Acorn Energy, Inc., Q1 2025 Earnings Call, May 08, 2025
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Operator

Good morning, and welcome to Acorn Energy's First Quarter 2025 Conference Call. [Operator Instructions] As a reminder, today's conference is being recorded. Now I will turn the conference to Tracy Clifford, CFO of Acorn Energy and COO of its own OmniMetrix operating subsidiary. Please go ahead.

Tracy Clifford

Thank you, operator, and thank you all for joining today's call. Let me first remind everyone that the following remarks as well as 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 future periods is subject to general risks associated with potential disruptions to business operations and customer demand specific risks related to the company executing its operating plan, maintaining high customer renewal rates, growing its customer base as well as some changes in technology, the competitive landscape or in the financial or economic environment, among other factors.

Forward-looking statements are based on management's beliefs and assumptions using information and data currently available pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There is no assurance that the company will achieve its targets. The company undertakes no obligation to revise or disclose revisions to such forward-looking statements made as of today to reflect future events or circumstances that occur after this call.

A more thorough discussion of risks and uncertainties that may affect the company is included under risk factors in our 10-K available on sec.gov and on our website. Now I'll turn the call over to Jan Loeb, CEO of Acorn and OmniMetrix for additional comments. Jan?

Jan Loeb

Thanks Tracy, and thanks, everyone, for joining us today. I also want to thank members of the MicroCapClub and other investors that we were able to meet at the Planet MicroCap conference in Las Vegas, we really appreciate your support and interest in Acorn. I'm pleased to report continued progress in our first quarter as revenue rose 45% or $966,000 or $3.1 million contributing a $526,000 increase to operating income or 54% of the revenue increase. The rise of first quarter revenue was driven by a 78% increase in hardware due to our large contract with the cell phone provider. This performance confirms the efficiency and operating leverage of our business model in which approximately 50% of each incremental revenue dollar drops to operating income and EBITDA lines.

In addition, despite a higher cost, our operating expenses decreased to 56% of revenue in Q1 '25 from 71% of revenue in Q1 '24. On the bottom line, Acorn's Q1 '25 EPS rose to $0.19 per share versus $0.03 in Q1 '24 an increase of over 600% but it was below adjusted EPS of $0.31

per share in Q4 '24. For financial reporting purposes, our net income is now reflected on a fully taxable basis.

However, we do not pay federal income tax as our income is shielded from federal tax by NOLs. Our first quarter is typically a seasonally low revenue quarter for us, and we incurred some higher expenses from audit and tax work related to the partial release of our valuation allowance to record a portion of our deferred tax assets on the balance sheet as of December 31, 2024. These expenses equated to approximately $0.03 per share. So on a capital basis, to the 2024 Q4 period, for example, our Q1 EPS would have been $0.27 adding back $0.05 for federal tax and $0.03 for audit and tax expense.

And as I mentioned, our Q1 is typically the low revenue quarter for our company. It goes Q1, 2, 3 and 4 in terms of the lowest to highest revenue quarters. Our operating results in the second half of '24 and '25 are benefiting from a material contract with a major cellphone provider under which shipping commenced in Q3 2024.

This contract now totals approximately $5.4 million in gross top line revenue in hardware and the first year of monitoring services. We expect to complete the hardware shipments in 2025. The revenue from monitoring will extend into 2026 because although we are paid on delivery and acceptance of hardware, we defer monitoring revenue over the service period, which is the 12 months from the installation and acceptance date.

For example, approximately 96% of the revenue we've recognized for this contract Q1 '25 has been related to hardware. The monitoring revenue recognition doesn't begin until the units are installed and accepted. So there's a bit of a delay in recognizing monitoring revenue. Given that monitoring contracts typically have about 95% renewal rate, we expect to generate ongoing margin revenue beyond the initial contract period.

A monitoring service represents the protective value of our solution as ongoing annual cost is modest compared to the effort and cost of purchasing and installing a new monitoring solution. As a result, we view monitoring revenue to be annually recurring revenue.

We continue to execute on this and other contracts with the highest levels of customer service as we believe our reliable track record can position us for additional opportunities with this customer and others with substantial remote monitoring needs. Based on our view and feedback, we believe OmniMetrix remains the premier monitoring solution on the market, which is further substantiated by the fact that our solution is agnostic to generator brand. Additionally, we are told that our monitors are easier to install than competitors' products, creating yet another element of value for our customers.

To this end, we are in discussions with several OEMs about the potential to bundle our solutions with the sale of their equipment. We cannot be sure if anything will come of these efforts, but we are the largest independent monitoring solutions provider with the best generator monitoring solution and the OEMs know us. Tracy will talk more about our products, but suffice it to say, we provide much more critical information, and we monitor many more points of data than OEM or competitor monitors. Today, we are all accustomed to apps on our phone that provide data that allows us to monitor and manage our home security, our climate control, our car, et cetera. The same is true for business, which are businesses which are increasingly interested in generating and managing data as the basis for decisions to streamline and improve their operations while reducing costs.

