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JE.TO - Q4 2019 Just Energy Group Inc Earnings Call

EVENT DATE/TIME: MAY 16, 2019 / 2:00PM GMT

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CORPORATE PARTICIPANTS

James Brown *Just Energy Group Inc. - CFO*

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Just Energy Fourth Quarter Fiscal 2019 Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Chief Executive Officer, Pat McCullough. Sir, please go ahead.

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

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

Let me preface the call by telling you that our earnings release and potentially our answers to your questions will contain forward-looking financial information. This information may eventually prove to be inaccurate, so please read the disclaimer regarding such information at the bottom of our press release. Today, we will offer some perspective on our results followed by an update on a few of the key strategic initiatives that we are pursuing that will continue to drive performance.

Fiscal 2019 was an important year for Just Energy. We took critical actions to strengthen our organization and set a path for exceptional shareholder returns in the near-term. We are pleased to report the highest single year gross margin in the company's history, driving that milestone with the average gross margin for RCE for customers added and reviewed in the Consumer division, which also reached an all-time high of $386 per RCE. This is a significant increase year-over-year as well as sequentially.

Importantly, it far exceeded the margins associated with the customer's loss during the period. This record profitability reflects the improved pricing power and continued risk management of weather-related cost. What also impresses me is that we accomplished this level of profitability while maintaining a consistently low level of total attrition and achieving attrition in our consumer book with only 19% for the first time in our history. This success is the result of strict action taken by our team over time to cultivate a strong fit customer base that appreciates the level of customer service and value-added products offered by Just Energy. We are very proud of our successes on this front and fully expect to sustain these efforts moving forward.

The improved profitability drove double-digit earnings and funds from operations growth year-over-year. The 13% year-over-year base EBITDA growth was within our expected range and was achieved while overcoming the headwinds experienced early in the fiscal year as well as against the cost comparable period last year which included $21 million from a change in accounting for ecobee investment.

Our core business continues to perform well. We exited the year with embedded gross margin of 20 -- $2.3 billion reflecting year-over-year growth of 20%. As we've discussed, embedded gross margin is our publicly recorded forward earnings projection on gross margin. The 20% growth is evidence that our future earnings will be up our gross margin line by approximately that same amount as compared to where we had the book value 1 year ago. This important metric provides great confidence in the health of the business as well as a greater line of sight and predictability into our future earnings stream from the current book of business.

We're excited by the investments we are making in our business to support our future growth while also continuing to work on containing our cost structure and overheads. On the product and growth side, we're launching our water filtration business, home water, forging our presence into the health and well-being space. The addition of water filters and similar products provide 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. Further, our strong channel diversification will allow us to some more water filters and value-added products to new [and existing] customers.

During the year, we also took critical steps to address our cost structure in order to position the company to sell in the future. As you saw, we announced a cost reduction initiative. These actions will amount to annual cost savings of around $40 million in our direct alignment with Just Energy's ongoing transition to a consumer company. While these actions have reduced costs significantly, we are currently undergoing a rigorous performance improvement review. This process is allowing us to identify very specific actions we will take in fiscal 2020 that will result in greater sales optimization, improved margins, additional cost efficiencies and further strengthens our capital structure. You will undoubtedly hear us talk about the specifics of these actions in the coming quarters. And you'll see results in our performance.

In addition, we are announcing the discontinuation of our operations in Germany, Ireland and Japan. The Board has formally approved this plan, and we have commenced the process to dispose these businesses. We expect the disposal will be completed within the next 12 months. There are some nuances to how these items will be classified in our reporting that Jim will walk us through shortly. I do want to emphasize that the entering into these markets was done organically and at low cost. However, as with certain items, the return on these investments in terms of both time and resources, we felt this was the best decision and that it aligns with our ongoing strategic transition and our pledge to deliver exceptional shareholder returns in the near-term.

As part of this, we've realigned our team and our leadership around critical key functions and geographies that will deliver a heightened focus on our profitable growth. All in all, the introduction of new products as well as the cost containment and divestiture actions reposition our organization the way that I am confident will allow assurance that will play into our true strengths, capitalizing on demand-driven and profitable growth opportunities, operating unparalleled products and services to our customers and managing risk on behalf of our customers.

The core book of business is strong and stable and remains the focal point as we continue to drive the majority of our near-term earnings and cash. The value-added products and services strategy will address the longer-term needs of our customers. While we are extremely excited about the early success of our value-added products and services, we will still see quite a bit of emphasis on margin enhancement, in electricity and natural gas books that we manage because we still see tremendous upside in the book of business well into our future.

