

Ocean Power
FY 2021 Q3 Earnings Conference Call
March 3, 2021

Presenters

George Kirby, President and CEO
Matthew Shafer, CFO and Treasurer

Q&A Participants

Peter Ruggiere - Dawson James

Operator

Good morning, ladies and gentlemen, and welcome to the Ocean Power Technologies third 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 March 5, 2021, OPT issued its earnings press release and filed its quarterly report on Form 10Q for the quarter ended January 31, 2021 with the Securities and Exchange Commission. All OPT public filings are available on the SEC website at SEC.gov or in the OPT website's investor relation section.

Please note that management's prepared remarks may contain forward looking statements that are within the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995. Forward looking statements are identified by certain words or phrases and 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 any forward looking statements. For a further discussion of these risks and uncertainties, please refer to our most recent Form 10K and subsequent filings with the SEC. 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 your host for today's event, Mr. George Kirby. Thank you, sir. Please go ahead.

George Kirby

Thank you, and good morning. Today, I'll review our business operations and provide an update on activities and developments during the third quarter of fiscal year '21 and up to today. Matt will review our financials, and then, we'll open the line for questions.

OPT's third quarter brought dramatic change to our company. The recent acquisition of 3Dent Technology is the company's first, and it brings both expertise and the creative revenue from 3Dent's work in offshore engineering, concept design, simulation, vessel monitoring. In the past, 3Dent has been a strategic partner to OPT in helping us to develop our hybrid buoy and subsea battery system. Synergies between OPT's target customers and 3Dent's clients are readily apparent, and the nature of their services strengthens OPT's value proposition.

3Dent's deep offshore engineering expertise expands OPT's capabilities and opportunities within the lifecycle of complex customer projects. And we believe their experienced team will enhance the development, commercialization, and quality of OPT's clean power and data solutions. 3Dent Technology will operate under its current brand name as a wholly owned subsidiary of OPT from its office in Houston, Texas.

We continue to prepare for our first remote installation of an autonomous turnkey wave energy powered subsea data system in Chile. This is the first commercial installation of its kind which will continuously collect real time subsea dedicated through a dedicated subsea two way network and communicate back to a shore station which will also allow for remote command and control of the system. We believe remote system installations can offer flexibility and cost reduction to our customers. And despite continued delays linked to the global pandemic, we're working to complete the system installation as soon as possible.

We also welcomed three new directors to our board, Clyde Hewlett, Diana Purcel, and Pete Slaiby. Each of these new directors bring deep and valuable expertise in offshore energy, marine and subsea systems, safety, finance, and governance. We're extremely happy to have them join our board, and we're looking forward to growing our company together.

The key goal for us this year was to bolster our financial position, improve our liquidity, and reduce our capital risk. And we believe that we've made great strides towards those efforts. During the fiscal year, the company put in place cost cutting measures and has generated over \$76 million in net proceeds through utilization of our ATM and equity line common stock purchase facilities. This includes \$66.7 million in net proceeds raised during the third quarter.

We believe our current cash balance in addition to continued prudent cost management will provide us with the financial flexibility to execute our clean ocean power and data growth strategy consisting of market expansion, sales cycle acceleration, development of new solutions as well as strategic acquisitions.

With that, let me turn the call over to Matt to discuss the financials. Matt?

Matthew Shafer

Thank you, George, and good morning, everyone. Revenue for the third quarter of fiscal year 2021 was \$300,000 compared to \$700,000 for the same period in the prior year. And the net loss for the third quarter of fiscal 2021 increased by \$300,000 as compared to the third quarter of fiscal 2020. Revenue for the first nine months of fiscal year 2021 was \$600,000 compared to \$1.1 million for the same period in the prior year. And the net loss for the first nine months of fiscal year 2021 increased by \$500,000 as compared to the same period in the prior year. The decreased revenue and increase in net loss for the third quarter and the first nine months of fiscal year 2021 were mainly attributable to pandemic related delays of the company's revenue generating projects.

Turning now to the balance sheet, total cash, cash equivalents, and restricted cash was \$80.4 million as of January 31, 2021. Net cash used in operating activities decreased by \$100,000 during the first nine months of fiscal year 2021 to \$8.5 million, as compared to the first nine months of fiscal year 2020. This decrease is mainly the result of lower cash spending on customer projects and product development costs in the current fiscal year period, as compared to the same period in the prior fiscal year.

