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Earnings Call

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Presentation

Operator

Good afternoon, everyone and thank you for standing by. My name is Sierra, and I will be your conference operator today. Today's call is being recorded.

I would like to welcome everyone to Nextracker's Third Quarter Fiscal Year 2025 Earnings Call. After the speaker's remarks, there will be a Q&A session. At this time, for opening remarks, I would like to pass this conference over to Sarah Lee, Head of Investor Relations. Sarah, you may begin.

Sarah Lee

Thank you, and good afternoon, everyone. Welcome to Nextracker's Third Quarter Fiscal Year 2025 Earnings Call. I'm Sarah Lee, Head of Investor Relations. I'm joined by Dan Shugar, our CEO and Founder; Howard Wenger, our President; and Chuck Boynton, our CFO. Following our prepared remarks, we will transition to a Q&A session.

As a reminder, there will be a replay of this call posted on the IR website, along with the earnings press release and shareholder letter. Today's call contains statements regarding our business, financial performance and operations, including our business and our industry that may be considered forward-looking statements, and such statements involve risks and uncertainties that may cause actual results to differ materially from our expectations. Those statements are based on current beliefs, assumptions and expectations and speak only as of the current date.

For more information on those risks and uncertainties, please review our earnings press release, shareholder letter and our SEC filings, including our most recently filed quarterly report on Form 10-Q and annual report on Form 10-K, which are available on our IR website at investors.nextracker.com. This information is subject to change, and we undertake no obligation to update any forward-looking statements as a result of new information, future events or changes in our expectations.

Please note, we will provide GAAP and non-GAAP measures on today's call. The full non-GAAP to GAAP reconciliations can be found in the appendix to the press release and the shareholder letter as well as the financial section of the IR website.

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

Daniel S. Shugar

Co-Founder, CEO & Director

Thank you for joining us today to discuss Nextracker's fiscal Q3 financial results, and best wishes to everyone celebrating the Spring Festival. We are pleased to report that our global team's focus on innovative products and operational excellence, combined with robust demand for our products and services has led to exceptional performance and strategic progress across our business.

We achieved strong financial results with revenue growing 15% year-over-year to approximately \$2 billion year-to-date. Q3 revenue was \$679 million. Our adjusted gross profit and adjusted EBITDA also saw meaningful improvements, reflecting our operational efficiency and strong market position. These results underscore our ability to execute effectively in a dynamic market environment, and we remain on track to deliver another strong quarter to close out the year. Our backlog hit a new record, increasing quarter-over-quarter to significantly over \$4.5 billion. This robust backlog provides us with excellent visibility and confidence in our future growth trajectory.

In Q3, we remain hyper focused on scaling our legacy and new products and project execution to deliver differentiated value to our customers across the 5 contents we are serving today. To further enhance our results, innovating and delivering cutting-edge solar technology to the market, we expanded our R&D facilities in 3 regions: the U.S., Brazil and India and partnered with UC Berkeley to establish the CAL-NEXT

Center for Solar Energy Research with a \$6.5 million commitment to advance solar power plant technology and develop future engineering leaders.

We believe these strategic investments and global expansion reinforce our commitment to innovation and position us a global leader in solar technology and we'll drive long-term value creation, critical as we anticipate the solar industry to experience unprecedented growth longer term, driven by increasing electricity demand and growth in solar power.

I will now share our perspectives about the market and industry outlook. Solar continues to perform as the fastest-growing power generation being added to most major grids around the world. According to Wood Mackenzie, in the U.S., in the third quarter of 2024, solar accounted for 64% of all new electricity generating capacity added to the grid. And last year, the U.S. added approximately 40 gigawatts of solar power. Power demand in the U.S. is expected to increase significantly, about 9% by 2028 according to ICF International, a consulting firm. And the U.S. Department of Energy forecasts 15% to 20% power demand growth over the next decade.

Capacity agents have been dominated by solar with nearly 7,000 solar and solar plus storage projects in the queue. And we believe solar remains the single most practical source of powered integration in the U.S. grid and many electric systems around the world. Cost, reliability, availability of supply chain and speed of construction are key drivers of the growing adoption of solar. Significant reductions in battery costs, coupled with a fivefold increase in battery powered in recent years, has helped solar power's continued growth by delivering firm power in early morning and evening peak power conditions.

