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SPEAKERS

Deb Merrill - Co-CEO
Rebecca MacDonald- Executive Chair
James Lewis - Co-CEO
Pat McCullough- CFO

ANALYSTS

Kevin Chiang - CIBC
Carter Driscoll - FBR
Nelson Ing - RBC Capital Market
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PRESENTATION

Operator: Good morning, ladies and gentlemen. Welcome to the Just Energy Group Inc. earnings conference call to discuss the third quarter fiscal year 2016 results for the period ended December 31, 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 Ms. Deb Merrill, Co-CEO, Just Energy Group. Please go ahead.

Deborah Merrill: Good morning everyone. Thank you very much for joining us. 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 third quarter conference call. I have with me this afternoon our Executive Chair, Rebecca MacDonald; 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 during the quarter. In fact, throughout the year we've been thrilled to see our strategies and operational initiatives yielding tangible results in what many might view as rather turbulent times. We will undoubtedly be asked about the negative adds reported this quarter, but we are managing this business for the long term. At the beginning of this year we said we will only focus on high margin customers and the health of our balance sheet. We could have easily shown positive adds by chasing low margin business. We will not do that. If that yields short-term negative adds for the sake of long-term accretive cash we will pursue that every single quarter; however, we are planning growth and we have tremendous opportunity to achieve that goal. We will grow through additional products, markets, customers and partnerships that will deliver value to our customers and growth for our business.

Once again this quarter our business continued to perform very well, delivering strong revenue, margin and earnings growth. The margin per customer improvement initiative is allowing us to convert solid top-line sales growth into consistent increases in base EBITDA. This profitability is also driving significantly improved cash flow and increased base funds from continuing operations.

I'd like to start by discussing the broader market dynamics. I think that will help highlight something we have been trying to articulate for some time now. Just Energy offers a diversified, differentiated and resilient business model that is less impacted by broader market trends.

In short, today's market challenges do not directly impact Just Energy. We feel this business model, deleveraged balance sheet, stable yield and earnings growth places Just Energy in a unique position to weather market turbulence. I think it's safe to say these are uncertain times, whether it be questions around the price and direction of oil, concerns about China demand, the European economy or even the weather, quite honestly. With this backdrop of uncertainty, our results demonstrate that Just Energy is able to show financial strength despite volatile and uncertain economic times. For example, we have seen a dramatic drop in oil prices over the last several months. We're not directly affected as our core business is gas and electricity and in fact we're actually benefiting financially from the effects of low oil.

The Canadian dollar is correlated to the price of oil. As the Canadian dollar weakens, our largely US dominated profit translates to higher Canadian cash flows. Today Just Energy is concentrated in North America markets with little exposure to weakening international markets. Despite this weakness, we believe our high return on invested capital, low CapEx, organic growth model can still thrive in these markets.

Weather volatility is an important variable that we invest a great deal of intellectual resources in managing our portfolio effectively. We have seen a very mild start to this winter season. I have frequently stated that we are best in class at managing weather volatility around our business. While consumption of natural gas is abnormally low right now, our ability to manage this effectively is demonstrated by our excellent profit results this quarter.

The low and stable gas and electricity prices that we have experienced have resulted in less effective customer shopping. This compares to a very volatile economic environment in the last few years when heightened levels of customer switching was greatly benefiting Just Energy's ability to add net customers at an exceptional rate. As a result, during the quarter we did see a decline in year-over-year growth additions as well as negative net additions. Our business remains robust. Our sales grew 7% the quarter

and 13% over the first nine months of the year. Gross margin increased 20% during the quarter and 23% year to date, and we remain confident in our ability to drive customer growth moving forward.

Now, let's talk about retail energy. We continue to see rapid evolution in the way the individual consumer uses and manages energy. We are evolving our product portfolio to take advantage of technologies that are bringing comfort, control and convenience around energy to the home and office. This can range from things such as smart thermostats to energy usage desegregation algorithms that make the home more efficient as well as providing consumers more visibility and control on how they use energy.

Innovative technology solutions help to build an efficient energy footprint and ultimately manage budgets by controlling a home or office's appliances and energy consumption. By bundling these solutions with traditional commodities, Just Energy is able to deliver greater value to its customers. This exciting time in our industry is allowing our customers to have access to technology and data they would have never dreamed possible even just a few years ago. Just Energy is at the forefront of this movement, and we are excited about the possibilities that these trends bring to our company and our shoulders.

