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Nextracker, Inc. (NXT)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Nextracker First Quarter Fiscal Year 2024 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, July 26, 2023.

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

Don Quinby
Director-Finance, Nextracker, Inc.

Thank you. Good afternoon and welcome to Nextracker's earnings conference call for our first quarter fiscal 2024 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 get brief remarks followed by Q&A.

Slide from this call, as well as a copy of the earnings press release and summary financials are available on the Investor Relations section at 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.

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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 stated otherwise.

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 us to review our first quarter fiscal 2024 results. With me today are Howard Wenger, President and Dave Bennett, Chief Financial Officer. Following our remarks, we look forward to your questions.

Please turn to slide 3. I'm very pleased with our execution and results in Q1 across all key metrics. Starting with our financial results, revenue for the quarter was $480 million, increasing 19% year-on-year. Our EBITDA for the quarter was $84 million, up over 160% year-on-year. Increased profitability is attributable to pricing discipline, monetization of distinct product features and improved operational efficiency. We achieved solid positive cash flow for the quarter, further bolstering Nextracker's robust and differentiated liquidity position in the industry. Dave will provide more detail on our financials.

We have been relentlessly driving solar technology innovation that provides tangible value to customers in hardware, controls and software. Our innovation is focused on reducing LCOE, the levelized cost of energy, solar power, which supports our customers to increase their project profitability and Nextracker to exercise pricing discipline. We have exciting product announcements planned for the major RE+ trade show in September.

We posted another strong quarter of new contract bookings, building upon our booking achievements of last fiscal year. We ended the quarter with new record backlog over $3 billion, up from $2.6 billion as of the end of fiscal year 2023. Sales momentum continued with repeat business and new customers across diverse and expanding geographies. This is reflected in our strong international performance in the quarter, where over 40% of our revenue was attributable to overseas projects.

We were pleased that Wood Mackenzie recently named Nextracker as the global tracker market share leader for 2022 by a significant margin. This is the eighth consecutive year Nextracker has led the industry. Based on our Q1 results and strong industry position, we are increasing our annual revenue and EBITDA guidance, as Dave will cover. In our prior earnings call, we quantified progress in LCOE and the growth of solar as today's largest source of new power being added to most grids. And we also reviewed that in the US, the IRA provides an attractive 30% investment tax credit level for 10 years with upside for US manufactured content.

Today, I will provide some qualitative comments on market dynamics based on our insights for meeting hundreds of customers at global events last quarter. To give a sense of engagement at Intersolar Europe last month, over 100,000 people attended the conference. We are seeing strong demand vectors driven by cost reduction in solar panels and battery storage, combined with performance enhancements in panels, power electronics and trackers such as Nextracker's proven TrueCapture technology. In sum, these factors are yielding lower LCOE and solar is breaking away from fossil and nuclear power as a lower cost, lower risk and faster to deploy resource, even when the cost of battery storage is included, which is now typical in major markets like the USA.

In parallel, electricity demand is increasing with the electrification of transportation and end use demand. In the US, customer pull for locally made components is paired with industrial policy, resulting in over 60 new or

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expanded factory announcements in just the past year for solar and storage. Hundreds of thousands of people are working directly in solar. New factories and growing jobs are providing broad support for the industry. Given solar today provides under 5% of global electric power generation, we envision significant long-term growth as cost effective solar increases its share of power for the grid, responding to a world where electricity demand keeps increasing and society trends toward decarbonization.

Now turning back to Nextracker. Our global supply chain is a key competitive advantage, which we generally map to align to our local markets. This ecosystem comprises about 50 partners across 16 countries and five continents. To serve our ongoing growth, Nextracker is continuing to collaborate with our valued subcontractors to increase our global manufacturing footprint. I will cover our US position shortly.

After we reported our Q4 results, the U.S. Department of Treasury issued guidance regarding IRA's domestic content provisions. Receiving these rules clarifications was incrementally helpful for Nextracker and we continue to work with our customers and trade associations to further clarify their requirements. We continue to exclude potential IRA impacts from our guidance, pending definitive clarifications and market response.

After quarter end, we completed a successful secondary offering of Nextracker stock to the market, allowing our pre IPO shareholders to reduce their ownership and increase the liquidity of our stock. Following the transaction, Flex owns less than 52% of Nextracker shares. The headwinds noted previously regarding solar panel availability and permitting delays for electrical interconnection and project construction starts still exist and are likely to continue for the intermediate term, though there is tangible progress on US solar panel availability.