As you saw in our press release last night uploaded today, we are well-positioned to deliver another the year of double-digit earnings growth in fiscal 2020. Additionally, we are providing guidance for the first time on our expectations for free cash flow in fiscal 2020, which we expect to be in the range of $90 million to $100 million. This will create surplus cash after dividend payments.

As we continue to execute and take necessary action, we will begin to realize the true value of our organization. Our greatly improved profitability and cost structure combined with a healthy core business and expanding operating and value-added products and services will generate significant earnings growth and capital. This capital will support future dividend payments as well as to pursue the growth opportunity that further our strategic transformation to a consumer-focused company.

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

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

Thank you, Pat. As Pat noted in his remarks, our performance in the fourth quarter is a strong indication that the initiatives in place have proven successful. I'd like to cover highlights for the fourth quarter and our full fiscal year followed by a discussion of the fiscal year guidance for 2020.

As you read in our MD&A last night, we made the decision to dispose of our business in Germany, Ireland and Japan over the next 12 months. While these operations were previously reported under the Consumer segment, we now have classified it as a disposal held for sale and discontinued operations. We have adjusted our historical numbers for the past 3 fiscal periods to reflect our continuing operations. I'd also like to point out that restructuring charges taken in the fourth quarter have been excluded from base EBITDA. As you saw on our release, this is now referred to as base EBITDA from continuing operations.

Turning to fourth quarter base EBITDA. Our continuing operations EBITDA decreased 3% to $68.8 million compared to the prior year. The decline was substantially due to a gain of $20 million in our investment in ecobee in the fourth quarter of fiscal 2018, mostly offset by increases in gross margin than the current quarter. As a reminder, losses due to changes in fair value of derivative instruments including the net profits is not reflected with the account of results for cash flows of the company.

Turning to gross margin. During the quarter, our realized gross margin increased 17% year-over-year to $198 million, and our full year gross margin grew to $712 million, an increase of 11%. This is primarily from our improved pricing power in North America, margin expansions from value-added products including our water filtration business and continued management of our hedging costs. Our strategic focus to acquire and retain a strong fit customer base in North America and the U.K. continues to drive higher gross margin through customer analytics and our powerful and unique sales channels.

On a full year basis, the Consumer segment gross margin increased 10% to $535 million, resulting from focus on higher margin customers, an improvement of 22% on gross margin signed and renewed to $300 per RCE.

In the Commercial division, gross margin for the year was $176 million, representing a 15% improvement over last year. We continue to focus on margin optimization by focusing on smaller and medium-sized customers.

I would like to comment that we are very pleased with the execution of our hedging and risk management program for the year which ensures realization of our gross margin. The company is committed to minimizing market risk and provide stable earnings that ensure gross -- embedded gross margin is realized over time.

As I mentioned in prior quarters, our customers recognize the value of our services and products as our combined customer portfolio attrition rate improved 1 percentage point from prior year to 13%. Consumer attrition of 19% improved 1% during prior year, while commercial attrition rose 3% to 6% for the full year.

Returning to the income statement. Administrative expenses from continuing operations for the fourth quarter were $48 million, which is in line with the fourth quarter of the prior year. The company is committed to reducing overhead cost through automation, consolidation of functions and flatenning of the organization.

As detailed in our March 2019 press release regarding our strategic transformation and cost reduction efforts, we expect a $40 million cost reduction in fiscal 2020. Financing costs of $28.8 million increased 59% for the fourth quarter as compared to the prior year. This is primarily driven by interest cost from greater utilization of our credit facility, higher interest rates and the cost of managing collateral requirements in commodity markets. Our base funds from continuing operations for the full year was $106 million, representing a 10% increase from last year. The payout on base funds from operations for the full year was 82% compared to 89% at the end of fiscal '18. We remain committed to our strategy of sustaining our dividend and meeting our capital requirements.

Overall, net-debt-to-EBITDA increased to 3.7x, which is higher than the 2.8x reported at the end of fiscal 2018. As mentioned before, the company is focused on generation of free cash flow that will be derived from increased gross margin combined with cost reductions.

Finally, I'd like to spend a few minutes discussing our outlook for fiscal 2020. We implemented several initiatives across the organization to promote greater profitability, including seeking higher margin customers, reductions in administrative cost to streamline our operations over the year.

