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Nextracker, Inc. (NXT)

Goldman Sachs Energy, CleanTech & Utilities Conference

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Brian Lee
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Brian Lee
Analyst, Goldman Sachs & Co. LLC

All right. Thank you for everyone sticking around for the last panel of the day. I know it's been a long day for a lot of folks. I personally started with the 7:00 AM intro spiel, so I can feel everyone's fatigue already. But you're in for a treat. Last panel of the day, we saved the best for last. To my immediate right here, we have CEO and Founder of Nextracker, Dan Shugar.

He is an industry-wide rockstar. You can put lots of different monikers on his name, but he knows solar. So if you're – if you want to learn about solar, you've come to the right panel. This is the best 35 minutes you're going to spend all day on the solar topic. With that, Dan thank you for being here.

We always like to talk about outlooks at a first week of January conference. We'd love to kind of hear your view on where the market is. And given that Nextracker is a very globally diversified company, clearly there's been a lot of discussion around the US market policy. We'll get into those things, but we'd love to hear just kind of around the horn how you're viewing the outlook for this year in some of the key geos.

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

Sure. Well, first, Brian, thank you for the invitation to participate in the conference and what you've done for the renewable energy industry. We were just sharing with our CFO, Chuck Boynton, who's here, and Sarah Lee, our Director of Investor Relations, that you helped them go through – public at their prior yieldco, 8.3, in the past. So thanks for that.

We're – we feel very bullish about solar and where the industry is. I do have to contextualize my comments. We are in the middle of a quiet period. So, it's right at the end of – right after the quarter ends. So we're – timing of the conference. But let's just talk big picture for a minute. I can then throw some numbers around with our – the backlogs we reported on our last earnings call.

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So I started life as an electric utility planner, and I'm an Electrical Engineer doing electric transmission planning between generation and distribution. And for my entire career, which started there in the mid-80s in the utility sector, demand's been pretty flat, kind of like 0% to 1%, plus or minus. And we've seen, like, really, really strong demand growth. For a variety of reasons, we can get into that.

At the same time, a lot of legacy power generation facilities are going offline. So in the US, there's very strong demand. There's also strong demand growth overseas. And if you look in the US, power generation in the US grid, which is about 1,300 gigawatts, there's, like, more than that of solar and solar plus storage trying to get connected. So there's 80% of the queue in the utility grid are solar and solar plus storage projects. It's staggering, over 7,000 projects, and it spans across the country.

And we've seen also utilities get a lot more involved in building out solar programs once the production tax credit became law as part of the Inflation Reduction Act. So that's been reflected in very strong demand. And let me just also, another sort of fun fact, this was in our last investor letter, over the last five years, five years ago, if you look at how much was solar part of the, power, the capacity installations that were happening on an annualized basis, solar was about 10%. Last year, not 2024, but 2023, 2024 will be bigger.

Solar was over 50%, so we've gone from 10% to 50% in like five years. And the queue is dominated by solar and solar plus storage. Now, if we reflect that, that's in the US. And overseas, I can speak to the overseas market, we're seeing strong demand. In Europe, very strong demand.

The Ukraine war, the detonation of the Nord Stream pipeline just last week, Ukraine stopped transmitting Russian gas through their territory to Latvia and other places. So you're seeing a lot of migration of heat pumps for heating, which is creating electric demand. And you're seeing gas being exported from the United States through LNG terminals.

This is, like, first order big stuff. So that's – so demand from Europe is very strong. I was in Madrid last month, meeting with our team at our office in Madrid. Very strong demand in Europe in solar. We're seeing strong demand in the Middle East. Some of the largest projects in the world are happening there. Nextracker is part of that. We did the first utility-scale project in Saudi Arabia. We're in Dubai, serving the Dubai Electricity and Water Authority. There's multi-gigawatt projects happening there.

