

Ocean Power Technologies
Fiscal Year 2022 Fourth Quarter Earnings
July 14, 2022

Presenters

Philipp Stratmann, President and CEO

Robert Powers, Senior Vice President, CFO

Joseph DiPietro, Controller, Treasurer, Principal Accounting Officer

Q&A Participants

Robert Silvera – RE Silvera & Associates

Peter Ruggiere – Dawson James

Operator

Good morning and welcome to the Ocean Power Technologies Fourth Quarter and Full Year Fiscal 2022 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 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'm now pleased to introduce Joseph DiPietro.

Joseph DiPietro

After the market closed yesterday, we issued our earnings press release and filed our annual report on Form 10-K for the year ended April 30th, 2022. All OPT 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 or other statements of the company's plans, objections, 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, please note that 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. Good morning, everyone. Our fiscal 2022 proved to be a transformative year for us and was filled with a number of important accomplishments. We identified and pursued new revenue streams. We defined a clear strategy to establish our leadership position in offshore monitoring of assets in areas of our oceans, and we solidified our executive team with key additions in the areas of finance, sales and marketing, engineering, and human resources. Your investment is in excellent hands.

Finally, 2022 was a year of meaningful progress for OPT as many elements of our strategy came together. This strategy has us positioned well, and we believe fiscal 2023 should be the first of many years where we are operating the business on a solid foundation and are executing on our mission and plan for growth. To that end, I would like to give you a quick update on the three components of our strategy. First is data as a service, where we are focused on being the leader of offshore data collection, integration, analytics and real time communication. Our primary revenue drivers within data-as-a-service are expected to be our maritime domain awareness solution and our WAM-V autonomous surface vessels.

Throughout fiscal 2022, we invested considerable time, capital and resources towards the development of our proprietary cutting edge MDA technology, and we are close to having it ready for its commercial launch. Our MDA solution is currently undergoing testing and is expected to be operational by the end of Q2 of fiscal 2023. Our software will enable data to be processed onboard power buoys, WAM-Vs, and many other non-OPT offshore assets. Our team is thrilled at the capabilities of our technology, and we are excited as we conduct our initial meetings with potential customers for subscriptions.

Our selling proposition is strong. We will provide a wide range of valuable data which will help customers reduce cost and eliminate human error. Our autonomous system enables 24/7 data collection that can automatically be analyzed by artificial intelligence systems, materially increasing the granularity of data to improve decision making.

Since a sizeable portion of our WAM-V sales activity is expected to fall under our data-as-a-service segment, I wanted to provide a short update on our integration efforts. We have had a nice start to working with the MAR leadership team to integrate their business with ours. HR and finance are now on OPT systems. We're fostering a continuing learning culture through engineering exchanges, and the commercial teams have started focusing on cross-selling opportunities. Recent customer contract wins include Brigham Young University, Nippon Kaiyo, Australian Government Department of Defense, ST Hudson, and the Applied Research Lab at the University of Hawaii.

One of the final areas of integration is underway, the transition of manufacturing to our New Jersey facility, which started recently. Once completed, we believe we will improve efficiency and reduce costs for the manufacturing of future WAM-Vs. Second is power-as-a-service, which are solutions that deliver value to customers by utilizing our managed power platforms of power buoys, hybrid power buoys, and sub-sea batteries. Each can be purchased or leased. Additionally, during the past year we developed a model where the power buoy or hybrid is owned and operated by OPT or an affiliate who then sells the power produced to the customer for a recurring fee.

To date, our focus has been on building awareness of our new offering and growing our pipeline for customers. Feedback from potential customers suggests this enables them to utilize our systems for short duration projects and being able to procure these services from opex budgets. We are now actively working on converting these to orders.

Finally, we have our strategic consulting services. Our team managing this part of our business had an excellent year. We are quickly becoming recognized as the go-to firm for offshore energy-related engineering consulting services. We are best known for simulation engineering, software engineering, concept design, and motions monitoring, all of which help our customers increase operational efficiencies and reduce risk.

Collectively, the three components of our strategy delivered \$1.76 million of revenues. While this was a nice move in the right direction, it is far from where we want to be. We expect to continue our momentum into fiscal 2023. We expect to generate up to \$9 million of order activity in fiscal 2023, much of which is expected to be reflected in revenue for the year. This will be good progress towards having the record set revenue level to deliver sustained profitability for our company.

Before I turn it over to Bob for a discussion on financials, I would like to provide an update on our top three projects in process throughout the world. First is our project in Chile with EDP, which primarily falls under power-as-a-service. During fiscal 2022, deployment of the PV3 was completed and it has operated continuously since installation. Ongoing installation and commissioning activities of the open sea lab sub-sea equipment continues into fiscal 2023.

