Thursday, 12 May 2016

PRESENTATION TO GOLDMAN SACHS SEVENTH ANNUAL SMALL TO MID-CAP CONFERENCE, SYDNEY

ERM Power Limited (ASX: EPW) Managing Director and CEO Jon Stretch will be speaking at the Goldman Sachs Seventh Annual Small to Mid-Cap Conference in Sydney today. A copy of his presentation follows.

Phil Davis
Group General Counsel & Company Secretary
ERM Power Limited

About ERM Power

ERM Power is an Australian energy company operating electricity sales and generation businesses. Trading as ERM Business Energy and founded in 1980, ERM Power has grown to become the second largest electricity retailer to commercial and industrials in Australia with operations in every State and the Australian Capital Territory. ERM Power also sells electricity in several markets in the United States. The Company has equity interests in 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, both of which ERM Power operates.
www.ermpower.com.au


GOLDMAN SACHS
SMALL TO MID-CAP
CONFERENCE 2016
Jon Stretch MD & CEO
May 2016
ERM
POWER

IMPORTANT NOTICE

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This document may contain certain non-IFRS financial measures and other defined financial terms.

The directors believe the presentation of certain non-IFRS financial measures is useful for the users of this document as they reflect the underlying financial performance of the business.

The non-IFRS financial profit measures are used by the managing director to review operations of the Group and include but are not limited to:

1. EBITDAF - Earnings before interest expense, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit. EBITDAF excludes any profit or loss from associates.
2. Underlying EBITDAF - EBITDAF excluding significant items.
3. Underlying NPAT - Statutory net profit after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates.

A reconciliation of underlying NPAT and underlying EBITDAF is detailed on page 25 of this document. The above non-IFRS financial measures have not been subject to review or audit. These non-IFRS financial measures form part of the financial measures disclosed in the books and records of the Consolidated Entity, which have been reviewed by the Group's auditor.

All reference to $ is a reference to Australian dollars unless otherwise stated. Individual items, totals and percentages are rounded to the nearest appropriate number or decimal. Some totals may not add down the page due to rounding of individual components.

Full glossary of terms used in this presentation can be found in the Management Discussion and Analysis document that accompanies these results.

AGENDA

ERM POWER

Topics

- Overview & Strategy
- Results
- Capital Efficiency
- US Retail
- Q&A

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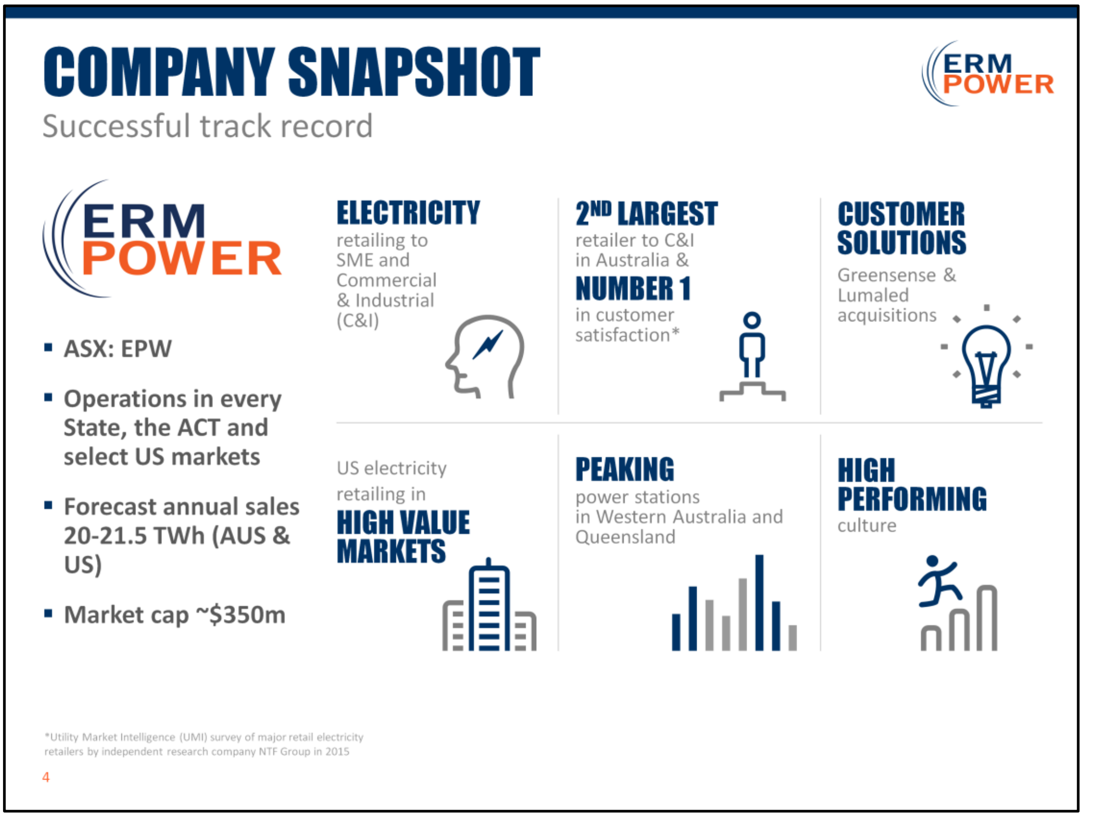
Good morning and thanks for joining me to hear a little more about the ERM Power strategy and the evolution of our business.