To summarize, we feel that ongoing execution of our strategy has placed just energy in a unique position of being able to drive sales growth and increase profitability in any market environment. Before I turn the call over to Pat for a deeper dive into the results and trends, I want to reiterate that this is a great quarter for our business. Our laser focus on improved profitability continues to deliver and is driving significantly improved cash flow. In addition to building a more profitable customer base, our results are aided by our world-class risk management practices, the introduction of new products with incremental margins, increased fees and service income, and new sales from solar. All of this is providing us great confidence in the path ahead for the company and our ability to deliver continued growth in fiscal 2017 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 fourth straight quarter in which the business has delivered double-digit percentage year-over-year growth in both base EBITDA and base funds from operations. The business is performing exceptionally well, and we're beginning to see a consistency in our ability to take exceptional topline performance and deliver even more impressive bottom-line results.

In the third quarter, we delivered topline revenue growth of 7%, grew gross margin by 20%, and delivered base EBITDA growth of 10%. As I said last quarter, we're doing more with every dollar of sales that we bring into the company. Improvement in our operating results is also reflected in our cash flow performance in the quarter. We ended the quarter with \$91 million in cash and cash equivalents, up from \$79 million at the end of fiscal 2015 and up from \$42 million 12 months ago. In addition, base funds from operations increased 26% from the same quarter last year and are up 56% during the first nine months of the year compared to last year.

Let me cover some of the highlights of the third quarter and then provide some added color in certain areas. In the period, gross margin was up 20% to \$179.9 million. Both the consumer and commercial divisions were able to increase gross margin year-over-year by double-digit percentages. This improvement was driven by the margin improvement initiative and the strengthening US dollar. The results of the past year demonstrate the success of our margin improvement initiative as we've improved our year-over-year gross margin by 27% on a trailing 12-month basis.

To add some additional color on the most recent effectiveness of this initiative, we're now signing consumer margins at \$213 per RCE which compares to \$209 last quarter and \$188 twelve months ago. The higher margin on consumer customers is an important positive trend as these customers are largely locked into longer multi-year contract terms.

On the commercial side, margins are being added at \$84 per RCE, which is in line with what we saw last quarter and one year ago. What's notable here is the widening gross margin spread between customers added and customers lost in both divisions, indicating we're still making progress and have more improvement we can drive under this initiative.

Base EBITDA of \$55.7 million grew 10% year-over-year. This result overcame the \$5.9 million of commercial prepaid commission expense which is due to the change in our commercial commission terms announced two quarters ago. Before the impact of prepaid commission expense, we actually grew year-over-year base EBITDA by \$10.5 million or 22% during the quarter. To be clear, let me step back and walk through the unadjusted pieces that contributed to our growth from 50.6 million in point in base EBITDA in Q3 of fiscal '15 to the \$55.7 million in this quarter.

I mentioned the 5.9 million decrement from commercial prepaid commissions. Additionally, we saw a \$5 million tailwind from the weaker Canadian dollar and \$6 million in performance-based growth. Let me clarify that same picture for the year-to-date results for the first nine months of the year. Base EBITDA of \$140.3 million for the first nine months grew 25% even while absorbing \$10.5 million of commercial prepaid commission expense.

Excluding the impact of prepaid commission expense, we actually grew year-over-year base EBITDA by \$38.3 million or 34% during the quarter. In addition to the \$10.5 million in commercial commission expense, year-to-date we also had a \$12.9 million contribution from the weaker Canadian dollar and \$25.4 million in performance based growth.

In short, both the quarter and the year-to-date have demonstrated strong operational results. We continue to effectively manage overhead costs. General and administrative expenses declined year-over-year after taking into account the impact of the stronger dollar and US based cost.

Selling and marketing expenses increased by over 27% 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 essentially 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 from base funds from continuing operations was 70% for the three months ending December 31, 2015 compared to 88% reported in the same quarter of fiscal 2015. On a trailing 12-month basis, the payout ratio has now declined to 59%. We ended the quarter with \$90.8 million in cash and cash equivalents, an increase of 115% from \$42.3 million in the year-ago period. We reported no debt outstanding on the credit facility at quarter end consistent with a year ago. The increase in cash balances and credit facility availability over the past year have resulted in \$112 million of additional liquidity.

At quarter end, long-term debt was \$676.5 million, an increase of 5% year-over-year due to the foreign currency impact on the US denominated \$150 million convertible euro bonds. Book value net debt was 2.9 times the 12-month trailing Base EBITDA, significantly improved from 3.7 times just one year ago.

During the quarter we also purchased \$1 million of the \$330 million convertible debentures under our NCIB program. Life to date, which is all in fiscal 2016, \$5.5 million of the \$330 million convertible debentures have been repurchased under this program.

