Ocean Power Technologies Inc. Commercialization Call Script

Operator Comments

Good afternoon, ladies and gentlemen, and welcome to Ocean Power Technologies' Commercialization Strategy Update Conference Call. My name is Nicole, and I'll be your coordinator for today. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to turn the presentation over to your host for today's call, Mr. Steve Calk, Investor Relations for Ocean Power Technologies. You may begin.

Introduction

Good afternoon and thank you for joining us. On the call with me today are George Kirby, President and Chief Executive Officer; and Matt Shafer, Chief Financial Officer. 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 after this call. Now let me reference the safe harbor provisions of the U.S. securities laws for forward-looking statements. This conference call may contain forward-looking statements that are subject to significant risks and uncertainties, including the future operating and financial performance of Ocean Power Technologies or OPT. Although OPT believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurance that such

expectations will prove to be correct. Important risk factors that could cause actual results to differ materially from those reflected in the forward-looking statements are included in OPT's filings with the SEC. The information contained in this call is accurate only as of the date discussed. Investors should not assume that the statements will remain operative at a later time and OPT undertakes no obligation to update any information discussed in this call. Now, I'm pleased to introduce Mr. George Kirby, CEO of Ocean Power Technologies. George?

George H. Kirby – President and Chief Executive Officer

Steve, thanks. Hello, everyone, and good afternoon. Thanks very much for joining. I'll just remind everybody that there are slides available through the NASDAQ site. So, I'd appreciate if you're able to join along, and I'll be referring to the slides as we go. They'll be available after the presentation on the website as well. The intent of today's update is to help you to understand what types of opportunities OPT is pursuing, why we're pursuing them, and just how prolific the opportunities really are globally. Today, I'll begin by speaking briefly about the market conditions that we're seeing and selling into. Then I'd like to discuss the 3 applications for our PowerBuoy, where we're experiencing the most interest. After this, I'll speak about our most recent contract with Eni. And then I'll wrap up with a brief discussion around how we're managing our opportunity pipeline.

So I am on Slide 3. Today -- I'm sorry, the offshore environment continues to transform through the use of data intensive networks. And

this is true for all of our target markets, including offshore oil and gas, security, defense, science and research and telecommunications. For instance, the science community could benefit tremendously in understanding climate change from a constant stream of environmental intelligence in remote ocean areas as opposed to a batch of data, which is picked up and analyzed every 6 months. Access to data throughout the offshore oil and gas operations is driving cost improvements, allowing for better uptime and productivity, and in some cases, even increasing oil reserve recovery. Companies like Statoil, Shell, Eni are establishing remote operation centers, which enable employees to use real-time data from rigs and subsea equipment in order to make real-time decisions from land. The Norwegian operator Statoil envisions the oilfield of the future through its remotely operated factory concepts, through which they expect to see significantly less capital and operating expenses as a result. BP is using unmanned vehicles for an equipment inspection, which considerably reduces costs and cycle time, and also allows for less expensive planned maintenance, as opposed to unplanned maintenance, which result in much higher costs and reduced productivity due to unnecessary downtime. As we're discussing various uses for the PowerBuoy or applications, it's important to understand a few of the aspects of the target markets, such as offshore oil and gas. I'll mention a few of these here. In the upper right image of Slide 4, you can see a representation of oil and gas systems over tens and sometimes hundreds of miles. Oil patches or fields extend hundreds of square miles across the ocean. The offshore oil and gas industry maintains subsea equipment, which as you can see, resides on the seafloor, miles away

from the primary well to address different pockets of oil, called marginal fields. These pockets of oil are connected to the main offloading site by pipes call tiebacks. These marginal fields require power and communications to operate the subsea equipment. That power may use large diameter umbilicals similar to large extension cords that come out from the rigs in order to bring power and communications along the tieback to the marginal field.

