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Nextracker, Inc. (NXT)

KeyBanc Technology Leadership Forum

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CORPORATE PARTICIPANTS

Charles D. Boynton
Chief Financial Officer, Nextracker, Inc.

OTHER PARTICIPANTS

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

My name is Sophie Karp. I'm the senior analysts of KeyBanc covering alternative energy and utilities. And it is my pleasure to introduce Chuck Boynton of Nextracker, CFO of Nextracker. Chuck just joined the company earlier this year, after years of executive leadership in the tech and renewable energy industries, including positions at Logitech, Plantronics and SunPower. So, thank you, Chuck for being here today.

Charles D. Boynton
Chief Financial Officer, Nextracker, Inc.

Thank you.

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QUESTION AND ANSWER SECTION

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. I thought maybe we just kick this off by asking you to give us a quick elevator pitch about Nextracker. What Nextracker is and what it does and why it's a great company?

Charles D. Boynton
Chief Financial Officer, Nextracker, Inc.

A

Great. Well, while I'm fairly new as the CFO. I was on the Board and Chair of the Audit Committee since the IPO. So, I know the company. It's been sort of a really fast start as a CFO, knowing the company and the industry. I spent eight years at SunPower from 2008 till mid-2015 or so. So, Nextracker is really unique. We are the market leader and I would call the infrastructure of a solar plant. We make the control systems, the steel, the infrastructure that powers the solar plants. So, we allow the panels to track the sun, hence the name Nextracker. Dan Shugar, our CEO, has been in solar for 30-plus years. Our President, Howard Wenger, the same thing. I worked with those guys at SunPower. They've got really deep domain expertise. And I would say what we're really good at is engineering and customer focused, customers AD. For maniacal on making sure our customers are successful, and we have really unique and differentiated technology. And so a couple of those unique examples are, when you buy a solar tracker, it's a relatively small percentage of the total installed cost of a solar plant. The panels probably the largest cost. Solar is, 10-ish percent, could be 8%, could be 15%. But it's a fairly small piece, but it's critically important to the operator of the plant.

There are many, many unique things about Nextracker. A couple that I like to point out is many companies will use screws and nuts and bolts to attach and build out the tracking system. We have built custom tools, battery powered tools and fasteners to rivet all the parts together. And if you think about a solar plant could run for 10 or 20, 30, 40, 50 years, these are long-term infrastructure investments. And when you have screws, you've got to go retighten those every year and the labor on that is just you're paying for that over many decades. When you use rivets like we use, like an aeroplane would use, they're permanent. They last virtually forever and so it costs a little more. But the value you get is really, really high and there are many, many other advantages like our battery systems. We use higher end lithium ion batteries. Each tracker, each row operates independently. If there's a power outage, the plant is still live where you could deal with weather events and whatnot.

We've been at this for many, many years. Dan Shugar is an engineer by training and has really invested heavily in the technology. We've got 600-plus patents. And so we believe – I sort of think generally with companies, the gross margin profile and the operating margin profile is a function of the technology and differentiation. If it's not differentiated, it's a commodity. If it's a commodity, marginal revenue, plus marginal cost, you don't make any money. If you're highly differentiated or you're a monopoly, you've got really, really high margins and we've got really solid margins.

And as investors, one of the things that you care about and I care about deeply is return on invested capital. That's like one of the most critical elements of thinking about a company. If you have to -- if you're an airplane company, you're buying aeroplanes and you've got infrastructure for gates. It's a very – lot of capital deployed. And then how much money you make in your profits over that invested capital is a function of capital efficiency. We have a balance sheet light model. It's very, very unique and incredibly powerful, where we sell to our customers, they buy from us. We then place back-to-back orders with our manufacturing partners. I think of those as steel plants, steel mills and whatnot. We make some of the stuff ourselves in our inventory, but for the most

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part on these large-scale systems we're placing back-to-back orders. The order goes from the steel plant to the job site without passing through our warehouses and creates a very capital efficient business that is really, really powerful and super exciting. And so, one of the things I just love about this company is the capital efficiency and the free cash flow generation. I could keep going on and on, but I won't take the whole time.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. And then it's hard to – it's hard to stop when you start talking about all the advantages that you guys have. I think one particular maybe wanted to focus on the solar trackers market. And I think what's unique about it is that it's fairly concentrated, right? There's only a handful of players and that's different from many other parts of the value chain in solar. And so as a result, you obviously have a very strong competitive moat and enjoying high return on capital. We've seen a new entrant maybe in the US recently, and I was going to ask you to talk a little bit more about the market dynamic. Do you think those barriers to it, why those barriers to entry existed historically in the space and do you think they're sustainable? Will we see more entrants? How do you guys think about the market dynamics here?