Slide 4, accelerating our US manufacturing suppliers has been a key objective. I'm pleased that ramping the 25 gigawatts of contract capacity is on track. Last quarter, we celebrated the new plant opening in Memphis, Tennessee with our legacy supply partner MSS. Joined me in the plant dedication was our customers, Silicon Ranch Corporation, who awarded us a second Volume Commitment Agreement of 3 gigawatts during the event; a key raw material supplier, US Steel; and the CEO of the Solar Energy Industries Association, a key trade association driving solar policy. At this public opening, Nextracker finished goods were on the floor ready to ship to regional job sites, underscoring our ability to quickly scale with our partners.

Our focus in the US continues to be sourcing from electric arc furnace mills that are significantly lower carbon than most overseas steel production. We're continuing to build our supply chain and next month are planning another strategic supply announcement. We now have over 10 manufacturing facilities with dedicated Nextracker lines in the United States.

And now, I'll turn the call over to Howard to expand upon our commercial progress.

Howard J. Wenger

President, Nextracker, Inc.

Let me echo Dan by congratulating the Nextracker team. We are very pleased with the company's execution, resulting in another strong quarter of performance. Last earnings call on May 10, we provided some background on the company, given it was our first reporting quarter since going public earlier this year. I specifically covered our technological innovation, which coupled with our best-in-class team allows us to win business across all regions and terrains.

Please turn to slide 5. We reported last quarter that we had significant sales velocity and wins leading to a company record backlog of $2.6 billion, ending our fiscal year 2023. We plan to report our backlog on an annual basis while providing sales and customer demand insights on a quarterly basis. This is consistent with our annual

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focus as a company and reflects the nature of our large scale project business. This quarter, we are pleased to report that our strong sales momentum continued and we significantly added to our backlog. Our backlog is now greater than $3 billion at quarter end, establishing a new record for the company.

We believe we have a distinct competitive advantage creating demand pull. This is driven by our differentiated product offering, scale of global supply chain and close relationships with our customers and partners, where over 80% of our revenue is generated by repeat business. Further, we believe the investment thesis is intact for large scale solar in the US right now. Independent of the 10% domestic content bonus provided by the Inflation Reduction Act or IRA. There is justifiably a lot of focus on the domestic content provisions in government guidance on how to interpret them, but keep in mind that the IRA created a well-formed and well-known consequential policy in the form of establishing a 30% Investment Tax Credit or ITC, which has no domestic content requirements.

The ITC has been the predominant federal policy instrument for solar for decades. So, generally speaking, the 30% ITC is well understood and is now contemplated in the economics of developing solar power plants. Further, recall that the ITC was scheduled to decline pre-IRA to 10% next year, so elevating it to 30% and holding it constant for at least 10 years is an incredibly significant change and we believe it is the biggest pillar and driver of IRA in terms of utility-scale solar demand.

Of course, the domestic content and Manufacturing Tax Credits are important, and government clarifications and market responses are still ongoing, but we believe there is sufficient understanding of the IRA provisions today to continue to propel the large-scale solar segment forward. We believe these factors are driving continued demand in the US, but we're also seeing demand strength internationally. This is illustrated on the map on slide 5, where you can see we executed agreements totaling over 10 gigawatts of projects during our fiscal Q1.

Although this is a subset of our project and customer wins from the quarter, the intent is to highlight the magnitude of Nextracker's continued sales strength and the breadth of our global reach spanning multiple continents. We have a healthy combination of EPC and VCA business with new and repeat customers from North America to South America, from Europe to Africa and Asia and Oceania. These sample Q1 company wins also reflect the strength of our global team in sales, marketing, supply chain, training, finance and support that provide a platform to further scale and grow. In summary, we saw demand strength in all of our core markets around the 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. Q1 fiscal 2024 represents the first full financial period for Nextracker as a public company, we are off to a great start. Please turn to slide 7 for our fiscal 2024 Q1 results. Revenue for the quarter closed at the high end of our guidance at $480 million, an increase of 19% year-over-year. Rest of the World revenue was $209 million, up 56% year-over-year and 44% of our current quarter mix. As expected, revenue in the US was relatively flat versus the prior year quarter, primarily due to push up of certain projects due to permit delays and panel availability. While the Rest of the World was particularly strong this quarter, there is no change to our expectation that the US will represent 60% to 70% of total revenue for the year.

