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SPEAKERS

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Pat McCullough – Chief Financial Officer

ANALYSTS

Nelson Ng
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PRESENTATION

Operator: Welcome to the Just Energy Third Quarter Fiscal 2017 Results Conference Call. My name is James. I'll be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Please note this conference is being recorded.

I'd like to turn the call over to Co-CEO, Deb Merrill. Miss Merrill, you may begin.

Deb Merrill: Thank you very much. Good morning, everyone. Thank you for joining us this morning for our Fiscal 2017 Third Quarter Earnings Conference Call. My name is Deb Merrill, and I'm the Co-CEO of Just Energy. I have with me this morning 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.

Just Energy continues to operate at a very high level. Our strategy is working. Our business is healthy and growing stronger. We are entering a very exciting time where we've headed from a period of internal repair to a period of what we believe will be prolonged growth.

Historically, Just Energy has primarily been a commodity-only business. Over time, we've made investments and pursued a strategy that's transformed the company to what we are today, the leading independent retailer of energy and water management solutions with a multi-national customer-centered approach. We are committed to delivering comfort, convenience, and control to all customers.

During the transformational period, we have been able to significantly elevate the profitability profile of the business while also repairing our balance sheet and overall financial position. This progress is evident in our third quarter results. During the quarter, our gross margin per customer continued to increase, our attrition and renewal rates has also improved, the business generated strong cash flow, and we were able to accomplish several significant objectives within our long-term growth strategy.

However, while we made significant progress along a number of important strategic, operational and financial objectives, which are enabling us to continue to pursue profitable growth, our total sales, and customer addition goals faced some near-term challenges during the quarter. One of those challenges is that we continue to upgrade in an environment of relatively low and stable prices, which leads to lower

than anticipated levels of customer switching activity. We're also seeing the effect of increased competition that often follows low commodity price environments such as the one we're currently experiencing. Fortunately, these are short-term challenges.

As a result of the overall improved health of our business and the strong pipeline of new products and growth opportunities, we delivered strong results year-to-date and remain very well positioned to achieve our fiscal 2017 guidance and continue to deliver growth in 2018 and beyond.

We move forward with a strong balance sheet and the restored financial flexibility necessary to support our growth. For arguably the first time in our history, and certainly in our tenure as management team, we have an efficient capital structure in place and a sustainable payout ratio. This was no accident. The successful execution of our plan allows us to now focus our resources on aggressively pursuing growth through expanded geographic presence, enhanced sales channels, and the introduction of new products and structures that meet the changing needs of today's consumers. This will ultimately empower our brand and drive increases in customer contracts.

Before Pat takes you through the financial results at a deeper level, I want to expand upon these important elements of our growth strategy. Our geographic expansion plans remain on track as we continue to further diversify our business. During the third quarter, we announced a very exciting and important entry into Germany through the acquisition of SWDirekt and were recently awarded our license to do business in Ireland.

The acquisition of SWDirekt provides Just Energy immediate access to the largest energy market in continental Europe, accelerating our market entry substantially while also adding a talented local team in Germany that will play a valuable role in the growth of our operations in the region. We are confident in our ability to combine our core competencies, experience, and depth of product offering with the local

expertise and leadership of SWDirekt as we seek to access over 50 million gas and power meters in Germany.

Our UK markets continue to perform well. This market now represents 7% of our global customer base, having grown by 8% to 309,000 RCEs over the past year through increases in both the consumer and commercial business. We believe we can apply the lessons learned from our UK expansion as well as the early lessons learned in Germany to successfully expand into other attractive continental European markets. We see tremendous opportunities to grow our platform.

We're also pleased with the progress we've made on our product line. In line with our overall growth strategy, we believe we can continue to disrupt the utility markets with new products and channels while creating strong residential and commercial customer relationships. We are experiencing great customer acceptance of our growing product suite and long-term loyalty programs such as JE Perks, our flat bill offering, LED retrofits, and our newly added smart sprinkler, which I'll touch on in more detail shortly.

I've only named a few of the exciting products we're currently offering customers today, and our pipeline of value-added products is robust. We remain focused on delivering energy management solutions including commodities, energy efficiency, water conservation, and renewable products to a growing market.

Last week, we announced an exciting partnership with Skydrop. This is an innovative industry-leading manufacturer of digital, self-regulated smart home irrigation systems. This allows us to add smart irrigation controllers, or smart sprinklers as I referenced earlier, to our suite of home energy management solutions. Similar to our ecobee smart thermostat, smart irrigation controllers contribute to significant resource conservation while saving our customers time and money. This is the only adapted and smart

watering controller in the market. It also allows for real-time weather monitoring, remote homeowner control over their sprinkler system, and the ability to schedule watering times using a smartphone app.

These types of value-driven products and structures are a key component of our growth strategy and are allowing us to price our energy management solutions competitively without sacrificing customer satisfaction. This is evident when you look at our improving attrition and renewal rates as well as our ability to continue to grow gross margin per customer. All of these improvements are a result of Just Energy's focus on becoming the trusted advisor and providing a variety of energy management solutions to our customer base to drive loyalty. I strongly believe the company is capable of delivering more value to the marketplace and on a path for future sustained growth.