Second is our work with the U.S. Naval post-graduate school SLAMR initiative, to support its autonomous offshore defense network. Details remain classified, but I can tell you that we made progress and continue to support our customer with this important demonstration. Third is our offshore demonstration of our MDAS off the coast of New Jersey. To date, we have collected more than 2,000 radar and AIS tracks from this demonstration which are being used to refine the design of our MDAS. Initial field demonstration of our MDAS software began in Q1 of fiscal year 2023 and will be ongoing.

Fiscal 2022 was an important year for OPT and successful in many ways. Most importantly, it has set the foundation for where we are headed. We have the expanded revenue sources, we have the team, and we believe we have the best offshore solutions and products in the world. We are excited to demonstrate the potential of a focused and integrated OPT, bringing to market resident and roaming autonomous platforms.

With that, let me turn the call over to Bob to discuss the financial results.

Robert Powers

Thanks Philipp. I will start with the metric we are most closely driving, as it validates we are executing on our strategy, revenue. For the fourth quarter of fiscal 2022, our top line was \$756,000. This was driven primarily by growth of our strategic consulting services in the quarter. For the year, our revenue was \$1.76 million and reflects the growth of our strategic consulting business and our MAR acquisition. While we were pleased with the increase in revenue from the prior year, I cannot stress enough that this is not close to where we think we can be if we are successful in executing on the strategy that Philipp outlined.

The traction we gained in fiscal 2022, combined with an environment that is receptive and responsive to our products and service offerings, give us the confidence that we are on the right path. From a cost structure perspective, we continue to manage costs tightly while still investing in the business. Engineering and product development costs came down for the second consecutive quarter and was our lowest quarter of the year, reflecting that we are past the major part of the MDAS development.

SG&A costs were \$3.9 million for the fourth quarter of 2022, which was sequentially about \$1 million more than the third quarter. This was primarily due to non-cash equity compensation awards, increased travel as we get closer to pre-COVID levels and recruiting and relocation expenses due to increased hiring. We maintained a strong balance sheet, ending the fourth quarter with \$57.7 million of total cash, cash equivalents, restricted cash, and short term investments with no bank debt, giving us a long runway of liquidity and flexibility to drive our strategy.

Regarding our near term financial use of cash, we continue to expect to use approximately \$5 million of cash per quarter to fund our operating expenses. Additionally, we will continue to look for tuck-in acquisition opportunities that reinforce the three components of our growth strategy. As you can tell from both Philipp's and my comments, fiscal 2022 was a successful year for us in that it brought alignment, focus and energy to our company, but we like to think it is just the start. We believe fiscal 2023 will be even more exciting.

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

Operator

Thank you. We will now be conducting a question and answer session. Please press star, one, on your telephone keypad to join the question queue. A confirmation tone will indicate that your line is in the question queue. You may press start, 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's star, one, to ask a question at this time. One moment while we pull for questions.

Thank you. Our first question comes from the line of Robert Silvera with RE Silvera & Associates. Please proceed with your question.

Robert Silvera

Good morning fellows, looks pretty good, \$1.76 million in this fiscal year just passing, and you're looking at \$9 million, which is quite a bit of growth. And can you give us some color on the MDA portion of that \$9 million?

Philipp Stratmann

Hey, good morning, Robert. Thanks for being one of our shareholders, and I appreciate the question. The way we look at this is that a material portion of the \$9 million of bookings is going to be generated by data-as-a-service offering in the offshore world, with a large portion of that being MDA, which is largely surface related. Just to give you an idea of where things are at with that right now, we have two systems operating in our internal demonstration array off the coast of New Jersey. In fact, we were out there on Monday doing some testing, and we do have a system currently working on an operation for a potential customer off the coast of California right now.

So from that perspective, I can't give you an exact percentage, but it will be a material portion of the \$9 million as we go forward. It will also include MDA-related services and offerings that can be provided through the utilization of the autonomous vehicles that we acquired through the acquisition of MAR.

Robert Silvera

Do you have any picture whatsoever of what the MDA revenues can grow to, say, through the next three to five years?

Philipp Stratmann

Well, we certainly have some internal projections that we are developing at the moment. I think it's probably useful to point out that the MDA market in general is very sizeable. And as you would have seen in the investor relations materials that we updated yesterday, the U.S. view on MDA is that it is about a \$1.5 billion market right now as it stands when it comes to the offshore industry, and we see a great degree of interest and growth continuing from the \$9 million going forward over the next two to three years.

Robert Silvera

Wonderful, that sounds very promising, and it sounds like you've restructured the company in a very positive way. I give you credit for that. Let me go into a few other things here. You call them contract assets. What do you mean exactly by a contract asset with a dollar value on it of \$386?

