

Ocean Power Technologies
FY 2021 Q2 Earnings Call
December 8, 2020

Presenters

George Kirby – President and CEO

Matthew Shafer – CFO and Treasurer

Q&A Participants

Peter Ruggiere, Dawson James

Robert Selvera (sp), RE Selvera and Associates

Operator

Good morning, ladies and gentlemen, and welcome to the Ocean Power Technologies second quarter fiscal year 2021 conference call. A webcast of this call is also available on the company's website at www.oceanpowertechnologies.com. As a reminder, this conference call is being recorded and will be available for replay after its completion. Today on the call are George Kirby, President and Chief Executive Officer, and Matthew Shafer, Chief Financial Officer and Treasurer. Following prepared remarks, we will open the call to questions.

On December 7, 2020, OPT issued its earnings press release and filed its quarterly report on form 10-Q for the quarter ended October 31, 2020, with the Securities and Exchange Commission. All OPT's public filings are available on the SEC website at sec.gov or in the OPT website's investor relations section. Please note that the management's prepared remarks may contain forward looking statements that are within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements are identified by certain words or phrases such as may, will, aim, will likely result, believe, expect, will continue, anticipate, estimate, intend, planned, plan, contemplate, seek to, future, objective, goal, project, should, will pursue, and similar expressions or variations of such expressions. These forward looking statements are based on assumptions made by management regarding future circumstances over which the company may have little or no control involving risks, uncertainties, and other factors that may cause actual results to materially differ—different from any future results express or implied by such forward looking statements.

Some of these factors include, among others, the following: future financial performance, expected cash flow, ability to reduce cost and improve operational efficiencies, review growth and increased sales volume, success in key markets, competition, ability to enter into relationships with partners and other third parties, delivery and deployment of power buoys, increasing the power output of power buoys, expected cost of power buoys product, hiring new key employees, and building customer relationships. Please refer to our most recent form 10-K and subsequent filings with the SEC for further discussion on these risks and uncertainties. We

disclaim any obligation or intent to update the forward looking statements in order to reflect events or circumstances discussed in this call. Now, I am pleased to introduce Mr. George Kirby

George Kirby

Thank you, and good morning, everyone. I'll review our business operations and provide an update on our operational activities and developments during the second quarter of fiscal year 2021 and up to today. Then, Matt will review our financials, and after that, we'll open the line for questions. All of us continue to navigate an ever shifting business landscape created in part by the worldwide COVID-19 pandemic. OPT remains focused on working with customers to develop solutions to meet their challenges. One of those challenges has been deploying a PB3 power buoy and open sea lab for Enel Green Power off the coast of Chile. International travel concerns and restrictions have delayed the deployment, which was initially planned for earlier this year.

We recently announced that we're working with SeaTrepid, an experience marine services and subsea robotics solutions company based in Louisiana. SeaTrepid has a suitable vessel and experienced crew working in Chile, and their personnel are training on technical procedures and installation requirements with our project team to advance a planned (sp) December deployment. This will be the first ever third party installation of a power buoy solution without the in-person hands-on participation of OPT personnel. Tapping into marine operators with work currently underway such as SeaTrepid can have a positive impact on project costs and execution risk.

OPT recently signed two important PV3 power buoy related contracts. One is with a defense contractor, Adams Communication and Engineering Technology, or ACET. The other is with DeepStar, an oil and gas industry consortium focused on advancing technologies to meet the needs of its members, which include companies such as Chevron, Exxon Mobil, Occidental, Shell, and Total. The work with a ACET will evaluate the integration of a 5G communication solution with our PV3 power buoy and support of subsea and aerial drone connectivity for the US Navy's naval postgraduate school sea, land, and (sp) air military research initiative. We believe that establishing a secure autonomous offshore 5G communicate missions platform can have far reaching maritime defense applications. Our work with DeepStar and Total as our sponsor will examine the operational requirements of utilizing OPT's PV3 power buoys and subsea batteries to provide autonomous zero carbon power and control for subsea oil and gas production equipment at water depths up to 3,000 meters.

