

Acorn Energy, Inc., Q4 2025 Earnings Call Transcript

Mar 05, 2026

Operator

Good morning, everyone, and welcome to Acorn Energy's Fourth Quarter and Full Year 2025 Conference Call. As a reminder, today's event is being recorded. I'd now like to turn the conference call over to Tracy Clifford, CFO of Acorn Energy and COO of its OmniMetrix subsidiary.

Tracy Clifford

Thank you, operator, and thank you all for joining our call today. First, I'd like to remind you that today's remarks, including responses to questions contain forward-looking statements. These 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 risk 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 that may arise from changes in technology, competition or shifts in the macroeconomic or 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 that is available as of today. There can be no assurances that the company will meet its growth targets or other strategic goals and objectives. The company undertakes no obligation to update or revise such forward-looking statements to reflect future events or specific circumstances that may occur after today. For a more detailed discussion of risks and uncertainties that may affect our business, please refer to the Risk Factors section of our Form 10-K, which is available online at www.sec.gov or on our own website at acornenergy.com.

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

Jan Loeb

Thank you, Tracy, and thank you all for your interest. In 2025, Acorn achieved record revenue, improved operating income, higher cash flow and our third straight year of profitability. Our performance benefited from a 22% increase in high-margin monitoring revenue, driven by continued growth in our installed base of remote monitoring endpoints. Our year-over-year Q4 and full year comparisons reflect the benefit of a national cellphone provider contract, the largest in our history. The bulk of hardware revenue for this contract was recorded between Q3 of 2024 and Q2 of 2025, contributing to lower year-over-year hardware revenues in the second half of 2025. The contract also includes one year of monitoring services ratably over 12 months, following each hardware units commissioning. Importantly, we earned very favorable feedback from this customer regarding our technology, managing capabilities and customer service, resulting in what we believe is a solid relationship with future potential. Our 2025 hardware revenue was also tempered by an \$885,000 decrease in noncash deferred revenue amortization from units sold prior to September of 2023 when the majority of our

hardware sales were deferred and amortized over 3 years. Acorn's 2025 results reflected \$956,000 in revenue from amortization of deferred hardware revenue, a 48% decrease from the \$1.84 million recorded in 2024, but with no impact on cash generation. This revenue impact will end this year as we expect the balance of deferred hardware revenue of \$168,000 to be fully amortized by August of 2026.

Lastly, our 2025 revenues were also impacted by an industry-wide slowdown in residential generated deployments, which we and other industry participants attribute to high interest rates, fewer major power outages related to hurricanes and other weather events in 2025 as well as inflation and economic uncertainty that impacted consumers' ability or willingness to invest and backup generator security at a cost of approximately \$15,000 per installation. Our belief is that consumer generate demand is likely to return to more historic levels as impending factors moderate.

Turning to our strategies for growth. We reviewed 5 complementary core initiatives in today's press release on which I'd like to provide a little more color. One is larger commercial industrial opportunities, which our internal sales teams continue to pursue across various sectors that include health care, telecom, real estate, retail grocery, hospitality, government and financial institutions. We have a range of ongoing discussions. However, the most significant opportunities with more large organizations that require budget compliance and also longer, more complex sales cycle. Two is the pursuit of strategic relationships to integrate our technology with OEMs or other strategic partners, for example, through white labeling our products for the OEMs. We have ongoing dialogues with a few industry OEMs to bundle OmniMetrix Solutions with their product offerings.

Currently, our monitors are installed by the dealers in the aftermarket. However, our technology, service leadership and support for all generated brands puts us in a strong position to partner with one or more OEMs. Their core business isn't providing monitoring services and by working with us, they can offer a superior solution that offers greater value to their customers, while also providing the potential to reduce or eliminate their overhead and investment in an in-house solution. We believe this is the direction our industry is going, and we continue to work to advance OEM discussions. However, it's difficult to predict the potential or timing of these efforts.

