Ocean Power Technologies Inc. Fiscal 2017 Call Script

Operator Comments

Good afternoon ladies and gentlemen, and welcome to the fourth quarter and fiscal year 2017 Ocean Power Technologies conference call. My name is Latoya and I'll be your coordinator for today. (Operator Instructions) As a reminder, this conference call is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. Andrew Barwicki.

Andrew Barwicki - Introduction

Good afternoon and thank you for joining us on the Ocean Power Technologies conference call and webcast to discuss the financial results for the fiscal year ended April 30, 2017. On the call with me today are George Kirby, President and CEO; and Matthew Shafer, Chief Financial Officer. George will provide an update on the company's highlights and key activities for fiscal 2017. Matthew will then review the financial results for the fourth quarter and full year. Following our prepared remarks, we will open the call to questions. This call is being webcast on our website, at www.oceanpowertechnologies.com, and will be available for replay

later today. The replay will stay on the website for on-demand review over the next several months.

Last Friday, Ocean Power Technologies issued its earnings press release and filed its annual report on Form 10-K with the Securities and Exchange Commission. All of our public filings can be viewed on the SEC website at SEC.gov or on the OPT website,.

During the course of this conference call, management may make projections or other forward-looking statements regarding future events or financial performance of the Company within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to numerous assumptions made by management regarding future circumstances over which the Company may have little or no control that involve risk and 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. We refer you to the Company's Form 10-K and other recent filings with the Securities and Exchange Commission for the description of these and other risk factors.

And now, I'd like to turn the call over to George to begin the discussion.

George H. Kirby – President and Chief Executive Officer

Thank you, Andrew, and good afternoon everyone. Welcome to our 2017 fiscal year-end earnings call.

Today, I'm going to review the progress we have made on our major goals of commercializing our PB3 PowerBuoy and positioning the company for the future.

I'll begin with our commercialization efforts, where fiscal 2017 was a year of significant accomplishments.
In May 2016 we entered into a PB3 PowerBuoy lease agreement with Mitsui Engineering and Shipbuilding, which is valued at approximately $975,000. The PB3 PowerBuoy leased by MES was shipped to Japan in March 2017 and successfully deployed off of the coast of Kozu-Island in April. The unit continues to meet all of its performance requirements, and our accelerated life testing program continues to increase our confidence level in the readiness of our commercial design. This first commercial agreement with MES is a significant and exciting milestone for us because it enables MES to demonstrate the flexibility of the PB3 power and communications platform for a variety of applications in sea conditions off the coast of Japan.

We re-deployed our PB3-A1 PowerBuoy off the coast of New Jersey after integrating the National Data Buoy Center Self-Contained Ocean Observing Payload, or SCOOP. We also entered into an

agreement with the Wildlife Conservation Society to integrate a marine mammal acoustic tracking sensor into the PB3-A1, in order to determine whether it can be used with the PowerBuoy to identify migratory patterns of marine species that have been tagged with acoustic transmitters in the Mid-Atlantic region. The re-deployment was successful in both powering the SCOOP and operating the conservation society sensor payload, allowing us the opportunity to advance discussions toward next steps with both parties.

We deployed a second PB3 PowerBuoy, which is our first commercial-ready unit, also off of the coast of New Jersey. The commercial PB3 incorporates multiple enhancements over earlier prototypes including a redesigned power take-off, a high-capacity, modular energy storage system with expanded battery capacity, a higher voltage and more efficient power management and distribution system, and a new auto-ballasting system which allows for safer and less costly deployment.

Both PowerBuoys operated off the coast of New Jersey throughout the second quarter. We then retrieved our commercial unit number one to prepare it for shipment to Japan for the MES lease. This first commercial PB3 was ocean tested for six months and generated over 1.4 megawatt-hours of electric power. It achieved a single day peak production of over 30 kilowatt-hours during its deployment, which is an equivalent hourly average of over 1.25 kilowatts for that day. We

also retrieved our pre-commercial PB3 PowerBuoy, which, was subsequently upgraded to commercial status as our unit number two.

We won an exciting new contract with the U.S. Department of Defense Office of Naval Research to design a new mass-spring oscillating PowerBuoy for mission critical sensors. This PowerBuoy design differs from the current PB3 in that it will be an anchorless, station-keeping, low profile PowerBuoy that would most likely power mission critical surveillance sensors and the buoy's control and propulsion systems.