One of the key parts of our plan is to diversify and expand sales channels, which will give us the ability to connect with more customers in new ways that support our trusted advisor strategy. As part of that, we launched a brand new channel with retail storefront partners that position Just Energy's value to potential customers already in the buying mode. We are very excited about the prospects of the channel and feel that it could be one of the largest channels in the future. Additional new channel opportunities exist in affinity marketing, authorized agent, telemarketing, and others that we will continue to pursue as we expand our portfolio.

To conclude, we enter this period of growth with the capital and financial flexibility to invest in organic as well as inorganic growth opportunities. The combination of our refinancing efforts with our ability to generate meaningful cash flow from our ongoing operations provides us plenty of runway for further expansion. In addition to ongoing investments into products and channel opportunities, we are actively looking at inorganic growth. Rest assured, we will apply the same discipline in this area that we have applied in our successful efforts to transform the business over the past three years, and we will maintain our capital light structure.

With that, I'll turn the call over to Pat so he can provide some more additional color on our financial results. Pat?

Pat McCullough: Thank you, Deb. The business is functioning well, and we're on a solid path to executing our growth strategy. First, I'll cover some of the highlights of the third quarter and then provide some added color in certain areas before closing with our guidance.

Our third quarter base EBITDA decreased 8% to \$51.5 million, primarily as a result of lower than normal consumption, increased prepaid commission expenses, and the impact of foreign currency translation. Excluding the \$1.4 million of additional prepaid commission expense, base EBITDA was down 5% during the quarter. During the quarter, gross margin decreased 3% to \$174.5 million as a result of a mix of factors including lower than normal consumption, foreign currency on UK-based customers, and the decrease in the overall customer base. The consumer division gross margin decreased 6%, while the commercial division gross margin increased 9%. Average realized gross margin over the trailing 12 months, ending December 31st, was up 14% to \$264 per RCE in the consumer division and up 22% to \$82 per RCE in the commercial division.

If you take a look through our MD&A, you can see these incremental improvements between customers added and lost continue to hold true in the recent standalone quarter. During the quarter, we saw attrition improve 2 percentage points year-over-year for the trailing 12-month period. The consumer attrition rate decreased 3 percentage points to only 4% from a year ago, and the commercial attrition rate decreased 1 percentage point to 8%. It's particularly encouraging that attrition rates improved in both the consumer and commercial divisions in what we consider highly competitive market environments. We believe the improvements are a direct result of Just Energy's successful execution of our business strategy.

General and administrative expenses for the third quarter increased \$1.6 million or 4% year-over-year. This was primarily driven by the higher operating costs in the UK to support its growing customer base, international expansion expenses, as well as efforts relating to new strategic initiatives. Selling and marketing expenses, which consist of commissions paid to independent sales contractors, brokers, and independent representatives, as well as sales-related corporate costs decreased 17% year-over-year primarily due to lower commission costs associated with the lower gross customer additions in the current period.

Now, I'll review some of our other key financial metrics and balance sheet items. Base funds from operations of \$20.5 million decreased 23% from the prior year. The decrease in base FFO was primarily a result of the decrease in base EBITDA as well as one times finance costs associated with the early redemption of the senior unsecured notes in the quarter.

These items also affected the payout ratio on base funds from operations which was 92% for the quarter and 57% for the first nine months of the fiscal year. On a trailing 12-month basis, the payout ratio is currently 53% which is less than our target of 67%. Cash and cash equivalents of \$77.5 million were down 15% year-over-year and down 39% from March 31, 2016. This decrease is primarily attributable to the early redemption of the \$225 million on our 6% convertible debentures as well as the repayment of the \$55 million on senior unsecured notes. These repayments were offset by the issuance of the 6.75% convertible debentures and withdrawals of \$90.3 million on our credit facility.

Total debt of \$519.5 million as of December 31, 2016 decreased by 21% from \$660.5 million as of March 31st. We continue to pursue debt reduction and unique options to further improve the strength of our balance sheet and the financing opportunities. Since quarter end, we've announced several important actions towards this objective. In January, we increased our credit agreement capacity by \$50 million.

We also completed the early redemption of the remaining June 2017 convertible debentures, and we announced a new perpetual preferred equity offering which represents the first time Just Energy has raised non-dilutive permanent capital in the US markets. This type of offering is normally reserved for investment-grade companies, but with our improved credit worthiness and solid business model, we were able to access over two times the marketed value, and seven institutional investors participated in what is normally considered a retail product.

Overall balance sheet improvement initiatives have resulted in significantly improved debt ratios. As of December 31st, Just Energy's book value net debt was 2.5 times trailing 12-month EBITDA, an improvement from the 2.6 times reported at March 31, 2016 and the 2.9 times reported for the prior comparable year-ago period. Our yearend expectation with achievement of guidance and the new perpetual preferred will be a net debt to EBITDA of 1.9 times or better. We believe that the combination of our strong cash flow and our commitment to a capital light strategy will allow us to maintain this relative level moving forward which clearly preserves the affordability of the dividend.

