Ocean Power Technologies Inc. Fourth Quarter and Fiscal Year 2019 Call Script

OPERATOR

Good morning, ladies and gentlemen, and welcome to the Ocean Power Technologies Fourth Quarter and Fiscal Year 2019 Conference Call. As a reminder, this conference call is being recorded. I would now like to turn the call over to your host, Mr. Matthew Abenante, Investor Relations for Ocean Power Technologies.

Matthew Abenante

Good morning and thank you for joining us for 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 will 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 July 22nd 2019, OPT issued its earnings press release and filed its annual report on Form 10-K for fiscal year 2019 with the Securities and 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 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. Some of these factors include, among others, the following: future financial performance; expected cash flow; ability to reduce costs 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® product; 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 the 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 H. Kirby – President and Chief Executive Officer

Thank you, Matthew, and good morning everyone. I'm going to review our business operations and provide an update on our commercialization activities and developments during the fourth

quarter, up to today. Then Matt Shafer will provide a review of our financials. Then we'll open the floor for questions.

The fourth fiscal quarter marked a pivotal time for OPT with the achievement of key milestones across our business, moving us closer towards being the leading provider of power and communications for subsea applications across the globe. We strongly believe that we have positioned OPT's technology to address the growing need for these solutions across our addressable markets, including defense and security, oil and gas, communications and science & research.

We've become known as the innovator in offshore power, broadening demand for our solutions. Back in May, I held a commercialization conference call to provide greater insight to investors into our current project pipeline, as well as to establish clear expectations for OPT in generating meaningful revenue opportunities. Currently, we have a pipeline of over 80 active opportunities where we are responding to information requests, actively providing proposals or participating in customer studies where our PowerBuoy® technology can be employed. Information requests and request for proposals are at an all-time high, which is further evidence of the greater awareness of our brand in offshore power solutions. Our pipeline is robust; the potential value of the current pipeline is greater than $50 million, which is a conservative figure knowing that naturally not every opportunity will come to fruition. For everyone's convenience, the presentation for this commercialization conference call can be found on the "investor relations" section of our website which provides additional details on each of these opportunities.

I want to take some time to discuss several key developments from our fiscal fourth quarter up to now. For those of you that follow OPT on social media, we sent out footage of a PowerBuoy® leaving our Monroe Township facility in early June for our customer Premier Oil. This PowerBuoy® has recently reached its destination in Scotland and is currently being readied for its August deployment in the North Sea. This deployment will be the culmination of several milestones for OPT, which I'm very happy to highlight. This PB3 PowerBuoy® is equipped with an Exclusion Zone Monitoring payload in collaboration with Premier Oil. Importantly, there is nothing in the marketplace like our PB3 PowerBuoy® technology which is the first such autonomous device used to provide remote topside monitoring and surveillance for offshore decommissioning, eliminating the need for a manned vessel. Why is this important? For customers such as Premier Oil, it's about cost savings and greater operational flexibility. To charter a vessel and man it with a crew is an expensive proposition. Our PB3 PowerBuoy® allows for the elimination of vessels, while still providing persistent power and communications that allows faster operational decision-making from real-time subsea data communications. Simply put, our PowerBuoys® are a safer, cost-effective solution that can also reduce the operational carbon footprint.

Everything I just mentioned makes total sense on paper – but what makes this Premier Oil project so pivotal for OPT is that it will establish an operational track record of performance in well decommissioning for the oil and gas industry as a whole. We always strive to outperform our customer's expectations, and I'm fully confident that we will do so for Premier Oil. To leverage this opportunity we have announced a promotional event in Montrose, United Kingdom on July 31st and August 1st. Together with our partners Acteon and the Oil & Gas Technology Centre, we

are inviting oil and gas industry leaders throughout the region to see the PB3 PowerBuoy® and its payloads up close, and to examine its uses and capabilities. We believe that we can leverage this project with Premier Oil to drive significant revenue opportunities for OPT and over time allow the PB3 PowerBuoy® to become the standard of practice for topside surveillance during decommissioning, and eventually well head monitoring. All eyes in the offshore oil and gas decommissioning world are focused on this project right now.

