EnergyAction

Group Financial Results

H1 FY20 | 26 February 2020

John Huggart

Chief Executive Officer
Energy Action Limited

Tracy Bucciarelli

Chief Financial Officer
Energy Action Limited

H1 FY20 results agenda

- **Results Highlights**
  John Huggart
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  Tracy Bucciarelli
- **Operational Performance**
  John Huggart
- **H2 FY20 Priorities**
  John Huggart

Financial highlights

Operating cash flow of
$1.34m
EBITDA to cash conversion of 246%

Operating EBITDA of
$0.55m
EBITDA margin at 5%

Operating loss of
$0.15m
Operating profit $0.89m FY19 H1

Statutory NPAT loss of
$0.29m
Improvement of $9.6m from FY19 H1

Operating costs & COGS reduced by
$1.9m
Reduced 16% during the period

Nil interim dividend declared
Prioritise debt reduction and investment in growth

Operational highlights

Auctions and metrics net sales order growth of
39%

$1.3m
investment in digital platforms
Transformation of core customer and contract management platform complete

Embedded network growth
Securing Sydney Trains Embedded Network business for three years for 303 sites

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Group Financial Results

“We couldn’t be happier with the service and results provided by Energy Action. …The savings we secured are going to help fund some exciting community initiatives and give us an opportunity to look into energy efficiency projects as well.”

