

1 Ocean Power Technologies Inc. Fiscal Second Quarter 2019 Call Script

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3 **OPERATOR**

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5 Good morning, ladies and gentlemen, and welcome to the Fiscal Second Quarter 2019 Ocean
6 Power Technologies Conference Call. My name is OPERATOR, and as a reminder, this
7 conference call is being recorded. I would now like to turn the call over to your host, Mr.
8 Michael Porter, Investor Relations for Ocean Power Technologies.

9

10 **Michael Porter**

11 Good morning and thank you for joining us for Ocean Power Technologies Conference Call and
12 Webcast. On the call with me today are George Kirby, President and Chief Executive Officer;
13 and Matthew Shafer, Chief Financial Officer and Treasurer. Following our prepared remarks, we
14 will open the call to questions. This call is being webcast on the company's website at
15 www.oceanpowertechnologies.com. It will also be available for replay after this call.

16

17 On December 10, 2018, OPT issued its earnings press release and filed its quarterly report on
18 Form 10-Q for the second quarter of 2019 with the Securities and Exchange Commission. All of
19 our public filings can be viewed on the SEC website at sec.gov, or you may go to the OPT
20 website, oceanpowertechnologies.com.

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22 Now let me reference the safe harbor provisions of the U.S. securities laws for forward-looking
23 statements. This conference call may contain forward-looking statements that are within the safe

24 harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking
25 statements are identified by certain words or phrases such as "may", "will", "aim", "will likely
26 result", "believe", "expect", "will continue", "anticipate", "estimate", "intend", "plan",
27 "contemplate", "seek to", "future", "objective", "goal", "project", "should", "will pursue" and
28 similar expressions or variations of such expressions. These forward-looking statements are
29 based on assumptions made by management regarding future circumstances over which the
30 company may have little or no control and involve risks, uncertainties and other factors that may
31 cause actual results to be materially different from any future results expressed or implied by
32 such forward-looking statements. Some of these factors include, among others, the following:
33 future financial performance; expected cash flow; ability to reduce costs and improve operational
34 efficiencies; revenue growth and increased sales volume; success in key markets; competition;
35 ability to enter into relationships with partners and other third parties; delivery and deployment
36 of PowerBuoys™; increasing the power output of PowerBuoys™; hiring new key employees;
37 expected costs of PowerBuoys™ product; and building customer relationships. Please refer to
38 our most recent Forms 10-Q and 10-K and subsequent filings with the SEC for a further
39 discussion of these risks and uncertainties. We disclaim any obligation or intent to update the
40 forward-looking statements in order to reflect events or circumstances discussed in this call.

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42 Now I'm pleased to introduce Mr. George Kirby, President and CEO of Ocean Power
43 Technologies. Good Morning George.

44

45 **George H. Kirby – President and Chief Executive Officer**

46 Thank you, Michael, and good morning everyone. I'm going to briefly discuss industry
47 developments first. That will be followed with an update on the progress we're making on our
48 commercialization plan, as well as a little background on our groundbreaking new products.
49 Then Matt Shafer, our Chief Financial Officer, will be up for a review of our financials. Then
50 we'll open the floor for questions.

51
52 We are continuing to see signs of increasing demand for our PowerBuoy solutions. The last few
53 months has seen more demand from firms involved in offshore oil and gas exploration as they
54 are becoming more aware of our technology.

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56 From our perspective, the recent lower oil prices incentivize operators to reduce costs and make
57 their operations more efficient, which in turn leads to interest in our solutions as a path to
58 savings. Moreover, the offshore oil and gas sector is becoming increasingly aware that all of
59 their operations should have a minimal carbon footprint. Taken together, this creates an
60 environment where our solutions can fulfill a vital need, both financially and operationally.

61
62 Evidence of this can be seen in the recent OPT contracts to supply PowerBuoys across a range of
63 applications within offshore oil and gas. Last quarter we shipped our PB3 PowerBuoy to be
64 deployed in the Adriatic Sea, fulfilling a key milestone with our partner Eni. Likewise, we
65 recently finalized the design-work and customizations for a PB3 PowerBuoy to be shipped to
66 Premier Oil in the new year for an upcoming deployment in the Central North Sea. The values of
67 these contracts together could well exceed \$3 million.

