

Acorn Energy, Inc.

3rd Quarter 2017

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Eastern

**CORPORATE PARTICIPANTS**

**Michael Barth** - *CFO*

**Jan Loeb** - *President and CEO*

**Walter Czarnecki** - *President and CEO of OmniMetrix*

## **PRESENTATION**

### **Operator**

Good day, everyone. Thank you for holding and welcome to Acorn Energy's Third 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 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. Welcome, everyone, to Acorn Energy's third 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 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 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 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 thank you all for joining us today. I will begin by making some overview remarks, Michael will then review our third quarter results, and Walter Czarnecki will follow him and discuss progress in our OmniMetrix business. We will then open the call to your questions.

During the third quarter, we continued to deliver strong revenue growth and margin improvement in our remote monitoring and control business, OmniMetrix. At corporate, we continue working to strengthen our financial position to support future growth, with a current focus on the monetization of our stake in DSIT. Over recent quarters we have made significant progress in reducing operating costs and these efforts, combined with our strategic initiatives, have enabled us to deliver improved operating performance and cash flow from operations over prior periods. During the third quarter we completed the deconsolidation of our former GridSense subsidiaries. This was the final step in the liquidation process and helped to improve our balance sheet by removing substantial nonrecourse risks and liabilities from our balance sheet, generating a gain of \$660,000.00, which led to positive net income for the quarter.

Our longer-term priority remains on growing OmniMetrix, which manages and protects its customers' high-value industrial assets through its unique remote monitoring and control

technology. OmniMetrix's solutions also deliver substantial cost reductions versus the alternative of regular site visits and on-site inspection. OmniMetrix's business consists of hardware monitoring equipment sales for new installations as well as ongoing monitoring service revenue. The monitoring side of the business offers a very attractive combination of visibility from recurring service revenue along with very attractive gross profit margins and strong cash generation characteristics. To supplement the organic growth our OmniMetrix sales team is generating, we continue to seek attractively valued acquisition targets in the monitoring space as well as in related area where we can identify similarly strong recurring and synergistic business models with the potential to enhance shareholder value. To provide some perspective on what we have accomplished over the past two years, I should point out that we've reduced corporate expense to just under \$800,000.00 for the first nine months of 2017, from \$1.8 million in the prior-year period and \$2.8 million in the first nine months ended 2015. That's a greater than 70% reduction in two years. Moreover, our OmniMetrix business did \$3 million revenue in 2015, while this year we expect revenue of \$4.4 million or approximately 45% growth over the two-year period and approximately 23% growth over 2016's revenue. Also in 2015, Acorn provided \$930,000.00 to OmniMetrix in financial support versus the \$300,000.00 that OmniMetrix has needed from us this year, nearly a 70% reduction. We do not expect to need to provide further funds to OmniMetrix this year or going forward for their continued growth. There is work to be done yet, but we have already accomplished a good part of the heavy lifting.

As previously mentioned, we remain active in our efforts to monetize our 41.2% ownership in DSIT. While we like the business and its long-term potential, we decided that the sale of our remaining stake in DSIT was the most expedient way to recapitalize our Company while also bringing focus on the growth potential and attractive cash flows of the OmniMetrix business. We also felt from a public company standpoint, that this strategy offers the best path forward for our shareholders. Proceeds from the sale of our DSIT stake would be used to repay debt, support our working capital needs, and help accelerate growth in our remote monitoring and control or similar business. We are currently in dialogues with several qualified and interested parties. Unfortunately, the process itself is highly predictable as to the outcome or timing. We will keep shareholders informed of any developments in this regard and in an appropriate and timely manner and with that overview, I will hand the call back to Michael to review our third 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 and as a result, 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 for the nine-month period of 2017 are not directly comparable to the prior year period. Acorn's 2017 third quarter revenue rose 15% to \$1.1 million, as compared to third quarter 2016 revenue. Such revenue in both periods was only from our OmniMetrix subsidiary.

