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Q3 2019 Just Energy Group Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Just Energy Group third fiscal quarter 2019 result call. (Operator Instructions) As a reminder, this call is being recorded. I would now like to turn the call over to Pat McCullough, you may begin.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Thank you, operator. Good morning everyone and thank you for joining our fiscal 2019 third quarter conference call. My name is Pat McCullough. I'm the Chief Executive Officer of Just Energy. Jim Brown, our Chief Financial Officer is seated beside me, and we will discuss the results for the quarter, as well as our expectations for the future. We will then make ourselves available to take 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.

Before we begin, I would like to acknowledge the unfortunate passing of our second largest shareholder Ron Joyce this past week. On behalf of Just Energy and our employees, I would like to offer our thoughts, condolences and prayers to Mr. Joyce, his family and his employees. Mr. Joyce was a force in the Canadian business world and in our company's evolution, having served on our board for a period of time. He will be sorely missed

Transitioning to our quarter, today we will offer some perspective on our results followed by an update on a few of the key strategic initiatives being pursued through fiscal 2019. We are pleased with our overall performance this quarter. We continue to build on proactive steps we've taken in the early part of this fiscal year to reposition Just Energy as a leading retail consumer company.

Our core business remains healthy and our evolving product offerings enhancing the long-term stability of our business. We are committed to enhancing the margin of our core business to ensure the short-term success of our enterprise. Additionally, we plan to address mid to long-term enterprise value creation opportunities through our offering the value-added products and services. An example is the recent acquisition of our water filtration business, which has significantly increased our customer profitability profile and prospects for growth beyond deregulated energy markets.

During Q3, base EBITDA of $58.2 million was up 11% year-over-year, driven by gross margin improvements of 10%. The year-over-year improvements in sales of 6%, gross margin of 10% and EBITDA of 11% showcase the amplification of the top line improvement through to the bottom line. Within this strong financial performance, we faced and overcame short-term headwinds in the performance of our U.K. business as we have elected to slow our sales growth and invest OpEx dollars in operational excellence to ensure that we deliver a world-class customer experience to all U.K. customers.

Despite this headwind that impacted the third quarter and will continue into the fourth quarter, the strength of our North American business and our margin enhancement efforts have offset both the third quarter and give us confidence in our path to deliver our previously stated full year EBITDA guidance. The non-recurrence of this fiscal '19 U.K. business pause sets fiscal 2020 up for material

EBITDA growth.

These collective efforts to improve profitability and attract and retain strong, fit customers is also evident in our ability to reach record level embedded gross margins in our existing book of business, while our core commodity business continues to surpass expectations. The embedded gross margin now stands at $2.3 billion, an all-time high for Just Energy. As we've discussed, embedded gross margin is our publicly recorded forward earnings projection on gross margin. This next metric is up 19% from one year ago, essentially demonstrating that our future earnings will be up on the gross margin line by 19% from where we had our customer contracts valued just one year ago.

The combination of strong acceptance of new products, combined with our commodity margin enhancement efforts is supporting our objective to sustain increased gross margins. The average gross margin per RCE for the customers added and renewed in the Consumer division reached an all-time high of $347 per RCE. This is a significant increase year-over-year as well as sequentially from the previous quarter. Importantly, the $347 per RCE far exceeds the margin associated with the customers lost during the period.

The improved actual realization of gross margin in the period reflects the incremental pricing actions that we've taken and continued risk management and weather derivatives that managed choppy gas markets very successfully in the quarter. We are very proud of the success of our efforts on this front and fully expect to sustain these efforts moving forward.

Our total customer count grew 2% year-over-year to 1.6 million customers. Strong growth in our value-added products helped offset slight declines in our commodity only offerings, both our digital and retail channels performed well in supporting customer growth. As you will find in our MD&A, we began to report additional detail on customer growth side channel type. We will continue to do this moving forward to provide that added level of disclosure to our investor following.

During the quarter, we closed on the acquisition of a water filtration business, forging our presence into the health and well-being space. This value-added offering makes Just Energy very relevant with a branded product, physically in our customers' homes. The addition of water filters and similar products provides Just Energy with a strong opportunity to cross-sell to existing commodity customers as we continue to grow the value of our existing book of business.

In summary, the quarter was marked by a demonstration of our ability to sustain the performance improvements within our business. The core book of business is strong and stable and remains the focal point as it continues to drive the majority of our near-term earnings in cash. The value-added products and services strategy will address the longer-term customer needs and our participation in future growing global trends. While we are extremely excited about the early success of our value-added products and services, you will still see quite a bit of emphasis on margin enhancement in the electricity and natural gas commodity book that we manage, because we still see tremendous upside in that book of business as well into our future.

With that, I'd like to turn it over to Jim Brown, our Chief Financial Officer. Jim?

James Brown ***Just Energy Group Inc. - CFO***

Thank you. As Pat noted in his remarks, our performance in the third quarter is a strong indication that our strategy is working. As we continue to sustain a record-breaking embedded gross margin of $2.3 billion. We remain focused our core commodity operations in North America and the United Kingdom. While we continue to pursue growth opportunities across the business, we remain committed to earnings growth through our unique and powerful sales channels and continued efficiencies and cost reductions.

First, I'd like to cover some highlights of the third quarter, then provide some additional color on other areas of our financials that show we are aligned with market values, specifically a customer focused strategy. Our unique and powerful sales channels continue to drive positive momentum in our base EBITDA as we reported an 11% increase to $58.2 million from a year ago period due to significant improvements in our gross margin. While we are pleased with our progress, there's still much room for improvement as our success was partially offset by higher bad debts and operating expenses that are necessary to drive the business further.

Our base funds from operations was $32.1 million, down 15% from one year ago. The decline was primarily due to increased financing costs, which partially offset improvements in our base EBITDA for the quarter. As a reminder, and was stated in previous quarters, losses due to changes in fair value derivative instruments, including net profits, is not reflective of the economic results or cash flows of the company.

Turning to gross margin. During the quarter, our realized gross margin increased 10% to $188.5 million, mainly due to focus on unit margin enhancements in North America. We continue to seek the right customers in the right situations.

We saw margin expansion from value-added products, including our water filter business. While we pursued both organic and inorganic growth opportunities to expand our customer base and our suite of offerings. Managing our balance sheet continues to be a top priority. With the acquisition of Filter Group in October 2018, Just Energy assumed a loan between Filter Group and Home Trust Company of approximately $20 million. Overall, net debt to base EBITDA increased to 3.7x times on a trailing 12-month basis, which is higher than the 2.8x reported a year ago.

