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Nextracker Inc.

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Mark Strouse: Good afternoon, everybody. Thank you very much. This is day one of the ninth annual J.P. Morgan Energy, Power & Renewables Conference. Thank you very much for coming. My name is Mark Strouse. I cover clean energy. Very happy to have Nextracker. Nextracker's year and a half ago IPO...Stock's been a monster. Execution's been phenomenal.

Happy to have Chuck Boynton, the recently appointed CFO. Chuck, welcome back. We've worked together many years. I'm assuming there's going to be some folks that are familiar with you, just given your experience. Can you just give a quick background of your history, your history in the industry, your history with Nextracker, and what attracted you to take the CFO role?

Chuck Boynton: Certainly, Mark. Thank you. It's great to be here. Great to be back in the renewable energy space and in solar. I spent about eight years at SunPower during a really rapid growth phase. In those eight years, I worked with Howard Wenger, our president, Bruce Ledesma, another president at the company, knew them quite well.

SunPower acquired one of Dan Shugar's companies early on, right as I was joining, so I knew the team quite well and really loved working in renewables. We did a bunch of cool transactions on the M&A side, growth side, worked with, partnered with First Solar to create 8point3 Energy Partners. I know the ecosystem really well.

After SunPower, I joined a company that was two public companies had merged. That was acquired by HP. Then, most recently, was the CFO at Logitech, a dual-listed company headquartered in Lausanne, Switzerland.

I joined the board of Nextracker right on the IPO. I've worked with the management team for the last year and a half. When Dan asked me to step into the CFO role, I was thrilled and honored. I love this industry. This company is such a great company, so well-run, a great management team.

I'm just really thrilled to be diving in on the operations side. It's been two weeks. If I can't answer all the questions perfectly...you'll have to forgive me. I'm just really thrilled to be here and in this awesome industry.

Mark: Let's get stuck into some of the topical issues here. We'll talk about politics and whatnot. Can we touch on just project timing? A lot of the companies in US utility-scale in particular are talking about project timing delays because of interconnections, financing, supply chain.

Nextracker seems to be coming through this relatively less scathed. On the last call, you talked about project timing is within a normal range of expectations. Can you just compare and contrast? What makes Nextracker unique? What are you seeing in the field? Why do you think that project timing is less of an issue?

Chuck: First of all, on utility-scale projects, these are long lead times. These are projects that, in many cases, are planned years and years in advance. Things do happen. Projects get pushed out. Projects get pulled in. There can be short-term volatility, which is why we think about our company in terms of annual cycles, less so quarterly. We really take a long-term view.

In terms of our execution, the culture that Dan and Howard and the team have driven is being maniacally customer-focused and maniacally engineering-focused. It's really been so apparent to me these first two weeks just how amazing the engineering talent is, just world-class engineering, but also just totally customer-focused.

With this business, we've scaled. We've done business in 40 countries. You think about that, 40 countries. US is still the lion's share of it, where things are further ahead. We've got a large pool of existing projects underway. The demand is strong.

To the extent that there are movements, if a customer wants to delay, we will work with that customer to delay. If a customer wants to pull it in, we'll try to pull it in. With that, we probably have been a little more resilient because of the size and scale and able to meet our customers' demands and really focus on on-time delivery. That's been helpful to us.

There will be times, I'm sure, in the future where things push out or pull in. With the tailwinds that we've seen, we've been able to see really good year-over-year growth the last five quarters-ish.

Mark: Can we touch on competition, just what you're seeing in the market? There's been some newer companies the last several years that have tried to get into the market. What you're seeing from competition, what you're seeing on pricing, and what your expectations for market share are going forward, both domestically and globally.

Chuck: Certainly. First of all, it's a big market. There's lots of room for competitors. This won't change. There will always be competition. Competition is important. It keeps us sharp. Pricing has to come down, for sure. If you look over the last 10 years, pricing goes down. That's a good thing because pricing is a key component of driving the overall system cost down.