Turning now to the outlook, the business has delivered outstanding results in the first nine months of fiscal 2016. To reflect this progress we now believe that the company will achieve the high end of our previously provided fiscal 2016 base EBITDA guidance range of \$193 million to \$203 million, resulting in an expected double-digit percentage growth over the prior year. This includes approximately \$20 million of incremental

deductions in base EBITDA related to the change to some commercial commission terms. As I previously outlined, \$10.5 million of this has already occurred in the first nine months of fiscal 2016. Therefore, we expect roughly \$10 million to hit our fourth quarter.

When adjusted for the \$20 million effect from the change in classification, year-over-year base EBITDA is expected to increase 20% in fiscal 2016. In line with what we have demonstrated over the first nine months of fiscal 2016, we expect to offset this headwind with continued strong gross margin performance and foreign exchange benefit.

Looking further out in fiscal year 2017, we expect to achieve double-digit percentage base EBITDA growth over fiscal 2016. Included in this expectation is deductions in base EBITDA of approximately \$40 million for prepaid commercial commissions, which would previously have been included as amortization within selling and marketing expenses. This represents a \$20 million increase over fiscal 2016 and reflects a go-forward run rate for this incremental deduction in future years.

With that I will turn it over to Deb for some concluding remarks.

Deborah Merrill: Thank you, Pat. We are excited and confident about our path forward and our ability to drive continued growth, as Pat just provided you in our outdated guidance. We are deploying our strategy to become a world class consumer enterprise. We will do this by delivering superior value to our customers through a range of energy management solutions and a multi-channel approach.

Our growth plans center on geographic expansion, structuring superior product value propositions, and enhancing the portfolio of energy management offerings. The company's geographic expansion is centered on Europe. Our UK business is thriving, and we're successfully adding both consumers and commercial customers and the overall business is significantly profitable. We believe this early success validates our

model and our ability to compete outside of North America, taking the lessons learnt and evaluating new avenues for growth in 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 opportunities, and we expect to expand our offering into two new European nations within the next 18 months. From a product innovation perspective we believe a large part of our ongoing success will be driven by our ability to provide innovative products that offer a superior value proposition to our customers. For example, our flat bill product is bringing more value to our customers than traditional industry products. This allows consumers ultimate predictability, removing the price and volume risk from customers' bills by guaranteeing them the same price every month for their energy supply regardless of any volatility. We can demonstrate greater than average margins on the product as customers see the value in the predictability.

We're finding innovative products are gaining more appeal and delivering more value. This in turn allows us to price our energy management solutions at more premium points while retaining customers for longer durations and driving sustainable profitability for the future. Included in this is Just Energy Solar. The initial solar pilot program remains on track, and based on early success further expansion in California and the Northeast is underway.

We're finding that the extension of the incentive tax credit for five years is unlocking new capital in the form of debt and equity financing as well as providing for much-needed additional installation capacity. As a result of the available financing and unlocking of capacity constraints, we expect that solar will contribute approximately \$10 million towards our fiscal 2017 results.

We are operating from a greatly improved financial position, and our strategy is proving our ability to consistently deliver throughout any cycle. Our improved profitability, cash flow generation and overall financial flexibility combined with our commitment to maintaining a capital light model supports our ability to pursue our growth strategy while remaining committed to future dividend distributions and balance sheet restructuring.

We are confident in our ability to become a premier world-class consumer enterprise delivering superior customer value through a range of energy management solutions and a multichannel approach. We would also like to take a few minutes to once again thank the employees of Just Energy for making these results possible.

As a leadership team, we are very fortunate to have a group of employees that deliver results and believe in the future of our company. Thank you for all you do for the business we operate, the customers we serve and the communities which we live in.

With that, we will now open for questions.

Operator: Thank you. We will now begin the question-and-answer session. (Operator instructions.) And our first question from CIBC, we have Kevin Chiang. Please go ahead, sir.

Kevin Chiang: Hi, thanks for taking my question. Maybe just first on solar, I guess over the past week or so we are seeing some pressure on some solar names reflecting some concerns I guess over changes in state tax credits in the US as well as maybe a slowing of the installed base there. Given this is a growth strategy for you I'm just wondering what you're seeing on the ground and if your strategy around solar has changed recently as a result of some of these maybe new hurdles?