Looking forward to fiscal 2020, we have chosen to discontinue Germany, Japan and Ireland so that the company can focus our attention on North America and the U.K. while bringing in new leadership to help drive initiatives and help improve our focus on areas of the business best positioned for growth. We believe we are well-positioned to drive earnings growth beyond historic levels without sacrificing the quality and service to customers.

As a result, our fiscal 2020 base EBITDA guidance is $220 million to $240 million, with forecasted free cash flow of $90 million to $100 million. With that, I'll turn it back to Pat for concluding remarks.

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

Thanks, Jim. Moving forward, we feel good about the direction of our business and our ability to sustain the improvements we've made. As Jim discussed, we expect the margin enhancements, expense control measures and our risk management activities and improvements to elevate our performance. 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, we are laser-focused on execution. We have taken swift actions to improve performance, and we will move forward with the same result, confidence and commitment to raising the bar on our performance and harnessing the value of our true strengths. While I'm pleased and encouraged by the success of our initiatives, we know there are still more that can be done to advance the transformation of Just Energy and reward our loyal shareholders.

With that, I would like to open it up -- open the call up to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Nelson Ng with RBC Capital Markets.

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

Just a few questions on exiting Germany, Japan and Ireland. I think it's been, I think, 1 or 2 years since you guys entered the market. Did you not see a runway to profitability in those markets? Or was it just more about focusing on other areas?

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

Both is the short answer to your question. We saw a very slow cash-on-cash returns. So where we had hoped to think originally a 2.5 year type cash-on-cash return, those are challenging markets for very different reasons. So the first answer to the question is yes, we don't like the dilutive cash nature of those pursuits. And then I think the bigger issue really is the distraction from what can be done on the bigger, kind of, home market basis of North America and the U.K. So we're really focused to get the management team driving more performance versus distracting the management team with too many pursuits globally.

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

Okay. And then was the -- what was the EBITDA contribution or negative EBITDA contribution from those businesses? Is it close to $12 million of operating loss?

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

Yes. It's about $2 million to $3 million a quarter, Nelson. And then the additional amount that you see in the total for the year was impairment cost related to investments in those subsidiaries.

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

Okay. And then roughly how many RCEs were in those countries? And did they get adjusted out of the RCE table that you produce every quarter?

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

Yes. They did get adjusted out, but it was only thousands. So we're not talking big numbers here.

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

Okay. Got it. And then just moving on to your 2020 guidance in terms of the $90 million to $100 million of free cash flow. So how does your free cash flow definition differ from your base funds from operations? Is it mostly subtracting the capitalized commissions? Or is there something else on top of that?

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

Yes. It's very simple. It's the -- operating cash flow minus our investing activities. So the free -- FFO is still a relevant measure for us because over time, it measures our cash flows. But the free cash flow takes into account the changes in working capital. And Pat and I are committed to drive in the free cash flow per share during the year. So there's going to be an increased focus on the actual cash flows in it, above and beyond FFO.

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

Okay. So free cash flow includes working capital movements?

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

Yes. So think about total cash flow before dividends is what we're trying to get at.

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

Okay. Because I think working capital is negative for fiscal 2019. So would you expect that it would be a positive number for fiscal 2020?

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

Yes. There is timing that's involved with respect to distributions through the quarters, but for the full year, we expect to generate -- well, we expect not having big working capital numbers.

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

Yes. The majority, Nelson, was in Q2 associated with our U.K. subsidiary. That was headwinds that were experienced through operational challenges we had in the business which have been remedied. So we are expecting positive working capital and a big difference in 2020 than 2019.

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

Got it. And then just on that in terms of the free cash flow relative to the distribution. So when you look at distribution, you're looking at both the common dividend and the preferred dividends, right? So that totals just under $90 million?

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

Yes.

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

So -- okay. So free cash flow of $90 million to $100 million compared to distributions of about $89 million, right?

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

That's right.

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

Okay. I will -- I'll have one more question before I go back into the queue. In terms of the 2020 EBITDA guidance, in terms of bridging that from fiscal '19 to 2020, is the main driver cost reductions? Or how do you see the split in terms of cost reductions versus underlying growth?