Highlighting another instance where the versatility and performance of our PowerBuoy® is speaking to the marketplace, we announced in May that our PB3 PowerBuoy® deployed for our customer Eni in the Adriatic Sea, produced more than one megawatt-hour of cumulative energy. This PowerBuoy® has been deployed in the Adriatic Sea off the coast of Italy since November 2018, operating continuously and error-free while being controlled remotely from our New Jersey facility. The PowerBuoy® is a key part of Eni's MaREnergy project, which seeks to demonstrate the suitability of wave-energy renewable technologies in the oil & gas industry. Importantly, the PowerBuoy® has demonstrated AUV charging capabilities during recent trials with Eni, successfully sending power and communications to a subsea payload throughout the test period. Having our PowerBuoy® technology front and center with Eni, as they continue to innovate in this critical function with the PB3 achieving operational success, only builds our case as a necessary partner to the oil and gas industry.

Back in April, we announced our agreement with a leading oil and gas operator to conduct a detailed feasibility study to monitor subsea wells during decommissioning in the Gulf of Mexico. We've been working very closely with this operator and the study is nearing completion. Similar

to our strategy with Premier Oil, we believe that this study is critical to our decommissioning business in demonstrating to both this operator as well as the industry our ability to actively and reliably monitor well heads over a long period of time. This study would demonstrate operational flexibility and potentially remove vessels from the sea surface that could result in significant cost savings to the operator. We are beginning to discuss next steps with this operator as the study comes to its final conclusion.

As noted in last quarter's call, we have held numerous discussions regarding collaborations with several defense contractors and government organizations. That work continues as does our relationship with the Office of Naval Research, who's turned its focus to autonomous power over the past few years. On February 12th, we were awarded a contract with the U.S. Navy to carry out the first phase of a project to design and develop a buoy mooring system incorporating fiber optics for the transmission of subsea sensor data to airplanes, ships, and satellites. We will execute the work under our Innovation & Support Services line, leveraging our many years of experience with marine systems and U.S. Navy programs. Importantly, the fiber optic mooring concepts developed under this contract may be incorporated into OPT's PowerBuoy® and subsea battery product lines, providing additional commercialization opportunities.

We believe that all these agreements and contracts represent opportunities to expand our operational expertise and build a more robust pipeline. We also believe that the more opportunities that we can develop in our pipeline and push towards the proposal phase simultaneously, the easier it will be to manage the typically very long lead-time conversion process. This process takes a tremendous effort from our team, involving commercial, technical and project management, along

with finance and legal. In fact, the heightened demand that we're seeing in requests for information and proposals has caused us to work around the clock in order to respond and meet deadlines from these potential customers. As the company and product portfolio is growing, we continue to assess the need to bring additional talent onboard the OPT Team. We have identified specific strategic roles throughout the organization, mainly in commercially focused areas such as sales, marketing, and program management, that we have either brought on new employees or have recruitment efforts underway.

A significant catalyst for this heightened interest is our new product developments. Our hybrid PowerBuoy® is a much smaller machine compared to our PB3 PowerBuoy®. While the PB3 PowerBuoy® is intended for longer-term deployments, the hybrid PowerBuoy® has been designed for shorter-term deployment applications. When combined with a subsea battery, the hybrid PowerBuoy® allows for topside refueling or even a “hot swap” with a fully refueled unit, which provides for continuous subsea battery recharging and affords operators with even more flexibility. These value propositions are appealing to our customers.

In addition, we’ve signed an LOI with battery industry leader NEC Energy Solutions for our subsea battery solutions that are really a natural fit for the markets that we're selling into. The customer would take these battery systems, place them on the sea floor, and have months of continuous power before the batteries require recharging. Up until recently, these batteries really did not have the ability to be recharged without a vessel coming out to sea and hauling them onboard for recharging or replacement. We offer the PB3 PowerBuoy® and the hybrid PowerBuoy® as perpetual recharging systems, and it's really caught the attention of potential customers.

In summary, we continue to have significant opportunities in front of us. There are several growth catalysts on the near- and mid-term horizon. I believe we made meaningful strides in fiscal year 2019, and today we are in the very best position to realize commercial success than ever before.

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

Matthew Shafer - Chief Financial Officer

Thank you, George, and good morning everyone.

We recorded revenues of $191,000 in the fourth quarter ended April 30, 2019, compared to $222,000 of revenue for the fourth quarter of last year. The net loss for the fourth quarter of fiscal 2019 was $2.5 million, compared to a net loss of $3.3 million for the prior-year period. The decrease in net loss was mainly attributable to lower cost of revenue due to the timing on new contracts, and the decrease in selling, general and administrative costs.

