

# Acorn Energy

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## Third Quarter 2024 Conference Call

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Thursday, November 7, 11:00 AM ET

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### **CORPORATE PARTICIPANTS**

**Tracy Clifford** - CFO

**Jan Loeb** – *President, CEO & Director*

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## **PRESENTATION**

### **Operator**

Good morning, and welcome to Acorn Energy's Third Quarter 2024 Conference Call. At this time, all participants are in 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 conference to Tracy Clifford, CFO of Acorn Energy and COO of its OmniMetrix operating subsidiary. Ms. Clifford, please begin.

### **Tracy Clifford**

Thanks, everyone, for joining us today. Let me first remind you all that the following remarks and answers to questions may be forward-looking. These statements are subject to various risks and uncertainties, 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 technology, competitive landscape and in the financial and economic environments.

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 assurance that the company will be able to achieve its goals. The company undertakes no obligation to revise or disclose revisions to forward-looking statements to reflect future events or circumstances that occur after today. A full discussion of risks and uncertainties which may affect the company is included under risk factors in our 10-K filed with the SEC and available on our website, [acornenergy.com](http://acornenergy.com).

Now I'll pass the call over to Jan Loeb, CEO of Acorn and OmniMetrix, for further discussion. Jan?

### **Jan Loeb**

Thank you, Tracy, and thank you all for joining today's call. I'm very proud of the record results Acorn has achieved so far this year, with revenue rising 46.1% to \$3.05 million in Q3 and up 28.4% to \$7.46 million for the first nine months of 2024, which approaches our full year 2023 revenue of \$8.06 million. Our strong revenue performance drove Q3 '24 EPS to \$0.29, up from \$0.01 in Q3 2023, and first nine months EPS of \$0.42, also up from \$0.01 in the year ago period.

Our performance is a direct result of hard work and discipline of our team, which for the past few years has helped us build an efficient high-margin business comprised of annual recurring remote monitoring revenue along with growing revenue from the sales of our proprietary monitoring hardware products. Having achieved profitability in the business last year, we are focused on building on the success of our base business with a model that can deliver meaningful operating leverage on incremental revenue.

We had discussed in our call last quarter that we had executed a material contract that we expected to have a significant impact on our financial results for the second half of the year. Our Q3 2024 revenue benefited in part from the initial shipment of monitoring hardware pursuant to this mature contract, which is a two year approximate \$5 million deal to provide remote monitoring hardware and services for cell tower generators for a leading national wireless telecom provider. We recognized \$724,000 in hardware revenue from the contract in Q3. The balance of the contract, which includes hardware bundled with only the first year of monitoring services, is expected to be recognized over the balance of the two year contract.

It's worth noting that, even excluding this contract, our Q3 revenue increased double digits over the prior year period. OmniMetrix was awarded the contract in a competitive process, which we believe the superiority of our solution are ongoing investments in technology enhancements and cybersecurity, our ability to monitor all the customers' generated brands and our strong commitment to providing U.S.-based live customer service were key differentiators in our being selected.

We are now working very hard to ensure the successful rollout and execution of this program so that it can serve as a powerful case study for other large commercial and industrial opportunities. The \$5 million on contract covers the purchase of thousands of hardware monitors plus only the first year of monitoring services. Importantly, this contract will materially increase our total number of connections and correspondingly expand our base of annual recurring monitoring revenue. As a reminder, we are fortunate to have a 90-plus percent renewal rate on monitoring, which is partially due to the high cost of switching once equipment is installed.

Also, we believe that this customer relationship provides the potential for further expansion or penetration, assuming we execute well on the initial contract for 5,000 to 10,000 towers, which is only a portion of the national cell tower footprint. We believe that there continues to be substantial opportunities for growth in our book of business and our number of connected devices, both with this customer and with other large commercial and industrial customers.

In a moment, I'll discuss some key factors that are driving demand for our services currently and into the future.

In order to be situated in a position of strength, when RFP opportunities arise, we consistently work on objectives to elevate our competitive advantage. In the past year, we have made additional investments and reallocated resources within the company to better support an expanding base of monitoring endpoints. This strategy included expanding our IT department to enable us to timely respond to customer requests for enhanced functionality and custom reporting and to continue to work on technology to be included in the new generation of our monitoring hardware and developing new tech support tools for our customers to facilitate the ease of installation process for our hardware.

