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Nextracker, Inc. (NXT)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Mary Lai

Vice President-Investor Relations, Nextracker, Inc.

Daniel S. Shugar

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

Howard J. Wenger

President, Nextracker, Inc.

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

OTHER PARTICIPANTS

Mark Strouse

Analyst, JPMorgan Securities LLC

Jon Windham

Analyst, UBS Securities LLC

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Praneeth Satish

Analyst, Wells Fargo Securities LLC

Christine Cho

Analyst, Barclays Capital, Inc.

Philip Shen

Analyst, ROTH MKM

Vikram Bagri

Analyst, Citigroup

Jordan Levy

Analyst, Truist Securities, Inc.

Tristan Richardson

Analyst, Scotiabank

Derek Soderberg

Analyst, Cantor Fitzgerald & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, everyone, and thank you for standing by. My name is Hanna and I will be your conference operator today. Today's call is being recorded. I would like to welcome everyone to Nextracker's Second Quarter Fiscal Year 2024 Earnings Call. After the speakers' remarks, there will be a Q&A session.

At this time, for opening remarks, I would like to pass the call over to Ms. Mary Lai, Vice President of Investor Relations. Mary, you may begin.

Mary Lai

Vice President-Investor Relations, Nextracker, Inc.

Thank you. And good afternoon, everyone. Welcome to Nextracker's second quarter fiscal year 2024 earnings call. I'm Mary Lai, Vice President of Investor Relations. I'm joined by Dan Shugar, our CEO and Founder; Howard Wenger, our president; and Dave Bennett, our CFO. Following our prepared remarks, we will transition to a Q&A session.

As a reminder, there will be a replay of this call posted on the IR website along with our slides and questions. Today's call contains statements regarding our business, financial performance and operations, including the impact of our business and industry that may be considered forward-looking statements and such statements involve risks and uncertainties that may cause actual results to differ materially from our expectation.

Those statements are based on current beliefs, assumptions and expectations and speak only as of the current date. For more information on our risk factors and uncertainties, please visit our IR website at investors.nextracker.com, which includes our press release, slides, SEC filings and our most recent filings with the SEC. 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 call. The full non-GAAP to GAAP reconciliation can be found in the appendix slides of today's presentation, as well as on the financial section of the IR website.

And now, I will turn the call over to our CEO and Founder, Dan.

Daniel S. Shugar

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

Thank you, Mary. We're excited to have you join our team. Good afternoon. Welcome to our second quarter earnings call. Before we cover Nextracker, we offer thoughts on the Middle East tragedy. We are profoundly saddened and distressed by the violent events that took place in Israel a few weeks ago and in subsequent loss of life and tensions in the Middle East. Our hearts go out to all those impacted. We stand for peace, where all people are free and safe. We believe our vision of a renewably powered world will contribute [indiscernible] (00:02:54).

I will provide a high-level summary of our future performance and an update on the separation from Flex. This quarter is what we have come to expect from Nextracker, strong execution. This marks our third consecutive quarter of double-digit growth with Q2 achieving record revenue, record profit, and record backlog. Q2's strong performance with total revenue of \$573 million, growing 23% year-over-year is driven by broad-based growth in most markets.

Our adjusted EBITDA expanded to \$110 million, a 164% increase compared to this quarter last year. Profitability growth was primarily driven by a strong execution of strategic supply chain repositioning capacity expansion and continued focus on pricing discipline. As stated previously, our financial results this quarter exclude expected benefits from the IRA Section 45X tax credit related to tracker components.

We also delivered another strong quarter of new contract bookings with strength in both the US and international markets, resulting in new record backlog, which is significantly over \$3 billion [indiscernible] (00:04:21) contracts with deposits with identified projects being shifted. With the strong performance in the first half of the year, record backlog and demand momentum, we are raising the midpoint of our annual revenue and profit guidance by \$50 million and \$100 million, respectively. At midpoint, our new revenue target is \$2.35 billion, and our new EBITDA target is \$415 million for the full fiscal 2024. Dave will expand on our quarterly results and annual guidance.

Earlier today, both Nextracker and Flex formally announced their plans to fully separate Nextracker from Flex. We are grateful for our time with Flex, which began in 2015 when Nextracker was only two years old as a company. Our relationship began with Flex prior to that with Flex serving as a contract manufacturer of our proprietary electronics, a service which they continue to this day. While we have always operated our own supply chain and operations, Flex helped us considerably, especially in the early years, maturing our business processes and supporting our expansion into emerging markets.

Together, we accomplished our objectives of supporting customers in many global markets, creating extraordinary shareholder value, and growing Nextracker as the global market leader of trackers for eight consecutive years according to third-party independent data from Wood Mackenzie. We anticipate completing the

separation in our fiscal fourth quarter ending March 31, 2024, subject to a number of conditions. We are energized to start our next chapter and believe this is the appropriate time to separate. With Nextracker expecting to achieve annual revenue of over \$2.3 billion this fiscal year, operating as a fully independent company, will allow us to make additional strategic investments, continue expanding our talented team, and pursue the market opportunities ahead.

