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Second Quarter 2026 Earnings Call

August 12, 2026

Prepared Remarks

ERIN REED

Thank you, Operator. Welcome to Stem's second quarter 2026 earnings call - this is Erin Reed, Head of Investor Relations. Before we begin, please note that some of the statements we will be making today are forward-looking. These statements involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. For more information, we refer you to our latest 10-Q, 10-K, other SEC filings, and supplemental presentation, which can be found on the Company's investor relations website. Our comments today also include non-GAAP financial measures. Additional details and reconciliations to the most directly comparable GAAP financial measures can be found in our second quarter 2026 earnings release and supplemental materials, which are available on our investor relations website.

Arun Narayanan, CEO, and Brian Musfeldt, CFO, will start the call today with prepared remarks and then we will conduct a question-and-answer session. And now, I'll turn the call over to Arun.

ARUN NARAYANAN

Thank you, Erin. Good afternoon everyone and thank you all for joining us today. On our Q1 call, I told you we would demonstrate what our software-centric transformation was designed to deliver. Halfway through 2026, I am pleased to see evidence of this transformation in the results. The second quarter marked our fifth consecutive quarter of positive adjusted EBITDA, our non-GAAP gross margins remain at record levels, and we saw meaningful commercial momentum across the PowerTrack platform. We made a new market entry in Latin America, received industry recognition for PowerTrack EMS, and continued the expansion of our product capabilities. Given this progress, we are reaffirming our full year 2026 guidance today, which Brian will walk through in detail later in the call.

Let me turn now to an update on our three key priorities for 2026. Our first priority is to drive operational leverage and ensure that the structural improvements we made in 2025 continue. We achieved record non-GAAP gross margins in the second quarter. As in Q1, this was driven by a revenue mix weighted meaningfully toward software, services, and edge hardware, with battery hardware resales remaining relatively low in the quarter as expected. Because we have had minimal revenue from battery hardware resales in the first half of the year, we are trending above the high end of our guidance range for non-GAAP gross margin. We expect to track within the high end of our guidance range of 40% - 50% as we see more battery hardware resale revenue during the second half of the year. On the operating expense side, we continue to manage costs with discipline and drive efficiency through the use of AI. Cash operating expenses remained sequentially flat and were down versus the second quarter of 2025. We are proving that these OpEx levels are sustainable. The improved gross margins and low operating expenses drove adjusted EBITDA of $6 million in the second quarter, up 63% from the second quarter of 2025 and more than double that of the first quarter of 2026. For the first half of 2026, adjusted EBITDA was $8 million, compared to negative $1 million in the first half of 2025. This is clear evidence of the inflection point we have been building toward. Operating cash flow reached breakeven this quarter at $0.3 million, a $9 million sequential improvement and a $22 million improvement versus the second quarter of 2025. Because we expect billings and revenue to continue to build through the second half of the year, we expect this metric to continue improving.

Our second priority is strengthening the core PowerTrack platform. In the second quarter, we added approximately 0.8 gigawatts of solar assets under management, which in turn drove 3% sequential growth in PowerTrack ARR. During the second quarter, we also shipped a handful of product improvements, including an updated UX with dark mode, in-app feedback tools, and keyboard shortcuts. These are changes that our operators and asset managers value in their daily workflows and which set the stage for further product enhancements. Customer adoption of PowerTrack Sage, our AI assistant within PowerTrack, remains strong, reflected in consistent day-to-day usage across a range of organizations. As we discussed last quarter, a key part of our platform investment strategy is a disciplined build-or-buy approach. On the buy side, we continued to advance the integration of raicoon, the automated fault detection and event management technology we acquired in April. That integration into PowerTrack is progressing well, and our development and sales teams are now working through how best to package and release this new capability to customers. We expect to share a more substantive update during our third quarter call.

