

Ocean Power Technologies, Inc.
First Quarter Fiscal 2020 Conference Call
September 18, 2019

Presenters

Matthew Abenante, Investor Relations, Porter, LeVay & Rose
George Kirby, President & Chief Executive Officer
Matthew Shafer, Chief Financial Officer & Treasurer

Q&A Participants

Victor Puguayo – E&P Transport
Peter Ruggiere – Dawson James Securities

Operator

Good morning, ladies and gentlemen, and welcome to the Ocean Power Technologies First Quarter Fiscal Year 2020 Conference Call.

As a reminder, this conference call is being recorded.

I would now like to turn the call over to your host, Mr. Abenante, Investor Relations, for Ocean Power Technologies. Please go ahead, sir.

Matthew Abenante

Thank you, Donna, and good morning everyone. Thank you for joining us on the Ocean Power Technologies Conference Call and Webcast. On the call with me today are George Kirby, President and Chief Executive Officer, and Matthew Shafer, Chief Financial Officer and Treasurer.

Following our prepared remarks, we'll open the call to questions. This call is being webcast on the Company's website at www.oceanpowertechnologies.com. It will also be available for replay after this call.

On September 16, 2019, OPT issued its earnings press release and filed its quarterly report on Form 10-Q for the first quarter of Fiscal Year 2020 with the Securities & Exchange Commission. All of our public filings can be viewed on the SEC website at sec.gov, or you may go to the Investor Relations section of the OPT website, oceanpowertechnologies.com.

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 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, 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, and involves 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. Some of these factors include, among others, the following: future financial performance; expected cash flow; ability to reduce cost and improve operational efficiencies; revenue 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 PowerBuoys; increasing the power output of PowerBuoys; hiring new key employees; expected costs of PowerBuoys; and building customer relationships.

Please refer to our most recent Forms 10-Q and 10-K and subsequent filings with the SEC for a further discussion of these risks and uncertainties. We disclaim any obligation or intent to update forward-looking statements in order to reflect events or circumstances discussed in this call.

Now I'm pleased to introduce Mr. George Kirby. Good morning, George.

George Kirby

Thanks, Matt. Good morning, everyone. I'm going to review our business operations and commercialization activities during the first quarter and up to today, then Matt Shafer will provide a review of our financials, and then we'll open the floor for questions.

I mentioned last quarter that we've had several growth catalysts on the near and mid-term horizon, posing significant opportunities for us. In recent weeks, we've seen some of these opportunities take shape for OPT.

In early August, we announced the successful deployment of the PB3 PowerBuoy in the North Sea for our customer, Premier Oil. This PowerBuoy is serving Premier Oil as an autonomous, intelligent platform to provide surveillance services throughout the decommissioning process at Premier Oil's Huntington field offshore operations.

During the deployment, we'll demonstrate the PB3 PowerBuoy capabilities, its ability to monitor the local environment and alert ships of the field's position. This deployment began the initial three-month trial of its nine-month lease. We're just over halfway through that initial trial with that PowerBuoy, operating flawlessly in very rough seas with average wave heights of over 17 feet. This lease also includes an option to extend the initial nine-month period.

Before the voyage to the North Sea, the PB3 PowerBuoy was featured at a Technology Day event we held in Scotland, together with our partners Acteon and The Oil & Gas Technology

Center. Over two days, we had over 100 participants, including oil and gas industry leaders and media that met with our team and saw the PB3 PowerBuoy and its payloads up close to examine its uses and capabilities.

The feedback we received was hugely positive, which helps elevate the profile of OPT in the oil and gas industry. The feedback suggests that we have the attention of the offshore oil and gas decommissioning world on this project, and I believe our successful performance for Premier Oil can only help fuel opportunities for our solutions.

We recently announced the completion of another detailed feasibility study with a leading oil and gas operator to monitor subsea wells during decommissioning in the Gulf of Mexico. The results of the study were quite compelling. We were able to demonstrate that our solution can successfully provide power for well monitoring in the Gulf in water depths up to 3,000 feet. We defined a solution which can provide enough power to support the monitoring of two wells at once. This is a major development because it enables us to decouple the decommissioning of subsea assets from that of surface assets, such as platforms, which can provide significant cost savings to the customer.

With the completion of this feasibility study, this represents a successful first step with this customer, and could result in a field trial.

