# Acorn Energy

## Third Quarter 2022 Results Call

## November 10, 2022 at 11:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

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

**Tracy Clifford –** *Chief Financial Officer and Chief Operating Officer*

**PRESENTATION**

**Operator**
Good morning and welcome to the Acorn Energy 2022 Third Quarter Conference call. At this time, all participants will be in a listen-only mode. After some prepared remarks, we will conduct a question and answer session. As a reminder, today's conference is being recorded.

I would now like to turn the conference over to Tracy Clifford, CFO of Acorn Energy and COO of its OmniMetrix subsidiary. Mrs. Clifford, please go ahead.

**Tracy Clifford**
Thank you and welcome, everyone, to today's conference call. As a reminder, many of the remarks that follow and answers to 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 rate, growing its customer base, changes in technology, changes in the competitive environment, financial and economic risks among other risks. Forward-looking statements are based on management's beliefs and 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 management's growth goals in 2022 or in future years. The company undertakes no obligation to disclose 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 Acorns Form 10-K and is filed with the Securities and Exchange Commission. Reconciliations of certain non-GAAP financial metrics to their corresponding GAAP measures are provided in today's press release, which is available in the Investor Relations section of the company's website.

I'll now turn the call over to Jan Loeb, CEO of Acorn and its OmniMetrix subsidiary for an overview of our business performance and outlook. Jan?

**Jan Loeb**
Thank you, Tracy. Good morning and thanks to everyone for joining our call.

The resilient hardware plus monitoring service model of Acorn’s OmniMetrix subsidiary delivered year-over-year and sequential revenue growth in the third quarter. Total revenue growth for Q3 grew 5% versus Q3 of 2021 even in the face of macro headwinds, including rising interest rates, persistent high fuel prices, inflation and economic uncertainty.

As we note each quarter, GAAP requires us to defer our hardware sales over three years and amortize it monthly into revenue. On a cash revenue basis, our growth was stronger at 5.6% and we provide a reconciliation of GAAP to cash revenue in today's press release.

For Q3, our hardware revenue growth was strong, rising 17.7% year-over-year. This reflects our solid base business coupled with recent large volume hardware orders from a real estate management company that is deploying smart building technology across a new portfolio of buildings under its management. On prior calls, we’ve discussed the sun setting of legacy 3G monitoring units, a process which has now concluded, but it did have a residual negative impact on Q3 monitoring revenue as a result of certain customers that chose not to purchase new hardware, with renewed service contracts when their older units were decommissioned over the past year. With this cycle now complete, we expect accretive margin revenue growth moving forward.

On our last call, I said we anticipated a stronger second half and it returned to an attractive sustainable long term path to growth. We start to see that in Q3 and expect positive trends to continue in Q4. Our positive outlook is based on Q4 to date sales orders, purchasing and forecast discussions with current customers and new business leads.

We are also confident about our longer term growth prospects, especially under penetrated commercial and industrial markets we currently serve and from expected build in demand starting next year driven by demand response programs, as well as opportunities in new complementary applications.

With regard to commercial and industrial opportunities in Q3, a global business solutions provider with approximately 250 US locations began having OmniMetrix monitors installed for its standby generator monitoring and control needs. OmniMetrix is currently providing monitoring at 36 of their locations. As mentioned, we also saw significant demand for our standby generator solutions from a current customer that is a real estate management company deploying smart building technology over a portfolio of properties.

Our remote AC mitigation disconnect solution for gas pipelines, which we call the RAD, continues with customer trials, including a few new customer prospects. We are pleased with the progress of these trials and are confident in the prospects for more orders this quarter and into 2023.

I touched on demand response already, but to go a little deeper, this a great opportunity for 2023 and beyond, where our monitoring control technology plays a key role in enabling standby generators to be automatically turned on to provide electric power grid relief during periods of peak demand. This helps the grid independent system operator or ISOs avoid rolling brownouts or blackouts.

These demand response programs compensate generator owners each year for enrolling in the program along with additional payments based on the amount of electricity they take off the grid during peak power demand. OmniMetrix earns fees for enabling and managing the generator endpoints for demand response customers. We believe these programs offer the potential to substantially increase the value of our business by approximately doubling our profit per enrolled generator. Demand response programs are available across commercial, industrial and residential markets but are only available for the latest generator models that deliver enhanced energy efficiency.