As we've discussed in prior calls, we launched our updated user interface, we call OmniView 2 or OV2 that provides enhanced navigation as well as useful self-reporting features, including air quality index data. Under EPA regulations, a business can be fined for operating generators on bad air quality days. The new air quality data available in OV2 can facilitate regulatory reporting and compliance, which is a valuable attribute to offer our customers.

It is important to reiterate that our solutions provide environmental benefits as well as compelling return on investment while ensuring backup power is ready when needed. Remote monitoring eliminates much of the cost and environmental impact of sending technicians out into the field for periodic inspections of backup generators and minor failures of backup generators, often to remote locations. In addition, remote control services such as demand response can provide users in new efficient generators with grid operator incentives by allowing their generators to be turned on automatically and remotely in times of excess electricity demand.

We see backup power generation, coupled with 24/7 remote monitoring and control solutions, as a secular growth trend that is being driven by increasing incidence of widespread power outages

caused by extreme weather events combined with the vulnerability of our stressed and aging electric grid. It is supported by the growth of remote work and the importance of having access to reliable power.

Tragically, across the U.S., hurricanes, flooding and wildfires have left millions of people and their businesses without power for weeks. And unfortunately, many experts predict such impacts to grow both in frequency and strength. Adding to these challenges is the substantial growth in electricity demand that is required to support artificial intelligence, cloud computing and the proliferation of electric vehicles.

In summary, we believe we have developed industry-leading solutions that help solve growing problems for customers across the U.S. We have advanced our business to profitability, and our disciplined business model enables roughly 50% of each incremental revenue dollar to drop to EBITDA.

We expect further significant contribution to our bottom line from our large wireless contract, and we are pursuing a range of growth initiatives across the business that we believe can contribute to our growth and financial performance. It's an exciting time for our team and our company, and we appreciate your interest. To help spread awareness of our story, Acorn will be participating in the Virtual Investor Summit Conference on Thursday, November 21, so please join that webcast if you can and help spread the word.

Let me now turn the call over to Tracy Clifford, our CFO and COO, for her financial review and insights. Tracy?

**Tracy Clifford**

Thank you, Jan. In addition to this morning's press release, we filed our 10-Q, which is accessible on our website and on [sec.gov](https://www.sec.gov).

Let me provide some financial performance highlights, and then we'll take investor questions. In terms of our top line performance, Q3 '24 revenue rose 46% to \$3.050 million, reflecting a 90% increase in hardware revenue and a 5% increase in monitoring revenue. The material contract that Jan discussed contributed \$724,000 of hardware revenue as a result of shipments that commenced in August.

Also bear in mind that, in Q3, we had yet to record any monitoring revenue from the material contract as, while the units were shipped, they were not yet installed prior to the end of the third quarter. Once the units are installed, we'll book the first 12 months of monitoring fees to deferred revenue and amortize that amount ratably over the service period of 12 months.

As in recent quarters, Q3 '24 also benefited from the recognition of 100% of the revenue from new hardware product versions launched in September of last year. The new product versions have upgraded functionality that allows hardware products to be separable from our monitoring services. As separable offerings, revenue and associated costs on hardware sales are now recognized on shipment or on acceptance rather than amortized over the useful life of the unit. Monitoring revenue continues to be amortized over the contracted term of the service.

Revenue increases were driven by revenue recognized from our TrueGuard product line in our generator monitoring or PG segment, offset somewhat by lower sales in our cathodic protection, or CP, our pipeline segment. Similarly, for the nine months ended September 2024, revenue grew 28.4% with the same revenue drivers as the quarter period.

We talk a lot about our PG segment, which is the growth engine of the company and nearly 90% of our 2024 revenue, but I'd like to touch on our CP segment, as well. In 2023, we introduced our first-generation RAD, Remote AC Mitigation Disconnect product, which can remotely disconnect and connect AC mitigation tools on gas pipelines. Pipelines have an AC current running on the line to detect metallic corrosion.

The RAD product can drastically the pipeline operators' expense and increase employee safety by allowing remote control of AC mitigation tools. We've had the first generation of this product in the field for approximately one year, and based on trial feedback, we are developing a second-generation RAD product currently, which we expect to launch in early 2025 and are optimistic about the sales prospects for this product.

