

Acorn Energy

Fourth Quarter 2023 Conference Call

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CORPORATE PARTICIPANTS

Tracy Clifford – CFO-Acorn, COO-OmniMetrix

Jan Loeb – CEO, Acorn and OmniMetrix

Bill Jones – Investor Relations

PRESENTATION

Operator

Good morning, and welcome to the Acorn Energy 2023 Fourth 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'll hand the call over to Tracy Clifford, CFO of Acorn Energy and COO of its OmniMetrix operating subsidiary.

Ms. Clifford, you may begin.

Tracy Clifford

Good morning, and thank you all 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 2024 and future periods is subject to risks associated with potential disruptions to business operations and customer demand, risks related to the company executing its operating plan, maintaining high customer renewal rates and growing its customer base, as well as from changes in either technology, the competitive landscape or the financial and economic environment.

Such forward-looking statements are based on management's beliefs and the assumptions made using currently available data and information pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are no assurances that the company will be able to achieve its growth goals. The company undertakes no obligation to disclose revisions to forward-looking statements to reflect events or circumstances that occur after this call, today. A full discussion of risks and uncertainties that may affect the company is included under Risk Factors in our 10-K, which is available online as filed with the Securities and Exchange Commission.

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. First, I want to congratulate the entire Acorn OmniMetrix team on another year of very solid progress for our company, particularly the achievement of profitability in both Q4 and for the full year and \$8 million of annual revenue. Reaching sustainable profitability has been a long-time goal.

Let me touch on a few other key accomplishments in 2023. First, we were able to return monitoring revenues to a path of growth, increasing 9% in 2023, following a 3% decline in 2022, which was mainly due to the impact of the sunsetting of 3G wireless technology.

We lost some revenue related to older monitoring units in 2022 and even into Q1 2023, with some customer churn related to sunsetting. However, we are now above the total number of monitoring endpoints connections that we had in 2021, before the impact of sunsetting.

With that behind us, we now expect to return to double-digit monitoring revenue growth in 2024, as we continue to build our base of monitored endpoints. Given the high margin recurring nature of monitoring revenue, we view it as a key value and cash flow driver for the business.

The gross margin on monitoring revenue is approximately double that of our hardware sales, and incremental revenue from new monitoring endpoints largely drops to our operating income line.

Building on this annuity model, during 2023, we continue to advance the rollout of our Demand Response initiative. Demand Response, or DR as we call it, is a new service that offers--that's offering--an offering that enables backup generator owners to sign up and receive compensation for making their generators available to grid operators to turn on automatically for brief periods to support the grid, during peak demand.

OmniMetrix's remote monitoring and control technology provides the critical links that enable DR functionality for generators. For this, we earn additional revenue on top of our conventional monitoring and controlled service revenue.

Accordingly, we believe that DR further strengthens our value proposition and customer stickiness, providing the potential to double our profitability on each enrolled generator endpoint. We also expect that the DR business model could support overall generator sales and further incentivize dealers to promote our solutions.

During 2023, we worked to test, formalize and help market these programs, resulting in the enrollment late in the year of our first 100 demand response residential customers. These initial customers have now been approved by ERCOT, the main grid operator in Texas, in time for a typical summer peak grid demand.

Our dealer network continues to work on signing up customers with approximately 600 kilowatt hours in generated capacity in the program currently, and we expect the pace of this activity to pick up.

We are expecting a modest revenue contribution from DR in 2024, based on a normal gradual adoption path for a new solution, particularly one that is linked to a meaningful asset purchase.

The purchase and installation of next-generation energy-efficient backup generators required for demand response costs approximately \$15,000, installed residential units and substantially more for commercial units, depending on size. We are very pleased to have completed all the work to launch this program and enroll our first customers. We believe DR represents an important growth and value driver for our business, as we move forward.

Beyond Demand Response, we have been working to develop meaningful growth opportunities with large generator dealers and with commercial and industrial, or C&I customers.

In Q4, we executed a nonexclusive reseller agreement with one of the nation's largest multiregional commercial generator dealers. We believe this agreement could generate a substantial number of new monitoring connections per year, over time.

