

Acorn Energy, Inc., Q3 2025 Earnings Call, Nov 06, 2025
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Operator

Good morning, and welcome to Acorn Energy's Third Quarter 2025 Earnings Conference Call. [Operator Instructions] As a reminder, today's call is being recorded.

I'll now turn the call over to Tracy Clifford, CFO of Acorn Energy and CEO of its OmniMetrix subsidiary.

Tracy Clifford

Thank you, operator, and thank you all for joining our call today. Before we begin, I'd like to remind everyone that today's remarks, including responses to questions contain forward-looking statements. Such statements involve a number of risks and uncertainties that could cause actual results to differ materially from those projected. Factors that may impact our future operating results and financial performance include general risks such as potential disruptions to business operations or changes in consumer or customer demand as well as specific risks related to our ability to execute our operating plan, maintain strong customer renewal rates and expand our customer base.

Additional risks may arise from changes in technology, competition or shifts in the macroeconomic and financial environment. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are based on management's current beliefs, assumptions and information available as of today. There can be no assurances that the company will meet its growth targets or other strategic goals or objectives. The company undertakes no obligation to update or revise forward-looking statements to reflect future events or circumstances that occur after today's call.

For a more detailed discussion of the risks and uncertainties that may affect our business, please refer to the Risk Factors section of our most recently filed Form 10-K available online at www.sec.gov or on our own website.

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

Jan Loeb

Thanks, Tracy, and thank you, everyone, for joining this call. First, let me start by acknowledging that although monitoring and hardware revenue each grew over 20% for the first 9 months driving a 35% increase in net income, our Q3 '25 revenue was significantly lower than in Q3 2024 due to lower hardware revenue. The Q3 2025 renew variance is largely due to the timing of hardware revenue from our large cell phone provider contract.

Given the size and nature of our business, a contract of this magnitude, while highly beneficial to both our short-term and long-term cash generation and create variability in our quarterly reporting primarily due to the timing of hardware revenue. This contract was originally expected to roll out over 2 years, but the customer desire faster deliveries, which were largely

fulfilled over the first 12 months. Final deliveries that we had expected to record in Q3 2025 have been posted to Q4 2025 and possibly Q1 2026, resulting in no hardware revenue from this contract in Q3 2025 versus revenue of \$724,000 from initial hardware deliveries in Q3 2024. Additionally, we recognized \$215,000 of deferred hardware revenue in Q3 2025 versus \$436,000 in Q3 2024, a difference of \$221,000.

The first hardware revenue reflects the noncash amortization of hardware sales prior to September of 2023, which were deferred and amortized over 3 years. The amount of revenue recognized from the amortization of deferred revenue will continue to decrease as we have not deferred revenue from [indiscernible] sales since September 1, 2023. We when we began selling hardware units that can be sold independently from our monitoring services. Hardware sales are recognized to revenue upon shipment or transfer of title. We expect all deferred hardware revenues to be fully amortized by August of 2026. Adding the \$221,000 difference in Q3 hardware amortization plus the \$724,000 of hardware revenue results in the delta of \$945,000 or approximately 95% of the hardware revenue variance between Q3 '25 and Q3 '24.

An additional factor is the reality that new hardware sales have been soft on the residential side of the business, but stronger in the commercial and industrial segment. Echoing this residential trend, last week, a leading generator OEM reported Q3 revenue below expectations in the home market which they attributed to reduced incidence of power outages, one of the lowest rates in 10 years due in part to fewer U.S. hurricane impact this season. As you can imagine, power outages from any source are a major driver of backup generator demand. We also believe ongoing economic conditions, including high interest rates, slowing job growth and other financial uncertainties have slowed deployment of backup generators, which range between \$7,000 and \$24,000 to purchase and install depending on the home sizes.

It is our sense that these economic challenges have tempered residential demand for several quarters. Longer term, we expect residential demand will rebound as economic conditions moderate, root uncertainty builds and power [indiscernible] grow in frequency and duration. In terms of our large cell phone contract since inception, we have realized \$3.9 million of hardware revenue and \$343,000 in monitoring revenue totaling roughly \$4.2 million. We are told that there will be additional purchase orders under this contract, but as of right now, we have shipped all the initial hardware order. We will continue to recognize monitoring revenue under this contract that was deferred at the point of sale over the 12-month period commencing on the installed date.

