

SHLS Earnings Call Transcript

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Quarter: 3

Operator: Good morning, and welcome to the Shoals Technologies Group Third Quarter 2025 Earnings Conference Call. Today's call is being recorded, and we've allocated 1 hour for prepared remarks and Q&A.; At this time, I'd like to turn the conference over to Matt Tractenberg, Vice President of Finance and Investor Relations for Shoals Technologies Group. Thank you. You may begin.

Matthew Tractenberg: Thank you, Charlie, and thank you, everyone, for joining us today. Hosting the call with me is our CEO, Brandon Moss; and our CFO, Dominic Bardos. On this call, management will be making projections or other forward-looking statements based on current expectations and assumptions, which are subject to risks and uncertainties and should not be considered guarantees of performance or results. Actual results could differ materially. Those risks and uncertainties are listed for investors in our most recent SEC filings. Today's presentation also includes references to non-GAAP financial measures. You should refer to the information contained in the company's third quarter press release for definitional information and reconciliations of historical non-GAAP measures to the nearest comparable GAAP financial measures. Please note that the slides you see here are available for download from the Investors section of our website at investors.shoals.com. With that, let me turn the call over to Brandon.

Brandon Moss: Thank you, Matt, and thanks to everyone joining us on the call. I'll begin by sharing key results from the third quarter. I'll then discuss the current demand environment in the U.S. And finally, I will review the progress on our strategic growth initiatives. Dominic will dive deeper into the third quarter results and provide our outlook on the fourth quarter 2025. We'll then finish the call with questions from our analysts. I'm very pleased with our execution during the third quarter. We delivered record revenue of \$135.8 million, slightly above the high end of our expected range. Revenue grew 32.9% over the prior year period and was up 22.5% sequentially over second quarter results. Our commercial team continues to drive significant growth in our book of business. We added approximately \$185.4 million in new orders in the period, helping to achieve a company record for backlog and awarded orders or BLAO, of \$720.9 million, a 21% year-over-year increase. This resulted in a very strong book-to-bill of 1.4 this quarter and supports the continued growth we see as we look ahead toward 2026. As of September 30, 2025, approximately \$575 million of our BLAO has shipment dates in the upcoming 4 quarters running through the third quarter of 2026. Next year is shaping up to be another year of strong growth for Shoals. As you are aware, 2025 brought with it some volatility, largely a function of an uncertain and rapidly shifting political environment. However, as you've seen in our results thus far, our business has been resilient. The actions we've taken to attract and retain customers over the past 2 years are paying off. We've improved our relationships with EPCs and developers and signed new MSAs that reflect our shared objectives. Our focus on providing innovative solutions to meet customers' needs has led to new product development and additional opportunities for growth. We continue to improve our operating model to drive out inefficiencies and increase capacity. And we've maintained excellent liquidity and positive free cash flow despite increased capital expenditures and warranty remediation needs over the past year. As a result of our strong Q3 results and the current demand environment, we have slightly increased the range of anticipated revenue for the full year 2025, now representing between 17% and 20% year-over-year growth and above the range presented at our September 2024 Investor Day. Adjusted gross profit percentage remained in the expected range for the