We're continuing to advance the commercialization of our new products with the demonstration of our hybrid power buoy and OPT's marine surveillance solution, both of which have been deployed off the coast of New Jersey. And we're further expanding our European presence with the addition of oil and gas industry veteran Jorge Franco who recently joined OPT as a regional sales representative based in Spain.

During the quarter, OPT also executed a new common stock purchase agreement with Aspire Capital to sell up to \$12.5 million in common stock to Aspire Capital over a term of 30 months. This agreement provides flexibility to access capital on a cost effective basis. And as part of our growth strategy, in November, we filed a shelf (sp) registration statement on form S-3 with the SEC, under which we entered into a new at the market facility providing us with the capability to offer and sell up to \$50 million worth of OPT's common stock over the next three years. With that, let me turn the call over to Matt to discuss the financials.

Matthew Shafer

Thank you, George, and good morning, everyone. Now, I'll turn to the quarter. We recorded revenue of \$100,000 for the second quarter of fiscal 2021, which was a decrease of \$100,000 as compared to the same period in the prior year. Revenue for the three months ended October 31, 2020, was primarily derived from the Enel Green Power project, while revenue for the same period in the prior year was mainly from projects with Premier Oil and the US Navy. The net loss for the second quarter of fiscal 2021 decreased by \$200,000 as compared to the first quarter of fiscal 2020, which was mainly attributable to decreased spending on product development.

We recorded revenue of \$300,000 for the six months of fiscal 2021, which was a decrease of \$100,000 as compared to the same period in the prior year. Revenue for the first six months ended October 31, 2020, was primarily derived from the Enel Green Power project, while revenue for the same period in the prior year was mainly from projects with Premier Oil and the US Navy. The net loss for the first six months of fiscal 2021 increased by \$200,000 as compared to the first six months of fiscal 2020, which was mainly attributable to increased selling, general, and administrative costs, partly offset by decreased spending on product development.

Turning now to the balance sheet. Total cash, cash equivalents, and restricted cash was \$15.8 million as of October 31, 2020. Net cash used in operating activities decreased by \$700,000 during the second quarter of fiscal 2021 to \$5.7 million as compared to the second quarter of fiscal 2020, primarily due to lower cash spending on both customer projects and product development costs in the current year period. And lastly, since the end of the second quarter, the company's total cash, cash equivalents, and restricted cash balances increased to \$26.3 million, mainly as a result of sales of shares in the company's common stock through its then existing ATM. This increased capital allows OPT to look forward confidently in delivering on anticipated market demand for at least the next 12 months. With that, I'll turn it back to George.

George Kirby

Thanks, Matt. Operator, we're ready to open up the line for questions.

Operator

Thank you. We will now be conducting a question-and-answer session. If you'd like to be placed in the question queue, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing star one. One moment, please, while we pull for questions. Our first question today is coming from Robert Selvera (sp) from RE Selvera and Associates. Your line is now live.

Robert Selvera (sp)

Hi, George. Good morning. In your statement here, you say the expanded sales footprint coupled with the product solution suite and cash balance positions OPT to be able to deliver on anticipated market demand. Could you broaden the description of what you mean by anticipated market demand, say, within the next 12 months?

George Kirby

Sure. I'll do my best. In the past, we've talked about the gestation period for any one of the opportunities that we're pursuing. So, speaking with potential customers—a lot of these take time. For instance, the two studies that we secured, we have been speaking to those customers for quite a while, and they came to fruition. Likewise, we have a pretty robust pipeline. We've talked about that in the past. And we have expectations to be able to close different items on that pipeline. So, in looking at our strategy to go after opportunities such as multi product or multi solution opportunities, we knew that we needed to position in advance to be able to deliver for our customers.

So, we're pretty happy and proud of the fact that we've been able to find great talent in different parts of the world to help us really connect with these customers, especially during the pandemic. It makes it a lot easier and more effective than trying to run sales from New Jersey, as you can imagine. And likewise, just simply having access to capital if and when we need to deliver on a large order, it not only it makes us feel confident, it makes our perspective customers feel confident, as well, and that's important.

