

Ocean Power Technologies
Quarterly Earnings Conference Call
March 10, 2020

Presenters

George Kirby, President and Chief Executive Officer
Matthew Shafer, Chief Financial Officer and Treasurer

Q&A Participants

Robert Savara - R.E. Savara and Associates
Peter Vijiri - Dawson James
Bill Carson - Cason Accounting

Operator

Good morning, ladies and gentlemen, and welcome to the Ocean Power Technologies Third Quarter Fiscal Year 2020 Conference Call. This call is being webcast on the company's website at www.oceanpowertechnologies.com. As a reminder, this conference call is being recorded and will be available for replay after its conclusion. On the call today are George Kirby, President and Chief Executive Officer, and Matthew Shafer, Chief Financial Officer and Treasurer. Following prepared remarks, there will be a time for questions. On March 9, 2020, OPT issued its earnings press release and filed its quarter report on Form 10-Q for the third quarter of fiscal year 2020 with the Securities and Exchange Commission. All public filings can be viewed on the SEC website at sec.gov, or you may go to the investor relation section of the OPT website, oceanpowertechnologies.com.

Now, let me reference the Safe Harbor Provisions of the U.S. securities laws for forward-looking statements. This conference call may contain forward looking statements that are within the Safe Harbor Provisions of the Private Security Litigations Reform Act of 1995. Forward-looking statements are identified by certain words or phrases such as may, will, aim, will likely result, believe, expect, will continue, anticipate, estimate, intend, plan, contemplate, seek to, future, objective, goals, project, should, will pursue, and other similar expressions or variations of such expressions.

These forward-looking statements are based on assumptions made by management regarding future circumstances over which the company may have little or no control and involve risks, uncertainties, and other factors that may cause actual results to materially differ from any future results expressed or implied by such forward-looking statements. Some of these factors include, among others, the following: future financial performance, expected cash flow, ability to reduce cost and improve operational efficiencies, revenue growth and increase sales volume, success in key markets, competition, ability to enter into relationships with parties and other third-parties, delivery and deployment of power buoys, increasing the power output of power

buoys, hiring new key employees, expected cost of power buoys' products, and building customer relationships.

Please refer to our most recent forms 10-Q and 10-K and subsequent filings with the SEC for a further discussion of these risks and uncertainties. We disclaim any obligation or intent to update the forward-looking statements in order to reflect these events or circumstances discussed in this call. I'm now pleased to introduce Mr. George Kirby.

George Kirby

Thank you and good morning, everyone. I'm going to review our business operations and provide an update on our commercial activities and developments starting in the third quarter and up to today. Then Matt Shafer will provide a review of our financials. After that, we'll open the call to questions. I'm excited that we can report substantially increased third quarter revenue, an increase of more than 170% as a result of revenue generated from the Enel Green Power project, or EGP. In the first quarter of this fiscal year, we announced the first sale of our PB3 power buoy in the company's history to EGP. Last week, we shipped a PB3 to South America on schedule to install a turn key ocean-based laboratory in April off the coast of Chile.

We anticipate recognizing revenues of nearly \$1.8 million from this project in fiscal year 2020. We recently announced that Any [sp], one of the world's largest energy companies, has extended its lease of a PB3 power buoy and contracted an additional scope of work to provide a power and communication solution for an entirely new application in the Adriatic Sea. After more than a year of continuous and error-free operation, we're looking forward to re-deploying the PB3 as Any explores ecologically sustainable life extension strategies for oil and gas platforms at the end of their productive phase.

On the heels of our repeat business with Any, we repeat—we recently announced that we are working with Taiwan based BAP precision to provide power buoy joint surveillance solutions for government agency contract pursuits for police and territorial ladders. This relationship, with an established satellite data solutions provider to industry and government, has the potential open—to open new markets to OPT. Together, we're looking to provide power and data communication solutions for surveillance challenges related to protecting fisheries, trafficking, and [unintelligible] upon territorial ladders.

