking on the residential side here, has been coming off. Your aggregation costs have been going up. So, I mean, short of just waiting for natural gas and electricity prices to go up and notwithstanding your comments about your green product offerings, I mean, how can you guys, is there any other strategic initiative you guys can deploy to try to ensure that there isn't sort of further pressure on that margin? And I'm not even talking about the mix between commercial and residential, I'm just really talking within each of those segments themselves.

Mr. Ken Hartwick: Yeah, I think specifically on the renewals, that we don't, again, don't anticipate gas prices going down further in any material way. Now, they can always go down a bit. So, we sort of think the renewal rates we have are stabilized and it is a game of inches. It is effectiveness in the call center; it is effectiveness around blend and extend programs, and a series of other activities that we take to try to boost the renewal rates to where we want to move them to as well as adding green onto those customers so that we can get perhaps an offset in the aggregate margin renewed. And conversely, the other side of the renewal, sort of, challenge, so to speak, is attrition where increasingly and what we mentioned in the call was that our attrition rates are moving in significantly to a positive; again, because the book is being reset and eventually when those customers get around to being renewed, the experience is going to be better and their pricing relative to current market pricing, if it stays the same, is going to be better. So, one sort of has offset the other as we work our way through it, but it's a lot of small things and being more effective in the small things versus a big item that we think we're missing in getting that renewal to stabilize.

Mr. Marko Pencak: But in your sort of goal to improve your rates, I mean, it appears, just from the numbers, that the commissions you've had to pay your incentives to your sales force seem to be increasing, so your sort of return on what you're trying to accomplish here has been diminishing. So, I'm just trying to get a feel for what else, really are there any other strategic options left to you?

Mr. Ken Hartwick: Look, first of all, I don't think you'll see the aggregation sales costs for the renewals going up from where they are now, but like I say, it is how much more effective we can get in what we're doing, is really what the challenge is for the management group and our renewals group, which we think we've made strides, but there is not one single thing that will move it significantly, other than a big jump in commodity prices.

Mr. Marko Pencak: Okay. And some of the new markets you're thinking about entering or have entered recently, do you find that your ability to sell there on a relative basis is easier, the same, or more difficult than your existing markets?

Mr. Ken Hartwick: Yeah, I think each market, the sales process is similar, so I don't think from a sales force management standpoint, regulatory rules tend to be now very consistent across markets. So if I contrast the two most recent markets that we've gone into on the residential side, being Massachusetts where we have a Boston office, it's performed well. We will look to open a second office in that region within the next couple of months. So, no real change there across the markets and, again, I think even within those new markets, we do like a market, like Pennsylvania, where there are other competitors there, which again just further enhances the customer's knowledge of the fact that they have choice because there are more competitors in the marketplace. So, no real differences in, like I say, in the couple of markets we've recently moved into.

Mr. Marko Pencak: Okay. Thank you very much.

Mr. Ken Hartwick: You're welcome.

Operator: Our next question is from Tal Woolley. Go ahead, please.

Mr. Tal Woolley: Hey, good afternoon. I was just wondering if you can start, is it possible for you guys to quantify the impact of sort of running the blend and extend programs have had on your margin per customer?

Ms. Beth Summers: For the quarter, I can give you the absolute numbers, roughly $4 million.

Mr. Tal Woolley: Okay. And like, is it fair to say when we see, like, sort of that rolling, that embedded margin figures you disclosed, like, some of the big chunk of what's sort of been constraining that, sort of, growth, because I think you're saying it's flat year-over-year has that program. Is that program being taken into account in that number?

Mr. Ken Hartwick: Yes, I think it's a 2. The program definitely has an impact and then currency obviously, certainly through the quarter, where the U.S. Dollar was relative to the Canadian as well.

Mr. Tal Woolley: Okay. And the blend and extend programs, I mean, these can be running for about -- how much longer before you would see them or you would pull back from offering that?

Mr. Ken Hartwick: Yeah. So, I think, as I mentioned, it matches well with where the commodity cycle has been, so we've seen a decline in commodity prices. We're now into our fourth year of that decline, so we probably have one more year of where we might do blend and extends and then basically the book will have largely been re-priced down to current market prices. Once a customer is into their final year of their term with us, at that point it doesn't really make sense to blend and extend. We're into a pure renewal that we try to do, so it's probably the balance of this fiscal year and then that program would be selective and more targeted to the Hudson commercial side versus residential.

Mr. Tal Woolley: Okay. And are the new RC's being added? Like is it almost all exclusively commercial now or is residential making up a significant component of that at all?

