

First Quarter 2025 Earnings Call

April 29, 2025

Prepared Remarks

TED DURBIN

Thank you, Operator.

This is Ted Durbin, head of Investor Relations at Stem. Welcome to our first quarter 2025 earnings call. Before we begin, please note that some of the statements we will be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. We therefore refer you to our latest 10-Q, 10-K and other SEC filings, including the supplemental materials, which can be found on our 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 earnings release, which is on our website.

Arun Narayanan, CEO, and Doran Hole, CFO and EVP, will start the call today with prepared remarks and then we will take your questions. And now I will turn the call over to Arun.

ARUN NARAYANAN

Thanks Ted, hello everyone, and thank you all for joining us today.

We made significant progress advancing our strategic priorities in the first quarter, with early success evident in our results. But before diving into these results and our outlook, I want to highlight important changes we have recently implemented in how we structure our business internally.

Since becoming CEO, a key priority has been implementing organizational adjustments to realize our strategic shift. We have transformed our operating model by establishing four distinct business

units that clearly define how we organize and run our business. Our four business units are software, professional services, managed services and OEM hardware. Each unit will have full P&L responsibility and accountability for their financial performance including EBITDA and cash flow metrics.

This new structure represents an intentional shift in how we manage our business, and we believe it will deliver multiple strategic benefits. It empowers our leaders to make efficient, market-responsive decisions about resource allocation and investment priorities. The new structure also enables more precise tracking of return on investment across our portfolio, allowing us to optimize capital deployment toward our highest growth opportunities.

Additional details about these business units are available in our supplemental materials on the IR website. I'd like to once again emphasize that while these business units guide our internal operations, they may differ from external reporting segments. We look forward to sharing more about these changes and their impact in the coming quarters.

Directly related to these changes in how we organize and run our business, on April 9th, we announced a targeted 27% reduction in force that we expect to result in \$30 million of annual cash cost savings, including an expected \$24 million cash benefit in 2025. These reductions were thoughtful and consistent with our software-focused strategy and will preserve our ability to grow software revenue. To that end, we maintained the full strength of our PowerTrack team, which is central to our near-term growth strategy. Our changes also preserve our ability to honor commitments to customers across all business areas.

This restructuring was a critical step for us to execute on our three key priorities which I laid out on our fourth quarter earnings call in early March.

- First, to grow our software revenue with a renewed focus on PowerTrack;
- Second, to reduce our cost structure and drive profitability; and
- Third, to revamp our software development.

I am pleased to say that we have made definitive progress on all three priorities.

Let's begin with an update on our refined strategy that is focused on growing software revenue:

As I mentioned earlier this year, one of the key factors that drew me to Stem was PowerTrack's distinctive position and strong reputation in the market. PowerTrack is a market leader in the commercial and industrial, or C&I, segment of solar asset monitoring software.

During the first quarter, solar annual recurring revenue, or ARR, was up 10% sequentially and up 24% year-over-year. These results clearly demonstrate the tangible success we are having in growing our business to provide more scalable, recurring, and profitable revenue streams.

We are continuing to invest in PowerTrack to be able to serve smaller utility-scale customers, which to us generally means in the range of 20 to 100 megawatts. Utility-scale deployments are much larger than C&I, and our market share in this segment is modest, presenting significant growth opportunities. We are seeing momentum in utility-scale, with nearly triple the bookings in the first quarter compared to the same period last year. We are also investing to grow our software deployment presence in international markets.

Managed Services including our storage software, Athena, also performed well in the first quarter. We drove storage ARR higher by 4% sequentially, and 31% over the same period last year. Our software continues to deliver substantial value and ROI to our customers who continue to face challenges in maximizing the value of their energy storage assets. Our strategic focus for storage is centered on software and services, particularly for brownfield opportunities that enable faster revenue conversion.

Additionally, we are experiencing growing momentum in our professional services offerings. Our team of industry experts has established themselves as trusted advisors and thought leaders in the clean energy sector. We are excited about this offering because these professional services engagements can in turn drive downstream business development for our software solutions.

Now a discussion of our second focus area - cost savings and profitability:

During the first quarter of 2025 we reached several significant profitability milestones. We delivered strong gross margins, driven by robust growth across our high-margin software, services, and edge device offerings. Additionally, we generated positive quarterly cash flow from operations for the first time in our history. We believe this validates both our refined business model and strategic execution.

Importantly, our first quarter results do not reflect the financial benefit we expect to realize from the organizational changes and cost savings we recently implemented. We expect to see improving profitability as we move through the year.

Lastly, let's discuss our third priority - our software development revamp:

We are focused on protecting and expanding PowerTrack's success in the C&I market through continuous product refinement, investment in differentiating product capabilities, and responding to customer feedback. We continue to develop our PowerTrack EMS software with the goal of entering new markets such as when projects deploy standalone storage or co-located solar and storage installations. We are excited to soon bring to market software that brings the asset monitoring capabilities we have mastered in solar to both storage and hybrid assets. As part of our portfolio review, we made the difficult decision to pause on further development of two products: PowerBidder Pro and Asset Performance Management, or APM.

Looking forward, our refined software roadmap emphasizes AI integration across our development process and product suite, positioning us to accelerate the delivery of innovative solutions to our customers. As mentioned in the previous call, we are aiming to bring a step-change to developer productivity by using generative-AI methods in our lifecycle and will have updates in future earnings calls.

