

Acorn Energy
Second Quarter Conference Call
August 15, 2016 at 11:00 a.m. Eastern

CORPORATE PARTICIPANTS

Jan Loeb – *Chief Executive Officer*

Michael Barth – *Chief Financial Officer*

Walter Czarnecki – President and Chief Executive Officer

PRESENTATION

Operator

Good afternoon, and welcome to Acorn Energy's Second Quarter conference call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star and then one on your touchtone phone. To withdraw your question please press star and then two. Please note this event is being recorded.

I will now like to turn the conference over to Michael Barth, the CFO of the company. Please go ahead.

Michael Barth

Thank you for joining us on today's call. With me are Jan Loeb, Acorn's CEO; and Walter Czarnecki, President and CEO of OmniMetrix. Before we begin, please remember that many of the statements made on today's prepared remarks or responses to your questions are forward-looking. These statements are subject to various risks and uncertainties, in particular the performance of our businesses in 2016 and future years is subject to various risks and uncertainties, including risks associated with executing Acorn's new operating strategy, meeting performance milestones, risks associated with conducting business with government customers, including possible cost overruns on fixed priced projects, and success in driving growth in the company's core business.

Such forward-looking statements are based upon management's beliefs as well as assumptions made based upon information currently available to management pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995. There is no assurance that Acorn or its operating companies will be able to achieve its goals for growth in 2016 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 subsidiaries is included in the risks factors in the company's Form 10K filed by the company with the Securities and Exchange Commission.

With that, I'll hand the call over to Jan Loeb, Acorn's CEO. Jan?

Jan Loeb

Thank you, Michael, and thank you all for joining today's call. I will begin by reviewing highlights of the quarter, including progress on our strategic repositioning, our second quarter financial results and where we see the company moving forward.

Previously we announced initiatives we were taking to streamline and focus our operations, capital and resources on growth areas of the business, and our second quarter results are a reflection of such initiatives.

During the second quarter we partnered our DSIT Sonar Solutions Business with

leading Israeli Defense Firm Rafael Advanced Defense Systems through the sale of approximately 50% of our ownership interest in DSIT for gross proceeds of \$4.9 million plus a potential earn-out. Proceeds from the DSIT sale were used to repay short-term debt and enhance our financial position.

We believe this partnership better positions DSIT for growth and success under the wings of a much larger and more diversified defense company while also allowing Acorn to retain a 41.2% ownership interest in DSIT. Accordingly, we view our DSIT stake as a key strategic asset with significant value creation potential.

Subsequent to the close of the second quarter, we succeeded in selling the assets of our GridSense subsidiary to Franklin Fueling Systems, a subsidiary of publicly traded Franklin Electric Company for a gross sales price of \$1 million. GridSense had generated persistent operating losses, and so its divestiture will immediately improve our operating results and significantly reduce our cash burn.

As most of GridSense assets had previously been written down to zero, we expect to record a gain of approximately \$1 million on this sale in the third quarter of this year. As the largest GridSense creditor, we also expect to receive some portion of the \$1 million proceeds as determined by an independent liquidation officer in the coming weeks.

In addition to these transformative initiatives, we are very active in seeking out attractively valued acquisition targets in monitoring, as well as non-related areas where we also see the potential for shareholder value creation.

We're also working to identify and implement further cost-cutting initiatives across the businesses and seeking ways to enhance Acorn's overall operational efficiencies. We've made good progress in these areas, but there's always room for further improvement.

With respect to M&A, our preferred route would be to scale our OmniMetrix subsidiary through small or large acquisitions that better position us to take full advantage of the rising demand for remote monitoring solutions. We have several potential targets in various stages of discussion and due diligence, and we're optimistic about the potential to supplement our growth in this manner. Unfortunately it's very hard to predict what or when a transaction could be consummated, so there's not much further I can say on that front currently.

At the same time, we are also very active in our sales and marketing efforts to scale our monitoring operations organically. We believe OmniMetrix is truly a technology leader in the area of real-time asset monitoring and that leadership positions us well to compete and grow in the monitoring vertical of Internet of Things applications.

For those who may be new to Acorn, OmniMetrix systems monitors a variety of cutting edge infrastructure, including critical residential and industrial assets. Our monitoring validates the status of fuel, or operations, or other factors and helps to reduce operating expenses, ensure regulatory compliance and protect against emergency events. Remote monitoring and control is a highly scalable business with attractive margins and recurring revenues streams.

OmniMetrix has a solid product and service offering with a wide scope of potential applications that present an attractive business platform with both stable revenue characteristics, as well as significant growth prospects.

Demand is led by gas utilities, pipeline companies, refineries and other businesses needing to more efficiently monitor and manage their infrastructure network. These asset-intensive businesses are constantly looking for ways to become more efficient and improve the operation of their infrastructure which our OmniMetrix products provide. Accordingly, we see much merit in focusing our resources on the monitoring industry rather than spreading ourselves too thin across multiple directions of a business development company model, but as opportunistic operators and investors, we must also consider opportunities in areas outside monitoring. In all cases, our focus is on finding sustainable growth with modest capital requirements all while working to reduce overall risk.

Part of the attractiveness of the Acorn platform for would-be sellers is our substantial federal net operating loss position of approximately \$60 million as well as our public company status, the underlying value of our DSIT ownership, the growth high margins and predictability of our monitoring business, and the expertise of management, both in operations and in finance.

Over the past few months we have moved aggressively to eliminate cash-consuming businesses to deleverage the company and put Acorn on a stronger footing to pursue profitable growth. It will take time to see the full benefits of recent actions, but we believe Acorn has been substantially de-risked and is now on a far stronger path for growth, improved bottom line results and potential value creation for our shareholders.