I'd like to recap our innovation history and plans, backed by over 400 patents issued and pending. Since founding Nextracker, we have revolutionized the tracker space with a suite of innovations that were first to market and/or first to scale, including the launch of the self-balanced, self-grounded, and self-powered tracker system on the NX Horizon flagship product in 2013 and 2014, of which more than 2 million trackers have been shipped.

Our proprietary TrueCapture software launched in 2017, providing owners an enhanced energy yield on over 200 projects installed today. NX Navigator control systems launched in 2020, providing owners operating benefits, a higher level of control and lower risk for power plant owners and operators. The first tracker Hail Protection System, first deployed over two years ago. NX Horizon XTR, the industry's most deployed all-terrain solar tracker, first delivered in 2018, sold to more than 70 utility-scale projects to date.

Just last month, we launched our Next Generation Technology Suite with three new innovations. The Tech Suite provides next generation functionality and value in Hail Protection, undulating terrain and fast-changing atmospheric conditions, powered [indiscernible] (00:08:09). Based on our strong profitability growth and liquidity position, we have significantly increased our R&D investments. A key element of Nextracker's success is the product innovation that adds customer value. We believe the additional R&D investments will accelerate the time to market for new products and allow us to continue being a leader in the industry.

We already covered that we have raised our revenue midpoint of profitability guidance for the second consecutive quarter. And that one of the contributing elements is a structural enhancement to our business, including supply chain retooling with a meet and surge regional manufacturing model, which our team is executing ahead of schedule in major markets, including the US, Brazil, India and Australia. We are building our meet and surge to meet global demand with in-country factory capacity and surge to support demand in other markets to arbitrage commodity currencies, supply disruption and demand spike as conditions warrant.

We initiated these changes early in the pandemic, completing significant due diligence, supplier development, talent and IP investments and implemented major process improvements across our systems, logistics and import/export procedures and enhanced contract terms. This was a strategic undertaking and a multiyear transformation. The result is that, we re-architected our supply chain, improved our cost structure, our on-time delivery of material, sequence to our customer's requirements and we drove margin expansion.

I will provide more details on our Q2 expansion progress in North America and in India next, which includes two public dedication. We celebrated the opening of a new electronics manufacturing line with Asteelflash. Asteelflash facility is located just a few miles from our headquarters in Silicon Valley. This partnership is producing a patented, self-powered controller and related technology, further deepening the content we're building in the US for our customers.

We also celebrated the opening of our Las Vegas, Nevada factory with Unimacts where they will produce our critical steel components. In total, we now have over 15 US supplier facilities with dedicated Nextracker manufacturing lines with state presence, including Texas, Arizona, Pennsylvania, Illinois, Tennessee, California, and Nevada. And I would like to thank our teams for our tremendous progress in the last few years.

On the last earnings call, we announced our contracting capacity in the US exceeded 25 gigawatts. In India, we have achieved 10 gigawatts of annual manufacturing capacity with over 80% of our solar tracker content for India, Made in India. Customer confidence of our supply position and cost structure has enabled 5 gigawatt contracts under fulfillment for operation in India.

Now, I'll turn the call over to Howard Wenger, our President, to expand on our commercial progress and product innovation. Howard?

Howard J. Wenger

President, Nextracker, Inc.

Thank you, Dan. We are indeed pleased with our team's excellent execution and performance. As noted, our success has been driven by innovation and our differentiated product offering by an unwavering commitment to our customers and by our competitive drive to win and make solar power mainstream. In Q2, we had continued wins in the marketplace, and we unveiled a trifecta of three new and key product innovations. Let me start with sales and a business update.

I'm pleased to report we had another strong quarter for new business in both the US and international markets, increasing our backlog quarter-over-quarter to a new record of significantly over \$3 billion. Let's look a bit closer at the US market, which remains our largest segment with approximately two-thirds of our total Q2 revenue. We continue to have a healthy combination of new EPC contracts with new and repeat customers and additional volume commitment agreements or VCAs.

We signed several new VCA contracts in the quarter. One of which we publicly announced for 2 gigawatts with Clearway Energy Group, a US solar developer and power plant owner. I'm pleased to report, we continue to make significant strides in our EPC and VCA programs further developing and solidifying long-term relationships with developers, power plant owners and EPCs. Furthermore, we believe this approach reduces risk in our business and we believe it is a competitive advantage that plays to our strengths in technology, execution, customer focus, and company assets.