As costs come down, solar is yet more competitive and expands the TAM. I look at pricing going down over the long term as healthy because it increases the overall market opportunity and increases the TAM. Therefore, we can grow more. With this engineering talent that we have driving a maniacal focus on cost reduction, that's good for the industry.

Overall, there are strong competitors out there. I don't expect that to change. We're unique and different. We have different technology than our competitors. It's better in many cases. I can go through some of those later on if you care.

Overall, I do expect share internationally to improve. Our share in the US is quite strong. We can hold share. It's hard to predict, of course. International, I do think that it's less developed and less mature than the US. There are more fragmented, small players. In this industry, there is an advantage to scale and an advantage to the large, bankable companies.

I do think, long-term, that we will see international grow as a percentage of the company. Hard to say when that is. Is it a year? Is it two? It's hard to predict the timing, but I do expect international to become a bigger portion of our overall business.

Mark: Nextracker, a relatively new public company, so investors might not have the history that you have. Is there a rule of thumb for pricing, annual declines, that you think is within a "normal range"?

Chuck: Two weeks in, so I can't quote like the last five years. I think we've been high single-digit declines annually, but don't quote me on that one because it's still fairly new. The good news about overall price declines that we've seen over the last, call it, five years is that we've been able to outpace ASP reduction with cost reduction. I expect that to be the operating model.

As we drive cost reduction, we pass on part of that to our customers. With our differentiation and great products, we're able to maintain margins and protect our margins. I'm a real firm believer in protect the operating margins.

Gross margins matter, for sure. All in, what matters to our investors are operating margins because operating margins are what drives free cash flow. At the end of the day, that's the most important metric for our investors, is return on invested capital and specifically the fundamental operating cash flow that we generate.

Mark: About, what, four or five weeks ago now, the AD/CVD investigation was put forward. I understand it's still relatively early. Can you talk about what you're seeing as far as what you're hearing with your customers on project timing, on their ability to get panels?

Are you seeing any delays to maybe 2025 once customers get through inventory? Any impact on pricing of those panels that might impact project wherewithal?

Chuck: First of all, policy can be great. It can be terrible. We've seen, in this industry, over 20 years, when, I remember in Germany, they had a feed-in tariff. Germany was a fairly nascent solar market. This may have been 2007-ish. It's hard to predict. I don't remember the timing.

Germany came out with this incredible 50 euro cent a watt feed-in tariff. All of a sudden, Germany became the largest solar market in the world. Who would have thought? [laughs] Germany. Then that policy or that program was fully utilized. Then Germany fell by the wayside and became a fairly small solar market.

The point is that policies come and go. What's undeniable are the long-term trends, that as the cost of solar and solar plus storage comes down, you're at an LCOE advantage to many forms of conventional electricity.

That trend's not going to change. We're going to keep seeing these cost reductions that opens up the market and makes it yet an even bigger market. Whether there's the AC, the ABCD, whatever...

[crosstalk]

anti-countervailing duties. Sorry. Still learning. Whether or not there's a few cents here or there, that will impact project timing, for sure, but I don't see it being a big impact to us. Overall, we've got a very large backlog. We've got lots of committed customers. We can manage within the outlook that we've provided.

Certainly, whenever costs go up, the TAM reduces a little bit. When costs go down, the TAM expands. Certainly, tariffs and whatnot and subsidies play a factor in that.

Mark: Moving on to another announcement from four or five weeks ago, the Department of Treasury finally updated the domestic content guidelines on the customer side. Very clearly, not asking about 45X that you get on the manufacturing side, but the bonus adder for the customers, that was clarified about a month ago.

Again, only been a few weeks or so, but what are you seeing as far as, potentially, increase in project pipelines or activity from the clarity finally being there?

Chuck: This has been very good for us. There's now clarity and stability. If you think about what's happened with 45X, it's been great for America. It's been great for solar. We were a very, very large importer of steel. If you go back two years ago, we were up in the very top few companies of importing steel into the US.