Sue McNeill

CEO | *Cronulla RSL* | February 2020

Income statement H1 FY20

Revenue decline 23% from FY19 H1

45% of decline from discontinued operations

Opex & COGS down by 16%

vs H1 FY19 with Opex reduced $1.0m and COGS lower $0.9m

Borrowing cost savings with lower net debt

15% saving in financing costs

Operating loss $0.15m

$1.0m decline on PCP

Statutory NPAT loss decreased to $0.29m

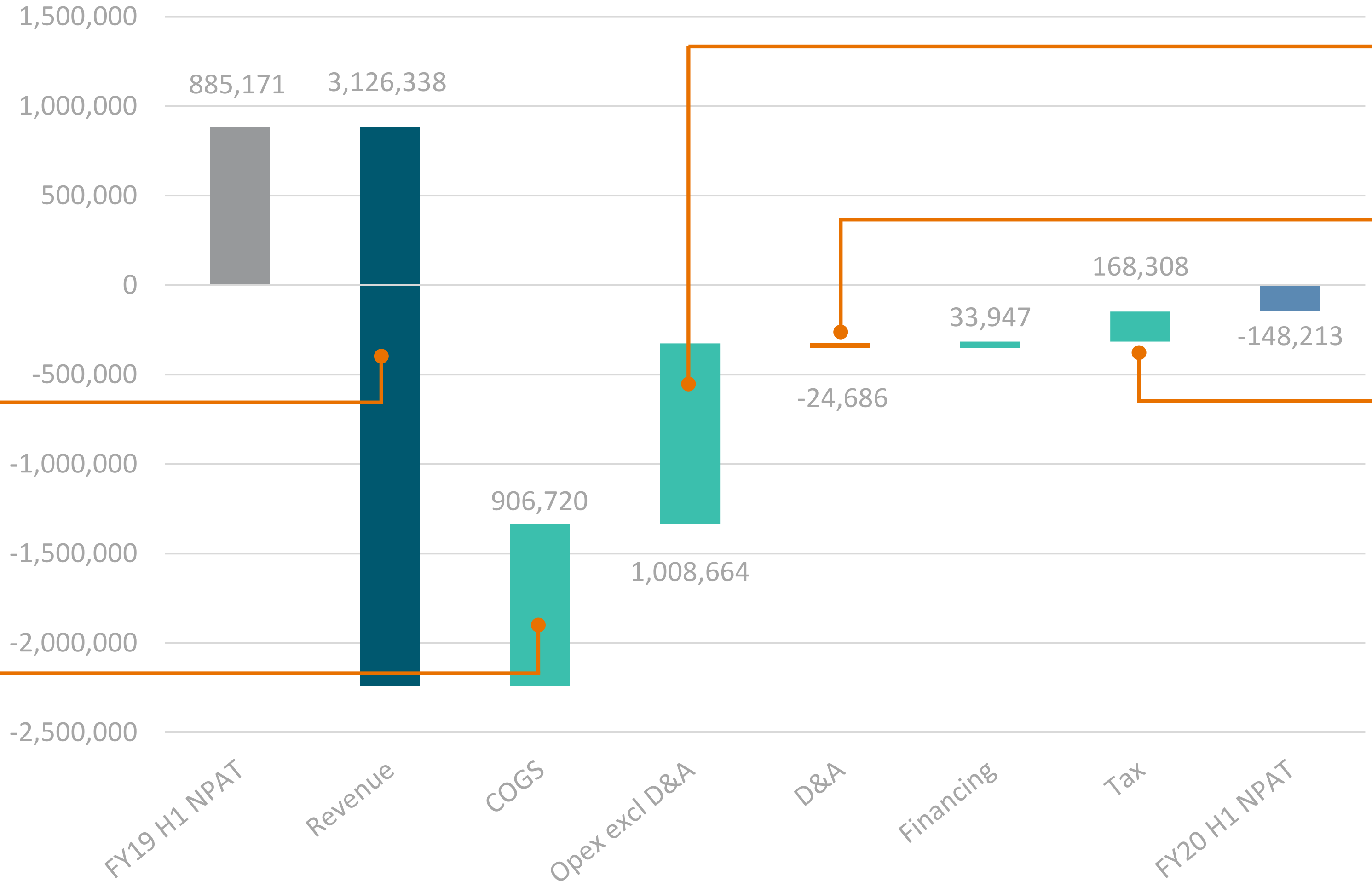
in H1 FY20

	H1 FY20	H1 FY19	% Variance
Revenue	10,418,670	13,545,009	(23%)
COGS	905,654	1,812,374	50%
Gross margin	9,513,017	11,732,635	(19%)
Opex - excl D&A	8,967,739	9,976,403	10%
EBITDA	545,278	1,756,232	(69%)
Depreciation and amortisation	544,583	519,898	-5%
EBIT	695	1,236,334	(100%)
Financing costs	194,429	228,376	15%
Profit before tax	(193,734)	1,007,958	(119%)
Tax expense	(45,521)	122,787	137%
Underlying net profit (loss) after tax	(148,213)	885,171	(117%)
Significant items:			
Tax rate changes	-	(169,010)	(100%)
Strategic review	32,831	116,268	72%
Restructuring cost*	108,464	151,267	28%
Accelerated D&A**	-	772,450	100%
Impairment of goodwill	-	9,944,796	100%
Total significant items	**141,295**	10,815,771	(99%)
Statutory profit (loss) after tax	**(289,509)**	(9,930,600)	97%

* Costs associated with restructuring and closure of rental premises.
** Accelerated Depreciation on Customer Relationships and specific items of Software

Operating profit drivers

23% reduction in revenue offset with saving in COGS and OPEX resulting in 117% lower NPAT