Deborah Merrill: Yes, Kevin, I think the markets that we're focusing on we're not seeing that happening. California and Northeast continue to be the areas of focus for us and our strategy has not changed at all. We are absolutely planning on looking at new markets, but we'll be very careful about some of those volatile tax credits that you're talking about, but for now we're not seeing any impact for the areas we're focused on.

Kevin Chiang: Okay, that is helpful and just on the net adds, I guess maybe a two-part question here. You've seen some headwinds in some of your unit metrics. Are you seeing any structural headwinds in your current markets that's driving your international expansion? And then, more broadly speaking, I know you're focusing on higher margin customers, but is there a point where the drag on net adds starts have a negative impact on the overall operating leverage within your operation so that we saw aggregation cost move up because of that in this past quarter? Is there a point that you need to have a minimum level of RCEs in order to generate the margins you want to generate within your overall consolidated results?

Patrick McCullough: Okay. I think we'll break the question apart. On the RCE question there, when we look at it, obviously we have to have customers in order to make money. But what we are seeing here and what we believe is that it makes sense for us to go after the customers that drive the high value for the appropriate level of risk versus trying to cut back the margin and take the same level risk there. And when that happens you see the smaller players or even some of the larger players leave the marketplace there. So, we've done a much better job here understanding what really drives value and customers' behavior and develop products that address those needs.

Deborah Merrill: And Kevin, you mentioned something about international expansion. That's only going to add additional opportunity for us. So, we've seen, despite the fact that the U.K. was our first foray into the international expansion which is one of the most penetrated market, or one of the most deregulated markets

for the longest period of time, we're still seeing some really positive results there. So, we'll definitely focus on places that we truly believe will benefit from some of the innovative stuff we're bringing to market.

Rebecca MacDonald: Kevin, it's Rebecca. I do want to step into this. The management, what I call the rock star management of JE these days could have easily signed up a very low margin on a commercial side business. That used to be done in old days. We have stepped away from it very, very consciously because it's a mugs [ph] game and we don't want to be in a mugs game. We want to be in a value creation with a healthy margin. And we'll do that all day long. It's not about putting on the books number of very small margin customers that can actually have a very negative impact to our margin and bottom line. For us it is growing from the strength and growing from a margin strength, and we will not change our approach whatsoever.

James Lewis: I might as well jump in too since all three of them have as well. You can see how passionate we are about this topic. First of all, the idea around international growth is largely to do with leveraging our business model, which is an advantage for us in those markets. It's not some type of reaction to what's happening in North America. In fact, we understand very well what's happening in North America, and those improved margin levels are more than offsetting that absorption issue you're thinking about on a customer acquisition cost basis, hence the EBITDA growth outpacing gross margin when you start to pull apart prepay commissions, etc. So, we're very confident in what we're doing, and we just see an opportunity to grow for the accretive cash and profit basis not as a reaction to something that we see as a negative.

Rebecca MacDonald: And just to add to that, Kevin, we don't want to manage business on quarter-to-quarter basis. We know we're public company, we have to give you quarterly results. We are managing business on a long term basis. Our business plan is looking towards 2020, and we hope that shareholders that support us are looking at this business long term, not quarter-to-quarter. Thanks.

Kevin Chiang: That's all very helpful. I just have a followup. Correct me if I'm wrong here. I was under the impression a year or 18 months ago that there were number of smaller players that you competed with that were forced to exit the business because of the impact of the polar vortex on the balance sheet. Given what you're seeing in net adds would you call this maybe the overall pie is getting smaller because energy prices are little bit lower here, so there is less of an incentive for customers to switch to whatever the products are out there today, or is the pie the same size and maybe you're actively choosing to not be as aggressive in the marketplace to maintain your market share?

James Lewis: Kevin, it's the latter, so when you look at in some markets you have utilities that have over-collected and so consumers are getting the credits now from the decline in gas pricing. And so, the pie is the same there. We want to make sure that we are delivering customers things of value. Pat and Deb both talked about the flat bill, and we have thermostat and green. We focus on the markets where it makes sense, and that's what we'll continue to do. As Rebecca said, it's about making sure we deliver value for the long-term there, and this phenomenon here of these credits is really a short-term item here from the over-collections.

Kevin Chiang: Thank you very much.

Deborah Merril: Thanks, Kevin.

Operator: And next in the line from FBR, we have Carter Driscoll. Please go ahead sir.

Carter Driscoll: Good morning. Just maybe drawing down a little bit into your expectations for solar next year, are those specifically to the two pilots you are currently conducting? Is there any expansion to other states built into that estimate? And maybe talk about your margin per watt expectations, whether it's above,

below, in line with what you were seeing in the early parts of the pilots and maybe the expectations that are built into that 2017 expectation. I have a couple of followups, please.

