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Nextracker, Inc. (NXT)

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CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Hello, everyone. I'm Ben Kallo. I cover sustainable energy and mobility. Very happy. And this is my partner, Davis Sunderland. Very happy to have Nextracker here. The CFO, Chuck Boynton, and we're going to do a fireside chat. You can either raise your hand with questions. It's a – we're in a small room, crowded small room, or you could e-mail session5@rwbaird.com.

Chuck, thanks for joining us. The first industrial conference that you've been to as the Nextracker CFO. Maybe if we could just start out, because we have a wide range here in the audience, so just maybe a couple of minutes on who Nextracker is.

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

Great. Thank you. Thanks, Davis. Thanks, Ben. Nextracker is a really interesting company. It's about 11 years old. It was founded by a gentleman, Dan Shugar, who, Ben, we worked with. We acquired his company at SunPower many, many years ago. Dan went off and founded Nextracker. A couple of years in, Flextronics, the contract manufacturer acquired Nextracker, and then they sold a little bit of equity to TPG. And then about two years ago, Flex, in a classic kind of arbitrage, spun out Nextracker as a separate public company, higher growth, higher margin than Flex as a contract manufacturer. And then in January of this year, did the final tax-free spin. So, now fully independent. Flex no longer owns the company or any of it. TPG owns a small share, fully independent. They recruited me to join the board on the IPO two years ago, and then, earlier this year, I stepped off the board to take over the CFO job full-time.

Nextracker is really unique and different. We provide the infrastructure in the backbone for our ground-mount large-scale utility solar projects. We don't do the panels. We make the infrastructure, the steel, the drive motors, the slew, all the gearing, and the software, the control systems that control large ground-mount utility-scale projects. Quality does really matter. We're the market leader worldwide. Number-one market share globally.

Number-one market share in the US. And we do that with two kind of key core tenets of the company. We're a phenomenal engineering-driven company. We spend a vast significant amount more in engineering than our competitors do. So, we invest heavily in R&D, and that really is a technological advantage. We're a bunch of engineers. It's a company of maybe 1,500 people, and a lot of those are engineers. And then we're also very maniacally customer-focused. We'll stop at nothing to ensure success of our customers. And that is a really magical combination: great technology, very, very customer-focused. And that's really helped build the company.

In terms of profitability, the company has really strong margins, a really strong history of making money. Through good times and bad, we've been very profitable, and I'm sure we'll get a lot of these discussions, Ben.

QUESTION AND ANSWER SECTION

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

Thank you. Obviously, there's a lot of uncertainty after the election, and we can talk a little bit about that. But you're coming off of two very strong quarters. Could you just talk about kind of your visibility over the next, call it, six to eight quarters, both in the US and then internationally?

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

A

Certainly. So, we published a backlog number. The backlog is comprised of EPC contracts, what we call VCAs. We can talk about that later if you'd like. That number of – and these are contracts that have agreements with consideration. It's not just like an award. That backlog number is $4.5 billion. About 90% of that will get recognized over the next eight quarters. And you can imagine, like everything, it's kind of like higher near term, and then it has a slope to it. And with that, it gave us kind of visibility to say, this year, which ends March 31, we expect to grow double-digit revenue growth this year, and next year we said we expect revenue growth. Now, some folks have gotten really excited. Our revenue growth means really high numbers; others low. We just said revenue growth. Double digit this year, revenue growth next year were the words that we used, and that's predicated – that's based on the backlog that we have.

The election, to your point, and what happens with the election. Who knows? There's much smarter people that are more informed than I like you, Ben, on this topic. You've done more research than I have on the election impact. I would say that, as a company, we've grown under all administrations. Way back in the day when I was in solar 10 years ago, we went through various dislocations in the markets. The thing about solar is, in many parts of the world, it's the lowest price on electricity. It's the absolute lowest cost in many places in the world. And the reason that's happening – and we're kind of crossing over; every day, we cross over more markets where that happens – is the cost reduction on solar has been on a long-term curve where costs come out every year. We drive costs out. The industry does supply chain, technology scale. It's driving costs down.

