



## Second Quarter Earnings Call

August 6, 2024

### Prepared Remarks

#### **TED DURBIN**

Thank you, Operator.

This is Ted Durbin, head of Investor Relations at Stem. Welcome to our second quarter 2024 earnings call. Before we begin, please note that some of the statements we will be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. We therefore refer you to our latest 10-Q and our other SEC filings.

Our comments today also include non-GAAP financial measures. Additional details and reconciliations to the most directly comparable GAAP financial measures can be found in our earnings release. We will be using a slide presentation today. Our earnings release and presentation are on the investor relations section of our website at [www.stem.com](http://www.stem.com).

John Carrington, our CEO, and Bill Bush, CFO, will start the call today with prepared remarks. And now I will turn the call over to John.

#### **JOHN CARRINGTON**

Thanks Ted, good afternoon, and thank you all for joining us today.

Beginning with slide 3, and our agenda. We will cover our second quarter results, business updates, and recent commercial performance, then Bill will discuss our financial results in greater detail.

Now let's turn to slide 4, on our second quarter 2024 results and highlights. Our financial results in the second quarter were disappointing. We recorded \$34 million dollars in revenue, substantially lower than expected, primarily due to unforeseen extensions of project timelines. This was caused by certain customers' project financing delays and extended interconnection approvals - we are seeing project delays impact the broader industry. The shortfall was largely in storage hardware revenue, although our high margin software and services revenue was mostly in-line with our expectations.

Bookings in the second quarter were \$25 million dollars. Our recent strategic expansion into the large-scale storage market has resulted in significantly larger average deal sizes with increased variability and increased project complexity. This has protracted our sales cycle and negatively impacted our bookings in the first half of 2024. These projects were also impacted by the delays stemming from customer project financings, particularly tied to USDA funding, as we will discuss in further detail today.

GAAP gross margins were 28% and non-GAAP gross margins were 40%, representing a double-digit percentage point improvement relative to Q2 2023. Both GAAP and non-GAAP gross margins were significantly up year-over-year due to the lower-than-expected hardware revenue in the quarter.



Contracted Annual Recurring Revenue, or CARR, was up 20% versus the second quarter of 2023, but relatively flat versus the first quarter of 2024 due to low bookings.

And lastly, operating cash flow was negative \$12 million dollars this quarter, a \$154 million dollar improvement over the same quarter last year.

We are revising guidance to reflect the push out of planned project timelines - which Bill will provide more details on during his portion of the call.

Turning to the right side of the page, despite these headwinds, we remain confident in the underlying business fundamentals. We continue to drive operating leverage, with relatively flat year-over-year adjusted EBITDA results despite a 63% decline in revenue year over year. This operating leverage is the result of an accelerated pace of software activations in the quarter, continued strong growth in solar asset performance management, and, importantly, a shift towards a greater mix of software services revenue.

We made significant progress in converting CARR to Annual Recurring Revenue, or ARR. We deployed over 300 megawatt hours of storage assets this quarter, which combined with solar added approximately \$3 million dollars of ARR. That includes our 40 megawatt hour deployment in Arizona, along with a substantial portion of our 313 megawatt hour project with Ameresco in Colorado, a great example of our focus on Muni / CO-OPs and the shift to larger projects.

Lastly, we continue to advance our software roadmap, with significant progress in advancing next generation offerings of our optimization, asset management, and edge solutions. This technology platform positions the company for continued acceleration of ARR as customers standardize on our software services offerings. And this should continue to drive operating leverage and improved cash flow generation in future quarters.

On the next two slides, we will take a deeper dive into factors currently impacting Stem. Let's go to slide 5.

Over the past 2 years, we have focused on the public power segment because these customers value the full stack of our offerings including the need for sophisticated software to help them manage load growth in their service territory. Since we made this strategic shift, we have built about a 15% market share in public power— the fastest growing segment of the large scale FTM market.

However, we did not anticipate the recent delays in our customers' receipt of USDA funding. Specifically, we have seen munis and co-ops rush to secure the USDA's PACE and New ERA financing vehicles which has created a bottleneck on the review and distribution of this funding. In turn, this bottleneck has significantly impacted our project timelines and pushed out our customers' ability to contract projects, which impacts our bookings, and hardware delivery, thus impacting our revenue. This is the primary driver in our decision to adjust guidance for the balance of 2024. I would like to emphasize that none of the projects we built our guidance around in 1Q have been cancelled, some projects are awaiting contracting and some are waiting on scheduling of the hardware delivery. New projects continue to enter the pipeline and existing public power pipeline deals are being evaluated for upsizing due to the improved economics from USDA financing and lower battery prices.