Many of you will be familiar with our latest financial results for first half 2016 so I'll only touch on those numbers briefly today.

I'll provide an overview of our capital management strategy.

And, given the interest and growth in our US business, I thought I'd spend some time updating you on the progress of Source Power & Gas, the electricity retailing business we acquired in Texas a little over a year ago.


OVERVIEW &
STRATEGY
ERM
POWER



ERM Power today is focussed on the business of electricity retailing and customer solutions for Commercial and Industrials and SMEs in Australia and two major markets in the US. The Company is in the ASX 300 with a market capitalisation of about $350m and more than 7,000 shareholders.

We're the second largest electricity retailer to big business in the country. We're number one in customer satisfaction for that market, a position we've held for five years now. That stellar service has ideally positioned us in a rapidly evolving sector.

Our Commercial & Industrial business is successful because we deliver superior service and value for big businesses. We bill more accurately, give customers more timely information about their energy usage and provide better customer support through account management. We maintain leading customer satisfaction levels and we're on track to be the number one electricity retailer to big business in Australia.

In the SME market, where margins are higher, we serve more than 32,000 sites including multi-site and single-site customers. That includes some of the biggest federal and state government defence and health contracts in Australia. And some of the biggest retail brands in the country.

The fact that we have grown margin, taken market share and maintained industry-leading customer satisfaction levels is testament to our proposition. We're emulating this in the US.

Our two peaking power stations form a strategic part of our diversified retail electricity sales business. We own 100% of Oakey Power Station on the Darling Downs in Queensland. It is a 332 MW peaker, operating on gas and diesel. This asset strategically supports the electricity retailing business, selling hedge products to third parties and making spot market sales.

We also own 50% of Neerabup Power Station in Western Australia. It's contracted to the WA Government retailer Synergy until 2029. We also have the opportunity to earn additional income by operating Neerabup on our own account. Both are quality assets which operate safely and with high degrees of reliability.

In recent months we've made small strategic acquisitions which build on our Customer Solutions portfolio: Greensense for its data analytics and energy and resource management capability; and Lumaled, a company specialising in energy-efficiency lighting for industrial and commercial businesses.

ERM Power has demonstrated its agility in adapting to market changes over the years. The energy sector is undergoing disruption. Change and evolution is essential. We're not standing still.

You often hear people talk of 'smart companies', 'big data companies', 'disruptive companies' etc. ERM is a prime example of all of those, and probably the standout in our segment. We are the established challenger.