Turning back to our financial performance, gross profit grew 41% in Q3 2024 to \$2.187 million, while gross margin ticked down to 71.7% from 74.3% in Q3 '24. Likewise, gross profit grew 25% to \$5.4 million in the first nine months of 2025, while gross margin dipped to 73% from 75%. The variance in gross margin was attributable to growth in hardware, which carries a lower gross margin than monitoring revenue.

Consolidated operating expenses decreased slightly to \$1.431 million in Q3 '24 versus \$1.542 million in Q3 '23 as lower SG&A offset higher R&D expenses. Lower in SG&A primarily reflects \$102,000 in nonrecurring expenses related to our reverse stock split, which we executed in Q3 2023, in addition to lower personnel costs due primarily to a structural change in our sales organization and decreases in various other operating expense categories that were offset by an increase in technology expenses.

Higher R&D expense is principally related to increased salaries of our engineering staff effective October 1, 2023 and the continued investment to redesign and expand our product line to promote innovation and bolster our competitive position. For the nine month period, total operating expenses were relatively flat at \$4.351 million. We do expect our operating expenses to increase in coming quarters as we continue to expand our team in various areas to support our growing customer base and to make further investments in our technology infrastructure and engineering staff.

Net income attributable to stockholders improved to \$725,000, or \$0.29 per diluted share, in Q3 '24 from \$24,000, or \$0.01 per share in Q3 '23. The improvement was driven by the increases in revenue and gross profit while total operating expenses remained essentially the same.

In terms of operating cash flow, Acorn generated \$739,000 of cash from operating activities for the first nine months of '24 versus \$366,000 in the prior year period, which reflects generally the increase in our net income, adjusted for changes in the working capital and other operating assets and liabilities.

In terms of our balance sheet, our consolidated cash position improved to \$2.2 million at quarter end versus \$1.5 million at year-end. This is principally cash provided by operating activities less technology investments or free cash flow. As of November 5, our cash position was \$2.1 million, and we have no debt. Acorn also enjoys the benefit of a large NOL position for tax purposes, which largely shields net income from federal taxes and enhances our cash generating ability.

To sum up, we continue to be very excited about the growth of our business in the last several years and more specifically in 2024 and the prospects for double-digit growth in the future. We

will continue to reinforce our position as an industry leader in power generation monitoring, working with our customers and potential customers to monitor their critical assets and provide cost savings services to them, making us a valuable business partner.

Our strong financial position, our experienced team and the strength and operating leverage of our business model should drive continued favorable financial performance for the remainder of '25 -- for the remainder '24 and into '25. We believe our prospects are bright, and given long term secular trends in our favor and the breadth of unpenetrated market in the power generation space.

As always, I look forward to updating you on our progress in our next call following Q4. Thank you very much, and we'll turn the call over to the operator for Q&A. Operator?

## **QUESTION AND ANSWER**

### **Operator**

We will now begin the question and answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

### **Jan Loeb**

Operator, do we have any questions?

### **Operator**

We do. The first question comes from Richard Sosa (sp), an investor. Go ahead please.

### **Richard Sosa**

Jan, Tracy, good morning. Great quarter, amazing. It's very exciting to see as a long-term shareholder. So first and foremost, I want to start with that. I had three quick questions. I think you mentioned on the last conference call or in the Investor Day presentation, I'm not really sure, but you had mentioned you had \$2 million of purchase orders on the contract. Is it reasonable to think that the remainder of the \$2 million will be in the fourth quarter, or I shouldn't think about it that way?

### **Jan Loeb**

No, you should not think that way. Anything is possible, but I think you have to consider that some of it would fall into the first quarter. And also, I would also think that, by the time that happens, we have more purchase orders from them, as well. So it's an ongoing process. But, I don't think you can -- you should consider -- if you're doing your math that we would get from this customer \$1.3 million worth of revenue in the fourth quarter.

### **Richard Sosa**

Okay. That's fair. That's what I thought. I just wanted to ask. Second question, just on demand response, have you been able to generate any income from that yet, or is that kind of still a longer-term thing?

### **Jan Loeb**

No, we have not generated any income from that, and it is a longer-term item. It's new. So I think a lot of the different parties, which includes the grid operators, are getting themselves situated.

So it's something that we've not generated any revenue from and should be viewed as a real potential positive, but very early in the game.

**Richard Sosa**

Okay. And then my last question, and I'll turn it over to others, is you're starting to generate income. In terms of the NOLs in your balance sheet, is that impacting accounting at all, or is that something that you haven't looked at yet?