68

69 As noted in last quarter's call, OPT signed an agreement with Enel Green Power, a subsidiary of
70 Enel Group, which is a multinational energy company and a leading globally integrated
71 electricity and gas operator. In this contract, OPT completed the evaluation of a PB3 PowerBuoy
72 deployment along the coast of Chile. The detailed feasibility study evaluated the PowerBuoy as
73 an autonomous offshore platform hosting oceanographic sensor systems.

74

75 This collaboration with Enel Green Power is opening new opportunities for OPT in the South
76 American region and in the marine energy space. Enel Green Power is a world leader in
77 delivering renewable energy, and we are working to expand our presence in Chile and
78 throughout South America. The sectors we are focusing on include monitoring, surveillance,
79 subsea charging and connectivity for the offshore oil and gas, science and research, and
80 telecommunications markets.

81

82 Our business development team has continued ongoing discussions of potential contracts with
83 several defense contractors and government organizations. For instance, OPT continues to
84 deepen its relationship with the Office of Naval Research, who has several projects in the works
85 relating to autonomous power. Also earlier this year, the Department of Energy announced \$23
86 million in funding to support marine energy technology projects. These initiatives are attractive
87 sources of potential funding for us that we are actively pursuing.

88

89 OPT has continued to develop a reputation as an innovator in offshore power, which has boosted
90 demand for our solutions. We have a pipeline of more than 40 active opportunities right now,
91 and proposal and information requests are at an all-time high, which is yet more evidence of our

92 successful brand in offshore power solutions. That is why we are confident we will receive more
93 orders to deliver our solutions to prospective partners around the world over the coming months.

94

95 As mentioned previously, OPT recently received a new patent for a method to optimize energy in
96 lower sea states. We have been highlighting this technology at industry conferences and
97 exhibitions this fall, and we are including this important value-added technology into our
98 solutions.

99

100 A few weeks ago, myself and several other members of the OPT team attended a forum focused
101 on Innovation and the Digital Transformation of Upstream Oil & Gas, co-hosted by ExxonMobil
102 and Vodafone Global Enterprise. My presentation elaborated on various new technologies and
103 ways of working that will accelerate the digital transformation of upstream oil and gas. The
104 presentation was well received, and highlighted the numerous benefits of our PB3 PowerBuoy,
105 hybrid PowerBuoy and subsea battery solutions to the offshore oil and gas industry.

106

107 Finally, I want to elaborate on the expansion of our suite of complimentary solutions that
108 leverage the core technology of the PowerBuoy, particularly our new subsea battery solutions
109 and hybrid PowerBuoy. We are in the process of developing these new products to provide
110 further opportunities to monetize our existing expertise and technologies.

111

112 Our innovative subsea battery solutions offer high-performance, cost-efficient energy storage.
113 These robust subsea battery solutions will be designed for easy deployment and retrieval and will
114 be able to cost-effectively withstand the pressures of the subsea world. Our energy-storage

115 solution will be modular and easy to assemble and will be used to provide modular power across
116 a broad range of applications. Last week, we announced the signing of a letter of intent with
117 NEC Energy Solutions, a pioneer and global leader in utility scale energy storage. Under the
118 terms of the agreement, NEC Energy Solutions will be a supplier of lithium ion batteries for our
119 subsea battery solutions, adding further confidence to what we believe will be a very high quality
120 and desirable subsea battery technology. We anticipate taking the first orders for our new battery
121 solution in the coming year.

122

123 Our hybrid PowerBuoy is a smaller, liquid-fueled engine-powered surface buoy. It has a high
124 fuel capacity and provides reliable power to remote offshore locations. The hybrid PowerBuoy™
125 complements the PB3 PowerBuoy™, as OPT can now address a broader spectrum of customer
126 deployment needs, with the potential for additional power integration within individual projects.
127 It is intended for shorter-term deployments such as eROV and AUV inspections and short-term
128 maintenance, topside surveillance and communications, and subsea equipment power support.

129 The hybrid PowerBuoy™ is a light-weight and cost-effective solution, with high capacity for
130 communications and surveillance equipment. The device can be tethered to subsea payloads and
131 subsea battery systems, or can utilize a conventional anchor mooring system. The hybrid
132 PowerBuoy™ can also be integrated with a PB3 PowerBuoy™ for standby and redundant power
133 in lower sea states or where high availability is critical. We believe that our hybrid
134 PowerBuoy™ will outperform traditional diesel buoys that may be limited by severe weather
135 conditions, more frequent service intervals, and more frequent refueling requirements. The
136 environmentally-friendly hybrid PowerBuoy™ can operate for years without service and can
137 operate in a wider temperature range than diesel buoys.

