Operator: Good morning, ladies and gentlemen. Welcome to the Just Energy Group, Inc. Conference Call to discuss the Fourth Quarter 2017 Results for the period ended March 31, 2017. At the end of today's presentation there will be a formal Q&A session. [Operator instructions.]

I will now turn the meeting over to your host Deb Merril, Co-Chief Executive Officer. Please go ahead.

Deborah Merril: Thank you very much. Good morning, everyone, and thank you for joining us this morning for our fiscal 2017 year-end earnings conference call. My name is Deb Merril. I’m the Co-CEO of Just Energy, and I have with me this morning the Executive Chair, Rebecca MacDonald; my Co-Chief Executive Officer, 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.

Fiscal 2017 was a very important year for Just Energy from a financial, operational and strategic positioning perspective. It was a year highlighted by four general themes: earnings growth, balance sheet improvement, geographic expansion, and product and channel strengthening. This year, we are celebrating our 20th anniversary. We've grown into the leading independent retailer of energy management solutions with a multinational customer-centric approach.

Just as we have transformed ourselves over the last 20 years, we are now setting our sights on becoming the world leader in delivering comfort, convenience and control to homes and businesses around the globe. As I reflect on Just Energy's 20-year history, what has set us apart has been our ability to identify a clear vision for the future and transform it into action through well-planned strategies and compelling products.

Today, our team is in the process of successfully executing a global enterprise strategy that is aggressively pursuing profitable growth and in the year ahead will continue guiding the business forward by capitalizing on where we see the energy sector heading and what we believe customers will want next, as well as where we believe opportunities for new markets exists.
Now I'd like to address some of the important accomplishments we made during the year in more detail before providing some comments on our outlook for the future.

First, our business performed well during the year, delivering solid earnings growth that met our expectation, and we continue to generate strong cash flow. We delivered this growth while overcoming a tough comparison to 2016 and while navigating a difficult market environment, in which we experienced lower than anticipated levels of customer switching activity. This is due to price stability in gas and electricity markets which occurs in a low and stable commodity price environment.

While these challenges present a near-term headwind to our sales and customer addition goals, we are growing increasingly confident in the trends we are seeing. This confidence stems from the improvements in both the attrition and renewal rates we achieved for the year, as well as the net customer additional trajectory we are seeing.

We feel strongly these achievements reflect the intended outcome of the steps management has taken to align Just Energy’s customer base with a value add product we introduced within our various sales channels and regional markets. The sequential customer addition trends we saw in Q4 indicate growing acceptance of our offerings and we feel confidence we can drive customer growth in fiscal ‘18 and beyond.

The second achievement I'd like to highlight today is the successful completion of our balance sheet repair efforts. I’m very pleased to report that through our great effort over the past few years, we've achieved a net debt-to-EBITDA ratio of 1.8 at year-end. This surpasses our targeted level, and we are confident we can maintain a healthy ratio going forward.
We also achieved a dividend payout ratio of 50%, marking another important financial target achievement. We have an efficient capital structure in place and an affordable payout ratio, and we move forward now with a very strong balance sheet. This restored financial less ability will allow us to focus our resources and make necessary investments to aggressively pursue our growth strategy.

This brings me to the third highlight of the year, our expanded geographic footprint. In the second half of the year, we announced the exciting and important entry into Germany, as well as obtaining our license to do business in Ireland. In Germany, we now have access to the largest energy market in Continental Europe.

The UK also continues to perform well. This market now represents 8% of our global customer base, having grown net additions by 8% over this past year in both the consumer and commercial businesses. 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 potential to grow our platform in 2018 and beyond through prudent investment.

Finally, I'd like to highlight the strides we've taken to strengthen our product and channel offerings. We've received great customer reception and feedback around our growing suite of value-add products and long-term loyalty programs. Products such as our JE Perks, our flat-bill offering, LED retrofit and the smart sprinkler, to name just a few, are proving our ability to disrupt the energy markets while creating stronger and more profitable and longer-lasting customer relationships.

We continue to diversify and expand our sales channels, giving us the ability to connect with more customers in new ways that support our trusted advisor strategy. During the year, we launched a brand new channel engagement strategy with retail storefront partners. We believe this positions Just Energy's value to potential customers that are already in the buying mode.
We are very excited about this opportunity and believe it to be one of our large sales channels in the future. We are focused on investing in new channels that include affinity marketing, authorized agent, telemarketing and others that align with our long-term growth strategy.

Now let's turn to our outlook. It remains a very exciting time for Just Energy, a time centered on prudent investment and our ability to generate consistent growth and maximize our customer-centric core competencies. Our capital restructuring efforts combined with our ability to consistently generate meaningful cash flow from ongoing operations provides us plenty of runway to make strategic investment in 2018 to capture significant growth opportunity.

We are exploring inorganic growth in the areas of North American retail, international retail and strategic accelerants [ph]. As we look at inorganic opportunities, we remain disciplined and committed to our improved credit metric levels and our superior low return on invested capital business model.