Our robust pipeline of opportunities reinforces our confidence in our long-term growth. Over the last few months, we've met with some of our top prospects, and they continue to tell us how our solutions could be integral to solving some of their more difficult challenges.

Our growing reputation as a leader in remote offshore power and communications is helping us to fill our opportunity pipeline, which now stands at more than 70 leads and opportunities, many of which are in various stages of the proposal process. This covers subsea applications in the oil and gas, defense, security, science and research, and telecommunications markets.

Now let me turn the call over to Matt to discuss the financials. Matt?

Matthew Shafer

Thank you, George, and good morning everyone. We recorded revenues of \$202,000 in the first quarter of Fiscal Year 2020 for the period ended July 31, 2019, as compared to \$31,000 of revenue for the first quarter of last year. This increase in revenue was the result of our new contracts with Eni, Premier Oil and the U.S. Navy.

Cost of revenues increased \$225,000 to \$367,000 compared to \$142,000 in the three months ended July 31, 2018. The increase in cost of revenues was due to higher upfront spending and material costs on new customer revenue-generating products, compared to the same period the prior year.

The net loss for the first quarter of Fiscal 2020 was \$3 million, as compared to a net loss of \$3.2 million for the prior year period. The decrease in net loss was mainly attributable to the decrease in selling, general and administrative costs.

Turning now to the balance sheet; as of July 31, 2019, total cash, cash equivalents, restricted cash and marketable securities were \$13.5 million, as compared to \$17.2 million on April 30, 2019. Net cash used in operating activities during the three months ended July 31, 2019 were \$3.6 million, a decrease of \$0.2 million compared to \$3.8 million during the three months ended July 31, 2018.

With that, I'll turn it back to George.

George Kirby

Thanks, Matt. I want to emphasize that we are laser-focused on closing new business for our Company. We're actively staffing up our Sales team with experienced professionals who can identify and close new business. We're actively working on commercial activities, which we're expecting to close in the near future. I remain extremely optimistic about our prospects, and I am proud of how my team is delivering for our customers.

I wanted to take a moment to thank everyone at OPT who continue to work tirelessly to execute our vision. I'm extremely proud to lead this team at such an exciting time.

With that, Operator, we're now ready to take questions.

Operator

Thank you. 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. One moment, please, while we poll for questions.

Thank you. Our first question today is coming from Victor Puguayo (phon) of E&P Transport. Please go ahead.

Victor Puguayo

Thank you and congratulations on the success that you've been doing with the Company so far, which also begs the question, how would you expect that such success will impact on the current stock market? Thank you.

George Kirby

Victor, thanks for the question, and thank you for your congratulations, although everybody sitting around this table is immensely dissatisfied with our progress. We are expecting great things to come.

I really can't speak about how it affects the stock price. We have a very diverse investor base, and it's difficult to predict. Sometimes it's difficult to watch. All that we continue to do is remain laser-focused on closing orders, and as I mentioned, we're hiring up great salespeople, people with oil and gas experience, people with defense experience. We just hired a person in Aberdeen, Scotland to augment our North Sea operation. That seems like the epicenter of where the commercial activities are really coming from, with the Gulf of Mexico seeming to follow close behind here soon, we hope.

We have a great person with oil and gas experience now in Aberdeen; that makes three people in that area in order to address customer requests for information and proposals and so forth. That's what we're focused on, really can't speak to the stock price.

Operator

Thank you. Would you like me to move on to the next question?

George Kirby

Yes, please.

Operator

Thank you. Our next question is coming from Peter Ruggiere of Dawson James. Please go ahead.

Peter Ruggiere

A couple questions on the— is it the Hutchinson site, or oilfield?

George Kirby

Hi, Peter, yes. Yes.

Peter Ruggiere

How many wells are there? I looked at it, it was actually—there was a lot. I was questioning why they would only use one PowerBuoy, why wouldn't you need five or six?

George Kirby

Well, that's a good question. The Huntington field has multiple wells, but right now, Premier Oil asked us to provide topside surveillance, which is above the sea surface. First of all, let me describe what's going on there. I'm looking at the seas right now on an app on my phone and it's showing seven foot seas. When we see an average of seven feet, what it really means is, they're seeing seven to 14 feet. We continue to operate in this type of weather. It's remote; it's overlooking a platform which is a few miles away.