With that, I'll hand the call back to Michael for a brief review of our second quarter financials.

Michael Barth

Thank you, Jan. Given the strategic changes we have made to the business, our financial reporting has changed significantly. Effective April 22, 2016, we no longer consolidate the results of DSIT which has the effect of reducing our reported revenues to just those of our OmniMetrix business from that day forward, and it also impacts the comparability to prior period results.

Focusing first on OmniMetrix, our revenues grew 10% to \$761,000 in the second quarter after giving effect to a negative revenue adjustment of \$130,000 with respect to a previous understatement of deferred revenue. The required adjustment was made following an in-depth analysis by members of our new accounting staff at OmniMetrix which was brought on to strengthen that function.

Excluding the adjustment, OmniMetrix's second quarter revenue would have increased 29% to \$891,000, and first half revenue would have increased 27% to approximately \$1.7 million. The revenue improvement is driven by overall business strength but specifically by increased hardware sales. Importantly, increased hardware sales directly feed into our ongoing maintenance revenue base, supporting a stable and growing revenue base. We have indicated on prior calls that we expect 25% annualized growth in this business, and that continues to be an achievable target.

Turning to DSIT, we previously mentioned that DSIT is no longer being consolidated in Acorn's financial results following the April 2016 of a portion of our holdings which reduced Acorn's ownership in DSIT to below 50%. Nonetheless, DSIT is the largest asset on Acorn's balance sheet and is therefore very important to Acorn.

So let's look at DSIT's overall performance, recognizing that Acorn now owns 41.2% stake. On an enterprise basis, DSIT achieved significant growth in the second quarter with revenues increasing 16% to \$3.9 million from 3.4 million in the second quarter of 2015. For the six months ended June 30, 2016, revenue grew approximately 22% to \$7.9 million from \$6.5 million in 2015.

The increases were principally due to contributions from a \$15.4 million project DSIT secured in the first quarter of 2015. Acorn's consolidated share of DSIT's operating income was \$99,000 for the first half of 2016 versus a loss of \$71,000 in the first half of 2015.

In addition, Acorn reported income of \$25,000 in the income statement line share of income in DSIT for the period from April 22, 2016 through the end of June 2016. Acorn also recorded a \$3.5 million gain on the sale of DSIT which was reflected in both the second quarter and first six months of 2016.

For the second quarter of 2016, Acorn reported net income attributable to Acorn shareholders of \$2.4 million or \$0.09 per diluted share of which \$0.10 per share from some continuing operations and a loss of \$0.01 per share from discontinued operation. This was compared to a \$3.1 million net loss in the second quarter of 2015 which was \$0.12 per share and included a net loss of \$0.05 per share from continuing operations.

For the sixth months ended June 30, 2016 we reported a net loss of \$539,000 or \$0.02 per share, which was comprised of net income of \$0.04 per share from continuing operations and a loss of \$0.06 per share from discontinued operations. This compares to a net loss of \$5.9 million or \$0.22 per share in the comparable period in 2015. The \$0.22 loss per share in 2015 was comprised of losses of \$0.11 each in both continuing and discontinued operations.

Looking forward, our third quarter results will reflect solely on our OmniMetrix business on the revenue line. As a result, third quarter and year-to-date revenues will be substantially reduced relative to prior-year periods.

Blended gross margin in OmniMetrix is expected to be over 50%, including gross margins in the recurring monitoring revenue streams which are over 80%. From a cost standpoint, normalized corporate, general, and administrative overhead, excluding special costs such as attorney and other fees related to strategic initiatives have been reduced to below \$350,000 per quarter after averaging over \$700,000 per quarter excluding non-cash stock compensation expense over the last few years, and we continue to search for and identify further reductions.

It will take some time, but continued progress on the cost side combined with growth in the business should lead to better operating performance for Acorn, with the ultimate goal of profitability as quickly as we can manage and accelerated via acquisition as

possible.

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. To ask a question, you may press star and then one on your touchtone phone. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star and then two. At this time, we will pause momentarily to assemble our roster. Once again, if you have a question, please press star and then one. We will pause further to assemble our roster.

And our first question comes from Jack Meier, a private investor. Please go ahead.

Jack Meier

Good morning, Jan.

Jan Loeb

Good morning.

Jack Meier

And a good quarter. As we speak right now, August 15th, is OmniMetrix as a standalone, operating profitably?

Jan Loeb

It is not. I think we've said in prior calls that it is our goal that by yearend it should be at operational break even.

Jack Meier

Okay, and that would be excluding any corporate overhead at the Acorn level?

Jan Loeb

Yes.

Jack Meier

Okay. Are you willing at this point to give us any sense of how far away from breakeven you are?

Jan Loeb

About four and a half months.

Jack Meier

No, not in time, in dollars.

Jan Loeb

No.

Jack Meier

Okay. Thanks very much.

Jan Loeb

Thank you.

Operator

If there are any further questions, please press star and then one. We will pause further to assemble our roster.

CONCLUSION

Operator

It appears that we have no further questions at this time. This concludes our question-and-answer session.

I would like to turn the conference back over to management for any closing remarks.

Jan Loeb

Thank you all for your interest in Acorn. I'm eager to speak with shareholders and potential investors who have questions or would like to get to know management and our goals. As I'm frequently on the road, I ask that you please coordinate such calls with our investor relations team. Their contact information is on today's press release, and they're available to assist shareholders with most issues.

And with that, operator, we will end today's call. Thank you very much.

Operator

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