Adjusted EBITDA increased $52 million to $84 million from the first quarter of fiscal 2023, an increase of over 160%. Our strong results were largely driven by improved execution, along with lower logistics costs. We ended the quarter at 17.4% adjusted EBITDA margin, up from approximately 8% in the prior year. While we are very

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pleased with the positive EBITDA results, we don't expect this level of outperformance to continue throughout the year. And as always, I encourage you to evaluate Nextracker on an annual basis. We remain focused on sustainable year-over-year growth and have increased our annual guidance that I'll speak to a couple of slides.

Adjusted free cash flow was $225 million for the quarter, driven by net working capital management, increased customer deposits resulting from strong bookings and elevated adjusted EBITDA. Net working capital as of June 30 was less than 10% of annualized revenue, which was favorable to our guided 10% to 15% levels. We do expect to fund our net working capital as well as continue to ramp US manufacturing over the next two quarters to support our plan to grow, which may temporarily pressure free cash flow.

Turning to slide 8 for an update on our balance sheet and liquidity. We believe that our capital structure, including a strong balance sheet and ample liquidity, is a key competitive advantage. We closed the quarter with cash of $355 million, which exceeds our total debt by over $200 million. Total liquidity as of June 30 was $855 million comprised of our undrawn $500 million revolver and our current cash balance. We continue to operate with a debt to adjusted EBITDA of less than 1 with no significant debt maturities until fiscal 2028.

As Dan outlined, we closed on a secondary offering that resulted in an increase in public float for the Nextracker common stock. Following the transaction, three IPO owners now own approximately 66% of Nextracker comprised of approximately 52% Flex and 14% TPG. It is important to note that all proceeds from the secondary offering that closed in the first week of July to our fiscal Q2 were distributed to the pre-IPO owners.

Please turn to the next slide for our updated fiscal 2024 guidance. Driven by our strong Q1 result in addition to higher expected volume in the second half, we have increased our fiscal 2024 full year guidance. The factors supporting our assumptions in the setting guidance are largely unchanged from last quarter. We will continue to invest in the business, including ramping production, further innovation around product development and building out the team to take advantage of the opportunity ahead of us. Based on the current ownership structure, adjusted for the follow-on transaction, we continue to expect our adjusted tax rate to range between 15% and 20% of adjusted pre-tax income. We have again not factored in additional profitability resulting from the Inflation Reduction Act.

Our full year revised fiscal 2024 guidance is as follows. We are increasing revenue guidance by approximately 5% or $100 million to a range of $2.2 billion to $2.4 billion. At the midpoint, we are expecting 21% year-over-year growth. We are also increasing our EBITDA guidance by over 10% or $30 million to $315 million at the midpoint of $280 million to $340 million due to strong execution that includes maintaining pricing discipline and prioritizing higher margin business. At the midpoint, we expect fiscal 2024 adjusted EBITDA to grow approximately 50% year-over-year.

GAAP EPS is expected to be between $1.22 to $1.40 per share and includes approximately $0.25 related to stock-based compensation and intangible amortization. Adjusted EPS is now expected to be between $1.45 to $1.65 per share, based upon 147.5 million weighted average shares outstanding. Our Q2 fiscal 2024 outlook is as follows: revenue is expected to grow 15% to 20% versus Q2 fiscal 2023; adjusted EBITDA margin is expected to be between 13% and 14%, up approximately 400 basis points to 500 basis points compared to the same period last year. The EBITDA guidance reflects the normal quarterly volatility of the business, so as always, we direct you to evaluate our progress on an annual basis.

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

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

Thank you, Dave. The macro for solar is strong in the US and abroad and we continue to see accelerated investment into renewables. Solar has achieved its position as the number one source of new power generation through technology and cost reduction. We believe these trends will continue, which will result in significant long-term industry growth and that Nextracker is ideally positioned to leverage this opportunity. Regarding Nextracker's performance, none of these results would have been possible without the confidence of our customers, which we endeavor to earn every day, and the hard work and dedication of the Nextracker team for which we're extremely appreciative.

We now look forward to your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Julien Dumoulin-Smith from Bank of America. Please go ahead.

Alex Vrabel
Analyst, BofA Securities, Inc.