Robust demand for new power has combined with our sequential growth in backlog and enabled us to raise our fiscal '25 profit target by \$75 million to a midpoint of \$720 million. Our strong quarterly results, record backlog, and strategic investments in R&D position us to capitalize on the tremendous growth opportunities in the solar industry. We remain committed to driving innovation, operational excellence and sustainable value creation for our shareholders, and we thank you for your continued support.

I'll now pass the call over to Howard Wenger, President of Nextracker to provide additional color on our business.

Howard J. Wenger
Director & President

Thank you, Dan. Our demand profile continued to be positive in the quarter with a book-to-bill ratio greater than 1. We had record bookings for both the U.S. and Rest of World regions, driving backlog to significantly greater than \$4.5 billion. We would like to highlight this milestone further by noting that we have more than doubled our backlog since our IPO 2 years ago, which stood at \$2.1 billion at the time and we have done so while growing the company's top and bottom lines.

Now a bit more detail for sales in Q3. In the U.S., we had 75% of total bookings in the quarter, covering a diverse mix of new project contracts in over 20 states across the country. Our new foundations business is currently focused on the U.S. market and is helping us get additional wins in a growing pipeline of interest. We believe customers are recognizing the synergy of a more complete solution combining our NX Horizon Tracker Platform with innovative foundations that span a wide range of soil conditions.

We are also pleased with increased bookings in the quarter for our Hail Pro-75 Tracker and Hail Pro-software with auto stow features, which are designed to help protect systems during severe weather storms. And we continue to see new sales in the quarter of our XTR Extreme Train Following Tracker, which can radically reduce the need for expensive site grading as well as strong sales of our true capture software for U.S. projects, which enables power plant owners to boost total energy yield. These innovations are enabling greater siting flexibility and can lower solar power costs to help address rapidly expanding U.S. electricity demand.

In the international arena, excluding the U.S., we signed contracts in 13 different countries in Latin America, Europe, Australia and the MEIA region of Middle East, India and Africa. Of note in Q3 we signed 15 new projects, each with the capacity in the range of 100 to 750 megawatts in Australia, Brazil, Chile, Europe, India, Peru and Saudi Arabia. The international pipeline continues to grow, and we are seeing

more countries installing solar, and we are also gaining traction for XTR and TrueCapture software internationally in the quarter.

Shifting for a moment to supply. We believe our global supply chain is one of the strategic advantages that enables more sales. For example, in the U.S., our partners operate over 20 factories producing our products, which enables us to reduce lead times for our customers with superior on-time delivery performance while increasing flexibility throughout construction. As previously announced, we are now shipping 100% U.S. domestic content per treasury guidance. We are finding that our customers increasingly want domestic content for their projects, and we believe we're the first and only company currently shipping a 100% U.S. domestic content tracker.

In Q3, we had over 80% of revenue coming from repeat customers. We believe there are many factors that set us apart and enable us to be the preferred tracker partner. We have a relentless customer focus in the company with a service mindset that EPCs, developers and owners can rely upon and trust. We believe we have a significantly differentiated and superior product and service offering that delivers the highest performing and most reliable solar power in the industry at the lowest LCOE. And we have built a strong company operationally and financially with a proven track record.

All of these factors set us apart and give our customers and stakeholders peace of mind that we will work with them as partners and deliver.

Moving to pricing and costs. In Q3, pricing for Nextracker was stable and the company continues to manage costs well. Pricing and costs vary by region, customer, project size and location, soil condition, panel type and other factors. Historically, as the solar industry continues to scale, system costs have decreased over time, resulting in solar power becoming among the most competitive generation technologies. We're doing our part to continue this trend with ingenuity and knowhow to reduce install costs and to generate more energy.

Finally, project timing was stable and manageable on a portfolio basis in the quarter with some projects accelerating and some pushing out, which is the nature of large-scale projects spanning multiple quarters and years. In summary, the business performed very well in Q3 and we are on track to deliver another strong quarter to close out our fiscal year.

And with that, I'll pass the call over to Chuck Boynton, our Chief Financial Officer. Chuck?