The Company has a history of capitalising on opportunities in changing markets. Be it in power station development, entry into C&I retail or expansion into SME, the DNA of agility and strong expertise has served this business well. And will do so as we enter this new phase of growth.

Our culture of strong employee engagement and enablement builds on our strong foundations. We're well positioned for this period of transformation through investment in diversification and growth.

We have a strategy and at its core, it is about positioning ERM Power for sustained high performance; sustainable returns; being innovative and agile problem solvers; owning energy leadership through technology and customer response; and being the advocates for businesses which rely heavily on energy to fuel their success.

I wanted to spend just a minute or so talking about the components of our business and how they fit together to support our strategy of delivering leading energy management solutions for business.

As an electricity retailer we have enviable customer satisfaction levels. That's because we help customers manage energy volatility risk, we do the basics very well and we deliver end to end energy efficiency solutions that they value.

C&I and SME in Australia interlock with trading risk management and generation to give us a complete customer and market view, and lots of optionality. The strong customer base we've built nationally gives us a market that knows and trusts us, allowing us to trial new solutions and bring them to market through our Customer Solutions portfolio.

Strategically timed electricity procurement, demand side management, power factor correction are all solutions that our business customers want and need from us. We're building on those with Greensense data analytics and now lighting solutions – these are the energy efficiency solutions which make for satisfied, sticky customers. They're the solutions of today. Our strategy provides for the solutions of tomorrow – renewables, storage and so on. Our US business leverages all of this and provides an important piece in terms of diversification and growth in a very compelling market for us.

So what are we doing to deliver on our strategy of providing leading energy management solutions for business…..

Through capital efficiency measures we're funding our growth. We've announced some big developments in this space which I'll go into shortly.

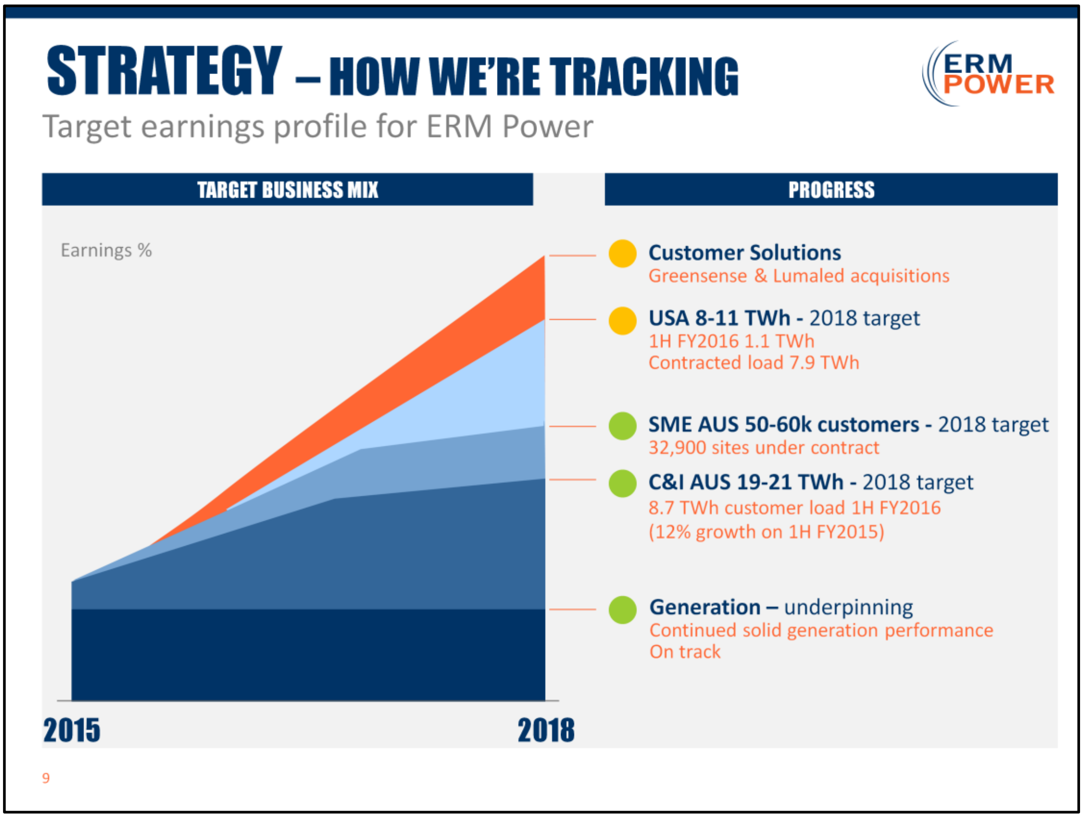
Diversification and growth is allowing us to build on our underpinning generation assets, and continue to drive C&I growth, albeit at lower levels than in the past as we move, over the next few years, toward a natural market share ceiling. We expect SME customer acquisition to generate increasingly strong revenues. Key growth will also come from the US business. Finally, we'll build on our strategic C&I base to deliver a range of end-to-end customer solutions which take advantage of our relationships, leading customer satisfaction, our knowledge of customer energy use and the energy contract.