Q

Hey, guys. It's actually Alex Vrabel on for Julien. Congrats on the strong results yet again. Just wanted to kick off with maybe some of the dynamics on the geographies here. Obviously, US relatively flat, flagging some headwinds there. I'm just curious on the permitting piece specifically if you can sort of expand on your exposures, how you're positioning around that? And then relative to sort of not only domestic content, but also transferability guidance, how are you seeing that sort of a headwind or even a catalyst in the back half for developers to sort of move forward and put a date on projects and then sort of confirm the order with you guys? Thanks.

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

A

Alex, it's Dan Shugar. Thank you for your question. I'll take the first part. Howard will take the second part. So, with respect to a project permitting, first, our increased guidance reflects the environment that we're operating in, our expectations. Any individual project can be pushed. There is an enormous portfolio of projects that we're supporting, so we take those factors into account where entitlements are either granted or we consider upcoming projects on a probabilistic basis, based on the level of entitlements and where they stand. An advantage for us in managing so many projects in so many geographies is that if one project has slowed down, there's usually another wanting to take its place. So, that would be my answer to that.

And Howard, if you could address the second part of the question.

Howard J. Wenger
President, Nextracker, Inc.

A

Sure. Hey, Alex. So, we just want to – you said something about headwinds. I mean, we hit the high end of our guide. We believe that we're still planning for the same mix of US and international on an annual basis. And as Dan mentioned, quarter-to-quarter things may fluctuate. So, that's why we keep reorienting everyone to our annual performance. That said, things are going extremely well. We had a really strong bookings quarter,

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including in the US. As far as tax equity and transferability, we're not seeing over constraints there right now in tax equity. We do believe that there is upside with the transferability of clarification. And so, we appreciate the question.

Next question, please?

Alex Vrabel
Analyst, BofA Securities, Inc.

Q

Thanks.

Howard J. Wenger
President, Nextracker, Inc.

A

Sorry, feel free for follow on, Alex. Thank you. Did you have a follow on?

Alex Vrabel
Analyst, BofA Securities, Inc.

Q

Yeah. Just a brief follow. Just on the pricing piece. You guys mentioned disciplined pricing a couple of times. Obviously, some benefits maybe on the supply chain side rolling off to Dave's comment. Just curious if you could expand on that a little bit really briefly?

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

A

Well, we don't share ASP. What I will say is, there's a flight to quality. Our customers really want to ensure that their projects are supported and designed on execution, on commissioning with the highest performance trackers with a company that has solid financial stability, Dave covered our liquidity position and ability to service them with a team that really understands the business that's been in their shoes.

And so, given the – as Howard mentioned, how the very significant improvement in economics and the projects in the US, many of which had been anticipated to have a 10% investment tax credit, now have a 30% investment tax credit. Customers are really focused on delivery. And so, we don't chase projects with price. What we really try to do is, deliver value, deliver operational excellence and really do everything we need to do to ensure our customers are successful in their projects. So, that's what we've focused. Next question please.

Operator: Thank you. Yeah, so your next question comes from the line of Mark Strouse from JPMorgan. Please go ahead.

Mark Strouse
Analyst, JPMorgan Securities LLC

Q

Yeah. Good afternoon. Thank you very much for taking our questions. Good to see the supply chain continue to build out here. I'm just curious, as you're signing these new contracts – yeah, these new partnerships, how are you baking in kind of flexibility into those contracts with the IRA Treasury guidance still kind of unknown? Are those contracts fixed or is there some kind of flexibility that you're baking in there? And then, is there any kind of goalpost that you can point us to as far as an upside or a downside and kind of what the percentage split of the kind of the Section 45X credit that you might be able to keep?

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

I'll address the last question first, Mark. Thank you for that. No, we're not speaking to that at this time, a potential split of the Section 45X credit. With respect to how we are dealing with flexibility, I want to pull back a little and just speak to the relationships we have with a number of our key subcontractors and suppliers. Last quarter, one of the public factory openings that we have was with MSS. It was MSS, we were able to bring life to an old facility that had just been used for warehousing, hadn't been used for manufacturing in many decades.

And this is a supplier that we've had a long relationship with on multiple continents and I've been able to work productively with these suppliers in a variety of markets, to understand the industry and have worked well with us and are reliable performers. And we've continued to work with some new – help to cultivate some new participants in the industry, which is really exciting. So we think our supply chain is very robust. It's a differentiated advantage for the company. As we noted, we have over 10 facilities across US with over 25 gigawatts of contracted capacity. And next month we're planning another major factory announcement. So, we're continuing to build, but we're really a strong relationship company and that's served us well historically and we think will on the future.