Some examples of where power and communications are used might be for controlling pumps, valves, flow regulation and Chemical Injection systems. Remotely operated vehicles or ROVs, have been used for subsea operations for decades. They consist of drone like vehicles attached through a transport cage and back to the top side ship or vessel, with a power and communications umbilical. Smaller ROVs have been used for exploration, recovery and research to bring live video of the subsea world back to the surface. I think everybody has seen the video of Eni vessels

that are recovered off the sea floor. They used ROVs to bring that video back to land. Larger ROVs look like robots, with manipulator arms that can operate subsea equipment. These larger ROVs have become instrumental to subsea

operations and have historically been deployed and operated from ships. So one example of subsea charging is the use of electric ROVs, or eROVs. eROVs are intended to be deployed by a ship and left to sit on the ocean floor for longer duration missions, while the vessel leaves and heads to port. Instead of receiving power from the topside vessel, the transport cage, which the vehicle deploys from, will have batteries to

power the vehicle. Then communications can be run from a topside communications buoy. The PowerBuoy is uniquely suited to charge the eROV batteries in order to allow it to stay down much longer or even reside on the seafloor during long-term operations. This extends the overall mission capability of the eROV, eliminates the need for the communication buoy and provides even more energy storage capabilities onboard our PowerBuoy. We're also considering a Generation-only PowerBuoy, which would have no energy storage system, but would allow for a more rapid deployment and would only trickle charge the eROV batteries. Next slide. Similar to ROVs, are our Autonomous Underwater Vehicles, or AUVs. AUVs are being used more and more throughout offshore oil and gas, defense, and science and research. AUVs contain batteries directly inside the vehicle and have a mission duration of a few hours to a day or 2, depending on its mission requirements. All of the data collected by an AUV is stored onboard the vehicle. Today, a vessel will come out to the site, where the AUV is to operate, and deploy the AUV using a crane. When the AUV mission is over, it will surface and the vessel crane will crane the AUV onboard, where the data is downloaded and the batteries are replaced. These AUVs are mainly used for data collection, but companies like Saab have an AUV called the Sabertooth, which is depicted in the lower left picture, which has tools on board that can manipulate valves and other operations. Both the defense industry and offshore oil and gas are working with manufacturers to develop AUV garages, where the vehicle can park, download its data, upload a new mission profile, recalibrate its GPS and recharge its batteries, all within

a 6 to 12-hour time frame. These industries have recognized the PowerBuoy as ideally suited to provide additional energy storage as well as a perpetual charging mechanism. The idea that these AUVs can reside on the seafloor as full-time eyes and ears and to conduct remote operations from land without the need for a vessel and crew at sea.

Next slide, please. Subsea batteries are used to provide prime and auxiliary power to subsea operations. One example of this is Chemical Injection Systems. There are companies that make batteries that are designed for the extremely high pressures encountered on the seafloor for months at a time. Oftentimes, specially designed 40-foot containers are filled with batteries and positioned right next to operations for powering equipment. OPT's PowerBuoy could be an excellent solution for extending the useful life of these battery systems, and possibly, even reducing the amount of batteries needed, given the recharging capabilities. This latter point creates a really important economic value, causing operators to rethink the way that we've been addressing subsea operations. This illustration is a great depiction of our second application, surveillance and monitoring from our friends from Kongsberg, who's a Norway based provider of offshore solutions. That accurately points out the critical areas where our PowerBuoy can play an important role, such as monitoring, surface threats, facilitating collision avoidance and monitoring threats below the surface. One absolutely huge area for PowerBuoy surveillance and monitoring is the decommissioning of offshore oil and gas platforms and subsea