Turning now to our outlook, based on our performance so far in fiscal 2017, we believe we're on track to achieve our previously provided full-year-based EBITDA guidance of \$223 million to \$233 million. This range reflects continued double-digit percentage growth year-over-year.

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

Deb Merril: Thank you, Pat. In summary, we are in an exciting period for Just Energy where both our financial strength and flexibility are matched by a growing product suite that we expect to translate to growth in markets across the globe. We are aggressively pursuing growth through an expanded geographic presence, enhanced sales channels, the pursuit of strategic acquisitions, and the introduction of new products and structures that meet the changing needs of today's customers. We remain on track

to deliver a very strong fiscal 2017 highlighted by improved profitability, strong earnings growth, and ongoing generation of strong cash flows. We're committed to maintaining our dividend and achieving strong growth in fiscal '18 and beyond as we pursue our objective of becoming the premier world class provider of energy and water management solutions.

With that, we'll now open for questions.

Operator: Yes, we are now ready for Q&A. I apologize for the delay. [Operator instructions]. Our first question is from Nelson Ng [ph].

Nelson Ng: Great thanks, just a quick question regarding your solar business, are you able to provide a bit more color as to how many rooftop solar customers you have or how the results were from the solar business? I know you pulled your outlook for solar last year, but I was just hoping to get some color on how that part of the business is doing.

Pat McCullough: Yes, thanks, Nelson. This is Pat. No, we're not reporting solar sales at this point. In fact, we've turned bearish on the segment. We're looking at what's happening in the US from a government and political perspective and we're recognizing the tax reform that's being planned that's going to be very negative for the residential rooftop solar space in two ways that we can envision.

The first is with the lower corporate income tax plan, it's obviously going to make the investment tax credit a great deal less valuable if it actually stays in effect through the Trump administration. Then, secondly, we see a lot of protectionist talk around imports, and, I think as we all know, most of the hardware for US solar right now is coming from outside of the United States, so we see a lot of pressure on costs and, frankly, returns in that space. We're looking at solar as a product that's part of a portfolio that we bring to our customer base but not a primary growth strategy for the short-term.

Nelson Ng: Okay, thanks, Pat. Then, Pat, a question for you, have you finalized the decision on how you'll use the net proceeds of the preferred shares issuance? I'm just wondering how the allocation will work out in terms of paying down your credit facility, or redeeming the 2018 or '19 maturities.

Pat McCullough: Yes, appreciate the question, we talked about this in the prospectus of the perpetual preferred, that the \$126 million Canadian roughly of net proceeds will be used to, number one, shore up short-term working capital and that means exactly what you said, pay down the credit facility to avoid that almost 6% cost of capital. This puts us on the front foot for refinancing our 100s that mature in 2018, and those 100s have an early call option at par value.

In addition, this supports the balance sheet and the capital structure as we free cash flow close to \$100 million in fiscal '18, we're going to be able to use this new base for growth, as Deb was talking about. Right now, we actually have line of sight to the '18s with free cash flow alone or with the proceeds of the perpetual preferred, however you look at it. There'll be a surplus roughly of \$150 million of total capital over the next four quarters that we can deploy towards organic or inorganic growth.

Nelson Ng: I see, and then, switching gears a bit, on the gross margins per RC for commercial customers added and renewed, I noticed that that was about \$1 higher than the customers lost. So, from a big picture perspective, I was just thinking, are you guys essentially done with pruning low-margin commercial customers?

James Lewis: Hi, Nelson, it's James, here. I think as we talked about before, it's not so much the pruning aspect of it. It's our disciplined approach to risk management, as Pat and Deb talked about earlier. With the low commodity prices out there and the risk profile for some of the competition, they

have a different perspective. We feel really good that, as you can see through the results that our disciplined approach is working.

When we look at it, to give you an idea, over this last quarter, we could have signed up 100,000 plus of RCEs, but it was a negative \$3 million or so to the value for the shareholders in the company. That's something that we're not going to do. As the volatility picks up, some of those players go out of business, we have the foundation to be successful there, and we see customers who like our value proposition, who like our bundle, sticking with us as we provide higher value services, not just low prices.

Nelson Ng: Okay, thanks, James, and just one more question for you, I guess, very big picture as well. I notice that the embedded gross margins is essentially flat to down a little bit year-over-year. I was wondering in terms of given your EBITDA, given that you guys are able to grow EBITDA the past few years, I was wondering with the flat embedded gross margin profile how would you drive growth in the EBITDA going forward. Will it mainly be through lower overhead costs and marketing costs, or is there not a good correlation between embedded gross margin and EBITDA?

Pat McCullough: First of all, let's answer the growth part of the question, and then we can talk about a little bit of the conservatism and the calculation of embedded gross margin. We're looking for growth through new products, new product structures, looking through geographic expansion, and looking for channel expansion. We do believe you'll see RCEs and embedded gross margin, but also products that don't get calculated as part of commodity contracts and end up in embedded gross margin.