Please turn to slide 6 for a discussion of the factors impacting our results, and our action plan to address these issues. On the left-hand side, you can see the three key issues we are facing today: financing delays, interconnection delays, and policy-driven risks. These issues are prevalent across the renewables space.

On the right side, we list the actions we are taking to address these issues. We are diversifying our customer base, deepening our supply chain to include more optionality, and engaging with US manufacturers of batteries and policy makers. Importantly, we are laser focused on controlling operating expenses and are evaluating additional plans for driving efficiency across the organization. As our gross margin performance in the quarter indicates, we can drive significant operating leverage through accelerating software activations and product launches. Despite that, we are building plans to deliver positive EBITDA at meaningfully lower revenue levels. To be clear, we anticipate these pushed projects to continue in our backlog but are committed to delivering positive operating cash flow regardless of the impact of factors outside our control.

Our software-only offerings also continue to gain traction, which I will discuss in a moment.

Now moving to slide 7 for an update on our progress against our guiding principles. As a reminder, in 2024 we are focused on three key business and financial targets: cash flow generation, building software and services revenue, and extending our technology leadership position.

First, our operating cash flow continues to improve - up \$154 million dollars versus the second quarter of last year. We continue to make solid progress on reducing our working capital intensity and our net working capital has steadily decreased for five consecutive quarters.

Second, our software revenue grew again this quarter, up 3% for storage and up 1% for solar versus the first quarter of this year. We converted \$3 million of CARR to ARR and will provide more details on this progress on a following slide.

Third, we are enhancing our technology stack, with new features across our existing products, and advancing new products such as our PowerTrack APM, which will launch in the fourth quarter of this year. At the RE+ conference in September, we will provide the latest product demonstrations of PowerBidder Pro, PowerTrack APM, and our energy management system, or EMS, offerings.

Now let's turn to slide 8 for a closer look at our software development progress in Q2. Since the beginning of this year, we have stepped up our focus on driving a high velocity software development cadence. Our teams have advanced significant new product features and enhancements across our key product areas including enhanced simulation tools for energy storage projects, continuing the work to deliver our next generation Powertrack APM offering and integrating with hardware OEMs to offer customers unparalleled flexibility in the design and modularity across their energy storage and solar projects.

The key takeaway here is that we are expanding our technology leadership. And these additions to our high margin software services should continue to fuel increasing annual recurring revenue and improved operating leverage.

Please turn to slide 9. During the second quarter, we made substantial progress in growing our storage and solar annual recurring revenue or ARR.



On the storage side, we brought 334 megawatt-hours of assets online. We deployed assets across a diversity of markets, customers, and use cases. We activated new regions like Indiana and more than 289 MWh of utility scale projects were deployed with co-ops and public power sector customers, increasing the company's growing foothold in the space. We deployed five of eight assets for Ameresco in Colorado and expect to bring the remaining systems online imminently. This quarter's storage deployments are equal to more than 5% of our total contracted AUM and a significant increase in ARR.

We continue to optimize storage assets for both front of the meter and behind the meter customers across a variety of use cases, including energy, capacity and ancillary revenue optimization, and utility bill optimization. In total we activated \$1.7 million dollars of high margin storage ARR in the quarter.

As we have highlighted in prior quarters, more than half of our contracted annual recurring revenue has not yet reached software activation at customer sites. We believe this is a significant source of earnings power as these customers achieve interconnection approvals, which we expect to continue to drive our industry leading gross margin performance.

Our solar business continued its consistent growth, as we added another \$1 million dollars of ARR in the second quarter. We believe our solar business is an important source of delivering predictable growth and profitability through its large active base of ARR today, let's now turn to slide 10 to take a closer look at the positive trends in that business.

We remain a market leader in C&I solar asset performance management, with steadily growing, high margin revenues for both software, services, and our edge hardware device. Our customer satisfaction remains high, driving low churn. And we see significant growth potential internationally, where we have a lower market share today but significant recent customer wins pointing to an untapped opportunity for growth.

Our focus on large and more sophisticated customers has allowed us to consistently gain share and outperform market growth rates. As you can see on the right side of the page, we have grown our ARR significantly with nine of our top ten customers over the past year.

With that, I will now turn the call over to Bill.