Robert Selvera

Sure. But can you frame it with a dollar amount that you might anticipate within the next year?

George Kirby

Yeah, that would be a forward looking statement. I'm unable to (inaudible)--.

Robert Selvera

We realized that those kind of statements have risk involved, and they can vary greatly. But you must have some sort of a framework on what you might think that you could close different opportunities with an actual sales dollar number.

George Kirby

Yeah, Robert, we absolute--.

Robert Selvera

(Inaudible) color on that, George.

George Kirby

We absolutely do have that framework internally. In fact, we have a pretty good idea of what we're going to be closing. I will tell you that we are marketing all of our products and solutions. So, that's not just the PV3 power buoy, but it's also the hybrid, the subsea batteries. It also includes the marine surveillance system. And I'll also tell you that our team has done a really great job further diversifying the markets that we're selling in to—or attempting to sell in to. So, it's not just oil and gas. We are really making an effort to expand our footprint within the defense community, which you can see from this agreement with ACET. And also, we're looking at other focus areas such as the illegal fishing market or industry--.

Robert Selvera

How are you coming with that one? I was curious. You've been at that one for a while in Asia, right?

George Kirby

Correct.

Robert Selvera

How does progress look on that?

George Kirby

I think progress is happening. We're moving ahead with expanding relationships, especially with our sales rep on the ground in Indonesia. We're not just focused on Indonesia. We're focused on countries throughout Southeast Asia. And we're seeing, from our market studies, internally, we're seeing a real demand building, not just in that region, but also globally for solutions that can help protect fisheries. Recently, the US Coast Guard actually connected directly illegal fishing with Homeland Security. There are—there's money and trafficking associated with illegal fishing that directly correlate's back to our own Homeland Security, and it's become a priority for the US Coast Guard. So, likewise, we're seeing a connection between these industries that we're going after, whether it's defense, illegal fishing, marine protected areas, what have you. They're all interconnected. (Inaudible).

Robert Selvera

And they are talking to us. It's not just that they have interest, but they are actually communicating with us on these issues.

George Kirby

They are communicating. We are discussing different project opportunities there. I would say there's a lot of activity going on in that area.

Robert Selvera

Wonderful. Matt, did you have something you wanted--.

Matthew Shafer

Yeah. I just wanted to say, Robert, we have feet on the ground now out there. We've brought on—we've expanded our sales team as we've mentioned in some press releases. We have Gilar out there now, and we're seeing a lot of increased opportunities where we need feet on the street. I just wanted to add that, too.

Robert Selvera

When you said Gilar, is that a company or an individual?

George Kirby

Gilar is our sales representative located in Jakarta. Yeah, we put a press release out on him, because we really want, not just the capital markets, but also our customers and our vendors and everyone to know the type of talent that we're bringing into the organization. When you look at Gilar, he comes with a background having worked with and for the Indonesian government in different capacities, mainly the fisheries. So, he's very well connected. He's educated in the United States, and he's very plugged in from day one, very productive. And likewise, with our recent announcement of Jorge Franco located in Southern Europe, he's not only plugged into all of our existing customers in Italy, for instance, but also has a lot of experience in South America. So, we're bringing people into the organization that are productive as soon as their feet at the ground in our company.

Robert Selvera

Very good (sp). The reason I asked about him particularly is because there is an LNG (sp) company in the shipping industry that is G-O-L-A-R, and I—they're not the same thing are they? That's why I questioned it. You're dealing with a person, not another company that is involved in LNG transportation, et cetera. Okay. Thanks for clarification. That's all my questions. Thank you very much, George and--.

George Kirby

Thank you, Robert.

Operator

Thank you. As a reminder, that's star one to be placed in the question queue. One moment, please, while we pull for further questions. Our next question is coming from Peter Ruggiere from Dawson James. Your line is now live.

Peter Ruggiere

Good morning.

George Kirby

Hey. Good morning, Peter.

Peter Ruggiere

I've got a couple questions for you. That was a lot of informative stuff you just spoke about. Have you been dealing with or talking with Microsoft about these underwater data centers, like battery systems to charge them up?