equipment. When assets have reached their useful life, or once an oil reserve has been depleted, the operator needs to remove their equipment from the surface and the seafloor, and restore the seafloor to its original condition. Right now, there are well over 1,000 sites in the North Sea and hundreds of sites in the Gulf of Mexico that are being planned for decommissioning over the next 7 years. Each of these sites could potentially utilize 1 or several PowerBuoys to act as unmanned surveillance stations, and to monitor subsea wells during plug and abandonment activities. The PowerBuoys would essentially provide remote surveillance and monitoring in place of a vessel and crews, thus reducing significant cost and reducing the operator's carbon footprint. Let me take you through an example. Next slide, please. In the North Sea, offshore oil and gas operators require a minimum 500-meter safety zone around platforms that are undergoing decommissioning and dismantling. This safety zone has historically been maintained using boats and crew, although day rates make this really expensive, oftentimes as much as $5,000 per day over multiple months or even years. There are also all these safety considerations as these boards and crew are required to be on station, even during severe weather conditions. And oftentimes, these guard vessels will only have the ability to monitor above the sea surface, leaving the operator to find a different solution for subsea equipment monitoring. The solution would be to use one or more PB3 surveillance PowerBuoy. PowerBuoys are unmanned and create perpetual power and provides a platform for surveillance, monitoring and communications equipment, where operators can monitor both above and below the sea surface and communicate with

approaching vessels from the safety of land. In working with one operator, we determined that the resulting cost savings is upward of 30% to 50% per year, per vessel replaced. We believe that the revenue potential is based on single or multiple PowerBuoy leases per site per year for this type of application. We also believe that there are potentially hundreds of opportunities globally per year, assuming that there are multiple sites per decommissioning event. It's important to note that some operators will prefer to purchase PowerBuoys rather than lease them. And that PowerBuoys sales become more economic for projects lasting longer than 1.5 to 2 years. So the typical payloads on a surveillance PowerBuoy would include infrared cameras, passive acoustic monitoring, high-frequency radar, an AIS transponder, a fog horn, 4G and WiFi communications, satellite communications, well head sensors, high-definition video, both on the surface as well as subsea, and meteorological and oceanic sensors. All of these can be powered by the PowerBuoy. Next slide. So far, we've been discussing applications in relatively shallow water or up to about 1,000 meters deep. As operators continue to move further out to sea, the continental shelf drops away to very deep water or sometimes -- oftentimes up to 3,000 meters. Though we believe that we can use today's mooring technology in order to anchor in these waters, it becomes very expensive for the anchor lines and floats required for the mooring system. So one solution is to forgo the mooring system by using an anchorless PowerBuoy, which we're currently developing for the U.S. Navy's Office of Naval Research. This PowerBuoy would use a patented approach to power generation, would contain energy storage similar to the PB3, and could also have a diesel

generator on board, which uses a clean biodiesel in order to supplement peak power requirements. The buoy would be self-propelled and would, therefore, not need an anchor in order to stay on station. In fact, the PowerBuoy may even be capable of launching from land and self-navigate to its desired station. We're well into the conceptual design for this anchorless PowerBuoy, and the next major steps are to finish the detail designs and create a prototype for the Office of Naval Research. We've experienced so much enthusiasm for this design from the U.S. Navy, defense contractors in the offshore oil and gas industry that we've decided to continue development of the PowerBuoy

on our own dime until such time that the Navy's new budget materializes into further funding for this project. We actually expect this to occur in the coming months. Okay. Last application number 3, the third and final application that I'd like to briefly discuss is offshore connectivity. Marine industries have historically used satellite communications for voice and data. This is because land-based cellular signals are lost about 25 miles out to sea. Though bandwidth capabilities of satellite communications have dramatically improved over the years, the service is still very expensive and accounts for a significant percentage of operating costs. Companies like Norway-based Tampnet have invested in laying fiber from land throughout the North Sea to create a network for 4G cellular. The fibers then brought up to the offshore oil platforms to cellular antennas, where 4G signals are cast out to other platforms. Tampnet is well positioned to do the same

