

Acorn Energy, Inc.

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Third Quarter 2023 Conference Call

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November 9, 2023, 11:00 A.M.

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**CORPORATE PARTICIPANTS**

**Tracy Clifford** - *Chief Financial Officer, Acorn Energy, and Chief Operating Officer, OmniMetrix*

**Jan Loeb** - *Chief Executive Officer, Acorn and OmniMetrix*

**Bill Jones** - *Investor Relations*

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## **PRESENTATION**

### **Operator**

Good morning, and welcome to the Acorn Energy 2023 Third Quarter Conference Call. At this time, all participants are 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.

Now I will turn the conference over to Tracy Clifford, CFO of Acorn Energy and COO of its OmniMetrix operating subsidiary. Ms. Clifford, you may begin, please.

### **Tracy Clifford**

Good morning and thank you for joining today's call. As a reminder, many of the remarks that follow and answers to questions may be forward-looking. Such statements are subject to various risks and uncertainties.

For example, the operating and financial performance of the company in 2023 and future years is subject to various risks associated with potential disruptions to business operations and customer demand, risks related to the company executing its operating strategy, maintaining high customer renewal rates, growing its customer base, as well as from changes in technology, the competitive landscape, and the financial and economic environment.

Forward-looking statements are based on management's beliefs and assumptions made using currently available information 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 2023 or future periods.

The company undertakes no obligation to disclose revisions to such forward-looking statements to reflect events or circumstances occurring after today. A full discussion of risks and uncertainties that may affect the company is included in our 10-K and our risk factors, which is filed with the SEC and available online.

A reconciliation of non-GAAP financial metrics to corresponding GAAP measures is provided in today's press release and available in the Investor Relations section of the company's website at [acornenergy.com](http://acornenergy.com).

I'll now turn the call over to Jan Loeb, CEO of Acorn and of our OmniMetrix operating subsidiary. Jan?

### **Jan Loeb**

Thank you, Tracy, and thanks, everyone, for joining our call today. We're happy to report that Acorn achieved another quarter of positive cash flow and net income driven by a 17% increase in Q3 revenue. This performance demonstrates the strength of our business, including OmniMetrix's compelling value proposition, operating discipline, and our recurring revenue model. Today, we also announced a significant new reseller agreement with a leading U.S. generated dealer, which I'll discuss momentarily.

First, let me touch on some achievements during Q3, including the completion of a successful 1-for-16 reverse split during the quarter. Given the growing limitations on investing in low-priced stocks, particularly those below \$1 per share, we believe that the reverse split makes our common stock accessible to a wider group of investors. Given our strong operating results, growth outlook, and sound financial position, we believe our higher post-split share price will help Acorn attract new investors while also supporting our longer-term goal of up-listing to a major exchange.

Importantly -- we continue to believe -- I'm sorry. Importantly, growth in our recurring revenue -- monitoring revenue model base continued rising 13% in Q3 following gains of 10% and 3% in Q2 and Q1 of this year, respectively. Monitoring revenue growth is the result of our expanding base of monitoring endpoints, which reflects the value of this service to our customers and a return to a more normal growth trajectory following the impact of 3G sunsetting in 2022.

Because our gross margin on monitoring revenue is about twice that of our hardware sales, monitoring growth is a key driver of our blended gross margin and bottom line performance. In addition, given that our monitoring costs are largely fixed, revenue from incremental net endpoint additions largely drops to the operating income line.

Our blended gross margin increased to 74% in Q3, up from 68% in Q3 of '22. The improvement is principally the result of costs in the year-ago period related to some monitoring hardware inventory that was written down due to obsolescence following the sunsetting of 3G wireless technology. Going forward, we would expect our blended gross margin to fall more in the range seen in 2023 depending on the mix of monitoring and hardware revenue.

Importantly, Acorn achieved a net profit for the third quarter and the first nine months of 2023, and we believe we are on track to build on this performance in future periods.

Given Acorn's operating loss carryforwards, our NOLs totaling over \$70 million, we expect future profits to be largely shielded from tax liability, providing further benefit to our future cash flows. Our cash basis revenue declined 12% year-over-year in Q3 '23 following a strong 33% growth in Q2. Clearly, some of this relates to the timing of larger C&I, or commercial and industrial, orders that were placed earlier in the year, but we continue to see some weakness on the residential generator side as higher interest rates impact end user generator sales for dealers who are our customers.