All of this is underpinned by a culture of agility and innovation. With our employee engagement at global high performing levels we have a culture which supports our strategy in a rapidly changing market.

We're clear about our core strengths; we're leveraging those strengths; and we're integrating them with emerging technology and opportunities.

- We have growth in front of us in retailing to C&I and SME customers;
- Our US investment presents a lot of upside potential and limited downside;
- We have a business relationship with approximately one in five businesses, governments and industrials in Australia;
- We're taking these business relationships to the next level to deliver solutions which provide real value;
- We have the agility and proven expertise to integrate emerging technology into our business model to create value for our customers; and
- We're well positioned to embed new energy management solutions in the value proposition.

People, Process and Technology underpin the success of ERM Power and will continue to drive our growth.



A brief look at how our business mix is evolving and how we're tracking to that target mix.

Generation and C&I

Our foundation generation and C&I retailing businesses are core and successful. We have taken share from our competitors in C&I, we are currently number two in market share, and we're aiming to be number one. We clearly have a sustainable advantage but, it's inevitable that growth will begin to slow. We see C&I Australia load at about 19 to 21 TWh by 2018. We're tracking to plan on that.

SME

Our SME business was launched in financial year 2014 and has now over 32,000 contracted customers. We've achieved good results in multi-site SME which is a similar model to C&I – similar customer buying behaviours, similar routes to market. Our SME business is growing well.