We continue to evaluate the strategic financing options to leverage our balance sheet, while simultaneously meeting the other capital obligations, including returning cash to our shareholders. The Consumer division's gross margin increased 10% to $145.9 million, as a result of focusing on higher margin customers. Our gross margin for RCE for customers added and renewed during the quarter was $347 million -- $347 per RCE for the Consumer division, a 54% increase from $225 per RCE see in the prior period.

In the Commercial division, gross margin increased 11% to $42.6 million. Added and renewed margin increase to $80 per RCE, a 10% increase from $73 per RCE in the prior year. Another clear indication that our customers value Just Energy's products and services is our stagnant 13% customer attrition rate for the trailing 12 months, which is comparable to the same time last year. Consumer attrition for the quarter was 20%, decreasing 2% from the prior year. While Commercial attrition rose 1% to 6%.

Our value-added products and services combined with our core commodity business are critical components to our customers' management of energy. The total renewal rate was 58% for the trailing 12 months, which is in line with the same time last year. The Consumer renewal rate of 72% and the Commercial renewal rate of 48% are also consistent with prior year.

Returning to the income statement. General and administrative expenses for the third quarter rose 11% to $56 million. As previously stated, this is largely due to upfront costs relating to operational efficiencies and improvements, and along with expanding our costs of the associated growth of our business. The payout ratio on base funds from operation with 67% compared to 57% this time last year. On a trailing 12-month basis, our current payout ratio is 86%. This is above our targeted levels. We expect continued improvement in this ratio as we conclude the fiscal year through continued margin expansion and reductions in operating expense.

I'd like to reiterate the company's emphasis on accurate pricing and effective risk management. The company continues to utilize multi-tiered risk management approach, executed through its syndicate of 8 world-class suppliers. As mentioned in our last earnings call, the October -- in October 2018, the company closed our insurance wrap products, which further protects the company against tail risk events. All this ensures that the company will provide a steady flow of cash flow from gross margins through our future EBITDA.

Finally, I'd like to spend a few minutes discussing our outlook for the remainder of the year. As Pat and I've mentioned, we've implemented several initiatives across the organizations for much greater profitability, including seeking the right customers and reduction in operating expenses to better streamline our operations. We expect to see these actions to continue to drive performance beyond historical levels, while supporting guidance for the current fiscal year and earnings growth into the future.

As a result, we are reaffirming our fiscal 2019 base EBITDA guidance in the range of $200 million to $220 million. As Pat noted our balance sheet remains strong and we remain fully committed to turning capital to our shareholders through dividend distributions.

With that, I'll turn it over to Pat for concluding remarks.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Thanks Jim. Moving forward, we feel good about our guidance heading into our fiscal fourth quarter. As Jim discussed, we expect the margin enhancements, expense control measures and our risk management activities and improvements, such as our new insurance wraps, to support consistent performance this year and set the stage for further earnings growth in fiscal 2020. We remain very focused on capital stewardship and cash generation to support our dividend and our growth. This commitment to balance sheet discipline generating superior returns on invested capital and improving performance is setting the stage for predictable, prolonged and stable growth.

Before we open it up to questions, let me say, this is an execution story. We have taken swift actions to improve performance and we move forward with the same resolve, confidence and commitment to raising the bar on our performance. While I am pleased and encouraged by the success of our initiatives, we understand there is much more we can do to accelerate the transformation of Just Energy.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Carter Driscoll of B. Riley FBR.

Carter William Driscoll ***B. Riley FBR, Inc., Research Division - VP & Equity Analyst***

Maybe to Pat or Jim the factors, maybe within your control, that get you to either the high or low end of that range for Q4 and obviously for fiscal '19?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes. So to close out the year strong with getting ourselves into that $200 million or $220 million band, we obviously have to deliver what we're forecasting within our existing book. For short term forecasting it's not difficult because there's not as much churn in the next couple months that we can see from this point before we end March and there's not a lot of growth in only a 2 month period. So we're literally taking the existing contract revenues, subtracting costs. Thinking about balancing TDSP, weather risks. We're so locked up right now on risk management and weather structures compared to what we've done in the past, we don't see the level of risk in our future that we've taken in our past, so we feel very good about that. An element that is interesting is SG&A. We've been talking about cost reductions and we haven't seen those drop through in a way that we're proud of yet. And the main reason for that is we've taken almost $5 million of severance costs to date. And rather than report those as a restructuring or a pro forma based earnings without that, we believe, we're taking the appropriate and conservative approach thereby putting that almost $5 million of severance into our expense that you're seeing this quarter and before. Additionally, we've got some U.K. investments to support the enhancement in that business. So really we'd see SG&A running at a much lower rate in Q4 and then a big step forward in 2020 that will support earnings. But for us, it's really about following through managing this price versus attrition elasticity point that we're starting to see for the first time right now, but executing the small things that management can control. It's a big quarter. So it's not one we get super confident in until we start to see the actual for January, which we haven't seen yet, or the actuals for February March. But as we forecasted Q3 to be in this range of mid to high 50s, we feel pretty good about getting home clean this year and then we see just a ton of opportunity next year with price flowing through and real structural cost savings coming down.

Carter William Driscoll ***B. Riley FBR, Inc., Research Division - VP & Equity Analyst***

So it sounds like as though unless your attrition really materially improves, deteriorates or you just start spending like crazy, it's tough to believe we won't get some level that band.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes. And we don't actually have the expectation that either one of those things will happen.

Carter William Driscoll ***B. Riley FBR, Inc., Research Division - VP & Equity Analyst***

Maybe just quantify and clarify what you're doing in the U.K. in particular?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes sure. So the U.K., you probably remember, we grew over 70% 2 years ago, 35% last year. And that operational growth -- let's say the operational challenge of that growth is caught up to us. We didn't like the customer service delivery that we were providing. We've certainly been dealing with more customer complaints than we're satisfied with. We've worked productively with the regulator there and agreed to slow down our largest residential channel. So that's hurt us in 2 ways. It's hurt us from a growth wage perspective, it's also hurt us from the standpoint of we have invested more OpEx dollars in automating and getting cleaner customer interfaces, and frankly a world-class customer experience that delivers satisfaction and loyalty. And that's really important to us. Even if we have to sacrifice a bit of profit in the short term, I believe, we're doing the right thing for our customers and we'll win in the long run when we do that. If we had forged on and kept growing and kept having some operational inefficiencies that we weren't satisfied with, we could have pushed well beyond our guidance this year, but we chose not to do that. The fortunate part of this story is we've had a heck of a year with North American margin expansion and North American growth in Commercial and Resi channels year-over-year, which have more than supported our need to put a little bit more investment in the U.K. in the short term. We fully expect that's going to be completed in the next 2 months and not be a lingering issue, because we've put a lot into getting that fixed.

