



sparkenergy

CELEBRATING  
**20**  
20<sup>TH</sup> ANNIVERSARY  
SINCE 1999  
YEARS

Investor Update

May 2019

# Safe Harbor Statement

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This presentation contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. These forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) can be identified by the use of forward-looking terminology including “may,” “should,” “likely,” “will,” “believe,” “expect,” “anticipate,” “estimate,” “continue,” “plan,” “intend,” “projects,” or other similar words. All statements, other than statements of historical fact included in this presentation, regarding strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans, objectives and beliefs of management are forward-looking statements. Forward-looking statements appear in a number of places in this presentation and may include statements about business strategy and prospects for growth, customer acquisition costs, ability to pay cash dividends, cash flow generation and liquidity, availability of terms of capital, competition and government regulation and general economic conditions. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot give any assurance that such expectations will prove correct.

The forward-looking statements in this presentation are subject to risks and uncertainties. Important factors that could cause actual results to materially differ from those projected in the forward-looking statements include, but are not limited to:

- changes in commodity prices;
- the sufficiency of risk management and hedging policies and practices;
- the impact of extreme and unpredictable weather conditions, including hurricanes and other natural disasters;
- federal, state and local regulation, including the industry's ability to address or adapt to potentially restrictive new regulations that may be enacted by public utility commissions;
- our ability to borrow funds and access credit markets;
- restrictions in our debt agreements and collateral requirements;
- credit risk with respect to suppliers and customers;
- changes in costs to acquire customers as well as actual attrition rates;
- accuracy of billing systems;
- ability to successfully identify, complete, and efficiently integrate acquisitions into our operations;
- significant changes in, or new charges by, the ISOs in the regions in which we operate;
- competition; and
- the “Risk Factors” in our latest Annual Report on Form 10-K for the year ended December 31, 2018, and in our Quarterly Reports on Form 10-Q, and other public filings and press releases.

All forward-looking statements speak only as of the date of this presentation. Unless required by law, we disclaim any obligation to publicly update or revise these statements whether as a result of new information, future events or otherwise. It is not possible for us to predict all risks, nor can we assess the impact of all factors on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

In this presentation, we refer to EBITDA and Adjusted EBITDA, which are non-GAAP financials measures the Company believes are helpful in evaluating the performance of its business. Except as otherwise noted, reconciliation of such non-GAAP measures to the relevant GAAP measures can be found at the end of this presentation.

Investors are advised that the Company does not furnish investor presentations on a Current Report on Form 8-K. Investors should consult the Company's website at [ir.sparkenergy.com](http://ir.sparkenergy.com) to review subsequent investor presentations.



# Spark Energy at a Glance

## Spark Energy, Inc.

Independent Retail Energy Services Provider

Current Price	\$9.18
52-Week Price Range	\$7.20 - \$12.05
Shares Outstanding	14.1 MM
Avg. Daily Vol. (30 day)	76K
Market Capitalization	\$320.8 MM
Net Debt*	\$82.5 MM
Preferred Stock	\$90.8 MM
Enterprise Value	\$494.0 MM
Annual Dividend	\$0.725 (paid quarterly)
Implied Dividend Yield	7.9%



