

Acorn Energy, Inc.

2017 Second Quarter Conference Call

Monday, August 14, 2017, 4:30 PM Eastern

CORPORATE PARTICIPANTS

Jan Loeb - *President, Chief Executive Officer*

Michael Barth - *Chief Financial Officer*

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

PRESENTATION

Operator

Good day, everyone. Thank you for holding and welcome to Acorn Energy's Second Quarter Conference Call. All participants are in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star "*" key followed by zero "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star "*" then one "1" on your telephone keypad, to withdraw your question, please press star "*" then two "2." Please note, that the 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. Welcome, everyone to Acorn Energy's second quarter 2017 conference call. Joining me 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 costs 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 made 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 our 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 I thank you all for joining us today. In our call today, I will review the progress and priorities for our company, Michael will then review our second quarter results following which Walter Czarnecki will discuss our growth strategies for the OmniMetrix business. We will then open the call up to your questions.

During the second quarter, we continued to achieve revenue and operating margin improvements in our remote monitoring and control business, OmniMetrix. At Acorn corporate, we also focused on initiatives to secure funding to solidify our financial position and to support future growth.

Over recent quarters, Acorn has made significant progress in reducing operating costs at the corporate level and within our OmniMetrix business and we are now seeing and expect to continue to see stabilized costs levels in the coming quarters. These efforts combined with our strategic initiatives have enabled us to deliver improved cash flow from operations and improved overall bottom-line performance versus the same periods in 2016.

Moving forward, our focus is to continue to scale our monitoring business which leverages machine-to-machine Internet of Things technology to manage and protect high-value industrial assets.

OmniMetrix solutions improve our customers' ability to monitor and manage their high-value assets while also delivering substantial cost reductions versus regular site visits.

In addition to OmniMetrix organic growth, we will also continue to identify and evaluate potential acquisition targets to accelerate growth in monitoring or in other areas where we can identify similarly strong recurring synergistic business models, with the potential to enhance shareholder value. We are proud of our operational accomplishments over the past several quarters and we are focused on extending this progress in the future.

From a capital standpoint, as we have previously discussed, we are actively seeking to monetize our 41.2% ownership interest in the DSIT sonar business. While we like the DSIT business and its long-term potential, we have concluded that the best course for Acorn is to sell our remaining stake in DSIT in order to bring focus to Acorn's operations.

Capital from a sale of our DSIT stake would be used to repay debt, support our working capital needs and to help accelerate growth at OmniMetrix.

With respect to the sale of our DSIT position, we are in dialogues with a few qualified potential buyers. Though encouraged by this activity which has been proceeding over the past few months, we are unable to predict either an outcome or its timing, though we are working hard to try to accomplish a transaction this year.

Importantly, DSIT continues to perform favorably, having delivered modest growth, as well as, margin improvement in the second quarter and year-to-date period in 2017.

And with that overview, I will hand the call back to Michael to review our second quarter financials. Michael

Michael Barth

Thank you, Jan. In April 2016, Acorn sold a portion 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 and proportionate share of income using the equity method. As such, Acorn's consolidated financial results are not directly comparable to prior year period. However, our OmniMetrix results do provide meaningful year-over-year comparison.

Reflecting these factors, Acorn's 2017 second quarter revenue decreased to \$1 million compared to \$1.9 million in the second quarter of 2016 which include the \$1.2 million of DSIT revenue. Revenue for the first six months of 2017 was \$2.1 million compared to \$6.7 million in the prior year period which included \$5.1 million of DSIT revenue.

Selling, general and administrative expense or SG&A expense declined to \$925,000 in the second quarter of 2017 from \$1.2 million in the second quarter 2016, primarily reflecting the impact of the DSIT deconsolidation.

Corporate, general and administrative expense was \$307,000 in the second quarter of 2017 versus \$308,000 in the second quarter of 2016.

For the first half of 2017, total consolidated SG&A expense declined to \$1.8 million from \$3.8 million in the comparable 2016 period. Approximately half of the \$2 million reduction was due to the deconsolidation of DSIT with the other half relating to reductions of corporate expense.

The reductions in corporate expense are primarily with respect to the year ago severance and related costs associated with the resignation of our former CEO, 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 to \$18,000 in the first half of 2017 from \$234,000 in the first half of 2016. While our corporate general and administrative expense has leveled off, we continue to seek ways to achieve greater operating efficiencies.