We've shifted a lot of that to local, US-manufactured steel. We've opened or expanded 20 plants in the US with our manufacturing partners. That is driving US jobs and US steel. The 45X is partially offsetting that.

The clarity on the program now gives more certainty to our partners, our developers, and owner-operators. With Nextracker specifically, our torque tubes, fasteners are made in the US. We're moving more and more of our production to our manufacturing partners here. That is good for the industry and good for the US economy.

Mark: Can you talk about the importance of a tracker within the guidelines? Consensus seems to be that the guidelines that came out were a bit more stringent than expected. The cell is increasingly important.

If that's the case, just given relatively few cell manufacturing today, where the tracker fits in and then, over time, as the 40 percent threshold steps up to 55 percent, what you might be seeing when your initial conversations with customers as far as maybe some incremental pricing power that you might have in the out years?

Chuck: It's hard to predict the pricing power. Certainly, the tracker is the backbone of the utility-scale solar project. It represents, for us, about 10 percent of the overall pie of a landed utility-scale solar project. It's not the biggest portion. The panel, today, is still the biggest portion.

First Solar certainly has a great advantage with their Series 7 technology. Hats off to the First Solar team. The tracker is probably the next biggest component. We've been moving more and more.

I do think that, if you look at conventional crystal and silicon, there are still some headwinds of getting to those levels. You've heard people talk about opening up more US capacity. We'll see what happens there. I do think the tracker is critically important. It's not the most important.

In terms of pricing power, we're very focused on driving our own operating margins plus driving our costs down so we increase the TAM, as I mentioned before. It is really important for us that we are a part of the ecosystem, that we help to drive those costs down for our customers and our partners.

Mark: Switching over to the 45X side, new CFO, I have to ask, are there going to be any new KPIs, anything else that you're looking to disclose to investors? One thing that we're seeing in different companies within this space is maybe the accounting treatment -- it's not the right word -- the disclosures around 45X.

We spoke earlier. It's a very rational explanation. Just can you talk about why you're maybe going to keep some of these cards close to your chest?

Chuck: Certainly. This last quarter, you'll note, in our P&L, that there was a $145 million line of 45X. It was a cumulative catch-up that showed up on our last earnings call as a separate line.

Going forward, the benefits will be included in our GAAP and non-GAAP operating results. That is partially or mostly because, for us, it's a benefit. It's an expense that offsets our cost of goods sold. Think of it as a contra-COGS line.

If you look at First Solar or Enphase, they are the manufacturer of record. They are the direct beneficiary of that credit. Ours are through our manufacturing partners. We have worked with arrangements with our manufacturing partners on how we share those economics.

Again, the primary goal of 45X is to shift purchasing from international steel that we import to domestically produced steel. The first thing is that offsets the cost increase, drives jobs in the US, opens up more capital spending for our manufacturing partners. Then that cost helps to offset their cost.

Furthermore, we will use those proceeds to help lower our cost to increase the TAM. Then we'll also use that to help protect our operating margins. Really, there's no other place to put it in the P&L because it's embedded as a benefit in our cost of goods sold, which is different because of how we're structured versus the manufacturer of record like First Solar or Enphase.

Mark: Is there anything else from Treasury or IRS that you're waiting on, or do you have everything that you need now from an accounting and customer relationship perspective?

Chuck: No. We're set. Again, a couple weeks into the job here, so I might not have all the details. As far as I know today, we're all set.

Mark: Can you talk about expected use of your tax credit cash? The more you manufacture and sell, the more incremental cash you're going to have coming in. Are there political sensitivities to taking some of that cash and maybe paying a dividend or buying back stock? Are you looking for M&A? Is there a way to segment core operating cash versus tax credit cash? Any comments there?

Chuck: It's fungible. There's not a separate accounting or pool of money. The first thing would be, we have a very prudent approach to capital allocation. Today, we can't do dividends or buybacks because of the rules under the spin from Flex.