**20 Years of Dedicated Service to the Deregulated Energy Markets**

Market Data as of May 6, 2019; Debt as of March 31, 2019

\*Net Debt is Debt of \$117.7 MM minus Cash of \$35.2 MM

# How Spark Energy Serves its Customers

## Delivering Electricity

SPARK ENERGY



GENERATION

TRANSMISSION

## Delivering Natural Gas

SPARK ENERGY



PRODUCTION

TRANSPORTATION

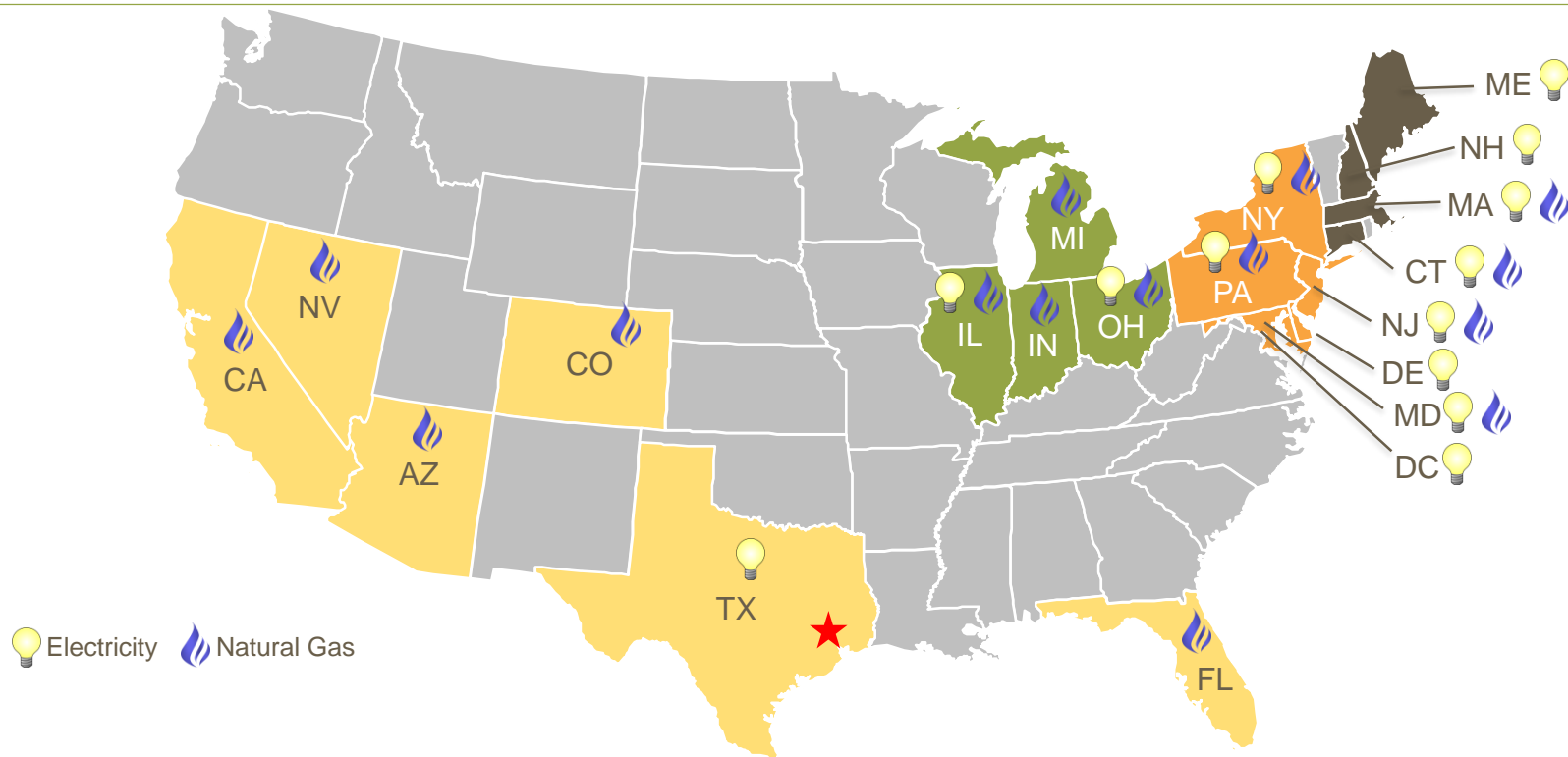
## Our Value Proposition to the Customer

Stable and Predictable  
Energy Costs

Potential Cost  
Savings

Green and Renewable  
Products

# Spark's Geographical Diversity: 19 States and 94 Utility Territories



Residential Customer Equivalents (RCEs) as of March 31, 2019

(In thousands)	Electricity	Percent	Natural Gas	Percent	Total	Percent
<span style="display: inline-block; width: 1em; height: 1em; background-color: darkbrown; border: 1px solid black; border-radius: 50%;"></span> New England	313	44%	29	19%	342	40%
<span style="display: inline-block; width: 1em; height: 1em; background-color: orange; border: 1px solid black; border-radius: 50%;"></span> Mid-Atlantic	255	36%	52	34%	307	35%
<span style="display: inline-block; width: 1em; height: 1em; background-color: green; border: 1px solid black; border-radius: 50%;"></span> Midwest	75	10%	51	34%	126	15%
<span style="display: inline-block; width: 1em; height: 1em; background-color: yellow; border: 1px solid black; border-radius: 50%;"></span> Southwest	70	10%	20	13%	90	10%
<b>Total</b>	<b>713</b>	<b>100%</b>	<b>152</b>	<b>100%</b>	<b>865</b>	<b>100%</b>

RCE counts do not include contribution from eREX Spark Marketing joint venture in Japan

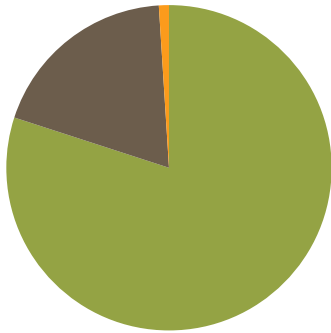
# Spark Energy Recent Developments

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- Strong first quarter with effective hedging strategy
  - Unit margins returning to normal run rates
- Nearing completion of our brand and consolidation efforts
  - \$22 MM in run rate savings
  - Reduced office locations from 8 to 2
- Recently upsized credit facility to \$217.5 million increasing financial flexibility
- Over 65% of all new sales YTD fully renewable electricity or carbon-neutral natural gas



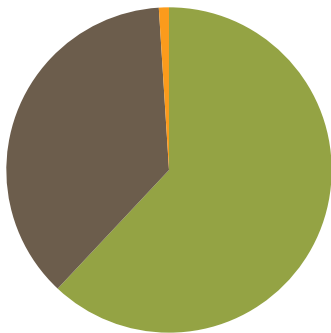
# Opportunities for Organic Growth



## Natural Gas

**36MM Eligible RCEs<sup>1,2</sup>**  
**19% Penetration**  
**<1% Spark Share**

*Only 19% of eligible natural gas customers and 37% of eligible electricity customers have made a competitive supplier choice<sup>2</sup>*