Total deferred monitoring revenue at September 30, 2025, under this contract was \$290,000. Of course, we fully expect this customer to renew our monitoring services given the customers over \$4 million hardware investment. We expect them to be a long-term and happy customer. This is supported by the value and cost savings of our service and cost prohibitive nature of switching to a competing offering, all of which are reflected in our history of greater than 90% annual renewal rates. Looking forward, the big question for shareholders is what is our strategy to build on our scalable, high-margin, cash-generating business to achieve our long-term growth goals. The answer is that we are pursuing a number of initiatives across commercial, industrial and residential markets that fall into 5 distinct buckets.

One large commercial and industrial opportunities being pursued by our direct sales team, to strategic OEM relationships in which we partner to provide our industry-leading technology and services; three, expanding our penetration of the residential market through our over 600 generator dealers, for developing new products and expanding the capabilities and value of existing products; and five, through accretive M&A transactions. I'll briefly touch on each of these growth initiatives. Larger commercial and industrial opportunities are being pursued via our internal sales team across sectors, including health care, telecom, real estate management retail and the military.

We have a range of ongoing discussions with many of the organizations are larger and more complex, resulting in sales cycles that are longer and the timing outcome is hard to predict. We see meaningful long-term growth potential from C&I customers because of their regional and national scale and our proven ability to deliver a compelling return on investment in terms of cost savings, improved data and analytics as well as reduced operational risk. Strategic OEM relationships in which we to provide our industry-leading technology and services. We continue to advance discussions with OEMs regarding potential strategic relationships where monitors would be bundled and installed by the manufacturer rather than in the aftermarket. We believe OmniMetrix technology and service leadership, combined with our ability to support all generator brands puts us in a very strong position to partner with OEMs.

This will allow an OEM to focus on their core business while delivering a superior total solution across their customer universe. Of course, these initiatives require discussion, research, testing and planning yet there's no guarantee of success, but we believe the concept makes good sense for both sides, and we'll continue to pursue this avenue, which could be an important growth driver for us expanding our penetration on the residential market through our over 600 generated dealers, while retail adoption of generators has been slow due to a number of factors, we expect the pace to pick up moving forward. We go to market in the residential space through our network of over 600 generator dealers, and so our primary drivers are working to support them in their outreach.

New product development is another area of long-term importance that Tracy will touch on in her remarks. M&A transactions remain a priority in our growth efforts. We are evaluating several complementary M&A prospects with monitoring components to their business. Negotiations with 2 of these are progressing, though it's too early to predict if or when they might happen. We are very motivated to execute on one or more transactions to accelerate our growth and drive further operating leverage. But we remain disciplined on managing risk and the price we relate to pay to ensure we are building value for our shareholders.

As we have new investors on today's call, I'll just touch on some of the long-term secular trends supporting our growth. First, remote asset monitoring is projected to grow approximately 23% annually through 2032 and driven by the increasing adoption of IoT connected devices, real-time data collection, demand for predictive maintenance and data analysis as well as compliance and reporting obligations. Given some of you on today's call are probably monitoring things you probably didn't or couldn't just 5 years ago, like home thermostat, lighting, doorbell, HVAC systems, appliances, et cetera. Newer cars allow you to monitor the craze location, fuel efficiency, fluid levels and other measures or you may use your remote start, remote climate control or door locks.

The same thing is happening within businesses. Remote monitoring is increasingly being seen as a necessary and cost-effective tool to enhance operational performance and reduce the risk of disruption, providing reliability, cost savings and convenience and OmniMetrix is ideally positioned to meet this growing demand. We all read a growing energy demand from AI and data centers, which is taxing the U.S. energy grid and reducing the reliability of electricity access. Though the hurricane season has spared in the U.S., the prevailing trend has been more frequent and severe weather and other natural disasters increasingly disrupting the grid. Electrification demands across the economy are compounding a fragile grid and creating a supply and demand imbalance for electricity.

The point is CMI customers and residential customers increasingly need reliable backup power, and that's the key driver of our business. We expect as these major secular trends will continue to support our long-term growth. Based on the trends in our growth initiatives, we continue to believe 20% average annual revenue growth is an achievable target over the next 3 to 5 years. It won't be straight line, and it will require that we execute on one or more of our larger growth initiatives in coming periods, but we feel the scope of opportunity and the strength of our position makes this very achievable.

With that, I'll turn the call back to Tracy to go over our financials and for her perspectives on our operations. Tracy?