Carter William Driscoll ***B. Riley FBR, Inc., Research Division - VP & Equity Analyst***

But you did say there will be some level of continued OpEx from these investments in the current quarter correct?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

There will be. Yes. But there's also quite a bit of pricing improvement versus that original guide. So think back to when we set guidance, it was about a year ago, we didn't have a ton of confidence that we could expand margin the way we have and not have seen more significant customer attrition. So the reality of the business right now is the North American channels are really special. We are signing up customers at retail kiosks. We're signing up customers with enhanced engagement and delivering things like customer brand promise, as you've heard us say in the past, loyalty rewards superior service levels when we reach out or were reached out to. And that has created, what we believe, is a sticker customer than the average competitor we have in this space. That's given us pricing power. But additionally, you've seen volatility in ERCOT. You've seen choppy gas markets, that's knocked a lot of the smaller players that can be troublesome when you're trying to raise price. Looking forward, though, to ERCOT remaining high this coming summer in a couple of quarters and the gas inventories remaining fairly tight, we feel like this thing is set up well to hold pricing where it's at and continue to reload our book at higher margin levels for at least a few more quarters.

Carter William Driscoll ***B. Riley FBR, Inc., Research Division - VP & Equity Analyst***

So you've had success, obviously, with the acquisition of the Filter Group. Historically you have not invested in direct ownership of technology. With that initial success is there at all a thought of potentially shifting and maybe having more direct control of specific technology? And then maybe correspondingly to that since you've had this margin enhancement, obviously aided by that expansion. Does that play a factor into your potential valuation of doing so?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes. So I think the answer to your question is we don't know. We would certainly be selective. The problem with investing in technology or R&D or products, it sometimes it comes with extensive CapEx. And what we don't want to do is turn our business model into a highly capital intensive business model. We really enjoy a very high ROIC, because there's limited CapEx spending. The beautiful thing about the Filter Group that we bought and water filtration company. They've done a really smart thing. They had created their own design in-house, which did not cost them a ton of money, but it's an enhanced design that shows a translucent capsule where you can see your filter getting dirty. Under the counter, design is superior to most in the industry. And it frankly took a lot of inefficiencies out of existing products and streamlined better product. Now one of the cool things they did is while they own their own tools, they outsource the manufacturing and the CapEx around injection molding et cetera. So we are not strapped with a ton of CapEx or a big manufacturing footprint despite the fact that we bought a unique product that we think is superior to the bigger players in the space, and one that scales well. So I think if we run across opportunities to own technology, R&D and product, it will be cases where we can acquire that for either future earnout dollars, but limited ongoing CapEx so that there's not a big spend coming from us. We don't want to turn a retail entity into a vertical go upstream and start betting on technology. That is not what we're trying to do and we don't think that would be a safe thing to do for our shareholders.

Carter William Driscoll ***B. Riley FBR, Inc., Research Division - VP & Equity Analyst***

So you talk about the kiosk channel. You had discussed in the past some potential of the utility concierges and/or relationships with being at arms with some of the big box retailers who just talk about progress there or for strategy. And then second, just talk about the debt. It obviously ticked up a little bit on the facility, it's above your target. Just any future plans on next coming quarters to get it close to your target level?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Sure. Yes, I'll answer the retail question and Jim will answer the debt question. So, yes, I know we were talking for a while about getting to 700 stores. And then, I think, we may have even told you guys we've got above 1,000. We're well above 1,000 right now. We don't want to be above 1,000. And let me tell you what we're aiming for. We're looking for the highest quality ROIC that we can get out of that channel, not the highest quantity of stores. So one of the efforts that we've taken on in earnest in the last 2 months is, let's start to segment customers both on a credit score basis, on new pricing versus old, folks with perks, without perks, folks that are sold through -- at Sam's channel or [HB] channel or even better a Sam's Store in a certain town in Texas versus Ohio. And what we're doing right now, and you really have to scale broadly before you can understand the economics and the returns on our sales effectiveness, is we're starting to see IRR differences on a store-by-store basis or a customer-by-customer basis if you really want to go to an extreme. We're very proud we hired a Palantir executive named Alex Ince-Cushman. He is the guy that is bringing some of the most sophisticated predictive behavioral analytics, cohort analysis that our industry has ever seen, and we've been applying that for the past 2 months. And what we are learning is, the nuances customer-by-customer, store-by-store, credit level by credit levels, ZIP code by ZIP code. And now what we are saying is, "Let's kill that store that doesn't make us enough money or high enough return. That doesn't pass our hurdle rates in a while." What you're going to see us doing is, pulling back to probably something in the 700 to 800 store count. Allowing our competition to get access to some of those weaker stores that we don't prefer from our own hurdle rates and really generating more accretive cash and higher returns on a smaller footprint. Now the only way to understand how to do that is to go abroad and get experience in more stores than less. And then understand the scale, train up your team and then determine if the productivity and the returns are there. Same thing with pricing, right? I think, we talked about this in the past. We did not have the ability to understand elasticity curves by customer segments or our customers. So what we did was we raised the water level of pricing everywhere. Now we're starting to see a little bit of attrition on the higher margin or the higher priced customers. And the great news there is, now that we've seen a bit of attrition, we understand the types of customers or the types of channels that can't support the higher margins and the ones that can. It allow us to do 2 things, addition by subtraction by taking out the ones that have lower than expected returns. More importantly, reinvest our commission dollars. So if you take the commissions we're reporting and predicting this year, both on a cash basis, so the IFRS stuff that's amortized, IFRS 15, amortized commissions and the commissions that we've accounted, you are in that $250 million plus range. Well, what if we could take $90 million of that $250 million and funnel it into the higher IRR segment or customer. For the first time in our company's history, and frankly, it might be the first time in our industry, we are highly capable now of getting really acutely aware of returns at customer level and enhancing that. So what you should see from us is less of a focus on RCE growth. I know, we trained the analysts in the market to worry about RCE growth, and if you don't have RCEs replacing your attrition, you have trouble in the future. We actually don't agree with that because we're seeing ranges of ROIC and IRR that are exceptional when you get to the customer level. So you'll see us starting to shed more residential and commercial accounts to get to the higher return ones.

