

To	Company Announcements Office	Facsimile	1300 135 638
Company	ASX Limited	Date	1 May 2020
From	Helen Hardy	Pages	24
Subject	Strategic partnership with Octopus Energy		

Please find attached a release on the above subject.

Regards



Authorised by:
Helen Hardy
Company Secretary

02 8345 5000

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Strategic partnership with Octopus Energy



Frank Calabria, CEO & Jon Briskin, EGM, Retail

1 May 2020

Partnership with disruptive UK energy retailer and technology company



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Unlocking value in partnership with Octopus Energy (Octopus)

- **Collaboration with Octopus** to adopt its globally distinctive operating model and proprietary “Kraken” platform, delivering superior customer experience and driving a material reduction in costs
- **Perpetual licence in Australia** to Octopus’ market leading technology
- **20% equity interest in Octopus**, opening up future growth opportunities

Accelerating the retail strategy to set Origin apart

- **Proven technology drives differentiated, market leading customer experience**
- **Extend our competitive cost position** with targeted savings of \$70-80 million in FY2022, increasing to **\$100 - \$150 million annually from FY2024** (in addition to the \$100 million cost-out target underway)
- Ability to **grow new revenue streams** with seamless integration of new products and ease in scalability

Prudently funded with consideration phased over four financial years

- **~\$134¹ million (£70 million) on completion; ~\$373 million (£195 million) staged over FY2020-23**
- Compelling value proposition given cost savings and Octopus’ growth in retailing and technology licensing
- Funded from cash and free cash flow, with reviews ongoing of capex and potential asset sales to offset balance sheet impact and ensure ongoing resilience under a sustained low oil price environment
- Transaction returns materially above cost of capital

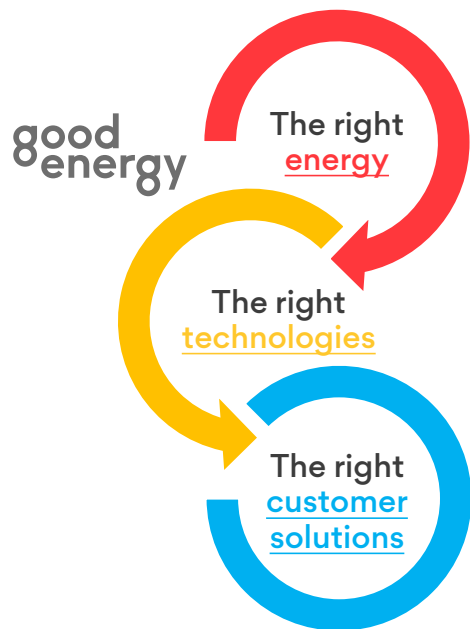
1) £240 million has been hedged at an average AUD/GBP rate of 0.523, the balance is unhedged

Partnership aligns to our strategy and opens up future growth



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Connecting customers to the energy and technologies of the future



- The partnership enables Origin to differentiate, accelerate its retail strategy and open up future growth opportunities
 - **Radical improvement in customer experience**
 - **Material reduction in cash costs**
 - Accelerate **digital and data analytics capability** to enable connected solutions
 - **Unlock opportunities for growth** in our market and through Octopus' UK and international growth prospects
- The 20% interest provides upside to a high-growth, innovative energy retailer and technology company
 - **Market leading cost base, customer experience & employee satisfaction** among UK energy retailers
 - **Proprietary technology platform (“Kraken”)** that is scalable at low cost and enables a truly customer-centric model
 - **Rapid growth** in energy retailing & technology licensing, with opportunities to leverage its model internationally

Octopus is a globally distinctive, best in class energy retailer and technology business through its proprietary Kraken platform



octopus energy



600 employees

Launched in 2016



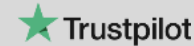
~£1.5bn annualised revenue
(~10% monthly growth
on rolling 12 month basis)

Founded by tech and
consumer entrepreneurs



~17M customer accounts
via platform licensing
contracts

~1.5M UK retail customers
(~2.7M accounts, ~5%
market share) and
growing rapidly



Top-scoring 4.8/5 customer satisfaction rating on Trustpilot¹



KRAKEN

Kraken independently rated in **top 1%** of all technology platforms²

agileOctopus

'World first' innovation capabilities

U switch

'Supplier of the Year', including Best Customer Service, Online Experience and 'Easiest to Switch to' supplier