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

Yes. So we're expecting the pricing gross margin expansions to continue. Obviously, I referenced that with the hedge gross margin. We think that's tens of millions of dollars of business year-on-year. We have press released that our overheads have been reviewed. We actually reduced 270 positions globally, and that will equate to roughly $40 million year-on-year. So obviously, as you're trying to walk here, what else is there? Growth is a question mark. We've assumed very little growth in our base plant. So anything we do there, if we get back to growth, it's going to be a pickup. But frankly, we're being conservative. We had recent misses to the guidance, and we'll put an end to in 2020. We're going to put something out that we can deliver. And we see it as conservative.

Operator

Our next question comes from Mark Jarvi with CIBC.

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

I just wanted to go back to the -- to that bridge in the last question there. So if you've already kind of recognized some of the restructuring cost, and then there's more to come and some of the, I guess, the negative drag was in international. So is that assumed that flat gross margins plus an incremental $20 million of savings gets you to the low end of the guidance? And then to get to the upper end, it's expansion on gross margin?

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

That's right. We were obviously talking numbers that equate to more profit difference in [$204 to $330]. There won't be any more restructuring costs. We've taken both the 2020 cash outflows and the 2019 and recognized the expense in Q4 of 2019. So we aren't going to have anything except the new step function change down in overheads going forward. Again, conservatism is the real answer to not being able to reconcile that difference in cost savings and margin expansion, assuming flat growth.

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

Okay. And then when you put out the guidance, I'm guessing at this point, you guys haven't reflected any impact from IFRS 16. Do you guys have a sense of what that could do to your reported EBITDA?

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

We don't expect an impact, but we're still evaluating. We're implementing that in this quarter.

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

Yes. There's no material impact to the books in 2020 for us.

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

Okay. And I just wanted go back to the free cash flow guidance. In the commentary, you both covered the dividend. I did notice that there's less -- or is there a -- you pulled out a comment around the commitment to the dividend. Is there just a bit of a shift in policy between the focus on the dividend versus delevering given that with the free cash flow guidance, it implies you guys can't really chew way too much on the leverage right now?

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

Yes. I think if you think about our investor base and what we can manage as appropriate levels of debt, it was slightly uncomfortable, that 3.5 to 4x. We're not terribly uncomfortable. We've managed the worst in the past, as you know. We'd still like to push the net debt-to-EBITDA down to 2x or less. However, we do not think that we have to do that at the expense of the dividend. We think we need to support the dividend. That is the shares -- the primary shareholder return in the recent past. So we have every intention of supporting the dividend as we go forward and delevering with the surplus cash that we generate due to what we think is a conservative plan.

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

Okay. And then just one more on the free cash flow guidance. If you can kind of explain why you guys think -- the band is fairly narrow given that you kind of have a sort of a plus/minus 20 on the EBITDA. What kind of gives you the confidence to take that up for the free cash flow guidance? What factors that you guys can kind of pull and tweak if there are variances on the EBITDA line to make sure you hit the low end of the $90 million of free cash flow?

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

Yes. I think the other thing to consider is there's some return of working capital. We had some headwinds on working capital as you could see in the year. We expect some of that to be flat now. And then of course, the step up in gross margin, the decrease in overhead cost all contribute. We'd like to beat that target. But we feel like the target we put out is realistic.

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

In addition to EBITDA, Mark, you have levers like CapEx. Right now, we're going into the year planning to spend very little CapEx in the front half of the year, and we will kind of create CapEx investments in our IT infrastructure as an option if we're running ahead of our cash projections. So management has a couple of levers at a disposal beyond just the earnings bit to ensure that we get home on that free cash flow forecast. But that actually feels we need to get more conservative to meet in the EBITDA. We wanted to show the market that we can cover the dividend in excess. But more importantly, I think you're going to see a lot of upside to that as we get to our second quarter, specifically. That is when the working capital benefit returns to the company.

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

Okay. And then on the sort of wind down of potential sale of the international assets. Do you have a sense of whether or not there are likely buyers? And then in the interim, as you kind of work through that, how do you minimize cash out-the-door on those businesses?

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

Yes. So we have weaned those businesses down. We're really selling the assets that exist that primarily revolve around the license to the business and the customer book. So there's very little cash flowing out the door as we run off the sales process. We do have insurance in multiple jurisdictions for multiple parties. We have not drafted any binding offers yet where we would announce those. But we're very confident that we'll be able to move those assets for something that is fair for our shareholders.

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

Yes. I think it's worth mentioning too, Pat, that all 3 of the operations have scalable operations. So it would allow for a quick entry for someone who wanted to participate in those markets for billing and customer service activities.