The relationship has the potential to contribute annual hardware sales, start-up fees and initial monitoring revenue of \$1 million, annually, or more, once the program is fully operational. We have not yet started to receive any significant volume of orders under this agreement, as we

expect it may take several quarters to fully train and optimize their dealer base on the program and its benefits.

Turning to C&I customers who are facing rising costs, increasing environmental and reporting pressures and budget constraints, OmniMetrix offers compelling solutions. Our monitoring and control solutions provide meaningful environmental and cost reduction benefits by reducing truck rolls and regular site visits to remote locations. We also provide environmental and air quality reporting that may be required for compliance with increasing state regulations.

We believe there is a very favorable backdrop for our commercial and industrial business development efforts, and we are working on some larger opportunities. Of course, these larger customer opportunities take time to work through layers of diligence and approvals. For that reason, it's hard to predict the timing of our success. But I did want to make it clear that we do see the potential for some large opportunities in 2024, and we will, of course, disclose any meaningful progress.

Turning to our public equity, we successfully completed a 1-for-16 reverse stock split in September 2023, with the intention of raising our share price to make Acorn stock accessible to a broader group of potential investors.

As you may know, many investors face increasing limitations on investing in low-priced stocks, particularly those below \$1. We are pleased with the resiliency of our share price volume to reverse split and believe that the higher post-split share price should help attract new investors to Acorn, as we continue to build on our top and bottom-line performance.

As I said at the opening, I'm very proud that Acorn and OmniMetrix has achieved our goal of reaching profitability in 2023, despite the fact that our cash sales were down 3%, year-over-year, as a result of high interest rates and inflation and impacted our residential dealers and delayed capital purchases into 2024 by certain of our C&I customers. In any event, we believe we are well positioned to build upon our 2023 profitability into 2024, and beyond.

Importantly, Acorn's net operating loss carryforwards, our NOLs are close to \$70 million, which should largely shield future profits from tax liability over the next several years, enhancing future cash flows and shareholder value.

Our long-term goal remains the achievement of 20% average annual top line growth. We have a range of business development initiatives and opportunities currently in process that we believe should enable us to achieve that goal. And importantly, we will work hard to manage cost to grow the bottom-line impact of each incremental revenue dollar.

With gross margins of approximately 75%, we believe that with our current operational infrastructure of 50% of each incremental revenue dollar can fall to the OmniMetrix EBITDA line. OmniMetrix EBITDA for 2023 was approximately \$1.3 million.

Acorn has a very solid financial position to support our growth initiatives. We closed 2023 with \$1.45 million in cash and no debt and achieved approximately breakeven cash flow in 2023, despite investments in the business and in inventory for expected expansion, which Tracy will address.

Though we remain focused on organic growth, we continue to actively seek accretive bolt-on acquisition opportunities that would add value to our shareholders.

We will maintain very strict value and risk management criteria in this effort and as a result, we have not yet executed on any M&A opportunities to date, but we will continue to have discussions with attractive acquisition targets and seek prudent external growth opportunities.

To close out my remarks, we are confident and excited about the business and its growth prospects, and we are grateful for the support of our investors. Our bullish outlook is rooted in the substantial efficiency, cost reduction, risk mitigation and environmental benefits of our solutions, combined with the relatively limited market penetration. Demand Response adds another potentially attractive revenue stream to our service offerings that we believe will further support growth and value creation for our shareholders.

Now, let me turn the call over to Tracy for more details and insights on our financials and operational performance. Tracy.

Tracy Clifford

Thanks, Jan. I wanted to make you all aware, if you are not already, that our 10-K was filed with the SEC this morning. Now I'll review some important developments and then discuss our Q4 and full year results, after which we'll open the call to investor questions.

In 2023, particularly, in the latter half of the year, we completed some significant initiatives that we've been working on for quite some time. First of all, we've been developing a new user interface for our OmniView customer data portal, since 2021. After a lengthy period of planning and development, OmniView 2.0 or OV 2, as we call it, became available to customers as of October 1, 2023, in beta mode.

OV 2 provides a range of new features, including a new more aesthetically appealing and modern user interface, self-service run reporting and access to air quality data to support regulatory compliance for our customers.

Overall, OV 2 provides more functionality and a more modern design that delivers a much better user experience. We're very excited about the launch of OV 2. We'll be rolling that out to all customers on or about March 18. The customer response has been excellent, making us feel that OV 2 extends our competitive edge and should keep us ahead of our competition in 2024 and moving forward.

