Just Energy Group Inc. [JE]
Fiscal First Quarter Earnings Call
Thursday, August 9, 2018, 10:00 AM ET

Company Participants:
Patrick McCullough; CEO
Jim Brown; CFO

Analysts:
Carson Sippel; B. Riley FBR, Inc.
Raveel Afzaal; Canaccord Genuity
Sophie Karp; Guggenheim Partners
Sameer Joshi; H.C. Wainwright & Co.
Endri Leno; National Bank Financial

Presentation:

Operator: Good day, and welcome to the Just Energy Group fiscal first quarter 2018 earnings conference call. All participants will be in listen-only mode. (Operator Instructions) After today's presentation, there will be an opportunity to ask questions. (Operator Instructions) Please note, this event is being recorded.

I would like to turn the conference over to Patrick McCullough, Chief Executive Officer. Please go ahead.

Patrick McCullough: Thank you, operator. Good morning, everyone, and thank you for joining us for our fiscal 2019 first quarter conference call. I'm Pat McCullough, Chief Executive Officer of Just Energy. With me today is our Chief Financial Officer, Jim Brown. Jim and I will discuss the results of the year, as well as our expectations for the future. We will then open the call to questions.

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.

Today, we'll offer some perspective on our results, followed by a deeper dive into a few of the key strategic initiatives we're pursuing that will begin to deliver measurable contributions to our growth in the second half of the year and beyond.

Our accomplishments during the first quarter of fiscal 2019 are setting the stage for profitable long-term growth, while also positioning the Company to achieve our stated financial objectives for the year. Our earnings were essentially on plan for our fiscal 2019 guidance.

Despite traditionally being our seasonally slowest quarter, our first quarter of fiscal 2019 results met our expectations. The core business performed well, with sales hitting targets net RCE growth and record gross margin levels for new and renewing residential customers. We're excited the first quarter -- we exited the first quarter confident that we are on course to achieve our strategic operational and financial objectives for the fiscal year.

A few items that I'd like to highlight for the quarter -- our positive sales momentum continued into the new fiscal year. During the quarter, we delivered strong customer additions and positive net RCE additions. We have now achieved six consecutive quarters of gross customer growth in our consumer division and positive net RCE additions in total during each of the past four quarters. We believe we can continue this momentum into fiscal 2019 and beyond.

As Just Energy deploys a more consistent value-creation product strategy across our consumer business, we expect to become less dependent on price-based commodities, to become a leading provider of profitable value-add products and services globally.

During the quarter, we implemented successful pricing initiatives that will result in tens of millions of dollars of benefit in the second half of the year. This is the first time the company has raised prices holistically over the last four years.

Residential customers added or renewed at record level gross margins in the face of ongoing competitive pricing pressures. Our core business performed well, and we continue to build on strong underlying trends that are an early testament that our suite of value-added products and services are resonating among our target customers.

What is also important to note is the aggregation costs are down in residential as we focus on scaling the business in a sustainable manner that ultimately boosts our profitability profile.

Our embedded gross margin, a metric which we believe is the best indicator of our future profits, reached levels that rivaled an all-time company record. As we look ahead, we feel we are well-positioned to maximize profits and cash flow from the growing book of business. I find it interesting that while our embedded gross margin is approaching an all-time record high, our market cap is testing relative to historic lows.

We recognize it's early and there is still a lot to be done. We're confident that our level of focus and commitment to a manageable set of strategic priorities, combined with a renewed sense of urgency and accountability, is setting the stage for sustainable, predictable and profitable growth.

Let me go a bit further to outline what exactly this means and highlight the strategic initiatives we deem most critical to driving measurable results within our business and for our shareholders. First, we are actively working to remove the volatility in our performance and establish a strong level of predictability in our results through improved weather hedges and insurance products.

Second, we are successfully implementing pricing actions. As you saw in our first quarter results, those actions are taking hold and leading to elevated levels of residential gross margins, which will continue to expand in Q2 and beyond. We expect these efforts to contribute more as we go deeper into the fiscal year. We can expand on these actions as we continue to reach the right-fit customers that demand our value-added products and services through our new strategic alternative channels.

Third, we are taking great measures to get organized in a manner that will better facilitate our ability to cross-sell our value-added products and unlock a new level of profitability and growth for Just Energy. As we better align our team and coordinate our sales and marketing efforts in a way that better maximizes our new sales channels, results will improve.