Revenue
Procurement -$0.62m
CMER -$1.14m
Advisory Services -$1.36m

COGS
Revenue related decline

Lower OPEX excl. D&A improved by 10%

Decline in D&A offset by implementation of AASB16 leases

Financing
Lower net debt resulting in interest savings

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Cash flow statement

Strong operating cash flow
before interest and tax $1.34m

Positive working capital movement +$0.8m H1 FY20

Continued focus on debtor collections
significant improvement of aged debtors

Significant items
relates to restructuring expenses

Significant investment in technology
platforms with CAPEX of $1.32m

Healthy conversion of
operating EBITDA to operating cash flow of 246%

	H1 FY20	H1 FY19
Operating EBITDA	**545,278**	**1,756,232**
Share based payments	2,313	(128,200)
Trade debtors	765,909	(10,013)
Other debtors	(86,013)	114,584
Work in progress	516,724	191,807
Revenue not invoiced	401,559	538,720
Right of use asset	(992,365)	-
Trade creditors	(260,263)	180,677
Other creditors	(358,735)	(701,694)
Lease liability	807,684	-
Working capital movements	**796,813**	**185,881**
Operating cash flow before interest and tax	**1,342,091**	**1,942,112**
Net financing costs	(174,829)	(190,553)
Income taxes (paid)/received	29,690	(148,341)
Operating cash flow	1,196,952	1,603,218
Cash flow related to sig items	(360,413)	(276,365)
Statutory net cash from operating activities	**836,539**	**1,326,853**
Capital expenditure	(1,321,456)	(933,045)
Dividends paid	-	(1,038,165)
Bank loans	1,200,000	500,000
Net increase/(decrease) in cash held	**715,083**	**(144,357)**
Operating cash flow as a % of EBITDA	246%	111%

Debt structure and key financial ratios

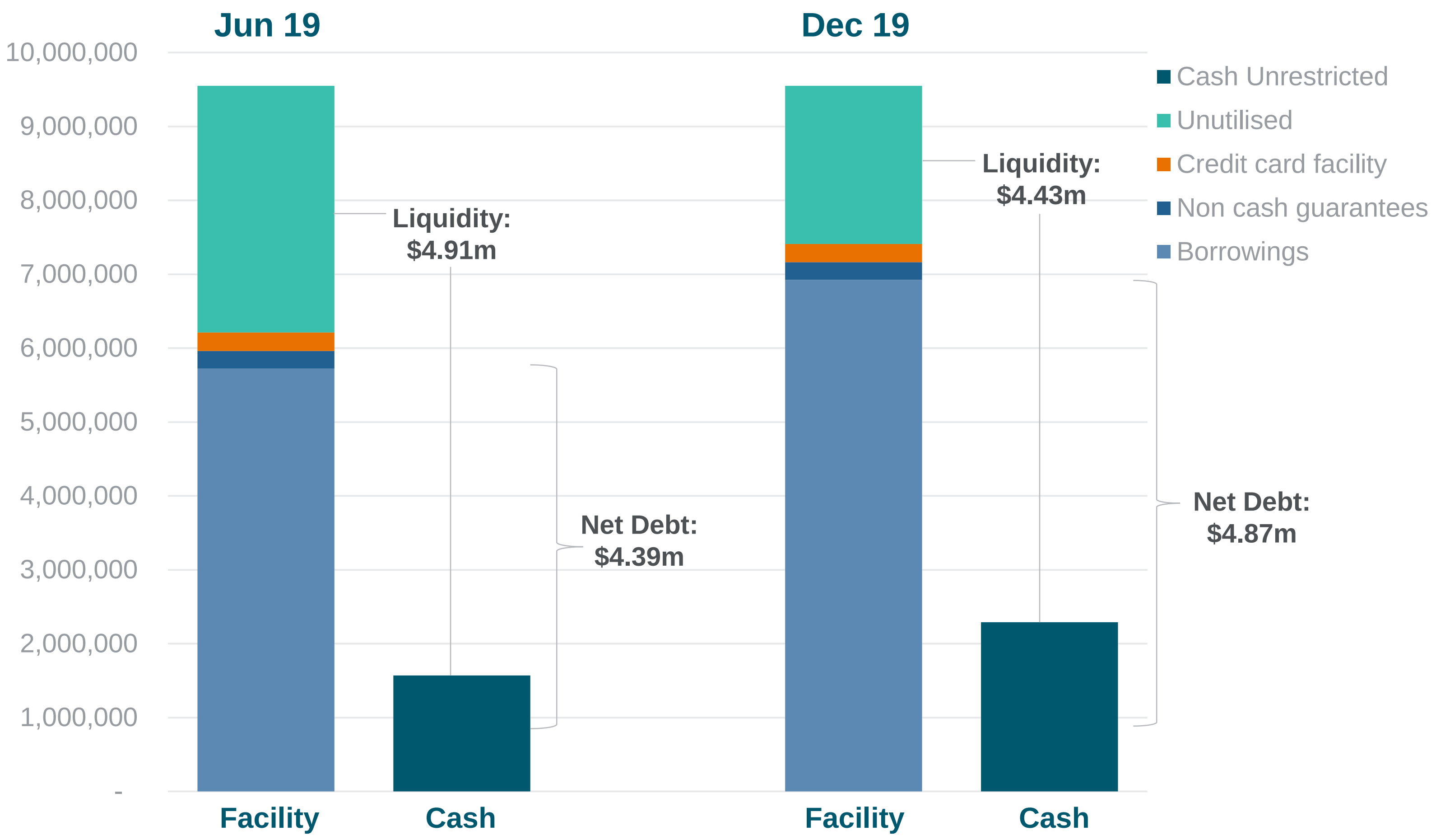
Prudent financial management
of cash and debt

