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Nextracker, Inc. (NXT)

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Daniel S. Shugar
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Julien Dumoulin-Smith
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MANAGEMENT DISCUSSION SECTION

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

So again, good morning, everyone. Thank you for being back. Appreciate kicking this back off with Dan – we're here with Dan Shugar from – well, Founder and CEO of Nextracker. Again, if you guys have questions, just ping me here on chat, email, whatever you guys want, I'm going to be up here with the laptop if you've got comments or questions. But he's going to kick things off with some opening comments, and slides here, and then we'll move from there. But and thank you, Dan, again, really appreciate you taking the time here. Absolutely.

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

[indiscernible] (00:00:30).

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Absolutely, a pleasure.

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

Well, a tremendous pleasure to be here this morning. Good morning. I would like to just cover – we just heard a great presentation from the [indiscernible] (00:00:44) leader. I'd like to contextualize it into just the growing needs for energy that we're seeing. We see the US as a case study, but it's also true internationally. So we had a long period of fairly flat demand growth in the United States, about a 1% compound annual growth for about 15 years. Why was that? Well, we had much more efficient appliances, like lighting went from incandescent to compact fluorescent, thank you, to LED. So the lightings using about a fifth the amount of energy, the refrigeration uses a third the amount of energy. And so and you have a lot of industrial capacity in the US going off to China.

Well, those days are over, okay, of flat load growth. We've – we're seeing very strong load growth happening in the United States, driven by a move to electrification for appliances, for example, heat pumps are now used more

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often than gas for heating homes in many regions in the US, and the same story internationally. We're seeing electric cars being used. That's a lot of energy to charge those cars and we're seeing reindustrialization across the United States. For example, my company, Nextracker, we've catalyzed 15 factories across the US in the last two years that are shipping finished goods today. And these are significant facilities, 1 square foot to 300,000 square feet. We're also seeing a lot of growth in data centers and AI consuming a tremendous amount of additional energy. So the Energy Information Administration is forecast – and at the same time, legacy power plants like coal are dropping offline and we'll look at the actual numbers in a moment. Nuclear plants are dropping off line or at the end of their end of their life. So we're seeing a tremendous growth for new power coming.

So the Energy Information Administration is forecasting a 4.6% annually compounded growth for new power. It results in about 500 megawatts of new power – 500 gigawatts excuse me, 500 gigawatts of new power over the next five years, and about 800 gigawatts of new power over the next 10 years. A gigawatt, like a legacy coal plant, is about 1 gigawatt, a large one, about 1 gigawatt. So that's a lot of power.

So where's that power going to come from? Well, the Energy Information Administration, which is historically very conservative on renewable growth, is forecasting that solar will be by far the largest source of new power out of the grid. They're forecasting a 26% annually compounded growth for solar for the next five years.

And within 10 years, solar being the number one source of power for the grid, the US grid. And this is based on the economics of solar. It's the lowest cost way to generate power. It's the fastest way to install power, and it's the lowest risk way to put power under the grid.

So, when you add all that up, that's why solar has dominated new additions to the grid for the last five years, by far the largest source being [ph] added to the grid (00:04:28) and why it's going to keep growing.

I'm not showing on this chart, but the batteries are now here, okay, there's some 5 gigawatts operating of batteries, okay, [ph] we aren't (00:04:40) going to show that chart. But by the end of this year, it's going to go from 5 gigs a few years ago, two years ago to 15 gigs operating this year, 50 gigs will be operating within two to three years.

So, if we can go back to their chart and stay there, solar will be the number one source of energy. So, the chart on the upper right, again EIA, the government, US government, 26% CAGR with solar. Wind will also grow about 11% CAGR.

All the conventional polluting stuff, negative CAGR. Coal, negative 10% a year, okay. So, as recently as a dozen years ago, coal was over 50% of the national energy mix. Today, it's under 15%. That's going to go to damn near zero within 10 years.

Gas also has a negative CAGR according to the US government. So solar, and this is utility scale solar predominantly. Utility scale solar, the big farms, that's what Nextracker serves and community solar which are serving the community, but they're multi-megawatt plants, that's what we do. This will be the dominant source of energy.

