

Ocean Power Technologies, Inc.
Third Quarter 2022 Results - Earnings Call Transcript
March 15, 2022

Presenters

Philipp Stratmann - President and Chief Executive Officer

Bob Powers - Senior Vice President and Chief Financial Officer

Joseph DiPietro - Controller, Treasurer and Principal Accounting Officer

Q&A Participants

Jeffrey Campbell - Alliance Global Partners

Robert Silvera - R.E. Silvera

Operator

Good morning. Welcome to Ocean Power Technologies Third Quarter Fiscal Year 2022 Conference Call. A webcast of this call is also available on the company's website at oceanpowertechnologies.com.

This conference call is being recorded and will be available for replay, shortly after its completion.

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

I am now pleased to introduce Joseph DiPietro.

Joseph DiPietro

Thank you. After the market closed on March 14, 2022, OPT issued its earnings press release and filed its quarterly report on Form 10-Q for the quarter that ended January 31, 2022. All OPT public filings are available on the SEC website at sec.gov or within the Investor Relations section of the OPT website.

This call will include 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 most recent Form 10-K and subsequent filings with the SEC. The company disclaims any obligation or intent to update the forward-looking statements made on this call.

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

Philipp Stratmann

Thank you, Joe. Good morning and thank you for taking the time to join us for our business update. I will start with a broad overview of our strategy. We are moving fast, and I want to make sure everyone fully understands what we are doing, why we are doing it and where we are heading.

I feel that it is important, since we've added several new revenue streams to what we have been known for in recent years, the PowerBuoy.

Our vision is to be the first company that someone thinks of when it comes to monitoring assets or areas in our visions. This vision is bold, and our recently expanded business strategy has three main components.

First is Data-as-a-Service. Here, we are providing robust data to customers. We believe, long-term, that this will be the part of our strategy that is our largest recurring revenue producer. We can do this through our Maritime Domain Awareness software and WAM-V autonomous surface vessels.

Our MDA software and development will be used with our PowerBuoys and WAM-Vs. Plus, it can also work with other vessels, offshore assets and structures to provide real-time data. Applications for trucking and monitoring include illegal fishing, crude oil theft and national security.

Second is Power-as-a-Service. We will continue to manufacture and upgrade our category leading PowerBuoys, which can be leased or let. For example, we are making interactive design changes to our hybrid PowerBuoy to increase solar power conversion capabilities and improved stability.

We are also developing the next generation PowerBuoy with the development of the Mass-on-Spring Wave Energy Converter, or what we refer to as MOSWEC. We are in the final stage of the Phase 1 study for this development with the U.S. Department of Energy, and we have already commenced scoping our submission for Phase 2 funding that would bring us closer to a first of a class system, if granted. We are currently targeting a late fiscal 2023 completion date of this development.

Finally, is our Strategic Consulting Services. We will continue to provide the most robust offering of consulting services available to those who do business in the oceans.

As noted on our last call, activity for offshore energy-related engineering consulting services has been steadily ramping back up, as companies restart exploration and production projects that paused during the pandemic. We are also broadening our non-oil and gas services, including the delivery of our first wind farm support project.

OPT's strategic consulting services team is also, increasingly, in demand to provide expert engineering analysis on legal matters. Our highly respected engineers use data analysis and proprietary simulation techniques to model vessels and equipment using environmental and other case-specific data to simulate incident conditions.

With that as an overview, I'd like to take you through an update of each component of our growth strategy in a little more detail. Ocean Intelligence is at the core of Data-as-a-Service and it's a component of our strategy that we believe has the most opportunity, long-term.

In the short-term, recently acquired Marine Advanced Robotics will drive a significant portion of our revenue growth. Not only did the existing team come over to us, but so did the existing customer base and customer pipeline. We now have autonomous roaming assets in the WAM-V to provide intelligence and data to customers.

It includes the hydrographic survey market, providing customers with critical seafloor data nearshore, in ports and harbors, far offshore in shipping lanes and wind farm development sites. It can also include defense and security in maritime domain awareness applications.

For example, WAM-Vs can identify suspicious vessels, patrol security perimeters and inspect objects of interest.

Longer term, we expect to provide robust reliable data through our autonomous maritime domain awareness software in development with software and integration experts, such as Fathom5 and Greensea.

We identified this need over the course of the past two years in working with our targeted customer group.

There is significant demand from commercial entities and government agencies, who are monitoring area, offshore, and want to do so without the need for crude vessel or a human capital, which significantly increases the cost.

We believe we can deliver a better solution that reduces the ongoing cost, considerably, and take out human error. Examples include offshore national security efforts, enforcement of

fishing activity and marine protected areas, protection of shipping lanes and prevention of crude oil theft.

