

Acorn Energy, Inc.

First Quarter 2017 Financial Results
Conference Call

Monday, May 15, 2017, 04:30 PM Eastern

CORPORATE PARTICIPANTS

Jan Loeb - *President and Chief Executive Officer*

Michael Barth - *Chief Financial Officer*

Walter Czarnecki - *President and Chief Executive Officer,*
OmniMetrix

PRESENTATION

Operator

Good day, everyone. Thank you for holding and welcome to the Acorn Energy First Quarter 2017 Financial Results Conference Call. All participants are in a listen-only mode. Should you need assistance please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" and then "1" using a telephone keypad. To withdraw your question, you may press "*" and "2." Please also note today's event is being recorded.

At this time, I like to hand the conference over to Michael Barth, CFO of Acorn Energy. Please go ahead.

Michael Barth

Thank you. Welcome everyone to Acorn Energy's first quarter 2017 conference call. Joining me to discuss the results today are Jan Loeb, Acorn's President and CEO and Walter Czarnecki, President and CEO of OmniMetrix. Following our remarks, we will open up the call for your questions.

As a reminder, many of the statements made in today's prepared remarks or in response to your questions are forward-looking. These statements are subject to various risks and uncertainties. For example, the performance of our businesses in 2017 and future years is subject to factors, such as access to sufficient working capital, risks associated with executing our operating strategy, meeting performance milestones, risks associated with conducting business with government customers, possible cost overruns on fixed-price projects and success in driving growth in the company's core business.

Such forward-looking statements are based on management's beliefs, as well as, assumptions based upon information currently available to management, pursuant to the 'Safe Harbor' provisions of the Private Securities Litigation Reform Act of 1995. There is no assurance that Acorn or its operating companies will be able to achieve their goals for growth in 2017 and future years.

The company also undertakes no obligation to disclose any revision to these forward-looking statements to reflect events or circumstances after the date made. A complete discussion of the risks and uncertainties which may affect Acorn Energy and their businesses is included in the risk factors in the company's Form 10-K filed by the company with the Securities and Exchange Commission.

And with that, I will hand the call over to Jan Loeb. Jan.

Jan Loeb

Thank you, Michael and thank you all for joining today's call. This is an exciting time for us at Acorn and we are pleased to share with you some important highlights of the first quarter of 2017, and how we see the company moving forward. Mike will then review our first quarter financial results and we will hear a few words from Walter Czarnecki before opening the call to your questions.

During the first quarter, we continued to focus on scaling our remote monitoring and control business, OmniMetrix and taking strategic steps to provide needed funding. We

are excited to see OmniMetrix achieve significant growth and improved bottom line performance in the first quarter with 30% revenue growth and gross margin increasing to 56% in the first quarter of this year versus 51% in the year ago period.

Acorn also made noteworthy progress in reducing operating cost at the corporate level and we expect to see stabilized cost levels in the following quarters. Our strategic initiatives have enabled us to deliver improved cash flow from operations at OmniMetrix and at the corporate level and improved overall bottom line performance versus the same period in 2016.

Moving forward, we will remain focused on scaling our monitoring business which ties into core trends, seeking to leverage Internet of Things technology to manage and protect high-value industrial assets while also lowering maintenance costs.

OmniMetrix is beta-testing a new product design for power generation monitoring which is expected to be more effective and efficient and support continued revenue and gross profit growth. We will continue our efforts to grow this business organically, as well as seeking and evaluating potential acquisition targets to accelerate growth in monitoring or other areas where we can identify similar strong business models with the potential to enhance shareholder value.

We are proud of the accomplishments we have made to-date and are focused on extending this success in the following quarters. We still owned 41.2% of DSIT after selling nearly half of our holdings last year, and we are seeking to monetize our remaining interest in order to enhance our financial position.

Ongoing dialogues are in the early stages. DSIT's first quarter 2017 revenue growth was 4% over the first quarter of 2016 to \$4.1 million. The increase was primarily due to revenue related to DSIT's \$7.1 million order for Blackfish Hull Mounted Sonar systems received in June of 2016. In addition to growth of DSIT and OmniMetrix, Acorn was successful in securing \$1.9 million in loan commitments from our board of directors of which Michael will provide some details.

With that, I will hand the call back to Michael to review our first quarter financials. Michael?

Michael Barth

Thank you, Jan. In April 2016, Acorn sold nearly 50% of its interest in DSIT Solutions to Rafael Advanced Defense Systems. Following the sale, Acorn no longer consolidates the results of DSIT, but reports its investment in proportionate share of income using the equity method. As such, Acorn's consolidated financial results are not directly comparable to prior year periods, but business unit discussions do provide meaningful year-over-year comparisons.

Reflecting these factors, Acorn's 2017 first quarter revenue decreased to \$1.1 million compared to \$4.8 million reported in the first quarter of 2016, when DSIT contributed \$3.9 million to our consolidated revenue.

Selling, general and administrative expenses declined to \$859,000 in the first quarter of 2017 from \$2.6 million in the first quarter of 2016. These reductions reflect the impact of the deconsolidation of DSIT, as well as, corporate cost deductions.

Corporate general and administrative expenses declined 88% to \$141,000 in the first quarter of 2017 from \$1.2 million in the first quarter of 2016. The decrease relates to approximately \$460,000 of severance and related cost associated with the resignation of our former CEO recorded in the first quarter of 2016, as well as reduced professional fees and salaries.