138

139 Last but not least, OPT also continues to develop its self-propelled anchorless PowerBuoy™,
140 which is designed for quick deployment and simple retrieval. This remotely controlled, self-
141 propelled smart device generates power from the ocean waves and has a liquid-fueled engine
142 backup system.

143

144 Ocean Power Technologies offers unique solutions to customers across the globe, and our
145 technology and expertise continue to open doors. The fact that our groundbreaking technologies
146 consistently point toward cost savings across so many remote offshore operations means that you
147 can expect to hear more about new customers, new orders and continued growth in our sales
148 pipeline in the coming quarters.

149

150 Now let me turn the call over to Matt to discuss the financials.

151

152 **Matthew Shafer - Chief Financial Officer**

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154 Thank you, George, and good morning everyone.

155

156 We recorded revenue for the second quarter of \$141,000, compared to revenue of \$94,000 for the
157 second quarter of last year. The increase in revenues was due to the start of contracts with
158 Premier Oil, Eni and Enel Green Power during the quarter. The net loss for the second quarter of
159 fiscal 2019 was \$3.9 million, compared to a net loss of \$2.6 million for the second quarter of
160 fiscal 2018. The increase was largely attributable to the increase in our cost of revenues, due to

161 higher upfront spending and material costs on new projects, as well as higher spending on new
162 product development and personnel costs, as we continue to scale the business towards fulfilling
163 our current and future potential customer contracts.

164

165 Revenue for the first six months of fiscal 2019 was \$172,000, compared to revenue of \$289,000
166 for the first six months of fiscal 2018. The net loss for the first six months of fiscal 2019 was
167 \$7.1 million, compared to a net loss of \$5.2 million for the same period in fiscal 2018.

168

169 Turning now to the balance sheet. As of October 31, 2018, total cash, cash equivalents,
170 marketable securities and restricted cash were \$4.6 million, down from \$12.3 million on April
171 30, 2018. Net cash used in operating activities during the six months ended October 31, 2018
172 was \$7.6 million, compared to \$6.7 million during the prior year period.

173

174 On August 13, we were pleased to announce that we entered into a common stock purchase
175 agreement with Aspire Capital. This agreement provides that Aspire is committed to purchase up
176 to an aggregate of \$10 million of our common shares over the 30-month term of the agreement.
177 Additional details about the transaction are available in our August 27 filing with the SEC. We
178 are encouraged and excited by this partnership with Aspire. This agreement gives us greater
179 flexibility and access to additional funding when we choose to use it.

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181 With that, I'll turn it back to George.

182

183 **George H. Kirby – President and Chief Executive Officer**

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185 Thanks, Matt. Before we move on to Q&A, I wanted to conclude by stating unequivocally that
186 today, OPT is in the best position it has ever been. We have a deeply committed team of
187 professionals, tirelessly and aggressively pursuing and closing as many proposals as possible.
188 Throughout the first 20 years, there was smart money invested in this company because of our
189 technology. Now we're monetizing that technology. We aren't a science project, anymore.
190 We're proving that we can sell, and that we can deliver to our customers. Our entire organization
191 is excited to be where we are right now, but we're not close to being satisfied. We have high
192 expectations as a company, growing to be the industry leader in ocean energy solutions.

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194 With that, Operator, we are now ready to take questions.

195

196 **Question-and-Answer Session**

197

198 **George H. Kirby – President and Chief Executive Officer**

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200 Before we conclude here, I want to thank everyone who has been a stakeholder in the company
201 and who has been following us and helping us to grow. I want to wish everyone a wonderful
202 holiday season, and I invite everyone to follow us on social media, including LinkedIn,
203 Facebook and Twitter, and to watch our YouTube channel for some terrific footage of the PB3
204 PowerBuoy's capabilities, and other videos. We plan on utilizing these platforms to keep
205 everyone up to date with our progress. In fact, we expect to have even more great footage

206 released soon, so please stay connected with us. Thank you for joining us and we'll speak to you
207 in 2019.