Charles D. Boynton
Chief Financial Officer

Thank you, Howard. Good afternoon, everyone. Thank you for joining us for our third quarter fiscal year 2025 earnings call. I'm pleased to present our financial results and outlook. We're thrilled to report another quarter of exceptional financial performance demonstrating our team's continued execution in driving customer satisfaction and product innovation globally.

For Q3, we achieved revenue of \$679 million, which represents a 7% sequential improvement over Q2. Our year-to-date revenue reached \$2 billion, reflecting a strong 15% growth year-over-year. Our Q3 geographic mix was 66% U.S. and 34% Rest of World aligning with our projections. Our Q3 adjusted EBITDA expanded to \$186 million, marking an 11% increase year-over-year. This translates to an adjusted EBITDA margin of 27%, up 4 percentage points from the prior year. Year-to-date, our adjusted EBITDA has shown remarkable growth, up 48% compared to the previous year.

It's important to note, in fiscal year '24, our adjusted results exclude the impact from 45x credits. We generated \$135 million in adjusted free cash flow during Q3, more than doubling the \$62 million from the same period last year. Year-to-date, we've generated \$395 million in adjusted free cash flow, a 26% increase from the \$314 million in the prior year. Our strong balance sheet and cash flow generation remain competitive advantages. We closed Q3 with \$694 million in total cash and \$145 million in total debt with no significant debt maturities until fiscal 2028. Total liquidity at the end of Q3 increased to \$1.6 billion, providing us with significant financial flexibility. Our adjusted gross margins of 36% were roughly in line quarter-over-quarter.

Similar to last quarter, we're seeing significant year-over-year growth from sales of our TrueCapture software driven by a higher rate of commissioned projects. Looking forward, we expect our software revenue to be approximately 2% of revenue. We continue to experience strong demand for our products across all major global markets. Q3 saw exceptional bookings with our backlog growing to significantly greater than \$4.5 billion. This performance not only bolsters our confidence in raising our profitability outlook for the current fiscal year but also lays a solid foundation for 2026 and beyond.

For the full year fiscal '25, we expect revenue to be in the range of \$2.8 billion to \$2.9 billion, adjusted EBITDA to be in the range of \$700 million to \$740 million, adjusted diluted EPS to be in the range of \$3.75 to \$3.95 per share, U.S. revenue mix to be approximately 2/3 of the total. We expect our structural gross margins to be in the low 30s, reflecting our continued execution, pricing discipline and cost management.

We manage our business on an annual and multiyear basis, consistent with the nature of the utility scale solar power industry. Our confidence is driven by customer demand for our differentiated industry-leading products, ability to execute and support customer success, continued bookings momentum and a strong financial position that's enabling continued innovation and strategic investments. We believe our culture, strategy, team and market position will enable us to continue delivering strong value for customers, shareholders and other stakeholders.

Thank you, and we look forward to your questions. Operator?

Question and Answer

Operator

[Operator Instructions]. Our first question today comes from Kashy Harrison with Piper Sandler.

Kasope Oladipo Harrison

Piper Sandler & Co., Research Division

Congrats again on another strong quarter. I'm only going to ask one because there's a lot to get to, I'm sure. I want to ask about the backlog. You said it's significantly above \$4.5 billion and if we just kind of do rough math in the past, it feels like you've done at least \$1 billion a quarter. So are we right around \$5 billion in reality at this point on the backlog?

Howard J. Wenger

Director & President

This is Howard Wenger. We're really happy with the quarter and getting to this new milestone. It's actually we've had increasing backlog every quarter since going public and actually before then. So our book-to-bill continues to be greater than 1. We're going to give a precise answer, but the math roughly supports what you're saying that we exceeded \$1 billion in the quarter in bookings.

Operator

Our next question today comes from Jordan Levy with Truist.

Jordan Levy

Truist Securities, Inc., Research Division

And congratulations on a really strong quarter. Just wanted to see if you could talk around your supply chain around steel. I know you have a pretty solid U.S. manufacturing footprint but just with all the discussions on tariffs and whatnot. I just wanted to see how you all view potential risks there should anything come to fruition on that front?

Daniel S. Shugar

Co-Founder, CEO & Director

Jordan, Dan Shugar speaking. We feel very good about our supply chain, both in the U.S. and overseas. In the U.S., we enjoy very strong relationships with the major U.S. mills still producing. In some cases, we've actually, with partners, stood up manufacturing facilities on the very campus of some of the newest mills in the United States or nearby.