Operator

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

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

So I was reading your notes. And one of the note, 19.8, was talking about how you had to get some supply term extensions, and you had to pay a bit of money for that. Can you just elaborate on how tight your liquidity is right now? And what type of working capital inflow you're expecting the next couple of quarters? Just to give us some comfort around ample liquidity with respect to the business.

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

Sure. Raveel, I'll take this just real quick. So we didn't have to go against the prior payment extensions. We've been negotiating that with our partners for some time. And frankly, we've been moving them all to extended payment terms starting about 2 years ago. We had success over the end of this year moving a couple of our suppliers [who have not pulled out]. So we appreciate that partnership and that working capital. It allows us to

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actually match, for the first time, our receivables and our payables. If you think about purchase of receivable markets, we can be paid in as long as 2 months time. So getting an extension from our suppliers, being able to match cash inflows and outflows, it's very important to our business.

At the end of Q4, we had about $60 million of buying power. That's a little tight for us as we'd like to have $75 million or better. We don't see pressure in fiscal 2020 on working capital or liquidity. It's not a worry for us. You'll see in Q2 once we really flex our muscles with cash, and you'll see some impressive expansion of liquidity there. As you know, Q1 is a bit of a shoulder quarter. There is not a tremendous amount of possibility for EBITDA or cash. Q2 is becoming very important to this company as ERCOT is our largest market that we serve.

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

Very helpful. And just going back to Q2 '19, this working capital issue that we had with U.K. Do you expect some of that money to be recouped? Or should -- or no?

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

We do, actually. So we had some operating difficulties around billing and collections, and we are able to go back and recover those amounts. Now we're doing this slowly over time with our customers so that we don't lose our customers at an expanded rate. But we are expecting recovery over the next year.

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

Yes. We really want -- yes, the nuances in the U.K. market is customer. Most of the residential customers pay on a direct-debit basis the same amount every month. So when you get into a uptick in that, you're basically recovering that over time.

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

Got it. And so maybe I'm getting too specific over here. But your free cash flow guidance that you have, how much are you expecting to come from recouping this money from U.K.? Or is it not that significant?

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

It's not significant. So anything that we're recovering from the U.K. could be upside to that.

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

Perfect. And just 2 more quick questions for you. In the quarter we saw that the sales and marketing expense increased even though the customers added was pretty much in line with what we have seen in the last couple of quarters. Why did we see that uptick in the sales and marketing expense for the Consumer division?

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

We had a couple of one-timers come through that were related to timing and marketing expenses. And another thing to remember is that, that expense is under an amortization basis. So the activities in the quarter don't necessarily relate to the expense that's included in the quarter. So there is some timing differences as well.

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

So we should be thinking about this number, probably, I mean like in the $40 million range on a quarterly basis going forward compared to $50 million-ish where it is right now? Or can you give us some guidance around that?

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

A little bit of an outlier this quarter. But we are very focused on the IRR and the quality of the channel. And I think in addition to our gross margin -- sorry, G&A initiatives that we've taken in, we really feel like the secondary trigger to pull is really getting tied down the profitability of channels. And while from an earnings standpoint, that will be blended into amortization over time. From a cash standpoint, it's immediate.

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

Yes. And, Raveel, I'll get a little more specific for you. If U.K. sales commission and nonselling overheads, and that goes together, we've been operating in a kind of $250 million, $270 million range for a bit now. We're assuming that level as we go into 2020. However -- so we're not assuming reductions in sales overhead. However, I can tell you, we are working on many actions to reduce sales overheads, like tens of millions. So we think there's upside to guidance in the category you're asking about. But for our forecasting, we're assuming consistent spend with fiscal '19 and consistent gross adds. And I think there's upside to both.

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

Perfect. And we are seeing a very positive continued trend in the gross margin per RCE improvement. As you said, nothing really to worry about on the attrition. And then with that, we also saw the bad debt expense come down this quarter. Can you speak -- I mean is that the new run rate? Or was there something of a one-timer in the bad debt expense to which is why we saw the decline in the Consumer division?

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

No. I think we've -- as we've mentioned in prior quarters, we've taken a lot of efforts around customer analytics. We brought in a team of folks in BI to focus on the drivers of bad debt. I think we're starting to see some of the benefits of that. We've also taken actions to align credit scores in the proper channels to be of optimal value. So I think we'll continue to monitor as we go. But I think we could continue to see the bad debt improve.