We continue to believe that the substantial environmental and economic benefits of our remote monitoring solutions to customers should enable us to achieve long-term top line growth averaging 20% or more annually. Though we are currently trailing that level on a year-to-date basis, we are working on a range of contract discussions and business development initiatives that we believe can support achieving this growth goal going forward.

Underlying our optimism is the substantial efficiency cost reduction, risk mitigation, and environmental benefits that our solutions provide to commercial and residential customers along with the still very limited (audio gap) monitoring and control across our target market segments.

In support of our growth outlook, today we disclosed the completion of a nonexclusive resale agreement with one of the nation's largest commercial generator dealers with multiregional

operations. We believe this agreement could ramp over the next 12 months to between 2,500 and 3,000 new monitoring connections per year.

We believe this relationship could contribute annual hardware sales, activation fees, and initial monitoring revenue of \$1 million to \$2 million when fully operational along with adding to our base of recurring monitoring revenue in subsequent years. We expect this partnership to begin to contribute to our results starting in the first quarter of 2024.

Turning to our C&I customers, we continue to offer compelling remote monitoring and control solutions that meet their needs, particularly as they face rising costs, increasing environmental pressures, budget constraints, and ROI targets. While our solutions deliver significant benefits in all these areas, C&I customers are increasingly attracted to the carbon reduction benefits of remote monitoring. For example, in terms of reduced truck rolls to work sites, but they also value the environmental reporting that we can provide with some generator operators needing to comply with state regulations. We believe growing environmental awareness and reporting requirements combined with ROI pressures provides a very favorable environment for our marketing and business development efforts.

I would like to mention what I believe is an important industry development that was announced this week. Kohler, a large private company that has two divisions, one kitchen and bath products and other in the energy business, that they are a very large manufacturer of generators, agreed to spin off their energy business retaining a minority percentage of the business for a \$3 billion investment from Platinum Equity, the well-known \$50 billion private equity fund. We support many Kohler dealerships.

We also see substantial growth potential from leveraging our monitoring and control capabilities for standby generators to support electric grid operators through Demand Response programs, or DR. We have partnered with CPower to build out our capabilities and offerings that enable generator owners to sign up and receive compensation for making their generators available for grid operators to turn on and use automatically for brief periods to support the grid during peak demand.

OmniMetrix will turn on and will be compensated for its role in enabling demand response capabilities for each enrolled endpoint. It has taken some time to test, formalize, and market these programs, and we are proud to announce that during Q3, we enrolled our first 92 Demand Response customers, providing approximately 600 kilowatts of power. Each of these customers must now be approved by ERCOT, the grid operator in Texas, a process that we expect to take a few weeks, after which we would expect them to go live shortly thereafter. As we have mentioned, we believe DR is a very compelling addition to our business in several respects.

First, DR provides an ongoing revenue stream to generator owners that helps them offset the cost of adding or owning backup generators. And in this regard, we expect it to help stimulate additional generator demand.

For Acorn, DR provides an additional very attractive and sticky long-term benefit to our services that provides an added revenue stream with the potential to double the profitability of each

enrolled generator. Accordingly, we are excited about our first enrollments and the potential for DR to become an important new profit source for our business going forward.

Lastly, Acorn closed Q3 with over \$1.7 million in cash, no debt, and generated positive free cash flow in the third quarter and first nine months of 2023. We believe Acorn is in a very strong position for continued organic growth and to continue to look for external opportunities for growth and value creation. Our strategic and value disciplines create a high hurdle for potential M&A opportunities, but we continue to explore possible avenues to accelerate the growth of our business.

Let me now hand the call back to Tracy for her review of the financials and provide her insights on our operations. Tracy?

### **Tracy Clifford**

Thank you, Jan. I will touch on some financial highlights before we open the call to your questions. Note that our Form 10-Q was filed this morning in addition to our earnings release.

