

Ocean Power Technologies, Inc.
Fourth Quarter and Full Year 2023 Earnings Conference Call
July 13, 2023

Presenters

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

Q&A Participants

Shawn Severson - Water Tower Research
Robert Silvera - R.E. Silvera & Associates
R.J. Tanner - Tanner Capital Management

Operator

Good morning and welcome to the Ocean Power Technologies Fourth Quarter and Full Fiscal Year 2023 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. Now, I am pleased to introduce Joseph DiPietro. Sir, please go ahead.

Joseph DiPietro

Thank you and good morning. After the market closed yesterday, we issued our earnings press release for the period ended April 30, 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. The company disclaims any obligation or intention to update the forward-looking statements made on this call.

Now I am pleased to introduce Dr. Philipp Stratmann.

Philipp Stratmann

Thank you, Joe, and good morning. We appreciate you joining us. Fiscal 2023 was a great year and another step towards positive cash flow for our company.

The two top highlights were that we had our best year of revenue generation since fiscal 2015 and we generated our best gross profit, since fiscal 2011. We're also entering fiscal 2024 with over \$4 million of contracted backlog. Those are nice wins for us as we continue executing on our growth strategy.

I will focus my comments on two areas, our older pipeline, and an update on our key projects. Both are critical to our near-term success. As you know, we serve two main customer groups, the U.S. government and the commercial ocean technology industry.

Both view our company as critical for finding cost effective ways to use and monitor the world's oceans and waterways. We see this in our order pipeline, which continues to grow and now stands at approximately \$68 million of various projects in various stages of negotiation.

The average order size varies across the product lines with Buoy-based orders typically several million dollars and vehicle-based orders closer to the hundreds of thousands of dollars. Decision timing by new and current customers is influenced by budget cycles and offshore installation seasons.

I would like to unpack this for you since it is critically important to understand how these orders will get booked, converted to revenue and, ultimately, generate cash to cover our recent OpEx investment and bring us to sustained profitability.

Approximately 60% to 70% of our order activity is with government agencies, and another 20% to 25% is with energy companies.

The remaining orders are related to a variety of customers such as wind farms and strategic consulting projects across a wide range of businesses that use water in some ways.

This past fiscal year, we had a \$9 million order target all year with a pipeline that hovered between \$20 million and \$30 million. We closed the year at \$6 million of closed orders, which is a strong performance compared to recent years but reflects the significant time it takes to get a deal signed, especially in these challenging macroeconomic times where it seems everyone is cautious and moving slow.

The important point I want to make is that none of the potential orders that we have not yet closed went away. They continue to proceed at various speeds, and we have a high degree of confidence they will eventually be booked.

Another way to look at our order pipeline is by type of project. Thirty percent to 40% of our pipeline is related to WAMVs.

Generally speaking, the entities we are talking to want multiple WAMVs, and we see a steady stream of repeat activity as customers realize how effective the WAMVs are to covering massive area and minimizing costs. This acquisition continues to be a great deal for us.

Fifty percent to 60% of our pipeline is use of PowerBuoys and our new MDAS to provide coverage for mainly governmental reasons. This includes monitoring of various activities like illegal fishing, border protection and other classified activities.

Five percent to 10% is related to strategic consulting.

We are one of the few experts governments and businesses can turn to when it comes to optimizing the use of ocean going assets. This gives us an unfair advantage with potential customers calling us first with their needs.

Fiscal 2023 was the year we, significantly, invested in our sales organization for really the first time in our company's history. I appreciate our investors patience as the team ramps its activity, as fast as possible.

With the recent onboarding of retired Admiral Joe DiGuardo and several other defense experts, we have a great complement to our sales engine. We are confident that with the right resources to drive activity of WAMV sales and leases, feasibility studies demonstrations and future orders. We now just need to execute.

For fiscal 2024, our target for contracted orders is \$15 million. Based on the pipeline I just outlined for you, we have a high degree of confidence we will hit this target, and we're working hard to create a sense of urgency with our customers so we can get these booked more timely. Our operations teams are ready and are scalable as we close our open deals.