India is on fire from a market growth standpoint. I was in India last year also, personally. The Prime Minister Modi has very much leaned in, and there's a lot of good things happening there. Nextracker has a strong position in that market. Latin America is strong. Brazil is the largest market, but throughout Latin America, a lot happening. Australia, we've had an office there for nine years, and over 100 completed projects in Australia, in the Oceania region. Australia is a strong market and Africa is also growing.

So globally, there's a very strong market for solar. Now what – the way we've expressed that in terms of backlog at Nextracker, first, we have the highest standard for backlog. Backlog for us is a signed contract, which has liquidated damages if we don't deliver or the customer doesn't take with a deposit on a named project with a specific bill of materials and a definitive ship date.

That's what backlog is. By that standard, when we did our IPO at Nextracker about two years ago, our backlog was about $2.2 billion. Our backlog at the end of the quarter that ended at the end of September was over $4.5 billion. So we're very confident in the overall market. We're confident in Nextracker's position. We have seen a flight to quality in terms of with our customers, and that's been reflected in strong share position.

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Nextracker has maintained number one market share globally for nine years in a row. And we – our position in the US feels stable. And so that's the sort of big picture, if you will, Brian.

QUESTION AND ANSWER SECTION

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

That contextualization is great. I wanted to maybe follow up with your initial comment about the load growth, right? For utilities, we haven't been talking about 2.5% annual load growth through the end of the decade ever, at least not while I've covered this space. And so...

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

A

Right.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

And even going back to when you were, it sounded like a utility operator. So this is a new dynamic. The fundamentals just seem very ripe for all types of new generation.

And as you also mentioned, solar has gone from 10% to 50%. And I think I've seen EIA stats that said during certain quarters of 2024, it was as much as 70% to 80% of the new adds for that quarter. So why, I guess, in that context, isn't utility-scale solar in the US growing 20%, 30-plus percent a year? You look at these third-party market forecasts. Whether they're right or wrong, what they are calling for is more of a steady, eddy, mid-single, maybe high-single-digit growth type, right? What unlocks the growth potential for, I guess, utility-scale solar to more fully participate in some of the power demand trends we're seeing in the country?

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

A

Well, I can speak to the growth we've had. And look, we just said that the utility-scale market went from 10% per year to 50% per year in five years. I think those forecasters are wrong.

They've been consistently wrong. If you go back and you look at forecasts that have been made by a variety of market forecasts, or the Energy Information Administration, the International Energy Administration, they've all massively, massively underestimated solar growth. And I, Dan Shugar, have screwed up in my career the most by underestimating the growth of solar.

It's a transformational, disruptive, breakaway technology that's completely revolutionizing energy. Full stop. And you haven't seen anything yet in solar. So what I can speak to is what Nextracker has demonstrated in the context of that, which up until this year, we've had a 30-ish percent CAGR for like five years prior to this year. This year, our plan, which has been part of our – we've shared on our earnings, is a mid-teens, double-digit growth. Six out of the last seven quarters, we've increased our outlook in our plan for earnings. We've either increased or reiterated our revenue guidance. So we feel quite confident in our plan, as we shared again in our last earnings.

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So – and solar is growing, and it's growing a lot. With respect to the 2.5% load growth, we work with a lot of utility customers. I'm hearing much larger numbers from them about stuff they see. It's not just the hyperscalers, right?

There's re-industrialization happening in the United States. In Nextracker's case, I can tell you, we've stood up over 20 new or significantly expanded factories in the United States in the last three years. And these facilities consume energy. There's the CHIPS Act with 16 huge conductor fabs that are consuming more energy.

There's the electrification. Folks are moving toward electric vehicles and heat pumps and things like that. So these things are all contributing to this, this like, not only load growth, but a transition from fossil fuel to electrification of everything.

So, we think at the same time that a lot of legacy power plants are going to be going offline. So we think this foundational growth of energy will provide a lot of market pull. And the value of energy that we're producing is, it's value, but it's also existential from a keeping the lights on standpoint for a number of utilities and planning areas.

Brian Lee
Analyst, Goldman Sachs & Co. LLC
Q

Yeah, and clearly, the fundamental drivers are there. They're multiple, they're secular, they're long term. On a short- to medium-term basis, there are some bottlenecks, though.