2-year, $9.55m market rate loan agreement
in place expiring September 2021

Current net debt at $4.87m
increasing $0.5m 1H FY20

$4.43m of available headroom
under existing debt facilities

EAX have sought reduction of facility limit by $2m
Contract for execution in progress



Financial covenant metrics	Threshold	H2 FY19	H1 FY20
Interest cover ratio (EBITDA: interest)	Min 3.0	4.98	3.20
Gearing ratio (total debt: EBITDA)	Max 2.0	1.80	3.64

- Breach of Gearing Ratio covenant, as a result, the loans & borrowings are reported as a current liability
- Requested a “Waiver” of the banks rights under the “Event of Default” due to the breach in the Gearing Ratio
- Subsequent to 31 December 2019, the Bank has agreed to waiver the “Event of Default”

Operational Performance

"Quick, easy and insightful. Business consultant was helpful and provided clear, concise information, and was able to clarify all questions."

Finance Manager

Australian Media and Entertainment Business | October 2019

Segment performance

Overall revenue of $10.42m – declining 23% with different drivers and progress by segment

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Procurement

$3.13m
revenue

Down $0.62m from FY19 H1 (17%)

Key drivers

- 10% lower auction volume despite 36% less retention opportunities than PCP
- 11% increase in average Auction load

Progress

- Higher retention rates
- Achieve higher average value customers on auction platform
- Significant growth in Progressive Purchasing Sales over PCP

Contract Management and Environmental Reporting

$6.22m
revenue

Down $1.14m from FY19 H1 (16%)

Key drivers

- Poor prior year retentions
- Long term contracts expiring

Progress

- Strongest sales of Metrics for two years
- Lower cancellations
- Continued growth of Embedded Networks

Advisory Services

$1.07m
revenue

Down $1.36m from FY19 H1 (56%)

Key drivers

- Exit from unprofitable business
- Discontinued operations down $1.41m offset by improvement in Solar

Progress

- Improved Advisory Services to break even
- Improved channel partner revenue from Solar

Significant capital investment $1.3m completed

- Core customer and contract management platform completed in January now live
- The platform has rapidly stabilised
- Positive client feedback received regarding the Energy Metrics platform
- Refreshed Energy Metrics portal has led to better retention for clients with small scale sites

Transformation of core customer and contract management platform now complete

Upgraded IT Architecture
lower costs via efficiencies, automation and some offshoring

Improved speed to market
for new services

Refocused Resources
and enabled data-driven decision-making

Refresh and upgrade Energy Metrics portal

Improved user Experience
through better functionality

Better service for multi-site clients
through integrating all sites in one portfolio view

Improved Scalability
through capability to accommodate more users

Operational savings

Operating overheads totalled $9.5m in H1 FY20, compared to $10.5m in H1 FY19, a decrease of 10%

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Reduction in FTE

- Flattening of the management structure, Advisory repositioning, further redundancy of 3 FTE in H1 FY20

Consolidation of locations

- Closure of 3 rental premises
- Flexible serviced office for regional
- Onerous lease Canberra

Offshoring resources

- Replacing on-shore transactional roles as appropriate

Reduction in Directors fees

- Directors numbers reduced from 5 to 4 effectively from 30 June 2019

Cost control

- Ongoing **strict cost control** across all discretionary spend areas

FY20 H2 Priorities

"My account manager is so helpful, always answers my questions promptly. The outcomes are what my organisation look for."