US

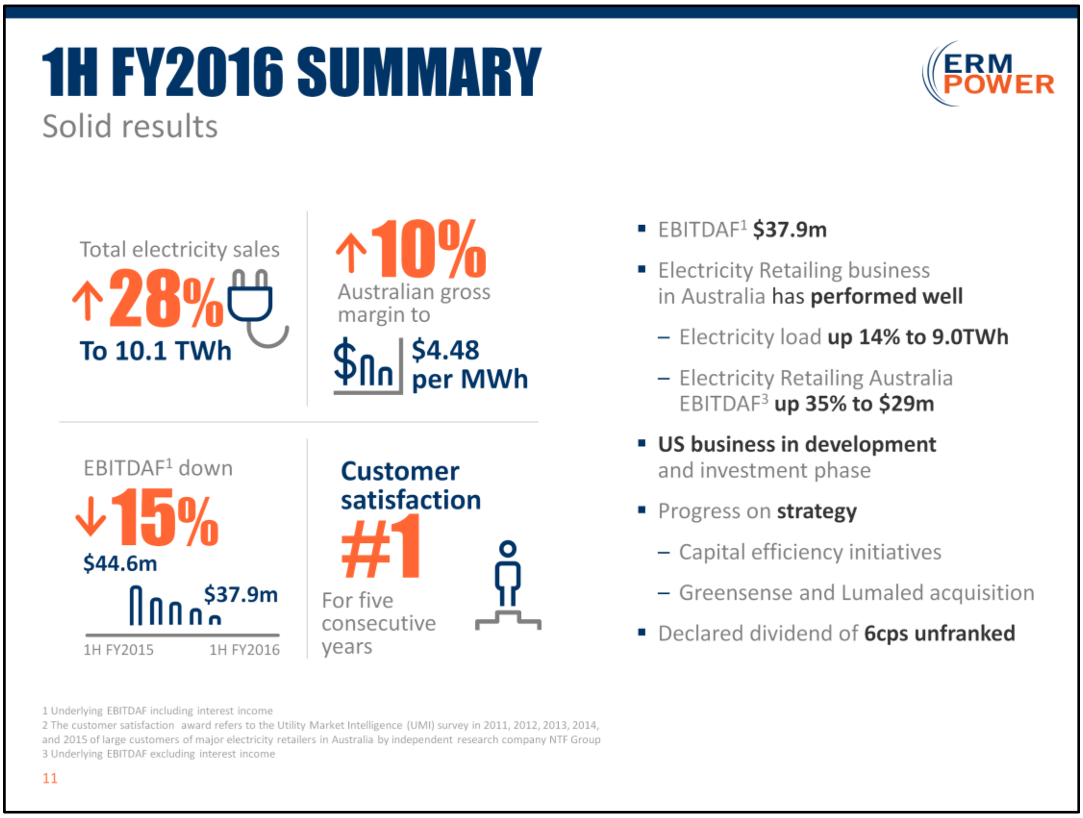
In January 2015 we entered the US market through the acquisition of Source Power and Gas. In FY16 we're investing in people, systems (CRM, pricing) and processes, and key hires in order to position ourselves to deliver the ERM proposition in the US market. The objectives for the US are consistent with those of our Australia model, that is, leverage data for customer satisfaction and high contract renewal rates. We believe we can emulate the success of our Australia C&I business in the US.

Customer solutions

Finally, we see real strategic opportunity in the area of 'customer solutions'. Currently, as an electricity retailer our market opportunity is measured in $/MWh. As technology evolves in the areas of energy analytics and management, storage, microgeneration and sub metering, spend will increase as customers seek to embed energy management into their core business processes. We already have the relationships and we already provide many solutions. We're broadening that to expand our business relationship with our customers, which presents us with additional growth prospects beyond the electricity retailing market.

We believe the total customer spend for energy management solutions in the C&I segment will be in excess of $1.5 billion annually. In the same way we entered the US, we've made prudent acquisitions, such as Greensense and Lumaled, to facilitate market entry and then fuel growth once our proposition is tested in market and we have confidence that the customer proposition will scale.


HALF YEAR
RESULTS



Briefly on the half-year number. ERM Power delivered FY16 half-year earnings of $37.9M. While EBITDAF was down on the previous period, this is a good result which reflects a range of factors including:

- Firstly, good performance from the electricity retailing business in Australia;
- Second….investment in the growth of the US business which is showing good leading indicators that increase our confidence; and
- Thirdly, changes to Oakey Power Station's contract and operating arrangements.

The **electricity retailing business in Australia** has performed well in a highly competitive market.

- Electricity load was up 14% to 9TWh on the previous corresponding half;
- EBITDAF for Electricity Retailing Australia was up 35% to $29m;
- Gross margin is up 10% on a dollar per MWh basis; and
- Underscoring this was our number one ranking in customer satisfaction for the fifth year running.

Looking at Source Power & Gas - our **US business** – this is a business in development. Operating expenditure is up as we invest in people, systems and capability. We're investing to build our forward contract book and in the growth of this business. While we reported an underlying EBITDAF loss for the US of $3.2M for the half - given higher opex and some high costs related to extreme weather - we're very pleased with the progress made in just one year, since acquisition. I'll provide some more flavour on the US in a moment.

These are solid results reflecting the change and transition we're driving in our business. Our core business in Australia has performed well in a very competitive landscape.