The idea is that our PowerBuoy has radar, it has thermal imaging cameras, and it creates this—what's called augmented reality, in the industry, through a system back to Premier Oil's headquarters, that they're actually watching the site. They can see radar images, they can turn on the camera, they can manipulate the camera. They're surveilling topside.

Next step would be to look at subsea and monitoring wells. We provide a lot of this out on social media. I would also mention that you can continue to see information that we're posting there as well. That's a good question, Peter, but with Huntington field, right now, at least from the customer's standpoint, we're not focused on monitoring wells, yet.

Peter Ruggiere

Okay. Is anything new going on with MES in Japan?

George Kirby

There are some new things going on right there. I can't talk about them; I have to say that I'm pretty excited about the direction that this relationship is going with MES, but when I can talk about that, you can rest assured that I will.

That begs an important point. There are many small wins with customers that we experience along the way that I can't share. Whether it's because maybe it's information that shouldn't be shared, maybe the customer would rather us not talk about these small wins, but I'm glad you brought up MES because we are making important progress with them. It was a direct result, or is a direct result of the time that I spent with them over in July.

I'm trying to get out in the field more with my Sales team more and more to meet with customers. I'll be in the U.K. next week, meeting with a new customer, a very big potential customer, as well as an existing customer to see what more we could do with them, and some other folks as well. Good question.

Peter Ruggiere

On the Gulf of Mexico one, that's—what would be the next step, and how many possible buoys is in that market, because I know—I mean, the Gulf of Mexico, and I guess the North Sea are the two biggest fields in the world, right?

George Kirby

Yes, and interestingly, from a decommissioning standpoint, the Gulf of Mexico is the largest market in the world, there's that many wells. Now, not every well needs our service, not every field needs our PowerBuoys or our solutions, if you will.

What are next steps? I can tell you this. This operator that we're working with on this, they have multiple opportunities that they're looking at in time, in the future. We are trying to target a nearer-term opportunity. A lot of it has to do with timing because there's a lot of internal

work from the customer's standpoint that needs to happen. We're doing everything that we can to help them, to position us to be used on a future field, the next decommissioning opportunity. If that doesn't happen, for whatever reason, there are more behind it.

I can say, multiple wells, multiple systems from OPT, over time, and that's one customer. But single customers with applications like this are very, very important, and we're seeing this with Premier Oil. Premier Oil was working with us for years. In fact, they were talking to us when I came on board back in 2015; they joined our Technical Advisory panel as we were developing our product, the PB3 PowerBuoy, and they were very interested in providing input.

Then they developed this project and put us on it, and now we're executing. We're doing what we said we would do. The buoy continues to perform very, very well, and eyes are all over this project, from throughout the decommissioning market, globally. The same thing that happened with this operator in the Gulf of Mexico.

These become showcase projects, they become demonstration projects but also showcases. What we're trying to do is we're trying to leverage these showcases to bring customers from around the world, to show them what we can do, and try to replicate with these other customers. This is the low-hanging fruit that we're seeing and that's what we're working hard to replicate in terms of new contracts.

Peter Ruggiere

What type of revenue do you think you guys could put together this particular year?

George Kirby

I wish I could talk about that. We have internal goals, but we're not giving guidance, Peter. But I want to emphasize again, we have definitive internal goals that are broken up by salesperson. Every salesperson has a revenue target. They're being measured on it, and they're being resourced around their goals. We're just not at a point now where we can really outwardly talk about what our revenue targets are.

Peter Ruggiere

Right. How many buoys do you have available for sale right now?

George Kirby

Interesting question. We've got more than one buoy in the facility under—at different points of manufacture. We're trying to only build when we need to. The thought was, and I'll share this—this is not new news, but we have a buoy on the floor that we're building actually as a spare. The idea would be, potentially, that we would move a finished buoy over to the North Sea, over to be stationed there on land, for two reasons. Number one, we're seeking out new contracts there, so it could allow us to deliver that much quicker and have a quicker turnaround. We're always looking at, how do we compress the sales cycle that ends up being very, very long.

But number two, if something were to happen to our PowerBuoy, it's all about delivering to our customer, execution and responsiveness. We would want to have one positioned there, ready to go. We're still considering that right now, but that's a thought.

We do have another buoy that's in its final state that we have been working with a particular customer on, and we're hoping to have good news sometime in the future on that one.

