

SPARK ENERGY, INC.

FORM 8-K (Current report filing)

Filed 05/12/17 for the Period Ending 05/11/17

Address	12140 WICKCHESTER LANE SUITE 100 HOUSTON, TX, 77079
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Sector	Utilities
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): May 11, 2017

Spark Energy, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-36559

(Commission
File Number)

46-5453215
(IRS Employer
Identification Number)

12140 Wickchester Ln, Ste 100

Houston, Texas 77079

(Address of Principal Executive Offices)

(Zip Code)

(713) 600-2600

(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Item 7.01 Regulation FD Disclosure.

The Company has prepared updated investor presentation materials (the “Investor Presentation”) for use from time to time in presentations about the Company’s operations and performance. The updated Investor Presentation will also be posted in the Investor Relations section of the Company’s website at www.sparkenergy.com. A copy of the Investor Presentation is furnished as Exhibit 99.1 hereto.

Information contained in Item 7.01 of this Current Report on Form 8-K, including Exhibit 99.1, is being furnished and shall not be deemed to be “filed” for the purpose of the Securities Act of 1933, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Exchange Act of 1934, as amended, regardless of any general incorporation language in any such filings.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Investor Presentation of Spark Energy, Inc. – May 2017

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: May 12, 2017

Spark Energy, Inc.

By: /s/ Gil Melman

Name: Gil Melman

Title: Vice President, General Counsel and Corporate Secretary

Exhibit No.	Description
99.1	Investor Presentation of Spark Energy, Inc. – May 2017



Investor Presentation May 2017

Safe Harbor Statement

This presentation contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. These 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 "guidance," "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,
- extreme and unpredictable weather conditions,
- the sufficiency of risk management and hedging policies,
- customer concentration,
- federal, state and local regulation, including the industry's ability to prevail on its challenge to the New York Public Service Commission's order enacting new regulations that sought to impose significant new restrictions on retail energy providers operating in New York,
- key license retention,
- increased regulatory scrutiny and compliance costs,
- 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,
- level of indebtedness,
- changes in costs to acquire customers,
- actual customer attrition rates,
- actual bad debt expense in non-POR markets,
- actual results of the companies we acquire,
- accuracy of billing systems,
- ability to successfully navigate entry into new markets,
- whether our majority shareholder or its affiliates offers us acquisition opportunities on terms that are commercially acceptable to us,
- ability to successfully and efficiently integrate acquisitions into our operations,
- ability to achieve expected future results attributable to acquisitions,
- changes in the assumptions we used to estimate our 2017 Adjusted EBITDA, including weather and customer acquisition costs,
- competition, and
- the "Risk Factors" in our Form 10-K for the year ended December 31, 2016, and in our quarterly reports, other public filings and press releases.

You should review the Risk Factors and other factors noted throughout or incorporated by reference in this presentation that could cause our actual results to differ materially from those contained in any forward-looking statement. The Adjusted EBITDA guidance for 2017 is an estimate as of May 8, 2017. This estimate is based on assumptions believed to be reasonable as of that date. 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 financial 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.



Spark Energy at a Glance

Spark Energy, Inc. Independent Retail Energy Services Provider

Headquartered:	Houston, TX
Founded:	1999
IPO:	July 2014
Ticker / Exchange:	SPKE / NASDAQ Global Select Market
Market Capitalization:	\$543.1MM
Debt	\$22.2MM
Preferred Stock:	\$40.3MM
Enterprise Value:	\$605.6MM
Annual Dividend:	\$1.45 (paid quarterly)
Implied Dividend Yield:	4.6%