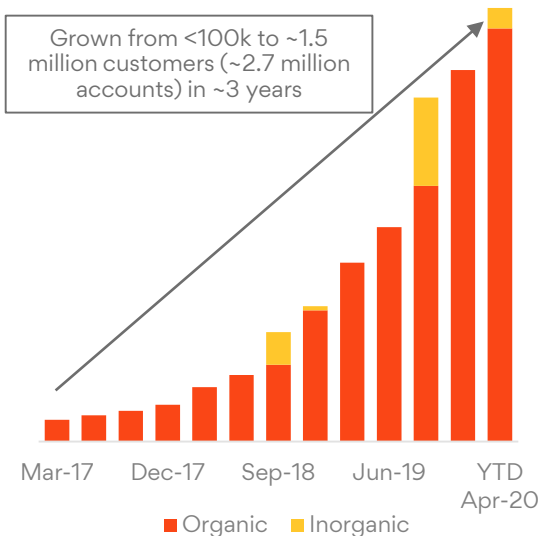
1) Trustpilot is the UK's leading peer review platform covering all brands and sectors
2) By CAST, a leading software intelligence analysis company

Octopus has a proven track record of growth as a UK energy retailer...



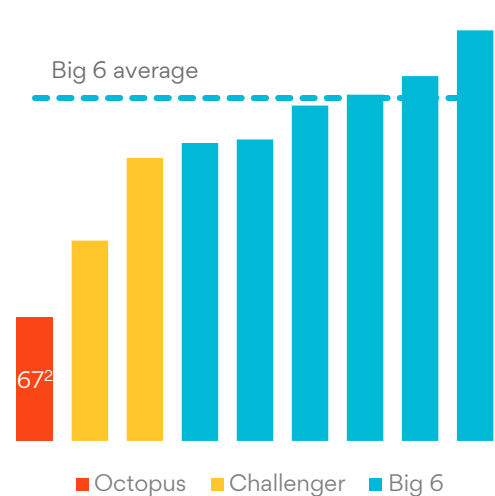
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Growing customers organically at 40-50K per month on average



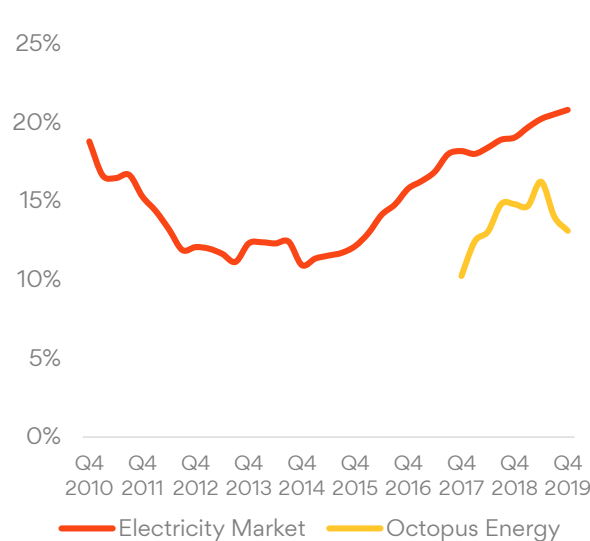
Source: Octopus Energy

Cost to serve ~40% lower than next best major peer (£/customer¹)



Source: Ofgem, UK Companies House, Octopus Energy

Churn differential to the market (quarterly churn, annualised %)



Source: UK Department for Business, Energy & Industrial Strategy, Octopus Energy

1) UK cost to serve excludes capitalised acquisition costs (~£20 per customer for Octopus)

