

Ocean Power Technologies Inc. (NASDAQ:OPTT)

Q1 2016 Earnings Conference Call

Executives

Allison Gross - The Blueshirt Group

George Kirby - President and Chief Executive Officer

Mark Featherstone - Chief Financial Officer

Operator

Good day, ladies and gentlemen and welcome to the Fiscal First Quarter 2016 Ocean Power Technologies Earnings Conference Call. My name is Chris and I will be your conference moderator for today. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes. And at this time, I would now like to turn the conference over to your host for today, Ms. Allison Gross with Blueshirt. Ma'am, you may proceed.

Allison Gross - The Blueshirt Group

Thank you and good afternoon. Thank you for joining us on OPT's conference call and webcast to discuss the financial results for the three months ended July 31, 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 strategies, after which Mark will review the financial results for the fiscal first quarter 2016.

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.

Earlier today, OPT issued its earnings press release and will be filing its quarterly report on Form 10-Q with the Securities and Exchange Commission later today. All of our public filings can be viewed on the SEC website at sec.gov or you may go to the OPT website, www.oceanpowertechnologies.com.

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 involves 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 the description of these and other risk factors.

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

George Kirby - President and Chief Executive Officer

Thanks, Allison. Good afternoon, everyone. I will 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, we are excited that the company is continuing to achieve progress with both our new buoy designs and our commercialization efforts. And as announced earlier today, we have completed the deployment of our APB-350 A1. We have also established a Technical Advisory Panel, or TAP, which is a key development in our path to commercialization and will be instrumental in gathering commercial and technical feedback from industry participants and potential customers. I will be talking about the TAP in greater detail later on the call.

Consistent with our strategic pivot, we also continue to make good progress on our technology roadmap, including the development of the APB-350 A2, which we are targeting to be ready for deployment later this fiscal year as well as advancing the development of the PB10. Our prototype APB-350 A1 utilizes the structure previously deployed in 2013, but with a newly designed power take-off. Our APB-350 A2 will feature an optimized hull geometry, which we expect to result in improved operating efficiency as well as reduced fabrication, transportation, and deployment cost, all important factors in developing a commercial product for our target markets.

The A2 PowerBuoy is expected to undergo a critical design review later this month and be ready for deployment this fiscal year. We believe that the APB-350 represents a very appealing value proposition to provide persistent and renewable power to offshore applications. The APB-350 is designed to provide a robust and cost effective alternative to incumbent solutions that utilize battery, solar, and diesel power. An important element of our business strategy is to develop and expand our partnerships in key market areas, including ocean observing, defense, and security, oil and gas and offshore winds. Based on our product and technology roadmap, we expect the APB-350 to undergo significant in-ocean testing throughout the next 6 to 12 months, and we are looking forward to sharing performance data with potential customers.

As discussed in our earnings release issued earlier today, we have also recently formed a Technical Advisory Panel, or TAP, as part of our intensified effort to accelerate PowerBuoy's commercialization and market adoption. The TAP consists of selected potential customers, end users, and technical stakeholders from various markets, which cover a wide spectrum of applications and market requirements. Companies that make up the panel include a large international and multidisciplinary marine services company, an international certification body which provides technical assessment, research, advisory, and risk management to the oil and gas industry, two major oil and gas operators, a large oil and gas equipment manufacturer, and a leading meteorological and oceanographic sensor manufacturer. The University of Western Australia, Center for Offshore Foundation Systems is also a key TAP participant.

The core function of the TAP is that the panel will review and provide critical industry feedback on market and application requirements and test protocols in order to increase our speed to market. This long-term collaboration is initially focused on the APB-350. However, it could extend to future PowerBuoy designs as well. Our goal is to provide reliable, durable, and cost effective offshore autonomous power solutions where current solutions are either too costly or unavailable, and we believe will enable many new customer applications. The TAP engages these market participants in the validation and commercialization process, which will help us to achieve our objectives more quickly, and we will provide more detail on the TAP in the very near future.

As we have discussed, there are four key markets which we are targeting, ocean observing, defense and security, oil and gas, and offshore winds. We estimate that the total addressable market is well in excess of \$1 billion and growing at 2% to 5% annually, and we believe that our

near-term opportunities could exceed about \$75 million. Ocean observing applications for our PowerBuoy include weather forecasting, climate change monitoring, biological process monitoring, and ocean floor seismometry. We continue to see new applications as well, including power and docking systems for unmanned underwater vehicles, which could result in more frequent and reliable vehicle charging. Our objective within the next 1 to 2 years is to complete application demonstrations with our industry partners and to initiate our new product introduction through PowerBuoy leases and unit sales.

Shifting to defense and security, the near-term addressable market encompasses remote sensor applications with high-frequency radar and sonar, and network and communication systems. Our value proposition is that we expect our solution cost estimates to be substantially lower than incumbent solutions for manned and unmanned system operations, while providing persistent power to onboard payloads. We continue to identify applications in the U.S. and the international defense markets that we were seeking strategic relationships with potential servicing partners.