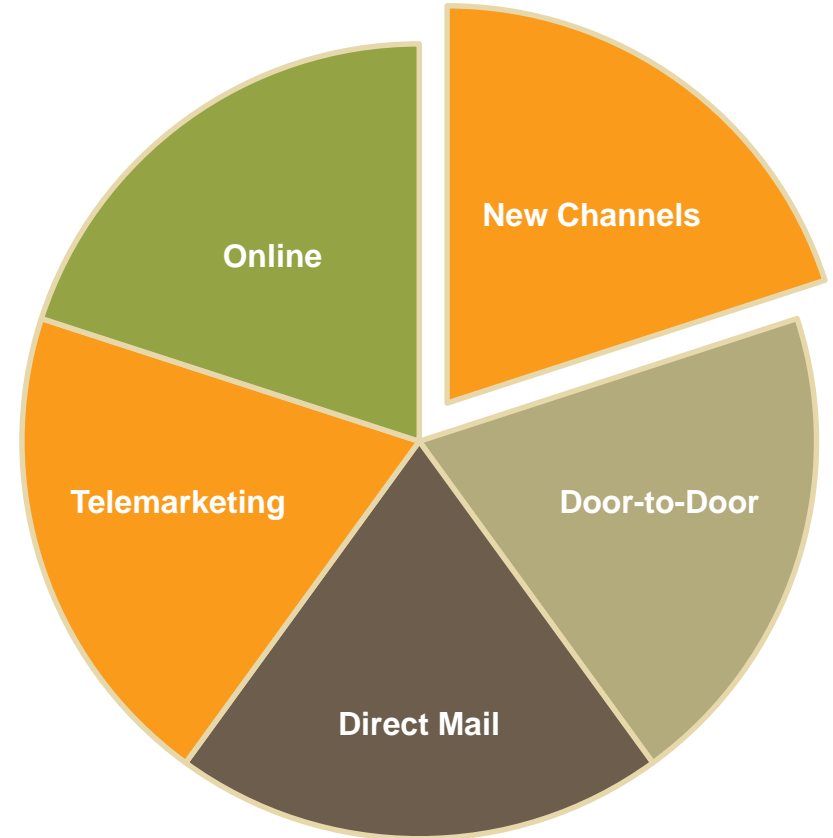
## Electricity

**149MM Eligible RCEs<sup>2</sup>**  
**37% Penetration**  
**<1% Spark Share**

Source: EIA

<sup>1</sup>Residential customers only

<sup>2</sup>Eligible customers defined as customers in deregulated states



- Multiple brands allow for brand positioning and winback strategies
- Outsourced vendor relationships allow rapid scaling and low fixed costs while driving quality, efficiency and flexibility
- Organic commission structure ensures customer quality and lifetime value

# Customer Lifetime Value Strategy

## *Increase Lifetime Value*

### Sophisticated Customer Acquisition Model

- Multi-channel sales
- Diverse sales geography
- Leverage analytics to determine market entry and product tailoring
- Contracted revenue model with subscription-like flow

- Analyze historical usage and attrition data to optimize customer profitability
- Customer retention team focused on product selection, renewal, and cross-sell opportunities
- Win-back strategy leverages customers across multiple brands
- Provide high-quality service

### Create Long-Tenure, High Value Customers

- Attractive EBITDA margin and cash flow conversion
- Targeted payback period is 12 months
- Long-standing customer relationships

***Actively Managed Customer Base Drives Profitability***



# Managing Commodity Price Risk

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***Seasoned, in-house supply team provides a strong competitive advantage relative to our peers while ensuring risk mitigation***

- Proven hedging strategy that has been refined over Spark Energy's 20 year history
- Demonstrated ability to manage through up-and-down commodity markets, extreme weather events, and down economies
- Disciplined risk management supports business strategy
  - Virtually all fixed price exposure is hedged
  - Variable hedging policy based on individual market characteristics
  - Hedging policy monitored closely by CFO and Risk Committee
- Risk management policy approved by syndicate banks and Board of Directors
- Over \$280MM in available credit with wholesale suppliers<sup>1</sup>

<sup>1</sup>As of March 31, 2019

# Conservative Capitalization Minimizes Risk

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- \$217.5 million syndicated credit facility
- \$110.5 million drawn<sup>1</sup>
- Low cost of capital

Leverage Ratio <sup>1</sup>	
Net Debt <sup>1</sup>	\$82.5 MM
TTM Adjusted EBITDA	\$79.9 MM
<b>Leverage Ratio</b>	<b>1.0x</b>

<sup>1</sup>As of March 31, 2019

\*Net Debt is Debt of \$117.7 MM minus Cash of \$35.2 MM

# Portfolio Optimization

*Spark is focusing on high-value customers to increase cash flow diversification and stability*