Also on September 1, 2023, we launched updated versions of our TrueGuard, AIRGuard, Patriot and Hero products that include new functionality relating to how our customers are able to access and utilize data provided by these devices. The new version of our products allows our customers to have the option to purchase our monitoring service to monitor the products themselves if they have that capability or to choose another monitoring provider.

Historically, our products only worked with our monitoring services. This new functionality results in OmniMetrix's hardware and monitoring services being treated as two distinct offerings. As a result, revenue, cost of goods and related commissions on sales of these updated hardware devices are recognized upon product shipment rather than deferred and amortized over the estimated life of the unit, which had historically been three years, as was the case with sales of the prior version of our hardware.

Revenue recognition for monitoring services is still amortized ratably over the term of the service contract, which is typically one year.

Turning to our 2023 results, full year revenue rose 15% to \$8.1 million with hardware revenue increasing 23% and monitoring revenue rising 9%. The increase in hardware revenue was driven by \$475,000 in sales of our new product versions, which was not deferred, and \$259,000 from sales of custom design units from one C&I customer.

As Jan mentioned, monitoring revenue returned to growth in 2023, following a decrease in monitoring endpoints in 2022, driven by mobile carriers sunsetting of 3G technology, which impacted legacy 3G monitoring hardware.

Q4 '23 revenue increased 22% to \$2.25 million, driven by a 37% increase in hardware revenue and a 9% increase in monitoring revenue. The increase in revenue in the fourth quarter of '23 was due to the same drivers as the increase for the full year.

Gross profit grew 18% to \$6 million in 2023, reflecting both revenue growth and margin improvements. Our gross profit margin improved to 74.5% versus 72.4% in 2022, primarily due to an increase in hardware gross margin to 54% from 48% in 2022. The hardware margin improvement reflects sales of higher-value new products and custom units, which tend to sell at higher price points. Q4 gross profit rose 22% to \$1.6 million, in line with revenue growth.

Total operating expenses, including \$102,000 of expenses related to our 1-for-16 reverse stock split, increased 4%, or \$230,000 to \$5.9 million in 2023. Excluding onetime reverse stock split expenses, total operating expenses would have increased only 2% versus 2022.

Q4 '23 total operating expenses increased 10%, or \$143,000 to \$1.6 million, including a \$90,000 increase in SG&A and a \$53,000 increase in R&D, both primarily reflecting increases in personnel-related expenses, namely, salaries and bonuses. Additionally, we've expanded our IT department, upgraded our software development skill sets and invested in our cybersecurity plan, which we will continue to execute into 2024.

Net income attributable to stockholders improved to \$119,000, or \$0.05 per share in 2023, from a net loss of \$633,000, or 25%--\$0.25 per share in 2022. This includes \$0.04 per share for expenses related to our reverse stock split in 2023. Note that per share figures are adjusted to reflect the 1-for-16 reverse stock split.

Q4 '23 net income attributable to shareholders improved to \$84,000, or \$0.03 per share from a net loss of \$77,000 or \$0.03 per share in Q4 '22. The swing to profitability was driven by revenue and gross profit growth that exceeded operating expense increases.

Acorn generated \$72,000 of cash from operating activities in 2023, mainly attributable to our net income plus noncash expenses, less investments in operating assets and liabilities, including working capital. We used \$78,000 for hardware, software and other capital investments during the year, mainly for the residual investment in OV 2.

Looking at our balance sheet, Acorn had consolidated cash of \$1.45 million at December 31, 2023, and approximately \$1.24 million on March 5, 2024, as compared to \$1.45 million at December 31, 2022.

The company also had no outstanding debt in these periods.

Inventory increased to \$962,000 at December 31, 2023, versus \$789,000 at December 31, 2022. We invested in inventory in 2023 in order to support our growth objectives and to position the company to fulfill potentially large volume orders, heading into 2024.

We continue to strongly believe that our business model and financial position will facilitate the execution of our growth strategy in 2024 and longer term. I look forward to updating you on our progress in the coming months.

Operator, now let's proceed to the Q&A session.

