

Acorn Energy (ACFN)

Buy

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ACFN: EPA Transport Rule; Incremental Positive; Reiterate Buy

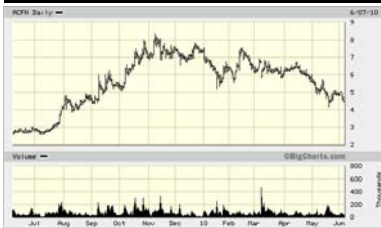
Key Metrics

Price	\$5.19
Rating	Buy
52-week Range	\$8.33-2.56
Cash (M)	\$19
Debt (M)	\$1
Debt/Capital	2%
Book Value/Share	\$3.47

Market Data

Market Cap (M)	\$81
Enterprise Value (M)	\$63
Shares Out. (M)	15.6
Float	14.6
10-Day Avg. Vol	32,860
Institutional Ownership	8%

Stock Performance



Source: BigCharts.com

Valuation (FTM-E)

EV/Sales	0.9x
P/E-GAAP	NM
EV/EBITDA	13.2x

Company Description

Acorn Energy's five operating subsidiaries offer a broad range of products and services including pollution control, security systems, software for document management and project control, electric grid monitoring and control equipment and fiber-optic sensing systems. Acorn's primary target market is the massive energy industry.

Investment Conclusion

We reiterate our Buy recommendation of Acorn and \$7-8 potential valuation range. We believe the key driver of near-term results is Acorn's subsidiary, CoaLogix, which provides catalyst regeneration services to coal-fired electric power plants. We estimate CoaLogix's potential in the U.S. market alone more than justifies purchase of the stock. We believe the value of CoaLogix, in a few years, could be worth over \$10 per share, after adjusting for minority interests.

Summary

- **EPA Transport Rules an incremental positive.** Yesterday the EPA released proposed Transport Rule to limit NOx and SO₂ emissions in 31 states and the District of Columbia. These rules, if adopted, would supplant the Clean Air Interstate Rule (CAIR) proposed in 2005, vacated by the DC Circuit Court in 2008, then reinstated until the EPA developed new rules to overcome the court's objections. There is no near term impact to CoaLogix, as utilities were already operating under CAIR, but the Transport rules improve the longer-term outlook for CoaLogix.
- **More states included in rules, possibly less room for trading credits.** The Transport Rule covers three more states (Kansas, Nebraska and Oklahoma) than the CAIR proposal, could tighten trading of credits versus CAIR and calls for an annual NOx cap of 1.3M tons a year earlier than CAIR. This could be met by a variety of strategies, including SCR, so a potential net positive for CoaLogix.
- **Next for Transport Rule.** There will be a 60 day public comment period and the EPA expects a final rule in late Spring 2011. While this does not change our estimates, it does reduce some uncertainty around CAIR and could lead to more use of SCR in more locations.

MCF Estimates

	FY09A	FY10E	FY11E
Sales (M)			
1Q	\$8.5	\$7.9	\$19.1
2Q	7.8	10.1	18.1
3Q	6.5	13.3	18.1
4Q	8.6	16.9	19.1
FY (Dec)	\$31.3	\$48.1	\$74.4
EV/S	2.0x	1.3x	0.9x
EPS-GAAP			
1Q	(\$0.09)	(\$0.25)	\$0.07
2Q	0.03	(0.17)	0.04
3Q	(0.11)	(0.11)	0.04
4Q	(0.33)	(0.00)	0.06
FY (Dec)	(\$0.50)	(\$0.50)	\$0.21
P/E	NM	NM	25.0x

