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SPEAKERS

Deb Merrill – Co-CEO
James Lewis – Co-CEO
Pat McCullough – CFO

ANALYSTS

Nelson Ng – RBC Capital Markets
Damir Gunja – TD Securities
Kevin Chiang – CIBC
Carter Driscoll – FBR

PRESENTATION

Operator: Good afternoon, ladies and gentlemen. Welcome to the Just Energy Group Incorporated conference call to discuss the Second Quarter 2016 Results for the period ended September 30, 2015. At the end of today's presentation, there will be a formal Q&A session. (Operator instructions.)

I would now like to turn the meeting over to Deb Merrill. Please go ahead, Deb.

Deb Merrill: Thank you very much. Hi. My name is Deb Merrill. I'm the Co-CEO of Just Energy and I would like to welcome you all to our fiscal 2016 second quarter conference call. I have with me today Rebecca MacDonald, our Executive Chair; my Co-CEO, James Lewis; as well as Pat McCullough, our CFO.

Pat and I will discuss the results of the quarter as well as our expectations for the future. We will then open the call to questions. Before we begin, 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 release.

We are extremely pleased with the results this quarter. Our business continued to perform very well delivering results that demonstrate the significantly improved profitability profile of the company, as well as highlight our ability to generate meaningful cash flow to meet our ongoing capital commitments, while funding our strategic growth. Our profitability profile continued to improve as a result of our margin per customer improvement initiatives. As a result, we were able to convert solid top-line revenue growth during the period to a 44% increase in base EBITDA. During the quarter, we added 290,000 gross customers in total, this fully offset the attrition and failure to renew within our customer base of over 4.6 million residential customer equivalents, as well as resulted in net customer additions of 4,000 RCEs.

While down year-over-year it's important to understand that these net additions were accomplished in the midst of our ongoing margin improvement initiatives which as you all are well aware have resulted in the company greatly improving the overall profit goals. This aligns with our pursue to driving more margin per customer and highlights our commitment to only accept new customers that meet our profitability profile, even if that results in temporary increases into attrition. Our goal is to optimize absolute profit, absolute cash and absolute returns for our shareholders. If that means we have the color our book order slightly to deliver superior absolute returns that's what we'll do.

Now that doesn't mean we aren't planning on growth. We will grow in three ways. First, we're going to increase of our footprint to bring our product to new markets. We're currently evaluating opportunities both domestically and internationally to do this. Second, we'll increase the number of products per customer

through adding new products and technology into our portfolio. Finally, we'll continue to pursue relationships with strategic partners to deliver broader energy management solutions, like our partnership with Clean Power Finance. I'll also give more detail on these things in my closing comments.

This was a great quarter for our business. The improved profitability drove significantly improved cash flow, an increase base funds from continuing operations. In addition, base funds from continuing operations increased 59% during the quarter and we achieved a payout ratio of 50% during the second quarter. These are levels that this company has not seen in years.

In early September, we successfully renegotiated the credit facility, resulting in an increase to our line of credit for an additional three years under favorable terms. Simultaneously, we continue to reduce our long-term debt while growing earnings. We are very pleased to be able to say that our book value net debt was under three times our trailing 12 month base EBITDA, significantly improved from 4.3 times just one year ago.

We're working hard to further improve upon that significant accomplishment and we remain committed to further reducing this ratio and in time would like to see that ratio closer to two. We remain committed to running a financially prudent organization for the benefit of shareholders. Our aim is to de-lever, restructure our existing debt, protect the \$0.50 per share dividend and protect our owners from future dilutions. Overall, the results for the quarter and the first half with fiscal 2016 exceeded management's expectations and provide us great confidence we can continue to deliver throughout the back half of our fiscal year and beyond.

With that, I'll turn it over to Pat.

Pat McCullough: Thank you, Deb. As Deb said, we had another outstanding quarter in terms of both profitability and cash flow. In fact this is the third straight quarter in which the business has delivered greater than 20% year-over-year growth in both base EBITDA and base funds from operations. The business is performing exceptionally well and you're beginning to see a consistency in our ability to take exceptional top-line performance and deliver even more impressive bottom-line results. Much like the first quarter you can see that amplification effect again in our second quarter as we drove top-line revenue growth by 18%, grew gross margin by 26% and delivered an even higher year-over-year growth and base EBITDA at 44%.