CAPITAL
EFFICIENCY
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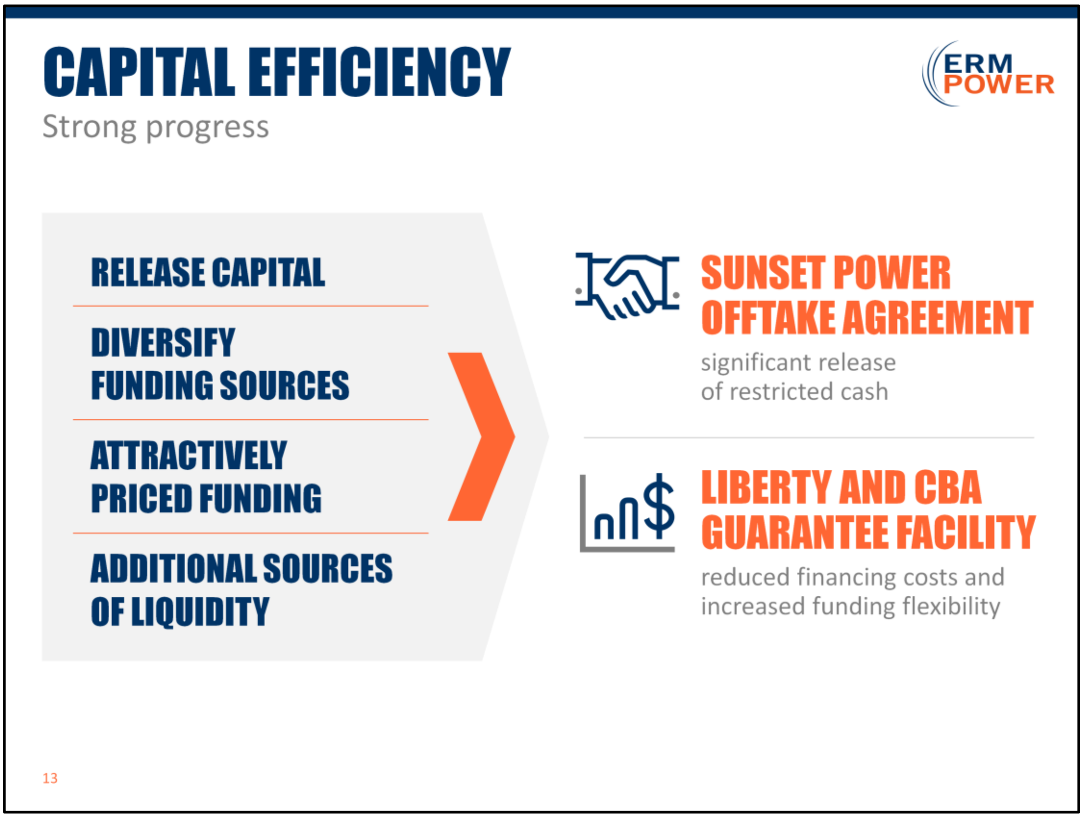

Now briefly to the progress we've made on capital efficiency, which is a key strategic lever for us.

We've been working on a range of funding options to make capital available for investment in diversification and growth.

In November we announced the first initiative along those lines - an offtake agreement with Sunset Power.

At our interim results in February we announced another significant step in that program of work. We advised that we've secured a A$150m three-year financing facility with Liberty International Underwriters, and put in place an associated Fronting Bank Facility Agreement with CBA. This provides for the issue of guarantees to support our prudential requirements which includes collateral provided to AEMO, the market operator. This is a three-year agreement, issued unsecured at the parent level, which is attractively priced at a credit margin of 172.5 basis points.

These initiatives form part of our stated objective of improved capital efficiency to support growth and diversification in delivering customer solutions. We're reducing our financing costs, diversifying our funding sources and giving ourselves the flexibility to execute on our growth strategy. These are really pleasing and significant developments.