As you saw in our press release, we expect the OpEx investments that we will make in fiscal 2018 to challenge our ability to grow our bottom line year-over-year. However, we are confident we can grow our customer base during 2018 and grow base EBITDA for fiscal ’19 and beyond, returning to double-digit percentage growth as delivered in the past. This expectation is in line with Just Energy's previous performance under the current leadership team when the company delivered an annual base EBITDA improvement of 10% or 15% prior to the deduction [audio disruption] in commercial customer addition cost.

With that, I'll turn the call over to Pat so he can provide additional color on our financial results. Pat?
**Patrick McCullough:** Thank you, Deb. As Deb mentioned earlier, this is an exciting time for Just Energy as we've improved our margin performance, credit metrics and overall financial strength. As a result, we're well positioned to make investments that can have a meaningful impact on our future earnings and cash flow potential.

First, I would like to cover some of the highlights of the fourth quarter and fiscal year, and then I will provide some added color in certain areas before turning to some more specific aspects of our outlook for fiscal 2018.

In the fourth quarter, sales of $947 million were down 12% compared to the prior year. Gross margin for the fourth quarter was $175 million, a decrease of 14% year-over-year. The decline in both sales and gross margin is attributable to the 8% decrease in our customer base and the effect of foreign currency translation.

Sales for the full year were $3.8 billion, down 8% compared to the prior year primarily because of the decrease in our customer base. For the fiscal year, gross margin was $696 million, down 1% from the prior year, driven by unfavorable foreign exchange and partially offset by ongoing margin improvement initiatives.

Gross margin for the consumer division decreased to $513 million, down 5% from the prior year due to lower consumption. Gross margin for the commercial division increased by 12% from the prior year to $183 million as a result of lower balancing and capacity cost.

Now I would like to spend a few minutes discussing our customer initiatives before going deeper into our financial results. For the fiscal year 2017, the combined attrition rate for Just Energy was 15%. We saw consumer and commercial attrition improve two percentage points each year-over-year. As you may
recall, in fiscal 2016, we were able to hold attrition levels year-over-year and this year, we're able to improve on that.

This is particularly encouraging when we consider the highly competitive market that we're experiencing today. We’re encouraged by the improvement in the trend of customer net additions that we are witnessing, and we expect this improvement to continue as our new innovative products are gaining more appeal and presenting more value for our customers. This is allowing us to price our energy management solutions competitively without sacrificing customer satisfaction.

We also saw an improvement in our renewal rate for the year of three percentage points up to 65% overall. We accomplished this in a very competitive market and what is even more encouraging is that we achieved a renewal rate in the consumer division of 79%, a level that tops our recent history. We feel strongly that this achievement reflects the intended outcomes of the steps management has taken to align our customer base with compelling value-added products that will drive future growth.

Administrative expenses for the fourth quarter decreased by 34% as a result of lower employee-related expenses, a decrease in legal provisions and the impact from foreign currency translation. Administrative costs were also down for the full year by 1%. Selling and marketing expenses were down 14% to $54 million for the quarter. For the full year, selling and marketing expenses were down 12%. The decline was due to lower commission expense from lower gross customer additions combined with the decreased residual commission costs.

Finance costs, net of non-cash charges were down 25% during the quarter and down 4% for the year. The lower finance cost was a result of the 25% decrease in long-term debt in fiscal 2017.
Moving to the bottom line, our fourth quarter EBITDA was up 11% to $75 million, and our fiscal full year base EBITDA was up 8% to $224.5 million. This was within our stated guidance for the year. I will also note that the full year base EBITDA included $11.3 million of additional prepaid commission expense compared to last year. If you exclude this additional expense item, base EBITDA increased 14% year-over-year to $235.8 million.

Base funds from operations for the year decreased 8% to $128 million. Although base EBITDA increased, there was a decline in base FFO due to the one-time finance cost related to the repayment of the senior unsecured notes and higher current income taxes resulting from exhaustion of non-capital loss carry-forward in both Canada and the UK.

Dividends and distributions for the year were $77 million, an increase of 3%, reflecting the initiation of dividend payments to perpetual preferred shareholders following the new issuance in February 2017. The payout ratio on base funds from operations was 60% for the year and within our target range.

We generated meaningful cash flow to support our growth. Cash and short-term investments declined $44 million during the year due to several items. We made essential growth investments such as our launch into Germany and investments into ecobee.

In addition, we early redeemed 320 million of the 6% convertible debentures and repaid the remaining 80 million on the senior unsecured notes. These repayments were partially offset by the issuance of $160 million in the 6.75% convertible debentures and $133 million in perpetual preferred shares and some utilization of the credit facility.

Let me take a moment to talk a bit more about the successful execution of our balance sheet repair, which has us well positioned to aggressively pursue growth initiatives. During the year, we reduced our
long-term debt by 25% to $498 million due to the early redemption of convertible debentures and the repayment of senior unsecured notes.