During the nine months ended January 31, 2021, the company's at the market agreements and its equity line agreements generated net proceeds of \$76.1 million. With that, I'll turn it back to George.

George Kirby

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

Operator

Thank you. Ladies and gentlemen, the floor is now open for questions. If you would like to ask a question, please press star one on your telephone keypad at this time. A confirmation tone will indicate your line is in the question queue. You may press star 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 is star one to register questions at this time.

Our first question comes from Peter Ruggiere of Dawson James. Please go ahead.

Peter Ruggiere

Good morning.

George Kirby

Good morning.

Peter Ruggiere

I have a whole bunch of questions. You guys raised \$80 million--you have \$80 million in cash, and you (inaudible) basically \$12 million a year. Now you have \$6.5 million of cash. Is there any more raising of money necessary?

George Kirby

Well, Peter, I'll take this first. And then, Matt, you can jump in. We're not looking at it as we have 60 months of cash. Far from it. We're aggressively looking to move forward with our strategy. And our first--our primary focus area is acquiring new revenues. We're securing new revenues. So, we're focused on getting buoys in the water. We're focused on getting on planes and getting in front of customers just as soon as borders open up. That's really what we're focused on. But, we're not looking at it as though we have 60 months of cash burn left.

Peter Ruggiere

No, it's actually six and a half years of cash if you run those numbers. But, here's another thing. You mention data growth. So, Microsoft has these underwater data centers which run cleaner and less power. Is there any possible deal in the background? I know you can't really go into it. I'm just kind of curious.

George Kirby

I can't go into specifics about deals. But, what I will tell you is this. We are broadening our focus. We have broadened our focus from only clean energy and power to truly going after the data space. The reason is--we found, from our customers, that that's really where the value lies for them. It's not just simply in providing power. It's in providing ocean intelligence. It's for--.

Peter Ruggiere

--Have you--?

George Kirby

--Go ahead--.

Peter Ruggiere

--I was going to sort of (inaudible). Are quantum glass batteries--these new battery systems out there--are you using any of them for--like experimenting with them in any of these buoys?

George Kirby

Today, we're using our own batteries, the batteries that we have been using. But, I will tell you this. There's some great battery manufacturers around the world that we talk to and somewhat collaborate with. And I'll leave it at that.

Peter Ruggiere

Okay.

George Kirby

And back to your question about data centers, Microsoft aside, there's a number of companies out there that are looking to put data centers on the ocean floor. And that's something that we're taking very seriously, we're looking at. That would be a power and communications play, if you understand what I mean. It would be probably higher powers--power than what we're looking at today or what we have available. So, we're looking also at--how can we scale up our technology rapidly in order to get to higher power levels to address these markets? That's part of the strategy that we're putting together moving forward.

Peter Ruggiere

Question on something--I don't know if you followed--Google was doing this Project Zoom--and they (inaudible) doing islands that couldn't get 4G and stuff like that. But, they canceled the project. Have you been talking with them about something--having buoys around there to do the 4G or 5G around the islands?

George Kirby

Yeah, I'm not able to talk about specific discussions with customers because, as you know, oftentimes we're under NDA, and we're precluded from discussing names and details. But, I will tell you that, in the past, island nations have come to us, asking us the--about the feasibility of displacing their diesel generators on island and using our clean power. That's something that we've kept our eye on. We've really been hyper focused on commercializing our current solutions that are lower power than maybe what some of these island nations need. But, moving forward, again, with our eye on rapid scale up to higher power and evaluating what that would take, that market segment, if you will, is definitely in our cross hairs.

Peter Ruggiere

Another one. In the Gulf of Mexico, you had that project a year and a half ago or so. And now, your Houston office opened. Where does that stand?

George Kirby

Yeah, the study that we did--I believe that we kicked that off around April 2019--is complete. It was a successful study, meaning the results and deliverables were favorable towards feasibility of using our solutions to solve that customer's problems. We continue to talk to that customer. As you know, with the pandemic, face to face meetings are difficult. So, we've had to use, just like everybody, digital means to communicate with our customers. Those discussions are actually still ongoing.

Peter Ruggiere

Right. As far as (inaudible) is concerned, there's something they were doing to decommission this cube that you were powering the bottom of the--to handle the carbons or whatever--

emitted from them. And then, you were supposed to do something in Italy, which was held back because of the pandemic. What's the next process with them?

George Kirby

Yeah, another great question. We continue to communicate with the NRI (sp), and we're actually expecting that unit back in the United States to be refurbished and hopefully redeployed here soon. But, our discussions with the NRI around next steps are continuing.

