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Nextracker, Inc. (NXT)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, everyone, and thank you for standing by. My name is Sierra and I will be your moderator today. Today's call is being recorded. I'd like to welcome everyone to Nextracker's Third Quarter Fiscal Year 2024 Earnings Conference 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 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 third 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 press release.

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 expectations.

Those statements are based on current beliefs, assumptions, and expectations, and speak only as of the current date. For more information on those risk and uncertainties, please review our earnings press release, slides, and our SEC filings, including our most recent filed Form 10-Q, which are available on our IR website at investors.nextracker.com. This information is subject to change and we undertake no obligation to update any forward-looking statements as a result of new information, future events, or changes in our expectations.

Please note, we provide GAAP and non-GAAP measures on today's call. The full non-GAAP to GAAP reconciliation can be found in the appendix to the press release, slides of today's presentation, as well as the financial section of our 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. Good afternoon, everyone, and welcome to our third quarter fiscal year 2024 earnings call. We start this call by noting how thrilled we are to be a fully independent public company after a successful separation from Flex in early January. We are appreciative of our time with Flex, an eight-year combination that exceeded its goals related to our growth and global expansion. And we sincerely thank the six outgoing board members, all Flex executives, for their service. We're also excited to welcome Julie Blunden and Howard Wenger to our board, further strengthening our directors' deep domain expertise in solar, storage, and public companies.

Let's focus on Q3 results. This was another strong quarter and our fourth consecutive quarter of double-digit growth, resulting in record revenue, profits, and backlog. Q3 demonstrated ongoing momentum for Nextracker in the solar industry. Our revenue grew 38% year-over-year to exceed \$700 million, and our adjusted EBITDA accelerated to \$168 million. It's noteworthy that we've doubled our adjusted EBITDA in the last 12 months. The significant top line and profit expansion was the result of our solid execution, further optimization of our re-architected supply chain, and continued rigor and pricing discipline. Our reported \$168 million of adjusted EBITDA does not include the anticipated 45X tax benefits, which are expected to further increase earnings.

Q3's performance was driven by exceptionally high deliveries in our US business, growing 70% year-over-year. We also highlight our international expansion progress by celebrating the 10-gigawatt milestone we reached in the Middle East, India, and Africa. We have long-term and proven track record in these regions, where in some cases, we have the advantage of first market mover. Our differentiated product reliability in extreme weather and ability to deliver large volumes at scale are well understood by customers.

Recently, we've booked significant orders and have tracker fleets operating in India, Saudi Arabia, United Arab Emirates, and Africa. To serve our growing demand, we keep expanding our global supplier footprint. In total, we now have over 70 major supply chain partners across 5 continents.

Our new contracted bookings continue at a healthy pace both domestically and overseas. This resulted in new record backlog significantly exceeding \$3 billion. With the strong demand and record backlog year-to-date, we are increasing guidance. We are raising the midpoint of our previous annual revenue and profit guidance by approximately \$100 million and \$73 million, respectively. For the full fiscal year, our new revenue target is \$2.45 billion, and our new EBITDA target is \$488 million at the midpoint.

This is the third consecutive quarter we've raised our revenue and profit guidance. We achieved this growth by focusing on innovation, customers, execution, and our team, delivering over 90 gigawatts since the inception. Based on our strong growth profile, supported by healthy profitability and ample liquidity, we've continued to

increase our investments in R&D, with emphasis on technology that lowers the levelized cost of solar energy for our customers. The additional R&D investments we've made have accelerated the time-to-market for new products and allows us to maintain market leadership.

In Q3, we bolstered our overall patent portfolio both organically and through strategic investments. We now have over 500 patents issued and pending at the end of the quarter. Last September, we launched our next generation technology suite with three innovations: extreme terrain-following tracker, XTR-1.5; Hail Pro for NX Horizon; and Zonal Diffuse for TrueCapture. All of these innovations are either operating in the field today or are under contract to be delivered to customer projects later this year.

We'll now speak to the short- and long-term dynamics in the market, starting with the United States. As covered on our previous calls, there are multiple headwinds and tailwinds impacting solar development velocity. Headwinds including interconnection backlogs, permitting delays, and equipment shortages are real and can impact any specific project, EPC, or developer. But in totality, the combination of new entrants in both developers and EPCs and the increasing number of projects in their portfolios has allowed the market to continue expanding. Solar panel availability in the United States has improved significantly over recent quarters. And as things stand today, we are not seeing panel availability as a first order problem in the market. There are, however, multiple trade proceedings pending, which could impact panel imports from certain geographies into the US. We will need to see how this evolves over time to determine any potential impact.

According to the Solar Energy Industries Association, at the 1-year anniversary of the Inflation Reduction Act or the IRA, 85 gigawatts of new US solar module manufacturing capacity had been announced, which inspires confidence that panel availability will be systemically addressed in the coming years. Overseas, some of the headwinds noted above also exist, but are typically less severe than the US. And globally, falling solar panel pricing has enabled the economics of projects to continue improving, and markets in general to continue expanding.