I'm happy to announce that we've accomplished some significant goals in the last several months. As most of you know, since early 2021, we've been working on the development of a new user interface for our customer data portal. We're excited to announce that we have deployed the new interface, which we refer to as OmniView2.0, or OV2, and made it available to our customers as of October 1, 2023.

We believe our customers will be very pleased with OV2 in that it offers an enhanced user experience and more benefits at their fingertips such as self-service reporting options. We think that OV2 offers a valuable competitive advantage as we move into 2024.

Additionally, on September 1, OmniMetrix launched an updated version of our TrueGuard, AirGuard, Patriot, and Hero products that includes new functionality that allows our customers to have options as it relates to obtaining and utilizing the data that's provided by our hardware devices. This product update allows customers to have the option to purchase our monitoring service, monitor the products themselves, or have visibility, or to choose another monitoring provider.

Historically, our products were designed to only function with our monitoring services. This new product version functionality results in OmniMetrix hardware and monitoring services being capable of being two distinct products and services, thus hardware revenue, cost of goods, and related commissions on sales of this updated version of our hardware devices are recognized when the product is shipped rather than over the estimated service life of the units, which was generally three years. Monitoring revenue, however, continues to be deferred and amortized over the monitoring period, which is typically one year.

Turning to our results, Q3 '23 revenue rose approximately 17% to \$1.8 million with the increase attributable to monitoring revenue growth of 13% and hardware revenue growth of 22%. The hardware increase was from the sale of \$43,000 of custom TrueGuard generator monitors and \$150,000 in sales of a new version of our hardware devices.

Our gross profit increased 28% to approximately \$1.6 million in Q3 '23 versus \$1.2 million in Q3 '22 due to revenue growth and gross margin improvement. We achieved a gross margin of 74% in Q3 '23 versus 68% in Q3 '22 as the prior year was impacted by inventory obsolescence write-offs and onetime monitoring rebates to two large customers.

Operating expenses increased 8.2% to \$1.5 million in Q3 '23 versus \$1.4 million in Q3 '22 mainly due to over \$100,000 of expenses related to our reverse stock split that happened in the current year period. Net income attributable to stockholders improved to \$24,000 or \$0.01 per share in Q3 '23 versus a net loss of \$210,000 or \$0.08 per share in Q3 '22 as revenue and gross profit outpaced operating expenses.

Similarly, for the nine months ended September 30, 2023, net income to stockholders improved to \$35,000 or \$0.01 per share versus a net loss of \$556,000 or \$0.22 per share in the first nine months of '22. Note that in our filings and in our discussion today, all per share figures have been adjusted to reflect the 1-for-16 reverse split.

We generated \$366,000 of cash from operating activities through the first nine months of '23. We used \$72,000 for technology investments over the same period, mainly for the investment in that customer user interface that we launched.

And in terms of our balance sheet, inventory increased to \$909,000 from \$789,000 at year-end. We're still maintaining some of the excess inventory to mitigate any delays in product delivery for large volume orders and to facilitate expected growth.

Acorn had cash of \$1.75 million at September 30 and approximately \$1.68 million on November 7 with no bank debt outstanding. We believe our strong balance sheet provides a solid base for our growth strategy, including necessary strategic investments as Jan mentioned.

Overall, we're very excited about the future growth prospects for our remote monitoring and control solutions, including the opportunities that Jan discussed in Demand Response. I look forward to updating you all as we progress and on our next call.

Now operator if you would please open the lines for our investor questions. Thank you.

## **QUESTION AND ANSWER**

### **Operator**

Thank you. If you would like to ask a question, please press star then one. If your question has already been addressed, and you'd like to remove yourself from queue, please press star then two. Once again, ladies and gentlemen, that's star then one if you have a question.

And today's first question comes from Bill Chapman, a private investor. Please go ahead.

### **Bill Chapman**

Yes. Good morning, everyone. Jan, I know your dealer conference you guys had here in San Antonio for the generator sales went well. Will you -- will CPower be marketing these generator

dealers with your salesmen? Or is this just an area your salesmen are going to be marketing and CPower is doing the larger manufacturing market?