We believe you will see this transformation very clearly over the next year in the form of measurable financial results and real growth. These cross-selling opportunities are present today and primarily center around our energy efficiency and retrofitting businesses, or what we refer to as Just Energy Advanced Solutions. We believe these efforts will begin to noticeable contribute to our earnings results in the second half of this year.

Finally, our geographic expansion efforts remain on track. The UK continues to grow, having grown 9% during the quarter and now representing 11% of our RCE base. In our newer markets, Ireland is signing new customers every day, and we fully expect this market to contribute to our growth in the short term.

In summary, Just Energy is becoming less dependent on commodity products, and we believe in the convergence of the smart connected home, home automation, security, energy and water representing a significant opportunity for us. We are building a platform to seamlessly integrate energy efficiency, water conservation, renewables, storage and commodity products into any integrator of these products and services. Our strategy is to develop a more profitable offering with value-added products and services where Just Energy owns and controls customer relationships throughout the entire customer experience.

With that, I would like to turn the call over to Jim Brown, our Chief Financial Officer. Jim?

Jim Brown: Thank you, Pat. First, I'll begin with an earnings update on the first quarter. Then I'll provide additional color on key performance metrics, the balance sheet and the outlook for the remainder of fiscal 2019.

Gross margin during the quarter was CAD153 million, a decrease of 3% from CAD157 million in the same quarter last year. The decrease in gross margin relates to lower deliveries to our Canadian residential customers due to regulatory selling constraints, the impact of foreign exchange, and one-time favorable resettlement in the first quarter of the prior year for our commercial division. This decrease is partially offset by favorable US residential results, where the Company continues to focus on value selling and optimization of customer pricing.

Embedded gross margin continues to grow, to approximately CAD2 billion, as we increase our selling profitability per customer and increase our customer base. The Company continues to focus on maximizing the profitability of our products offered to customers, as well as pricing optimization.

During the quarter, the consumer division added customers at CAD229 per RCE, as opposed to CAD194 per RCE the same quarter last year. In the commercial division, customers were added at CAD81 per RCE, versus CAD75 per RCE in the prior year. In all cases, the margin rate of customers added exceeded the margin rate of customers lost. We continue to assess and prioritize the return on investment of our sales dollars deployed to maximize shareholder return.

Turning to expenses, administrative expenses increased CAD7 million, to CAD56 million, during the quarter. This increase is the result of continued geographic expansion, investment in growth, and the full-quarter cost of bolt-on acquisitions that occurred after the end of the first quarter last year. The Company remains focused on controlling costs and continues to consolidate operational functions to increase effectiveness and efficiency.

Selling and marketing expenses decreased 13% from the prior year, to CAD51 million during the first quarter. This decrease is due to lower selling costs related to the Canadian consumer market, discontinuation of the solar business, foreign exchange, and the time of selling expenses related to the commercial division. All of this resulted in base EBITDA of CAD27 million for the first quarter of fiscal year 2019, a decrease of CAD5 million as compared to the first quarter of fiscal 2018.

Now, turning to some key performance metrics for our business and the balance sheet. As discussed earlier, our positive net adds trend continues. First quarter gross RCEs of 389,000 improved 34% year-over-year, with strong double-digit improvements driven by the commercial business. Net RCE additions of positive 10,000 during the quarter improved 145,000 from negative 135,000 net RCE additions in the same quarter last year. Attrition rates remain low and stable at a combined attrition rate of 13% for the trailing 12 months.

As we continue to test customer price elasticity through pricing optimization, we will monitor attrition rates to ensure maximum profitability.

The renewal rate was 56% for the trailing 12 months, a decline of 6 percentage points year-over-year. The decline was driven by the roll-off of a customer aggregation added in the prior year and normal first quarter renewal pressure inherent in the commercial business that was more than overcome by gross adds.

Base FFO was CAD18 million for the first quarter, down CAD2 million from the same quarter last year, primarily driven by lower EBITDA. The payout ratio of base FFO on the trailing 12-month basis was 98%, higher than our target ratio and higher than our payout ratio of 65% in the prior year. This was largely driven by weather events in fiscal 2018, which will continue to roll off as the year goes on.