So, what we do at Nextracker? We don't make solar cells or solar panels. I've done that and that's super interesting, fun stuff to do. What we do is we make the mechanical and electronics and control systems and software to move the panels to follow the sun, gaining up to 30% more energy, that also we measure the atmospheric conditions in real time and using machine learning, we optimize the angle the panels also in concert with the terrain to harvest the most amount of solar energy that comes out of it.

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So, we went public about a year ago. We've enjoyed about a 30% CAGR for six years in a row with the company – with our top line and appreciate the opportunity to speak today. Julien.

QUESTION AND ANSWER SECTION

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Awesome. Excellent. Thank you, Dan. Appreciate it. Maybe just kicking things off here, right. So, I think the first question evidently from that is, how do you think about growth here in the near term, right because I think, this 26% CAGR number you just quoted here, [indiscernible] (00:07:10) address directly has gotten a lot of attention, right, especially in the context of a lot of your peers, where there's sort of this question of like, is there growth this year? Is sort of the new question in the last couple of weeks. And there's this implicit question of well, maybe it's a market share question. Do you want to tackle that directly, how you're seeing, your position in this marketplace evolve?

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

A

Sure.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Because I think that's sort of at the core of a lot of this, I think.

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

A

Sure. My pleasure, Julien. Thanks for that question. So, there are headwinds and there's tailwinds. We've seen companies that are underperforming in the space, really highlighting a lot of the headwinds.

Those headwinds include permitting delays, interconnection queue delays, equipment shortages, labor issues, inflation, cost of capital. Are all those things real? Definitely, they're all real. And those things can impact any individual project. That's true.

But the tailwinds in totality are stronger than the headwinds, starting with what's embodied in Federal law for the last 18 months is that the investment tax credit went from 10% to 30%. And if you meet some criteria, which some of our customers have been able to achieve, it's 40%.

Every project happening today, utility-scale project was modeled with a 10% investment tax credit. There was a windfall for them of 20% to 30% tax credit. So, let's use a hypothetical 100 megawatt plant. What's that worth? Solar power plant.

So, it's 100 megawatts, $1 a watt, so $100 million. So, this 100 megawatt plant just got a $20 million to $30 million tailwind with the Inflation Reduction Act having this significantly higher investment tax credit, okay.

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Now, did labor go up a little bit. Did it go up? Oh, definitely. In the context of this plant, what would the impact be? I don't know, $1 million, $2 million. Did the interest rates go up? Yes, couple of million bucks impact on this project. Sure.

But from a financial standpoint, you're way better off today than you were 18 months ago, clearly, okay. Now, with respect to the implementation issues we spoke to, hey, it's taking longer to get things permitted. That's true. I've gotten interconnection queue problems with PJM or these other grids we're trying to connect with. That's a fact.

But the universe of developers, the number of projects at each developer, the size of the projects that the developer [ph] honors (00:10:47) and the universe of EPCs, engineering, procurement and construction companies that build these is vastly larger.

So, we have the huge pool of participants in the space because there's incredible profit opportunity for them. And folks are moving too, they want to decarbonize. There's real goals out there with utilities and others to get this done.

So, in totality, you're seeing the market up into the right, which is why Nextracker has sustained a 30% annually compounded growth up through our projection, which is through the end of this – our fiscal year closes at the end of this month.

And it's why the Energy Information Administration is projecting a 26% CAGR in solar for the next five years, roughly in line with our historic growth.

So, it comes down to companies that manage their business that are basically able to create expectations, that are able to weather unforeseen conditions in the market, to basically be able to deliver on their forecast.

Nextracker for three quarters in a row has – we've met, beat our revenue and our profit guidance and our profit target for each quarter, we've taken up our guidance each quarter, including the quarter we just closed and we had our call a few weeks ago.

So, we're seeing the market has never been as good for solar in the United States and the same is true internationally. Canada adopted a 30% investment tax credit. Nextracker has the largest operating system in Canada. It's a very, very exciting market.

Australia policy tailwinds, we've got over 50% of the operating fleet in Australia. Now you're seeing Oceania region developing, including New Zealand, Singapore, projects developed out of Singapore area, that whole region, Latin America, huge growth has happened over time in Brazil and throughout Latin America, many countries, we have operating systems there.

In Africa, we have the largest operating portfolio. We're seeing that's a very vibrant – early, but a growing market. The Middle East region, we have the first operating utility scale system in Saudi Arabia, and there's a lot happening in Saudi Arabia.