quarter, landing at 37%. Gross profit was \$50.3 million, the highest quarterly amount since 2023. Dominic will provide more insight into the impact of both product mix and tariffs on our margins in a few moments. The sequential increase in SG&A; this quarter was largely a function of increased legal expenses. The ITC hearing during the third quarter was one driver, but we also had elevated legal expenses related to the pending shrinkback litigation as we work through fact discovery, depositions and expert analysis. Our third quarter adjusted EBITDA was within our expected range at \$32 million or 23.5% of revenue. And finally, the remediation work for known shrinkback issues progressed as expected. The probability that some additional work may be required in the coming quarters still remains, so we are not changing our estimated range of expense this quarter. However, we are pleased with our ability to respond to all customers that express concerns thus far and resolve those issues requiring remediation. Congratulations to our customer support team, and thank you to our customers for their continued trust and patience. Turning to the broader U.S. market. While current headlines remain distracting and somewhat disconnected from the underlying demand for solar energy, our customers remain as busy as ever. Developers have safe harbor projects for several years with many projects confirmed through 2030. While we do not expect a significant number of projects to be pulled forward, it is reassuring to know that the industry is healthy and growing. As we have discussed, the need for new energy supply is real. The massive investment cycle in AI and data centers, combined with the potential industrialization and onshoring of manufacturing will result in low growth far in excess of what we've seen in recent decades. Solar is best positioned to meet these rising energy needs today and through the balance of the decade. The U.S. Department of Energy acknowledged that solar will play a notable role meeting the growing demand given its speed of deployment and favorable cost structure. Following the passage of HR 1 in July and the treasury guidance issued in August, we believe developers will successfully navigate the tax incentive landscape and as a result, have not seen material changes to project calendars. Less uncertainty and the unrelenting focus on bridging the power supply gap is driving continued investment. Turning to our business units. Third quarter was another strong period of growth within our core utility scale solar market. Customer project calendars remain tight with little excess capacity to move things around. Labor availability is a focus for the industry and will likely remain so for the foreseeable future. That said, our quote volume exceeded \$900 million in the third quarter, a sequential increase of more than 20%. These are projects that would generate revenue in late 2026 and 2027, further supporting our long-term growth trajectory. Our core utility scale market is resilient, and our commercial strategy continues to drive growth. I'd like to now discuss progress we are making in other strategic areas of our business. Shoal's additional growth opportunities include international, CC&I;, OEM and BESS. Our progress in each of these is meeting or exceeding our expectations. The opportunity set across international markets continues to expand. Our pipeline exceeds 20 gigawatts and includes projects in Latin America, EMEA and Asia Pacific. We've hired an experienced commercial leader in Australia, where the government mandate has been expanded to target 40 gigawatts of new capacity, including 14 gigawatts of clean energy capacity by 2027. This is expected to stimulate approximately \$73 billion in overall electricity sector investment. It's a very attractive market and one we're aggressively pursuing. We recognized more than \$6 million of revenue in Q3 from 2 ongoing projects in LatAm and in Australia. We expect to complete all 3 of these international projects in the fourth quarter. Our team anticipates continued acceleration and diversification across our focus markets through 2026. In addition, our relationships with large global developers with ties to the U.S. Export-Import Bank are opening doors and growing our pipeline in developing markets outside our targets of Australia, Latin America and Europe. Our community, commercial and industrial or CC&I; business is performing well. We are engaged with large, well-respected electrical distributors that are driving meaningful quote volume increases. While this market remains small as compared to our core utility scale opportunity, it is one that provides us a path to create lasting relationships and future growth with new customers. Our OEM business is tracking ahead of expectations as our partner continues to see strong demand for their panels. Our deep engineering and manufacturing relationship with the largest domestic module provider is a strategic advantage for Shoals and one we're committed to maintain and expand. The opportunity we've received the most questions about this year is our battery energy storage solutions or BESS offering. So I'd like to provide a little bit more detail today. Last year, we introduced a BESS solution targeting

the solar plus storage market, specifically when new solar plants are built with attached storage systems. That opportunity remains exciting for us today since it builds upon our relationships with existing customers and developers. In addition to that opportunity, there are also 2 additional use cases that we are now pursuing, grid firming and data centers. Let's start with grid firming solutions. Utilities are very interested in providing more reliable and consistent power to their customers. One method is to add grid scale battery storage solutions to their existing grids in order to provide real-time balance between supply and demand. Shoals' product offerings can play a part in providing solutions to system integrators in this area, and we are actively quoting opportunities in this space. In addition to grid firming, there are emerging use cases with data centers. Once again, consistent and dependable energy is critical to operations. Battery storage solutions can provide uninterrupted power as well as to help regulate power demand spikes and troughs created by artificial intelligence processing. This is an area that has significant market potential in the coming years, and we are actively engaged with system integrators in this market as well. This is an exciting time in a relatively young market, but one we are investing heavily in. I'm pleased to share with you today that we have already signed 2 MSAs to deliver products in these emerging BESS markets and are in conversation with several others about providing Shoals systems and their unique solutions. At the end of Q3, we had approximately \$18 million of BESS in our backlog and awarded orders. In summary, our domestic utility scale market is healthy and growing. We are executing our strategic framework of market diversification as anticipated, and we are leveraging our expertise, engineering and manufacturing capabilities to pursue new opportunities with speed and purpose. It is an exciting time to be at Shoals. With that, I'll now turn it over to Dominic, who will discuss our third quarter financial results in more detail and our outlook for the fourth quarter. Dominic?

