

Ocean Power Technologies, Inc.
First Quarter Fiscal Year 2024 Earnings Conference Call
September 24, 2023

Presenters

Dr. Philipp Stratmann, President, Chief Executive Officer
Bob Powers, Senior Vice President, Chief Financial Officer
Joseph DiPietro, Controller, Treasurer, Principal Accounting Officer

Q&A Participants

Shawn Severson - Water Tower Research

Operator

Good morning and welcome to the Ocean Power Technologies, First Quarter of Fiscal Year 2024 Earnings Conference Call.

A webcast of this call is also available and can be accessed by a link on the company's website at www.OceanPowerTechnologies.com. This conference call is being recorded and will be available for replay, shortly after its completion.

On the call today are Dr. Philipp Stratmann, President and Chief Executive Officer; Bob Powers, Senior Vice President and Chief Financial Officer; and Joseph DiPietro, Controller, Treasurer, and Principal Accounting Officer. Following the prepared remarks, there will be a question-and-answer session.

It's now my pleasure to turn the call over to Joseph DiPietro. Please go ahead, sir.

Joseph DiPietro

Thank you and good morning. After the market closed yesterday, we issued our earnings press release and filed our report on Form 10-Q for the quarter ended July 31, 2023. Our public filings are available on the SEC website and within the Investor Relations section of the OPT website.

During this call, we will make forward-looking statements that are within the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include financial projections or other statements of the company's plans, objectives, expectations or intentions.

These statements 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 such forward-looking statements.

Additional information about these risks and uncertainties can be found in the company's Form 10-K and subsequent filings within the SEC. The company disclaims any obligation or intention to update the forward-looking statements made on this call.

Finally, we posted an updated investor presentation on our IR website. Please take a moment to review it, as it provides a nice overview of our company and strategy.

Now, I am pleased to introduce Dr. Philipp Stratmann.

Philipp Stratmann

Thank you, Joe. Good morning, everyone. We're pleased to have you join us on this call, and your continued support is greatly valued.

Before we delve into the numbers, I would like to highlight that I'm pleased with our quarterly results and the positive momentum we are building. The market is sending clear signals. Our customers are looking for more assets that protect marine environments, collect essential ocean data and enhance national security.

We are converting our pipeline of opportunities into backlog and revenues, as seen with recent wins like the NOAA IDIQ. We believe we are well-positioned to translate this momentum into profitable growth and value for our shareholders.

Let's talk about some recent developments. On September 1, 2023, we secured three significant three-year Indefinite Delivery, Indefinite Quantity contracts. With a total contract value expected to be in the millions of dollars from the National Oceanic and Atmospheric Administration. These projects emphasize our commitment to marine conservation and research.

In August, we celebrated the opening of our Marine Robotics Production Facility in Richmond, California. This event showcased our dedication to innovation, particularly in autonomous vehicles and wave energy buoys, supporting America's energy independence and national security.

In August, we achieved a milestone by demonstrating the Wave Adaptive Modular Vehicle, attaching itself, remotely, to a buoy. This accomplishment showcases our advanced autonomous capabilities and opens doors to various maritime applications.

During the quarter, we continued our work with the U.S. government agency supporting autonomous vehicle demonstrations for a range of services. We also continued our work with the Department of Energy related to the full-scale operations of the MOSWEC System.

We are enthusiastic about future partnerships, reinforcing our commitment to both the commercial and security sectors. Our opportunity pipeline continues to grow. In addition to

pulling down several million dollars from this into purchase orders, we've also continued to add to the top of the pipeline, with it currently sitting above \$78 million for a net gain exceeding \$11 million in just the first few months of the fiscal year.

We're continuing to grow our revenues, and our gross profit margins are increasing. Our strategy is working, and we see additional opportunity for multi-system orders on the horizon.

Now, before we dive into the financial highlights, I would like to introduce our CFO, Bob Powers. Bob will provide you with more detailed information about our financial performance in Q1 fiscal '24.

Bob Powers

Thanks, Phillip. Let's begin with revenue. In Q1, '24, our revenues reached \$1.3 million, marking a significant increase, compared to the \$700,000 reported in Q1 '23.

This was our highest quarterly revenue figure in over seven years and continues the traction gain during fiscal 2023. This growth can be attributed to our strong performance in WAMV sales, revenue generated from our DOE contract and the delivery of our strategic consulting services.