We partnered with C Power Energy Management, the leading national energy solutions provider who develops demand response programs with ISOs. This partnership will enable OmniMetrix to offer demand response solution to dealers in a growing number of areas across the US. We signed our first deal with Texas based Power Solutions in the third quarter. Through this partnership, Texas homeowners will be able to earn compensation for offering grid relief to the Electric Reliable Council of Texas or ERCOT, which manages electric power [audio skip] about 90% of the state's electrical load.

Clearly, electric grid issues are already a significant concern in the United States and the growth of electric vehicle market, increasing severe weather events and other factors will create further grid stress over the next decade. We believe this backdrop to create long term demand for grid relief and demand response provided by standby generators and we expect to begin to see the financial benefits of this program to Acorn in 2023.

As it relates to operations, our team has done a very good job and continues to execute and deliver despite macro challenges in 2022, many of which are beyond our control. In 2021, we implemented advanced procurement of critical components to protect against supply chain challenges. We still carry higher than normal levels of component inventory, but as supply chain returns to normal, we will be selling through our safety stock and return to normal inventory levels.

In terms of inflation, last year, we implemented a 15% to 20% price increase on monitoring equipment, and we will continue to look at pricing adjustments if needed to sustain our business and maintain our margins.

On the monitoring side, we have made investments in our infrastructure both to enhance our service levels, as well as to optimize our costs. Obviously, inflation has an impact on our costs, including personnel, travel and transportation expenses, etc. But it can also be an effective marketing issue, as our monitoring solutions can reduce personnel costs, travel time emissions and overall environmental impact required to maintain industrial assets and critical systems. Therefore, as our customers' cost increase, our value proposition improves, as remote monitoring provides a significantly less expensive alternative to physical inspections.

Overall, while our revenue growth has lagged the rates that we believe are possible over the long term, I'm pleased with our team's success in navigating a range of challenges so far in 2022, as well as the growing number of growth opportunities we are advancing across the business. Further, we continue to invest in our products and services, as well as the IoT infrastructure to enhance our competitive position and provide for additional growth.

Let me now hand the call over to Tracy Clifford, our CFO and COO of OmniMetrix to review and provide insights on our performance and financial position before we open up for your questions. Tracy?

**Tracy Clifford**
Thanks, Jan. As Jan noted, our third quarter revenue rose approximately 5% to $1.78 million versus Q2 '21, reflecting an 18% increase in hardware revenue and a 5% decrease in monitoring revenue. Year to date, revenue increased 3% to $5.16 million with hardware up 13% and monitoring revenue down 4%. The increase in hardware revenue reflects the growing strength of our base business and a large volume of orders, as Jan also mentioned, in Q3 from a key customer.

The decline in monitoring revenue relates to some customer disconnects over the past 12 months related to the sun setting of legacy 3G monitoring units. We're continuing to focus our power generation customer portfolio expansion on large commercial and industrial customers, which we believe will restore the growth trend in our monitoring revenue and the negative impact of the sun setting will not be a factor in future years. Despite the decrease in total monitoring revenue, we're seeing an increase in our metric of ARPU or average revenue per unit due to product mix moving to more sales to commercial industrial customers versus the residential customers, which is the result from our marketing focus on the segment.

Our gross profit decreased 2% to $1.22 million in Q3 from $1.24 million in Q3 '21, primarily due to a higher portion of hardware revenue, which carries a lower margin than monitoring revenue, as well as a non-cash right off of $31,000 for obsolete cathodic protection component inventory that's recorded in COGS. As we grow, we continue to look for opportunities to maintain and further increase gross margin and revenue, as well as gain more market share, not just via price adjustments, but by offering more services such as product installation and customer reporting, and also soliciting customer feedback on what other monitoring type products, data tiers and feature enhancements would be beneficial in next generation products.

With respect to our financials, below the gross profit line, total operating expenses including Acorn's overhead increased 17% to $1.43 million in Q3 ‘22, reflecting higher SG&A and R&D expenses, versus Q3 ‘21. SG&A, increased by $160,000 over Q3 ‘21, mainly due to investments that we made in personnel, technology and software, as well as increases in travel and trade show costs. R&D increased by $48,000, primarily due to salary increases and bonuses for our engineering team, in addition to expenses for the continued development of next generation products, and exploration of potential new product lines.