Dominic Bardos: Thanks, Brandon, and greetings to everyone on the call. Turning to our third quarter financial results. Revenue increased by 32.9% year-over-year to \$135.8 million. The increase in revenue was primarily driven by higher domestic project volume from both new and existing customers. In addition, as Brandon mentioned earlier, our strategic growth channels of international, CC&I; and OEM contributed to year-over-year revenue growth in the quarter. Gross profit increased to \$50.3 million compared to \$25.4 million in the prior year period. Our GAAP gross profit percentage was 37.0% compared to 24.8% in the prior year period within our expected percentage range of mid- to upper 30s. There are a few dynamics worth mentioning with regards to gross profit percentage. First, I'd like to discuss product mix. Certain EBOS solutions drive more value for customers than others. As such, those custom and engineered solutions typically carry higher margins than other product lines. Some new products such as long-tail BLA drive incremental revenue in our share of wallet, but do not carry the same gross profit percentage as our traditional BLA solution. Long-tail BLA does, however, provide incremental gross profit dollars and has allowed us to capture additional share while meeting customer needs. Second, I'd like to provide some color regarding tariffs. Our supply chain team is constantly working to drive material costs out of our products. Months of work to test new raw materials, negotiate terms and onboard new suppliers can be undone in a moment as trade policies change without notice. Unfortunately, like many others, Shoals has been impacted by these policy shifts this year. And as a result, some margin-enhancing savings could not be realized as expected. Moving on to general and administrative expenses. G&A; was \$29.4 million, which is \$10.7 million higher than the prior year period. Our legal expenses, which accounted for approximately \$5.7 million of the increase, remain elevated while we make our way through ongoing litigation matters. Approximately \$6.8 million of legal expense was specifically related to the ongoing wire insulation shrinkback litigation. Income from operations or operating profit was \$18.7 million compared to \$4.5 million during the prior year period. Operating profit margin was 13.7% compared to 4.4% a year ago. Net income was \$11.9 million compared to a net loss of \$300,000 during the prior year period. Adjusted net income was \$21.0 million compared to \$13.9 million in the prior year period. Adjusted EBITDA was \$32.0 million compared to \$24.5 million in the prior year period, representing 30% growth. Adjusted EBITDA margin was 23.5% compared to 24.0% a year ago, driven primarily by lower gross margin flow-through. Adjusted diluted earnings per share of \$0.12 was approximately 50% higher than the prior year period. During the third quarter, we spent \$11.9 million on wire insulation shrinkback remediation and had a remaining warranty liability on our balance sheet of \$7.2 million as of September 30. The current portion of the remaining

liability related to shrinkback is now \$4.2 million. Operationally, we generated \$19.4 million of cash in the third quarter, driven by higher net income, an increase in accounts payable and higher accrued expenses. These increases were partially offset by a higher accounts receivable balance, driven by strong sales volumes and increased spend on warranty remediation. On a year-to-date basis, we have generated \$21.2 million in operating cash flow. Free cash flow was \$9.0 million in the third quarter, reflecting both the \$11.9 million impact of remediation costs and elevated capital expenditures related to our new facility. These 2 items impacted free cash flow by a total of \$22.4 million in the quarter. We received our certificate of occupancy for our new facility in Portland, Tennessee, and we began moving into the new facility in September. We expect to begin consolidating operations from our 3 existing facilities in the fourth quarter and expect to complete the entire consolidation by mid-2026. Our balance sheet remains high quality, and we ended the quarter with cash and equivalents of \$8.6 million and net debt to adjusted EBITDA of 1.2x. Our net debt was \$118.2 million, a slight decrease over the prior quarter. We paid an additional \$5.0 million down on our revolver during the period, which had an outstanding balance of \$126.8 million at the end of the quarter. With regards to capital allocation, given the number of competing priorities for our cash this year, including shrinkback remediation and factory consolidation, we did not purchase any shares in the third quarter under our share repurchase program. Backlog and awarded orders ended the third quarter at a record \$721 million, a sequential increase of \$50 million. Backlog constitutes \$298 million of the total BLAO, providing us with confidence that the growth projections we have for the upcoming period can be achieved. As of September 30, \$575 million of our backlog and awarded orders have planned delivery dates in the coming 4 quarters with the remaining \$146 million beyond that. Turning now to the outlook. Quarterly pacing within the year has continued to follow the strong back half we've been communicating since February. For the quarter ending December 31, 2025, the company expects revenue now to be in the range of \$140 million to \$150 million, representing 36% year-over-year growth at the midpoint and adjusted EBITDA to be in the range of \$35 million to \$40 million. This will result in full year 2025 revenue between \$467 million to \$477 million and adjusted EBITDA in the range of \$105 million to \$110 million. In addition, for the full year, we expect cash flow from operations to remain in the range of \$15 million to \$25 million, capital expenditures to remain in the range of \$30 million to \$40 million and interest expense to remain in the range of \$8 million to \$12. With that, I'll turn it back over to Brandon for closing remarks.

Brandon Moss: Thank you, Dominic. The demand environment over the last few years has been volatile, driven not only by the macroeconomic and political backdrop, but also labor availability, supply chain disruptions and permitting. That said, 2025 appears to be playing out slightly better than we had anticipated when we provided guidance in February. The changes we've implemented, which span both commercial and operational process improvements and shifts in strategic direction and focus are enabling exciting and visible improvements across the company. The transformation from a company with a narrow customer mix, product offering and geographic footprint to a diversified multinational energy solutions provider is beginning to take shape. These changes do not occur overnight, but through the deployment of repeatable processes that improve productivity, visibility and scale, through the hiring of seasoned business leaders who can execute with consistency, through the focus on developing new innovative product solutions for customers facing real-world problems and through an unyielding focus on improving the customer experience from start to finish. We are building the next version of Shoals, one that will deliver attractive returns for our shareholders through profitable growth and strong cash flow generation. I'm very encouraged about the progress we've made and how well we're set to continue the journey in 2026 and beyond. We want to thank our shareholders and customers for their continued trust and our employees for their hard work and dedication. Operator, we are now ready for questions.