Carter William Driscoll ***B. Riley FBR, Inc., Research Division - VP & Equity Analyst***

Does that at all -- I mean, does that -- you've talked about maybe some small customer books in terms of M&A opportunity. Is there a way to overlay what you've learned in potential evaluation of some of those books or is that something you'd still largely learn in arrears? Just trying to layer that in between what you had on the RCE side versus what you could potentially add at an accretive level historically versus this type of strategy you're holding into?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes. The answer is "Absolutely". If you think about what we used to do and probably what our industry does for the most part, and I'm probably conservative on that. There's probably a couple of our competitors that are better than what I'm about to describe. But we've always ran the business on an average or an aggregate level. We've approached the market with one price. We've approached the market with one product structure. That's not to say we don't have multiple products, but we've generally priced entire markets, I think, taxes in one way, without appreciating that if you're selling and Sam's Club versus selling in a 99 Cents Store or selling in a high demographic wealthier ZIP code versus a lower that there is a different need, both in a product and maybe in a pricing and an ultimate return perspective. So what we're doing now is not managing the business on a portfolio basis where we would have average pricing, average margin, average attrition and churn at the hundreds of thousands of customer level. But now, we're saying, "Let's get into those 10 customers who bought yesterday in Ohio. How did those contracted margins work out based on what we were hoping for?". Or, "Is that sales agent selling enough that the coverage and return there is strong enough for us?" We have complete conviction in the new channels we've launched and the returns that are there. What we're finding, though, is you can go too broad and while you can have an average that looks pretty good, you can still have an element that is underneath the proper hurdle or threshold from a risk return or IRR perspective, where we just say that's not good enough and we're going to start to call back. So what you're going to start to hear from us as we go forward is more profit, more cash, maybe at the expense of customer growth. And it's not to say we won't be growing. You'll see pockets of growth that we will be advertising. Obviously, we're going to grow filters dramatically. Obviously, we're going to grow value-added products and services dramatically. Retail, digital these channels have the opportunity to grow as we expand into new geographies. But we have the ability now to not waste sales dollars on low return customers. So expect a bit of a pivot out of our company that really is focused on a accretive cash generation.

Carter William Driscoll ***B. Riley FBR, Inc., Research Division - VP & Equity Analyst***

And then just if Jim can address the debt. We saw enough of...

James Brown ***Just Energy Group Inc. - CFO***

Yes, that's the perfect segue into the question about debt. The debt increase is due to 2 reasons. One is we did acquire $20 million of debt with the acquisition of Filter Group. Secondly, working capital needs driven from the expansion of the business and particularly the U.K. We had specific cash flow plans for the remainder of the year and for next year and expect significant cash generation from margin enhancement as the expanded margins become a greater and greater part of our committed book, and through a very acute focus on cost reduction. And we remain committed to getting to the 2x target as we move into next year.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

I think the other thing to think about when you think about debt is, we're coming from that cycle of post summer. Remember, we're a bigger electricity book than we are a gas book. So when we get through September and we're still waiting for payments in POR markets from bigger electricity bills and we have that electricity, let's say, need for working capital, December and this October to December range is normally in our low point. Obviously, our highest profit quarter, and our most profitable incremental segment on a unit basis is gas. That's what's happening in January and March. You'll start to see the working capital release happening now in a fairly significant way. But, additionally, I think the coming profit and the free cash flow associated with that is going to give us a run at 2x net debt to earnings next year without doing anything outside of normal course. Additionally, we've talked in the past about working with our wholesale suppliers on extended payment terms. We continue to have success there and you're going to see some enhanced cash from that as we report in the future. No, thanks Carter.

James Brown ***Just Energy Group Inc. - CFO***

Thanks Carter.

Operator

Our next question comes from Mark Jarvi of CIBC Capital Markets.

Mark Thomas Jarvi ***CIBC Capital Markets, Research Division - Director of Institutional Equity Research***

I just wanted to go into the value-added products. You guys have broken it out on the gross margin. So, obviously, if you put the bundled stuff aside, the number of customers increased by, I think, in Filter Group. But even in ex-Filter group, you saw over 50% growth. Sort of what you guys think in terms of potential growth over the next couple quarters for that segment? And then maybe you can touch on the bundled one as well.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

No problem. How many quarters was the question?

Mark Thomas Jarvi ***CIBC Capital Markets, Research Division - Director of Institutional Equity Research***

No, just like over the next day say -- over next year, when you guys have line of sight in terms of funnel and opportunities set and you're seeing penetration levels with your sales team. Like in terms of what you guys think the growth rate for that -- the value-added products would be.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Sure. And I know Dan MacDonald at our Investor Day did give you guys a good picture, if you go back and reference that document for filters specifically. Now here's the short answer to the question. Value-added products and solutions are going to be a play that impact us in a more significant way 3 to 5 years from now. It's not where our bread is going to be buttered or the short-term shareholder returns are going to come from in the next year or 2. We're about to launch filter sales in Houston, Dallas and a couple of markets to be named that are regulated markets. Now, I'm telling you about Houston and Dallas because that is the largest metropolitan areas that have JE customers right now. So as soon as you get that installation capacity in place, you can do a couple of things. You can leverage a huge metropolis, but you can also leverage your existing customers. So we're not stopping there. We're building installation capacity right now in regulated or energy regulated states which we'll be announcing later. That's happening this quarter as we speak. So one of the things, if you think about filters per se, is you've got to get your installation capacity so that when you make that sale, you're installing within a matter of days and ensuring that you don't get any breakage upfront because you were slow to respond. And this is a big phenomenon in residential rooftop solar that companies struggle with. So we're going to ensure that we're ready to go in scale before we do a full launch. Mark, that's going to answer the question, it's how well we sell those filters in one example, but then also the broader bundles. You will see announcements coming from us in the future that have a more comprehensive bundled solution that does more things across electricity, gas and water. Stay tuned. This is all new to us though. This is uncharted territory. I wouldn't have significant growth on these things. I don't think you're going to see more than 2x the amount of water filters over the next couple of years. That's consistent with what Dan showed. As we get into the broader bundled solution, it's probably going to be a little bit more of an organic growth story that will take some time. We've always said that we think 3 to 5 years from now that could start pushing beyond a quarter of our profit. I don't think it'll get there in the next year or 2, if that helps.