Longer term, we believe it's insightful to consider both the accelerating need for new power in combination with retiring legacy power generation assets. Focusing on the US, power generation requirements grew modestly from 2007 through 2022 at about 1% annual increase. Over the last few years, however, energy usage has increased dramatically, driven by growth in data centers, electrification of appliances and transportation, and reindustrialization across United States. At the same time, there has been a significant retirement of legacy power plants. The combination of these factors has caused the US Energy Information Administration to forecast a 5% annual increase needs for new power generation capacity's grid over the next 5 years. The result is that almost 300 gigawatts of new power plants are needed over the next 5 years, and about 500 gigawatts of new power is needed over the next decade.

Where is this massive amount of new power going to come from? The US EIA, historically very conservative on renewables, is forecasting that solar and wind power will comprise the vast majority of new power generation. Solar is expected to have a 26% compound annual growth over the next 5 years, and within 10 years be the number one source of electric generation in the United States, comprising almost a quarter of all electric energy.

Naysayers point to the intermittency of renewable power as an impediment to its large-scale adoption in the grid. We believe this issue will improve. Sharp decreases in battery costs have been able to steep ramping of battery storage power plants in the grid, both colocated with renewable power and standalone projects. Battery power increased fivefold in the last 2 years to 15 gigawatts operating in the USA today. And batteries are expected to triple again to about 50 gigawatts by 2026. Many battery systems have four hours of storage today, which pairs well with the solar tracker plant, which together provide firm power through the evening peaks.

Nextracker is very well-positioned to continue driving utility scale on distributed generation as the world transitions to renewable energy with solar leading the charge. We are the skeletal system for the solar power ecosystem. With over 2 million tracker systems shipped to more than 30 countries, we're the global market leader in trackers and a preferred partner for Tier 1 owners, developers, and EPCs. And equally important, we appreciate our customers and their guidance on our products. We listen and respond to customer requirements with operational excellence and uncompromising quality.

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

Howard J. Wenger

President, Nextracker, Inc.

Thank you, Dan. Q3 was another successful quarter delivering multiple proof points that our products are differentiated, and our team continues to execute on fulfilling customer requirements. It's been an amazing journey as we have scaled Nextracker's revenue to over \$700 million this quarter. In just a short two-year span, we've more than doubled our quarterly revenue, while increasing profitability. Our proactive investments are paying off. We have invested in innovation, increasing our technology lead. We've implemented a regional strategy to further enable international expansion. And we have successfully deployed a strategic pivot to localize our US supply chain, which is in full flight.

The US remains our largest served market, representing 78% of total Q3 revenue. This is a higher percentage than in previous reported quarters. However, we expect our revenue mix to continue to be approximately two-thirds US and one-third international for the full fiscal year 2024. We did have some delays of projects in the quarter, but this was more than offset by other projects pulling in ahead, as our team continued to focus on customer needs and delivery requests.

The international business performed as expected, with our [ph] MENA (00:13:28) region leading the way with project deliveries in Middle East, India, and Africa. We are very pleased with our global supply chain and project management teams as they continue to collaborate with customers worldwide. Establishing local supply has further optimized our offering and provides even more reliability, improving execution on multiple continents to achieve on-time delivery for our customers.

Let me now provide some details on our new Q3 bookings. Overall, we are seeing continued strong demand. We had another excellent quarter for new business, with a book-to-bill ratio greater than 1. Our backlog increased quarter-over-quarter to a new record and remains significantly over \$3 billion.

In the US, Q3 bookings were diversely represented across the country where we continued to win under a wide range of conditions and terrains. We executed a healthy mix of new EPC contracts and volume commitment agreements or VCAs in the quarter. We believe our continued sales strength reflects Nextracker's superiority across multiple dimensions that matter most to discerning customers. This includes product performance and capability, quality and reliability, service offering, track record, our team, and the execution and customer focus. This catalog of positive attributes earned over many years translates into what we believe is the most bankable product with the lowest levelized cost of energy for large-scale solar power. We also now have a robust US manufacturing capability that is enabling us to deliver domestic content our customers want, as well as providing scalable capacity to allow for future growth. As for the IRA and the impact of waiting for Treasury clarifications, the upshot is that we are not seeing a significant impact on US project deliveries or on new bookings. Customers and

projects are transacting, and as we have outlined in previous earnings calls, we continue to see positive demand activities as our backlog continues to grow.

Let's now turn to our international bookings. In Q3, we signed customer contracts across several international regions, notably in India, Australia, Saudi Arabia and Spain. We've also added new countries to our list, such as South Africa, New Zealand and even Sweden, which is not considered a traditional solar market but reflects improving economics driven by recent solar technology developments such as bifacial solar panels and Nextracker TrueCapture technology.

As you've heard from Dan, we achieved a milestone of 10 gigawatts of operating and contracted systems in our MENA region, comprised of Middle East, India, and Africa. Our deep relationships and already established track record with superior solar performance matter greatly to customers in these regions. As we deploy our regional strategy, we have more boots on the ground to scale. But more importantly, we lead with product quality and reliability, our world-class wind engineering and performance coupled with our high quality and durable components such as batteries, motors and fasteners. While we believe it's early days in our global expansion, we've been fast movers and are the leading solar tracker platform in many countries, and we have increasing opportunities to further invest and mobilize to address and grow in these significant markets.