I would also like to address the current macro environment. While the clean energy sector faces uncertainty due to evolving economic and regulatory policies, we are maintaining our upward momentum. Today, our bookings pace and pipeline development remain robust across our core offerings. Our software and service offerings are largely exempt from the current types of tariffs being considered. Some of our offerings such as PowerTrack-compatible edge computing devices will face a limited tariff exposure. These generally pass through to our customers. On the OEM storage resales business, which forms a smaller portion of revenue, we will work with our suppliers and customers to negotiate tariff absorption or diversify to domestic suppliers.

With all this in mind, we are pleased to reiterate our full year 2025 financial guidance across all metrics.

Lastly, I want to welcome both Vasudevan Guruswamy and Krishna Shivram who have joined our board recently. They both bring significant energy-industry, financial, and technology expertise to the board and I am glad to have them with us.

With that, let me turn the call over to Doran.

DORAN HOLE

Thanks Arun.

I'll start with a quick review of our first quarter 2025 financial performance.

Overall, our quarterly results were in line with the expected cadence of our 2025 guidance that we announced on our last quarterly call. Total revenue was up 27% year-over-year, driven by strong growth across the business. Importantly, software revenue was up 17% versus Q1 2024, reflecting continued strong performance from PowerTrack and increased storage software activations.

We generated a record GAAP gross margin of 32%, and our non-GAAP gross margin of 46% was close to an all-time high. The significant margin expansion versus prior years evidences the value of our refined strategy focused on higher-margin software and services revenue, while reducing our reliance on battery hardware resale.

Adjusted EBITDA for the quarter improved versus Q1 2024, not only driven by margin expansion but also by continued operating cost discipline.

We generated \$9 million of operating cash flow, which as Arun mentioned, is the first quarter of positive operating cash flow. We think this milestone proves that the company is on the right strategic path. Additionally, we generated just over \$2 million in net cash during the quarter, growing our cash balance to \$59 million at quarter end. We plan to remain disciplined with our dedication to cash conservation, margin improvement, and working capital usage.

Turning to our operating metrics: as we announced during our fourth quarter earnings call, we have introduced enhanced operating metrics that should provide stakeholders with better visibility into the key drivers of our financial results.

During the first quarter of 2025, contracted backlog and CARR both increased sequentially largely due to solar bookings. Total bookings were lower sequentially due to slight seasonality in this

metric – we generally see heavier bookings in the second half of the year. We saw solid growth in solar ARR and AUM, and in storage ARR, versus the fourth quarter of last year. Storage AUM sequentially declined slightly because we removed the AUM associated with PowerBidder Pro, which we are de-emphasizing as Arun discussed previously.

Now, on to guidance. Today we are pleased to reaffirm, across all metrics, the 2025 guidance we announced last quarter. As Arun said, our revenue performance and expectations for 2025 remain solid despite recent economic policy changes and uncertainty. At this point, we see no discernible slowdown in deployments by our customers. Our backlog is solid, and we have good visibility on ARR and revenue growth thanks in part to our enhanced focus on driving the newly-announced business units. From a margin perspective, we expect to pass through any tariff-related impacts to customers while preserving our target margins.

Regarding our adjusted EBITDA and operating cash flow outlook, we are on track to meet our targets. Our recent cost optimization efforts, including the targeted workforce reduction, are expected to yield immediate and lasting financial benefits. These efforts are expected to generate \$30 million in annual cash cost savings, with \$24 million of that benefit realized this year. While our headcount reduction was 27%, we expect to achieve dollar savings in the high 30% range, substantially exceeding our initial target of 20% we talked about last quarter. And lastly on liquidity, we believe our solid cash position provides us with sufficient runway to execute our business plans.

As Arun discussed, in April we implemented a new business unit structure. As part of these changes, we plan to enhance our financial transparency through segment reporting. We think this increased visibility will provide our investors with deeper insights into the value propositions and performance drivers across our different business lines. The organizational changes mark a significant milestone in Stem's evolution in support of the strategy shift announced last fall, positioning us to drive stronger financial discipline, accelerate smart decision-making, and ultimately deliver enhanced shareholder value through more focused execution. While we expect to provide insight to investors on the financial performance of these business units, the formal segmentation in our financial reports may differ slightly.

Finally, we issued our definitive proxy statement last week and set our shareholder vote for June fourth. As we mentioned last quarter, we have asked shareholders to approve a reverse stock split

of our common stock. This reverse split is intended to allow us to regain compliance with New York Stock Exchange listing standards.

Now I will pass the call back over to Arun for closing remarks.

ARUN NARAYANAN

Thanks, Doran. In closing, I want to directly address our team, our customers, and our investors.

First, to our team. We've recently undergone significant organizational changes, including a difficult but necessary 27% reduction in our workforce. To those individuals who have departed Stem, we are grateful for your contributions. To our current team members, I recognize this period of change creates uncertainty and challenges. Your resilience, professionalism, and unwavering focus on customer success during these changes has been remarkable and is part of what attracted me to Stem in the first place.

Second, to our customers. We remain committed to providing you with superior software and services that maximize the value of your solar and storage assets. We are doubling down on our commitment to enhance the features and functionality of our software products to deliver the insights and performance you need. Our financial position is getting stronger, and we are well positioned to grow with you throughout the market cycles.

Lastly, to our investors. We are appreciative of your support and trust in the company and that you are standing with us. We are now better positioned for sustainable growth. We believe that our refined product focus on our core software and services together with our streamlined organization, strengthen our path to profitability. With our industry-leading solutions and dedicated team, I remain confident in Stem's future.

With that Operator, let's open the line for questions please.