Assurance and Procurement Manager

Member Owned Financial Institution | December 2019

H2 FY20 priorities 'foundations for growth'

Builds on completed 'back to basics' strategy

Sales Growth

- Strengthen customer engagement to lift acquisition and retention.
- Launch new products to boost sales and grow progressive purchasing and environmental reporting.

Capability

- Further develop scalable digital platforms and eliminate legacy systems.
- Enhance Metrics platform, deliver data-led energy insights and focus on small market customers.

Achievements

Sales Growth

- Net sales orders for Auctions and Metrics up 39% vs PCP and improved retention
- Strongest sales for Metrics in 2 years and low cancellations
- Sizeable improvement in retention rates
- Embedded networks and channel partner revenue growth
- Major sales campaign launched to meet client demand for 'Net Zero' energy solutions
- Progressive purchasing sales up 613% vs PCP
- Secured 3-year Sydney Trains Embedded Network contract (303 sites)

Capability

- Replacement of core Customer and Contract Management Platform now complete
- Positive customer feedback on Metrics portal refresh and small market capability
- More efficient quoting for SME customers achieved

H2 FY20 priorities ‘foundations for growth’

Builds on completed ‘back to basics’ strategy

	Service	Profit	Engagement
	Improve customer engagement and delivery to improve retention and net promoter outcomes.	Disciplined performance and cost control, lift forward revenue, drive efficiencies via technology and achieve commercial outcomes for Advisory Services.	Build a high-performance culture.
Achievements	Best net promoter scores in over five years has led to improved retentions, winning back customers, and reduced cancellations and disputes On time milestone reports	Upgraded digital platforms an enabler to reduce cost through further automation, leveraging efficiency and selective offshoring Reduced costs in H1 FY20 while focusing on growth Accelerated sales in core business products – Auctions and Metrics Advisory Services now delivering a neutral contribution $1.3m of operating cashflow in H1 FY20 and Operating EBITDA to Operating Cash Flow conversion of 246%	Best employee engagement scores in over five years associated with lower staff turnover

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Outlook

Operational focus

Lead conversation around 'Net Zero'
major sales program designed to meet heightened client demand

Accelerate sales of Auctions and Metrics
drive core profitable growth

Leverage investment in the upgraded technology platforms
eliminating legacy systems

Financial performance

- Due to either missing or deferring of sales opportunities in Advisory and Corporate key accounts, Energy Action expects to return to profit in H2 FY20 and breakeven for the full year financial result (FY20)
- As a result, Energy Action may breach bank covenants at 30 June 2020
- Energy Action continues to work proactively with the bank to manage any non-compliance, including discussing a potential waiver or variation in the facility agreement
- The Company is hopeful of a favourable outcome given the ~$5.9m of future collectable revenue owing over the next 24 months

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Appendix

To help our clients understand, and take control of, their energy needs

- We help businesses save on energy costs, reduce emissions and increase the value of their assets
- " ...the proportion of C&I customers engaging consultants and other intermediaries is increasing... Energy Action has the highest customer share"[1].

  The core strength and relevance of Energy Action remains, with a large customer base facing rising energy costs, regulatory uncertainty and often confusing options for buying, using or generating energy
- The Energy Action proprietary platform delivers great savings and consistently achieves a significant net promoter score of >+50

1 As reported in Utility Market Intelligence – UMI C&I Customer Benchmarking Survey, 2018. Utility Market Intelligence is a wholly owned subsidiary of The NTF Group

Achieved
6.8%
of savings through Auction for customers (comparing high to low bid)

Over
$3.3m
of savings identified through Bill Validation and Network Tariff Reviews for CMER clients in H1 FY20

Over
18.96%
of energy bills identified with errors

Our Expertise

A national team with knowledge and capability to offer better ways of buying, using and generating energy

Our Independence

To fight for a better deal, ensure "apples" to "apples" comparison and that retailers and providers deliver what they promise

Our Systems & Processes

That ensure automated and reliable delivery of valuable information, validated bills, tariff reviews and insights

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Procurement

Total revenue of $3.1m decline of 17% primarily driven by lower auction volumes

AEX auctions volumes down -10% on FY19 H1. Offset by 11% increase in average consumption sold

