

Q2 2023 Tigo Energy, Inc. Earnings Call Transcript

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August 8, 2023, Q2 2023 Tigo Energy, Inc. Earnings Call

Corporate Participants

Zvi Alon *Tigo Energy Inc; CEO*

Bill Roeschlein *Tigo Energy Inc; CFO*

Conference Call Participants

Philip Shen *Roth MKM; Analyst*

Eric Stine *Craig-Hallum; Analyst*

Presentation

Operator

Good afternoon. Welcome to Tigo's Energy Incorporated second quarter 2023 Earnings Conference call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question and answer session.

Joining us today from Tigo are Zvi Alon, CEO, and Bill Roeschlein, CFO.

As a reminder, this call is being recorded.

Before we begin, Tigo management would like to remind everyone that some of the matters we'll discuss on this call, including our expected business outlook and anticipated costs and marketing trends, are forward-looking and, as such, are subject to known and unknown risks and uncertainties, including but not limited to those factors described in today's press release and discussed in the risk factors section of our definitive prospectus filed with the SEC on April 26, 2023, as supplemented by the prospectus supplement filed with the SEC on May 19, 2023 and other reports we may file with the SEC from time to time. These risks and uncertainties could cause actual results to differ materially from those expected on this call. These forward-looking statements are made only as of the date when made.

During our call today, we will reference certain non-GAAP financial measures. We include non-GAAP to GAAP reconciliations in our press release furnished as an exhibit to our Form 8K. The non-GAAP financial measures provided should not be considered as a substitute for or superior to the measures of financial performance prepared in accordance with GAAP.

Finally, I would like to remind everyone that this conference call is being recorded, and a recording will be made available for replay on Tigo's investor relations website at investors.tigoenergy.com.

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I would now like to turn the call over to Tigo CEO, Zvi Alon. Zvi?

Zvi Alon *Tigo Energy Inc; CEO*

Thank you. Welcome, everyone, and thank you for joining us this afternoon.

To begin today's discussions, I will give some company background, followed by a view of our recent performance, before turning the call over to our CFO, Bill Roeschlein. He will discuss our financial results for the quarter in more depth, as well as provide our outlook for the remainder of the year.

After that, I will share some closing remarks before opening the call for questions.

All right, let's get started.

We are pleased to host our first earning call with you following our successful leaseback in May of 2023. For those of you who may be new to the story, Tigo Energy is a global provider of intelligent solar energy storage solutions. Founded in 2007, our mission is to deliver smart hardware and software solutions that enhance safety, increase energy yield, and lower operating costs of residential, commercial, and utility-scale solar systems.

As you know, there are significant microeconomic trends that continue to drive the solar energy adoption globally, including the need to address climate change and energy independence. We have witnessed governments around the world respond by providing incentives to encourage such adoption.

To date, the MLP market, and specifically the market within the U.S., has been primarily served by a duopoly of companies utilizing either a microinverter or a closed system string inverter architecture. Installers and designers of solar systems projects, however, are increasingly interested in flexibility design solutions that meet their particular needs.

Tigo addresses that segment of the market as evidenced by more than 1,600 different inverter types that we are certified to work with. Our superior MLP design provides a number of significant benefits to the customer, including an energy-efficient design that operates on an as-needed basis duty cycle. Which optimizes the MPPT of solar screen compared to solutions requiring constant optimization and a high duty cycle.

Our design is so efficient, in fact, that it is housed in a plastic casing instead of a metal one that uses heat sinks. Our MLP solutions also provide customers with a high reliability product with a very low failure rate. High reliability is driven by lower component counts, duty cycle, and design. Quick and easy installation. You literally

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click the MLP to the back of the panel. And flexibility. We are certified to work with more than 1,600 inverters in the marketplace today.

Since the expiration of an exclusive marketing arrangement in mid-2019, Tigo has experienced significant growth in our MLP business, specifically in the last 12 months. To put this into numbers, we grew more than 86% in 2022 compared to 2021. And in 2022, we shipped approximately 2.6 million MLPE or 977 megawatts DC. Meanwhile, in just Q2 of 2023, we shipped approximately 2.1 million MLPE or 765 megawatts DC. That's 78% of what we did in all of 2022.

