Acorn Energy

Investor Call

February 15, 2018 at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

Bill Jones – *Investor Relations*

Jan Loeb – *Chief Executive Officer*

PRESENTATION

Operator
Good day, everyone. Thank you for holding, and welcome to Acorn Energy's Investor Update Conference Call. All participants are in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to hand the conference over to Bill Jones, Investor Relations of Acorn. Please go ahead.

Bill Jones
Thank you. Following the prepared remarks by Jan Loeb, Acorn's President and CEO, we will open the call up for your questions. As a reminder, many of the statements made in today's prepared remarks or in response to your questions are forward-looking. These statements are subject to various risks and uncertainties. For example, the performance of OmniMetrix in 2018 and future years is subject to factors such as risks associated with executing our operating strategy, changes in technology, and the competitive environment in which we operate, financial and economic risks and success in driving growth in the Company's business.

Such forward-looking statements are based on management's belief as well as assumptions made based upon information currently available to management, pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. There is no assurance that Acorn or its OmniMetrix subsidiary will be able to achieve its goals for growth in 2018 and future years. The Company also undertakes no obligation to disclose any revision to these forward-looking statements to reflect events or circumstances after the date made.

A complete discussion of the risks and uncertainties which may affect Acorn Energy and our businesses is included in the "Risk Factors" in the Company's Form 10-K filed by the Company with the Securities and Exchange Commission.

And with that, I will hand the call over to Jan Loeb. Jan?

Jan Loeb
Thank you, Bill, and welcome, everyone. And thank you all for joining us today. Yesterday we announced the closing of the DSIT transaction that was executed in January. The purpose of today's call is to provide a bit more perspective on the transaction and our opportunities related to DSIT's fiber-optic monitoring technologies and to review where we currently stand as a company and the vision we have for Acorn and OmniMetrix going forward.

The valuation for the sale of our remaining ownership interest in DSIT was in line with the expectations discussed on our last call, as well as the book value of ownership interest of $5.9 million in September of 2017. Importantly, the sale represents an extremely important step in putting Acorn on a solid financial footing that will enable us to move forward, advancing our OmniMetrix business.

From a cash standpoint, we were able to structure the transaction without any upfront escrow requirements. We were also able to structure some further upsides for the Company, as Acorn now has the potential to earn an additional $500,000 should DSIT complete a contract for fiber-optic pipeline monitoring that is currently in negotiation with an international customer. I'll speak more on DSIT's fiber-optic monitoring technology in a moment.

When we sold the initial stake to Rafael in 2016, our remaining interest was valued on our books at approximately $5.4 million. Since then, that value has increased by approximately $500,000 to $5.9 million, reflecting our pro rata share of DSIT's earnings. Accordingly, as the gross sales price in the transaction was $5.8 million, we will book a fourth quarter impairment charge to reflect the net realizable value of our investment.

Another attractive aspect of our long-term relationship with DSIT and in conjunction with the divestiture of our remaining ownership was that we were able to secure the right of first negotiation to serve as DSIT's distribution partner for its fiber-optic pipeline monitoring technology in the United States.

The fiber-optic monitoring solutions that DSIT is developing have the potential to add substantial new capabilities to what is currently possible in the area of remote pipeline monitoring. DSIT's fiber-optic monitoring solutions combine the listening capabilities of fiber-optic cable and sensors with specialized algorithms that it has developed to convert the sensor input into actionable field intelligence with substantial potential value.

For example, DSIT"s fiber-optic sensing technology makes it now possible to hear and locate things like pipeline leaks or drips. The technology is also able to identify telltale signs of third-party intervention, an industry term referring to efforts to divert or steal oil or gas from pipelines, as well as sabotage or potential terrorism-related activities. Absent from listening capabilities, pipeline operators have historically been unable to identify such issues remotely and instead have had to field teams to conduct in-person inspections along thousands of miles of pipeline.

Accordingly, our right of first negotiation, along with a strong working relationship and sales and marketing synergies provides OmniMetrix with the potential to add an exciting new leading-edge solution it can offer to its current and potential customers.

Both DSIT and OmniMetrix agree that such a partnership makes a lot of sense, particularly given our strong reputation and existing base of pipeline customers. There are no guarantees of cost, but we are committed to working hard to convert this opportunity into an important new area of growth. Though I should caution that this will likely take a few years before we can expect it to have any meaningful impact on OmniMetrix's business.

Looking at where we are as a company, it is important to understand that the DSIT sale culminates a two-year-long effort to realign the Company's balance sheet and portfolio of operations to position Acorn for long-term success. In this process, it quickly became clear that while DSIT was an attractive business, its scale and the nature of its likely customers and their procurement cycles made it most valuable to Acorn as an asset we could monetize.

