# Acorn Energy

## Fourth Quarter

## March 31, 2022 at 11:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Tracy Clifford –** *Chief Financial Officer of Acorn Energy and Chief Operating Officer of OmniMetrix*

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

## PRESENTATION

**Operator**
Good day, ladies and gentlemen. Welcome to the Acorn Energy Fourth Quarter conference call. At this time, all participants are in 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 now would like to turn the call over to Tracy Clifford, CFO of Acorn Energy and COO of its OmniMetrix subsidiary. Ms. Clifford, please go ahead.

**Tracy Clifford**
Thank you. And first, I'd like to welcome everyone to our conference call today. As a reminder, many of the statements made in today's prepared remarks or in response to your questions may be forward-looking in nature. These statements are subject to various risks and uncertainties. For example, the operating and financial performance of the company in 2022 and in future years is subject to risks associated with disruptions to business operations and customer demand resulting from 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 and any additional impacts from COVID-19 or its variants 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 the growth goals in 2022 or in future years. The Company also undertakes no obligation to disclose any revisions to these forward-looking statements to reflect events or circumstances occurring after today. A full discussion of the risks and uncertainties that may affect the company is included in Risk Factors on Acorn's Form 10-K as filed with the Securities and Exchange Commission.

Now I'll turn the call over to Jan Loeb, Acorn's CEO, for an overview of our business performance and outlook for 2022. Jan?

**Jan Loeb**
Thank you, Tracy. And good morning, and thanks to the investors and everyone joining our call today. Two thousand and twenty-one was a year of momentous growth for OmniMetrix and strong operating results, reflecting the progress we have made in building our remote monitoring IoT business. This progress was driven by our experienced and knowledgeable sales team and supported by our engineering, tech support, production and back office team. We had a goal of 20% sales growth for 2021, which certainly was aggressive, but we demonstrated the strength of our company by exceeding our 20% goal and achieving cash basis revenue growth of 27% for the year. For the fourth quarter our cash basis revenue increased 34%. Our team pulled together in the face of continued challenges, including COVID impacts, and supply chain constraints among others.

Cash basis revenue is a non-GAAP measure that we use to track invoice sales in the period and therefore it is the metric we use to evaluate our sales performance and growth rate. GAAP revenues reflects the amortization of revenue that is deferred when invoiced and amortized over a period of three years for equipment and over the prepaid IT monitoring service period, which is typically 12 months. We provide a reconciliation of cash basis to GAAP revenue in today's press release. GAAP revenue increased by 14% for the year and increased by 10% for the fourth quarter. Our GAAP gross profit grew 19% in 2021 due to revenue growth and gross margin improvement. Gross margin continues to benefit from next generation product enhancements and design improvements, sales of customized products and our inroads and increasing market penetration in commercial and industrial or C&I markets which carry higher margins.

We believe we have the industry's most innovative design and engineering team. They listen to customer feedback and work to incorporate that feedback into future design concepts that meet the specific needs of our current and potential customers. We continue to invest in product enhancements and new product lines, particularly in C&I and industrial IoT applications, where we see tremendous growth opportunities in the under penetrated and high margin markets that we serve. For example, in the second half of 2021 we announced beta testing of a remote AC disconnect solution for pipelines. We have advanced this solution and our first customer trials are being installed in April. Following the COVID slowdown in 2020 and anticipating return to more normal business conditions, we added two new sales engineers in 2021 to bolster our business development expansion efforts.

In Q3, we announced a unique partnership with Houston, Texas based Power Solutions Specialist, PSS, to provide remote monitoring and control equipment and services for thousands of backup power generators over an initial 12 month period. PSS is a leading generator dealer in Texas and a prominent Briggs and Stratton distributor. We believe there's an opportunity to grow this relationship and to use this model to develop other similar dealer programs in 2022.

Tracy will get more into the numbers, but from a high level, our hardware revenue increased substantially in 2021. And this is due to several factors, including the wireless operators deciding to sunset 3G and focus on LTE and 5G. Sunsetting positively impacts hardware sales as customers upgrade to new equipment. However, these sales do not correlate to an increase in IT monitoring revenue, as the new unit assumes the remaining prepaid monitoring plan of the sunset unit, and inevitably there are disconnects from customers who choose not to upgrade, or who may switch to competitor products. AT&T sunsetting happened in February of 2022, but a significant amount of the sales impact occurred in 2021 in anticipation of the sunsetting occurring. There are still a significant number of 3G units in the field that are communicating, and we expect them to be replaced in 2022.