Charles D. Boynton
Chief Financial Officer, Nextracker, Inc.

A

The US market is very structured. We're the market leader, there's two other material players and then there's a list of smaller players. I do think there are fairly high barriers to entry. It seems on the surface, hey, couldn't a steel company just do this. The answer is no. The decades of experience test, fail, learn, test, fail, learn. That cycle is very long. The engineering is critically, critically important, but it is a big market. There's plenty of room for lots of competitors. Don't get me wrong. It's a big market, big markets attract competition. But generally, if you're a developer and you're putting hundreds of millions of dollars, sometimes billions of dollars to work, they don't want to take risk. And because these are long-term projects that last for decades, the idea that you're going have a startup, who's going to qualify and create a different tracker, and then they're going to take that risk buying this. It's just they're not going to save much and the risk equation is just too high. So, the US is fairly structured. Globally, there are many other players. We don't do a lot in China. We're big in India. We've got very high market share in Australia. We're not the market leader in Europe yet, but there's lots of players in Europe. It's very fragmented.

I would say in general the smaller the size of the project, the more they're willing to go with different players. And when they becomes more established and larger, their engineering is better. But the independent engineering analysis is stronger, and they tend to pick the market leaders. So, I do think internationally it's a little less structured and will become more structured and I think the developers, the owners, the operators understand levelized cost of energy in a great detail and they really understand what is the impact of things like weather events and things we can talk about later.

And so – but I would say in general, I would say longer term, probably fewer competitors not more and the US I think we'll stay roughly in the structured it is today. Internationally, I think we'll start to become more structured as this industry matures.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

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Thank you. So, you guys have recently completed two technology-driven acquisitions, Ojjo and SPI Foundations. And I wanted to ask you to talk a little bit more about those? Why they fit in the portfolio and also maybe use this

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as a springboard to discuss the general direction of innovation in the space. Because when I visit them and I see your trackers and I feel it's almost seems like it's a perfect mousetrap. There's nothing to improve upon, right?

Q

Yeah.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

But yet there probably is. So, what is there to improve upon? Where are you guys taking this?

Charles D. Boynton
Chief Financial Officer, Nextracker, Inc.

A

Yeah. I think there's always room to improve. And at the highest level, the most important thing for the industry as we continue to innovate and drive down cost. That cost reduction has been super impressive over the last 20 years. It's been amazing cost reduction across the value chain. And in our business, we've innovated with many different areas that we can talk about later. The acquisitions themselves are unique. They're fairly small. These are tuck-in acquisitions. They both are in the space of what you call foundation. So, think about the tracker as aboveground, the foundations are below ground. And as you think about mainstream solar sites where, you've got a fairly open field and let's say, Chile or in the Central Valley of California, you can go in and basically install a piling, or WBeam or think of as an IBeam that they can pound into the ground. And then on top of that, IBeam you build the solar tracker, and that's a fairly straightforward way to do it. We do some of that, but we're not heavily involved necessarily in the foundation part.

