

Acorn Energy Inc

Full Year 2016 Financial Results  
Conference Call

Wednesday, March 29, 2017, 04:30 PM  
Eastern

**CORPORATE PARTICIPANTS**

**Jan Loeb** - *President, Chief Executive Officer*

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

**Michael Barth** - *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good day, everyone. Thank you for holding, and welcome to the Acorn Energy Full Year 2016 Financial Results 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 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 fourth quarter 2016 conference call. Joining me to discuss the results 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 including 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 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 subsidiaries is included in the Risk Factors in the company's Form 10-K filed today 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 today's call. I will begin by reviewing our key accomplishments in 2016, the progress of our strategic repositioning and how we see the company moving forward. Michael will then review our fourth quarter and full year financial results; Walter Czarnecki will follow with a few words on OmniMetrix before opening the call to your questions.

Over the course of 2016, Acorn successfully advanced its turnaround and strategic repositioning by focusing on our most promising businesses, eliminating some cash

consuming operations and providing needed funding. Our efforts enabled Acorn to focus on its core businesses and to put the company in a stronger position to pursue our goal of profitable growth. For those new to Acorn, let me quickly summarize our key actions.

In January of 2016, Acorn signed an agreement for strategic sales and marketing partnership with Rafael Advanced Defense Systems Limited and our portfolio company DSIT in connection with the sales to Rafael of nearly half of Acorn's DSIT ownership. That transaction closed in April of 2016. Acorn retains a 41.2% interest in DSIT who is an industry-leading developer of sonar and acoustic systems and software for defense, home and security, energy and commercial markets.

As a result of the sale of part of our stake in DSIT, we no longer consolidate DSIT's results in our income statement, which resulted in a significant decrease in Acorn's reported revenue in 2016. Nevertheless, we believe substantial sales and marketing synergies exist for DSIT through its new partnership with Rafael, which is a leading Israeli defense company with revenue in excess of 2 billion dollars.

Also in April, we decided to halt operations in our GridSense subsidiary. In July, GridSense sold its assets to a subsidiary, a publicly traded Franklin Electric Company for gross proceeds of \$1 million. GridSense had consumed cash and generated consistent operating losses since Acorn's investment in them in 2008, including an operating loss of \$3.9 million in 2015. Its divestiture was a key priority in Acorn's turnaround, which has significantly improved Acorn's operating result and reduced our cash burn.

Acorn also made significant progress during 2016 in reducing operating costs both at the corporate and subsidiary level and we expect to see a full year's benefit from these actions in 2017. While our strategic initiatives have resulted in lower reported revenue, they have enabled us to deliver a far stronger cash flow and bottom line performance versus last year. However, it's clear that the transformation of Acorn is far from complete.

Going forward, we remain focused on scaling our OmniMetrix business, which ties into core industry trends seeking to leverage Internet-of-Things technology to manage and protect high value industrial assets while also lowering maintenance costs. Importantly, more than half of OmniMetrix revenue is derived from recurring monitoring and maintenance contracts, which provide a stable and growing base of cash flow with very attractive margins.

We were pleased with OmniMetrix's progress in the past year as we implemented some important changes including hiring two sales people and overhauling the finance department. We are confident these and other initiatives will lead to improved financial performance in the longer term.

OmniMetrix CEO, Walter Czarnecki, will provide more color on this business later in the call. We will continue our efforts to grow this business organically as well as seek and evaluate potential acquisition targets to accelerate revenue growth in monitoring or other areas where we can identify similar strong business models with potential to enhance shareholder value.

We are also still own 41.2% of DSIT after selling nearly half of our holdings last year. This remaining investment has a book value of \$5.7 million based primarily on the prior sale price adjusted for net earnings since the transaction date. In 2016, DSIT had a very good year with revenues up 25% and EBITDA nearly tripling. Based on our current backlog, we anticipate another strong year ahead.

In addition to DSIT and OmniMetrix, Acorn has a federal net operating loss carry-forward position in excess of \$60 million, which is another potentially strategic asset. These assets 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 advance our turnaround strategy. Our objective is to move Acorn towards sustainable profitability and shareholder value creation and we remain optimistic regarding our prospects to get there.

Finally, in an effort to keep Acorn adequately funded as we work to transform the business, we were successful in securing \$1.9 million in loan commitments from our board of directors. After reviewing a number of term sheets, these commitments represented the lowest cost and most flexible source of capital available to Acorn.

In February of 2017, we received \$900,000 in initial funding and we have a commitment for an additional of \$1 million in funding to be provided later in the year if alternative sources of financing are not secured. It is expected that these borrowings will be repaid from the proceeds from the planned monetization of our remaining DSIT ownership interest.

With that, I will hand the call back to Michael to review our fourth quarter and full year financials. Michael...