Three is expanding our penetration of the residential and small business markets through our network of 600-plus generator dealers. While the retail market was slow in 2025, as I mentioned, we are optimistic for a rebound in 2026, given the potential stimulus to secure backup power provided by recent winter storms as well as moderating interest rates. One of the larger generator manufacturers has publicly stated they expect a 10% increase in residential generated sales in 2026, so we expect to benefit if this does indeed occur.

[indiscernible] our ongoing investment in research, development and engineering to enhance existing OmniMetrix products and develop new products. These investments are essential to maintain competitive -- our competitive position and expand our value proposition and addressable market. Tracy will review our recent product launches momentarily.

Five is our ongoing pursuit of accretive opportunities to expand our product offerings, market reach and customer base with a focus on businesses that have a meaningful monitoring components to their businesses. The nature of the M&A process is that it takes a lot of work, research and negotiations to get to the point where you have a solid opportunity and acceptable price. We are highly motivated to identify and execute on an acquisition to enhance our growth, operating leverage and monetization of our NOLs, but balance this with a

disciplined approach to managing deal terms and risk for our shareholders. Our recent strategic partnership with AIO, which stands for all in one, emerged through our M&A dialogues. AIO is the global leader in remote monitoring and control solutions for critical infrastructure but had no business operations in the U.S.

They provide best-in-class technology and cloud-based business intelligence platforms that have successfully deployed at over 110,000 sites in 15 countries. In this case, we found the best path was to secure exclusive North American rights to their proven product suite for what amounts to a modest commitment to invest in building out the business. AIO solutions target the full cell phone tower campus as well as solutions for data centers and utility operations. Their monitoring control solutions deliver actionable insights to advanced analytics, machine learning and comprehensive monitoring of environmental conditions, battery health, security purchases, energy optimization, microgrids and more. The technology reduces downtime, streamlines maintenance and provides measurable cost savings and ROI, [indiscernible] logical choice for smarter, safer and more profitable operations. The partnership is a perfect fit for Acorn and our OmniMetrix brand, as it substantially expands our product offerings and addressable market by integrating AL solutions with our industry-leading remote monitoring and control technology, our 20-plus year reputation and established U.S. customer base. We see exciting growth potential starting with our existing telecommunication customers and then expanding to data center and utilities to strengthen our ability to serve rising demand for data-driven infrastructure management with solutions that protect against power issuance, theft and environmental and other risks while maximizing energy utilization. We anticipate that the average sale of OmniMetrix labeled AIO products will be approximately 5 to 6x the average current omni sale. As we will be sharing SaaS revenue with AIO, it is too early to project what our margins will be. We will be selling AIO technology solutions under the OmniMetrix brand and from our market research, there are no better existing technologies in the industries they serve. This partnership has the potential to transform our company by expanding the respective OmniMetrix brand into new end markets with a product that would take us many years and significant R&D dollars to develop. We expect to have our first demo unit installed by the end of the month with a large existing telecom client.

AIO has been in existence for 18 years. As we have stated, we do not expect any revenues from this partnership until the second half of 2026. We see secular tailwinds that should support our growth in the coming years as business and consumers take action to ensure uninterrupted access and support for their energy infrastructure management and regulatory compliance needs. Energy demands for AI, data centers, electric vehicles, electrification of buildings and reshoring of industry are [indiscernible] aging U.S. electrical grid, which is also being disrupted by extreme weather events, forest fires and other natural disasters. Despite the relatively benign year in 2025, we've already seen a rebound in power outages from winter storms so far this year, including CDI storms across 12 states in the Southern Appalachian in early January, resulting in over 1 million customers without power. Many of them for days and some for weeks amidst winter weather. Even if the nation changed course and started massively investing in energy resources and infrastructure today, we are so far behind. It would take many years if not decades to meet our rapidly growing energy and reliability needs. Given the substantial unmet needs of the markets we now serve, we continue to believe 20% average annual revenue growth over the coming 3 to 5 years is an achievable target. Further, given the efficiency and scalability of [a mile,] we believe approximately 50% of each incremental revenue dollar from our existing business should flow through to operating

income. As a small company [peaks and valleys] in purchasing cycles for major hardware orders will persist, but we believe that our high-margin capital-light business model positions us very well for the future.

