Third Quarter 2025 Earnings Call

October 29, 2025

Prepared Remarks

ERIN REED

Thank you, Operator.

This is Erin Reed, Head of Investor Relations at Stem. We welcome you to our third 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 third 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 today. Q3 2025 marks 12 months since we announced our strategic realignment, and I am proud to report that our transformation continues to deliver tangible positive results. Today, we reported third quarter revenue of $38 million, up 31% year-over-year, with ARR growing 17% year-over-year to $60 million. We achieved our second consecutive quarter of positive adjusted EBITDA and generated positive operating cash flow. Our software-centric strategy is delivering results.

The success of our strategic transformation is evident in our consistent earnings performance, with steady growth in software and services revenue and continued improvement across key profitability metrics. As we maintain disciplined cost management, we believe we have achieved operational stability, and our high-performing team is laser-focused on execution and results. Today, we are also refining guidance to reflect our revised forecast, which we will go into more detail later in the call. The key takeaways are: we have reduced the historical volatility in our business, we have de-risked the low end of nearly all guidance ranges, and we feel confident about the stability of our business.

This quarter also marked a pivotal moment in our evolution as we unified our corporate identity under the Stem brand and streamlined our entire product portfolio within the comprehensive PowerTrack Suite. This transformation goes far beyond surface-level changes - it reflects the deep integration of AlsoEnergy's solar expertise with Stem's storage and AI capabilities. For our customers, this means we approach them with a single voice with superior technical solutions across their entire energy portfolio – covering solar, storage and hybrid assets alike. Combined with Stem's industry-leading subject matter expertise, this creates an unparalleled customer value proposition. We welcome you to visit our redesigned website at stem.com to see this unified vision in action.

Each quarter we have touched on our strategic priorities for 2025: driving software and services revenue growth, revamping software development, and reducing our cost structure and driving profitability. We advanced all three strategic priorities in Q3 with concrete results. Let me detail our progress.

First, let's focus on software and services growth and revamping our software. On September 2nd, we launched PowerTrack EMS, for hybrid and standalone storage projects. This energy management system integrates AlsoEnergy's solar C&I offerings with Stem's storage offerings and positions us to meet the needs of key markets including solar, storage, and hybrid assets in both the C&I and utility scale segments. It is an intelligent control system that manages battery charging and discharging operations while coordinating grid services and enabling revenue streams for energy storage projects. PowerTrack EMS fills the critical gap between basic battery management and advanced optimization software such as our PowerTrack Optimizer product, enabling us to provide important controls offerings regardless of the commercial management of the battery, including in territories where merchant optimization is not permitted.

We remain excited about PowerTrack EMS because it expands our total addressable market by widening our potential customer base and the markets we can serve. Here in the US, it unlocks for us the utility scale market which is heavily hybridized versus the C&I market. Outside of the US, PowerTrack EMS unlocks the international market for C&I and utility scale projects which are also largely hybridized. International expansion is a key component of our corporate strategy that also helps us manage near-term macro headwinds in the US. Importantly, in all markets, PowerTrack EMS is an optimization-agnostic, controls-oriented, product, which means it can be sold in markets where utilities provide dispatch signals without the need for a third-party optimizer, or in international markets where Stem does not provide managed optimization services with PowerTrack Optimizer. It is truly a complimentary offering to the existing portfolio and allows us to offer an end-to-end solution for our customers.

We launched PowerTrack EMS at the RE+ conference to strong customer reception. This product garnered particularly high interest from operators of hybrid energy sites. Just eight weeks after launch, we've already booked significant capacity deployments with blue-chip customers in three different countries, validating both our product capabilities and market positioning. These deals cover primarily hybrid, utility-scale projects with existing solar assets that expect to convert to hybrid in the near term and are using PowerTrack EMS as a way to future proof this conversion while limiting downtime. We expect these bookings to convert to revenue in the coming quarters, with about a 6-9 month typical lead time.

Our core C&I solar monitoring platform is deeply established in the industry, but we remain dedicated to continuous innovation and addressing key customer feedback as quickly as we can. In the last 90 days alone, we've rolled out over 100 software improvements and bug fixes, directly enhancing the PowerTrack experience for our customers. Recently, we have added BESS monitoring features and enhanced PV performance analytics, ensuring that PowerTrack is the platform of choice for our customers as they add storage to their solar portfolios and scale to more complex operations.

As we announced last quarter, we are also incorporating advances in AI into our offerings with PowerTrack Sage. PowerTrack Sage is an AI-powered assistant that sits on top of PowerTrack and transforms complex solar and storage data analysis into natural language conversations. It's like an expert analyst available 24/7 to simplify certain important product workflows and serve as a first line of support for customer questions. There is high customer interest and excitement about this product, particularly around solar analytics and diagnosing root causes for unusual data. PowerTrack Sage development remains on track for limited beta release with select customers in December and is expected to be broadly available in 2026.

