

Ocean Power Technologies
Second Quarter Fiscal Year 2024 Earnings
December 14, 2023

Presenters

Joseph DiPietro, Controller, Treasurer, Principal Accounting Officer
Philipp Stratman, President, CEO
Bob Powers, SVP, CFO

Q&A Participants

Shawn Severson - Water Tower Research

Operator

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

The 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'm pleased to introduce Joseph DiPietro.

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 October 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 with 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'm pleased to introduce Dr. Philipp Stratmann.

Philipp Stratmann

Thank you, Joe, and 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'd like to highlight that I'm pleased with our quarterly results and our continued positive momentum. The market demand is clear. Our customers are procuring autonomous, resident and roaming assets that protect marine environments, collect essential ocean data and enhance national security.

We continue building our pipeline and are converting opportunities into backlog and revenues, as seen with wins like the recently announced Multi-Buoy and Multi-Vessel contracts. We believe we're well-positioned to translate this momentum into profitable growth in the next 15 months to 18 months and deliver value for our shareholders.

Let's talk about some recent developments. In November, 2023, we announced that we have substantially completed our research and development phase and are primarily focused on commercial activities.

We've built a suite of products and solutions that we believe will be the basis for our current and future commercial success, resulting in meaningful progress in backlog, revenue and profitability, with contracted backlog increasing from \$3.1 million at July 31, 2023, to \$4.5 million at October 31, 2023.

This pivot to commercial and operational activities has enabled a reduction in reallocation of headcount, the divestiture of our 3Dent and the material reduction in third-party expenditures. As a result, the majority of our employees are now dedicated to customer delivery.

We expect that recent meaningful contract wins, which I will describe more fully in a moment, the growth in our commercial pipeline and the expense savings noted would enable us to reach profitability during calendar year 2025, using current capital resources.

This expectation does not account for extraordinary expenses such as those related to the Paragon litigation that could cause OPT to seek additional capital from financing sources.

In December, 2023, we secured our first Multi-Buoy letter contract. This is a subcontract with a U.S. based prime contractor with a \$6.5 million ceiling to deliver maritime domain awareness solutions for U.S. government agencies.

This contract exemplifies our commitment to innovation and underscores the crucial role our technology plays in bolstering maritime national security and providing state-of-the-art solutions, including Multi-Buoy arrays that contribute to a safer maritime environment.

In October, 2023, we were awarded our first Multi-Vessel WAM-V order, a volume order from Sulmara, a prominent player in offshore services. The order, valued at \$1.6 million, underscores the recognition by customers of our ability to provide innovative and sustainable solutions for the offshore industry. Due to demand, production is already underway to fulfill the order and will allow for revenue recognition this fiscal year.

We recently retained Rear Admiral Victorino “Vic” Mercado as a special advisor to the company's Board of Directors. We plan to leverage Vic’s experience, expertise and networks as we build on our momentum in providing intelligent maritime solutions to the U.S. government and defense and security sectors and carefully navigate the challenges of securing access to on protecting highly sensitive and confidential information.

Finally, we recently appointed Matt Burdyny to the newly created role of Chief Commercial Officer. Matt will report directly to me, and we will leverage Matt's vast experience to drive the next phase of our growth and the commercialization of our cutting-edge products, particularly for the National Security and Defense markets.

In short, our highly increased commercial and operational activity levels I'm seeing throughout the organization. We continue to position the company well within the industries we serve. Our opportunity pipeline continues to grow. In addition to the orders I just discussed, we've also continued to add to the top of the pipeline.

Pipeline on October 31, 2023, is approximately \$93 million for a net gain of approximately \$26 million, during the first half of the fiscal year. We are continuing to grow our revenues and our gross profit margins are increasing. Our strategy is working and we see additional opportunities for multi-system orders on the horizon.

Now, before we dive into the financial highlights, I'd like to introduce our CFO, Bob Powers. Bob will provide you with more detailed information about our financial performance in Q2 fiscal '24.

Bob Powers

Thanks, Phil. Let's begin with revenue. In Q2 '24, our revenues reached \$900,000, marking a significant increase compared to the \$300,000 reported for the same period in the prior year. Year-to-date, our revenue generation is in excess of 2x where we were, last year. This growth

can be primarily attributed to the conversion of backlog from our strong performance in WAM-V sales and revenue generated from our DOE contract.