For the second quarter of 2017, Acorn reported a net loss attributable to shareholders of \$491,000 or \$0.02 per share compared with net income of \$2.4 million or \$0.09 per share in the second quarter of 2016.

The second quarter of 2016 included a net gain of \$3.5 million or \$0.13 per share on the sale of a portion of our DSIT investment. Excluding this gain, the second quarter 2016 adjusted net loss would have been \$1.1 million or \$0.04 per share.

On an adjusted basis, the improved bottom line was the result of the shuttering of Acorn's GridSense subsidiary's operations in 2016, reduced corporate G&A expense and improved results at OmniMetrix.

For the first half of 2017, Acorn's net loss attributable to shareholders was \$711,000 or \$0.02 per share versus a net loss attributable to shareholders of \$539,000 or also \$0.02 per share in the first half of 2016. First half 2016 earnings per share results include a \$0.13 per share gain from the sale of our part of our DSIT investments.

Focusing on OmniMetrix, our core business going forward; second quarter 2017 revenue rose to over \$1 million compared to \$761,000 in the second quarter of 2016. Second quarter 2016 results included a one-time \$130,000 negative revenue adjustment.

On a normalized basis, second quarter 2017 revenue rose 17% over the second quarter 2016. The normalized revenue increase was driven by greater hardware revenue, as well as, increased monitoring revenue for more units they monitored.

From a business line standpoint, second quarter revenue from the Power Generation division increased 37% to \$814,000 while revenue from the Corrosion Protection division rose 40% to \$231,000 as compared to the same period in 2016. For the six months period ending in June,

Power Generation revenues grew 36% and pipeline Corrosion Protection revenues grew 27% versus the prior year period.

Gross profit grew to \$594,000 in the second quarter of 2017, reflecting a gross margin of 57% compared to second quarter 2016 gross profit of \$357,000 with the gross margin of 47%. Excluding the impact of the one-time revenue adjustment, gross profit would have increased 22% in the second quarter of 2017 versus the prior year period.

First half 2017 gross profit rose to \$1.2 million with the gross margin of 56% compared to first half 2016 gross profit of \$782,000 and the gross margin of 49%. The higher gross profit is attributable to higher sales, management's effort to shift the sales mix to higher margin products and the impact of the aforementioned revenue adjustment.

OmniMetrix operating costs decreased 1% to \$794,000 during the second quarter of 2017 compared to the same period in 2016. For the first half of 2017, OmniMetrix operating costs increased 8.7% to \$1.6 million due primarily to higher R&D costs related to new product development.

With higher revenue and gross profit OmniMetrix's second quarter 2017 operating loss was reduced to \$200,000 from \$446,000 in the second quarter of 2016. For the first half of 2017, OmniMetrix reported a reduced operating loss of \$396,000 versus \$694,000 in the first half of 2016.

Turning to DSIT on a standalone basis; second quarter revenue increased marginally to \$4 million and first half revenue also increased marginally to \$8.1 million versus the respective prior year periods.

The improvements reflected revenue from the \$7.1 million Blackfish Hull Mounted Sonar systems contract secured in June of 2016, as well as, revenue from DSIT's first commercial order for its new fiber optic solutions received in 2017 to assist an Eastern European country with border protection.

On June 30th, Acorn had net working capital of \$2.3 million in continuing operations including \$317,000 of cash and cash equivalents and \$579,000 of escrow deposits from the DSIT transaction. The escrow is scheduled to be released to Acorn in October of this year.

Net cash increased by \$88,000 in the first half of 2017 of which \$50,000 was provided by investing activities, \$809,000 was provided from finance activities and \$771,000 was used in operating activities.

Acorn received \$900,000 in funding in February pursuant to a \$1.9 million of loan commitment, provided by certain members of Acorn's board. These borrowings are intended to be repaid from the proceeds of the planned monetization of our remaining DSIT ownership engine, \$1 million remains available to Acorn pursuant to this agreement.

I would like to turn the call over to Walter Czarnecki to provide more commentary on growth and development in our OmniMetrix operating company.

Walter Czarnecki

Thank you, Michael. OmniMetrix added new customers in both of our divisions in the second quarter and we also saw follow-on orders from existing customers, including some customers

that were added in recent quarters. We pride ourselves on providing a superior customer experience which tends to translate into strong customer relationships.