When Saudi goes solar, don't you think [ph] from this working (00:13:33) they're like, hey, it's much more cost effective for us to sell our oil at $80 a barrel or $50 a barrel or whatever the prevailing is and to burn it for power generation like save – basically solar is much lower cost way to generate power than burning oil even if the oil is there, their marginal value is very significant. And we're seeing – the largest actually solar operating complex in the world is in Dubai. We participate in that.

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In India, I was just there. I saw Prime Minister, Modi give an electrifying speech. And basically they're all in on solar in India. And solar, there's a huge market there. We have our second largest office there with well over 200 people and we have the largest legacy operating fleet there, as well as 5 gigawatts of new projects we're fulfilling. I could keep going around the world, but the market conditions have never been so strong in home and abroad.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Excellent. Actually, look, maybe to that end, just to clarify some of the earlier comments that you said on the call as well as just now, how do you think about the proportion of international growth?

I think you guys have this like broad heuristic of, two-thirds, one-third, I think, is the number that you guys talked about. But the way that you're describing it right now, I mean, look, obviously, the US is robust, but you've got entirely greenfield opportunities or maybe not entirely, but certainly you've got a running start in Canada and as you described, Canada's novel, and it's not necessarily been on your top list in the international markets, for instance, right.

Like a lot of new angles. How do you think about the growth in that heuristic in terms of international, is two-thirds, one-third this year and it's going to continue to kind of over index to international?

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

A

Well, we've been, Julien, historically 50:50 overseas-US. So, we're a global manufacturer. We're manufacturing in over 30 countries. We have nine global offices and we're number one on four or five continents.

And so, we like the ability to – and we don't think about some countries like the US. We don't think about that monolithically. There's 3,000 utilities in the United States, believe it or not. There's 50 states, 3,000 utilities. There's many planning areas, we just heard from one of them.

But they all have different rules. And we kind of think of those as two different markets, but we like the international diversification. If there is a problem in one market, we're able to accelerate into another market or vice versa. And what we're really focused on is just adding value, right.

So, we like to find customers in these markets that are developing high-quality portfolios. We've tried to move from projects to programs. We have something – a commercial model we've talked about called our Volume Commitment Agreement where instead of transacting a project by a project with a contractor, what we do is our systems generate more energy where we have a much stronger financial position than any other providers in our space.

And so what we do is we enter into relationships with owners. Some of those owners operate on multiple continents. We love those owners. And so basically we focus on owners that understand the benefits that a company like Nextracker can bring to the table, we'll be competitive. We'll be in the competitive range.

But what that allows us to do when we move to a program-type environment is just deliver a much better experience. If you're earlier in the cycle, it allows us to value engineer, save the companies a lot of money. I'll give you a perfect example.

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Nextracker pioneered a technology in the solar space called Extreme Terrain Following Tracker. So, many sites that are being built out there in the world are not flat. Just to wrap your brain around this for a second. Last fiscal year, we shipped on average about 325 megawatts or 350 megawatts a week, okay. That's a lot.

That's like a small coal plant every week, okay. That's what we did last year. That's 4 square miles a week, 4 square miles every week for the whole year. That's what we shipped. Okay. So, when you build on these sites, a lot of these sites are undulating, the way folks were building years back is that they would physically grade the sites with bulldozers, okay.

That's a lot of earthwork. You have to cut it. You have to fill it, and you have to [ph] recede (00:18:32) it, okay. We came up with a technology in concert with some of our customers that actually follows the terrain. So, you don't have to grade, no bulldozers or minimal bulldozer work.

It rapidly speeds the installation process and lowers costs and these systems also generate more power. So, when you're earlier in the cycle with customers, it allows you to say, hey, our tech doesn't require the bulldozer. The other competitors don't have that. So, let us work with your customers, save all this money and they get to accelerate their product portfolio.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Thanks. How do you think about the margin profile here? You talked about 50:50, two-thirds, one-third. There's been this consternation out there before of like, well, is the international market more competitive, right, you don't have the same IRA dynamics, but as you describe, like you guys are a premium product, [ph] you sell at a better rate (00:19:30) if you want to talk about it being notionally better or at least has more adaptability, undulating [ph] terrain (00:19:37), for instance, how do you think about, as you expand and lean into that international market? Again, take that as the premise, sustaining the margins that again, you've been sequentially guiding up [ph] here on this as well (00:19:49), right?