### **BILL BUSH**

Thanks John, starting on page 12 with our results for the second quarter of 2024. As John mentioned, revenue was down 63% year-over-year as we realized less storage hardware revenue this quarter in large part because the company did not utilize working capital to fund lower margin hardware sales through its balance sheet. As we have discussed, we have modified our payment terms to eliminate the hardware drag on working capital and as a result there may be instances of changes to project timelines to satisfy these new requirements. You have heard us talk about our shift to software and services, and this quarter's margins are a preview of our longer-term vision for the company. As a result, we generated the highest GAAP and non-GAAP gross margins in our company history.

As a demonstration of our continued focus on cost control, we sequentially decreased cash operating expenses by approximately 9% and we expect to continue to maintain that focus. As an example of permanent cost savings we have implemented, we recently reduced our real estate footprint which will generate annual savings of approximately



\$3 million dollars. In addition, we continue to reduce our cloud and data comm costs as a percentage of operational assets which are our two of our largest costs. As we advance through the year, we will continue to focus on cost reductions and improved efficiencies leading to improved EBITDA outcomes.

Adjusted EBITDA was nearly flat on a year-over-year basis, down just under \$2 million, despite a \$59 million decrease in revenue. Again, this is a testament to our increased software and services revenue, and continued cost controls, which are driving operating leverage. Our solar business was up 9% year-over-year and continuing to generate strong gross margin performance from our market leading share in the United States.

We made an adjustment to our goodwill balance in the quarter with an approximately \$550 million dollar impairment charge. The adjustment is the result of a decline in our market capitalization and reduction in our near-term guidance. While the goodwill balance resulted from the purchase of the solar business, which continues to perform well as noted above, the analysis was based on the consolidated business, and in particular, the change in market capitalization.

Operating cash flow was negative \$12 million for the quarter, a major improvement over last year, as we continue to reduce our working capital usage. We invested around \$10 million in our DevCo business this quarter, which will recirculate as high margin revenue in future quarters; if not for that investment our operating cash flow would have been roughly flat and equal last quarter's performance.

Please turn to slide 13. Backlog declined approximately \$61 million dollars quarter over quarter but was up \$215 million dollars year over year. The low level of bookings was the main driver of the quarter-over-quarter decline in backlog.

One modeling note, you will see a negative \$47 million software & services adjustment in the Backlog reconciliation table in the earnings release. This is larger than usual because we activated so many systems on the storage side this quarter. Most of these systems carry 20-year software contracts, so the entire value of the contract falls out of Backlog when the asset becomes operational. As we activate more storage systems with long-dated contracts in coming quarters, you will see these higher declines in backlog, but of course that is a good thing: it means the system is now generating software revenue for us and is high gross margin. Bottom line, you should rely on the CARR and ARR metrics as you think about the software revenue potential of the business.

CARR was relatively flat quarter over quarter, although ARR improved by 7% sequentially as we activated more systems. AUM for both solar and storage was relatively flat as well.

Please turn to slide 14 on our revised guidance. As John mentioned, we are lowering our full-year guidance to \$200 - \$270 million dollars for revenue, and updating our quarterly revenue expectations as well. We are disappointed that many of the projects we expected to recognize this year have been pushed out to 2025 but importantly no high impact projects have been cancelled. As John mentioned these projects have been pushed out due to a number of unforeseen issues including interconnection delays, permitting, equipment availability, and the USDA funding issues. We have good visibility into achieving the low end of the revenue range, as all of the storage hardware projects have financing and interconnection locked in, and our software and services revenue has strong visibility and momentum.

We are raising our full-year gross margin guidance to 25-30%, as we recognize less lower-margin storage hardware revenue. Our software and services revenue is tracking roughly in line with what we expected at the beginning of the year.



We are also lowering our bookings guidance to a range of \$600 million and \$1.1 billion. Our pipeline remains healthy and continues to grow but given the slow start to the year we are tempering our full year expectations. We are actively tracking several large projects which have been delayed from a contracting standpoint due to USDA delays. These projects are either using the PACE or NEW ERA funding programs and delays in those approvals slow the contracting process. Also because of the lower bookings trajectory, we are also lowering our year-end CARR guidance range to \$100 to \$110 million dollars.

Because of our lower revenue and gross profit dollars, we now expect EBITDA in the range of negative \$20 and negative \$30 million dollars.

Finally, we still expect to generate positive operating cash flow of over \$15 million for the year. We believe we have sufficient liquidity to operate the business and do not expect to raise equity. We made good progress this quarter on reducing our accounts receivable balance, which declined by approximately \$30 million dollars while maintaining our inventory balances at sustainable levels. We also made progress on finding buyers for the battery hardware subject to the legacy price guarantees that we discussed last quarter; as we close out those transactions, our cash flow and liquidity should improve.

