

Ocean Power Technologies, Inc.
Second Quarter Fiscal 2023 Earnings Conference Call
December 15, 2022

Presenters

Joseph DiPietro - Corporate Controller and Treasurer
Philipp Stratmann - President and Chief Executive Officer
Bob Powers - Senior Vice President, Chief Financial Officer

Q&A Participants

Shawn Severson - WTR
Jeffrey Campbell - Alliance Global Partners
John Snow – Private Investor

Operator

Good morning and welcome to the Ocean Power Technologies Second Quarter Fiscal 2023 Earnings Conference Call. A webcast of this call is also available on the company's website at www.oceanpowertechnologies.com.

This conference call is being recorded and will be available for replay, shortly after its completion.

On the call today are Dr. Philipp Stratmann, President and Chief Executive Officer; Bob Powers, Senior Vice President and Chief Financial Officer; and Joseph DiPietro, Controller, Treasurer, and Principal Accounting Officer. Following the prepared remarks, there will be a question-and-answer session.

I am now pleased to introduce your host, Mr. Joseph DiPietro. Thank you, sir, please go ahead.

Joseph DiPietro

Thank you. After the market closed yesterday, we issued our earnings press release and filed our quarterly report on Form 10-Q for the period ended October 31, 2022. Our public filings are available on the SEC website and within the Investor Relations section of the OPT website.

This call will include forward-looking statements that are within the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include financial projections and other statements of the company's plans, objectives, expectations or intentions.

These 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 be, materially, different from any future results expressed or implied by such forward-looking statements.

Additional information about these risks and uncertainties can be found in the company's Form 10-K and subsequent filings with the SEC. The company disclaims any obligation or intention to update the forward-looking statements made on this call.

Finally, we posted an updated investor presentation on our IR website. Please take a moment to review it, as it provides a nice overview of our company and strategy.

Now, I am pleased to introduce Dr. Philipp Stratmann.

Philipp Stratmann

Thank you, Joe and good morning. We appreciate you joining us.

I'm pleased with our progress on building our order book and sales pipeline were up \$2.9 million of orders, which is nearly 6x what it was at the same point, last year. We remain on track for our \$9 million audit target over the year, as we continue to build our pipeline of feasibility studies, demonstrations and future orders.

Our most recent win has been the demonstration we're doing in Bahrain to show the effectiveness of autonomous vehicles when they're used in combination with PowerBuoys and our proprietary MDA software. We just completed this demonstration and are actively discussing next steps in support of a digital horizon exercise.

We had a nice quarter of steady progress on each component of our stated strategy, which is working. From a high level, we provide autonomous ocean intelligent solutions. These can be roaming or stationary and are usually powered by renewable energy.

Our systems offer benefits to customers across multiple governmental entities, as well as customers in the commercial space, whether it is protecting offshore operations, gathering ocean intelligence, or supporting offshore developments. We reduced carbon footprints and lower operational expenses.

Specific to our strategy, first, we have data as a service, where we had a good quarter on our pipeline of order activity of WAM-Vs.

We also made progress on our MDA solution, which is now available, commercially, and is expected to begin to generate revenue in the second half of this fiscal year. We believe it is the start of a game changing aspect to our business. We continue to get the most interest from divisions of the government, and we believe we're building a strong recurring customer base.

As mentioned last quarter, we are working with the U.S. Department of Energy on the Phase 2 development of next generation wave energy converter.

Specific to this project, we received the \$1.1 million payment in the quarter, which is intended to be used to develop and test a modular and scalable Mass-on-Spring Wave Energy Converter PowerBuoy, over the next 24 months. This amount is included in the year-to-date order activity I referred to, earlier.

I would like to take a moment to make a few comments about our autonomous vehicle division. This division came to us via acquisition back in November 2021. So, a little over a year ago.

I could not be more pleased with the management team and the efforts to integrate the business with ours. Most notably, we're close to fully consolidating the manufacturing operations to our facility in New Jersey. This will make us faster and be more cost effective. We continue to seek opportunities to expand our customer base, mostly in the government sector and oil and gas industry.

Second is Power-as-a-Service. During the quarter, we continue to have solid activity related to this component, especially with inquiries on leasing, as opposed to owning. We will continue to like our move in this direction, since it brings the upfront investment level down, significantly, for our customers.

In addition, we're having good success, to-date, by pairing our PowerBuoys with our WAM-Vs. And we expect this trend to continue going forward.

Third is our strategic consulting services. We had another good quarter of activity related to consulting, especially around simulation engineering, software engineering, concept design, and motions monitoring. In short, I like the energy I'm seeing throughout the organization.

We continue to position the company well with the industries we serve and our chosen verticals.