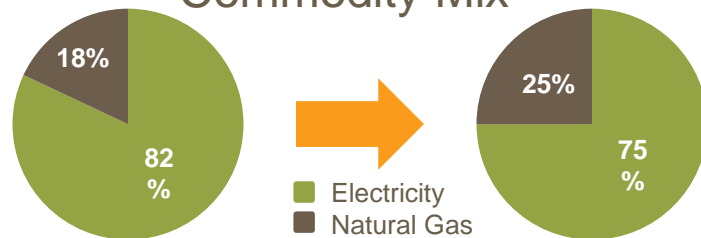
As of March 31, 2019

Future Expectation

TTM at March 31, 2019

Future Expectation

## Commodity Mix



## Electricity Unit Margin



## RCE Mix



## Natural Gas Unit Margin



## Credit Mix

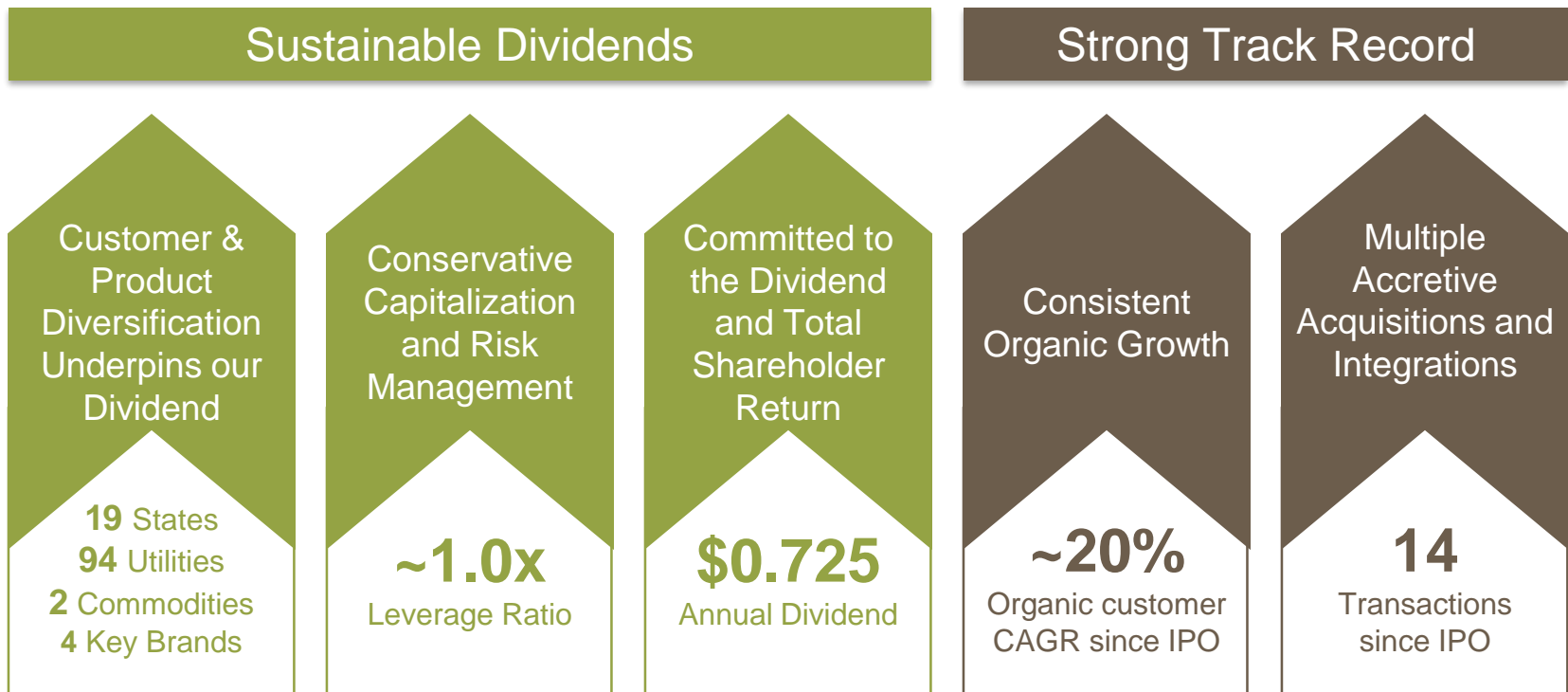


## G&A<sup>1</sup> / Gross Margin



<sup>1</sup>excludes un-capitalized CAC and Non Cash Compensation

# Key Investment Highlights



- Clear line of sight for meaningful uplift to Adjusted EBITDA through mass market focus and unit margin normalization
- Full supply desk and risk department work together to hedge portfolio and optimize margins
- Highly experienced senior management team

# Investor Relations Contact Information

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Investor Relations

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Houston, TX 77079

<http://ir.sparkenergy.com/>

Contact: Christian Hettick

[ir@sparkenergy.com](mailto:ir@sparkenergy.com)

832-200-3727







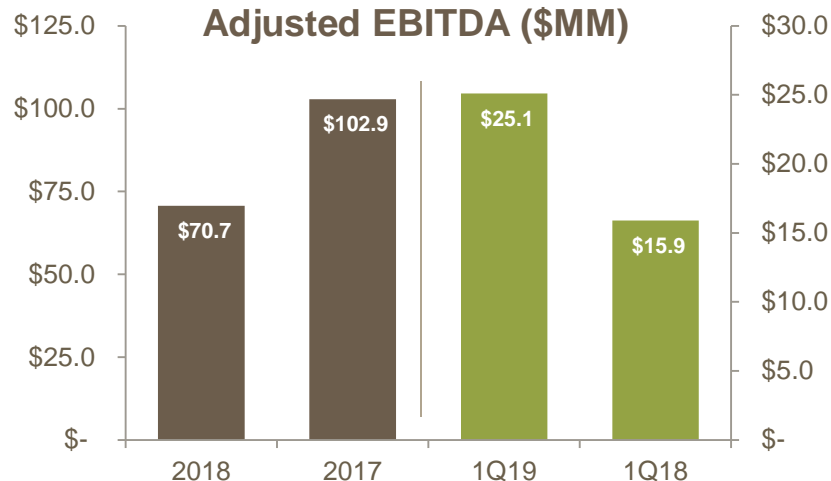
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Appendix

# Spark by the Numbers

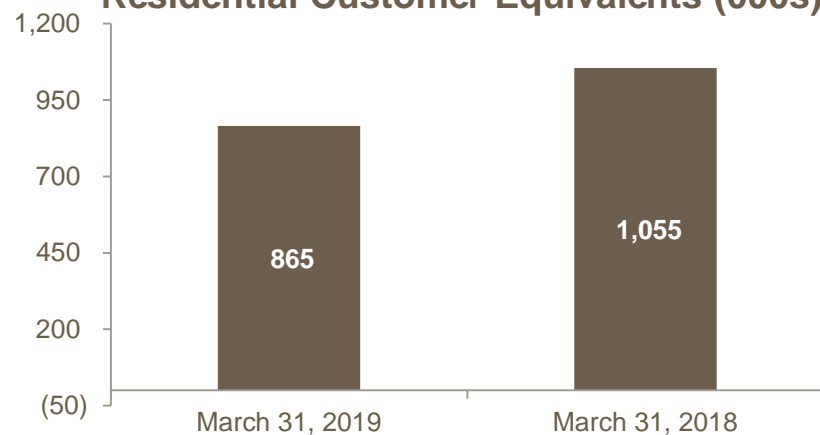
## Adjusted EBITDA (\$MM)