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

A

Yeah. Appreciate that. There are different margin profiles in different countries, different regions, and the same is true in the US, some regions have different margins than the others.

The key thing is really having discipline about pricing, not chasing individual projects, but to really focus on the high-quality customers. We value all customers, but what I mean by that is customers that have a more mature business process.

Their projects have better entitlements with more secure offtake agreements for the energy, better entitlements for the permitting, where they understand the value of the energy and they understand the value of a company that's operating toward an investment grade profile as Nextracker is where we have over $800 million of liquidity.

We've made money every year since I founded the company. We have very, very low debt and we've delivered millions of trackers around the world. The type of thing we do is sort of the skeletal and nervous system for your power plant. So, if you're building a – again, going back to the 100 megawatt example, it's a $100 million plant, the tracker may be a $10 million scope.

Why would you go to a Tier 2 to save even if it's like 10%, you save $1 million. And then in the US, after the tax, it's 3% tax credit and the accelerated depreciation, it might be a couple of hundred thousand dollars. So, you're

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going to go to a Tier 2 for that, and then your whole skeletal and nervous system is dependent on a Tier 2 provider that might be undercapitalized with not a lot of tech out there in the real world. That would just be an imprudent decision.

The other thing is experience really matters. I've been in the industry since the 80s doing this, kind of a dinosaur. But if you look at our executive team, we have over 20 years average solar experience on our team.

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

Maybe Dan, why don't we talk a little bit about just the near term, medium-term growth in the space just one more time. I mean, I continue to get this inbound from folks.

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

Sure.

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

How do you think about what sustainable growth rate is for you guys or how you think about your customers? I mean, there's been so much concern about, delays from third quarter and fourth quarter, basically the bottom line is you're feeling on track even now with your existing customers for this year. And more to the point, you see an ability to continue to compound in a very robust way. You talk about this 26% number...

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

Sure.

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

...without guiding for 2025.

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

I mean, look, we've taken up our guidance three quarters in a row, and we've beat our numbers three quarters in a row. So, I'm not saying there's not concerns or headwinds or anything like that. I'm saying the intrinsic numbers like solar, let me contextualize things for you, okay.

I did my first utility scale plant in 1993, and in that year, the capital cost was $10 a watt, okay. In today's dollars, call that $30 a watt, okay. Then in 2009, so a couple of decades later, we did the largest solar power system in the United States.

It was at the Nellis Air Force Base, President Obama went there. 2009, it was $7 a watt. So, today, whatever, call it $12 a watt, something like that. Today's plants are a $1 a watt here. And they're $0.50 a watt in India, okay. The power is really, really, really low cost.

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And I could go through all the reasons why that's happened and also speak to you all day about all the amazing tech that's going to keep driving down the cost of solar. Solar has completely revolutionized power generation, and now that storage is here at scale, you're going to see unlimited growth, which is why EIA finally drank the Kool-Aid, gets it.

Why they're saying solar is going be the number one source of power generation in the United States within 10 years. Okay, so now solar is going to do it, all right. So, just bear with me.

What are these segments and applications? Well, the utility-scale is by far over 50% by gigawatts and a lot more than that in gigawatt hours, because we track and our [ph] system is professionally managed (00:24:36).

Within utility-scale, the killer app, tracker. Nextracker has shipped as much tracker over the last seven years as our top three competitors combined. And we have a hell of a lot of domain expertise. We are not screwing around.

So, we have a vision of a world that's powered by renewables. And we have the right culture, the team, the discipline and business processes to execute. And so we're very focused on that, we're super serious. How do we keep winning and how is our margin keep going up? Because we're totally focused on the customer. Go ahead, please.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Well, actually, since you say it right, I mean, you've had this incredible run on raising expectations, not just on volumes and outlook, but also on margins, right. And I think that this piece is really critical.

How do you think about continuing to compound that margin here today? You were starting to get at it, but I think that's something that a lot of folks are looking at, saying you've already now pushed things up to the mid-20s here on kind of a longer term base baseline.

How do you think about [ph] keeping going (00:25:53) here? I get that these credits are out there, that they're not necessarily reflected. In your core outlook, again, you could talk about that being medium-term or long-term, but how do you really elevate things from the mid-20s?