Mark Thomas Jarvi ***CIBC Capital Markets, Research Division - Director of Institutional Equity Research***

And then I just want to touch on the aggregation costs. I mean, you guys have changed your mix of channels a little bit away from door to door and you're more on the retail. So as they've kind of come up year-over-year kind of similar to last quarter, where are you guys in terms of where you think acquisition costs can trend? And maybe more specifically with the step up, maybe just discussing where you guys are in acquisition costs through the retail channel?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes. So we definitely are investing in higher engagement sales channels. And as Jim talked about in his opening comments, we think those unique and higher engagement channels allow us to differentiate and really represent our differentiated value in a superior way, which means command higher pricing and higher margins. So we are not trying to be the low cost player in the market and complete our market share. That's not a business that we're excited about. We see too many retailers get in trouble with razor thin margins, operating off switching sites and end up not having a very compelling book. So we believe in these high touch, high engagement channels. And think about our digital click to call. We have direct conversations on the telephone with people who find us online versus a switching site type approach, which we try to avoid. The retail kiosk is the best example of all. We've got somebody who approaches us, who's interested in either something that's written on our displaced end or maybe a physical product, that's in the kiosk. And we're helping educate them on what these products can do for them. That's a much different sale than somebody who shop and price online, find the switching site, they actually don't have an attachment or engagement to that process they went through. Additionally, we end up blowing customers' minds when we tell them we have a customer brand promise that does so much more for them than other companies, when we offer them loyalty rewards and they get immediate returns with gift cards or energy efficiency and water conservation devices. And then they get more when they earn with us. We just reported the highest net promoter score in our company's history, 38, and that is a number we're really proud of. We think the average utility is zero or negative on net promoter score basis. We know most of our competition who report this are reporting lower numbers. And we're, frankly, fired up that we have customer engagement working really well right now. And it obviously requires our call center service, our products, the way we treat customers when they have questions or need to renew. But the upfront sales process and the investment in that is very valuable to us. Now, we don't want to waste money. We want to be efficient up there. So when I was talking to Carter about our ability to assess -- are we really getting a cash return on that higher customer acquisition costs? We're going to be brutal with that. If we see anything near a breakeven IRR, we're out of it, okay? We want to cover our cost to capital and then some. We want to have an -- we want to have the return on invested capital threshold at the product level at 40% and at the corporate level with all overhead to 20%. So we're not delivering those type of financial returns, then we're going to say, pull out. First fix, if we can fix the deal, maybe with the vendor partner. Second, pull out and take those precious OpEx dollars to a smarter place, to get a better return.

Mark Thomas Jarvi ***CIBC Capital Markets, Research Division - Director of Institutional Equity Research***

So if you think you can still hit higher margin customers without material attrition, but you'd need to keep the cost of acquisition sort of at the current level. Like there's no opportunity to go higher, continue to grow on the margin side with eking out and point out some costs or reducing cost of acquisition?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

I'm happy you ask that question, because I ask my team that question every day. So let me tell you what our observations are right now. For the people that we've priced at higher levels recently there is higher attrition on that group in the first year, and it's about 5% difference on what we report. The good news, though, is we're pricing them at almost 2x the margin we were pricing a year ago, at least in the last 3 months. So that's a trade anybody would make. If you're losing a few more customers, you're not getting net adds, but you're 2xing the incoming margin, everybody likes that trade. Now, as you saw in our financials, we're adding customers on a Resi and small C&I basis, which is included in the Consumer segment, at $347. But you also saw the exiting customers have gone up to $309, and I want you to think about a couple of things as we think this through. The incoming customers are both residential, which are much higher than $347 and the small C&I, which are less than 15 RCEs these. Okay? And that mix actually moved up this quarter, whether it was more small C&I sales than there was last quarter. So I actually felt that $347 could have landed at $380 this quarter. But we didn't expect such a strong surge in small C&I sales. Congratulations to [Usher's] team for that. Number two, though, when you look at the outgoing folks, you get more churn and attrition and Resi. No matter what your pricing philosophy is, then small C&I. So your mix of exiting customers at $309 are almost entirely Resi were a mix of inbound are both. Now the problem when you look at it this quarter is we're seeing, well, the numbers are kind of close in absolute terms. Sure, we get that spread of $347 versus $309 and there's this mix effect. And the great news here is we're now starting to understand there is some attrition with this. I think the right strategy is the whole pricing where we're at. Not be greedy. Try to continue to expand the book. However, there are targeted markets outside of our larger markets, the big -- smaller markets where we will continue to expand pricing and margin. And what we're looking at this quarter is continued high incoming gross margin like the levels that we're reporting right now. And I think the ultimate question here is for where the market is today and where the wholesale pricing, and frankly, market volatility is today? We feel like we're pricing the customers in a fair way that represents our true cost, which is much more than commodity, includes loyalty rewards, customer brand promise, superior channels upfront. But we're making an acceptable return from their perspective. If we push that higher, I feel we'd be breaking away from too many of the competitors that are at lower prices and we would create a bigger churn problem. Now, the good news too is we're using our new exec from Palantir to help us answer that question in a more fulsome way where we can actually identify, "Okay, within that $347, who are the ones that are sticky, who are the ones that are less sticky? And how do we treat those 2 groups in an appropriate way? Maybe there's less value to promote to one versus the other". That answers your question?

