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Nexttracker, Inc. (NXT)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

Mary Lai

*Vice President, Investor Relations & Financial Communications,
Nextracker, Inc.*

Daniel S. Shugar

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

Howard J. Wenger

President & Director, Nextracker, Inc.

Charles D. Boynton

Chief Financial Officer, Nextracker, Inc.

OTHER PARTICIPANTS

Philip Shen

Analyst, ROTH Capital Partners

Praneeth Satish

Analyst, Wells Fargo Securities LLC

Mark Strouse

Analyst, JPMorgan Securities LLC

Dimple Gosai

Analyst, BofA Securities, Inc.

Christine Cho

Analyst, Barclays Capital, Inc.

Brian Lee

Analyst, Goldman Sachs & Co. LLC

Dylan Nassano

Analyst, Wolfe Research LLC

Maheep Mandloi

Analyst, Mizuho Securities USA LLC

Joseph Osha

Analyst, Guggenheim Partners

Jonathan Kees

Analyst, Daiwa Capital Markets America, Inc.

Kashy Harrison

Analyst, Piper Sandler & Co.

Jon Windham

Analyst, UBS Securities LLC

Benjamin Joseph Kallo

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

Jordan Levy

Analyst, Truist Securities, Inc.

Julien Dumoulin-Smith

Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, everyone, and thank you for standing by. My name is Cierra and I will be your conference operator today. Today's call is being recorded. I would like to welcome everyone to Nextracker's Second Quarter Fiscal Year 2025 Earnings Call. After the speakers' remarks, there will be a Q&A session.

At this time for opening remarks, I would like to pass the conference over to Mary Lai, Vice President of Investor Relations. Mary, you may begin.

Mary Lai

Vice President, Investor Relations & Financial Communications, Nextracker, Inc.

Thank you and good afternoon, everyone. Welcome to Nextracker second quarter fiscal year 2025 earnings call. I'm Mary Lai, Vice President of Investor Relations. I'm joined by Dan Shugar, our CEO and Founder; Howard Wenger, our President; and Chuck Boynton, our CFO. On today's call, we will open with brief remarks from our CEO, Dan and then immediately transition into Q&A session.

As a reminder, there will be a replay of this call posted on the IR website along with our 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 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 reconciliation can be found in the appendix to the press release and the shareholder letter as well as the financial section of our IR website.

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

Daniel S. Shugar

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

Thank you, Mary, and thank you all for joining our Q2 earnings call. We are very pleased with the continued strong execution by the company across the board in products, sales and operations, driving solid financial performance. Before we cover the company's performance, I'd like to offer a few comments on the upcoming election in the United States, which is our largest market. There have been questions addressed to Nextracker and our sector regarding the potential impact of the election on solar. We believe our company and industry will grow regardless of election outcome, as we have steadily grown through prior Democratic and Republican administrations.

We believe we will be successful in any scenario because energy projects are less about politics and more about economics. And solar is the lowest cost form of energy in most markets. It's about the maturity of projects in

development in the interconnection queue. And it's about the availability of capital to finance projects, where risks are considered in all of these areas solar shines. The US has a growing appetite for new power and we believe solar and battery projects are best positioned to satisfy that need. Further most of the manufacturing investments in solar power plants in the country are located in red states, and the underpinning economic value delivered to those states is significant and real. So much so that 18 Republican members of the House of Representatives sent a unified letter to Speaker Johnson in support of the IRA, demonstrating again the bipartisan support for clean energy and why we believe key elements of the Inflation Reduction Act will persist independent of the outcome of the upcoming election. In summary, we believe Nextracker will continue to grow in the US under either administration.

And now let's turn to our company performance. Q2 was another quarter of strong execution, marking our seventh consecutive quarter of double-digit revenue growth year-over-year. Revenue for the first half of our fiscal 2025 was a record with an increase of 29% year-over-year. We continue to see strong demand for our products globally across all regions, driven in part by a flight to quality, across a range of criteria that matter to customers. We strongly believe that Nextracker offers the highest quality and most reliable product on the market, with the lowest installed cost, lowest operating cost, [ph] ICE production (00:21:01) and differentiated technology in engineering.