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

Yes.

Brian Lee
Analyst, Goldman Sachs & Co. LLC
Q

So maybe give us your sense of, the current state of the US market relative to interconnection, availability of transformers, bottlenecks that you have experienced as an industry. But also, at Nextracker.

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

Sure. Well, first, Nextracker isn't talking about on any of our last earnings call or any prior. It's true project cycles take longer. That's a fact. But that's been part of the industry for a long time. And we're not talking about pushouts impacting our numbers. We've been able to perform reliably, consistently, to meet or exceed every commitment we've made from the IPO time till today.

Now, if you look at, well, why can't solar grow even faster than it has grown? Our customers that are doing this activity, [ph] it's not (00:13:44) Nextracker, as they perfect their project's abilities to connect to the grid, that is the single greatest constraint that we understand in the growth of solar. It seems more administrative than physical from the standpoint that there are some lines that have to get or substations where the capacity of the power line or substation needs to be increased.

But typically, it's more administrative from the standpoint that PJM needs more planning engineers to process applications. One thing that's helpful in this, and it's difficult., we're not in a position of quantify it, is the Federal Energy Regulatory Administration did order 2023, which transitioned how applicants to connect to the grid are transitioning from a first-in, first-out to a first-ready, first-served standpoint. And that's in the process of implementation. And we think that could be very helpful to administratively decongesting the queue.

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Now, there are some also physical constraints to the build-out. One of the things we've spoken about and we've connected with a number of utilities on this, is there's off-the-shelf technology now with advanced conductors, so the same physical size wire on an existing transmission corridor on the same towers can carry 50% to 100% more current in some applications. And that – those technologies have been proven.

They're much more – they're being used much more overseas. We think that's a great opportunity here. With the incoming administration, there's been a lot of concern about how it could impact the renewables industry. And we'll have to see what happens with tariffs and some other things.

But I think it's also an opportunity. Part of the ethos of the new administration is, like, hey, we want to see the power sector accelerate and we want to remove red tape. And I think in this interconnection area, there's a tremendous opportunity.

It seems there's also a really good opportunity for the regional transmission operators that have grown around the country and utilities that are operating sort of as fiefdoms. If you can broaden the planning horizon, share more energy, do more day-ahead forecasting, there's an opportunity to just lower costs, but incorporate also more renewables quite quickly. So that would be my perspective.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

All this being said, as you mentioned, Nextracker, you've sort of – you've continued to fare better, live up to your billing in terms of meeting, if not, exceeding expectations while being a publicly traded company versus, many of your brethren who have had some challenges, much more so than you. Why has that been the case? I think there's always been this sort of investor skepticism that it's only a matter of time before, Nextracker will face some of the same challenges that the peers have stumbled over. And you continue to prove them wrong over and over again. How confident are you that you can kind of sustain that ability?

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

A

Okay. I appreciate the question. Well, first, we want the entire ecosystem of solar to be successful, not just our, the sister tracker companies that are out there, but solar panel companies, inverter companies. We do more manufacturing in the United States. We're encouraged by companies like SOLARCYCLE building a solar glass factory in the US. That's fantastic. And we welcome new entrants in all the value aspects of solar, including tracking.

What we're really focused on is having a culture that's about doing the right thing, which is really focused on innovation. It's focused on customers, customer feedback to how we can improve our products and services and making, just delivering exemplary experiences for the customer, both on the product and the service.

And when we make a mistake, not only fixing it, but learning how not to make the mistake again, and then being able to continue innovating with technologies that generate more energy, where these systems can be operated at lower cost, at increasing velocity, where customers get good information. And this is why we've been, I think, really why we've been successful. But it's really customer focus and understanding the customer needs.

I will also just speak to my team. So we have a – just a fantastic team that has, just in the executive staff, hundreds of years of solar experience. In part, because some of us are pretty old. But also, we've really tried to

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work with the best and the brightest in our industry. And we've had a very stable team which is reflective of a functional culture. And it's just like – so I think these are the reasons why we've been successful.