As Dan noted, we are constantly monitoring headwinds and tailwinds for our business as we navigate the company forward. We continue to see on balance a net positive trend, and we are in a strong position going forward. We do want to acknowledge that some of our shipments are being rerouted due to the Red Sea and Suez Canal conflict, which does have an impact on some deliveries and costs and potentially revenue recognition. We have factored this into our guidance. While we don't see a material impact today, we are closely monitoring the situation and we continue to make the adjustments needed to minimize the impact to our customers.

I'd like to briefly discuss pricing. Solar trackers are not commodity products, but are highly engineered for site-specific conditions such as soil and foundation requirements, topography, wind speeds, panel type, and local permit needs, codes and standards. As such, cost and pricing are specific to each and every project and vary from site to site, region to region, and customer to customer. Also, I want to point out there is a significant lag time of multiple quarters between ASP, or average sales price, at the time of booking versus the revenue per watt that is often used as a proxy for ASP. That said, on an aggregate basis worldwide for Q3 and for the majority of last year, our ASP has been relatively stable. Our margin strength is in part a result of our continued rigor in pricing discipline, but even more so, it's driven by a differentiated superior product and service offering, and our ability to deliver what we believe offers the lowest LCOE and highest financial returns for our customers. We do not chase business.

And finally, let me wrap up with a quick update on our continued hardware and software innovation. We are having tremendous success with our NX Horizon tracker products, as well as increasing traction for both of our XTR and Hail Pro product lines. As we increase project installations of these products in a wider variety of terrains and weather conditions, we are expanding use cases for Nextracker. Q3 sales and installation of TrueCapture increased both sequentially and year-over-year. TrueCapture is our intelligent self-adjusting tracker software that integrates with our patented electronic controller to help maximize solar power production. It operates automatically with no user intervention. TrueCapture is a differentiated software platform and enhances our overall offering. We are seeing increasing adoption as our customers see the value-add by boosting energy gains and enhancing their financial returns.

We will continue our R&D investments to accelerate innovation and time to market for new products. We recently announced new product innovations that leverage inherent features of our flagship NX Horizon smart solar tracking system. We are making good progress in Hail Pro and Hail Pro-75, XTR 1.5, and enhancements to TrueCapture, including Zonal Diffuse. All of these innovations are either operating in the field today or scheduled to be delivered to customer projects later this year. We will be reporting on our progress in the quarters ahead.

In summary, we are very proud of the team's execution and accomplishments in the quarter. We just celebrated our 10-year anniversary, and we are energized and ready for more as the world transitions to renewable energy.

Now, let me turn the call over to Dave Bennett, our Chief Financial Officer, to review financials. 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. Please note our Q3 results exclude any benefit from the IRA 45X tax credits related to tracker components.

Q3 was another record quarter, delivering double-digit growth for both top and bottom line, and our fourth consecutive quarter of growth since the IPO. Q3 revenue closed at \$710 million, up 38%, driven by a 70% increase in the US market, offset by a decline of 17% in the rest of the world. Q3 revenue mix was 78% and 22%, respectively. We saw a material uptick to US revenue primarily due to strong execution from our teams in progressing projects to schedule. We expect the US to land at the high end of our previously reported full year revenue mix of 60% to 70% of total revenue.

Adjusted EBITDA for Q3 was \$168 million, an increase of \$105 million or a 168% growth, establishing another new record for the company. Gross margins expanded in Q3 to 30% as a result of our strong execution and favorable mix both by project and region. As Howard and Dan both mentioned, our teams continued to optimize our supply chain and drive pricing discipline.

As I just said, Q3 also had a larger US mix, which has somewhat higher pricing and margins versus the rest of the world. Our Q3 EBITDA margin of 23.6% was up over 1,100 basis points from the prior year and marks the seventh consecutive quarter of sequential margin improvement. Despite Q3's outperformance, we continue to expect project gross margins to track in the mid-20s as we manage our business to optimize annual results.

Adjusted diluted earnings per share was \$0.96 in the quarter. As previously stated, the separation from Flex increased our public float by approximately 74 million shares, but does not impact our diluted EPS.

Adjusted free cash flow was \$62 million for the quarter and \$314 million for the first nine months of fiscal year 2024, driven by strong net working capital management, customer deposits, and higher EBITDA. Net working capital at the end of Q3 was approximately 13% of trailing 12-month revenue, which was within our expected 10% to 15% levels. To support our planned growth in the next few quarters, we expect to continue to fund our net working capital, which may pressure free cash flow.

Our high quality balance sheet, cash flow generation, and ample liquidity remain competitive advantages. We closed the quarter with \$368 million in total cash, which is greater than two times our total debt of less than \$150 million. Total liquidity at the end of Q3 was nearly \$800 million. We continue to operate with a debt to EBITDA ratio of less than 1, with no significant debt maturities until fiscal 2028.