Revenue for the first nine months of 2017 was \$3.2 million, compared to \$7.6 million in the prior year period, which included \$5.1 million of DSIT revenue. Excluding DSIT from 2016's revenue, Acorn's revenue grew 27% in the first nine months of 2017 versus the comparable 2016 period. Acorn's loss before it discontinued operations, narrowed 27% to \$436,000.00 in the third quarter of 2017 from \$597,000.00 in the third quarter of 2016, and also improved 17% from the \$526,000.00 loss reported in the second quarter of 2017.

For the nine months ended September 2017, Acorn's loss from before it discontinued operations was \$1.3 million versus income of \$330,000.00 in the 2016 period, which included a gain of \$3.5

million on the sale of a portion of our DSIT interest. Excluding the gain, a loss before discontinued operations would have been \$3.2 million in the 2016 period. We generated net income of \$236,000.00 in the third quarter 2017, or \$0.01 per share, which includes income from discontinued operations of \$633,000.00 or \$0.02 per share, primarily related to the deconsolidation of GridSense, which generated a non-cash gain of \$660,000.00 from the removal of GridSense net liabilities from the Acorn balance sheet.

From a cash flow perspective, net cash used in continuing operations improved to \$514,000.00 in the third quarter of 2017, from \$646,000.00 in the third quarter of 2016, a 20% improvement. For the nine-month period of 2017, we used \$1.3 million in cash and continuing operations, compared to the use of \$1.9 million in the first nine months 2016, excluding DSIT, a \$0.6 million, or a 31% improvement.

Focusing on OmniMetrix, I would like to add some color on the business lines. As previously noted, OmniMetrix third quarter revenue rose 15% to \$1.1 million, driven by strong growth and a pipeline focused cathodic protection, or CP business, which increased 84% to \$272,000.00, versus the \$148,000.00 in the third quarter of 2016. Power Generation, or PG revenue, principally from standby generator monitoring, increased 2% to \$813,000.00. The PG division typically has a certain amount of quarterly growth variance, given the ordering behavior of customers. Looking at periods longer than one quarter, the PG business continues to grow in the 15% to 25% range. For the nine-month period ended in September, power generation revenue grew 23% and pipeline cathodic protection revenue increased 44% versus the prior year period. With higher revenue and gross profit, OmniMetrix's third quarter 2017 operating loss was reduced to \$182,000.00 from \$259,000.00 in the third quarter of 2016. Likewise, for the first nine months of 2017, OmniMetrix reported a reduced operating loss of \$578,000.00 versus \$953,000.00 in the first nine months of 2016.

Turning to DSIT on a standalone basis, third quarter revenue increased 21% to \$4.8 million and first nine months revenue increased 9% to \$12.9 million. The improvements reflect revenue from the \$7.1 million Blackfish Hull Mounted Sonar Systems contract secured in June 2016 as well as some \$6 million of new orders received in the second and third quarters of 2017 for development and production projects. DSIT's gross profit increased to \$1.8 million in the third quarter of 2017 from \$1.1 million in the third quarter of 2016. DSIT's gross profit also improved 26% to \$4.6 million for the nine-month period ended 2017, relative to the prior year period. Improvements were due to higher revenue and better margins in some non-naval projects as well as reduced material costs in some of the naval projects. For the first nine months of 2017, Acorn recorded \$258,000.00 as its share of DSIT's net income under the equity method, including \$189,000.00 in the third quarter of 2017. At the end of the quarter, Acorn had net working capital of \$1.8 million, which includes \$293,000.00 of cash and \$579,000.00 of escrow deposits from the DSIT transaction. In October, the \$579,000.00 of escrowed funds from the DSIT transaction were released. From the released funds, we were required to pay withholding taxes of \$41,000.00, thus netting us \$538,000.00. During the third, quarter Acorn received an additional \$400,000.00 in funding, pursuant to loan commitments from certain board members of Acorn. A total of \$600,000.00 in loan commitments remain available to Acorn at this time from a total of \$1.9 million committed in February of 2017. Borrowings pursuant to the board loan commitments are intended to be repaid from the proceeds of the planned monetization of our remaining DSIT ownership interest.

Now I'd like to turn the call over to Walter Czarnecki few remarks regarding OmniMetrix.