In addition to our MLP product, we expanded our product footprint with our energy intelligence or EI solutions, first introduced in the residential market in the US in late 2021 and in Europe in late 2022. This solution combines a hybrid inverter, battery, and automatic transfer switch configured in a DC-coupled architecture. The hybrid design allows for one inverter to be used for both panels and the battery while the DC coupling increases round trip efficiency by reducing the number of DC to AC conversions needed in the system.

Moreover, the system including the battery can be commissioned in about 10 minutes. This solution represents 4% of our revenue in 2022 and we are continuing to see an increasing market acceptance in 2023.

In addition, we acquired a small software company in January of 2023 that provides customers with software solutions which we call Predict Plus for energy generation and consumption forecasting. This product line currently a small revenue stream, but we expect it to grow for growth opportunities in the future.

By many measures, Tigo has been growing the market while doing so profitably. With 140 patents and counting, we believe that our products already provide us with a substantial competitive advantage as we continue to grow. As evidenced by this, we announced earlier this quarter that GoodWe will be licensing certain of our Rapid Shutdown patents, joining APS and QC Solar as patent licensees.

Moving to key financial highlights, our record results in multiple areas. Second quarter 2023 revenue were a record \$68.8 million. Geographically, we saw EMEA grow 382% year-over-year and 37% sequentially while America grew 110% year-over-year and 59% sequentially.

On both a year-over-year and sequential basis, we saw significant revenue growth from key markets such as Germany, Czech Republic, Netherlands, UK, Spain, Australia, and other geographies.

Also, our EI solution continues to grow and represents almost 8% of our overall sales in the quarter. We believe that EI solutions will comprise an increasing percentage of our revenue as we gain regulatory approval to offer the solution in additional geographies.

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Finally, adjusted EBDAP for the second quarter of 2023 was the record \$13.6 million, demonstrating the operating leverage in our business model.

Turning to our demand outlook, we recently started seeing some demand softening in the channel as the supply constraints defined in 2022 began to improve in 2023. We believe these supply constraints led to some across the board overordering that the industry now is facing. However, end market demand remains strong and we have seen a significant increase in installations of our products, which gives us confidence that the current market environment is temporary and that an overall growth strategy remains intact.

Looking ahead, we expect that being a public company will enhance our land and expense strategy with the industry's largest customers and their approved vendor list. Geographically, we will continue to penetrate new markets and product-wise, our EI solutions have increased our addressable market and continue to gain market share.

In summary, we remain confident that the market is realizing the value of our technologies, open architecture, ease of installation and powerful software position that can continue to outgrow the market.

With that, I will turn the call over to Bill to discuss the second quarter financial results and the 2023 outlook in greater details.

Bill?

Bill Roeschlein *Tigo Energy Inc; CFO*

Thank you, Zvi. Turning now to our financial results for the second quarter ended June 30th, 2023. Revenue for the second quarter of 2023 increased 290% to a record \$68.8 million from \$17.6 million in the prior year period. By geography, EMEA revenue was \$55.1 million or 80% of our total revenues. America's revenue was \$11.1 million or 16% of total revenues and rest of world revenue was \$2.6 million or 4% of total revenues for the quarter.

Gross profit in the second quarter of 2023 increased 368% to \$25.9 million or 37.6% of revenue from \$5.5 million or 31.4% of revenue in the comparable year-ago period.

Our margins expanded by 620 basis points as a result of combination of product cost reduction efforts, lower freight costs and higher operating leverage as compared to the year-ago period.

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Total operating expenses increased 250% to \$17.2 million in the second quarter from \$4.9 million in the prior year period. The second quarter results include \$4.1 million of transaction costs related to our leaseback with the remainder of the increase primarily due to higher headcount, particularly in sales and marketing as well as public company costs.

Operating profit for the quarter totaled \$8.7 million or 13% of revenue compared to \$610,000 or 3% of revenue in the prior year comparable period. Other expenses net totaled \$41.8 million in the quarter. The majority of the expenses relate to our convertible notes accounting.

As a result of the leaseback transaction, we are required to perform a non-cash mark to market on the conversion feature of the convertible note and separate the note and derivative liability on our balance sheet.

The economic impact, however, remains unchanged. The \$50 million note will either be retired at maturity or will convert into approximately 5.45 million shares, a figure that would be reflected in our fully diluted share count.