So, if you think about us selling a smart sprinkler system, you're not going to see an embedded gross margin associated with that non-commodity product. That's part of the answer. Now, embedded gross margin is calculated on the added and renewed design margin assumption that we reported in the MD&A that you're referencing for commercial, but you can see that the actual realized trailing 12-month gross

margin that we're experiencing is a fair bit ahead of that and it's been running 20% to 30% ahead of our expected design margins as we report those.

Now, obviously, the trailing 12-month actual realized margin is the more valuable number because that shows you what actually settled out, what fees we added to those design deals, what upsells we were able to accomplish, so our thinking is that our embedded margin is conservative and probably lacks that residential difference in actual realized margin versus planned margin. I think the more important point is growth will be coming from areas outside of embedded margin, but we'll be coming from embedded margin. You've seen a small reduction in embedded margin based on the RCE net attrition that we've seen over the last year.

Nelson Ng: I see, thanks. Thanks, Pat, just one last question. In terms of growing into new products, geographies, and sales channels, can you talk about whether you're starting to look more closely at M&A opportunities and if so, would those be more focused on essentially new products and geographies rather than adding a book of customers?

Deb Merril: I think, Nelson, from our perspective, we're looking at a little bit of everything. We recently did the German acquisition, which was relatively small, but gave us a foothold there. We are looking at other European acquisitions that would just be retailers that could get us into a market faster.

We've been pretty disciplined about not wanting to be a fully integrated company that owns all of the products that we are selling, so as it relates to buying a company that has a product, if it makes a lot of sense, we might, but generally we'll probably partner for those kind of things. Really, it's about geographic expansion or capability, potentially a sales capability or sales channel we may not have currently today or are not currently expanding into. So, it's a little bit of anything that helps us advance

our strategy will be something that we'll look at. Now, from just a pure book standpoint, we'll look at books, but we'll value them appropriately as well, so all of those things are in play for us right now.

Nelson Ng: Okay, thanks, Deb. Those are my questions for now.

Deb Merrill: All right, thanks, Nelson.

Operator: Our next question is from Carter.

Carter Driscoll: Carter Driscoll, FBR, thanks, good morning, guys, Deb, and the whole team. Just following up on Nelson's question, if embedded gross margin, I think of it almost as looking backwards on the business that you've built but really transitioning more towards a full suite of energy management solutions aimed at, I guess, today, more at the residential customer, and then maybe eventually the commercial side. Is there a metric that we can pull away from embedded gross margin or add into? I think some of us struggle to go from that realized gross margin and back into the embedded gross margin as kind of a proxy for either growth in the net customer side and/or the upsell that isn't necessarily being captured. I guess there isn't maybe a metric you can give today. But is that the right way to think about it, the difference between that is really the upsell with a little twist on the customer splits, whether it's positive or negative?

Pat McCullough: Yes, that's generally right. This is Pat, obviously. We are going to be looking at modifying metrics as we go into the fiscal '18 year. We're really focused on number of customers or contracts and then the makeup of those contracts, meaning how many products per contract and what is the profit per product. So, you're going to see a little different segmentation from us as we go forward where you'll start to see some product splits that we haven't provided in the past, which I think will help

address what I'm referring to which is some of these sales outside of embedded gross margins, but there also should be more clarity around forward profits on commodity contracts as well.

Carter Driscoll: Okay, and then my next question is, obviously given the change of the administration and potential negative effects on what you said in solar origination, but also the strong support for the development of fossil fuels, in particular shale gas, is there an expectation—I guess we're trying to figure out the expectation of the volatility that is partially necessary [audio disruption] outside of your own marketing efforts and customer acquisition efforts that you need that volatility to induce switching. How do you think about or plan versus what the forward curve might be saying today versus your expectations of additional customer growth whether it's organically or inorganically? How do I think about at least the organic side, obviously M&A is separate from that?

James Lewis: Hi, Carter, this is James. I think when we look at it, you're exactly right with the favorable outlook right now for the Marcellus shale, and some of the natural gas, and coal generation, volatility might not show up, and we might continue to see these low gas prices for a while, which in some markets leads to low power prices as well, and maybe lower volatility there, which is why when we talk, we're extremely bullish and excited about our European expansion there, which will be organic growth as well as other countries. We continue to believe that here in North America, it's a lot of the value-added products and services that we've talked about will keep the customers we're able to talk to and communicate and that we're reaching out to. They appreciate those products and services.

For the folks who just want the pure low commodity when there's no volatility, we won't pick up those customers. They won't switch away, but we'll see, we think, big growth opportunities overseas. So, that's where the organic growth will come from.

Deb Merrill: I also think, just to add a little bit to what James said, the channel stuff is really important. Think about our business over the last—because we're actually celebrating our 20th anniversary this year for Just Energy, so we've been in business as a public company for 20 years, which is quite an accomplishment in a lot of ways. As we look at our business, customers are—the thing about utilities, nine months of the year, they're not necessarily going out and thinking about these things especially in those volatility environments. That's why this channel expansion's so important as well, geographic as well as channels that put us in front of customers when they're in a shopping mode or through affinities and partnerships with other thing that we really believe getting more access to those guys into customers will help us drive that volume in a low volatility environment.