Our third and final strategic priority is building the foundation for accelerated growth in 2027 and beyond. That means expanding into utility-scale deployments, advancing our international footprint, and unlocking new market opportunities. Starting with utility-scale expansion, bookings grew nearly 15% sequentially in the quarter. We brought PowerTrack EMS to Latin America through the Granja Solar project in Chile where it will serve as the primary control system for a 420 megawatt-hour battery storage system being added to an existing 135 megawatt solar facility. This is exactly the kind of hybrid, utility-scale project that validates the commercial prospects of our EMS offering. We see real potential to extend this delivery model across additional projects in Latin America. We added another new booking in Hungary, where Solarmarkt Group, along with EPC partner Pannonwatt, selected PowerTrack EMS as the integrated energy management, power plant control, and SCADA platform for two 80 megawatt-hour battery systems being added to two existing 60 megawatt solar sites. There is a PowerTrack PPC already in place for these existing solar assets, so this is another proof point for our growth ambitions around hybridization, where we deepen our controls and software offerings over time as plants evolve. Commercial operation of the fully hybridized assets is expected in fall 2026. Altogether, PowerTrack EMS now has bookings across six countries and three continents. The first initial bookings have begun to come live and our Everyray project in Germany, announced in March, is now live. Alongside this commercial progress, we also earned external recognition for the PowerTrack EMS product. I am proud to share that PowerTrack EMS won "The smarter E AWARD 2026" in the Smart Integrated Energy category – recognized by Solar Promotion International and Freiburg Management and Marketing International at The smarter E Europe conference. The Smart Integrated Energy category specifically highlights technologies innovating and advancing the integration, management, and performance of clean energy systems. This is a meaningful external validation of the innovative platform that we have built. Our co-marketing agreement and partnership with Nuvation Energy also continues to build optionality around for projects that require domestic control. We are working closely with Nuvation's technical and sales teams, and in late July we co-presented at the IEEE Power & Energy Society general meeting in Montreal. Finally, on new market opportunities: we officially launched AIONA, our AI services offering, in June. We are currently in conversations with potential customers and running workshops to help them identify where AI can have the greatest impact on their day-to-day operations, focusing first on our existing customer base. We will share a substantive update on AIONA's customer traction as these engagements progress. We are also continuing to explore how our strength in energy optimization software and deep energy market expertise can support data center developers and operators. Development on this offering is ongoing.

Two quarters into 2026, we are executing with discipline and delivering the results we committed to at the start of the year, and I am confident in our team's ability to keep building on this momentum. With that, I'll turn the call over to Brian.

BRIAN MUSFELDT

Thanks Arun, and good afternoon everyone. Let's walk through the results. Total revenue for the second quarter was $34 million, down 12% year-over-year from $38 million. Nearly all of that decline came from lower battery hardware resale revenue, which was three hundred thousand in the second quarter, versus $5 million in the second quarter of 2025. Excluding battery hardware resales, revenue from software, services, and edge hardware was $33 million, up 1% versus the second quarter of 2025. Within that, the revenue mix shifted meaningfully. PowerTrack software revenue grew 11% year-over-year to $11 million, reflecting continued strength in our core commercial and industrial solar monitoring business. Edge hardware grew 22% year-over-year, to $15 million, and project and professional services revenue was $2 million, down 6% year-over-year. Managed services revenue was $6 million, down 34% year-over-year, against an unusually strong second quarter in 2025, where we brought roughly 100 megawatt-hours online in a single quarter. GAAP gross margin was 41% in the second quarter, compared to 33% in the second quarter of 2025. Non-GAAP gross margin reached a record 55%, up from 49%, in the second quarter of 2025, driven by the continued shift of our product mix toward higher margin software, services, and edge hardware, and less from lower-margin battery hardware resale. Given the revenue mix in the first half, non-GAAP gross margin has been tracking above our 40% - 50% guidance range. Because we expect more battery hardware resale revenue during the second half of the year, we expect full year margins to move back toward the upper end of that range. GAAP operating expenses were down both year-over-year and sequentially. Cash operating expenses were sequentially flat, and down 11% year-over-year, as we continue to manage costs with discipline, even as we invest deliberately in target growth areas. The second quarter of 2026 marked our fifth consecutive quarter of positive adjusted EBITDA at $6 million, representing an 18% adjusted EBITDA margin. Adjusted EBITDA was up 63% from $4 million in the second quarter of 2025. Operating cash flow was positive $0.3 million in the second quarter, compared to negative $21 million in the second quarter of 2025 and negative $8 million in the first quarter of 2026, representing a sequential improvement of nearly $9 million from the first quarter of 2026. The improvement reflects the benefit of increased high margin billings and revenue flowing through the business, and we expect continued improvement through the balance of the year. We ended the second quarter with $38.4 million in cash and cash equivalents, up from $36.6 million at the end of the first quarter. We remain very focused on our capital structure. During the quarter, we opportunistically used our at-the-market (or ATM) equity sale program, raising approximately $6 million at an average stock price of roughly $9.75 for general corporate purposes.