throughout the Gulf of Mexico and is currently working with operators to make it happen. 4G is believed to bring significant cost savings over satellite communications to not only the offshore oil and gas industry but all marine industries that operate on the high seas. Expanding on this application a little bit more, we found that the offshore oil and gas industry is projected to spend nearly $0.5 billion on satellite communications, and the global maritime industry will spend over $3 billion. The need for offshore access to 4G cellular technology is driven by the ever-increasing intensity of data usage by these industries. This illustration on this slide shows the hundreds of offshore oil platforms in both shallow and deeper water. These platforms are used as a quasi-cell tower as the fiber is brought up from the seaport to antennas, mounted high on the platform to create networks. Oftentimes, these networks will experience coverage gaps, similar to what we all experience with our mobile phones, as we travel between cell towers and our signal strength increases, it decreases and sometimes disappears, until we come within range of the next tower. As companies like Tampnet wire the Gulf waters with fiber and create a 4G cellular network, operators will depend on these networks and require extremely high levels of availability and reliability. Next slide. We believe the solution to these coverage gaps is our PB3 PowerBuoy, in this case also called a CellBuoy. 4G signal depends on line of sight. So the cell buoy acts as a stable platform, where a very tall mass, possibly 80 feet to 100 feet tall, can be installed to support cellular antenna equipment. The CellBuoy would be attached to the seafloor only with mooring lines and an anchor. In addition to a stable platform, the cell buoycan provide persistent power

to the 4G equipment as well as a WiFi hotspot for passing ships. Coverage gaps would be closed as the CellBuoy works as a repeater station where the 4G signal would be captured, its power significantly increased and then rebroadcast to the next 4G antenna. The alternative to a repeater station is that the CellBuoy could work as a base station, where the fiber is actually brought up from the seafloor through the mooring lines to the CellBuoy, and the 4G signal is broadcast to other locations directly from the base station. Both of these solutions would significantly harden the 4G infrastructure and allow companies like Tampnet to push further out to sea with their network. Now, I'd like to switch gears and speak about our contract pipeline. The Eni contract really is a monumental milestone in OPT's history. For the first time, we are delivering a PowerBuoy into the offshore oil and gas industry, specifically, to address the burgeoning needs of subsea charging. We believe that this contract is the catalyst for global operators to choose our solution for their subsea charging needs, and we're already hearing this from future customers. We've been working with Eni on this opportunity for well over 1 year. We finally began to scope the project in April of last year. We then needed to go through an extensive vendor qualification process, which lasted throughout last summer. Both Eni and OPT expected that we would have a contract in place by September of 2017. However, contracting ended up taking another 6 months. Under the contract, the initial lease period for the PowerBuoy is 1.5 years. And Eni wanted the option to be able to extend the lease for another 1.5 years as well as the ability to purchase the PowerBuoy outright. The Eni S contract, which was made publicly available in 2016,

is a great reference point to understand the potential revenues that can be derived from PowerBuoy lease contracts in general. And aside from the lease itself, contracts most always include important revenues from project management, engineering services, deployment support and deployment monitoring services. This contract with Eni is no different. And in addition, Eni agreed to bear significant cost for us, including but not limited to, deployment cranes, vessels, crew, expensive insurance premiums and storage of the buoy. As part of the contract, Eni required us to include provisions for multiple buoy purchases, and we agreed. Eni also required us to include provisions for sharing any intellectual property that we may develop together, and we also agreed. Each of these contract provisions position Eni and OPT to jointly market subsea charging solutions outside of this agreement. We're extremely pleased to not only have Eni as a customer but also as an important partner moving forward.

Next slide. All right. I'd like to spend a few moments discussing our sales and lease pipeline as well as the typical process to actually get to meaningful contracts. Over the last 3 years, we've spent an enormous amount of time educating our target markets, understanding their operations and looking for ways to use our PowerBuoy to either save them money or to enable newer purchase. We're continuously focused on identifying potential customers, developing applications for our PowerBuoy and articulating the clear value proposition that we bring. We call this product positioning, and we spent probably 25 -- I'm sorry, 20% of our time on this. Once we've identified a mutual opportunity