Book value net debt to trailing 12-months base EBITDA was 3.2x higher than the 2.8x reported in the prior quarter due to lower base EBITDA and higher utilization of the credit facility to fund growth.

In summary, we've reached several important milestones in our path to restoring predictable, profitable growth in the business. First, we expanded embedded gross margin, which is now approaching CAD2 billion. Second, we continue to grow our customer base, increasing net adds by 145,000 on a quarter-over-quarter basis. Third, we're expanding margins related to new and renewal business transacted during the quarter.

With that, I'll turn it over to Pat for our fiscal 2019 outlook and final comments.

Patrick McCullough: Thank you, Jim. Our core business is healthy and growing, our profitability per customer is improving, and early indications are positive around our strategic shift to a consumer-focused Company. We are working to match our aggressive growth objectives with a new level of accountability and transparency to the Street. This will be showcased on September 13th in Manhattan at the Company's Investor Day presentation.

While there is still much work to be done, we are focused on a manageable set of strategic initiatives that will build on our current momentum and begin contributing to our profitability in the second half of fiscal 2019. We are taking the necessary measures to remove the volatility and improve the transparency in our results, and are committed to setting the stage for predictable, prolonged growth while maximizing return for our shareholders.

As part of our outlook for the business, we remain focused on capital stewardship. We feel our cash generation capabilities are stable and fully support our commitment to the dividend and our needs to grow the business. We are committed to maintaining balance sheet discipline while continuing to generate superior returns on our invested capital.

Before we go into Q&A, I want to once again emphasize our commitment to transparency, performance accountability and shareholder value creation. You'll hear much more about this during our inaugural Investor Day, to be held on September 13th of this year.

With that, I would like to open the call up for questions.

Question-and-Answer Session

Operator: We will now begin the question-and-answer session. (Operator Instructions) Carter Driscoll, B. Riley FBR.

Carson Sippel: This is Carson Sippel on for Carter. I had another geographical question. You mentioned that you were expanding in the UK and Ireland, but can you comment on Canada? Is it becoming a drag on your customer additions or gross margins?

Patrick McCullough: Yes. Thanks for the question, Carson. Canada is a tough market for us right now. The quasi-regulated markets that we serve make it difficult to reach out and even communicate with existing customers, so we are experiencing a decline in long-term value with Canadian customers. We do, however, expect, with new channel rollouts like retail and digital, to be able to reverse that trend. But in the short term, it is definitely a drag on US and UK growth.

Carson Sippel: Great. Thank you. Also, can you comment quickly on Germany and Japan as well?

Patrick McCullough: Yes. Germany and Japan are longer-term plays. The German market is really about the openness to accepting energy efficiency devices in premise. The majority of the German electricity bills are actually consumption-based tariffs from their feed-in tariffs for solar and wind installs over the past decade. So, really, if you want to be a commodity supplier, you're only competing for the minority of the bill, and you're not very interesting to the customer.

So we're testing whether or not our advantage is in energy-efficiency devices and the market's willingness to receive those are in place to really scale there, but, again, we're seeing that as a longer-term play. That's probably a multi-year path to a decent size scale business.

Japan is not fully deregulated yet. They deregulated the retail space ahead of wholesale. Wholesale liquidity still remains low relative to other markets that we compete in. Also, the price is not volatile yet. The government is controlling price. So until those mechanisms fully open up, it's not a market that we plan to scale.

What we're doing right now is small deals, learning the market, getting a foothold, waiting for it to fully open up, which we expect over the next year or two. So, again, longer-term, multi-year strategy in Japan, but we're funding a couple million Canadian bulk markets to ensure annually OpEx, to ensure that we get the foothold we need for the long-term opportunity. But not a big drag on capital for us at all.

Carson Sippel: Great. Thank you. And then, switching gears for a second, when do you expect to report separate and quantifiable metrics for the smart energy management push, such as the (inaudible) or other important metrics?

Patrick McCullough: Yes, you're going to see us unpack the channel and the product differences economically at our Investor Day in September. So that will be the first crack at us showing the market here's the nuances of selling in retail versus digital, here's the nuances in selling a bundled smart-connected home integrated product suite versus commodity. So you'll see a transition in how the Company communicates to the outside world starting in September, on September 13th.

Carson Sippel: Great. And then the last one from me is have you made progress on the insurance wrap, and do you think that would materially change how you hedge?

