

Acorn Energy, Inc.

First Quarter 2018 Earnings Release/Investor  
Call

May 16, 2018 at 11:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Jan Loeb** – *President and Chief Executive Officer*

**Michael Barth** – *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good day, everyone. Thank you for holding, and welcome to Acorn Energy's First Quarter 2018 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 "\*" then "1" on your telephone keypad. To withdraw your question, please press "\*" then "2." Please note that this event is being recorded.

I would now like to hand the conference over to Michael Barth, CFO of Acorn Energy. Please go ahead.

### **Michael Barth**

Thank you and welcome everyone to Acorn Energy's First Quarter Conference call. Joining me today is Jan Loeb, Acorn's President and CEO. 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 may be forward looking. These statements are subject to various risks and uncertainties. For example, the performance of OmniMetrix and Acorn in 2018 and future years is subject to factors such as risks associated with executing our operating strategy, maintaining our high renewal rate and growing our customer base, changes in technology and the competitive environment in which we operate, financial and economic risks and having access to sufficient capital to support growth. Such forward-looking statements are based on management's beliefs as well as assumptions made 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 OmniMetrix will be able to achieve their goals for growth in 2018 and future years. The company also undertakes no obligation to disclose any revision to any forward-looking statements to reflect events or circumstances after the date made. A complete discussion of the risks and uncertainties, which may affect us, is included in the Risk Factors in our Form 10-K filed with the Securities and Exchange Commission.

And with that, I'd like to hand the call over to Jan Loeb. Jan.

### **Jan Loeb**

Thank you, Michael, and thank you all for joining us today. We will keep our prepared remarks brief as we've had two recent investor calls. Walter Czarnecki, OmniMetrix's CEO, is unable to join us on today's call because he's on his honeymoon. We wish him all the best in his marriage and look forward to Walter joining us for the second quarter call.

Clearly, a major event for Acorn in the first quarter was the sale of DSIT. Sale proceeds have left Acorn debt free at the corporate level with approximately \$2 million in cash. With the disposition of both DSIT and GridSense behind us, we are focused on growing our industrial, remote monitoring and control business.

We have been achieving solid growth and margin improvement at OmniMetrix, as reviewed in today's release. At the corporate level, we continue to work to strengthen our financial position to support future growth. We plan to rename the corporation in 2018 in order to properly highlight and define our

business going forward.

For those who may be new to our company, OmniMetrix monitors, manages and protects high-value industrial assets of its customers through proprietary remote monitoring and control technology. OmniMetrix delivers substantial cost reductions to customers versus the alternative to remote monitoring, which is regular physical on-site inspections. The OmniMetrix business consists of hardware monitoring equipment sales for new installation, as well as ongoing monitoring service. The monitoring side of the business offers a very attractive combination of visibility from recurring revenue along with strong gross profit margins and solid cash generation.

In 2018, we are focused on continued organic growth as well as supplementing this by pursuing the acquisition of attractively-valued technologies and lines of business in related monitoring segments or the broader IoT space. We are looking for similar businesses with strong, recurring revenues and synergistic business models that have the potential to enhance value for Acorn shareholders. All I can say at this point is that we've been active in looking for appropriate acquisition targets and we are now able to focus more time on this effort.

On our prior investor calls, we've provided some forward-looking metrics and goals that I'd like to review. For the full-year 2018, we continue to expect approximately 20% growth in cash basis sales, which would represent over \$6 million of new orders. We caution that our recorded revenue growth typically lags behind cash basis sales due to accounting standards, which spread revenue recognition over the life of the contract or the expected life of the hardware though we typically receive the cash up front. Accordingly, it's important that investors understand the relationship between reported revenue and our cash basis sales to better appreciate our business trends, which Michael will touch on in his remarks.

Finally, I wanted to emphasize that with the DSIT sale cash infusion, we believe Acorn now has sufficient funding to execute on our organic growth initiatives and to move the business into positive cash flow and ultimately to profitability. We believe achieving these goals will create value for shareholders, while at the same time, we will continue to pursue complementary M&A opportunities that we believe will strengthen our business and accelerate growth.

And with that overview, I'll hand the call back to Michael.

### **Michael Barth**

Thank you, Jan. With respect to revenue recognition, as Jan has already mentioned, the OmniMetrix business included a sale of equipment and of monitoring services. Monitoring fees, which are generally paid 12 months in advance, are initially recorded as deferred revenue upon receipt of payment from the customer and then amortized to revenue over the service period. Similarly, sales and cost of sales associated with hardware are initially recorded to deferred revenue and deferred charges and then amortized and recognized over the estimated life of the unit. As a result, our reported revenue and related profit contribution lags behind our cash generation and this is why we expect to be cash flow positive in OmniMetrix before we are profitable.

Through the year ending December 31, 2017, we were amortizing our deferred revenue and deferred charges over a period of two years. Beginning January 1<sup>st</sup>, based on an internal analysis, we have increased the requisite amortization period to three years. This longer estimated life of hardware units will have the effect of slowing down revenue recognition on new hardware sales and increasing the difference between our reported revenue and cash sales. The initial impact on our results in first quarter was minimal. Reported revenue would have been approximately \$17,000 higher. However, we expect the impact to increase as we move through the year and continue to book new orders.

Looking at our results, Acorn's first quarter 2018 revenue rose 10% to \$1.2 million as compared to first quarter 2017 revenue. Revenue in both periods was only from our OmniMetrix subsidiary. The increase in revenue was driven by our pipeline monitoring or Cathodic Protection business, which grew 63% to \$0.3 million versus the first quarter of 2017, while the Power Generation segment revenue was flat at \$0.9 million.

