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Nextracker, Inc. (NXT)

UBS Global Technology & AI Conference - Fireside Chat

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Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

Jon Windham
Analyst, UBS Securities LLC

All right. All right. Welcome everybody, both in person and virtually, to the UBS Global Technology & AI Conference. Very happy to have with us right now, Chuck Boynton, the Chief Financial Officer of Nextracker. This is your host for today's fireside chat, Jon Windham, Head of Alternative Energy and Environmental Services Equity Research here at UBS.

And I think maybe as fitting as any previous year, a great year to have clean energy companies here at a tech conference, because you think about the growth of AI. And so, the data center bottlenecks, one of the key maybe gateways or hurdles for growth of AI is their ability to source electricity. And in the United States, new electricity capacity means solar. And so, very happy to have Nextracker here with us, which maybe provides the critical piece of infrastructure for utility scale solar. So, Chuck, thank you so much for being here.

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

Great. Thank you.

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QUESTION AND ANSWER SECTION

Jon Windham
Analyst, UBS Securities LLC

Q

Yeah. And I think it may be helpful, just particularly with a bit of a larger audience and sort of maybe more tech-focused investors historically. Maybe just a brief introduction of Nextracker how you tell the story, how you fit into the supply chain for solar?

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

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Sounds great and it's great to be here. This is a historic conference. I was telling Jon earlier that I think my first time here was in the late 1990s in the Internet boom and this was the conference to be at. And it's great to see UBS carrying on the legacy of the old Credit Suisse conference. So, thank you for having us.

Nextracker is a really amazing company. It was founded 11-or-so years ago by a group of five or six individuals who are all still at the company today. And we've built out a really key piece of the infrastructure. And if you think about solar and you go back 20, 30 years, which actually some of the folks at our company, our Founder, our President have been in solar for that long. It's gone through this amazing transformation of driving down cost and reliability. Nextracker really started with the mission of creating the best tracker and the best engineering and technology to address large scale ground mount solar projects around the world. And we've been happy to have a number one market share for, I think nine years in a row. And it really we've been reinvesting heavily in the tech.

And – we can talk about the technology a bit differently if you want later and differentiation, but it's a – we're not a huge piece of the overall cost of the system, but we really are super critical. We're like the infrastructure and the backbone of large scale solar projects. And so, as developers, EPC companies, owners, think about the technology. We are the backbone of both the steel and infrastructure as well, the software and control systems that operate these. And so, we think it's a really important niche and we've got a really great list of Tier-1 owners and developers as well as EPC firms that we work with on a repeated basis.

Jon Windham
Analyst, UBS Securities LLC

Q

Yeah. And let's get into the technology right away, because usually the first question I get when people are getting up to speed on Nextracker and they'll think about, okay, tracking equipment, holds up the module, seems like a pretty commoditized product, anyone can make it. And then, you look at your income statement, like, well, this doesn't look like the income statement with the high gross margins really in addition to really high market share. So, how do you differentiate? What are the key things that are now you want to have 50% plus sometimes market share and still really high gross margins? So, just talk a little bit about how you drive that value prop.

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

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Yeah, certainly. So, at the highest level, cost reduction for energy is super important. And so, we've done a really good job over time of driving down the cost of our solution and in passing those ASP reductions through via ASPs, which is important for the ecosystem, because as the price of the project comes down, the viability and market opens up. So, obviously as energy prices go up, the market opens up and as costs come down, the markets – market opens up.

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And so, we've done a really good job over the last 10 or 12 years of really driving down the cost, but improving the value. And as I think about differentiation, five or six different kind of key tenants of how we're different. And if you look across the market, there's a lot of different competitors that do trackers. I did those 15 years ago at a different company. We made our own trackers. But what we've done is vastly different. It starts with an engineering mindset and a couple of the kind of key things you can think about. One is we have independent row tracking, which has a lot of different benefits. And what that means is most of the market they'll attach or gang a series of rows together with one drive motor, so they all turn like a Venetian blind, and that's okay. And that's what we did 15 years ago.

