Tuesday, 12th May 2015

ASX/Media Release

For immediate release

Trading Update

- **FY2015 Operating NPAT[1] expected to be in the range of $2.6-$3.0 million, compared to NPAT of $4.5 million recorded in FY2014.**
- **Profitability impacted by two key issues:**
  - **Sales revenue lower than anticipated**
  - **Write off of certain accounts receivable associated with largest metering agent and other aged receivables**
- **Organisational restructure to occur through to 30 June 2015 to align cost base with revenue. Over $1.5 million in annualised cost reductions identified.**

Energy management and procurement company Energy Action Limited (ASX: EAX) ("Energy Action" or "EAX") provides the following trading update and earnings guidance for the year ended 30 June 2015.

After considering its current trading performance and forecast for the balance of the year, Energy Action expects FY2015 Operating Net Profit After Tax[1] (NPAT) will be $2.6-$3.0 million.

The Operating NPAT performance has been impacted by two factors:

- Energy Action's previous guidance indicated a Sales Revenue increase of 30% above FY2014, however there is now expected to be a 25% increase on FY2014. Given the nature of the revenue lines impacted, the reduction in revenue directly correlates to a reduction in Operating NPAT in FY2015.
- A comprehensive audit back to FY2008 has been undertaken by the largest metering provider that Energy Action is contracted with. This process has identified a number of accumulated discrepancies, with an agreement being reached to reconcile these on a full and final basis with measures put in place to prevent a recurrence in future. In addition, a detailed review of historical accounts receivable has been undertaken, which has identified a number of accounts that are uncollectible and need to be written off. These items combined are anticipated to represent a $630,000 impact to Energy Action's NPAT in FY2015 - above historical levels of receivables adjustments. The majority of this write-off relates to previous periods.

1) Statutory NPAT adjusted for:
   - Deferred consideration on acquisitions required to be expensed for accounting purposes
   - Acquisition, transaction and restructuring related costs
   - Employee share based payments (non-cash)

   Equals Operating NPAT

Market Conditions

Energy Action has previously advised of the opportunity associated with a renewal cliff for contracts in the market, where up to 75% of customers in the market have electricity contracts due for renegotiation within an 18 month window, peaking in December 2015. While new contracted Procurement (AEX) and Contract Management (Activ8) sales in FY2015 are up over 40% year on year, predominantly reflected in the forward order book, this was off a comparatively low year and in line with historical run rates. To date, Energy Action has not seen a significant increase in revenue associated with this renewal cliff as originally forecast however customer numbers have increased. The revenue impact is due to a combination of:

- customers holding off renewing contracts in Queensland and South Australia due to high wholesale rates; and
- continuing low wholesale costs in NSW and Victoria impacting commissions per customer;

Progress on Business Integration and Organisational Structure

Energy Action has been in the process of integrating three acquisitions over the last 12 months, and in December announced the implementation of an Integrated Management Structure. Solid progress has been achieved in co-locating teams and moving towards a single set of business processes and this is to be completed over the next six months.

Based on synergy opportunities created within the business and a clearer understanding of the business areas exhibiting revenue growth, Energy Action has taken the decision to undertake a restructure in order to align the cost base to current market conditions and realise synergies identified post integration of the acquisitions. This restructure will be completed by 30 June 2015, and it is anticipated that this will impact up to 15% of employees. The costs of the restructure have not yet been finalised and will be accounted for as a significant item.

Commenting on the profit forecast, Energy Action's Chief Executive Officer Scott Wooldridge said:

"The profit forecast for FY2015 is very disappointing and the management team is working hard to strengthen the underlying operations of the company and reduce the overall cost base. We are aware of the issues that have contributed to this forecast result and have acted swiftly to address them. We have completed a review of EAX's overall staffing requirements with over $1.5 million of annualised savings identified.

Energy Action’s newly appointed CFO, Michael Fahey, has initiated a comprehensive audit related to monies owing from a third party that provides metering services to Energy Action and other aged debtors, and we have resolved to write off some accounts receivable. This is a one-off issue and will have no future impact on earnings.

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"Energy Action's Board and Management Team are committed to restoring the company's profitability to acceptable levels and will continue to update shareholders with the progress we are making with regard to reducing costs and improving margins. The focus now is to realise the benefits of the acquisitions we have made and extract the necessary earnings from our broader energy management service offering."

ENDS

Further information:

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