And what you've seen is there's been a significant increase in the price of electricity, and that is the profit pool for the industry. Policy matters in the short term. I think business is fine in the short term because we have signed contracts. Our customers have locked in with construction and procured material. This is in the US. Not a lot of risk in the short term. In the long term, I think there's no question that solar will be the single largest source of energy of any kind in the future. If you go out our horizon, 10 years, 1,000 years, pick some date in the future, solar will be the single largest form of electricity, bar none. In the short term, it looks good. The election issue is what happens in intermediate term. But I would just tell you, we grew under Trump the first time. We grew under

Obama. We grew under Biden. Solar has been up into the right, not that there can't be air pockets, and things can't change, and there could be impacts. But I think I'm not good at prognosticating what's going to happen in two or three years. You're better at that than I am.

Davis Sunderland
Analyst, Robert W. Baird & Co., Inc.

Q

Your point about the short and long term is well taken. And maybe just – and not to be a dead horse here, but just to address the question from the audience, is this coming up – the IRA potential of being repealed coming up in customer conversations, or how would their financial health be impacted by this?

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

A

It's too early. Look, I think, ultimately, like, we're [indiscernible] (00:07:09). It's only a week or so past the election, and it's too early to say – coming up in customer conversations. For the backlog that we have, for the contracts that we have, I think our customers are plowing ahead. I – we've not seen a change, but it's too early to tell.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

One thing you mentioned about the R&D focus of Nextracker, a lot of times where you get questions, like, is it just metal bending? And it kind of leads to another question. Is there going to be a price war with your competitors? It's kind of an oligopoly at some level. But could you just talk about how you guys differentiate and then your kind of expectations on pricing in the near term and then the longer term, if you can?

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

A

And I see that. People look at it and say, oh, you're just bending metal. That's like saying a semiconductor company is just melting sand. I think it's like – people say this, and I'm like, you've got to be kidding me. If you look at the world out there with hail, hurricanes, tornadoes, snow, varying terrains, rocky terrain, marshy field, this is complex stuff. And, yes, a big chunk of our cost of goods sold is steel. That is true, but the value add is material. We have 600-plus patents issued or pending. We've got really – we've got more than 100 software engineers writing software code. The level of design and engineering for a project is significant. And that's how we can earn a good margin because we're adding huge value. I don't want to get into kind of the product commercial of how we're different, but I would just say, in general, you've got a lot of companies doing trackers. And, Ben, I knew you back at SunPower 10 years ago or longer, and we did trackers there, and – but what we're doing today is vastly different. And the product extensions – we can talk about M&A stuff later, but the product extensions are vastly different than where this was 10 years ago. It's a whole different world.

Davis Sunderland
Analyst, Robert W. Baird & Co., Inc.

Q

That's a great segue. And I was going to tie into M&A. You've made a few acquisitions recently to supplement some maybe more different functionalities of the trackers. Could you maybe talk briefly about the ones that you've made and then maybe what other functionality you would look to add or supplement your portfolio with?

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

A

Yeah. Thanks, Davis. I won't get into kind of where we're going and what companies we're looking at, just for obvious reasons. But the two that we've done, so we've generated a lot of cash, and we've deployed that capital in a responsible way, buying two companies for 150-ish-plus million in cash. Two companies, the bigger one, it was known more in the market, was called Ojjo, and other one is called SPI, Solar Pile International. We've rebranded those; Nextracker foundations. Really unique technology. The new foundations business effectively addresses difficult soil conditions. And the simple – and I won't go in this in too much detail, but the traditional solution is to drive an I-beam in the ground and then put the tracker on top of that I-beam. In the Central Valley of California, that's great. Easy soil, no problem. Works well. It uses a lot of steel, but it's fairly inexpensive and no problem.

As solar is expanding, you're getting into the Northeast, the Southwest, parts of Europe where it's rocky. It's very – there's lots of hills, lots of terrain. So, we built tracker solutions to be able to follow the terrain, XTR. And the foundations, though, was complicated and expensive. Our customers would be taking big drilling machines, drilling holes into the ground, and then trying to then put a foundation in that hole that they've drilled. Very expensive and takes a long time. This technology that we have now has a machine that's automated with GPS tracking and lasers. It does a very quick core drill at an angle with a drill bit through a sleeve, drills in, the drill bit retracts, it pulls out, the sleeve stays in, it gives you an A-frame. Less steel, way lower cost on the steel side, way faster. And then an A-frame foundation just generally has more support than a single foundation.