But by doing independent row tracking, you effectively can tune the system to capture more electrons throughout the day. And so, think about, if there's hills or they're shading or different environmental features, by being able to track each row independently, you can capture more of the photons, convert those to electrons and generate more electricity. We also have a self-balancing architecture where effectively our PV panels are basically hanging like a swing. If you think about like a swing set, the natural point of that is level. The other, every person in the rest of the market, they're top heavy. So, they fall to one side of the other. And with that, we can basically track faster, more reliably. Our motors last longer. We can use smaller batteries. We can use lithium ion batteries that last longer versus using lead acid. And those have – it has huge benefits and long term reliability in the architecture.

And then, as we think – going kind of a step further, we use custom made battery powered tools that our EPC companies use and all of our products are riveted together. So, you don't need to have a series of people out there tightening bolts over time. You rivet it. It's put together once. And the great thing about solar is the cost generally is all upfront and there's very little maintenance cost. So, we've taken that to the next level. And so, now the long-term maintenance costs are significantly lower. And then, with that independent row tracking, with each row tracked independently, you can drive between the rows. And it reduces the cost for cleaning and washing panels, for weed mitigation and for all the maintenance. So, our customers really like our technology.

We also have a software business that's independent of the tracker itself that we sell separately that allows our customers to leverage machine learning and AI where effectively the software stack gets better over time. They use that software to do things like independently row track and diffuse light. So, think about as clouds come through, the photons get change the angle from being directly at the panel at an – from an angle to being diffused, meaning that you want to go horizontal with the panel. And so, it's really amazing. You could see clouds come through over a solar project, and you'll see the panels automatically rotate to capture that diffused light and then rotate back. It's like a choreography and that generates more energy.

And it might sound like a small benefit, but that has a huge impact on the overall long-term project returns. I always think about solar as like a DCF model in a spreadsheet. And if you are increasing the overall revenue that you generate over a long period of time, that has a huge NPV benefit to our customers. And so, we've seen a really strong uptake in what we call true capture our software that is – that enables this advanced technology based on our architecture.

Jon Windham
Analyst, UBS Securities LLC

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Yeah. It can be just 1% on the top line. When that drops down to your return, your levered return can be very meaningful.

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

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Very meaningful.

Jon Windham
Analyst, UBS Securities LLC

Q

And how do you price that product? Is it five-year contract, fixed fee? Do you ever price it as – maybe a share of the incremental revenue? Just talk to the pricing structure.

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

A

I mean, fundamentally, it's – so the value is different in different locations. And so, we try to do value based selling. So obviously software has high margins. And so, you want to quantify what is the benefit and of course, the customer gets the lion's share of that benefit. We get a piece of that that allows us to continue to invest in our R&D. But it's price – all of it is priced basically site specific, based on the value and benefits to that customer. It tends to be upfront pricing. It can be over time. But with the ITC, there's a there's a tax benefit to the buyer of buying it with the system, being able to use the tax credit. Internationally, we've done some deals that have it over time, but for the most part, it's mostly an upfront software license and there are some small recurring revenue over time for kind of maintenance upgrades and updates.

Jon Windham
Analyst, UBS Securities LLC

Q

Got it. And one of the things I want to ask about, it came up in an earlier conversation we were having in a meeting. I think you mentioned it was $70 million a year of R&D and that was maybe more than the entire rest of the industry combined. In your seat as CFO, how do you think about returns on that investment? How quickly does it turn into cost savings in a better value proposition?

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

A

Yeah. I think, being here at this tech conference, it's a really important thing. If you look at a lot of industries, if they're commoditized, the margins effectively go to zero, the old marginal revenue, gross marginal cost in a commoditized environment. And so, when you invest in R&D that should manifest in terms of revenue growth and/or margin, either expansion or maintaining margins. And so, we think of R&D as critical. We are a tech company. We are a research engineering-led company. And so, the two key kind of pillars of Nextracker is really maniacal customer focus and customer success orientation and incredible focus on engineering and R&D.

We have three large scale R&D centers around the world, one in Brazil, one we just opened in India and at our home office in the Silicon Valley in Fremont, California. And I'm not sure if you've been there, Jon, you should come pay a visit if you have not. But you'll see a – expanse of solar fields with like engineering labs and really incredible hard work, both mechanical, software development. And that – and those investments we think are worth a very early innings of sort of solar. If you just think about where the world is going long term and you look out, 10, 20, 50 years, this is a really early innings for solar. And the reason I believe that is, is the cost equation.