### **Michael Barth**

Thank you, Jan. Given the strategic moves made over the past year, our financial reporting and its comparability to prior periods have been impacted. Our 2016 financial results primarily reflect the impact of the sale of a portion of our ownership in DSIT and a subsequent deconsolidation from our results in April 2016, as well as the wind down and sale of GridSense assets in July. Reflecting these factors, Acorn's 2016 fourth quarter revenue decreased to \$1 million compared to \$4.3 million reported in the fourth quarter of 2015.

Full year consolidated revenue declined to \$8.7 million versus \$16.5 million in 2015. Operating expenses declined to \$0.9 million in the fourth quarter of 2016 from \$2.9 million in 2015. Full year operating expenses declined to \$6.6 million in 2016 from \$11.3 million in 2015. These reductions primarily reflect the deconsolidation of DSIT as well as ongoing cost reduction.

Much of these costs reductions can be seen in our reduced corporate overhead, which is decreased, by \$1.6 million or 46% to \$2 million in 2016. Decreases in costs reflect reduced professional fees and salaries as well as significant cuts made in director's fees beginning in the first quarter of 2016. We continue to seek ways to achieve greater operating efficiencies.

For the fourth quarter of 2016, Acorn reported net income attributable to shareholders of \$32,000 or breakeven per share compared with a net loss of \$1.9 million or \$0.07 per

share in the fourth quarter of 2015. Fourth quarter results included net income from discontinued GridSense operations of \$137,000 principally due to the settlement of certain payables, compared to a net loss on discontinued operations of \$445,000 in the fourth quarter of 2015.

In 2016, we had net income of \$145,000 or \$0.01 per share compared with a net loss of \$10.6 million or \$0.40 per share in 2015. Our 2016 results comprise of corporate expenses of \$2.5 million, a loss at OmniMetrix of \$1.2 million and a loss of \$0.3 million at GridSense which is included in discontinued operations. These losses were offset by the \$3.5 million gain we reported on the sale of a portion of our interest in DSIT, \$268,000 which represents our share of DSIT's net income following the sale in April, as well as the deduction of \$264,000 for the non-controlling interest share in OmniMetrix's losses.

Corporate expenses include approximately \$460,000 of severance and related costs associated with the resignation of our former CEO. Corporate expenses also include approximately \$0.5 million of interest expense associated with our borrowings from Leap Tide Capital partners and our director.

Focusing on just OmniMetrix, fourth quarter 2016 revenue grew 16% to \$1 million over fourth quarter 2015. With increased revenue as well as lower R&D and SG&A costs, OmniMetrix was able to reduce its operating loss to \$237,000 in the fourth quarter 2016 from \$293,000 in the fourth quarter of 2015.

OmniMetrix's full year revenue improved 18% to \$3.6 million from \$3 million in 2015. The improvement reflected a \$667,000 increase in hardware revenue partially offset by a \$129,000 decrease in monitoring revenue principally due to a one-time 2016 adjustment of \$130,000 related to a previous understatement of deferred revenue.

Excluding that adjustment, annual revenue would have grown to 22%. Hardware represented 47% of total revenue in 2016 versus 34% in 2015. OmniMetrix gross profit grew 6% in 2016 to \$1.9 million versus \$1.8 million in 2015. Gross margin declined to 53% in 2016 compared to 59% in 2015, attributable to the one-time adjustment as well as to increased monitoring costs.

Gross margins in monitoring revenue while still strong declined to 84% in 2016 compared to 86% in 2015. As OmniMetrix grows revenue, margins are expected to increase as fixed costs are spread over greater revenue base and as the deferred cost associated with the sale of certain units below cost are fully amortized.

OmniMetrix operating cost decreased to \$3.1 million in 2016 from \$3.3 million in 2015 primarily due to lower SG&A expenses. Its 2016 operating loss was reduced to \$1.2 million from \$1.6 million in 2015.

Turing to DSIT on a standalone basis, fourth quarter revenue increased 45% to \$5 million and full year 2016 revenue grew 25% or \$3.3 million to \$16.9 million for the year. The increase was primarily due to revenue from DSIT's \$15.4 million contract for Hull Mounted Sonar systems received in the first quarter of 2015 and a \$7.1 million Anti-Submarine Warfare projects secured in the second quarter of 2016. We no longer consolidate the assets liabilities and operating results of DSIT. Acorn reported a 41.2% share of DSIT on December 31<sup>st</sup>, 2016 balance sheet as an investment with a book

value of approximately \$5.7 million. Also included on the balance sheet is \$579,000 of DSIT sales proceeds that are held in escrow which were due to be released in October of 2017.

Our December 2016 balance sheet also includes approximately \$1 million of liabilities related to the discontinued GridSense business, a portion of these liabilities are in a process of being settled by a third-party liquidation officer. Acorn's consolidated balance sheet also reflected cash, cash equivalents and receivables, totaling \$1.2 million at December 31<sup>st</sup>, 2016. That figure does not reflect the \$900,000 of direct to loans received in February of this year. We currently have approximately \$612,000 of corporate cash in addition to the direct-to-loan commitment of a \$1 million.