Operator

Certainly, thank you. To ask a question, you may press “*”, then “1” on your telephone keypad. If you’re using a speaker phone, please pick up your handset, before pressing the keys. To withdraw your question, please press “**”, then “2”.

We will pause, momentarily, to assemble our roster.

Today's first question comes from Bill Chapman, private investor. Please go ahead.

Bill Chapman

Good morning, everyone. Jan, I was curious, the arrangement that's been provided, CPower with ERCOT, between the split between you guys and CPower, is the amount the manufacturer or industrial company is going to get to participate in the DR program, is it at the financial incentivized level that you feel comfortable with?

Jan Loeb

I'm not sure what you're referring to about the manufacturing. Generally, there are three parties involved in this transaction. There's CPower, who has the relationship with the grid operator, there's us, who can tie CPower together with the generator by controlling the generator, and then there's the generator owner/dealer.

So, our deal is with the dealer and the dealer typically might refund the money to his customer, might give them a rebate on his original purchase, might discount his service and maintenance contracts. So, there are different things that the dealer might do for the end user. But those are the three parties involved in this transaction and all of those three parties each take a certain percentage of the dollars that the grid operator is providing.

Bill Chapman

Okay. And the financial arrangement is enough for the dealers, for them to get involved? Is it enough of an incentive financially, in your judgment?

Jan Loeb

I think it is, but only time will tell as to the speed of which the program takes off. But also, I think there's an environmental aspect, as well. I think that people, especially in Texas, don't want to have their grid to fail, don't want to have added expenses to their electrical bill. So, I think that there's also some incentive on their side besides just the monetary incentive to do what's best for the state.

Bill Chapman

Okay. Approximately how many dealers are in Texas and then around the country that have signed up so far, to work on this?

Jan Loeb

Well, we don't have--firstly, the program is not rolled out around the state. So right now, our focus is Texas because Texas is the main culprit. They're the guys who need it the most. And slowly, other states are doing, as well. So right now, just the dealers in Texas are members of the program, and there are a number of them. I don't know the exact number of the dealers but we're talking to many of them.

Bill Chapman

Okay. Alright, thank you very much.

Jan Loeb

Thank you.

Operator

Thank you. As a reminder, to ask a question, you may press "*", then "1" on your telephone keypad. The next question comes from Richard Sosa, private investor. Please go ahead.

Richard Sosa

Jan and Tracy, how are you?

Jan Loeb

Richard, we're well. Thank you for your continued support.

Tracy Clifford

Great, thanks, Richard.

Richard Sosa

Absolutely. So, as you know, I've been a shareholder. I'm just looking at my spreadsheet here. So it's been--it's really fascinating, 2016, this company was doing \$3.7 million in sales. And since that time, a lot has happened. At that time, you had a dominant position in this PG monitor where you were monitoring these backup generators, a nice business, growing slowly.

There was some exciting things happening, but not like a ton of things but it was never expensive and it was always pretty cheap. You had the NOLs. But slowly but surely, every year, 20% here, 15%, 25% growth, low and behold, we're at \$8 million of sales in that time. I don't--I think you only put in maybe a couple of hundred thousand dollars you raised into the business.

So, it's grown and it's also become even cheaper, in my opinion. And you also have all these little--all these initiatives you are doing that are not little, I was going to say little but I meant to say extraordinary, right? You have these extraordinary initiatives, right, where if some of them like demand response or this partnership you have, like just works a little, like I feel that, that the 20% long-term forecast for growth could be conservative.

I guess my question is, all this way of saying, if there was one thing that you got--really got you excited? I know it's a lot of things, you're CEO of the company, there's many things you've got to worry about. Is there anything that you're, like, not worried about, that you're super excited about that you--that there was one thing that as an investor, I should be focused on to where there could be incremental growth, what would that be?

Jan Loeb

Well, firstly, the thing that excites me most is really the team at OmniMetrix and Acorn. I mean, I think we--and this is not something that the public actually sees. But I think that Tracy and we've really upgraded the team here at OmniMetrix, which leads to a significant amount of other opportunities.

I think the commercial and industrial side of our business is now kind of only beginning to wake up to really the need for data analytics and monitoring. So, I think that that is a real push into the future. The company was--really, the company started and its base business was residential. And I see that, over time, really morphing into commercial and industrial.

