First Quarter 2026 Earnings Call

May 6, 2026

Prepared Remarks

ERIN REED

Thank you, Operator.

Welcome to Stem's first 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 our 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 first quarter 2026 earnings release and supplemental materials, which are available on the Company's 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. When I spoke with you last during our fourth quarter and full year 2025 earnings call, I framed 2025 as a transformative year and 2026 as the year to demonstrate what that transformation was designed to deliver. One quarter in, I am encouraged by the progress we're making. Our results are moving in the right direction, and we remain on track against the commitments we've set.

Q1 is historically the lightest revenue quarter for us and our industry, and yet, this quarter we delivered our fourth consecutive quarter of positive adjusted EBITDA. In fact, this was our first-ever positive adjusted EBITDA in a first fiscal quarter, supported by strong gross margins and continued growth in core software, services, and edge hardware revenue. This reflects a cost structure and a margin profile that are now increasingly durable. We remain on track across all 2026 financial and operating targets, and we are reaffirming full year guidance across all metrics today.

Now, turning 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 are sustainable and continue over time. Gross margins for the first quarter were again very strong. With no battery hardware resales in the quarter, our revenue mix was entirely software, services, and edge hardware, which drove non-GAAP gross margin to 52%. As we opportunistically layer in battery hardware through the balance of the year, we expect margins to naturally compress toward the midpoint of our 40%-50% non-GAAP gross margin guidance range. Importantly, the underlying software and services margin engine remains strong.

On the operating expense side, we continue to maintain what we've characterized as permanent structural efficiency. Cash operating expenses were down significantly year-over-year and down sequentially versus the fourth quarter of 2025. We remain focused on resourcefulness and driving further efficiency wherever we can, while continuing to invest deliberately in the areas that drive longer-term growth.

One area where we are seeing meaningful efficiency gains is in AI adoption. Today, nearly 70% of our employee base is actively using AI tools in their weekly workflows, with tangible productivity benefits to our customers. Within our development team specifically, AI is accelerating feature delivery and improving triage and operations. These productivity gains are real, and they are helping us do more with a leaner organization.

As a result of our strong execution as well as these achievements and advancements, we delivered $2 million in adjusted EBITDA – our fourth consecutive positive quarter, and our first-ever positive first quarter performance. This clearly evidences the operating leverage embedded in this business, and we expect it to expand as we move through the year.

Operating cash flow was negative $8 million for the first quarter. This reflects expected Q1 working capital timing and scheduled interest payments. As bookings and billings increase and working capital requirements lessen throughout the year, we expect improvement in operating cash flow and remain confident in our full year guidance range of $0 to $10 million.

Now moving to our second priority: strengthening the core PowerTrack platform. PowerTrack is a critical digital infrastructure platform which enables our customers to go from data, to insight, to action. PowerTrack generates data at the customer sites with our edge hardware and sends that data to the cloud and ultimately to our PowerTrack software platform enabling our customers to make meaningful decisions about their portfolios and optimize their assets.

We added approximately 1.5 gigawatts of solar assets under management in the first quarter, bringing total solar AUM to 37.5 gigawatts and we drove 2% growth in PowerTrack ARR. We are committed to maintaining and extending our market-leading position in commercial and industrial solar asset monitoring, while extending into additional customer segments, and we continue to invest in the platform's stability, performance, and feature depth to achieve these goals.

A key part of that investment strategy is a disciplined build-or-buy analysis. Our acquisition of raicoon, which we announced on April 28th, is a direct, and strategic move towards building out that platform capability and improving the actionability from insights in data. Raicoon is an Austrian provider of automated fault detection and event management for solar assets. This is a targeted, high-impact acquisition – a natural capability extension to our platform that we believe has immediate value across our wide customer base. Raicoon's technology provides enhancements to PowerTrack through automated fault detection and alert prioritization. As our customer base scales and portfolios grow more complex, the ability to surface and triage performance issues faster is increasingly important for our customers to drive meaningful actions at scale. We expect raicoon's technology will drive customers to do even more work within PowerTrack, further establishing our product as the platform of choice for solar asset managers. What's more, this is a small, focused tuck-in acquisition that we executed opportunistically and will integrate quickly. We look forward to sharing more on the benefits of this acquisition as product integration progresses.

Another way in which we make data more accessible for our customers is with PowerTrack Sage. PowerTrack Sage is now live and available in PowerTrack to our broader customer base. The AIassistant synthesizes live site data, alerts, and performance analytics into plain-language briefings – giving operators, performance engineers, and asset managers the ability to detect, diagnose, and resolve issues faster. The early adoption signals are very exciting. We are seeing consistent daily engagement across multiple customer organizations with integrations into their daily workflows. In the future, as more heterogenous data appears in PowerTrack, the capabilities of PowerTrack Sage will become more meaningful to our customers.