We're making for -- we're making virtually all of the tubes that were, as an example, delivering in the U.S. we're manufacturing in the U.S. Every tube we make in the U.S. uses 100% U.S. steel raw material. And the U.S. steel position has a much cleaner manufacturing mix in terms of the content of the steel. We launch our low carbon tracker product that we sold.

And then overseas, we've built out supply chain in India and other places for those markets. We're in this great position we can make locally for local markets or we can export to arbitrage, depending on what's happening with the global supply chain. So we -- as Howard mentioned in the opening remarks, we really feel like our global supply chain footprint is a competitive strength for Nextracker, and our customers are reflecting that back.

Operator

Our next question comes from Brian Lee with Goldman Sachs.

Brian K. Lee

Goldman Sachs Group, Inc., Research Division

Kudos on a solid quarter here. I just had 2. I guess, first, would you, Dan or Howard, say that maybe the U.S. is growing faster than your -- than expected based on the bookings momentum here? And is that market share drivers you're seeing? Or just generally, the environment picking up? Maybe it's a bit of both, but I would love to hear your perspective. And then do you see the 75-25 mix maybe holding even into next year as well?

Howard J. Wenger

Director & President

Well, I'll take the mix question first and then talk about the velocity second. We're -- as you've seen and as we've discussed previously, our mix is typically 60% to 70% in the U.S. And that is holding in roughly. And so what that means is, as we grow, we're growing both domestically and internationally. And that speaks to the volume in both -- or the velocity in both regions for the company. And as far as the U.S. market goes, the demand is strong. We had record bookings in the U.S. this quarter. And our pipeline is indicative of continued strength. So we're happy where things are at the moment.

As far as market share, that's not something that we actually can accurately monitor. There really is no data that isn't lagging. Most of the data on market share comes 6 to 9 months after the year is over, it's done on an annual basis. But we feel like we're doing well in the marketplace. Thank you for your question.

Operator

Our next question today comes from Philip Shen with ROTH Capital Partners.

Philip Shen

ROTH Capital Partners, LLC, Research Division

Congrats on the strong quarter indeed. You guys have consistently surprised to the upside, so great job. First question is on the quarter backlog conversion. You guys highlighted 87%. Is the majority of that in year 1? What kind of color can you share there?

And then in terms of pricing, can you talk about if there's been any change or adjustment to pricing in the bookings, but do you see that coming down a touch as we go through '26 and maybe fiscal '27? So just curious what you can share in terms of the pricing outlook.

Howard J. Wenger

Director & President

Thanks, Phil. Yes, on the 87% of our backlog realized over the next 8 quarters, yes. Majority of that is slated for being recognized over the next 4 quarters. So that gives us more visibility into the year ahead, and we'll be commenting more on that in the next earnings call.

As for the second part of your question on pricing, what we saw and what we're seeing right now is pricing is quite stable globally for the company and in the United States, where a lot of our shareholders have interest. And as far as the solar industry goes, what we've seen over time is the entire value chain reduces price as the costs are reduced with scale.

And we continue to invest in innovation to extend our current tracker platform so that we can lower the installed cost, we can lower the upfront cost, and we can get more energy yield while lowering price in a measured way over a period of time to be more and more competitive versus other generating technologies. And that's what's faulted the whole industry to be in a position where solar as we are -- as Dan remarked, 64% of all generation globally was from solar. That's an astonishing figure. So -- and that's all done through cost reduction and price reduction.

But currently, what we're seeing, just to reiterate, the price environment is quite stable. Thanks, Phil.

Operator

Our next question comes from Praneeth Satish with Wells Fargo.

Praneeth Satish*Wells Fargo Securities, LLC, Research Division*

Maybe just following up on Phil's question on that backlog conversion metric. So 87% this quarter, 90% last quarter. I think it was 80% the quarter before that. So is this 80% to 90% band kind of a good way to think about the natural variability of this metric? And then kind of given your view of the macro environment today and everything going on, do you think there's potential to improve this metric over 90% as we get more clarity on what Trump does with IRA and tariffs and the like?