With that, I'll turn the call over to Tracy for financial and operational insights. Tracy?

Tracy Clifford

Thank you, Jan. The key takeaway from our 2025 results is the solid growth we are achieving in our annual recurring monitoring revenue stream, which achieved a 95% gross margin in 2025 and was driven by the ongoing expansion of our installed base of monitored endpoint. We view a steadily growing base of annually recurring high-margin revenue as the core value driver for our business, fueled by new hardware deployment, which could continue to be more regular in nature leading to some variation in year-over-year comparisons. We've provided a fair amount of detail in today's news release, so I'll just touch on a few key highlights. Revenue rose 4.5% to 11,478,000, thanks to the diligent efforts of the entire OmniMetrix team. Monitoring revenue grew 22% due to the expansion of monitored endpoint. Total hardware revenue declined 8% due to the timing of deliveries for our large cell phone customer and an \$885,000 decrease in the amortization of deferred hardware revenue. Excluding the impact of declining amortization of deferred hardware revenue, new hardware revenues rose approximately 8% in 2025 compared to prior year. Gross margin improved to 76.8% versus 72.8%, an increase of 400 basis points, reflecting the increase in higher-margin monitoring fees as a percentage of revenue and hardware margin improvements related to the cost efficiency of the next-generation products that deliver more value.

Diluted earnings per share was \$0.99 in 2025, including an \$0.18 per share deferred income tax benefit compared to diluted EPS of \$2.51 in 2024, which included \$1.77 per share of deferred income tax benefit. Cash flow from operations more than doubled to \$2.090 million in 2025 or an increase of 131% year-over-year. Consequently, our year-end cash position improved by \$2.1 million to 4,454,000, and we've maintained a strong cash position of 4,131,000 as of March 3, 2026, following our investment of \$250,000 since December for the AIO OmniMetrix partnership in North American product launch. We also remain debt free. I think it's important to note that Acorn was able to release an additional \$464,000 of its valuation allowance against our deferred tax assets in 2025 as a result of the big beautiful bill, which allowed us to treat certain R&D expenses in a more favorable way for tax purposes. This compares to \$4.4 million released in 2024, both of which were reflected in our bottom line results. We now maintain a \$10.3 million or greater than 70% valuation allowance, against \$14.4 million in NOL and capital loss carryforwards. Most of our NOLs expire in 2031 or later. So we still have plenty of time to utilize them through growth in our existing operations via potential M&A initiatives.

In late 2025, we launched our next generation and generator monitors to omni for the residential market and OmniPro for commercial and industrial applications. In addition to significant upgrades and new features, design innovation have reduced installation time and service costs while enhancing the liability. We also launched [RediX] an enhanced version of our RAD remote alternating current mitigation disconnect product for the Pipeline segment. These next-gen product launches enhance our value proposition, expand our technology leadership and will contribute to our growth in 2026 and beyond. We're very excited about the potential AIO opportunities ahead as well as the other growth opportunities that Jan discussed in his remarks, and we look forward to updating you on our progress.

Operator, you may now prepare the lines for questions. Thank you very much.

Operator

[Operator Instructions] And our first question today comes from Jason Muhlenkamp.

Jason Muhlenkamp

I have a few questions. I want to follow up a few things from the AGM, if you don't mind. The first one I wanted to hit was you guys had mentioned that you're talking to 3 OEMs, and you don't think you'll get 3 OEMs. It's a very long sales cycle and you kind of mentioned that you certainly would get one. Is that kind of still the status on that front? .

Jan Loeb

I believe that is still true.

Jason Muhlenkamp

Okay. And then the next follow-up from AGM would be, in terms of acquisitions, you had said that you had three acquisitions in mind and three term sheets out. It seems like the the AIO is one of those. Can you give an update? Is there still two outstanding, or where does that stand today?

Jan Loeb

We've had discussions with the other two. Firstly, you're right, AIO is one of them. We've had discussions with two others. As of right now, they're still available, but the price, we have not come to any agreement on price, too far part on price.

