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Nextracker, Inc. (NXT)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Nextracker Fourth Quarter and Fiscal Year 2023 Financial Results Conference Call. At this time all lines are in a listen-only mode. Following the presentation we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Wednesday, May 10, 2023.

I would now like to turn the conference over to Don Quinby, Director, Finance and IR. Please go ahead.

Don Quinby

Director-Finance and Investor Relations, Nextracker, Inc.

Thank you. Good afternoon and welcome to Nextracker's inaugural earnings conference call for our fourth quarter and full year fiscal 2023 results. With me today is our Chief Executive Officer and Founder, Dan Shugar; our President, Howard Wenger; and our Chief Financial Officer, Dave Bennett. All three will give brief remarks followed by Q&A. Slides for today's call, as well as a copy of the earnings press release and summary financials are available on the Investor Relations section of Nextracker.com. This call is being recorded and will be available for replay on the Investor Relations section of our website.

As a reminder, today's call contains forward-looking statements which are based on our current expectations and assumptions These statements involve risks and uncertainties that could cause actual results to differ materially. For a full discussion of these risks and uncertainties, please see the cautionary statements in our presentation, press release or in the Risk Factors section of our most recent filings with the SEC. Note, this information is subject to change and we undertake no obligation to update these forward-looking statements.

Please note we will provide non-GAAP measures on today's conference call. The full non-GAAP to GAAP reconciliations can be found in the appendix slides of today's presentation, as well as in the summary financials posted on the Investor Relations section of our website. All growth metrics will be on a year-over-year basis unless otherwise stated.

Now I'd like to turn the call over to our CEO. Dan?

Daniel S. Shugar

Chief Executive Officer, Founder & Director, NEXTracker, Inc.

Thank you for joining Nextracker's first earnings call since our IPO on February 9th. We will review our full fiscal year 2023, including the fourth quarter recently completed, and also provide guidance. I'm pleased to be joined today by our President, Howard Wenger; and Chief Financial Officer, Dave Bennett. Given this is our first earnings call, we will spend extra time to introduce you to the company, industry and the policy landscape in which we are operating.

Please turn to slide 4. We created Nextracker 10 years ago with a vision of a world powered by renewable energy. Our mission for achieving that was to provide the most intelligent, reliable and productive solar power system. As a company and together with our industry colleagues, we've made significant progress in advancing our vision. Today, solar leads new power plant additions in many grids around the world.

Slide 5. So what does Nextracker actually do? We design, manufacture and deliver solar trackers, control systems and software. Our technology helps customers achieve higher profitability by increasing their energy production, lowering operation costs and protecting the equipment in extreme weather. Our trackers enable up to 30% more energy to be produced annually compared with stationary solar arrays. The tracker, typically over 300 feet long, rotates the solar panels to follow the sun during the day. Solar panels, electrical inverters and switchgear are provided by others to the customer.

Slide 6. For a sense of scale, consider a 325-megawatt project using Nextracker, such as the project we see in this image. This is a big system but we have single sites that are 5 times larger. This typical project covers roughly 4 square miles with thousands of trackers. On average we delivered a system of this size every week last year.

Slide 7. Nextracker has been the global leader in the market as measured by shipment volume, revenue and profitability for the last seven consecutive years. But achieving market share metrics is not an objective for Nextracker. Market share is a byproduct of what we are really focused on: innovation, operational excellence and customer success. This focus has resulted in more than 80% of our sales orders coming from repeat business. As of today, we've delivered over 2 million trackers to dozens of countries. In total, our systems support over 74 gigawatts of solar power plants, equivalent power generating capacity of about 85 coal power plants. We achieved these metrics through innovation that will be covered by Howard, a global footprint, and relentless focus on customer service. [ph] This tracker's (00:06:12) greatest strength is our team and culture. Our executive leaders have over 20 years of solar experience on average. 6 of my 6 co-founders are still with the company 10 years later, which reflects well on our high performance culture of teamwork. We have strong trusted customer relationships and understand the needs of developers, independent power producers and contractors due to our deep industry domain expertise.

Slide 8. We completed our fiscal 2023 on March 31. We optimize our business for annual, not quarterly metrics, and our results validate our approach. Last year, we achieved record annual revenues of $1.9 billion, and EBITDA of $209 million. Year-on-year, we achieved a 30% growth in revenue and more than doubled our EBITDA while generating over $100 million of free cash flow. We also achieved phenomenal sales results, finishing the year with a record backlog of $2.6 billion. We defined backlog as firm orders with deposits.

A few months ago amidst turbulent conditions in the financial markets, Nextracker completed a successful IPO. We offer our sincere appreciation to our IPO stakeholders, starting with our global customers. We thank each of our customers for their ongoing confidence and doubling down with Nextracker, enabling our backlog to grow 90% over the prior year. We value our business partners from contract manufacturers, independent engineers, banks and consultants that have enabled us to scale and reliably serve the global market. And we are extremely appreciative of our investors who funded our IPO, which was a success for the entire renewable power industry. We believe it is our responsibility to deliver strong investment returns through disciplined performance and ferocious focus on customer satisfaction. In addition to delivering for our investors, we believe this will demonstrate solar is an attractive investment sector such that additional capital is invested to our industry, necessary for realizing our vision of a renewable empowered world. And finally, we thank our entire Nextracker team for your professionalism, customer focus and dedication.

Slide 9. Now, let's focus on key industry drivers. Paramount is solar's tremendous cost reduction progress. Lazard, a leading financial advisory firm, regularly publishes a comprehensive analysis comparing the production costs of power generation technologies. Their latest report shows the new power plant on an unsubsidized basis is lower cost than new coal, nuclear or gas power generation in most of the world. In fact, solar with an average cost of $60 per megawatt hour unsubsidized is about half the cost of a new coal plant, and about a third the cost of a new nuclear plant. A new gas plant at $70 per megawatt hour is slightly higher cost than standalone solar and slightly less expensive than solar plus battery storage at $74 per megawatt hour on average.