I would like to reiterate a couple of points we have made previously regarding VCAs. The VCA typically carries a two-year term and has a specific list of multiple projects that we are committed to supply. These specific projects are included in our backlog as they are contractually binding with elements such as pricing tied to project design, two-way retail deals for liquidated damages for non-compliance and like our EPC agreements, have cash deposits or other financial securities. The VCA model provides greater visibility and diversification and is working extremely well, delivering benefits to all of our customer partners.

Which takes me to the Inflation Reduction Act, or IRA. As we stated on the last earnings call, we firmly believe that the 30% ITC component of IRA is a key driving force for utility-scale solar demand in the United States. The 30% ITC is a well-understood and well-formed consequential policy that has no domestic content requirements. That said, delivering domestic content to enable the capture of the 10% bonus ITC for power plant owners remains a priority for Nextracker.

As Dan mentioned in his prepared remarks, we have been successful in building out our US supply chain and deepening our content by adding local manufacturing electronic controllers and other components. We think it is important to note that Treasury's guidance omitted certain clarifications that impact how to precisely calculate domestic content percentage levels for trackers. Therefore, we believe the responsible thing to do is work through domestic consent levels and these uncertainties with our customers, rather than publicly announce specific domestic content percentages, pending additional clarification on open questions impacting the calculation.

Please note that we feel very competitive with our domestic manufacturing position and trajectory as validated by customer feedback and our continued growth. In summary, the US market continue to be robust in the quarter for Nextracker, and the outlook is positive.

Now, let's move to the international business. In Q2, we saw continued demand strength distributed across multiple continents, with new wins in Asia, Oceania, Middle East, Africa, Canada, and Latin America. Let's focus on one particularly exciting international market, India, which is the third largest consumer of electricity in the world behind China and the United States, and the world's fifth largest economy.

Earlier this year, the Government of India announced a national target of 500 gigawatts of renewable energy capacity by 2030, which would reduce the carbon emissions intensity of its economy by 45%. There are less than 200 gigawatts of renewables installed to date in India. Therefore, there is a push to install over 300 gigawatts of renewables in the next seven years. This renewable energy push by the government, together with continued solar energy cost reduction, is causing acceleration of demand for solar power.

We believe Nextracker is very well positioned in India to take advantage of these recent developments. In the quarter, we announced that we have achieved 10 gigawatts of annual domestic manufacturing capacity and 80% local content that is made in India. In addition, Nextracker has over 5 gigawatts of systems under fulfillment are already operational in India. This combination is a robust localized supply chain and being the leading tractor platform in India, provides Nextracker the ability to mobilize and serve this rapidly growing and very significant market.

Finally, rounding out our review of demand, we are pleased that TrueCapture, our intelligent self-adjusting tracker software, continued to gain momentum in Q2. We're seeing adoption increasing and Q2 volume was up quarter-over-quarter and year-over-year. TrueCapture provides typically 1% to 3% annual energy production improvement for the entire power plant, and we have seen annual gains as high as 6%. This is a material benefit for power plant owners, enabling a further preference for our trackers in addition to being a feature we continue to monetize. We believe our TrueCapture software platform leads the industry with over 200 projects deployed and validated by multiple leading independent engineering firms with real data that customers can trust.

Now, let me shift gears to products and innovation. We saw many of you at the RE+ Conference held in Las Vegas in September. I will quickly recap our new innovations announced there, all of which leverage inherent differentiated features of Nextracker's flagship, NX Horizon smart solar tracking system. First, we announced a new innovation and product set called Hail Pro, building on our Hail Stow technology first deployed over two years ago. Hail Pro enables all solar panels to be simultaneously and quickly stowed when there is hail event that threatens the solar field.

Hail Pro also comes equipped with an automatic stowing feature that links to real time and forecasts the National Weather Service data, enabling an auto command for the entire solar field to go into protective stowing mode in advance of approaching storms. Our Hail Pro system can stow panels up to 4 times faster than standard trackers and do so even during power outages. We also announced our new Hail Pro-75 solution, which enables a much deeper stow angle of 75 degrees versus our standard stow angle of 60 degrees. Hail Pro-75 is designed for locations subject to extreme hail, which we believe is becoming more prevalent as weather becomes more severe over time.

The second product innovation we announced is a doubling of the capability of our NX Horizon XTR extreme terrain-following tracker. We first shipped XTR in 2018 and today we have sold to over 70 utility-scale projects at

power plants that are using this technology. With the introduction of our new XTR-1.5, we significantly reduce or even eliminate the need for earthwork on even steeper and more undulating sites. XTR-1.5 can lower costs and accelerate time of deployment. It also reduces the environmental impact, which can ease the permitting process for new projects.

Third, we introduced the expansion of our TrueCapture software capability, with the new innovation we call Zonal Diffuse. This new traffic control mode enhances energy production during rapidly changing sun conditions, primarily driven by rolling cloud cover. Utilizing new control algorithms and real-time hardware measurement capability, tracker blocks are adjusted to the point of variations in sunlight, intersecting clouds to increase annual energy gain and lower the LCOE of the project.