In terms of the supply chain, as you all know, essentially every company in every industry has been impacted by supply chain issues, as have we, but we have been able to manage through it with internal planning and advanced procurement of critical supplies, components and inventory and being agile and making design adjustments when necessary to accommodate parts availability. Fortunately, we have the financial strength to do so and we believe that our financial strength could potentially put us in a position to gain additional business and market share vis-à-vis our competitors, who may not be quite as stable financially. For example, we invested several hundred thousand dollars in inventory to attempt to stay ahead of supply chain back orders and out of stocks. Tracy will discuss this in more detail.

In addition, we evaluated the market for our products and implemented an overall 15% to 20% hardware price increase in September of 2021 to help offset the impact of the rising component costs. And we may consider further price adjustments this year if necessary. As it stands today, we do not currently anticipate supply chain pressures to have a materially adverse impact on our business, but we stand ready to take further steps in terms of inventory and pricing as needed.

It is becoming evident that there is not any type of business that is immune to the impacts of the rapidly rising labor and energy costs, but also with ongoing environmental pressures, increasing violent weather patterns, and an aging energy grid and infrastructure, we believe now more than ever that the value proposition and the ROI of our solutions become even more compelling in the current environment. As we have stated on prior calls, our solutions reduce personnel time, travel cost, emissions, and the overall carbon and environmental footprint required to monitor and manage critical assets and systems. Remote monitoring is significantly less expensive, and certainly more effective than in person inspection of commercial and industrial equipment, which are often in remote locations.

Our remote monitoring and control solutions also provide essential data and information that enable our customers to make timely decisions and avoid costly equipment malfunctions, and also enables them to improve their internal operations. Better information and insights leads to improved efficiency, maintenance and reduced downtime of critical equipment, thereby benefiting customers' bottom line performance. These are things that are always important to commercial and industrial customers, but cost savings are essential in the current environment, and this clearly helps our value proposition.

In addition to the sales momentum we gained in 2021, we maintained a strong capital position and balance sheet, which included $1.7 million of cash and no debt. This provides the financial foundation to continue to pursue growth opportunities, both organically and through value enhancing opportunities such as partnerships or potential acquisitions. We continue to see significant opportunities for growth in the under penetrated commercial and industrial markets that we serve, as well as in similar and adjacent markets for remote monitoring control and related IoT services. For example, at OmniMetrix we can do interesting things with IoT applications, such as turning on backup power generators remotely when industrial customers or grid operators, called independent system operators or ISOs, have more energy needs. Currently demand response or demand management programs are offered by many utilities for energy consumers to enroll and receive money back for reducing their energy demand at the utility's request during peak periods of demand and/or under supply of energy. OmniMetrix has the technology and is on the cutting edge of what may become an interesting service opportunity.

While we see several avenues of potential opportunity for expansion, we will always remain disciplined in order to ensure that any potential growth opportunities will enhance our market position and also be accretive to the value of our company and our stock. It is important to note that we have more than $70 million of federal NOL carryforwards and these net operating losses will largely shield our profits from cash income taxes for the foreseeable future and thereby benefit our cash flow. Acorn neither accrued nor paid income tax expense in 2021 because of the NOLs.

To conclude my opening remarks, I would like to note that Acorn's operating subsidiary, OmniMetrix, had EBITDA of approximately $1.5 million in 2021, and an incremental EBITDA margin of approximately 50%. Our annual renewable revenue, our ARR, was approximately 55% of our total sales. We're happy to have exceeded our 20% growth goal in 2021 and seek to continue the strong momentum and metrics in 2022.

With that, I'll turn the call back to Tracy Clifford, our CFO, to review our financials in more detail. Tracy?

**Tracy Clifford**
Thank you, Jan. Jan highlighted some key financial information. I'll just add a bit more detail that is also included in our 10-K, which was accepted yesterday evening and available this morning for your review, and then we'll take questions from investors.

With regard to reported revenue for the full year, GAAP revenue rose 14% to $6.8 million, reflecting a 31% increase in hardware revenue and a 5.5% increase in monitoring revenue. In Q4, OmniMetrix GAAP revenue grew 10% to $1.8 million for quarter four, from $1.6 million in quarter four '20, including a 25% increase in hardware revenue, while monitoring revenue was essentially flat from the prior year fourth quarter.