Slide 10. We just reviewed solar's competitive economics today, which had decreased in cost about 600% over the last 15 years. When you consider the availability of solar incentives in some markets, it's straightforward to understand why economics are the major factor driving solar demand. Additional policy tailwinds complementing growth are decarbonization, the desire for energy independence further amplified by the Ukraine war, the US Inflation Reduction Act, with similar policies overseas, and appetite to invest in renewable energy and electrification programs.

There are two major headwinds impacting solar growth in the US. The first are trade barriers to importing solar panels, especially those with Chinese content. While the situation is improving, industry growth has been materially impacted and many projects scheduled as extended until panels become available. The second major headwind is delays with electrical interconnection and permitting projects for construction. While these issues are usually solved on an individual project basis, they can delay the project implementation significantly. In aggregate consideration of the costs and policy factors, it's insightful to see that since 2010 solar has increased from about 10% to half of new power generation capacity added annually in recent years.

Slide 11. We covered that Nextracker has maintained leading global share. The most recent regional share data from third parties are shown here superimposed with the estimated total available market through 2030. Nextracker has lead share in North America, Latin America, Africa and Australia. There is also meaningful markets in Europe, the Middle East and Asia. In most of these locations, Nextracker has regional offices with sales, engineering and service to support customers.

Slide 12. Nextracker has intellectual property and know-how regarding manufacturing our products. But our strategy has been to outsource almost entirely with manufacturing partners, which is why our depreciating assets are so minimal. The prior chart illustrated the regional solar market. This chart shows how we map our supply chain to align with those local markets. In totality, Nextracker has over 50 partners across 16 countries and 5 continents. This global diversification provides customers with confidence we can deliver and also provides us international trade optionality that mitigates risk. We believe Nextracker has built by far the largest capacity and the most geographically diversified position in our sector.

Slide 13. Let's take a deeper look at our US supply chain. During the pandemic, commodities such as logistics and steel suffered steep inflationary cost pressures and port congestion impacted our ability to deliver on time. We made a decision early on to leverage our know-how to massively ramp US capacity. Last summer, we celebrated three factory dedication events in Texas, Arizona and Pittsburgh. At the time, we reported on 10 gigawatts of reported capacity with additional plan to progress. In response to strong demand and the IRA incentives we further increased capacity in these plants and work with additional domestic manufacturers and select overseas partners to relocate equipment to the USA. In fact, we have another factory announcement with a key partner coming next week.

At the end of fiscal 2023, we have over 25 gigawatts of capacity under contract with over 15 US suppliers. Many of these plants are shipping finished goods today and ramping as they add shifts of personnel.

Now I turn the call to Howard to share details about our operations, technology and customers.

Howard J. Wenger
President, NEXTracker, Inc.

Let me echo Don by congratulating the Nextracker team. We could not be more pleased with the company's many accomplishments. We had a very strong finish in Q4 with momentum that has put us in a great position for our new fiscal year ahead. Let me provide some background into our technological innovation, which coupled with the best-in-class team Don discussed, allows us to win business across all regions and terrains.

Please turn to slide 15. We can break down our innovations into three categories covering over 350 patents issued and pending. These innovations are designed to work together to enhance lifetime energy production at the lowest possible capital cost and operations and maintenance cost of the entire solar power plant while also assuring the highest reliability and control to protect the system. The industry characterizes this as LCOE, which is defined as levelized cost of energy. Offering a lower LCOE is one of the primary factors that enables Nextracker to win in the market.

As you can see from the next slide, 16, our inventions resulted in a leading balanced tracker that enables each tracker to be independently powered and controlled. This tracker architecture has unlocked a series of innovations that further differentiate us. For example our patented TrueCapture Software optimizes energy yield uniquely for every tracker row. We have over 190 projects with TrueCapture deployed around the world and we believe we lead the industry by far in this category. Our unique balanced tracker design also enables optimum light capture for bifacial solar panels that are now the standard for large scale systems.

Our extreme terrain-following tracker called XTR can eliminate all site grading and enables installations on rolling hills in more challenging terrains. We have sold and deployed XTR on over 65 projects globally, again leading the industry. Our navigator software platform connects all of our trackers back to a central hub that enables single button control for [ph] panel sawing and cleaning (00:16:42), as well as site vegetation management, all backed by an onboard GPS for every single tracker in the field, assuring connectivity and control of the entire solar field even during grid power outages.

In summary, our integrated tracker architecture provides advantages that allows us to win business across all regions and site conditions, all climate zones and all varieties of terrain around the world. This is illustrated on the next slide number 17, where you can see Nextracker projects deployed across the United States. We won business in large, sunny, flat regions like Texas and the deserts of California and Nevada. We won in more diffused light regions in the South and in the wet rolling hills of the Southeast. We won in colder and higher latitude regions in the Midwest and also in the Northeast, where sites frequently are more constrained with irregular boundaries. This highlights the flexibility of our tracker hardware and software system architecture. With various innovations and extensions of our flagship Horizon tracker system solution, we can win everywhere.

Please turn to slide 18. Our tracker solutions' global scale, financial stability and long-time industry experience have enabled deep and trusted customer partnerships. Over 80% of our revenue comes from repeat customers. This underscores how we partner with our customers for mutual success, a model we have deployed across the world to continually win business. For example, on the next slide 19, we show a selection of global project wins from the last fiscal quarter four. Although this is a small subset of our project and customer wins from the quarter, this highlights the breadth of our global reach and portfolio approach to the business spanning multiple continents. We have a healthy combination of new and repeat customers from North America to South America, from Europe to Asia and Oceania.