**Jan Loeb**

We would anticipate--

**Tracy Clifford**

--Yeah, Jan, I can take that actually--

**Jan Loeb**

--Yes. Okay. Yeah, Tracy take that.

**Tracy Clifford**

Yeah. Thanks, Richard, for the question. We are actually looking at that. We will be updating our NOL study as of the end of the year, following the end of the year. So you'll see that impact on the balance sheet come on at the end of the year.

**Richard Sosa**

Okay. That's great. And again, great quarter. I mean, I've been a long-term shareholder, and I'm very excited about what I'll see next.

**Jan Loeb**

Well, we appreciate your continued support.

**Operator**

The next question comes from Josh Peters (sp), a private investor. Go ahead please.

**Josh Peters**

Well, good morning, and I think congratulations are certainly in order. I'd like to add that to the first questioner here on the line. I'm a relatively recent shareholder, but worried now that I might not own quite enough shares. Could you articulate what you think the total addressable market could look like over the next couple of years for your existing suite of products?

**Jan Loeb**

It's very hard because there are no real statistics as to the number of generators that are in the marketplace, the number of generators that are sold on an annual basis here in the United States. What I can say is we think that the number of generators is growing, meaning I'm talking about the new sales of generators, and that almost all new generators that are being sold with monitors, some type of monitoring, which had not been the case really up until a short period of time ago.

So we think that the market is quite large. But I don't -- if your question is do I think that there's a large market that's embedded of old generators in the field today that will get generators -- will get generator monitors put on it, I would not go that far. I mean, I think there certainly is some market for that. But I think, really, and our focus is on the new generator and new generator sales, and I'm talking right now in the residential space.

In the commercial and industrial space, I think that there is a much larger market for generators that are in the field that want to have remote monitoring and control. And that would be, for example, the big contract we have with the telecom provider is for both new generators, but the lion's share of that contract is generators that are already out there in the field at cell towers that say a customer has decided that they need to make sure they're monitoring it because they need to have the data and the assurance that the generator is going to be working when power goes out because they can't afford to have cell service drop if that occurs. So we think that there's a very large market out there, but I can't give you a number for TAM.

**Josh Peters**

Yeah, I guess that's the common phrase for it is TAM. I try avoid using cliches like that. But--

**Jan Loeb**

--Okay, so the total addressable market - I apologize.

**Josh Peters**

Yep. Yeah. Well, hey, we're certainly looking at Rule of 40 type territory -- who knows, maybe better than that here for a while, so I guess we can use all the cliches. My other question is, you talk about in the next, let's call it, year a couple of quarters, whatever it happens to be, expanding your sales force. Do you have a way to describe how rapidly you're expecting to bring people on and perhaps what you're budgeting for investment through the P&L for that?

**Jan Loeb**

Yeah, we can't tell you about budgeting for P&L. But we're looking -- we're not only looking for a salesperson. Really, our focus -- and we do hope to add some sales personnel. But our focus right now is on IT and engineering because we think that's where we can have the greatest impact. Again, because the competitive nature of our business, we always want to lead in terms of the quality and the capability of our product, and that's really where our focus from a cost standpoint is going to be over the next 12 months.

**Josh Peters**

Okay. Well, thank you very much. I appreciate the insight, and I'll let somebody else ask some more questions.

**Jan Loeb**

Thank you, Josh.

**Operator**

Our next question comes from Chris Tuttle (sp) of Retail. Go ahead please.

**Chris Tuttle**

Hey there. Thanks for taking my questions. Just a couple - one is what's the lag between when you guys ship and recognize the hardware revenue and when the software and services recurring revenue would start to -- would commence?

**Tracy Clifford**

Yeah, I can take that, Jan.

**Jan Loeb**

Thank you, yeah.



**Tracy Clifford**

It really varies. It really depends on the customer. It depends on the volume of units that they purchase. It depends on their rollout plan. There can be situations where they purchase inventory stock and shelve it, and so it's a longer period of time, versus purchases that are immediately installed. So it is largely based on the type of customer and their specific rollout plan. There's no recurring lag trend. It really just depends on the individual customer and their rollout plan.

**Chris Tuttle**

And what would -- in the case of this quarter, I believe you noted that it was in conjunction with the -- or a good chunk of it, anyway, was in conjunction with this exciting new large contract you have with the telecommunications company. What would be -- in that case, what's sort of a good potential expectation for that?