As a result, book value net debt was 1.8x the trailing 12-month base EBITDA at year-end. This is a significant improvement from 2.6x just one year ago. At this point, we feel confident in our debt profile and remain committed to maintaining these relative levels moving forward in line with our capital light strategy.

Before I wrap up my prepared remarks, I’d like to review our outlook for fiscal 2018. As Deb mentioned earlier, and as you saw in our press release, fiscal 2018 is a year of investing in growth for Just Energy. We believe we will achieve net customer additions and deliver base EBITDA in the range of $210 million to $220 million.

While base EBITDA reflects a decline over 2017 results, it demonstrates solid performance in our base business combined with a significant investment in the form of upfront commissions, international operations and a product and geographic growth initiatives. Again, we remain committed to maintaining our high ROIC capital-light position and we seek to make these growth investments through existing cash and balance sheet capacity.

Looking beyond 2018, we believe the business can grow earnings in fiscal ’19 and beyond, returning to the double-digit growth we’ve been able to recently achieve. This significant bottom line growth will be achieved with the successful execution of our strategic growth pursuits in new regions, products channels and inorganic pursuits. With that, I'll turn the call back over to Deb for her concluding remarks. Deb?

Deborah Merrill: Thank you, Pat. As we look back on the last 20 years, we could not be more proud of what we've accomplished as a company. Just Energy has evolved dramatically over the last three years.
Since our original Canadian IPO, the company has delivered a 15% annual return to shareholders. We are one of the few companies that can make that claim over a 15-year period. With our proven track record, we're confident that we can continue to deliver superior results to our shareholders and customers around the globe.

Now we'll open it up to any questions you might have for us.

Operator: Thank you. We will now begin the question-and-answer session. [Operator instructions.] And I see we have our first question from Damir Gunja with TD Securities.

Damir Gunja: Thank you. Good morning.

Patrick McCullough: Good morning, Damir.

Damir Gunja: Just wondering perhaps, Pat, if you can quantify what sort of embedded growth rate you have in the base business for 2018. Are you expecting it to be flat or low single digits, ex all of the OpEx?

Patrick McCullough: So you're asking about base EBITDA, if you were to exclude those one-timers?

Damir Gunja: Right.

Patrick McCullough: Yes, we are seeing margin and base EBITDA improvement reflecting the expected gross additions. So if you think about that we could be doing without that overhang of one-time commissions and those new investments, we'd probably be in the 5% to 10% year-over-year EBITDA range this year, if you excluded those.
**Damir Gunja:** Okay. And can you maybe help us quantify, you mentioned the three buckets of commissions, international and products and geography. To the extent you're willing to get into numbers, can you quantify sort of the one-time nature of the investment in the three buckets and sort of the grand total of spend that we should be sort of adjusting for or thinking about and the way we're looking at it this year?

**Patrick McCullough:** Yes, we can. So if you think about the commission bucket, that first bucket, that's the big one. So the channels where we're paying upfront commissions, think door-to-door, think some of the European channels. We do make decisions with partners to optimize Just Energy's return on investment around how we structure payments.

So given that between 40% and 50% of our residential channels have upfront commission payments associated with them, you're in the land of $20 million to $30 million of overhang when we get back to significant gross additions. If you think about the international market seeding, we've shared publicly the UK $2 million that was done four, five years ago for an organic start-up. That was only starting up the Commercial business at that point in time. As we look to expand in Germany, Ireland and Japan, we're looking at bringing both commercial and resi sales operations in at the beginning.

So you're generally going to see a few million dollars per market in terms of upfront first year OpEx that will be mostly recovered in the second year, if not turning a slight profit. New channels, new product, that is generally contained in what we would spend on an ongoing SG&A basis.

But you will see single digit millions of incremental spend as we expand to ten total channels for the residential business consistent with our Investor Relations decks that we had out there recently.
Damir Gunja: Okay. So it sounds like you've got a high degree of confidence that this upfront commission is going to translate into growth in '19.

Patrick McCullough: Yes, we saw it in the fourth quarter, Damir. If, you look at our fact sheet, you'll see we reported 7,000 net additions in the consumer business, and Deb just referred to net additions in the UK business. So there are already signs of additive customer growth in the most profitable parts of our business. So we have a great deal of confidence that you're going to see that translate to positive total additions in fiscal '18.

Damir Gunja: Okay. I'll hope back in the queue. Thank you.

Operator: Thank you. Our next question comes from Carter Driscoll with FBR.

Carter Driscoll: Morning, guys.

Patrick McCullough: Morning.

Carter Driscoll: First question, so just if I could kind of sum up, it sounds as though you're not seeing gross margin pressure. You're making a deliberate, given the low volatility in the economy and the low commodity price environment, making it difficult to acquire organically because the switching costs, you just don't have as much of an incentive, and everyone's facing that in the retail energy business.