I will now move to an update for our key active projects. First is the digital horizon exercise for the U.S. Navy. We're currently in our second deployment in Bahrain for use of unmanned surface vehicles with WAMVs to support the International Maritime Exercise 2023.

Next is the U.S. Department of Energy for the development of a next generation wave energy converter program award. Over the next 18 months, we'll complete Phase 2 by developing and testing a modular and scalable Mass-on-Spring Wave Energy Converter PowerBuoy for reliable

powering of autonomous ocean monitoring systems, bringing an entirely new PowerBuoy into our offering.

The first offshore demonstration was deployed off the coast of New Jersey in April.

And as always, we have several ongoing government-related projects, which are classified so we cannot share details. We believe we're a great partner with many government entities and expect that to continue. We had a nice year but the best is yet to come. We have the team and the product portfolio to grow OPT to levels it has not been but it's certainly capable of achieving.

With that, I will turn over to Bob for more details on our financials.

Bob Powers

Thanks, Philip. Let's start with revenue. For the quarter, our top line was \$980,000, which was up 30% from the prior fourth quarter. It was our best quarter in seven-plus years and continued the traction we saw, this year. For the year, our revenue was \$2.7 million, which is up 55% over last year and is our best year, since fiscal 2015.

Deferred revenue is another indicator of our sales activity. As a reminder, the biggest component of deferred revenue is related to the \$1.1 million MOSWEC Buoy project, which started in December 2022. This project is expected to be active throughout fiscal 2024.

For the year, we had \$236,000 of gross profit and an 8.6% gross margin. This is the first time since fiscal 2016 that we had gross profit, which we are pleased with. We have a long ways to go until we hit our long-term targets, but it's definitely a step in the right direction.

Moving to our cost structure, I'd like to take a few seconds to walk you through our recent growth in OpEx and what is driving that. Included here were a full-year of expenses related to our MAR acquisition that occurred midway through our prior fiscal year.

Included our expenses related to ongoing development of our MDAS product, increases in headcount related to staffing of our sales and marketing leadership team, as well as investments related to the growth in our corporate team. We continue to manage cost tightly with deliberate investments in our sales organization and our WAMV business.

Our sales teams continue to make strong inroads with our growing list of prospective customers, and we believe this additional sales talent investment will be instrumental to maintaining our momentum for fiscal 2024.

We expect our OpEx to be materially in line with our level of OpEx for fiscal 2023.

You will notice that we moved up the change in value for contingent consideration. As a reminder, that is related to the earn out obligation we estimate to be paid to the former owners of MAR.

The first earn out period ended April 30th, 2023, and resulted in the maximum payment of \$1.5 million per the stock purchase agreement. The second and final earn out period ends on April 30th, 2024. As of April 30th, 2024, we estimate that the maximum earn out payment of \$1.5 million will be paid out.

Moving to the balance sheet, we ended the quarter with \$34.9 million of cash, which includes our cash, cash equivalents, restricted cash, and short-term investments. This was down about \$6.2 million (INAUDIBLE). We continue to operate with no bank debt, with no plans to use debt.

Net cash used in operating activities was \$21.7 million for the year with a fairly stable quarterly cadence. The component of this operating cash flow used is the continuing building of inventory related to our WAMV business.

That covers our financial update. We had a nice year, but there is no time for celebration. We still need to convert our order pipeline to book sales and keep us moving on our path to positive cash flow generation.

With that, Philip and I are happy to take your questions.

Operator

Thank you. We'll now be conducting a question-and-answer session. If you'd 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'd like to remove your question from the queue. One moment, please, while we poll for questions. And that's "*", "1" to be placed in the question queue.

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

Shawn Severson

Great. Thank you. Good morning, gentlemen.

Philipp Stratmann

Good morning, Shawn. How are you?

Shawn Severson

I'm doing well, thank you. First question is on the backlog. Appreciate all the color on that, that's helpful and congratulations on the continued push towards the military. I do want to dig in a little bit more into and I will call it backlog, let's call it your order pipeline, sorry.