Pat McCullough: Then, one more add-on for the three-headed answer, one of the great things about this business model, as we all know, is we're not expending a bunch of capital investment into these things. So, if solar looks promising two years ago, and it's starting to dry up now, that's a very simple pivot for us. We're trying to deliver customers' energy solutions via the grid, via distributed generation, and the hybrid of the two. I think this gives us a big advantage from our competitors in the energy space that as politics, regulation, markets, economics change, we can move quite nimbly to where the customer benefits the most. If that changes, a little easier for us to be ahead of that versus our competition.

Carter Driscoll: Okay, and then maybe just last question for me before I get back in the queue is how do I think about the strategy for Europe in terms of really applying your success of your base business versus maybe the upsell strategy you're doing here? Are there different potential energy management solution strategies for each individual country, or is it too early to try to apply that strategy?

Deb Merrill: I think overall what we're trying to do is to bring our strategic vision of bringing value-based products, everything unique and value-driven, to every country we're in. What that looks like in Germany probably looks different than Ireland, probably looks different than Spain. I think the fundamental

philosophy is the same, but the Legos that we might put together to build it will probably be different by market given the regulatory structure, given the wholesale market and what it looks like.

For instance, in Germany, I think 20% of a customer's overall bill is actually the commodity. Everything else are basically taxes, and overhead, and distribution, and a lot of infrastructure things the customers are paying for. So, that kind of economic impact from all these other things might have a different kind of construct for a product that we might have in North America when it's more like 50%.

Pat McCullough: The overarching model of selling commodities, selling energy efficiency, or water conservation products, and then offering renewables will be similar in every market, but the mix and the competitiveness of each, let's say, energy efficiency device versus renewable flavor, can be different.

Carter Driscoll: Okay, I'm sorry, one last one from me, you've obviously had good success in bringing down your attrition level recently. Is that, A, do you think sustainable as you go back and focus on organic growth and/or inorganic growth? And then if you could maybe contrast the domestic versus, I think you've had a long enough period in the UK now to be able to talk about attrition. Could you talk about what you've experienced there so far?

James Lewis: Yes, I think our resource there, Carter, we think it is sustainable. When you look at that attrition number now, especially on the mass market side, we're seeing customers appreciate that bundle service. Our Perks program has been very well received. We've seen our net promoter score go up, so we're excited about that. We've seen higher conversion rates when we are talking to customers which ultimately lead to the lower attrition there.

In the UK side, we continue to see good success there. We're going to roll out some of these exciting programs over in the UK as well. Today, the value proposition really has been some of the longevity,

longer-term pricing term that they historically haven't seen or we've been very competitive on the green side as well as we focus there and on the commercial side, we've been very successful as well. The attrition has been lower there than [indiscernible], and we expect it to go even lower as we roll out some of these exciting new products and services.

Carter Driscoll: I appreciate you answering all my questions. I'll get back in the queue.

Operator: Next question is from Ravele Ball [ph].

Ravele Ball: Yes, hi guys, thank you for hosting the call. A few questions for you, first of all, with respect to the sales and marketing expense, I'm wondering how does that number change as customer growth returns. Can you give us some understanding of how much of your current sales and marketing expenses are fixed costs versus variable costs and how that could change over time?

Pat McCullough: Yes, Ravele, thanks for the question. This is Pat. About a quarter of our channels today are paid in the form of an upfront commission where about three-quarters are paid on a residual commission basis. So, depending where that growth comes from, as we go forward, there may be that upfront cost that we incur in cash flow that gets recovered over roughly three-quarters time. If you're selling into the three-quarters of our channels where you have a business built around residual, then you obviously have a nice match between cash inflows, cash outflows, and profit, so as revenue and gross margin are incurred, we'll be booking the commission monthly as we experience the contract over one, two, three years.

In terms of fixed cost, there are some fixed costs associated with our door-to-door channel and our joint venture for online and telemarketing. You can see the nature of selling and marketing move with our gross margin, with our business. With the commercial broker channel, there's very little fixed cost for us.

There is some internal side sales type of folks that do support that. But with a smaller dependence on door-to-door over the past couple of years, that fixed overhead of sales offices and the recruiting machine behind door-to-door has actually come down quite a bit for us.

Ravele Ball: Okay, and do you mind diving deeper into this and just giving us some sense of what is your acquisition cost for these different sales channels per customer? I mean [indiscernible].

Pat McCullough: Yes, we had historically reported through our Investor Relations deck, a consumer versus commercial cost of acquisition, and you see that in the MD&A, but at this point in time, that's all of the cost of acquisition that we're reporting. It may change in the future with new channels being added, but for right now, we're just giving those segment splits.

Ravele Ball: Understood, and then Deb was talking about the new retail sales channel that you guys have recently launched. Is that the kiosks? Can you provide some more color on that?

Deb Merrill: Sure, this is our in-store box retailers' store in various types of stores. We've actually launched five so far. One is an electronics store in Texas. Another one is a multi-store in Canada. We have a bit of the pilot up and running and going.