George Kirby

I can't speak to specific companies that we're speaking to, but, yes, we are, not only familiar, but have had discussions about data (sp) centers, as well as the lines that run subsea that require power and data and so forth. There's a very burgeoning (sp) market there.

Peter Ruggiere

Right. On—with the new representative hired to this handling (inaudible) Halliburton (sp), are you planning—is there possibly—that system that was supposed to be deployed there before COVID, is that in the process of maybe being moved, or are they going to build a whole new system in order to multiple (inaudible)?

George Kirby

Yeah, I can't speak to that right now, Peter.

Peter Ruggiere

Okay. I like to see the cash position up that much. You haven't had that much cash in a while. Based on the cash, how much does it cost to make a PV3?

George Kirby

A PV3 where—anywhere is between \$500 to \$700,000 to make sell price.

Matthew Shafer

Yeah, and—Peter, this is Matt. How are you? Yeah, on that—that would be for the base standard costs for the PV3. In addition to that, there's different ancillary components that we add on and solutions, as George was describing earlier. Our marine surveillance solution is one of them. So, there's different payload features that can be added to the PV3 on top of that base cost.

Peter Ruggiere

Okay. (Inaudible). Right. About a—we're going on a year when that—you have that feasibility study that was in the Gulf of Mexico over a year and a half ago, and I guess you have the green light to go forward with the next phase with last December. Where does that stand?

George Kirby

The study that was announced in April for surveillance in the Gulf of Mexico, an exclusion zone monitoring, we are still in discussions with that particular customer. Naturally, things have changed with the fruition of COVID-19, but we continue to talk to them about, not only that opportunity, but other opportunities, Peter.

Peter Ruggiere

Okay. What was—there was another question I had. Oh, someone asked me, when you decommission the oil wells with a bookmark (sp), when you do that, is there a deadline to act to decommission them? A timeframe where it has to be done?

George Kirby

Oftentimes, there is a deadline. It depends, really, on the part of the world that you're speaking about. If you're talking about the North Sea, regulators tend to be more strict about requirements. If you're talking about the Gulf of Mexico, there's different requirements than the North Sea. Also, Brazil is seeing some regulator activity around a number of wells that need to be plugged (inaudible) and properly monitored during that process. So, that could take anywhere—that whole process could take anywhere from immediate once the well is shut down all the way to three to five years depending on what the strategy is at the operator.

Peter Ruggiere

Okay. And on this 5G project with the Navy, how many—I don't know 5G doesn't go that that (sp) far. How many (inaudible) systems would be—how would that work? What—I'm trying to understand the plan.

George Kirby

Understood. So, 5G isn't about necessarily the range that you can communicate. It's more around bandwidth. It's more around latency. So, when an operator is trying to control a—either an aerial drone or a subsea drone from land in very remote parts of the world, there's something called latency that causes them to have a pause between when they send a command to the drone and when the command is actually executed, and it makes operating those devices very difficult. So, what 5G does is it eliminates a significant amount of that latency, and it also opens bandwidth up. And that's why we believe the Navy and the naval postgraduate school are very interested in an autonomous system that has 5G on it in order to control these different devices from land. In order to extend range, you could have multiple buoys with multiple 5G systems on those buoys to create a repeater system. There's—that's really part of what the study is about is to look at these different scenarios and report back to the Navy in order to determine what next steps would be—what a configuration would look like for a particular mission that they have in mind.

Peter Ruggiere

Great. Alright, everything sounds great. You guys doing a great job. Thank you.

George Kirby

Thank you, Peter.

Matthew Shafer

Thanks, Peter.

Operator

Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

George Kirby

Thank you, operator. Before we conclude the call, I do want to take just a moment to reflect on what's been a challenging year. Literally everyone around the world has been affected in some way by the Coronavirus pandemic, not only in business, but also in our day-to-day existence. I want to express my most profound appreciation to OPT staff who continue to display remarkable resilience in the face of unforeseen personal and professional challenges. We've all made adjustments, and, as a team, we've continued to operate and grow our business and get back to the community. I remain quite confident that we'll persevere and succeed through the upcoming months and into the new year. Thank you, operator.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.