Mark, do you have follow-on question, please.

Mark Strouse
Analyst, JPMorgan Securities LLC
Q

Yes, please. Just I think a real simple follow up question here. I just want to make sure I'm thinking about the greater than $3 billion backlog correctly. Does that include or exclude VCA, I just want to make sure I'm comparing it to the appropriate metric from last quarter?

Howard J. Wenger
President, Nextracker, Inc.
A

It includes VCAs.

Mark Strouse
Analyst, JPMorgan Securities LLC
Q

Okay. Thank you, Howard. Thank you very much.

Howard J. Wenger
President, Nextracker, Inc.
A

One thing I'd like to add on VCAs is, it stands for Volume Commitment Agreement. It's not an LOI, it's not a Letter of Interest. It's not a term sheet. It's a binding agreement backed by deposits and collateral with binding liquidated damages on both sides, with specific projects and project sizes and pricing. So, you can think of it as an EPC agreement, but multiple EPC agreements wrapped into one agreement. I appreciate the question, Mark.

Operator: Thank you.

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

Next question please.

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Operator: And your next question comes from the line of Christine Cho from Barclays. Please go ahead.

Christine Cho
Analyst, Barclays Capital, Inc.

Q

Good evening. Thank you for taking my question. So, maybe if I could start on the backlog, previously you guys have talked about it being a two-third, one-third split for US and the Rest of the World. And I understand you don't want to give specifics for the backlog on a quarterly basis. But, you know, as we think about the bookings that you did in the fiscal first quarter, would it be fair to say that split is still valid for the bookings you did? And if you could provide any qualitative comments on how VCAs are also trending?

Howard J. Wenger
President, Nextracker, Inc.

A

Sure. This is Howard. So, that's correct. We're going to be providing annually more detail on our backlog, but we were giving a lot of insights quarterly. And for example, we know we're above $3 billion in backlog this quarter. We also note on slide 5 that we have over 10 gigawatts – more than 10 gigawatts of signed, executed contracts in the quarter and the geographies associated with those. So, we're actually getting a fair amount of information that should give you a lot of directional guidance. As far as the mix goes, there are VCA agreements and EPC agreements contained as I answered to previous question. And it's consistent with our historical mix that we discussed in the last call and both VCAs and EPCs agreements contributed to the growth of our backlog in the quarter.

Appreciate the question. Do you have a follow-on?

Christine Cho
Analyst, Barclays Capital, Inc.

Q

I do. Okay just thinking about the 10 gigawatts of signed, executed contracts in the quarter, as we just think about bookings for the quarter, would you be able to qualitatively talk about how ASPs for bookings have trended just as fuel prices have come down?

Howard J. Wenger
President, Nextracker, Inc.

A

Well, pricing actually can vary by geography by geography, even project to project because of terrain and size and so forth. But on a macro scale, pricing is stable.

Christine Cho
Analyst, Barclays Capital, Inc.

Q

Thank you.

Howard J. Wenger
President, Nextracker, Inc.

A

Thank you.

Operator: Thanks you. [Operator Instructions] And your next question comes from the line of Vikram Bagri from Citi. Please go ahead.

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Vikram Bagri
Analyst, Citigroup Global Markets, Inc.

Q

Good afternoon, everyone. It looks like revenues in the remainder of the year are levered to US with more than 80% of the revenues it looks like and rest of the fiscal will be coming from US. I was wondering if you can talk about the magnitude of delays you saw in permitting and related to panels and the size of orders delayed? Just wanted to understand the confidence in US orders converting this year?

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

A

Yeah. Thank you for the question. Typically, it's just business as usual. But then there'll be a few jobs that have an issue, whether it's a permit issue or a panel issue or something. We're confident in our forecast and which is why we increased our guidance 10% – I'm sorry, 5% of revenue as covered by Dave, and 10% on earnings. We're not seeing delays in orders. We're seeing projects proceeding, but then there'll be occasional projects that have – every project requires a local jurisdiction to issue a building permit.

Just like if you're adding a bathroom at your house or something, you need a permit for that. And so, some local jurisdictions, there's delays and what was originally anticipated by the project. But in aggregate, the overall demand, we're seeing strong demand and strong fulfillment with occasional delays, but in aggregate, we're able to grow and increase our guidance.

Thank you. Did you have a follow-on question?

Vikram Bagri
Analyst, Citigroup Global Markets, Inc.

