Spark Energy, Inc. Reports Second Quarter 2021 Financial Results

HOUSTON, TX / ACCESSWIRE / August 4, 2021 / Spark Energy, Inc. ("Spark" or the "Company") (NASDAQ:SPKE)(FSE:SLE), an independent retail energy services company, today reported financial results for the quarter ended June 30, 2021.

Key Highlights

- Achieved $14.4 million in Adjusted EBITDA, and $26.4 million in Retail Gross Margin, and $24.8 million in Net Income for the second quarter
- Total RCE count of 347,000 as of June 30, 2021
- Entered into four separate agreements to acquire approximately 56,900 RCEs
- Average monthly attrition of 3.3%
- Total liquidity of $151.8 million as of June 30, 2021

"We are proud to announce that on May 25th, 2021, we entered into four agreements to acquire a total of approximately 56,900 RCEs. These customers are expected to be immediately accretive to Adjusted EBITDA. Subsequent to quarter end, Spark entered into an agreement that will bring an additional ~50,000 RCEs in the third quarter. We have completed high grading our existing customer contracts and are pivoting back to growth through both acquisitions and organic sales. Additionally, we plan to leverage our customer book and operational expertise to vertically integrate our supply chain with multiple sustainable energy generation projects. While continuing to focus on growing the existing business, we believe there are numerous complimentary avenues in the green energy space that can supplement our history of strong earnings," said Keith Maxwell, Spark's President and Chief Executive Officer.

Summary Second Quarter 2021 Financial Results

Net income for the quarter ended June 30, 2021, was $24.8 million compared to net income of $26.8 million for the quarter ended June 30, 2020. The decrease compared to the prior year was primarily the result of lower margin driven by lower customer counts partially offset by a decrease in G&A and depreciation and amortization.

For the quarter ended June 30, 2021, Spark reported Adjusted EBITDA of $14.4 million compared to Adjusted EBITDA of $23.8 million for the quarter ended June 30, 2020. While gross margin was lower year-over-year, the decrease in gross margin was partially offset by decreases in G&A expenses and Customer Acquisition Cost spending.

For the quarter ended June 30, 2021, Spark reported Retail Gross Margin of $26.4 million compared to Retail Gross Margin of $45.0 million for the quarter ended June 30, 2020. This decrease of $18.6 million was primarily attributable to fewer customers in our overall portfolio.

Liquidity and Capital Resources		
($ in thousands)		June 30, 2021
Cash and cash equivalents	$	93,035
Senior Credit Facility Availability (1)		43,739
Subordinated Debt Facility Availability (2)		15,000
Total Liquidity	**$**	**151,774**

(1) Reflects amount of Letters of Credit that could be issued based on existing covenants as of June 30, 2021.

(2) The availability of the Subordinated Facility is dependent on our Founder's willingness and ability to lend.

Dividend

On July 21, 2021, Spark's Board of Directors declared quarterly dividends of $0.18125 per share of Class A common stock payable on September 15, 2021 to holders of record on September 1, 2021, and $0.546875 per share of Series A Preferred Stock payable on October 15, 2021 to holders of record on October 1, 2021.

Business Outlook

Mr. Maxwell concluded, "Spark Energy will be holding a special shareholder meeting on Friday, August 6th, to propose to change the name of the public entity to VIA Renewables. We want to take this opportunity to rebrand ourselves and be a meaningful part of the global push towards energy sustainability, efficiency, and longevity. As our first step down this path, we purchased Renewable Energy Credits to offset all of our electric and natural gas load in the second quarter of 2021 and will continue to do that on a go-forward basis. This is just the beginning as we plan on exploring all options including wind, hydro, and solar generation, along with other special projects in the renewable space. The Company's goals going forward are easily summarized; 1. Make the world a more environmentally sustainable place and; 2. Increase our Adjusted EBITDA through growing our existing book and vertically integrating our business model over time. We believe this will provide additional financial stability and opportunities in the market that would benefit all of our stakeholders."

Conference Call and Webcast

Spark will host a conference call to discuss second quarter 2021 results on Thursday, August 5, 2021, at 10:00 AM Central Time (11:00 AM Eastern).

A live webcast of the conference call can be accessed from the Events & Presentations page of the Spark Energy Investor Relations website at http://ir.sparkenergy.com/events-and-presentations. An archived replay of the webcast will be available for twelve months following the live presentation.

About Spark Energy, Inc.

Spark Energy, Inc. is an independent retail energy services company founded in 1999 that provides residential and commercial customers in competitive markets across the United States with an alternative choice for natural gas and electricity. Headquartered in Houston, Texas, Spark currently operates in 100 utility service territories across 19 states and the District of Columbia. Spark offers its customers a variety of product and service choices, including stable and predictable energy costs and green product alternatives.