Brian Lee
Analyst, Goldman Sachs & Co. LLC
Q

And I'm going to touch on the US in just a minute, because I know you're doing some unique things in the US. But the global diversification, I think that's something that really stands out when I look at the Nextracker business model and how it compares to some of the other tracker companies. Globally, there's a number of them, right? A dozen plus. But then when you go into each of these regions, there might be some strong players in LatAm that don't show up in the US. And then there might be a player that's really strong in Europe. And then they're not outside of Europe. Nextracker is one of the few, if not the only, that has the breadth that you mentioned as you walk through some of the regions. What has been driving that? Is it supply chain?

Is it you getting there faster than your peers? Can they not kind of duplicate some of the efforts that you've been able to be successful in doing that?

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

Just being global is sort of in our DNA. So in my prior company, PowerLight, before we sold that to SunPower many, many, many moons ago, couple of decades ago, we did the world's first 10-megawatt system, and that was done in Germany. Even though we were, at the time, a small California company. It was the first 1,000-volt system on a tracker, first megawatt containerized system, first type of that kind of solar panel, first time we did trackers at that scale in the snow.

We went over Germany, and it was just like, trackers don't work in Germany. Well, guess what? It worked. Actually, that system is still operating. 20 years later at the Intersolar, some of my colleagues visited the system. It's overperforming relative to the expectations that were set.

So it's always been in our blood. We went into South Korea in 2005. We were early in Spain when that market was taking off. So, we really think there's a global need for energy, and we need to – if we're going to succeed on our goals and our mission of making solar the number one source of energy in the world, that we need to be doing it in more than the US. And so, also as a global manufacturer, there's – and by the way, Nextracker is in over 40 countries. We have seven or eight major regional hubs. We have a large facility in India, a large one in Spain, a large facility in Brazil and many other regions around the world.

And so being a global manufacturer, there's tremendous power and benefit to be able to, if you have an issue happening in one market, you can then spread your production across multiple facilities. It also provides a leverage of mass manufacturing and also an economies of mass manufacturing, as well as purchasing power. And those things are all helpful in leading, which is why we've been number one market share position globally for nine years.

Now, we don't optimize for market share. Like, what we really focus on is customer satisfaction and market share is a by-product of that, and the earnings are a by-product of that. We focus on innovation, customer satisfaction, and then good things happen.

Brian Lee
Analyst, Goldman Sachs & Co. LLC
Q

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Maybe as we wrap up here, I wanted to spend a little bit of time, hopefully not too much time on everyone's favorite topic, IRA and policy and the incoming administration. Maybe just to start off, what was the thought behind standing up the US supply chain? We can start there.

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

A

Sure. And again, just to reiterate, I mean, we were growing at a very, 30%-ish CAGR prior to the IRA happening, due to the intrinsic economics of solar being the lowest cost-generate place, way to generate power on most of the earth. So before IRA, before Build Back Better, we were massively expanding the US supply chain. Why? Because when the pandemic happened, the global logistic system that we had knew was struggling to operate. We were seeing wild escalations in delivery costs from overseas places, longer lead time, unpredictability, COVID-mandated shutdowns in overseas ports. And at the same time, we were seeing benefit to localizing with much cleaner US steel.

The US steel is – uses electric arc furnace, which is a fraction of the CO2 as a blast furnace, which is what most of the overseas steel uses and so forth. So we just, at this point in my career, I was just thinking like, we want to be able to deliver faster without uncertainty in logistics costs and with – to be able to protect our customer from logistics cost escalations with a high degree of certainty when their materials are coming. So we started expanding massively.

And then initially, we announced 10 gigawatts capacity in the US for the US, annualized capacity. That's a lot. Then we expanded 30 gigawatts. We've shared information in our investor – in our earnings presentations about how we've optimized the locations of the facilities to be epicentered on customer demand. That's served us extremely well. We've had nine public factory openings in the last three years all around the country, mostly in red states, which I think is – provides a strong underpinning to help protect some of the incentives that are there for our industry.