What is the--what's the mix in there as it comes to like longer term service contracts versus equipment sales? I mean, I know that as a service model is critical to you strategically, over the long-term. So, how is that being reflected in this pipeline as you see it today?

Philipp Stratmann

Thanks, Shawn. I appreciate the question. As we said, I think in our press release and as we mentioned, we have about \$68 million approximately right now in our order pipeline that's at various stages of the deal structure. But these are all real opportunities that we're working on closing.

In there is a very healthy mix between what is the underlying platform versus service delivery component that comes into it. I would also like to point out as we mentioned in our press release, we're seeing more and more deals like the work we've been doing with Sulmara Subsea, where we have, I think, four vehicles with them now and provide them ancillary services. And those are long-term agreements that span multi-year periods.

What's really encouraging with that and it's what you're seeing with us entering the year with \$4 million of contracted backlog that we're working to convert into revenues right now is the fact that these give us the ability to start building out a revenue baseline as we're scaling up and then add on top of that.

And you're entirely right, it is the service component, whether that's data-as-a-service or the platform-as-a-service opportunities that we bring into it, where we're seeing the improvement in margin primarily.

Shawn Severson

And in there those--are those orders, I hate to call them pilot programs because not really pilot programs, but I'm trying to understand the scope and scale of the opportunity. So, when you have an opportunity that you're talking about in the pipeline, are these sort of initial test programs and let's try this out and run some--implement it and see how it goes and then there's a lot behind that particular customer or that program? Just a little more color on that would be very helpful.

Philipp Stratmann

No, absolutely. It varies by customer, but I would say in the majority, that it is a case of somebody wanting, you know, in the case of vehicles, okay, somewhere between one and three vehicles initially to do a job. And then as we've seen because as we've shown with like Sulmara and others, those then quickly develop into multi-year, multi-platform opportunities. In case of the Buoys, obviously, we're working with an undisclosed government agency at the moment and we announced that earlier this calendar year.

And those are primarily an initial demonstration of the capability of the platforms and the supporting maritime domain awareness solution with a view then once it's been tested for a couple of months, that there is already a discussion ongoing about how this will then turn into what we consider to be a multi-system order.

Shawn Severson

Great. And one more question, I'll jump back in the queue. And it's about the expansion of the sales force and the effort there. Can you help me understand what that means? I'm trying to understand the sales and the conversion process. So when you say you're adding people there, you're spending more.

What does that mean you're doing differently or new versus what you were doing before? I'm just trying to understand the incremental change and impact with the focus on expanding sales.

Philipp Stratmann

Yeah, I wouldn't say it's an incremental change. I think I would say it's a material and fundamental change.

Shawn Severson

Okay.

Philipp Stratmann

Of the current sales team that we have, not a single one has been with OPT for more than two years. This is an entirely new sales team that's been brought in consisting almost entirely of either veterans of the DoD or DHS, all people that have worked in the defense and security sector providing new and high-tech solutions in the ocean environment to DoD, DHS, and other parts of the government.

What that enables us to do is, materially, change the conversation we're having with our government counterparties, and I think that is being reflected in the way that our pipeline has shifted, as we've mentioned before, to probably around 60%, 70% U.S. government work, which we're very proud to support.

Shawn Severson

And so is the sales process, to take a typical application, are they looking and finding creative applications that they'd be in your sales force? I mean, I know you're not just sitting there taking orders or maybe this will work for this or not. Are you proactively going out? Is that how that works and say, look, we know you have a problem, we have a solution. Is that how the sales actually works?

Philipp Stratmann

Correct. We spend a lot of time with our team working within the operator community and within the acquisition community to help them figure out how these new technologies fit into

the concept of operations that they might have planned out and fits into helping them solve their problem statement.

That then enables them to reconfigure the acquisition process, which then enables us to provide the systems into it, which is coming back to your earlier question, one of the main reasons why we're seeing a lot of initial shorter term duration, so like two or three quarters deployments of platforms that then lead to the qualification of those platforms into the operational community.