(\$ in millions)

	2018	2017	1Q19	1Q18
Revenue	\$1,005.9	\$798.1	\$242.7	\$286.7
Retail Gross Margin	\$185.1	\$224.5	\$56.6	\$45.7
Adjusted EBITDA	\$70.7	\$102.9	\$25.1	\$15.9
Customer Acq. Costs	\$13.7	\$25.9	\$5.8	\$4.3

## Residential Customer Equivalents (000s)



RCEs (000s)

	1Q 2019	1Q 2018
RCEs (000s)	865	1055
RCE Attrition	5.4%	4.2%
Electricity Volume (MWh)	1,728,083	2,252,024
Natural Gas Volume (MMBtu)	6,951,610	7,677,082
Electricity Unit Margin (\$/MWh)	\$17.35	\$8.76
Natural Gas Unit Margin (\$/MMBtu)	\$3.83	\$3.39

# Proven Leadership

## **Senior Management has over 45 Years of Retail Energy Experience**



### **Nathan Kroeker • Chief Executive Officer and President**

- Veteran leader in sales strategy, global energy supply, and M&A across the upstream, downstream, and midstream energy sectors
- Extensive international experience; board member of ESM (a Japanese retail energy company); previously worked for Macquarie and Centrica
- Certified Public Accountant and Chartered Accountant



### **Jason Garrett • Executive Vice President**

- Served in leadership roles, including M&A, for various deregulated energy companies including SouthStar Energy, Just Energy, and Continuum
- Proven success and expertise in sales leadership, call center management, operational improvements and cost reduction initiatives



### **Robert Lane • Vice President and Chief Financial Officer**

- Former CFO of Emerge Energy Services LP (NYSE:EMES)
- Experienced in M&A, integration and capital markets throughout the energy sector
- Certified Public Accountant and Chartered Financial Analyst



### **C. Alexis Keene • Interim General Counsel and Corporate Secretary**

- Former SVP and General Counsel to EDF Energy Services, LLC
- Seasoned legal executive with extensive regulatory, compliance, and M&A experience

## **Extensive Experience Across the Team Ensures Value Creation**



# Board of Directors

## W. Keith Maxwell III • Chairman of the Board of Directors

Mr. Maxwell serves as non-executive Chairman of the Board of Directors, and was appointed to this position in connection with the IPO in 2014. Mr. Maxwell also serves as Chief Executive Officer of NuDevco Partners, LLC and National Gas & Electric, LLC, each of which is affiliated with us. Prior to founding the predecessor of Spark Energy in 1999, Mr. Maxwell was a founding partner in Wickford Energy, an oil and natural gas services company, in 1994. Wickford Energy was sold to Black Hills Utilities in 1997. Prior to Wickford Energy, Mr. Maxwell was a partner in Polaris Pipeline, a natural gas producer services and midstream company sold to TECO Pipeline in 1994. In 2010, Mr. Maxwell was named Ernst & Young Entrepreneur of the Year in the Energy, Chemicals and Mining category. A native of Houston, Texas, Mr. Maxwell earned a Bachelor's Degree in Economics from the University of Texas at Austin in 1987. Mr. Maxwell has several philanthropic interests, including the Special Olympics, Child Advocates, Salvation Army, Star of Hope and Helping a Hero. We believe that Mr. Maxwell's extensive energy industry background, leadership experience developed while serving in several executive positions and strategic planning and oversight brings important experience and skill to our board of directors.

## Nathan Kroeker • Director, President and Chief Executive Officer

Mr. Kroeker was appointed President of Spark Energy in April 2012 and Chief Executive Officer in April 2014. He has served as a director since August 2014. Mr. Kroeker is responsible for overseeing the day-to-day operations and helping shape the overall strategy of the company. Mr. Kroeker is a 15-year industry veteran with diverse experience in public accounting, M&A, and both retail and wholesale energy. Nathan first joined the company in July 2010 as Executive Vice President and Chief Financial Officer of Spark Energy Ventures. Prior to Spark, Nathan held senior finance and leadership roles with Macquarie and Direct Energy. He began his career in public accounting, including both audit and M&A advisory functions. Nathan holds a Bachelor of Commerce (honors) degree from the University of Manitoba, and has both a CPA (Texas) as well as a CA (Canada). Mr. Kroeker was selected to serve as a director because of his financial expertise and his extensive background in the retail energy business.

## Nick W. Evans, Jr. • Independent Director

Mr. Evans was appointed to our Board of Directors in May 2016. He is currently the majority partner of ECP Benefits after having worked in the broadcast and communication industry for over twenty-five years. He began his broadcast career at WAGT-TV in Augusta, GA. Prior to that he was with the Georgia Railroad Bank. He served as President and CEO of Spartan Communications Inc., headquartered at the time in Spartanburg, S.C. He was responsible for the operation of thirteen television stations in seven states. He has served on the boards of many broadcast industry organizations including the Georgia Association of Broadcasters, South Carolina Broadcasters Association, National Association of Broadcasters, and was Chairman of the Television Operators Caucus. He, also, served on numerous civic, community, and non-profit boards and organizations. While a Rotarian, he was selected a Paul Harris fellow. He has served on advisory boards for Wachovia Bank of SC, Wells Fargo Bank – Augusta, Azalea Capital and currently Coca Cola Bottling Company United. He holds a BBA degree from Augusta University. Mr. Evans was selected to serve as a director because of his leadership and management expertise.