With that, I'll turn it over to Bob for more details on our financials.

Bob Powers

Thanks, Philipp. I will start with revenue. For the quarter, our top-line was \$303,000, which compares favorably to the \$247,000 in the prior second quarter. Year-to-date, our revenue generation is nearly 2x, where we were last year.

As Philipp indicated, our orders are at \$2.9 million year-to-date and growing. We continue to expect order activity and revenue to ramp meaningfully, throughout the second half of the year.

In terms of deferred revenue, our deferred contract liabilities are up \$1.4 million in the quarter, most of which is related to the 1.1 million advance payment received in the MOSWEC Buoy, under development. I expect this to be recognized as revenue over the next 24 months, as the project takes place.

We are managing our COGS, well. So far, we have had minimal issues with our supply, and we expect this to continue.

Our parts materials are available and we have adequate inventory to continue to ramp up production, especially of WAM-Vs. With our established WAM-V business and the continued growth of our higher margin strategic consulting business, we expect to build gross margin, going forward.

Moving to our cost structure, we continue to manage costs, well. Our operating costs inched up, sequentially, by less than \$100,000 in the first quarter and are now at \$6.4 million. This includes our engineering and product development costs and our G&A.

From a high level, we expect our revenue growth rates to far outpace our operating costs. Over the next few quarters, we expect similar movement in our cost structure, as you saw in the second quarter.

One final income statement item of note is the \$1.2 million of other income in the quarter. This relates to the employee retention credits we applied for with the IRS in the second quarter for tax returns that we filed in 2020 and 2021 during COVID, when stay at home restrictions were in place.

You can see a corresponding increase on our balance sheet and accounts receivable. We started to receive payments in November and expect full payments by the end of fiscal 2023. This is great work by our team to make this happen.

Moving to our balance sheet, we ended the quarter with \$46.2 million of combined cash, cash equivalents, restricted cash and short-term investments and no bank debt. Our year-to-date net cash used in operating activities was \$11 million for the period and plus a quarterly run rate in line with the past few quarters.

From a financial perspective, we had a steady quarter. We are maintaining strong oversight of our costs and positioning our company for top-line growth. With that, Philipp and I are happy to take your questions.

Operator

Thank you. The floor is now open for questions. If you would like to ask a question, please press “*”, “1” on your telephone keypad. A confirmation tone will indicate that your line is in the

question queue. You may press “*”, “2” if you want to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the start keys. Once again, that is “*”, “1” to ask a question, at this time.

The first question today is coming from Shawn Severson of WTR. Please go ahead.

Shawn Severson

Thanks, good morning, guys. Philipp—

Philipp Stratmann

--Good morning, Shawn, thanks for joining us.

Shawn Severson

Thank you. Could you expand a little bit on the trip to Bahrain and the digital horizon? Specifically, I'm trying to figure out kind of what's your--what did you learn there from what you were seeing from them and what they were looking for.

And then, second of all, what would be the next steps there? I'm trying to figure out, are we in like the third inning here, the seventh inning for some type of deployment or getting towards material orders?

Philipp Stratmann

Yeah, that's a great question. Thank you, Shawn. Certainly, we were very proud and humbled to be able to support the U.S. Navy in its efforts to increase its autonomous and artificial intelligence capabilities, starting through Fifth Fleet in the Middle East and what plans U.S. Navy may have after that.

Now we were one of several participants that was out there. We had three of our assets deployed during digital horizon, including several long duration deployments that we carried out that when in excess of 24, plus, hours. And we continue our discussions now on what this may mean in terms of next deployments that will go on.

You've probably seen the public statements that U.S. Navy has made through Central Command, General Kurilla, who stated during the Manama dialogues in Bahrain--I think it was the weekend before Thanksgiving--the plans for the Department of Defense are to have 100 USVs deployed in the region, by the summer of 2023.

We obviously, applaud and congratulate U.S. Navy on that approach and increasing its autonomous footprint. And we look forward to supporting it, whichever way we can.

Shawn Severson

What other applications do you think this makes sense when we look outside military deployment?

Philipp Stratmann

If you look at the deployments we've been doing and demonstrating during digital horizon, it's very similar to some of the other work we have done, previously, and build upon the abilities that we have developed as part of our proprietary maritime domain awareness solution.

You get into the realms of supporting oil and gas companies and other offshore energy companies with monitoring of ocean areas on the surface. It quickly expanded into areas that are similar to what we are doing for EGP down in Chile, where we're doing subsea monitoring and water quality sensing.

And then that, obviously, extends into illegal fishing and monitoring of protected areas. And quite frankly, infrastructure assessments in harder to reach areas, where you're trying to remove operator out of arms way.