Howard J. Wenger*Director & President*

This is Howard. So 80% to 90% is probably a good way to think about it. And going from 80 to 90 and back to 87, it's really not a huge driver because we're -- the important thing is that the -- the vast majority of it is realized over the next 8 quarters and as we stated previously, the majority of that amount or on the next 8 quarters is over the next 4 quarters. So what we're seeing is we continue to book more projects, we achieved a record internationally for bookings this quarter, as we noted, and in the U.S. And so we're going to continue to fill up our backlog along the entire span of 8 quarters.

We do have these VCA agreements that are multiyear in nature, and they're the ones that contribute more to the back end of that amount. But as those projects get perfected and orders come through the EPCs, they drop into the -- typically into the 4 quarter bucket. So it's sort of this extension of our pipeline, but with a lot more certainty and visibility because those are contracted projects with project schedules, project names, project sites, deposits, et cetera. So -- but getting back just to circle back, 80% to 90% as a bookend is probably the right way to think about that as we move forward. And that's been consistent for us over time.

Operator

Our next one comes from Mark Strouse with JPMorgan.

Mark Wesley Strouse*JPMorgan Chase & Co, Research Division*

I wanted to ask about the domestic content rules that came out a couple of weeks ago. Have you seen any kind of acceleration in quoting activity since that came out? Or are customers just kind of waiting to see potentially how sticky the overall IRA could be under the new administration?

And kind of a quick follow-up. I mean, just kind of to the extent that you think that there's any pricing power or change in pricing power with the new rules, obviously, with the percentage assigned to the tracker going higher and with your 100% domestic content capability.

Daniel S. Shugar*Co-Founder, CEO & Director*

Mark, we'll do a 2-part answer. I'll answer the first part. Howard will answer the second part. So we were very pleased with the updated rules from treasury related to domestic content. It generally improves the picture for customers. It simplifies things and they -- it's easier for them to achieve the bonus 10% ITC. And it also really amplified the value we're providing by customers by being in such a strong supply chain position in the U.S. with over 20 factories shipping finished goods to customers across the United States that are geographically optimized to shorten lead time to site, minimize logistics costs and ensure they have capacity to meet their needs.

Howard, do you want to take the second part, please?

Howard J. Wenger*Director & President*

I'll just add that from a customer perspective in our pipeline and our actual bookings, we're seeing more and more domestic content be part of what we're contracted to do and not only to have domestic content,

but to have higher and higher levels of domestic content. We're seeing more customers wanting 100% domestic content. As you know, the rules ratcheted it up by 400 basis points on tracker the number of points that you can get on domestic content. And plus some customers are expressing that it gives them more comfort to have the tracker be 100%. So we think it's something that -- well, we know we're seeing that it's a value to customers.

In terms of pricing, we're as -- we're partners with our customers if -- particularly our repeat customers. 80% of our business is repeat business. So we have very close relationships. If a customer wants domestic content, there will be a modest premium for that in terms of price, but that only -- that's reflective of the increase in cost to the company. Thank you for the question.

Operator

Our next question comes from Dimple Gosai with Bank of America.

Dimple Gosai

BofA Securities, Research Division

Can you talk a little bit about just your liquidity position, which seems to be pretty healthy. In terms of capital allocation priorities, how do you think about returning cash to shareholders via M&A activity versus expansion opportunities in Europe or otherwise looking to further grow market share in the U.S.?

Charles D. Boynton

Chief Financial Officer

Thank you, Dimple, this is Chuck. Our capitalization policy has not changed. We're focused on growth, prioritizing investments in projects and activities organically. We then are looking at M&A activities and seeing how we can build shareholder value via M&A. And then later this year, we'll look at possible buyback programs. As we talked before, there are certain restrictions due to the spin. And so we'll talk about that more as we get closer to that date end of this year, calendar year. But we're very pleased with our fortress balance sheet. And I think it is a real competitive advantage. Thank you.

Operator

Our next question comes from Dylan Nassano with Wolfe Research.

Dylan Thomas Nassano

Wolfe Research, LLC

Can you talk about what your safe harbor strategy might look like should you need to meet an accelerated demand pull-forward event that could be the result of changes to IRA?

Daniel S. Shugar

Co-Founder, CEO & Director

Yes. We'll do 2-part on this, this is Dan. I'll speak to the how are set up from a supply chain standpoint. And then Howard will speak to maybe the commercial aspects of that.