Operator: [Operator Instructions] Our first question comes from Christine Cho of Barclays.

Christine Cho: I just wanted to start with the data center opportunity. Brandon, I think in your prepared remarks, you talked about conversations with system integrators. Is that how you expect the data center opportunity to materialize through integrators? And if that's the case, how should we expect the opportunity will show up in your bookings? Should we think something like this \$18 million that you guys talked about this quarter, like more consistently every quarter? Or could we see a lumpy large booking? Also, if you could provide some more information on the MSAs, maybe size, type of

counterparty, how we should expect orders from these MSAs to make it into backlog?

Brandon Moss: Thanks, Christine. As you mentioned, we are excited about the 2 new MSAs. We're excited about the \$18 million of backlog and awarded orders. Specifically, our channel to market, the question around system integrators, we could be partnering with system integrators directly. We could be partnering with EPCs directly on the projects, and we've talked about in past quarters, even a sale to a hyperscaler. So it's a new market and how we partner for a particular project may change from project to project. I think the important thing for us is that we are engaged in some way, shape or form with these projects and are helping customers engineer solutions. Many of these solutions at data centers, and I know you asked specifically about who the MSAs are with and the size, as you know, this one, the data centers, typically, there's a level of confidentiality about where they are and who they are. And specifically with our MSAs, our partners may be deploying some proprietary system architecture. So we're limited about what we can share for those specific opportunities. As we've talked about in the past, this business for us because of the newness of it and even the size and scale of some of these projects, our backlog and awarded orders may at times be lumpy. So I wouldn't specifically count on, hey, we've booked \$18 million, and we're going to continue to book that quarter after quarter. We can have some lumpy bookings. That said, as we begin recognizing revenue on this, the revenue should be somewhat stable as customers take deliveries. On this specific -- or these specific opportunities in our backlog and awarded orders, I would anticipate revenue beginning to materialize in the beginning of second quarter. So very young and evolving market, new product set for us. We're very excited about it. And as we've commented in the past, we're dedicating about 15% of our floor space, our operating floor space here in our new facility to our BESS product offering, and that build-out is underway. So things are progressing ahead of plans.

Christine Cho: Okay. Great. And then just moving on to gross margins. They were soft this quarter despite system solutions being a bigger part of the business than it has been for a while. Can you just help us parse out how much of this is due to tariffs? Is it lower pricing to get back some share? You talked about the lower margin BLA. Is there a margin drag from the expansion of the new manufacturing? Just kind of help us parse it out and if you can give us some idea of how we should expect it to trend over the next year?

Dominic Bardos: Sure, Christine, it's Dominic here. Yes. So the margins have been stable this year and right within the range that we've expected, the 35 -- the mid-30s to upper 30s percent. So coming in at 37% was right within our expectations. In my prepared remarks, I did talk about a couple of things because the new long-tail BLA, as an example, is one where the margins will fall on a percentage basis. There's a large section of that, that expands our share of wallet into the solar field for the feeder cable, and that is just not the same amount of value engineering on that section of revenue. So we've talked about that, and that is part of what's going on as expected. Now the tariff thing is also an interesting one for us because while we're largely protected and mitigated from an increase when we're quoting jobs, we can pass those along as we do the final purchase order. There are some things that we're doing behind the scenes to drive cost out of the system. And that's what I was referring to on the prepared remarks that all the work of our supply chain team to onboard with our engineers to test the new products and to really get new raw materials ready to go, it was actually undone for us. So we did not realize the margin lift that we were expecting. It was still within the range. I would quite honestly hope to have a more pleasant surprise on the upside there, but we were not able to achieve that due to the tariffs that changed in the middle of that process for us. So on the tariffs alone, on that savings, we actually had forecast about a 100 to 200 basis point improvement in margin, and that was undone for us this year. So while we still have very stable margins, keep in mind that the projects that we've done thus far in 2025 were priced in 2024, they still have some of the new incentives that we provided, new customers to come back to Shoals. And I do believe that our stability in the gross profit margin is fine. As I mentioned, we are shifting and have been trying to focus on cash generation, our strong cash flows and operating profit, and we will continue to do so going forward as well.

Matthew Tractenberg: Charlie, next question, please.

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

Julien Dumoulin-Smith: I'm going to try this from a slightly different perspective. You alluded here in your prepared remarks that you're doing slightly better than planned for 2025. But I'd love to hear how

you're doing against the longer-term metrics you articulated from September '24's Analyst Day, right? You've got this 20% plus year-over-year increase in backlog, the \$900 million quoted here in the quarter. How are you looking at the beyond '25 period at this point versus the targets and ranges that you implied at the time here?