Q

Yes, I do. I wanted to ask the question on how much of the Section 45X credit [indiscernible] (00:37:57) retained by you and your peers. I was wondering if you can talk about the pricing competition you're seeing in the market. You mentioned you're not using pricing. How are you balancing growth versus sort of competing with the peers on pricing? From what we understand and what we have seen, the pricing competition remains pretty stiff. I was wondering like, are you seeing that in the market as well and that indicate a lot of the Section 45X credit may get competed away in this competitive environment?

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

A

I thank you for the question. No, we don't really see that Section 45X has a factor in how we think about pricing or our dialogue with customers. It would be a general answer to that. We're really focused on supporting really Tier 1 customers and that doesn't necessarily mean they have to be biggest customers, but we're really focused on supporting customers that have quality projects and quality operations that have reliable performance in terms of developing their projects and [indiscernible] (00:39:10) conversely, they want to work with Nextracker, because we're going to be there for them.

And so really what we're focused on, Howard mentioned some of the Volume Commitment Agreements we've executed and several – in our first quarter, for example, in the Memphis facility that Silicon Ranch Corporation executed the second Volume Commitment Agreement which doubled from the original one we had last year. We had an agreement that was 1.5 gigawatts. It came back with a 3 gigawatt Volume Commitment Agreement with financial securities, as Howard mentioned. What they're really focused on is, A, we want reliable supply with high performing trackers, with US content that's regionalized, design, support and things like that. That's what our valued customers are really looking for and we're set up to do for them.

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Thank you for your question. Next question, please.

Operator: Thank you. And your next question comes from the line of Philip Shen from ROTH MKM. Please go ahead.

Philip Shen
Analyst, ROTH MKM

Q

Hey, guys. Congrats on the strong execution. First question is on margins. You had a really strong quarter here. Can you give us a little bit more color on how you were able to drive those strong margins? I think you talked about, Howard – actually, Dan, price discipline, modernization of features and there's something else. But could you give us a little more detail? And specifically, how much is software contributing to gross revenue and that gross profit line? And then to what degree did Section 45X support this quarter? And looking ahead, I know, Dave, you talked about you can't look at the whole quarter or just this quarter and extrapolate. You have to look at the whole year. But is it fair to say that we're at a new level of margins for the next quarter and so forth? Or do we go back down to 18%? Thanks.

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

A

Hi, Phil. Thanks to the question and multiple part question, let me – I took some notes and I'll make sure I capture what you're looking for. From the last part, I think the answer is, yes. Our reset guidance does contemplate a higher margin. As I spoke to in the opening remarks, our execution upside, and that is from start to finish, quoting to execution of the product, we had upside. That included logistics costs that were lower than expected that did benefit profitability that we would not expect to continue with the same level. But on top of that, there are other elements that we're executing that we have baked into our reset on the guidance.

If you look at fiscal, Q4 fiscal 2024 – or 2023, sorry, that was at a 14% EBITDA. We just closed the current quarter at 17.4% EBITDA. And looking at our current backlog, that's what drove the update of our guidance and the increasing of revenue by 5% and EBITDA by 10%. And to answer specifically, if you look at the high end of the guidance at the midpoint of the revenue, that's an EBITDA of approximately 15%. So, yes, we have baked an additional profit element into our forward look. You asked about software. One of the elements we messaged last quarter and continued to message now is that channel availability has impacted our software revenue recognition. We are actually below our guided 1% to 2% of revenue for the quarter. We expect that to be back up throughout the year. So, we do expect to land at that 1% to 2%.

Howard J. Wenger
President, Nextracker, Inc.

A

And Phil with respect to Section 45X, none of the [indiscernible] (00:43:27) Section 45X benefit baked in the results we just furnished. That's all upside and we're confident that will come when Treasury issues its definitive guidance. But until they do, we're not baking it in.

Philip Shen
Analyst, ROTH MKM

Q

Great. Thanks, guys. Shifting over to, let's see here, the overall market size. What do you think the US market from a total booking standpoint could be in 2023 and 2024? Just trying to figure out, what your market share might be and wouldn't that came out with some numbers and showed you an array kind of more neck and neck,

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but want to see how fast you think the market is growing versus how fast you guys might be growing as well? Thanks.