Following the sale of our remaining ownership interest in DSIT, Acorn has finally emerged as a smaller but very focused and streamlined company with a solid cash position and no debt. We feel we now have sufficient capital to fund the growth of our business and its transition from modest declining losses and negative cash flow into profitability. Importantly, we believe our progress from this point forward has substantial potential to attract growing investor interest and to create meaningful value for shareholders.

On my first investor call as CEO of Acorn back in April of 2016, all three of the Company's businesses were losing money, the balance sheet was dangerously strained, and the Company's options were limited. At that time, I outlined three key objectives. The first was to quickly triage Acorn's challenged financial position. The second was to rationalize the Company's disparate operations and improve the Company's disappointing operating performance. And the third was to focus on businesses and initiatives with the greatest potential to create value for Acorn's shareholders.

It has not been an easy path, but over the past two years our efforts, culminated by yesterday's announcement, we have largely accomplished our first two goals and are now able to turn our full attention to the third objective, which is to focus on those areas with the greatest potential to create value for Acorn and its shareholders.

While OmniMetrix is now approaching cash-flow break-even, it has not yet generated enough cash to absorb Acorn's substantially streamlined corporate overhead, which was approximately $1.2 million in 2017, or roughly two-thirds lower than its $3.6 million level in 2015. We are still not yet done in this regard and look to take out additional costs this year following the DSIT sale.

In the interest of preserving the value of Acorn's approximately $60 million in federal operating loss categories, we have maintained the holding company's structure while making substantial progress at trimming costs and overhead at both Acorn and OmniMetrix over the past two years. Importantly, there are a few things still to be done on the cost side and in the wake of the DSIT sale, and those actions, when implemented, will help advance our move to break-even on a consolidated basis.

So, as a team, I believe we have accomplished a great deal over the past two years, but there is of course still more to do. The Board and I feel that Acorn's current stock price does not yet accurately reflect the underlying value of the transformed company and its near-term potential. Of course, our thoughts on valuation are purely directional in nature, and Acorn's ultimate share price may or may not reflect our viewpoint, for a range of reasons.

When we consider the underlying value of Acorn, we now focus on our 80% ownership interest in our OmniMetrix subsidiary. We believe OmniMetrix is a very attractive business given the high margin nature of its recurring monitoring services revenue, as well as its solid base of customers that includes many Fortune 500 customers. We continue to invest in product development and believe OmniMetrix remains in a leadership position in remote monitoring in terms of our technology and services.

Further, the business case for remote monitoring remains very compelling, as it provides important real-time data on mission-critical assets while substantially reducing the cost of in-person inspections. Also, looking at OmniMetrix's financial performance, I want to point out the discrepancy between our reported revenues and our sales on a cash basis, which are higher. This difference can vary from period to period, for a range of reasons, including our growth-rate and the timing of orders and the amortization period over which we recognize revenues.

For 2017, we have publicly given comfort to revenue of near $4.4 million. However, on a cash basis, our sales during 2017 were over $5 million. The principal difference between the two is the fact that both our monitoring services and hardware sales are typically contracted and paid for up front, yet we record revenue from these contracts on a pro rata basis over the term of the contract for monitoring and the unit life for hardware. So, from a cash perspective, the business is more attractive and GAAP results will lag behind cash results.

If we look at a cash basis revenue and project it to grow at an approximate 20% rate, we get the projected cash basis revenue of approximately $6 million for 2018. Given the high growth rate, recurring nature and high margin of this revenue, we believe that a business like OmniMetrix should command a premium valuation in terms of its revenue multiple. Yet Acorn's market cap was below $8 million yesterday, and when you factor in our current cash position you get to an enterprise value of $6 million, or just one-time projected cash revenue in 2018.

Growing revenue, improving financial performance, and closing this perceived valuation discrepancy is where we see the potential for very attractive returns for our shareholders over the next few years. And as we reference in the release, Acorn also has approximately $60 million of federal tax operating loss carry forwards, which provide an additional opportunity for value enhancement. Investors should understand that the potential value of Acorn is substantially higher now that we have right-sized the overhead, exited businesses that were using cash, paid off debt, and supplied the Company with capital.

Bottom line, we have never been more confident in the business, or the potential to build value for our shareholders going forward. Execution in the business is the principal driver for value creation, and that path now seems clear and offers solid long-term potential. We also plan to expand awareness of Acorn and OmniMetrix within the investment community in an effort to close the valuation gap we believe exists. To support that effort, we also plan to change our corporate name to better reflect our business focus. We will pursue this effort in as prudent, cost-effective and non-destructive manner as possible.