Solar is now kind of eclipsed as the lowest cost unsubsidized form of electricity in most parts of the world. That's only going to continue. And the demand for electricity is only going to grow. And so, with that thesis, investing early in R&D is super important, because that will allow you to capture this market, the value of the market on the long tail way out in the future. We could certainly be a lot more profitable today if we cut R&D, didn't spend the money our piano would look even better in the short term, but we'd be jeopardizing the long term. And so, we're

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really carefully investing. But we've significantly increased the investment in R&D over the last few years as the company has scaled and reinvested back in the product and the technology.

We recently acquired two companies. We've extended our offering from effectively above the ground with a tracker and the software and the control systems to now our foundations business. And we spent doing a lot of R&D, perfecting these products. They're still fairly early. It's a big market. We can talk more about those, if you like, but we're spending a lot of additional R&D dollars integrating those foundational offerings to our tracker offering to make it a better solution and really help lower the cost for our customers.

Jon Windham
Analyst, UBS Securities LLC

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Yeah. I was going to ask about the – some of the foundations business, but I want to take it a little bit bigger. Because one of the things, me and my colleague, well, we go around to a lot of like the ACP conferences and try to talk to the EPC companies, public and private, and we'll also ask them who they use. And it's sort of the regular list of hardware suppliers on there. We use these guys, we use these guys. But if you just let them talk, they'll start raving about Nextracker, great customer service, easy to partner with, easy to solve problems with. They won't necessarily say those same things about a lot of the other ones. So, it seems like Nextracker has large mindshare and thought of someone they want to work with is, how far can you take that then to capture more wallet share to move into not just foundations, but you would think there is an ability to bring that brand and customer service to a higher share of the wallet at the utility scale site?

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

A

Yeah. Jon, we're really going where our customers are asking us to go. And we are, Dan Shugar, founder of the company, Marco Miller, his team, Howard Wenger, the leadership of the company is just really, really focused on customer success. And when we go meet with our customers, Tier 1 EPC companies, Tier 1 owner operators, developers, they have asked us, hey, this is a – we're having a – we're having challenges here with rocky soil or having challenges with soft soil. The installation costs are too high. How – and they really trust our brand. Partially, it's a big – it's a function of the company's mindset of, I will sacrifice our company today to make the customer successful, i.e., if they're having a challenge at the site, we will drop everything to make them successful and not be like, oh, we're not helping you or here's a giant change order, pay us for all this. It's really not that mindset, but make them successful and then they will want to work with us preferentially and that has really manifested in helping deepen those relationships.

And specifically with the two acquisitions that we recently did, it does increase the wallet share. So, if you think about an overall tracker project as a 100, we're about 10 or think of that is roughly 10% of the total equation. But the foundations are a relatively important part of that as well. And we've seen firsthand challenges. So, in the traditional model, they would take an I-beam or W-beam and they would pile drive that into the ground and that being may not be perfectly lined up across the array, across the solar field. And so, when you go to put the tracker on top of that beam, it's not lined up. We've spent a lot of time and money to help them engineer, to line up the torque tubes and the tracker. And so, our customers have said, there's got to be a better way. And so, we've – we looked at the market and bought one company specializing in really hard soil, firm soil.

And this is a really unique, innovative company that we're now extending that. And effectively, it allows you to do kind of one pass through the field. It allows you to work on a hilly terrain. We don't have to necessarily level the entire solar project. You can use the terrain following PV system that we've created, plus the drill in to hard rock and create an A-frame foundation that uses less material, lower cost, better for the environment. And so, with that, we'll have wallet share. We should gain, maybe instead of 10%, we can get to 13% or 14% in some of these

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projects. And so, really, the last two acquisitions are really customer led. There's got to be a better way and better technology. And because we're so good at mechanical engineering, we think we can take those to the next level, drive the cost down, integrate the solution with our tracker, and provide more value to our customers and make some more money along the way.