It sounds like you made a conscious decision to pour money into international business, new products and new channels, and then obviously, you made the decision, the economic decision to prepay commissions, and that's a significant chunk of growth on the consumer side, which is a big part of your growth strategy.
So you're kind of taking lumps now. In particular, Pat, maybe could you talk about the decision to prepay the economic return versus not prepaying? Could there be an incremental margin of say 10%, 15%? How do you think about that return metric by choosing to invest today versus doing so through a different channel where you wouldn't have the same outlay up front?

**Patrick McCullough:** Sure. I'm happy to address that, and I think just to solidify your point on margin pressure, we actually did report higher margins this period on both the consumer and the commercial business on an actual trailing 12-month realized basis for RCE. So we reported 265 for the consumer business, up from 264, 261, 252 in prior quarters and $89 for RCE in the commercial business, up from 82, 80 and 76 in prior quarters this year. So this really is about the sales cost associated with the supporting the growth trajectory.

Now, when we make decisions about how to compensate commissions, we do think about what the market is doing first. So we do need to be as competitive as we possibly can be versus alternatives. For example, if you could make a higher upfront commission selling for one of our competitors we may lose capable sales channels or support. The other thing that factors into the equation is what you're thinking about, which is the economic returns.

So if we are in a position where we're partnering with, let's say an earlier stage company who's launched a switching app or a digital presence and working capital support is important to them, then we can potentially design a superior return by negotiating a smaller upfront cash payout on a net present value basis versus a residual model.

Normally, if we're going through, for example, our new channel, which is a retail big box channel, there will be a small upfront payment to the storefront, but then there will be a residual margin sharing
agreement with our partner that manages the kiosks and the manned let's say sales platform within those retail storefronts, so that's a bit of a hybrid.

And then you get into the commercial business, which is almost entirely residual payment business where we'll cash flow day one at the expected margin and there won't be a step-up in margin or free cash flow a year or a few quarters later, once we get through that.

We do think about this on the net present value basis. It's normally not a 15% difference on a net present value basis. You're in the land of 5% to 10% differences. But we are looking through the short-term. We do not get terribly worried if we're going to have a burden for a few years—for a few quarters because we're looking through the contract for that two-, three-, four-, five-year contract period for the best shareholder return.

And then, I think the last comment on this is as we are pursuing growth, if you hadn't stable recurring growth, this only impacts you the first year it starts. Because if you grew, let's just say net additions 200,000 per year every year for the next five years, that first year, you're going to take a $20 million, $30 million burden. But then the following year, you're going to have year two of that first 200,000 that's dropping through without any direct sales cost. So the EBITDA impact in year two, three, four and beyond once you return to a stable growth rate is de minimis. We wouldn't see any headwinds on the earnings. It's just the fact that we're transitioning from net attrition to net additions in fiscal '18 where we have this upfront commission burden.

**Carter Driscoll:** Okay. So that's the commissions side, and then maybe just kind of elaborating on what Damir just asked, so that's one of the three buckets. Maybe if not $1.00 spend, a percentage of your expected incremental OpEx on that first bucket versus the other two, is it 50% of that incremental spend?
Patrick McCullough: No, it's not. Yes, the upfront commission is about two-thirds of the total SG&A OpEx investment. The international markets and the incremental channels are a smaller piece.

Carter Driscoll: Okay. But it is similar in terms of both establishing the decision to go after both the commercial and the consumer business abroad. There's a component of that same upfront commission, not just building infrastructure, but part of that is having to pay up front because you see that residual being greater from an NPV perspective than the same in the domestic market, is that fair?

Patrick McCullough: Yes. If you look at commercial, we're generally paying a residual commission. Now, sometimes we pay the first year in advance because the market does that, so to be market competitive from a cash flow, you may recognize the cash day one, but you're going to amortize that first year over the year of sales.

So from a P&L perspective, you're not going to experience an EBITDA blip on the commercial business, which as a reminder is a little bit more than half of what we're selling right now. But remember, this is completely tied to gross additions, and given consumer is the place where we see more opportunities to differentiate with value and more profit to be made for customer, that is the focus and the main driver here.

Carter Driscoll: Right. Okay, and then the last portion of the bucket is products design for the consumer, which I think there are a couple aspects. One is the retail stores and as you talked about, again, there's some upfront portion of that. Could you talk about the reception to the retail store both what you've learned so far and the rollout in fiscal '18?

And then as a followup to that, if you think about the perks program, that's another type of upfront investment. I know we haven't necessarily gotten to quantification of that, but whether it has helped you
on the attrition side or on the renewal rates, could you try to, if you can’t quantify, qualify how the perks program has been? Thank you.

**Deborah Merril:** Sure. Carter, I'll take that, and I'll let these guys jump in. So our retail, that's on schedule, and we said publicly that in 18 months we expect to be in 700 stores and we remain on track for that. I think we have about four different retailers we're in now and that will continue to grow—four different chains that will continue to grow over the next 18 months. So we remain on track for that, and we're seeing the results we expected, so nothing has been a big surprise yet. That's all good.