We also recently announced we're working with [unintelligible] intervention and sub-CI [sp] on a ground breaking, carbon-free, [unintelligible] residency solution for autonomous underwater vehicles known as AUVs. The self-contained system, exempt from any existing ocean infrastructure, has the potential to revolutionize the industrial use of AUVs and make untethered long-term residency a cost effective reality.

We're jointly pursuing U.S. government development and demonstration funding for the concepts [sp], which will include development of an innovative, integrated, mooring, and sub-sea [sp] power and data transmission cable that we believe will also bring substantial savings to

future deployments. Production of our newest product, the hybrid power buoy, is advancing rapidly. We plan to have a prototype ready for in-water testing before the end of the fiscal year in April. Discussions are under way with respective launch customers in advance of open water testing of the hybrid power buoy planned for the spring.

The hybrid power buoy will provide OPT with flexibility in the reliable commercial sea-power [sp] and data communication solutions we can offer to customers. The hybrid's on-board batteries will be charged with solar power, with a clean fuelled sterling engine as backup when environmental conditions don't allow for solar charging. Design for easy deployment almost anywhere in the world, applications to the hybrid power buoy includes surveillance, sub-sea charging, and secured data connectivity for off-shore industries, including defence, security, oil and gas, science and research, aquaculture [sp], and telecommunications.

We've seen a very real desire for carbon reducing autonomous off-shore power and communication solutions. Now, we're just beginning to tap into those possibilities. We believe that our success will bring strong financial performance to OPT and value to our shareholders. Finally, I'd like to spend a moment reflecting on OPT's ongoing commitment to safety. At the end of December, we reached a safety milestone will more than 1,000 continuous days without a [unintelligible] incident. Several years ag, we made a conscious decision to foster and maintain a culture of safety. We built and deployed multiple power buoy projects around the world, developed new products, and even relocated our headquarters and manufacturing base without incident. I'm genuinely proud of our team's safety record and what it means to our relationships with customers and partners. Now, let me turn the call over to Matt to discuss the financials.

Matthew Shafer

Thank you, George, and good morning, everyone. We recorded revenue of \$725,000 for the third quarter of fiscal 2020, an increase of \$457,000 as compared to \$268,000 for the prior year third quarter. The increase was attributable to revenue generated from the new EGP project. Cost of revenues increased \$281,000 to \$681,000 as compared to \$400,000 for the prior year third quarter. This increase was due to higher upfront spending and materials costs on the new customer revenue generating project with EGP.

The net loss for the third quarter of fiscal 2020 was \$2.9 million as compared to a net loss of \$2.6 million for the prior year third quarter. The \$300,000 increase in net loss was mainly attributable to a delay in receipt of funds from the sale of net operating losses credits, which was partially offset by lower spending in product development costs. We anticipate receiving proceeds from this year's sale of net operating lost credits in the coming weeks.

Revenue for the first nine months of fiscal 2020 was \$1.1 million, an increase of \$700,000 as compared to \$400,000 for the prior year period. This was mainly attributable to the new project with EGP. Cost of revenues increased \$1.3 million during the nine months ended January 31, 2020, from 1.2 million during the nine months ended January 31, 2019. This

increase was a result of higher cost associated with the new EGP project and was offset by lower spending on both the Any and Premier Oil projects as compared to the same period in fiscal 2019.

The net loss for the first nine months of fiscal 2020 was \$9.1 million compared to a net loss of \$9.7 million for the prior year period. The decrease in net loss was due primarily to the higher revenues, lower spending in engineering and product development, and a decrease in selling general and administrative related costs. These were all partly offset by the delay in receipt of funds from the sale of the net operating loss credits.

Turning now to the balance sheet, total cash, cash equivalents, and restricted cash was \$10.8 million as of January 31, 2020, down \$6.4 million from April 30th of 2019. Our net cash used in operating activities during nine months ended January 31, 2020, was \$8.6 million, a decrease of \$1.3 million compared to \$9.9 million during the nine months ended January 31, 2019, mainly as a result of increased cost containment efforts and the new revenue generating customer contract with EGP. With that, I'll now turn it back to George.

