

**Ocean Power Technologies, Inc.**  
**Third Quarter Fiscal 2023 Earnings Conference Call**  
**March 14, 2023**

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**Presenters**

**Joseph DiPietro, Corporate Controller and Treasurer**  
**Philipp Stratmann, President and CEO**  
**Robert P. Powers - SVP and CFO**

**Q&A Participants**

**Shawn Severson - Water Tower Research**

**Operator**

Good morning and welcome to the Ocean Power Technologies Third Quarter Fiscal 2023 Earnings Conference Call. A webcast of this call is also available on the company's website at [www.oceanpowertechnologies.com](http://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. Now, I am pleased to introduce Joseph DiPietro.

**Joseph DiPietro**

Thank you and good morning. After the market closed yesterday, we issued our earnings press release and filed our quarterly report on Form 10-Q for the period ended January 31, 2023. Our public filings are available on the SEC website and within the Investor Relations section of the OPT website.

During this call, we will make 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 or 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 on sales pipeline. We had \$3.8 million of orders through nine months, which is more than double what it was at the same point, last year.

I like the direction we're headed, and I remain confident in our ability to achieve our \$9 million order target for the year.

I'd like to spend a moment on pipeline. Over the past few months, we've materially reorganized our sales organization to drive activity of WAM-V sales and leases, feasibility studies, demonstrations, and future orders and to accelerate our bookings with defense customers.

We are having success building awareness with our key customers and making inroads with a variety of projects, across a broad range of project sizes.

We have potential orders in the low 10s of 1000s for shorter term leases, all the way to multimillion projects consisting of a mix of assets. It is no surprise that the higher the number, the longer it takes to get to a signed order that we can act on, especially when we're dealing with multi-party contracting, which is often the case.

The important point for me to communicate is that I'm very pleased with the efforts of our sales team. Our pipeline has never been better and gets stronger, monthly.

We made meaningful progress on a number of key projects during the third quarter and, so far, in the fourth quarter. First, we partnered with Task Force 59 of the U.S. Navy on a project in Bahrain to support the Digital Horizon exercise for use of Unmanned Surface Vehicles in that area.

This initial demonstration for Digital Horizon was completed in January 2023 and has already led to a follow on deployment. This came in January when we were awarded another contract with Task Force 59 to provide WAM-V to support the international maritime exercise 2023. This

is a smaller project that is less than \$1 million, but it's incremental progress with one of our strategic customers.

Also in January, we obtained final acceptance for the buoy deployed at Enel Green Power Chile. We're now in the warranty phase of our contract with the customer and look forward to using this project to drive discussions about other ocean sensing opportunities.

We're starting to gain traction with our recently launched MBES platform. As we announced on October 5th, we secured a contract to deploy a PV3 equipment MBES for a government customer off the Coast of California. Final preparations are underway.

Additional MBES demonstrations are currently being finalized with various agencies of the U.S. government. We're also continuing to use our demonstration array of New Jersey to advance opportunities for MBES deployments to support illegal unreported and unregulated fishery deterrence and deter smuggling activities.

Also in February, we secured an order for the second WAM-V 16 for Sulmara Subsea. Sulmara is a forward-thinking company focused on subsea activity for the offshore energy sector. What was noteworthy about this deal is that it was the first long-term lease arrangement we had entered into for WAM-Vs.

Today, Sulmara's ordered two leased WAM-V 16s, and we're actively discussing future support.

We were pleased to begin work on Phase 1 of the National Oceanic and Atmospheric Administration SBIR Dynamic Swarming of unmanned surface vehicles this third quarter.

This project is for Hydrographic Surveys in NOAA's Disaster Recovery Project that is ongoing. The goal is to design a command-and-control infrastructure to optimize sonar data and unmanned surface vehicle survey lines. This is expected to, autonomously, survey a disaster area, such as those created by hurricanes.

And finally, we continued work on the U.S. Department of Energy Phase 2 development of a next generation Wave Energy Converter Program Award. Over the next 18 months, we will develop and test a modular and scalable Mass-on-Spring Wave Energy Converter PowerBuoy for reliable powering of Autonomous Ocean Monitoring Systems, bringing an entirely new PowerBuoy into our offering.

In fact, the first offshore demonstration of the Mass-on-Spring Wave Energy Converter is being deployed off New Jersey, this spring.

We had a nice quarter of steady progress on each of our strategic focus areas of data as a service, power as a service, and strategic consulting services. We are on the cusp of finishing

our fiscal year strong. We're working hard to close a number of orders to meet our goal for the year.

Even more exciting than the possibility of achieving our 2023 order number is that our pipeline suggests we will build upon that next year, we are gaining traction.

With that I will turn it over to Bob for more details on our financials.