2) Octopus Energy cost to serve for FY19

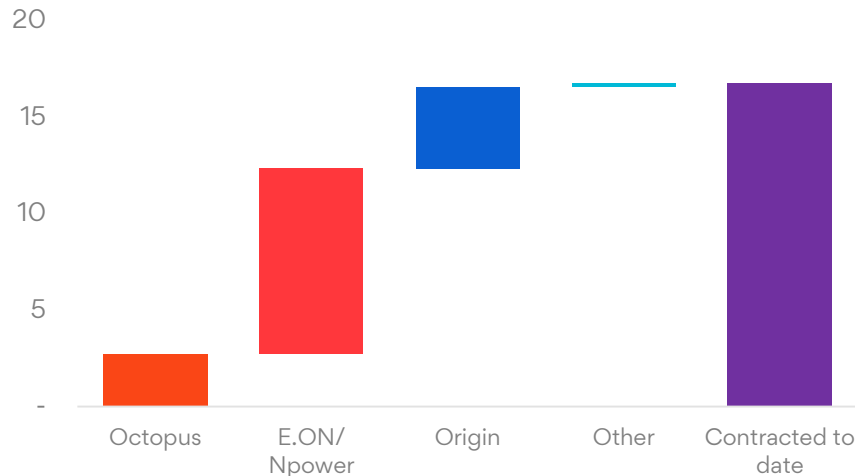
... as well as a track record in licensing its proprietary technology



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Octopus expects >£300 million in contracted licensing revenue over the next 3 years, with further upside potential¹

Kraken licensed customer accounts (m)



- **~17 million accounts through licensing deals to date**
 - E.ON: Migrating ~6 million UK E.ON and Npower customers (~10 million accounts) onto a Kraken platform over two years
 - Other deals include Good Energy in the UK and Hanwha Energy in Australia
- **Actively targeting international markets** through organic entry, acquisitions and/or licensing deals
 - 2019 acquisition of German retailer 4 Hundred with 11,000 customer for €16.7 million
 - licensing enables faster market entry at lower cost
- Octopus plans to redeploy licensing revenue as well as the investment by Origin to fund future growth

Source: Octopus Energy and company websites
1) <https://octopus.energy/press-enquiries/>

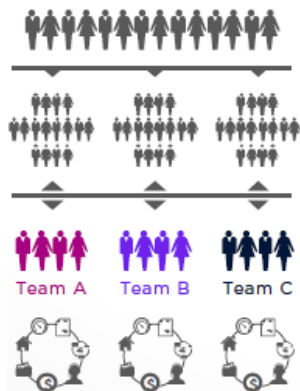


We will adopt Octopus' proven operating model and "Kraken" platform



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Operating model built around the customer



- **Small autonomous teams** take full accountability by managing their own specific group of ~50k customers and looking after the end-to-end customer lifecycle
- Teams are given 2 objectives based on outputs
 1. **Customer happiness** (based on customer ratings); and
 2. **Productivity** (number of customers supported)
- The end-to-end model enables premium customer service and fast and continuous customer-oriented innovation

Enabled by leading technology

"Kraken"



KRAKEN

- **Single view of customer:** Agents will easily be able to access all customer data through one interface
- **Advanced analytics:** System will support with decision making based on large amounts of data
- **High degree of automation:** System will enable tasks to be automated to optimise work flow
- **Designed for future energy world:** Enables deployment of cleaner, smarter energy solutions

Good progress to date on our retail strategy



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Transforming customer experience

- ✓ Personalised, effortless digital experience
- ✓ Simpler products
- ✓ Streamlined customer journeys
- ✓ Helping customers stay in control



Target market leading cost position

- ✓ Increasing automation
- ✓ Offshore capability
- ✓ Targeted marketing and optimised channels
- ✓ Simplified, leaner organisation



Grow new revenue streams

- ✓ Community Energy Services – embedded energy networks
- ✓ Solar and Storage
- ✓ Broadband and Adjacencies



Embrace a decentralised & digital future

- ✓ Data analytics capability
- ✓ AI orchestration platform
- ✓ Trialling connected business models

Targeting \$100 million reduction in cost to serve by FY2021

Octopus' proven model will deliver the next wave of our strategy



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Transforming customer experience

- Radically simplified processes
- Single point of service (no hand offs)
- Reduced call volume and handling times
- Ability to integrate services to a single bill



Target market leading cost position

- Lower technology costs
- Greater automation
- Lower churn
- Targeting a further \$100 - \$150 million reduction in costs to set us apart



Grow new revenue streams

- Rapid and seamless integration of new products & services, bundling and adjacencies
- Ease in scalability