And so, now this is going to ramp. The TAM is about a 20-ish – could be more – percent increase in the TAM and that our sites that are rocky that would use this tech is about 20% of the sites. Saves our customers money, increases our wallet share. The margins are similar to what we have today as a company. So, it's pretty much margin percent neutral but adds good margin dollars. But gives us more share of the wallet. And then the pricing, so think of the TAM as 20%. Maybe it's another kind of 15% increase overall in our wallet share. And today, what we've talked about is that if a general solar project is 100, we're kind of 10-ish percent of that 100. It could be more. It could be less. This increases that a little bit, saves our customers money, helps us make more money, expands our footprint, expands the product.

The other one, Solar Pile International, is basically for marshy soils, frosty loose soil, where you have to put an I-beam in really, really deep to have the support. This one, Davis, has a blade at the bottom that basically spins in like a screw, and that gives you effectively the foundation to rely on so it doesn't sink in the soil or does not get pulled off with frost-heave.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

Maybe just switching gears. You're talking about from a geographic perspective what you're seeing outside of the United States in kind of areas that Nextracker is focused on and growing in those areas. And what areas are better from a pricing perspective than others?

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

A

Yeah, certainly. And the – we're number-one market share worldwide. But there are certain markets we have not been as competitive in. We [ph] haven't had (00:13:39) a lot of traction in Europe the last couple of quarters. We talked about in our last two earnings calls, Europe has been really – our sales team's done a phenomenal job increasing the win rate. We're gaining share. We're not number one in Europe, but we're gaining share. Those sites are typically smaller and sometimes more challenging. We're not yet taking our foundations business there, but we will eventually. And that will, I think, be a real benefit. Australia has been a really strong market for us. That market demand is great, and the team there has done a really good job. Pricing seems to be pretty strong.

And then we did talk about this year the margin profile in the back half mixing down a little bit. We can talk about that a bit. But that's – part of that's driven by some wins that we've had in the Middle East and KSA and elsewhere where we've won some nice business, and we're seeing a market that is huge and growing. Margins are competitive, very, very competitive because, again, the price of electricity is $10 to $20 a megawatt-hour, and that just doesn't leave a lot of room for profit for anyone, whether you're a developer or a technology supplier in EPC, so...

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

Just maybe on that last point, just like Middle East project size I think of megaprojects, and you mentioned Europe being smaller. But is it different for you guys fulfilling those types of orders, or what are the differences in trying to fill those types of orders?

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

A

It is. It's vastly different. And so, one of the things that we've done is localized our supply chain. We've got over 80 manufacturing sites around the world where we effectively – I think – maybe I'm going to pause real quick and take a small detour because – for the audience. One of the great things about Nextracker is the financial model. We have effectively a balance-sheet-light model where we sell to EPC companies and developers. They buy from us. We then place orders with steel manufacturers, other technology as well, but the bomb I was talking about being heavily weighted towards steel. We place that order with a steel company. They ship to the job site. So, our inventory is low. The return on invested capital is really high. This is a really, really good business model. So, with that model of buying through suppliers and placing orders with steel companies that we have qualified, reliability, tooling, all that kind of stuff, there's a lot of work that goes on, to enable that supply chain. We've then turned up those sites around the world.

So, in Middle East, we would localize the supply chain and buy from local suppliers, vet them, qualify them, test, do all the reliability work. And that takes a lot of work. The volumes, though, are very significant. In Europe, these are – many of them are very local small organizations. The costs tend to be higher. So, Middle East, bigger volumes, larger scale with big aspirations to go very, very big. But, again, because the wholesale clearing price for electricity in the Middle East is very low and Europe is higher, there's more margin available, more profit pool for the market participants to use.

Davis Sunderland
Analyst, Robert W. Baird & Co., Inc.

Q

Maybe going back to your comments about the $10 to $20 a megawatt-hour for power, there was a question from the audience about – is solar, being the lowest cost of electricity, dependent upon tax subsidies? And maybe I'll just add to it. I mean, obviously, the IRA has dominated headlines here in the States, but are there any other incentives or things that make certain economics of power better or worse in certain markets?

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

A

Yes. So, on the last point, it's not predicated on IRA. It certainly helps. So, under the IRA, there's a Code 45X. 45X indicates that if you buy or manufacture steel in the US for trackers, there's a certain rate that you earn for that tax credit. Now, it's more expensive. So, if you went back a few years ago, we were one of the largest importers of steel from China. We brought everything in from China for our solar projects in the US. We then,

even before the IRA, because of supply chain lead times, tariffs, all this stuff, started to localize the supply chain and opened up more than 20 manufacturing sites in North America both in blue states, and but mostly in red states, not politically but just because you're closer to the customer.

