

Second Quarter 2025 Earnings Call

August 7, 2025

Prepared Remarks

ERIN REED

Thank you, Operator.

This is Erin Reed, Head of Investor Relations at Stem. We welcome you to our second quarter 2025 earnings call. 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. We therefore refer you to our latest 10-Q, 10-K other SEC filings, and 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 second quarter 2025 earnings release, which is on our website.

Arun Narayanan, CEO, and Brian Musfeldt, CFO, 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 Erin, hello everyone and thank you for joining us. Q2 2025 was a quarter unlike those prior, as we took many steps to stabilize and position the business for future success and growth. We've delivered record software revenue and positive adjusted EBITDA for the quarter, refinanced our debt and significantly strengthened our balance sheet, continued to manage our operating costs including a difficult but critical strategic reduction-in-force, and executed on our software-centric strategy defined by our new BU structure. While achieving all this, we are also looking to the

future, and we will announce an AI-enabled PowerTrack offering today. I will also touch upon the macro environment and guidance for the year.

Let's delve into these topics now. I am pleased to report outstanding results for the quarter. We reported total revenue of \$38.4 million for the quarter, up 13% year-over-year. Total ARR grew 3% sequentially and 22% year-over-year to \$59 million, demonstrating continued momentum in our recurring revenue base. We entered into several new PowerTrack software engagements during the quarter including Norbut Solar Farms' standardization across their 50 megawatt portfolio, and PowerTrack power plant controller and data acquisition support for Avangrid's 57 megawatt Camino Solar project. PowerTrack continues to be the industry standard for C&I solar asset monitoring, and looking ahead, we remain focused on driving PowerTrack adoption in international and utility scale markets.

For storage, our strategic focus remains centered on software and services, particularly with brownfield opportunities for managed services that enable faster revenue conversion. This quarter we saw this strategy pick up momentum and signed multiple brownfield deals with customers. The managed services team continues to deliver proven strategic advantages across the value chain to our storage customers.

Professional services continued expanding during the second quarter, with a number of new consulting engagements. This included the announced Green River Energy Center project with rPlus Energies where we provided energy storage metering configuration and power flow analysis; notably, this was not Stem's first engagement with rPlus, demonstrating that customers are getting value from professional services and are returning for additional support. This quarter we also substantially enhanced our professional services offerings in energy market education and strategy and introduced customer support for navigating policy and regulatory environments and project finance advisory.

Growing our software and services revenue is a strategic priority for us and we are delivering on this.

Now to another strategic priority, reducing our cost structure and driving profitability. We achieved strong GAAP and non-GAAP gross margins this quarter, reflecting continued growth of high-margin software and services revenue and active cost management. The strategic reduction in force

implemented in the second quarter is now fully effective and represents approximately a 35% reduction in personnel costs. While these decisions and actions were challenging, these cost-cutting efforts enabled us to reduce cash OpEx year-over-year by nearly 40% and generated positive adjusted EBITDA of \$4 million for the quarter, representing a \$15 million year-over-year improvement. We continue to focus on cost savings, while ensuring the business has the resources necessary to scale and capture the opportunities ahead.

Now to the balance sheet. This quarter we also completed a strategic debt exchange transaction, which at a high level, allowed us to exchange a large portion of our old debt for a new and significantly smaller loan that is due at a later date, giving us more time before the debt matures and more importantly, reducing our overall debt burden. We were able to capture a discount of close to \$200 million through our debt exchange transaction. Most of the debt we have now has a five year runway.

Now let's turn to an update on our internal business unit structure. Our software-centric strategy, and our organization as business units help us deliver on our financial metrics and positions us to capitalize on the significant opportunities in the evolving energy landscape. As mentioned in the previous earnings call, we have organized Stem into four business units – Software Products, Managed Services, Professional Services and OEM Hardware.

These business units help guide our internal operations. Each business unit president has full P&L responsibility, which is a simple yet critical change that is driving focused growth and investment strategies within their domains. While the new structure is supporting investment and growth within each business unit, it is also designed to enable collaboration across the business units by encouraging cross selling of each other's products. We are hopeful that this collaboration will yield tangible results in the coming quarters.

We have nearly finished formalizing our internal reporting structure around these four business units. Next quarter we plan to launch external segment reporting, which will give investors enhanced visibility into how each business unit is performing. An important note - while these four business units guide our internal operations, the external reporting segments may be structured slightly differently under the accounting rules and for investor transparency. I am pleased to say that we are already reporting a more detailed revenue breakout on our Income Statement in our form 10-Q to provide clarity into our business.