Our proprietary cutting-edge system will interact with multiple hardware sources. It can be mounted on PowerBuoys, WAM-Vs, platforms, vessels or elsewhere to provide real-time analytics about activity in a designated area.

Beyond the capabilities to track vessels and capture and store evidentiary vessel data in the cloud, including radar and video, our software will facilitate the integration of public and private third-party data sources and analytics. This capability can only further enhance the site-specific information and data for our customer.

Our investment in continuous improvement cycles of the software will be ongoing. We expect a strong return on this investment, through monthly fees for this data. This is valuable data with high interest, and we're currently building the customer pipeline to support its launch.

Other data intelligence we can collect and provide includes ocean environmental condition monitoring, weather data collection, memo tracking and additional sensor-based information critical for a broad range of needs, from wind farm development to ensuring the vitality of marine-protected areas for future generations.

Our value proposition is strong, since we can do this autonomously with sensors and software, eliminating the use of carbon-producing vessels and cruise, which are very expensive and have varying degrees of human risk. We believe our Data-as-a-Service business directly addresses the single biggest hurdle we have to ramping up sales of PowerBuoys.

Buying cycles for our platforms are generally very long, especially in end markets with government involvement or dependent on the primary projects to be developed, such as oil and gas projects.

Our Data-as-a-Service models are closer to subscriptions, where the monthly fee is significantly lower, which we believe will speed up the decision-making process for our customers and result in a materially bigger customer pipeline.

For this reason, we are focusing on creating a leading-edge maritime domain awareness offering that combines autonomous low-carbon OPT hardware and proprietary OPT software. We are continuing to refine system operation with continued ocean trials off the coast of New Jersey with PB3 and hybrid PowerBuoys, before moving on to future incorporation of WAM-Vs.

The integration of Marine Advanced Robotics continues, diligently, and remains on plan. We've recently added and continued to actively recruit additional staff to accelerate fulfilling the backlog and delivering on the growing pipeline.

Interest in WAM-Vs remains high and is why we pursued this acquisition. Marine Advanced Robotics contributed \$257,000 to revenue in the third quarter. We expect this line of business to ramp and contribute approximately \$2 million to our revenue in fiscal year 2023.

The immediate response we have seen for WAM-Vs with our customer group has been strong and gives us even more confidence about the long-term opportunity MAR gives us. To meet this initial demand, we currently have approximately 20 WAM-Vs being built.

Power-as-a-Service is where we have most of our legacy business. Our autonomous PowerBuoys platforms convert wave energy or solar energy into electrical power for offshore applications and payloads.

Producing and delivering that power to the end user is a service OPT provides via the PowerBuoy and Subsea battery platforms, which could be sold or leased to a customer. But again, these buying cycles are long and unpredictable. Therefore, we recently expanded our service offering here based on customer feedback.

We now have a model where the PowerBuoy or Subsea battery platform is owned and operated by OPT or an affiliate, who then sells the power produced to the customer for a recurring fee.

Additional services can also be built into sales and leases, including routine maintenance, specialized integrations, and hardware and software updates. The revenues for the servers are in the \$20,000 to \$30,000 per month, per Buoy range.

Finally, in addition to expert witness services, OPT Strategic Consulting Services provides engineering and design services for oil and gas, wave energy and offshore wind customers, such as drilling contractors, defense contractors, construction yards and engineering and service firms.

Our dedicated team has expertise in structural engineering, hydrodynamics and naval architecture applied to services, including simulation engineering, software engineering, concept design and motions monitoring, all of which help our customers increase operational efficiencies and reduce risk.

We are quickly becoming known as a very effective firm to help address a wide range of issues for companies with the Ocean assets.

I want to switch gears now and provide you with an update on several of our important projects in process, throughout the world. First is our project in Chile, which we classify as Data-as-a-Service. We have team members on site, this week, finalizing our work for our customer there, which was delayed due to COVID-19 and recent inclement weather.

If everything goes well, we should complete the work this quarter and our full acceptance from the customer. We're discussing ocean monitoring with other entities, as a result of our work in Chile.

Another Data-as-a-Service project is our work with the U.S. Naval Postgraduate School slammer initiative to support its autonomous offshore defense network initiative.

Like most initiatives involving government agencies at home or abroad, most of the information is classified, while we believe we provide an incredible value proposition to government agencies with our technology and teams and look forward to additional projects like this.

Based on the business drivers of data, power and strategic consulting services, we are very optimistic about the future of OPT. We believe that there are solid opportunities for business growth and creating shareholder value and that we are on the right path for making that happen.

