# Acorn Energy

## Third Quarter 2020 Earnings Conference Call

## Thursday, November 12, 2020, 11:00 AM Eastern

**CORPORATE PARTICIPANTS**

**Tracy Clifford** - *Chief Financial Officer*

**Jan Loeb** - *Chief Executive Officer*

**PRESENTATION**

**Operator**
Good day ladies and gentlemen. Welcome to the Acorn Energy third-quarter conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session, and instructions will be given at that time. As a reminder, today's conference is being recorded. I would like now to turn the conference over to Tracy Clifford, CFO of Acorn Energy, and COO of OmniMetrix subsidiary. Please go ahead.

**Tracy Clifford**
Thank you, and welcome everyone to today's conference call. As a reminder, many of the statements made in today's prepared remarks or in response to your questions may be forward-looking. These statements are subject to various risks and uncertainties. For example, the operating and financial performance of the company in 2020 and future years is subject to factors, such as risks associated with disruptions to business operations and customer demand resulting from the impact of the COVID-19 pandemic; executing the company's operating strategy, maintaining high renewal rates, growing its customer base, changes in technology, changes in the competitive environment, financial and economic risks as well as having access to sufficient capital for growth.

Forward-looking statements are based on management's beliefs as well as assumptions made using information currently available to management pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. There are no assurances that Acorn or OmniMetrix will be able to achieve their growth goals in 2020, nor in future years. The company also undertakes no obligation to disclose any revisions to these forward-looking statements to reflect events or circumstances after the date made. A full discussion of the risks and uncertainties that may affect the company is included in the Risk Factors on Acorn's Form 10-K as filed with the Securities and Exchange Commission.

I will now hand the call over to Jan Loeb, CEO of Acorn. Jan?

**Jan Loeb**
Thank you, Tracy, and good morning to those joining our call. Just to review the financials from a high level, the company achieved 9% year over year revenue growth in the third quarter with high-margin recurring monitoring, services revenue increasing 15%. This high-margin revenue drove a 17% increase in gross profits to $1,077,000 in the quarter from $922,000 in Q3 2019, allowing us to substantially reduce our operating loss to $23,000 from $121,000 in Q3 '19. Our cash balance increased by $206,000 to $1,966,000. Given our performance and trends, we believe we have laid the groundwork to generate positive cash flow and reach consolidated net profitability in 2021. This is particularly important milestone for Acorn considering our over $70 million of net operating loss tax carryforwards, which would largely shield corporate income from federal and state taxes providing a substantial benefit to future net income and cash flow generation.

Once again, I would like to take the opportunity to thank the entire OmniMetrix team for all of their efforts over the past several months as we have worked through the challenges of COVID-19. We continue to adhere to CDC guidelines in our facility and at client sites for the health and safety of our employees and customers. While we have remained fully operational without any employees furloughs, we did endure significant halt in business development dialogues, particularly within our corrosion protection our CP business as large gas pipeline operators suspended vendor meetings. Suspension of new business activity in this segment which tends to have a lower sales cycle than power generation has of course negatively impacted our ability to sell new monitoring product sales and to add new monitoring endpoints.

The good news is in CP, we are beginning to see re-engagement and meetings and sales dialogues. Revenue in this segment was hardest hit in Q2 when sales were down 36% year-over-year but the decline moderated in Q3 with sales down 14% versus Q3 2019. We believe this segment is stabilizing and expect a return to growth in 2021, assuming the pandemic subsides and more normal business activities resume in the CP segment, particularly with our large customers and customer prospects.

As the CP segment stabilizes and returns to growth, we believe we are well-positioned to return to a 20% revenue growth trajectory for the full company next year, and this is our goal. Importantly our strong balance sheet ensures we have the necessary capital to support our growth initiatives.

As we have discussed previously, we have brought on several new products to support our growth, including our smart annunciator product that provides customers with remote status updates on critical electrical systems as well as our Air Guard air compressor monitoring solution. This month we launched our new OmniPro data management software for our CP segment. The next generation OmniPro system builds upon prior capabilities and enhancing the effectiveness of our Hero 2 rectifier monitor and our Patriot and Patriot Plus test station monitors while also allowing customers to import non-OmniMetrix data. As a result, the solution enables centralized tracking of critical data and assets on a hardware-agnostic basis extending our technology leadership within the pipeline industry.

For those who are familiar with our quarterly calls, we utilize cash basis sales as a performance measure to supplement our GAAP reported revenue and revenue growth trends. Cash basis sales differ from GAAP revenue because we defer and recognize revenue from hardware sales over a three-year period, and we defer and recognize revenue from monitoring contracts over the period of service, which is typically one year.