As I said last quarter, this is very important to us as it means that we're doing more with every dollar of sales that we bring into the company. The continued improvement in our operating results is also reflected in our cash flow performance in the quarter. We ended the quarter with 89 million in cash and cash equivalents, up from 79 million at the end of fiscal 2015 and up from \$30 million 12 months ago. In addition, base funds from operations increased 59% from the same quarter last year and are up 72% during the first six months of the year compared to last year.

Let me cover some of the highlights of the second quarter and then provide some added color in certain areas. In the period, gross margin was up 26% to \$167.2 million. Both the consumer and commercial divisions were able to increase gross margin year-over-year by double-digits, as a result of management's ongoing margin per customer improvement initiatives as well as lower commodity costs and the strengthening of the US dollar. As we've discussed in great detail with you over the course of the past year, we continue to successfully execute our margin per customer improvement initiative in which we remain focused on implementing a more disciplined pricing strategy, in which we only accept new customers that meet our profitability targets and allow lower margin customers to [indiscernible].

The result of the past year demonstrate the success of this initiative as we've improved our year-over-year gross margin by 22% on a trailing 12 month basis with even more progress available to us. To add some

additional color on a most recent effectiveness of this initiative, we're now signing consumer margins at \$209 per RCE which compares to \$188 one year ago. The higher margin on consumer customers is an important positive trend as these customers are largely locked into multi-year contract terms. On the commercial side margins are now being added at \$84 per RCE which compares to only \$80 one year ago. Perhaps just as notable is the widening gross margin spread between customers added and customers lost in both divisions during the period.

Base EBITDA of \$45.7 million grew 44% year-over-year even while absorbing 3.4 million of commercial prepaid commission expense. This was due to last quarter's change in our commercial commission firms. Before the impact of prepaid commission expense, we actually grew year-over-year base EBITDA by an outstanding 55% during the quarter. The consumer division contributed \$29.5 million to base EBITDA for the quarter, an increase of 75% while the commercial division contributed \$16.2 million to base EBITDA, a 9% increase year-over-year. Within commercial there was a 32% increase in base EBITDA before the impact of prepaid commission expense.

As Deb mentioned earlier, we continue to effectively manage overhead cost. General and administrative expenses declined year-over-year after taking into account the impact of the stronger dollar on US-based cost. Selling and marketing expenses increased by over 23% from the same quarter last year. However, nearly all of the increase was driven by the stronger dollar and prepaid commission expense. Similar to general and administrative expenses our fixed sales and marketing costs were actually flat year-over-year after that adjustment.

Let me close with an update on our other key financial metrics and balance sheet items. The payout ratio for base funds from continuing operations was 50% for the three months ending September 30th, compared to 78% reported in the same quarter of fiscal 2015. On a trailing 12 month basis, the payout ratio has now declined to 62% overall. We ended the quarter with 88.6 million in cash and cash equivalents, an increase

of 197% from \$29.8 million reported in the year ago period. We reported no debt outstanding on the credit facility at quarter end as compared to \$163.1 million drawn last year. The increase in cash balances and decrease in credit facility withdrawals over the past year have resulted in \$222 million of additional corporate buying power.

As we head into the fiscal third quarter, I want to stop and remind everyone [audio disruption] expense for fiscal 2016. We expect that over half of that \$20 million will be expensed in the upcoming third quarter. This will of course also affect the payout ratio in the third quarter.

With that said, we remain committed to reaching and maintaining a payout ratio of less than 70% in the near term as we continue to grow FFO while remaining committed to our current dividend policy. At quarter end long-term debt was \$685.5 million, a decrease of \$126.3 million or 16% year-over-year. Booked value net debt was 2.96 or less than three times the trailing 12 month base EBITDA, significantly improved from 4.3 times just one year ago and something the team here is extremely proud of accomplishing in a relatively short time frame.