Shawn Severson

And the last question is on the R&D roadmap? So, I think talk specifically about the MDA solution will be helpful, but also bigger picture question. When you look at where you need to spend, want to or spend, emerging technologies, sort of commercializing technologies, can you just walk-through framework of what you're working on and where the spend is going to be in priorities. And again, I'm particularly interested in that next round of MDA, as well.

Philipp Stratmann

Sure. I mean, MDA, we are offering and discussing it with commercial customers, right now. But obviously, it being a technology-based solution, there's ongoing development that we do for additional user features, additional integration of other sensors that we didn't have before, and so on so forth.

Our primary focus is not on coming up with the next thing, but combining the current technologies that we have into a holistic offering that gives our customers the ability to utilize roaming and/or stationary assets that can be combined with surface and subsea monitoring equipment, without having to kind of need to pick and choose amongst a whole range of companies, but rather offering them a one stop shop of an integrated solution that can be as integrated or as diverse as they may require for their solutions.

Shawn Severson

So, this isn't so much looking for next gen, let's call it leading edge technology. This is really becoming—it's commercializing solutions at this point using the portfolio of technology. Is that what I'm hearing?

Philipp Stratmann

Absolutely. We have a robust set of platforms. And obviously, we will continue to work on improved user features and additional features we can integrate into it. And we are continuing

the development of the next generation mass-on-spring wave energy converter which we, working together with the DoE under the grant funding that we have received to utilize that.

But generally speaking, the primary effort is on getting a holistic set of assets out into our customers hands that can, easily, collaborate and work with each other.

Shawn Severson

Great. Thanks. I'll step back in the queue. Thanks, Philipp.

Philipp Stratmann

Thanks, Shawn. Appreciate it.

Operator

Once again, that is “*”, “1” if you would like to register a question, at this time. We'll pause a moment for additional questions.

Our next question is coming from Jeffrey Campbell of Alliance Global Partners. Please go ahead.

Jeffrey Campbell

Good morning. Philipp, first, I just want to ask what are the expected benefits of the MOSWEC PowerBuoy versus the current solutions?

Philipp Stratmann

Thanks, Jeff. Good morning and thanks for joining us. The PowerBuoy that we have right now is entirely fit for purpose. What we are looking at and similar to what I mentioned to Shawn is having a seamless, consolidated offering in the marketplace.

By finishing the development of the MOSWEC system, we'll be able to start consolidating whole shapes when it comes to the buoy platforms, which will give us the ability to have one common whole shape, whether you're using it with a wave energy converter or without a wave energy converter, as we have done in the past with hybrid, thus further streamlining the offering and making it more cost efficient for our customer base.

Jeffrey Campbell

And do you anticipate there being any manufacturing benefits from that as well, maybe in terms of internal costs for the company?

Philipp Stratmann

Absolutely. If you think about the supply chain benefits of moving to a common whole shape across all of the buoy systems, you rapidly start being able to scale up, raw materials sourcing, you start consolidating working on WIT assets.

And obviously, it becomes much easier to install the finished goods side. So, there's a whole bunch of benefits that come from the consolidation of those efforts as opposed to just the "benefit" of a common whole shape for the customer.

Jeffrey Campbell

And I was wondering, can you provide us with any kind of sense of what the revenue implications might be at USV sales, if you get some meaningful portion of that USV stated desired by the Navy in 2023?

Philipp Stratmann

Yes. So, as we stated, we feel comfortable with the 9 million booking forecast we put out for the current fiscal year, and we will work on expanding that for the next fiscal year.

And I think the interest that we're seeing in the market and the broader demand picture is giving us comfort that our sales team and commercial team can start concentrating on converting opportunities into additional orders and backlog.

Jeffrey Campbell

Well, without asking for too much specificity, and should I take from that that the 9 million estimate that's on the books contains both commercial sales and forward payments of development projects, and but also some military sales, as well?

Philipp Stratmann

Yes. I mean, as we are seeing with the efforts that we've got ongoing, currently, on a digital horizon and the work that we've discussed previously, that we've been doing for Naval Postgraduate School.

We look forward to having a robust pipeline that contains a healthy mix of government and commercial orders and government being the defense and national security space, as well as efforts around in non-defense spending on the government side.

Jeffrey Campbell

And my last question is, with regard to the oil and gas business, where we're generally led to believe that offshore oil and gas development is due to be fairly static, over the next two or three years.

There can be a few exceptions, like ExxonMobil, offshore Guyana, but in general, fairly static. So, I'm wondering what areas of application you find that you believe you can grow into the industry, even as it itself seems to be sort of consolidating and pulling back?