Revenue for fiscal year 2019 was $632,000, compared to $511,000 for fiscal 2018. The increase over 2018 was attributable to higher revenue on new contracts in fiscal year 2019 relating to Eni, Premier Oil, Enel Green Power, and the US Navy SBIR. The net loss for the twelve months of fiscal 2019 was $12.2 million, compared to a net loss of $10.2 million for the same period in fiscal 2018. The increase in net loss primarily related to the increased cost of revenues versus fiscal year

2018 due to higher upfront spending and material costs on new projects, as well as higher spending on new products and buoy builds for customer contracts.

Turning now to the balance sheet. As of April 30, 2019, Total cash, cash equivalents, restricted cash and marketable securities were $17.2 million as of April 30, 2019, up from $12.3 million on April 30, 2018. Net cash used in operating activities during the fiscal year ended April 30, 2019 were $12.1 million, an increase of $1.4 million, when compared to $10.7 million during the fiscal year ended April 30, 2018. On April 9, we closed on a public offering, with total aggregate net proceeds to the Company of approximately $15.7 million after deducting underwriter fees, commissions and other offering expenses paid by the Company.

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

George H. Kirby – President and Chief Executive Officer

Thanks, Matt. As you can see, we continue to be inspired and excited about the potential for OPT. Before we move on to Q&A, I wanted to take a moment to thank the entire team at OPT who continue to work tirelessly to execute our vision. We are just at the beginning of this journey in realizing commercialization success, and I’m extremely proud to be a part of this team at such an exciting time.

With that, Operator, we are now ready to take questions.

Question-and-Answer Session

Operator: Thank you. We'll now be conducting our question-and-answer session. If you'd like to be placed in the question queue, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd 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's star one to ask a question at this time. One moment, please, while we pull for questions. Our first question today is coming from Peter Ruggiere from Dawson James. Your line is now line.

Peter Ruggiere: How are you George. Can you hear me?

George Kirby: Doing well, Peter. Thank you.

Peter Ruggiere: Alright, good. A question on Eni, because you just signed a year and a half lease with them. What type of money do you guys make off of that?

George Kirby: Well, right now, we're into the lease revenues, which occur monthly, which is typical of leases as compared to buoy sales when the majority of the moneys are seen upfront, obviously, for milestones that are captured more quickly than a lease that extends about a year and a half. Matt, is there anything you want to add?

Matthew Shafer: No, that covers it. There's going to be a difference as we recognize revenue, which is on a different basis as compared to when you actually collect the cash. And many of our contracts are structured in a way is where you're collecting cash at different key milestone points in the contract. But under the revenue recognition standards--the new standards that were recently issued, revenue is recognized based on performance obligations, which could be many times different than those different milestones. But yeah, to reiterate what George said, we are now into the lease stage with Eni, so it's more of a consistent steady stream of cash inflow, as well as the revenue that's being recognized.

Peter Ruggiere: Okay. Eni has--they have the one PowerBuoy® up there, which is, I guess, the first one--or the new one. And it's connected to the bottom floor with these autonomous vehicles. Wouldn't they pour a whole bunch more to get more power down there since it works?

George Kirby: Well, that's a great question. I really wish that we could talk more about discussions with customers like Eni, because we have a great relationship with them. The buoy has been acting flawlessly--or I should say performing flawlessly. We're not actually providing power down to autonomous vehicles. We're providing power down to a--basically it's a dummy load that calls for power periodically where we dump power from the PowerBuoy® down to the sea floor.

The next logical step would be to provide power to some sort of a charging station for AUV. That's really the intention that we're seeing throughout the industry as AUVs are becoming more prevalent, they're used more, and there's more of a need for charging stations. But back to Eni, we have periodic discussions with them. They are happy with the way that the lease and the

performance of the buoy is going, and I'm pretty confident we're going to have--continue to have a good relationship with them and more opportunities as they arise.

Peter Ruggiere: You're in Japan right now is what you said?

George Kirby: I am.

Peter Ruggiere: Because Mitsui Engineering is over there. How is that relationship going?

George Kirby: It's good. I spent the day with Mitsui ENS. They actually reorganized back in April, and they basically turned their business into a holding company. So, Mitsui ENS--we were out speaking with the Japan Ministry of Defense today. We were speaking with some DOD contractors and so forth. And, again, it seems as though the major focus is around the use of AUVs. Interestingly, it's paralleling the oil and gas industry. The challenge is, even overseas, departments of defense will run out a little bit longer sales cycle than even oil and gas. So, we're talking about opportunities that could arise over the coming years. But these are multi-stage opportunities, so that's why discussions happen so soon in the process.