In addition, in the first quarter of 2017, we reached the settlement with professional service provider on an outstanding invoice resulting in a benefit of \$167,000. Non-cash stock compensation also decreased from \$220,000 in the first quarter of 2016 to \$13,000 in the first quarter of 2017.

We continue to seek ways to achieve greater operating efficiencies and expect our future quarter's corporate, general and administrative expense to approximate first quarter 2017 expense without the benefit of the previously mentioned settlement.

For the first quarter of 2017, Acorn reported a net loss attributable to shareholders of \$220,000 or \$0.01 per share compared with a loss of \$3 million or \$0.11 per share in the first quarter of 2016. The improved bottom line was the result of the shuttering of GridSense's operations in 2016 reduced corporate G&A expense and improved results at OmniMetrix.

Focusing on OmniMetrix, as Jan previously mentioned, first quarter revenue grew 30% to \$1.1 million compared to \$841,000 in the first quarter of 2016.

Specifically, revenue from the power generation division increased 35% to \$898,000, while revenue from the corrosion protection division rose 14% to \$198,000 as compared to the same period in 2016. The increased revenue was driven by greater hardware unit sales, as well as, additional monitoring revenue from more units being monitored.

Revenue recognized from the sale of hardware increased 39% to \$554,000 while monitoring revenue improved 23% to \$542,000 in the first quarter of 2017 compared to the same period in 2016. First quarter 2017 revenue also represented an increase of 5% over fourth quarter 2016 revenue.

Gross profit grew 44% to \$614,000 in the first quarter of 2017 reflecting a gross margin of 56%. This represents a significant increase from first quarter 2016 gross profit of \$425,000 with a 51% gross margin.

The higher margin is attributable to a combination of higher revenue level, management's efforts to shift the sales mix to higher margin products, as well as, an increase in monitoring revenue margins to 86% from 83% in the first quarter of 2016.

OmniMetrix recorded \$718,000 of SG&A costs during the first quarter of 2017, reflecting a 20% increase as compared to the same period in 2016. The increased SG&A cost is primarily attributable to increased marketing initiatives, including efforts in generating leads and improving the corporate website and increased payroll costs from an increased employee headcount. With higher revenue and gross profit, partially offset by higher SG&A costs, OmniMetrix's first quarter 2017 operating loss was reduced to \$196,000 from \$248,000 in the first quarter of 2016.

Turning to DSIT on a standalone basis; first quarter revenue increased 4% to \$4.1 million. First quarter gross profit grew to \$1.3 million compared to \$1.2 million in 2016, reflecting both increased revenue and a slight increase in the gross margin to 32% from 31%. The increased gross margin in the first quarter of 2017 was due to improved margins in historically lower margin non-naval projects.

On March 31st, Acorn had a net working capital of \$5.1 million in continuing operations. Working capital in continuing operations include \$633,000 of cash and cash equivalents and \$579,000 of escrow deposits related to the April 2016 DSIT transaction. The escrow is scheduled to be released in October of this year.

Net cash increased by \$434,000 during the first quarter, of which \$364,000 was used in operating activities and \$798,000 was provided from financing activities.

In February of 2017, the company received \$900,000 in funding pursuant to the \$1.9 million of loan commitments provided by certain members of Acorn's board. Under that commitment, a director has agreed to the additional loan of \$1 million to Acorn on or after July 7th of this year, if alternative sources of funds are not secured. It is expected that these borrowings will be repaid from the proceeds of the planned monetization of our remaining DSIT ownership interest

Now, I would like to turn the call over to Walter Czarnecki to provide more color on growth and developments in OmniMetrix.

Walter Czarnecki

Thank you, Michael. OmniMetrix continued to see growth in both of our divisions in the first quarter which our customers tell us, is a function of the superior customer experience we provide to them. We are particularly excited about the opportunities we see in our corrosion protection division and we are seeing positive results of the strategy we put in place two years ago.

In 2017, we continued to develop new products and new product designs that add and improve features and functionality relevant to our customers. We continue to explore and add new product applications as we have done over the past three years. We remain enthusiastic about the emerging Internet of Things macro trend as both our power generation and corrosion protection divisions play important roles in connecting critical assets in the industrial and oil and gas sectors.

Thank you, as always for your continued interest in OmniMetrix. And with that, operator, let's please open the call to questions.

QUESTION AND ANSWER

Operator

Ladies and gentlemen, at this time we will begin the question and answer session. If you would like to ask a question you may press "*" and then "1" using the touchtone telephone, to withdraw your questions you may press "*" and then "2." If you are using a speakerphone, we do ask that you please pick up the handset before pressing the numbers to ensure the best sound quality. Once again that is "*" and then "1" to ask a question. We will pause momentarily to assemble the roster.

Once again that is "*" and then "1" to ask a question "*" and then "2" to remove yourself from the question queue.

And we will give it one final time, if you would like to ask question, please press "*" and "1."

And everyone at this time, showing no questions, I would like to turn the conference call back over to management for any closing remarks.

CONCLUSION

Jan Loeb

Thank you for your interest in Acorn. I continue to believe that Acorn is an attractive platform for building shareholder value. Clearly, there is more work ahead. I am grateful for the support of our shareholders. To that end, I am happy to speak with shareholders and potential investors that would like to get to know the company, our management and our goals. Please contact our investor relations team listed on today's press release with any questions you may have or to coordinate a call. Thank you again for your time today. And with that operator, we can end today's call. Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference call. We do thank you for attending. You may now disconnect your lines.