Turning now to managed services. Our managed services business provides software-enabled, full-lifecycle energy storage services – covering design, procurement, commissioning, and the ongoing operation and optimization of energy storage systems, typically under five- to twenty-year contract terms. Managed services brought in approximately $7 million in revenue during the first quarter. Customer satisfaction remains high, and our optimization service continues to exceed the performance targets we have set with our customers.

Shifting now to our final strategic priority: building the foundation for accelerated growth in 2027 and beyond, which includes expanding into utility-scale deployments, advancing our international footprint, and unlocking new market opportunities.

I am particularly excited bookings momentum we are seeing in the utility-scale segment. Bookings more than doubled quarter-over-quarter, and our pipeline in this segment is the strongest we have ever seen. We booked new deals in four different geographies and across various asset types including standalone storage, solar, and new-build hybrid.

While PowerTrack EMS is valuable across our portfolio, including C&I, it is also a key offering for us to drive expansion in the utility-scale space both internationally and domestically. It differentiates us by providing customers with unified controls, cloud monitoring, and portfolio-level visibility. PowerTrack EMS also helps customers extend the value of existing solar assets by adding storage with minimal disruption. PowerTrack EMS has a longer commercial lifecycle than our core C&I business because of the utility-scale end market – since it requires more time for commissioning – and we expect these bookings to convert to meaningful revenue in late 2026 and into 2027. Our first PowerTrack EMS bookings from Q4 2025, are developing well and are on track to convert to revenue during the second quarter of 2026.

One key PowerTrack EMS booking from Q1 I'd like to highlight is with a long-standing PowerTrack solar monitoring customer operating two utility-scale sites exceeding 50 megawatts in Hungary. This customer made the decision to hybridize their portfolio and selected PowerTrack EMS to manage a new 50-plus megawatt-hour battery system. This is precisely the expansion dynamic we anticipated when we built PowerTrack EMS – an existing customer deepening their relationship with Stem as their assets evolve. It validates both the platform's ability to grow with our customers and the increasing prevalence of hybridization in the European utility-scale market.

Just last week, we further strengthened PowerTrack EMS with a co-marketing relationship with Nuvation Energy, a North American provider of battery management and energy control solutions. Together, we will market a cell-to-cloud BESS and hybrid control stack that is exclusively North American designed and manufactured. This collaboration will allow us to deliver real value to our customers as regulatory requirements, including FEOC, tighten. Further, this agreement proves we are on our way to building a robust ecosystem of commercial and product partnerships to extend our reach.

On the international front, we continue to build out our European presence, anchored by our Berlin office. International revenue represented approximately 5% of total revenue in the first quarter, and we expect that proportion to grow as PowerTrack EMS and other utility-scale projects in Europe move through commissioning and into revenue recognition in late 2026 and in 2027.

Beyond our core growth drivers, I'd like to briefly update you on the two new offerings we introduced during our Q4 call. Our AI services offering continues to progress, with active customer conversations focused on helping organizations identify and implement practical AI use cases that streamline internal processes, improve decision-making, and unlock operational efficiency. In parallel, we are exploring how our core strengths in energy optimization software and deep energy market expertise can support data center developers and operators as they navigate rising power costs, grid constraints, and resilience requirements. Both remain important future growth opportunities, and we will share more substantive updates as customer engagements and market validations advance.

To close, I want to reinforce our confidence in the rest of the year ahead. Q1 came in as expected: strong margins, positive adjusted EBITDA, and solid progress on all three priorities. As I stated earlier, we are reaffirming our full year 2026 guidance across all metrics, and I am confident in our team's ability to execute.

With that, I'll turn the call over to Brian.

BRIAN MUSFELDT

Thanks Arun, and good afternoon everyone. Let's walk through the results.

As Arun noted, Q1 is historically the lightest revenue quarter for the Company driven by the natural cycle of construction projects, which typically begin to ramp into the summer and through end of the year. Total revenue for the first quarter was $29 million, down 11% year-over-year from $32 million in the first quarter of 2025. The year-over-year decline was entirely attributable to the absence of battery hardware resales this quarter and our expectation that battery hardware resale activity will be weighted to the second half of 2026. Core revenue from software, services, and edge hardware was up 4% from the first quarter of 2025. Within that, I want to highlight a few components: PowerTrack software revenue grew 16% year-over-year, reflecting continued strength in our commercial and industrial solar monitoring business, and early contributions from utility-scale expansion. This is the highest margin, recurring revenue in our portfolio, and its growth rate is a meaningful indicator of the health of our core business. Edge hardware revenue grew approximately 1% year-over-year, project and professional services revenue declined 5% year-over-year, and managed services revenue was down 5% year-over-year.