Mark Thomas Jarvi ***CIBC Capital Markets, Research Division - Director of Institutional Equity Research***

Yes. And I just wanted to go -- obviously, there's a transaction in a market today, multiple below where you guys traded -- a reasonable transaction multiple. So given where you see like that -- sort of the value in the market for bulks and transactions and where your state your balance sheet. What do you guys think in terms of your ability and/or appetite for M&A in next -- in the near term?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Sure. So, yes, I mean, first of all we should offer congratulations to both the Vistra and Crius teams. It sounds like that's a deal both sides like and good for them. And I think Vistra is a very impressive competitor that we respect. So we think it's interesting what they've done. This clearly demonstrates that there is interest in entities that own the customer. And what's unique about Crius is they are similar to us, although we sell in different channels, and are generally in different markets. But they're similar to us in a way that they handle small commercial, small fractured residential accounts. And frankly, sometimes that's hard for the bigger entities to interface with to deal with and that's what we're all about. So the fact that consolidation continues to happen and folks with bigger balance sheets are interested in folks like us that have that customer intimacy, it bodes well for us. It means we're a target as well for sure. Now from an acquisition of a book perspective, we're still too well aware of the days where you could acquire a book after volatile weather when those books were unhedged at 1x, 2x and 3x earnings. So for us this would be an expensive transaction. Obviously, Vistra probably has synergies in line that help them get over that hurdle. We personally would be looking for 3x or less EBITDA before we got excited about a commodity book. We'll be open to it if that type of volatility happens and the folks that don't hedge weather well get hurt, like after polar vortex. But for right now, we're going to stick to our needing with enhancing the core commodity business and really getting a technology and a data analytics advantage over our competition when it comes to who we're selling to, how we're making money. And then if opportunities come our way, like buying commercial or residential books, we'll certainly be open to them. But I think in the multiples that we've seen other companies trade that over the last 2 or 3 years think, 5x to 6x earnings, it's too rich for us. We'd rather go the organic route or enhance the book we already have, because we think we can have a step function change in profit and cash that way.

Mark Thomas Jarvi ***CIBC Capital Markets, Research Division - Director of Institutional Equity Research***

Do you expect any impact in terms of the marketplace in terms of post-acquisition, if there's changes in ERCOT or anything else you would think?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Hard to say. I think, if you take Crius as an example, they generally sell through different channels than Just Energy and they're more Northeast centric and less Texas centric. And we're obviously a little bit more Texas, U.K., Canadian centric. So that -- so I can't really tell. We're normally not facing off with Crius directly in the marketplace. We're facing off with the bigger folks like Reliant, Constellation, Direct Energy, TXU. So I don't know how that will enhance Vistra's ability to compete in the marketplace with us, to be honest. We'll think that through. But I don't think will have a big impact on what's happening. If anything, that might be more consolidation, means more pricing power amongst the responsible leaders in the industry. Thanks Mark.

Operator

(Operator Instructions) Our next question comes from Raveel Afzaal of Canaccord.

Raveel Afzaal ***Canaccord Genuity Limited, Research Division - Analyst***

So given where you think Q4 EBITDA is going to land, is it possible to quantify what sort of working capital release we can expect in the quarter? I know it's a difficult number, but if you can put some boundaries around that, so we can see what it does to your leverage?

James Brown ***Just Energy Group Inc. - CFO***

Yes. That is a difficult -- thanks for the question Raveel. That is a difficult thing to forecast. But one statistic I can point to, to help give you guidance is. Almost all of our gas inventory is withdrawn in the fourth quarter and -- that is significant contribution to working capital. And I'd just like to point back to the gross margin aspects as well, talking about operating cash flows as a whole. We saw increases in gross margin and increases in gross margin per unit. We saw increases in gross margin from the Commercial business and from the Consumer business, that's the hard part of the business. So as that drops through the bottom line, cash will be generated.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

I think just to add to it little bit. So we've got about 40 million-ish that we carry every year in natural gas inventory and we will release, if not all of it, the majority of that. Much of that will get paid in the quarter, some will spill over and will get paid into April. We have enhanced payment terms with a couple suppliers that we'll be announcing when we release, probably worth another 30 million. And as you know the profit picture in Q4, given we've got to deliver 77 to 97 to hit that range, that's going to drop through your interest and dividend and overhead costs at a much higher rate than the past 2 quarters. So it's definitely going to be a positive cash flow quarter for our company. And then, I think, as you go forward and see the first and second quarter, which were low profit quarters, if you think back to '19. And now think about the pricing and margin enhancements we've made, to do that math on Q1 and Q2, which will help you with the quarter from now when we're talking about guidance. But you're going to see significant uptick in Q1 earnings and Q2 earnings. So working capital duress that -- frankly, the second quarter brought us 2 quarters ago, will be a thing of the past.

Raveel Afzaal ***Canaccord Genuity Limited, Research Division - Analyst***

Is it possible for us to speak about the NPV per customer at the moment? I mean you guys are acquiring customer at 343, what your aggregation costs are. And so what type of NPV do we expect based on the attrition rate that we saw in Q3.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes. I mean, you're generally seeing portfolio attrition remain low, and you're seeing bps of the book that come in at 347, obviously are averaging the trailing 12 months, which I think reported 241 off the top of my head. That will be coming up slowly in time as you know. Eventually we'll get over 300 when we have enough quarters of this behind us. I think you'll see more effective customer acquisition costs as we go forward too. So you'll actually see the customer acquisition costs and the return on that improve. We don't talk NPV per customer. But what we do talk about is the use -- the average life of a Resi customer before renewal. So remember, renewal rates are very high on the consumer book. But before renewal, we're generally seeing a 2.5 year life. But if you're with us at the end of 2.5 years, generally a 70% to an 80% renewal, you're going to live with us a long time. And as you might imagine, the sleepiest customers end up being the most profitable ones that have the longest lifetime value. Thanks Raveel.

Operator

Our next question comes from Endri Leno of National Bank Financial.

Endri Leno ***National Bank Financial, Inc., Research Division - Associate***

First, I think, Patrick you touched a little bit more. You touched a bit on the cost synergies that you're expecting in the second half, but didn't materialize in Q3, they are to come in Q4 and $5 million on severance cost. So I was wondering how do they develop more -- out of their severance costs for Q4. And the cost synergies really, how do you see them any, perhaps even early next year?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes. So the severance cost that I was referring to aren't material to the full year. But they are CAD 5 million of which CAD 4.5 million have already been experienced. So 10% are left in Q4. FX got us to the tune of a few million dollars in Q3 alone. So that's something we probably wouldn't expect to continue. And then, the U.K. investments are going to continue. So we expect to have several million dollars quarter-on-quarter improvement in G&A, potentially more. And then in fiscal '20, you not only get the ongoing savings of a reduction in third party contracted headcount and -- with no severance and first party separations. But you'll have the U.K. operation operating in an effective way. So the net effect of that, we believe, is going to be $20 million year-on-year as we talked about. Now, that's discounting the fact that they're selling overhead opportunity that we think could be incremental to that. We're looking at some of the marketing dollars or the like less direct selling dollars that we spend, and we think there's room for opportunity there too. What we're, obviously, hoping to do here is continue to expand margin in a significant way, drop costs at the same time and have an amplification effect through the bottom line.