Philipp Stratmann

Yeah, I think we will continue -- as I mentioned, we will continue to support our oil and gas and so, energy with large customers in the offshore world with solutions around monitoring of leased areas, surface and subsea.

As we've previously stated, we can support decommissioning efforts and well monitoring. And very specifically on the oil and gas side, our efforts will continue to pursue from an opportunistic standpoint.

Jeffrey Campbell

Okay. Thanks very much. I appreciate the answers.

Philipp Stratmann

You're welcome. Thank you, Jeff.

Operator

Thank you. The next question is coming from Shawn Severson of WTR. Please go ahead with your follow up.

Shawn Severson

Thanks. Phillip, very quick follow up question. How will you be looking at in-house maybe the government looking at maintenance on a product like this? So, when you're talking about an infield deployment, how would that power maintenance be taken care of?

Would you train them to do this, or do you envision them deploying--and it's a bigger picture question to not just for that, but bigger rollout of maintenance and service things that you need to take account for?

Philipp Stratmann

Yeah, I can't directly comment on how each individual agency, or a division of the government is going to deal with maintenance, specifically. The way we look at it and as I said, we've mentioned this before, similar to data-as-a-service.

Also, on the vehicle side, we've been offering robotics-as-a-service for a while. So, we will provide operators that can support the onboarding and in service training of our systems with our customers. And if there is a desire by the customer to maintain that service, we will, obviously, maintain that service.

And equally, if there's a desire by our customer, specifically in certain spaces of the government to move into maintenance and servicing by that agency or service itself, we will provide a train the trainer approach, where we will support and upskill the government and then provide spare parts and logistics maintenance as and when is required, going forward.

Shawn Severson

So, my last question is regarding the customization of the big data, big data size, very interesting, obviously, subscription business. How much can you manage and customize what you're looking for?,, I'm assuming it's a function of this instrumentation, right, what you're putting out on there.

So if you know that there's a big demand for service A, you can equip them with the correct instruments and be able to provide that service. But I'm just trying to understand, how do you figure out what you--how you commercialize, and what do you market to potential customers for big data?

Philipp Stratmann

So, on the proprietary side, obviously, we have our maritime domain awareness solution which, at the moment, at the propriety part of that is primarily surface surveillance, intelligence and reconnaissance focused.

But as long as it fits within the power budget, I mean, we've stated this before, we're sensor agnostic. So when to the extent that anybody wants to integrate other sensors into it, be there surface or subsea, we will accommodate any of those customer requests.

We are, obviously, collecting a large amount of data from our deployments that we have internally, and to the extent where customers allow us to retain some of the data that we can collect from deployments that we'll be doing on behalf of others.

And so yeah, and we continue to use that data to refine approaches and provide additional insights to the customer base as we scale up and continue rapidly scaling up the deployments that we have, globally.

Shawn Severson

Great. Thank you.

Philipp Stratmann

Thanks, Shawn.

Operator

Thank you. The next question is coming from John Snow (PH), a Private Investor. Please go ahead.

John Snow

Hey, guys. Just a quick question on the projected 9 million of revenue, will you be cashflow positive, with potential 9 million of revenue?

Philipp Stratmann

Thanks, John. I appreciate the question. The 9 million of bookings that we have forecast for the current fiscal year are forming the basis of further growth. As Bob mentioned during our earnings announcement, we're continuing to manage our SG&A and our margins, in general.

And we will be building on the 9 million which will put us on a solid path forward to achieve cashflow positive operations, going forward.

John Snow

So, is that a 2024 cashflow positive? And with that, another question on why the delay in the annual meeting.

Philipp Stratmann

So, the delay in the annual meeting is very straightforward. It was simply the fact that we were about 1 million votes short for quorum. Our corporate bylaws dictate that at least 50% of our shareholders to have their say on the items we put to vote, and we were a million--just about a million votes short of that; we've got just under 56 million shares outstanding.

And yeah, we're just slightly short of the quorum. So, we are giving our shareholders an opportunity to continue putting their votes in for or against the proposals that we've put out there and reconvene on January the 13th.

John Snow

And the first question, 2024, does that mean cashflow positive?

Philipp Stratmann

We're not providing any additional guidance right now, other than the guidance that we've put out in the earnings release.

John Snow

Thanks.

Philipp Stratmann

Thank you, John.

Operator

Thank you. We're showing no further questions in queue at this time. I'd like to turn the floor back over to Mr. Stratmann for closing comments.

Philipp Stratmann

Thank you. We appreciate you joining us. I hope you can sense that our company is headed in the right direction. Thank you for being shareholders or potential shareholders of our company.

Wish you a great holiday season and look forward to future updates. Have a great rest of your day.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines and log off the webcast at this time and enjoy the rest of your day.