**Walter Czarnecki**

Thank you, Michael. To maintain our technological leadership, we continue to develop new and enhanced products to deliver improved features and functionality relative to our customers. Toward that end, we launched a new higher performance PG product in the third quarter, which has been well received by existing and new customers. We have several next-generation products and applications in our product roadmap over the next three years, which will be key drivers of our future growth. We look forward to sharing more with you as we release those products.

While we did see some disruption in our business related to the recent hurricanes, the net effect of this situation has led to increased demand for standalone power generators and our remote monitoring equipment. OmniMetrix is proud to have worked with customers directly affected by the storms in Texas, Florida, and Puerto Rico to ensure they were prepared and had a real-time view into the health of their backup power before the storms hit.

We remain very enthusiastic about the visibility and global business focus of the emerging IOT, or Internet of Things, macro trend, as it is very helpful in advancing customer thinking and decision-making with respect to the value proposition of remote monitoring and control of critical industrial assets. At the same time, as the scope of IOT expands, new areas of monitoring applications are emerging, providing additional growth potential for OmniMetrix. We are pleased with the progress and growing array of opportunities for OmniMetrix and we appreciate your continued interest. With that, Operator, let's open the call for questions.

## **QUESTIONS AND ANSWERS**

### **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 pick up 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. Our first question comes from Richard Sosa, a Private Investor. Please go ahead.

### **Richard Sosa**

Good evening, gentlemen. I just had a few questions, first for Jan, correct me, I might have misheard you, but did you just provide guidance for the quarter or did you say \$4.4 million in revenues this year or is that last 12 months?

### **Jan Loeb**

\$4.4 million would be for 2017, all of 2017, the revenue number for OmniMetrix.

### **Richard Sosa**

Okay and assume you didn't take out that the rest of the director loan, does that mean that you're maybe getting close to the end of this DSIT.

### **Jan Loeb**

I didn't understand the question. Can you repeat the question?

### **Richard Sosa**

I noticed you only took out half of the of the loan from the directors, is that...could that lead me to believe that you're getting close to wrapping up the sale of your remaining interest at DSIT?

### **Jan Loeb**

No, I don't think that the director loan is correlated to our sale of DSIT. I think the requirements of our director loans is dependent upon our cash needs and we didn't need that much cash, so we didn't have to take the director loans and now that the escrow has been released, we replenished our cash. So I don't anticipate taking much of the director loans of the \$600,000.00 that we have left. I did say in my remarks that, from DSITs, we are talking to people so we're certainly moving along with the process. One never knows with a process how long it takes, but we're certainly moving down and talking to interested parties.

**Richard Sosa**

Thank you and then, just, I had a quick question for Walter. Just the 84% or maybe 80% growth in the cathodic prevention unit, that's pretty big growth. I mean, what was the, what do you think...what caused that this quarter?

**Walter Czarnecki**

Well, that's really a culmination of what we've been doing over the past two and half years. It was at the end of 2014 when we set a strategy to grow that division and, as you know, that takes time and so we have seen incremental growth through the years and this year, we're really seeing a lot more progress. Part of that's the momentum of the past few years of building it, but also, we're just gaining a lot of new customers and displacing competitors. So we're excited about what we've done so far and [multiple voices]

**Richard Sosa**

I think you might have mentioned you have a pretty small market share in that segment, correct?

**Walter Czarnecki**

Today, we do, yes.

**Richard Sosa**

Okay, perfect. Congratulations, good quarter.

**Jan Loeb**

Thank you, Richard.

**Operator**

Our next question comes from Steven Jackson, a Private Investor. Please go ahead.

**Steven Jackson**

Hey, Jan, nice quarter, congratulations. I have a question about cash flow. I would like to know about OmniMetrix's window be, will it be cash flow positive in 2018 and when would the company expect to be cash flow breakeven? Also, I'm wondering about acquisitions. What types of acquisitions? You've mentioned acquisitions in the past, what kind of acquisitions you think might fit and would making an acquisition help you to get to profitability quicker using the net operating losses? And along that same line with acquisitions, how are you going to finance acquisitions with the stock price depressed? Is that indicative of the need for a reverse split? Anything you can say on that would be appreciated.

**Jan Loeb**

Okay, that's a lot questions, let me try to take them in order.

**Steven Jackson**

Okay.