And it's been an incredibly gratifying thing. At many of those events, we've had customers cutting the ribbon, commemorating those facilities, and also announcing long-term strategic supply agreements with us. So having those facilities has also imbued a tremendous amount of confidence in the customer with our ability to deliver these cleaner products. We also launched our low-carbon tracker using US steel that's certified with a third party that has demonstrably lower carbon than using global average blast furnace type carbon numbers. And we've seen great customer response for that.

And so this was part of our strategy, but not only in the US, also in India. We created a manufacturing ecosystem in India for India or for export. We've exported also from the US. We've exported from other regions around the world. And we think the new reality with supply chain, things have gotten crazy, right. We had the COVID shutdowns. We had Houthis shooting missiles at ships coming through the Suez Canal, the Red Sea, like, traffic flow.

We have this inland lake serving the Panama Canal that had a drought and then Panama Canal is like at a fraction of its capacity. I mean, who would have imagined these things five years ago, six years ago? So our kind of hybrid supply chain strategy is for major regions to be able to serve the region domestically, but also be able to export or import. And so we believe we're in – having executed that strategy with our amazing teamwork, that we think we're in a very strong position.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

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You meant – you I think, announced last month 100% domestic content product shipped for the first time. How has that been received? And is that sort of a game changer.

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

A

So thank you for that question. Yeah. So we've had a strong content US supply position for multiple years now that's been received very well by customers. And we wanted to really be able to hit that 100% content level, which was challenging. But it's been gratifying. We're making controllers, electronic controllers in Silicon Valley and we're sourcing high-quality US steel from most of the major steel manufacturers. We've set up all these fabrication facilities. We're making motors and gears and all kinds of stuff, all over the place. It's been great. Customers then can enjoy an additional credit that helps them get the incremental 10% investment tax credit. It's part of the story.

There's other things they need to do with their solar panels and so forth. But it's been received very well. But some of the other things we've done, like, our hail protection system, we were the first to have a hail stove system, and then we did our Hail Pro-75 system.

That's in the field. Our undulating terrain tracker, we scale – first hit scale with that six years ago. That's on I can't even count how many projects, but that – these are things that by myopically focusing on what would bring value to the customer via domestic supply, more energy with our TrueCapture software, reducing grading costs, we just acquired these foundation companies.

Geotechnical risk is the single biggest risk for a contractor. Okay, so we basically bring technology in to be able to figure out how to deal with rock or soft soil or swampy conditions or frosty sites. These are all places where we just hyper-focus on what will bring value to the customer and then executing on it, even if it seems insurmountably hard, we want to execute on it to basically meet the customer needs.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

So what you control, it sounds like you're controlling and executing very well on policy uncertainty. I want to ask you about that. That's something that everyone has a crystal ball, but really no one knows what's going to happen. Two questions on that front. What are your government affairs policy folks saying? Maybe what are you hearing when you're making the rounds in DC? And then secondarily, what are the discussions like with your customers? Are they gear and headlights waiting for things to settle, or is this just if we don't know, we don't know so we're moving forward status quo?

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

A

Sure. Well, I'll answer the last question first. I can't speak about what's happened this quarter because of the quiet period. But, look, the numbers are the numbers.

Our backlog doubled from $2.2 billion to over $4.5 billion over two years from the time we did the IPO till the end of September. So customers aren't waiting. Okay? With respect to the macro policy situation, I serve on the board of the American Clean Power Association, which is the largest Clean Power Association in the United States. And they've done a great job.

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We've met with a number of policy folks on both sides of the aisle. We had 18 Republican congressmen send a letter to Speaker Mike Johnson saying, hey, we're not thrilled with how the IRA came into fruition, but now that it's here, it's doing great things for our district because we're creating thousands of jobs and many millions, hundreds of millions of dollars of benefit. So we feel really good about that macro policy environment.

