

Ocean Power Technologies Inc. (NASDAQ:OPTT)

Q4 2015 Earnings Conference Call

Executives

Shawn Severson - The Blueshirt Group

George Kirby - President and Chief Executive Officer

Mark Featherstone - Chief Financial Officer

Operator

Good afternoon ladies and gentlemen, and welcome to the fourth quarter and full fiscal year 2015 Ocean Power Technologies conference call. My name is Chris and I'll be your coordinator for today. As a reminder, this conference call is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. Shawn Severson of The BlueShirt Group.

Shawn Severson - The Blueshirt Group

Thank you and good morning. Thank you for joining us on OPT's conference call and webcast to discuss the financial results for the 3-and 12-month periods ended April 30, 2015.

On the call with me today are George Kirby, President and CEO; and Mark Featherstone, Chief Financial Officer. George will provide an update on the company's recent developments, key activities and strategy, after which Mark will review the financial results for the fourth quarter and the full fiscal year 2015.

Following our prepared remarks, we will open the call to questions. This call is being webcast on our website at www.oceanpowertechnologies.com. It will also be available for replay approximately 2 hours following the end of this call. The replay will stay on the site for on-demand review over the next several months.

Yesterday, OPT issued its earnings press release and filed its Annual Report on Form 10-K with the Securities and Exchange Commission. All of our public filings can be viewed on the SEC website at sec.gov, or you may go to the OPT website oceanpowertechnologies.com.

[Note: Shawn Severson to read safe harbor language] During the course of this conference call, management may make projections or other forward-looking statements regarding future events or financial performance of the Company within the meaning of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to numerous assumptions made by management regarding future circumstances over which the Company may have little or no control and involve risks and 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.

We refer you to the Company's Form 10-K and other recent filings with the Securities and Exchange Commission for a description of these and other risk factors.

And now, I'd like to turn the call over to George to begin the discussion.

George Kirby - President and Chief Executive Officer

Thanks, Shawn. Good morning everyone. I'll begin by reviewing our operations and provide an update on key activities and developments, after which Mark will briefly review our financial results. Mark and I will then be available to answer any questions.

So...let's begin. First, I'm excited to say that we're making headway in aggressively driving the deliverables that we established earlier this year. We've achieved fully permitted status for deployment of our PB40 buoy, we're in the process of deploying the mooring system, and we continue to monitor for a suitable weather window for final buoy deployment off the coast of New Jersey. Second, we're about to achieve fully permitted status for deployment of our APB350 "A1" buoy, which we also expect to deploy this summer. We are in the process of factory testing the A1's power take-off (also known as the PTO) and the A1's energy storage system prior to sea trials. We're also making significant progress toward development of our commercial generation "A2" buoy. A2 is being developed with an optimized hull geometry for improved hydrodynamics and operating efficiency, as well as reduced costs associated with fabrication, transportation and deployment. Recently, the A2 program successfully completed a rigorous internal preliminary design review. Third, as we highlighted in our recent press release, we've begun development of our PB10 PowerBuoy which leverages a scaled-up version of the

APB350 PTO, and a higher efficiency energy storage system for applications requiring higher power output. The PTO design for the PB10 recently passed a stage-gate review with the U.S. Department of Energy (or, DOE), and the detailed design review of the PTO is anticipated to occur around the end of summer 2015.

Each of these activities demonstrates our progress toward commercialization of our cutting edge power solutions. But our activities don't stop there. As we shared during the last earnings call, there are four key market segments which we're targeting: offshore wind, ocean observing, defense and security, and oil and gas. To start, the offshore wind industry is very exciting for us. It requires substantial data to determine ocean environment and wind resource conditions for turbine design and layout, power generation prediction, turbine maintenance prediction, and for financing purposes. A wave powered mobile monitoring system is a re-deployable asset for use across multiple projects during early-stage development, and can be advantageous during the entire project life-cycle for continued monitoring and correlation of wind resources to project output. Our objective and future value proposition in the offshore wind market is to become the preferred integrated solution delivering 50% or more life cycle cost savings over incumbent solutions. The near-term addressable market for OPT includes multiple stakeholders across scores of sites in the US and Europe over the next 3 years. We continue to see significant interest in our PowerBuoy throughout this market, and we're discussing potential applications with market participants using our APB350 as the power solution platform.

Moving onto the ocean observing industry, we see applications for our APB-350, such as powering docking systems for unmanned underwater vehicles, which could result in more frequent and reliable vehicle charging. We believe that our PowerBuoys could serve as a "power platform", given the severe limitations of incumbent system power sources. We believe this could allow for consolidation of multiple sensors from individual incumbent systems and thus dramatically decrease life cycle costs.

Turning to the defense and security market, we continue to identify funded applications in the US and international defense markets, and we continue to seek strategic relationships with potential partners who service them. We're currently pursuing multiple funding opportunities which, if successfully secured, we hope to showcase in the coming months.

Lastly, for the Offshore Oil & Gas market, we're seeking to further develop our technologies for applications which require higher power output through a combination of scaled-up PowerBuoy designs, enhanced mooring systems and array technologies. We continue to engage potential customers who are seeking solutions for offshore platforms, offshore communications, and down-hole applications.

To address all these market segments, we continue to collaborate with potential PowerBuoy users, and to progress toward potential agreements for further development, demonstrations, and applications. We also continue to increase our technical depth and our ability to execute by augmenting our team with outstanding engineering, operations and business development expertise through both new hires and external associates.

I'll now turn it over to Mark, who will review our financial results for the quarter and full fiscal year 2015.

Mark Featherstone - Chief Financial Officer

Thanks, George, and good morning everyone. I will now briefly review results for the fourth quarter and full year fiscal 2015 before we go on to questions.

