

Acorn Energy, Inc.

First Quarter 2024 Conference Call

Thursday, May 9, 2024, 11:00 AM ET

CORPORATE PARTICIPANTS

Tracy Clifford - *Chief Financial Officer and COO*

Jan Loeb - *CEO of Acorn and OmniMetrix*

PRESENTATION

Operator

Good day and welcome to the Acorn Energy First Quarter 2024 Conference Call.

All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key, followed by "0".

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*", then "1" on your telephone keypad. To withdraw your question, please press "*", then "2".

Please note, this event is being recorded.

I would now like to turn the conference over to Tracy Clifford, Chief Financial Officer and COO. Please go ahead.

Tracy Clifford

Thank you, all, for joining our call, today. First, I'd like to remind everyone that many remarks that follow and answers to questions may be forward-looking. These statements are subject to various risks and uncertainties.

For example, the operating and financial performance of the company in 2024 and future periods is subject to risks associated with potential disruptions to business opportunities 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 technology, the competitive landscape and the financial and economic environment.

Such forward-looking statements are based on management's beliefs and the assumptions using currently available data and information pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There is no assurances that the company will be able to achieve its growth goals.

The company undertakes no obligation to revise or to disclose revisions to forward-looking statements to reflect events or circumstances that occur, after today. A full discussion of risks and uncertainties that may affect the company is included under Risk Factors in our 10-K as filed with the Securities and Exchange Commission and available on our website, acornenergy.com.

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

Jan Loeb

Good morning. Thanks, Tracy, and thank you all for joining today's call. It has only been two months since our last call, and most of our business trends in late 2023 continued in Q1 2024, so I'll keep my remarks brief.

We're off to a promising start in 2024 with Q1 '24 revenue rising to \$2.1 million from \$1.7 million in Q1 2023, and EPS of \$0.03 versus a net loss of \$0.03 per share in the prior year period. Acorn moved into profitability in the latter part of 2023 and for the full year 2023. We expect to be profitable, moving forward.

Given our margin profile and the recurring nature of our remote monitoring and control services, we believe we are well-positioned to deliver improving bottom line performance, as we move forward. Our large net operating loss, or NOL position, which will largely show company profits from federal taxes, should further benefit our future free cash flow.

Turning to growth drivers, we've been working to develop meaningful unit volume opportunities with several large commercial and industrial, or C&I, customers, as well as our dealer network. We are pursuing several opportunities selling directly to C&I customers that we believe would have a meaningful impact on our financials if we are successful in our bid to provide monitoring hardware and services to these customers.

We are seeing more inquiries and more discussions, including with Fortune 100 and other large national companies. We're particularly excited about these opportunities, given both their potential size and their ability to scale at a much faster rate because we're working directly with the end customer versus a dealer network.

We executed a reseller agreement with one of the nation's largest commercial generator dealer networks in the fourth quarter and believe this relationship has the potential to scale the significant annual revenue, once the program is fully implemented.

We're now working to fully train regional dealers on optimizing the OmniMetrix program and benefits. While the significant potential remains, the rollout has been slower than we originally projected.

The impetus behind many of these opportunities is the fact that companies are realizing that data from their generators can be a crucial source of information in relation to their increasing power requirements and, correspondingly, the need for reliable power.

One factor is the adoption of artificial intelligence, which will drive an exponential increase in the need for computing and electric power for many years to come. This will only place further stress on electric grids and should continue to increase the demand for our hardware and services.

Reflecting these trends of increasing power demand, this week, Platinum Equity closed on their acquisition of Kohler Energy. And last week, Pacific Gas & Electric Company announced that they are in talks with KKR, Kohlberg Kravis Roberts, to acquire a \$2.3 billion stake in their power plants through a partnership called Pacific Generation.

OmniMetrix offers best-in-class power generator and pipeline hardware and monitoring services, as well as customized solutions with unmatched U.S.-based customer service. Across the board, companies are experiencing rising operating costs, increasing environmental pressures and more onerous reporting requirements, challenging their budgets.

Our monitoring solutions provide the cost reduction and the environmental benefits these companies need, are reducing the need for truck rolls and personal visits to remote locations and providing data as a basis for decision-making and to optimize operating efficiencies, providing a favorable backdrop for our business development efforts.

We continue to advance some large C&I opportunities in our sales pipeline and, of course, we'll disclose any significant updates at the appropriate time.

We also continue to advance the buildout of our Demand Response initiative. Demand Response, or DR, is a service offering that enables OmniMetrix customers to sign up to receive compensation for making their generators available to good operators to turn on remotely for brief periods, which takes pressure off the grid during peak demand, thereby improving grid reliability, while also providing an incentive to the participants.