Shawn Severson

Right. Thank you for the color, guys.

Philipp Stratmann

Thank you, Shawn. Appreciate you being on.

Operator

Thank you. Next question is coming from Robert Silvera from R.E. Silvera & Associates. Your line is now live.

Robert Silvera

Hi, Phil. Congratulations on a job, it looks very well done. I'd like to go into the balance sheet that you present and look at, for instance, for clarification on the short-term investments. As cash and cash equivalents year-over-year stayed pretty much the same, I mean, it just changed by about \$1 million, the short-term investments of course dropped quite a bit from 49 to 28, roughly. What is represented by short-term investments? What are their type?

Bob Powers

Hey, Robert, thanks for the question. Yeah, so that the drop that you're seeing in short-term investments is primarily driven through the use of our operating capital. And what that represents is high quality AAA rated corporate bonds, treasuries, and T-bills for the most part, yeah.

Robert Silvera

Okay. So that's not, obviously then that's not the cash equivalents in the cash and cash equivalents?

Bob Powers

Correct.

Robert Silvera

Yeah, okay.

Bob Powers

The cash and cash equivalents would be strictly cash in bank accounts.

Robert Silvera

Right, got you. Okay. The other thing is your inventory number went up substantially from \$442,000 to over a million. And if I heard right, you're saying that's because of the material purchases to do the WAM stuff.

Philipp Stratmann

Yeah. No, absolutely, I think it's what I think we've mentioned this before. In order for us to be able to supply our customers at the pace which they want to supply with and for us to maintain and further gain advantage in the market space, we are building out WAMV's at a pace that is quicker than just clearing backlog.

And that enables us to start building out a, call it a rental or lease fleet of vehicles that can be made available to customers if they only need it for four weeks, that gives us a competitive advantage. So I would expect that to see further increases in inventory, as we move through the year.

Robert Silvera

Great. Well, you're building up the money generating equipment, that's what it amounts to, right?

Philipp Stratmann

Exactly.

Robert Silvera

Okay, what are--I'm just looking at things that changed, substantially. What are the right-of-use assets that went basically up \$1 million.

Bob Powers

Yeah, Robert, that's our leases and in particular that pertains to a new lease that we entered into for our Richmond California office, which is where our MIR operations are headquartered. So we entered into a new lease in April this year, that's more of GAAP accounting driven treatment as to why that ended up on the balance sheet.

Robert Silvera

I see. Okay, that's very good. Then in your current liabilities portion, could you kind of go through that and just deal with the ones that have big changes like the accrued expenses, where are the accrued expenses going up by approximately \$1.5 million or so?

Bob Powers

Yeah, so the primary driver there is our bonus payable for FY '23. So given our performance in the prior year, we do not have a significant bonus payout. But for FY '23, as Philipp just

mentioned, given the strong performance there, we do have a larger bonus payout to our employee base. That's the primary driver there.

Robert Silvera

Okay. And that will continue on into '24, based on performance?

Bob Powers

That's the plan. Oh, yeah, so we don't make that decision until the end of the fiscal year in terms of what we'll be paying out, but that is the plan.

Robert Silvera

Okay. Contract liabilities went up, significantly. What are those liabilities?

Bob Powers

Yeah, so you can think of that more along the lines of deferred revenue. So, we've spoken about our contract with the DOE. The DOE actually paid us in advance for that contract, even though we haven't yet performed or the work. So, the unrecognized revenue relative to what they paid us is sitting in that account.

Robert Silvera

I got you. Very good. Makes a lot of sense. I want to thank you. I think you've done a really good job. And I wish you would release a public release stating why this outfit that wants to get three people on the board, it should not be able to. That has to be made very clear to the current shareholders.

And soon, you know, giving a history of why these guys who are coming in and trying to basically take over the company by getting the three board members on is quite detrimental based on their past history and your future and the good job that everybody on the board and the current employees are doing.

I'd like to see that kind of a thing come out, because I hate what's going on with people coming in the way they are. Not making an offer for the company or anything but just trying to suddenly take over the company.