Jon Windham
Analyst, UBS Securities LLC

Q

Got it. Thanks for that. I want to put the US to the side for just a second and we'll get into some of the policy, more US specific things. But higher tracker penetration internationally is a sort of big, pretty big theme. You're say a global company. Maybe just walk us around the world specific markets where you think over the next three, five years will be most material.

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

A

Certainly. So, first in the upstream side, the supply chain side, we've got a really amazing global footprint for our supply chain, over 80 manufacturing partners around the world. One of the great things with you, a lot of you all as investors, as we have an asset-light model, we don't necessarily own the factories in inventory and that really has a huge benefit to return invested capital as a profile in in that model with localizing the supply chain. We've taken that to markets like India, Australia, Middle East, Europe to localize manufacturing with our partners.

And then so in those markets they care deeply about local content. So India is an example. We can provide a tracker solution that's 95% domestic content in India. That has a huge advantage for as our customers are bidding to win projects, being able to, not only with tax credits, but have demonstrate local content.

And so, those markets, I'll do a kind of a brief walk. India, with what Modi's done in that economy, really, I think there's really great days ahead in India. Traditionally, that was a fixed tilt market. Energy prices were quite low. Interest costs are really high, very sensitive to upfront costs. It was mostly a fixed tilt market. If that market develops, that's going to turn more into a tracker market and we've seen that with a lot of projects. And so, I think over time, over the next 10 or 20 years, India is going to be a driving force in the solar market and we've got a really great team there. I think it might be our second largest market by total head count.

India started with Nextracker when the company was founded. We built on our first – one of our first offices in India and we've got hundreds and hundreds of people there and we've just expanding with a new office there and a new R&D center. So, that market, we think long term is going to be a really great market. And as that country has been industrializing and the GDP's been growing, that we see energy prices going up and the tracker market becoming a real meaningful share of the overall market.

If you look at Australia, a smaller market, we've done incredibly well, very high share, an amazing team that we have in Australia, smaller, but a really, really strong market. Latin America, we've seen some really strong wins. I would say Brazil's been up and down in terms of the solar market. You've seen that market has had periods of incredible growth and then some declines. We have a great office there. We've got a really very large team there as well. We're optimistic on Brazil long term. I think in short term, it's been a little bit shaky as far as the solar industry goes.

And then, sort of moving more to the Middle East, we've seen some great wins in the Middle East. We feel good about that market. Obviously, energy prices are quite low there, $10 to $20 a megawatt hour. And so, that has challenging economics, but has incredible long-term growth. If you look at what their – what they've come out

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with, KSA is published, very high targets of annual gigawatts of installments. And so, we think that market is going to be really, really strong. But obviously it's more challenging given the price of wholesale electricity.

And in Europe, we've talked the last couple of quarters of having kind of record quarters in Europe. In general, Europe is trickier for large scale solar projects. They tend to be smaller projects. They tend to cost a little more to build. And there – so there's many, many projects, but they tend to be on a smaller side if you compare them to, say, Middle East, Australia, the US, but really great work and we've seen some really nice growth in Europe.

Jon Windham
Analyst, UBS Securities LLC

Q

Okay, great. And then, maybe pivoting back to the US. Obviously, there's a new administration coming in and there's – everyone's got an opinion on the probability of this tax credit or that that tax credit that was in the IRA. The way I wanted to ask you about it was, what is your message to the incoming administration, and do you believe you're being heard?

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

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Yeah. I think I don't know if we're being heard. I hope so. But I think my message would be that we are all about domestic content. We're all about energy security. There is an insatiable demand for electricity in North America, and we're probably behind the curve on interconnection. We're behind the curve on long transmission and distribution. And so, we've outlined a couple of solutions in the short term. But I just think if you look at what China has done, they've got 3 terawatts of installed capacity going to 9. The US is 1.25 terawatts installed, trying to go to 2 terawatts.

And at the end of the day, compute, decarbonization, EVs, growth in GDP, the demand for electricity is insatiable and the cost of solar is among the lowest cost of energy that's available in the US. And so, I think it's really – I don't see a real long term. I think solar will continue to grow and be a material part of the overall market in the US. There could be periods of dislocation. But I mean, we grew under Trump the first time. We grew under Obama. Grew under Biden. So, I think this next administration, I don't see that is like a major hit to the industry just because the economics are there.