We use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Investors should note that new materials, including press releases, updated investor presentations, and financial and other filings with the Securities and Exchange Commission are posted on the Spark Energy Investor Relations website at ir.sparkenergy.com. Investors are urged to monitor our website regularly for information and updates about the Company.

Cautionary Note Regarding Forward-Looking Statements

This earnings release 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," "could," "likely," "will," "believe," "expect," "anticipate," "estimate," "continue," "plan," "intend," "project," or other similar words. All statements, other than statements of historical fact included in this earnings release are forward-looking statements. The forward-looking statements include statements regarding the impacts of COVID-19 and the 2021 severe weather event, cash flow generation and liquidity, business strategy, prospects for growth, outcomes of legal proceedings, ability to pay cash dividends, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans, objectives, beliefs of management, availability and terms of capital, competition, governmental 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 earnings release 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:

- evolving risks, uncertainties and impacts relating to COVID-19, including the geographic spread, the severity of the disease, the scope and duration of the COVID-19 outbreak, actions that may be taken by governmental authorities to contain the COVID-19 outbreak or to treat its impact, and the potential for continuing negative impacts of COVID-19 on economies and financial markets;
- the ultimate impact of the 2021 severe weather event, including resolution of outstanding pricing and volume settlement data from ERCOT; the results of formal disputes regarding pricing and volume

settlement data received to date; and any corrective action by the State of Texas, ERCOT, the Railroad Commission of Texas, or the Public Utility Commission of Texas;

- 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 regulations, 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;
- our ability to successfully identify, complete, and efficiently integrate acquisitions into our operations;
- significant changes in, or new changes by, the independent system operators ("ISOs") in the regions we operate;
- competition; and
- the "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020, and other public filings and press releases.

You should review the risk factors and other factors noted throughout this earnings release that could cause our actual results to differ materially from those contained in any forward-looking statement. All forward-looking statements speak only as of the date of this earnings release. 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.

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SPARK ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues:				
Retail revenues	$ 82,309	$ 128,618	$ 195,454	$ 294,978
Net asset optimization (expense) revenue	(114)	(82)	(254)	239
Total Revenues	82,195	128,536	195,200	295,217
Operating Expenses:				
Retail cost of revenues	36,176	65,605	158,344	184,428
General and administrative	10,663	21,331	23,334	47,007
Depreciation and amortization	5,413	8,010	11,449	16,806
Total Operating Expenses	52,252	94,946	193,127	248,241
Operating income	29,943	33,590	2,073	46,976
Other (expense)/income:				
Interest expense	(1,552)	(1,193)	(2,863)	(2,746)
Interest and other income	79	53	165	213
Total other expenses	(1,473)	(1,140)	(2,698)	(2,533)
Income (loss) before income tax expense	28,470	32,450	(625)	44,443
Income tax expense	3,674	5,673	2,139	7,598
Net income (loss)	$ 24,796	$ 26,777	$ (2,764)	$ 36,845
Less: Net income (loss) attributable to non-controlling interests	14,313	15,618	(5,616)	21,207
Net income attributable to Spark Energy, Inc.	$ 10,483	$ 11,159	$ 2,852	$ 15,638

stockholders				
Less: Dividend on Series A Preferred Stock	1,951	2,039	3,902	3,539
Net income (loss) attributable to stockholders of Class A common stock	$ 8,532	$ 9,120	$ (1,050)	$ 12,099
Net income (loss) attributable to Spark Energy, Inc. per share of Class A common stock				
Basic	$ 0.58	$ 0.63	$ (0.07)	$ 0.84
Diluted	$ 0.58	$ 0.62	$ (0.07)	$ 0.83
Weighted average shares of Class A common stock outstanding				
Basic	14,685	14,558	14,656	14,469
Diluted	14,820	14,763	14,767	14,569

Selected Balance Sheet Data	**June 30,**	**December 31,**
(in thousands)	**2021**	**2020**
Cash and cash equivalents	93,035	71,684
Working capital	146,721	114,213
Total assets	369,154	366,667
Total debt	145,000	100,000
Total liabilities	214,770	190,918
Total stockholders' equity	58,784	64,854

Selected Cash Flow Data

	Six Months Ended June 30,	
(in thousands)	2021	2020
Net cash provided by operating activities	$ 9,168	$ 71,783
Net cash used in investing activities	$ (1,063)	$ (579)
Net cash provided (used) in financing activities	$ 24,751	$ (49,248)