As Deb mentioned, we renegotiated the credit facility during the quarter resulting in an increased line to \$277.5 million for an additional three years under favorable terms from a very impressive group of syndicate lenders. No cash was withdrawn on the facility as of September 30, 2015. During the quarter, we also purchased \$3.3 million of the \$330 million convertible debentures under our NCIB program. During the past year \$6 million of the \$330 million convertible debentures have been repurchased under this program.

In summary, the business has delivered outstanding results in the first half of fiscal 2016 and we expect this to continue in the second half of the year. As such we are reaffirming our previously provided guidance of \$193 million to \$203 million of base EBITDA for the full year fiscal 2016, an increase of 7% to 13% when compared directly to fiscal 2015.

Please keep in mind that the guidance for fiscal 2016 includes \$20 million of incremental deductions in base EBITDA related to the recently implemented change to our commercial commission terms, meaning that management has effectively raised our guidance for the year by \$20 million. When adjusted for this \$20 million change in classification base EBITDA actually is increasing by 18% to 24% in fiscal 2016.

With that, I'll turn it over to Deb for some concluding remarks.

Deb Merril: Thank you, Pat. Having heard more of the details from Pat, I trust you can appreciate why the team here at Just Energy is enthusiastic about the progress being made. We are very proud of the financial improvements, but even more importantly, we are excited about the opportunities to grow this business through new initiatives. I'll just make a few final comments to update you on some of these exciting growth initiatives.

From a geographical expansion perspective, the UK business continues to thrive. To date, that market has grown to become 6% of our customer base at 275,000 RCEs in total. This is a very profitable piece of the business for our company and we are seeing growth both on commercial and the consumer side. We believe this early success validates our model and our ability to compete outside of North America taking the lessons learned and evaluating new avenues for growth and new markets that will benefit from our innovative approach to energy management solutions.

Given our greatly improved financial position, we are actively evaluating new market opportunity that offers strong demographic, clear participation and industry trends and favorable regulatory landscape across new parts in the world. From a product innovation perspective, we believe a large part of our continued success will be driven by our ability to provide innovative, value driven products to meet customers' need. We're finding these types of products are gaining more appeal and presenting more value per customers which

in turn allows us to price our energy management solutions at more premium points as well as retain customers for longer durations and drive sustainable profitability for the future.

For example, our flat bill offering, which are now being marketed in Ontario, Illinois, Pennsylvania, Ohio, Georgia and the UK allow consumers ultimate predictability. We introduced this product over two years ago in Ontario and based on that success we rolled it out on a broader scale just in the last few months. These products remove the price and volume risk from customers' bills by guaranteeing them the same price every month for their energy supply regardless of price fluctuation or changes in usage. We can demonstrate greater than average margins on its offering as customers see the value and predictability in this product.

Another example is our smart thermostat, where we currently have almost 50,000 customers today with the product. The smart thermostat are bundled with a commodity contract and our experience indicates that customers with bundled products have lower attrition and higher overall profitability. Further expansions of flat bill offering, smart thermostats, and other innovative products are key drivers for continued growth of Just Energy and we'll keep adding new innovative product bundled with technology to drive continued improvement and the profitability of the business.

Before concluding, let me provide you with an update on our solar business. Just Energy Solar program remains on track. The feedback has been very positive and the door-to-door efficiencies are proving to support strong growth in this platform. We commenced our initial pilot phase in California and New York with a volume of customers signed during this initial pilot resulting in higher than expected profit. We continue to integrate lessons learned through our pilot program into our go-to-market strategy, we brought in key talent to support our solar growth and we are working closely with our partner, Clean Power Finance, to create innovative new products that address the challenges within the solar market associated with strict underwriting criteria as well as installation capacity.

Based on the success of the pilot launch, operations will continue to grow with further expansion in the near-term, while continuing to push the industry forward towards developing more value-add customer friendly products. During Q1 and Q2, Just Energy added hundreds of new solar customers and by fiscal year-end we expect to have thousands.