Tracy Clifford

Thanks, Jan. As Jan noted, the primary driver of our year-over-year performance in Q3 and through September relates to the timing of orders under our sell-in provider contract. Focusing on third quarter performance, for '25 versus '24. We realized \$148,000 in monitoring revenue related to the contract in Q3 '25 and 0 hardware revenue versus \$724,000 of hardware revenue and no monitoring revenue in Q3 '24, an aggregate difference of \$576,000. Q3 total revenue was \$2,478 million versus \$3.5 million, a difference of \$572,000.

High-margin recurring monitoring revenue grew \$422,000 to a record \$1.56 million in Q3 2025. Our Q3 25 gross margin expanding to 78.5% from 71.7%, driven by a significantly higher proportion of monitoring revenue relative to hardware revenue. Operating expenses increased 24.8% to \$1.786 million from \$1.431 million in Q3 '24 due to higher SG&A and R&D expenses. Increases included \$110,000 in nonrecurring corporate expenses related to our NASDAQ uplisting a \$60,000 increase in tax professional fees, of which approximately 50% is not recurring as it related to our 382 study that was completed in October, a \$40,000 increase in our other public company expenses and stock compensation and \$33,000 of higher R&D investments.

Q3 net income to stockholders fell to \$252,000 or \$0.10 per diluted share versus \$725,000 or \$0.29 per diluted share in Q3 '24. And a function of lower revenue and higher operating costs. The year-to-date highlights include revenue of \$9,101 billion, which is a 22% year-over-year increase. The first 9 months gross margin improved to 75.9% versus 73%, reflecting the benefit of adding revenue on a largely fixed cost structure and progress we are making in our hardware product margins. \$0.57, an increase of 36% year-over-year even after consideration

of income tax expense of \$331,000 in the current year period, compared to \$67,000 of income tax expense in the prior year-to-date period.

Cash flow from operations was \$1,795 million, which is 143% year-over-year increase. Quarter end available cash of \$4.167 million which increased to \$4.372 million as of November 4, 2025, and we continue to be debt free. As a leader in remote generator and pipeline monitoring, we maintain our competitive edge through ongoing investment in product development. Q3 was the beta launch of our next-generation monitors, Omni for residential and on the Pro for commercial and industrial use. These next-generation monitor offer smaller size and quicker processing speed, other new features that reduce installation time and service costs and enhanced reliability, such as over-the-air updates, and they offer remote exercise programming and enhanced compliance reporting.

These features and upgrades increase the value of our offering relative to our competition. Also in Q3, we began testing a redesigned version of our remote AC mitigation disconnect or RAD for our pipeline segment. Without getting too technical, the RAD product allows remote disconnection and reconnection of alternating current or AC mitigation tools for enhanced employee safety and lower cost versus manual field disconnections, which are required for maintenance. The new RAD EX design adds pipeline measurement capability in addition to the disconnect feature combining 2 important pipeline maintenance requirements into a single product.

We also continued to improve our OmniView 2, our OB2-user interface in response to customer requests and suggestions, and we routinely review and update our cybersecurity protocols to mitigate constantly changing risks. Many of our ideas for improvements come from listening to our customers and being proactive in addressing customer concerns and needs in our future offerings and updates. This requires close relationships and partnerships with our customers, which we are very proud of it on the metrics. Our customers sincerely value that our products improve liability reduce costs and assist in their compliance and operational reporting. Based on feedback, we're excited about the opportunities ahead, and we look forward to updating you in the coming quarters. Operator, you may now prepare the line for questions.

Operator

[Operator Instructions] The first question comes from Kris Tuttle with Blue Caterpillar.

Kris Tuttle

Actually, I have a couple. Let's start with the positives. Your recurring revenue on the software monitoring side was up nicely. And I'm curious is -- is that something you see as being sustainable? Are we going to experience kind of ongoing some level of sequential growth in category?

Jan Loeb

It is sustainable. It is recurring. So we expect consistent growth in that number. I'm not saying you're going to see 37% every quarter. But systems, we amortized first years. So it comes in

over time. And you should see consistent growth. And we view that as the core value builder of our business. .

Kris Tuttle

Okay. I mean, unless something unusual happens like a customer cancels or something, there should be some as more units come online, the number will go up at least a little bit over time. In other words, this quarter should be at least marginally higher than last quarter.

Jan Loeb

At 100% and hopefully better than that.

Kris Tuttle

Yes. Got it. Perfect. Now my other question is just turning to hardware for a moment. Obviously, a little bit weaker than maybe people were expecting. And I just want to make sure I understand what you said. It sounds like there's still a few more deliveries on the long term, the big contract that kind of propelled you guys in Q -- in this quarter and in Q1. Do I have that right?