I mean, I think lot of your peers talk about mid-20s as being kind of where they see things as being and I don't think that they talk a lot about being able to improve. But you're sitting here talking about I've got levers to continue to drive that higher. I got some visibility. And you're speaking with confidence on the back of what I've already delivered, right? So, if I listen to you, independent of listening to your peers, it sounds like mid-20s and going.

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

A

Well, I just want to start with also what we've been able to do is, meet and beat expectations. We didn't take, any given quarter like last quarter, we had a fantastic result from [ph] recognized margin (00:26:45) say okay, it's up into the right forever.

We basically say, look, we're optimizing the business annually and that's what we're really focus on. We have to report quarterly, that's fine. But we optimize the business annually, and we try to have a plan that we can meet despite unknowns when you set the plan by things that happen in the real world. For example, who would have thought that Houthis would start shooting missiles at ships coming through the Suez Canal. Or that the Panama

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Canal would suffer from a water shortage from an Inland Lake, which is constraining the amount of ships coming through the canal. Nobody forecast such stuff. Global logistics went up. Well, we have dealt with that. We mitigated that. It impacted us, but not materially because we had built out our supply chain in the US, in Brazil, in India, and other places to be able to make locally if we need to. But we also had those types of things factored into our plan to be able to perform.

Now, with respect to how we've been able to maintain this lead share and have our margin profile grow over time, and we're not – we haven't issued guidance yet for next year, that'll happen after we report next quarter. It comes from the customer, it comes from the customer, how do we deliver value to customer? What do they care about? It's very simple. They care about their unlevered return, which is driven by the levelized cost of energy. There's three inputs. The installed cost of the system, which is CapEx, but also the installed cost. There's how much energy these systems generate. And then there's the operations and maintenance cost to the system. That's it.

So if you optimize those three buckets, the net result is a lower levelized cost of energy, higher unlevered IRR, and then it's basically up to us to communicate to the customers or all the buying influences, not just the owner, but the EPCs, how they're going to be able to recognize those values. Here's how we do it at Nextracker, we deliver real hardware, real software, real firmware that delivers real value that's backed up by measurement and verification with independent engineers that's proven that allows our customers to validate it. I'll give you some examples.

Trackers follow the sun. As the sun comes from east to west, they move from the sun. Back in 1991 with some of my peers, we came up with this algorithm called backtracking, which improves the yield of the systems about 2% to 3%. That became an industry standard, very well known. All the modeling software in my space has that built in. Well, that was good. But we knew we could do better because that old algorithm didn't allow for undulating terrain or diffuse and scattered cloud conditions. So we developed a software at Nextracker called TrueCapture, which has an adaptive backtracking algorithm that deals with undulating terrain. In order to harvest that, you need an individual row tracker that can articulate with high degree of precision, with embedded sensors, to measure the actual angles. Just like your cell phone when you move it, it knows the angle. All our trackers have that tech embedded in there.

Our top competitor can't do that because all the rows are mechanically linked together. That's fine. But we want all the companies in our space to do really well and perform reliably. But by being able to then really optimize that, we came up with this tech, and you can just look up TrueCapture, one word on YouTube, see a three-minute video, how it works. So when we launched that, seven or eight years ago, we had already completed a year of utility scale field trials with measurement and verification data that we had socialized with independent engineers that said, hey, here's what we predicted, here's how it's actually performing. In some cases, we actually sponsored them through like, how do I model that? It's like, well, here's how we model it. Let us help you develop your own model, and 10 of the 10 top independent engineers in the world on that thing will validate it. So when we do a commercial offer to the customer, it's like, don't believe us, go to your independent engineer with your data, your site, your weather file, your solar panel, whatever they say, we believe, put that in the model, that's our commercial offer.

So then we started closing business. Today, we have over 250 utility scale field plants using it, which is why we've been able to monetize the software business in our company. I don't know anybody else that's done that. So, rinse repeat, whatever the tech is, I talked about this extreme terrain following tracker, we have over 50 of those plants flying around the world. I don't know of any top competitor that has any, maybe they do. But that reduces capital costs. The other thing increases the energy. Then for the O&M, we don't have – we have individual road trackers, so it's much easier to do vegetation management, clean the panels, et cetera.

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So, what we've done is put ourselves in the customer's shoes, right? Understand these components, how do we deliver more value, and then we operationally, we have operational excellence focused on delivering those things. So it sounds basic. I think it is. But, we've had – but you have to understand to be in the shoes of the customer, and have domain expertise in the industry and understand, listen to the customers, and then try to deliver what they're asking for, and that's basically what – it's just putting one foot in front of the other. That's what we've done.