Patrick McCullough: Yes, we have made great progress. We expect to close the final insurance wrap this quarter. It will not change the way we hedge. In fact, we have gotten more conservative in our overall hedging this fiscal year than prior years, and this will be an added buttress beyond those more conservative hedges.

Operator: Raveel Afzaal, Canaccord.

Raveel Afzaal: My first question is regarding the Texas weather, which has been volatile. Can you tell us what you think the net impact on your financial performance will be because of this weather, because of the volatility?

Patrick McCullough: Yes. Thanks for the question, Raveel. You're clearly talking about mid-July. We saw some volatility in day-ahead pricing. We saw a little bit of volatility on real-time, but the truth is there was a well-run ERCOT market during the first volatility that we've really seen in several years. We don't expect a material impact on our earnings this quarter or an impact on our guidance. That's why we reaffirmed the guidance.

We're strong weather hedgers in the ERCOT market. We take extremes when hedging. There's obviously a little performance around the edges, but we don't see that as a material impact to us. We are seeing, interestingly, though, some books become available for sale, so we do think there were some collateral liquidity challenges for some smaller competitors.

Raveel Afzaal: Very good. Thank you. And then, I mean, for you to maintain your guidance, you are obviously expecting significant improvement in your EBITDA run rate over the next three quarters. Can you give us like one or two key drivers that are going to lead the significant improvement in EBITDA sequentially?

Patrick McCullough: Sure. No problem. I think it boils down to the two metrics that we're highlighting. We're growing customers again. If you look at gross adds, we had a great deal of success growing customers this year versus last. Our sales and marketing organization is doing a fantastic job. In fact, this quarter was the first quarter that retail became our largest residential channel, so that's a very interesting development and one to continue to watch. You'll be seeing us talk about that in detail at the Investor Day.

But that customer growth and then that margin expansion, and margin expansion is happening due to a lot of things. First of all, that ERCOT volatility has knocked some of the discount pricers out of their growth mode, so the pricing pressure is being relieved a bit in ERCOT, at least as we sit here today. Number two, we're selling more value-added products and services. We're getting higher penetration rates. That's really becoming an important part of our business. As we mentioned last quarter, it's going to be about 10% of our overall guidance this year, and we're tracking probably ahead of schedule to that rate.

And then the price increases we've taken -- our Company had not raised prices in over four years, maybe further, at least in my tenure here, and we are taking some aggressive pricing actions where we have the ability to price. First of all, we've got to cover costs going up, like ERCOT's summer costs, a much more costly market than we've seen in the past. But, number two, we'll price in excess of that and drop through tens of millions of dollars, which is where you'll see the support for third and fourth quarter, where you'll really see a difference versus prior year.

Raveel Afzaal: Got it. And just, I mean, if possible -- I'm not sure if it's possible, but when you look at your rolling 12-month gross margin per RCE for the consumer division, it's at 232 right now. Where do you think this number could potentially go, just for modeling purposes?

Patrick McCullough: Yes. We're looking at pretty impressive margin improvements on the design contract margin that we're signing on a daily basis, so we really think we can push that up and be on a journey to 300 over a couple of years. That won't happen immediately, but we really believe we're on that journey. I think by the time we're reporting third quarter, you're really going to see the full effect of our pricing actions that took place start to stop through.

In the second quarter, our pricing actions are hitting, but they're overcoming some higher ERCOT costs than we've seen in prior years, so a little bit of a break-even story coming in Q2, but Q3 and Q4, you're really going to see that break-out, and I think we'll be testing 260 by the end of this fiscal year on a trailing 12-month basis.

Raveel Afzaal: Great. Thank you so much for that. And my final question -- and this may be an ignorant question -- I'm looking at your Q1 2019 gross margin per RCE and comparing it with Q4 2018, so just sequentially, and we saw, I mean, a modest decline in gross margin per RCE, going from 236 to 232. Yet, when we look at your gross adds, the margins that you guys are realizing on them, which is losing -- that differential is still there. So why do -- I mean, it's a very modest decline, but why are we seeing a modest decline and not it holding steady or increasing even in Q1 fiscal 2019?