Jan Loeb

So the -- basically, we finished the majority of our deliveries to this customer in Q2 of 2025. So -- we started Q3 of 2024. We ended Q2 of 2025, so over a 1-year period. However, there's we'll call it other stuff that they have told us that we're going to be getting they haven't given us a date yet. So there's still, I'll call it, the tail end of the contract is still to come. And hopefully, it will be Q4 or maybe it will be Q1 of 2026. And that's -- again, that's not equipment. .

Kris Tuttle

Right. That's on the hardware line, right, additional deployments. And so with the last question kind of with respect to this contract. And obviously, customer is a large customer, they move to their own beef. They own the football. Do you still believe that there is a possibility you might get? Do they have additional coverage that they want to implement? And could that mean additional purchase orders for you at some point in the future along the same lines of what you had with them?

Jan Loeb

The answer to that is yes, but they have given us no indication that that's forthcoming.

Kris Tuttle

Okay. And then the last question. Tracy talked about some things on the new product side and you guys got to show me the -- at least the new box that you were putting out. And it looks like a real step forward. And this time, you talked a little bit more about AC power and just -- I mean maybe you could help me understand. I mean, I get it at a high level, but is there a

specific kind of market use case customer type that you think about when you look at the AC-based some of the things that Tracy talked about.

Jan Loeb

So I believe what you're referring to was AC mitigation, which is in our corrosion protection side of our business. So as I'm sure you know, about 90% of our revenue comes from power generation and about 10% comes from corrosion protection. So this is a product that we've been beta testing in corrosion protection and has seemed to have gotten some industry attention. And so we're hopefully going to roll that out in the fourth quarter, and we'll see what happens. So that's in our corrosion protection side of our business versus our power generation side of our business.

Operator

The next question comes from Jason Muhlenkamp, Private Investor.

Jason Muhlenkamp

I have a more timeless question here, perhaps. So I'm a bit curious if you could discuss -- you guys have always been good about reinvesting in the business and moving the product for what I don't have a sense for would love to hear from you is when you launch a new product, what -- kind of what percentage of those are 2 existing customers. I'd imagine some customers' upgrades don't -- can you just discuss that a little bit for folks?

Jan Loeb

Sure. So in the case of the Omni and OmniPro, those are products that are replacing existing products. So we have TrueGuard and TrueGuard Pro as existing products, and we're now replacing them with Omni and OmniPro. And as Tracy discussed, all the benefits ties all the benefits, but some of the benefits of the new product versus the old product. In the case of the RAD EX, that would be a totally brand-new product. We don't have an existing product like that in the marketplace. Our product corrosion protection is the hero. So that would be a brand-new line for us. Does that answer your question?

Tracy Clifford

Actually, I think, Jason, let me add to that for you. So when we introduced the new generation of TG and TG Pro, our existing customers would not typically replace the units that they currently have. Certainly, moving forward, as you know, we have customers that order on a repetitive basis. and dealers that order on a competitive basis. So their orders -- their new orders would then be fulfilled with the new generation of products. So we will essentially as our inventory depletes on our existing older generation that will be entirely replaced with the new generation inventory. So anyone who orders from that point forward will receive the new generation of products.

But it would not -- it's not our expectation that anyone would replace an existing unit that is functioning properly to replace it with our new generation product. I think that was more what you were asking, correct?

Jason Muhlenkamp

Yes, correct. That's very helpful. And so the growth there is generally tied to your existing customers or dealers having growth in their business essentially? Is that true?

Tracy Clifford

Yes or consistency in their business, yes. Consistent demand.

Operator

The next question comes from Joe Stein with Oppenheimer.

Joe Stein

[indiscernible]

Jan Loeb

Let's move on, operator.

Operator

No problem. We can move on.

Joe Stein

Can you hear me? [indiscernible] Joe Stein. I'm sorry. I got on a little late, but I was -- my question was, was the problem not having the inventory in a receiving product or a lack of demand, where you got no revenue in this quarter on the telephone side. Did I misread that?

Jan Loeb

No, it's -- we did not have the order. And we did not have a PO to ship anything. And we don't have an inventory. We have whatever our customers need, we're very good about that. .

Joe Stein

Okay. All right. Everything else reads very well.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Jan Loeb for any closing remarks.

Jan Loeb

Thank you all for joining today's call. We appreciate your continued support. If you have any follow-up questions, please reach out to our IR team listed on today's press release or to Tracy and myself, we look forward to updating you again on our next conference call. Take care.

Operator

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