Peter Ruggiere

Okay. And then, the other (inaudible) was the Navy or the project going with the Navy for Washington. What's--when do we get an update of where that's--end of the project is?

George Kirby

Are you referring to the slammer (sp) facility project that we're conducting a study on right now in Monterey Bay?

Peter Ruggiere

Yes.

George Kirby

That's a really exciting opportunity because it really plays into our future strategy of both power and data. The whole premise of the study is to evaluate using the power buoy solution, power and data solution as a node in the water, if you will, as a hub whereby both subsea AUVs, drones as well as aerial drones can communicate through that central hub. And then, we would use 5G communication back to land; 5G allows better latency, better bandwidth. It's a good terrestrial solution for communicating data in a rapid manner for decision making, command and control.

Peter Ruggiere

Nice. The other--I only have two more. The Premier Oil in the North Sea--is there any other project about to happen there? You had two buoys. One was going to be set up there as a backup.

George Kirby

Yeah, like ENI (sp), we also continue to speak with Premier Oil on a regular basis. As you know, we have an individual, a salesperson position in Aberdeen, which is in the same town that Premier Oil is located. So, they speak often. Just like we have an individual in southern Europe who speaks with ENI on a regular basis. We're talking about next steps. We're looking for the right opportunity to be able to study and then move into possible next steps.

Peter Ruggiere

And another thing--on the legal fishing, I guess, in the--around the world--I know you're doing something in the south, in the islands of Asia somewhere over there. But, where does that stand? Because you had somebody you hired--I think it's from Indonesia or something.

George Kirby

Yeah, we have a gentleman located on the ground in Jakarta. And he's not just addressing the Indonesian market. But, he's also helping us with several of the other jurisdictions there in southeast Asia. This is what we consider to be a major opportunity, market opportunity that is for OPT using our marine surveillance solution. And the idea is this surface surveillance solution would be able to take the place of manned vessels on the ocean by putting these systems throughout strategic locations, for instance, the South China Sea, to look for vessels that may be involved in illegal fishing. They may be encroaching on sovereign territory. And not only does the system have the ability to detect, but also, the idea is to provide evidence for interdiction. So, we see this as a really big opportunity, not just even in that region, but in other regions around the world. And we're really moving forward on discussions in those other regions around potentially using this system. The system is something that we have put on our hybrid power buoy off the coast of New Jersey for initial testing. We've done a lot of land based tests and collected a lot of information that allows us to really improve the system to deliver a lot of value for our potential customers.

And likewise, I would point out, we also are really making a push on U.S. government sales and marketing. We're hiring a dedicated government salesperson to be located in the metro Washington D.C. area, Baltimore, or maybe down through Virginia that can really focus on building our brand on Capitol Hill, positioning us for appropriations, working with Department of Defense contractors. So, that would all be for direct sales to organizations like the U.S. Coast Guard, the Navy, NOAA, Department of Energy, but also to help us indirectly with some of these foreign jurisdictions where we're trying to, for instance, put marine surveillance solutions in place and to see how the U.S. government could help us with that as well. So, this is part of our strategy, moving forward, and we're aggressively pushing this.

Peter Ruggiere

Sounds great. Doing a great job. Thank you.

George Kirby

Thank you, Peter.

Operator

Once again, ladies and gentlemen, that is star one to register questions at this time. We'll pause a moment for any additional questions.

Mr. Kirby, I'm showing no additional questions in queue. Did you have any closing comments today?

George Kirby

Yes, thank you, operator. As we've discussed here today, despite the impacts of the global pandemic to our company, in many ways, this fiscal year has been a remarkable period for OPT. Earlier this year, our employees found a way to give back to our community by manufacturing and donating thousands of protective face shields to first responders and healthcare workers throughout New Jersey.

In December, many of our employees invested time at our local food banks to help our neighbors in need during this unprecedented time. We continue to drive opportunities with our customers, oftentimes without the ability to travel for face to face meetings, and we've continued to develop and commercialize what we believe are world class solutions into high growth markets, such as clean energy and ocean data. We're well capitalized, and we're expanding our expertise, capabilities, and partnerships, allowing us to bring additional value to our customers.

I'm genuinely excited about the future for OPT. Thank you for joining.

Operator

Ladies and gentlemen, thank you for your interest and participation in today's Ocean Power Technologies conference. You may disconnect your lines or log off the webcast at this time. And have a wonderful day.