For the three months ended April 30, 2015, OPT reported revenue of \$0.5 million, as compared to revenue of \$0.4 million for the three months ended April 30, 2014. Revenue in both periods was primarily related to our project with Mitsui Engineering & Shipbuilding ("MES"). The MES project is currently undergoing a stage-gate review as discussed more fully in the MD&A section of our filing on Form 10-K for the fiscal year ended April 30, 2015.

The net loss for both the three months ended April 30, 2015 and April 30, 2014 was \$3.3 million. Compared to the prior year quarter, the current year quarter reflected an increase in gross profit due to a change in project costs related to the MES contract. In addition, SG&A expenses were \$1.4 million lower than the prior year primarily due to reduced employee related expenses and the lower site development expenses related to our terminated project in Australia. This was offset in part due to increased product development as OPT continues to advance its technology and prepares for upcoming deployments.

In addition, OPT received a refund related to research and development expenditures in Australia. Results in the prior year fourth quarter reflected a favorable adjustment for a change in project loss reserve.

For the full fiscal year ended April 30, 2015, OPT reported revenue of \$4.1 million, compared to revenue of \$1.5 million in the prior year. The increase in revenue was primarily related to increased billable work for the removal of the anchoring and mooring equipment from the seabed off the coast of Oregon, increased billable work under the current phase of our project with MES and the completion of our WavePort contract with the European Union. These increases were partially offset by decreased revenue on other billable development projects.

The net loss for the fiscal year ended April 30, 2015 was \$13.2 million, compared to a net loss of \$11.2 million in the prior year. The increase in OPT's net loss year-over-year primarily reflected an increase in estimated project costs associated with our contract with MES, increased legal fees, as well as higher consulting and patent amortization costs. These increases were partially offset by decreased product development costs due to the substantial completion of our cost-sharing contract with the DOE for our Reedsport project in Oregon net of increased costs associated with other internally funded development. In addition, OPT experienced reduced employee related costs and site development expenses related to our terminated project in Australia and received a refund related to research and development expenditures in Australia.

Turning to the balance sheet, as of April 30, 2015, total cash, cash equivalents, and marketable securities were \$17.4 million, down from \$28.4 million on April 30, 2014. At April 30, 2015, restricted cash was \$0.5 million, compared with \$7.3 million in the prior year. This significant decrease in restricted cash was primarily due to the return of \$4.7 million in customer advance payments that we had received under our former contract with the Australian Renewable Energy Agency ("ARENA").

Net cash used in operating activities was \$17.2 million and \$6.5 million for the years ended April 30, 2015 and 2014, respectively. The increased cash used in operating activities included the return of the \$4.7 million to ARENA, while the prior year included the receipt of funds from ARENA.

Over the last several months, we have taken a number of steps to reduce our cash burn rate while also increasing our technical, operating and business development resources. As a result, we currently project that our operating cash burn in Fiscal 2016 will be lower than our operating cash burn in Fiscal 2015 even as we deploy 3 buoys in Fiscal 2016.

We have also substantially increased our proposal efforts and are actively pursuing commercial partnerships and other alliances with potential customers.

As a result of these actions, *we remain confident in our cash position and we expect to have sufficient cash to maintain operations through at least July of 2016.*

With that, I'll turn it back to George before we open the call up for questions.

George Kirby - President and Chief Executive Officer

Thanks Mark. Before we move to questions, I thought I'd highlight a few compelling reasons to consider OPT.

Number 1, we believe we are the technology leader in wave energy conversion for offshore applications.

Our technology provides a critical solution for offshore, distributed power generation for a number of industries discussed earlier.

We have a clearly defined technology roadmap which focuses on driving down costs, improving reliability and durability, and broadening commercial applications.

And we currently have and continue to develop significant intellectual property around our technologies and applications.

Number 2, we're targeting large addressable markets including ocean-based communication and data gathering, security, defense, and offshore oil and gas.

We're planning multiple upcoming PowerBuoy deployments which we believe will further advance our product validation, and will serve as near-term market catalysts.

And number 3, we consider our staff to be world class, and we have a solid leadership team in place at both the executive management and board levels.

In summary, we're laser-focused on launching our PowerBuoys into offshore market applications where reliable and cost-effective power is critical yet currently unavailable, and we're very excited about the progress that we've made in advancing our core technologies toward achieving this goal.

We're committed to meeting our business objectives, including this year's successful deployments of the PB40 and the next generations of the APB350 in order to validate durability and reliability, all while we aggressively seek new customers and partners as part of our commercialization efforts. We're hopeful that we can share the news of our continued successes in the coming weeks and months.

Thank you for your time today. Operator, we're now ready to take questions.

Question-and-Answer Session

Thank you. [Operator Instructions] And we have no questions at this time.

George Kirby - President and Chief Executive Officer

We believe our offshore autonomous PowerBuoys will effectively serve several market applications, where current solutions remain inadequate, costly, or they simply don't exist.

We see our PowerBuoys as platforms for integrated solutions to some of offshore industries' toughest challenges. We believe that once implemented, our PowerBuoys will become an enabling technology for new applications which to date have only been conceptual at best.

The offshore environment is extremely harsh and challenging; especially where solutions such as ours are required to operate for long periods of time without human intervention. We truly believe in the value of our solutions, to customers...to shareholders... and to society. And it's this belief which drives us to innovate disruptive technologies such as our PowerBuoys; to

validate these technologies more quickly such as through our accelerated life testing; and to relentlessly search for ways to merge our solutions with those that will benefit the most.

I want to thank everyone once again for attending today's call. If there are any further questions, please don't hesitate to contact us. Otherwise, we look forward to providing further updates next quarter.

Operator

Thank you everyone. That concludes our call. You may now disconnect.

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