These sample Q4 project wins also reflect the strength of our global team and sales, marketing, supply chain training and support that provide a platform to further scale and grow, which brings me to our backlog on slide 20. We ended the year with a record backlog of $2.6 billion, up 90% from the prior year. We define our backlog as signed contracts for specific projects with deposits from customers. By the end of fiscal year 2023, our backlog includes over $1.8 billion of project-specific purchase orders and over $670 million of VCAs or volume commitment agreements comprising multiple specific projects. VCAs are signed contracts with deposits from developers, plan owners, and EPCs or engineering, procurement and construction companies. We believe our VCA program which we began last year in fiscal year 2023 provides even greater visibility into our future revenue and growth. In general, legacy backlog contracts take three to five quarters to cycle into revenue, while our VCA agreements typically cycle into revenue from three to eight quarters. In summary, as our backlog demonstrates, we are seeing significant demand strength in all of our core markets around the world, where our global revenue mix continues to be comprised of roughly two-thirds US and one-third rest of world. Now let me turn the call over to Dave Bennett, our Chief Financial Officer, to review the financial details of the quarter and to discuss our guidance for fiscal 2024.

David P. Bennett

Chief Financial Officer, NEXTracker, Inc.

Thank you, Howard, and thank you all for joining us today. Please note that all numbers referenced in my remarks are on a non-GAAP basis. Unless otherwise stated a reconciliation to comparable GAAP metrics and a list of the reasons why the company uses these measures can be found in today's earnings release which is available on our website and as an exhibit to our Form 8-K filed with the SEC.

Please turn to slide 22. Before we get into our quarterly and annual performance, as well as guidance for fiscal 2024, I'd like to provide some key historical financial information. Note, our fiscal year is on March 31. Due to the nature of our business, I encourage you to evaluate Nextracker's performance on a full year basis. The exact timing of project deployment can vary based upon factors such as weather, component availability and project-specific factors which may impact the timing of revenue recognition between quarters.

We report revenues in two segments, the US and the rest of the world. For fiscal 2023, the revenue split was approximately two-thirds US and one-third rest of the world. Revenue from TrueCapture, our software solution, has trended historically at approximately 1% to 2% of total revenue. We remain very focused on scaling our software business. It's an important differentiator for Nextracker.

Now looking at adjusted earnings before income taxes and depreciation, adjusted EBITDA of $209 million for fiscal 2023 was a record with margins stepping up towards historic levels. To understand our margin opportunity, it's important to look at the past few years. We ended fiscal 2021 with $179 million of EBITDA and a 15% EBITDA margin. We see fiscal 2021 as the last normal year before the industry began incurring higher costs associated with logistics and freight issues. The $92 million of EBITDA in fiscal 2022 reflects the higher operating costs from these supply chain constraints. While the 6.3% EBITDA margin was not optimal, maintaining profitability during a historic downturn validated our disciplined financial execution.

Turning to fiscal 2023, we saw improving sequential EBITDA and margin due to higher pricing, cost reduction and improved execution. Adjusted EBITDA margin was 11% for fiscal 2023, with sequential increases from 7.9% in the first quarter to 14% by Q4, which is trending closer to our margin profile prior to the pandemic.

Now please turn to slide 23 for our fiscal 2023 Q4 results. We closed the quarter at a record $518 million of revenue, an increase of approximately 18% year-on-year versus the fourth quarter of fiscal 2022. It is worth noting that rest of the world revenue was up over 42%, driven by continued strong demand in Latin America, Europe, the Middle East and India. Adjusted EBITDA increased $50 million to $73 million from the fourth quarter of fiscal 2022, an increase of 227%.

Looking at our fiscal 2023 versus fiscal 2022 results on the next slide. For full-year 2023, revenue was $1.9 billion, an increase of $444 million and 30% from the prior year. Revenue in the US was $1.2 billion, up $329 million. Rest of the world revenue was up $115 million. The continued challenges with panel availability in the US impacted our software revenue in the second half of the year, which was at the low end of our 1% to 2% of revenue goal.

Adjusted EBITDA increased $116 million to $209 million from the prior year, an increase of 126%. Again, we are very pleased to have achieved increased EBITDA every quarter during the year. Fiscal 2023 adjusted free cash flow was over $100 million, an increase of approximately $250 million from the prior year. Net working capital as of March 31 was approximately 13% of revenue.

Turning to slide 25, cash and liquidity. We believe that financial strength is an important differentiator and that our capital structure, including a strong balance sheet and ample liquidity, is a key competitive advantage. In addition, we outsource our manufacturing to partners, which limits our capital expenditures. In conjunction with the IPO, we closed on a debt syndicate led by Tier 1 institutions: JPMorgan, Bank of America, Citi and Barclays. We executed a $150 million term loan and a $500 million revolver, which further ensures Nextracker can execute independently from Flex and manage our networking capital.

Total liquidity as of March 31, 2023, was $630 million. We have no significant maturities until our fiscal 2028. Note that we are currently operating at a debt-to-EBITDA ratio of less than 1. It's important to note that Nextracker did not retain any proceeds from the initial public offering or the debt issuance, as all proceeds were remitted to the pre-IPO owners. We ended the fiscal year with $130 million of cash.

Please turn to the next slide for our fiscal 2024 guidance. In developing guidance, I want to point out a few factors that influence our outlook. As Dan discussed, we think the first half of fiscal 2024 will continue to see some constrained panel availability. As such, we expect slower growth in the first half versus the second half of the year. We expect our adjusted tax rate to range between 15% and 20% of adjusted pre-tax income based on the current ownership structure. We continue to invest in the business, including further expanding our supply chain, developing our team and product offerings. This is reflected in our EBITDA outlook. We have not factored in additional profitability resulting from the Inflation Reduction Act.

With that context, our full-year fiscal 2024 guidance is as follows. Revenue is expected to be between $2.1 billion to $2.3 billion, an increase of approximately 16% at the midpoint. Adjusted EBITDA is expected to be between $265 million to $305 million, an increase of 36% at the midpoint. GAAP EPS is expected to be between a $1.20 to a $1.40 and includes approximately $0.15 related to stock-based compensation and intangible amortization. Adjusted earnings per share is expected to be between a $1.35 to a $1.55 based upon 146.5 million weighted average shares outstanding.

Our Q1 fiscal 2024 outlook is as follows: Revenue is expected to grow 15% to 20% versus Q1 fiscal 2023; EBITDA margin is expected to be between 12% to 13%, up 400 to 500 basis points compared to the same period last year.