We are excited by the early customer interest in these innovations and we believe they further enhance our technology lead and value proposition. They also expand the use cases for Nextracker and effectively increase our TAM. In summary, we are very proud of the team's execution and we carry significant momentum into the second half of our fiscal year.

Now, let me turn the call over to Dave Bennett, our Chief Financial Officer, to review financials and to further discuss guidance. Dave?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

Thank you, Howard. Before I start, I'd like to remind everyone that all references to financial metrics except for revenue are non-GAAP adjusted, and all growth rates are year-over-year, unless otherwise stated. We completed our first half of fiscal year 2024 with strong execution. Record revenue for Q2 closed above our expectation at \$573 million, up 23% year-over-year. Both the US and the Rest of the World equally drove that increase. Second quarter mix was 67% and 33%, respectively. As expected, we saw a sequential uptick to US revenues primarily due to projects generally progressing on schedule and as planned and we saw improvement in channel availability. There is no change to our projected full year revenue mix, we still expect the US to be between 60% to 70% of total revenue.

Adjusted EBITDA for Q2 was \$110 million. This was an increase of \$68 million or 164% growth and set a new record for the company. Project gross margins expanded in Q2 and are now tracking in the mid-20s. Our Q2 EBITDA margin of 19.2% was up over 1,000 basis points from the prior year and marks the sixth consecutive quarter of sequential margin improvement. As Dan and Howard provided in the remarks, we have made structural enhancements to our business that include expanding our global supply chain that allows for localized content and flexibility servicing our customers. This multiyear transformation along with our continued pricing discipline, has improved our margin structure and was the primary driver supporting our record profit generation in Q2.

Adjusted free cash flow was \$26 million for the quarter and \$251 million for the first half of fiscal 2024, driven by strong net working capital management, the increased customer deposits from strong booking and higher EBITDA. Net working capital at the end of Q2 was less than 10% of annualized revenue, which is favorable to our expected 10% to 15% level. To support our planned growth in the next two quarters, we continue to expect to fund our net working capital, which may temporarily challenge free cash flow.

Our high quality balance sheet, cash flow generation, and ample liquidity remain at competitive advantages. We closed the quarter with more than \$370 million in total cash, which is greater than 2 times our total debt of approximately \$150 million. Total liquidity at the end of Q2 was nearly \$900 million, which includes cash and a

\$500 million undrawn revolver. We continue to operate with a debt to EBITDA ratio of less than 1, with no significant debt maturity until fiscal 2028.

Let me now transition to the Section 45X benefit considerations for Nextracker. We have analyzed the legislative language extensively. We're comfortable with it and believe there's a high correlation for our torque tubes and fasteners to qualify under Section 45X. We're also in a strong position to contribute meaningfully to domestic content. We have great relationships and arrangements with top vendors in the industry. From our standpoint, we are well-positioned and confident that the expected Section 45X IRA contribution will be meaningful to our financials, subject to adequate clarifying guidance from the Treasury Department and full alignment with our advisers as to the accounting treatment. Consistent with last quarter, we have not factored in any expected IRA Section 45X profit projections into our guidance at this time.

Let's walk through a few considerations as to why we are taking this position. First, we need further clarification on the transferability criteria. Second, the timing of when our vendors can realize their Section 45X credit is expected to vary. Third, the expected economic benefit derived from the Section 45X credit through the sharing percentage with our vendors will be reviewed on a contract-by-contract basis. Terms, mechanics, and timing of receipt may also vary. Lastly, our objective is to bring incremental demand to our high-performing vendors, optimize margins, and reduce the cost of materials via the Section 45X credit. As a result, we expect our fiscal year 2024 to be a transitional year as it relates to the impact of this Section 45X credit.

Before I move on to guidance, let me speak briefly about the expected separation from Flex. As Dan noted earlier today, both Nextracker and Flex formally announced the plan to spin-off all Flex's remaining interest in Nextracker to the Flex shareholders. As stated in the press release, the separation transaction is expected to close in our fiscal fourth quarter ending March 31, 2024, but remains subject to a number of conditions and no assurance can be given that the separation will, in fact, occur.

Earlier today, we filed a registration statement on Form S-4 with the SEC, which includes additional information on the spin-off. The separation is expected to have an impact on our go-forward tax rate that I'll speak to more in my guidance remarks. The transaction will significantly increase our public float and we do not anticipate a material impact to our diluted EPS.

Now, turning to comments for Q3 and full year fiscal 2024 guidance. As always, we encourage you to evaluate Nextracker on an annual basis to reflect the nature of our large-scale projects. Therefore, we will not provide quarterly guidance, but will provide Q3 comments as guideposts. For Q3, revenue growth is expected to be approximately 20% year-over-year and based on the current timing of projects, Q4 revenue is expected to have a larger contribution in Q3.