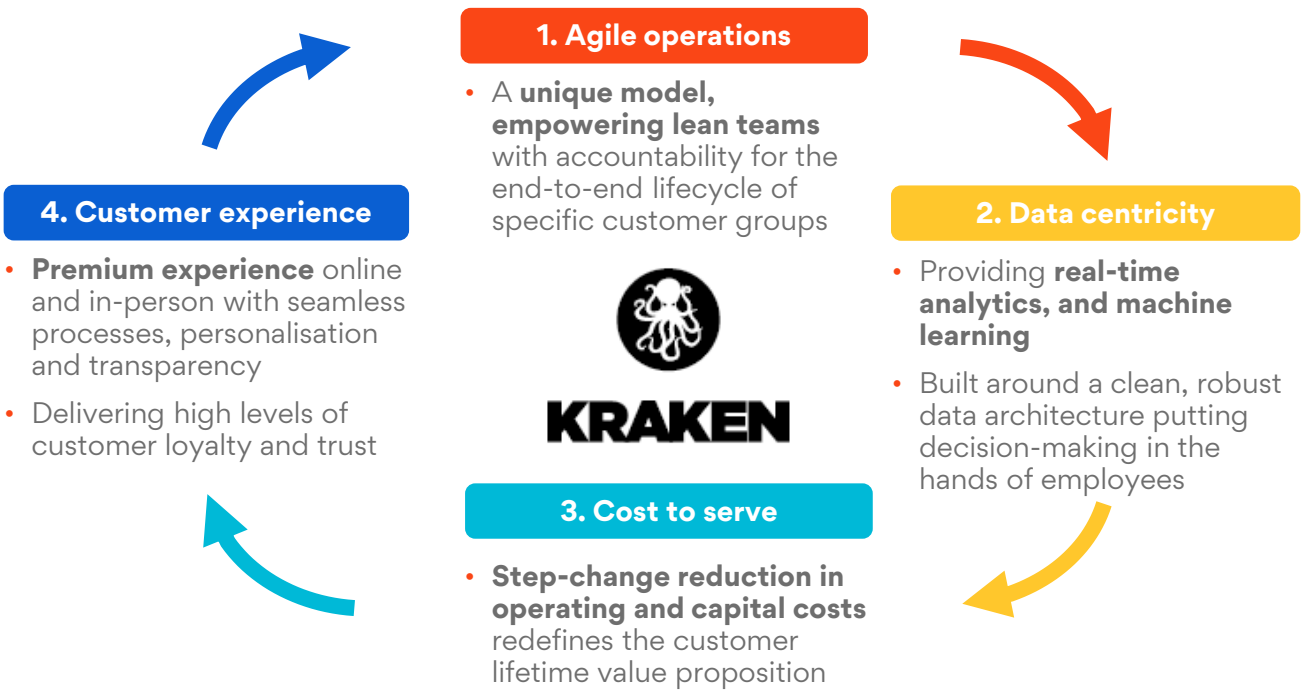
Embrace a decentralised & digital future

- Builds on existing digital analytics capability
- Accelerates opportunity for connected solutions and data driven models
- Capability to accelerate demand-side management

Differentiation via radical improvement in customer experience and material reduction in cost

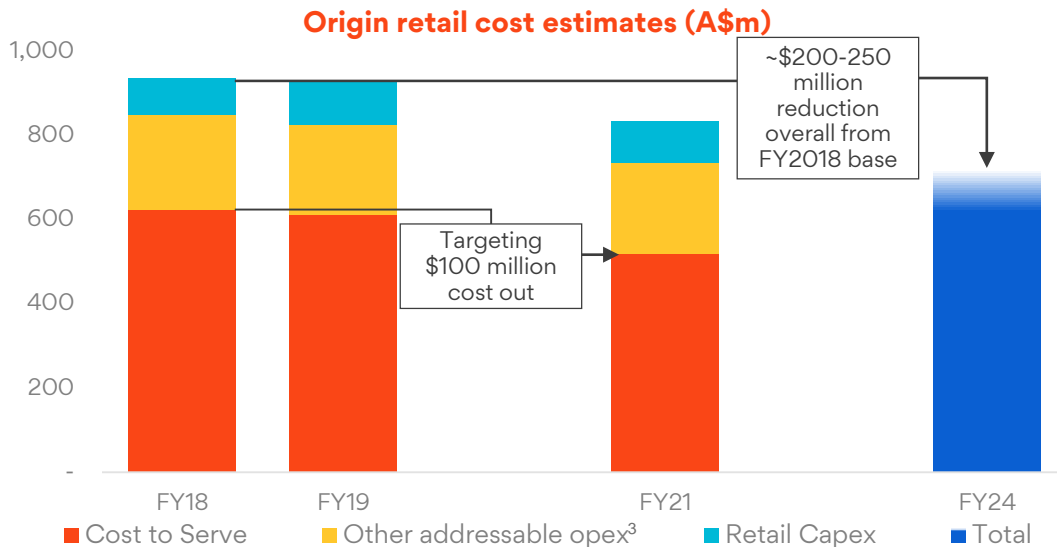
The retail redesign unlocks four competitive strengths for Origin...