Endri Leno ***National Bank Financial, Inc., Research Division - Associate***

And my other question, its little bit more on the receivables side. There was a considerable jump on over 90 days receivables between Q2 and Q3. I was wondering if you can comment a little bit about that. They went from $60 million to $113 million?

James Brown ***Just Energy Group Inc. - CFO***

I'm looking at that now Endri.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

We can take offline.

James Brown ***Just Energy Group Inc. - CFO***

Yes, I think, I'd like to take --

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes, we're thinking about your numbers there. Let's take that offline, make sure we're talking apples-to-apples.

James Brown ***Just Energy Group Inc. - CFO***

Yes.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

There certainly was an accounting change that you know of where we are now reserving for 100% of items over 90 days' worth. That was not the practice in the past, but that started earlier this year. Let us take that offline with you and make sure that what you're looking at is what we're looking at.

Operator

Our next question comes from Nelson Ng of RBC Capital Markets.

Nelson Ng ***RBC Capital Markets, LLC, Research Division - Analyst***

Hey, Pat, just a quick follow up. You talked about how G&A costs would be at $20 million improvement year-over-year. Are you kind of guiding towards fiscal 2020 G&A being about $20 million lower than 2019? Or is there, I guess, a few moving parts in terms of potentially spending more on growth?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes. So, I think -- so, what I was trying to say is yes, $20 million year-on-year improvement in G&A to be direct, was your first question. I think, there could be more than that. And the thought process here is, if we're selling -- let's say we end up spending over $250 million in selling costs, if you want to think about SG&A for a second. And if we find that we're selling maybe a 1/4 of customers that don't meet our conservative thresholds for returns. We're just understanding who those customers are or what stores or what ZIP codes they can fall in. So we're obviously going to try to enhance the economics first and continue to sell to those potential customers. If we can't do that, and we can't accept the return, than what our thought process is right now. We haven't fully played all these actions out. So it's hard to answer your question accurately. That we could end up spending something far less than $250 million. Imagine us spending $250 million on commissions on a cash basis, so think upfront commissions, and next year spending $200 million. And actually growing the embedded gross margin and the forward profit and cash profile. We think that opportunity is there based on some of the early cohort analysis and segmentation analysis that we're doing. Now, what you're going to find, though, is what we don't want to do is we don't want to hurt our sales channels or our sales people or our sales channel partners. So if you're going to move the mix from lower profit customers to higher profit customers, because now we have a more nuanced understanding of who they are, then you could possibly ensure that the remuneration for those salespeople or the sales partners get enhanced. But we grow the return on that enhanced sales margin at the same time. So we've got to figure out where the delicate optimization is there and we've begun this work in the last 2 months. There's definitely a major opportunity for this company in that analysis and the decisions we make regarding that. We'll be talking to you more about it in the future. But things like lower credit customers and how you structure those deals and manage them. Things like we're selling in a store with a lower income demographic or ZIP code and we're having a worse credit experience, and we're having earlier churn and we're not getting a return. We used to manage that at an average or aggregate level. We've stopped doing that. We're now managing at a customer segment and at customer level. And I know it's a little bit of high level speak at this point, but I think what you're going to see is a really sophisticated company when it comes to customer-by-customer customizing whether we want to sell or not. And it may mean that we spend a lot less selling dollars and make a lot more money.

Nelson Ng ***RBC Capital Markets, LLC, Research Division - Analyst***

And then just another follow up on the gross margin for new and lost retail customers. So it sounds like based on what you said earlier that it could trend a bit higher depending on the mix of residential versus small C&I. But, I guess, given that you said you're going to keep the prices where they are. That it -- like, it could go up a bit higher, but it probably won't go up too much higher. And then for customers lost, do you expect to see that $309 number stay at that level or are you seeing, like, more or less attrition from that -- from some of the new customers you've added.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

So 2 good questions. The first question, I expect we'll be reporting for a few quarters incoming consumer gross margin at $320 to $380 range. I think depending more on the C&I mix then -- meaning the volume, relative to the Resi volume, than anything else. So I have seen stability in our contracted gross margin at the residential level. I look at it daily. I see every contract that we're signing. I've seen stability for about 7 months now. So I don't -- and we don't want to push it further, because we are starting to see slightly more attrition on the higher priced folks that are coming in as new customers, not the renewing, of course. So these numbers are a combination of new and renew. I see that as good news, though, because we never understood where elasticity was, right? We were essentially negotiating with ourselves saying we need to be priced here, because the market is here. But we didn't understand, "Wait a minute, we're better than the average competitor when you consider the offering, the product structure, the loyalty rewards program that we have out there." So now we have found our ability to premium price and we don't think we want to push it further than where we're at. In fact, we may reserve the right to lower it in the future if we see attrition go worse than we've seen. I don't see that yet. Now on the $309, it's a really hard one. Because the $309 are people that are leaving us, and they can leave us for a lot of different reasons. They can leave us because they're moving. They can leave us because they're not paying their bills. They can leave us because they decide that they get better value at a lower price somewhere else. So that's a little bit harder one to call. It was a big -- of bigger move for us this quarter than we expected. We're doing the cohort analysis on that to understand exactly why that's happening now. But we're going to learn from that and improve. And I hope to shrink that going forward. But we're learning a little bit here, because we do not have definitive price elasticity curves defined by segments yet. We're just getting that information through these quarters that we're reporting to you.

Nelson Ng ***RBC Capital Markets, LLC, Research Division - Analyst***

No, I was just wondering whether those numbers are skewed in any way, because in the MD&A, I think, you talk about the Ohio gas standard choice where, I think, you added new customers there and then you failed to renew in the U.K. residential aggregation. So I wasn't sure whether those 2 items were large enough to skew that numbers either way.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

They're definitely in the mix, but those aren't big numbers. I don't think that's the primary driver. I think the step up in margin on both the incoming and the outgoing is the big storyline here. Thanks Nelson.

Operator

(Operator Instructions) Our next question comes from Damir Gunja of TD Securities.