And with that, I will hand the call to Walter Czarnecki, President and CEO of OmniMetrix.

### **Walter Czarnecki**

Thank you, Michael. Jan and Michael have already reviewed OmniMetrix's financial performance. So I will focus my comments on the business and the unique value proposition we bring to customers.

For those who maybe new to the company, OmniMetrix provides wireless, remote monitoring and control systems, for critical industrial equipment primarily standby generators and gas cut pipelines. By monitoring these assets, we capture vital operating factors and therefore protect them, reduce operating expenses and ensure regulatory compliance. Remote monitoring and control is a highly scalable business with attractive margins and recurring revenue streams. I will now turn to our competitive advantages.

First, we believe our patented technology is superior. We hear this from existing customers who have tried every product on the market and we also hear this from multiple competitors.

Second, we believe our customer experience is superior. Multiple new and existing customers have told us that every interaction they have with the OmniMetrix team from sales, to engineering, to customer support, to accounting are all second to none.

Customers have also told us that a superior customer experience is the primary reason why they chose OmniMetrix over competitors. More customer testimonials can be found on our new corporate website that we launched last week.

We also heard this feedback from two new customers we landed in December 2016. One, a Fortune 500 company, and the other a multibillion-dollar market cap pipeline company. For those with experience working with large companies, you know that they are very reticent to do business with small companies like OmniMetrix. That dynamic makes these customer wins all the more significant.

At the same time, it empowers our sales and marketing teams with two more very compelling reference accounts. These customer wins and the 49% invoicing growth we experienced in the cathodic protection division in 2016 are testament to the strategy the OmniMetrix leadership team and I put in place in the first quarter of 2015.

While Michael touched on our reported revenue growth we think about the business from a cash perspective, using that metric our cash sales or invoicing grew 25% in 2016, in

line with the growth goal Jan announced earlier in 2016. We are proud of that accomplishment and we are focused on extending that success in 2017.

The difference between what we invoice and what we report as revenue reflects revenue recognition guidelines that require us to amortize the invoiced amounts over periods generally ranging from 12 to 24 months. We continue to believe OmniMetrix can grow cash sales in the range of 25% in 2017 and beyond.

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

## **QUESTION AND ANSWER**

### **Operator**

Thank you. 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 pickup 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.

And we do have a question that comes from Richard Sosa with ThinkAEN. Please go ahead.

### **Richard Sosa**

Hi, Jan. How are you? It is Richard Sosa.

### **Jan Loeb**

Hi, Richard.

### **Richard Sosa**

Hey, so great quarter, you know, I become a shareholder early last year, and I have been very happy with progress at the company. I know you inherited the difficult situation, but it seems like everything is really starting to work. I guess, my only question was in regard to DSIT. Since the sale, can you note or can you talk about any positive things that have come from the sale or anything that you have seen that's happened, that's really worked in their favor?

### **Jan Loeb**

Richard, I am sorry. I did not understand the question about DSIT. What exactly are you looking for?

### **Richard Sosa**

Just since the sale, have you seen any you know, mutual benefits with...?

### **Jan Loeb**

From our relationship with Rafael.

### **Richard Sosa**

Yes.

**Jan Loeb**

Yes, okay. We have seen a few benefits. We have not seen yet all the benefits of that, we envisioned when we sold our stake. The benefits that we have seen is, we have a much better relations with our banks in Israel today, because we have the backing of Rafael. So they take us more seriously, and I think we have gotten...we are getting better rates and better flexibility with them. And so, that would be the benefit number one that we have seen.

Benefit number two that we have seen is that Rafael has provided us with some business not a lot but a little business; over and above they have always been a customer of ours. But I think now that we are supposed to be partners, they have provided us a little bit more business than they have given us in the past and they have promised to give us significant amounts of more business.

In terms of third party end customers, we have not yet seen any real benefit from Rafael. We hope that that will be the case in the future, but right now our backlog and just our general business growth at DSIT is reflective of the nature of the industry which right now with more and more countries, navies, people are worried about water protection and terrorism, incursion through coastal lines, and that's why we are seeing a pick-up in the business.

**Richard Sosa**

That's great. And again, it's great, great quarter and good year.

**Jan Loeb**

Thank you.

**Operator**

And just a reminder, if anyone who like to ask a question, that is "\*" then "1" on your touchtone phone. Looks like, we have no further questioners, and so this will conclude the question and answer session. 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 continue to believe that Acorn is an attractive platform for building shareholder value. Though, there is clearly more work to be done. And I am grateful for the support of our shareholders. To that end, I am eager to speak with shareholders and potential investors that would like to get to know more about the company, our board management and our future goals. Please contact our investor relations team listed on today's press release with any questions you may have or to coordinate a call with management.

Thank you, again for your time today. Now, with that operator we can end today's call. Thank you very much.

**Operator**

Thank you. The conference has now concluded. Thank you all for attending today's presentation. And you may disconnect your line.