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Targeting a step change in customer experience and costs

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Octopus customer experience highlights

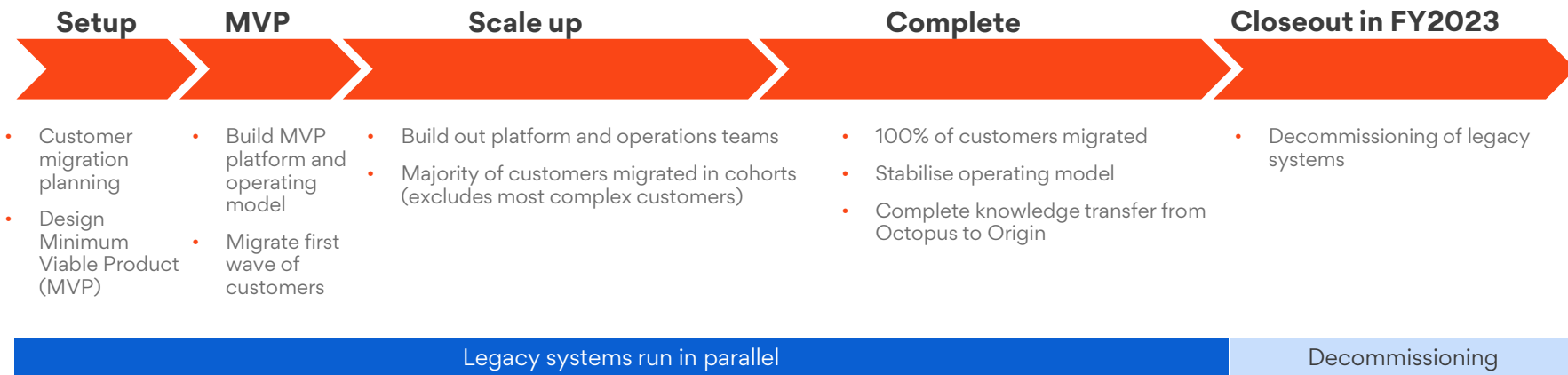
- *Best-in-class award by Which?¹*
- *Highest Trustpilot² score of 4.8/5*
- *Churn of 1.2%/month (lower than the market average)*
- *Customer complaints one-fifth of the UK industry average*

- Implementing Octopus' operating model will:
 - unlock a step change reduction in our retail operating and capital costs; and
 - transform the customer experience and build loyalty
- Savings drivers include a leaner, digitally empowered operating model and a reduction in IT operating and capex costs

1) Which? is a leading consumer advocacy group in the UK;
 2) Trustpilot is the UK's leading peer review platform covering all brands and sectors
 3) Other addressable opex includes LPG, S&ES and Future Energy

Executable plan to deliver savings

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- Operational Australian Kraken platform already in place
- Origin and Octopus will collaborate closely to build the platform and operating model and will manage future optimisations
- Octopus have undertaken 7 Kraken migrations of varying size and complexity to date totalling more than 1 million customer accounts, porting data from 6 different host systems, most done in a number of weeks
- We have invested heavily in building a culture that is ready for a radical and rapid transformation
- Kraken will be implemented in parallel with existing systems using a staged approach for customer migrations
- The plan factors in current challenges associated with the COVID-19 pandemic