And if you look at the – we already have tariffs on panels. We already have the highest cost panels in the world are in the US. If you buy panels out of the US, they're far, far cheaper. So, I'm optimistic that domestic content, local jobs, local manufacturing, energy independence. I mean, just think if we could increase solar and use more solar and use less gas, we could export more gas. And a lot of the Trump administration is about exporting energy and helping that our country by exporting energy. So why wouldn't we just double down and go bigger on solar, create more energy independence, and then be able to export more energy with the excesses that we may have?

Jon Windham
Analyst, UBS Securities LLC

Q

Yeah. It's interesting. We were at the EEI, Utility Finance Conference three weeks ago, four weeks ago, and I asked them the same question. Utility after utility, what's your message to the administration and maybe a group of companies that are generally seen as maybe more conservative historically, their message was pretty universal, telling the administration, this isn't 2016, this is 2024. We're short of power in this country. If you would like to do onshore manufacturing and have these data centers built here, you don't get to pick and choose. What we're building is largely solar. There's no capability to build a natural gas plant before you get out of office. And

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so, this what we're going to do, don't mark it up. Yeah. All you can do is cause a little bit of delays and cause yourself a lot of headaches for power.

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

A

Yeah. I mean, it's so our backlog is incredible. If you think about the projects that we've already signed over the next few years, the momentum is there. And I think the businesses are really strong. And I do think you're right that the utilities, they want more power. And because solar is the cheapest, it has an economic advantage. But it's not just solar, it's solar plus. And I think that's gas, wind and other forms to firm this up as the cost of batteries continues to come down.

Jon Windham
Analyst, UBS Securities LLC

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Yeah. And the question I've been waiting to ask you, because you've obviously, you've been at other companies, other industries, you come into solar, project delays happen all the time, sometimes more than others, suddenly recently that's been more often than others, policy changes. How do you think in a CFO role, how do you think about how do I manage this? How do I hedge against it? How I think about working capital needs, how do I think about providing guidance that people can be comfortable with? Because certainly Nextracker, time being listed is a much better on guidance than say the peer group on average. So just your thoughts on how you think about that going forward?

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

A

Well, I mean, I think in life, my view is success equals results minus expectations. So, with my wife and my family, I think that's the case. And it's the same thing with a company, is you want to have realistic and achievable results. You also would like to do better than those results. And I think reflecting back on our first quarter of the year, the June quarter, we had a phenomenal quarter. And yet, we did see project delays in the second quarter and September quarter. Things were pretty stable. As we sit here today, I think things still seem like they're pretty stable. There are delays. It's taking a long time to get transformers. It's taken a long time to get interconnection. I would say it's not worse now than it was. It's not necessarily improved. And so, what we do is, we do very detailed reviews and forecasts by project very frequently to see what is happening, keep our finger on the pulse of the industry and what's happening.

And the things that we can control is when we deliver, deliver on time, make our customers happy. Our on time delivery rates are off the charts. Our customer success and customer set metrics are off the charts. They are super happy. A lot of that is comes back to manufacturing because we have domesticated a big chunk of our US manufacturing. We've moved the vast, vast majority of our manufacturing to the US. We have over 20 US manufacturing sites. And so, the lead times have reduced. And so, with that, we have better visibility of when we're going to deliver to our customers. And we really are hand-in-glove with our EPC partners on when they want material to arrive and then be able to adjust, accelerate. If they want to accelerate or push out, they need to push out. And that visibility has, I think, really been helpful and helped us kind of navigate these times of uncertainty. But I would say, high level message is, I would say things are pretty stable on the interconnection delays and whatnot. It has not really changed much in the last quarter or so.

Jon Windham
Analyst, UBS Securities LLC

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Okay. Great. I know we have a very hard out when that clock goes to zero, the recording goes out. So, I guess I would say, Chuck, thank you so much for being here today. And to the investors on the line, keep your eye out for the invite for a site visit at the R&D center in California with UBS and Nextracker certainly.

Charles D. Boynton

Chief Financial Officer, Nextracker, Inc.

We'd love to see you. Thank you so much, Jon. We appreciate it. Thank you.

Jon Windham

Analyst, UBS Securities LLC

Enjoyed it. You're welcome.

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