

Acorn Energy, Inc.

Third Quarter 2016 Update Conference Call

November 14, 2016, at 5:00 p.m. Eastern

**CORPORATE PARTICIPANTS**

**Jan Loeb** – *Chief Executive Officer*

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

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

## **PRESENTATION**

### **Operator**

Good day, and welcome to the Acorn Energy Third Quarter 2016 Earnings 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 telephone keypad. To withdraw your question, please press star and then two. Please note this event is being recorded.

I would now like to turn the conference over to Mr. Michael Barth, CFO of Acorn Energy. 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 Risk Factors in the Company's Form 10-K 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 for joining today's call. I will begin by providing an overview of Acorn to those who are new to the Company. I will then review highlights of the quarter, the progress of our strategic repositioning and how we see the Company moving forward. Then, Michael will review our third quarter and year-to-date financial results before opening the call to your questions.

Acorn's primary operating subsidiary is OmniMetrix, which provide systems that offer wireless remote monitoring and control for standby generators, pipelines and other critical equipment. Their customers include companies that own cell towers, medical facilities, data centers, public transportation systems, federal, state and municipal government facilities, as well as critical residential and other industrial assets. Monitoring validates the status of (inaudible) or other operating factors and, therefore, helps reduce operating expenses, ensures regulatory compliance and protects against emergencies. Remote monitoring control is a highly scalable business with attractive margins and recurring revenue streams. For OmniMetrix, demand is led by gas utilities, pipeline companies, refineries, and other businesses needing to more efficiently monitor and manage their infrastructure network.

Asset-intensive businesses are constantly looking for ways to become more efficient and improve the operation of their infrastructure, which our OmniMetrix products provide.

In addition, Acorn holds a 41.2% interest in Israel-based DSIT Solutions. We account for that under the equity method of accounting. DSIT is a global leader in the development and production of sonar applications for the defense, Homeland Security, energy and commercial markets. DSIT possesses a world-class multi-disciplinary team of professionals that are skilled in the latest sonar and real-time technologies that are gaining in relevance given changes in the global political landscape. Its products include diver detection sonars, anti-submarine warfare and hull-mounted sonar systems, portable acoustic ranges, underwater acoustic signal analysis applications, and sonar simulators and trainers. The book value of our DSIT investment is currently approximately \$5.5 million, primarily based on the value attributed to our remaining shares under the terms of the recent sale of approximately 50% of our interest in DSIT. However, we believe that recent progress in the business, combined with the benefit of its partnership with Rafael, a multi-billion-dollar defense company, should support a higher valuation.

Another strategic asset is Acorn's substantial federal net operating loss carry-forward position, which is in excess of \$60 million. This could provide future substantial value in sheltering Acorn from taxes.

These factors, combined with the strength and expertise of our team, represents significant value that we believe should become better reflected in our share price as we execute on our plans.

Over the course of this year, we have moved aggressively to eliminate cash-consuming operations to deleverage the Company and to put Acorn on a stronger footing to pursue profitable growth. We believe Acorn has been substantially de-risked and is now on a far stronger path to growth, improved bottom line results and potential value creation for our shareholders. Our intent now, and for the next year, is to focus on financing growth and moving this Company toward achieving sustainable profitability and shareholder value creation. These objectives will take time, but that's the foundation we are laying for the path forward.

Acorn continued to advance its turnaround and strategic repositioning during the third quarter. In July, we closed the sale of our GridSense subsidiary's assets to Franklin Fueling Systems, a subsidiary of publicly traded Franklin Electric, for a gross sales price of \$1 million. GridSense had generated consistent operating losses the past several years, making its divestiture a key priority in Acorn's turnaround. Importantly, the divestiture significantly improved Acorn's operating results and reduced our cash burn. Additionally, as GridSense's largest creditor, Acorn has already benefited from some of the proceeds from the sale and we expect to receive additional monies as the third-party liquidator continues to settle the outstanding obligations.

We also continued to expand our core OmniMetrix remote monitoring business, which grew 20% in revenues in the third quarter and achieved a gross margin of 56%. We believe that favorable demand trends for the clear benefits of remote monitoring, combined with OmniMetrix's technological leadership, provide a compelling growth opportunity for new monitoring hardware installations and the expansion of our book of monitoring and maintenance contracts. As we have highlighted in the past, over half of OmniMetrix's revenue is derived from these recurring maintenance contracts, which provide a stable and growing base of cash flow with very attractive margins. We are very active in our sales and marketing efforts to scale our monitoring operations organically. OmniMetrix's technological leadership in remote monitoring positions us well in our markets.

To accelerate our revenue growth and scale, we also continue to seek and evaluate potential attractively valued acquisition targets in monitoring, as well as in other areas, where we identify strong business models with the potential to build shareholder value. We have reduced our cost structure

significantly and continue to seek ways to enhance Acorn's overall operational efficiencies.

With respect to M&A, our preferred route would be to scale our OmniMetrix subsidiary through small or large acquisitions that expand our penetration of expanding remote monitoring markets. We have identified several potential targets, but there are no assurances that we will find the right fit at the right price. Avoiding a bad acquisition is just as important as finding a good one.