Jason Muhlenkamp

Okay. And then my final question is a bit more open ended. I'm curious if you could kind of discuss the bottlenecks for each of the growers, each of the growth drivers. So for instance, is the lack of personnel? Or is it sales? What's kind of like the bottlenecks, and what are you guys doing to try to relieve those bottlenecks?

Jan Loeb

So I think the #1 bottleneck is the customer base that we are trying to bring in-house. So on the residential side, and small commercial side, usually, it's one decision maker is making the decision to get monitoring and not monitoring the head of the household or the owner of the small business. the doctor's office, et cetera. And going after bigger customers, we're just finding that the sales cycle is much longer. And there are other extraneous factors that come into play, the economy, tariffs, layoffs et cetera, that impact bigger customers. So to me, our internal team is excellent. And I don't think adding more personnel is an answer. It's just staying on top of these customers and hopefully, we reel them in because we feel very confident about our product, and how we can help them. So I'd say that, to me, is the #1 bottleneck that we have.

Operator

Our next question comes from Richard Sosa.

Richard Sosa

Jan and Tracy, great to see the results this year. I'm excited about the AIO partnership and looking forward to hearing more about it. But just a really quick question. I joined late, so you might have addressed it on the call. But in terms of the monitoring revenue in the fourth quarter, I thought it was like slightly below what it was in the third quarter. Is it -- was it a timing issue, or was it something else?

Tracy Clifford

Richard, thanks for the question. No, the decrease in monitoring revenue in 4Q '25 compared to 3Q '25 was actually due to the positive impact of the nonrecurring revenue recognition related to a policy that was made effective in 3Q '25 of recognizing first year monitoring revenue on any units that have been shipped and for which the first year monitoring had already been paid, but the unit had been outstanding for 24 months or longer and had not yet been installed. So that there was an impact that would be nonrecurring in the third quarter of 2025.

Jan Loeb

Okay. But the actual ongoing --

Richard Sosa

The third quarter was much higher than it should have been, really, I guess it was a onetime benefit in the third quarter.

Tracy Clifford

Correct. That's correct.

Jan Loeb

And then on an ongoing basis, Richard, the fourth quarter was above the third quarter in monitoring revenue.

Operator

And our next question comes from Joel Sklar.

Joel Sklar

Excited about the future for Acorn. A couple of questions. One, Jan, can you give us a little bit more flavor for the market receptivity to AOI -- obviously, you have one telecom customer who is the least interested in getting model in there and seeing how it works out. But can you give us some more -- I know it's still in the very early stages, but a more general flavor for the market receptivity to the product. And then the second one was anything new on demand response.

Jan Loeb

Okay. Good morning, Joe. So on AIO, it's just too early to tell about market receptivity because we haven't really gone out and shopped it or sold it. Obviously, you're right. One of our telecom customers has agreed to put up everything on the in the demo site. And so we've obviously talked to them about it. And so they're certainly interested in. But I would think -- and this goes

kind of beyond a little bit beyond your question, but I would think the -- any telecom tower company would be interested in the product. I'm not saying that they would buy it or -- but they would certainly be very interested in it. You have to recognize and then this also kind of goes to why we were interested in AIO and where we see the future going. And remember, AIO has put in over 110,000 sites with their equipment. So -- and they know what they're doing and their equipment really works. But what's interesting about the equipment is, besides monitoring everything in a cell tower site, for example, whether it be locks, cameras battery HVAC lots of stuff that are monitored that we don't want, we just monitor the generator. So obviously, it's a very good fit for us. But their products, because it's so AI-based for example, depending on which is the cheapest form of energy at any particular time, whether it's solar, battery, fuel they can switch. They have the technology to switch the uses depending on the cheapest source of power at that particular time. So we think it's a big -- it could turn into a big cost savings for the tower operators. Another thing we know is that security of cell phone tower is pretty lack of days ago. I mean they're in remote sites with the price of copper where it is today, we think that security has to be [hardened] at cell tower sites. And so they have the #1, at least what we believe to be the #1, security system in place. And then just if you think about it because it's the way we think about it, the industry is spending billions and hundreds of billions of dollars on AI based on reports that we've seen today, roughly 40% of AI is delivered through mobile apparatuses, which obviously needs cell towers. So we think sub towers are going to be -- are an important site, and we'll continue to be a growing part of the infrastructure that's needed. And we think we have, with AIO product, the best solutions for towers. And so we think there'll be great receptivity once we have a proof of concept. We have one up and showing. We have the software that we can show people. So we think it will be a very big item. But again, we're saying nothing for right now. Let's see what happens towards the second half of the year. Have I answered your question, Joe?