To summarize, we're operating from a greatly improved financial position, which we expect will continue to strengthen. Our financial flexibility, combined with our commitment to maintaining a capital-light model, supports our ability to pursue our growth strategy, which focuses on new geographies, innovative products that meet customers' changing demands, and new energy management solutions that will continue to disrupt the traditional utility model. Our first half performance puts us on track to achieve our full year expectations as we are now beginning our largest seasonal sales generating quarters.

With that, we'll now open for questions.

Operator: Thank you. We will now begin the question and answer session. (Operator instructions.) And our first question comes from Nelson Ng from RBC Capital Markets. Nelson, please go ahead.

Nelson Ng: Quick question on the 2017 debts, can you just give us an update on progress in terms of the I guess eventual refi of that debt and I guess based on what you know today, what's the most likely solution for that debt?

Pat McCullough: Thanks, Nelson. This is Pat. Let's talk about what we're trying to do and reference what Deb was talking about. So as we look at the overall strategy we tend to de-lever, we like to restructure that debt and we're obviously focused on the 2017 \$330 million converts given their size and being an earliest maturity. But we're also looking to protect shareholders from future dilution. So what management is

attempting to do right now is restructure those 330s with a pure debt instrument. And in our pursuits of doing that if we're able to do that we'll obviously protect the shareholders from a future dilutive instrument.

If we're unable to accomplish that through a pure debt instrument then we obviously know that the Canadian convertible market, the US convertible market, maybe private debt with stock warrants will be there for us. But the company is really aiming to protect the shareholders in terms of restructuring net debt prior to going towards something with an equity hook.

Nelson Ng: And then just kind of moving on to weather, I think everyone has been talking about El Niño lately, can you just comment about the weather derivatives you have and what type of variability you would expect in fiscal Q4 if the weather turns out to be quite warm?

James Lewis: Nelson, this is James Lewis. From our perspective, as you know, we look to stabilize our financials there and we put the weather hedge in place. As we've said historically, we expect that weather hedge to perform effectively in the range of 0% to 5% in terms of dollar impact there. But historically we've done a much better job of identifying new ways to protecting ourselves and we feel like that weather hedge that put in place in the last few years has served us well.

Nelson Ng: And I guess just one last question, I think Deb mentioned that you guys are looking to expand into new regions. I presume you're talking about new countries rather than new states and provinces? And also does that mean you're kind of expanding your European presence?

Deb Merril: I think the UK expansion, we're very pleased with the success of it and it kind of proved out the model that we can take what we know here and what we do unique here to other countries where it makes sense. So we are actively looking at Europe and other parts of the world right now, to decide where we want to expand to next. It will be all be based on making sure that our model fits there as well as what

technology is available, and what we can really do in that market as far as bringing some alternative that is unique.

So the answer is yes and probably most of it will be international expansion. We have some utilities in some markets that we're not currently in, which will round that out over the next bit, but most of the focus will be international.

Operator: And our next question comes from Damir Gunja from TD Securities. Damir, please go ahead.

Damir Gunja: Just wanted to touch on obviously, you've done a great job taking you margins up and letting go of the lower margin customers coming up for renewal. Where would you say you are in that process when you look at your book, I am just trying to think about the coming year and sort of how much of that process has been completed and how much is left?

James Lewis: Damir, I think—James here again, I think when you look at our book right now, the way we've evaluate it is as we go forward, we look at the market that provide us the greatest flexibility and profitability. One of the things that we've done as we analyzed the market and the brokers, we look at the brokers who are providing us the high margin most profitable customers are the ones we're working with to make sure we are giving those folks what they need for them to be successful which is allowing us to be successful.

And then on the flipside on the residential, what we're looking at, as Deb talked about, those innovative products, the places that slowed us down are some of the utilities that can't handle them, that can't handle like a flat bill or other innovative type products and we're working feverishly on those markets. So that's the way we look at it to go forward. We think we see growth for the foreseeable future here as we move forward.

Damir Gunja: Is there a number that you can peg, like could you say 25% of the book is still at lower margins or is it 10% or is it 5%? That's probably a tough thing to answer.