Our revised full year fiscal 2024 guidance is as follows. With a record first half and our anticipation of a strong second half, we have raised the midpoint of our full year revenue guidance by \$50 million. The new range is now \$2.3 billion to \$2.4 billion. At the midpoint, we are expecting 24% growth year-over-year. We have raised our EBITDA guidance range meaningfully by \$100 million. The updated range is now \$390 million to \$440 million. At the midpoint, we are expecting nearly a 100% growth year-over-year. GAAP EPS is expected to be between \$1.60 to \$1.80 per share and includes approximately \$0.35 related to stock-based compensation and intangible amortization. Adjusted EPS is expected to be between \$1.95 to \$2.15 per share based on 148 million weighted average shares outstanding.

Interest and other expense is expected to be between \$15 million to \$20 million. We still expect the adjusted income tax rate to range between 15% and 20% for the full year, and includes a slightly higher expected rate post-separation from Flex.

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

Daniel S. Shugar

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

We achieved record financial results through innovation, our global supply chain, a multiyear strategic supply chain transformation and our relentless focus on customer service. Our performance is supported by our deep industry domain expertise and our trusted customer relationships. We understand the needs of developers, independent power producers and contractors. I'm proud of what we've accomplished as a company. In fact, the SF Chronicle recently recognized Nextracker with the Top Workplaces of 2023 award. It's an honor to be leading and working with a group of technology innovators.

We now look for your questions. Let me pass the call back to the operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We will pause here briefly as questions are registered. Our first question is from the line of Mark Strouse with JPMorgan. Please proceed.

Mark Strouse

Analyst, JPMorgan Securities LLC

Q

Great. Good afternoon. Thank you all very much for taking our questions and congrats on a strong print here. Dave, I wanted to start with the margins. So, since the IPO, we've been kind of conditioned to think about this business as kind of a mid-teens EBITDA margin business. Your guidance is kind of indicating closer to the high-teens now. Just kind of – the reasons that you stated for the guide sound more structural in nature, but just want to confirm if that's kind of the new base level of margins we should be expecting with obviously with the caveat that there's quarterly fluctuations?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

A

Mark, thanks for the question. Yeah, confirmed. If you recall, we've been messaging the last couple of quarters when we've had execution outside and the drivers behind those. After printing a couple quarters, to 1-7 – over 17%, and this current quarter over 19%, we're confident and committed in the higher-margin structure. It was driven by that global supply chain and our investment throughout the business to ensure that higher-margin profile.

Operator: Thank you. Our next question is from the line of Jon Windham with UBS. You may proceed.

Jon Windham

Analyst, UBS Securities LLC

Q

Hey. Perfect. Thanks for having me on. I was wondering if you could just – any comments you could share about conversations you're having with customers over the last couple of months. Obviously, the volatility in interest

rates is a concern for people, so just any color you have on how those conversations have maybe evolved over the last couple of months? Thanks. Really appreciate it.

Howard J. Wenger

President, Nextracker, Inc.

A

This is Howard Wenger. Thanks for the question. Well, the outlook is very positive and we continue to have very strong demand in the United States, which is two-thirds of our business, as well as international. Regarding interest rates, it is a topic but what we're hearing is that there are a number of levers that can accommodate higher interest rates, including you have the IRA benefit of a 30% tax credit where a lot of these projects that were developed were under the assumption of a much lower tax credit on the order of 10% even, in many cases.

And then you've got the bonus ITC, plus there's really very strong demand for clean energy in the US and electric demand is increasing. And where the electric demand is increasing, such as data centers, for example, clean energy is something that's very much sought after, which means a higher – potentially higher power purchase agreement price. So, those are just a few of the levers that can accommodate a higher interest rate, but certainly it's something that is being watched closely. Thanks for the question.

Operator: Thank you.

Jon Windham

Analyst, UBS Securities LLC

Q

Okay. Great result.

Operator: Our next question is from the line of Julien Smith with Bank of America. Please proceed.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Hey. Good afternoon, guys. Just to clarify, in the last couple, real quickly. First, just in terms of project delays, obviously, what you're saying here, fairly constructive through the course of the year. Can you clarify, are you seeing churn in your backlog here in terms of projects moving in and out? Or are you seeing fairly consistent schedules executed here, for whatever reason that it looks like supply chain is getting a little bit back in the norm?

And then relating to that structural execution here, 19% here, as you allude here second quarter, are you guiding up at – is there a potential to sustain at this 19-plus-percent, plus there could be a little bit more latitude in full-year numbers? Just to kind of clarify on what you're saying about the back half of the year?

Daniel S. Shugar

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

A

Julien, Dan Shugar here. Thanks for your question. One of the benefits of operating globally is, we can serve – we are serving dozens of countries in parallel, simultaneously, that's helps as a global manufacturer. I think in terms of the projects, we've just seen the breadth and the depth of the projects in our Tier 1 customers expand very significantly over the last few years. We've gone from megawatts to gigawatts, from projects to programs. And so, even within a given customer, if they have one project that's delayed, often they'll have another project which can fill its gap.