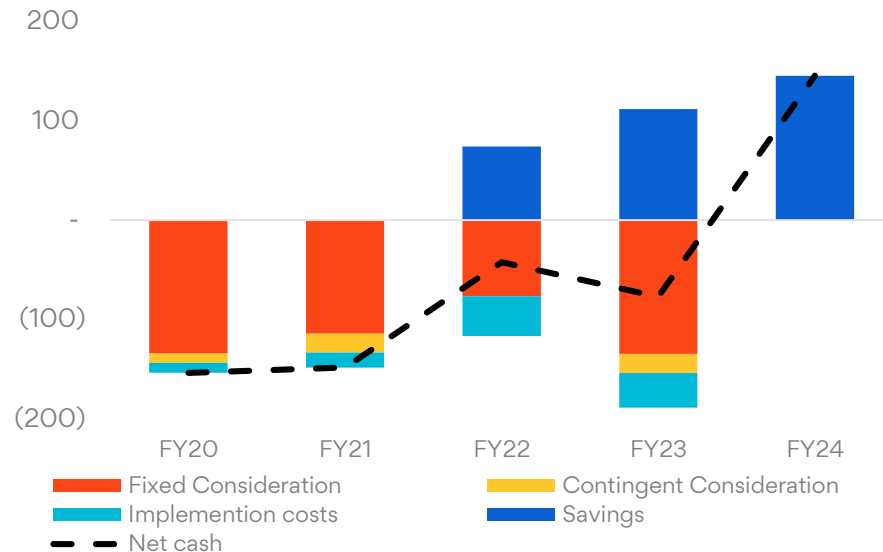
Consideration phased over four financial years, benefits from FY2022



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- Consideration¹ of ~\$134 million on completion and ~\$373 million staged over four financial years
 - ~\$48 million contingent on delivery milestones (e.g. successful migrations)
- Transaction/implementation costs of ~\$80-100 million² over four financial years
- Targeting pre-tax cash savings of ~\$70-80 million in FY2022, increasing to \$100-150 million from FY2024
- Estimated \$100 million accelerated depreciation associated with the decommissioning of existing systems over the implementation period
- Origin will provide a 3 year company guarantee at market rates to support Octopus' working capital facility of up to £160 million, declining to £110 million from June 2022, expiring in March 2023 (up to £40 million of the £160 million may be provided by way of a shareholder loan)
- Octopus expected to be self-funding going forward

Estimate of phased cash costs and savings¹ (A\$m)



1) £240 million hedged at an average AUD/GBP rate of 0.523; £70 million in FY2023 has potential to be accelerated to FY2022 in the event of a 6 month lagged average Brent price of >US\$50/bbl from August 2021
 2) Implementation costs include parallel system running costs, consultant fees and decommissioning costs

Origin retail

- Origin and Octopus will collaborate to:
 - adopt Octopus' **best in class operating model** across Origin's customer divisions
 - implement **Kraken for Origin**
- Octopus will develop a version of Kraken for Origin and provide support until the organisational transformation complete
- Post implementation, Origin will own part of the IP with an exclusive¹, perpetual and irrevocable licence to Kraken in Australia



KRAKEN

1) Subject to an existing licence arrangement with Hanwha in Australia

20% equity interest

- Exposure to **leading edge retail practices** and technology enhancements
- Exposure to **Octopus' growth plans**:
 - Organic and inorganic growth in the UK
 - Potential international retail market entries and further technology licensing deals
- **Alignment and share in value creation:** Origin and E.ON deals enhance the prospects of leveraging the Octopus model to other markets
- **Active Board representation** with one Board director and one observer appointed as well as veto rights on key decisions