Our software offerings set us apart. I am pleased to announce two new software offerings today. First, let's talk about PowerTrack. I am excited to announce that we are bringing the PowerTrack EMS offering to the market. This is a key product for us that allows us to expand into storage and hybrid assets and also into the utility scale solar space. In a way, this product fully integrates AlsoEnergy's solar C&I offerings with Stem's storage offerings. As a result, we are now focused across key markets – solar, storage, and hybrid assets in both the C&I and utility scale segments. The product, PowerTrack EMS, is a crucial offering for the market. It adds a comprehensive control layer with integrated cloud capabilities to PowerTrack. Some customers have previewed the product, and we already have received positive feedback from these prospective customers. We are launching sales of PowerTrack EMS at the upcoming RE+ conference in Las Vegas in September and expect an estimated 6-9 months between bookings and revenue recognition.

As we discussed in previous quarters, we continue to incorporate advances in AI into our offerings. Looking ahead, we have the opportunity to bring LLM-like technology to PowerTrack. The second product announcement I am making today is in this space. Today I am pleased to announce PowerTrack Sage, which will allow customers to experience the capabilities of PowerTrack through a chat-like experience, allowing for greater interactivity, interpretation, and remedial actions. This allows us to expand our customer base to new types of customers and also provide additional value to existing customers' workflows by integrating different work steps, eventually allowing them to streamline their operations. Development for this product is well underway, and we hope to bring it to customers soon. Revamping our software development and taking advantage of advances in AI is a strategic priority for us and we remain focused on it.

Now turning to the macro environment. While headwinds from tariffs and policy uncertainty continue, we remain confident in our ability to navigate these challenges. This is driven by our team's ability to adapt and as a direct result of some of the transformational strategy changes we have made over the last year or so. Our diversified software-centric model and international expansion strategy position us well. Our software and services offerings are largely insulated from hardware tariffs. Furthermore, many of the projects in our near-term pipeline are already well under construction, and as of today we do not expect to see softening this year. Our Professional

Services business unit actually benefits from this complexity, as we've developed specialized policy and regulatory offerings to help customers navigate the evolving landscape.

The largest share of our revenue today comes from the US C&I solar market, and we continue to view it as a strong and sustainable opportunity – even without government incentives. Recent market forecasts from Wood Mackenzie show installations in this key market growing in 2026. Furthermore, with load growth expected to rise, new capacity will need to be built, and we will be here to support that build out with our industry leading offerings.

Now onto guidance. With the close of the second quarter, I am pleased to report that we are tracking towards the high end of guidance for all metrics but operating cash flow, for which we are tracking towards the low end of the range. Because we remain in an uncertain policy and regulatory environment, we will not be updating the ranges today, although I am very pleased to reiterate our full year 2025 financial guidance across all metrics, and believe we are de-risking the bottom end of nearly all ranges. Overall, we have delivered a very robust and defining quarter on all fronts. Our future technology roadmap, a cleaner balance sheet, and a lower operating cost structure all point to a pathway where we can deliver on our promises.

Before I turn the call over to Brian to walk through the financials in more detail, I would like to formally welcome him back to the Stem team. Brian brings nearly 30 years of finance and management experience in clean technology and energy to Stem, including as the CFO of AlsoEnergy for five years. Brian's experience is in complete alignment with the strategic direction the Board has charted for the Company. I am really excited to have Brian back, and I look forward to Brian's support in the next phase of Stem's development.

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

BRIAN MUSFELDT

Thanks Arun, and hello everyone. I am excited to be back with Stem. I have spent nearly three decades in finance and operations leadership, most recently in software related clean technology and energy. I spent over five years helping manage and build PowerTrack into the US market leader in solar asset monitoring and I am excited to continue that journey as I see tremendous opportunity ahead as we execute our software-focused strategy into the solar and storage markets.

My key strategic priorities as CFO are focused on profitable growth and cash management as we look to expand each of our key business segments over the coming years.

Turning to our second quarter 2025 financial performance. Total revenue grew 13% year-over-year to \$38 million. Notably, solar software continued its strong growth trajectory growing 20% year over year, and storage software and managed services revenue grew an impressive 53% year-over-year, with 100 megawatt-hours of new storage assets commissioned in the quarter. This quarter, we introduced a more detailed revenue breakout on our Income Statement in our form 10-Q, to provide enhanced clarity into our business. You can also see it further highlighted on page six of our supplemental materials.