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

Incredible. Maybe just to follow-up on this. I mean, is there any kind of heuristic you could share, I mean, how far you can take cost out, i.e., from here on out, what I'm hearing from you is, look, we're going to move towards a better product. And again, part of that better product is customers are going to be willing to pay for it, right, so A. And then B, there's also an ability to bring cost out. And we've seen that, right, as you described, right. So there's both pieces. How do you think about that here in the medium term, just the line of sight use some of the examples here, but kind of quantifying that back into and yes, I can kind of do what I can about.

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

Yeah. Well, I think also there's one thing that we think about when we think about optimizing a solar power plant. We're not just focused on the tracker. Okay, we're also looking at the solar panel, right.

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

Yes.

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

And we think about the whole and we're thinking about the or the whole electrical system, and then, how do we co-optimize these things together? So back when we launched Nextracker, we at that time, for example, people were mounting solar panels with these really long rails because they were like support systems, because that's where the holes were and the frames of the solar panels.

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

Right.

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

So we analyzed that, and we said, actually with because we very much – we did a whole bunch of wind engineering work using fluid mechanics, and wind tunnels, and things like that. We're able to really optimize and characterize how the wind behaves in a solar field and compelled the entire solar panel industry to put the holes instead of a 1,200 millimeters to put an extra set of 400 millimeters which reduced that rail material by a factor of 3 like that's old stuff we did. So we can optimize, we think about optimize, you don't go to a car – get a car by buying a chassis here, an engine there, and tires, you buy an integrated product. So we think about the solar power system from an integrated standpoint because we've done all these pieces, and then we've worked with also the panel providers from a design standpoint to try to optimize.

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Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Nice. Awesome. Okay. So why don't we pivot here at this point to how you think about the use of cash, right? I mean, this is sort of – and this is becoming a question for a lot of your peers increasingly, I mean, the stock's done...

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

A

Really? Are our peers getting mountains of cash growing?

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

No, no. But they're talking about what they want to do strategically. [indiscernible] (00:35:37) there are other companies out there and across the landscape that have cash, right, so.

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

A

Sure.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

And so they're looking at what to do with it. With that said, though, you guys are sitting in a particularly robust place, let's put it that way. And so as a consequence, right, the question about what do you want to do with it? And I know it came up a little bit on the call here earlier. How are you guys thinking about kind of coming back to the Street and saying, look, here's our cap allocation plan, here's how we want to build it out? And it sounds like adjacencies within the business are not necessarily where you want to go, right. And you've been peppered with questions over time about do we want to expand beyond the scope of trackers? Sounds like that may not necessarily be the core of it. So how do you think about capital return?

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

A

I think about it as whatever you do, it has to be prudent, measured, and it's got to work.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Yeah. Okay.

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

A

Let's start with that. Look, we just did our spin out from Flex. It was still this quarter, it seems like a million years ago, right. So give me a little bit of time here.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Totally.

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

And yeah, we love our liquidity position with over $800 million. It's very differentiated customers as you know...

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

Yeah.

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

...they see that. And so but we're going to be discerning. Well, we bought a machinery company eight years ago, it was based on measured data. So copy a little [indiscernible] (00:37:02) on this.

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

Certainly.

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

All right. So what I hear from that is, look, stay tuned. We're just getting going, we've got a lot of opportunities in the core business. It sounds like you're very focused on, look, let's get these trackers right. Let's deliver on that front. We'll be back to you in due course.

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

Fair enough.

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

All right. Fair. Deal.

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

Excuse me.

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

Yeah, I'll give you a second there.

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

When you think about, returning cash to shareholders just on that front and again, forget like growing the business organically, how do you think about, buybacks, dividend, all these other kinds of returning cash conversations? Again, I get that they're linked. I just want to hear how you think about it as being part of the [indiscernible] (00:37:41) for instance.

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

Yeah.

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

First Solar, for instance, is a conversation with them of about how and if they decide to return capital.

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

So that's a board decision.

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

Yeah.

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

And again, we just did our tax free spin up from Flex, give us a little bit of time, Julien, on that.