We believe these factors will help to drive demand and enable pricing discipline. Our team is also differentiated with sector domain expertise, a robust global supply chain that delivers products on time and a customer service ethic that measures in response to customer requirements at each phase of the customer journey. Customers are rewarding these values with sales orders. Our backlog increased significantly quarter-over-quarter to a new record of over \$4.5 billion. And we are pleased with the margin profile of our backlog for this fiscal year and beyond. As a result of the new orders, we are raising our profit target for the full fiscal year by \$20 million at the midpoint to \$645 million. We are also receiving customer orders for our new products, including NX Horizon-XTR 1.5 and Horizon Low Carbon Tracker and NX Hail Pro-75 and both our new NX Foundation technologies, all of these products have been successfully deployed in the field. Most of these products resulted from focused R&D investments made by Nextracker.

In Q2, we inaugurated our third global design facility, Nextracker Center of Solar Excellence in Hyderabad, India, a 13-acre facility with a 30,000 square foot state-of-the-art laboratory. Our three global design labs incubate and commercialize PV technologies, localized for regional needs and optimize products for customer requirements. As we are serving projects in over 40 countries around the world.

A few months ago, in response to customer demand, we accelerated to Q3 of this year, the availability of our 100% domestically manufactured tracker. We received customer orders for it, which will ship later this quarter.

To our knowledge, we are the only tracker manufacturer that can deliver a 100% US manufactured tracker. This capability can provide tremendous benefits to US customers because it enables them to achieve a much higher score on their domestic content and can enable them to capture the 10% bonus investment tax credit or ITC.

On a typical 100 megawatt system, the 10% bonus ITC can have a value to the customer of roughly \$10 million equivalent approximately to the entire cost of the tracker. Last quarter, we announced the closing of two foundation business acquisitions, which are on track to be successfully integrated by the end of the fiscal year.

At the RE+ North American Conference last month, we debuted our NX Foundation Solutions business and customer reception exceeded expectations. We have signed new bookings orders for our foundation solution and our NX Horizon trackers and see a robust pipeline for new business. We're excited for what our foundation

solutions will do for our customers, enabling quicker, safer and more efficient solar project development on a wide range of soil types for EPC and developer customers.

In summary, it was a great first half of fiscal 2025 and we remain focused on executing our plan to achieve double-digit revenue growth for the full year, with a raised profitability target. Looking forward, we expect fiscal 2026 to be another growth year comprised of both our legacy products such as NX Horizon and the five new product offerings I just mentioned. The customer demand for our industry leading products and our ability to execute and support customers' success give us the confidence to achieve our growth supported by our growing backlog.

We now look forward to your questions. Let me pass the call back to the operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the Q&A session. [Operator Instructions] In the interest of time, we ask that you please limit yourself to one question. Our first question today comes from Philip Shen with ROTH Capital Partners. Your line is now open.

Philip Shen

Analyst, ROTH Capital Partners

Q

Hi everyone. Thanks for taking my questions. Congrats on the very strong quarter. I wanted to check in on the bookings. Our math suggests bookings were close to, if not greater than a \$1 billion for the quarter. I was wondering, if you could talk through what the margin profile looks like for the bookings. Dan, I think you mentioned in your remarks that you were pleased with the margins. Can you kind of give us a baseline or comparison to the strong margins from this quarter? And do you think the bookings are in line with that maybe a little bit lower or higher? And then, when you think about the new bookings, how much of that was your new products and do you have any new MSA agreements or volume commitment orders or obligations in that backlog as well? Thanks.

Daniel S. Shugar

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

A

Thank you, Phil, and thanks for the multifaceted question. Appreciate that. This is Dan. Howard, can you weigh in on the first question?

Howard J. Wenger

President & Director, Nextracker, Inc.

A

Sure. Hey, Phil. This is Howard. So we had another strong quarter of performance, both on revenue, P&L, profitability and bookings. And so raising our backlog to a new record over \$4.5 billion is a great milestone for the company. As far as the – and the mix matters, what's in the new bookings and what's in the backlog? And what we said is about two-thirds of our business is the guidepost for US domestic, one-third rest of world. And we call that out, because the rest of the world has some select competitive markets such as the Middle East, which is the lowest cost electricity, solar electricity market in the world, where you have pricing that's at \$0.01 to \$0.02 per kilowatt hour, okay. And so, our pricing and margins can vary and do vary by region.