Peter Ruggiere: Right. On this oil and gas company in the gulf, what's the next stage? Is it to place a buoy out there and do the same thing as Eni is doing, and see how it goes?

George Kirby: Yeah, interestingly, with the study that we have conducted for that operator, things always take longer, not always because of our company, but things happen with customer

companies. And it really is a collaborative approach. It is not just OPT conducting the study and then returning it deliverable. There is transfer of information going on between both companies. So, as operations ramp up in different areas the company, they get pulled away.

So, anyway, the study is wrapping up. It should be wrapped up over the next week or two. And we are set to continue discussions with this operator beginning in August. In fact, recent communications with them are around what the next steps could potentially be. And so, the process is we'll evaluate the study with the customer, we'll talk about it, we'll talk about how the results would actually translate into potentially a project, and then, from there, a project could launch into even more widespread applications throughout their operation. So, we're hoping to really get into those details in the beginning of August

Peter Ruggiere: Alright, cool. Thank you.

George Kirby: Thanks, Peter.

Operator: Thanks. Our next question today is coming from Hunter Diamond from Diamond Equity Research. Your line is now live.

Hunter Diamond: Hi. Firstly, thank you for the updates, very useful information. In terms of the sales and marketing, I'm just curious where people are coming from and how are the sales really being conducted? Are they inbound, outbound, referrals? I'm just trying to get some color on sort of the sales pipeline.

George Kirby: You know, that's a great question. The sales approach that we take is very much hands on. It's person to person. And what we're trying to do right now is really expand that by using what would be considered representatives to be able to go out. And not only would they be selling our product, but they would be selling other complimentary products. So, we're trying to do more and more of that. But, over the last few years, it's really been about building our brand and getting out there and making operators in the oil and gas industry or engineering service providers, making them aware of our products, aware of what it can do, and, essentially, building our brand.

Today, we're still doing that. We're still out talking to operators and trying to draw business out of them. But we've also got customers throughout the industry that are coming directly to us and asking for information about our products. They're pulling us into meetings or pulling us into studies in order to evaluate how our products could help them do things differently in their operations. But it's very much a person to person, and it's a big reason why we're investing in bringing in more qualified sales people.

Hunter Diamond: Okay, perfect. That was very useful. Thank you.

Operator: Thank you. Our next question today is coming from Cory Stanto, a private investor. Your line is now live.

Cory Stanto: Hi, guys. Good job on the call this morning. I just had a couple of questions. First, I was wondering--you spoke on the lead time a little bit, and I was curious as to have the feasibility studies produce enough data that these future opportunities don't really have to go through these lengthy studies? And are their buoys ready to be like leased or sold more quickly once kind of a project comes into action? And then, the second question as how many buoys do you have on standby waiting to be released or bought?

George Kirby: Cory, great questions. So, I'll work backwards. We have two being fabricated in our headquarters right now. One was shipped to Premier Oil. We also have, what we consider, two legacy buoys that have been since--not totally obsoleted, but we had more advanced designs now that we're actually using with customers. So, those two are also out of the facility. We have one in the water for Eni in the Adriatic.

But, with regards to studies and really the whole sales process, these types of engineering studies are typically the same. We'll be given a scenario from a customer. What they want to do, what types of equipment they want powered. Oftentimes, it takes quite a bit of time going back and forth with the customer in order to get the information that we need from a technical standpoint. For instance, if they're using certain equipment--not every customer uses the same equipment, so we need to find out things like voltages, power draw in watts or kilowatts. We need to understand placement on the seafloor and configuration.

When you think about the problem that we're trying to solve, it's not just power and communications, but it's also three dimensional. We're putting our buoy in a particular location, a

site that has different wave conditions. So, we have to figure out how much power we can continuously create. We have to design a mooring system, because every site is at a different depth. So, there's quite a bit that goes into these studies.

Once the study is complete, then we go back, and we sit down with the customer, and we talk about truly what is the technical feasibility of actually executing the work, what's the risk. We look at it from, not only our standpoint, but also their entire operation. Most of these customers, rightfully so, are very risk adverse. When you look at the types of equipment that they're using, anything that has to do with the well head on the sea floor, they're going to be risk averse. So, we have to, in every way, prove to these customers that the solution is technically feasible. And then we also have to provide pricing.