For accounting purposes, however, there is a non-cash adjustment between the P&L and balance sheet that will net out to zero within the equity line upon settlement.

Income tax benefit for the quarter was \$10.9 million. As a result of our transition to profitability in 2023, we released our reserve on the federal portion of deferred tax assets related to our net operating losses or NOLs in the second quarter that can be utilized towards future federal tax obligations.

Net loss for the quarter totaled \$22.2 million compared to net income of \$178,000 in the prior year period.

Adjusted EBITDA totaled \$13.6 million, an improvement from an adjusted EBITDA of \$750,000 in the prior year period. As a reminder, adjusted EBITDA represents operating profit as adjusted for depreciation, amortization, stock-based compensation, and M&A transaction expenses.

Primary shares outstanding were \$27.8 million and reflect the shares outstanding of the pre-merger SPAC and post-merger Tigo. For forecasting purposes, we expect primary and fully diluted shares for the third quarter to be approximately \$59 million and \$74 million respectively.

Cash, cash equivalents, and short and long-term marketable securities totaled \$62 million at June 30th, 2023. As a result of our leaseback, we received trust proceeds of \$4.5 million and incurred a total of \$8.4 million in transaction-related expenses, a portion of which was recorded in purchase accounting as contra equity and the remainder expense to our P&L.

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Accounts receivable net increased this quarter to \$45.8 million compared to \$32.4 million last quarter, representing 61 days outstanding compared to 59 days in the prior quarter. Inventories net increased this quarter to \$50.6 million compared to \$36.6 million last quarter, representing 108 days outstanding compared to 106 days in the prior quarter.

During the quarter, we engaged a new auditor and expect to file our quarterly report on Form 10Q by Friday.

Before I turn the call back over to Zvi, I'll now take a few minutes to provide our financial outlook for the 2023 third quarter. As a reminder, Tigo provides quarterly guidance for revenue as well as adjusted EBITDA as we believe that these metrics are key indicators for the overall performance of our business.

As Zvi mentioned, and as other market participants have also noted, excess inventories in the channel are expected to be a headwind in the third quarter. Accordingly, the following projections reflect our third quarter expectations in light of current channel demand. We expect revenue in the third quarter ending September 30, 2023 to range between 41 million and 45 million, a decline from our Q2 23 performance and reflective of what we view as the temporary oversupply of channel inventory.

We also note, however, that this range does represent a quarterly increase of 80 to 97% revenue growth over the 22.8 million we recorded in Q3 of 2022 and a quarterly increase of 33% to 46% revenue growth compared to the 30.9 million of revenues we recorded in Q4 of 2022.

We also expect adjusted EBITDA to range between 1 million and 3 million representing an increase of 138% to 614% compared to the prior year comparable period.

That completes my summary and I'd like to now turn the call back over to Zvi for final remarks.

Zvi?

Zvi Alon *Tigo Energy Inc; CEO*

Thanks, Bill.

Overall, we are encouraged by our financial results, market position, and product solution, and that's despite the temporary overhang of inventory oversupply in the channel, Tigo will still demonstrate significant growth in 2023.

With that, operator, please open the call for Q&A.

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Question and Answer

Operator

Thank you. At this time, we'll open the line for questions from the company's publishing analysts. The company requests that each participant limit their comments to one question and one follow-up.

(Operator Instructions)

Our first question comes from the line of Phil Shen of Roth MKM. Please go ahead.

Philip Shen *Roth MKM; Analyst*

Hey, guys. Thanks for taking my questions. Congrats on your first quarter, your strong Q2 results, and looking forward to having you out there in the public more.

So you talked about this temporary inventory buildup in Europe. I was wondering if you could help us understand how temporary do you expect this to be? Do you expect the reacceleration in Q4, or do you think it might take a little bit longer? And can you also help us understand where the inventory buildup is? My understanding is it's in the single phase inverter markets. And so I was wondering if you could share with us the mix of your business in Europe that is single phase versus three phase. Thanks.