If you'll recall, the final tax-free spin for Flex was earlier this year. There's not a bright-line test, but think of it as roughly two years where we can't do buybacks or those activities.

In the short term, this last quarter, we had $150 million of debt and roughly 470 of cash. I think about net debt as not really being too far off where a public company of our size and scale should be. Certainly, we could have a lot more leverage, but, our financial conservatism, we don't want to run with a lot of debt.

The net cash really is a function of our market cap is not out of whack. If you look at the outlook that we provided last year, last quarter, and you look at a traditional conversion of free cash flow -- we said 70 percent the last earnings call -- we're not going to end the year with a number that's irresponsible.

With that excess cash, we'll continue to evaluate M&A and be responsible. The company has done one or two deals in the past. We'll continue to be prudent and think about how do we listen to our customers and go to where our customers want us to go. I wouldn't expect any type of radical change to our capital allocation model anytime soon.

Mark: Just to be clear, the tax-free spin would prevent a buyback or a dividend. Is there anything in there about M&A?

Chuck: Just issuance of stock in general. Issuing stock, buying back stock, those are...It's not a bright-line test, but think of it as roughly two years from the date of the tax-free spin.

Mark: Can we talk about election risk, how you're thinking about different scenarios in November and what that might mean for Nextracker and how you may or may not be planning around things as far as capacity or whatnot going into that?

Chuck: Certainly, hard to say what's going to happen. Under either administration, whether it's a D or an R, the things that we're doing are germane to both, driving jobs, energy independence. This is really important to both sides of the aisle. Does it manifest in terms of tariffs versus subsidies? It's hard to say in the long term.

What this industry is doing is good for America. My guess is, in either scenario, they will recognize that. It won't shift back to importing foreign materials and panels and whatnot. I do think that, under either scenario, it will be good.

We do have a really strong policy team. Hats off to our policy team, who's really in tune with the market and has helped to shape some of the policy. Under either administration, that will continue to be a real benefit and asset to us.

Mark: Any questions? Sir? Sorry. One sec. We've got a mic coming.

Audience Member: Thank you. Thank you very much. I was wondering if you could comment on the drivers that affect the penetration rate for trackers internationally. It's way lower than in the US. That's one. Two, a very quick one. Can you comment on the amount of the steel, the cost of the steel as percent of revenues, or something like that so we can understand how low can prices get?

Chuck: I can't give you the exact percent of steel as a portion of our revenue, but it's a material portion of what we sell, is steel plus our value-add. On the international side, I think about the market and how it's developed in the US. I remember, back when I was at SunPower, we were developing our own trackers. It was very complicated. We built trackers. It was very, very complicated.

The work that Dan and Howard and the team have done in the last 10 years has been phenomenal. Just thinking through, for example, in our trackers, we don't use screws and bolts and nuts to attach the torque tubes and all of the components together. We use aerospace industrial-grade rivets. Why? Because they don't loosen over time.

If you think about you've got a tracker with thousands or tens of thousands of nuts and bolts and screws, it costs more. You have to have specialized tools. When they're riveted together, it holds them together forever or virtually for the life of the plant. It's the right thing to do.

If you go to other markets that are less developed, they're still using traditional nuts and bolts and screws and Loctite that they have to go back and re-ratchet and re-tighten up over time. There's a bunch of examples like that. The market's not yet fully developed there.

What will happen over time is owner-operators of these plants see the O&M and the cost to maintain them. They'll recognize the value. They'll be willing to pay a little more and get a way better return on investment from an LCOE standpoint. There's a bunch of different examples like that.

It's still the early innings in fragmented markets. Over time, as you know, fragmented markets become structured and consolidated. That's happened here in the US with a few players.

There's lots of room for competition. Don't get me wrong. This is not going to be a monopoly. This will be a competitive market. Internationally, I expect those markets to become more structured over time, like the US. When that happens, it's more of a flight to quality and will be a real tailwind for us.