With that said, the new bookings that we have, we're very happy with the mix, it's consistent with the two-thirds, one-third mix that we talk about, two-thirds US, one-third rest of world and the margin profile on both – for both of those contributions and then to the overall is very much in line with our profitability and going forward. As far as

the type of – do we have MSAs [ph] VCAs (00:28:50) in the bookings? And the answer is, yes. Thank you, Phil, for your question.

Operator: Our next question today comes from Praneeth Satish with Wells Fargo. Your line is now open.

Praneeth Satish

Analyst, Wells Fargo Securities LLC

Q

Thanks. I echo Phil's comments on, on a strong quarter. You mentioned that you expect to realize 90% of the backlog in eight quarters. I think that's a slight improvement from last quarter, where you said you expect to realize 80% of the backlog in eight quarters. Can you talk about what's helping shrink that timeline? Is it simply just a higher mix of international projects with a faster revenue conversion cycle? Or are you seeing an improvement on the US side?

Howard J. Wenger

President & Director, Nextracker, Inc.

A

It's both actually. We're getting orders with shorter horizons and that's what fed the backlog increase and caused that metric to go from 80% to 90%, 90% of expected revenues – 90% of our revenue in backlog we expect to recognize over the next eight quarters. And so, yeah, that's – it's a, it's an equal contribution on both with shorter cycles.

Praneeth Satish

Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you.

Howard J. Wenger

President & Director, Nextracker, Inc.

A

Yeah. Thank you.

Operator: Our next question today comes from Mark Strouse with JPMorgan. Your line is now open.

Mark Strouse

Analyst, JPMorgan Securities LLC

Q

Great. Thank you very much for taking our questions and congrats on the quarter. On page 5 of the shareholder letter, you talk about double-digit growth, revenue growth in fiscal 2025, [ph] but then the (00:30:41) growth in fiscal 2026. Maybe I'm splitting hairs here, but is there a reasoning, a reason that you're stopping short of saying double-digit growth in fiscal 2026? Are you kind of just talking about the visibility that you have from your backlog? Or is there something else that, that you're seeing in kind of bookings activity? Maybe that's making you think that it might be less than double-digit growth next year? Thank you.

Daniel S. Shugar

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

A

Hi, Mark. Dan Shugar here. The – we'll provide a lot more color on the FY 2026 revenue plan in subsequent earnings calls is the answer. So we'll provide, we'll provide more then. I will just say, the company has never been in a better position than it is today, \$4.5 billion of backlog. We've seen Howard's covered. We've seen great growth among, many regions around the world, it's super to have multiple regions in the world all contributing steady growth and quarter-to-quarter one region will be stronger than in other region. The first half of this fiscal

year we saw – the first half of this fiscal year, we saw a really – hi there's some noise on the phone, not sure where that's coming from.

Okay, thank you. So we saw very strong growth in higher value regions the first half of this year – our fiscal year. And the second half of the year is. We're seeing stronger planned shipments in lower value, more competitive regions, as Howard mentioned, such as the Middle East. But on balance, we're doing what we said, we were going to do, going out, growing the company, double-digit growth this year. We're hitting our revenue plan and we've been able to beat and raise on our profitability expectations. Thanks for the question.

Operator: Our next question today comes from Dimple Gosai with Bank of America. Your line is now open.

Dimple Gosai

Analyst, BofA Securities, Inc.

Q

Hi. Good evening and thanks for the question. Can you please speak a little bit about, some of the competitive dynamics, what we're seeing in terms of, customer behavior also ahead of elections versus rushing to kind of get some of the domestic product through the door. And then also a little bit about, your new customer wins. Is that more in the US versus international? I think you quoted 12 or 8 new customers, sorry.

Howard J. Wenger

President & Director, Nextracker, Inc.

A

Okay. This is Howard. So, what we're seeing in the market is continued very solid demand across all of our major regions in North America, Middle East, Asia, Africa, Latin America, Europe, Australia, New Zealand. We're seeing just across the board a lot of demand. And that's being driven by the increased demand for electricity, electrification of the world, data centers, hyperscalers, electric vehicles and demand for clean energy. And so, there is a macro overlay on the demand picture. And the election in the United States is not dampening that from our perspective. As we're showing we're increasing our backlog and delivering on our metrics and then some.