We again achieved strong gross margins this quarter with GAAP gross margin of 33%, and a record non-GAAP gross margin of 49%. This expansion reflects the increasing mix of higher-margin software and services in our revenue base.

GAAP operating expenses were down 17% quarter-over-quarter, and cash operating expenses were down 20% quarter-over-quarter, and 39% year-over-year. These OpEx reductions were primarily the result of the completion of our targeted workforce reduction in the second quarter that resulted in annualized savings of over \$27 million, or approximately 35% of our personnel expenses. Cash Operating expenses of \$18 million this quarter exclude the \$6 million dollars in one-time expenses from this reduction in force. We expect operating expenses to continue to decline throughout the balance of the year, as we continue to drive cost savings across the business.

The improved margins and significantly reduced OpEx drove positive adjusted EBITDA of \$4 million this quarter, demonstrating that our strategic realignment and cost discipline initiatives are delivering results.

Operating cash flow came in at negative \$21 million for the quarter, driving cash of \$41 million at the end of the second quarter. The decrease in operating cash flow was largely due to an outflow from working capital, and \$6 million of one-time payments related to the reduction in force implemented during the quarter. Working capital will fluctuate from quarter-to-quarter in the normal course of business. This quarter, due to timing with customers and vendors, accounts receivable increased and accounts payable decreased. This, combined with other one-time, non-recurring payments caused a net decrease in working capital and cash on hand at the end of the

quarter. Based on the extensive cost reductions executed in the second quarter, and the de-emphasis on the capital-intensive OEM battery resale business, we expect to generate positive cash from operations in the second half of the year, and today, have reiterated our operating cash flow guidance of between \$0-\$15 million for full year 2025.

As Arun stated, during the quarter we also completed a significant debt exchange transaction which we see as significantly strengthening our financial position. The transaction consisted of a private debt exchange for the majority of our outstanding 2028 and 2030 convertible notes. Specifically, we acquired \$229 million of the 2028 convertible notes, and \$121 million of the 2030 convertible notes, in exchange for \$155 million of new first lien senior secured notes, due in 2030.

This transaction retired \$195 million of debt at a meaningful discount while extending debt maturities. Additionally, we see this transaction as materially strengthening our balance sheet by reducing medium-term liabilities and overall net leverage, as well as providing enhanced financial flexibility as we scale our business.

And now turning to our operating metrics. As announced during the 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.

Bookings, representing all one-time and recurring revenues with executed purchase orders in the period, were nearly flat, as expected, due to the typical seasonality of this metric. Contracted backlog, comprising all hardware and non-recurring services bookings with executed purchase orders not yet delivered to our customers, grew 6% sequentially. CARR, which includes all annualized recurring revenues for systems with executed purchase orders that are not yet operating, and all operating Stem customer subscription contracts, increased 1% sequentially. ARR, which includes all Stem operating recurring revenues, increased 3% sequentially and 22% year-over-year. Finally, storage and solar AUM increased 4% and 1% respectively, since last quarter. These redefined operating metrics provide enhanced visibility into our future revenue.

In other updates, I am pleased to report that our reverse stock split became effective on June 23, and we are now in compliance with NYSE listing standards.

Now, on to guidance. As Arun said, we are reiterating our full-year 2025 guidance across all metrics and we are tracking towards the high end of guidance for all metrics except operating cash flow, for which we are tracking towards the lower end of the range.

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

ARUN NARAYANAN

Thanks, Brian. As we look ahead, I remain highly confident in Stem's trajectory and our ability to deliver sustainable, profitable growth. Our new business unit structure is operating effectively, with each unit driving focused results. Our strategic priorities are delivering measurable outcomes, and our strengthened balance sheet provides the financial flexibility to invest in compelling growth opportunities.

The clean energy transformation continues accelerating globally, creating a massive market opportunity. Our market-leading software platforms, industry-leading solutions, and dedicated team position us to capitalize on this transformation. Combined with our enhanced financial foundation and proven ability to navigate macro challenges, Stem is exceptionally well-positioned for the road ahead.

I want to thank our investors and customers for their continued confidence and trust in us, and I want to take this opportunity to also express my gratitude for the hard work and contributions of Stem employees in achieving these results.

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

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 the second quarter earnings call, and we look forward to speaking with you next during our third quarter earnings call in the Fall. Thanks everyone.

OPERATOR

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.