I will now turn the call back to Dan for some concluding remarks.

Daniel S. Shugar

Chief Executive Officer, Founder & Director, NEXTracker, Inc.

Thank you, Dave and Howard. I've been fortunate to be working in solar since the 1980s, and I've never been more excited about our industry than today. We look forward to your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now conduct a question-and-answer session. [Operator Instructions] One moment, please for your first question. Your first question comes from the line of Mark Strouse from JPMorgan. Your line is now open.

Mark Strouse
Analyst, JPMorgan Securities LLC

Q

Great. Good afternoon. Thank you, guys, and welcome to the public markets. So, my first question, so it's good to see the bookings momentum continuing here. Curious if you can kind of break that down between what you're seeing US versus internationally? Just curious if you're seeing any kind of temporary slowing of the sales cycle, just as some of your customers might be awaiting the final IRA guidelines here?

Howard J. Wenger
President, NEXTracker, Inc.

A

Hi, Mark. This is Howard Wenger. I'll take the question. So, we're really happy with where we ended up at the year, up 90% on our backlog to $2.6 billion year-on-year growth. We finished very strong; very strong Q4 in terms of bookings, so we have a lot of momentum that we're carrying into the next year.

As Dave mentioned in his remarks, I did as well, our business has recently been comprised of one-third rest of world, two-thirds US in terms of revenue. Historically, we've gone as high as 50/50. And the backlog is reflective, roughly, of our current ratio there. In terms of the slowing of bookings related to IRA, we're just not seeing that.

Mark Strouse
Analyst, JPMorgan Securities LLC

Q

Okay. Okay. Thanks, Howard. And then, if I can just sneak in one more, on the domestic content, hearing from some folks that, that might be getting closer, who knows. But just curious for an update there since the IPO as far as what percentage of the overall bill of materials you think you might be able to offer customers. I know the exact definitions are still to be determined, but any update there and then maybe kind of how you're positioning the supply chain for different scenarios there? Thank you.

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc.

A

Sure, Mark. This is Dan Shugar. I'll take that. As you noted, the Treasury department hasn't defined the rules of what constitutes US to bank domestic content under the IRA, so we can't give specific informed answer for IRA purposes until those rules are issued. We do intend to do what the customer is qualified for the [ph] ITC matter (00:32:10).

In general, for customers that require domestic content, we can accept orders for about 70% to 80% of domestic content. These percentages are approximate. They can fluctuate as a function of commodity cost and other factors. We're also working with manufacturing partners for other components, and we expect to be able to accept orders next year for over 90% domestic content for customers that we require it.

In addition, we are using US steel, meaning steel that's melted, processed, encoded in United States in our primary components like tubes that are produced domestically. Finally, I would add that in addition to mechanical components, we have proprietary electronic tracker controllers that are manufactured domestically.

Mark Strouse
Analyst, JPMorgan Securities LLC

Q

Very helpful. Thank you.

Howard J. Wenger
President, NEXTracker, Inc.

A

Thank you. We'll take the next questions.

Operator: Your next question comes from the line of Julien Dumoulin-Smith from Bank of America. Your line is now open.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Hey. Thank you, team. Appreciate it. Maybe just two follow-ups from the last question set. First off, just going back to you talked about pre-pandemic levels and margins, et cetera, obviously making good headway against that. Can you talk a little bit about what that trajectory looks like in the cadence getting back to that at this point? I mean – well, I'll leave it there.

David P. Bennett
Chief Financial Officer, NEXTracker, Inc.

A

Thanks, Julien. This is Dave Bennett. In terms of the margin trajectory getting back to what we what we call normal, the 15% EBITDA in fiscal 2021, as you can see, coming out of the low fiscal 2022 into fiscal 2023, our Q4 closed at 14% EBITDA. That's due to just us closing relative to the quotes, better execution, some cost reductions that would include logistics.

But the year came in at 11% EBITDA. That, we expect to step up to 13% at the midpoint on our way to that historic margin without any IRA uplift. We're on track with that, but we're really prudent with how we're looking at going forward because we are continuing to reinvest in the business. That business – that investment includes R&D expanding our supply chain, building out our team and innovating our product.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Got it. Okay. So, it sounds like it's in the cards, but not quite defined yet. And then vis-à-vis the IRA uplift, you guys, I think, alluded to a moment ago, Dan, to a further expansion of US manufacturing. I think that's what you were alluding to, I think, in the next few weeks? Can you try to follow up a little bit and describe maybe, in totality, if you can, early, on the total quantum of domestically manufactured capacity you might be looking at, pro forma for that further addition?

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc.

A

Julien, Dan Shugar. So, in our slide deck, on slide 13, we speak to our US supply chain in more granular detail. So, we have over 25 gigawatts of contract capacity for primary components, 10 manufacturing plants currently shipping finished components for various tracker components here in the US and additional plants in progress. We will be having another factory announcement next week, and so, please stay tuned for that. Thank you for your question.

Julien Dumoulin-Smith Q
Analyst, BofA Securities, Inc.

All right. All good. Good.

Howard J. Wenger A
President, NEXTracker, Inc.

Thank you. We'll take the next question, please.

Operator: Your next question comes from the line of Christine Cho from Barclays. Your line is now open.

Christine Cho Q
Analyst, Barclays Capital, Inc.

Hi. Good evening. Thank you for taking my question. I thought I would maybe ask the backlog question a different way. You said, you ended the year two-thirds US, one-third rest of world. So, I just kind of compared to what it was last quarter, it would seem that the US backlog went up about $100 million quarter-over-quarter and a bigger jump in rest of world, am I sort of in the ballpark there, which I guess would sort of fit with what you have on slide 19? And then, are VCAs mostly in US or rest of world?

Howard J. Wenger A
President, NEXTracker, Inc.

Okay. I'll take the second part of the question first. Dave will answer the first part. So, VCAs are focused right now in the US. We do have activity outside of the US, but the ones that are signed and contracted are in the US. Dave?