And from a perks perspective, this is I would say one of our most promising initiatives we’ve undertaken in the last year where we've seen massive improvement in attrition, way higher Net Promoter Scores, longer term, better conversion, and all of these metrics are things that as we started in the Midwest and rolling out to all of our markets, which we’ll actually be in every single market by the end of this year, where we will have that program that will incent customers to stay longer with us. Just anecdotally, the feedback we get from customers is incredibly positive and continues to kind of drive our implementation of this program and double-digit percentage improvement in conversion as well as Net Promoter Scores.

Right now, we have about 100,000 customers on our perks program, and we are committed to driving that over the next several quarters. Our target is to have a million on there, and as you look at the improvements, all of that will translate into a better gross margin, longer customer relationships as we’ve seen, as evidenced so far.

**Carter Driscoll:** So you’re expecting to have greater than 50% of your customers in the perks program by year-end. Is that what I heard correctly?

**Deborah Merril:** In the next 12 months, that's our goal.
Patrick McCullough: And one of the things, the reason for the slow scaling there is we're looking at repricing our products to capture the value that we're generating through both some LED light bulbs and the perks program, which are the adders to our contracts. So in order to do that, you really have to be looking at new contracts or renewing contracts. You're not just going to roll this out to every customer at the old economics.

Carter Driscoll: Right, that makes sense. We've looked at the organic opportunities and discussed those. How about inorganic and M&A opportunities, what you're looking at, whether it's books or companies? Are you comfortable with competitive landscape, there's still some accretive opportunities out there, maybe scale size or geography? Anything you could qualify or quantify there? Because you haven't really been active in that space as you've been going through the deleveraging process.

Patrick McCullough: Yes, this is Pat again. So we're looking at three areas for inorganic growth. The first one is North American retail. So if you think about books that are probably smaller than us that looks similar to us in terms of approach, that's the first bucket that we're looking at, and I'll come back to describing that a little bit in just a second.

The second bucket we're looking at are international retailers. So can we, let's say, accelerate our international growth or geographic footprint through inorganic means? That is a challenging one because we see higher multiples in Europe than we see in North America, higher multiples than our own multiple. So it would be disruptive to shareholders if we were to buy a large, mature profitable company in Europe right now; however, there are opportunities like we did in Germany where you have an earlier stage pre-profit entity where you're not paying that multiple on a basis of a larger scale transaction.
The third bucket we're looking at are strategic accelerants, and that fancy term essentially means anything that can deliver a broader customer experience through product or let's say new offerings. So if you think about the commercial business, can we find CapEx light ways to further engage with the commercial accounts and maybe create more value for them?

Obviously, if we're looking in this bucket and we see heavy CapEx, then we would not be interested in acquisition. We will be interested in pursuing a partnership model with the CapEx intensive players. The first bucket though, the North American retail, is probably where the opportunities are for us. We generally have a multiple advantage over most of the North American market. We are generally buying at larger scale, so there should be cost of goods sold synergies. We're generally making more profit than average retailers and selling a much broader suite of products, so we think there's longer term commercial synergies.

But obviously, within this bucket, if you could find a book that didn't have regulatory issues, that didn't have a lot of variable products, that didn't have, let's say, a declining customer base, so we had confidence that there was, let's say, sustainable growth that could be endured, those are the type of North American retailers that are interesting to us.

Now, I did not describe the majority of the available books or the majority of the companies that exist. I just described a very, very small subset. So that's what we'll be looking for. We'll be looking for high-quality companies that we could roll it into the fold and we'll not be looking to lever up to do that.

**Carter Driscoll:** Okay. And may be last question before I go back in the queue. Can you talk about the regulatory environment, any changes, surprises, any states or territories we should be concerned? Obviously New York is still an ongoing issue overall, any comments there? Thank you.
James Lewis: Carter, while we’re seeing some positive conversations in the western part of the U.S., we have some early conversations in Nevada and California there. So we are all happy there that we see those conversations happening. And like you said, on the flip side, you have the New York. I think we're positive in the sense of they're having conversations, they're having discussions and the real question is how do they make that market better. We’re part of those discussions as are other industry players out there. But that would be the current landscape.

And I think lastly, I'll talk about the UK. There are some conversations in the UK going on price cap there, but we are aware of, and we're in discussions there as well.


Operator: Thank you. Our next question comes from Nelson Ng with RBC Capital Markets.

Nelson Ng: Great, thanks. So just in terms of geographic expansion, can you give a bit more color on the timing, location and strategy? So you did a small acquisition in Germany in December last year, and I was just wondering whether it's up and running.

And then for Ireland, you mentioned that you have a business license. So I was just thinking, are you kind of starting from scratch in terms of not having any partners? And then I guess lastly on Japan, just talk about the strategy there. Thanks.

Deborah Merrill: Sure. So Germany, as we released before, we actually entered the market in December, and we are active in the market today. So yes, we're selling customers and kind of building
that business from—it was a very early stage start-up so it wasn't—we still have a little bit of work to do to get our products out there.