Our orders are \$2.9 million year-to-date and growing, with backlog standing at \$4.5 million at October 31, 2023. We continue to expect order activity and revenue to ramp meaningfully, throughout the second half of the year.

Our gross profit for Q2 '24 stood at \$500,000, a substantial improvement, compared to the Q2 '23 figure, which showed a gross profit of under \$100,000. This improvement is primarily attributed to our unmanned vehicles business, particularly the higher-margin WAM-V leasing business. I am enthused about progress we have made in this area and the expansion of the progress made in fiscal 2023.

Our operating expenses for Q2 '24 amounted to \$8 million, reflecting our investments in both personnel and systems to support the growth Philipp and I discussed previously.

As for the net result, we reported a net loss of \$7.2 million for Q2 '24, compared to a net loss of \$5.9 million for Q2 '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. As Philipp mentioned, we expect our operating expenses to decrease materially going forward, as a result of our plan to achieve profitability.

On the balance sheet front, our combined cash, cash equivalents and short-term investments as of October 31, 2023, totaled \$18.9 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 our operating activities for the first half of fiscal 2024 amounted to \$15.5 million. This primarily reflects our net loss, the payout of employment bonuses accrued during fiscal year 2023 and the payment of the earnout accrued during fiscal 2023 related to the outstanding performance of our autonomous vehicles business.

Finally, you will note that our inventory balance increased by approximately \$1.5 million to \$2.5 million. This investment in inventory was necessary in order to satisfy the growing backlog, as well as our planned growth in revenue for fiscal 2024.

That covers our financial update.

Before we enter the Q&A, I'd like to remind everyone that the purpose of today's call is to discuss our second quarter of fiscal year 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 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 that 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 your handset, before pressing the star keys. Once again, that’s “*”, “1” to ask a question at this time.

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

Our first question is from Shawn Severson with Water Tower Research. Please proceed with your question.

Shawn Severson

Thank you. Good morning, everyone. Philipp, great move on the pipeline. And I'm curious, when you talk about the pipeline and you look at that \$93 million, is there any way to look at that and figure how much reoccurring revenue something like that can drive? I guess I'm trying to understand the mix of that pipeline and what it would look like should it convert and go into backlog in sales? Is it really heavy towards this mix of recurring revenue?

Philipp Stratmann

Hey. Good morning, Shawn. Thanks for the question. One thing we are definitely noticing in the mix of the pipeline is an ongoing shift from what the company was kind of two years ago when the current management team stepped in to--it was primarily product sales back then to now really materially shifting towards lease opportunities which, obviously, are recurring revenue as well as sort of more the data and robotics as a service side.

And if you look at some of the examples, even some of the larger multi volume orders that we got contain, whilst there might be leases in the first place, they also contain minimum operating day guarantees. So, it ultimately becomes a take-or-pay contract under which we can provide assets to our customers. And what that enables us to do is to provide and stack on top of each other, kind of as we move into the forecast and start providing guidance, moving forward.

Shawn Severson

And just a second question on that. I know it's going to vary project by project, of course, but what are the key triggers that convert this pipeline? I mean, are you waiting for budgetary approval for pilot programs? Just trying to understand what triggers conversion in that pipeline in a generalization.

Philipp Stratmann

Yeah. Thank you for the question, Shawn. It partially depends on the customers. We said the bulk of our customer base and opportunities that we have now are government related.

And within that government sector, it is primarily defense and national security. And in those instances, it is oftentimes just the speed of contracting and definitizing terms before anything can be provided. In other cases, it is just--it is aligning the project that these assets are looking--these assets are being deployed on if it's on a larger project until that project gets financing.

But overall, we're also seeing a shortening of the pipelines in order--from a conversion perspective, as we're stepping from kind of opportunity identification into pipeline, into discussions with the customer and into it being a purchase order. And that is largely due to the fact that we're not really seeing a lot of demonstration requirements anymore because the vehicles and the buoys are now being seen as commercialized and productized offerings.

Shawn Severson

Great. Thanks. That's great. Thanks, Philipp.

Operator

Thank you. At this time, I will turn the floor back to management for any closing remarks.

Philipp Stratmann

Thank you. We continue progressing towards profitability and we never take any of your support for granted and we thank you for being a valued shareholder.

Operator

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