Now for sure, there's been individual projects that experience delays. That happens. That's not a new thing. We've just seen just a huge amount of demand in the markets in the US and abroad. And our record results in terms of revenue recognition bear that out from what we've accomplished so far. And our confidence that that's going to continue has enabled us to increase our guidance on revenue for this year.

Dave, can you address Julien's question with respect to margin, please?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

A

Sure. Julien, keep in mind, we have our longer contract lifecycle. So, I think in terms of sustainability, absolutely, we would confirm sustaining our midpoint of our guidance, which is almost 18% EBITDA. And that is really derived, if you just look at the first two quarters profitability, it's around in the middle of that and, yeah, our guide would be committing us to sustaining that.

Operator: Thank you. Our next question is from Praneeth Satish with Wells Fargo. You may proceed.

Praneeth Satish

Analyst, Wells Fargo Securities LLC

Q

Thanks. I guess when you look at some of your competitors, they are competing more aggressively with some of the developers that are more price sensitive. Just curious for your thoughts on that part of the market and whether you would consider releasing either a new product or using margin as a weapon to kind of gain some market share there in a NPV-positive way.

Howard J. Wenger

President, Nextracker, Inc.

A

This is Howard Wenger. So, thank you for the question. We're extremely disciplined when it comes to pricing, and we're not a company that chases business. We partner with Tier 1 customers, both owner/developers and EPCs. And we partner with companies who understand our value proposition and we are relentless in terms of our product offering and innovation. When it comes to LCOE, levelized cost of energy, which is the governing equation for the power plant owner who is the ultimate customer, and there's three components to the LCOE equation. There's the CapEx that you referred to or upfront capital cost; there's the operating cost; and then in the denominator is the energy output.

So, we unveiled just in the last – this past quarter three upgrades in next generations of key technology the company has that addresses all three of those buckets that contribute to lower LCOE. So, our XTR terrain-following 1.5, we can now install on more undulating sites, saving costs and speeding, permitting. Our TrueCapture software continues to expand so that we can capture more energy on an annual basis. And then we have our Hail Pro, which we announced to enable us to install cost effectively in areas that are prone to hail. So, those are some of the examples of things that we do to address cost and our margins are improving, as Dave and Dan mentioned. Sure that's an additional lever if we need to address the price. But as a company, we're extremely disciplined when it comes to price and it's not our central weapon is to just be the low price provider.

Praneeth Satish

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Our next question is from Christine Cho with Barclays. Please proceed.

Christine Cho

Analyst, Barclays Capital, Inc.

Q

Hello. Thank you for taking my question. Maybe if I could just come back to gross margins and ask it a little differently. Last quarter, you did see, I think quite a big decline I think your Q said, it was like 1,000 bps decline in freight and logistics as a percentage of COGS last quarter. Was that a similar tailwind this quarter? And as raw material cost go down, is that a tailwind for you? I thought there were some back to back contracting to – and you guys fixing your costs and you fixed your ASPs through margin with respect to raw materials was relatively fixed, but just wondering if that had changed?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

A

Christine, thanks for the question. So, we did message last quarter that logistics was a tailwind in our execution upside. What we were clear in messaging on top of that was that our structure allowed for us to generate both to actual execution that locked in the margins. And what we're doing now is locking that in. We're a little ahead of schedule on that in terms of our margin structure. But now, we've locked that in and committed to locking that in to meet our quota actual. So, certainly, our pricing looks at the landscape and that's raw materials, that's logistics, and we lock in our "contractual enhancements." I think Dan spoke to as well that gives us more confidence in locking in that margin. When they all come together and that's really the driver behind our increased guide to the midpoint at that 18% EBITDA and mid-20s for the gross margins that you're asking about.

Daniel S. Shugar

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

A

And building on your comment, Dave, as Howard mentioned in his prepared remarks, we're seeing increased uptake of our value-add products like TrueCapture, and that has been a factor in our margin growth in the last quarter as well. So, we're seeing as panel availability issues have improved significantly in the US in the last year, project commissioning is progressing nicely and that also supports commissioning of our TrueCapture software and control system and other features.

Operator: Thank you. Our next question is from Philip Shen with ROTH. You may proceed.

Philip Shen

Analyst, ROTH MKM

Q

Hey, guys. Congrats on a very strong quarter. You gave us a backlog of significantly greater than \$3 billion. Can you speak to the bookings at all? The prior quarter, you guys gave backlog as greater than \$3 billion, and now you're significantly greater. Let's say, you're at \$3.5 billion now, would it be reasonable to think that your Q2 bookings were close to \$1 billion or maybe over \$1 billion? Or at least can you comment on whether or not the book-to-bill was at least over 1? And then shifting to software, you talked about the increased adoption of software with potential for strong margin contribution from software. Can you talk about how software adoption could ramp in Q3 and Q4 and even in F 2025? Thanks.