Joel Sklar

Yes. I remember I also had on demand...

Jan Loeb

Okay. On demand [indiscernible], there's nothing new. We continue to have discussions with utilities that, as a matter of fact, we have one coming up in a week on their interest in demand response. The issue is how it gets structured. For example, this particular utility can only give demand response payments to their end customer by law. So how do we work that Acorn gets the money that they deserve. So the concept continues to be an important concept, the actual operations is unclear yet because it's too new as to how the money will flow. But there's certainly a lot of interest, and we are in the midst of it.

Joel Sklar

Okay. Great. Can I have one quick follow-up on AOI, Jan?

Jan Loeb

Sure.

Joel Sklar

Okay. So the decision to -- you're going to be -- you have terms to share the monitoring revenue -- and of course, we value that a lot more. It's ongoing, recurring revenue is a great thing, like the razor blade model. But the -- but from my understanding and complete correct me if I'm wrong, we're not going to get any revenue from the hardware sales even though it's going to be branded omni metrics. And I assume there are going to be some costs associated with the hardware, including maybe commissions. So could you tell us a little bit more what went behind the thought that we would be sharing in the monitoring, but not directly in the hardware sales.

Jan Loeb

So let me correct you on that. No, we are definitely getting the hardware sale. So we are getting a hardware sale. And what we're doing is we're sharing in the monitoring. So the way I look at it it's like a semi acquisition of the North American rights for AIOs product line. So we have given a relatively small upfront fee, which requires them to do a bunch of things, for example, putting up a demo site and providing personnel, et cetera. And then we're sharing in the ongoing monitoring. So I view that as kind of like an earnout. So a small upfront acquisition fee and then an earn-out in terms of the ongoing monitoring fee is how I look at it, and why I think it's such an interesting structure, and again, it takes out a significant amount of risk for shareholders and leaves us with a significant amount of upside. We're going to go to market with a product in two different ways. We'll have a CapEx model. We have an OpEx model. But in all situations, we are getting paid for hardware. We're not in the 3B business.

Joel Sklar

Okay. Great. Wonderful. And then at the risk of being greedy, I impose one more question. So I saw a part of the announcement with AIO is the right to forget what technically is coal, not right of first refusal or something to their South America, Central America to business there. And you may wonder why am I asking about that when you're just getting your toe in the door with North America, but the reason I asked there is I saw that AIO has some important existing customers. I think maybe in a South tower company that has expansive operations in South America. And if you could -- so that may be some low-hanging fruit if that was something that you could execute and get the rights to their South America business. So I was just curious about that.

Jan Loeb

Yes. So we built that into our contract because as you say, there's some interesting opportunities in South America. But also, we wanted so to speak. We didn't want to have our flank with somebody else. So growing up, I played a lot of risk. So I figured if we're having North America, I want to have South America as well. It's a growing area, and it's easier for us to service South America than AIO from where they're located. So it made sense, and we negotiated for it, and we got it. So we'll see -- we see what happens. But again, as you said, first, let's get North America going the way we expect it to happen and then we can see what happens with South and Latin America.

Operator

And at this time, showing no additional questions, I'd like to turn the floor back over to Jan Loeb for closing remarks.

Jan Loeb

Thank you all for joining today's call. We appreciate the continued support from our shareholders. If you have any follow-up questions, please feel free to reach out to myself or our IR team, whose contact information is provided in today's press release. We look forward to updating you again on our Q1 call upcoming. All the best.

Operator

And with that, everyone, we'll be concluding today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.