But one of the things we believe, especially in Germany, there isn't a lot of product differentiation going on there, so we believe that bringing our product and services in some of the ways we look at delivering value to customers like our perks programs, our flat bill, all of that will yield better customer switching and higher-margin in Germany. So that groundwork is being laid today. We're currently operating in the market, but we're also laying the groundwork for kind of a launch of all of our products that will happen in late Q2, early Q3.

In Ireland, we received our license. We are in the testing phase of everything. So we're going through the regulatory testing process with all of our systems and billing systems, and all the communications that go back and forth in the market. We expect to be able to launch sometime in September this year in Ireland.

In Japan, that one might be a little bit later this year. That one is a bit more early stage for us, but working hard on getting all of the things in place for us to be able to launch on that, but that will also be an organic play as well.

**Nelson Ng:** So for Ireland, it's purely organic? Is it simply just getting your UK platform and expanding that into Ireland?

**Deborah Merril:** Yes. So we're leveraging our UK capabilities since it's so close and yes, it's purely organic in the UK.
*Nelson Ng:* Okay. And then Japan you said, it's purely organic as well or are you kind of looking around for partners?

*James Lewis:* Yes, Japan is organic now from a partnership perspective, from sales channels. We expect to leverage our retail platform here that we've been talking about over there as well. But it will be organic with some partnerships as we move forward, but not looking right now to acquire an entity.

*Nelson Ng:* I see. And then for like in terms of expansion, it will mainly impact or will it mainly impact the G&A line item? And so do you see fiscal 2018 G&A have a material increase year-over-year?

*Patrick McCullough:* Yes, we see both G&A and selling cost. If you think about the fixed overheads within building sales offices or channel support, if we're going at it organically from a sales perspective versus partnering with another company, you could see some selling as well. But we're generally thinking a few million dollars per market is budgeted for year one, so you're probably around $10 million in total.

*Nelson Ng:* Okay, perfect. And then just a few more questions. In Q4, the gross margins declined by about 14%. You mentioned the weakness on the gas side. I'm just wondering whether you have like a big picture number in terms of whether some of that weakness was due to the mild winter, I mean, what proportion of the decline that contributed to?

*James Lewis:* Yes, I think the winter stuff, we're pretty good there hedge wise, so I think the mild winter didn't have a material impact on us. The smaller gas customer base was part of the issue there in that fourth quarter on the gas side, on total margin.

*Nelson Ng:* I see, so it's more about just having a smaller gas the base, which resulted in a decline in margins?
James Lewis: Your total margin, yes.

Nelson Ng: Okay, got it.

James Lewis: Offset some of that higher operating performance there. So on a per unit basis, we had higher margins, but a smaller base.

Nelson Ng: Okay. And then Pat, I have a question for you. In terms of cash taxes, do you have any guidance in terms of where that will be in fiscal '18? I'm just wondering whether it will increase again next year or given that EBITDA will be flat to a little lower, and also like investing in international growth, will that help reduce taxes in any way?

Patrick McCullough: Yes. So the short answer on tax is we are a full cash taxpayer right now in Canada and the UK, and we did see almost an entire year of exhausted net operating losses in those two markets. So what you're seeing right now is what we believe will probably happen over the next couple of years.

As we go into—well, let me talk about the US first. We still have a net operating loss in the US, which we expect to last us another two to three years. Obviously, if tax reform in the US happened, that may extend beyond that length of time. But we feel like the cash tax payments that we're seeing today would be a good surrogate for '18 and '19, if you want to go two years forward.

As we invest in new markets, we're obviously creating a loss that will be applied to the future. So in markets like Japan, Germany, Ireland, it may take two or three years to get to a cumulative profit position where you'd start thinking about tax.
Obviously, with the significant presence that we're building in Europe, we'll be able to structure efficiently from a tax perspective how we manage those businesses from a profitability perspective, but it won't impact '18 or '19.

_Nelson Ng:_ Okay, thanks. And then just a quick question on legal provisions. I think the notes indicate that there was $10.6 million of provisions that were either used or reversed during the year. Like how much of the legal provisions were reversed in the last quarter?

_Patrick McCullough:_ So first of all, let's talk about what happened there. So the class action suits that we had taken legal provisions for over the prior two periods, the surveys and the enrollment into those class action suits have been completed, and there was a much lower percentage participation than we had expected and accrued for. So upon learning definitively that those participation levels were going to be a fraction of what we planned, we're able to corporately reverse those accruals. So we did take a significant, let's say earnings good guy in the year, about $5 million net reduction in legal reserves and accruals.

_Nelson Ng:_ Okay, got it. And then just one last question. In terms of solar rooftops, are you still moving forward with that or have you kind of ended the initiative after the pilot program?