Howard J. Wenger

President, Nextracker, Inc.

A

Hey, Phil. So, this is Howard. So, we had another really strong quarter on bookings and customer wins and new contracts, as I mentioned, also several VCAs. And our wins and bookings are very consistent with the last two

quarters on that front. So, that should give you an indication. Certainly, our book-to-bill is greater than one for sure. And so, that should give you enough color on the strength of demand and bookings. And as far as our software and adoption, yes, we're really happy with the adoption rate, the attach rate for TrueCapture. We're adding more features. We haven't guided, but the color is that we see it having a growing impact on our margin going forward. Thanks for the question/two questions in one. Good combination there, Phil. Thank you.

Philip Shen

Analyst, ROTH MKM

Thanks, Howard.

Q

Operator: Thank you. Our next question is from the line of Vikram Bagri with Citi. You may proceed.

Vikram Bagri

Analyst, Citigroup

Good evening, everyone. I wanted to follow up on some of the previous questions on pricing. Really appreciate your disciplined pricing strategy. But I was wondering if the pricing negotiations with customers are somewhat getting tougher. Panel pricing is down, so trackers are now somewhat a larger percentage of total hardware cost in an industry, which is dealing with higher financing costs. I was wondering if you're seeing somewhat tougher sort of, like, negotiations with customers?

And on the same note, you mentioned the launch of the new Tech Suite, which gives you an edge over the competition. I was wondering what's next. The 1.5 in XTR, 1.5 indicates there are new products on the way, so there will be a 2.0. If you can indicate the timing and what should we expect on the new product front? Thank you.

Howard J. Wenger

President, Nextracker, Inc.

I'll handle the first question and I think Dan's going to add to it. So, on the pricing front, I just want to say that I'm glad you brought that up, because there's something that I didn't mention. There are a couple of things I didn't mention in the last question regarding pricing. We're still very competitive. It's not like we have a enormous premium that we're charging customers. We're still very competitive and we're offering a lot more. We believe we're the highest quality, most reliable tracker in the world that we deliver a lower cost of energy to the power plant owner that we're a stronger company than our competitors in terms of our balance sheet and capability and domain expertise.

And we keep adding features that address both the installed cost, so for our EPCs that we partner with, we're making it easier and easier for them to install our systems, doing it faster, lowering their costs, which gives us more of a preference there, including better tools and better parts and better support. And we're adding features that benefit the operators of our power plant, that power plants that use our trackers. And we're offering features that increase energy for the power plant owner. And in totality, that's a higher quality product. But it's a competitive world, and we recognize that. And we are competing day in, day out ferociously, because that's who we are. We want to win and we feel like we are winning.

Dan, did you have any additional comments?

Daniel S. Shugar

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

A

Yeah. Building on your comments, Howard, in some markets we've seen the price in dollar for a lot solar panels drop and a natural tendency is to think about how that might impact all the system, in particular tracker viability. But you have to keep in mind that as the price of the solar panels have dropped in dollars per watt, the efficiency of the solar panels has skyrocketed. So, we're seeing panels now at 600 watts to 700 watts per panel, that's double what they were five years ago. And so, you're getting a lot more bang for the buck with the tracker and the tracker also enables bifacial energy to be harvested from the back, whereas with the fixed system it doesn't.

I would just say also the size of these plants have increased enormously. And the stakes with the tracker system, which is the skeletal system of the tracker, are much higher. We've seen a flight to quality in terms of product and in terms of the ability, the wherewithal of Nextracker as a very strong company to be able to fulfill both our financial capacity, Dave mentioned we have over \$800 million of liquidity, a pretty low debt position. We've consistently operated the company prudently, where we've been profitable for the last five years.

And also, on the product, where we don't cut any corners on any aspect of the system. Also, there's a real focus on how these systems are actually operated and maintained. Howard mentioned our NX Navigator system, which provides operational benefits and also risk reduction in the actual operation of the systems to extreme weather. Thank you for your comment.

Operator: Thank you. Our next question is from Jordan Levy with Truist. Please proceed.

Jordan Levy

Analyst, Truist Securities, Inc.

Q

Thanks. Maybe appreciate the color you gave on the new tax rate. Maybe if you could just talk us sort of initial customer reaction to those products, Hail Pro, XTR-1.5 and Zonal Diffuse?

Howard J. Wenger

President, Nextracker, Inc.

A

Sure. This is Howard. So, we – hi, Jordan. We are really happy with the release of XTR where we actually fielded it starting in 2018. We've got over 70 projects now with XTR in the field. And so, what XTR-1.5 – so there's already significant interest and adoption of XTR. But with XTR-1.5, which doubles the range, effectively doubles the ability to conform to undulating terrain and opens up the TAM, which makes it easier for a developer to find sites, not only flat sites which are ideal, but rolling terrain sites. So, it brings a lot more into play in terms of the market. So, so far the interest is extremely high and it is helping with our bookings velocity, these new – the current innovation suite that we have in the Next Gen Suite that we just announced. Thanks for your question.