Please turn to slide 15. On the right-hand side you can see the key drivers of the reduction in Revenue and adjusted EBITDA. For revenue, around two thirds of the reduction is tied to delays in receipt of funding, with the remainder driven by interconnection delays and other factors. For EBITDA, the impact of the factors is roughly similar, although we are seeing some pushout of our high margin DevCo business which has a greater impact on EBITDA than revenue.

Again, these projects are still contracted and advancing, and we expect them to generate revenue and margin as they come to fruition. Despite these headwinds, we still expect to generate positive operating cash flow for the year. We have reduced our working capital significantly over the last year, and we expect to continue to minimize working capital usage as we move forward.

Please turn to slide 16. We believe our underlying business fundamentals are strong, and we will continue to improve the factors under our control. Which should continue to accrue to non-GAAP gross margin, provide operating leverage, and continue to reduce working capital intensity.

At the same time, we will work to minimize the uncontrollable factors you see on the right side of the page, as John discussed earlier, on our actions to mitigate their business impact in the future. We are managing the business to maximize cash flow and remain positive on our multi-year outlook for growth and profitability.

With that, let me turn the call back over to John for some closing remarks.

**JOHN CARRINGTON**

Thank you, Bill. Finally on Page 17 - while we recognize this was a disappointing quarter from a financial perspective, our CARR to ARR conversion has been a core focus of the company and we saw our best quarter in company history on storage software activations and gross margin. We activated over 300 MWh of storage projects in the quarter and most importantly the projects are delayed, not cancelled.



Another key guiding principle is focused on EBITDA and cash flow generation. Adjusted EBITDA remained relatively flat year over year while revenue was off 63%, demonstrating continued operating leverage execution. In the quarter, we reduced cash operating expenses by 9%. Our ARR was up 7% quarter-over-quarter driving record GAAP and non-GAAP gross margins of 28% and 40%, respectively. And lastly, we reduced net working capital \$26 million dollars quarter-over-quarter and \$162 million dollars year-over-year.

Based on our expected cash flow generation for the balance of the year we remain confident that no new equity will be required to fund the business.

I now would like to briefly discuss today's leadership announcement.

As you all know, we've been focused on taking actions that will position our company for the future. The changes we announced today will support our continued focus on growing software services revenue, extending our technology leadership, and driving profitable growth.

First, the management changes we announced. Bill Bush will be stepping down as Chief Financial Officer on September 2nd. He will continue to lead our strategy targeting public power and large FTM projects along with the supply chain team. Prakesh Patel, our Chief Strategy Officer, is departing from the Company, effective immediately, with his responsibilities assumed by existing members of the management team. On behalf of the Board and the management team, I would like to thank Prakesh for his contributions to Stem over the years and wish him the best in his future endeavors. Prakesh was an integral part of the core team that took Stem public and was a key player in building relationships with capital providers, stockholders, and analysts.

These changes will help us enhance our leadership and streamline our management structure to better align with our strategic and operational priorities. Doran Hole has been appointed as our new Chief Financial Officer and Executive Vice President, and he will also be responsible for the Company's software and services group. Doran is an executive with more than 25 years of global finance and management experience, providing leadership in strategy and operational efficiency in the growing clean technology industry. He most recently served as EVP and CFO of Ameresco, where he led the Company's financial strategy, capital management, and strategic digitization efforts across the organization. Doran has deep financial and business experience, strong strategic acumen, and proven leadership success. These will be critical to our goal of cash flow generation and increasing our software and services revenue. We look forward to welcoming him to our team on September 2nd and fostering a seamless transition with Bill.

We are also commencing a strategic review of our business. Our newest board member, Gerard Cunningham, has been appointed Chair of an ad hoc software strategy working group that will work closely with the management team to expand this strategy. We've seen strong initial customer reaction to our software-only product offering and believe that the business represents an attractive long-term opportunity for enhanced strategic focus and shareholder value creation.

At the Board level, David Buzby, who will continue to serve in his current role as Chairman of the Board of Directors, has also been appointed Executive Chair of the Board to partner with me on the strategic review of our business. Laura Tyson, a Stem director since 2021 and current Chair of the Nominating, Governance and Sustainability Committee, has been appointed Lead Independent Director of the Board, effective immediately.



In closing, I want to thank our global team for the continued commitment and contributions to our mission. We have an exceptional talent base and remain confident in our ability to extend our leadership position on a global level.

Operator, lets open the line for questions please.