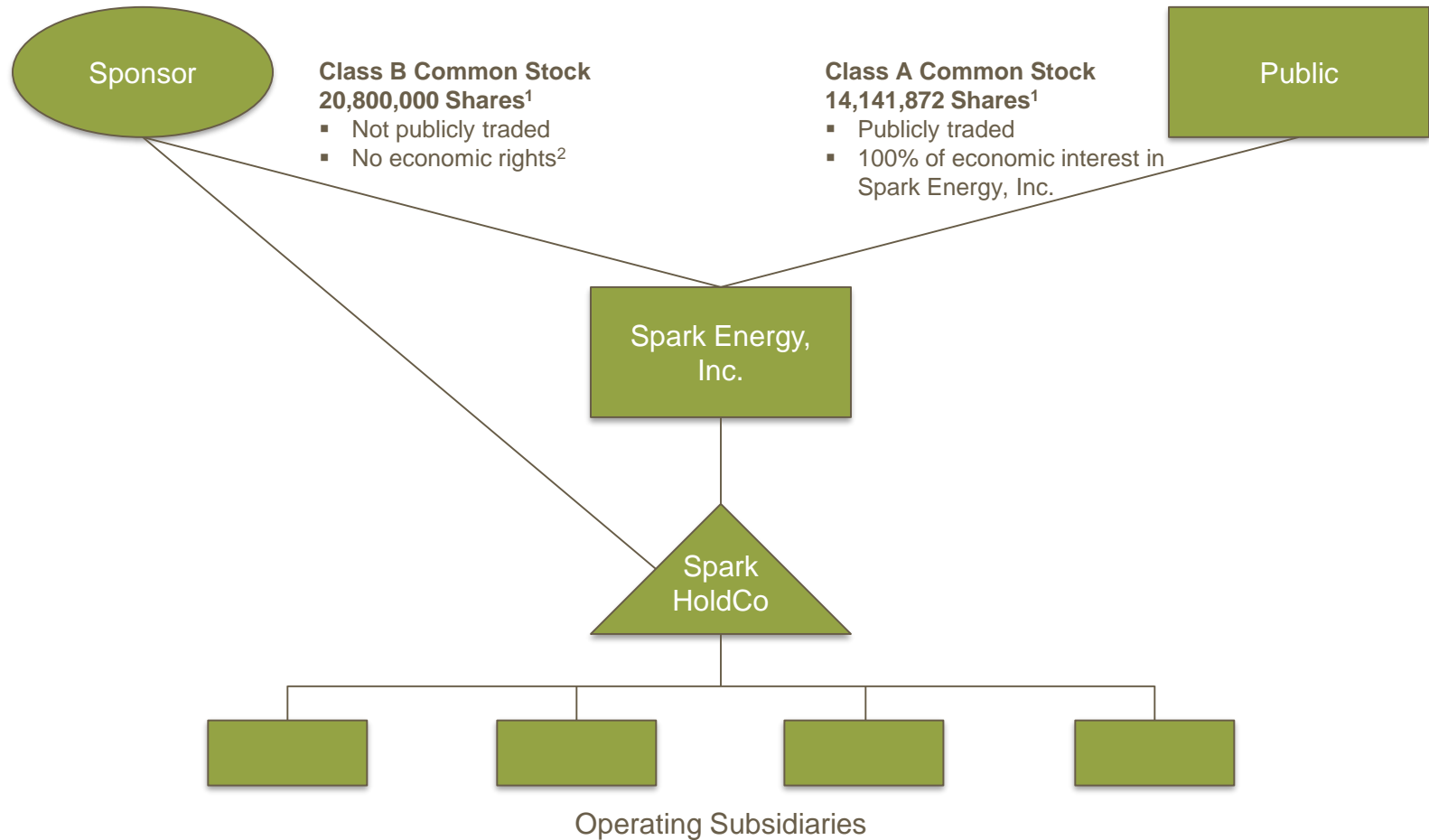
## James G. Jones II • Independent Director

Mr. Jones was appointed to our Board of Directors in August 2014 and re-elected in May 2017. Mr. Jones is currently providing professional consulting services on an independent basis. Mr. Jones was a partner at Weaver Tidwell LLP, a regional certified public accounting firm with over 500 professionals until November 2018. Prior to joining Weaver Tidwell, LLP, Mr. Jones was a partner in the Houston office of Padgett Stratemann & Co. from May 2014 to August 2016. Prior to joining Padgett Stratemann & Co., Mr. Jones was a partner at Ernst & Young LLP and worked there from 1998 to March 2014. Mr. Jones holds a Doctor of Jurisprudence from Louisiana State University and a Bachelor of Science in Accounting from the University of Louisiana at Monroe. Mr. Jones was selected to serve as a director because of his extensive tax and financial background, as well as his management expertise.