Deborah Merrill: Okay. Sure, Carter. We absolutely will be expanding beyond those initial two markets. It'll probably happen midway through the year, but our plan is to be in I think there were three or four additional markets we're actively looking at. So, we'll definitely be beyond the two initial ones, and what was your follow-up question?

Carter Driscoll: Just in terms of what you're seeing on a margin per watt basis that you had an initial thought a couple of quarters ago, and just how that has potentially evolved as you have started to ramp up a number of customers, maybe any differences between the two states and/or expectations with the ones you're considering entering, and then if you could provide any potential kind of blended number that goes into that \$10 million EBITDA bump that you're expecting for next fiscal year would be appreciated.

Patrick McCullough: So, Carter, let me give you the relative answer and then I think it goes without saying that as solar becomes material to us, we're going to have to really break this down in detail and really segment out the major differences in profit and cash flow. We like the margin that we have seen as we mentioned a quarter ago publicly. We're aware that other third parties in the industry that have scale can hold as much as \$1,500 origination income to the bottom line. We're hoping to do as well as that if not better at scale. We haven't proven that yet.

New York as you know is tougher market economically for solar than California is, so while California can have stronger margins for us on the bottom line, New York will be a bit harder but still a very impressive return relative to what we have made historically. And then, as we get into each new state, as Deb mentioned, there's obviously a different economic equation, but we are thinking about this as the industry

does, and I think we can hold at least what those third parties hold today. So, as we're thinking about that \$10 million, that's the type of thinking we're applying to it.

Carter Driscoll: And then not to be beat up on the question that Kevin posed in terms of net adds, but are there any pockets of geographic weakness or maybe that's surprised maybe, I don't know, Texas, let's throw it out there, domestically?. And then I'm sure you have internal forecast of what you are going to grow domestically or your targets domestically for net adds versus internationally. Maybe you could compare and contrast those two as you expand into those two new target markets. And is there any way you could identify those target markets internationally that you're talking about, or those target countries I should say?

James Lewis: Okay, I'll take the first part of the question there. We look at it, so, for example, let's say Alberta, Alberta gas price is like \$1.96 or so [indiscernible] some points there. When you look at the usage of our customers' bill of \$100 or \$150 there for average customer, the incentive, as Pat talked about earlier just isn't there sometimes, but when you bundle those products together with electricity, with green, with the smart thermostat or with another product there, customers do see the value.

Like I said, you get some short-term tailwinds from the low commodity prices and the over-collections. We think that'll go away, and we think our approach to focusing on the markets that we can drive the best value is a better long-term strategy. On your question, let's say, for Texas, one of the things that you've seen in the Texas market here, you haven't seen a lot of printing of pricing over the last couple of summers, and I think what happens in some people's mind is that they might look at that and price it differently. We know from an overall risk management perspective that is not necessarily a great idea. We have a very strong and solid risk management strategy which allows us to weather the polar vortexes, the warm winters and the extreme summers. So, I think when you think about long-term, our approach is proven solid, been around for 19 years, and we continue to think we're going to be around for another 19.

Deborah Merrill: So Carter, on your international expansion question, right now we are actively pursuing licenses and partnerships in about three to four markets right now. So, we're looking at Ireland, and then we're looking at Continental Europe, places like Germany, the Netherlands. We also have an eye out for Japan, so we're pursuing some due diligence on those. We're still in the phase of really trying to make sure that next one we point to and actively go into is the right one, but we have about five or six on our radar screen right now.

Rebecca MacDonald: Carter, it's Rebecca. I just want to just go back around the customer adds. You have to appreciate over the last 19 years our sector has fundamentally changed a great deal. We have seen what I call good, bad and the ugly come in and leave the business. So, the future of the business is not about adding molecule, what I call molecule customers. The future of the business is adding customers that are actually getting number of products from us, and that really will be ongoing basis over the next ten years or so.

Carter Driscoll: Yes, I understand. I think there are just different perspectives within your competitors that there is a lot of low hanging fruit still remaining to take away from the utilities based business versus upselling with bundle products, and I think there's a potential mix between the two. And you guys I think currently have chosen the higher margin value side of it, which is proving the right strategy for you right now.

Deborah Merrill: We always are going to be opportunistic.

Carter Driscoll: Yes, I understand. I will get back in queue and take the rest in the followup. Thank you very much.

Operator: From RBC Capital Market we have Nelson Ing. Please go ahead, sir.