David P. Bennett A
Chief Financial Officer, NEXTracker, Inc.

Yeah. Thanks for the question. I think as you can think about our backlog and how we're growing it, and then the velocity of how it flows out into revenue. You would think what Howard prepared is a weighted average, so it differs rest of the world, because we have different markets than when they come in. So, it's really hard to answer in terms of breaking out our backlog by quarter, by segment. So, I think it's best to think about it in aggregate with a three to five-quarter roll out on our legacy backlog, and then, with the VCAs rolling out over three to eight quarters.

Christine Cho Q
Analyst, Barclays Capital, Inc.

Okay. Then, I didn't really see any guidance for gross margins. And it looked like you hit 19% this quarter. You've seen continuous improvement over the last year. How much more running room does this have to move higher? Should we expect this to creep? And was there anything in the quarter that was a benefit that might not recur? If we could also get sort of the impact of asset FX on top line and EBITDA?

David P. Bennett A
Chief Financial Officer, NEXTracker, Inc.

Okay. So let me start with the end. No real onetime benefit, no significant impacts from FX on that. In terms of run rate and increase, as we talked about, our fiscal 2021, 15% EBITDA with a run rate of about 5% on SG&A issued around 20% gross margin. That's the target. We're tracking towards that target. We do expect to continue to improve margins on that path.

We're not committing to the exact time to get there, but we are committing to going from around a 13% EBITDA for fiscal 2023, which is about 18% gross margins. And that's up from the prior year, 200 basis points on both of those. So, we're committing to the continued increase. In terms of the timing, you know the target.

Howard J. Wenger
President, NEXTracker, Inc.
A

Thank you, Christine.

Christine Cho
Analyst, Barclays Capital, Inc.
Q

Thank you.

Howard J. Wenger
President, NEXTracker, Inc.
A

Thank you, Christine. We'll take the next question, please.

Operator: Your next question comes from the line of Jordan Levy from Truist. Your line is now open.

Jordan Levy
Analyst, Truist Securities, Inc.
Q

Afternoon, all. Maybe at the start, I'm just asking the competitive landscape you're seeing out there. I know there's been some smaller NIMs come up in certain applications here in the US. How's that environment look both domestically and international markets?

Howard J. Wenger
President, NEXTracker, Inc.
A

Well, it's – capitalism works. It's a competitive world. We're very focused on our customers, our technology, our company and running a sound business. Our backlog increase of 90% reflects that focus. But there are new competitors. They have significantly less share in the market and they have a different customer base. So, it's interesting that we actually don't run into some of the new entrants into the market.

We also – I'll just add that we have a lot of pricing discipline in the company. What do I mean by that? We want to grow. We want to grow profitably. So, we're not chasing business. We're focused on Tier 1 customers and going after solid business that – the kind of business that we like to do over and over again. As we talked about, 80% of our customers are repeat business. So, that's the landscape. Do you have a follow-on question, please?

Jordan Levy
Analyst, Truist Securities, Inc.
Q

Yeah, just a quick follow-on, just flipping over to the TrueCapture side. Seems like there's been some good traction there with the Atlas announcement. Just wanted to get your thoughts on how the reception feedbacks been as you're growing that business, and then some of the supply chain challenges you're working through on that side.

Howard J. Wenger
President, NEXTracker, Inc.

A

Thanks, Jordan. Appreciate the question. As Dave mentioned, we are typically 1% to 2% of revenue. We're tracking on the lower end of the range. Bookings are still very strong for TrueCapture. There's a lot of uptake for the software. It's been validated by multiple independent engineers, customers. It provides tangible value.

So, there is some delays in commissioning projects that are impacting the TrueCapture recognition of revenue that is principally driven from delays in mounting the final PV panel on the whole power system. But again, bookings for TrueCapture is strong. Revenue recognition is lagging a bit. Really appreciate the questions, Jordan. Next question, please.

Operator: Your next question comes from the line of Tristan Richardson from Scotiabank. Your line is now open.

Tristan Richardson
Analyst, Scotia Capital (USA), Inc.

Q

Hi. Good evening, guys. Howard, just a follow-up on maybe an earlier question about seeing projects move on to the right in anticipation of IRA. Really appreciate that maybe you're not seeing that at all in your existing book, but maybe to ask it another way, thinking about top of the funnel activity or discussions with customers, I mean, do you sense – or are you seeing early indications of pent-up demand, such that when we do have domestic content clarity, you would see order flow, accelerate? I mean, just yeah, any comments on top of the funnel would be helpful.

Howard J. Wenger
President, NEXTracker, Inc.

A

Sure. Our entire funnel is robust, let me put it that way, the top and the bottom. And honestly, we're, we're seeing very strong demand in the US. I think that it takes three to five years to develop a project, utility scale project, into fruition. And so, a lot of the activity has already begun on these projects. And our take is that the industry is anticipating a very favorable outcome. So, all systems are go on the development side, which is feeding the funnel.

Tristan Richardson
Analyst, Scotia Capital (USA), Inc.

Q

Thanks, Howard. And then, maybe Dave, just a follow-up.

Howard J. Wenger
President, NEXTracker, Inc.

A

Do you have a follow-up?

Tristan Richardson
Analyst, Scotia Capital (USA), Inc.

Q

Sure. Yeah, just a minor one on the 2Q commentary. Dave, is there anything we should be thinking about nuanced or project timing-wise, driving sort of that sequential decline sort of implied by the year-over-year commentary you gave for 2Q?

David P. Bennett
Chief Financial Officer, NEXTracker, Inc. A

Sure, Tristan. You're talking calendar Q2, yes, not our fiscal Q1? [indiscernible] (00:44:30)

Tristan Richardson
Analyst, Scotia Capital (USA), Inc. Q

Apologies, yes.

David P. Bennett
Chief Financial Officer, NEXTracker, Inc. A

Yes, okay. Yeah. You're right on the sequential decline is driven by the panel availability, visibility pushing to the second half if you are looking at it on a sequential basis. We don't. We really look at it on a year-over-year basis, which is why we're guiding to the 15% to 20% year-over-year growth, which is how we're focused and that tracks to the annual guidance. But in terms of sequential, yes, we've seen a push out on the – due to the tail availability.