First quarter GAAP gross margin was 38%, compared to 32% in the first quarter of 2025. Non-GAAP gross margin was a record 52%, compared to 46% in the first quarter of 2025. The significant margin expansion reflects the increasing mix of software, services, and edge hardware in our revenue base, combined with the structural cost improvements we made in 2025. As battery hardware resale volumes pick up in the second half of the year, non-GAAP gross margin percentage will trend toward the middle of our 40-to-50% full-year guidance range, but the underlying software and services margins remain strong.

Cash operating expenses were down 30% year-over-year, and down approximately 10% sequentially. The workforce and cost optimization actions we completed in 2025, and continue to implement into 2026, have become permanent structural efficiency, and the first quarter confirms that characterization.

Adjusted EBITDA was $2 million, a $7 million improvement compared to negative $5 million in the first quarter of 2025. This marks our fourth consecutive quarter of positive adjusted EBITDA, and our first-ever positive adjusted EBITDA in a first quarter, which has historically been our most challenging quarter for profitability given seasonal revenue patterns. This is strong evidence of the operating leverage that is now entrenched in this business.

We ended the first quarter with $37 million in cash and cash equivalents. Operating cash flow was negative $8 million in the quarter, driven primarily by the timing of working capital movements and cash interest expense. I want to be clear about the working capital dynamics: the Q1 outflow reflects timing, not a change in the underlying cash generation of the business. As bookings and billings increase and working capital requirements lessen throughout the year, we expect improvement in our cash position, and we remain on track to achieve our full-year operating cash flow guidance of $0 to $10 million.

Turning now to our operating metrics. Bookings were $27 million in the first quarter, compared to $33 million in the fourth quarter of 2025. The sequential decline is typical for first quarter seasonality. All bookings this quarter came from core software, services, and edge hardware. As Arun noted, utility-scale bookings more than doubled quarter-over-quarter, which is one of the key drivers of our long-term growth objectives. While we did not have any battery hardware bookings this quarter, we continue to expect up to $40 million in opportunistic battery hardware sales this year. The battery supply is accessible and can be delivered to customers within 90 days. Contracted backlog was $23 million at the end of the first quarter, up 8% sequentially from $21 million at the end of the fourth quarter of 2025. CARR was $67 million, flat versus the end of the fourth quarter. ARR was $61.2 million, up slightly from $61.1 million at the end of the fourth quarter. Within that, PowerTrack ARR grew 2% sequentially and managed services ARR declined 4% sequentially. Managed Services ARR declined modestly, reflecting the impact of a battery supplier bankruptcy, which prevented the renewal of certain recurring warranty management services contracts tied to that supplier's systems. Importantly, we continue to provide optimization and other core managed services to the owners of those assets, and the associated AUM remains on our platform. Solar operating AUM grew 4% sequentially to 37.5 gigawatts and storage operating AUM was flat sequentially at 1.7 gigawatt-hours.

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, and battery hardware resales of up to $40 million— which, as I mentioned, we expect to be weighted to the second half of the year. Non-GAAP gross margin of 40% to 50%, with the range driven by the timing and volume of battery hardware resales. Adjusted EBITDA of $10 to $15 million. 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, the transformation we undertook in 2025 is delivering results. We achieved positive adjusted EBITDA in our historically weakest quarter, with record-high software margins and a cost structure that is both lean and durable. This is not a one-time achievement - it's the foundation we're building on.

Second, our core business is strong and growing. PowerTrack software revenue grew 16% year-over-year. Our new products, PowerTrack EMS and PowerTrack Sage are gaining real traction with customers. And the raicoon acquisition demonstrates our disciplined approach to extending our platform capabilities where it matters most.

Third, we're making tangible progress on the growth initiatives that will drive through 2027 and beyond. Utility-scale bookings more than doubled quarter-over-quarter. Our international footprint is expanding. And our partnership with Nuvation positions us to capitalize on the growing demand for secure, domestically-sourced energy infrastructure.

We said 2026 would be the year to demonstrate what our transformation was designed to deliver. One quarter in, we're doing exactly that. We have the right strategy, the right team, and the right momentum. We're executing with discipline, investing with purpose, and we remain confident in achieving all our full-year commitments.

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 first quarter earnings call, and we look forward to speaking with you next during our second quarter 2026 earnings call this summer. Thanks everyone.