18 Years of Dedicated Service to the Deregulated Energy Markets

Market Data as of May 5, 2017

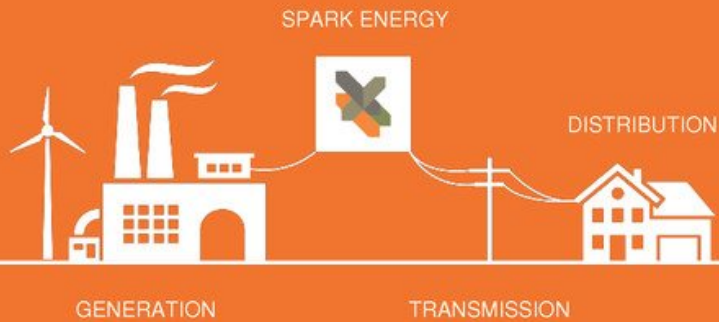
Spark Energy Highlights

- 2017 annual Adjusted EBITDA guidance of **\$110MM - \$120MM**
- **Nine** acquisitions completed since IPO, creating significant shareholder value
 - Most recent acquisitions include a drop-down from sponsor and a related book purchase that, combined, add approximately 60,000 RCEs and a new market in a new state
 - Pending acquisition of Verde Energy, a 100% renewable brand with approximately 145,000 RCEs
- **Aligned sponsor** supports growth strategy while **reducing risks**
 - Sponsor owns 11,440,173 of Class A and Class B shares¹, representing approximately 66% of the Company's outstanding capital
 - Sponsor plans to continue to help Spark source and finance acquisition opportunities
- Full supply desk and risk department work together to **hedge portfolio and optimize margins**
- Quarterly dividends of **\$0.3625** (\$1.45 annualized) since IPO in July 2014
- Recently closed 8.75% preferred share offering, **increasing financing flexibility**
- Highly **experienced** senior management team
- Total Shareholder Return of **~162%** since January 2015

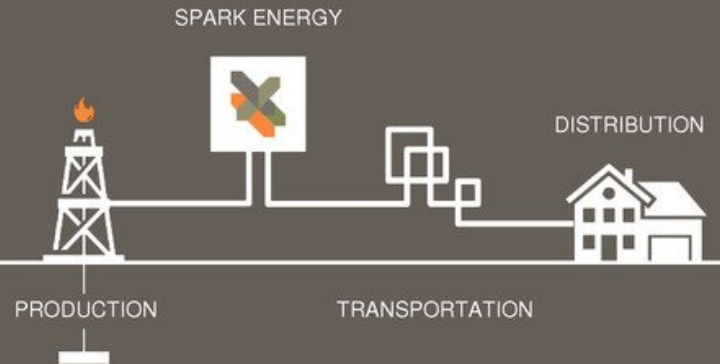
¹Shares as of May 5, 2017

How Spark Energy Serves its Customers

Delivering Electricity



Delivering Natural Gas



Our Value Proposition to the Customer

Stable and Predictable
Energy Costs

Potential Cost
Savings

Green and Renewable
Products

Opportunities for Organic and M&A Growth

Natural Gas



Electricity



Only 18% of eligible natural gas customers and 32% of eligible electricity customers have made a competitive supplier choice²

Source: DNV GL, EIA

¹Residential customers only

²Eligible customers defined as customers in deregulated states

M&A Opportunities Remain Strong

- ✓ Highly fragmented competitive market of independent energy retailers
- ✓ Majority with < 300,000 customers
- ✓ Spark's corporate structure and relationship with its Sponsor provides the ability to finance and transact quickly

Strategic M&A Criteria

- ✓ Scale / Density
- ✓ Geography
- ✓ Products
- ✓ Synergies
- ✓ Growth Engine

Potential for Accretive Transactions with Synergies

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

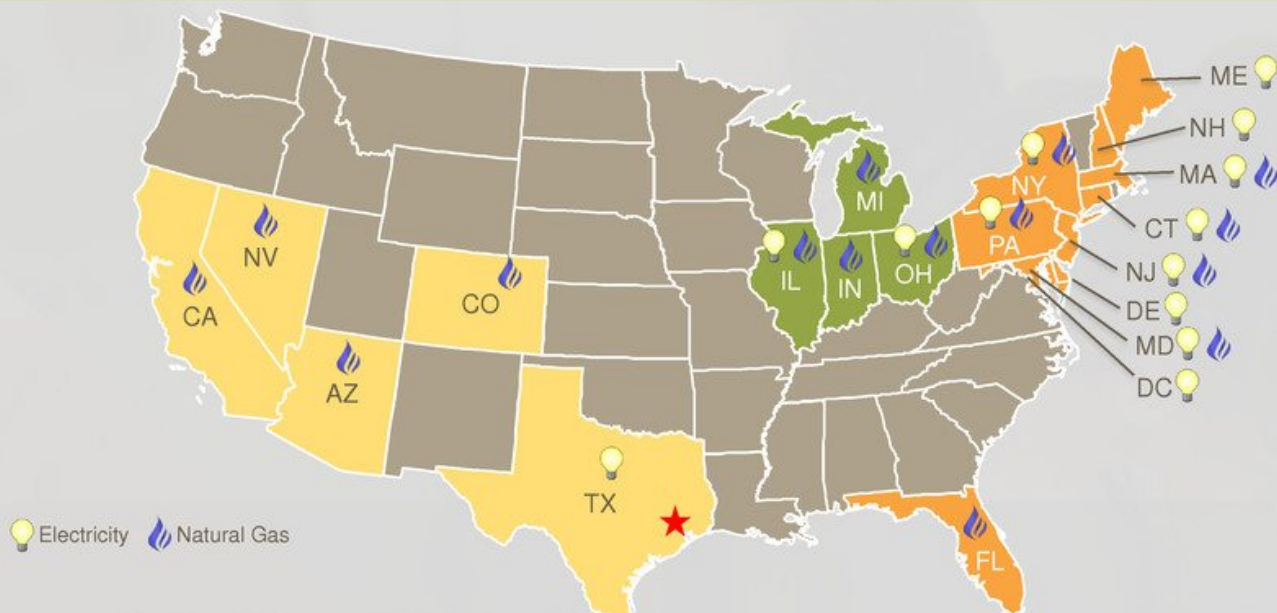
- Analyze historical usage and attrition data to optimize customer profitability
- Customer retention team focused on product selection, renewal, and cross-sell opportunities
- Win-back strategy leverages customers across multiple brands
- Provide high-quality service