So, I think that that is a very big opportunity. And I think DR could be a very big opportunity. It's been slow but DR is almost all profit, meaning we don't have to sell a product; it's all software. So whatever revenue we generate, a very large percentage of it falls to our bottom line. So I think as DR begins to pick up and we will--we are leaders in that field. In the products we do, I think that could be a big benefit, over time. I hope that answers your question.

Richard Sosa

Yes, that's great.

Tracy Clifford

I'd like to add one thing, Richard, also. I think in the last 24 months and the team that Jan alluded to, we are even doing a better job of being in tune with our C&I customers and really trying to listen to them and partner with them for future services that we can provide. And I alluded to that a little bit in my remarks about regulatory compliance reporting.

I think it's going to be critical as we move forward and environmental restrictions become more to the forefront that we really partner with our C&I customers. And I believe there's a lot of opportunity to do that to help them along the way and also build a stronger relationship and provide additional revenue streams along those lines with using the data analytics that Jan alluded to and being able to provide services that enhance their ability to be compliant, without spending additional money on consultants and payroll dollars.

Richard Sosa

Okay. Let's--it's my last thing. It's not a question, it's more of a request. Let's get these sales over \$10 million, so we can see \$100 stock price. So, I'll be really excited for that and hope to see that, over the next few years.

Jan Loeb

Ditto and we'll take your PO, any time.

Operator

Thank you very much. As a reminder, to ask a question, you may press "*", then "1". At this time, I am showing--at this time, I am not showing any further questions on the phone.

Bill Jones

Okay. We have a couple of questions that were e-mailed from a private investor that I would like to put in. First--these have to do with Demand Response. The first is, when an end customer signs up for Demand Response, when do the participating parties get paid? It says they were under the impression that there was a payment upon sign-up and then maybe quarterly or recurring, but from your website, it sounds like they're made when the DR is actually utilized or perhaps it is both. Could you explain?.

Jan Loeb

Yes. In Texas, there are four seasons a year, and winter and summer are four months each, spring and fall are two months each. And we--everybody gets paid at the end of that particular season. So--and obviously, winter and summer are the two big seasons, some are being the very biggest not only because they have four months versus two but because that's when peak demand is. So, just for example, in the summer, we would expect payment in November for the summer season. So, kind of like a month or so after the season ends, we would expect to see money.

And it needs to be done--just because the person signs up, it doesn't mean he gets paid because the grid operator needs to know, for sure, that when they call upon that customer, the customer is generators ready running and will provide the electricity. So it's usually about a month and a little bit after the end of each season that people get paid.

Bill Jones

Okay. Thank you that. And I think the second question was answered but so I'll jump to number three. The question says it sounds like demand response could more than double your profitability per customer. Does this account for the initial sign-up fee and also, I'd guess the dynamics will be a bit different for C&I customers versus residential, due to the capacity differences. Could you address that?

Jan Loeb

Yeah. So definitely, the numbers are different because in your typical C&I customer, you have a much greater kilowatt or megawatt generator that is being used, so the dollar numbers are greater.

The--as I said in my prepared remarks or--not in my prepared remarks but in answer to one of the question is that DR payments are pretty much almost all profitable because we don't have any equipment expense. So, it could definitely double the profitability of an endpoint customer. Again, once the program is really up and running and generating the amount that we see as potential down the road. So, it's definitely possible, the formula is there, and we just need to execute and get our dealers to sell the program, get energy-efficient generators into the marketplace, and it will happen.

Bill Jones

Okay. Well, thank you for that. That's all we have from the e-mail side. Thank you, Operator. You may go ahead?

Operator

Okay, thank you. At this time, we are still showing no further questions, so we'll conclude our Q&A session. At this time, I'll turn the call back to Jan Loeb for closing remarks.

Jan Loeb

Once again, thank you, all, for your interest in Acorn Energy. We appreciate your support, and we are always happy to speak with shareholders or prospective investors. You can arrange a call with us or ask a question through our IR team. This contact information is in today's press release. We look forward to updating you again on our Q1 call in May.

Until then, thank you for spending time with us, today. All the best.

Operator

The conference has now concluded. Thank you for your participation. You may now disconnect your lines.