We have a resilient financial model with a growth mindset. We will continue to make investments in our teams, technology, and infrastructure to grow, create value and scale our business. At the same time, we have the flexibility to explore M&A opportunities to accelerate our business with the mindset to create differentiated value for customers in addition to increasing shareholder value.

Let me now transition to the IRA 45X benefit considerations for Nextracker. We have developed great relationships and arrangements with top vendors in the industry. We have strong conviction that our torque tubes and the bulk of our fasteners will qualify under 45X, which will be meaningful to our financials in fiscal year 2025. The key takeaway to understand is that our objective is to reduce the cost of materials to enable domestically-made product to be cost-competitive with imports via the 45X tax credit vendor rebates.

Consistent with last quarter, we have not factored in any expected IRA 45X profit projections in our updated fiscal 2024 adjusted EBITDA and non-GAAP EPS guidance. However, based on current arrangements with vendors and the 45X Treasury rules, we expect to realize a reduction in GAAP cost of sales in the range of \$50 million to \$80 million in our fourth quarter fiscal 2024. This is our current projection, and subject to change based on contract terms and tax filing timing by our vendors. As previously messaged, fiscal 2024 continues to be a transitional year as we work through respective contract terms and mechanics with our vendors. We plan to include the impacts of the 45X credit in our fiscal 2025 adjusted EBITDA and non-GAAP EPS guidance.

Now let me speak briefly about the successful separation from Flex. As stated in the previously issued press release on January 2, we announced the completion of Flex's spin-off of all of its remaining interest in Nextracker to the Flex shareholders. Flex no longer directly or indirectly holds any shares of Nextracker common stock. We continue to maintain a transition services agreement with Flex to properly transition certain non-customer-facing and back office functions, which we expect to be completed this year.

Turning to guidance. Our revised full year fiscal 2024 guidance is as follows. With strong results year-to-date, we have once again raised the midpoint of our full year revenue guidance by \$100 million. The new range is now \$2.425 billion to \$2.475 billion. At the midpoint, we are expecting 29% growth year-over-year. We've also raised our adjusted EBITDA guidance range meaningfully by \$73 million. The updated range is now \$475 million to \$500 million. At the midpoint, we are expecting over 130% growth year-over-year and an implied EBITDA margin of approximately 20%.

Our business should be evaluated on an annual basis. Structurally, we expect our gross margin to be sustainable in the mid-20s range, factoring in quarterly variations in regional, project and customer mix. GAAP EPS is expected to be between \$2.53 to \$2.90 per share and includes approximately \$0.30 related to stock-based compensation and intangible amortization. GAAP EPS also includes the benefit of approximately \$0.28 to \$0.45 per share related to the recognition of the expected IRA tax credit vendor rebates. Adjusted EPS is expected to be between \$2.55 to \$2.75 per share, based on 148 million weighted average shares outstanding.

Net interest and other income are expected to be under \$5 million due to benefits from FX and interest income offsetting interest expense. We still expect the adjusted income tax rate to range between 15% to 20% for the full fiscal year. As we head into fiscal 2025, we do expect the tax rate to trend slightly higher as an independent company domiciled in the US.

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

Daniel S. Shugar

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

Thank you, Dave. I'm so proud of our team and what we've achieved. Our execution is backed by a strong history of innovation, deep domain expertise, global supply chain, and trusted relationships. We're thrilled to begin this year as a fully independent company. We will continue to make strategic investments, expand our talented team, and look to pursue additional market opportunities ahead. Nextracker is well-positioned to grow and scale globally. We're just getting started.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And in the interest of time, please limit yourselves to one question and one follow-up to allow everyone to speak. Our first question comes from Brian Lee with Goldman Sachs. Please proceed.

Brian Lee

Analyst, Goldman Sachs & Co. LLC

Q

Hey guys. Good afternoon. Thanks for taking the question and kudos on great execution again. I guess, first question, I know you probably can't get into all the specifics, but if we sort of back into what's implied by the guidance or the vendor rebates that you're going to be seeing in fiscal Q4, I guess, I get to something in the ballpark of like a third credit share with other constituents here. I know we might not have all the details to be able to get to that number, but I thought it'd be a bit higher. So, is there some additional clarity you can provide as to whether, one, is that in the right ballpark, or two, is there something unique about your shipments in 2023 that you wouldn't get the full share or 50% plus that I think has been implied thus far by you and your peers? Just wondering what we should be thinking about as we head into fiscal 2025. And then I had a follow-up.

Daniel S. Shugar

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

A

Brian, it's Dan Shugar. Thank you for your question. We're not commenting on the share that we have with our manufacturing partners. Dave, do you have more to elaborate on that?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

A

Yeah. Thanks, Dan. Hi Brian. Couple things to remember on our fiscal 2024. And one is, we previously guided without 45X we're going to finish the year, measuring our business to that standard. I would try to give you guys enough transparency to understand that we are partnering with our vendors and have a meaningful share, and that's the extent of it. But 2024 is a transitional year. Starting in January – we started US manufacturing before 2023, but tripled down on it after IRA. And think about the ramp going through calendar 2023. So you're not at a full run rate at the beginning of it. So, to try to measure the amount based on our cumulative catch-up entry is not going to be representative of our going forward plan. And then each vendor, we're going to work contract by contract to understand their tax filing status and work with them. And then lastly, Q4 is – it contains a cumulative catch-up for all of those periods over the ramp.