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

Definitely. I hear you on that front as well. Okay. Let's – so let's pivot back here a little bit on 45X, right? So I've sort of pinged you a couple of times here on margins, and how we can go on that front. But 45X is front and center and this is something you're really able to capture, right. And again, it's ultimately, the customers are enabling it by buying the product. But ultimately you're able to capture your, how do you think about your ability to retain and drive margins, sort of, in a surplus way over the next few years? I'd love to hear how you would characterize this. I know it's a delicate subject, love to hear in your words.

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

I don't think it's delicate. I think it's a fantastic opportunity. The genesis of 45X, the motivation of 45X is for us to radically increase what we're making in the United States. Nextracker is executing on that at blinding speed, and we've been able to do that. And so the idea is that we can have domestically produced parts, which have much higher steel costs because there's very high tariffs on steel. Okay. And other parts, but how the 45X allows you to have a locally made tracker that's roughly on par with an overseas delivery tracker, we think. So, that's what we're focused on for the customers. And we think we're going to stay on message on that.

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

Great. Actually, speaking of staying on message here, let me say – let me ask just, you started this conversation, maybe we'll start to end it on this, is how do you think about, more alignment with local customers, right. I think you really took pride in announcing last year these, sort of, co-located these circular opportunities where you're developing the solar on behalf of customers, and they're developing factories, and sort of, this is the same kind of trend of tacking on to reshoring. Anything that you would offer up on that front in terms of...

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

A

Sure. I think it's a virtuous cycle. Like, I'll give you the specific example. Last May, we announced we had a factory opening in Memphis where one of our legacy subc – by the way, Nextracker owns no factories, we like it that way. We have great partners. We're kind of like Apple. We're a technology company, but let other people make for us, great partners. So we had one of our legacy top producers, a European company, relocate a factory from Europe to Memphis, we had celebrated a factory opening with them, 100,000 square foot factory, many dozens of people on the floor. We had our – we announced at that same event one of our legacy customers, Silicon Ranch Corporation, a top developer in the Southeast, announced this 3 gigawatt master supply agreement for us or volume commitment agreement to serve that region, the Tennessee Valley region.

We had utilities there and we had the CEO of US Steel speaking right across the river, the big river steel plant, one of the cleanest steel production facilities in the world, an order of magnitude cleaner from a carbon standpoint than the stuff comes from overseas, which is this own story that I'm very passionate about. We all celebrated that event. All – everybody I've just mentioned spoke, and that provides a huge amount of demand pull. Also, folks want, we're seeing one of the headwinds you hear about is local permitting. People don't want their stuff made in, far away overseas, and dumped into their community. In this case, the community is making that stuff. And so – and the utilities love that. And that provides – reduces those headwinds, provides a lot of pull. It's providing a lot of economic pull in the region. There's also a, the complexion of the folks working in the plant reflect the communities as well. And so there's a strong social justice element to it that we're passionate about.

And so, I'll tell you, I've been doing this for 36 years. And standing up all this capacity across the United States is one of the most gratifying things I've done. But also when we do it overseas, like in India and Brazil, and so, we can still do a global thing where we arbitrage [indiscernible] (00:42:41) we can still export from one region. We've exported from the US to Latin America, to Asia, and overseas. But we've also imported. So we can do that too, but we are also developing this ecosystem that also inspires demand.

And then we can do things like power steel mills as well, which is unbelievable. So, if you look at the carbon problem, folks are like, well, the power generation, it's kind of moving electric, you could see it right here, kind of done. Okay. Really, if you look forward, it's going to happen. The hard stuff's like, well, what about, these industrial processes like concrete and steel. Well, guess what? Steel in the US is using electric arc furnace. We could power steel mills 80% of the steel made in the US consume electricity. Overseas, it uses blast furnaces, which use coal and stuff. Well, we could do more. So we've moved a lot of our steel in the US to electric arc. So we're creating more demand, and then, we can feed that with solar, and then we can compel our suppliers to use solar, and then we can bring that to customers, and say, not only we have a cleaner steel, but we have a low carbon tracker because we're using it from a clean thing. So we see that as a virtuous cycle. It's very, very exciting.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

That's awesome. Well, look, let's call it there. I appreciate it. Dan, it's great to see you and your team here. And thank you guys for coming. Appreciate it.

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

Appreciate it. Thanks a lot, Julien. Thanks.

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Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Thank you for your questions.

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