OmniMetrix gross profit rose 21% to \$0.7 million in the first quarter, reflecting an increase in gross margin to 62% compared to 56% in the first quarter of 2017. The margin increase was principally due to the rollout of higher margin, next-generation products in the Power Generation segment, with overall hardware gross margins increasing to 37% in the first quarter of 2018 versus 27% in the first quarter of 2017. The gross margin on monitoring revenue remained strong at 83% versus 86% in the prior-year period, with the slight decline attributable to a change in the mix of products being monitored.

OmniMetrix' operating costs declined slightly in the first quarter of 2018, primarily due to certain one-time marketing initiatives taken in 2017. With higher revenue, increased gross profit and slightly lower operating expenses, OmniMetrix reported a 72% reduction in its operating loss to \$55,000 in the first quarter of 2018 versus a loss of \$196,000 in first quarter of 2017.

Acorn's consolidated first quarter 2018 results included an \$829,000 loss on the sale of DSIT, resulting in a net loss attributable to shareholders of \$1.2 million or \$0.04 per share in the first quarter. Acorn's first quarter 2017 net loss attributable to shareholders was \$220,000 or \$0.01 per share and included a \$167,000 benefit from a settlement with a professional service provider. Excluding the impact of these two one-time events, Acorn's net loss was essentially unchanged year over year.

Regarding liquidity and capital resources, the closing of the DSIT transaction provided Acorn with approximately \$1.9 million in cash after accounting for transaction costs, withholding taxes, director loans, accrued interest and amounts due to DSIT. Our corporate cash balance on May 9<sup>th</sup> was approximately \$2 million and Acorn currently has no long-term debt. Also, as of May 9<sup>th</sup>, OmniMetrix had approximately \$160,000 of accounts receivable financing outstanding under its credit facility, with about \$500,000 of unused credit available.

And with that, I'd like to turn the call over to the operator to open this call for questions.

## **QUESTIONS AND ANSWERS**

### **Operator**

We will now begin the question and answer session. To ask a question, you may press "\*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "\*" then "2." At this time, we will pause momentarily to assemble our roster.

The first question will come from Jack Mayer, a private investor. Please go ahead.

### **Jack Mayer**

Hi, Jan. Sounds like it was, thank God, a very nice quarter.

### **Jan Loeb**

Morning.

**Jack Mayer**

Can you comment on— I mean, you've talked about roughly 20% growth. The first quarter number doesn't seem to be quite that. Can you comment on sort of what the trend is? Is it lumpy? Has it picked up in the second quarter? If you can comment on that.

**Jan Loeb**

Yes. The first quarter a seasonal, slower selling period for OmniMetrix versus the second half of the year, the third and fourth quarter, are our largest quarters and the business is somewhat lumpy, depending on when we get orders out. But, I feel, as I said in my comments, I feel confident in our 20% growth numbers and if we would take— if we look at where we are to date through the end of April, our cash basis sale number is up 22%. So, we feel confident that the 20% target should be generally achievable.

**Jack Mayer**

Okay, great. Thanks.

**Operator**

Again, if you have a question, please press "\*" then "1" at this time.

The next question will come from Richard Sosa, a private investor. Please go ahead.

**Richard Sosa**

Hey, Jan. Good morning.

**Jan Loeb**

Morning, Richard.

**Richard Sosa**

Nice quarter. Just had one quick question on the gross margin. It was nice to see that pretty dramatic pick up. Do you expect that, if you can comment on that going forward, plus-60% margins? Is that something we should see going forward?

**Jan Loeb**

Yes. I would hope— with our new product line, which we rolled out mid-year last year and the ramp up, I would expect to see that type of gross profit out into the future as well. Again, it's a combination of the high mid-80's or so gross profit from our monitoring services and the roughly 40% in our hardware side or 35% to 40% in our hardware side. So, in the 60's is where I would expect it to be out into the future.

**Richard Sosa**

Okay. That's great. Good job.

**Jan Loeb**

Thank you.

**Operator**

Again, if you wish to ask a question, you can press "\*" then "1" at this time. Once again, if you'd like to ask a question, please press "\*" then "1".

## CONCLUSION

### Operator

Seeing no further questions, I would like to turn the conference back over to Jan Loeb for any closing remarks.

### Jan Loeb

Thank you all for your interest in Acorn. I believe Acorn represents an attractive platform for building shareholder value and have demonstrated that belief with recent open market purchases that further expand my position as the company's largest shareholder.

Having cleaned up the balance sheet, reduced overhead and refocused the company on the attractive monitoring and IoT space, we are now well positioned for the next phase of growth. Our lower cost structure, margin enhancements and operating leverage should continue to enable top line growth to translate into improved bottom line performance, which ultimately is the driver of shareholder value.

I am grateful for the support of our investors and pleased to speak with any investors who have specific questions about the company and our plans. Additionally, I will be presenting at the LD Micro Invitational Conference in Los Angeles on June 6<sup>th</sup> and available for investor meetings at the event from June 4<sup>th</sup> through the 6<sup>th</sup>. This is the first conference attendance for Acorn in over three years, so I'm very much looking forward to the event. Please contact our Investor Relations team to set up a call with me or to answer any questions you may have.

Thank you again for your time this morning and with that operator, we can end today's call. Thank you.

### Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a good day.