Nelson Ing: Okay thanks. I had a quick question on the 2017 converts. Can you provide an update in terms of progress on refinancing that tranche? I guess obviously the high yield markets are in a very difficult environment, so what options are still on the table for you guys?

Patrick McCullough: Yes, thanks Nelson. This is Pat. So yes, the debt markets, high yield markets are not a pretty place today, not compared to a year ago. But deals are still getting done. Our preference is to not go out with new instruments that have an equity hook to them. We see the cost of capital associated with a convert or an equity issuance being very high relative to even a high yield type piece of debt.

The 330s mature in July 2017. Our credit facility has a spring-back a few months ahead of that. Our goal is to get this completely accomplished in this calendar year. We'd love to do it in the next quarter or two, but if the debt markets aren't there for us, we will be patient. We have had unsolicited equity hook type offers made to the company. That gives us a lot of confidence that we will get this done. There is an appetite for that out there which would allow us to completely restructure those 330s with the \$100 to \$125 million of available liquidity we have on our own balance sheet.

So, we're confident that this gets done. We're utilizing many counterparties including our Canadian bank syndicate leaders to help us navigate that. There are new parties that are pursuing our business, but we're trying to do this in a way that protects the equity shareholders so that as we deliver earnings and unlock a multiple, we get the amplification effect of not having future dilution out there for them. But we've said publicly we want to protect the dividend. We believe we can afford that provided we restructure this successfully. We want to make sure there is no new dilution put on the board, and we'll do our best to take any existing dilution risk off the board. That remains the goal. There is no reason to give up on that yet.

We're patient, we're prudent, but we're realists too. We will make sure we get this done in this calendar year, ideally much sooner than that.

Nelson Ing: Okay. Thanks for that. My next question is just I guess I can't help but ask about the net customer adds. But on the commercial side you saw a jump in non-renewals. Were there any kind of large customers that didn't renew or was there a general increase in non-renewals?

James Lewis: No, it's across the board there, on the larger side there, but for us larger is probably smaller to some of our competitors out there. We look at it, let's say, the thousand and above RCEs there when we think about it. But as we talked about not chasing those customers if the margin targets are not there for us, and that's what we've chosen to do. And you're right, year-over-year you see a failure to renew increase there, but that's by design on our part to make sure that we're only bringing in profitable customers.

We've seen, to give you an idea, Nelson, a couple of competitors get out of the market in the commercial arena, and what they've done is gone after the low margin larger customers, and they realize after a couple years if they can't sell the business or the market changes that it's not profitable. And we've seen two or three competitors of substantial size look to get out and sell their book of business.

Nelson Ing: I see. And then on that in terms of focusing on margin versus increase in the competitor landscape, what's the mix how? How would you characterize customers not renewing? I know it's very qualitative, but how much of it is due to your focus on margins versus just there being more competition chasing these customers?

James Lewis: Yes, not being more competition. Our focus, our margin, and the way we manage risk. So, as Pat and Deb talked about earlier, this December was extremely warm. And you can look at it two different ways. You can look at somebody might have decided not to have weather hedge on and how did

an impact from that, and we chose to have one on. In the summertime people can make an assumption that maybe weather won't show up in Texas and take a risk, but we've sort of seen over the last few years somebody take a \$50 million hit or a \$100 million hit from those types of bets. That's just not the market that we're in; we don't want to take those bets.

Rebecca MacDonald: Nelson, Rebecca. I would just like to add one more time, if we wanted to keep those customers at almost no margin we could have. We could have said okay, we are keeping them because they look pretty on the books when we report. But what we are doing is much harder. We could have taken an easy road out and said no problem, we will get all of these renewed at razor thin margins that don't even cover our cost, and the world is a happy place. But we went with a very high decision, and we fundamentally will never change that decision. It's hard to do the right thing, but it's the right thing to do the hard thing. And whoever wants those customers, welcome to have them.

Patrick McCullough: Let's just revisit our strategy for a second. Historically we have been openly critical of ourselves that we were too much of a commodity in the marketplace with less value differentiating us in our customers' mind. So, as we're migrating towards looking for those customers that value more than a low commodity price, there is going to be some turnover and some transition in our book. That's what we're managing every day, every week. But it's an important thing that we're managing because there is cash flow coming off of those old commodity type of deals that we need to respect and enjoy and really invest in the future strategy here. But we're targeting those customers that find value and other things than low price, so there has got to be a turnover of our book to some extent.

Managing that well, ensuring there is accretive margin, bottom-line profit, and cash is what management's all about. That's what we're focused on. We think we've done a great job at that. We think we can do that next year too. We think we can deliver guidance even if we don't put up hundreds of thousands of RCEs on the full-year basis.