Robert Powers

Hey Robert, it's Bob. Thanks for the question. Yeah, so because at this time, the majority of our revenue related to specific customers, the way the accounting works is in some cases, we are able to recognize revenue in advance of actually billing those customers, and that's based upon the work that we've actually performed for those customers. So in those cases where we've recognized revenue, but according to the terms of the contract we haven't yet invoiced that customer, that will show up on the balance sheet as a contract asset.

Robert Silvera

Wonderful, thanks for that clarification. You have \$49 million-plus in short term investments. Could you give a little color on what you consider a short-term investment?

Robert Powers

Yes.

Robert Silvera

As opposed to cash and cash equivalents?

Robert Powers

Yeah, so we made that move in the fourth quarter of FY22 in order to give us a slightly better return on our cash versus what we had historically. All of our investments are high quality bonds and have a duration of less than 12 months, so that's why it's landing in the short term bucket.

Robert Silvera

I see, and that's \$49 million, so basically, it's bonds. Is it any preferred shares or stuff like that?

Robert Powers

No preferred shares, all high quality investment-grade bonds.

Robert Silvera

Bonds. Okay. Well, that's good then. As secure, I guess, as we can get these days.

Robert Powers

I think so.

Robert Silvera

Yes. The last thing I'm concerned about, of course, is the price of the stock is below a dollar. And if you spend a long time below a dollar, then de-listing takes place, and I'm concerned about that. I'm just wondering, are you considering a reverse split, which I am not in favor of at all?

Robert Powers

Yeah, not at this time. So that metric you mentioned with regard to the share price dipping below a dollar, that's actually specific to the NASDAQ, and we made the move to NYSE American in the past year, which is where we now trade. And that specific metric does not apply there.

Robert Silvera

Good. I didn't realize that. Thanks for that clarification.

Robert Powers

Yeah. Yep, that was one of the reasons we (INAUDIBLE).

Robert Silvera

It puts my heart at ease because we have a lot of stock in OPT.

Robert Powers

Yeah.

Robert Silvera

Okay. That's it for me. I'm very pleased with what I see, and I think you guys are focused. Keep up the good work.

Robert Powers

Great, thank you.

Philipp Stratmann

Thank you, Robert.

Operator

Thank you. Ladies and gentlemen, as a reminder, to join the question queue, please press star, one, on your telephone keypad. Our next question comes from the line of Peter Ruggiere with Dawson James. Please proceed with your question.

Peter Ruggiere

Good morning.

Robert Powers

Good morning.

Peter Ruggiere

I have a lot of questions. I've been involved in OPT for probably six years now. Anyway, is there--like Premier Oil, there was a lot of stuff in the North Sea done with them over the years, and you had Anadarko with Occidental in the Gulf. That was a big project, which I haven't heard anything about them. Then you had Mitsui Engineering in Japan. There was a lot of talk on illegal fishing off the coast of Asia around Singapore, wherever it was over there. Where does that stand? It seems to me, it's all consulting now. You had this one buoy sold in Chile.

Another question is--this is a lot of questions. I apologize for that, but how many buoys do you have built right now and how many are in the water?

Philipp Stratmann

Thanks for the question, Peter, and I appreciate you being a long-term investor. The Premier Oil project, obviously, Premier Oil, which is now Harbor Energy after their merger with Chrysaor took place. And you'll see, we've continued our discussions with Harbor Energy for future developments, for power services around tie-back systems in the North Sea with them.

The illegal fishing work hasn't gone away. Illegal fishing is included under Maritime Domain Awareness, and MDA solutions is the hosting of intelligent surveillance and reconnaissance systems on top of the buoys and our autonomous platforms in order to prevent efforts such as illegal fishing, illegal migration, border intrusions and so on and so forth. So none of those have gone away, and we remain in discussions with energy providers to support them during the energy transition.

I think it is fair, however, to state that a material portion of our current efforts and forward-looking bookings is stemming more from defense and security applications, none of which are consulting, by the way. They are putting assets into the water. In terms of build numbers, obviously we currently have four buoys in the water. And there's obviously EGP off the coast of Chile, there's two off the coast of New Jersey, there's one off the coast of California. There is a further two-plus-one being readied for deployment here in our facility as it stands right now, and there is an ongoing inventory build-out for the vehicle fleet going on.

And I think, unless I'm--it is somewhere between serial number 1775 that is being built out over the lifetime now when it comes to the autonomous vehicles that were previously being assembled entirely up in Richmond, California and are now moving the bulk of the manufacturing over to New Jersey, with specialized manufacturing and one-off projects remaining over on the Californian side.

Peter Ruggiere

Okay. So there's 55 million shares as of April 30th, correct?