There are a couple of ways we're going to do this. One is the one we're currently doing right now is a kiosk, as you said before. We have a partnership with a company who's already in many of these relationships with various retailers across North America, so with our partnership with them, we continue to test-pilot, and then ramp that sales channel.

Ravele Ball: Okay, and how long has this pilot been going on for, this quarter or previously?

Deb Merrill: No, we just started. We launched it about two weeks ago. I think last week was our first active week in those five stores. As you can understand, a brand new channel, working through the kinks, making sure it all works, and then it'll be kind of a linear ramp over the next 18 months as we open and go into more and more stores.

Ravele Ball: Thank you, very interesting. And then can you speak about the UK market dynamics? How's the competitive environment on the commercial versus consumer side at the moment?

James Lewis: Yes, I think when you look at the UK, it's interesting, September, they had a power spike there which you saw because there was a line down I think, an outage in France, and some of the imports, you saw some volatility pick up there. At the end of the year, you saw a pickup in some of the pricing there which then increases the shopping aspects there. That gives you a sense of some of the volatility that when you see the volatility, you see some of the pickup in the switching as we talked about, and we saw some of that as well. It is competitive.

On the commercial side, you have a lot of brokers like you have here, very sophisticated. We do really well. We have a great supply team over there that looks at unique opportunities for us to be very competitive on the pricing side there, which has allowed us to grow. We continue to see that. We don't expect anything different, and we'll continue to apply the same discipline that we have here in the states.

Deb Merrill: I think, adding a little bit to what James said, they did see that volatility, and we actually saw a competitor go out of business based on that volatility last year. So we've seen that go into January as well where we've seen a lot of activity in that marketplace on the residential side.

Ravele Ball: Great, thank you, looking ahead you think most of your growth for the UK will come from the consumer side, or is it 50/50 consumer/commercial?

Pat McCullough: On an absolute basis, it'll be slightly more commercial because it's a bigger base, but on a percentage basis it'll be the opposite. So we'll get good solid growth from both segments.

Ravele Ball: Okay, and what's a good penetration of the retailers in Germany?

Deb Merril: As far as the total, I believe the—

Pat McCullough: The total count, is that what you're asking?

Ravele Ball: Yes, I was just saying here for example in the US, the energy retailers have close to a 30% penetration in deregulated markets. I was just trying to understand what that number looks like in Germany.

Pat McCullough: It's less than half. It's actually very similar to that number. A lot of people have never switched from their default utility.

Deb Merril: The default rates, [indiscernible] default rates are around that 30%, I believe is the last number I saw.

Ravele Ball: Great, thanks, just two more questions. Now the attrition rate is coming down, but the fail to renew, when I look at it on the consumer basis, it's still pretty elevated. How do we get this fail to renew number further down?

Pat McCullough: Are you speaking of commercial?

Ravele Ball: Consumer.

Pat McCullough: Renewal rates are high for consumer.

Ravele Ball: Yes, so for example, fail to renew in absolute numbers was 50,000 in Q2, number of customers have failed to renew and now that number's at 56,000, if I have it right, for Q3. That compares with 31,000 in Q3 '16.

Deb Merrill: A part of that, Ravele, is going to be the number of customers up for renewal in that period, so even if the percentage is getting better, if you have more customers that are up for renewal in that period, the absolute number might be bigger. Does that make sense?

Ravele Ball: Yes, it does, absolutely. Lastly, with respect to bundled packages, can you speak a little bit more about what sort of sequential growth we are seeing in terms of selling these bundled products? I know it's still in early days, so it's difficult to say, but any data points on that will be helpful.

Pat McCullough: Yes, the bundled solutions that are out there now are still the vast majority of what we're selling, so a lot of this scaling of perks, plus LEDs, plus multiple commodities, that scaling has just happened here in the last two quarters for the company. As we're going forward, we'll be scaling that up offering more bundled solutions to our product mix, but it's still the minority.

Ravele Ball: Okay, okay, that's it for me. Thank you, guys.

Operator: Our next question is from Sophie Clark [ph].

Sophie Clark: Hello, guys. Thank you for taking my question. I was wondering if you could discuss a little more, give us more color, on the competitive environment. You mentioned it is one of the factors that impacted the quarter. How do you see that being affected by various factors in the US here and in other markets and where do you expect it to go?

Deb Merrill: Sure, maybe I'll start, and you guys can add in. This industry's always been competitive, but we tend to get ebbs and flows of things. So, as you get periods of very low volatility in North America, especially in the US, you get a lot of competitors get very skinny on margin, very skinny on pricing, and maybe do some irrational things. Then, when volatility returns, and they tend to get these spikes of prices, you find that those folks either adjust their risk profile and maybe increase some more prudence in their pricing and also go away in some cases but at least things could return to normal. We've been in this low volatility environment which gets people a bit complacent, I would say.

A great example is the UK. They hadn't had volatility in forever. You had a little bit of volatility in September. We had immediately somebody go out of business in October because they hadn't priced all the risk prudence associated with managing retail energy, which is much different than buying wholesale blocks of power.