Reflecting this trend, we currently estimate a 75% attachment rate for monitors on new generators, up from just 15% to 20% 5 years ago. Ultimately, we believe monitoring will become an embedded component in all generators and businesses will include monitoring as a spec in all their requests for proposals. We think this is where the industry is going, and we're working to position our broad and compatible industry-leading solution as the obvious choice for commercial and industrial and residential customers. We also see a range of factors that we expect to increase commercial and consumer demand for backup generators and our monitoring and control services.

We outlined some of these demand drivers in today's press release. For example, regarding grid infrastructure, the North American Electrical Reliability Corp., or NERC, has warned that grid reliability risks are particularly acute in roughly half of the U.S., particularly in regions that have the largest coal plants, which are being retired. These include the Mid-Continent Independent System Operator or MISO, PJM in the 13 Atlantic, Mid-Atlantic and Midwestern states, SPP in the Southwest and ERCOT in Texas. According to NERC, these regions are at high risk for brownouts and blackouts now during peak summer and winter demand and it's only projected to worsen. ERCOT forecasts Texas growing demand for power could surpass its available energy supply to support peak demand beginning in the summer of 2026.

This estimate power demand, they estimate that power demand in Texas will almost double by 2030 due to the population growth, more extreme weather, the proliferation of large users such as cryptocurrency miners and data centers.

The Mid-Continent may be even worse shape with inadequate reserves projected for this year and the Mid-Atlantic region faced similar issues. PJM has said that they will not have enough electricity by the '26, '27 delivery year. So what occurred in Spain and Portugal recently could be a preview of what's to come in the U.S. These challenges will require significant investment in grid modernization, storage technologies, thoughtful planning regarding the pace of conventional plant retirements and investment in demand response systems that can quickly reduce load during supply constraints.

We have positioned OmniMetrix to play a key role in addressing this crisis in 2 ways. First is by supporting the deployment and use of standby generators with monitoring services to ensure power supply in the event of grid failures. Second, we are playing a pioneering role in demand response to enable the use of standby generators to support electric grids in meeting peak power demand. The rollout of Demand Response is taking longer than we had first expected, and it seems largely due to the complexity of the problem. ERCOT is still working to finalize its model for demand response providers, a process which has delayed the broader rollout of the program to commercial and residential customers via our partner, CPower. Given the obvious need and the value OmniMetrix can provide, we believe demand response remains an important long-term growth opportunity and potential profit driver for our business.

In addition to organic growth opportunities, we are also conducting an ongoing M&A search process to identify businesses that are well aligned with our operations and objectives and meet our financial criteria. We are seeking recurring revenue businesses similar to OmniMetrix with a monitoring component and the ability to be accretive to our bottom line in the first year. Those are our primary objectives in our search while expanding the scale of our business remains a key goal for this year. Turning to our publicly traded equity. We have long envisioned uplisting Acorn to NASDAQ, where we believe we can benefit from much broader visibility, liquidity and access to an expanded base of investors.

Now with a balance sheet that meets the listing requirements, we have initiated dialogue with NASDAQ regarding our uplisting. We've already filed the application and paid the application fee. We expect the process to take a couple of months and simultaneously, we're considering changing our corporate name to better reflect our operations and our business focus. We expect to complete this process by the end of the third quarter, and we are very excited to pursue this next step in our effort to build value for our shareholders.

In summary, we believe that Acorn continues to be exceptionally well positioned for long-term growth and increasing profitability. Our solutions provide tangible high ROI benefits that help customers achieve their operational, financial, environmental risk mitigation and regulatory goals. We believe there are a number of factors and trends that support our promising outlook in 2025 and beyond, and we are hard at work developing growth opportunities for the years to come. Now let me turn over the call to Tracy Clifford for her financial review and operational insights. Tracy?

Tracy Clifford

Thanks, Jan. In addition to our earnings release, we also filed our 10-K this morning, and both are available online. I'll provide a brief review of Q1 financial and operating highlights, and then we'll take investor questions. Our Q1 '25 revenue rose 45% to $3.098 million versus Q1 '24 with a 78% increase in hardware revenue and a 15% increase in monitoring revenue. The material cell phone provider contract contributed $876,000 related to TrueGuard hardware in Q1 '25 and was the primary revenue growth driver on the hardware side. Our gross profit grew 46%, in line with the revenue growth, reflecting a gross margin of 75.1% in Q1 '25 versus 74.6% in Q1 '24. Total operating expenses increased 14% to $1.722 million in Q1 '25 from $1,513 million in Q1 '24 with higher SG&A and higher R&D expenses.