**Robert P. Powers**

Thanks Philipp. Let's start with revenue. For the quarter, our top line was \$734,000 which was up 52% from the prior third quarter, through nine months, our revenue generation of \$1.8 million, which is up 75% or nearly 2x from where we were, last year.

A key driver of our revenue trajectory is our order activity. As Philipp indicated, our orders are up 111% to 3.8 million, year-to-date, with significant additional order activity in various stages of negotiation. We continue to expect order activity and revenue to ramp, meaningfully, as we close out the fourth quarter and head into fiscal 2024.

Deferred revenue is another indicator of our sales activity. We had a net decrease in deferred revenue as several projects were started or completed during the quarter. As a reminder, the biggest component of deferred revenue is related to the \$1.1 million MOSWEC buoy project, which started in December, 2022. This project is expected to be active through the second quarter of fiscal 2024.

We are manning our COGS, well. We see ample supply and availability of parts and materials and costs have stabilized. With our WAM-V business helping us operate with more predictability than the recent past, our gross margin is 21%, year-to-date.

Moving to our cost structure, we continue to manage costs well, with deliberate investments on our sales organization and our WAM-V business. Our sales teams continue to make strong inroads with our growing list of prospective customers, and we believe this additional sales talent investment has helped us maintain this momentum.

Moving to the balance sheet, we ended the quarter with \$41 million of cash, which includes our cash, cash equivalents, restricted cash, and short-term investments. We continue to operate with no bank debt with no plans to use debt.

Our year-to-date net cash use in operating activities was \$15.8 million and reflects a quarterly run rate in line with the past few quarters.

A component of this operating cash flow use is the continued building of inventory level for WAM-V activity.

That covers our financial update. As you can see, we remain prudent with our cost structure as we position the company for ramping order volumes and sales activity.

With that, Philipp and I are happy to take your questions.

### **Operator**

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press “\*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “\*”, “2” 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’s “\*”, “1” to ask a question, at this time. One moment, please, while we pull for your questions.

Our first questions comes from the line of Shawn Severson with Water Tower Research. Please proceed with your questions.

### **Shawn Severson**

Well, good morning guys. Congratulations on the progress. I think my question is really around the sales effort and what you're doing differently. I know, Philipp, you mentioned you're talking about making--you made some changes there. I was wondering if you could expand on that a little bit and talk about what's different now than before.

### **Philipp Stratmann**

Yeah, thanks, Shawn and appreciate you joining us. Yeah, certainly, the biggest change we have made is really reorganizing the sales team in its entirety, to focus more on the areas where we see the biggest growth when it comes to recurring revenues. So that's the after-service provision that we take into the market.

So, we brought in a new sales leader, just over a year ago, who comes from a decade and a half of experience in the marine technology industry. And he has continued to build out a team alongside and underneath him with several ex-military personnel.

We've got people that have joined us that come out of a defense industrial kind of area that really understand the marine side of that. And we've also brought people in that come from the kind of the intelligence community, including some people with experience in autonomous vessel operations.

What that has meant is that we now have people in the sales organization that truly understand the customer requirements and customer needs and can tailor the approach that we take into the market. And I think that that is well reflected in what we've seen in our overall pipeline,

which is reflected in the bookings, and is obviously being translated by the operations team into revenues.

**Shawn Severson**

Thanks for that. And my next question is on the pipeline on bookings. How does the build of inventory work for this? So I'm just trying to understand what the build schedule looks like, how long it would take as these bookings turn into revenue.

**Philipp Stratmann**

Yeah, again, good question, and thank you for that. The way we're looking at inventory is what we're trying to position is the ability to really enable customers to take our vehicles or buoys or other data solutions that we provide at short-term notice. What we're trying to remove is the barrier to purchase for them or barrier to leaks.

Because if somebody turns around to us and says, hey, I would like--I want to do a survey off the West Coast of Alaska and we turn around going, okay, well we'd have to build you a boat, you've just introduced a four to six-week delay.

If we can turn around and say, yeah, we've got one available, we just need to put the sonar head on it and it will be ready for shipment within the week that, materially, helps get to more bookings, it helps increase the recurring part of the bookings, because those vehicles obviously come back into inventory afterwards. And it also enables a quicker conversion from bookings into revenues, as we start recognizing revenues, quicker.

**Shawn Severson**

Great, appreciate that. Thank you. I will step back in queue.

**Operator**

Thank you. There are no further questions, at this time. I'd now like to hand the call back over to Dr. Philipp Stratmann for any closing comments.

**Philipp Stratmann**

Thank you. We appreciate you joining us. As you can see, we're making meaningful progress on our transformed business. Thank you for being shareholders or potential shareholders of our company. We are very excited about closing out the year, strong. Have a great rest of your day.

**Operator**

Thank you for your participation. This does conclude today's teleconference and webcast. You may disconnect your lines at this time. Enjoy the rest of your day.