We've been in this business 20 years. This is a cyclical thing that goes on, and it goes away as soon as it shows up. So, it really just depends on how those wholesale markets are operating, and weather, and other things.

I think what we're trying to do, Sophie, is really not be commoditized, so we want to be able to break away from this commoditized thinking of rate per kilowatt hour, which will hopefully give us the ability to weather those storms as people are doing some irrational pricing through things like flat bill, smart sprinklers, things that bring a different type of value to consumers that will really distinguish us in a way

that will keep us out of this over time and insulate us a little bit more from these low volatility environments and highly competitive prices.

Sophie Clark: Thank you.

Operator: A question from Zamir Gonya [ph].

Zamir Gonya: Thanks, good morning, just wondering if you could spend a little bit on international expansion. You have Ireland licensed, Germany obviously is under way. Deb, I believe I heard you mention Spain. Can you just discuss the potential roll out of other countries and the timing?

Deb Merrill: Yes, sure, active in Germany, very excited about that. Ireland, we got our license. It'll take us probably a couple quarters to get through all the testing to get that launched, but we got all the approvals through the regulators which is exciting. That should—probably the second half of this fiscal year really probably start to see some good results from that.

We're being very active in all of the European markets looking at what makes sense for our next move, as well as Japan. Those are the two places that we're looking now, and Spain has come up recently. The Netherlands is another one that we're very actively looking at.

We're looking at potentially hiring some local people and growing organically. We are always open to small- to medium-size acquisitions that get us there quickly, but a couple of things on the radar screen in Europe are Spain and the Netherlands, as well.

Zamir Goya: Do you have any thoughts on the value of a customer in Europe versus North America? Presumably, they use less energy or are more efficient, so the overall value of a contract or a customer might be a little bit less. Is that fair?

Deb Merrill: Yes, I believe the average household in Germany uses 4,500 kilowatt hours a year.

Pat McCullough: It's about half. It's a little bit more profitable per unit, though, at the same time, but that's definitely right. It'll be a bit more fragmented market than we'll see in North America, but this is something we experience in the UK as well.

Deb Merrill: I was going to add that we do get lower consumption, but we actually see higher margins in the UK than we see in the US as well. We're approaching each one of these countries as an individual study, and making sure that we understand all those costs, and we can make money. That's something that we look at very closely, size of the customer, consumption, value products, what works, what wouldn't work.

We look at the credit profile. In Germany, there's very little bad debt, very little attrition because they tend to stick with their contracts. There are all kinds of variables that we evaluate when it comes to the overall profitability and which country we want to spend our time on.

James Lewis: Zamir, one of the things to also look at is customer net RCE. What you'll see as well in Germany, like we see in the UK, the majority of what you sell is dual fuel. When you look at a state like Michigan, which you're only selling gas, Indiana, only gas. In the states here, you start off with for Ohio and Illinois, you start off with gas and with power.

Over there in Germany and the UK, you only get dual fuel. As we move to more customer focus when we look at it, that's what we're looking at. The customer profitability might be high, but if you equate it back to the RCE, that would be different, but we're looking at customers going forward, not so much RCEs.

Zamir Goya: Well, that makes sense. Thank you. Can you elaborate a little bit on the acquisition front? I guess beyond smaller geographic extensions, are there any books of size or businesses of size that you would consider purchasing or what the range could look like?

Deb Merrill: Yes, I think I said before, we're not biased necessarily toward size, whether it's small or medium, or maybe medium to large. That's not necessarily a criteria we're looking at. We're looking at what it brings to us. If it makes sense, and given where we are from a financial perspective, we know that we can afford doing some really strategic things here, but we want to be pretty prudent about how we go about doing that. That can be the answer to your question. We're open to various sizes of things, but it would have to really make sense for us.

Zamir Goya: Okay, and just a final one for me, to the extent you can, or are willing to comment, you had a little bit of balancing impact in Q3. Is there anything you could say as to how Q4 is tracking so far from a usage perspective?

James Lewis: The balancing there, that's year-over-year. We plan for those, so that's an escalation for just a year-over-year. Last year, really mild, you didn't see any of the normal balancing. This is just returning to normal.

So, I don't think there's any major impact. It's just when you're comparing year-over-year, and there wasn't a lot the previous year, it shows up as margin. So, that's the answer there.

Pat McCullough: One thing, Zamir, to mention, which we're trying to point out a little bit here, actual consumption in the third quarter was down over 10% versus year ago, where RCEs were down something like 7%, so we're actually seeing, in this period that we're speaking about today, less consumption than normal within our customer base. That's a little bit of an abnormal, in our minds, non-recurring volumetric softness to our earnings this period. We expect that gets back to normal on average and won't impact the fourth quarter, which is why we're confident in guidance.

Zamir Goya: Okay, thanks very much. That's it for me.

Operator: [Operator instructions]. We do have a question from Carter Driscoll.