Our gross profit for Q1 '24 stood at \$700,000, a substantial improvement compared to the Q1 '23 figure, which showed a gross profit of \$200,000. This improvement is primarily attributed to our unmanned vehicles business, particularly the higher margin WAMV leasing business and our strategic consulting services. I am enthused about the progress we've made in this area and the expansion of the progress made in fiscal 2023.

Our operating expenses for Q1 '24 amounted to \$8.1 million, reflecting our investments in both personnel and systems to support the growth Phillip and I discussed, previously.

As for our net result, we reported a net loss of \$7 million for Q1 '24, compared to a net loss of \$5.9 million for Q1 '23. We continue to manage our costs tightly, making targeted investments in the personnel and structure needed to support our strategy and plans for growth.

On the balance sheet front, our combined cash, unrestricted cash, cash equivalents and short-term investments, as of July 31, 2023, totaled \$26.7 million. Notably, we continue to maintain a debt-free balance sheet with no bank debt in our financial structure.

In terms of cash flow, the net cash used in operating activities for Q1 '24 amounted to \$8 million. This primarily reflects our net loss and the payout of employment bonuses accrued during fiscal year 2023.

In addition, our autonomous vehicles business continues to exceed our expectations, resulting in the payment of the earn-out accrued during fiscal 2023.

Finally, you will note that our inventory balance increased by approximately \$700,000 to \$1.7 million. This investment in inventory was necessary in order to satisfy growing backlog, as well as our planned growth in revenue for fiscal 2024.

That covers our financial update. Before we enter Q&A, I'd like to remind everyone that the purpose of today's call is to discuss our first quarter of fiscal 2024 results, as well as our financial outlook.

As we head into the Q&A, we ask that you limit your questions to these topics. Thank you.

Operator

Thank you. We'll now be conducting the question-and-answer session. If you would like to be placed in the question queue, please press “*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*”, “2” 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 “*”, “1”. One moment, please, while we poll for questions.

Our first question today is coming from Shawn Severson from Water Tower Research. Your line is now live.

Shawn Severson

Well, thank you. Good morning, everyone. So, could you expand a little bit on those NOAA contracts? I'm trying to understand the nature of them. It sounds like they came through very quickly. I don't know if they are in the backlog or not, but how does this affect two things? One, is there going to be renewable recurring revenue, I should say, from these? And two, what are the implications for other applications with NOAA? I mean, is this like a pilot or something that would have a lot of links to it or is this more of a one-off type of purchase?

Philipp Stratmann

Shawn, thanks for dialing in, and thank you for the question. The NOAA contracts are what the government refers to as IDIQs, Indefinite Delivery, Indefinite Quantity. These are three-year contracts that have a ceiling attached to them. And in the non-governmental commercial world, you essentially can consider them very similar to master services agreements with a ceiling that have call-off orders attached to them.

There's an agreed rate sheet that we've got in place with NOAA. We've been awarded three of these. So, these are specifically for vehicles that are provided on leases with day rates and operators. And the way we framed the statement, I think, is entirely accurate.

These aren't for demonstrations. This is for NOAA to use these vehicles within a specific line office to do specific jobs, be that around weather observations, be that around sea monitoring,

or be that around illegal fisheries activities. It is part of the U.S. government's continued effort to increase the number of unmanned and uncrewed surface vehicles that are in operations around the United States.

So, we're very excited about these, because these are true commercial contracts with commercial terms that give us some clarity over real opportunities over the next three years to provide vehicles on a call-off basis.

Shawn Severson

This is kind of the first big commercial contract, right. If I'm understanding this correctly, the deployment and operations for two years. This is not the pilot; this is a real application. And is this the first one you've had just like this, just kind of reaches it inflection point or do you have similar types of applications?

Philipp Stratmann

I think, certainly from a NOAA perspective and from our vehicle perspective, this is the first time that our vehicles have been under long-term commercial call-off contracts with the government. And in governmental terms, these sort of fall under what the government would term COCO, Contractor-Owned, Contractor-Operated type offerings.

And so yeah, we're very excited about this because on the basis of this, it enables us to expand the offering, provide our vehicles into additional parts of the U.S. government and monetize the lease fleet on day rates.

Shawn Severson

Great. Thank you. I'll step back in queue.

Operator

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

Philipp Stratmann

Thank you for your participation and for being shareholders and stakeholders in OPT. We never take any of you for granted, and we continue to work towards value enhancement for all of our shareholders and all of our employees. Thank you.

Operator

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