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

Spark's Geographical Diversity: 19 States and 91 Utility Territories



Residential Customer Equivalents RCEs

(In thousands)	Electricity	Percent	Natural Gas	Percent	Total	Percent
East	471	80%	114	58%	585	74%
Midwest	50	8%	53	27%	103	13%
Southwest	71	12%	30	15%	101	13%
Total	592	100%	197	100%	789	100%

RCE counts are as of March 31, 2017 and do not include recent acquisitions or contribution from eREX Spark Marketing joint venture in Japan

Proven Track Record of Acquisitions and Integration

Recent Transactions



~12,500 RCEs
Connecticut

December 2014



~9,500 RCEs
Northern California

March 2015



~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

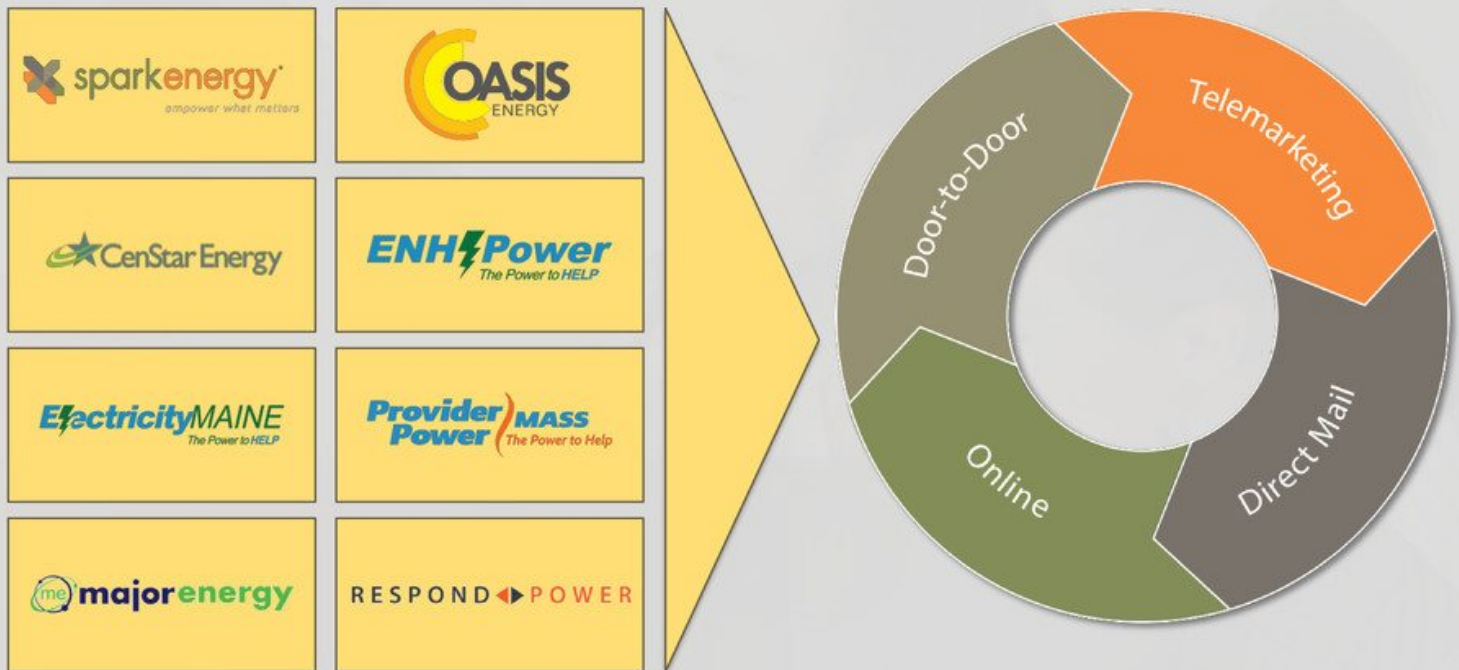
August 2016



~60,000 RCEs
1 New State & Market

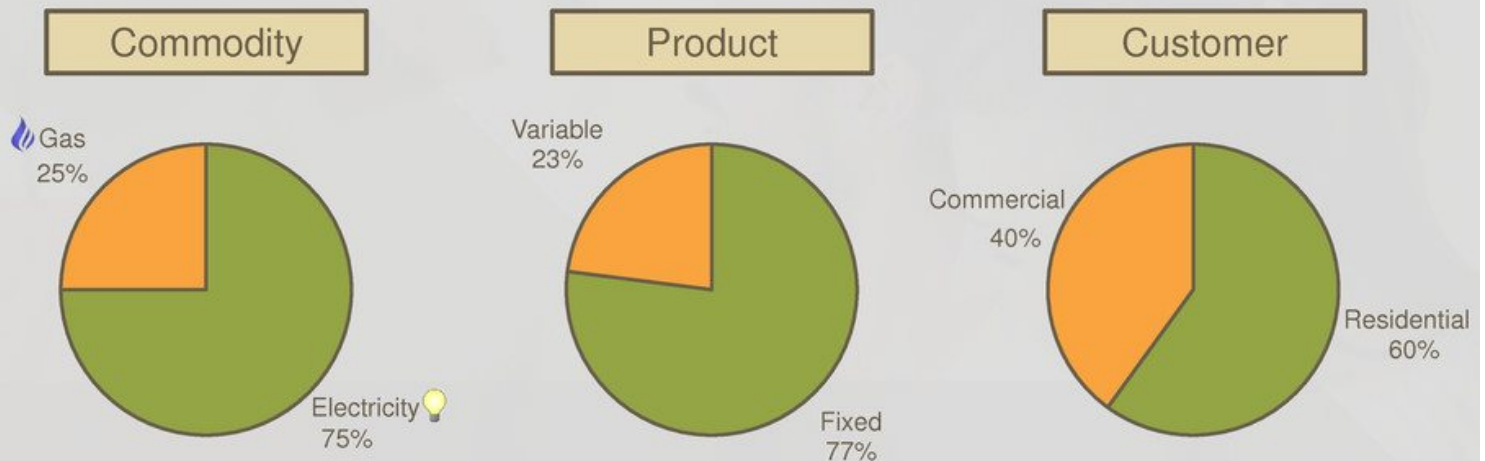
April 2017

Multiple Brands and Sales Channels Enhance Our Ability to Acquire Customers Organically



- Multiple brands allow for brand positioning and winback strategies not previously available
- Outsourced vendor relationships allow rapid scaling and low fixed costs while driving quality, efficiency and flexibility
- Recently instituted organic commission structure ensures customer quality and lifetime value

Portfolio Diversification



Both product and customer mix, combined with geographic diversification supports stable cash flow

Based on RCEs as of March 31, 2017

Conservative Capitalization Minimizes Risk

- \$107.5 million syndicated credit facility¹
- \$82.5 million working capital line
- \$22.2 million drawn on \$25.0 million acquisition tranche²
- Low cost of capital
- Currently negotiating new facility which we anticipate will be larger than existing facility

Leverage Ratio ²	
Debt ^{2,3}	\$22.2
TTM Adjusted EBITDA	\$95.0MM
Leverage Ratio	0.2x

¹Current credit facility matures July 2017

²As of March 31, 2017

³Includes acquisition line portion of senior credit facility

Managing Commodity Price Risk

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 18 year history
- Demonstrated ability to "weather the storm" through up-and-down commodity markets, extreme weather events, and down economies
- Disciplined risk management supports aggressive growth plans
 - Virtually all fixed price exposure is hedged
 - Variable hedging policy based on individual market characteristics
 - Hedging policy monitored closely by CFO and CRO
- Risk management policy approved by syndicate banks and Board of Directors
- Approximately \$250MM in available credit with wholesale suppliers¹