Phase one of the contract scope included the system design and laboratory testing of a proprietary inertia-based, mass-spring PTO, and the selection of an electric propulsion solution to be integrated into the PowerBuoy. The objective of this first phase was to design and optimize the inertia based generation system, evaluate the buoy propulsion system, and carry out performance testing of critical PTO components. We currently have several patented solutions for mass-spring oscillating designs, and we believe we will be able to leverage our intellectual property to address the Office of Naval Research needs.

The proposed system is scalable and once completed, could expand our entire product portfolio with more product options into the commercial and defense markets. We will be finalizing this first phase of the contract over the next few months.

We executed two important collaboration agreements during the past year. One is a joint marketing agreement with Sonalysts to combine our technology with their systems integration expertise to better enable us to deliver real value to customers in the defense, communications and oil and gas industries. In collaboration with Sonalysts, we've engaged with potential end-users and decision makers in maritime subsea communications as well as in the traditional telecommunication market as it relates to cellular and Wi-Fi range extension applications, or "Wi-Fi-over-water." We believe our combined capabilities uniquely position us to address specific application requirements and potentially provides a strong value proposition to our target customers.

The second collaboration is a joint application development and marketing agreement with HAI Technologies. We believe our combined technologies and capabilities can create a value multiplier in areas of the oil and gas industry, and that this alliance will allow us to pursue mutual opportunities related to offshore oil and gas subsea chemical injection systems where persistent power and real-time data communications are critical.

Throughout the year, we advanced discussions with several prospective customers located across the globe for multiple applications and are considering numerous business initiatives in the U.S., Europe and Asia.

The data we are obtaining from the PB3 operating in Japan is proving to be instrumental in our current sales and marketing efforts. We have initiated production of a third PB3 unit in order to meet anticipated demand as we continue to respond to customer requests for proposals.

As mentioned in the news release, we exhibited our commercial PB3 to potential customers and end-users at one of the largest global oil and gas events in the world – the Offshore Technology Conference. This conference took place in Houston, Texas in early May, and was an important and successful business development and marketing opportunity for our company.

In addition to sales and marketing, we are also focusing on engineering and product development. We are taking steps to remove cost from our PB3, and we are continuing design activities for our PB15 product.

We recently achieved a significant milestone of more than 75 million cumulative strokes over our commercial fleet of five power take offs, comprised of both ocean deployments and accelerated life testing. This simulates a PTO fleet cumulative ocean-operation duration of approximately four years.

We continue to life test our PTOs under extreme laboratory conditions in order to validate reliability which is valuable in proving consistent three-year maintenance intervals of the PB3. We believe this approach demonstrates the reliability of our commercial-ready PTO design and adds significant credibility to the value proposition for our target markets.

As these examples highlight, our commercialization efforts are gaining momentum. We've been responding to requests for proposals from multiple customers, such as oil and gas operators and service providers. Applications range from subsea battery charging, to providing oversight and security for deep sea production sites, to metocean data collection and communications.

As a result of this activity, we have increased our commercial capabilities through new hires in marketing and business development, and through engagement of expert market consultants. We continue to believe that by acquiring new skills we can maximize our market outreach and new business opportunity creation.

Fiscal 2017 was also a year of significant activities designed to position the company for the future.

As part of our commitment to build a foundation of leadership for our growth and expansion, in May 2016 we announced the election of two new board members, Steven Fludder and Robert Winters. Both

Steve and Bobby have brought a unique set of skills and experience to the company and have been instrumental in the Board's activities.

We announced the relocation of our corporate headquarters and manufacturing center, which we expect will be completed in the latter part of calendar year 2017. We believe our new facility in Monroe, New Jersey will position us to deliver products and services to customers globally by dramatically expanding our manufacturing capabilities to support the increasing interest in our PB3 product. The new facility will also enable us to improve safety and quality, while at the same time reducing manufacturing costs.

In November, we received nearly $700,000 through New Jersey's Technology Business Tax Certificate Transfer Program. This program enables New Jersey-based companies with fewer than 225 U.S. employees to raise cash to finance their growth and operations by selling net operating losses and R&D tax credits to unaffiliated corporations. The program is administered by the New Jersey Economic Development Authority and the New Jersey Department of the Treasury's Division of Taxation.