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

And I'll be specific on Jim's comments, Raveel. In late January, we made a decision as a leadership team to raise the minimum credit threshold from near $500 million, which we would manage with the positives and other assurances to ensure that we're not taking on a credit problem. But we moved that minimum from $500 million to $600 million or $650 million, depending which product and which market you're going to ask us about. So we are already seeing the deficit of that from a debt -- bad debt perspective.

Secondly, we've upgraded our partner. We're working with a company called WNS on credit and collections in both North America and the U.K., and we're seeing significant collections improvements. In fact, they've been helping us recover bad debt that have previously been fully reserved. So we do see opportunity in bad debt as we go forward. And we're assuming minimal improvement in the guidance that we gave you.

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

Perfect. I'll squeeze 1 last one in. With respect to $40 million of cost savings, where were you tracking to this number in Q4? And where are you now with respect to that number?

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

Yes. So we have -- we saw a little bit of it come through when we pulled out the restructuring cost. And restructuring costs are really just the severance and separation cost that we chose to take on. So it really didn't have a meaningful adjustment to where the year would've been if we took no actions. But the result of coming in low on our guidances is we're not able to pay our employees full bonuses. So you do see a little bit of bonus accrual get back, which takes the G&A to a lower point for the year. We were originally tracking $220 million in G&A for the full year. We came in at $206 million, something in that neighborhood.

So as we're going forward, we think we can beat that by another $20 million to $30 million on G&A alone, if not more. And then as we think about selling, we think there's at least $20 million or $30 million there in terms of selling overheads. That was as part of the 270 jobs we've eliminated. There were some selling overheads and sales leadership in that $40 million number. So we think we'll beat it. But we got to get through the first quarter and see results before we'll validate.

Operator

Our next question comes from Endri Leno with National Bank.

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

Just a quick one for me as most of my questions have been answered. But you had a drop in accounts receivable over 90 days from Q3 into Q4 of about $14 million. Is that related to the European operations? Or you just collected those?

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

Those are write-offs, Endri. Basically, as we talked about this last quarter where you took the number has grown as well. Really, it's just the timing of write-offs. There's things rolling to the 90-day bucket there reserved, which is when they hit the income statement. So it's really just timing of write-offs.

Operator

Our next question is a follow-up from Nelson Ng with RBC Capital Markets.

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

In terms of -- just a quick question in terms of the gross margins per RCE. So how's the -- given that it has increased, I was just wondering whether you've kind of found the sweet spot in terms of pricing. Because I think the previous quarter, we saw some higher attrition and also higher gross margin. But I was wondering whether the current level is the right level, or do you see it going up a bit further? Or coming down?

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

We think the current level is the sweet spot to be specific. And I'll tell you why. We're looking at multiple things here. We're looking at gross adds, and we grew more in American gross adds, which is the bulk of that $386 number, dramatically this year from last year. And we are having record low attrition on that consumer book. However, we're close to renewing the documents there. Renewals have gotten a bit harder. And when we see our credits, we knew it's falling. And this is why we're stopping right here and not going further. We can still settle upfront and could then compel customers there's a value profit here. And then we serve them. They're staying with us during the contract. But we notice when we're getting back into the economic decision with them and with stable markets, I don't know if you're paying attention but ERCOT pricing has fallen.

We are seeing low prices coming back into the market if we're talking about price more than we have been. So we're holding steady right here. You should assume what you're seeing now is what you will see through 2020. We may have to bring pricing down a little bit if we can't stand the customer churn. But we have not gone to that point yet.

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

Okay. And then on the headcount reduction, can you just clarify what the breakdown between the headcount reduction is from your core business, which is, I guess, kind of the U.S/U. K. versus international in terms of Germany, Ireland and Japan?

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

Sure. Well over 200 came from North America alone. I believe 250-plus came from North America and the U.K. So we have very little -- we're taking very little credit for what was in Japan, Germany and Ireland. And slightly, we did not have extensive headcount in those markets, hence why it was a distraction for our North America team and our U.K. team.

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

Okay. And then just moving on to your high-yield debt, I think you've drawn $193 million out of the $250 million. I think the description flags that the remaining $50 million is earmarked for investments and acquisitions. Given that you're kind of coming back on international expansion, is there anything you need to do to be able to draw the remaining $50 million? Or what's your expectation? Do you expect to draw the remaining $57 million?