So first, we are in a position to be able to respond very quickly to customer needs, both on normal day job activity if customers need to, for whatever reason, accelerate their delivery schedule. Or if it's to address the safe harbor need, we can move very, very quickly to respond to those needs given our supply chain strength and geographic position. And so it's all about meeting customer needs, helping them be successful in every project, and then engendering confidence which has then resulted in repeat orders.

Howard J. Wenger

Director & President

I'll just add that we're open for business. If a customer wants a safe harbor, we'll work with them.

Operator

Our next question comes from Ben Kallo with Baird.

Benjamin Joseph Kallo*Robert W. Baird & Co. Incorporated, Research Division*

You guys kind of talked about the different international projects that you won. In the past, you've talked about Australia margins being similar to the U.S. I'm just wondering like how those are trending because you mentioned there's 700-megawatt type projects. And so some of these things are getting big and how we think about that kind of cadence impacting margin as we go forward.

Howard J. Wenger*Director & President*

This is Howard. So yes, we're really pleased with the velocity in the international market. As we noted, we had significant sales in the quarter across Australia, Brazil, Chile and Europe, India, Peru and Saudi Arabia. So kind of all regions and some big projects in there. And the margins do vary by region.

Really, there's no big change from what we've talked about in the past. It is a more competitive environment. Internationally, kind of more CapEx-sensitive, upfront cost sensitive. But given our differentiation, our technology differentiation, what we offer to our customers, the reliability of the company, our track record, our delivery, our supply chain, the strength of the company, our balance sheet, we're doing well there, and we had a record quarter. So we're happy with that.

And so the margin profile guidance really -- there's really no material change at this time. Thanks, Ben.

Operator

Our next question comes from Joseph Osha with Guggenheim Partners.

Joseph Amil Osha*Guggenheim Securities, LLC, Research Division*

Following on the previous question, I'm wondering if you can talk a bit about demand and pricing trends in Middle East and North Africa, especially in light of what's happened with Soltec going bankrupt.

Howard J. Wenger*Director & President*

So the Middle East and Africa have vast solar potential and very ambitious goals, particularly in the Middle East and in the Kingdom of Saudi Arabia where they have a target on the order of 20 gigawatts per year in Saudi alone. So the market is really substantial. It's has been disclosed, the pricing for power, solar power, in that region can be as low as \$1.02 a kilowatt hour. I mean, it's like really \$12 per megawatt hour. Super lowest pricing in the world. And that means everybody along the value chain needs to sharpen their pencils and really do whatever we can to make that happen.

Now the benefit of operating over there, in part, is that there is -- it's a level playing field. There's no real subsidies there for solar, and there's no tariffs. And so you can see in a market that's unsubsidized, what solar can really do when there's no tariffs. And just, we're delivering at \$10 to \$20 per megawatt hour. It's really quite impressive. So we don't see that changing in terms of trajectory to answer that part of that question. And I'm going to go to Dan because I think he has some more commentary.

Daniel S. Shugar*Co-Founder, CEO & Director*

Yes. I just -- within Abu Dhabi at the World Future Energy Summit, Nextracker participated in that event, as we have for many years. I had the opportunity to meet with some of the largest customers in that region. What I will say is there's -- as markets mature, as they are in the Middle East, you're seeing a real flight to quality and appreciation for durability of technology.

And so as markets get more -- as Howard mentioned, the intrinsic cost of power there is such that it's a very competitive market, no question about that. But there is appreciation for differentiated technology that has higher performance. And has durability that's proven in the market and Nextracker sells in both those areas.

Operator

Our next question comes from Steven Fox with Fox Advisors.

Steven Bryant Fox

Fox Advisors LLC

Two quick ones from me. On the international sales growth, I was wondering if you could maybe force rank where the best growth came from in the quarter. And then in terms of the visibility that you're seeing in the backlog, is there anything that you would attribute to why it's been happening, especially the last couple of quarters and why it continues?

Howard J. Wenger

Director & President

Okay, this is Howard. So the areas, the regions where we really saw in the quarter excellent performance was in Latin America, Europe and Australia. Those were really the 3 standout regions. And we're really pleased there. It's not to say that the Middle East and India and Africa aren't important. But that's just in the quarter and it can vary from quarter, but that's specific to answer your question on that.