The increase in hardware revenue in both periods was due to a higher percentage of commercial and industrial customers relative to residential customers, which have higher price points, as well as an increase in the number of units sold. As Jan mentioned, the increase in units sold is primarily due to the replacement of sunsetting 3G technology units. As these new units replace the older units, monitoring revenue does not increase in line with these sales because the new equipment assumes the prepaid monitoring plan of the sunsetting units. So sunsetting benefits hardware sales, but does not have the same accretive impact on monitoring revenue. Invariably, some customers will choose not to upgrade to newer technology and will drop off the IT monitoring plan. So these factors explain the strength in hardware revenue in 2021 relative to monitoring revenue.

Turning to gross profit, which grew 19% to $4.9 million in 2021, and reflects the gross profit margin of 72% versus 70% in 2020. It's notable that gross margin improved despite increases in production and manufacturing costs in 2021. During 2021, we took some specific actions to maintain a strong gross margin, which included implementing a price increase of 15% to 20% to offset increasing costs and negotiating a more favorable cellular data rate plan for our business in early 2021. The new rate structure resulted in an improvement in our gross margin from 84% in 2020 to 91% in 2021. For Q4, our blended gross margin was essentially flat when compared to prior year.

OmniMetrix's operating expenses increased 10% to $4 million in 2021, reflecting higher SGA and R&D expenses, principally due to increases in personnel expenses, including wages and benefits related to salary increases, bonuses, new hires and changes in sales incentive plans, along with increased IT expenses for consulting and managed services. OmniMetrix generated operating income of $925,000 in 2021, a 59% increase over 2020. In Q4, OmniMetrix's operating income declined to $162,000 versus $221,000 in Q4 '20, due to the higher operating costs, which as I'm going to mention, was primarily due to bonuses expensed and paid in Q4 2021. No bonuses were paid in Q4 2020.

With the improved operating performance at OmniMetrix, our consolidated operating loss was reduced from $310,000 in 2020 to $8,000 in 2021. Prior year net results included a $421,000 gain on the PPP loan extinguishment, which was related to COVID-19 relief, resulting in net income of $69,000 in 2020, versus a loss of $21,000 in 2021, which rounded to zero cents per share in both periods. For Q4 '21. Acorn reported a net loss of $66,000 in Q4 '21, or zero cents per share versus net income of $417,000 in Q4 '20, or one penny per share, which was attributable to the PPP loan extinguishment that I mentioned a moment ago, which was recorded in Q4 2020.

Our cash basis revenue grew 27% for fiscal year 2021, and 34% in Q4 '21 relative to the comparable 2020 periods. We feel this growth is a testament to the quality of our products and the ability of the OmniMetrix team as well as to strong demand for remote monitoring and control related services. We also believe that we can continue to gain share in the commercial and industrial market segment as we introduce new products and product enhancements.

In terms of cash flow, cash generated from operating activities was $132,020 in 2021 compared to $464,000 in 2020, with the decrease related to investments in net working capital, as we invested $381,000 in inventory to mitigate risks related to key components and supply chain constraints. Our inventory actually more than doubled to $617,000 at December 31, 2021, from $236,000 at December 31, 2020. This investment is a proactive strategy to mitigate potential impacts to our business from shortages or long lead times or delays in procuring critical components or supplies. We have the balance sheet strength to allow us to mitigate risk to our business through strategic planning and management, and thus far the actions we've taken have proven to be successful.

Likewise, we continue to invest in technology and software, using $317,000 in 2021, primarily for the development and design of a new Azure cloud hosting environment to help us achieve rapid deployment, scalability and innovation as we grow, as well as potential decrease in costs by eliminating vendor hosting fixed contracts in exchange for flexibility in a pay as you go arrangement. The second technology initiative we have been investing in is a new user interface for our customers to access their data that is provided by our IT monitoring service. The new user interface will be more user intuitive, and in phase 2 of its development will offer more functionality to our customers as well. We are focused on continually using technology to work more efficiently and cost effectively internally as well as to offer our customers a higher level of service.

With respect to our liquidity we had consolidated cash of approximately $1.7 million versus $2.1 million at December 2020. And more recently, our cash balance was $1.8 million as of March 28. We've been able to maintain consistent liquidity while investing in our business and we believe that we have the capital and cash flow to continue to execute our growth strategy. As we've mentioned on previous earnings calls, in February 2021 we paid off our AR credit line and elected not to renew the line at this time. Should we decide to pursue a credit line in the future, we believe we can do so at favorable terms.