Damir Gunja ***TD Securities Equity Research - Director***

Pat on the weather, I know you've got an enhanced hedging program now. But given sort of the record cold temperatures we've been seeing in some regions, is there still some exposure we should be thinking about heading into the next quarter?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Nothing, we can see Damir. We're net positive to date on weather performance. So if you remember the company's history. We started as a gas company. We were the first to actually hedge basis risk at the point of delivery years ago after polar vortex. So we have 20 plus local markets where we are hedged all the way to the point of delivery. So, for example, a couple of our competitors have Henry Hub based weather structures through reinsurers. We actually have 20 plus metropolitan areas where we've correlated temperature to the actual customer consumption and we manage that every day as we see temperature change and we see what our customers use. We have an algorithm and does a multivariate correlation to determine, okay, what's driving consumption. Weather and temperature is the big one. So, no, we haven't had to even think about going into our insurance wrap or our secondary layers of protection. The team's done a fantastic job managing both weather and commodity volatility, but also getting delivery to the door. It's more challenging with gas than you'd imagine. And our team's done a fantastic job. I think Jim wants to add a point or 2 on that as well.

James Brown ***Just Energy Group Inc. - CFO***

Yes. The important thing to remember here is we keep our hedge costs down by giving up some upside on weather goodness. And, obviously, we've had weather goodness in this quarter. But our goal is to preserve designed margins, so when weather is stronger from a volumetric standpoint or more volatile from a price standpoint, our goal is not to capitalize on that, but to maintain our design margin.

Damir Gunja ***TD Securities Equity Research - Director***

And just a final one for me. I guess your competitor that was taken out this morning, can you confirm if you've participated in that process?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

I can confirm we've looked at the company and respect their leadership team and what they've done. There's actually a few former JE employees over there, so we congratulate their success in this deal. It wasn't something we were interested in, though. But we congratulate Vistra and Crius for something that looks to be really good for them. No problem. Thanks Damir.

Operator

Our next question comes from Sameer Joshi of H.C. Wainwright.

Sameer S. Joshi ***H.C. Wainwright & Co, LLC, Research Division - Associate***

How do we reconcile the slight reduction in the embedded gross margin with the consistently improving gross margins per RCE on a [ongoing] basis.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

FX, a little bit of net customer loss, so every quarter when we calculate embedded gross margin, we're looking at the book at a static point in time. So to the extent there is more or less customer contracts, that's the first driver. There is a translation effect of British pounds to Canadian dollars and USD to Canadian dollars. And then there are margin changes with the traded book versus the book that's been added. So there's quite a few assumptions going on in there. We try to give you the detail on an average to calculate it yourselves when we show you inbound margin versus outbound margin, trailing 12 months, attrition rates and churn. But it is slightly down, but not material from last quarter.

Sameer S. Joshi ***H.C. Wainwright & Co, LLC, Research Division - Associate***

Moving to -- so this was asked earlier or alluded to earlier. But bad debt expense has gone up this year in the $20 million to $24 million range consistently versus the $13 million to $15 million range we saw last year. How do you see that going forward.

James Brown ***Just Energy Group Inc. - CFO***

We remain extremely focused on bad debt. Bad debts been driven by bad debt performance in Texas, primarily 3 contributing factors. One is, there was an accounting change at the beginning of the year that requires much more conservative reserve for accounts receivable, especially notice greater than 90 days. And going back to Endri's question. I think the disconnect there as we think of it, a net of the reserve and he's looking at the gross number, but I will follow up with him on that. The Texas growth is expansion of sales channel then also higher price. And there -- we do find areas where we can improve our customer churn in their early days and we're focused on reducing that debt.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes. And then couple of things to add. So what would Jim referred to there, when you raise the price and you're raising the price in our biggest market, which is Texas, which is where we hold direct credit risk. You're going to drive up your bad debt as a percentage of sales goes up. So even though our customer book didn't grow dramatically year-over-year you saw sales grew 6% year-on-year. So that's going to drive up bad debt to something like a 6% year-over-year increase -- the accounting change. Our growth -- our -- let's say gross adds are coming from Texas. We have a lot of retail and digital success in Texas. We're seeing a lot of growth in the Texas market. And then I think the opportunity is, we've recently changed vendors to get superior credit and collections process going, so that we can improve our performance in markets where we hold the credit risk, which are primarily U.K., Texas and Alberta. And then this cohort analysis that I was talking to you about. We're actually pulling apart credit bands and we recently raised our lowest credit threshold where we'll require a deposit. So in markets like Texas, just to give you an example, we have a requirement to sell to any customer depending on -- independent of what their credit rating is. However, we have the opportunity for lower credit scores to hold them accountable for a prepaid product or a deposit to protect ourselves. And we've actually raised the credit threshold where we do that. So we are attempting to call some of the higher credit risk customers. Because, frankly, back to the IRR story we're not seeing a superior internal rate of return on those customers.

Sameer S. Joshi ***H.C. Wainwright & Co, LLC, Research Division - Associate***

And can you comment on your progress on rest of the world as against U.S. and U.K. or everything else is in the backburner row?

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Yes, really is. So Japan and Germany have not been the focus right now, given the things you hear us talking about. We see so much opportunity in the core business. And to be honest, my worry is, as the leader of this company right now, is we could have executives distracted with trying to solve markets like Germany and Japan for us which could be really interesting years from now, but aren't going to be material to the bottom line in the short term. So we're deemphasizing Germany and Japan right now. Literally monitoring them, but not putting heavy thought or investment in that, because we see tens of millions of dollars in play for us and doing the things we've been talking about in North America and the U.K. Thank you.

Operator

Our next question is a follow up from Carter Driscoll of B. Riley FBR.

Carter William Driscoll ***B. Riley FBR, Inc., Research Division - VP & Equity Analyst***

You guys just answered it. I was going to ask about the international opportunities. I'll take the rest offline.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Thanks Carter.

Operator

There are no further questions at this time. I'd like to turn the call back over to Pat McCullough for any closing remarks.

Patrick McCullough ***Just Energy Group Inc. - CEO, President & Director***

Thank you very much. Before we conclude today's call, I want to thank our board and shareholders for their support through our execution of this strategy. I also want to again extend my deepest gratitude to our employees. Our employees have done an excellent job executing our vision through the business and managing the change program that we're going through. Your dedication as employees to building this business through innovation and commitment to customer service is the backbone of how we're going to succeed in the future. It's acknowledged appreciated, and we thank you guys so much for that. Thank you everyone else for participating in the call and your interest in Just Energy. We'll talk to you next quarter. Goodbye.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.