Mr. Ken Hartwick: Yes. So, I think of the 227 that was added, 148 was commercial and 79 was residential.

Mr. Tal Woolley: Okay. So, over time, like, I guess I'm trying to understand what ultimately then, I realize you're sort of hog-tied a bit by low gas prices, but is the way you sort of see the company right now, let's just defend the residential business as best we can in this kind of market and then, hopefully, we get a move in quantity prices in the right direction and then we'll get our aggregation movement back and we can more aggressively pursue those programs? Or is this sort of, or are we peak on the residential side? I'm just wondering how you guys are thinking of that long-term.

Mr. Ken Hartwick: Yeah. No, I think longer term; again, we've adjusted some of the nature of some of our products, still keeping that term feature in place from a customer -- we actually think we can grow our residential aggregation. And whether it's adding on green, whether it's giving a product that might have a feature where it's closer to the utility price by putting a rate cap on, one we can't go above, so we've done some product features that we think across some of these markets we can realize real net growth on the residential side. So, we do not think -- we have a great sales organization and, again, is very active. So, there's always going to be some ebb and flow to it and a bit tougher on the gas side than the electricity side, just given where gas prices are. But again, have the belief that we can continue getting growth out of it.

Mr. Tal Woolley: Okay. And then just thinking about obviously there's a lot of macroeconomic fun going on right now and I'm just wondering if you go back and think about your sort of '08/09 experience, what the biggest threats were at the time, and what we sort of should be keeping our eye on in order to make sure that the business is, sort of, moving in the right direction? If I remember correctly, I think the biggest problems were just sort of it's really tough to add consumers in that kind of environment and that disconnects and things like that became a bigger issue.

Mr. Ken Hartwick: Yeah. I think in a way I think there were a couple of challenges. One is just the housing issues that came along; you had higher moves, etc., which affect our attrition numbers. A lot of the issues, in a way, such as financing issues. We saw many of our competitors get constricted with suppliers. We don't think -- we weren't really that concerned in ’08 nor are we now, because again, we think we have the financial stability we need. We have a great supplier group that we deal with, so for us, it really is in that instability is just around being very prudent in the use of funds and, as I mentioned to an earlier question, just around acquisitions. My guess is we'll get approached a lot if the economic issues continue, but we need to be very selective and sure that what, if we look at anything, that it actually makes some strategic sense, which I think we've been very good at doing along the way.

Ms. Rebecca MacDonald: And just a reminder, I might as well say something on this call, just a reminder that good times/bad times, we are operating in an essential commodity business. And you're absolutely right. I mean, now everything is governed by macro economics and there's general nervousness in the market, but we have excellent company and things are not going to zero and at the end of the day, customers will always need gas and electricity and they will always need someone to supply them and that's a [PH] real advantage in some respects that we do have over a number of other companies that can be affected with this macroeconomic mayhem. They're operating with a different consumer product, consumer goods, because there's general nervousness of customers buying anything. But at the end of the day, you've got to buy your gas and electricity; that's it. We're almost a necessary evil.

Mr. Tal Woolley: Okay. And my last question is: Just on the water heater business, obviously it's been clicking along great for the last few years as it's been ramping up. Some changes competitively come to the market earlier next year. Just wondering how the company is sort of viewing your growth prospects a little further out on that business and are you taking any, sort of, strategic steps this year to get ready for that?

Mr. Ken Hartwick: Yeah. I think two parts to it. First of all, it is both Just Energy and the management team at NHS, we have always embraced competition as a management group, so whether a consent order by direct is dropping away next year or not doesn't really deter us from what we need to do. Again, very strong sales organization inside NHS and the ability to fulfill what we're doing. I tell you, the one then step that we have taken, and it's starting to show, is we have expanded into the other elements in the house, being the furnace and the air conditioner elements, which are moving along very nicely; good economics on them. So, like I say, we dealt with a lot of competitive pressures from Reliance and InterCare, I guess, but have been able to grow that business and don't really see that slowing down for us as we move forward.

Mr. Tal Woolley: Okay. That's great. Thank you very much.

Mr. Ken Hartwick: Thanks, Tal.

Operator: Again, ladies and gentlemen, to ask a question, "01" on your telephone keypad.

Ms. Rebecca MacDonald: If there are no other questions, we will close this call, but I would like to thank all of you for participating and would like to thank you for your support of Just Energy. And if you have any further questions, Ken, Beth, and myself are happy to answer them if you call us directly. Thank you very much and, hopefully, we will hear from you at our next quarter. Bye-bye.

Operator: That will end today's conference, ladies and gentlemen. Thank you and have a wonderful day.