Dominic Bardos: Sure. So I'll start and ask Brandon to join in because as he said in his prepared remarks, all of these areas are exceeding our expectations that we laid out at Analyst Day. Of the metrics that we've talked about, I certainly want to focus a little bit on the revenue growth. As we've also said, it's exceeded the expectations and the range that we laid out a year ago. And keeping in mind that a year ago, we also thought that we were victorious in our voltage case with the ITC. So as we look ahead, we're not guiding to 2026 and '27. We certainly are very encouraged at the growth in our book of business. I couldn't be more positive about our backlog and awarded orders. And on our end, I think there was a bit of a glitch when I was talking about the \$298 million of backlog, which is approaching records again. So I believe that the metrics that we've laid out remain very strong. Of those the metrics that we talked about in terms of the various strategic pillars, the BESS opportunity is the one that we believe has the opportunity to significantly exceed what we laid out a year ago. And so I will pause on that because Brandon will talk more about that.

Brandon Moss: Yes. Julien, it's a great question. Let me maybe give a big picture view and then step through some of the growth pillars. I think holistically, revenue -- the revenue generation is exceeding plan and what we laid out in our Investor Day, effectively almost a year ahead of what we've said at Investor Day. So we are very excited about that. Our core focus here has been to protect and grow our core market, return that to growth. The utility scale solar business, as Dominic mentioned, is operating at record levels. Our backlog and awarded orders fantastic at \$720 million. I'm really excited when we can have a record revenue quarter and have a book-to-bill of 1.4x. That is fantastic execution by our commercial team. So I feel really good about our core business. As it relates to our pillars of growth and our diversification strategy, I think all are performing at or above our expected ranges. Our CC&I; business, if you think about that alone, we're up 36% year-over-year. So that is performing at very solid rates of growth. Our OEM business, expanding substantially. As you guys are aware, we have a core customer in that product portfolio that is also expanding, and we are partnering and growing with them, and we're excited about that. Our international business, shipping 3 projects in a quarter is great for us. That probably has not happened in the existence of Shoals. We're excited about the 2 projects in LatAm and one in Australia. Our pipeline is very strong there, and we are building a team out to really focus on that Australian market so -- and New Zealand. So great things to come there. As Dominic mentioned, couldn't be more excited about our battery energy storage program. The 2 MSAs for us in the quarter are big. As well as starting to really see some proof points in that business in those MSAs driving data center and grid scale opportunities. So we are very excited about that. Our team, commercial team with operations, driving a substantial amount of new product development this year. And quite honestly, that's what is -- what's driven some of the international growth. The 3 international projects that we've started shipping this past quarter all have new products as part of those projects, which is very exciting. And really finally, from an operations standpoint, our consolidation is underway. We are excited. We are actually sitting in our new facility today. Our SG&A; team, our salaried staff, this is probably the first time in the history of the company since maybe it's beginnings that we have all been in one building. And so we're excited to build that sense of community and culture within the organization. From an operations, a true operations standpoint, just to commend the ops team. We started our planned consolidation in Q3. We actually moved out of one of our facilities. As we previously disclosed, we sold a building in Q2, I believe it would have been, and we moved out of that building. For perspective, our team moved 540 truckloads of material out of that facility and still met record production levels in Q3. So a fantastic job by them and obviously a confidence boost for us as we complete this consolidation as we can make moves in buildings and produce at record levels at the same time. So I'm excited about how the company is executing for the future.

Matthew Tractenberg: Julien, did you have a follow-up?

Julien Dumoulin-Smith: It's excellent to hear. Can you quantify any of these? Yes. Can you just quantify real quickly just within the backlog addition, some of these MSAs? And/or any of the BESS or data center wins with system integrators?

Brandon Moss: Yes. So in our awarded orders for the quarter, we had \$18 million. A vast majority of that is driven by the MSAs. I can say probably since quarter close, we have moved a significant portion of that \$18 million to backlog and have signed purchase orders. I would think of it maybe in the range of 3/4 of that \$18 million. So we do have now signed purchase orders, which we're excited about. And again, we'll begin production in Q2.

Dominic Bardos: And perhaps I could help just on the MSAs themselves. Unlike the MSAs where we've announced specific targets for volume, these MSAs do not give a specific target for volume. It's the partnership. It has all the terms and conditions so that we can move with haste when purchase orders are ready to go. So I don't want -- there is no additional backlog and awarded orders beyond where we actually have those orders, as Brandon mentioned. So nothing else from the MSAs would impact our record BLAO.

Matthew Tractenberg: Thank you, Julien. Charlie?

Operator: Of course, our next question comes from Philip Shen of ROTH Capital Partners.

Philip Shen: I wanted to dig into the margin topic a little bit more. Can you give us a little more color on the tariffs? Were they the Section 232 inclusion for aluminum on electric cabling that adversely impacted you? I think that came out in August. And as a result, would you expect that to be relieved? Or would you expect to be able to pass that along? Because that was a very sudden kind of inclusion, right, of electric cabling. And so do you think that tariff can be passed along in the near term to your customers? And then as a result, that 100 to 200 basis point operational improvement that, Dominic, you highlighted can then be realized perhaps partially in Q4? Or is it more in first half of next year? So I wanted to see if you could map out how that might play out.

