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Strategic partnership with Octopus Energy to transform Origin's retail business

Transaction highlights

- Origin to adopt fast-growing UK retailer Octopus Energy's market leading operating model and customer platform, Kraken, to fast-track material improvements in customer experience and costs.
- 20 per cent equity interest in Octopus Energy, opening up growth opportunities.
- Octopus has demonstrated success in energy retailing, technology and large-scale customer migrations in the UK.
- Targeting pre-tax cash savings of \$70-80 million in FY2022, increasing to \$100-150 million annually from FY2024, in addition to the \$100 million cost out program already underway.
- Staged consideration: \$134 million on completion and \$373 million over four financial years (\$48 million contingent on delivery of certain milestones).
- Delivering sustainable value for Origin customers, employees and shareholders.

Origin Energy Limited (Origin) has established a strategic partnership with fast-growing United Kingdom retailer and emerging technology business Octopus Energy (Octopus) to transform its retail operations delivering a radical improvement in customer experience, a material reduction in costs, and opening up future growth opportunities.

Origin will acquire a 20 per cent interest in Octopus and a licence in Australia to its market-leading customer platform, Kraken. The strategic partnership will see Origin work with Octopus to adopt Octopus' leading operating model and technology platform delivering significant benefits for Origin customers, employees and shareholders.

Over the next 24 to 30 months, Origin will transfer its 3.8 million retail electricity and gas customer accounts to the Kraken platform, delivering a step-change reduction in operating and capital costs, with expected pre-tax cash savings of \$70-80 million in FY2022 increasing to \$100-150 million annually from FY2024.

The transaction is funded with staged consideration¹ of \$134 million paid upfront and \$373 million spread over four financial years, comprising equity instalments and progress payments related to the rollout of Kraken across Origin's retail operations.

Origin CEO Frank Calabria said, "The future of energy retailing lies in delivering superior customer experience at lowest cost and seamlessly integrating products and services, enabled by new technologies.

"While we have made good progress towards improving our customers' experiences and the efficiencies within our retail business, this partnership Octopus will help us transform energy retailing by automating our end-to-end processes and embedding an operating model designed around, and for, the customer experience. This will make every transaction simpler for our customers.

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



“This is an exciting opportunity because it delivers transformative change through a partnership with a company that is leading in customer satisfaction and experience in products and services that sit at Origin’s core.

“By bringing together Octopus’ unique platform and operating model with Origin’s leadership in energy retailing in Australia, we will be able to accelerate delivery of our retail strategy.

“For our customers, they will have a vastly simpler experience, with the technology capable of integrating multiple services to a single bill, delivering agile tariffs and easy integration of smart meters, solar, storage and electric vehicles, accelerating demand-side management capability.

“Our people will be given the tools and empowered to provide an exceptional service, with small autonomous teams having full accountability for end-to-end customer experience, resulting in faster and better service.

“Octopus is genuinely unique in the global energy market, having purpose-built its low-cost operating model and technology platform around the needs of customers. Adopting its approach will allow Origin to create a genuine competitive advantage,” Mr Calabria said.

Octopus Energy CEO Greg Jackson said, “Octopus has been courted by platform partners and investors from across the globe, but Origin shone out. They have the most forward-thinking management of any market-leading energy company we’ve met and we admire their commitment to accelerate renewable energy adoption and deliver better service to Australian customers. We’re looking forward to helping them on that journey by using our technology to reduce energy costs, improve customer service and provide cleaner and smarter energy solutions.”

A leading disruptive energy retailer

Octopus has disrupted energy retailing through its purpose-built Kraken platform and customer-centric operating model enabling superior customer service at lowest cost. Since its inception in 2016, Octopus has grown rapidly, with a customer base representing around 5 per cent of the UK market (approximately 1.5 million customers) and is pursuing opportunities to scale its model in other markets.

Octopus continues to grow organically at approximately 40,000-50,000 customers per month with significant growth opportunities in both energy retailing and licencing of its Kraken platform in the UK and internationally.

The UK retailer is a leader in customer satisfaction, through technical innovation and a unique operating model. Octopus has won numerous awards, alongside a 5-star rating on Trustpilot, the world’s leading customer review platform. Its churn rate is one of the lowest in the UK, and its cost to serve is significantly lower than major peers.

Octopus has demonstrated success in managing large-scale customer migrations to Kraken, having carried out seven migrations totalling more than 1 million customer accounts. In March 2020, Octopus announced a partnership with E.ON to migrate approximately 6 million UK customers to Kraken over the next two years. When the E.ON and Origin rollouts are complete, more than 17 million customer accounts will have migrated to the platform in the UK and Australia.



Redesigning Origin retail

Origin has made good progress on improving customer experience and reducing operating costs within existing business structures and technology. Implementing Kraken and redesigning the end-to-end retail operating model will help Origin differentiate from the market through:

- Radical improvement in customer experience – a premium end-to-end experience with seamless processes, personalisation and transparency delivering high levels of customer loyalty and trust;
- Material reduction in cash costs – step-change reduction in Origin's cost to serve through automation and self service;
- Agile operations – a unique model that empowers lean teams with accountability for the end to end lifecycle of specific customer groups; and,
- Building on existing digital and data analytics capability – real-time analytics and machine learning.

“Energy markets are changing, with rapid growth of interconnected smart devices and decentralised energy and storage in the home. Kraken allows a more agile integration of products and services, putting Origin in the box seat to deliver new technology to enable smarter and more sustainable energy for customers ahead of the market,” Mr Calabria said.

Implementation and partnership structure

Dedicated teams from Origin and Octopus will implement a fully customised version of Kraken across Origin's retail divisions.

Estimated transaction and implementation costs will be \$80-100 million spread over four financial years, including parallel system running costs and decommissioning costs. There will also be an estimated \$100 million in accelerated depreciation associated with decommissioning existing systems over the implementation period.

The staged consideration is expected to be funded from cash and free cash flow over time. Savings from the Kraken rollout are on top of the existing target to reduce retail cost to serve by \$100 million by FY2021. The transaction is expected to deliver returns materially above cost of capital with staged payments offset by savings from FY2022.

Origin will appoint one director and an observer to the Octopus board. Origin will provide a three-year company guarantee to support an Octopus working capital facility of up to £160 million in the first two years, reducing to a maximum of £110 million in the third year.

Origin continues to adopt a disciplined approach to capital management, targeting adjusted net debt/adjusted underlying EBITDA within a range of 2-3x. Origin expects both S&P and Moody's to reaffirm its investment grade credit ratings of BBB and Baa2.

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