_Patrick McCullough:_ Yes, so we talked about this a little bit in prior periods. And if we're just really honest about solar, we have taken a different approach with solar. We're much more bearish on the solar space. The good news with our business model is we're not risking CapEx. So if we see an opportunity and we attempt to address it and then we realize it's not there, there's no big write-off coming or no big sunk cost other than the OpEx and the selling cost that we had deployed.
Our view on residential rooftop solar is honestly, the only people that have made money in that business to date are the banks, and if you look at NRG pulling out, Verengo and Sungevity going bankrupt, you have three of the top six players that have elected to leave or haven't been able to succeed financially.

The folks that are into solar business today that could be white label partners with us are also struggling, and we fear with tax reform that whether that tax credit continues to exist, it's going to be a lot less valuable as people need less tax credits with lower tax burdens in the United States. Hopefully border tax doesn't happen, but if border tax happens, you'd obviously have a big material stress on the pressure around that profit pool that the residential rooftop value chain enjoys.

So we're looking at it, saying wow, people aren't making money in total today. There's going to be more pressure on profit. We're finding our no CapEx partnership idea harder to do because of those stresses, and we are not going to be investing significant OpEx dollars in solar. However, there will be green certification that we continue to bring to customers, and as customers inquire about solar, we'll make sure that we can at least generate the lead for their solar experience.

**Nelson Ng:** Okay. So obviously it's not a focus, but it's probably one of the smaller, one of the many products you might offer if consumers ask for it. Is that a fair comment?

**Patrick McCullough:** That's right.

**Nelson Ng:** Okay. Thanks a lot. Those are all my questions for now.

**Operator:** Thank you. Our next question comes from Sophie Karp with Guggenheim.
Sophie Karp: Hi. Good morning, guys. Thank you for taking my question. I have more of an introspective question about long-term plan here. So we get the story that next year you’re going to be investing in growth and there is some economic value to paying upfront commissions. But is that really a truly one-time thing or come 2019 you’ll see more growth opportunities and maybe like you have to invest in that growth again? So what I’m try to get to, what is the level of investment that we should think about as ongoing to sustain the growth rate that you are targeting?

Patrick McCullough: Yes, and I think, like I’ve said before, this year is the year where gross additions will increase significantly. So there will be a spike in ‘18 versus ‘17. It's about $20 million to $30 million by our estimation. And that will be incurred in ’18, but it will not have the massive or the larger gross additions from ’17 and ’16 to offset it and carry the day to bottom line in ‘18.

So as we grow at a higher level, let's assume in ’18, ’19 and ’20, it's the first year where that upfront earnings hit is taken. As you get into the second and the third quarter, you have the compounding effect of the earlier year’s gross margin with no direct commission to cover because it’s entirely paid up front. So as you get into ’19 and 20, you’re able to drop through a higher rate of profit to the bottom line.

So we see that as a one-year phenomenon as we get back to growth, and if you think about the company’s transformation here, we’ve been taking 100% of our free cash flow to delevering in the past. Now we have 75 plus million dollars per annum to be able to invest in accelerating organic growth and look at inorganic opportunities, and that's why this is happening in ‘18 because we’re pivoting from the delever internal repair to a let's get aggressive about growth.

Sophie Karp: Got it. And then as far as the trajectory of the gross margin per RCE, is that something that you see expanding in ’18? I think maybe it's a different way of asking the question that's already been asked, but just to clarify.
Patrick McCullough: Yes, we hope so. I think you’ve noticed that the actual realized margin increase is starting to stabilize in the last three quarters. So we don’t think there’s tremendous upside, but as Deb mentioned earlier, perks is not fully penetrated across our customer base. That should be a nice profit uplift, small profit uplift for us.

We do have plans to enhance value propositions and hopefully capture some premium pricing. However, market competitiveness is always up a little bit of an unknown as you go into a new year. So we don’t see pressure to the downside, we hope to see some opportunity to the upside.

Sophie Karp: Got it. Thank you. I’ll jump back into the queue.

Operator: Thank you. Our next question comes from Sameer Joshi with Rodman & Renshaw.

Sameer Joshi: Good morning. This is Sameer. So most of the questions have been answered, but looking at the long-term as you expand into international markets and the customer or rather margin profiles of each countries are likely to be different, are you going to provide some different kind of metrics going forward like in sort of RCE, is there some other metric that better represents kind of customers in Ireland versus Japan versus Canada versus US?

Deborah Merrill: Yes, Sameer, we’ve been talking for several quarters about the RCE metric, especially as we bring in different products becomes a little less I would say representative of what is actually going on in our business. So we’re definitely going to move maybe towards having RCEs reported as well as something a customer, actually customer numbers or products per customer.
We're kind of in the process of claiming that this year, and I think that based on kind of bringing it down to a more customer base level, that will help us really show what kind of things we're doing with perks and sprinkler systems and things like that will show up better and tell a more complete story about what we're doing.

**Sameer Joshi:** Okay. Great. And that's a good segue. You mentioned the sprinkler systems. How is that going? And are there any other smart home initiatives or products that are in the pipeline that you expect to drive growth, as well as add margins?