Brandon Moss: So Phil, that's a great question. Section 232 aluminum tariffs obviously have impacted us and others in the marketplace. Think about that specifically, almost in equal parts with the country-specific tariffs. We've got a pretty diverse supply chain. And the way those tariffs are calculated for wire specifically is interesting. You can sort of parse out the aluminum piece of that on 232, you can also parse out the country-specific tariffs there. So I won't get into the granular detail of that specifically on the call here today. But what I would say -- and as Dominic mentioned, we have the ability to pass on tariffs to many of our customers that requires tariff documentation, things like that. And we are doing so, and we'll continue to do so into the future. What Dominic specifically mentioned around the 100 to 200 basis points was part of our material cost-out savings initiatives that we put together in our annual operating plan. And material cost is very important to us. It drives the profitability of our company, quite frankly. And we had great cost-out savings projects identified. And as Dominic mentioned, you switch a supplier and then that supplier is potentially impacted by a tariff that eliminates any potential savings we may have baked into our business plan. So if the tariff landscape change or if these tariffs are ruled unlawful and we would potentially get reimbursed for tariffs paid, you [Audio Gap] through our income statement and impact us positively.

Dominic Bardos: Yes. And the point, Phil, about are they passed along? If it's something that comes along and there was an unexpected tariff, we do work with the customers. But we typically look at our market-based pricing for the products as we're quoting going forward. And if we know that something is going to be tariff, it is going to be baked into the prices that we're quoting. So ultimately, our material costs will drive our profitability there, and that's why the material cost out savings are so important to us. It's probably 70% of our cost of goods sold. So it is a very important initiative for the team. We'll continue to focus on that.

Philip Shen: Got it. So looking ahead, can we expect an improvement in the first half of next year on margins? And then can you share what the margins in your recent bookings might be as a comparison to the Q3 levels?

Dominic Bardos: Yes. So Phil, if you want to come to a staff meeting here, that would be great. We'll talk about those internally. I can't obviously discuss that. We do have -- it's too early to guide for 2026. As I've said before, our margins are -- have been consistent and within the range that we've been talking about, about mid- to upper 30s. We are -- I think Christine asked the question, are we incurring new facilities expense? And yes, we did incur rent in September, the last month of the quarter for our new facility and the depreciation all starts impacting us. And we're not fully operational yet. We haven't

received the cost-out savings there from a labor standpoint. So we will guide to 2026 margins if that's really where we need to focus. My preference would be to talk about the growth of our business segments, our excitement around our new growth opportunities, our strategic pillars and continuing to drive our operating cash. And that's what we're really after. But we'll guide next quarter.

Matthew Tractenberg: Thank you, Phil. Charlie, next question, please.

Operator: Our next question comes from Brian Lee of Goldman Sachs.

Brian Lee: I guess just on the BESS opportunity again, you guys obviously are sounding more bullish, have said that of all the different growth verticals here, that's probably the one that's tracking ahead of expectation more so than others. So can you guys maybe provide a bit of an updated TAM for us in terms of the BESS opportunity with the products that you have? And then how much of that is data center tied? Are you able to kind of quantify for every 100-megawatt data center opportunity amounts to x dollars worth of revenue potential for Shoals given the product set? And then maybe any thoughts around margin implications as well? And I had a follow-up.

Brandon Moss: Sure, Ron. I'll take that. I think when we when we initially launched the BESS opportunity at Investor Day last year, we had approximately \$360 million as an available market to us in the solar plus storage space. We've since added data centers and grid firming as 2 market opportunities. We have internal estimates. These markets are changing rapidly, as you can imagine, particularly driven by the data center AI space. And the applications of our products within some of these system architectures is proprietary. And so a 100-megawatt data center in a specific situation may result in one use of our product, which drives significantly higher ASPs up to maybe \$100,000 a unit. And in other architectures, we may use a smaller product, a 1,200 amp product that may carry a \$25,000 ASP. So it's going to vary architecture to architecture. What is exciting for us is specifically our engineering team is engaged with customers to design specific products for their architecture, and we are building prototype products, shipping prototype products to be vetted by these customers. So we are excited about the potential opportunity. As everybody knows, if you watch the news or read a newspaper, the size and scale of these data centers is changing almost on a daily basis as is our total available market. So more to come in coming quarters about the actual size of the market.

Brian Lee: Okay. Fair enough. We'll look forward to hearing more. Maybe just a follow-up on that. You mentioned the \$18 million of BESS bookings this quarter and then starting to monetize that in Q2 of '26. It's about 3% of backlog today. Is that sort of the sales cycle and sort of the rev rec cycle we should be thinking about on these projects? And if that's the case, are we talking sort of like a mid-single-digit type of revenue mix from this opportunity next year? Because presumably, all the MSAs aren't going to ship in Q2. They just start to ship in Q2. So assuming more bookings coming in, maybe you get to like mid-single-digit percent of mix next year and then it grows beyond that? Just trying to understand where we should be budgeting expectations on this.