Tristan Richardson
Analyst, Scotia Capital (USA), Inc. Q

Super helpful. Appreciate it. Thank you, guys.

David P. Bennett
Chief Financial Officer, NEXTracker, Inc. A

Thank you. Thanks.

Operator: Your next question comes from the line of Sophie Karp from KeyBanc. Your line is now open.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc. Q

Hi. Thank you for squeezing me in here. Congrats on your first quarter as a public company. So, I was just wondering if you could comment on what percentage of your backlog sort of is tied to domestically manufactured solar modules. Into that degree, maybe the risks from the delays in the customs – given they're from customs? Thank you.

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc. A

Thanks Sophie. Could you repeat your question, please?

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc. Q

Yeah. The question is, could you comment on what percentage of your backlog is tied to projects that utilize domestically manufactured solar panels?

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc. A

Well, first, our plan contemplates the PV that's evidence available and we're not living out which projects have PV that's made the US versus PV that's being imported.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thank you.

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc.

A

Yeah, if you have a follow on, I feel like I didn't want to leave you hanging. I'm not sure we fully understood your question, but if you do have a follow-on there, we could maybe unpack it further.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

I guess, this is not the breakdown that you you're providing. I was just wondering what percentage of the backlog is kind of not really – not tied to custom delays, but it sounds like you're not comfortable providing the data which is fine.

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc.

A

Okay. Great. Thank you.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks.

Howard J. Wenger
President, NEXTracker, Inc.

A

Thank you Sophie. Appreciate the words of congratulations. Next question, please.

Operator: Your next question comes from the line of Philip Shen from ROTH. Thank you. Your line is open.

Philip Shen
Analyst, ROTH Capital Partners LLC

Q

Hey, guys. I'll echo that congratulations as well. Couple more questions on backlog and bookings. How much of the $1 billion of bookings for F Q4 2023 is the volume commitment agreements and how much is non-VCA? And then, in terms of your bookings strength, to what degree has that continued into your FQ1, and how do you expect those bookings to trend in FQ1 2022 and 2023? Thanks.

Howard J. Wenger
President, NEXTracker, Inc.

A

Sure. Well, on slide 20 of the deck, Phil, we show that $674 million of the $2.559 billion in backlog is attributable to VCAs. So that's part one to your question, I believe.

[indiscernible] (00:48:15)

Philip Shen
Analyst, ROTH Capital Partners LLC

Q

I'm sorry. I guess I'm trying to – we're trying to figure out the incremental VCA. So, for example, you're in 2022 calendar. You guys had about $2.1 billion of backlog, how much of that was VCA, for example? So, the bookings were about $1 billion, how much of those bookings as opposed to the year – as opposed to the actual backlog, what was the mix of VCA and non-VCA of the bookings? Thanks.

Howard J. Wenger
President, NEXTracker, Inc.
A

We're not giving that level of detail, Phil. And so far, we've had two public announcements of VCAs. You can track those. Those happened in the – one of them happened in calendar year 2022, one announcement calendar year 2023, but we have other VCAs that we signed and have commitments and deposits for specific projects. That's the level of detail we're providing at this time. And then you had a part two to your question which is have booking strengths coming into the current quarter or – can you...?

Philip Shen
Analyst, ROTH Capital Partners LLC
Q

Yeah. What kind of strength do you see ahead? Do you see more this kind of momentum carrying through into your next quarter and then even the back half of this calendar year? Thanks.

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc.
A

Yes. Yes to both of those. We do. There's strong momentum.

Philip Shen
Analyst, ROTH Capital Partners LLC
Q

Great. And then, in terms of my final question here, looks like U.S. Steel could be defined as [ph] not to coat (00:49:49) potentially, we'll have to see. And sorry if I missed this, but can you talk about how much capacity that you have today could qualify as [ph] not to coat steel (00:50:00), and then how much could qualify by year end calendar this year or some period in the future?

Howard J. Wenger
President, NEXTracker, Inc.
A

Yeah. Thank you, Phil. I'll take that Dan. As noted on, again, slide 13 of our materials, we have over 25 gigawatts of contracted capacity. That's a large amount of contract capacity and it's regionally distributed across the US. And in some cases, for example, with the JM Steel facility that we dedicated in April, it's co-located with a steel plant. In that case, with the Steel Dynamics facility, one of the newest mills in America, 3 million ton facility which can make steel and galvanized within a mile of our contract fabrication partners facility.

So we very intentionally located these facilities. We have very strong relationships with most of the top steel companies in the United States and we see the ability to deliver – well, certainly deliver our plan and be able to deliver in excess of our plan with growth, upside growth, we could see in the United States with raw material that melted, coated and processed in the United States. In this case, rolled – it's melted, it's rolled, it's galvanized, it's made in tracker components here. So it's very exciting story also because the U.S. Steel is so much cleaner on average than the overseas steel and we're creating thousands of jobs domestically. It's just a great story. Thanks for your questions, Phil.

Philip Shen
Analyst, ROTH Capital Partners LLC

Q

Thanks, guys.

Operator: Your next question comes from the line of Maheep Mandloi from Credit Suisse. Your line is now open.

Maheep Mandloi
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, good evening and thanks for taking the questions as well. Congratulations coming to the markets in the quarter here. Just curious on the rest of the world growth the way you had in 2023, 2024, FY 2024. Just curious how should we think about that and how should we think about pricing in general in the US and international markets. Thanks.

Howard J. Wenger
President, NEXTracker, Inc.

A

Hi, Maheep. Thanks for your question. So, both the United States and the rest of the world are growing at a good clip. As Dave noted, our guidance is to grow overall for the company at a rate of 15% to 20% year-on-year. And we're not giving precise details, but you can think of it as roughly split between the US and rest of world. Rest of world is actually growing a little bit faster in terms of the business. So, and we're really well positioned in a couple of market, few markets in particular, as Dan noted. Brazil in particular is very strong market for the company. Australia, Spain, multiple continents, things are going quite well.