Peter Ruggiere

Okay. With Eni up there in the Baltic, are they maybe interested in getting another couple buoys themselves, or do they just...

George Kirby

That's a great question. Not the Baltic, but it's actually in the Adriatic Sea. We are talking to Eni, I would say probably weekly, about opportunities. They're both near-term opportunities as well as long-range opportunities.

We're really lucky to have two launch customers like Premier Oil and like Eni. Two totally different organizations, both very good to work with, great partners, if you will; but also, both of these organizations are very forward-looking in terms of new technologies and how they can reduce their carbon footprint, how they can execute their operations more safely or more efficiently, more cost-effectively. That's really why they're talking with us and working with us. We are actively trying to find more customers like these two right now.

Peter Ruggiere

Okay. You said the market for this is how big, if you've got 10% to the market, I think a couple calls back it was hundreds of millions of dollars, you said? Is that a good statement, or?

George Kirby

You know what, let me answer it this way. First of all, we want to rebuild our total addressable market study, and we're working to do that. When we first put together our total addressable market, we did it from top down, and that's really because we were limited on information. We were really just launching into our new markets.

Today we've got a much better understanding around our markets, and we want to do a bottoms-up that gives a more detailed and rigorous assessment for investors and analysts and banks to understand our business. That's number one.

Number two, if you look at one market segment, decommissioning market segment of the offshore oil and gas market, we have been told by a customer that this is a robust enough—in their eyes, that this is a robust enough market, globally, that we can build a business around that alone. We estimate that we could potentially apply hundreds and hundreds of PowerBuoys for decommissioning over the next six or seven years. That's how big the market is, and that's

only taking a slice of what's actually there. That's assuming a close rate, as you said, of 10% or 15%.

When you look at one buoy transaction, whether it's a lease or whether it's a sale, it ends up being pretty big dollars because it's not only the asset that we're putting on lease or that we would sell, but it's also all the service that we're able to provide around that, and that we need to provide, because we're the only ones doing this right now. Our customers are recognizing the value of the services that we can provide. That increases the revenue opportunity as well.

That's why, around that market segment, we feel very, very bullish and we're putting a lot of effort around trying to generate momentum there. We believe we have momentum with this deployment, with this great event that we had south of Aberdeen, Scotland. We had well over a hundred people, I said that earlier, and the interest was beyond our expectations. I'm glad that we invested in having the buoy stationed there and having this event, having people in. It ended up being a really important marketing event for us and for our customers, to let them know what the solution looks like, what the payloads actually look like when they're integrated on the PowerBuoy.

Peter Ruggiere

Sounds like everything's right there right now, it's great.

George Kirby

It is. We feel as though it is; we are positioned right now where we have to strike, and that's why we're staffing up with the right salespeople, people that can hit the ground running, that already know the customers that we're calling on. They have relationships, they understand our technology, they understand our value proposition. There's very little ramp-up time for the people that we're bringing on board, and we expect big things from them. It's just the way that it is.

As I mentioned before, all of our salespeople have a revenue target. Some of them are quite steep in terms of dollar value, but that's more than just expectations around their performance, it's what we're seeing in the market and what we believe the market can bear and what the market needs in terms of our solutions.

Peter Ruggiere

Somebody else asked about the stock price; you know it's pretty funny, is you guys are trading under cash value.

George Kirby

Yes, I don't know if I would characterize that as funny, Peter, but I know what you're saying. It's frustrating, right, because we come here every day and we're executing, we're making progress. But I understand and I share the sentiment of shareholders. We need contracts.

Peter Ruggiere

Right, well, you sound pretty close. Anyway, thank you.

George Kirby

Thank you, Peter. Appreciate the dialog.

Operator

Once again, ladies and gentlemen, that is star, one to register questions at this time. Please hold while we poll for additional questions.

Thank you. At this time, I'd like to turn the floor back over to Management for any additional or closing comments.

George Kirby

Thank you, Operator. Before we conclude, I really want to thank everyone who's been a stakeholder in the Company, including our employees, our customers, our vendors and our loyal shareholders. I want to invite everyone to follow us on social media, including LinkedIn, Facebook, Twitter, and to watch our YouTube channel for some terrific footage.

Thank you very much for joining and we'll be speaking with you again very soon.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines or log off the webcast at this time.