¹As of May 5, 2017

Creating Shareholder Value



As of May 5, 2017

Key Investment Highlights

High Growth

Proven Track
Record of
Accretive
Acquisitions and
Integrations

9

Transactions
since IPO

Consistent
Organic Growth

~5%

Organic customer
growth last year

Sustainable Dividends

Customer &
Product
Diversification
Underpins our
Dividend

19 States
91 Utilities
2 Commodities
9 Brands

Conservative
Capitalization
and Risk
Management

0.2x

Leverage Ratio

Committed to
the Dividend
and Total
Shareholder
Return

\$1.45

Annual Dividend

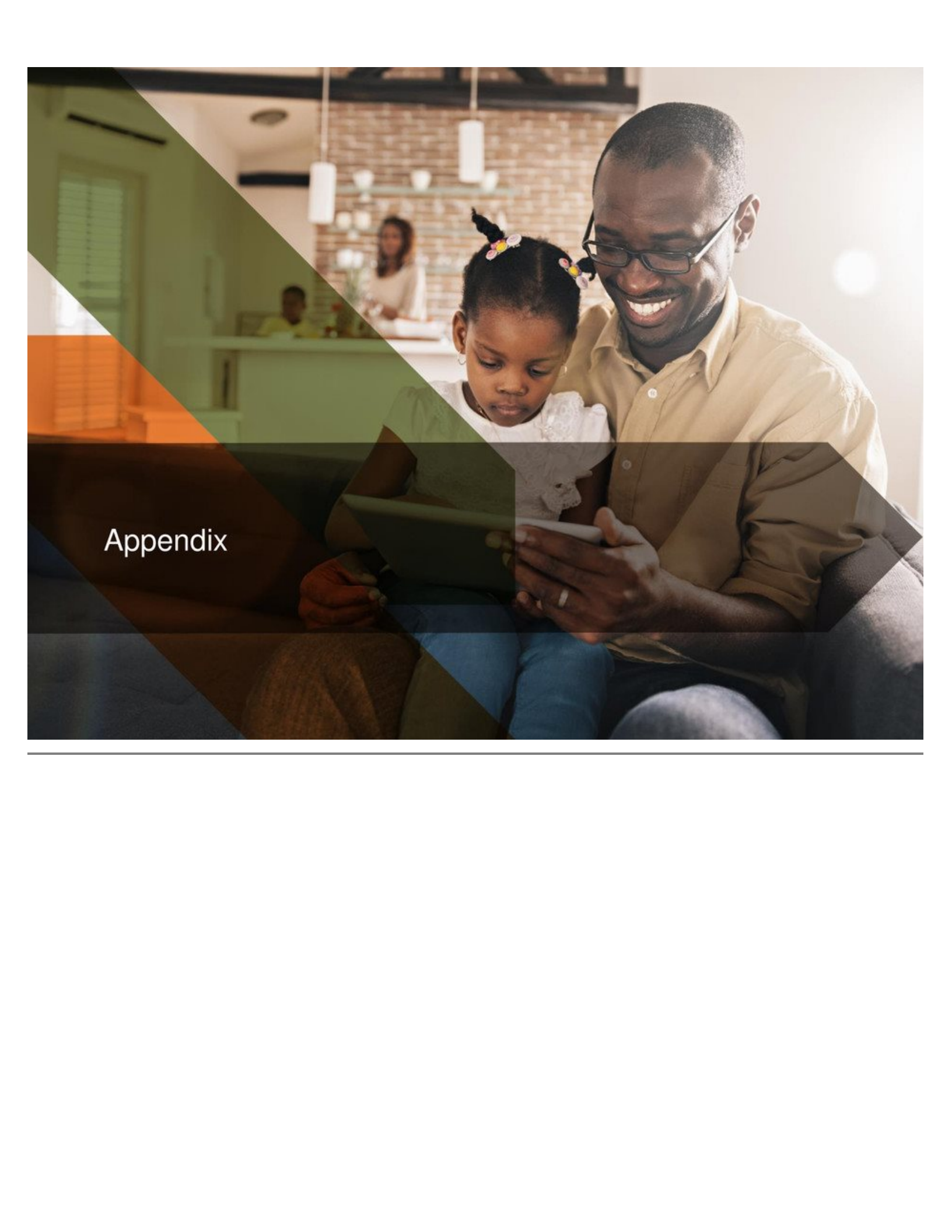
**Aligned Sponsor Provides Access to Capital, M&A Opportunities,
and Streamlined Customer Operations Services to Support Aggressive Growth**

Investor Relations Contact Information



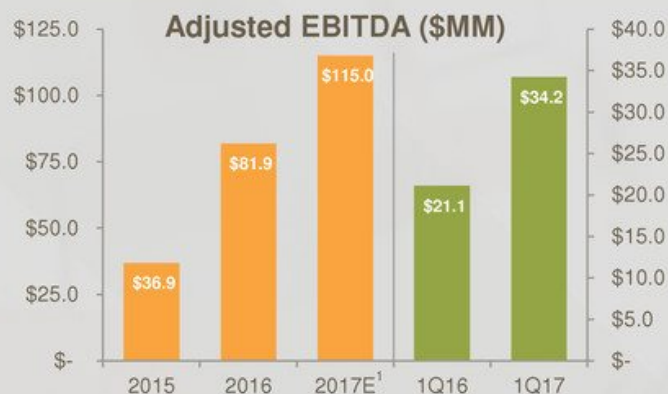
Investor Relations
Spark Energy, Inc.
12140 Wickchester Lane, Suite 100
Houston, TX 77079
<http://ir.sparkenergy.com/>

Contact: Robert Lane
ir@sparkenergy.com
832-200-3727

A photograph of a man and a young girl sitting together, looking at a tablet. The man, wearing glasses and a light-colored shirt, is smiling. The girl, wearing a white dress, is looking at the tablet. They are in a home setting with a brick wall and a kitchen counter in the background. The image is overlaid with a dark, semi-transparent geometric shape on the left side.