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	FY 08	Q1 09	Q2 09	Q3 09	Q4 09	FY 09	Q1 10	Q2 10 E	Q3 10 E	Q4 10 E	FY 10 E	Q1 11 E	Q2 11 E	Q3 11 E	Q4 11 E	FY 11 E
Total Revenues	20,696	8,478	7,780	6,463	8,596	31,317	7,854	10,100	13,300	16,850	48,104	19,100	18,100	18,100	19,100	74,400
Total Cost of Sales	14,163	5,099	4,290	3,602	4,774	17,765	4,446	5,460	6,875	9,048	25,529	10,305	9,655	9,655	10,305	39,920
Gross Profit	6,533	3,379	3,490	2,861	3,822	13,552	3,708	4,640	6,425	7,803	22,576	8,795	8,445	8,445	8,795	34,480
R&D	1,169	276	(624)	424	493	569	670	750	750	750	2,920	788	788	788	788	3,150
In process R&D	2,444	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SG&A	11,667	4,108	4,619	4,565	5,225	18,517	6,321	6,426	7,400	7,400	27,547	7,275	7,275	7,275	7,275	29,100
Dividends from EnerTech	0	0	0	0	0	0	(135)	0	0	0	(135)	0	0	0	0	0
Impairments	3,664	70	10	0	2,692	2,692	0	0	0	0	0	0	0	0	0	0
Operating Expenses	18,944	4,454	4,005	4,989	8,330	21,778	6,856	7,176	8,150	8,150	30,332	8,063	8,063	8,063	8,063	32,250
Operating Income	(12,411)	(1,075)	(515)	(2,128)	(4,508)	(8,226)	(3,148)	(2,536)	(1,725)	(348)	(7,757)	733	383	383	733	2,230
Gain on early redemption	1,259	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Finance Expense	(3,031)	(169)	85	297	(444)	(231)	50	45	40	40	175	0	0	0	0	0
Gain on sale of Convergence	8,861	417	810	0	0	1,403	0	0	0	0	0	0	0	0	0	0
Gain on private placement	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pretax Income	(5,315)	(827)	380	(1,655)	(4,952)	(7,054)	(3,098)	(2,491)	(1,685)	(308)	(7,582)	733	383	383	733	2,230
Tax Benefit (Expense)	(342)	0	0	72	672	744	(75)	0	0	0	(75)	0	0	0	0	0
Net Income	(5,657)	(827)	380	(1,583)	(4,280)	(6,310)	(3,173)	(2,491)	(1,685)	(308)	(7,657)	733	383	383	733	2,230
Share in Losses of Paketeria	(1,560)	0	0	263	0	263	0	0	0	0	0	0	0	0	0	0
Share in Losses of GridSense	(926)	(129)	0	0	0	(129)	0	0	0	0	0	0	0	0	0	0
Net Loss	(8,143)	(956)	380	(1,320)	(4,280)	(6,176)	(3,173)	(2,491)	(1,685)	(308)	(7,657)	733	383	383	733	2,230
Income of Non-controlling Inter	248	(107)	(37)	96	468	420	50	(115)	(19)	266	182	350	263	263	350	1,225
Net Loss attribu to ACFN	(7,895)	(1,063)	343	(1,224)	(3,812)	(5,756)	(3,123)	(2,606)	(1,704)	(42)	(7,475)	1,083	645	645	1,083	3,455
Shares-Basic	11,374	11,535	11,377	11,186	11,592	11,445	12,498	14,919	15,806	16,042	14,816	16,142	16,265	16,588	16,688	16,446
Shares-Diluted	11,374	11,535	11,553	11,186	11,592	11,445	12,498	14,919	15,806	16,042	14,816	16,342	16,565	16,788	16,888	16,646
EPS-Basic	\$ (0.69)	\$ (0.09)	\$ 0.03	\$ (0.11)	\$ (0.33)	\$ (0.50)	\$ (0.25)	\$ (0.17)	\$ (0.11)	\$ (0.00)	\$ (0.50)	\$ 0.07	\$ 0.04	\$ 0.04	\$ 0.06	\$ 0.21
EPS-Diluted	\$ (0.69)	\$ (0.09)	\$ 0.03	\$ (0.11)	\$ (0.33)	\$ (0.50)	\$ (0.25)	\$ (0.17)	\$ (0.11)	\$ (0.00)	\$ (0.50)	\$ 0.07	\$ 0.04	\$ 0.04	\$ 0.06	\$ 0.21

Source: Merriman and Acorn

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	FY 08	FY 09	Q1 10	Q2 10 E	Q3 10 E	Q4 10 E	FY 10 E	FY 11 E
Cash	15,142	11,208	18,554	13,862	14,022	14,576	14,576	20,436
Restricted Deposit	2,157	1,627	876	876	876	876	876	876
A/R	4,524	3,541	5,165	5,050	6,650	8,425	8,425	9,550
Unbilled WIP	581	4,113	3,720	4,000	4,000	4,000	4,000	4,000
Inventory	1,148	1,848	2,439	2,525	3,325	4,213	4,213	4,775
Investment in Converge	0	0	0	0	0	0	0	0
Other	2,080	2,317	2,269	2,918	3,842	4,868	4,868	5,518
Current Assets	25,632	24,654	33,023	29,231	32,716	36,958	36,958	45,155
PP&E	2,447	3,357	5,212	10,244	10,304	11,560	11,560	11,704
Investment in Converge	2,462	0	0	0	0	0	0	0
Investment in GridSense	129	0	0	0	0	0	0	0
Investment in EnerTech	1,117	2,796	2,808	2,808	2,808	2,808	2,808	2,808
Employee Termination Benefits	1,677	2,074	2,175	1,903	1,665	1,457	1,457	854
Restricted Deposit	579	611	1,185	1,185	0	0	0	0
Other intangibles	10,357	8,194	10,647	10,412	10,178	9,943	9,943	9,004
Goodwill	6,342	6,679	8,174	8,174	8,174	8,174	8,174	8,174
Other assets	313	370	377	485	638	809	809	917
Total Assets	51,055	48,735	63,601	64,442	66,483	71,709	71,709	78,616
STD	445	430	463	463	463	463	463	463
Notes Payable	3,400	0	0	0	0	0	0	0
A/P	2,285	1,607	2,068	2,723	3,429	4,513	4,513	5,140
Accrued Payroll	1,314	1,409	1,340	1,765	2,222	2,924	2,924	3,331
Other	4,350	4,988	6,107	8,043	10,127	13,327	13,327	15,179
Current Liabilities	11,794	8,434	9,978	12,994	16,241	21,227	21,227	24,113
Employee Termination Benefits	2,651	3,129	3,312	2,898	2,536	2,219	2,219	1,301
LTD	0	405	379	379	379	379	379	379
Other	487	669	534	687	904	1,146	1,146	1,299
Equity	36,123	36,098	49,398	47,485	46,423	46,739	46,739	51,525
Total Liab & Equity	51,055	48,735	63,601	64,442	66,483	71,709	71,709	78,616