And so, the 45X credit offsets a higher cost for procuring locally, and it does add margin. If it went away, we'd still be profitable. It's still – solar still makes sense in North America – in most of North America because, again, wholesale price of electricity is very, very high, and you can build a project and even with tariffs on panels. And if you buy solar panels in North America, it's two to three times more expensive than buying them anywhere else because of tariffs on panels. So, I think if all the tariffs went away, it would still make sense. Would it create an issue? Yes, but it wouldn't kill the industry. It would just – it might have a setback.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

Tomorrow – Chuck, tomorrow, we have a panel about AI and industrial tech companies that contribute to development. Are you seeing any kind of projects in your backlog or in your opportunity set that are specific for data center projects? And then how do you think you could – solar or solar-plus-battery competes with other forms of power generation out there?

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

A

Yeah. I mean, this is one that is super exciting because, I mean, I follow AI deeply. We do a lot of stuff with AI. We can talk about TrueCapture later if you're interested. But on the demand side, it is no doubt this is creating a significant amount of demand. We are not directly participating with the hyperscalers building projects. We're supplying our technology to EPC companies. Those are being built primarily for IPPs and developers who would be feeding the grid just to fill that demand. They could be doing it behind the meter for the hyperscalers, but we're not the ones directly in the middle of that relationship. But no doubt, that's driving significant demand.

This demand was happening before the kind of hyperscaler growth of AI. But I'm just – if you look out 10 years, 20 years, I think the US is far underestimating the amount of power we're going to need. China has 3 terawatts of installed electricity with a goal of going to 9. We've got 1.2 or 1.5 terawatts, trying to get to 2. And if you – I mean, again, I live in Silicon Valley, and I read this stuff every day. I'm very interested in it. There is, at some point, A who has the power, has the compute power, will have the lead in AI. I just – I believe that's a certainty. Now, is that 100 years from now or 10 or 2? I don't know the timing, but that's a certainty. And I think that we, as a country, are vastly underestimating the demand of what we're going to need, not only for decarbonization, but for driving compute and competitiveness.

Davis Sunderland
Analyst, Robert W. Baird & Co., Inc.

Q

Maybe another demand question. Could you talk, and this is from the audience, about what's going on in various US regions? Where are you guys seeing the greatest growth opportunities?

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

A

Well, I mean, what's really cool is that we're seeing projects in the Northeast. [ph] Agro PV (00:21:48) projects in Indiana. This is – we're seeing projects all over the US where 10 or 15 years ago when I was first in solar, it was really the Southwest US. It was really California, Central Valley, near LA County. It was really more regionalized.

You're seeing this much more broad based. I think that's a really good thing for both for the grid and for the environment.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.
Q

Good memories about those projects.

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

I would say.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.
Q

So, you mentioned TrueCapture. Could you just talk more – a little bit more about TrueCapture then just how important software is for Nextracker?

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

Yeah. So, we printed a really nice quarter in Q2, our September quarter. We talked about what drove kind of the performance in Q2. And one of the things that really drove outperformance was our TrueCapture software business. Now, it's not a SaaS business. There's a little bit of ITC friction in there. I wish it was, but there's too much friction to make this a SaaS business versus up-front software. But this past quarter, north of 2% of our business was software, which is a little higher than the kind of the 1% to 2% that we had been planning on. And that was really tied to commissioning now. So, that led to a stronger Q2 than we expected. Very, very high margins. So, these are software-type margins; very, very high margin.

We – the timing of the revenue was really more the commissioning of the systems. So, don't read into that too much. That's not going to repeat; [ph] so it'd be more than (00:23:37) 1% or 2%. But what TrueCapture is is super cool. This is a software tech that we sell to the developer. So, the EPC is our customer. They build the project. We commission the project. There's a software stack in there that every customer gets when they buy our tech. Then there's an additional incremental sale that we'll sell to the owner of this project and say, if you license this tech, you're going to generate 1%, 2% or more of additional energy. And we do that with effectively real-time monitoring and algorithms where, for example – and you can look this up on YouTube – diffuse light is super cool where because we have independent road tracking, when clouds come through, the photons go, they change direction and become diffuse. They're no longer direct. They become diffuse.