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

A

Yeah. Thanks, Phil. Just to clarify, we saw the WoodMac report and also IHI actually published yesterday. They both had similar numbers with Nextracker for the eighth year in a row as the number one global share by a significant margin and number one in the US by a lesser margin. But we're not focused on market share. We're focused on innovation, adding value to customers, monetizing value where appropriate for the company so we can keep reinvesting in new tech to advance solar and so forth.

Look, I mean the US market has, as Howard mentioned, unprecedented stimulus with this 30% ITC gain that's happened. And we are seeing panels debottleneck. I mean that's been the governor, the principal governor on the US market. We're seeing domestic suppliers significantly increase their shipments and their outlook for solar recently as the largest US company for solar. The largest supplier of panels in the US has increased their capacity, increased their production and has new plants coming online in the US in the near-term and other US suppliers are continuing.

We've seen several Tier 1 Asian manufacturers that are manufacturing in Southeast Asia, predominantly with their supply chain, having less constraints from the Customs and Border Protection. So, in terms of how big the market can be? Well, as I said in the past, one of the things I've consistently underestimated my whole career in solar is how fast the market could grow. And we are now positioned with Nextracker, one of the reasons we went to 25 gigawatts of capacity – over 25 gigawatts of executed, contracted capacity in the United States, which is a really big number.

One of the reasons we want big is to be able to handle some incremental upside. So, I think the answer to the question really comes to how fast can some of these panel manufacturers scale in US? How fast can the supply chains that are coming from Southeast Asia and India and other sectors continue scaling? So, we're very optimistic and which is one of the – but based on concrete bottom up data, which is one of the reasons we've increased our plan for this year.

Thanks for your question. Next question, please.

Operator: Thank you. And your next question comes from the line of Jordan Levy from Truist Securities. Please go ahead.

Jordan Levy
Analyst, Truist Securities, Inc.

Q

Good afternoon, all, and nice quarter. I just wanted to see if we could shift over to the international side of the business briefly. I just wanted to see if you could talk about how the pipeline and some of your key markets outside the US are performing versus expectations and any particular positive or negative momentum in any of your major international markets versus what you gave us last quarter?

Howard J. Wenger
President, Nextracker, Inc.

A

This is Howard. I'll respond to that. As we noted, we had a really strong quarter and actually in terms of our P&L and deliveries. And then on the demand side overall, it's a great picture and one of the benefits of being in

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multiple continents with a leading share in four continents, is that if an area or a country [indiscernible] (00:48:39) another country can flow. And so we're seeing a lot of great activity in certain parts of the world like Australia and in Europe. Brazil is a little bit dynamic, because of the wholesale price for power, but they're very committed large customers to that market. So, we continue to see developments going through Brazil. That is something too that we're watching closely. But overall the picture is really strong for the company and we're growing at a good clip and feel like – we feel very confident with our mix for the year and going forward for the international business.

Thank you for the question. Do you have a quick follow up?

Jordan Levy
Analyst, Truist Securities, Inc.

Q

Yeah. A quick follow up on just on steel prices. We've seen it move up a little bit over the last few months. It doesn't seem like it's impacted your results or ability to grow the backlog. But just want to see if we could get a quick refresher on how you all look at that impact of higher steel prices and if that's changed at all over the last several years?

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

A

Hi, Jordan. This is Dan speaking. The answer is, not really. We take a bit of a longer term view and have structured very strong relationships with most of the larger mills in the US and some of the larger mills abroad, and think about the relationship between narrowing our demand, our fabrication and stability and our supply of altogether. That really came to light in our Memphis operation. We had this public opening in May. It's just a beautiful thing, because we had, starting with the customer, which is where we're really focused with Silicon Ranch, double down with Nextracker or triple down really. They went from our prior at 1.5 gigawatt VCA to 3 gigawatt VCA and a lot of their demand is regionalized, let's just say, around the Tennessee Valley or they're in many states, but let's just say that's an epicenter.

But we opened a tracker factory in Memphis, right in the middle of their finance center. One of the other – and then on the steel side, bringing home one of the other speakers was David Burritt, the CEO of US Steel, which has a fantastic mill of the Big River Steel facility. I had the privilege of being there. It's right across the Mississippi River in Arkansas. It's one of the highest performing mills from a cleanliness standpoint, it's about the lowest CO2 producing mill in the world or certainly amongst them. And it's a very short distance from that mill to this particular tracker facility.