With that, I'll hand the call back to Michael to review our third quarter financials. Michael?

**Michael Barth:**

Thank you, Jan. Given the strategic moves that we've made to the business, our financial reporting and comparability to prior periods has been impacted significantly. Our year-to-date 2016 financial results reflect the impact of the sale of a portion of our ownership in DSIT in April 2016, the subsequent deconsolidation of DSIT from Acorn's consolidated financial statements, as well as the sale of assets of the GridSense business in July.

Reflecting these factors, Acorn's 2016 third quarter revenue decreased to \$942,000 from \$4.4 million in the third quarter of 2015, and revenue for the first nine months of 2016 decreased to \$7.6 million from \$12.2 million in 2015.

Selling, general and administrative expenses declined to \$1 million in the third quarter of 2016, from \$2.4 million in the third quarter of 2015, while selling, general and administrative expenses for the first nine months of 2016 declined to \$4.8 million from \$7.2 million in 2015. These reductions primarily reflect the impact of the deconsolidation of DSIT, as well as ongoing cost reductions.

Corporate general and administrative expenses declined to \$365,000 in the third quarter of 2016, from \$912,000 in the third quarter of 2015. For the first nine months of 2016, corporate G&A declined to \$1.8 million from \$2.8 million in the comparable 2015 period. The decreases reflected reduced professional fees and salaries, as well as significant cuts made in directors' fees beginning in the first quarter of 2016.

Third quarter results included income from discontinued operations of \$1,187,000, or \$0.04 per share, both for basic and diluted, primarily from the sale of the GridSense assets.

Acorn reported net income attributable to the shareholders of \$652,000, or \$0.02 per share, both basic and diluted, in the third quarter of 2016, compared with the net loss of \$2.8 million, or \$0.10 per share, in the third quarter of 2015. For the first nine months of 2016, Acorn reported net income attribute to shareholders of \$113,000, or \$0.00 per share, both basic and diluted, compared to a net loss of \$8.7 million, or \$0.33 per share, in the 2015 period. The first nine months of 2016 included a \$3.5 million net gain on the sale of a portion of our interest in DSIT in April, as well as a net loss of \$0.4 million, \$400,000, from discontinued operations related to our GridSense activities.

Focusing on just OmniMetrix, revenues grew 20% to \$942,000 in the third quarter of 2016, and increased 18% to \$2,544,000 in the first nine months of 2016, principally driven by increased hardware revenue. The first nine months of 2016 revenue growth was impacted by a one-time second quarter negative revenue adjustment of \$130,000. Excluding the impact of this adjustment, the first nine months 2016 revenue growth would have been 24%. OmniMetrix's gross profit grew 20% in the third quarter of 2016 to \$524,000 versus \$435,000 in the third quarter of 2015. Gross margin remained relatively stable at 56% in the third quarter of 2016, compared to 55% in the third quarter of 2015.

Turning to DSIT, on a standalone basis, third quarter revenue increased 11% to \$4 million. Revenue

grew 18% to \$11.9 million for the first nine months of 2016. The increase in DSIT revenue in the third quarter and year-to-date periods are principally the result of a \$15.4 million project received in the first quarter of 2015 for an anti-submarine warfare trainer and for hull-mounted sonar systems, and a \$7.1 million project received in the second quarter of 2016 for Blackfish hull-mounted sonar systems, as well as increases in non-naval project revenue.

As we no longer consolidate the assets and liabilities of DSIT, Acorn reported its remaining 41.2% share of DSIT on its balance sheet as an investment with a book value of approximately \$5.5 million at September 30. Also included on the balance sheet is \$579,000 of Acorn's DSIT sale proceeds that are held in escrow. These funds, less any claims under the share sale agreement, will be released to Acorn in October of 2017. Our September 2016 balance sheet also includes approximately \$1.2 million of non-recourse liabilities due to third parties related to the discontinued GridSense business. These liabilities are in the process of being settled by a third-party liquidation officer.

Acorn's consolidated balance sheet reported cash and cash equivalents and receivables totaling \$559,000 at September 30, 2016.

With that, Operator, let's open the call for investor questions.

## **QUESTIONS AND ANSWERS**

### **Operator:**

Certainly. We will now begin the question and question and answer session. To ask a question, you may press star and then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press the 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 on your telephone keypad. We will pause further to assemble our roster.

Our first question comes from Michael Osterer of Up Systems. Please go ahead.

### **Michael Osterer:**

Good afternoon, Jan.

### **Jan Loeb:**

Good afternoon, Michael.

### **Michael Osterer:**

Are all the filings currently up to date with regards to ACFN?

### **Jan Loeb:**

Yes, we filed our 10-Q about an hour ago.

### **Michael Osterer:**

I see. Okay. Thank you.

### **Operator:**

Again, if you have a question, please press star and then one. We will pause once again to assemble a roster.

I'm showing no further questions at this time. This concludes our question and answer session. I would like to turn the conference back over to Mr. Loeb 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 more about Management and our goals. I ask that you please coordinate such calls with our Investor Relations Team, the contact information is on today's press release, and they are available to assist shareholders with most issues.

With that, Operator, we will end today's call. Thank you very much.

**Operator:**

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