Three years ago, our primary business was Power Generation which involves the remote monitoring and control of generators. At that time, we implemented a strategy to grow our Corrosion Protection monitoring business which is focused on the monitoring and control of oil and gas pipelines.

To maintain our technology leadership, we continued to develop our technology portfolio and designed new and enhanced products to deliver improved features and functionality relevant to our customers.

We remain enthusiastic about the growing Internet of Things trend, as it is very helpful in moving customer thinking and decision-making to appreciate the benefits of remote monitoring and control.

Both our Power Generation and Corrosion Protection divisions play important roles in monitoring and protecting critical assets in the industrial, and oil and gas sectors, as well as, for end customers of power generators.

We continue to be very excited about the growth opportunities at OmniMetrix and thank you for your continued interest. Please feel free to contact us about the business and how we can add value for companies with which you have relationship.

And with that operator, let's open the call for questions.

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. To ask a question you may press star "*" then one "1" on your touchtone phone. If you are using a speakerphone, please pickup your handset before pressing the keys, to withdraw your question, please press star "*" then two "2." At this time, we will pause momentarily to assemble our roster. The remainder again, if you have a question please press star "*" then one "1".

The first question comes from Christopher Grosvenor of Morgan Stanley. Please go ahead.

Christopher Grosvenor

Jan and Mike, first of all congratulations on the quarter. Just looking at the numbers there, and thinking about kind of future of the company. I am wondering your thoughts on this. I kind of see this as maybe getting somewhere near operating profitability in kind of the two or three year timeframe, just wondering, if you know, if my math is correct and how you guys think about that?

Jan Loeb

Chris, thank you very much for your question, I would hope that we would reach profitability well before them. I think OmniMetrix is well on the path to profitability and we would like to grow OmniMetrix faster than its currently growing and we are also looking at some acquisitions that are synergistic to OmniMetrix. My hope is that we will reach profitability well before your estimate.

Christopher Grosvenor

Alright, thank you.

Operator

The next question comes from Margun Ahathemm, Chronon Capital. Please go ahead. Excuse me, Mr. Ahathemm, did you have a question? Okay, moving on we have Michael Zuk of Oppenheimer. Please go ahead.

Michael Zuk

Good afternoon, could you give us some update on the potential for reverse stock split and kind of give us a feeling of your reasoning behind it?

Jan Loeb

Sure, Michael, thank you for your question. As you know, the shareholders just voted again for a potential for a reverse stock split it was voted for last year and we did not do one. Our strategy is, we would only do a reverse stock split if it's in the best interest of the company and its shareholders. Just to do a reverse stock split to get a higher stock price we view as meaningless. What we would do it is, in conjunction with an acquisition, our desire to be relisted on NASDAQ or some other event where it actually makes business sense to do a reverse stock split. It didn't make sense of anytime last year which is why we didn't do it.

We would like to have that arrow in our quiver this year should an acquisition come along and should the potential seller want to have maybe some shares if we make the acquisition with some cash and some shares in a NASDAQ listed company. But assuming our goal is to become NASDAQ listed, hopefully this year and we will see. Therefore we requested from our shareholders to have the ability to do a reverse split which they gave us and we will see what happens.

Michael Zuk

And then as a follow-up question, with regard to the funding by the members of the board. Is that funding have a term date or is it an open-end commitment by the board, pending the resolution of the DSIT situation?

Jan Loeb

It has a firm date of April of 2018. I think all the board members feel that there will be a resolution for a DSIT before then. Obviously the board members are looking out for the best interest of the company. I am sure, if there will be some issue, I would hope that I could negotiate an extension, but we certainly think that the monetization of DSIT will happen before that.

Michael Zuk

Well, fair enough. We will anxiously await progress in that development. Thanks.

Jan Loeb

Thank you.

Operator

I would like to the turn the conference back over Jan Loeb, for any closing remarks.

CONCLUSION

Jan Loeb

Thank you all for your interest in Acorn. I believe that Acorn is an attractive platform for building shareholder value. Obviously, there is more work ahead and we will keep you informed of any significant progress as it develops. I am grateful for the support of our investors and happy to speak with shareholders or potential investors that would like to learn more. Please contact our investor relations team listed on today's press release to set-up a call with me or to answer any questions you may have. Thank you again for your time today. And with that operator, we can end today's call. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.