Zvi Alon *Tigo Energy Inc; CEO*

Thank you very much, Phil. The majority of the buildup, as you've indicated, is in Europe. And in our case, since we actually have the three different products, MLP, single phase and three phase products, we see in general the majority, I would say, in terms of dollars in the MLPE. And as I mentioned before, we see a depletion by an increased number of installations, quite a bit actually. The expectation we have right now based on the numbers is we are going to see a relief probably sometimes in Q4, well before year [end].

That's what we see right now.

Philip Shen *Roth MKM; Analyst*

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Great. And what gives you that confidence that the relief is in Q4?

Zvi Alon *Tigo Energy Inc; CEO*

We see the number of installations which are going in versus how much inventory and backlog which we have. And the numbers are just such that we can actually feel confident that within three months, it will become much more normal. But to be more conservative, we are indicating year [end].

Philip Shen *Roth MKM; Analyst*

Okay. Got it. Thank you for that color.

And then when you think about, well, having said that, is there, I know you haven't provided guidance for Q4, but from a sequential basis relative to Q3, my guess is we could see numbers and revenues that are incrementally higher. Do you think they could be as high as they are in Q2? Or do you think they're somewhere between kind of Q3 levels in Q4? Thanks.

Zvi Alon *Tigo Energy Inc; CEO*

So we obviously did not provide guidance for Q4. But we did give a big color as to our expectation to continue and see major goals in 2023, definitely in comparison to 2022. So from that perspective, we think it will be more on a positive increase moving forward, as we see right now. But we did not provide any numbers.

Philip Shen *Roth MKM; Analyst*

Got it. Okay. Appreciate that.

So one last one here. As it relates to the US market, I think this was a market that had a lot of promise. But we have seen the challenges in this market. And we've seen some of your public peers have some challenge here. And so I was wondering, how should we think about the US market for you guys? Is there some nice ramp up of growth here to look forward to? Or should we temper our expectations?

And then finally, as you think through the EI mix, the energy intelligence mix of business, not just this year, but also next year, should we expect a ramp up there? Or

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again, should we temper the expectations of the energy intelligence business, which would be your MLP inverter and battery?

Thank you. (Technical difficulty)

Operator

Thank you. Please stand by for our next question.

Your next question comes from the line of Eric Stine with Craig Hallum.

Eric Stine *Craig-Hallum; Analyst*

Hi, Zvi. Hi, Bill. Hello. Operator, I'm not hearing anything.

Operator

I'm unable to as well. Give me a moment. Please stand by.

Please stand by while we get the speakers back. Okay. Bill, do we have you?

Bill Roeschlein *Tigo Energy Inc; CFO*

Yes, we're back.

Operator

Great. Thank you. Go ahead.

Eric Stine *Craig-Hallum; Analyst*

Okay. Can you hear me? This is Eric.

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Bill Roeschlein *Tigo Energy Inc; CFO*

We can hear you.

Zvi Alon *Tigo Energy Inc; CEO*

Yes.

Eric Stine *Craig-Hallum; Analyst*

Yeah, I can hear you now. Great.

Well, maybe I was hoping you could just talk about the growth you're seeing. I mean, aside from the inventory issues in the channel right now, some of the growth that you're seeing with the rapid shutdown only device, how that's kind of developed as a differentiator in the market, and then just curious what that pipeline looks like in terms of potential licensees.

Zvi Alon *Tigo Energy Inc; CEO*

Thank you very much, Eric. We provided a couple of indications, and let me shed some more light on that. One is we see the number of installations which are happening both in Europe as well as in the U.S. for MLP as well as the API solutions, and that is increasing tremendously. So we're very confident on that side.

On the MLP alone and the rapid shutdown as you mentioned, we announced yesterday the largest system globally that has 47,000 units in a single installation for electric or EDF utilizing our rapid shutdown technology, and we have several like that which is the same magnitude. We see an increase in demand for that, and that's actually happening globally.

There is much more adoption of rapid shutdown in Europe, the Philippines, Thailand, Australia, well beyond the U.S., and we believe it's going to be going faster next year. So we are very encouraged by that.

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Eric Stine *Craig-Hallum; Analyst*

And in terms of, I know you added GoodWe, but in terms of just potential licensees, I mean, I would think given that growth, and given your patent portfolio around that, that there would be great demand there. Just curious kind of what you're seeing in response to what's happening in the market.