Patrick McCullough: So Q1 fiscal 2019, if you're looking at the trailing 12-month numbers -- I talked about both -- you're picking up some of the financial challenges that we had in Q4 and Q2 of last year as well as this being a small quarter. It's not really going to change the story line. It's not until we see the volume associated with Q2, Q3 and Q4 this year where that average will fundamentally change.

We're very encouraged by Q1, where we started to see signing the contract margin expansion and greater numbers than the contracts that we're losing, and that's a trend that we watch like a hawk. And know that there are other income strains, which can be added to those design margins. Generally, you don't lose any of that margin on residential as you go forward, but you have the ability to pick up some more with fees or cross-selling of value-added products.

So we're encouraged Q1, small volume -- it's a little bit misleading when you're looking at averages or trailing 12 months. Q1 was also where we took our aggressive pricing actions. Not all of those impacted the volume of Q1. Some of those were done late in the quarter. So you're going to see that step-up coming as we go into Q2 and report.

Raveel Afzaal: Perfect. And just before I let you go, could you speak to gross margin per RCE targets for the commercial division as well?

Jim Brown: Thanks, Raveel. This is Jim. Yes, that's the division I used to run, so I'm very familiar with that. We increased not only the net adds and RCEs, but also the number of contracts signed, which means the number of customers is increasing, and the number -- the size of customers is generally getting smaller. As the customers get smaller, margin tends to expand.

And we also like the fact -- and you see this now with us not having the big dip in fail to renew in Q1, that you're getting more stability in the customer base versus having large customers who are very price-competitive and, when they leave because you're not happy with the margins anymore, take a big negative add hit. So I would say we'd like to see it continue to trend up based on the number of customers and expanded margins.

Raveel Afzaal: Right. So we are at CAD79 per RCE right now, as of Q1 2019, so we should think maybe it goes back to -- I mean, in 2017, you were at CAD89, then CAD83 in 2018, so somewhere around there?

Patrick McCullough: I think the potential for the Company, especially as we add more value-added products and services on the commercial book, it could push that up. The challenge in the commercial space is it's highly commoditized, so we're a little bit more prone to reacting to where market prices go, and when they go low, we try to avoid the business. When they come higher and we can take the business, we'll grab it, and if it meets our return thresholds, you'll see us making CAD80 to CAD90 as we go forward and then slowing growing that as we get penetration with the valuable items.

Operator: Sophie Karp, Guggenheim.

Sophie Karp: So I wanted to ask you about the insurance program that you had in place. First, do you still have it in place? And secondly, it sounds like your competitors recently made some skeptical comments about the viability of this product in their costs, given weather volatility simply. Maybe could you comment and give us any color on what you're seeing there, and if that's still a viable strategy for you, and if you're using it. Thank you.

Patrick McCullough: Thanks for the questions, Sophie. So you're referring to the costless collar swap weather program that we have installed. Yes, we have costless collar swaps in place this summer with reinsurance counterparties. We have multiple reinsurance counterparties supporting us on this. It is a costly program, but the avoidance of a mild weather or an extreme weather event impact on our earnings is super helpful to us, so we see enormous value in that program.

We do constantly get the question is it economically viable. It is to us, because we are willing to give up the incremental load as extreme weather comes up before the spot markets prices move above our customers' prices. Now, some people look at it and say, well, the premium itself is expensive. When you get to the scale of Just Energy and some of these bigger markets, we can really leverage that and get a better per-unit rate on the reinsurance products, so we're quite happy with that strategy. We see that as being viable.

In fact, this year, when we put our summer weather hedge in place, we were able to extend it out to include some of next year's summer. So we're actually moving now into a multi-year strategy with that reinsurance product, which to me tells you that market is more viable than ever, because when we started it, it was a one-year product and now we're moving into optionality between one and multi-year products.

Sophie Karp: Got it. Thank you. And so would you say -- is it fair to say that having this product has largely insulated you from the weather volatility I guess this summer in Texas and elsewhere?

Patrick McCullough: Absolutely. Yes, absolutely. Having these weather structures in place in July alone helped us avoid CAD10 million to CAD20 million of potential profit hurt, so it's a very effective strategy. It's been a very effective strategy for the Company for several years.

Operator: (Operator Instructions) Sameer Joshi, H.C. Wainwright.

Sameer Joshi: Do you have any further disclosures from the EdgePower acquisition? How is that progressing? And when do you see the impact of that on your top line?