OmniMetrix provides the critical monitoring control links that enable DR generators, providing another revenue stream in addition to our traditional monitoring services with the potential to double our profitability, per enrolled user. As the benefits of DR programs are communicated more broadly to potential end users in the coming months, we expect the growing awareness to facilitate our dealers' efforts towards signing new DR customers.

We are expecting a modest initial contribution from DR in 2024 based on a gradual expected adoption rate for our new solution. We think DR represents an important growth and value driver for our business moving forward, especially as consumer buy-in runs.

Our first year customers were approved by ERCOT, the grid operator in Texas, and signed for the peak 2024 summer grid demand. Plus, a local utility in the Midwest is running a large DR trial with us.

With regard to our outlook and goals, we have a target of 20% average annual revenue growth that I've discussed, some of the initiatives that we believe should help us achieve that goal in 2024, or higher. Of course, it is our aim to bring an increasing percentage of that revenue down to the bottom line. Considering a gross margin contribution of nearly 75%, roughly 50% of each incremental revenue dollar falls to Omni's EBITDA.

Our balance sheet and financial liquidity remains strong. We closed Q1 with \$1.4 million in cash and no debt, which we believe positions us, well, to support our internal growth objectives. We also continue to look for accretive M&A opportunities within the remote monitoring IoT space to build further value for our company and our shareholders.

To date, we haven't executed on any opportunities, largely due to our criteria, our value discipline and our view that Acorn's current shares are substantially undervalued relative to our growing base of high-margin recurring revenues.

Going forward, if equity valuation continues to improve, we have opportunities could open up to expand our footprint via M&A.

Before I turn the call over to Tracy, I'd like to reiterate our excitement for this business and the opportunities in front of us. OmniMetrix delivers significant efficiency, cost reduction, risk management and environmental benefits to customers. We operate in underserved, underpenetrated markets for remote monitoring, remote control and IoT services.

Based on new commercial and industrial leads and deal flow from our sales and marketing team, our reputation for providing quality products and services in the power generator marketplace, we are very optimistic about the potential to secure more significant monitoring projects in 2024, and beyond.

We are also very grateful for the support of our shareholders.

And in particular, I want to acknowledge Mr. Joel Sklar, who recently made a 13G filing to report that he has increased his ownership position in Acorn to 5.7%. Joel is a sophisticated financial professional, a long-time investor and a former insurance company executive. We are proud to have earned his belief and support in what we are doing at Omni.

With that, let me turn the call back to Tracy with more insights on our financial and operational performance. Tracy.

Tracy Clifford

Thank you, Jan. Let me say, first, that we filed our 10-K this morning, and so you should be able to access it on sec.gov or on our website at acornenergy.com. I will now provide some operational and financial highlights, after which we'll take investor questions.

In Q4, as you know, we launched our OmniView 2.0 user interface in beta mode, and customer feedback has been very positive, to date. OV2, as we call it, enables a unique, new user experience that allows customers to, effortlessly monitor units with new customizable functionality and an upgraded user dashboard. Some of the new features include self-service run reporting and access to air quality data that assists our customers in their regulatory reporting and compliance.

Now let me provide some background on the importance of this air quality data. Firstly, the Air Quality Index, or AQI, is the EPA's index for reporting air quality, across the country. In some areas, testing your generator on a bad air quality day could lead to a significant monetary fine.

OV2 provides AQI data that enables knowledgeable decision-making when setting generator exercise schedules so as to avoid testing generators on these bad air days and, thus, avoiding any related monetary fines that could be levied.

OV2 is an example of the OmniMetrix team's commitment to continue to provide and service innovation to meet the needs of our customers, which is at the core of our competitive strength and industry-leading position.

Additionally, late in Q3 of last year, we also launched updated versions of our TrueGuard, AirGuard, Patriot and Hero monitoring products with a new functionality. These new product versions allow customers various monitoring provider options. Prior to these engineering modifications, our standard hardware products only worked with OmniMetrix monitoring services.

The new functionality enables our hardware products and monitoring services to be offered separately. And as a result, revenue, cost of goods and related sales commissions on new hardware devices are recognized upon hardware shipment rather than deferred and amortized over the estimated life of the unit, which was historically three years, as we had with sales of prior hardware versions. Revenue for monitoring services continues to be amortized over the term of the service contract, which is typically one year.