SOURCE
US RETAIL
ERM
POWER

BUILDING A STRONG US BUSINESS

ERM POWER

Strong lead indicators

	At acquisition (Jan 2015)	31 December 2015
Staff	36	55
Sales load (TWh) – calendar 12 months	1 TWh	1.8 TWh
Load under contract	3 TWh	7.9 TWh
Access to markets (C&I load only)	406 TWh	516 TWh
States	5	8
Local distribution companies (LDCs)	19	31
Annual quotes	~2,000	~6,000
Systems trading capability		New pricing system and CRM

Broker satisfaction survey[1] results

TOP 3 OVERALL Satisfaction ranking

Percentage of brokers doing business with Source has grown from **21% TO 44% IN 12 MONTHS**

Growing broker relationships while **INCREASING SATISFACTION SCORES**

1 Energy Research Consulting Group's (ERCG) survey of Aggregators, Brokers and Consultants (ABC) Study December 2015.
Research based on survey of 134 ABCs, which represents ~82% of brokered US power sales.

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Moving now to our US business – Source Power and Gas. Let's remind ourselves why we invested in the US. It is our contention – just as ERM did in Australia – that by focusing on business customers we can use process, systems and data to build superior customer and channel satisfaction. This will drive top line growth through industry leading customer acquisition and contract retention rates.

At the same time, we use customer data to more accurately forecast the customer forward load, and more accurately manage our hedge book …. and therefore deliver bottom line growth. So where are we at in terms of our investment thesis?

Market: We've developed the capability to serve in an additional nine new local markets across Pennsylvania, Delaware and the District of Columbia in the PJM market. We now serve 31 local markets in eight states and have added 105 TWh of opportunity to our current 516 TWh market. That's 2.5 times the NEM.

People: Since the acquisition we have grown our employee base from 36 to 55, focused mostly on sales, account management, IT and trading. We're bringing the right people on board.

Systems: We have installed a new CRM system to manage all sales leads and customer management, and a new pricing system for the PJM and ERCOT markets. These leverage the experience and IP of ERM.

Channels: In the ERCG Broker Satisfaction survey we were ranked third overall in broker satisfaction. This surveys over 130 brokers who collectively have more than 400TWh of annual load under management with more than 40 electricity retailers. In December 2014, 21% of the 130 brokers surveyed said they did business with Source. Now more than 44% do business with us.

Top line growth: In the half, our forward book has increased from 4.0TWh to 7.9TWh, showing that the increased deal flow is being converted to customer contracts.

We are comfortable with all the lead indicators of the business and that's increased our confidence in delivering to the acquisition case.

THE FIRST TWELVE MONTHS

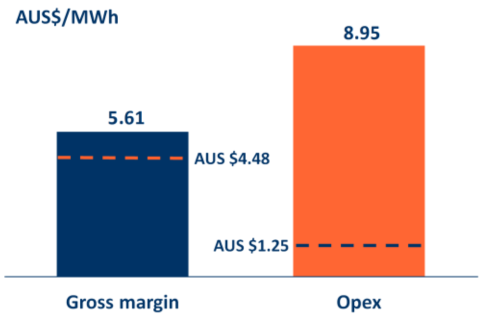
ERM POWER

US electricity retailing business

Financial performance

	1H FY2016	2H FY2015
Revenue	111.1	66.8
Opex	(9.6)	(5.9)
Underlying EBITDAF	(3.2)	1.0

1H FY2016 Gross Margin & Opex



- Higher level of opex in build phase which has driven forward contract load growth from 4.0 TWh to 7.9 TWh in six months
- Margin lower than expected for the half, in part due to costs associated with severe weather