With that, let me turn the call over to Bob to discuss the financial results in more detail.

Bob Powers

Thanks, Philipp. I will start my comments with my initial observations of our finance function, since I now have my first quarter under my belt. I have been pleased by what I've seen, to date. This is not a situation that needs an overhaul or a big fix. The team is lean and strong.

We have an excellent balance sheet, and the process and control environment met my expectations for a company our size. But as with everything in business, if there is a vision, things can become even stronger.

The company's strategy is bold and achievable. Our number one job within finance is to make sure we stay a step ahead and to ensure we can scale and provide the analytic visibility to our sales and operations teams to drive growth.

It has not been lost on me that revenue traction has been slow, over the years. However, I joined OPT, because I see where Philipp and the operations teams are heading, and it is exciting. Our finance team will continue to work hard to maintain strong cost management and optimal visibility to our sales pipeline.

Moving to our financial highlights during the quarter, I'll start with revenues. Revenue for the third quarter of fiscal '22 increased to \$484,000, compared to \$317,000 in the third quarter of fiscal year 2021.

As Philipp mentioned, this is due to revenue contributed by Marine Advanced Robotics, following the acquisition and continued growth of our Strategic Consulting Services.

Due to lower project costs, engineering and product development costs were down, sequentially, \$617,000 from the previous quarter.

As you can appreciate, projects like our MDA software development do not come in at the same level, each quarter. Omicron resulted in some slowdowns in the third quarter, due to absenteeism.

Generally speaking, we expect our engineering and product development to be somewhere between the second quarter and third quarter levels, over the next few quarters, as we advance this initiative.

SG&A costs increased by approximately, \$925,000 from the third quarter of fiscal year 2021, compared to the third quarter of fiscal year 2022, primarily due to approximately, \$300,000 of costs related to our acquisition of Marine Advanced Robotics and an increase of approximately, \$225,000 to share-based compensation.

We expect SG&A to be around \$2.3 million, near term.

We continue to operate with a strong balance sheet, ending the third quarter with \$63.9 million of total cash, cash equivalents and restricted cash and no bank debt, which continues to give us significant flexibility to drive our strategy.

Regarding our near-term plans for the use of cash, we continue to expect to use approximately, \$5 million of cash, per quarter, to cover our operating expenses.

Additionally, we will continue to look for tuck-in acquisition opportunities to reinforce the three components of our growth strategy.

Now, Philipp and I are happy to take your questions. Operator.

Operator

Thank you. We will now be conducting a question-and-answer session. Please press “*”, “1” on your telephone keypad to join the question queue. A confirmation tone will indicate your line is in the question queue. You may press “*”, “2”, if you want to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up the handset, before pressing the star keys.

Once, again, that’s “*”, “1” to ask a question, at this time. One moment, while we pull for questions.

Our first question is from Jeffrey Campbell with Alliance Global Partners. Please proceed.

Jeffrey Campbell

Good morning. Philipp, you have guided approximately, \$2 million in WAM-V revenues for fiscal year '23. I was just wondering what sort of work supports this revenue, during the fiscal year?

Philipp Stratmann

Thanks for the question, Jeff. Good morning, good to hear from you, again. The primary assets that WAM-Vs are being used for is hydrographic survey assets, when it comes to the smaller WAM-Vs. And it is government and defense work, when it comes to the 16 and 22 footers that we are building out.

Jeffrey Campbell

You mentioned that 20 WAM-Vs are being constructed. What's the – let's try to think of that in terms of what you have currently, like what's the size of the current WAM-V fleet? What sort of units are you building, in terms of size? And are any of these units part of your 2023 guidance for the division?

Philipp Stratmann

Yes. So, the current fleet is about a handful, just because of the size that MAR has been operating at, prior to the acquisition. In terms of where we are going, we took a deep cut of the various proposals that were sitting in MARs pipeline.

And on that basis, are building 8, 16s and 22s, but with a preference towards the 8s. And yes, you are correct. The 20 vehicles that we're building out are featuring into the '23 guidance, so that we can go and enable recurring lease revenues from the fleet.

Jeffrey Campbell

There's a significant amount of offshore wind development beginning to gather steam in the Eastern U.S. Do you see Ocean Power having any meaningful prospects in that area? And if so, could you point out which tools would be most applicable to this area?

Philipp Stratmann

Yes. So actually, to that point, I will be testifying in front of the New Jersey Legislature on Thursday morning, as part of New Jersey's broader efforts for wind power and ocean technology at large and how wave power features into that mix.

Our primary effort on wind development is actually for both sets of our primary products, which is the PowerBuoys to do monitoring of lease sites to ensure that developers know who is going in and who is going out, doing hydrographic survey development with the WAM-Vs.