There is one of the things on the customer side, what we're sensing is a real flight to quality for the Nextracker and that's we've articulated the value proposition of the company. We have a very differentiated tracker. Not all trackers are architected the same. They don't operate the same. We have a very different tracker architecture that we believe is superior and that our customers really appreciate. And then it extends from that to operations and operational excellence and the bankability of our company with a [ph] what Chuck (00:35:22) calls a fortress balance sheet, very strong balance sheet with \$1.5 billion liquidity as a company.

And our -these projects are very expensive. They're – I mean, they're not – expensive [ph] is the wrong word (00:35:38). They require a lot of capital to finance and they produce the lowest cost form of energy with solar and then some with solar and storage. But they require a lot of capital. And so, it's important for the tracker, which is the backbone of the system to operate. And so all of these things feed our value proposition and what we believe is a flight [ph] to quality (00:36:05) differentially for Nextracker. Really appreciate the question.

Operator: Our next question today comes Christine Cho with Barclays. Your line is now open.

Christine Cho

Analyst, Barclays Capital, Inc.

Q

Good evening. Thank you for taking the question. I thought maybe, I would hit on margins. So you guys are doing well above the high-20s guidance. And I realize this is the full year guide and I know your mix shift, the US is

slightly higher than the two-thirds year-to-date. And I think your shareholder letter also talks about software coming in better at 2%.

But other than that, is there anything else you would point to bridge the gap on, where in the cost structure you might be doing better than you expected or alternatively, anything that should bring gross margins down in the back half of this year, other than the mix shift shifting back towards rest of world. And just lastly, when you say structural gross margin, can you help us better understand what that definition is? Does that mean, where you think gross margins will naturally settle out without any subsidies, whether it's explicit 45X credits or lower bill of materials offered instead of the explicit 45X credit.

Charles D. Boynton

Chief Financial Officer, Nextracker, Inc.

A

Thank you, Christine. Chuck Boynton here. I appreciate your question. So first of all, Q1 and Q2 were incredibly strong quarters, based on execution. And execution is really the key word. We over delivered based on our product teams, our customer service teams out in the field, delivering our projects on time with quality. And when you that with great products deliver on time good things tend to happen, margins tend to be a lot better than you plan, when you deliver a great product on time, on schedule.

The second thing is, we've seen a really significant uptake in TrueCapture. TrueCapture is the best industry leading software that manages the power plant that drives the best [ph] sales (00:38:11) in the industry. TrueCapture has fairly high margins because of software and we saw a lot of systems being commissioned in Q2 that allowed us to really accelerate margins in Q2. That will probably not repeat in Q3 and Q4, it might, but our plan is it will be more like, 1% to 2%. It was higher than that in Q2. So the third factor is 45X, we had some accumulated 45X benefits from prior quarters that got amortized into Q2 and that will not repeat in the back half of the year.

In the letter we talked about 300 basis points of overachievement in Q2 that are likely not to repeat in Q3 and Q4. And then Howard mentioned the international projects. In the first half, we had a really high share of US projects that deliver really strong margins, great value for our customers. The back half of the year, we have some very large projects, especially in Q4 scheduled deliveries that are in very, very competitive markets. And that effectively averages out the company to effectively two-thirds, one-third international, our US mix. The structural margin comment is really taking a step back, thinking about what is the business on an average, if you blend out the model of two-thirds, one-third international on average, what would the margin profile look like? And we're saying structurally it should be in the high-20s, maybe the low 30s. So that's a comment that the company has made consistently and we've been over performing that based on really great execution. Thank you, Christine. Next question.

Operator: Our next question comes from Brian Lee with Goldman Sachs. Your line is now open.

Brian Lee

Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Thanks, good afternoon. Just a couple of questions I had. Just on the software piece, Chuck or Dan, can you kind of speak to – I don't know, if you think about it, in terms of attach rate, but this the first time you broke out the percent of sales, it seems like it could be an opportunity going forward. I remember you're talking to this at the time of the IPO that was probably too small to break out. So just a sense of how you guys think about attach rate and then maybe if you can quantify kind of the margin uplift, I mean, compared to the high 20% structural growth like where software coming in at? And in situations where you aren't able to get a customer to

sort of sign up for TrueCapture. What are some of the drivers there outside of maybe just the incremental cost?
Thanks guys.