Now turning to our financial results. Revenue rose 22% to \$2.1 million in Q1 '24, compared to revenue of \$1.7 million driven by a 42% increase in hardware revenue and an 8% increase in monitoring revenue. The Q1 '24 hardware increase is attributable to sales of the new product versions of TrueGuard Pro and TG2 in our Power Generation segment and of our Hero2 product in our Cathodic Protection or Pipeline segment.

Primarily driven by our revenue growth, Q1 '24 gross profit increased 21% to \$1.6 million, reflecting a gross margin of 74.6%, as compared to Q1 '23 gross profit of \$1.3 million and a gross margin of 75.2%. The nominal decline in gross margin was attributable to a greater proportion of hardware in the revenue mix, as hardware generally carries a lower gross margin. However, we were able to increase our hardware gross margin to 53.5% in Q1 '24 versus 50.6% in Q1 '23 due to sales of new product versions that deliver more value to our customers.

Operating expenses rose 7% to \$1.5 million in Q1 '24 versus \$1.4 million in Q1 '23, primarily due to a \$78,000 increase in SG&A and a \$24,000 increase in R&D expenses. Higher SG&A included \$36,000 in additional personnel expense due to compensation increases and staff additions, \$25,000 in higher audit fees, as well as more annual audit services being performed in Q1 '24 than in Q1 '23 and \$16,000 in increased tax consulting fees in Q1 '24, compared to Q1 '23.

Increased R&D included increases in salaries for our engineering team and costs related to the development of new products, as well as new product lines. We continue to seek product improvements and to develop new product lines to better address customer needs.

Net income attributable to stockholders improved to \$65,000, or \$0.03 per share, in Q1 '24 from a net loss of \$85,000, or \$0.03 per share in Q1 '23. The improvement was driven by the revenue and gross profit growth exceeding operating expense increases. Per share amounts have been adjusted to reflect the 1-for-16 reverse stock split that we executed in September of 2023.

In terms of operating cash flow, Acorn used \$43,000 of cash in operating activities in Q1 '24 versus \$83,000 used in Q1 '23. The improvement was primarily due to net income improvement in Q1 '24.

Turning to our balance sheet. Acorn had consolidated cash of \$1.4 million at March 31, '24, as compared to \$1.3 million at March 31, '23.

The company has no outstanding debt, excluding deferred revenue and deferred cost of goods sold, which have no material impact on future cash flows. Our net working capital was \$2.5 million at March 31, '24, compared to \$2.6 million at March 31, '23.

We are steadfast in our belief that our business model and strong financial position should facilitate the continued execution of our growth strategy in 2024.

As always, we look forward to updating you on our future progress in the coming quarters.

Operator, please proceed to the Q&A session.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. Online call participants are currently in listen-only mode. Should you need assistance, please signal by pressing the "*" key, followed by "0" on your telephone keypad. To ask a question, you may press "*", then "1". And to withdraw your question, please press "*", then "2". If you are using a speaker phone, please pick up the handset, before pressing any keys.

At this time, we will pause, momentarily, to assemble our roster. If you have questions, please press "*", then "1".

The first question is from Keith Goodman with Maxim Group. Please go ahead.

Keith Goodman

Hi, Jan, a quick question for you in reference to those couple of acquisitions that you mentioned occurred in the industry. Was it revealed what the multiple was that they were bought out at?

Jan Loeb

No. Well, firstly, the KKR and the Power Generation is not a done deal. And so, that's just what's talked about. And the Platinum Equity-Kohler deal has not been disclosed. And I'd point out that I wouldn't necessarily use either of those as really good comps because those companies don't have the recurring revenue model that we have.

My point in discussing those is that our generation--and then I'll add data coming off of Power Generation is becoming a big focus in today's world. You cannot pick up a newspaper without reading about AI and its power consumption and the power consumption of data centers.

And so, power consumption and the need for reliable power, and you can't have a data center going down because they don't have power, is a real big focus, today, in the C&I world. And we are really well positioned to provide the data required to make sure that those generators are acting reliably when needed.

Keith Goodman

Got you. Got you. A separate question on the Demand Response side. How is the consumer compensated for allowing the generator to kick in? Is there like a credit on their bill, or are they literally compensated for it?

Jan Loeb

Yeah, so it really--it depends on the utility and the dealer and what--and who we--let me say this, who we are dealing with. So, let's assume we're dealing with a normal generator dealer. So, what we find is--as I said, there's--and as I said in the past, you have three parties to this transaction. There is the CPower, which has the relationship with the grid operator who passes to us the need for power. There's us in the middle, and then there's the end user.