Patrick McCullough: Sure. I appreciate the question around the EdgePower acquisition. We will unpack those value-added products and services on September 13th, so you'll get a better feel for EdgePower, the value that brings to commercial accounts. The EdgePower business is performing quite well right now. It is ahead of schedule for what we've forecasted, which is an immaterial, small amount of EBITDA this year, but, nonetheless, a couple single digit millions of profit through our bottom line.

With that EdgePower transaction, we really brought some capability and know-how that we can take and scale to the rest of our business in terms of the commercial business. We're already seeing the success of taking that monitoring and control platform to our existing customers, who weren't offered such a product from us in the past. So we're optimistic that that will be a very lucrative business for us and help us transform a commodity -- commercial book into something where those commercial accounts are truly getting value around monitoring and controlling large electrical appliances.

Sameer Joshi: Okay. Thanks for that. Sort of a related question, and you will probably talk of this at your Investor Day as well, but I saw that the thermostat customers are around 40,000 to 57,000, out of a total of 1.6 million customers. Why is the penetration low, and do you -- how should we see it scaling up over the next few quarters?

Patrick McCullough: Sure. Good question. So you're asking about our Ecobee cross-selling capability and how that's going. First of all, that product is something that we're really proud of, both as equity investors in Ecobee, but also having access to the development team there and working together on piloting the greatest value for our customers.

We began cross-selling our existing customers in April over the telephone, so as they called in for customer care, we were cross-selling. We're seeing rates as much as 3,000 sales per month. So you could envision 25,000 to 50,000 Ecobee sales this fiscal year with a renewed effort to sell those products to our existing customer base. That's what we're planning for. That's what's built into our guidance.

Congratulations to our team -- they sold over 200 units yesterday alone. That gives you an idea. That's about a 45,000 pace for the annum. So that's compared to relatively no sales in the past couple years, where the execution and focus hasn't been where we wanted it. So we see this as mostly incremental to the bottom line, and we see this as something our customers truly want, and we see our customer care agents and our salespeople starting to put the right focus and energy into this and really making a difference.

One of the things I've done since taking over is I've changed our sales commission compensation to heavily reward value-added products, commensurate with the higher margin and lifetime value of the customers. So you're going to see the Company do great things with pushing value-added products and services in fiscal 2019 and beyond.

Sameer Joshi: Great. That is good to know. In terms of retail, you spoke glowingly about that channel, even on this call. When do you think you will achieve the target I think of one to two products per day per store and expansion to 650 to 700? I think that goes with the guidance given earlier.

Patrick McCullough: Yes. In a previous call -- I think it was the last call. It might have been two calls ago. We did announce that we achieved that public threshold of 700 stores. We will look to maintain that level or slightly grow it as we go forward. We're doing a nice job selling through that channel, hence why it has become our largest residential channel in the past quarter. So that's bigger than our digital channel, which had historically been one of our largest residential channels, so we're really proud of that and think that's going to be a very exciting place for growth as we go forward.

We believe it means well in excess of 100,000 incremental adds from the prior year, so just to give you a bit of a perspective there. Now, we had a record quarter this past quarter, so we still see it moving up. We don't know exactly where it's going to settle, and if we hold one sale per store per day, or two or something in between, I think that's the right range from a sensitivity and a planning perspective. We're very impressed with our sales team and our partners that help us to go to market in that channel. They're doing an exceptional job, and it's one of the great successes the company has made in recent history.

Operator: Endri Leno, National Bank.

Endri Leno: Just a couple from me. First, in the last conference call, you referenced a quarterly run rate of 50,000 net adds. I mean, does that still stand for the rest of 2019?

Patrick McCullough: I appreciate the question. We think it can. We note that, right now, the strategy for the Company is to take advantage of an opportunity we see, which is pricing power that's come back to us. Now, that may create some attrition. We know that a month like July, with the volatility due to the heavy load, the heavy demand that happened, grows customers' bills to a larger extent. ERCOT was setting record production days, which means ERCOT customers, even at flat pricing, are going to see the largest bills that they've seen.

If you're trying to add price on top of that, you're probably going to drive a bit of attrition amongst the switchers. Now, those normally are not your most profitable customers, so you can live with some of that. But what I'm describing is a bit of a risk to that 50,000 net add idea that we have.