**Jan Loeb**

So, yes, we certainly believe that OmniMetrix will be cash flow breakeven to positive in 2018. As you might have picked up from my remarks, I had said that Acorn does not anticipate...Acorn Corporate does not anticipate putting any money into OmniMetrix, which we've done ever since we bought the asset many, many years ago, so that would be indicative of the fact that we believe that they will be cash flow breakeven to positive in 2018.

In terms of acquisitions, we believe in acquisitions that would fit with OmniMetrix. So what we like most about OmniMetrix is their monitoring business, so we have a strong kind of annuity of revenues and profitability. So a business that has a monitoring aspect to it is what we like, is kind of we're focused on and what we like best, obviously. Those are generally good businesses and they don't necessarily come cheap, but that's the area that we're looking at and because of our NOLs, yes, we can shelter some income better than other people and that's certainly part of the strategy of acquisitions is to use the NOLs to shelter some income.

**Steven Jackson**

Right.

**Jan Loeb**

All right and then there was one last question that you threw in there, can you just remind me what that was?

**Steven Jackson**

On the reverse, you know, how are you going to...the share price [multiple voices] obviously.

**Jan Loeb**

Yeah, I'm hopeful that once we sell DSIT and people recognize that we're a focused company on OmniMetrix and remote monitoring technology, that that price will be more reflective of what we as management and the Board believes is the value of Acorn. So I think that's, in my mind, step number one.

Step number two is, I think is, as we go out and make an acquisition and people will recognize that we're not overpaying and that we're doing something synergistic, I think they will respond as well in terms of positive move in the stock price and it'll be up to us to try to structure a right deal, whether it'd be some debt, some shares, whether we would sell some shares into the public markets at that point in time, we'll really have to see.

In terms of a reverse split, while we have shareholder approval to do a reverse split, we have not yet done one. We don't feel that reverse split, in and of itself, is accretive to value and so that's why we're not doing it. Just because you have a higher stock price doesn't mean that's more valuable to the Company. So at the right time, we'll do that when we think it is truly accretive to shareholder value.

**Steven Jackson**

All right. I have one question for Walter. Walter, how big are the various markets you're targeting for OmniMetrix and, in those markets, what percentage of each remains unmonitored?

**Walter Czarnecki**

Well, with respect to, and if you look just at the cathodic protection business, just in the U.S. it's a billion dollar total addressable market for just the monitoring.

**Steven Jackson**

Right.

**Walter Czarnecki**

So we can calculate what share we have of that. The additional question to ask there is, of that billion dollars, how much is monitored at all, because when we're going into a new customer, sometimes they're monitored by competitor and sometimes they're new to monitoring overall. So the billion dollars is the total addressable market that we're looking at and then there's another question about how much of that market is monitored by anyone, let alone OmniMetrix.

With respect to the power generation side, those are in the triple digit hundreds of millions of dollars markets just in the U.S. Looking across just the commercial and industrial side, banks, hospitals, cell towers, datacenters, just those alone is enough and has been enough to keep us all very busy and we see that continuing, especially after the storms that we all went through the past couple months. That, unfortunately, is always a good indicator for our growth and you hate to see growth on the back of people going through hard times, but that is typically a catalyst for more awareness and more demand, not only for the generators, but for the monitoring, as well.

**Steven Jackson**

Right. Well, it's very exciting. It sounds like there's a lot of monitoring opportunities out there. [multiple voices]

**Walter Czarnecki**

There is, we've been very busy.

**Steven Jackson**

What do you do when a sensor alarms? How do you contact the customer?

**Walter Czarnecki**

Well, and that's part of our intellectual property, so it's, much of that is already automated, so while we do have a team that is looking over the network of all our connections, the owners of the equipment, as well as the folks providing preventative maintenance for the equipment, are receiving emails and/or text messages, which is customizable per however they like to see it that lets them know, number one, diagnostically, is there a problem, yes or no, and what's the problem so that we can be efficient in fixing it.

On another tier up, prognostically, the equipment is healthy now, but we're seeing a trend with, let's say, the battery voltage, that's been trending down. So if you don't do something in the next five days, the equipment is no longer going to be healthy. So on a prognostic level, we're also helping customers be more aware of how to schedule maintenance and to make sure that they don't have a failures.