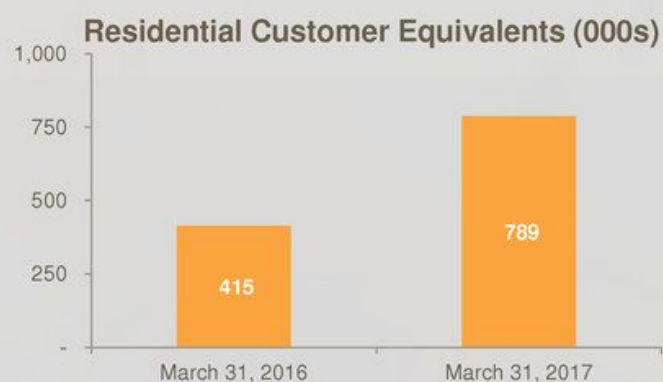
Appendix

Spark by the Numbers



(\$ in millions)

	2015	2016	2017 ¹	1Q16	1Q17
Revenue	\$358.2	\$546.7	-	\$110.5	\$194.3
Retail Gross Margin	\$113.6	\$182.4	-	\$39.6	\$64.3
Adjusted EBITDA	\$36.9	\$81.9	\$115.0	\$21.1	\$34.2
Customer Acq. Costs	\$19.9	\$24.9	\$30.0	\$2.3	\$7.7



	1Q 2016	1Q 2017
RCEs (000s) ²	415	789
RCE Attrition	4.3%	3.8%
Electricity Volume (MWh)	586,677	1,360,430
Natural Gas Volume (MMBtu)	6,112,431	8,158,966
Electricity Unit Margin (\$/MWh)	\$26.26	\$26.81
Natural Gas Unit Margin (\$/MMBtu)	\$3.95	\$3.41

2017 Adjusted EBITDA Guidance of \$110.0 – \$120.0 Million

¹This data reflects the midpoint of the range given for the applicable period; ²As of the last day of the quarter

Proven Leadership

Senior Management has over 35 Years of Retail Energy Experience



Nathan Kroeker • CEO 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



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



Gil Melman • Vice President, General Counsel and Corporate Secretary

- Former general counsel to Madagascar Oil Limited (LSE:MOIL) and lawyer at Vinson & Elkins LLP
- Proficient in representing public and private companies, investment funds and investment banking firms on M&A and capital markets transactions

Extensive M&A 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. 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

Nathan Kroeker, appointed President of Spark Energy in April 2012, is responsible for overseeing the day-to-day operations and help shape the overall strategy of the company. Nathan 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).

Nick W. Evans, Jr. • Independent Director

Mr. Evans began his career at the Georgia Railroad Bank and then joined Abitibi Southern Corporation. He began his television career in sales at WATU-TV and WRDW-TV in Augusta and then moved to WNEP-TV, Wilkes-Barre/Scranton, Pennsylvania. He returned to WAGT-TV in Augusta and eventually became president and general manager. From 1987 to 2000, he was President and CEO of Spartan Communications, Inc., headquartered in Spartanburg, South Carolina. He currently serves as chairman of ECP Benefits and ECP/Trinity, partner of Toast Wine & Beverage, and is involved in business development for Group CSE in Atlanta. Mr. Evans is a former board member of numerous civic, community, business and industry organizations. While a Rotarian he was selected as a Paul Harris Fellow. Currently, he holds board positions with Wells Fargo (Augusta Advisory Board), Forest Hills Golf Association, Azalea Capital (Advisory Board) and Coca-Cola Bottling Company United, Inc. Mr. Evans holds a B.B.A degree from Augusta College. Mr. Evans was selected to serve as a director because of his leadership and management expertise.