Robert Powers

That's correct.

Peter Ruggiere

Okay. Yeah, because I still have some of these (INAUDIBLE) for myself, at \$385. How many of those are left, because I know I've got something in the mail that converted, but they go out about year, to April of, I guess, '24, I think it is. The \$385 warrants?

Robert Powers

Yeah. I think it's less than a million. I'd have to--off the top of my head, I can't remember.

Peter Ruggiere

All right. And then, Microsoft was doing all these data centers, and I was thinking years ago, you guys would be powering them possibly with the buoys. Is there anything going on with those guys, with them, or?

Philipp Stratmann

We can't obviously divulge any specific customers that we're in conversations with, and we certainly have conversations ongoing around areas that aren't just data-as-a-service but rather a power-as-a-service. I would say the bulk of those discussions is around efforts having to do with meta ocean data, defense and security, and energy transition support.

Peter Ruggiere

Okay. And another thing, before this COVID problem happened, (INAUDIBLE) was going to put a buoy--move its stuff from the north, from their area up there to off the coast of France. Is anything happening with that project?

Philipp Stratmann

I am not aware of any efforts as it comes to the Mediterranean E&P work that they have got planned or are repositioning as a result of COVID and oil price movements. We remain in conversations with them about future deployment and utilizations and use cases for buoys to support them with their efforts particularly around vehicles, be that on the sub-sea or surface side.

Peter Ruggiere

Yeah, because (INAUDIBLE) is that particular buoy still in the water in the Adriatic Sea with (INAUDIBLE)? They were doing autonomous vehicles and certain battery systems within, was it NEC, I believe it was?

Philipp Stratmann

No, that buoy was recovered during the pandemic and is finishing its refurb. That's one of the assets we've got here in the shop to go and be ready for its next deployment.

Peter Ruggiere

Okay. And another thing, you're spending \$5 million a quarter. That's a lot more than you were doing a couple years ago. How many employees do you have right now?

Philipp Stratmann

We've got 55 staff right now.

Peter Ruggiere

Okay. You might actually--because I'm figuring if you take \$5 million, that's \$20 million this year, so it will bring your cost base is cash, but you're \$0.54 and you're close to that right now, but you might want to do a reverse stock split. I hate to say it because I've been through one before with the company, bring the share counts, take the stock at a higher price, but I'm just wondering what's a big catalyst? Because \$9 million of revenue a year to support the market cap right here, I'm wondering, what kind of catalyst should I really look for that could actually come out of left field, though, because it may boost the revenue \$28 to \$50 million?

Philipp Stratmann

Well I think, Peter, as we said, we've restructured the company over the past year. We've put all of the building blocks in place in order to accelerate our growth, and we see the \$9 million of bookings as the foundation to then go and continue doing ongoing, accelerated growth to get ourselves to break even on the profitability positions in the future period.

I would love to be able to go back in time and change things, which I can't do that, but what I can say to you is that with the team we've got in place now, the solutions that we've built out, the acquisitions that we've made, we are in a very strong position to continue an accelerated growth path going forward so that we provide the necessary returns to all of our investors, short term and long term.

Peter Ruggiere

There's a ton of buoys that were in a lot of different companies. You guys have been doing this for close to 30 years, almost, and I always figured that you'd have a fleet of buoys, and you'd have a big partnership and you'd lay them all over the ocean and stuff like that, you'd have hundreds of millions of dollars of revenue. And everything sounds great with the technology, I'm just wondering why it's taking so long.

Philipp Stratmann

Well, I think you're right, that the technology is great and it's an ideal platform to host other payload systems and solutions and integrate it with other solutions that exist out in the ocean. I can't comment on global market trends, to be honest with you, but I do know that the conversations we're having and where we're sitting and where we're seeing pipeline and bookings develop is on an accelerate growth path going forward.

Peter Ruggiere

Yeah, there was a big project, like Project Loon that Google was going. They had that balloon that goes up and down in the stratosphere and stays there, and if you bounced off your buoys on islands that can't get Wi-Fi and all this other 4G stuff, I thought that your solution would be perfect for something like that. I guess they ditched that project, but anyway. Listen, thank you very much, and it sounds like things are going in the right direction.

Philipp Stratmann

Appreciate it, thank you Peter.

Operator

Thank you. Ladies and gentlemen, that concludes our question and answer session. I'll turn the floor back to Dr. Stratmann for any final comments.

Philipp Stratmann

Thank you. Fiscal 2022 was a pivotal year and provides a foundation of what we are to become. I hope it is clear that we are very excited about where we are headed. Thank you for your continued interest, support, confidence, and investment in our company. We never take it for granted. Have a great rest of your day.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.