## Kenneth M. Hartwick • Independent Director

Mr. Hartwick was appointed to our Board of Directors in August 2014 and re-elected in May 2015 and May 2018. Mr. Hartwick currently serves as President and Chief Executive Officer of Ontario Power Generation, Inc., an electricity producer, a position he has held since April 2019. Previously, Mr. Hartwick served as Senior Vice President and Chief Financial Officer of Ontario Power Generation, Inc. from March 2016 to April 2019. Mr. Hartwick also serves as a director of MYR Group, Inc. Mr. Hartwick served as the Chief Financial Officer of Wellspring Financial Corporation from February 2015 until March 2016. Mr. Hartwick also served as the interim Chief Executive Officer of Atlantic Power Corporation from September 2014 until January 2015 and as a director from October 2004 until March 2016. He has served in various roles for Just Energy Group Inc., most recently serving as President and Chief Executive Officer from 2006 to February 2014. Mr. Hartwick served as the Chief Financial Officer of Hydro One, Inc., an energy distribution company, from 2002 to 2004. Mr. Hartwick holds an Honours of Business Administration degree from Trent University. Mr. Hartwick was selected to serve as a director because of his extensive knowledge of the retail natural gas and electricity business and his leadership and management expertise.

# Up-C Structure



<sup>1</sup>Shares as of March 31, 2019

<sup>2</sup>Sponsor receives distributions through direct interest in Spark HoldCo



# Proven Track Record of Acquisitions and Integration

## Recent Transactions




~65,000 RCEs  
13 New Markets

July 2015



~40,000 RCEs  
7 New Markets

July 2015



~121,000 RCEs  
9 New Markets

August 2016



~220,000 RCEs  
15 New Markets

August 2016



~60,000 RCEs  
1 New State & Market

April 2017



~145,000 RCEs  
3 New Markets

July 2017



~29,000 RCEs  
N.E. / Mid-Atlantic / Midwest

March 2018



~50,000 RCEs  
N.E. / Mid-Atlantic / Midwest

April 2018



~60,000 RCEs  
Mid-Atlantic / Midwest

October 2018

# Spark in the Community

## Empower What Matters Most

Spark partners with organizations that:

- Raise the quality of life for children
- Make communities better places to live and work
- Provide an avenue for employees to get involved in the community and to support the company's green values



Spark is directly connected to the Clubs through active Board representation, volunteerism, and in providing critical resources. The **Boys & Girls Clubs** provides a safe and positive place, particularly in at-risk areas, for youth to go after school and in the summer. Through the Clubs, Spark provides direct support to youth via programs focused on Academic Success, Healthy Lifestyles, and Good Character/Citizenship.



**The Woods Project** promotes the importance of getting underserved students outdoors. To help students trade screen time for green time, The Woods Project hosts after-school programs, weekend excursions, and a summer program. Spark participates in the biggest annual fundraiser, the Walk for the Woods Project 5K, and in 2019 took home the Golden Boot award for the most participants.



Through Spark's work with the **Arbor Day Foundation**, Spark is able to extend its environmental efforts far beyond green energy.



Every August Spark Energy employees get involved as 'personal shoppers' alongside a child at a designated Target store during **Child Advocates'** annual Childspree, helping children select back-to-school clothes, eat breakfast, and return home with a backpack full of school supplies.



1.6 million people around the world lack proper access to electricity. Through Spark's relationship with **LuminAID**, it is developing programs to distribute solar-powered inflatable lights to areas that need it the most.



# Appendix: Reg. G



# Reg. G

## Appendix Table A-1: Adjusted EBITDA Reconciliation

The following table presents a reconciliation of Adjusted EBITDA to net income for each of the periods indicated.

(\$ in thousands)	<u>2018</u>	<u>2017</u>	<u>1Q19</u>	<u>1Q18</u>
Net (loss) income	\$ (14,392)	\$ 75,044	\$ 2,745	\$ (41,831)
Depreciation and amortization	52,658	42,341	12,155	13,019
Interest expense	9,410	11,134	2,223	2,245
Income tax expense (benefit)	<u>2,077</u>	<u>38,765</u>	<u>1,041</u>	<u>(6,467)</u>
EBITDA	49,753	167,284	18,164	(33,034)
Less:				
Net, (losses) gains on derivative instruments	(18,170)	5,008	(19,541)	(36,542)
Net, Cash settlements on derivative instruments	(10,587)	16,309	8,025	(15,537)
Customer acquisition costs	13,673	25,874	5,789	4,274
Plus:				
Non-cash compensation expense	5,879	5,058	1,172	1,131
Change in Tax Receivable Agreement Liability	<u>—</u>	<u>(22,267)</u>	<u>—</u>	<u>—</u>
<b>Adjusted EBITDA</b>	<b>\$ 70,716</b>	<b>\$ 102,884</b>	<b>\$25,063</b>	<b>\$15,902</b>



# Reg. G

## Appendix Table A-2: Adjusted EBITDA Reconciliation

The following table presents a reconciliation of Adjusted EBITDA to net cash provided by operating activities for each of the periods indicated.

(\$ in thousands)	<u>2018</u>	<u>2017</u>	<u>1Q19</u>	<u>1Q18</u>
Net cash provided by (used in) operating activities	\$ 59,763	\$ 62,131	\$ 30,049	\$ (9,540)
Amortization and write off of deferred financing costs	(1,291)	(1,035)	(268)	(295)
Allowance for doubtful accounts and bad debt expense	(10,135)	(6,550)	(3,849)	(2,423)
Interest expense	9,410	11,134	2,223	2,245
Income tax expense (benefit)	2,077	38,765	1,041	(6,467)
Change in Tax Receivable Agreement Liability	—	(22,267)	—	—
Changes in operating working capital				
Accounts receivable, prepaids, current assets	10,482	31,905	(10,364)	12,628
Inventory	(674)	718	(3,643)	(4,070)
Accounts payable and accrued liabilities	(5,093)	(13,672)	10,950	16,316
Other	6,177	1,755	(1,076)	7,508
<b>Adjusted EBITDA</b>	<b><u>\$70,716</u></b>	<b><u>\$102,884</u></b>	<b><u>\$25,063</u></b>	<b><u>\$15,902</u></b>
Cash flows provided by (used in) operating activities	\$ 59,763	\$ 62,131	\$ 30,049	\$ (9,540)
Cash flows (used in) investing activities	\$ (18,981)	\$ (77,558)	\$ (6,123)	\$ (15,795)
Cash flows (used in) provided by financing activities	\$ (20,563)	\$ 25,886	\$ (38,361)	\$ 16,981



# Reg. G

## Appendix Table A-3: Retail Gross Margin Reconciliation

The following table presents a reconciliation of Retail Gross Margin to operating income for each of the periods indicated.