Finally, we will also continue to set our sights on a future up-listing to NASDAQ as our financial and equity metrics position us to do so. We'll keep you apprised of our thinking on this end as we move forward.

And that concludes my prepared remarks, so let's move to the question and answer session. Operator?

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then one. At this time, we will pause momentarily to assemble our roster.

The first question today comes from Hunter Diamond with Diamond Equity Research. Please go ahead.

Hunter Diamond
Hi. Some very great comments today on the call. Can you just provide some details around competition for OmniMetrix? When you for deals, are you competing with sort of smaller firms, larger firms? Just some additional color on that would be great.

Jan Loeb
OmniMetrix is in two lines of business; they are in remote monitoring of generators, compressors, is one line of business and the second is pipeline. In each line of business we compete with different competitors, almost all the competitors are bigger than us. In the case of the generator and compressor side, we generally compete with the OEMs, who also sell a monitoring product. I think all the dealers feel that we have the best product in the marketplace. We also charge a premium price for it, that's on the residential side, so your typical OEMs, Kohler, Generac, Cat, all have monitors for their products. And on the pipeline side, there's no one major competitor, but there are three or four who are somewhat larger than us, all private companies.

Hunter Diamond
Perfect, perfect. Thank you.

Operator
Again, if you have a question, please press star then one. The next question comes from Jack Mayer, a private investor. Please go ahead.

Jack Mayer
Hi, Jan. Congratulations.

Jan Loeb
Thank you very much.

Jack Mayer
Okay. Just two brief questions. If you look at your projected run rate at year-end ’18 as opposed to over the full year of ’18, if you look at your run rate at the end of ’18, do you expect at that point on a consolidated, including the corporate level, to be cash flow positive?

Jan Loeb
Yes.

Jack Mayer
Excellent.

Jan Loeb
Going into 2019 I expect the Company on a consolidated basis to be cash flow positive.

Jack Mayer
Right. On a month-to-month operating—whatever. Okay. That’s number one. Number two, I would infer from your remarks about what the Board thinks about the stock price, that you would not raise additional capital at these levels in order to make acquisitions. Is that accurate?

Jan Loeb
That is correct. We have no intention of diluting our shareholders at these levels.

Jack Mayer
Okay. Thanks very much.

Jan Loeb
You’re welcome.

Operator
At this time there appears to be no other questions, so this concludes our —

Bill Jones
There is a question coming from online. Could I read that?

Operator
Yes, you can.

Bill Jones
I’ll paraphrase because it’s kind of long. But the gist of the question is, first of all, it says “Congratulations, Mr. Loeb, as well as your team, for completing this sale and positioning the Company for future growth.” With that said, there are still many current or potential investors that are concerned that a potential reverse split may carry negative connotations, and some of these investors believe a buying opportunity might occur before or after. Can you state your position and kind of put some of these concerns to rest on how you plan to proceed in this area?

Jan Loeb
The Company has had the ability to do a reverse split since July of ’15 when our shareholders voted for that. We have yet to do it because I agree in concept that generally a reverse split has been a detractor

of value than additive to value, so there was really no need to do it since then. I still don't see the need to do a reverse split until we do a transaction.

One of our stated goals has been to do a transaction which will help us gain value from our NOLs and maybe in conjunction with a transaction, in conjunction with a NASDAQ up-listing, in conjunction with a transformative transaction, we might do a reverse split. But absent that, I agree with the shareholder's question that a reverse split is not a good thing and we don't intend to do it until it makes good economic sense, at which point we will do it.

Bill Jones
And I see another question online. This concerns M&A. It says: "What about M&A? What sorts of things are you looking at, or would you look at, can you look at?"

Jan Loeb
We have been looking, and now we are re-doubling our efforts in the area of remote monitoring, meaning we have a very good business in OmniMetrix, it makes sense to do something that's synergistic with OmniMetrix. It's a field we know well and a transaction, if we can do one, will be in that area.

Bill Jones
Okay. Operator, are there any more questions on the phone?

Operator
There are no more questions on the phone.

CONCLUSION

Bill Jones
Okay. Well, with that, I guess we'll turn it over to Jan for closing comments.

Jan Loeb
Thank you, Bill. Thank you, operator. I'm very excited of what the future holds for Acorn and our shareholders. I'm grateful for the support of our shareholders over the past two years, and I trust that we have demonstrated commitment on executing our plan and programs that I outlined.

I thank everyone for their time today and their support, and I look forward to speaking to you again on our fourth quarter and full year review call in late March. Thank you very much.

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