James G. Jones II • Independent Director

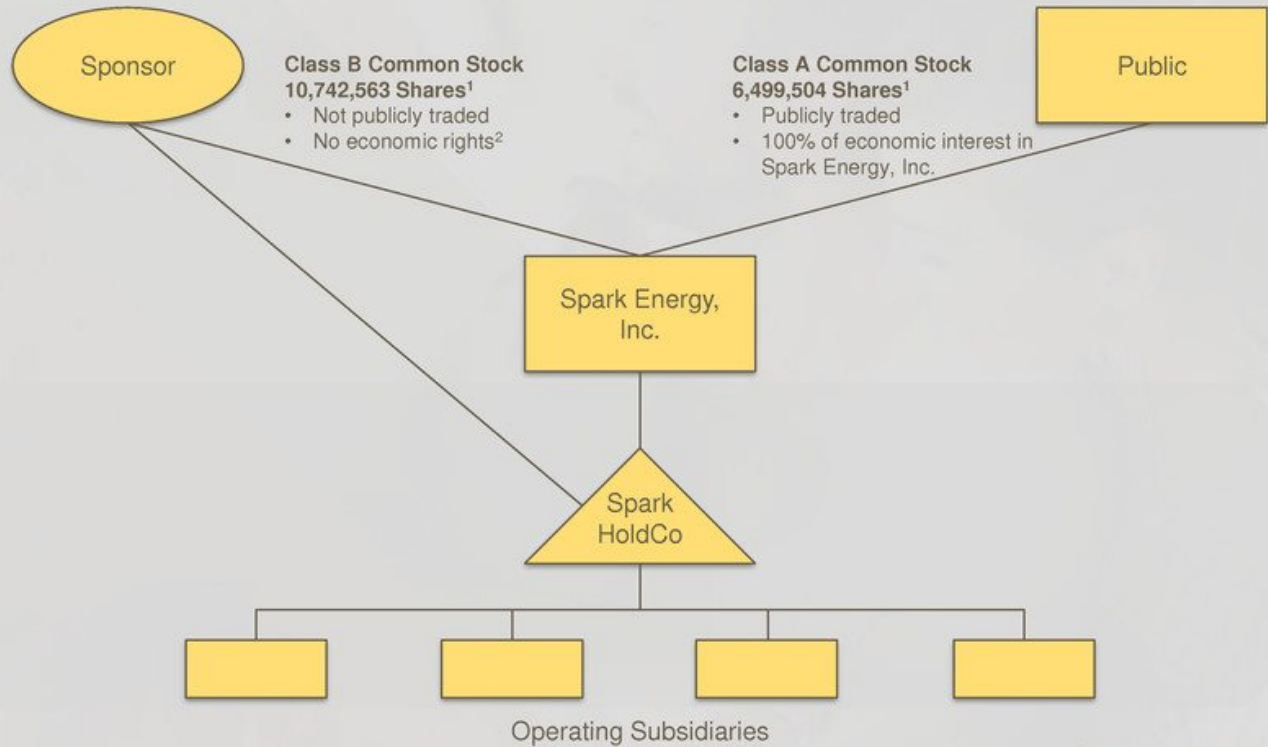
Mr. Jones has served on Spark Energy's Board of Directors since our initial public offering in July 2014. Mr. Jones is a partner at Padgett Stratemann & Co, a regional CPA with over 230 professionals. Mr. Jones is the leader of the Houston office which opened in May 2014. Prior to Padgett Stratemann & Co, Mr. Jones worked at Ernst & Young LLP from 1998 to March 2014, where he was a tax partner. 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 as a director because of his extensive tax and financial background as well as his management expertise.

Kenneth M. Hartwick • Independent Director

Mr. Hartwick has served on Spark Energy's Board of Directors since our initial public offering in July 2014. Mr. Hartwick served in various roles for Just Energy Group Inc., a retail natural gas and electricity provider, most recently serving as President and Chief Executive Officer from 2004 through 2014. Mr. Hartwick also served for Just Energy Group Inc. as President from 2006 to 2008, as Chief Financial Officer from 2004 to 2006 and as a director from 2008 to 2014. Mr. Hartwick also served as the Chief Financial Officer of Hydro One, Inc., an energy distribution company, from 2001 to 2004. Mr. Hartwick currently serves as a director of Atlantic Power Corporation, a power generation plant operator, a position he has held since 2004. Mr. Hartwick also serves as a director of MYR Group Inc., an electrical contractor specializing in transmission, distribution, and substation projects, a position he has held since 2015. Mr. Hartwick holds an Honours of Business Administration degree from Trent University. Mr. Hartwick was selected 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



¹Shares as of May 5, 2017

²Sponsor receives distributions through direct interest in Spark HoldCo

Spark in the Community

Empower What Matters Most

Spark partners with organizations that:

- Raise the quality of life for children and military veterans
- Make communities better places to live and work
- Drive America's economic future through entrepreneurship education
- Provide an avenue for employees to get involved in the community and to support the company's green values



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



Spark helps **Lemonade Day** introduce youth to the concept of starting and operating their own lemonade stand businesses while teaching the real-world skills they need to achieve their dreams.



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.



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.