The increase in SG&A included higher corporate audit and tax fees, as Jan mentioned, as well as increased expenses for personnel, sales commissions and software and technology expenses. Audit and tax fees included an increase of $67,000 related to the work performed to derive the partial release of the income tax valuation allowance against our deferred tax assets as of December 31, 2024. Acorn's strong results and outlook for ongoing profitability required the release of a valuation allowance against our deferred tax assets, resulting in a $4,350 million deferred income tax benefit recorded as of December 31, 2024, but the majority of that work and related professional fee expenses were incurred in Q1.

On a percent of sales basis, Q1 '25 operating expenses actually decreased to 56% of total revenue from 71% in Q1 '24 as our top line grew more quickly than our expenses, reflecting the operating leverage in our model, as Jan previously discussed. Research and development expenses increased 22% in Q1 '25 versus Q1 '24, reflecting an increase in salaries, including the hiring of a new senior level engineer in November 2024 and third-party expenses for continued development of next-gen monitoring products and potential new product lines. We are planning to add another high-level member to our IT department before the end of 2025 to provide additional resources for continued expansion of our data tools to respond to custom data requests and to support the generation of innovative ideas with a focus on cybersecurity. Overall, in terms of R&D, our focus remains on expanding our product offerings and enhancing existing solutions, particularly in the power generation segment.

We're very excited about the upcoming launch of the next generation of OmniMetrix products coming in June. Our newest monitors, which we are calling Omni and OmniPro were offer a sleek modern platform designed for flexibility and ease of installation to have even greater appeal to potential customers. The Omni residential monitor has 50 alarms and 50 parameters, including battery voltage, fuel level, cooling status, missed exercise and many more. Multicolor LEDs provide clear status information from troubleshooting with a new USB-C connection and patented over-the-air programming and updates. The OmniPro commercial monitor also provides more functionality in a much smaller footprint than the TrueGuard Pro.

It adds up to 1,000 alarms and parameters with the ability to program exercises and to run them remotely, air quality index integration to prevent exercises on air quality days and patented over-the-air programming updates. The Omni and OmniPro are the culmination of nearly 2 years of work by our talented engineering team. Generally speaking, Omni and OmniPro offer faster installation, easier field maintenance, flexibility to change carriers on component or components without replacing the entire unit and easy-to-use color-coded visual diagnostics. We will have more information about the official launch of these exciting products in the coming weeks. Turning back to the financials.

Our Q1 '25 net income improved over 600% to $464,000 or $0.19 per share versus $65,000 or $0.03 per share in Q1 '24, reflecting strong revenue growth and our significant operating leverage. As Jan mentioned, our Q1 '25 taxable income is shielded from federal tax liability payments by NOLs and thus, there is no cash flow impact related to federal tax liabilities. Our Q1 '25 EPS reflects an effective 24.5% tax rate and total tax expense of $154,000 or $0.06 per share. This includes $131,000 or $0.05 per share of federal income tax expense. In terms of cash flow, we generated $271,000 from operating activities, invested $6,000 in computer equipment and our cash balance increased to $2.591 million at March 31, 2025.

As of March 6, our cash position improved to $2.724 million, and we continue to have no debt. Before concluding, let me quickly address the tariff question that is on the minds of many investors. Our monitors are assembled at a facility north of Atlanta. Our circuit boards are manufactured in West Virginia by a contract manufacturer who sources transistors from Asian sources, including China. Some of our cables are also sourced in China, but represent a small portion of our total cost of goods. Based on the current situation, we believe it would be feasible to incorporate tariff-related cost increases into our pricing structure to avoid any significant impact to our gross margin long term.

We will continue to monitor the situation as it develops, and we'll provide future updates as appropriate. To sum up, our solutions provide substantial efficiency and ROI with expanded capabilities to monitor critical assets, including backup generators with remote control functions. We provide actionable data, risk mitigation tools and regulatory compliance as well as peace of mind. We're excited about favorable market trends and opportunities in the remote monitoring space and look forward to updating you as we progress through 2025.

Thank you all for joining the call. And operator, please prepare for Q&A.

Operator

[Operator Instructions]

Jan Loeb

Okay. If there are no questions...

Operator

Right As there are no entered questions. Yes, I'll turn the conference back to Jan Loeb for closing remarks.

Jan Loeb

Well, I'm glad that we made our comments so in-depth that there are no questions. But we appreciate your support, and we're happy to speak with investors. You can arrange a call with us or ask questions through our IR team, whose information is listed in today's press release, as always. We thank you for your support and look forward to updating you on our progress in future calls. Thank you all very much.

Operator

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