PowerTrack software continues to demonstrate strong performance across key metrics. Revenue increased 10% year-over-year, ARR expanded 19% year-over-year, and we commissioned 1.2 gigawatts of solar assets this quarter. Our platform now manages nearly 34 gigawatts of solar assets, reinforcing our market-leading position in C&I solar monitoring.

Now let's move on to Managed Services. Our Managed Services are software-enabled, full lifecycle, energy storage services covering the design, procurement, commissioning, operation and optimization of energy storage and hybrid, solar plus storage systems. We help asset owners maximize the reliability, performance, and returns of their storage assets. Managed Services are supported by our PowerTrack Optimizer software, previously known as Athena. Energy optimization, especially when value stacking, is a specialized area that requires both our optimization software and humans-in-the-loop to execute well. Humans-in-the-loop ensure that the optimization is keeping up with the constant market and program rule changes, market dynamics, and new value streams. Our competitive advantage in Managed Services lies in our ability to serve as a full-service provider, leveraging our substantial market share across diverse segments. We remain one of the few companies with this expertise. Our Managed Services contracts include both recurring revenue and performance-based upside when we exceed operational targets. Q3 2024 included significant overperformance that we did not repeat this quarter, which impacts the year-over-year comparison. The underlying health of this business is strong, as our recurring base revenue grew 14% year-over-year and 4% sequentially.

Finally, our consultative professional services offerings continue to resonate with customers across a wide range of development, deployment, and operational needs. We are continuing to drive repeat business – a clear mark that our offerings are adding value. And we are increasingly focused on cross-selling professional services with other business units' offerings.

Now to another strategic priority, reducing our cost structure and driving profitability. We remain diligently focused on cost management. We achieved our second consecutive quarter of positive adjusted EBITDA while maintaining robust GAAP and non-GAAP gross margins. Operating expenses remained flat compared to the second quarter, and we're continuing to drive further efficiencies through AI implementation. Additionally, we generated positive operating cash flow and kept cash flat sequentially. Our financial performance validates the business model transformation: expanding gross margins, two consecutive quarters of positive adjusted EBITDA, and positive operating cash flow. These results demonstrate both profitability and sustainability.

We are dedicated to financial transparency, and we remain committed to helping our investors and stakeholders better understand our business. To that extent, our Form 10-Q to be filed today once again disaggregates revenue across distinct categories. What's new this quarter is that we're also providing detailed gross margin disclosure for each revenue category in our supplemental slides.

Now onto guidance. With nine months of reported results and early visibility into Q4, today, we are refining our full year 2025 guidance ranges, including a tightening of ranges previously disclosed. First, we'd like to highlight that our ability to tighten ranges is a significant advancement versus where we were previously – where volatility and back-end seasonality negatively impacted our ability to guide with precision. Our software-centric model has reduced this volatility and enhanced our forecasting accuracy. With that said, we are tracking toward the midpoint or better on all metrics except operating cash flow, where timing of working capital movements could result in performance toward the lower end of our range. I'd like to highlight that we have brought up the low end of the ranges for software, edge hardware, and services revenue and adjusted EBITDA and raised the range for non-GAAP gross profit. Brian will provide the specific updated ranges, but I want to emphasize that the underlying business fundamentals remain strong, and we are well-positioned entering into 2026.

Now turning to the macro environment. Headwinds from policy uncertainty remain, and we are actively working with our customers to navigate this environment. We remain on track to meet our guidance expectations through the end of the year. In addition, our diversified software-centric model, combined with our recently enhanced international strategy, should position us well against the potential impact of domestic headwinds. We remain confident in our end markets, and we believe that we are well positioned to benefit from the projected international load growth.

Our international expansion efforts are focused on a multi-phased approach. First, we developed an internationally ready product suite, with PowerTrack EMS. Second, we are leveraging our regional expertise through our existing teams in Berlin and Japan. We see significant opportunities to expand within the European markets, and in Berlin, we recently moved our operations to more centralized and collaborative facilities. We are expanding our technical depth and customer support in Berlin to combine our global expertise with local execution that can service high-priority European markets.

Our growth strategy for Q4 and beyond centers on two drivers: PowerTrack EMS expanding our addressable market into utility-scale and international hybrid projects, and, continued focus and acceleration in our core C&I solar business. Our recurring revenue base, substantial backlog, and international diversification provide a strong foundation for sustained growth.

With that, let me turn the call over to Brian for detailed financial results and the updates to guidance.

BRIAN MUSFELDT

Thanks Arun, and hello everyone.