To wrap up my comments and reiterate Jan's overarching summary, we're thrilled at having surpassed the 20% sales growth goal that we set for 2021, and we're looking forward to continuing to build on the success in 2022 and to exploiting the growth opportunities that we see for our business. Our team is dedicated to continued innovation in our products and to providing technical support that exceeds our customers' expectations. With those precepts at our core, we believe we can expand our market share across both the power generation and cathodic protection segments of our business.

With that, I'll turn the call back to the operator and give you all an opportunity to ask any questions. Thank you.

**QUESTIONS AND ANSWERS**

**Operator**
We will now begin the question and answer session. To ask a question you may press star then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily and assemble our roster.

Our first question will come from Peter Rabover with Artko Capital. You may now go ahead.

**Peter Rabover**
Hey guys. Thanks for all the color and the results. I just wanted to touch base about your comment on price increases. Are those going to be in hardware or software, or the subscription service? How are you guys thinking about that?

**Jan Loeb**
Hi, Peter. It's going to be in equipment. Or let me say, the September increase has been in equipment. That's where we are finding our costs are going up. As Tracy mentioned, on the data side our costs have gone down. We have a new contract with our data supplier, so our costs have gone down in data. So we didn't feel it was appropriate to have a price increase on the data side. But on the equipment side, and things that are related, such as transportation, etc., is where the price increases have been.

**Peter Rabover**
Okay. So you're just looking to match costs? Is it to maintain margin in percent or dollars?

**Jan Loeb**
Well, I'd like to say that we would like to always be a little bit in advance of where things are going. So it would be in dollars versus percentage.

**Peter Rabover**
Okay, fair enough. And then maybe on the expense side, I know you've done a pretty good job of managing the fixed cost base while still investing for growth, and it looks like the run rate is about $4

million with about $900,000 in corporate cost. Have you finished making those investments or should we expect that run rate to trend up, that big trend up? How should we think about that?

**Jan Loeb**
Tracy, would you like to handle that?

**Tracy Clifford**
Sure. I believe you could expect the corporate overhead to remain essentially the same. As it relates to the OmniMetrix operating costs, with our expansion efforts we are looking to potentially add additional positions in our sales team to expand our reach there. It'll probably be a little bit later on in the year, latter part of second quarter/beginning of third quarter perhaps. So we may see some additional personnel costs ramp up slightly ahead of the revenue catch up. We would expect, of course, those positions to pay for themselves. But of course it could take essentially four to six months for a new sales rep to ramp up. So that's where I'd see the increases.

As far as other infrastructure costs there at Omni, I think they should remain fairly constant. We will, once we launch our technology projects, the tube technology projects, you will see a bump in the amortization cost. Those projects are in development phase, so they're currently being capitalized. But once we are able to launch those, when they're completed there will be additional amortization costs.

**Peter Rabover**
Okay, just to make sure that those sales guys are going to go through the SG&A not gross profit, or gross—

**Tracy Clifford**
That's correct. That's correct. They go through SG&A.

**Peter Rabover**
Okay. I think I'm pretty good here. I'll let somebody else ask any questions. Thank you.

**Tracy Clifford**
Thank you.

**Operator**
Again, if you have a question, please press star then one. Our next question will come from Michael Zuk, a private investor. You may now go ahead.

**Michael Zuk**
Good morning to you. My question basically is what industries are you going to be concentrating on to expand your sales efforts? Will it be like pipelines or utility companies, or stationary monitoring of systems?

**Jan Loeb**
Our main business is monitoring of generators. So I think that will remain by far the biggest piece of our business and therefore also have the greatest amount of growth and the area that we're looking at for growth, just because we have some great market position in that arena. We mentioned on the call the RAD, the remote AC disconnect, that is a corrosion protection pipeline type product. So, we are certainly coming up with some new products, innovative new products in the corrosion protection side. But the corrosion protection side is really roughly only 15% of our total sales, so although both are going to grow, just by virtue of the size of our PG side, the PG side is going to grow faster. But there's a lot of opportunity on the gas pipeline side, certainly everybody's read about LNG and the push to supply Europe with LNG.

That will certainly help our customers, the gas pipeline operators. So we look at all our markets. We have some innovative products going in both sides, but the power generation side is still going to be the largest by far.

**Michael Zuk**
And then as a follow up, is there any potential in monitoring like water purification or sewage treatment systems?