And so, in a nutshell, the way we're addressing it is fiscal 2025, 45X will be operationalized and used as a measure of performance for us. So it will be in our guidance for fiscal 2025. But looking at it for fiscal 2024, it's really a transitional year and that's kind of why we've approached it that way.

Brian Lee

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Fair enough. That makes sense. I figured there were some nuances to the number for this year. Maybe just second question and I'll pass it on. And this could be for you, Dan, I guess. Can you talk a bit about the competitive landscape, the market share outlook? Particularly in the US, it seems like that has become a bit more noisy of late. I know Nextracker has been winning via innovation and meeting customer requirements. So any reason to believe that won't be the case going forward? Can you maybe speak to examples where you're getting wins or feedback from customers on this being the reason you continue to win business here in the US?

Daniel S. Shugar

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

A

Thank you, Brian. Yes, product differentiation is a primary driver for winning in the market. That combined with our experienced financial position. And at the end of the day, what does that mean? Our trackers make more energy than other designs that are at scale on the market. You can visually see it. If you go on YouTube and you look at our TrueCapture, there's a couple three-minute videos in there, you can actually see how the systems are working, empirical side-by-side cases where TrueCapture is operationalized or not, and we harvest more bifacial energy through reflected light. About a third of the United States is in a pretty extreme health risk area. And we have operationalized our Hail Pro technology to help customers enjoy operational performance on their system that's safer. And we have many successful customers with their fleets using our technology.

So there's a variety of factors there, but we've been in the shoes of the customer. What we're focused on is the lowest LCOE for our customers by having differentiated technology and really strong operational metrics.

Brian Lee

Analyst, Goldman Sachs & Co. LLC

Q

All right. Thanks for all the color, guys. I'll pass it on.

Operator: Our next question comes from Jon Windham with UBS. Please proceed.

Jon Windham

Analyst, UBS Securities LLC

Q

Perfect. Thanks. Great result. I'll just ask about – you did mention some project delays. If you can just – any color you can add on what drove those. Obviously, you had some project pull-forwards to allow you to still beat on revenue pretty solidly. But just any commentary about the nature of delays, geography, or what caused them would be helpful. Thanks.

Howard J. Wenger

President, Nextracker, Inc.

A

Sure. This is Howard Wenger. I'll answer that. So we had some delays, for example, in the Midwest. There's a lot of – it's the wintertime and it's raining. Sites can get muddy. Things can get pushed a week or two weeks. So, the shipments can vary from quarter to quarter as a result of that. Meanwhile, we've had accelerations where customers want product faster. And so, on balance, we'd be on every financial metric, which means we'd be on shipments too. So, on balance, we're good, but it's not – we're in the project business. We're part of the construction business and things can shift here and there.

The other thing that I mentioned was the conflict in the Suez Canal region. And we have factored that into our shipping timeframes with our customers. So we're able to mitigate and get product to our customers on time so they can finish their projects on time. But things can shift a week or two as a result of different dynamics. Thanks for your question.

Jon Windham

Analyst, UBS Securities LLC

Q

Great. Yeah, yeah. Thanks for that. I'll take the Flex accounting questions offline [indiscernible] (00:38:22) everyone. Thanks again.

Operator: Our next question comes from Mark Strouse with JPMorgan. Please proceed.

Mark Strouse

Analyst, JPMorgan Securities LLC

Q

Good afternoon. Thank you very much for taking our questions. I'll echo my congrats as well. So, pretty impressive upside to guidance with just a quarter to go in the year. I'm curious if – just kind of talking about project movements forward and backwards, if there were any sizable project pull-forwards into the March quarter that you should call out or is this kind of just broader market acceleration?

Howard J. Wenger

President, Nextracker, Inc.

A

It really is just broader market acceleration, Mark. As we noted in our previous call, we have a lot of backlog. Our backlog has grown quarter-over-quarter. We're over \$3 billion significantly. And so, customers – and the strength of the market, particularly in the US, as we noted, 78% of our revenue came from the US in the quarter, which is higher than normal. It can fluctuate quarter to quarter and we expect it to normally be two-thirds, one-third. But there are some pull-ins in the US, but it's not significantly changing our demand picture at all. Our backlog grew in the quarter. So there's really nothing significant.

One thing that Dan noted in his remarks is that there's simply more developers and more EPCs. And we believe we're doing a good job with our team winning that share of the business. So, the strength is there, the demand strength is there, and things aren't slowing down because of IRA in any way. So, yeah, that's where we're at on balance.

Mark Strouse

Analyst, JPMorgan Securities LLC

Q

Okay. I'll take the rest offline. Thank you, Howard.

Howard J. Wenger

President, Nextracker, Inc.

A

Thanks, Mark.