Acorn reported a Q3 ‘22 net loss of $210,000, or a penny per share versus net income of $23,000, or zero cents per share in Q3 ‘21 with the difference due to a lower gross margin as well as the increase in our operating costs primarily as a result of the strategic investments I mentioned, that we made in personnel and technology. For the year to date period, the net loss was $556,000, or a penny per share in 2022, as compared to net income of $45,000, or zero cents per share in the prior year period.

In our press release, we reconciled cash basis revenue to GAAP revenue. Cash basis revenue grew 5.6% to $2.2 million in Q3, and 5.1% to $5.8 million for the first nine months of 2022. This was a notable improvement over Q2 due to the concentration of commercial industrial orders over residential orders.

Looking at cash flow, cash used in operating activities was $311,000 in the first nine months of 2022, compared to cash generated of $323,000 in the first nine months of 2021. This difference reflects the net loss in 2022 that we've discussed in approximately $300,000 of inventory investments made to mitigate the potential procurement issues for key components and supplies.

We're still maintaining, as Jan noted, excess inventory, but we will continue to sell through the safety stock in the next few quarters and will subsequently look to return to more normal inventory levels as we move ahead.

We continue to invest in our technology and software in 2022, including $286,000 for the development and design of the new Microsoft Azure Cloud hosting environment for our monitoring solutions and for hardware and software upgrades. The new cloud server environment provides a more modern, agile and cost effective environment on which to scale our IoT connection, services and innovation with better support. It also lowers our cost by eliminating fixed cost vendor hosting in exchange for a variable rate as we grow. This environment was completed and launched in early May 2022 as we discussed on the prior quarter call.

Based on user feedback, we are also investing in the design and development of a new customer interface for monitoring data. The new interface provides a significantly improved user experience. We expect to launch the new interface to a small group of customers for beta testing by the end of this year with a full launch planned for the first quarter of 2023. We have plans for more strategic investments in personnel and technology in 2023 to continue to bolster Omni’s market position ahead of its competitors in terms of capabilities, value and customer satisfaction.

Looking at our financial position, as of November 8, 2022, Acorn has consolidated cash balance of $967,000, along with accounts receivable of $1.3 million with no outstanding debt. We've maintained a healthy liquidity position while continually investing for future growth.

Overall, we believe we have the liquidity, financial strength and expected cash flow to continue executing on our growth strategy. We also continue to be very focused on identifying and acquiring an accretive business and/or a product line that would add value for our company and shareholders and expand our offerings to our current and potential customers.

In summary, we believe Acorn is capable of achieving the cash revenue growth we frequently noted of

20% as we execute on our strategic plan for 2023 and beyond.

Thank you very much. And let me now turn the call back to the operator to take investor questions. Operator?

## QUESTIONS AND ANSWERS

**Operator**
All participants are currently in a listen-only mode. Should you need assistance, please signal the conference specialist by pressing the star key followed by zero. To ask a question you may press star then one on your telephone keypad. To withdraw your question, please press star then two.

At this time, we have no questions, so I will turn the call back over to Mr. Jan Loeb for closing remarks.

**Jan Loeb**
Operator, do you want to maybe give it another couple of seconds to see if anybody wants to come in?

**Operator**
Absolutely.

**Jan Loeb**
I know that we always give a very complete call, so sometimes there are no questions. But just in case somebody would like to ask, let's give them an opportunity.

## CONCLUSION

**Operator**
Okay, at this time, I will turn the call back over to Mr. Jim Loeb for closing remarks.

**Jan Loeb**
Thank you, again, for your interest in Acorn Energy. We continue to be excited about the investments we have made to further solidify the future of the company and our opportunities in the long term prospects of Acorn’s business.

We appreciate the support and I'm happy to speak with investors or prospective investors. We do have an investor call planned for December with a research group, littlegrapevine.com and we will announce specific details shortly. You can also set up a call with myself or ask any questions through our IR team whose contact information is in this morning's press release.

We look forward to updating investors on our Q4 conference call. Thank you again. All the best.

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