The average $/MWh remained stable, up 2% to $82.19 with contract duration of 28.3 months – in line with PCP

Decline in tariffs and tender revenue with some growth in progressive purchasing

	H1 FY20	H1 FY19 [2]Restated	Variance
No. of successful AEX auctions	389	433	-10%
Average AEX contract duration	28.3mth	28.5mth	-0.2mth
TWhs procured via auction	0.47	0.47	0%
Average annualised MWhs per successful AEX	1,200	1,083	11%
Average $/MWh	$82.19	$80.67	2%
Total auction bid value[1]	$90.5m	$89.8m	0.8%
No. of electricity tenders	14	22	-36%
No. of gas Tenders	18	25	-28%

1. Electricity component of contract only, i.e. excluding network and other charge
2. Prior period has been restated to align competitive auction volume with revenue recognised period rather than period Auction occurred.

- Progressive purchasing revenues down with contract completion for 1 key client
- Progressive purchasing sales orders up 613% compared to PCP and remains a strategic focus

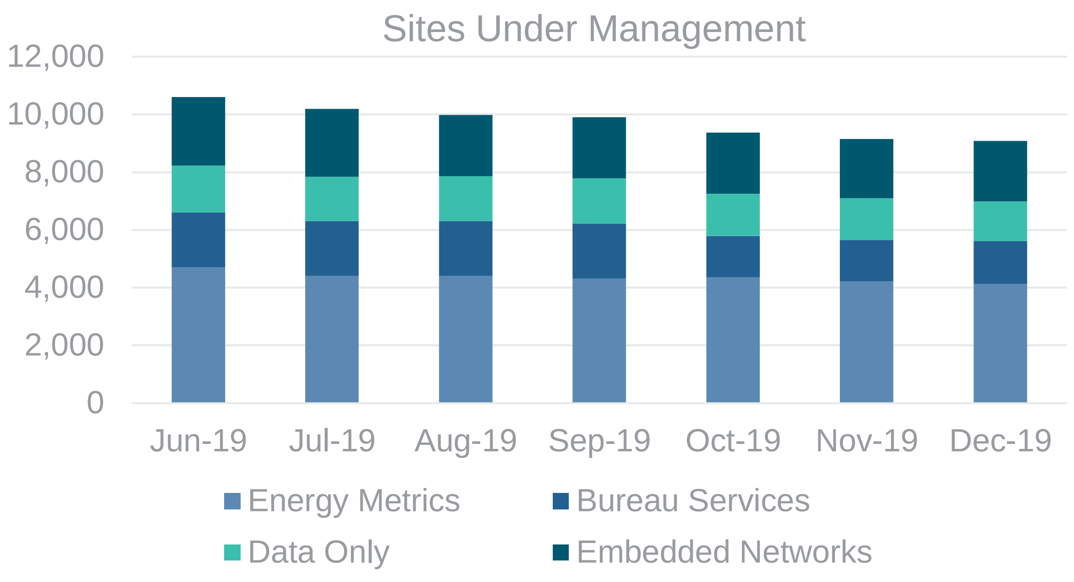
CMER

Contract Management and Environmental Reporting (CMER) revenue of $6.2m declined 16%

9,087 sites currently under management

Sites under management in the core Metrics service declining -572 sites compare to H1 FY19

Driven by long term contract expiry including multiple small site customers (accounting for 30-40% of the decrease) and poor prior retention



* Sites under current contract does not included contracts which are signed, but yet to commence service delivery