Oftentimes, there are gaps in knowledge around what we can provide pricing on. Of course, we can price out our part of the system, but sometimes there is intermediary equipment that needs to be obtained, so we have to go out for bid on those. And then we have to wait for quotations come back from third party vendors. All of this gets fed back into a feasibility study. So, once that's complete, we can sit down with the customer, and we can, essentially, go through it, put together our project plan, and then, hopefully, the numbers work out, so that we can move on--excuse me--move on to a demonstration project.

If we move on to a demonstration project, oftentimes that takes about a year in order to put in place, and then, once we're able to physically demonstrate that all of the equipment works together without any issues, then we can start moving into the ability to replicate the project with other

operators and, essentially, to leverage this across the globe with other operators. Does that make sense?

Cory Stanto: Yes, it does. Thank you for the insight. It seems like you definitely--trying to streamline all the opportunities that you have that kind of cut back on these times that you mentioned. So, yeah, thank you for the light on that. Sounds like everything's going well over there. Thanks, guys.

George Kirby: Thanks Cory. And one thing that I'll mention along those lines is the more PowerBuoys® that we install, which is a big focus of ours, the more that we deploy for different applications for customers, the more that we can leverage those with, likewise, other service providers and customers. And we believe that there's an acceleration of that there. So, our biggest focus right now is contracts, revenues, but also getting buoys operating in the water.

Operator: Thank you. Our next question is coming Robert Littlehale from J.P. Morgan. Your line is now live.

Robert Littlehale: Hi, George. Could you maybe compare and contrast the PB3 to the hybrid PowerBuoy®--differences, similarities. Is there any context in that regard?

George Kirby: Sure, great question. The PB3 is typically meant for longer-term deployments, and the reason why is it's a larger device. It's 40 feet long. We're working on ways to be able to deploy this thing more quickly in a less expensive manner. But, for the most part, it's intended for

deployments that are, let's say, six months or longer, whereas the hybrid PowerBuoy® is really intended for shorter-term deployments--three months to six months, even weeks depending on the customer's operations. The PB3 PowerBuoy® can be towed out to site, but oftentimes it's quicker--and we can also deploy in higher seas--larger waves if we actually put the buoy on a boat and bring it out to site. The hybrid PowerBuoy® is purely designed to be towed. It can certainly be put on deck, but it's been fashioned into a boat like shape in order to minimize the cost for deployment. So, you can literally hook it behind a small vessel, and you can tow it out to site.

The PB3 PowerBuoy® is a wave energy generator, so, again, it's renewable. It's meant for persistent power, whereas the hybrid PowerBuoy® is based off of liquid fuel. It's an external combustion engine, and the idea is that you have energy storage on board this PowerBuoy® that is both refuellable at sea, or you can simply hot swap a hybrid PowerBuoy®--one that is full for the one that's empty. It uses liquid propane fuel. Interestingly, we've been working on some studies recently, and now that we have a PB3 and a hybrid option and a subsea battery, now we can start mixing and matching these products together in order to come up with very creative solutions for customers, whereas, in the past, it's only been we have the PB3 and that's it. So, you do you want one, two, three, or four PB3s?

If you think about a hybrid PowerBuoy®, it's very similar to a subsea battery, except you're storing energy in the form of liquid propane, and we're converting it using our sterling engine and then bringing the power to the load center. So, one hybrid PowerBuoy® at one megawatt hour of energy storage through the liquid propane is equivalent to 10 subsea batteries. One of our subsea batteries is equivalent to 100 kilowatt hours, and that's pretty standard for the industry. Most subsea batteries

are around the same nominal energy storage. But it becomes so much more economical to use a hybrid PowerBuoy®, because you actually have 10 times the power of one subsea battery, and you're also able to refuel at sea or do a hot swap with a hybrid PowerBuoy® that is filled with liquid propane.

So, it becomes more flexible for the operators as well. But many of our solutions that we're using right now or that we're creating involve some combination of a PB3, a hybrid, and subsea batteries, and it really gives us flexibility. And it's because of that that we are really driving to have prototypes for our two new products, the hybrid and the subsea battery, towards the end of this year. It's going to be very important that we have those, because we are seeing real need for it with customers.

Robert Littlehale: Thank you, George.

George Kirby: Thank you, Bob.

Operator: Thank you. I would like to turn the floor back over to management for any further or closing comments.

George Kirby: Thanks, Operator. Before we conclude here, 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 of the

PowerBuoy's® capabilities but also other videos such as footage from our upcoming deployment event, which should be posted shortly afterwards. So, thank you very much for joining, and we will be speaking again very soon.

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.