Daniel S. Shugar

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

A

Thanks, Brian. So over the long-term, the attach rate of TrueCapture has increased significantly. This we first introduced TrueCapture, which is an adaptive tracking software. About seven years ago, it's operating in all our major regions around the world. There are, to my knowledge, over 300 projects that have been commissioned with TrueCapture. We work with all the leading independent engineers that value TrueCapture and TrueCapture has been empirically validated in the field. What does that mean? That means we've gone out there and measured it and customers have become increasingly comfortable with TrueCapture. And so the – it's well understood. And as markets mature, we go into new, new markets or early markets as they mature TrueCapture tends to have an increasing attach rate as we go forward.

One of the things, we discussed during the IPO process around then is TrueCapture does have a different revenue recognition model than our hardware business, where in the hardware business, revenue and profitability is recognized upon delivery. In the case of TrueCapture, the revenue recognition happens when the TrueCapture systems are turned on. So then you have to – so there's a lag between hardware delivery and when systems are commissioned and then TrueCapture is used.

And so, as Chuck mentioned this last quarter, we saw more TrueCapture revenue, because it was building up, in terms of the systems were being shipped, but they weren't turned on yet, okay? So that's basically where it stands. We feel really great about the growth in the TrueCapture business globally, about the engagement by the independent engineers. We keep releasing features, technology that increases TrueCapture's efficacy in the field. For example, we released a feature called Zonal Diffuse and you can go on the Internet, on YouTube and look at that. And we also released a feature called Split Boost, which is a highly differentiated feature that generates more energy. So if you go on YouTube and type in Split Boost, Nextracker, you actually see how it works. These things increase not only – well, they increase the amount of energy generated by TrueCapture. Thank you for your question.

Charles D. Boynton

Chief Financial Officer, Nextracker, Inc.

A

Hey, Brian, I'll just add on the margin side, software is a little different animal, because you have – you tend to have higher R&D costs. You spend a lot of money on the IP developing that technology. And so, the gross margin that's reported, is very high, but it comes with OpEx in the R&D line. And you'll note this quarter we've increased our investment in R&D and we plan to increase our investment in R&D again in Q3 and Q4 and this is what's driving this additional value. Thank you.

Operator: Our next question comes from Dylan Nassano with Wolfe Research. Your line is now open.

Dylan Nassano

Analyst, Wolfe Research LLC

Q

[indiscernible] (00:44:55) spoke on their earnings call last night. They're talking about shipping modules to warehouses for customers who aren't yet ready to accept the product. I don't know, if you guys listen to that call, but just two questions on that is, have you seen any impact on your projects in your backlog specifically from those actions? And can you also just remind us what kind of recourse do you have when it comes to exercising contractual delivery rights, should it be necessary? Thank you.

Daniel S. Shugar

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

Yeah. I'm sorry. Can you repeat who [ph] announce their shipping modules (00:45:24) to warehouses?

A

Dylan Nassano

Analyst, Wolfe Research LLC

Yeah. Sorry. It was First Solar. They were just talking about. Yeah, shipping directly to warehouses.

Q

Howard J. Wenger

President & Director, Nextracker, Inc.

This is Howard. I'll answer the question. My understanding is that was – it's fairly limited at least that's what we're saying. I don't want to speak for First Solar. We're not seeing – we're seeing very consistent activity on a project-by-project basis. What that means is from quarter-to-quarter. We're seeing some project schedules shifting to the right, some project schedules being pulled in.

A

And on the whole, because of our diversity, the number of EPCs that we work with, the number of owners and the number of projects that we have in the US and internationally, we're able to manage these flows back and forth in totality. I think we've proven that over the last seven quarters since going public.

But we're not, we're not seeing on an individual project basis. We can see a delay or a shift of a month, six weeks, sometimes even longer. But it's not a very concerted trend. We're not seeing that, it's not going materially up into the right relative to what we talked about last quarter. So we're actually seeing more stability, I would say, in our shipping schedules from last quarter to this quarter. Thanks for the question.

Operator: Our next question comes from Maheep Mandloi with Mizuho. Your line is now open.