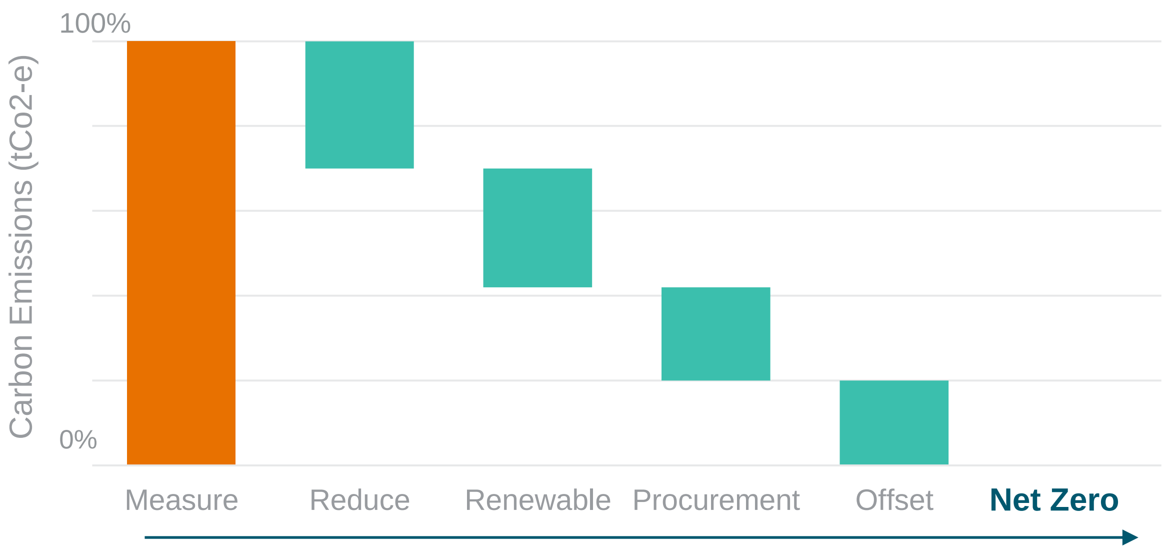
- Launched Energy Metrics SME – a small market monitoring service providing a whole portfolio view commonly excluded from other broker and consultant capability
- Bureau services revenue reduced significantly from 1 key customer not renewed in Dec 18, offset by increases in CS Energy billing services
- Focus on improve the customer value of the CMER service, and enhance attachment rate of Metrics to procurement
- Embedded Networks annuity revenue continues to grow, increasing 192%, primarily with CS Energy onboarding in H2 FY19

Advisory Services

Advisory Services revenue of $1.1m declined 56% with repositioning of the former PAS division

- Top line revenue reduction following cessation of unprofitable projects, 45% of decline from discontinued operations
- The decline in revenue was offset by savings in cost of sales and overhead cost with reduced project delivery
- Solar Channel Partner revenue grew 181% and continues to be a growth strategy for the Company

The steps towards Net Zero



- ✓ Major mid-market sales campaign launched to meet significant client demand for 'Net Zero' energy solutions
- ✓ The majority of discontinued projects completed with no material exposure continuing into FY20
- ✓ The newly positioned Advisory division will focus on optimising energy efficiency from commercial buildings, as well as environmental reporting and NABERS rating services for property portfolio clients
- ✓ The division is engaging with partners with appropriate expertise to ensure delivery of services to clients
- ✓ Continued focus on margin and operations improvement for retained Periodic Sector and growth in Channel Partners

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Statutory to operating profit reconciliation

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	NPAT			EBITDA		
	H1 FY20	H1 FY19	Variance	H1 FY20	H1 FY19	Variance
Statutory results	**(289,509)**	**(9,930,600)**	**97%**	**350,388**	**(8,557,578)**	**104%**
Add back significant Items after tax:						
Tax rate changes	-	169,010	100%	-	-	0%
Strategic review	32,831	116,268	72%	45,284	160,370	72%
Restructuring cost*	108,464	151,267	28%	149,606	208,644	28%
Accelerated D&A**	-	772,450	100%	-	-	0%
Impairment of goodwill	-	9,944,796	100%	-	9,944,796	100%
Operating profit (loss) after tax	**(148,214)**	**885,171**	**-117%**	**545,278**	**1,756,232**	**-69%**

**Costs associated with restructuring and closure of rental premises.*
***Accelerated depreciation and amortisation on specific items of software and customer relationships.*

- Operating profit (loss) is reported to give information to shareholders that provides a greater understanding of operating performance by removing significant items and therefore facilitating a more representative comparison of performance between financial periods.

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All information contained herein is current as at 31 December 2019 unless otherwise stated.

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