**Jan Loeb**
There is. We do monitor a few, but it's not a focus of ours. And there are companies that are well established in that area that certainly have good market share, and it'd be tough to go up against them unless we had some super innovative product. And it's not our focus, because in our existing business we have some great growth opportunities. And so go veering off right now is just not a strategy of ours.

**Michael Zuk**
And then one final question, are there any geographies that have greater promise than other geographies?

**Jan Loeb**
Yes, California, you've heard me talk about that in the past. It is a temperate climate and generally has not been a big market for generators and power systems and so we haven't really been in that market. And today, it is becoming a strong market and we have put some sales effort behind California. So I'll say the West is an area of geography that has some excellent growth potential.

**Michael Zuk**
Well, thank you for all of your efforts last year. It was a great year, and I look forward to 2022.

**Jan Loeb**
Thank you very much, Michael.

**Operator**
Again, if you have a question, please press star then one. Our next question will come from Richard Sosa, a private investor. You may now go ahead.

**Richard Sosa**
Hey, Jan and Tracy, good morning. I just had two questions. First, just looking back at cash sales, correct me if I'm wrong, but it looks like 2021 was one of your better, if not the best year in terms of cash sales growth in the last four or five years. So definitely a good year. And you mentioned that some of that was attributable to the sunsetting of the monitors. And the other is just strength in all your end markets. I was in and off of this call and I don't know if you gave any kind of forward-looking guidance. But do you expect that continued growth—well, two questions on that front. One is that growth from the sunsetting, do we still see that or has everyone that needed to replace the monitor already done so? If you can give just any other comments on how things are going currently.

**Jan Loeb**
Richard, hi. Good morning. Yes, we expect that we will have benefit from sunsetting out into the future, both in 2022. And then Verizon, which is really not most of our product but a lot of our competitors, sunsets December of 2022. So we do see and hope for some replacements in each of the years. But besides replacement, just the growth in our regular business remains very strong. As commercial and industrial customers are coming on board, they want to make sure that their units are working when they need them. It's a small insurance policy to have to make sure your stores or your operation doesn't go

down, and so people really want to have the data. And so we see a lot of bigger C&I customers entering the market and wanting monitoring of their critical assets.

**Richard Sosa**
Okay. And my next question was just on the pipeline side. Just looking back, this looks like the first year you—you know, you had struggled to have growth in the last few years and it looks like you had growth this year for first time in a few years, which is nice to see. But now that a lot of the oil companies and pipeline companies, in theory should have much more capital to invest in the business, do you think there's a possibility for the historical growth to come back in terms of 20% to 30% growth, or do you kind of see it still lagging the PG side?

**Jan Loeb**
I do see growth coming back. Remember that in the CP side, COVID had a much stronger impact. Our customers on the CP side are the large pipeline utility companies, which had much more stringent COVID rules in place about meeting with vendors, etc. So I would hope that CP would have returned to some stronger growth. We have some new product in CP. It's just a little too early to see. As I said in the remarks, we're putting our first trial in for the RAD next month. Let's see how it all goes. But I certainly expect stronger growth out of CP. Whether it's going to eclipse the growth of PG, I doubt, just because of the strength of PG growth.

**Richard Sosa**
Perfect. Thanks, Jan. Thanks, Tracy.

**Jan Loeb**
Thank you.

**Operator**
Again, if you have a question, please press star then one. Our next question will come from Keith Goodman with Maxim Group. You may now go ahead.

**Keith Goodman**
Hi, guys. Jan, just a quick question about, right now you're trading on the bulletin board, and I was wondering if there's anything that can be done to get you guys up listed on to the Nasdaq to try to increase your audience?

**Jan Loeb**
Yes, obviously it's something that we've said in the past that we would like to do. And hopefully in 2022 the stock will more reflect what we believe the true value of the company is and that that will help us move up to Nasdaq and become more tradable. So we'll see. But it certainly, I hope, happens sometime in 2022.

**Keith Goodman**
Okay, thank you very much.

**CONCLUSION**

**Operator**
Again, if you have a question, please press star then one. At this time, I'll turn the conference back over to Mr. Jan Loeb for closing comments.

**Jan Loeb**
Thank you again for your interest in Acorn. We are very pleased with the strong performance of our business in 2021. And we are excited, not only for 2022, but also for the long term prospects for the business. We truly appreciate your support and I'm glad to speak with investors or prospective investors about the company. Please reach out to our Investor Relations, whose contact information is included in today's press release, to set up a call or to ask any questions. Thank you again. I believe that concludes today's call.

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