Helping a Hero provides specially adapted homes — and other much-needed services and resources — for severely-injured military combat veterans. Spark is proud to play its part in helping America's heroes transition back to normal lives in their communities by donating electricity to these warriors for the first year they own their new homes.

A photograph of a man and a young girl sitting together, looking at a tablet. The man, who is Black and wearing glasses and a light-colored button-down shirt, is smiling and pointing at the screen. The girl, also Black, is wearing a white lace-trimmed top and blue pants, and is looking down at the tablet. They are in a modern home with a brick wall and white pendant lights in the background. A woman is visible in the background, and another person is partially visible on the left. The image has a diagonal split with green and orange colors.

Appendix: Reg. G Schedules

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)	2015	2016	1Q16	1Q17
Net income	\$25,975	\$65,673	\$15,741	\$11,386
Depreciation and amortization	25,378	32,788	6,789	9,232
Interest expense	2,280	8,859	753	3,445
Income tax expense	1,974	10,426	988	2,406
EBITDA	55,607	117,746	24,271	26,469
Less:				
Net, Gains (losses) on derivative instruments	(18,497)	22,407	(9,749)	(21,456)
Net, Cash settlements on derivative instruments	20,547	(2,146)	11,272	7,414
Customer acquisition costs	19,869	24,934	2,305	7,690
Plus:				
Non-cash compensation expense	3,181	5,242	618	1,367
Contract termination charge related to Major Energy Companies change of control	-	4,099	-	-
Adjusted EBITDA	\$36,869	\$81,892	\$21,061	\$34,188

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)	2015	2016	1Q16	1Q17
Net cash provided by operating activities	\$45,931	\$67,793	\$25,502	\$24,380
Amortization and write off of deferred financing costs	(412)	(668)	(117)	(248)
Allowance for doubtful accounts and bad debt expense	(7,908)	(1,261)	(907)	(356)
Interest expense	2,280	8,859	753	3,445
Income tax expense (benefit)	1,974	10,426	988	2,406
Changes in operating working capital				
Accounts receivable, prepaids, current assets	(18,820)	12,135	(3,607)	(1,729)
Inventory	4,544	542	(3,484)	(3,322)
Accounts payable and accrued liabilities	13,008	(17,653)	5,391	9,906
Other	(3,728)	1,719	(3,458)	(294)
Adjusted EBITDA	\$36,869	\$81,892	\$21,061	\$34,188
Cash flows provided by operating activities	\$45,931	\$67,793	\$25,502	\$24,380
Cash flows used in investing activities	\$(41,943)	\$(36,344)	\$(833)	\$(9,612)
Cash flows used in financing activities	\$(3,873)	\$(16,963)	\$(26,194)	\$(8,797)

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)	2015	2016	1Q16	1Q17
Operating income	\$29,905	\$84,001	\$17,577	\$17,038
Depreciation and amortization	25,378	32,788	6,789	9,232
General and administrative	61,682	84,964	17,380	24,377
Less:				
Net asset optimization revenue	1,494	(586)	527	(194)
Net, Gains (losses) on non-trading derivative instruments	(18,423)	22,254	(9,620)	(21,037)
Net, Cash settlements on non-trading derivative instruments	20,279	(2,284)	11,277	7,574
Retail Gross Margin	\$113,615	\$182,369	\$39,562	\$64,304
Retail Gross Margin – Retail Natural Gas Segment	\$53,360	\$64,233	\$24,156	\$27,828
Retail Gross Margin – Retail Electricity Segment	\$60,255	\$118,136	\$15,406	\$36,476

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 year in which they are incurred, even though we capitalize such costs and amortize them over two years in accordance with our accounting policies. The deduction of current period customer acquisition costs is consistent with how we manage our business, but the comparability of Adjusted EBITDA between periods may be affected by varying levels of customer acquisition costs. For example, our Adjusted EBITDA is lower in years of customer growth reflecting larger customer acquisition spending. 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.

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.

Reconciliation of Spark's estimate of Adjusted EBITDA for the year ended December 31, 2017 to the relevant GAAP line items is not being provided as Spark is not providing 2017 guidance for net income (loss), net cash provided by operating activities, or the reconciling items between these GAAP financial measures and Adjusted EBITDA. Spark does not provide guidance for such items because it is not possible to forecast the future non-cash impacts of net gains and losses on derivative instruments and non-cash compensation expense attributable to grants of equity under our Long Term Incentive Plan. Additionally, it is not possible to forecast our provision for income taxes due to the potential for change in our non-controlling interests' ownership percentage, given the nature of our Up-C structure. Accordingly, a reconciliation to net income (loss) or net cash provided by operating activities is not available without unreasonable effort.

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 (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 (loss), 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 (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 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) and net cash provided by operating activities, 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.