Operator: Our next question comes from Julien Smith with Bank of America. Please proceed.

Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Q

Hey. Indeed, really very well done. Impressive indeed. Look, thank you guys very much. I appreciate it. So, with respect to the 45X, just coming back to what we were saying a second ago about percent sharing. If I can ask that question slightly differently, rather than what the percentage is, how do you think about what a run rate might look like, for instance? Like, how do you think about what that would trend into the 2025 period? And is that fully reflective of all the various aspects of 45X as you think about torque tube and beyond?

Daniel S. Shugar

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

A

Hi Julien. Thanks for your question. Let me just start with the operational aspect and then Dave will speak to the financial. Nextracker is very, very serious about scaling up domestic manufacturing in the States and our other core markets. And we hit this early. And last summer, we announced 25 gigawatts of contracted capacity across the United States. We've operationalized that. We've had six public factory openings. We have over a dozen factories shipping finished goods all across the United States. And we are going to be in a position to meet any customer request for domestic manufactured content and be able to arbitrage any problem with congestion at a port or if there is a problem in the logistics route or currency or a natural disaster, what have you.

So we're really focused on being able to operationalize that with most of the supply chain, and we're achieving great success with our partners. And in a number of cases, we've gone back to some of these factories. We've started off work with our partners to double or even greater increase capacity in those factories. Dave?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

A

Yeah. Hey Julien. The only thing to add would be, as I indicated, there's a lot of moving parts with what quantifies the fiscal 2024 Q4 amount and that isn't necessarily a good indicator for what we will be, given the ramp, given the one-time nature of the cumulative catch-up. As we've been saying, we bring the demand. It's a meaningful partnership with our vendors. And we will include that in our fiscal 2025 guidance, so it'll be transparent, you'll see the uplift to our profitability for fiscal 2025.

Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Q

Wonderful, guys. Thank you very much. I appreciate it. And then just related here on the mix on international, you guys are talking about one-third still. Obviously, some real successes abroad. How do you think about what that proportion could trend as you think about year-over-year in terms of recognizing that revenue? And then related, how do you think about the ongoing expansion of gross margin? Does that start to top out as you think about that international mix really getting going here, if you will?

Howard J. Wenger

President, Nextracker, Inc.

A

Hey Julien. This is Howard. So it's a big world. Solar works just about everywhere. We had our first project in Sweden, not typically thought of as a great solar market. But the United States remains the biggest market outside of China in the world and certainly for Nextracker. It's going to continue to be the biggest market for some time. But on balance, we are in more locations around the world that we can and we are driving towards increasing that one-third share of our total business because we think that's healthy for the company and provides us more levers for growth. And we are really just getting started in many countries around the world.

So, as far as margin on that front, we have seen that it can be more price-sensitive, but we think that will change over time as customers come to realize the strength of our technology and the importance of the tracker in terms

of being designed for a 40-year design life, like ours is, with the highest quality components, the best reliability, the best performance track record. And the owners of these projects will increasingly drive the choice of Nextracker being the most reliable and most trusted partner. We've seen that in the United States. We think that's part of our traction. We believe we're going to see that more and more internationally as time goes on.

One thing I want to note. Dan mentioned that we've shipped over 90 gigawatts in the company's history. Two-thirds of those gigawatts is just in the last three years. So, when you think about the S-curve and the adoption rate and how we're going up that and the experience base, it'll pull increasingly more towards quality or flight to quality over time. And that's played out in the US already, which is our home market. It'll play out internationally as well. Thanks for your question.

Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Q

Thank you.

Daniel S. Shugar

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

A

I'd like to pile on what Howard said, which is this. It's around our philosophy for how we design, how we build, how we serve the customers. I can tell you what Nextracker is not going to do. We're not going to cut any corners on our product quality, design philosophy. You won't be seeing Nextracker shipping lead-acid batteries in any of our controllers or doing any corner cutting on our products. We're going to be maintaining the highest standard, make sure that the trackers perform and that we really set a standard not only for Nextracker but that solar power systems are the highest performing reliable systems in the power generation fleet.

Daniel S. Shugar

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

A

Thanks, Julien.

Operator: Our next question today comes from Philip Shen with ROTH. Please proceed.

Philip Shen

Analyst, ROTH Capital Partners LLC

Q

Hey, guys, congrats on a great quarter. Just a quick follow-up on Julien's last question there. Specifically for F Q3, was international mix down due to seasonality or was it more just strength in the US market, or was there some slowdown in international growth? And then, what is your expectation for the international versus US mix for F Q4? Thanks.

Howard J. Wenger

President, Nextracker, Inc.

A

So let's just start for the full year, Phil. We expect to land at roughly one-third, two-thirds for the full fiscal year 2024, okay. So on balance, you'll see for Q4 numbers that are closer to that. And so the US market just is very strong right now and customers are accelerating certain projects. And that's what we saw this quarter. And one week can make a difference, right? If you got 1 out of 13 weeks, you have some significant projects. Getting more product this week versus the next week or falling out into the subsequent quarter, it can change that ratio. But yeah, we're stable at one-third, two-thirds. And...