The thing I'm focused on is gross adds, and gross adds are on target or ahead. You can see, year-over-year, the major change in gross adds. Those are the more profitable customers and the stickier relationships, as you see us reporting. That is a more important metric to me, in the short term, to really know I am expanding long-term margin, because I know I'm going to push a bit more attrition than we had planned a quarter ago with the pricing ability we have.

And think about it this way. If we're running a 13% net attrition and we move that up to 15%, we lose 2% of our customer base, and that impacts net adds, but we held pricing on the 85% that remained. Now, that's a bit of a short-term strategy, but an important part of being a dynamic retailer is to ensure when these windows of pricing power come your way, you take advantage of them, which is what we're doing right now.

So we're a little bit less focused on net adds or a little bit more focused on margin expansion at the moment, but we manage those two levers together, coordinate them, and I don't think we've seen the retail channel peak yet. So if the retail channel busts through what we've targeted, we could quite easily do the 200,000 net adds in this year. But, again, we're waiting to see where that stable retail growth starts to flatten out, and that'll give us a clearer picture on what the year's net adds will be.

Jim Brown: And it's also worth noting over the last several years, we've started the first quarter with significant negative adds due to the seasonality of the renewal cycle of the commercial business. This year, it's not, so we're not starting at negative 100,000 like we have in prior years. We're starting at a positive number.

Endri Leno: Great. Thank you. My next question is on the spend for growth initiative, you had about CAD11 million in Q4 and about CAD5.5 million this quarter. How do you see that progressing for the rest of 2019?

Patrick McCullough: Yes, I expect it to be in that range on a quarterly basis. There are some quarterly ebbs and flows with the varying markets that we serve. We want to have a consistent growth investment in terms of OpEx dollars into this business. We recently invested in resources internally that are leading a return on invested capital value creation framework, so we're going to be even smarter about how we invest those precious selling and marketing OpEx dollars to ensure that we're getting the highest embedded margin returns on those customer acquisition costs. And we're already starting to make decisions and changes based on early analysis there, but I expect the growth initiatives will remain similar to what you've seen in the recent past.

Endri Leno: Okay. Thanks. And just to clarify, do you see it in the range of CAD5.5 million or in the range of CAD10 million and a little bit above?

Patrick McCullough: I think you'll see CAD5 million to CAD10 million quarter in, quarter out. There's a phase-in difference, which is the main reason you're seeing what looks like a major decrease. It's actually not a major decrease. On a full-year basis, it's quite similar year-over-year.

Endri Leno: Great. Thank you. And the last one for me is are there any thoughts or have you contemplated of monetizing an asset like, say, Ecobee, for example, your equity investment in there?

Patrick McCullough: So we're very bullish on the short- to mid-term outlook for Ecobee. We don't feel like monetizing that today is a great strategy, because we see their potential to really grow into a scaled profitable company in the short term. We're quite supportive of some of their development efforts, some of the opportunities that brings to customers. We see a great flood of short-term value creation, which we're waiting for before we think about monetizing.

Now, we're not in control of what the company does and what that means to us, so there may be options that they pursue which drive the monetization outside of our control, but we're not actively seeking monetization of that asset right now because of the short-term value creation that we think is about to happen.

Endri Leno: Okay. Great. Thanks. And just a quick follow-up on that. I mean, I guess it depends on funding in your situation, et cetera, but would you try to maintain your investment in Ecobee through other arms of financing? I mean, just a hypothetical question, I guess.

Patrick McCullough: I guess as Ecobee's post-money valuations grow with new funding that they may or may not do, it's obviously a different economic decision than the one we made initially, where we got in early at quite reasonable prices, so it would really depend. We're supportive of the company. We look at everything they do and offer help and support in any way we can. Whether we invest is another question that's hard to speculate on. It would actually depend on the valuation and, frankly, how much of that value opportunity they've realized.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Patrick McCullough for any closing remarks.

Patrick McCullough: Thank you, operator. Before we conclude today's call, I wanted to extend my deepest gratitude to the employees of Just Energy. Your dedication to building our business through innovation and commitment to a customer service organization is the backbone to everything we're doing and our success. Thank you.

We look forward to updating everyone on our strategy and long-term goals on September 13th at our Investor Day. Thank you very much for the support and interest in us. Goodbye.

Operator: The conference call is now concluded. Thank you for attending today's presentation. You may now disconnect.