Operating Segment Results

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
(in thousands, except volume and per unit operating data)				
Retail Electricity Segment				
Total Revenues	$ 71,689	$ 112,255	$ 150,444	$ 234,023
Retail Cost of Revenues	31,203	59,268	138,727	159,651
Less: Net gain on non-trading derivatives, net of cash settlements	18,835	17,414	24,352	7,993
Non-recurring event - Winter Storm Uri	-	-	(64,900)	-

Retail Gross Margin [1] - Electricity	$ 21,651	$ 35,573	$ 52,265	$ 66,379
Volumes - Electricity (MWhs) [3]	614,000	978,297	1,236,127	2,069,722
Retail Gross Margin [2] [4] - Electricity per MWh	$ *35.26*	$ *36.36*	$ *42.28*	$ *32.07*
Retail Natural Gas Segment				
Total Revenues	$ 10,620	$ 16,363	$ 45,010	$ 60,955
Retail Cost of Revenues	4,973	6,337	19,617	24,777
Less: Net gain on non-trading derivatives, net of cash settlements	858	605	1,206	2,102
Retail Gross Margin [1] - Gas	$ 4,789	$ 9,421	$ 24,187	$ 34,076
Volumes - Gas (MMBtus)	1,268,051	1,967,439	5,097,525	7,249,738
Retail Gross Margin [2] - Gas per MMBtu	$ *3.78*	$ *4.79*	$ *4.75*	$ *4.70*

[1] Reflects the Retail Gross Margin attributable to our Retail Electricity Segment or Retail Natural Gas Segment, as applicable. Retail Gross Margin is a non-GAAP financial measure. See "Reconciliation of GAAP to Non-GAAP Measures" section below for a reconciliation of Adjusted EBITDA and Retail Gross Margin to their most directly comparable financial measures presented in accordance with GAAP.

[2] Reflects the Retail Gross Margin for the Retail Electricity Segment or Retail Natural Gas Segment, as applicable, divided by the total volumes in MWh or MMBtu, respectively.

[3] Excludes volumes (8,402 MWhs) related to Winter Storm Uri impact for the six months ended June 30, 2021

[4] Retail Gross Margin - Electricity per MWh excludes Winter Storm Uri impact

Reconciliation of GAAP to Non-GAAP Measures

Adjusted EBITDA

We define "Adjusted EBITDA" as EBITDA less (i) customer acquisition costs incurred in the current period, plus or minus (ii) net (loss) gain 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 the provision for income taxes, interest expense and depreciation and amortization. This conforms to the calculation of Adjusted EBITDA in our Senior Credit Facility.

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 and amortize such costs over two years. We do not deduct the cost of customer acquisitions through acquisitions of businesses or portfolios of customers in calculating 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 these instruments. We also deduct non-cash compensation expense that results from the issuance of restricted stock units under our long-term incentive plan due to the non-cash nature of the expense.

We 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 have historically included the financial impact of weather variability in the calculation of Adjusted EBITDA. We will continue this historical approach, but during the first quarter of 2021 we incurred a net pre-tax financial loss of $64.9 million due to Winter Storm Uri, as described above. This loss was incurred due to uncharacteristic extended sub-freezing temperatures across Texas combined with the impact of the pricing caps ordered by ERCOT. We believe this event is unusual, infrequent, and non-recurring in nature.

Our lenders under the Company's Senior Credit Facility allowed $60.0 million of the $64.9 million pre-tax storm loss to be added back as a non-recurring item in the calculation of Adjusted EBITDA for the Company's Debt Covenant Calculations. As our Senior Credit Facility is considered a material agreement and Adjusted EBITDA is a key component of our material covenants, we consider our covenant compliance to be material to the understanding of the Company's financial condition and/or liquidity.

We believe that the presentation of Adjusted EBITDA provides information useful to investors in assessing our performance and results of operations and that Adjusted EBITDA is also useful for an understanding of our financial condition and/or liquidity due to its use in covenants in our Senior Credit Facility. Adjusted EBITDA is a supplemental financial measure that management and external users of our 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, historical cost basis and specific items not reflective of ongoing operations;
- the ability of our assets to generate earnings sufficient to support our proposed cash dividends;

- our ability to fund capital expenditures (including customer acquisition costs) and incur and service debt; and
- our compliance with financial debt covenants.

Retail Gross Margin

We define retail gross margin as operating income (loss) plus (i) depreciation and amortization expenses and (ii) general and administrative expenses, less (iii) net asset optimization revenues (expenses), (iv) net gains (losses) on non-trading derivative instruments, (v) net current period cash settlements on non-trading derivative instruments and (vi) gains (losses) from non-recurring events (including non-recurring market volatility. 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 segments. As an indicator of our retail energy business's operating performance, retail gross margin should not be considered an alternative to, or more meaningful than, operating income (loss), its most directly comparable financial measure calculated and presented in accordance with GAAP.