Zvi Alon *Tigo Energy Inc; CEO*

I will try and avoid talking about specific names, but I can tell you that we have talked about specific names, but I can tell you that we've seen an increase in activity in that area on two fronts. Number one, licensees that will be added to the roster, and number two, integration with PV module suppliers as well.

So those are the two areas where we see a very substantial increase, and the position on the rapid shutdown is helping quite a bit.

Eric Stine *Craig-Hallum; Analyst*

Got it. And maybe I'll...

Zvi Alon *Tigo Energy Inc; CEO*

One other differentiator that we are learning, which we believe we hit on the spot, is that we invested heavily in addressing the commissioning problem that our competitors have, and we are averaging sub-10 minutes commissioning time, which is record in the industry, and that is helping us a lot. We have many repeat customers for the EI solution.

Eric Stine *Craig-Hallum; Analyst*

Got it. And maybe I'll ask the question that I think Phil had asked right before the phone issues. Just when you think about the energy essentials mix, I know you gave 8% in the quarter, and there's some uncertainty given just what's happening in the channel, but what

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kind of percentage, if you're willing to share, do you think about as we get into, I guess, fourth quarter, but more importantly, going forward beyond that 24 and 25?

Zvi Alon *Tigo Energy Inc; CEO*

For next year, we do, and we pretty much share this, we do see a major increase in the percentage from the total revenue for the EI, for the storage solutions. I want to stop short from giving you a specific number, but I can tell you, very significant increase next year.

Eric Stine *Craig-Hallum; Analyst*

Okay. I'll leave it at that. Thank you.

Zvi Alon *Tigo Energy Inc; CEO*

I mean, just as in the highlight, we doubled last year 4% to 8% in just one quarter, and we believe it's going to continue to show very strong progression.

Eric Stine *Craig-Hallum; Analyst*

Got it. Thanks.

Zvi Alon *Tigo Energy Inc; CEO*

Most welcome.

Operator

Please stand by for our next question.

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Philip Shen of Roth MKM, would you like to continue your previous question? Please go ahead.

Philip Shen *Roth MKM; Analyst*

Hi. Thanks for taking my followups here. I had a question about the U.S. market and was wondering if -- what your expectations are for your megawatt mix or revenue mix, either for Q3 or for Q4, and if you can share what you think for 2024. With the slowdown in the U.S. market, do you think less of your revenue might be -- or less of your product might be shipped to the U.S. going forward?

Thanks.

Zvi Alon *Tigo Energy Inc; CEO*

Thanks, Phil. I can tell you that we are seeing very good momentum in our EI product growth in the U.S., and we have similar percentage growth in terms of installations here and in Europe. In addition, since we did go public, it became a bit easier for us to get -- to make progress on the AVL, and I won't -- I will stop short of naming any names right now, but we expect that that will be clear before the end of this quarter, and so we will see some substantial advancement as we move for the rest of the year, including in the U.S. resi market.

Philip Shen *Roth MKM; Analyst*

Great. Okay. One last one for me, and I'll pass it on.

As it relates to your NPS score, Net Promoter Score, I was wondering if you could share the latest, maybe a global score or even U.S. score as of maybe June or even if you have it as of July or August. So I appreciate any color on that.

Zvi Alon *Tigo Energy Inc; CEO*

So we finished last quarter at 70, and we are putting some additional efforts to go even beyond that, to increase that number.

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Philip Shen *Roth MKM; Analyst*

Great. That's a very good number.

Zvi Alon *Tigo Energy Inc; CEO*

And thank you so much. You were the guy two years ago who highlighted it, and I just want to talk about the difference. Two years ago, we were at 46. Today, we're at 70.

Philip Shen *Roth MKM; Analyst*

That's a dramatic improvement. So congrats on that progress, and thank you. I'll pass it on.

Zvi Alon *Tigo Energy Inc; CEO*

Thanks.

Operator

(Operator Instructions).

I'll now turn the call over to Tigo Management for further remarks.

Zvi Alon *Tigo Energy Inc; CEO*

Thanks again for joining us today. I especially want to thank our dedicated employees for their ongoing contributions as well as our customers and partners for their continued hard work. I also want to thank our investors for their continued support.

Operator?

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Operator

Thank you for joining us today for Tigo's second quarter 2023 earnings conference call. You may now disconnect. Thank you.