When that happens, when you're tracking, you're losing energy generation because the panel is effectively tracking the Sun. So, you'll sense effectively when the clouds come in, the rows that are impacted by the clouds will immediately track very quickly to horizontal, capture more energy, and then track back. There's a whole bunch of different sort of angles of how you generate more energy. That's the easiest one to understand. But if you go on to YouTube, you can see lots of different videos on the various algorithms and how we use this software to generate more energy.

In Europe where you don't have the ITC, we will sell this as a kind of benefit over time. They generate more energy, they pay us a little bit more, and then that algorithm is updated real time all the time. So, that software gets better every day with the datasets and the information that's being fed into those models.

Davis Sunderland
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. You might have mentioned it in there briefly, but wondering if you could just talk a bit more, staying on the TrueCapture theme, about how big of a percentage this is in the business today. Maybe qualitatively how it's going in the sales process with new customers and how that could grow in the near and longer term.

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

A

Yeah. I think it's going to be in that kind of 2% range long term. I don't see that – over time, if we pivot this to a SaaS business, it could become – it would go smaller than get bigger. There is value there. There is some recurring element to this, but I would say it will stay in that kind of 1% to 2% range long term. Attach rates are pretty strong. It tends to have a bigger advantage where you've got varying weather conditions, and you've got hillier terrain, so areas like that are very flat, like Atacama Desert in Chile where we've done a bunch of projects in the past, very flat, very few clouds, less – there's not as much of an advantage. And then go to the Northeast, significant advantages; Northeast US, yeah.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

So, a question from the audience: some companies are talking about long-duration storage as a potential game changer for renewables. Do you see market adoption anytime soon? How does this – does this impact you, and which technologies are realistically considered?

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

A

Yeah. I mean, I didn't answer your question earlier on storage. I do think storage is incredibly cool, very important long term. The cost curve, if you just look at the cost curve, what's happened with storage over time, it's been on a really amazing learning rate of cost reduction. And that's important because, again, solar produces and can produce the cheapest electron in most places in the world. As that cost comes down, it becomes less and less expensive, but it is intermittent, and we do need to have a way to firm that power. I do think that solar and solar-plus-storage long term will be the cost leader. It's not. It is in some places, but not everywhere certainly today. But in terms of the different kinds of storage, I'm not qualified to kind of go into the different technologies other than there's so much investment happening in storage. And you've got – there's a lot of investment, a lot of the queue. And so, I'm just – I'm super excited about it. And this could be 10 years from now again or who knows how far out in the future? But I think you'll see, in the not-too-distant future, solar and solar-plus-storage unsubsidized, being less expensive than most forms of conventional electricity.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

One on backlog because I think it's important just to distinguish yourself from some other companies in the industry. Could you just run through your backlog methodology?

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

A

Yeah. So, we have EPC contracts. I know we're running short on time. EPC contracts. They – EPC companies [indiscernible] (00:28:22) contract together, purchase orders, signed contracts, firm, locked. We have VCA contracts [ph] where (00:28:30) volume commitment agreements with developers. They basically have a signed

contract. Many times those are way bigger than our backlog. But when they name a project, and there's consideration, i.e., a letter of credit, an invoice, a bill, a deposit, we then count that as backlog. So, we've got really high standards. Not that things couldn't go sideways in a black swan event, but we've only seen, I think, one project in the hundreds and hundreds and hundreds of projects that went sideways. And that project actually is now coming back. There was a permit issue or environmental issue that had a problem. That one now I think that was coming back. So, we have really high standards. These are contracts. They're not like awards or verbal or I want to work with you. These are – these have a fairly high standard or a very high standard. And so, we feel really good about our backlog being $4.5 billion, more than $4.5 billion and that we expect to recognize 90-plus percent of that over the next eight quarters.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

Very quickly, last one – we get it all the time – about share repurchase. Could you talk about why you can't and...

[indiscernible] (00:29:45)

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

A

Yeah. When Flex did the tax-free spin, they have a consent right because that could jeopardize their tax-free spin. So, effectively, there's a consent right for two years post-spin. That spin happened in January of this year, so...

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Thank you so much.

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

With that, thank you, all.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Thank you, guys.

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

Appreciate it. Yeah.