George Kirby

Thanks, Matt. Operator, we're now ready for questions.

Operator

Thank you. The floor is now open for questions. If you would like to ask a question, please press star one on your telephone keypad at this time. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, that is star one to register questions at this time. One moment, please, while we pull for questions. Thank you. Our first question today is coming from Robert Savara [sp] of R.E. Savara and Associates. Please go ahead.

Robert Savara

Hello, gentlemen. You seem to be doing very well and growing the business. I had an observation. You said in the North Sea where you have particularly active wave action, you can actually generate extra power. Is that correct?

George Kirby

Yeah. Good morning, Robert. And, absolutely, that's correct.

Robert Savara

Okay. Have you given any thought to taking the extra electric power and using it through electrolysis to convert to hydrogen, which can then be used in hydrogen cells? And those cells are capable of driving tremendous electric motors. They are now being—like a company like Plug Power. They—if you investigate them, you'll see what I'm talking about. They're driving vans. They're driving forklifts. Their customer base is Walmart and Amazon, and they were

developing for—literally for vans on the road, trucks on the road for delivery. These are how powerful these hydrogen cells and their compact units. So, I'm thinking, here you've got extra power. You can generate hydrogen, and then that hydrogen can feed these kind of cells to power electric motors on platforms or wherever else you wish to use it. And it's all self contained, and it's all totally green power. Have you ever given any thought to something like that?

George Kirby

Robert, we're aware of the technology. I think you might have even emailed us with some thoughts on that, as well. We've talked to the team about that, as well as our customers. And the general feeling predominately from our customers is, they would rather use the extra power that we're actually generating for onboard payloads. So, for instance, the buoy that we had in the North Sea, for the particular payloads that we had onboard, we were not using that extra power, but our customer, Premier Oil, is looking at other opportunities to use that additional power directly as opposed to through hydrogen creation and then turning electric motors. But I appreciate the thought, and it's something that, like all new technologies, we're open to looking at.

Robert Savara

Okay. Thank you very much.

Operator

Once again, ladies and gentlemen, that's star one to register a question. Our next question is coming from Peter Vijiri of Dawson James [sp]. Please go ahead.

Peter Vijiri

Good morning.

George Kirby

Hey, Peter.

Peter Vijiri

How are you? A couple of questions for you. On the construct of the satellite company in Taiwan, how many buoys is that potentially to monitor illegal fishing activities or [unintelligible]?

George Kirby

That's a good question. The LOI [sp] actually states one or more, and we're looking at this particular market in particular because of the multi buoy opportunities that are there. So, I wish I could say a little bit more about exactly what's going on there and how far we are along in the process, but, unfortunately, I cannot.

Peter Vijiri

Okay. On the gulf oil and gas company, what's the status with that?

George Kirby

Do you mean the Gulf of Mexico oil and gas company that [unintelligible] a study with?

Peter Vijiri

Yes, last year [sp]—because it was approved [unintelligible]. What's the next stage?

George Kirby

Well, first of all, we completed that study, and we completed it successfully with that customer. We have, as you may recall from about this time last year, we have an existing master service contract with them where they can purchase further services or equipment under that MSC just simply by writing work orders, if you will. So, it tremendously simplifies the contracting process. We continue to talk to them. There's obviously a lot going on with these oil companies right now, but we're far from done with our potential work in the Gulf of Mexico right now.

Peter Vijiri

Okay. And on Premier Oil, I know you have—you've [unintelligible] for almost nine months now. It was a nine month lease, and they can go further if they want to. Where does that stand right now, because it looks like it's coming up for the nine months?

George Kirby

Yeah. No, that's a great question. Premier Oil and OPT and also the partners that went into this project InterMoor and Pulse, we decided to bring that buoy back in. It's actually key side [sp] right now. We're looking at bringing that buoy back over to the U.S. to get it refurbished [sp]. We've got a number of opportunities that we're positioning that for that could require a quick turn on units with new customers.