Philip Shen

Analyst, ROTH Capital Partners LLC

Great. Thanks, Howard. Shifting you over just to...

Q

Howard J. Wenger

President, Nextracker, Inc.

...I do want to note that international business is up. The international business is up year-on-year, quarter-on-quarter in terms of bookings and revenue.

A

Philip Shen

Analyst, ROTH Capital Partners LLC

Got it. Thanks, Howard.

Q

Howard J. Wenger

President, Nextracker, Inc.

So no slowdown there.

A

Philip Shen

Analyst, ROTH Capital Partners LLC

As it relates to bookings, I know you...

Q

Howard J. Wenger

President, Nextracker, Inc.

Thanks, Phil.

A

Philip Shen

Analyst, ROTH Capital Partners LLC

Right, no slowdown. Yeah, you guys are doing very well with your bookings and your record backlog, which would assume at least \$710 million in bookings I think for F Q3. I was wondering if you could give us just a little bit of color on do you think the F Q3 bookings were closer to \$1 billion or maybe closer to \$750 million? And then to what degree can you share any color on what you see for calendar 2024, or better yet, fiscal 2025? I know you have no official guidance, but the reality is you guys have very long lead times and you should have good visibility. To the degree you can kind of talk through, that would be really helpful. Do you expect the bookings strength to continue? Do you expect to be able to continue to hit these record backlog numbers in the coming quarters? Thanks, guys.

Q

Howard J. Wenger

President, Nextracker, Inc.

We're going to give more detail on the next call as to where we landed on backlog for the year. We mentioned that I think last quarter or the quarter before that we would be on an annual basis providing more detail on backlog and then quarter-to-quarter some directional guidance. So I just want to say on the bookings and the bookings strength, very consistent since we've been a public company. Each quarter that we've reported our bookings, in totality, worldwide, EPC and BCA business, very consistent each quarter in terms of magnitude and very strong each quarter, reflecting strong demand globally.

A

Thanks for your question, Phil.

Daniel S. Shugar

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

A

And just on the longer term, Phil, in my prepared remarks, I noted that the EIA is forecasting a 26% annually compounded growth in solar in the States. Does that – that sounds very high, right? Well, Nextracker has demonstrated a 30% annually compounded growth for 5 years in a row. So it is definitely in the realm of possibility. But the United States in particular is going to need a ton of power. So there's a huge opportunity here not just for Nextracker but the whole solar power industry, other tracker companies, new tracker entrants, new solar panel companies, new power electronics companies, new EPCs, to really engage in the market. And we need additional companies and companies that are serious about performing and delivering high quality products across the value chain. So, I mean, that is tremendous. 300 gigawatts of new power needed in 5 years in the United States. With the EIA predicting most of that's going to come from solar, that's a big deal. Thank you, Phil.

Philip Shen

Analyst, ROTH Capital Partners LLC

Q

Right. Thanks, Dan. Just – yeah. Okay, thanks.

Operator: Our next question comes from Kashy Harrison with Piper Sandler. Please proceed.

Kashy Harrison

Analyst, Piper Sandler & Co.

Q

Good afternoon. Great quarter and thanks for taking the questions. So my first one is just on the margins. 30% is a pretty big number. And I was wondering if you could just provide more specifics precisely on how you got the 30% this quarter. And then, Dave, I know you mentioned mid-20s is more of a sustainable level, but is there a scenario in which Nextracker is generating 30% gross margins ex-credits, while simultaneously generating a lower LCOE than some of your peers? And I have a follow-up.

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

A

Yeah. Thanks for the question, Kashy. Obviously, is there a scenario? Well, we just printed it. So I can't say that there isn't a scenario. The higher gross margin for the quarter driven by some level of leverage, we were at a record revenue with at \$710 million, we benefited from a regional mix that we already alluded to with a high US concentration that generally drives a higher margin profile and a slightly better software attach rate. So that's going to move our margin profile up as well. The year-over-year increase we spoke about before, but in terms of the sequential increase, it's just execution over and over. The biggest factor in my opinion is pricing discipline and cost discipline. So some of the innovations that we talked to, and everyone aligns to the new product introductions, that's real. But it's also about innovating our supply chain, our cost down, and enabling us to maintain that higher profitability. But to close, you really should look at it on a greater than one quarter window. If you look at the full year-to-date, actually, we are at a 27% gross margin and a 20% EBITDA, which is in that range of what we say is sustainable.

Kashy Harrison

Analyst, Piper Sandler & Co.

Q

Thank you.

Daniel S. Shugar

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

A

We're going to go to the...

Kashy Harrison

Analyst, Piper Sandler & Co.

Q

That's helpful.

Howard J. Wenger

President, Nextracker, Inc.

A

Okay. My apologies. We need to go to the next question.

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

A

Thanks, Kashy.

Howard J. Wenger

President, Nextracker, Inc.

A

Thank you.

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

Christine Cho

Analyst, Barclays Capital, Inc.