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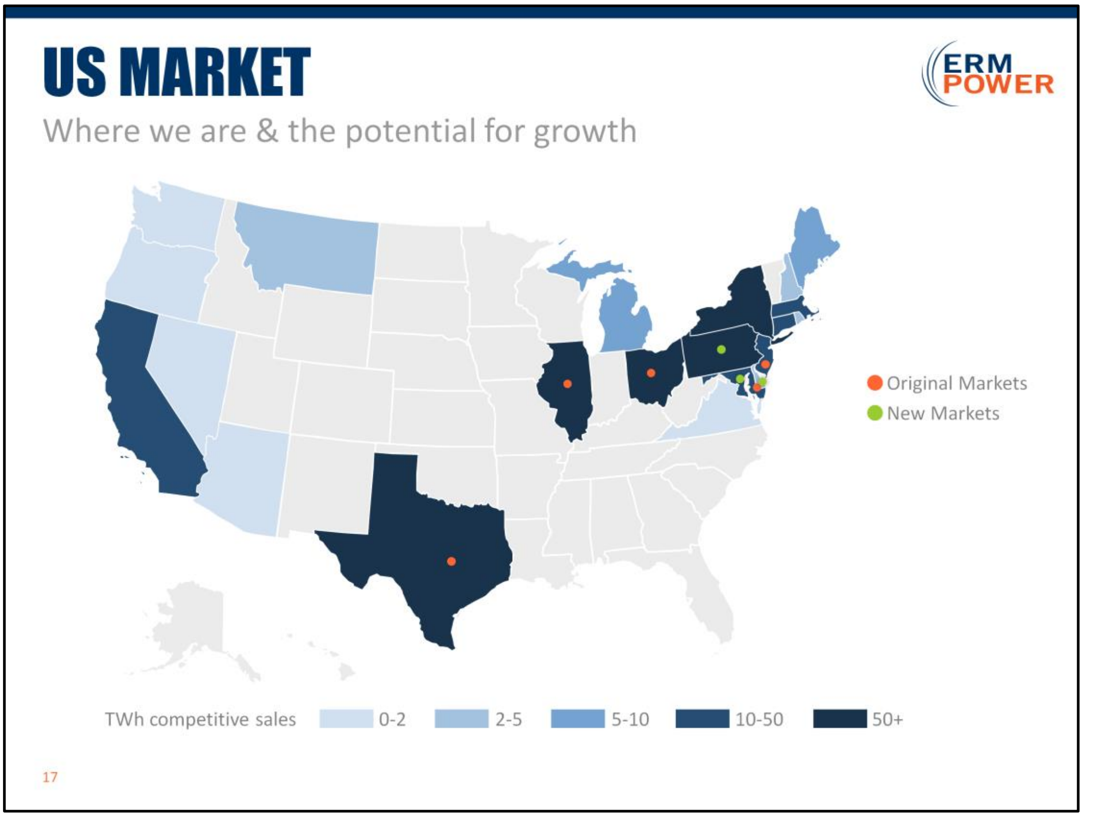
Now turning to the financial results of Source for the first 12 months of ERM ownership.

As you can see from the table on the left, the opex growth reflects investment in a new CRM system and two new pricing systems to support both the ERCOT and PJM markets. In the chart on the right, on a dollar per MWh basis you can see opex is $8.95 per MWh. For comparison purposes we show the relevant figure from the Australian retail business of $1.25 per MWh. Clearly as we grow volume in the US business we expect to see the opex on a per megawatt hour basis reduce sharply.

Similarly for comparison purposes we have shown the current gross margin of $5.61 per MWh in the US business versus the Australian comparator of $4.48. It’s too early to draw conclusions from this, as margin will vary depending on the customer mix and other factors as we grow, but clearly against a lower opex when we are operating at scale we see the potential to generate good profitable growth from this business.



This slide shows the diversity of the US electricity market in terms of contestability and size.

We've focused on establishing ourselves in the strongest contestable markets where we have expertise and see greatest potential for growth with our proposition. That's Texas, which is primarily the ERCOT market, and PJM which include a range of state markets in the north east of the country.

The geographical and weather diversity that comes from operating in those two different markets also provides natural hedging in lucrative energy retailing markets.

In conclusion, the lead indicators give us increasing confidence in the prospects for our business in the US.

In Australia and in the US, our focus on customer service and good people, process and technology will serve us well as we disrupt new and emerging markets.


Q&A
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