Deb Merrill: It's really, Damir, it's around discipline. So it's not necessarily looking at the book and saying we want to get rid of these customers, it is disciplined around every product, every opportunity we have to interact with a customer and get a customer. We want to maintain discipline around margins. So those are the things that drive that number, not necessarily okay, we're 10% through this or 95% through this, it really is a matter of discipline on how we're operating the business.

Damir Gunja: Could you give us a little bit of color by region, say Canada, UK versus US where you're seeing the best margins, or is there good and bad in every market?

Deb Merrill: There is definitely, and there are ebbs and flows as well. So if you look at markets like Texas are highly competitive, but we have profitable products with the ecobee and some other things that we bundled together. So really it just depends on the market and the kind of customers we're going after.

Operator: (Operator instructions.) And our next question comes from Kevin Chiang from CIBC. Kevin, please go ahead.

Kevin Chiang: Thanks for taking my question. Maybe just more of a housekeeping question for me. I know you've changed some of your, I guess accounting practices to be more transparent with some of these commission costs moving to the SG&A line and you do highlight, it will be a \$40 million, I guess headwind in 2017. Given some of the margin lift you're seeing and pushing to solar, would you expect 2017 earnings to be higher than fiscal 2016 even in the face of this \$40 million headwind reflecting some of these margin improvements and new opportunities, or is that too big of a step-up to deal with?

Deb Merril: Yes. Kevin, I think from our perspective we're going to shoot for that double-digit growth, I think even in 2017 that 8% to 10% probably, is obviously a big headwind to overcome. But we believe that given what we're seeing in our book as well as some of these other initiatives, that we can still maintain that.

Kevin Chiang: And just to clarify from that prospectively, when you look at 8% to 10% I presume a lot of that will be driven by solar, sounds like that's going well. Do you have a sense or are you able to share with us how much solar contributes to your outlook into fiscal 2017, even qualitatively I know you don't have official guidance out there right now.

Pat McCullough: Yes, Kevin, the majority of that profit improvement will come from the three prongs of our gross strategy, which are international, geographic expansion, bring new products, those flat billed products and then things like solar, those energy management solution add-ons. The uplift of that and the organic profit potential of the classic products and the classic book that we're carrying forward we think we can offset that 40 and still get us in that range of double-digit percentage growth.

Operator: And our next question comes from Carter Driscoll from FBR. Carter, please go ahead.

Carter Driscoll: So maybe you could help me understand, utilities can't handle flat bill or maybe qualitatively which geographies might struggle and why that should be a problem? And I have several follow-ups.

James Lewis: Carter, what you'll find is that some of the utilities for example and we called them rate ready markets where you have to provide a rate to those customers, can't handle flat bill type products. So we have to be more innovative in how we adjust and communicate to customers and provide innovative

products to customers in those jurisdictions. And that varies by utility, so you might have multiple utilities in let's say the state of Pennsylvania, where a few of the utilities you can do it in and then a few you can't.

Deb Merrill: So Carter essentially, they say give us your per kilowatt hour rate and we'll multiply that times the customer volume and then we'll bill them for you. So in that case it's very hard to back into a flat bill. Does that makes sense?

Carter Driscoll: Yes. I mean it's almost like they're a bigger intermediately then there are in other markets, is that fair?

Deb Merrill: Yes. There are certain utilities that bill us, bill our charges on their bill and send it to the customer and collect and then remit back to us. And there are some markets where we bill the customer directly, which obviously gives us the most flexibility.

Carter Driscoll: I mean is the rationale that they're trying to stick closer to the customer as to why you see that being implemented on an intra-geography basis?

James Lewis: So, Carter, I think it's just historical. I think when you look at it, the only product historically those folks have offered have been fixed rate type products or rate type products. As companies like us have gotten more innovative and you've got more product whether it's green related, whether it's thermostats, whether it's LED lighting, whether it's energy management, warranties, those type of products you need to be innovative and places that allow us to bill gives us the greatest flexibility and places where we're not allowed to bill, we have to come up with alternatives to be innovative, but we think we can conquer those challenges.