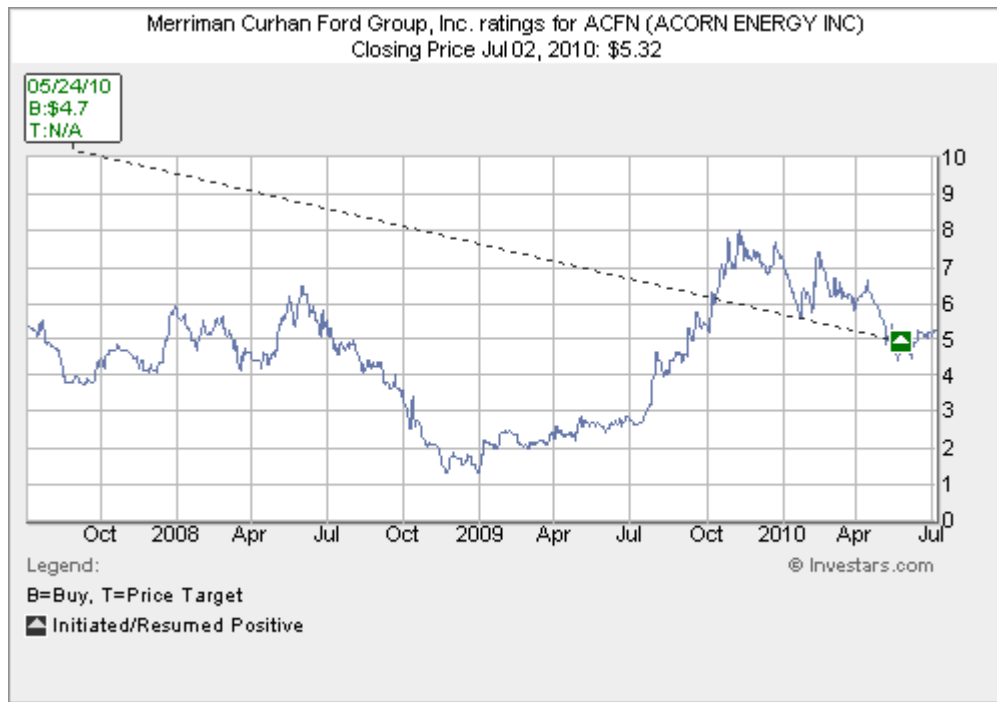
Source: Merriman and Acorn

Cash Flow Statement	FY 08	FY 09	Q1 10	Q2 10 E	Q3 10 E	Q4 10 E	FY 10 E	FY 11 E
Net	(8,143)	(6,176)	(3,173)	(2,491)	(1,685)	(308)	(7,657)	2,230
D&A	1,298	1,775	449	560	875	879	2,763	3,894
Stock Comp	1,431	1,425	356	278	323	323	1,280	1,357
Other	2,919	1,477	126	(97)	1,125	(38)	1,116	(270)
Working Capital	(777)	(3,929)	(660)	2,116	(77)	1,298	2,676	548
Operating Cash Flow	(3,272)	(5,428)	(2,902)	366	561	2,154	179	7,759
Converge	15,355	3,990	0	0	0	0	0	0
EnerTech	(750)	(1,000)	0	0	0	0	0	0
GridSense	(1,889)	(550)	(200)	(1,158)	0	0	(1,358)	0
Restricted Deposits	(1,219)	389	177	0	0	0	177	0
Paketeria	(2,551)	0	0	0	0	0	0	0
EES	(200)	0	0	0	0	0	0	0
Local Power	(250)	0	0	0	0	0	0	0
Coreworx	(3,990)	0	0	0	0	0	0	0
SCR Tech	(956)	0	0	0	0	0	0	0
USSI	0	(200)	7	(200)	(300)	(1,500)	(1,993)	(1,500)
Loans to investee/potential investee	(956)	(200)	0	0	0	0	0	0
Employee Termination Benefits	(51)	(377)	(35)	0	0	0	(35)	0
License Acquisition	(2,000)	(200)	0	0	0	0	0	0
Capx	(1,707)	(1,582)	(2,004)	(4,000)	(400)	(400)	(6,804)	(1,600)
Cash from Investing	(1,164)	270	(2,055)	(5,358)	(700)	(1,900)	(10,013)	(3,100)
Debt	(3,808)	(3,010)	0	0	0	0	0	0
Stock	2,860	3,813	12,372	300	300	300	13,272	1,200
Cash from Financing	(948)	803	12,372	300	300	300	13,272	1,200
FX	(74)	21	(69)	0	0	0	(69)	0
Change in Cash	(5,458)	(4,334)	7,346	(4,692)	161	554	3,368	5,859

Source: Merriman and Acorn

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Buy



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