with the customer, we spent a large amount of time scoping the solution and developing the specific economic business case. This includes exploring and understanding all of the risks associated with doing things differently by using our PowerBuoy instead of proven, though oftentimes expensive, methods. From there, we moved through a series of proposals. The first being a rough order of magnitude estimate of costs, which is usually plus or minus 30% to 40% of what the project will actually cost. Once we understand more of the cost inputs and assumptions, customers oftentimes ask for a budgetary proposal, which is typically plus or minus 15% of the final cost. The customer will use this information to secure funding and gain internal approvals. The last step is to provide a final detailed proposal using all of the collected information to date. All of this effort results in about 10% of our time. The reason this area is smaller is a smaller percentage of the total time spent is because we've become very efficient at turning out proposals. We've been incredibly focused on reducing the time that it takes to get to a contract by collecting information well in advance on a customer's purchasing process. Usually, the most amount of time is spent in negotiating the final contract. Though we're able to make decisions very quickly and turn around contract reviews and comments in short order, oftentimes our customers have a more lengthy purchasing process, which takes them more time to respond. What we found is that all of our customers are excited to use our products and services and work diligently toward a mutual outcome. Just as we needed to go through supplier qualification with Eni in order to get to a contract, we've had to do the same with others as well. As much as we believe these important

milestones are newsworthy, our customer counterparts oftentimes don't. And we are precluded from discussing it, given our nondisclosure agreement. And speaking about our actual pipeline of opportunities, I'll say that we definitely have a strong and growing one. Here are some individual examples that we're pursuing in earnest. One operator sees our ability to provide power to subsea equipment on very long tiebacks as an obvious opportunity. Two ROV service providers are using our PowerBuoy in their marketing to operators as a solution for charging and energy storage. 2 oil and gas operators are conducting studies around the use of our PowerBuoy in their operations. One multinational company is interested in leasing or even buying a PowerBuoy for initial use in South America. One telecommunications company is expressing interest in using our PowerBuoy as a repeater station in order to fill the gaps between 4G cellular signals. So as you may have learned from prior discussions, we continue to expand our sales presence in the U.S. and Europe, as we address each of these applications that I've discussed and have actual PowerBuoys supporting those critical operations, we expect to see a high rate of adoption globally in order to muster cost savings across these industries. Because of our continued work to transform our company, I expect that we're able to deliver more contracts in the near future. So in closing, we believe that our investment thesis is stronger than ever. Our product is extremely innovative. We have a very robust intellectual property portfolio. We're positioned to display some very big market costs. Our target markets are both attractive and diverse. And our management team is very experienced in commercializing new products, and scaling and growing very complex and technical

businesses by using a disciplined approach. I really hope today's presentation was helpful in understanding not only where we're at, but where we're going. Operator, this is the end of my presentation, and I'd now welcome any questions that anyone has.

Question-and-Answer Session

Operator:

(Operator Instructions) Our first question comes from Peter Ruggiere from Dawson James.

Peter G. Ruggiere

Questions for you. How many buoys do you have in the water right now?

George H. Kirby

None right now. We've got a few sitting out in their back parking lot waiting to be shipped and more being built. One in particular for Eni and others for demand that we're seeing.

Peter G. Ruggiere

When do you expect any revenue to come from any of these projects?

George H. Kirby

Well, I mean, as you know, we're seeing revenue from our Premier Oil study and the Eni project is going to yield revenues and cash in the door pretty rapidly under the contract. We're already well into it.

Peter G. Ruggiere

Okay. Here's another question. You guys have been doing this for about, what, 3 years and $200 excess million and you have 65-plus patents. What do you think the technology is worth per share?

George H. Kirby

That's a good question. I'd have to give that some thought, but I can tell you, yes, this company has been hard at it for 25 years, mostly focused on research and development. Since I've gotten here and Matt and John Lawrence, our General Counsel and the whole management team, within 3 short years, we've turned this company around into an operational company.

Peter G. Ruggiere

You guys are doing great.

George H. Kirby

Pardon?

Peter G. Ruggiere

No. I said, you guys are doing great.

George H. Kirby

Thank you very much. Another point I'd mention, if you look at -- my background is coming from big companies like GE. If you look at some of the press releases that GE is putting out, they're investing $400 million in a new wind turbine. I mean, so to spend a lot of time to develop a technology, to investment a lot of money in getting that technology right and to building markets around that technology takes time and it takes money.

Peter G. Ruggiere

It's interesting, I ran into somebody, and she works for a -- I forgot who it was, but she's an engineer, but I think the government's going with lower costs and renewable energy and asked about OPT and she's like, yes, they're one point, which is actually good.