Maheep Mandloi

Analyst, Mizuho Securities USA LLC

Hey, good evening. Thanks for taking the question. So first just on the revenue cadence, I think in the [ph] news that you've (00:47:33) pointed to flattish in Q3 [ph] so how this (00:47:35) Q4 weighted. So if you could just talk about how many book and billings you still need to do for Q4 or the second half. And separately on the structural margins or ratio of that. Could you just talk about the structuring OpEx, you expect. I think you talked about higher OpEx in Q3, Q4 for R&D. But how should we think about that going forward? Thanks.

Q

Howard J. Wenger

President & Director, Nextracker, Inc.

This is Howard. I'll answer the first part of the question and Chuck will answer the second part about spending. So we feel very solid about our FY 2025, because of our backlog and our visibility. So we're really, really good shape there. There is – so that's, what I'll say. We've either hit or beat our top line, which is really driven by megawatt shipments each quarter. And we have a lot of confidence going into next quarter and for the year. And that includes Q4, which is Dan and Chuck and our comments provide color on is it's going to – we expect a very robust quarter and we're quite confident in delivering on the quarter. Chuck, you want to take the OpEx?

A

Charles D. Boynton

Chief Financial Officer, Nextracker, Inc.

A

I will. Thank you. And just to put context. Q4 will be the single biggest quarter in the company's history, and it's going to put a lot of pressure on our supply chain team. They are amazing and work to the challenge. But we have booked and sold a lot of business and it's going to be a really, really strong Q4.

On the OpEx side, we're making really important strategic investments primarily in technology. We believe the company has a very big moat with our technology and we want to deepen and widen that moat with investments, key investments in R&D. You saw in Q2, R&D spending went up by \$3 million, SG&A was flat and we would intend in the back half of the year to continue to invest in R&D, as well as sales and go-to-market in key geographies to drive revenue and sales for coming years.

Operator: Our next question comes from Joseph Osha with Guggenheim Partners. Your line is now open.

Joseph Osha

Analyst, Guggenheim Partners

Q

Turning to your 45X disclosure, I'd like to clarify the, the 300 basis point uplift that you referred to is sort of the incremental credit? It does not refer to the totality of the 45X uplift. Am I reading your language correctly?

Charles D. Boynton

Chief Financial Officer, Nextracker, Inc.

A

Joe, yes. Think of that the 300 basis points was the combination of TrueCapture 45X and other, which is, I would call that great execution of our field teams. And so, 45X think of that as maybe a third of that the year, the year-over-year benefit. So just to be clear, Joe 45X was not in our prior year ago numbers. We had a cumulative catch up in Q4, as you might recall, that was GAAP only.

Joseph Osha

Analyst, Guggenheim Partners

Q

Yeah.

Charles D. Boynton

Chief Financial Officer, Nextracker, Inc.

A

And so when you compare year-over-year for 45X. We want to just be super transparent and clear that they're not purely comparative. Thank you.

Operator: Our next question comes from Jonathan Kees with Daiwa Capital Markets. Your line is now open.

Jonathan Kees

Analyst, Daiwa Capital Markets America, Inc.

Q

Hi. Great. Thank you for taking my question and I'll follow your instructions just limit myself to one. I'll add my kudos to the quarter, the results. Just wanted to ask about project cancellations. You had mentioned last quarter you had a customer who had canceled out, it was a small customer. Just curious, you had anything like that this quarter.

Daniel S. Shugar

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

A

Hey. Thanks for your question. We have not had any projects cancel this quarter and the context of that one project that canceled last quarter. The context was there were over – that was one out of over 500 projects. And so that's where we stand.

Jonathan Kees

Analyst, Daiwa Capital Markets America, Inc.

Q

Great.

Daniel S. Shugar

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

A

Thank you.

Operator: Our next question comes from Kashy Harrison with Piper Sandler. Your line is now open.

Kashy Harrison

Analyst, Piper Sandler & Co.

Q

Good afternoon. Thanks for taking the question and congrats on the quarter. So my question is on NX Foundation. Just based on your analysis of your pipeline. I was wondering, if you could discuss what proportion of sites fall under the definition of hard terrain that would be applicable to Ojjo? And then do you have any US Foundation revenues hard terrain or otherwise in fiscal 2025? And then finally, when do you expect to start quantifying the foundation backlog? Thank you.