So, in some cases, the dealer and the end user have some program where maybe the dealer provides free maintenance for the consumer when he signs up for the DR program. In case where, let's say, there's--we're dealing with a commercial and industrial customer without the dealer in between, the customer gets the one third, so to speak, right to him.

And in some cases, we're dealing with co-ops, let's say, that what we've done with them is we've increased our monitoring--our quarterly monitoring fee to compensate for the DR that we are providing. So, it really depends on who the ultimate customer is, who the middleman is. But we've been very flexible in how we do it, as long as we get our share.

Keith Goodman

Okay, appreciate it. Good job on the quarter.

Jan Loeb

Thank you.

Operator

The next question is from Joel Sklar. Please go ahead.

Joel Sklar

Yes, hi, Jan and Tracy. Kudos for another strong quarter, very encouraged by our future and everything that you and the OmniMetrix team is doing. A couple of questions. First, when you-- Jan, you were talking about the new--the prospects for C&I, some maybe large-scale customers.

Do you anticipate whether that will include DR from the get-go? Or will DR likely maybe come later, possibly come later with those customers? That's the first question.

And then my second question is simply going to be on the Cathodic Protection segment. I noticed in your 10-K, there was a nice percentage increase in the hardware revenue for the CP segment. I don't know how much of that was on a cash basis. Just trying to get arms around whether you're getting some traction now with your RAD capabilities in the CP segment. So, thank you.

Jan Loeb

So, let me answer the CP question, first. By now, I most probably forgot your first question. But on the CP side, we've not had any traction yet on the RAD because we've decided to introduce the second-generation RAD and bring that to market because we've had some positive feedback from customers that they would like to see the second generation, meaning some added features that our first-generation RAD did not have.

So, in terms of RAD, if RAD gains traction, it will happen later this year. So, what you're seeing in the hardware sales is just our existing customers, maybe a few new customers, putting in our hardware system.

I would just note that the growth that we see in the company is on the Power Generation side. And Power Generation, last year, was approximately 90% of our revenue. And with the growth, CP, while it's very important to us and has consistent margin revenue as well, but the growth is going to come from our Power Generation side. Now just remind me about your first question.

Joel Sklar

Okay. Yeah, sure. It's the--you had talked about your--

Jan Loeb

--Oh, yeah, DR, CR, right, got it.

Joel Sklar

Right, right, right.

Jan Loeb

So no, I would not expect that DR comes right away. DR is just--it's in its initial stages. It's possible that some of our C&I customers who are looking at us have that in mind, and they know that we have that capability. But I don't believe that that's going to happen, right off the bat.

I think their main focus is getting reliable data from their machines in any machine that they have. So, a lot of these customers might have different generators from different companies. Our monitors are agnostic. So, they like us and they like our customer service. So, I initially believe that it's our product and the data that our product generates that is the driver for sales, and I think DR comes later.

Joel Sklar

Okay, thank you.

Jan Loeb

Thank you.

Operator

Again, if you have a question, please press “*”, then “1”. The next question is from Alex Ginsberg. Please go ahead.

Alex Ginsberg

Hi, Jan and Tracy. Thanks for the great quarter. So, I think I heard that you said that the Demand Response is not yet producing revenue. I wanted to understand how you think about the time line for when you'll start to see that again. And then will that--how will that be broken out? Is that going to be in the monitoring revenue, or will you reclassify that as something else?

Jan Loeb

So, we expect, as we said, that it starts off in the summer season. So, it's typically a month after the summer season ends is when we would see the revenue. So therefore, I would expect it will show up late in the third quarter or beginning of the fourth quarter.

I think initially, it's, again, it's a small amount. So, I would expect it to be included in the monitoring side of our business is how we will report it. And I think as time passes and it becomes a bigger percentage and it becomes more material, we would break it out. But I don't envision that for a little bit yet.

Alex Ginsberg

Got it. And your goal is to be growing at 20%. Is that a combined cash and hardware and monitoring growth, or do you--

Jan Loeb

--Yes.

Alex Ginsberg

Got you. Thank you very much.

Jan Loeb

Thank you, Alex.

CONCLUSION

Operator

We are now showing no further questions. And this concludes the Q&A session. At this time, I'll turn the conference back to Jan Loeb for any 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 and prospective investors. You can arrange a call with us or ask a question through our IR team, whose contact information is in today's press release. We look forward to updating you again on our Q2 call. In the meantime, we'll provide any

significant news or updates via press release. Until then, thank you again for taking time with us, today. All the best.

Operator

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