With regards to Premier Oil, we haven't really talked a whole lot about this yet, but the customer has gone on record in a very public way about moving forward with OPT on new projects in particular. We're anxious to work with Premier around a Phase II, especially with the decommissioning of the Huntington Field [sp] coming next April, which I had also talked a little bit about on the public [sp]. So, we're really excited about Premier Oil as a repeat customer, and we are trying to figure out how we can accelerate work with them here in the near future. First step, get that buoy back here and get it turned around so that we can redeploy it for someone else.

Peter Vijiri

So, the buoy's [technical difficulties]?

George Kirby

Say it again?

Peter Vijiri

[Technical difficulties].

George Kirby

I'm sorry, Peter. You're breaking up.

Operator

Once again, ladies and gentlemen, if you'd like to register a question, please press star one on your telephone keypad. Once again, ladies and gentlemen, that is star one if you'd like to register a question. Our next question is coming from Bill Carson [sp] of Carson Accounting. Please go ahead.

Bill Carson

Good morning, gentlemen. Two questions. What do your power buoys costs? I know the new one and your—the other—the P3 whatever. And then—that's first thing. And when do you think you're going to need to go market for some more finance?

George Kirby

Both very good questions. So, to address the cost question first, naturally, this is competitive information, but we'll tell you what we've put out in the market place. The PB3, on average, is anywhere from \$700,000 to \$900,000. Of course, that price will go down based on volume, because our costs go down naturally. And, also, as we continue to commercialize, we're driving costs out of all of our products. So, we're able to address it that way. What I can say about the hybrid, because we don't have the prototype released yet, is, we're planning on it being a fraction of what the PB3 is.

Bill Carson

In regards to financing?

George Kirby

With regards to financing, as we reported right now, we have, Matt, it's over 10 million in cash?

Matthew Shafer

That's right. It's 10.8 million as of January 31.

George Kirby

So, outside of the current vehicles that we have in place, we really don't have any plans to raise any capital.

Bill Carson

So, you think you're good for another nine months or so, depending on business, I guess?

George Kirby

Well, we anticipate business picking up. That's what our anticipation is. And we're trying to bring that to fruition. But, with regards to our existing vehicles, I mean, for right now, all that I can say is, we're not planning on doing anything different.

Matthew Shafer

And then, furthermore, as we talk about in our 10-Q that we filed yesterday, we have cash into the quarter ended October 31 of this year.

Bill Carson

Alright. Maybe a dumb idea, but your stock is down like \$0.55, \$0.56, which is substantial—substantially under your cash value. And I know you're hoarding your money, but is it possible you can buy back some of that stock for—to decrease the flow [sp] on the stock and, also, increase maybe potentially the price of the stock once the—you start doing some business here?

George Kirby

We have no plans to conduct a stock buy back right now. Obviously, like all public companies right now with the current market conditions, we're watching our share price very closely. But we believe with news that we anticipate coming out in the future that—we're hoping that it has a positive effect for shareholders, resulting in a positive effect on the stock.

Bill Carson

And how many shares outstanding do you have right now?

Matthew Shafer

Yeah, we have 9.1 million shares outstanding.

Bill Carson

At the end of last quarter, you had 6.3 million shares, and now you've got 9 point whatever? Why is that?

George Kirby

Sure. So, we have equity line of credit and an ATN [sp] in place at the market facility, which we currently use from time to time.

Bill Carson

Okay. 9.3 million shares outstanding now. Okay. Thank you.

Operator

Once again, ladies and gentlemen, that is star one if you'd like to register a question at this time. One moment, please, while we pull for additional questions. Once again, that is star one if you do have a question. Ladies and gentlemen, as a final reminder, that is star one to register a

question at this time. At this time, I'd like to turn the floor back over to management for any additional or closing comments.

George Kirby

Thank you, operator. I want to close on the following points. There's a lot of good news coming out of OPT with new product development, new partnerships, and new and returning customers. As we look at the long-term outlook, there are many more positive developments to come, and we fully intend to continue to build on this momentum. As always, I want to thank the entire OPT team for their continuing contributions to our ongoing success. Thank you all for joining us today.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines or live webcast [sp] at this time and have a wonderful day.