Daniel S. Shugar

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

A

Okay. I'll take the first part of the question and then Chuck, you take the second part of the question, please.

Charles D. Boynton

Chief Financial Officer, Nextracker, Inc.

A

Yes.

Daniel S. Shugar

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

A

We had a fabulous launch event at RE+ plus of our foundations business. And we showed a map from the US geological service that shows when bedrock is within one meter of the surface is my recollection of what the, the metric was. And it turns out, there's a significant portion just geographically of the US that has rock, near the surface, where if you were putting a traditional pile on the ground, you would hit rock. And what we've also seen is over the years, as the solar market has broadened geographically across the US, a greater prevalence of the number of sites that have rock that have to be addressed or other it's not just rock, but also difficult soils such as frosty soils, expansive clay soils or swampy site type soils. And the two foundation technologies required to address all the above.

In terms of numbers we covered in that forum, there were numbers like 20% to 30-plus percent of the sites are difficult sites. Some of our customers have over half their sites depending on their geographic range of activity. So, it's very significant. That's the answer to the first part of the question. Chuck, in terms of the second year.

Charles D. Boynton

Chief Financial Officer, Nextracker, Inc.

A

Yeah. Kashy, thank you for the question. In Q2, we actually booked and reported revenue for our new foundations business. So we're super thrilled that we have customers paying us money for this technology. We have booked new transactions. We don't expect the dollars to be significant this year. And I'd say stay tuned for Analyst Day and our views on next year will be, we'll provide more color as we think about, talking about next fiscal year. Thank you.

Operator: Our next question comes from Jon Windham with UBS. Your line is now open.

Jon Windham

Analyst, UBS Securities LLC

Q

Perfect. I appreciate you taking some time to do the questions. Congratulations on 100% US domestic content capabilities. As you plan to ramp and ship that next year. Just wondering, if you could give us some thoughts or guidepost about what proportion of your US business is that likely to be? Appreciate it.

Daniel S. Shugar

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

A

Thanks, Jon. And just as a point of clarification, we actually have our first 100% US tracker scheduled for delivery this quarter. So we were able to accelerate that based on customer demand. With respect to the percentage of our business next year that could use the 100% domestic tracker, we're going to have to wait and see on that and speak to it later. It comes a bit to customer needs. It, it also relates to their module, their module mix. But what we're working on is from a supply chain standpoint, getting ahead of the curve. And that's consistent with how Nextracker massively ramped our US business prior to Build Back Better, prior to IRA, we were ramping our US supply chain and we've ramped it in other key markets such as India.

This quarter in India, we announced we've hit – 95% content, for example, in India with over 10 gigs of capacity in India, for India and in the US, over 30 gigs of our major components in the US for the US. We are seeing continued demand and stronger demand than we anticipated for this 100% US content tracker. We'll have to wait and see before we guide to that number. Well, we could address that potentially on our subsequent or the following earnings call or the Analyst Day that Chuck mentioned. Thank you.

Operator: Our next question comes from Ben Kallo with Baird. Your line is now open.

Benjamin Joseph Kallo

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

Q

Hey, guys. Just [ph] go to the (00:58:08) international opportunity is so big. And the US opportunity is better margins. What do you guys optimize for sales growth or margin or EPS growth or cash flow?

Howard J. Wenger

President & Director, Nextracker, Inc.

A

Hey, Ben, we're optimized. We want to grow. We want to keep growing. And we want to do so responsibly and that's, and that means profitably in an accretive way. So if we go into a new region, we evaluate, is accretive to the company, it's sort of like an M&A. And so, we see it your way, which is, there is a vast international opportunity in addition to the US market. I personally just came back from India, I spent a week there. The – they

have a 500 gigawatt target for renewables by 2030. That translates to 50 gigawatts per year just for India. And that goal is more than a goal. It's really like an [ph] RPS (00:59:19).

The states are required to comply to get this thing up to meet this clean power goal. But they don't, they don't receive funding. That's our understanding from this trip. So there is this movement worldwide happening on electrification and clean energy. And so we are going to – we tapping into that and we're going to keep doing that responsibly. Thanks for your question.