Nelson Ing: Okay. So, thanks, Pat. So, just to clarify for fiscal '17, in terms of the guidance of double digit growth, could that be achieved if there is no net growth in RCEs?

Patrick McCullough: As you know, it depends on the margins that we can continue to pull and how fast we get full traction on the value oriented products that we have and frankly how fast solar and the international markets hit the bottom line as well. So, we're upselling more profit, more value, to North American and in traditional customers. We're going into new markets with a superior product portfolio and not having to transition from the old way of selling to the new. We have a lot of levers in play in fiscal '17. We're thinking about everything from incremental prepaid commission that we have to overcome, what's FX to do, because that's material to our results and then these growth initiatives.

Today, we are confident to say we can overcome another 20 million of prepaid commissions. We can weather currency volatility and still deliver 10% earnings growth because of all these things. But we'll obviously be monitoring this every month and every quarter and talking to you about it. But right now we have great confidence that we can do that.

Nelson Ing: Okay. Thanks, Pat. And then just one last question. In terms of the competitive landscape, obviously there has been some consolidation in this space. But we've also seen say ATCO enter the space, enter the retail space in Alberta. Have you seen more competitors enter the space due to the low energy prices?

James Lewis: I think it's probably net neutral, if not shrinking. So, you had ATCO enter. Just recently we saw CenterPoint Energy buy a book of business, so two traditional utilities. But then you saw a FirstEnergy get out a little while ago and Dominion got out of part of their business. And you've seen a lot of smaller

players get out and then some newer players get in. So, I think as each company evaluates their strategy, they're trying to take advantage of opportunity, they're getting out of places where they don't think it's the right return on their capital. So, probably net neutral to a little bit of shrinking.

Nelson Ing: Okay. Thanks, Jay. Those are all my questions.

James Lewis: You're welcome.

Operator: From TD Securities, we have Damir Gunja. Please go ahead, Sir.

Damir Gunja: Thanks, good morning.

Patrick McCullough: Good morning.

Damir Gunja: Can you just touch on the FX assumed in your forward double-digit EBITDA guidance?

Patrick McCullough: Yes. So, as we're looking towards the future, we are expecting to have some strengthening of the Canadian dollar. We've talked recently in the past about 10% movement on the CAD to the U.S. dollar, generally, is putting up about 2 million a quarter of EBITDA or \$8 million annually. So, one of the assumptions that we've built in our forward look is a little bit of Canadian dollar recovery, and we think we can offset that with operational performance.

Damir Gunja: Just to be clear, you're not forecasting a 10% lift in your guidance?

Patrick McCullough: We are forecasting a 10% base EBITDA improvement after factoring in prepaid commissions, thinking about our assumptions on FX, which obviously we're not going to be changing

guidance for FX. We think we can manage that volatility but picking up the growth, the performance based growth that we planned.

Damir Gunja: Okay, but not a 10% lift in the Canadian dollar, that's not in your assumptions?

Patrick McCullough: No.

Damir Gunja: Okay.

Patrick McCullough: That's not what we said. I'm just trying to put it in perspective of for every 10 percentage point change, that's worth 8 million.

Damir Gunja: Got it.

Patrick McCullough: On the basis of 220ish next year.

Damir Gunja: Okay. So, zero FX benefit in your guidance essentially.

Patrick McCullough: Correct.

Damir Gunja: On the existing book of business, just wondering if you can help us sort of understand. How would you characterize the existing book relative to the new bundled higher margin contracts that you're bringing in? How much of the book would be—even in rough percentage terms, would 80% of the book be materially below the current margins you're bringing on or is it flipped? Is it only 20?

Deb Merrill: I'd say the penetration for kind of the new initiatives that we've had over the last call it two years, 18 to 24 months, I always give the analogy we're kind of in the bottom of the fourth inning of this game. So, our existing portfolio is probably more like the 80/20, 80 old, maybe 70/30 old and versus new. That's just a rough.

James Lewis: I think one of the things when you think about the overall business here, one of the things that we've done a really good job of is we constantly have improved our risk management. We have a great team out there that does a wonderful job looking for best in class, world class ways of managing risk. Our suppliers as well have worked with us to make sure that we're best in class in this area. So, we continue to look for ways to deliver more value out there. So, we think when it comes to an absolute cost basis that there is nobody better than what we are on commodity cost there. The risk management in our margin requirements might be different, but our risk management group and traders out there are best in class.