We normally invoice upon hardware shipment or monitoring renewal and collect cash typically within 30 days, creating a difference between cash sales and GAAP revenue. The difference between cash basis sales and GAAP revenue is larger during periods when we are able to be active in the new business generation. This difference has contracted given the impact of COVID-19 on our pace of new hardware sales.

In Q3 2020 total cash basis sales grew 4% to $1,674,000 as compared to $1,614,000 in Q3 2019. We are encouraged that we were able to grow our sales volume despite the impact of COVID-19 on development opportunities. This compares to 1% cash sales growth for the nine-month 2020 compared to 2019.

In our power generation segment, which focuses on the monitoring (INAUDIBLE) generates commercial and residential accounts, our cash basis sales WAS essentially flat at $1.4 million in Q3 20 and the year-ago period. Cash basis sales in our CP segment increased by $110,000 or 59% as restrictions on travel and sales interaction eased and due to the timing of larger orders and some pent-up demand from earlier in the year. Prior to the COVID disruption, our sales team was making considerable progress building a solid pipeline of customer trials in the CP segment, and we still have approximately two times the number of customer trials in the field than we had last year.

We remain focused on converting these trials into deployments over time. We also continue to see signs that increasingly severe weather patterns and natural disasters such as hurricanes and wildfires are disrupting our aging power grids leaving millions of businesses and people without power often for days or weeks.

The increasing incidence of power outages is proving to be powerful drivers for installation of backup generators growing the base of potential endpoints to offer our monitoring control products and services. This trend, combined with the very limited penetration of backup generators in both commercial and consumer settings, are important demand drivers underlying our long-term growth outlook.

We believe remote monitoring control has a very compelling value proposition as our technology and services enable our customers to manage mission-critical industrial equipment much more cost-effectively and safely. Our customers can substantially reduce the number of people and travel required to manage their disparate assets over wide and remote areas. These benefits have become even more compelling within the constraints and safety requirements posed by the COVID-19 pandemic.

Finally, I wanted to stress that since I joined Acorn as CEO, we have focused our efforts on progressing the company to achieve positive cash flow and profitability on a consolidated basis. We came very close to achieving that goal in the second and third quarter and are confident that our strategy and efforts to further strengthen our financial performance should position us to achieve these important goals over the next few quarters assuming the economy continues to reopen. Our goal is to be solidly in the black in 2021, both from a net income and cash flow standpoint.

Given the opportunities we see, our healthy cash position, and my confidence in the OmniMetrix team, and the value we provide to our customers I am very enthusiastic about our business and our prospects going forward. Now I will turn the call back to Tracy Clifford, our CFO, to go over Q3 financials in more detail. Tracy?

**Tracy Clifford**
Thanks, Jan. Today, we released our third quarter and nine months ended September 30, 2020, results in a press release this morning, and we also filed our 10K with the SEC. I will review some of the highlights from our GAAP basis results as reported in as compared to the prior year period Q3 2019.

OmniMetrix's Q3 revenue increased 9% over Q3 2019 to $1.5 million on strength in our largest power generation which increased 16% or $172,000. The increase was partially offset by a decline on a GAAP basis of $41,000 or 14% in our smaller CP segment. Gross profit grew 17% to $1,077,000 in Q3 20 versus $922,000 in Q3 2019. The increase in gross profit was principally attributable to a mix of revenue that included more monitoring, which is a significantly higher gross margin than hardware revenue.

Consequently gross margin improved to approximately 71% in Q3 '20 versus 67% in Q3 '19. Operating expenses increased 6% at OmniMetrix to $867,000 in Q3 '20 over the prior year period primarily due to an increase in personnel cost, spend related to IT infrastructure and R&D investments for the new product development.

In Q3, OmniMetrix provided performance base salary increases to employees, and the sales team resume travel to customer prospects that were open to receiving outside vendor meetings. We anticipate a higher expense trend to continue in Q4 for similar reasons as to our continuing investments in the company.

With gross profit growing faster than operating cost, OmniMetrix reported Q3 '20 operating income of $210,000 or nearly double the prior year period operating profit of $106,000. At the corporate level, G&A expenses increased by a nominal amount of 3% to $233,000 in Q3 versus $227,000 in Q3 2019 as a result of increased professional fees that remained flat for the first nine months of 2020 relative to 2019. Management does not expect corporate G&A expense to change maturely in the near term other than potential expenses that may be required to support growth at OmniMetrix.

Net loss attributable to Acorn shareholders improved to $32,000 or zero cents per share in Q3 '20 as compared to a loss of $121,000 also at zero cents per share in Q3 '19. For the first nine months of 2020, Acorn's net loss attributable to shareholders improved to $348,000 or a penny per share versus $557,000 or $0.02 per share in the first nine months of 2019.

Looking at cash flow on a consolidated basis, we generated $300,000 from operating activities in the nine months ended September 30, 2020, as compared to a use of cash of $423,000 in the first nine months of 2019. The improvement was due to an increased receivables collection as well as to the reduced net loss.