Operator: Our next question today comes from Jordan Levy with Truist. Your line is now open.

Jordan Levy

Analyst, Truist Securities, Inc.

Q

Good afternoon all. Thanks for all the commentary. I think, Chuck, in an earlier comment, in the earlier question, you talked to the efforts on the R&D side around expansion into new technologies and also into new markets. I just wanted to see if we could – not to get into too many specifics, but any additional color we could get there on what sort of opportunities are attractive to you?

Charles D. Boynton

Chief Financial Officer, Nextracker, Inc.

A

Yeah. So the question is, what new R&D efforts are we taking on? And Dan maybe you should take that question.

Daniel S. Shugar

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

A

Sure. Hey, Jordan, thank you. Jordan, I think the best way to think about this is, if you look at our patents, we have over 600 patents issued and pending in three categories mechanical, electronic controls and software. And so, we're continuing – and these relate to each other. They're not silos, the mechanical relates to the control system, which relates to the software. For example in TrueCapture and these really add value for customers. So we're really continuing to invest in all of these categories and what we have is a very well evolved process to look at where – we look at innovation and then how much value does it contribute to customer?

Can that value be quantified and monetized by the customer? What's the incremental investment and what's the risk and what's the timeframe? These are the factors that go in and that we have a list based on the available budget we have. And then we're investing in everything that we can afford and we've continued to increase that budget and we've just seen a really great efficacy. And one of the things we speak about is, as we release these technologies, they've been piloted in the field. And so, it's great. We've got our Hail Pro-75 out there operating with customers in real utility-scale power plants and so forth. So, it's been, it's been very productive. Now having said that, we've also acquired technology. We're open to that. We do – we're very open to looking at technologies that can be additive to the company, I believe we have time for one more question. And operator.

Operator: Our next question comes Julien Dumoulin-Smith with Jefferies.

Daniel S. Shugar

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

A

Operator, we're ready for the next question.

Operator: Your line is now open.

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Hey, guys, can you hear me okay?

Q

Daniel S. Shugar

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

Crystal Julian.

A

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Awesome. Hey, sorry about that. I wasn't sure if it was coming through earlier. Hey, I appreciate the time. Just to follow-up earlier on the US content, how many points you [ph] qualifying for into the (01:03:02) domestic contents? Just to clarify 100% product? And then just coming back to the margin question quickly here. Obviously first half versus back half, as you think about that exit run rate in the back half here. Is that kind of what you should be thinking about in terms of the EBITDA margin going forward for the remainder of that backlog or is the first half of this year really kind of a good indicator what you can put up, as you think about embedded in that backlog across the \$4.5 billion?

Q

Howard J. Wenger

President & Director, Nextracker, Inc.

Thank you, Julian. This is Howard. I'll answer the first part. Chuck the second. So on the domestic content, really happy to be able to deliver that this quarter. For our customers, we're seeing a higher take up than we anticipated for that. Why? In large part, because we are now enable that customer qualify for 24.7 points out of 100.

A

So a quarter of four, the 40% or 45% that's required, okay? So if you need – and that's increasing over time. So if you need 40 or 45 points, we're more than half of the points to get to a 10% credit. So we're seeing customers really interested in that, they're thinking about okay, tracker plus, how much, panel domestic panels do they need to achieve that hurdle? So that's the answer to the first part of your question. Chuck?

Charles D. Boynton

Chief Financial Officer, Nextracker, Inc.

Yeah, Julian, we're not going to sort of do our outlook for next year and beyond today. But a lot of the factors, these structural kind of high-20s, maybe low-30s gross margins would translate into, call it 20-ish EBITDA margins. It's too early right now to see what that's going to look like next year, because there's a lot of factors, mix, attach rates of TrueCapture, our new foundations businesses. And it's more appropriate to talk about that at our Analyst Day or at our Q4 earnings call, as we roll out the outlook for next year. Dan, do you want to close?

A

Daniel S. Shugar

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

Yes. First, thank you, everyone, joining our earnings call. We thank the entire Nextracker team, our shareholders and our highly valued customers and partners as we march ahead for renewably powered world. Thanks for joining our call today.

Mary Lai

Vice President, Investor Relations & Financial Communications, Nextracker, Inc.

Thank you. This concludes our Q2 earnings call.

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

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