**Jan Loeb**

Yes. So it's mainly our salesmen have the relationships with the dealers. So it's our salesmen who are selling DR to our dealer network and CPower kind of supports us. So if we need CPower to come in, make a presentation to -- largely with the salespeople, they would gladly do that, if we need certain documentation. So any support they are willing to do for us, but we are the ones who are actually selling the DR service.

**Bill Chapman**

Okay. And how many salesmen do you have?

**Jan Loeb**

So in PG, which is the generator side of our business, we have four salesmen and the Head of Sales.

**Bill Chapman**

Okay. Got it. Okay. Good. And is ERCOT being receptive to this Demand Response marketing initiative? I know you got they're approving at 92, but are they excited about this from what you can tell?

**Jan Loeb**

I'm not -- excited about what aspect?

**Bill Chapman**

Well, they're embracing the Demand Response because the oil people run the state. And they're interested in adding more natural gas plants, coal plants. And that's the big -- they're not as interested on coal -- I mean, on --

**Jan Loeb**

Yes. So well, firstly, most generators work on natural gas. So that's really not a problem. But yes, everybody -- there's an education process throughout the country on Demand Response, but everybody is for it because nobody wants their own home to be without electricity at any point in time.

**Bill Chapman**

Okay. Makes sense. You made a projection maybe three years with all the -- in the past, what the revenue from this Demand Response could be. Now that you've got more evidence, you've got some traction, what number are you coming up with that could possibly be top line sales for --

**Jan Loeb**

Yes, I'm not sure I ever actually gave out our estimate. It's just too new, and we don't know what the speed of the uptake will be. So all I can tell you is that hopefully, it will be a very meaningful number to our profitability. I'll focus more on the profitability because it's not a product we sell. So we don't have that much cost associated with it. We have some costs, but not that much. And I said it's kind of akin to our monitoring business in terms of margins.

**Bill Chapman**

Yes. Okay. Good. One last question. Any additional analysts that you're talking to that may initiate coverage?

**Jan Loeb**

Not -- no, unfortunately not. They're missing a big opportunity, but I'm not speaking to anybody.

**Bill Chapman**

Okay, got it. Okay. All right. Thank you.

**Jan Loeb**

Thank you.

**Operator**

And as a reminder, if you'd like to ask a question, please press star then one. Our next question comes from Richard Sosa, a private investor. Please go ahead.

**Richard Sosa**

Good morning, Jan, Tracy. Good quarter. It was nice to see it. Congratulations on the reverse stock split. Just had a couple of follow-up questions on the Demand Response. So you mentioned -- so there was 92 connections, correct?

**Jan Loeb**

Correct.

**Richard Sosa**

So is that 92 different customers or end customers or --

**Jan Loeb**

92 end customers.

**Richard Sosa**

So 92 end customers, and do they all work with one dealer or is it multiple dealers?

**Jan Loeb**

Yes. No, they all work right now with one dealer. Yes.

**Richard Sosa**

Okay, one dealer. So it's more like a test has more -- this will be a big thing to follow because at the end of the day, this 600 kilowatts is very small compared to -- you had mentioned, I think -- according to my notes, correct me if I'm wrong, you had mentioned I think in August maybe, the potential for 800 megawatts of -- is that accurate, of power?



**Jan Loeb**

Yes. So 600 is relatively small. And I mentioned when I said in 800 megawatts was that we currently monitor, if you look at just what we currently monitor today, it's approximately 800 megawatts of power is what we monitor today. So I was just giving that as an example.

**Richard Sosa**

A reference.

**Jan Loeb**

Yeah. So yeah, this is in the really early stages, and we expect it to grow significantly over time.

**Richard Sosa**

And then just one on --

**Jan Loeb**

But it's important because this is our first. So we've talked about it for a while. It took a while to actually formalize, test it, make sure everything is good, and we're there.

**Richard Sosa**

Okay. That's great. Congratulations. And on the ERCOT side, when they go through approvals, do they approve one by one or is kind of all 92 at once?

**Jan Loeb**

No, it's one by one.

**Richard Sosa**

You have to approve individually, okay. I think that's public information, right? Is that accurate or relatively public? And -- go ahead.

**Jan Loeb**

No, I don't know the answer to that.