(\$ in thousands)	<u>2018</u>	<u>2017</u>	<u>1Q19</u>	<u>1Q18</u>
Operating (loss) income	\$ (3,654)	\$ 102,420	\$ 5,820	\$ (46,254)
Depreciation and amortization	52,658	42,341	12,155	13,019
General and administrative	111,431	101,127	29,476	30,047
Less:				
Net asset optimization revenue (expense)	4,511	(717)	2,552	2,687
Net, (losses) gains on non-trading derivative instruments	(19,571)	5,588	(19,803)	(36,712)
Net, Cash settlements on non-trading derivative instruments	(9,614)	16,508	8,125	(14,882)
<b>Retail Gross Margin</b>	<b><u>\$185,109</u></b>	<b><u>\$224,509</u></b>	<b><u>\$56,577</u></b>	<b><u>\$45,719</u></b>
Retail Gross Margin – Retail Electricity Segment	\$ 124,668	\$ 158,468	\$ 29,973	\$ 19,719
Retail Gross Margin – Retail Natural Gas Segment	\$ 60,441	\$ 66,041	\$ 26,604	\$ 26,000

## Adjusted EBITDA

We define “Adjusted EBITDA” as EBITDA less (i) customer acquisition costs incurred in the current period, (ii) net gain (loss) on derivative instruments, and (iii) net current period cash settlements on derivative instruments, plus (iv) non-cash compensation expense, and (v) other non-cash and non-recurring operating items. EBITDA is defined as net income (loss) before provision for income taxes, interest expense and depreciation and amortization. We deduct all current period customer acquisition costs (representing spending for organic customer acquisitions) in the Adjusted EBITDA calculation because such costs reflect a cash outlay in the period in which they are incurred, even though we capitalize such costs and amortize them over two years. We do not deduct the cost of customer acquisitions through acquisitions of business or portfolios of customers in calculated Adjusted EBITDA. We deduct our net gains (losses) on derivative instruments, excluding current period cash settlements, from the Adjusted EBITDA calculation in order to remove the non-cash impact of net gains and losses on derivative instruments. We also deduct non-cash compensation expense as a result of restricted stock units that are issued under our long-term incentive plan. Finally, we also adjust from time to time other non-cash or unusual and / or infrequent charges due to either their non-cash nature or their infrequency.

We believe that the presentation of Adjusted EBITDA provides information useful to investors in assessing our liquidity and financial condition and results of operations and that Adjusted EBITDA is also useful to investors as a financial indicator of our ability to incur and service debt, pay dividends and fund capital expenditures. Adjusted EBITDA is a supplemental financial measure that management and external users of our combined and consolidated financial statements, such as industry analysts, investors, commercial banks and rating agencies, use to assess the following:

- our operating performance as compared to other publicly traded companies in the retail energy industry, without regard to financing methods, capital structure or historical cost basis;
- the ability of our assets to generate earnings sufficient to support our proposed cash dividends; and
- our ability to fund capital expenditures (including customer acquisition costs) and incur and service debt.

## Retail Gross Margin

We define retail gross margin as operating income plus (i) depreciation and amortization expenses and (ii) general and administrative expenses, less (i) net asset optimization revenues, (ii) net gains (losses) on non-trading derivative instruments, and (iii) net current period cash settlements on non-trading derivative instruments. Retail gross margin is included as a supplemental disclosure because it is a primary performance measure used by our management to determine the performance of our retail natural gas and electricity business by removing the impacts of our asset optimization activities and net non-cash income (loss) impact of our economic hedging activities. As an indicator of our retail energy business’ operating performance, retail gross margin should not be considered an alternative to, or more meaningful than, operating income, its most directly comparable financial measure calculated and presented in accordance with GAAP.

The GAAP measures most directly comparable to Adjusted EBITDA are net income and net cash provided by operating activities. The GAAP measure most directly comparable to Retail Gross Margin is operating income (loss). Our non-GAAP financial measures of Adjusted EBITDA and Retail Gross Margin should not be considered as alternatives to net income (loss), net cash provided by operating activities, or operating income (loss). Adjusted EBITDA and Retail Gross Margin are not presentations made in accordance with GAAP and have important limitations as analytical tools. You should not consider Adjusted EBITDA or Retail Gross Margin in isolation or as a substitute for analysis of our results as reported under GAAP. Because Adjusted EBITDA and Retail Gross Margin exclude some, but not all, items that affect net income (loss) net cash provided by operating activities, and operating income (loss), and are defined differently by different companies in our industry, our definition of Adjusted EBITDA and Retail Gross Margin may not be comparable to similarly titled measures of other companies.

Management compensates for the limitations of Adjusted EBITDA and Retail Gross Margin as analytical tools by reviewing the comparable GAAP measures, understanding the differences between the measures and incorporating these data points into management’s decision-making process.



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20<sup>TH</sup> ANNIVERSARY  
SINCE 1999  
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Thank You!