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

Yes. Really, we wanted to have growth capital available to us with limited restrictions, meaning the focus behind that product are the Sagard team and the [PIMCO] teams. And both of those companies are open to investing in our, let's say, inorganic growth. So that's really what it's earmarked for. If we saw pricing on customer books get attractive, think post-volatile times, we're not seeing that right now. But if we saw that in the future, yes, we've got 1 phone call to make, and we've got to put the investment justification to those folks. We get their consent, and we've got the remainder of the $250 million available to us. So it's really just in place so that we don't have to go raise capital tied to the market fee and more speed to market if we see an inorganic opportunity.

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

Okay. So that is specifically earmarked for kind of like M&A is what you're saying, right?

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

Correct.

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

So just in terms of the remaining, I guess, convertible debt that matures, I think it's later this year. Are you just planning to use operating cash flows to pay that off?

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

Yes. There's proceeds from -- remaining proceeds from the cigar facility to cover a piece of it. And then the rest comes from cash from operations.

Operator

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

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

I just have a couple. Can you give us an update on the progress of how the Filter Group is integrating? And how it is helping our effort of helping in improving sales?

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

Could you repeat the question a little bit slower, Sameer? I had a hard time understanding.

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

The question relates to the Filter Group acquisition and how it is being integrated. And is it affecting in a positive manner in your sales?

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

Yes. Thank you. Yes, short answer here is we are in line with our postacquisition expectations on both sales and profitability. We feel very good about that integration. And you're right, it potentially closed, roughly, the October time frame. We set several months focused on, let's integrate and let's build out the infrastructure to be able to scale this to our customers but also through Just Energy's traditional channels, think retail, digital and direct selling. So that's complete now, and we are in the process of expansion and seeing sales results that we like. Now we don't have it all figured out yet. We haven't sold water filters through retail channels or digital before, so this is a learning for us. But we're still optimistic we're going to have an exceptional return on that investment.

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

Okay. And then just a quick sort of similar question. Are there any other acquisitions that you're looking at in the similar team? Or similar size?

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

The focus we have right now, honestly, is really getting the company cleaned up and efficiently operating profit and cash. So we've had a very strong internal focus. I've made a very specific request to our team to not chase new product opportunities that comes through acquisitions or new geographies. We are expanding sales. We're looking at new channels. That's a lot to do in the first place as well as frankly, deliver a superior profit and cash performance to our shareholders. So short answer to your question is no. Does that mean that's going to last forever? No. It means expect a couple of more quarters of really getting this operation tight and something that we could refer to as a higher standard of excellence. And then we'll get back into inorganic expansion ideas.

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

Understood. And just one last one before I fall back in queue. How are you tracking the Net Promoter Score? And should we then sort of expect to get some numbers going forward?

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

Yes. I think we are actually talking about it in our annual report, which you can look for coming out in the next month. It's tracking very well. We surpassed 30 on the consumer Net Promoter Score in December in North America, falling off to the high 20s this past period. But we really like what we've done there. We've taken that Net Promoter Score up over 20% year-on-year, and we're proud of that. And we think that's one of the reasons that we have the pricing power that we have, and our product sales and service levels are excellent. We think they're the best in the market. When we compare the Net Promoter Score to the big brands that sell in markets like Texas, we are the leader.

Operator

And we have another follow-up from the line of Mark Jarvi with CIBC.

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

I just wanted to touch quickly on the value-added products in terms of, I think, customer count was a bit flat, margin contribution in the quarter was kind of flat or down a little bit. Maybe you can just kind of align how you think that business will evolve through 2020 in the next few quarters?

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

Yes. We're expecting a flattish type of growth up. We don't have anything aggressive planned in our guidance, but there's an upside there. We're working harder. Our team is very talented, and we think we can bring really everything. Expect the growth that we're performing in right now with the discontinuation of those foreign markets. So I'm very optimistic about the upside. But we are not banking on it in terms of our commitment and projections.

Operator

And I'm not showing any further questions at this time. I would now like to turn the call back to Mr. Pat McCullough for any closing comments.

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

Thank you, operator. Before we conclude today's call, I want to thank our Board and shareholders for their support. And I also want to, once again, extend my deepest gratitude to our employees. Our employees have done an excellent job executing our vision for this business and handling change. Your dedication to building this business, your business, through innovation and commitments in customer service is the backbone of our success. It is acknowledged and very much appreciated. Thank you, everyone, for participating in the call, and we will talk to you next quarter. Thank you.

Operator

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