Our third target market is offshore oil and gas, and applications include communications, equipment monitoring, and seismic mapping to support early exploration and reservoir management. Our value proposition is enabling access to deepwater resources in a cost effective manner. We continue to develop our technologies for applications, which require high power output through a combination of scaled-up PowerBuoy design, enhanced mooring systems, and array technologies.

Finally, the offshore wind industry continues to be very exciting for us. Our objective and value proposition is to become the preferred integrated solution delivering up to 50% or more lifecycle cost savings over incumbent solutions. Near-term addressable market opportunities include multiple stakeholders across scores of sites in the U.S. and Europe over the next three years. We continue to see significant market interest in our PowerBuoy, and we are discussing potential applications with stakeholders using our APB-350 as the power solution platform. To address all of these market segments, we are collaborating with potential users, as well as progressing toward agreements for further application development and demonstrations.

With that, I will turn it over to Mark who will review our financial results for the fiscal first quarter 2016.

Mark Featherstone - Chief Financial Officer

Thanks George and good afternoon everyone. I will now briefly review results for the first fiscal quarter of 2016 before we open up the call for questions. For the three months ended July 31, 2015, OPT reported revenue of \$0.1 million as compared to revenue of \$1.5 million for the three months ended July 31, 2014. The decrease in revenues compared with the prior year period was primarily related to the completion of our WavePort contract with the European Union and decreased billable costs on our project with Mitsui Engineering & Shipbuilding or MES. The MES project is currently undergoing a stage-gate review with its project stakeholders.

The net loss for the three months ended July 31, 2015 was \$4.1 million as compared to a loss of \$3.3 million for the three months ended July 31, 2014. The increase in net loss is primarily due to higher product development costs associated with the deployment of our legacy PB40 device and due to the redesigned APB-350. Subsequent to the end of the quarter, we retrieved the PB40 and deployed the APB-350. During the three months ended July 31, 2014, we recovered product development costs from prior periods under our cost sharing contract with the European Union for our WavePort project in Spain. This increase in product development cost recovery was offset by a favorable change of \$0.4 million in our gross loss over the prior year quarter. The prior year quarter included a gross loss due to a change in estimated costs for the MES project.

In addition, selling, general, and administrative expenses were \$1.2 million lower in the first quarter of 2016 than in the prior year quarter, primarily due to reduced legal fees, decreased site development expenses, decreased patent amortization costs, as well as lower third-party consultant fees. These decreases were partially offset by increased employee-related costs.

Turning now to the balance sheet, as of July 31, 2015, total cash, cash equivalents, and marketable securities were \$14.2 million, down from \$17.4 million on April 30, 2015. As of July 31, 2015 and April 30, 2015, restricted cash was \$0.5 million. Net cash used in the operating activities was \$3.1 million during the quarter ended July 31, 2015, down slightly from the \$3.2 million for the quarter ended July 31, 2014. As discussed in our last conference call, we have taken a number of steps over the last several months to reduce our cash burn rate, while also increasing our technical, operating, and business development resources.

As such, we continue to project that our operating cash burn in fiscal 2016 will be lower than that in fiscal 2015 despite increased deployment activity in fiscal 2016. We have also

substantially increased our proposal efforts and remain active in 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 into at least the third calendar quarter of 2016.

With that, I will turn back to George before we open the call for questions.

George Kirby - President and Chief Executive Officer

Thanks Mark. Before we move to questions, I want to take a minute to reiterate a few compelling reasons to consider OPT. Number one, we believe we are the technology leader in wave energy conversion for offshore applications. We are seeing that 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 two, we are targeting large addressable markets including ocean based communication and data gathering, security, defense, and offshore oil and gas. We are executing multiple PowerBuoy deployments, which we believe will further advance our product validation and will serve as near-term market catalysts. We are also engaging potential customers to develop PowerBuoy applications which can lead to solution demonstrations and market launch. And number three we have a solid leadership team in place at both the executive management and the Board levels.

So in summary, we remain laser focused on launching our PowerBuoys into offshore market applications, where reliable and cost-effective power is critical. And we are very excited about the progress that we have made in advancing our core technologies toward achieving this goal. As we accelerate our technology development, we continue to receive very positive market feedback, as we expect our PowerBuoys to demonstrate cost-effective alternatives to incumbent solutions, which generally use less reliable and more costly sources of power. We continue to engage with potential partners for joint development projects as part of our commercialization efforts. We are very encouraged by the opportunities that are opening in front of us and we look forward to announcing further progress in the near future.

So thank you for your time today. And operator, we are 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

Okay. Given that there are no more questions, I want to thank everyone again for attending today's call. If there are any other questions, please don't hesitate to contact us in the future, and we look forward to providing you with further updates next quarter. Thank you everyone.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you very much for your participation. You may now disconnect. Have a great day.

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