**Steven Jackson**

Okay, that's all I have for the moment. But thanks, it sounds great and looking forward to 2018.

**Walter Czarnecki**

Thank you.

**Jan Loeb**

Thank you, Steven.

**Steven Jackson**

Thank you.

**Operator**

Again, if you would like to ask a question, please press star (\*) then one (1). Our next question comes from Christopher Grosvenor with Morgan Stanley. Please go ahead.

**Christopher Grosvenor**

Hey, guys, definitely some positive signs here on the quarter, so congrats and looking forward to seeing more of that in future quarters. Just one quick question here on gross margin on OmniMetrix. Kind of wonder how you guys think about maybe looking out a year or two, how you think about gross margin, there? Are you looking at maybe 60%, 65% what kind of visibility do you have into that number?

**Jan Loeb**

Walter, do you want to handle them?

**Walter Czarnecki**

Sure. Yeah, thanks for the question. We are expecting to see gross margins to improve gradually in the years to come for a couple reasons. One, the margin on the monitoring is quite attractive and the percentage of monitoring relative to total revenue, we're focused on continuing to increase that and then secondly, we've continued to, in our next-generation of products, continued to take more and more cost out of that to make them more efficient and push the margin up further on equipment, as well. So the numbers you mentioned are in range of what we're looking at over the next couple of years.

**Christopher Grosvenor**

Great, thank you.

**Operator**

Our next question comes from Jack Mayer, a Private Investor. Please go ahead.

**Jack Mayer**

Jan? Hello?

**Jan Loeb**

Yes, we're here.

**Jack Mayer**

Congratulations for the good quarter.

**Jan Loeb**

Thank you very much.

**Jack Mayer**

Can you comment at all, I mean, it sounds like you're having at least very preliminary discussions with multiple parties in DSITs, if I understood you correctly?

**Jan Loeb**

That is correct.

**Jack Mayer**

Right. So in a very general preliminary sense, do you feel that you're going to be able to realize something that's in the range of your carrying value for that asset, in a very general sense? Does that, you know, based on your discussions, does that seem like an achievable goal, not asking you whether you will do it?

**Jan Loeb**

Look, I guess you could say, fortunately or unfortunately, it's on our balance sheet and that's the number. So when people look at us, I am talking about potential purchasers, that's the number that they focus on. I certainly believe that the asset is worth more than that, but that's the number that potential purchasers focus on and it's just too early to tell whether that's the number that we settle on, but it's certainly a number since it's a public and it's only the public number out there, that that's the number that people are focused on.

**Jack Mayer**

Okay, but you're not getting reactions like, you know, that's out of line or something like that?

**Jan Loeb**

No, we're not getting reactions like that and I don't see how we could get reactions like that because that number is based on what we sold the first half of the business to Rafael for, so there's precedent for that number. Again, it doesn't mean that that's the number we're going to get, we obviously are [multiple voices]

**Jack Mayer**

No, no, I understand that and I appreciate that. I mean, you obviously have there, it is a minority stake, et cetera, et cetera, so that, I'm sure that's part of your challenge in selling it, but.

**Jan Loeb**

Yes.

**Jack Mayer**

Right, so I'm saying, the question is reflecting all of those things. I take it that what you're saying is, no, it's a reasonable number and we'll see where it goes.

**Jan Loeb**

That's fine, why don't you say that.

**Jack Mayer**

Okay, yeah, good. I appreciate it.

**Operator**

Again, if you would like to ask a question, please press star (\*) then one (1). I'm seeing no further questions at this time. I would like to turn the conference back over to Jan Loeb for any closing remarks.

**CONCLUSION****Jan Loeb**

Thank you all for your interest in Acorn. I believe Acorn represents an attractive platform for building shareholder value. There is still work to be done, but we feel we have made great strides

in the past two years in moving the Company in the right direction and remain confident in our ability to execute on our plans. I'm grateful for the support of our investors and pleased to speak with any shareholders or potential investors. Please contact our Investor Relations team to set up a call with me or to ask 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 is now concluded. Thank you for attending today's presentation. You may now disconnect.