Philipp Stratmann

Thank you, Robert. Regarding that matter, we refer you and other shareholders back to the press release. At this time, we have no further comment, but we'll certainly make any and all releases public that need to be made public, over the coming weeks and months.

Robert Silvera

Okay. Because you guys are not in favor of that, right?

Philipp Stratmann

I think as we stated in our public release, we have a very strong strategy that we're executing on. I think the results speak for the fact that we are on track executing against it. Having built up a \$68 million order pipeline that we're working on converting into contracted orders and subsequently revenues, I think is testament for what the leadership team on the employee base is able to deliver.

Robert Silvera

Okay, based on that \$68 million, which is a good chunk of cash in the future, over what period of time is represented by that \$68 million, one-year, two-years, four-years-what?

Philipp Stratmann

That \$68 million is orders we are currently discussing at various stages. I can't give you an exact timeline in terms of, you know, is it three quarters, four quarters, five quarters or six quarters, but it is within around that type of timeframe. So, this is not a--this isn't us going out and saying this is the total available market or the serviceable market. This is what we're actively negotiating today and what's going to be.

Robert Silvera

That's what I like to hear. So in effect, within two to three years, it's reasonable to assume that you could win those orders and have \$68 million in the sales and revenue?

Philipp Stratmann

I think, certainly, as we convert the pipeline, that is what we're working on.

Robert Silvera

Exactly. That's what I wanted to hear. Very good guys, you're doing a good job and obviously the horizons are looking good with numbers like \$68 million, compared to where we are today and then within time frame of two to three years. Thank you, Phil. Good job.

Philipp Stratmann

Thank you, Robert, and thanks for your continued interest in OPT.

Operator

Thank you. As a reminder, that's "*", "1" to be placed in the question queue. Our next question is coming from R.J. Tanner from Tanner Capital Management. Your line is now live.

R.J. Tanner

Hi. Thanks, guys. I've observed that the company has never been profitable in any quarter and not in any quarter under your watch as CEO. When you took over, you indicated that you were restructuring it and yet, today, the situation seems worse than when you started two years ago.

The losses are growing and cash is diminishing, you badly missed the order booking target you announced last year. Why should shareholders vote for a Board that is blind to shareholder

returns, while hefty bonus comp is paid to managers, free stock is given to board members and the board fees grow?

Philipp Stratmann

Thanks, R.J. Appreciate the question. As we've said, we've restructured the company. We've built a strong order pipeline. We're executing on our strategy and we are working towards profitable growth.

Operator

Thank you. Our next question is a follow-up from Shawn Severson from Water Tower Research. Your line is now live.

Shawn Severson

Great. Thanks for taking the question again, guys. Mine is on the--trying to understand the expansion when you talk about government contracts and government projects. Is that--are the things you learn there and the technology and the application, is there anything about that that crosses security lines in a sense that you couldn't offer it or a similar solution to say, another government or back into commercial industry or for any other application for that matter?

I'm just trying to understand when you build up this military presence and footprint, what does that do with the IP and the application?

Philipp Stratmann

Thanks, Shawn. As we've said, I mean, and as we've been public about some of our work has been in the more public demonstrations being organized by the Department of Defense, such as Digital Horizon out in Bahrain where the fifth fleet is headquartered. Other work that we're doing, obviously, is likely at some stage to fall under efforts where we can't disclose exactly what it is working on and falls under the realms of classified programs.

So we are making sure that, certainly, the value to the company and to the shareholders is preserved as we work through these projects and, at the same time, being able to deliver our capability to enhance national security and provide the services that our nation's warfighter need.

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 or closing comments.

Philipp Stratmann

Thank you. We appreciate you joining us. We are pleased with our progress to-date and look forward to the future. We know what we need to do. For the first time in our history, we have the right resources and the right products and services. We believe fiscal 2024 will be a great year.

As always, thank you to my fellow OPT colleagues, our shareholders, our potential shareholders of our company and our vendors. We appreciate your confidence in the direction we are headed. Have a great rest of your day.

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.