**Deborah Merril:** Yes. So we launched Skydrop in various markets kind of on a pilot level, so we're figuring out how to package that together and what the real value proposition for customers is and which channels we want to sell it in. So it'll translate into some of our direct sales channels and maybe some of our retail channels. So we're in the process of launching those.

And as we look at the smart home, we view it as energy is a big part of what a smart and connected home is. So, if you think about the thermostat, that connected to your home security system and connected to your phone, it becomes interesting for us as we look at a smart home and the things around I would say utilities—gas, power, water, and how we can pull those together.

So we actually have a team in our strategy group that does nothing but looks at those things and looks for partnerships and products that we can pull forward. So we've got a couple of things in the hopper, but we've rolled out, we're in the process of really try to execute upon the products we have so far and getting those going and pulling more in if it makes sense.

**Sameer Joshi:** Great. Thanks. I'll take my questions offline. Thanks.
Rebecca MacDonald: Thank you.

Operator: Thank you. [Operator instructions.] And our next question comes from Kevin Chiang with CIBC.

Kevin Chiang: Thanks for taking my question here, and good morning. I was wondering, maybe looking at the sales and marketing lift you’re expecting in fiscal 2018, maybe looking at it another way. If I look at the total additions you had this year and the amount you spent, it looks like it's about $229 per RCE of sales and marketing expense. As you pivot towards growth here, I'm wondering are you seeing the intensity per RCE for that line item declining so you're seeing some level of efficiency, or is that increasing because of some of the new initiatives you're taking? Just wondering how you see that line item on a per customer basis.

Patrick McCullough: It will definitely go down and go lower. The reason it's been driven up recently is the lower absolute scale of gross adds that we've had for the channels that have been built. So you'll definitely see a movement down on a per RCE basis as we raise the amount of gross additions that we put through the design channels.

Kevin Chiang: And when I think of some of the initiatives you've spoken about over the longer term here, it seems like a lot of is to create a stickier customer. When you think out longer term and you have lower attrition, higher renewals, how do you see that line item playing out? Presumably it should decline because you don't have to incentivize more customers to fight that churn you're seeing today, or am I wrong in thinking that?
Patrick McCullough: No, we think you’re right. We’re thinking about this on a customer life cycle basis. And as we see that consumer renewal rate spiking up to 79%, we don’t know how much more headroom we have to improve that. That is a very big number. We’re very pleased with that.

But we definitely think we’ll continue to address attrition with things like loyalty, with things like differentiated superior products with more value that allow conservation, if you think about energy efficiency or water conservation. So it really is about attracting a customer, winning over their hearts and minds and keeping them for longer periods of time.

Kevin Chiang: And just how that roles into how you think about embedded gross margin, you make some assumptions there on renewal, on attrition, maybe on a product line that was a lot less diverse. Does that metric make sense moving forward?

Patrick McCullough: It makes a lot less sense. Yes, it makes a lot less sense. The assumptions that are in the embedded margin calculation were really designed for our suppliers who offer us credit. As we think about the subject that we’re talking about here, we really do want to understand what is the value of customer contracts on a forward basis. You will see us working with our audit partner on potentially valuing that and maybe even bringing it to the financial statements in the future, but I think the valuation for customer contracts and forward cash flows will look a lot different than the embedded gross margin calculation.

Kevin Chiang: That’s very helpful. Thank you. That’s it for me.

Rebecca MacDonald: I would just like to add one thing, not just for yourself, but to everyone else, this management team, with our first CEOs in the past has delivered on every single promise they made in the last three years.
We shared a very deep and long discussion about this coming year we are coming into, and with all the growth strategies that are in place, you might say we are taking a very conservative approach around our EBITDA and our outlook, but that's what we want to do.

This management team delivered for the shareholders, delivered the returns, and they intend to deliver in the future. The old saying—I always used to laugh—under-promised and over-delivered, and I think that we are having a conservative approach to our outlook, but we are very, very bullish on our 2020 plan. And everything is wrapped around 2020 plan, particularly this coming year on the execution.

And whatever you saw from this management in the last three years, you're going to be seeing in the future. And I'm incredibly proud to have them around this business.

Operator: Thank you. It seems we have no further questions at this time. I will turn the call back over to Deb Merrill for closing remarks.

Deborah Merrill: All right, thank you very much. Well, we appreciate everybody joining us today. I wanted to take a quick second to again thank our employees who have really helped us to deliver on a great year this past year, and a lot of the employees have been with us for a long time.

As we mentioned before, we're celebrating our 20th anniversary this year. It's a huge milestone for us, and we wouldn't be here without the dedication, the work, the intelligence, from all of our employees in all of the countries we operate in. So I want to make sure we take a few minutes and thank them, and we will look forward to seeing you again in August. Thank you.
Operator: And thank you. Ladies and gentlemen, this concludes today's meeting. We thank you for participating. You may now disconnect.