As solar grows around the world, you see there's more tricky sites where they're sloped or they have rocky soils or soft soils. And both of these companies address different parts of that market. Ojjo, a company in Marin, not far from us. We've worked with them for many years. They have a really good technology for drilling into rocky soil. So there's one pass. They'll basically do one drill, and as they're drilling, they're setting effectively a beam and then a tube, and then the drill comes out and the beam stays in and its laser guided and perfectly set up at the right exact angle and row within which you put the tracker on top. So, we'll work on integrating our tracker into that. What are the advantages? One, it's cheaper, it costs less to do the installation. It uses less steel, and then it's environmentally better. And we care deeply about the environment. So, you're not disrupting the environment. If you didn't use Ojjo, you might have big drilling rigs that go in and drill in the old days that use rebar and concrete. These are ones that you could pull out later, over time. And so, it's lower cost. It's not a huge part of the market, but it's really innovative. And we think this will be a really great technology to take to our customers, to service our customers. On the SPI side, it's a little different. We've worked with them for a while. They're our partner and there they work really well in soft soils or areas where there's frost. When there's frost or soft soils, the posts well it could sink down and then create, make the tracker go off skew or you've got to go really deep. And the deeper you go, the more steel using, the more cost there is. It would generally in soft soils take multiple passes. So, it's hard to run the land. And with technology, they effectively spin a blade-in and it goes below the surface and the blade gives it that that support to build the tracker on top of.

And then if there's frost above the ground will expand and contract, but it will stay locked in below and not have frosty. So again, these are really early days. They're fairly small companies, but they're an example of us listening to our customers being customer first and then go into the market to buy and build out organically or inorganically technologies that will extend the business. And over time, I think this can help improve our gross margins and improve our wallet share. But, again, these are not – it's not mainstream across every application, but they're

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really unique and small, but will integrate well with our company, and these will be fully integrated into our business. So, they're not going to be standalone P&Ls or different companies. They'll be fully integrated into our teams.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. So, solar accounts, I don't know if people in the audience know that, but solar accounts for the majority of the generation additions in the queue across the US. It's close like 80% in some regions. So, what do you think is driving that demand? Is it sustainable and maybe as a second part to that question, we are now hearing somewhat about local push backs in certain regions to solar development. So, are we running out of land to build solar and what do you fit in that scenario?

Charles D. Boynton
Chief Financial Officer, Nextracker, Inc.

A

Yeah. I mean, so first of all, this is a really, really good question. This is a tech conference. So many of you will understand this. But as a globe, we're way under electrified for the demand that we need as a globe. And you should look at individual markets, today, the US is 1 terawatt and with a goal to go to 2 terawatts and we are way underestimating the amount of electricity that the US needs. China has 3 terawatts of installed capacity going to 9 terawatts. Now, what's driving this demand? And this is for electricity in general, not just solar. It's not just EVs or de-carbonization. It's things like AI, rural electrification. It's standard of living and quality of living. And I think as a country, we're way under investing in infrastructure in creating out, creating additional capacity. So, I think 2 terawatts is not we're not shooting nearly high enough for our own energy independence energy security. I think about solar, as in many markets in the world today is the lowest cost of electricity, economics kind of rule the day. At the end of the day, economics will drive adoption. That is what will drive adoption. And we can generate electrons in many markets, with solar, the lower than any other form of electricity. And as costs come down on this curve, that gap is going to continue to widen and will create yet even more demand for solar and solar, plus storage and storage being a really important part. In the queue, solar and plus storage is the dominant part of the queue for North America.

And I'm kind of a big believer in AI and compute power. I firmly I just have I really believe that these technologies are going to be an absolutely super important part of humanity in the future. And if you believe that and you look at what Nvidia is doing and AMD and these companies are coming out with new technologies, we don't have nearly enough electricity. And it's one of the reasons I decided to join the company as a CFO is I just I'm a firm believer in this long-term trend of demand is up into the right, costs come down, the TAM expands and we're like in a really, really unique place with unique technology that's not commoditized, that's differentiated.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

In the scarcity of solar land.

Charles D. Boynton
Chief Financial Officer, Nextracker, Inc.

A

Well, land, I mean, like if you – I love Utah. So, don't take this as a pejorative thing. Love Utah. But if you covered Utah and solar panels, they would power the world. I mean, just think about. Cover Utah and solar panels, there's enough electricity to power the world. We're not running out of land. There is plenty of land. And what is one of the key barriers is transmission and distribution. We as a country are falling behind on innovation in transmission and distribution. We published our first ever shareholder letter this past quarter to make it more direct. There's a