George H. Kirby

Yes, one thing that I'll mention about OPT is we are subsidy free. We are making this happen under our blood, sweat and tears. Go ahead.

Peter G. Ruggiere

I think the last -- the one question is, you guys have about a year of cash left at this point. When's the next dilution? And there's somebody else -- and here's the second part of that, is somebody else planning on maybe putting (inaudible) into supporting you instead of diluting more shares.

Matthew T. Shafer

Yes, Peter, this is Matt. To answer your first question or observation, as you know, we have $14.4 million of cash as of the end of the quarter, January. Our budgeted average monthly burn rate is about $900,000 per month. We've been running a little bit shy of that so, which is a positive thing. But doing the math, that gets us out through like you said, a year from now. So through April of 2019. We have obviously been scaling the business, but we also have been pulling back on some other types of research -- development type of work. So we have some puts and takes. So we're keeping with that monthly burn rate. Currently, we are going through our 3-year strategic planning process. So we'll have a better line of sight into our capital needs into the future, in the coming months. So I know that doesn't answer your question, but it gives you a little more clarity around where we're at right now today.

Peter G. Ruggiere

Right. Some -- I've worked with Level 3 -- I was invested in Level 3 for years, and they have the most extensive fiber-optic network out there. And the thing you have Project Loon with Google running offshore, what they're doing with these balloons and stuff like that, I mean, the buoys are perfect for that. I think we've talked about this on a couple of conference calls back. Have you been talking with Google about this at all?

George H. Kirby

I have talked to Google. I've got former colleagues that are working for Google in their Energy group. And I'm pretty in tune with some of the technologies that they're influencing, as well as others. The -- really, the opportunities are -- I don't want to say that they're not limitless, right? But they're hard to really even understand right now. If you go back to 1995 and you started talking about the iPhone, everybody would be like, they would be saying, what are talking about? We have this Motorola flip phone that works just fine. The idea is that the PowerBuoy is meant to penetrate
these markets by eliminating cost -- unnecessary cost, bringing an unmanned station to there. But by bringing power and communications to remote locations. What you do is, you open up new opportunities to enable new technologies. So there might be opportunities with AUVs

and having landing pads on our PowerBuoys. We're thinking about all of that, we're thinking about the big data aspect of these markets that we're going after. And who should we be talking to and partnering with around understanding and trying to facilitate big data through our PowerBuoys. But really, right now, we're not focused as much on that far thought -- that far out thought, we're not focused on further capital raises. We are 100% focused on commercializing this PowerBuoy.

Peter G. Ruggiere

This is going to be a far-fetched question, but when do you expect a contract where you get say like a milestone payment?

George H. Kirby

I'm not sure I understand the question, Peter.

Peter G. Ruggiere

The question was, how close are you getting to a milestone payment to where you're paid $5 million or $10 million, $20 million to build 10, 20 buoys?

George H. Kirby

I think, what you're asking is, how close are we to a multiple-buoy order, maybe?

Peter G. Ruggiere

Yes.

George H. Kirby

As I mentioned in this presentation, Eni has positioned for that, right? It's written into the contract, and the contract is available, it's been 8-K-ed, anybody can read it that we are positioned to roll out multiple power buoys with Eni.

Operator:

(Operator Instructions) And I'm showing no further questions. I would now like to turn the call back to George Kirby, CEO, for any further remarks.

George H. Kirby

Hey, thank you. So I appreciate everybody joining. This is going to be posted up on our website under the Investor Relations section of our

website. I'll also point out, please follow us on social media. We have taken a new position on social media, we're trying to post more, we're really trying to pull back the curtain on all of the great things that we're doing, who we're talking to, our technology and innovation. And soon, we'll be talking more about our people as we continue to grow. Twitter, Facebook, Instagram, LinkedIn, these are all great ways to stay in touch. And I appreciate everybody's interest in today's presentation. Thank you.

Operator:

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may disconnect. Everyone, have a great day.