Carter Driscoll: Okay. Thank you for that color. Moving over to solar, so obviously you're in two markets today; unregulated, one unregulated. What are your expectations of moving into more unregulated more of your traditional regulated markets to sell it as a bundle in terms of its ability to affect incremental margin. I mean are there differences that you see between the two distinct markets where there could be a decided difference in margins? And again I realize I'm speculating here to some degree but as you gear up to kind of port over from your pilot program over the next several quarters to new territories I'm just trying to get a sense of where you think that margin contribution can come from and I realize it's going to be a small portion of your overall growth going forward for the near-term?

Pat McCullough: Yes. It's a good question, Carter. This is Pat. So if you think about California for example today, we can sell gas in California, we're bringing residential rooftop solar to California. Smart thermostats and some of the future products that we're planning can all be brought to the California resident. So the only thing we can't deliver is that off peak power that is required to come from the grid in California. If you compared that to New York, New Jersey, Massachusetts, we can get the whole product offering to our customers. If you think about regulated states that we're not in today, think Arizona, Colorado, Nevada, this provides us an anchor product to enter those markets. So when we think about what Solar does for us it, number one, allows us to be more germane in a place like California where we're only selling gas, it allows us to offer a superior premium value prop to our current deregulated markets and then, thirdly, it allows us an entry point into new markets that we don't serve today.

Carter Driscoll: And then maybe just following up on that, obviously there is a bit of push back from the utilities in certain areas, Salt River project and Solar City going head-to-head in that metering, Hawaii making a change, California as well. How do you think about net metering policies and their effect on maybe the territories you choose to go into, I guess that you target for solar expansion?

Deb Merrill: Carter, I think from our perspective we want policies that give customers choice and are definitely against anything that will limit their ability to take advantage of some of these things. And obviously utilities have vested interest of their own that they're trying to fight for as well. But we think there is plenty of opportunity for us to focus on the areas where we're able to affect a customer's bill in a positive way or how they manage their energy in a positive way. So while we're probably on the side of Solar City and others just to try to ensure that customers have all the options that they can possibly have to be able to be innovative in their home around energy.

Carter Driscoll: UK business, obviously I think your first target is a residential side and recently began targeting the commercial side, is there any color you can give us in terms of the split of the customers that you've mostly added there? I think you've gone from 4% to 6% of total in the last couple of quarters. And then remind us again maybe some of the other countries in Continental Europe that might be more favorably disposed to your product offerings?

Deb Merrill: We actually started on the commercial side, Carter. So we took our commercial portal for pricing business customers over there quickly and was able to improve the performance of pricing and delivering price to sales channels over there. So that was the first foray into it, which has great, we cut our teeth, we learned the market, we know we have a lot of great people over there that work for us and make all this happen. So then we went into residential about a year later and residential we've actually focused a lot on the online shopping, we just recently started tele-sales and we're looking at other options for us to be able to get customers.

The interesting thing is taking some of the US-based things that we're doing here with smart thermostats, flat bills and things like that and bringing them over to the UK is very promising and it's also very challenging because the regulators there only allow you to have four prices/products at any given time. So that's really a challenge for us, so if we sell a one, two and three year product then those are three of our four options.

So we're very limited on the number of products. But we are the only one over there who is currently marketing a flat bill and we've been getting some attention from a lot of people over there trying to understand what that actually looks like and seeing whether they believe it or not. So we think eventually it's going to take hold and really provides some innovation over there.

As far as other expansion, we're looking at Germany, Netherlands, Japan is deregulating coming up next year; we're looking at that. So we had a lot of things going on, but we'll kind of approach this in the same way we approached the UK, which is what's the opportunity, what's the investment and making sure we have local talent and possibly partnerships in these areas that we can be able to grow efficiently and prudently.

Carter Driscoll: I'm sorry, just one housekeeping item, I think you talked about potentially entering the year with thousands of solar, I'm assuming that's fiscal year?

Deb Merrill: Yes.

Operator: (Operator instructions.)

Deb Merrill: Alright, so if there are no other questions, I want to thank everybody for their time and for your support and Pat, Jay and I and Rebecca would also like to give a special thanks to all of the Just Energy family of employees in all three countries that we currently have folks working to make this vision happen. So very much appreciate their efforts and appreciate your support and look forward to talking to you next time. Thank you very much.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.