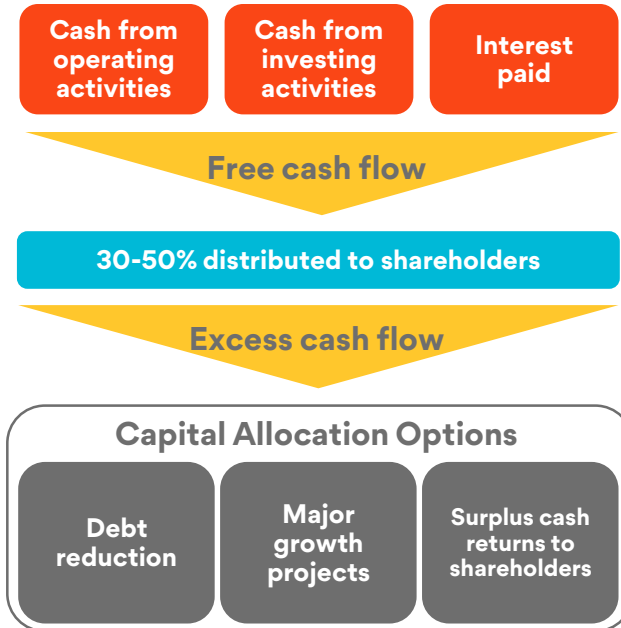
octopusenergy

Disciplined capital framework to maintain resilience & maximise returns



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- **Strong cash generation** from existing business
 - Large customer base and flexible wholesale portfolio in Energy Markets
 - APLNG self-funding in FY2021 at oil prices at or above US\$25/bbl
 - Targeting 25-30% reduction in Origin capex in FY2021
 - Expecting lower interest costs and tax paid
- The investment and implementation costs will be **treated as a 'major growth'** project so will be excluded from Free Cash Flow for the purpose of dividends
- We continue to adopt a **disciplined approach to capital management**, targeting Adjusted Net Debt / Adjusted Underlying EBITDA within a range of 2-3x
 - Phased consideration and milestone payments in line with delivery of plan
 - We expect our investment grade credit ratings of BBB/Baa2 to be maintained after including the Octopus strategic partnership
- Capital initiatives ongoing or under review comprising capex deferral/cancellation and potential asset sales to offset balance sheet impact and ensure investment grade credit rating in a sustained low oil price environment
- Partnership with Octopus will deliver a **radical improvement** in customer service, a material **reduction in costs**, and **future growth** opportunities



Questions?

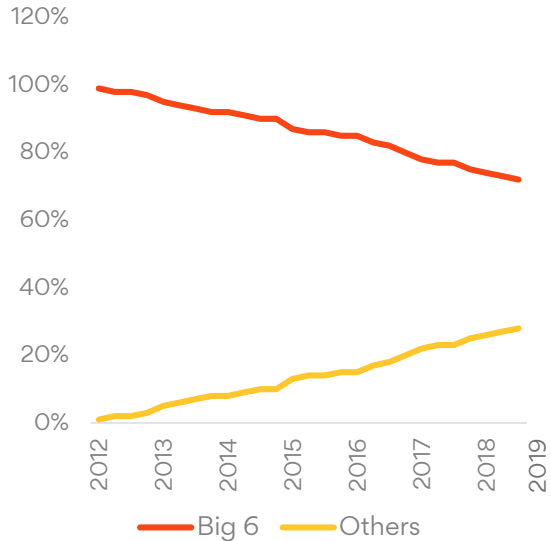
Appendix

UK market context



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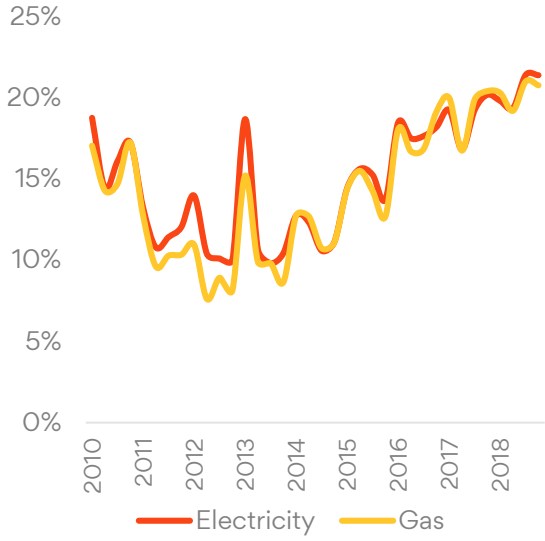
UK electricity market size and concentration



Source: Ofgem

- UK domestic electricity market of 28.6 million households, with ~24 million dual fuel
- Octopus market share of 5%