Mark: Question? A lot of focus. Sorry. One in the back.

Audience Member: Thanks. One of your public competitors has recently changed around a bit of their pricing mechanisms, publicly stating that maybe they held on a bit too long. Why is that not a reversal of what was potentially a tailwind for you, when they were being a bit more resistant, and maybe could pose some risk? Just, if you can, comment on that.

Then, if you can add to that, what is it that maybe does get you nervous over the next three to six months, given the fact that it seems like you got through the worst of the macro hump, resisting many of the issues that your competitors had?

Chuck: The next three to six months, what I don't know is what I'm most nervous about. [laughs] Two weeks on the job, so hard to say what I should be worried about. I'm generally not worried. This is a great company. It has a great track record. I don't expect to have issues, but you never know. It's fear of the unknown.

On the competitive side, if your question is really "They're lowering prices, and therefore there's going to be a price war," I don't think that'll be the case. Perhaps, but generally, we sell on an LCOE basis. We sell on levelized cost of energy. Our competitors do to a degree, but a lot of them compete on upfront cost.

When our owner-operators look at the overall benefits that we have, they're willing to pay a slight premium for lower levelized cost of energy. Think about that. It's interesting. They're willing to pay a little more up front to get a better return on the investment and a lower levelized cost of energy.

Again, it's a big market. It's fairly structured. There's three large competitors in the US. It's not like in the panel world, where you've got a gazillion different players and it's perfect competition. Here, it's a market that's fairly structured. So far, the industry participants have acted responsibly and haven't done crazy things on pricing.

Again, our goal, long-term, is to drive ASPs down to lower pricing to increase the TAM. As prices come down, assuming that's led by cost reduction, we can protect our margins, set a lower price, and have a larger market to sell into.

Mark: Question? A lot of investor focus on data centers. I have to ask the question. To the extent that you have the visibility, can you talk about historically what you've seen as far as Nextracker projects that the end customer is big tech data center, however you want to characterize it? Is this real? Should we be talking about natural gas?

Chuck: One of the reasons I was so excited to join the board and then eventually join the company as the CFO was I'm just a firm believer in what's happening on a few fronts. One is the growth of EVs. I drive one. It's just a better experience. It's a better product than a traditional ICE engine.

We need more charging and need more infrastructure and need clean energy to feed that infrastructure. Given the long-term trend, it looks like a no-brainer. It's just a better experience. The conversion of energy is overall more efficient and better, but we need more infrastructure.

Two, on AI data centers, that genie's out of the bottle. It's not going to go back in. The energy required to run NVIDIA's processors, even the latest one, the Blackwell, it's very energy-intensive.

The primary customers, if you look at who NVIDIA's customers are, the hyperscalers, these are folks like Google and Meta, Amazon, Tesla. These are companies that have made public statements about their energy footprint and their goal to decarbonize.

That just, to me, seems undeniable, from a first principles standpoint, that there's going to be insatiable demand. Is it a year, 2, 10 years? Hard to say. I'm sure AI is overblown. Everyone says it's too much of a hype right now, but the long term is undeniable.

Then you think about the next factor, which is electrifying the rest of the world. A lot of the world still does not have access to good, clean energy. That's going to change. As the cost of solar comes down from an LCOE standpoint, it becomes so much more viable in these other markets around the world, not just in areas where you're displacing coal or other forms of dirty energy.

The tailwinds for the industry are undeniable based on math, just the levelized cost of energy being at cost parity or better and the demand of energy. The people that are creating that demand generally care about the environment and where the world's going. I'm just super-bullish on the long term.

Will there be periods of quarters or years where things aren't as rosy? Of course, because this is the energy markets. If you look long-term, I just think we're in such a great place.

Mark: Excellent. With that, we've got to wrap. Chuck, thank you so much.

Chuck: Great. Thank you. Thank you all so much. Really appreciate it.

[applause]