EnergyAction

ASX Release

26 February 2020

Energy Action reports financial results for HY20

- Statutory loss of $0.29m, an improvement of $9.6m from prior corresponding half
- Operating cash flow of $1.34m
- 39% growth in net sales for core products of Auctions and Metrics
- No interim dividend declared – prioritising debt reduction and investment in growth

Energy Action Limited (ASX: EAX) or ('the Company') today reported an operating loss after tax of $0.15 million for the half-year period ended 31 December 2019 (H1 FY20). The loss is attributable to poor prior year customer retention and slower than expected order book growth with revenue declining to $10.4 million. This represents a 23% decrease in revenue from the $13.5 million recorded in the previous corresponding period with almost half of the decline due to exit from discontinued operations.

The business continues to report a strong conversion of operating EBITDA to operating cash flow of 246% with $1.34 million in operating cash flows before interest, tax and significant items during H1 FY20.

The lower group revenue result was driven by a 16% decrease in the Contract Management and Environmental Reporting (CMER) business to $7.4 million. This was largely due to long term contract expiries, including multiple small site customers, that led to a fall in sites under management. The Company continues to focus on enhancing the attachment rate of Metrics to procurement services and further build the growing annuity revenue from embedded network projects.

The Procurement business experienced a 17% revenue decrease during H1 FY20 to $6.2 million, due principally to a fall in auction volumes and lower tenders from the corresponding period. The fall in auction volumes was partially offset by a larger average consumption sold.

In addition, the Advisory Services business reported a 56% decrease in revenues after its restructure and cessation of unprofitable projects. While this restructure led to a natural decline in top line revenue it has also reduced overheads and the cost of sales. Solar channel partner revenue also grew 181% from the prior corresponding period and remains as an area of growth for the Company.

During the half, the Company continued to invest in its technology platforms with capital expenditure of $1.3 million. This predominantly included the transformation of the Customer and Contract Management platform which was completed in January 2020. The system is now operational and will help reduce costs, facilitate further automation and selective offshoring.

An ongoing focus on cost management delivered a reduction in operating overheads to $9.5 million in HY20 from $10.5 million in the prior corresponding period.

Energy Action's Chief Executive Office, John Huggart, said: "The first half loss for FY20 is disappointing, however we are on track to return to profitability in the second half as our sales growth strategy gathers momentum.

"We have made significant steps towards accelerating sales growth and the Company's order book and this remains the primary focus for the business. To achieve this, we continue to invest in people and technology to bolster our capability and inject efficiencies into the organisation.

"Our progress is evidenced by the successful transition to a new sales and service model with retention rates now at their highest in four years and net sales for core products of Auctions and Metrics are increasing.

"We also completed the significant upgrade to our core Customer and Contract Management platform that is expected to deliver greater efficiencies, lower costs and better align our offering with customer needs.

"It is also prudent that we maintain our long-running focus on cost management without compromising service delivery. This will build on the almost $1 million reduction in overheads this half."

FY20 Outlook

Financial Performance

The Company expects to return to profitability in H2 FY20 and breakeven for the full year financial result (FY20). The subdued outlook has arisen from the loss or postponement of a number of sales opportunities within the Advisory Services business and key corporate accounts.

Debt Covenant

As announced to the ASX on 13 February 2020, the Company advised that the Commonwealth Bank of Australia had waived an Event of Default under its Facility Agreement resulting from a breach in the Gearing ratio covenant which was required to be tested at 31 December 2019. However, due the existence of the breach at 31 December the loan balance is recorded as a current liability.

Energy Action advises there may be a further breach of the debt covenants in June 2020 and is working proactively with the bank to manage this potential non-compliance, including discussing a potential waiver or variation in the facility agreement. Although there can be no assurance that an agreement will be reached, the Company is hopeful of a favourable outcome given the approximately $5.9 million of future collectable revenue, principally owing over the next 24 months, for which services have already been delivered.

The Company has also sought to reduce the bank facility limit by $2 million, with the corresponding amendment to the facility agreement in progress.

Operations

Since the Company's Annual General Meeting held on the 27 November 2019, Energy Action continues to accelerate sales in the core areas of Auctions and Energy Metrics.

Energy Action has also recently launched a significant market leadership growth strategy designed to help meet emerging demand among mid-market business customers to achieve 'Net Zero' emissions. The Company's existing portfolio of solutions that spans measurement, energy efficiency, renewables, procurement services and offset initiatives will support this strategy.

Future prospects remain positive with management focus on:

- Lead conversation around 'Net Zero' – major sales campaign designed to meet heightened client demand
- Accelerate sales of Auctions and Metrics – to drive core profit growth
- Leverage investment in upgraded technology platforms – eliminating legacy systems

The release of this announcement was authorised by Nitin Singhi.

Further information:

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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.