Now turning to operating metrics. Bookings were $37 million in the second quarter, up 39% from $27 million in the first quarter of 2026, and up approximately 7% from $34 million in the second quarter of 2025. Contracted backlog was $27 million at the end of the second quarter, up 18% from $23 million at the end of the first quarter. CARR was $69 million, up 3% from $67 million at the end of the first quarter. ARR increased 2% to $62.4 million from $61.2 million at the end of the first quarter. Within that, PowerTrack ARR grew 3% sequentially and 13% year-over-year to $42.8 million, and managed services ARR was roughly flat sequentially at $19.6 million. Solar operating AUM grew 2% sequentially to 38.3 gigawatts, and storage operating AUM grew 6% sequentially, to 1.8 gigawatt-hours, driven by PowerTrack EMS projects coming online.

Now turning to guidance. As Arun mentioned, we are reaffirming our full year 2026 guidance across all metrics: total revenue of $140 to $190 million, with software, services and edge hardware expected in the range of $130 to $150 million. We provided guidance on battery hardware resales of up to $40 million which we still anticipate to be weighted to the second half of the year, and we expect to trend toward the lower end of that range. We expect non-GAAP gross margin of 40% to 50%, with the range driven by the timing and volume of battery hardware resales. Given that we expect to trend toward the lower end of the battery hardware resale revenue range, we expect to trend toward the higher end of our non-GAAP gross margin range. Adjusted EBITDA remains at $10 to $15 million, and we are tracking towards the high end of the range. We expect operating cash flow of $0 to $10 million and year-end ARR of $65 to $70 million. And now I will pass the call back over to Arun for closing remarks.

ARUN NARAYANAN

Thank you, Brian. I'd like to leave you all with three key takeaways from this quarter. First, our operating leverage story continues to build. Five straight quarters of positive adjusted EBITDA, a second consecutive quarter of record non-GAAP margins, and operating cash flow at breakeven, all without pulling back on investment. This is the kind of durable, structural improvement we told you we were building toward. Second, our core platform continues to strengthen. PowerTrack software revenue grew 11% year-over-year, and we took disciplined steps to extend our platform capabilities and make PowerTrack a more complete solution for our customers. Third, we are making tangible progress on the growth initiatives that will carry us into 2027 and beyond. PowerTrack EMS is now booked across three continents, we entered a new region in Latin America with Copec's Granja Solar project in Chile, alongside a new hybridization booking with Solarmarkt Group in Hungary, and we earned industry recognition with "The smarter E Award."

Halfway through 2026, I am very pleased with the progress we are making against our commitments we set out at the beginning of the year. I want to thank our customers for their continued partnership, our team for their exceptional execution, and all of you for your support and engagement. With that, I will ask the operator to open the line for questions.

Q&A SECTION

OPERATOR

This concludes the question-and-answer session. I would like to turn the conference back over to Arun Narayanan for any closing remarks.

ARUN NARAYANAN

I want to thank everyone for joining our second quarter earnings call. We look forward to speaking with you next during our third quarter 2026 earnings call this fall. Thanks everyone.