Jordan Levy

Analyst, Truist Securities, Inc.

Q

Thank you, all.

Operator: Thank you, Mr. Levy. Our next question is from Tristan Richardson with Scotiabank. Please proceed.

Tristan Richardson

Analyst, Scotiabank

Q

Hey. Good afternoon, guys. Appreciate the time. Can you talk a little bit – maybe, Howard, you mentioned Section 45X and how this should be looked at on a case-by-case basis and customer-by-customer? Can you talk about the backlog and maybe frame for us perhaps the proportion of domestic backlog where domestic content is

absolutely critically important to the customer? Said another way, is there a proportion of your US funnel of business where the customer is really looking for the most cost-effective solution and domestic content might not be a priority?

Howard J. Wenger

President, Nextracker, Inc.

A

Right. You nailed it with your question. Every customer is different. Every project is different. But to generalize, every developer of consequence that we know, they are highly interested in the domestic content and capturing the bonus ITC. And so, they're doing everything they can to do that. Are they doing that on every one of their projects? Keep in mind, these developers have tens of projects that they're developing with various equipment sets, especially on the panel side that they're lining up for it and the panels really matter, of course, where they're sourced as do the trackers. And so, it just depends on the project. But I would say that every – just about most customers, most customers are looking to take advantage of the bonus ITC. And we are very engaged with them on our ability to fulfill that for them.

Tristan Richardson

Analyst, Scotiabank

Q

Appreciate it. Thank you, guys.

Howard J. Wenger

President, Nextracker, Inc.

A

Of course, that's the US. Yeah. Thank you.

Operator: Thank you. Our next question is from Derek Soderberg with Cantor Fitzgerald. You may proceed.

Derek Soderberg

Analyst, Cantor Fitzgerald & Co.

Q

Yeah. Hey, guys. Thanks for taking my question. So, I wanted to actually ask about the Indian market. Clearly, big opportunity there. Wondering if you can first kind of clarify what's your production capacity there today in gigawatts and how do you think about that going forward? But just broadly on the Indian market, what sort of gives you the confidence that you can really win in that market? Is that a price-sensitive market? What do they sort of like about Nextracker? Is it the manufacturing model so you can use domestic content? Is it the actual tracker technology and software? Can you talk a bit about what's it going to take to win in that market? Thanks.

Daniel S. Shugar

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

A

Sure. I appreciate that, Derek. Nextracker has been engaged in the India market since our founding 10 years ago. Our second largest office is in Hyderabad, which is right in the middle of the country. We have a tremendously talented team, covering most of the functionality of the company and a very strong engineering base and a super strong support analysis and project engineering team there.

And we did our first project in India in 2014, a 1-megawatt system. We did our first – we did the very first 100-megawatt tracker in India, and that was in 2015. That project continues to operate well. We delivered 27 projects prior to 2020, and those projects have performed very well. And we have a very, very good reputation of being able to deliver a cost-effective product, and I'll speak to that, without cutting corners on product quality. That has – and there's been a flight to quality, I mentioned that, with customers globally, and that's true also in India.

What's happened is really interesting. As the panel technology move toward bifacial, the focus on customers on higher efficiency and higher performing systems in India has significantly increased. So, we're seeing the market moving towards trackers. We have 5 gigawatts of demand between the systems that are operational and those that are being fulfilled on a go-forward. With respect to capacity, our teams worked very hard to build manufacturing in India for India. That's helped us become very cost effective within India for the customers there. And so, we have 10 gigawatts of capacity in India for India, or could be used for export. We mentioned our meet and surge philosophy in India and embodies that.

So, that's happened through a lot of hard work. And currently, for India, we can manufacture over 80% of the content in India for those customers. So, we've been really committed to the market there in part because India is from a power generation of fossil intensity standpoint where the United States was 15 years ago where between 50% and 60% of the power comes from coal. So, there's an opportunity to really radically reduce the carbon intensity of the power generation sector. And we're focused in India, we're delivering high-quality systems. The sophistication of the customers is high. And there's been a flight to quality. So, we feel great about our position there and supporting India on a go-forward. Thanks.

Operator: Thank you. That is all the time we have for questions today. I will now pass the call over to the Nextracker team for any closing remarks.

Mary Lai

Vice President-Investor Relations, Nextracker, Inc.

Thank you for joining. We look forward to speaking to you next quarter and speak to many of you soon. This concludes our earnings call. Thank you.

Operator: That concludes today's Nextracker Q2 FY 2024 earnings call. Thank you for your participation. You may now disconnect your lines.

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