And then the second part of your question had to do with pricing. And so, we had some pricing adjustments in the double digits year-over-year upward to compensate largely in part of the impacts from the pandemic and the Ukraine war in combination. And things have equilibrated to a degree, and as Dan talked about, we're rapidly scaling our domestic supply chain. We're in a good position to continue to grow and exercise extreme price discipline in all markets around the world, and we're going to keep doing that.

Thank you, Maheep. Do you have a – was that two questions or is there a follow-up?

Maheep Mandloi
Analyst, Credit Suisse Securities (USA) LLC

Q

If I could squeeze a follow-up, just on the cash uses here, you have more than $600 million of liquidity and seems to be in free cash flow position for FY 2023 and likely for 2024 as well. So just curious like what would be the priority here for the cash uses? Thanks.

David P. Bennett
Chief Financial Officer, NEXTracker, Inc.

A

Yeah. So thanks for the question. For fiscal 2024, our strategy, our capital allocation strategy is to focus on the fundamentals. We're in a growth period that we're in right now to manage our networking capital between 10% and 15% and allow EBITDA to drive our cash up. And like you said, the liquidity of $630 million does provide flexibility and will allow the company to invest at the point in time it's the right time with the right return.

Howard J. Wenger
President, NEXTracker, Inc.

A

Thank you for your questions. We're going to keep rolling. And just so you know, on the call, we're going to go about 10 minutes over until 3:40 P.M. Pacific Time. We want to get everybody in, but we're going to try and be succinct with our answers. Next question, please.

Operator: Your next question comes from the line of Derek Soderberg from Cantor Fitzgerald. Your line is now open.

Derek Soderberg
Analyst, Cantor Fitzgerald & Co.
Q

Yeah. Hey, guys. Thanks for taking my questions. I also wanted to ask on pricing. Have you guys been in conversation with suppliers and customers for sort of sharing in the benefits of the IRA? And can you talk a bit about how you expect that to play out? It sounds like prices have been adjusted higher a bit this year, but is there an expectation for pricing once we get clarification on the IRA? If you can you just talk about that a bit, that'd be great.

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc.
A

Sure. My pleasure. Yeah. So our plan contemplates how we expect things to play out. I'll start with that. And we are not, as we mentioned, in fact, however, we are not factoring in any of the [ph] 45 acts – (00:57:03) incentives that are contemplated to come.

And look, I mean, the IR rate, we think it was very well structured. The – there's a lot of benefits, tremendous benefits to developers and owners of the systems that come with that. Relative to domestic manufacturing, not only for tractors, but also for solar panels and other inverters, electronics that are being made in the US, we think those were rightsized to really help us significantly expand the US supply base. So the conversation is really around supply security, supply certainty, on-time delivery, we've been able to really articulate those benefits. And so that's how we see things playing out.

Do you have a quick follow up?

Derek Soderberg
Analyst, Cantor Fitzgerald & Co.
Q

Got it. I do. You mentioned permitting and interconnection delays in the prepared remarks, so I'm curious if those – if that's geographically specific to the US and less so internationally. Is that true? And is there a path or timeline towards that improving overtime? What needs to happen for that to improve? Any detail there would be great. Thanks.

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc.
A

Sure. So, look, these are real headwinds. On the permitting, I'm sure, yeah, you've done some projects at your house, you've tried to get a permit on the construction side with your local jurisdiction, things can roll out. We're fulfilling many dozens of projects at any given moment. You can have issues where a construction permit is delayed, but in aggregate, there are so many projects and so much demand. That's why we're seeing our revenue keep going up and our plan keep going up.

Relative to [indiscernible] (00:59:11), it's a fact that the time required to achieve an interconnection permit or authorization has increased over time, how significantly this has been documented. And so, it's a factor, definitely.

But the economics of solar are so strong and so many great developers and IPPs are out developing projects. There are 3,000 utilities in the United States, as kind of an interesting data point, and there's many, many projects in the interconnection queue. So, we're seeing an army of developer and IPPs just bringing forth high quality projects, they're advancing millions of dollars to perfect their project interconnection.

But it goes to why we guide to an annual plan. Just to give you a sense, right? So our plan for this year, if you look at our $2.2 billion guide on average, we're delivering over $40 million a week during this upcoming period. So, if you have a single project that our customer is waiting for a permit to be able [ph] to close on (01:00:32) materials to capital [indiscernible] (01:00:34) of the quarter. So we're really focused on annual results, meeting customer needs and delivering positive profitability for the company. And I believe our results speak to that.

Howard J. Wenger
President, NEXTracker, Inc.
A

Thanks, Derek, for your questions. Next question, please.

Operator: Your next question comes from the line of Christian Schwab from Craig-Hallum Capital Group. Your line is now open.

Christian David Schwab
Analyst, Craig-Hallum Capital Group LLC
Q

Congrats on a great quarter. I just have one question. Do you guys have any opinion yet on panel availability for your fiscal year 2025? The reason I ask is, some of our contacts are less more optimistic about 2024 than they are 2023. Just wondering if you have an opinion you'd like to share.

Howard J. Wenger
President, NEXTracker, Inc.
A

You're speaking about for 2025, correct?

Christian David Schwab
Analyst, Craig-Hallum Capital Group LLC
Q

Yeah. Your fiscal year 2025. Yeah.

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc.
A

Got it. Yeah. Got it. Okay, well, first, let me just kick start what's happening today. We're seeing increased panels coming into the United States with less issues with Customs and Border Protection as a general statement. And a significant increase for panels coming from India, a significant increase in panels coming from Southeast Asia. What's really exciting is also the – since the IRA was announced, according to the American Clean Power Association, over 25 new PV manufacturing facilities have been announced for the United States. In some cases, those are expansions; in some cases, those are new plants.