Dominic Bardos: Well, sure. So while we haven't specifically guided to 2026, and it is early for us to try to do that, you're right in that we're ramping up. This is an emerging -- these use cases are emerging. Now keep in mind that we have had battery energy storage solutions sold all year long. It hasn't been to the magnitude of what these 2 new use cases are bringing to us. And so that's why we're excited to share with you the \$18 million and the fact that those were driven by the MSAs that have been signed with the alternative use cases. So we haven't guided yet, but clearly there will be some cabinetry and recombiners sold all year long just in our traditional channels. And then we will ramp up these others as the year goes. We will try to provide more color going forward next year. We actually are in discussions about how much we can share, but our expectation is that this is an area of interest, and we want to be as transparent as we can.

Brandon Moss: Brian, maybe just some color around the sales cycle. We can speak to that a bit. As Dominic mentioned, we've had -- while not significant, we have recognized some revenue on BESS all year. A C&I; solar and storage job would have a pretty quick sales cycle. I mean, we may book and turn on order inside of 6 months, whereas a larger grid firming or data center project, they probably follow more of a traditional sales cycle that would look at like a utility scale solar site. So we could be engaged a year, 18 months before we're shipping unit 1 to those individuals for inspection and validation. So longer, probably obvious, smaller sites, shorter sales cycle, larger opportunities, longer sales cycle.

Dominic Bardos: And once we've gotten the actual designs firmed up for certain customers, the sales

cycle will shorten. We've been working on these projects for the vast majority of the year. And we're just excited now here sitting in November to share with you that we've got purchase orders and revenue will start coming next year. But once we've actually landed that, if we continue -- if they continue to win business and award more business to us, those designs have now been approved and vetted and tested out. So then the sales cycle would shorten.

Matthew Tractenberg: Thank you, Brian. Charlie?

Operator: Our next question comes from Jon Windham of UBS.

Jonathan Windham: You made some comments earlier about LatAm and Australia. I was wondering if you could just give a little bit more color on how the international business is progressing in terms of specific products being sold, margins, long-term growth? Just any color you have on that. Appreciate your time today.

Brandon Moss: Thanks, John. We're excited about the international business. We've carried roughly 13% of our backlog and awarded orders has been tied to our international business. I think we're probably 10%, 11% now of our BLA [indiscernible] is tied. So excited to be shipping these first 3 projects. I think of our international business really in 2 buckets, an organic growth bucket in our specific targeted regions, which 2 of the 3 projects are entering in LatAm and Australia. And then I think of our -- the rest of the business in an export bucket. And so the margin profiles for those 2 buckets will look slightly different. Our organically developed markets where we're playing in region, we may be building products outside of the United States, which we actually did on these 3 projects. The margin profile will be slightly lower than our norms. That being said, our export business, which constitutes the greatest portion of our backlog and awarded orders, and we expect projects to begin releasing in next year, and we've got a very strong backlog there. Those projects, for the most part, are funded by the U.S. EXIM Bank, and they need to be manufactured in the United States. And the margin profiles of those jobs will look, by and large, like a domestic utility-scale solar job, maybe minus some shipping costs here and there, but largely the same. So we are excited about the growth of the international business. As I mentioned maybe in the prepared remarks, we're focusing heavily on Australia. There's been a mandate there to add 40 gigawatts new solar in this decade, which we're very excited about. So we've hired an experienced leader, and we're building out a team in Australia to capitalize on that. Australia is also a very, very strong BESS market, arguably probably stronger than the United States at this point. And we believe there's some opportunity for us from an international perspective on our BESS product line. So they're tracking as planned and excited that some of these export projects will finally begin to materialize in 2026 and also excited about the growing pipeline there.

Matthew Tractenberg: Charlie?

Operator: Our next question comes from Dimple Gosai of Bank of America.

Dimple Gosai: As electrical balance of system players and inverter OEMs kind of push into this BESS opportunity, can you talk a little bit more about what differentiates Shoals' architecture and go-to-market model? Like where is your moat as the market scales? And separately, who are you having conversations with mostly today? Is it more of the alternative chemistry players and so forth given the [indiscernible] overhang?

Brandon Moss: Yes. Dimple, that's a great question. So I guess there are inverter companies that are highly engaged in data center architectures. I would say, in conjunction with the products that we sell, to create potentially some alternative architectures that work more efficiently for data center, specifically AI architecture to try to maybe balance and smooth power frequencies in those larger data centers. So we don't think of them -- we don't think of the inverter companies maybe as competitors. We think of them as partners in the system architecture. So I think that probably answers the first question. Dominic, can you...