And so that particular mill can melt and coat steel coil that then we can process in our partner MSS to process in that facility. Now that particular facility is not limited to that mill, nor is that mill limited to delivering to Nextracker's partner MSS, because as we mentioned, we have over 10 facilities under contract, but we really like this model of pairing demand with fabrication capacity and supply, altogether in a system that's regionally optimized to minimize cost, to minimize CO2 with transport, and to shorten the lead time as much as possible for customers so that we can reduce cost of logistics and be a reliable supplier.

Thanks a lot, Jordon. Next question, please.

Operator: Thank you. And your next question comes from the line of Donovan Schafer from Northland Capital Markets. Please go ahead.

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Donovan Schafer
Analyst, Northland Securities, Inc.

Q

Hey, guys. Thanks for taking the questions. So, the first question I want to ask, so I know at least as far as like as a corporate practice with public facing sort of disclosures, you don't give revenue mix based on product types. But I would like to, from a qualitative standpoint or maybe you are willing to share some kind of a number and the idea here, what I'd like to get it is something like a revenue mix from the different products and value offerings that you bring to the table or even something where it's like, take for instance, the terrain-following tracker?

I know in, like say a 1 gigawatt deployment, you may actually only use the terrain-following piece, designed for some small fraction of that. So, if we talked about it as strictly, gee, what's the revenue mix, it could be like a tiny fraction. But what I want to understand – I'd like something to help us kind of understand when our customers are pulling the trigger on these things, as a way to indicate or validate sort of externally by a customer behavior, when and to what extent they value these offerings. They could even be something like 10% of your new bookings are enabled by the availability of a terrain-following solution or X number come with the TrueCapture or something to do with the 2P, the Gemini solution, if that ends up, getting used on a certain, maybe you win aside, because you can use the 2P for certain portions of it, anything like that? So, just if you could provide any updates or clarification and ideally quantification, but anything that shows the degree of customers taking action on that breadth of offering?

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

A

Appreciate the question. And we appreciate the request more than anything. I'll say a few words and then we'll consider it for next quarter. But on the last call, we talked about how TrueCapture has been deployed on over a 190 projects and how XTR, our extreme terrain-following has been deployed over 65 projects last quarter. So, these are commercial products. We are monetizing them. We're improving on them.

Dan alluded to new product releases in his prepared remarks, upcoming at the largest trade show in the US called RE+ which is in Las Vegas this year, in the second week of September. And so, we're very cognizant of investors and those who follow us to – or want to continue to understand our products and how they're monetized. So, we will take your requests seriously. Thanks for the question.

Donovan Schafer
Analyst, Northland Securities, Inc.

Q

Okay. Yeah and if I can drill in the...

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

A

Quick follow up?

Donovan Schafer
Analyst, Northland Securities, Inc.

Q

Oh sure. Oh, yeah. So, a quick follow up is just outside the usual culprits of exciting international geographies, revenue that stand out, I think Brazil, Australia, we all kind of know to pay attention to that. I think India has a lot of potential, but [indiscernible] (00:57:02) challenging market, it's operating domestically for various reasons. So, anything like maybe what's most promising in Africa or somewhere in the Middle East or if you've seen any interaction in India or anything like that? Just what would be atypical market that could be under the radar?

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

A

Yeah. So, we put – just these are select – a subset of wins during the quarter. On slide 5, we have pins placed on the global map that correspond to where these over 10 gigawatts of wins took place. These are – by wins, we mean contracts. And so – in the approximate geographies. So, you can see, yes, Africa, India, yes. Parts of Asia and the Middle East, yes. Not just Spain in Europe. Other parts of Europe, yes. North America, Brazil, not the only place in Latin America. Just in the quarter. Even in North America, there is a pin that's up above the United States, in Canada. So, there are a number of markets where we're present and that are promising markets either growing with our side for the company or more mature markets which have the whole pie growing rapidly like the United States.

Thanks very much. We need to move on to our last question.

Operator: As there are no further...

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

A

Oh, we have one more question – or no further questions.

Operator: Yes. There are no further questions at this time.

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

Great. So...

Operator: Please proceed.

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

Yes. Hey, Dan Shugar here. Thank you all very much for the questions and precious comments. In totality, the market dynamics are really strong due to fundamentals: cost reduction of solar; better performance out of panels, inverters, trackers, putting Nextracker's patented, proven TrueCapture technology. And this is improving the market, because solar in most grids around the world is the lowest cost way to generate power. Thank you very much and thank you for dialing into our investor call.

Operator: Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating. You may all disconnect.

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