Carter Driscoll: Hi, quick follow-up for me, if I may, you talked about the M&A, and I realize that there are a lot of different criteria. Is there a kind of a 1, 2, 3 in terms of what you're looking for? I'm assuming accretion is extremely important. Is it lateral expansion locally? Is it international? I imagine that's close towards the top. Maybe just talk about the factors, openness to upsell from your evaluation perspective, if you could list what you think the priorities are.

Pat McCullough: Let's talk about the strategic and the financial criteria that we're thinking through, and then we can talk to you about the differences in Europe and North America. Strategically, yes we would like to accelerate our strategy into new geographies, so it's an important criteria as we think about capital resources, and focus, and how much we could take on in terms of acquisition and integration.

The second thing, though, is if you didn't accelerate your strategy but you could get value out of buying an existing book and doing more with that book, we also see that as strategic. It's bringing those better products, the better customer support, to let's say a purely commoditized book and maybe getting more with those customers than the seller could.

From a financial perspective, in a perfect world, we're going to be buying at a multiple discount to our own which is easier said than done in North America than Europe. In Europe, we're seeing higher multiples than ours. In North America, we generally see lower.

Then, we'll be looking for a day one cash synergy. If it's a smaller acquisition, which it should be, taking out the C-Suite, risk, supply, which we feel we do better than the industry, we could get very quick cash synergies there. Then, with our buying power, and our diverse wholesale suppliers, generally speaking, we would expect to buy with more scale and have cost-of-goods-sold synergy on a go-forward basis, and then ideally a commercial synergy as we are offering superior products and a broader suite of products.

That's the rationale that goes into this. If we were looking at a North American, let's say, tuck-in or roll-up, you have to ask yourself if it has a sales engine that is an ongoing, let's say, concern but also a high quality book. If it does, we're going to be thinking about the acquisition on a multiple of earnings basis. If it doesn't, we'd be looking at it on a book run-off basis. The way we approach valuing something, let's say, in North America that's a commodity book, would be different depending on the quality of its book and the quality of its sales engine, let's say.

Carter Driscoll: Could you talk maybe multiple difference between those two last scenarios?

Pat McCullough: Yes, if you saw something that had a—it was a new sales channel for us, and it was an organically growing book, we may look at an acquisition and say, we're comfortable that there is a new dynamic, an accretive sales machine within that company, so we would trust, let's say, projected earnings, or forward earnings, being consistent with what their trailing 12-month was, versus let's say, somebody who was out gobbling up market share in an unsustainable way, let's say maybe there's variable contracts, maybe there's pricing that we don't think handles all the risk that's out there. We may

look at their trailing 12-month earnings and say, okay, they've benefitted from a stable, low energy price environment, but those earnings aren't going to be there in the future. So, we would literally run off the book and say, okay, for the next two years, they're going to make 80% of what they made in the last year, and we're going to offer, let's say, an acquisition price similar to that book run-off value.

Carter Driscoll: In summary, if I just may, so I understand it, sounds at least at a high-level that buying books is more likely domestically, and then maybe greenfield is the way you would penetrate internationally.

Then, my last question is you have all your competitors talk about an absence of competitive bidders over the last 12 to 15 months. It sounds like maybe you were one of those parties that was not present at the time. Are you worried at all about getting into bidding wars with some of your competitors that maybe had taken on recent acquisitions, and they're finally starting to get through those?

Deb Merrill: No, we're happy not to be part of that process. We have the whole world as our oyster at this point, so getting into a bidding war in North America for some small books is not necessary for us. We have plenty of other, as we look at Spain and other places that we can go into. We'd rather put our resources there if it gets too crazy here in North America.

Pat McCullough: Furthermore, Carter, if you think about paying 5 times trailing 12-month earnings right now, those earnings could be a fraction of what they are as soon as volatility comes back. Then, the multiples are going to shrink, too. We were on the sidelines with debt after polar vortex, but we were seeing one to two times earnings after earnings got hurt significantly through polar vortex, so it wouldn't be very smart to be out paying big multiples for today's earnings if you can be patient and wait for volatility to return.

Carter Driscoll: Right, right, so it might look like a slightly inflated multiple, but if the volatility comes back, it'll look more accretive.

Pat McCullough: And, the multiples and the earnings will fall, so you'll actually be paying for quite a bit less enterprise value.

Carter Driscoll: Right, okay, that's all I had. Thanks, guys.

Operator: [Operator instructions].

Deb Merrill: All right, it sounds like we are through all of the questions. I just want to take a quick minute to thank everybody on the phone for joining us on the call. I want to take a really quick minute to also welcome our new employees in Hamburg, Germany. We're very excited to have these guys on board and very much look forward to what we're going to be able to accomplish there, so I wanted to welcome them to the Just Energy family of employees.

As well as just quickly, I mentioned it earlier, but couldn't be happier about the fact that we are celebrating our 20th anniversary. I tell people all the time I've been in this business a long time, longer than 20 years. For what we've been able to accomplish as a company, and what Rebecca started back 20 years ago, to turn into what it is today, we're all very proud of, and we're going to celebrate the whole year, so wanted to thank all of our employees for making it happen, thank Rebecca for her vision 20 years ago, and look forward to a great year. Thank you very much.

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