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section in there on ways to solve transmission and distribution backups. But I think, China is building out huge infrastructure. Most of their power plants are inland, bringing power to the coastal areas. And we have infrastructure. We can do more to leverage that infrastructure. We also need to build more. But there's not a land issue and we're coming out with unique products that are super cool. We announced an agro PV product. This is really, really cool. Back in the day at a prior company, we were building these out in China and we're doing – we launched one of the bigger sites in the Midwest earlier this year, we have even agro PV because solar trackers you are not covering every square foot of the field. You generally have a gap in between the rows. So, as you're tracking, you're optimizing the shading. And between those rows, you can basically do farming, grazing, cattle, livestock. You can put them further apart. It creates additional income sources for the farmers. There are many different unique ways to do combination of light on land and have a symbiotic relationship between solar trackers and farming. But no, there's not a land issue.

The constraint is not land. There is some NIMBYism, for sure. You know, people see windmills and they're like, I don't know, do not want a windmill over my house. But then you think about a solar field. They're much more subtle, but so I don't think the land is the bottleneck. In some markets like Japan, it's a bit more tricky because it's very hilly, densely wooded. It's more complicated. But for many, many markets in Spain, Australia, California, Midwest, Southeast, there is plenty of land available. That is not what I think is the constraint.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Can we talk a little bit about the government policy and how that is helping the adoption of the technology and you guys in particular?

Charles D. Boynton
Chief Financial Officer, Nextracker, Inc.

A

Certainly, I'd say the first thing that you should all know is these policies are working. Every year people talk about the ITC, the IRA, 45x. There's all this kind of alphabet soup in North America. There's similar policies elsewhere. In the US, which is a point of discussion. The ITC, the IRA are working. And what I mean by working, with these programs, we're driving more energy projects in the US, clean energy projects. And the advantage of solar is basically you install the project once and for very little work and service it generates electricity for many decades afterwards. And so, environmental are clearly obvious. You're not emitting toxic materials and whatnot. But overall, these policies work. And what it's doing, it's driving more solar projects. It's creating more energy independence, less reliance on fossil fuel, less reliance on importing fuel and that is a really good thing for national security. The IRA is relates to us is 45x, which is effectively a tax credit for domestic context is working incredibly well. If you went back a couple of years ago, we were a huge importer of foreign steel. We were importing steel from China and elsewhere into the US to build these solar plants. Today, we've lit up. We have 20 manufacturing sites in many red states and blue states where they're turning on more lines, they're hiring more people. And I have this kind of view that manufacturing is normal. Manufacturing is really important for the economy. And by lighting up these sites, we're employing people. There's a halo effect of more service workers that service those people, truck drivers, bringing that content, making it locally is driving huge benefits to energy independence, jobs, domestic manufacturing, supply chain. Those things are really good for the economy. And I think when you look at solar, where it's going long-term. This is not going to slow down. It needs to accelerate, we're still under-penetrated. And with those higher costs, we have an offset with 45x to cover those additional costs and do a domestic supply. There's a lot of areas we go into in a lot more detail. But I think given this is more of a...

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Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

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Yeah.

Charles D. Boynton
Chief Financial Officer, Nextracker, Inc.

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...tech conference, we can maybe keep moving on.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah, yeah. So, what are some of the challenges you guys have? What are you facing right now as a business?

Charles D. Boynton
Chief Financial Officer, Nextracker, Inc.

A

Well, I think interconnection is one that we highlighted in our white paper, our shareholder letter, where effectively, there's a queue, and the queue is many years long to get connected, and we need that interconnection agreements to accelerate. Dan is a real industry spokesperson and put in our paper ways to solve that. And so, there's real practical solutions in the near-term to accelerate that queue to add more electricity, and there are some bottlenecks. So that's one. Permitting can be a challenge and so that's a local ground game. Permitting is very local and we have teams on the ground, I think those are couple. In general, this is a great business with really high margins, high capital efficiency. Every business has their headwinds and tailwinds. Our last quarter was just fantastic. We maintained outlook for the year, and this is a really good business with healthy margins. And I think we're in a really, really good place going forward.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

Any questions from the audience? No? Going once, going twice. No questions.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Thank you, Chuck.

Charles D. Boynton
Chief Financial Officer, Nextracker, Inc.

Great. Thank you all for being here. Really appreciate it.

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