But let's kind of take the long view for a minute. If you think back to, well, what's happened over the last 10 years, we've seen, okay, here's this tariff comes in out of the blue. That wasn't expected or some other thing happens.

Okay, the solar is by far the lowest cost way to generate power to the – most of the earth and most of the United States. Okay. So PPA prices adjust is basically what we've seen happen. And so when we speak to our utility customers, I ask them, well, before the election, well, what if there's a red sweep and, like, some of these things become packed and they're like, okay, we're – yeah, there's going to be – there might be a cost adjustment, but we – on we go, solar and -solar plus storage are probably going to be the biggest part of our energy mix.

And, it's – gas price might go up as a result of what's happening geopolitically, as we covered as well. So I think what's happened in the long term is, you just can't beat – the economy of mass production of solar has driven it to be the lowest cost way to generate power in most of the earth. And that's going to – that cost reduction – Nextracker is also very focused on cost reduction.

We've got a cadence on that since I founded the company 11 years ago. To continue driving down the costs, we want to be competitive, affordable, but also have discipline with pricing and run a responsible business so we can keep investing. One of the things we've done at Nextracker is significantly increased our R&D spend. We doubled it and then we increased it further. That's generating pragmatic technology that helps customers generate more energy, operate their systems at lower cost, and basically improve the profitability of their projects. So, I think this is a complete breakaway technology, PV.

And the thing that's – the biggest tailwind we've seen is what's happened, the amazing success story with storage in the last few years. So five years ago, there was, like, no utility-scale storage to speak of in the grid. Okay, this summer, California has 10 gigawatts of storage connected.

And in the summer, if you look at peak days, okay, there's 30 gigawatts of peak load in the California grid, and you've got 8 gigawatts of solar, basically, or 8 gigawatts of storage producing until 9:00 or 10:00 at night. Okay. By this summer, California will be probably 12 gigawatts. Texas is doing even more. I went to one of these plants, these storage plants. This is not your dad's storage battery system.

Okay. I went to a system that's 250 megawatts, 11 acres. This thing, 1 gigawatt-hour storage. I'm like, 11 acres, it's like not that. I met with the developer. They're like, yeah, we built this plant in nine months, soup to nuts. If we had to do it over again, we could do it in seven months. I was totally blown away. Today, I read a Bloomberg report on how the cost of storage last year fell 40%.

I can't exactly validate if those numbers are super accurate or not. But the point is what we are seeing, Nextracker is largest provider in the US is that most of the projects we're associated with have storage co-located, or there's another storage facility that may be affiliated with the plant. And so we've seen storage go from one hour to two hours to four hours in the last few years. With lithium, it might go to six hours. I'll acknowledge, Mateo, CEO of Form Energy, sitting in the front row here. Their technology goes for days with battery technology, and they have a plant under construction in West Virginia, right, Mateo?

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So there's these technologies that are also being built out in the world. And I think it pairs like super well with storage. This thing like, hey, the sun doesn't shine, the wind doesn't blow, like, have a nice day. Okay. We're seeing now examples where solar and wind actually pair extremely well. But then with some storage, you can cover huge parts of the load and just taking stock. Oh, the hyperscalers need power all the time.

Okay? Just taking stock. If you look at the peak load in the, at the, let's say 6:00 or 7:00 at night versus load in the middle of the night, it could be a 30% to 40% reduction. There's a huge, huge amount of energy gap there. So if you can cover that with solar and storage, perhaps some wind or long-duration storage, it feels like an infinite need for energy as it's growing. And the ability of our industry to power forward is pretty much limited by our imaginations at this point.

Brian Lee

Analyst, Goldman Sachs & Co. LLC

That paints a super, super bullish picture. We'll end on that note. I could ask Dan 100 more questions, but red light is blinking, and I think Dan's team would be very upset with me for keeping him over.

Daniel S. Shugar

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

Thank you, Brian.

Brian Lee

Analyst, Goldman Sachs & Co. LLC

Thank you, Dan. Thank you, everyone, for sticking around. We'll see you tomorrow or at dinner tonight. Thank you.

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