Finally, we are happy to report that in November the United States District Court issued its final judgment approving the settlement of our shareholder lawsuit.

I'll now turn the call over to Matthew, who will discuss our financial results for the year.

Matthew Shafer- Chief Financial Officer

Thank you George and good afternoon everyone. I will now review results for the fiscal 2017 fourth quarter and full fiscal year ended April 30, 2017.

For the fourth quarter of fiscal 2017, we reported revenue of $250,000 as compared to revenue of $100,000 for the fourth quarter of fiscal 2016. The increase in revenues versus the prior year was due to higher revenue from our contracts with MES and the Office of Naval Research in the current year, as compared to the revenue in the prior year from our WavePort contract with the European Union for our former project in Spain, and the billable work under our prior contracts with the Department of Energy.

The net loss for the fourth quarter of fiscal 2017 was $2.6 million as compared to a net loss of $4.0 million for the fourth quarter of fiscal 2016. The decrease in net loss is attributable to lower product development and legal costs compared to the prior year period and the decline in the fair value of the warrants liability in the current year. These were partially offset by slightly higher selling, general, and administrative expenses in the current year compared to the prior year period.

For fiscal year 2017, OPT reported revenue of $843,000 as compared to revenue of $705,000 for fiscal year 2016. The increase in revenues as compared to the prior year period was due to higher revenue from our contracts with MES and ONR in the current year as compared to the revenue in the prior year from our WavePort contract with the EU for our former project in Spain and the billable work under our prior contracts with DOE during fiscal year 2016.

The net loss for fiscal year 2017 was $9.5 million, as compared to a net loss of $13.1 million for fiscal year 2016. The decrease in the Company's net loss is due to lower selling, general, and administrative expenses, product development expenses, the decline in the fair market value of our warrants liability, and lower income tax benefit in the current year as compared to the prior year.

Turning now to the balance sheet, as of April 30, 2017, total Cash, Cash equivalents, and Marketable securities were $8.4 million, up from $6.8 million on April 30, 2016. In addition, Restricted cash was $488,000 for the period ended April 30, 2017 as compared to $300,000 for the period ended April 30, 2016. Net cash used in operating activities was $10.0 million in fiscal 2017, compared with $10.9 million in fiscal 2016.

As discussed in prior conference calls, we have taken a number of steps over the last several months to reduce our cash burn rate while focusing our business development, technical, and operating resources on key initiatives, particularly the commercialization of the PB3. Our operating cash burn in fiscal 2017 was lower than in fiscal 2016, despite increased deployment activity in fiscal 2017. As of the end of fiscal 2017, we have $8.4 million of cash on hand excluding the restricted cash previously mentioned. We remain confident in our cash position and we expect to have sufficient cash to maintain operations into the quarter ending in July 2018.

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

George H. Kirby – President and Chief Executive Officer

Thank you, Matt. Before we move on to Q&A, I'd like to take a moment to reiterate our laser focus on our multi-pronged growth strategy.

We believe our market development efforts are really starting to pay off, with multiple customer requests for proposals that directly leverage our PB3 PowerBuoy.

We’re making measurable progress in product lifecycle management and in securing meaningful new partnerships that are essential to our commercialization and our product delivery capabilities.

We’ve demonstrated our commitment to growth by moving our operations to a new facility which offers a safer and more efficient workplace for our employees, and the ability to deliver product to prospective customers around the globe.

I believe fiscal 2018 will be a liminal moment in our history. A year of transition, with our eyes clearly focused on the opportunities that will fuel our growth – from new customers, new markets and new applications, to new technology, new talent and a new facility.

Thank you for your interest and time today. Operator, we're now ready to take questions.

Operator:

There are no further questions in the queue. I’ll now turn the call back over to Mr. Kirby for any closing remarks.

George H. Kirby

I’m excited by the progress that our team has made over the past year. We believe we have the platform and the people in place to further strengthen and grow our business.

Thank you for joining us on today’s call. If you have any further questions, please don’t hesitate to contact us. Otherwise, we look forward to speaking with you again next quarter.

Operator:

Thank you everyone. That concludes our call. You may now disconnect.