So we're hopeful the market will respond quickly as we did on the – we executed with tremendous speed on our new tracker manufacturing site. We're optimistic that we're going to see more domestic manufacturing of solar panels and all the incoming components while these trade barriers have been reduced to allow us to fulfill the intermediate term market.

Howard J. Wenger
President, NEXTracker, Inc.
A

Thank you, Christian, for your question. Next question, please.

Operator: Your next question comes from the line of Martin Malloy from Johnson Rice. Your line is now open.

Martin W. Malloy
Analyst, Johnson Rice & Co. LLC
Q

Good afternoon. I just have one question as well. Is there any trends that you could maybe highlight in terms of customer interest or orders for some of your different products you've introduced, Horizon-XTR or Gemini?

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc.
A

Yeah. I really appreciate that question. I want to really speak to some of the technologies that are delivering extreme value to customers, software, TrueCapture and our Terrain-Following technology XTR. So we introduced TrueCapture over six years ago. And when we introduced it, we had data from multiple utility scale field trials that have been validated by independent engineers and socialized with the independent use that represent owners and so forth, which is why we've achieved such strong commercial traction on that technology. As Howard mentioned, over 190 customers using it and that's around the world, I believe, on five contacts.

Similarly, for our Terrain-Following technology XTR, we first deployed that in 2018 and then worked really closely with a leading APC to field dozens of projects and then we released it globally. Today, we have over 60 projects around the world using XTR, and this is really about having real hardware backed up by real software or real firmware to be able to extract the value, have it validated by the engineers and this stuff works. I can speak to that as an engineer. And that is definitely driving our commercial activity.

Howard J. Wenger
President, NEXTracker, Inc.
A

Thank you for your question, Marty. Next question, please.

Martin W. Malloy
Analyst, Johnson Rice & Co. LLC
Q

Thank you.

Operator: Your next question comes from the line of Thomas Martin from BNP. Your line is now open.

Thomas Martin
Analyst, Exane SA (United Kingdom)
Q

Hi, there. Thanks for taking the questions. Just a quick clarification. First of all, are you able to indicate how much of the bottom end of your guidance range can be covered from existing project awards in backlog?

David P. Bennett
Chief Financial Officer, NEXTracker, Inc.
A

Sure. Our existing backlog allows us to, in terms of meeting our guidance, we're very comfortable that the majority is booked up. And so that's why we're providing the range that we are. [indiscernible] (01:05:56) follow-up?

Thomas Martin
Analyst, Exane SA (United Kingdom)

Q

Okay. Thanks. And yeah, so a quick follow-up [indiscernible] (01:06:00). On the software side, panel supply, you've spoken about that, has been part of the reason for your revenue recognition lacking. You've spoken about panel supply being an issue for the next quarter. We've got them coming into the market and coming through customs, however, it's perhaps in the near term not perhaps, allowing all the projects to accelerate dramatically. Is this likely to be a calendar H2 normalization cycle in terms of power delivery, also enabling you to unlock the software revenues that are currently not turned on? And are you able to give us any quantification of what sort of level of software revenues you've got deferred awaiting panels?

David P. Bennett
Chief Financial Officer, NEXTracker, Inc.

A

Okay. I think I understand your question. You're asking the timing if our backlog or our software, which has grown, impacts the rollout of the revenue recognition related to software revenue, is that your question?

Thomas Martin
Analyst, Exane SA (United Kingdom)

Q

Correct me if I'm wrong, but my understanding was that you also got effectively a backlog of revenue recognition that hasn't come through on the software side related to the panel supply issues. And it sounds like the panel supply issues are getting better, maybe not in the next calendar quarter, but does your guidance assume in the second half of the year that the revenue recognition software side is improving quite significantly because the panels are coming through and allowing you to actually turn on the software, allowing the customers to turn on the software?

David P. Bennett
Chief Financial Officer, NEXTracker, Inc.

A

Yeah. And the guidance does contemplate the timing of our software revenue recognition and it will be weighted to the second half.

Howard J. Wenger
President, NEXTracker, Inc.

A

Thank you for your questions, Thomas. Appreciate it. Next question. And I believe this will be our last question. Thank you.

Operator: Your next question will be from Donovan Schafer from Northland Capital Markets. Your line is now open.

Donovan Schafer
Analyst, Northland Securities, Inc.

Q

Hey, guys. Thanks for taking the questions. I want to just ask, just sort of focusing on hardware for a moment, just the hardware side of things, about kind of new product innovation and introductions, if there's anything on the hardware side you're looking at or most interested in or developing. And then just tightly related to that, it does look like a lot of companies have come out with these dual row trackers where you use a pretty simple kind of push/pull setup to have one motor driving – two rows. You guys are – or I know you guys are very kind of pioneers of independent row idea, but I'm just wondering if there's sort of a place for that. We've got Trina, GameChange, PV hardware, [ph] Ardtech, Sgen, Owens (01:09:09), there's a lot of them out there now. And so just, is there substance to it or is there something you see where you feel like you couldn't see yourselves going there and it just doesn't make sense somehow?

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc.

A

Yeah. Donovan, I appreciate the question. Let me just say, we have a deep technology and product roadmap that covers each of our three buckets in mechanical, electronics and controls and software. And we're going to have a range of new offerings covering all three of those this year and on a go-forward. With respect to the architecture of our system, we're very open to evaluating different architectures. In prior companies, we actually – we didn't invent the concept of tracking, but we commercialized it in prior companies. And so, we've been working on trackers since the 1980s, and we're always evaluating things. We believe, as Howard mentioned, that our solutions can allow us to win across a wide range of geographies and a wide range of site conditions. And our backlog, with a 90% year-on-year growth reflects that outcome. Thank you for your question, Donovan.

Daniel S. Shugar
Chief Executive Officer, Founder & Director, NEXTracker, Inc.

And I'd like to take this opportunity to thank everyone for listening into our first earnings call, supporting the company through our journey from when we started 10 years ago in the IPO process. And really the industry, we're looking forward to working with our other industry partners to fulfill our vision of a renewably powered world.

Howard J. Wenger
President, NEXTracker, Inc.

Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.