In the third quarter of 2025, we saw solid financial performance across the business. Total revenue grew an impressive 31% year-over-year to $38 million. PowerTrack software revenue continued its strong performance in the third quarter, growing 11% year-over-year, and edge hardware revenue grew a notable 18% year-over-year. As a note, this quarter, with the introduction of PowerTrack EMS for hybrid and storage sites, we have redefined solar software revenue to PowerTrack software revenue as our PowerTrack software revenue will now include all customer facing SaaS revenue generated from solar, storage and hybrid assets. Project and professional services revenue decreased year-over-year as the third quarter of 2024 benefited from approximately $5 million of one-time DevCo revenue. As Arun discussed, managed services revenue was also down year-over-year due to one-time over performance in the third quarter of 2024. Although we are deemphasizing the business as part of our software-centric strategy, battery hardware resale brought in $4 million in revenue this quarter. You can find this revenue detail in the disaggregation of revenue footnote in our form 10-Q and supplemental materials, which provide enhanced clarity into our business.

We again achieved strong gross margins this quarter, with GAAP gross margins of 35%, and non-GAAP gross margins of 47%. This expansion reflects the increasing mix of higher-margin software and services in our revenue base and improving hardware margins for both edge hardware and battery resales. Our disaggregation of revenue provided in our supplemental materials now includes gross margin ranges for each revenue category, to provide more clarity for investors and analysts.

GAAP and cash operating expenses were both flat sequentially from the second quarter of 2025. Cash operating expenses were down an impressive 47% year-over-year. These reductions were primarily the result of the difficult but necessary workforce reduction that took place in the second quarter, and we remain focused on driving operating leverage, and further cost savings across the business. That said, we feel positive about our ability to grow revenue without significant OpEx increases, as demonstrated by our development of PowerTrack EMS and PowerTrack Sage products with current staffing levels. The improved margins and significantly reduced OpEx drove positive adjusted EBITDA of $2 million for the quarter, demonstrating that we are finding sustained operational profitability in our lower OpEx structure and business transformation.

Operating cash flow turned decisively positive at $11 million this quarter, a $21 million swing versus the same quarter last year, and our cash position remained stable at $43 million. My key strategic priorities as CFO remain to help drive profitable growth and manage our capital structure as we look to continue growing revenue over the coming years.

And now turning to our operating metrics. Bookings were $30 million, down slightly versus last quarter, largely due to timing of bookings from our historically lumpy, low-margin battery hardware resales. Software and services bookings were sequentially flat. Contracted backlog was $22 million, down from $26.8 million last quarter due to lower bookings and increased hardware revenue recognition in the quarter. CARR remained stable at $70 million and importantly, ARR increased 3% sequentially and 17% year-over-year demonstrating the strength and scalability of our recurring revenue model. Finally, storage and solar AUM increased 6% and 4% respectively, since last quarter.

Now turning to our updated guidance for full year 2025. First for revenue. We are tightening our revenue range to $135 to $160 million, from the prior $125 to $175 million dollar range. This reflects strong software and service performance with an updated range of $125 to $140 million and is offset by lower battery hardware resale expectations of up to $20 million as we continue to de-emphasize that business. For gross margin, we are raising the range to 40%-50%. We are already tracking towards the high end of this range but expect some margin compression in the fourth quarter with increased edge hardware deliveries. For adjusted EBITDA, we are raising the low end of the range and now forecast between negative $5 million and positive $5 million for fiscal year 2025. We have factored in some conservatism in this metric, and I would highlight that we are currently tracking above the midpoint of our updated range. For operating cash flow, we are adjusting our range for this metric to between negative $5 million and positive $5 million. This quarter's $11 million in positive cash flow demonstrates the underlying cash generation capability of the business. Any fourth quarter working capital fluctuations reflect normal timing differences in customer payment cycles, not fundamental business performance. Finally, our forecast for year-end ARR remains consistent at $55 to $65 million and continues to reflect an attractive base of recurring revenue.

While we won't provide formal guidance for 2026 until early next year during our fourth quarter and full year 2025 call, I can share that we enter 2026 with strong visibility from our recurring revenue base and contracted backlog, positioning us well for continued growth.

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

ARUN NARAYANAN

Thank you, Brian. Our team delivered strong execution across the business this quarter. One year into our strategic transformation, the results are evident: revenue growth, margin expansion, sustained profitability, and positive cash generation. We established clear objectives for this transformation, and we are achieving them.

The clean energy transformation continues accelerating globally, and our industry-leading software platforms, solutions, and dedicated team positions us to capitalize on this transformation.

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 third quarter earnings call, and we look forward to speaking with you next during our fourth quarter and full year 2025 earnings call next year. Thanks everyone.

OPERATOR

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