**Tracy Clifford**

Again, we've -- there have been sort of different indications for different regions of the United States on the rollout plan. So there has not been a specific trend. We'll have a flurry, and then there won't -- then there'll be a lag, and then there'll be a flurry. So there really isn't any finite information that I can give you on what the expectation is through the end of the quarter because it's really going to depend on how many installers that they have deployed and how efficient that deployment is, especially over the holidays, and what type of support that their deployments need. So unfortunately, there's not a finite information plan that I can give you on that at this time.

Jan, I don't know if you want to add any color on that--

**Jan Loeb**

--Yeah, I'll just add -- let me just -- Chris, let me just add that this particular customer, as opposed to many other customers of ours, where we ship a product and then they install it and the monitoring starts right then and there, in this case, because it's such a large number of units, we don't -- the minute it's installed doesn't necessarily mean it's the minute that it hits our revenue line, that -- we do it in chunks. And so that also adds to what Tracy said. It's hard to say what dollar number or what number of units are going to be in any particular time.

But one of the points that I made in my prepared remarks is that it's only the first year that the \$5 million -- we are only counting the first year of monitoring. Obviously, we expect many, many years of monitoring to continue. That is something that is not in the initial contract, but that we expect to come in every year from them.

**Chris Tuttle**

Okay. Great. Well, listen, I appreciate it. I know it's -- I know you don't have perfect visibility on it, so I appreciate that. Thank you.

**Operator**

Again, if you have a question, please press star, then one.

**Jan Loeb**

Okay. Operator, if we--

**Operator**

--We do. Our next question comes from Joel Skyler (sp), Private Investor. Go ahead please.

**Joel Skyler**

Okay, thank you. And, Jan, kudos to you and Tracy and the whole OmniMetrix team, terrific quarter. Just a quick question on what can you tell us about your expanding geographical reach. You've mentioned in the past about starting to build in California with the wildfires. And then similarly, I think you recently mentioned potential in Canada, also due to the wildfire hazard and its accompanying need for generators. And then I'm also curious whether you do anything in Puerto Rico, which, of course, has experienced some devastating hurricanes over time. So thank you in advance for that.

**Jan Loeb**

Yeah, so those are all areas that today we sell a product into. California, as I said in the past, is kind of a more recent market because they have a temperate climate, and so generator sales have not been big in California. That has changed and generator sales now in California are growing quite nicely. Canada had not been a focus of our company in the past, but now we have a salesperson who is focusing on Canada, and we see that's a nice market. I don't think it's going to be a great market for us, but I think it's a very nice solid market. And we are in Puerto Rico and have been in Puerto Rico for many years.

**Joel Skyler**

Okay. Wonderful. Do you -- thank you. And do you think it will be very far off into the future that you would have potential business opportunities in Europe and Asia? I know the time differences can present a challenge for your service operation, but just curious about that.

**Jan Loeb**

Yes. As you said, time difference, language difference have impacted us, and we've found that we have enough growth potential domestically for us to move out into Europe. However, some of the people we're talking to about -- with new contracts do have a large foreign footprint, and we'll go where our customers go. So if it makes sense for us from a business standpoint, we definitely will go international, and we'll see what happens with potential customers who we're currently talking to.

**Joel Skyler**

Okay, that's exciting. Thank you, Jan.

**Operator**

Our next question comes from Joe Stein of Oppenheimer. Go ahead please.

**Joe Stein**

Jan, I just want to congratulate you and the team on your growth finally coming through, and I hope you get many more towers. Don't have to rush to go international because have plenty of towers around, and I -- just keep up the good work. Proud to be part of the investment group.

**Jan Loeb**

Thank you very much. (Inaudible)

**Tracy Clifford**

Thank you.

**Jan Loeb**

Take care.

**Operator**

Now showing no further questions. This concludes the Q&A session. Now I'll turn it back to Jan Loeb for closing remarks.

**CONCLUSION****Jan Loeb**

Thank you for your interest in Acorn Energy. We appreciate your support, and we're always happy to speak with investors. And we'll put out details about our event with the Investor Summit Conference on November 21. You can always arrange of call with us or ask any questions through our IR team, whose information is in today's press release. We look forward to updating you again on our next call. Thank you again for your time today. All the best.

**Operator**

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