Consolidated cash and cash equivalents were $1,966,000 on September 30, and $2,006,000 on November 9. In April, the company had received aggregate loan proceeds of $461,000 from the paycheck protection program. Subsequent to year-end, we elected to repay a portion of those proceeds, and we received confirmation after we filed for forgiveness on approximately $423,000 that we did receive forgiveness of that amount, and it will be recognized in the fourth quarter.

That includes my review of the financial results, and now I would like to turn the call back over to the operator so we can take your questions. Operator?

## QUESTION AND ANSWER

**Operator**
All participants are in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing “*" "0". To ask a question, you may press "*" "1" on your telephone keypad. To withdraw your questions, please press "*" "2". At this time, we will pause momentarily to assemble our roster.

Our first question comes from Skyler Christian, a private investor. Please go ahead.

**Skyler Christian**
Hey, guys. Just a few quick questions regarding the dealers that sell your products. I was wondering if you would know how many dealers currently carry your products, and then I guess furthering that, do you have any sort of idea of what proportion of those dealers that you sell to try and include the cost of monitoring into the cost of a new generator? Thank you.

**Jan Loeb**

Skyler, I am assuming you are talking only in the PG business because that is where we deal with dealers, and if I had to take a rough guess, I would say we have approximately 120 dealers who use our product, some of them on the lower end and some use them all of the time, some dealers are bigger, some dealers are smaller.

We find that the dealers usually wrap our monitoring fee within a maintenance package. Depending on how a person buys their generators some people buy the generator just the generator and then some people by the generator on terms and some people buy the generator with a maintenance package, and we find that most people buy a generator with a maintenance package; if you are spending that kind of money on a system you generally want to make sure that it is running and serviced by the dealer and so we find that the monitoring is usually wrapped up within the maintenance contract.

**Skyler Christian**
Got it. Does that imply that so for example or I guess whenever a customer goes to the dealers, are they given the option typically to choose the monitoring or is it just typically built-in automatically when the customer approaches the dealer to want to purchase a generator if you would know that?

**Jan Loeb**
Again, really totally depends on the dealer. Since the customer gets the alert as well certainly, the customer is aware of the monitoring service. The interesting thing about it is that our monitoring service is also a benefit to the dealer in that the dealer gets important information from the monitor as it relates to what might be problematic with the generator in advance of the problem happening and therefore, it's a cost savings for the dealer to have a monitor on in order that he has efficient truck rolls and the right technicians on the right problem. It really depends on the dealer, but it's a benefit to all parties.

**Skyler Christian**
Got it and appreciate it. Thank you.

**Operator**
As a reminder, if you have a question, please press "*" "1" to be joined into the queue. Our next question comes from Richard Sosa, a private investor. Please go ahead.

**Richard Sosa**
Hi. Good morning, Jan. Nice quarter. I just had a question on the Omni Pro software. You haven't talked about it for a few quarters; just wanted to get a better sense of any potential competitors and why you chose to do it, and what kind of traction you are getting.

**Jan Loeb**
Okay. Good morning, Richard. We literally we just launched it a week ago, I can't tell you we have had any traction. We have obviously had it in some beta sites with some of our bigger customers and gotten positive feedback, but positive feedback does not necessarily translate into revenue as fast as we would all like it to be.

We felt, and we have gotten some feedback from our customers, that the OmniView which is the product that we had prior to Omni Pro, was a little hard to use and deal with, and we felt that upgrading OmniView, which has been in use for many, many years its time has come, and that is why we invested significantly into Omni Pro.

It was customer demand on the new system that really drove us to make that investment. I think it's gotten good feedback. There is a competitive system in the marketplace. I think that the competitive system which is very good is hard to handle and I think use of handling and our web interface is much better than that of the competitors but in the business it's competition, and I don't expect the huge numbers coming in tomorrow. It will be a sales cycle, just like every one of our other products is.

**Richard Sosa**
Thank you.

**Operator**
At this time, I would like to turn the conference back to Jan Loeb for any closing remarks.

**CONCLUSION**

**Jan Loeb**
Thank you. While the current environment remains challenging, we are well-positioned from a balance sheet and capital standpoint to navigate uncertainties and to be well-positioned for 2021. We will continue to look for growth opportunities in the markets we serve and adjacent to complementary opportunities. We are open to external opportunities such as tuck-in acquisitions that may be accretive to our profitability and to shareholder value. We will also continue to make investments and product development to meet market demand where we see it.

Again, I thank you for your interest in Acorn. We sincerely appreciate the support of our shareholders, and I'm happy to speak with investors about the company. Please contact our investor relations with any questions or to set up a call. Thank you again for your time today. Operator, I believe that will conclude this call.

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