We believe retail gross margin provides information useful to investors as an indicator of our retail energy business's operating performance.

We have historically included the financial impact of weather variability in the calculation of Retail Gross Margin. We will continue this historical approach, but during the current quarter we have made the decision to add back the financial loss related to winter storm Uri, as described above, in the calculation of Retail Gross Margin because the extremity of the storm combined with the impact of the scarcity pricing mechanisms ordered by ERCOT is considered unusual, infrequent, and non-recurring in nature.

The GAAP measures most directly comparable to Adjusted EBITDA are net income (loss) 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 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.

The following tables present a reconciliation of Adjusted EBITDA to net income (loss) and net cash provided (used in) operating activities for each of the periods indicated.

Reconciliation of Adjusted EBITDA to net income (loss):

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2021	2020	2021	2020
Net income (loss)	$ 24,796	$ 26,777	$ (2,764)	$ 36,845
Depreciation and amortization	5,413	8,010	11,449	16,806
Interest expense	1,552	1,193	2,863	2,746
Income tax expense	3,674	5,673	2,139	7,598
EBITDA	35,435	41,653	13,687	63,995
Less:				
Net, gain (loss) on derivative instruments	18,904	8,121	25,928	(16,466)
Net cash settlements on derivative instruments	795	9,964	(390)	26,572
Customer acquisition costs	243	210	456	1,555
Plus:				
Non-cash compensation expense	1,104	490	1,571	1,814
Non-recurring event - Winter Storm Uri	-	-	60,000	-
Non-recurring legal settlement	(2,225)	-	(2,225)	-
Adjusted EBITDA	$ 14,372	$ 23,848	$ 47,039	$ 54,148

Reconciliation of Adjusted EBITDA to net cash provided in operating activities:

	Three Months Ended June 30,	Six Months Ended June 30,

(in thousands)	2021	2020	2021	2020
Net cash provided by operating activities	$ 32,800	$ 32,394	$ 9,168	$ 71,783
Amortization of deferred financing costs	(258)	(240)	(517)	(490)
Bad debt expense	(134)	(1,378)	113	(3,733)
Interest expense	1,552	1,193	2,863	2,746
Income tax expense	3,674	5,673	2,139	7,598
Non-recurring event - Winter Storm Uri	-	-	60,000	-
Non-recurring legal settlement	(2,225)	-	(2,225)	-
Changes in operating working capital				
Accounts receivable, prepaids, current assets	(20,058)	(32,035)	(31,761)	(50,010)
Inventory	965	709	(400)	(1,981)
Accounts payable and accrued liabilities	8,059	19,021	12,857	29,839
Other	(10,003)	(1,489)	(5,198)	(1,604)
Adjusted EBITDA	$ 14,372	$ 23,848	$ 47,039	$ 54,148
Cash Flow Data:				
Net cash provided by operating activities	$ 32,800	$ 32,394	$ 9,168	$ 71,783
Cash flows used in investing activities	$ (543)	$ (43)	$ (1,063)	$ (579)
Net cash provided (used) in financing activities	$ (9,208)	$ (8,198)	$ 24,751	$ (49,248)

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

Reconciliation of Retail Gross Margin to Operating income:

(in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Operating income	$ 29,943	$ 33,590	$ 2,073	$ 46,976
Plus:				
Depreciation and amortization	5,413	8,010	11,449	16,806
General and administrative expense	10,663	21,331	23,334	47,007
Less:				
Net asset optimization (expense) revenue	(114)	(82)	(254)	239
Gain (loss) on non-trading derivative instruments	18,898	7,964	25,952	(16,569)
Cash settlements on non-trading derivative instruments	795	10,055	(394)	26,664
Non-recurring event - Winter Storm Uri	-	-	(64,900)	-
Retail Gross Margin	$ 26,440	$ 44,994	$ 76,452	$ 100,455
Retail Gross Margin - Retail Electricity Segment (1)	$ 21,651	$ 35,573	$ 52,265	$ 66,379
Retail Gross Margin - Retail Natural Gas Segment	$ 4,789	$ 9,421	$ 24,187	$ 34,076

[(1)] Retail Gross Margin - Retail Electricity Segment for the six months ended June 30, 2021 includes a $64.9 million add back related to winter storm Uri.

SOURCE: Spark Energy, Inc.

View source version on accesswire.com:
https://www.accesswire.com/658402/Spark-Energy-Inc-Reports-Second-Quarter-2021-Financial-Results

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2020 Annual Report

Spark Energy, Inc. Investor Presentation, May 2021

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