And then longer term, obviously, looking at supporting inspection maintenance and repair intervals with surface vehicles and with buoys. But obviously, with those developments a few years out, that's going to come down the line. But in the very near-term, there is site monitoring and surveillance that is going to occur.

Jeffrey Campbell

Okay. And then Bob mentioned some interest in tuck-ins, as time goes by. I was just wondering, are there any significant additions left to add to your marine domain awareness tool kit, or do you expect the business to start to score some customer wins, as currently configured?

Philipp Stratmann

The business can and will score customer wins, as currently configured. But obviously, we have an active business development process going on, and we continuously look for opportunities to add to what we have in our toolbox to make us even more attractive for the customers and accelerate revenue growth, further.

Jeffrey Campbell

Okay. Thanks very much for the color.

Philipp Stratmann

Thank you, Jeff.

Operator

Our next question is from Robert Silvera with R.E. Silvera. Please proceed.

Robert Silvera

Hi. Thanks for taking my call. My first comment is, thank you for telling us an update on the Chile buoy and that it is getting to the point where it can generate some significant revenue. Do you have any other applications out there that are approaching that kind of a point?

Philipp Stratmann

No, thanks for dialing in, Robert, and thanks for your question. Just to reiterate, the top revenue-producing projects that we currently have. Obviously, there are the efforts with EGP in Chile, which is being in a Data-as-a-Service. There is the ongoing MAR revenues for WAM-Vs.

As we said, we see that in terms of the \$2 million guidance for FY '23. We are finishing the Power-as a-Service project, which is the MOSWEC efforts for the Department of Energy and are currently working on our submission for Phase 2, which would be a material driver of the development of that system.

And we are currently priming to have our MDA software in the next generation that we have, going into the water off the coast of New Jersey, and we've got several government agencies that are already booked to witness various demonstrations of that system. So, that is where we see the bulk of the revenue growth coming from, right now.

Robert Silvera

So, that's New Jersey. Okay. You mentioned an application that would yield \$20,000 to \$30,000 per month, revenue. Can you expand on that, and how close might that be?

Philipp Stratmann

Yeah, essentially, it's a shift from what the company has, historically, been focused on, which is trying to find a market to sell our platforms into, and it's shifting to an effort to lease these platforms on a longer-term basis.

And by taking a look at how the useful economic life of the assets that we have developed, we can--and by building out--having assets on our own books, we are now in a position where we can go and offer customers PB3s and/or hybrids and/or WAM-Vs on a lease basis, so that it reduces--it shifts the burden from CapEx to OpEx for the customer.

The \$20,000 to \$30,000, specifically, is related to PowerBuoy platforms, and with a primary focus on the PB3. As you will recall, we--obviously, we've refurbished the buoys that we have deployed in the Mediterranean and in the North Sea, previously.

So, these are now available for customers to utilize and are being spec'd into proposals, right now.

Robert Silvera

Very good. So, do you have any kind of an estimate when that might actually materialize?

Philipp Stratmann

I don't want to provide you guidance, at this time. But based on the way that we've been expanding the business strategy and the growth in the pipeline that we've been seeing in terms of proposals and discussions, we believe the path is well defined, and we'll be providing updates on that, as they occur.

Robert Silvera

Very good. You mentioned also a market to monitor crude oil theft. Can you expand on what size of a market that is and how much of that is going on?

Philipp Stratmann

Yeah, I mean, just--yeah, absolutely. So, just to mention, crude oil theft, in general, it is a rather large existing issue that exists, primarily, in parts of West Africa, to a large extent.

Given the fact that we have a maritime domain awareness system that operates autonomously and alert operators as and when vehicles approach offloading buoys that are, otherwise, unmanned.

That is--that is one of the primary areas that we're focusing on. So, it is another example of us utilizing what we have in our toolbox. In this case, maritime domain awareness on the range of platforms that we have and looking at deploying it into markets where there is a direct need for this type of monitoring application.

Robert Silvera

Great. Okay. Thank you very much. That's all my questions.

Philipp Stratmann

Thank you, Robert, appreciate it.

Operator

Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to Philipp for closing comments.

Philipp Stratmann

Thank you. As I said earlier, I am very optimistic about the future of OPT. Our investments in strategic consulting services and innovative autonomous vehicles are truly transformative for this company.

I firmly believe that our concentration on developing Data-as-a-Service capabilities and next-generation power as a service platform will pay off for the company and our shareholders. I truly appreciate your continued support.

Operator

Thank you for your participation today. This concludes today's teleconference and webcast. You may disconnect your line, at this time.