As far as -- here's the big picture as we see it. Dan used the phrase flight to quality. We believe that that's what's happening, that over time, with scale, these projects are getting bigger and bigger, there's more of them. We're -- we believe we're emerging as really the trusted brand but we're also differentiated across many of the key buying vectors, proven technology, proven low-cost, proven energy yield, which all contribute to lower LCOE, biggest balance sheet in our sector or in our segment for what we offer.

Just an unbelievable team that's so committed to customer service and to innovation and stretching the boundaries of what we can do as a company with just extreme amount of focus and know-how. And we deliver success for our customers, and I think that's what's happening. I think there's some -- there's separation there for us that we want to continue to drive, and that's what we're doing. And the results speak to that. Thank you very much for your question.

Operator

Our next question comes from Maheep Mandloi with Mizuho.

Maheep Mandloi

Mizuho Securities USA LLC, Research Division

I'm sorry if I missed this in the prepared remarks, but can you just help us understand the high gross margin beat in Q3? What drove that? And why would it not be a repeat of that in the next quarter or next year? And then secondly, I just wanted to understand the cadence of bookings, how has it been after elections or after the Trump administration started?

Daniel S. Shugar

Co-Founder, CEO & Director

Certainly, I'll take the first part, and Howard can take the second part. Q3 was a very strong margin quarter overall, gross margins at 36%, we did have some tailwinds. Some of these were onetime, some were operationalized opportunities that we would hope to repeat. I won't go through them all in detail, but FX was a bit of a tailwind that tends to not repeat. We did have lower freight costs where we really operationalized our team. Our operations team is world-class and they were able to drive savings in freight. We also had some savings in material and overhead. And so these are real opportunities that we don't necessarily plan on, but we were able to capture in Q3.

Looking forward into Q4 and beyond, I'll talk about Q4. Next earnings call, we'll talk about the next fiscal year. Q4 margins go down a little bit, mostly because of international mix. And we did talk about last quarter some large -- very large international projects that get delivered this year that bring the overall margin mix down a bit. So you're seeing a really strong Q3, a very strong Q4 with a little margin compression based on international, Howard?

Howard J. Wenger*Director & President*

We checked in with our customers and they're really calm and feeling very good about their pipelines and the projects that they've contracted with us on. So we feel really good about the coming year and closing out this fiscal year.

And we kind of toggle to the big picture, which is Solar has proven to be a super nimble technology that you can deploy just about anywhere where there's demand constraints and how to deal with rapidly escalating electricity consumption and demand in this country and debottleneck transmission, debottleneck distribution and really be a force for solving rapid electricity demand growth. And the industry has proven that, and we're a big part of that.

So we think the macro story will prevail and we've been successful in every administration. Going back, many of us have been in the industry for 30 years that are in the company or more. And so we've kind of seen it all, and it's just the macro story prevails. Thank you for the question.

Operator

Our next question comes from Julien Dumoulin-Smith with Jefferies.

Julien Patrick Dumoulin-Smith*Jefferies LLC, Research Division*

Look, just following up on the international conversation, a lot of discussion by geography. I wanted to ask a little bit more on the MSA coverage. How are you thinking about expanding that business strategy and origination strategy to these novel international geographies?

How are you thinking about sort of comparable terms from a duration perspective, kind of thinking beyond the incremental backlog to be added here into thinking maybe longer term and also the sustainability of the margins that you're seeing considering potential adoption of MSA strategy or implementation of an MSA strategy more broadly in international markets?

Howard J. Wenger*Director & President*

Julien, this is Howard. Our framework agreements have been very much focused in the United States. We've had conversations internationally, of course. Many of our customers are multinational, big energy companies. And so there is interest in a global framework approach, which we welcome. And we think it's really good for the business. It reduces friction and is great for us and our partners, and it's proven, and we continue to sign these agreements.

So can we see -- we'll have more commentary next quarter. But I would say that right now, the core business in the international region continues to be on a more project-by-project basis or several projects at a time. And however, our repeat customers is very similar. It's also at approximately the same clip of 80% repeat internationally.