**Richard Sosa**

Okay. And then -- so with, I guess, ERCOT in Texas, I mean, I know there's -- it's not just ERCOT, right? You're not just working with ERCOT, right? It's other states as well?

**Jan Loeb**

There are other states, and there are other grid operators in Texas as well. These 92 are all in ERCOT's region.

**Richard Sosa**

Right. And is it safe to say that any potential future revenues, the majority would come kind of in the summertime? Or is it could be any time of the year?

**Jan Loeb**

No. It's -- the way I'm just using ERCOT as an example, because they're a good example. A year is broken down into four segments. There's a winter program, which is four months and has high

usage. There's a summer program, which is four months and has high usage. And then there's a two-month spring and a two-month fall program, which are low usages.

**Richard Sosa**

Okay. So it's a -- when you had mentioned this 15,000 to 17,000 a year, 1 megawatt of power, that's kind of blended average, right, with the --

**Jan Loeb**

Correct, over a year.

**Richard Sosa**

Okay. And then just one more -- last question unrelated to Demand Response, just on this 150,000 of hardware sold. Is this something you just do from time to time? I think it's happened before, I recall, right? Just one customer, a couple of customers just want the hardware. Is that accurate? Or should we expect more of that kind of stuff in the future? Or is this kind of a onetime?

**Jan Loeb**

No, this is something difference -- Tracy, go ahead.

**Tracy Clifford**

This is new functionality that we have launched in all future products sold. So what you were referring to the one-off sales were the custom units that were customized for one specific customer that they monitor internally themselves because they have that capability. This is new functionality that we've launched in our all existing products, moving forward to offer various options to give us a little bit more competitive edge also so that we can offer some variability to our customers. So you will -- this is not a one point in time. This will be the accounting treatment moving forward based on the new functionality.

**Richard Sosa**

And was it just a lot of customer feedback on this? Do they want this? Actually what made this decision versus just doing the one-off customer? Is it something -- is this something you're going to do going forward for all hardware, right? So anyone can essentially unhook the monitor. Is that correct?

**Tracy Clifford**

This is embedded -- an embedded functionality change. So it was really after some review in our R&D process on just some options that we wanted to be able to offer as we appeal to more C&I larger customers that might have the ability in-house. We wanted to have that functionality available.

**Richard Sosa**

Okay. That makes sense. So okay, that answered my question. Okay. Congratulations on the quarter. I look forward to the updates.

**Tracy Clifford**

Thanks, Richard.

**Jan Loeb**

Thank you, Richard.

**Operator**

Thank you. And our next question was e-mailed in. So I'd like to introduce Bill Jones to proceed with the questions. Thank you.

**Bill Jones**

Thank you. Yes, this is Bill Jones, Investor Relations. We had a question submitted via e-mail from a private investor, which says, "Hi, I am not yet a shareholder. My questions are, what is the average monthly monitoring revenue per generator? And what is the average hardware revenue realized when generator hardware is sold?"

**Jan Loeb**

Okay. So I would say that from the hardware side, it would be somewhere north of \$400. And that includes both the kind of our residential product, which is a lower-priced product, and our commercial products, which are higher-based product.

And then in terms of monitoring, I think in the past, we've said we charge our dealers a certain price. They mark it up to their customers. So for them, it's a profit center except for our end-user C&I customers, who don't mark it up, that use it themselves. So I'd say you're looking somewhere around \$12 or so a month on average.

**Bill Jones**

Okay. So for clarity, you're giving averages. It's really a range around that.

**Jan Loeb**

Correct.

**Bill Jones**

Very good. Thank you.

**CONCLUSION****Operator**

Ladies and gentlemen, that concludes the question-and-answer session. So I'd like to turn it back over to the management team for closing remarks.

**Jan Loeb**

Once again, thank you, everyone, for your interest in Acorn Energy. We look forward to updating you again after Q4 on our next call. In the interim, we'll provide updates via press releases of any material developments. We do appreciate your support, and we're happy to speak with investors and prospective investors. You may set up a call with Tracy or myself or ask a question through our IR team whose contact information is in today's press release. Until then, thank you for your time today.

**Operator**

And ladies and gentlemen, this concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.