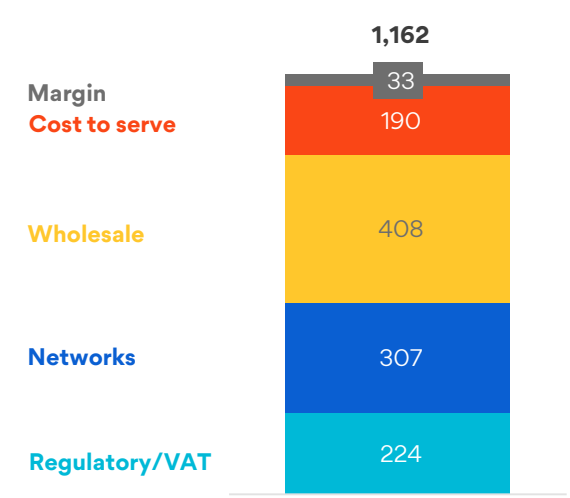
Market Competition (Quarterly churn, annualised %)



Source: UK Department for Business, Energy & Industrial Strategy

- Increasing churn reflecting switching as challengers compete in market, along with heightened public and regulatory scrutiny

Avg Ofgem Default Tariff (£) (for direct debit dual fuel customer)



Source: Ofgem rate (April to September 2020), smart metering costs included in Networks

- Ofgem tariff allows for cost to serve of £190 (16%) and retail margin of £33 (3%)

Kraken enables delivery of premium experience at lowest cost



KRAKEN

- **Market leading end-to-end, single utility software platform** developed in-house (rated in the top 1% of all software by assurance specialists, CAST)
- **Cloud-based system with machine learning and digitalisation at its core**, spanning billing, Customer Relationship Management (CRM) and forecasting, and integrating market interactions and metering
- **Agile billing system** that is delivering customised future energy solutions today (able to implement product changes in hours)
- **Robust data architecture** ensures data is secure, easily accessible for staff and customer and tracks all interactions to better understand customer and operational needs
- **Rapid innovation:** Industry-leading time to market for development of new features (typical deployment cycle of only 30 minutes, with ~12,000 deployments to date)
- **Quickly and easily scalable:** Proven improvement in efficiency as scale increases (7 successful mass customer migrations undertaken to date, completed in weeks)

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Octopus builds technology to bring lower and more transparent pricing, better service and more sustainable energy to customers



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- **~1.5 million UK retail customers** (~2.7 million accounts, or ~5% market share): Growing organically at an average of 40-50k per month
- **Revenue of ~£1.5bn** annualised, growing at ~10% per month on a rolling 12 month basis
- **Partnership with E.ONnext**, migrating ~6 million E.ON/ Npower customers onto a Kraken platform over two years
- **Geographic presence:** UK (2016), Germany (2019), Australia (2019 licence deal)
- **Ownership (post transaction):** 60% Octopus Capital; 20% Management & employees; 20% Origin



Greg Jackson, 48, Founder & CEO

- Serial technology entrepreneur
- Significant senior leadership experience, with non-executive directorships at Zopa and Consultant Connect
- University of Cambridge, Economics



Stuart Jackson, 46, Co-Founder & CFO

- Entrepreneur with financial services background
- Formerly Director of Barclays Bank's 'Foundation' Business Unit
- University of Cambridge, Economics



James Eddison, 48, Co-Founder & CTO

- Entrepreneur with tech background
- Architect for global technology systems for SAP, Carlsberg and Borders
- University of Cambridge, Engineering



Estimate of phased transaction costs and savings



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Cash cost/savings (A\$m)	Total	FY20	FY21	FY22	FY23	FY24
Upfront consideration	(134)	(134)	-	-	-	-
Staged consideration ¹	(325)	-	(114)	(76)	(135)	-
Contingent consideration ²	(48)	(10)	(19)	-	(19)	-
Implementation cost estimates ³	(80-100)	~(10)	~(15)	(30-40)	(25-35)	-
Opex/capex savings estimates	Ongoing	-	-	70-80	100-120	100-150

Note: £240 million has been hedged at an average AUD/GBP rate of 0.523, the balance is unhedged

- 1) £70 million payment in FY2023 has the potential to be accelerated to FY2022 in the event of a 6 month lagged average Brent price of >US\$50/bbl from August 2021
- 2) Payment contingent on achievement of delivery milestones
- 3) Indicative pre-tax profile, excludes ~\$100 million in accelerated depreciation associated with decommissioning existing systems over implementation period

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Figures

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A reference to \$ is a reference to Australian dollars unless specifically marked otherwise.

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