Damir Gunja: Okay. Maybe a final one for me. Just I'm intrigued by the flat bill product. I guess, what percentage of new business that you're bringing in is flat bill at the moment?

Deb Merrill: We actually have the flat bill in six markets now, six states and provinces, and in some markets that's almost all what we're bringing in. Other market we have a lot of different products that are offered, so it might be a smaller percentage. But, for instance, Ontario, that is 100% of what we sell. And Illinois, it's a product, but it's not 100% of what we're selling, but it is in six markets now.

James Lewis: The big issue that holds us back from rolling it out to a lot of other markets is sometimes the utility on the other side. You can only roll it out in markets where the utility billing systems allow it. And so that's why we can either look for a way to drive innovation, because we believe in order to innovate, you got to have that improved customer experience. And in those markets where we've been allowed to do

innovative things, we've seen better customer experience, a higher customer growth, better customer satisfaction. And so we'll continue to push the leverage there as we move forward.

Damir Gunja: So, you figure, say, that flat bill and maybe green products are sort of the two main drivers between the higher margins?

James Lewis: Flat bill, green products, smart thermostats. We have some other items that we're looking at to continue to drive value, yes, sir.

Deb Merrill: We have in some market we're bundling LED light bulbs which help the home be more efficient. So, it's about not only increasing margin per customer but reducing attrition as well.

Damir Gunja: Okay. And just a final one from me. Your solar guidance of about \$10 million in EBITDA, I guess backing in to the origination fees, am I correct in thinking that that's about 6,000 to 7,000 customers, roughly, per contract?

Patrick McCullough: It's in the ballpark, yes, based on what we see third parties making.

Damir Gunja: Okay.

Patrick McCullough: Remember, our income in the future is going to be a result of signed contracts which are accepted by our fulfillment counterparties with a clawback reserve applied to that. So, when we're thinking about \$10 million, we're thinking about signed deals. So, the point of signature really about a week after that, not the point of installation. So, we do get to recognize profit at the point that our activity finishes, but we'll have to put a clawback reserve for deals that get signed, get approved, and don't actually get installed. That's the nature of this industry.

Damir Gunja: Okay. That's helpful. Thank you.

Operator: (Operator instructions.) And from Rodman & Renshaw, we have Alib Dyal. Please go ahead, sir.

Alib Dyal: Thank you. Most of my questions have been asked already. Just wanted to get a sense of our ability to maintain pricing and margins. Should we expect more competition for these higher margin customers or is our product differentiation sort of a moot around these customers? If you could add some color for this, on this, please.

Patrick McCullough: So, maybe I can start. We really believe we're one of the only players in the six markets with a flat bill product, which is a great differentiator especially if energy commodity volatility comes back to those markets. So, if you think about low stable energy prices, the motivation to switch or to lock in security with a flat bill product is not as high today as it was on the edge of the polar vortex or the hot summers in Texas that we've seen several years ago.

So, we like the fact that we're bringing a product like that, a product structure to market that others aren't. When you think about solar or bundling other renewable solutions, there is a great advantage for retailers who can bring solar assets to their customers. And the biggest advantage there is we understand the customers and we can serve them their off-peak power in deregulated markets. We can potentially bundle other things together to arbitrage the local economics associated with power.

So, everything that we're doing when you think about our product strategy, our bundling strategy, and getting broader with energy management solutions for our customers, is to do exactly what you're asking

about, differentiate, have a superior value proposition and have fundamentally an economic moat versus all of our competitors. We think we're ahead of the game. We think the strategy is right, but we have a lot of work to do to stay ahead.

Alib Dyal: Right. And on the gross margin side, should we be looking for further improvements potentially in the near term, driven by these product differentiation factors, or is this the level we kind of should expect at least for next one or two quarters?

Patrick McCullough: Yes. The products that we can sell per customer are clearly going to go up. So, one of the things we have talked about in the past is this idea of gross margin per RCE that we report to today is very effective if you're selling commodity alone, but we are looking to bundle more products per customer. So, your margin per customer will certainly go up. Your margin for RCE won't even be understood in the future. So, it's hard to answer your question because what you'll see us doing over the next two years is transitioning away from the way that we showcase our profit per RCE and show you more profit per product, profit per customer type of metrics.

Alib Dyal: Understood. Thank you. That's all I have.

Deb Merrill: Thank you.

Operator: We have no further questions at this time. Thank you, ladies and gentlemen. This concludes today's conference. Thank you for your participation. You may now disconnect.

Patrick McCullough: Thank you.

Operator: Thank you.