So these are companies that we work with day in and day out. And many of them, when we talk to them about a framework agreement, they're getting more acclimated with it, but they say, hey, we're already in this kind of partnering approach, which is really kind of true. So we'll bring it back for more commentary on the next call. Thank you.

Operator

Our next question comes from Sean McLoughlin with HSBC.

Sean D. McLoughlin*HSBC, Research Division*

I just wanted to come back to new products. If you could maybe quantify just how much of sales and order intake for the quarter was for new products? And with your push on R&D, I mean, this suggests

that the new product pipeline is going to continue. Maybe if you can just talk about the kind of pricing or competitive advantage you see over time.

Daniel S. Shugar

Co-Founder, CEO & Director

Sean, I'll answer the first part and Howard, the second. First of all, we're really excited about the progress with our new products in the market. As we've noted, we've more than doubled our investment in R&D and product development. And as we introduce these new products, those products come with validated information that helps those products become accepted in the market.

For example, when we introduced our TrueCapture technology, we had data on utility scale projects that we're operating for a period of time with measurement and verification protocol. So customers know when we bring products to the market, it's real hardware, real software, real firmware and these products can actually operate.

Howard, do you want to speak to how we think about that relative to our plan?

Howard J. Wenger

Director & President

Yes. I mean, we're -- we talked about this quarter about how we're getting traction with our Hail Pro-75 product, as an example, of something that we believe we're leading the industry on, which is a solution for areas that experienced extreme weather, including large hail balls. And we had a really strong quarter of new bookings for that product, and we didn't launch it that long ago. So we can -- our approach is basically to really develop new technologies or acquire them in the case of the foundation. But really, invest in R&D and then pilot them with our customers, and then we launch them to market.

In aggregate, for sure, these new products will be material to our next year. So to answer your question about that. We -- these are very important technologies, XTR, TrueCapture, the Hail Pro, the foundations in aggregate for sure. Those are going to be the important part of the story next year, and we'll have more color next time. And to say that R&D investments are really paying dividends for the company. Thanks for your question.

Operator

Our next question comes from Vikram Bagri with Citi.

Vikram Bagri

Citigroup Inc., Research Division

I wanted to focus on international, too. Although it's 1/3 of the business, there are a lot of moving parts. I was wondering if you can talk about the Brazil business with the rebound in hydro, the real depreciation and the PPA negotiations going in the country, how's the environment now, what are you seeing there?

And on Rest of the World, I was wondering, it seems like margins within the countries are somewhat similar when you look at India, Middle East and Brazil and Australia. I was wondering if you can just quantify in some way what the margin gap is between the lowest and sort of like margin country in the U.S. And if conversion in those countries going forward can move the margin profile meaningfully at corporate level?

And then finally, a housekeeping question. I think you mentioned the software will be 2% of the revenues going forward. I was wondering what the attach rate of software is currently to understand if there is an upside or how much of an upside is there to that 2% number that you quoted.

Howard J. Wenger

Director & President

Okay. Chuck will answer the software question. This is Howard. Look, the company has an ethos about not chasing bad business, okay? So we want to be in the best regions in the world in terms of large TAMs,

significant TAMs and where our product plays well. And right now, for example, we are not present in China. That's not a market for the company.

But there's plenty of other markets that are growing internationally and new countries that are being added all the time. And what we're seeing that's driving that are really countries that are setting zero carbon targets and driving to those targets. And that's creating sort of a tops-down drive for more renewables.

In concert with that, our technology is in many parts of the world, the lowest cost source of generation, okay? And so the fundamentals for growth in these international markets is really favorable. And we feel good about our position there. We're not talking about margin differentiation at this time around the world. We feel like that is something that's proprietary and so -- but we appreciate the question.

And now Chuck, why don't you address software?

Charles D. Boynton
Chief Financial Officer

Thank you. On the software side, we have built a really great tech stack that our customers really appreciate. We've been selling that at an increasing attach rate to new customers and upselling existing customers which is why last quarter, we saw a fairly significant increase in the software contribution. We don't comment specifically on the exact attach rate, but it's been improving. And there's still room to improve a bit more, but we're really proud of the team's results.

With that, we'll end the call here. Thank you very much for taking the time today, and we look forward to talking with many of you throughout the quarter and next quarter end.

Operator

That will conclude today's conference call. Thank you all for your participation. You may now disconnect your lines.

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