Q

Good evening. Thank you for taking my question. Great quarter. If I could just go back to your comments on the 45X for fiscal 2025. You mentioned that you expect it to be meaningful, and the objective is to reduce cost. So can you just talk to how you expect this to impact margins? Do you expect it to be an equal offset or do you anticipate to be more and you would keep it as higher margin or be with us from the overseas?

Daniel S. Shugar

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

A

Hi, Christine. This is [ph] Shug (00:55:25). Thanks for your questions. Look, the 45X was about rapidly spinning off the US supply chain to deal with all these disruptions in the pandemic and create a bunch of jobs here. That was the premise of the 45X, be it in tracker, for solar panels, and we have accomplished that. Products are competitive here with things that are made overseas with the 45X, and we're delivering on the US product with steel that's sourced domestically. With higher quality steel, it's also cleaner, okay?

With respect to our position on the 45X, Nextracker has an extremely diverse domestic supply chain across multiple manufacturing partners with a huge amount of capacity. We've announced over 25 gigawatts of capacity and we've operationalized that. Which one would then have to presume we're in a very strong position with respect to supporting but also negotiating position with respect to suppliers. So we're going to leave it at that, and we'll be speaking to our FY 2025 guidance after the next quarter.

Howard J. Wenger

President, Nextracker, Inc.

A

Thank you for your question, Christine.

Christine Cho

Analyst, Barclays Capital, Inc.

Okay, great.



Operator: Our next question comes from Praneeth Satish with Wells Fargo. Please proceed.

Praneeth Satish

Analyst, Wells Fargo Securities LLC

Thanks. I guess with the separation from Flex behind you, I'm just interested in your perspective on M&A, whether you'd be more or less inclined to pursue acquisitions now. And then I guess just broadly, what gaps do you see in your portfolio and what businesses do you think would be complementary and synergistic?



Howard J. Wenger

President, Nextracker, Inc.

Thanks, Praneeth. We don't see gaps in our offering. We could expand our offering. We will be very discerning, as we were when we did an acquisition of a machine learning company seven or eight years ago that helped us accelerate our TrueCapture technology. So we just completed the Flex spin-off and we are open to a variety of options. We're evaluating things, but we're going to be – have a lot of discipline about how we proceed on that. Thank you.



Operator: Our final question comes from Steve Fleishman with Wolfe Street Research. Please proceed.

Steve Fleishman

Analyst, Wolfe Research LLC

Great. Excuse me. Thank you. Two quick questions. First, the strong US growth, any sense on how much of that is market growth versus you taking market share? And then just would like more color on your thoughts on the commentary on the trade issues on panels. And a lot of that just that seems backward-looking, but what the risk might be to forward-looking. Thank you.



Howard J. Wenger

President, Nextracker, Inc.

We focus on our customers and winning and partnering with them. We're doing that with our EPC customers. We're doing that with owner developers directly, and power plant owners. And we have a lot of capacity for growth, and we don't really pay attention to whether we're taking share or we're just focused on delivering value for our customers and improving our products, investing in innovation, and doing as much solar as we possibly can. We've dedicated our whole careers to solar – mainstream solar power. Dan and I have worked in the solar power industry for more than 35 years each, and that's our focus.



What we do find when we do that, both when we have that focus and when the company focuses on value, that we do win. And it seems like we win disproportionately, and which is it's good for the company, but it's mainly around – and we've shown that we are the global leader in market share, okay. But we're just – we're really conveying that to all of our employees at the company. Focus on the customer, focus on innovation, differentiation, delivering value, lowering the cost of energy, having that 40-year design life, highest quality, highest reliability, DNA, and that breeds success. Thanks for your question.

Mary Lai

Vice President-Investor Relations, Nextracker, Inc.

A

We have time for one more question. Operator?

Operator: Our final question comes from Moses Sutton with BNP. Please proceed.

Moses Sutton

Analyst, BNP Paribas Securities Corp.

Q

Hi, thanks for squeezing me in. Just a quick one on TrueCapture. So you noted it's slightly better software attach. Any way to quantify this at all? Maybe the cumulative installed gigawatt number, how much has changed on a quarter-over-quarter, year-over-year? Just anything that could help us on the TrueCapture side through the numbers. Thanks, again.

Daniel S. Shugar

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

A

Moses, thanks for your question. As we have kept introducing new features on TrueCapture like Split Boost, Zonal Diffuse, we've seen increasing uptake on our TrueCapture fleet. And as I mentioned, you can visually see it. So we urge people to watch those videos we have on YouTube. We'll be going deeper on your question after next quarter when we do the annual guidance.

Mary Lai

Vice President-Investor Relations, Nextracker, Inc.

A

Great.

Moses Sutton

Analyst, BNP Paribas Securities Corp.

Q

Thanks, again. Congrats on the quarter.

Mary Lai

Vice President-Investor Relations, Nextracker, Inc.

A

Thank you, everyone.

Daniel S. Shugar

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

A

Thank you, Moses.

Mary Lai

Vice President-Investor Relations, Nextracker, Inc.

Great. Thank you, everyone, for joining the call. This concludes our call. Thank you.

Operator: This will conclude today's conference call. Thank you all for your participation. You may now disconnect your line.

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