ASX Release

12 November 2019

Trading update

Energy Action Limited (ASX:EAX) ("The Company"), advises that it has recorded an unaudited operating loss of $265,249 for the period ending 31 October 2019. Based on estimates of its financial performance, the Company expects to record an operating loss for the first half of the current financial year (FY20) representing a significant decrease compared to the previous corresponding period. However, Energy Action expects to deliver a full year trading performance in line with the previous full year result (FY19).

The expected first half operating loss has resulted from the continued impact of poor prior year customer retention and slower than anticipated new customer acquisition. In addition, costs associated with rebuilding the sales and service teams and delays in replacing the Core Customer and Contract Management platform, known as the Business Transformation Project (BTP), have led to increased capital expenditure during the current half. The BTP is now well advanced, and a launch date is expected to be confirmed by the AGM scheduled for 27 November 2019.

This year, Energy Action has implemented a number of measures to address a decline in its financial performance. This includes the transition to a new sales and service model, investment into enhancing its platform-based capabilities, and the cessation of loss-making activities in the former Project and Advisory Services business.

While these initiatives are yet to impact Energy Action's trading performance in the current half, the Company has achieved significant operational improvements that are expected to positively contribute to its full year financial performance. This is supported by enhanced customer retention rates, a growing acquisition pipeline, and client recognition of improved service quality.

Due to the projected first half operating loss, Energy Action advises that there will likely be a breach of the debt covenants under the Company's bank credit facility that are required to be tested as at 31 December 2019.

Energy Action is working proactively with the bank to manage this potential covenant non-compliance, including discussing a potential waiver. Although there can be no assurance that a waiver will be provided, the Company is hopeful of a favourable outcome given the approximately $5.4 million of future collectable revenue, principally owing over the next 24 months, for which services have already been delivered. In addition, the Company expects to meet all bank covenants as at 30 June 2020.

Given Energy Action's current net debt of $4.9 million, the Company intends to lower its debt facility limit from $9 million to $7 million to further decrease the associated bank costs. Updated information has been submitted to the bank outlining these plans. Management estimates of the expected debt levels for the remainder of the FY20 financial year remain well within this reduced facility limit.

Chief Executive Officer, John Huggart, said: "The expected operating loss for the first half of FY20 reflects the continued impact on revenues of past customer retention issues and delays in the project set to transform the operating platform of the business. However, as we continue to transition the business to a new operating model, it is encouraging to see strong sales order growth for our core auction and reporting services, together with improvements in the fundamentals of customer service, sales capability and employee engagement."

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About Energy Action

Energy Action is a leading provider of innovative Energy Procurement, Contract Management & Environmental Reporting, and Advisory Services. As the energy market experts, we are committed to bringing innovation to energy management technology and services, enabling our people to deliver positive environmental and financial outcomes for our clients through the best relationship management, analytics and data integrity. We are authorised to provide financial product advice on electricity derivatives to wholesale clients under the Corporations Act AFSL no. 362843.