Dominic Bardos: Yes. I was just going to say that in some of these cases, Dimple, what we're doing is we're actually engineering the solutions in partnership with these innovations out there. So part of that is something that some of the larger electrical companies are not going to be interested in doing. So when we're working with these integrators, it's very important that our engineers can go work back and forth and come up with custom solutions. So being first in and driving that value for them is very important to us. And the chemistry, we are agnostic to the chemistry. So yes, if lithium is challenging and someone uses alternative long-form battery discharge power, that's fine because we're agnostic to

that. We are still focusing on the DC coupled side of things with our solutions.

Brandon Moss: Yes, that's great add on, Dominic. And to be more specific about your questions, are we talking to folks that use alternative chemistry technologies? Yes. I mean, we certainly are. So we've got a wide opportunity and quote funnel for this particular end market, and we are very excited about the growth potential.

Matthew Tractenberg: Charlie, next question.

Operator: Our next question comes from Praneeth Satish of Wells Fargo.

Praneeth Satish: Maybe just sticking on the data center BESS opportunity, just kind of 3 quick ones here. First, maybe if you could help us understand how the sizing is trending on some of the quotes that you're looking at? Is it kind of in that 50 to 100-megawatt range? Or are you seeing potential for some larger installations? You did mention hyperscaler as well. So I assume that's kind of in the gigawatt range. And then maybe as a follow-up to that, are there meaningful differences in terms of the competitive landscape at each of those different size tiers? And is there kind of a sweet spot for you where there's less competition? And then finally, the third one here is in addition to kind of the TAM for data center, new data centers, is there an opportunity maybe to displace some of the diesel generators and drive kind of an expanded TAM from that perspective as well?

Brandon Moss: Absolutely, and a great line of questions. I think the simple answer to probably those 3 questions are yes, yes and yes. So there is a difference. I think you're talking about float size, what are we seeing? Do we see 50, 100-megawatt scale opportunities? We do. Do we see significantly larger opportunities in that? We do. So we've got a product set, one that is standard and configurable that lends well to maybe the smaller data center opportunities that, as I mentioned, I think it was Brian's question, you think of that as more quick turn C&I; business. And then the larger opportunities where we're partnering and designing a specific product for their proprietary architecture is also an opportunity for us. So the competitive landscape varies. As Dominic mentioned, we've got experience here with DC power. I think that plays well. We've got experience in really building engineered-to-order highly configurable solutions at scale. That is probably our core competency if you really boil down what Shoals does well, we are able to build engineered-to-order products at scale. That's what we do every single day in the solar market, and that lends well into this BESS data center opportunity. So we can provide both product sets. As it relates to can these architectures potentially at some point eliminate or reduce diesel backup, yes, potentially. I think there's probably a lot of information out there, white papers, for instance, that talk about different data center architectures, and that's certainly something we've got our eye on.

Matthew Tractenberg: So Charlie, I believe that's the last question that we have time for today. But Brandon, you had some final comments before we close out, and I'll finish this off.

Brandon Moss: Yes, absolutely, Matt. I think, look, at the end of the year and even the end of the quarter, it's always important to reflect a bit, and I'm very proud of what this company has delivered and the transformation it is making over the past couple of years. Big picture, we have navigated a complex warranty issue. And during that warranty issue, we've maintained customer relationships along the way, potentially strengthen customer relationships throughout that. During that period, we have self-funded that \$70 million remediation project, self-funded that project and the legal costs associated with the ongoing Prysmian litigation. And while that's a great accomplishment on its own, we've also invested heavily in our business during that time. If you think about this year alone, we'll invest probably 3x on a normal CapEx rate. And while, hey, it's great to spend that money, we also have to implement that CapEx. And so we are creating a sustainable operations platform for the future, and I'm very, very proud of what we're building. Additionally, during the period, a \$25 million share repurchase, and we've paid down \$50 million of our debt. So I believe this company is very well positioned for the future. We've got a leading market position with a blue-chip customer base. We've got a very strong balance sheet and the ability to generate strong free cash flow. Our diversification strategy, as we mentioned on this call, is meeting or exceeding plans, and we're excited about the new end markets we're entering. We've built a fantastic, fantastic management team here that's going to guide this company into the future. And very exciting for both our salaried and hourly staff. We've got one heck of a nice new facility to support our growth for the future. So it's a fantastic time to be with this organization. I'm excited about the market backdrop we have. We look forward to fantastic results in the future. So I want to thank

everybody that has joined our call today and supports this company. Thank you.

Matthew Tractenberg: And I just want to remind our audience that before we let them go, that we have a very active IR calendar throughout the end of the year. We announced those events a few weeks back via press release. They're listed on the Investors section of our website. So if you're attending any conferences through November and December and you'd like to meet with us, please let us know. We'd love to speak with you. If we can help you further, please reach out to investors@shoals.com with any questions. Have a good day, everyone.

Brandon Moss: Thanks all.

Dominic Bardos: Thank you.

Operator: Thank you all for joining today's call. You may now disconnect your lines.