Solaris Energy Infrastructure, Inc. (NYSE: SEI)

Fourth Quarter 2024 Earnings Call Prepared Remarks

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Yvonne Fletcher, ***Senior Vice President of Finance and Investor Relations***

Thank you, operator. Good morning and welcome to the Solaris Fourth Quarter 2024 Earnings Conference Call. Joining us today are our Chairman and CEO Bill Zartler and our President and CFO Kyle Ramachandran.

Before we begin, I'd like to remind you of our standard cautionary remarks regarding the forward-looking nature of some of the statements that we will make today. Such forward-looking statements may include comments regarding future financial results and reflect a number of known and unknown risks. Please refer to our press release issued yesterday along with other recent public filings with the Securities and Exchange Commission that outline those risks.

I would also like to point out that our earnings release and today's conference call will contain discussion of non-GAAP financial measures, which we believe can be useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP. Reconciliations to comparable GAAP measures are available in our earnings release, which is posted in the News section on our website.

I'll now turn the call over to our Chairman and CEO, Bill Zartler.

Bill Zartler, ***Chairman and CEO***

Thank you, Yvonne, and thank you, everyone, for joining us this morning.

2024 was a tremendous year of transformation for Solaris. We generated strong free cash flow in our legacy Solaris Logistics Solutions business and found a great opportunity to reinvest that cash through the acquisition and subsequent growth of a mobile power generation business that is now Solaris Power Solutions.

I will start this morning by giving you an update on our Power Solutions strategy, including the latest power generation capacity order and long-term customer contract that we announced last night in our earnings release.

We are only six months into our journey of building a premier behind-the-meter, power-as-a-service company, and our team has done an incredible job executing on this strategy.

Our Power Solutions fleet began with just over 150 MW in generation assets. Last quarter, after executing on a series of orders and several multi-year customer contracts, we were on a path to grow to around 700 MW by early 2026. Last night, we announced the next leg of growth for the power fleet – we recently placed a new order for an additional 700 MW that doubles our fleet size to approximately 1,400 MW, or 1.4 GW, by early 2027. We believe this additional capacity will allow us both to service growth with our current customer base and add new customers.

Speaking of supporting customers, last night we also announced a strategic long-term partnership with one of our current customers that includes a contract for a minimum of approximately 500 MW with an initial term of six years for a new data center. We are also finalizing the formation of a joint venture with this customer to jointly own the power plant equipment supporting the new data center. Kyle will provide more detail on the structure of this partnership later. We believe this latest fixture and the joint-ownership agreement is indicative of the evolving nature and importance of the market for behind-the-meter power as well as a strong testament to Solaris' high-quality value proposition.

I'm excited about the continued momentum we observe for Solaris Power Solutions. Today's power applications are getting larger and more numerous coupled with customers recognizing the longer-term nature of their requirements that has driven this nearly 10-fold increase of our business to 1.4 GW. A single data center today can require well over a gigawatt of power, and some oilfield and other microgrids are approaching 100 MW in power demand. Our integrated, behind-the-meter power solution is well suited to satisfy those needs.

The growing need for power is being driven by the electrification of everything, the domestic reshoring of manufacturing, and the growing quantity and scale of data centers. Demand for power has outpaced investment in infrastructure, creating a significant opportunity for our Power Solutions segment. This has resulted in extended grid interconnection wait times, in turn driving a greater need for bridge and permanent behind the meter long term power solutions, which we are well positioned to supply. For many customers, that bridge time frame is extending, thus behind-the-meter power is evolving toward more permanent power which will supplement the grid by helping manage complex loads, providing redundancy and potentially even improving grid resilience. The notion of "bring your own power" is becoming a requirement for many industrial applications.

We define this total offering as “power as a service,” which, for Solaris, reflects our business model whereby we provide both behind the meter power generation and distribution services into our customers’ specific applications, which are becoming increasingly complex and require 24-7 operation and oversight. “Power as a service” also means we are filling the role of the electricity provider for our customers, which requires combining reliability and agility, with compelling economics and emissions profiles.

Delivering reliable "power as a service" starts with a culture of collaboration and creative problem-solving, led by the right team and supported with the right equipment. This proven framework has been the cornerstone of our Logistics business, and now we’re applying the same principles to build our Power business.

Our Power Solutions business is guided by its founders, who are not only steering operations but also mentoring the next level of talent. As recognized industry leaders, both bring extensive expertise in designing, installing, and managing electrical infrastructure.

We also recently added Max Yzaguirre to our board; Max is a former chairman of the Texas Public Utilities Commission and a former ERCOT board member. Max spent much of his career developing power and other power and natural gas related infrastructure projects both in the US and international and he brings to us an invaluable perspective on power markets for Solaris.

As we continue to integrate, our teams are creating operational synergies. We’ve repositioned several groups such as engineering, internal manufacturing and information technology to service both Power and

Logistics. We are also cross-pollinating the Power Solutions field team with talent from our Logistics Solutions business.

Being reliable, agile and cost-competitive also means we need to have the right equipment to optimize each customer's application. Today our fleet is standardized around medium-sized gas-fired turbines that range in size from 5 MW to 38 MW. These block sizes provide flexibility to design tailored power solutions for the customer's needs and operating parameters. This also allows us to effectively scale with our customers' power needs in phases, and we retain the ability to move power around the site as the customer's needs dictate. Our turbines offer substantial power density, so they are well suited for larger projects, including those requiring gigawatts of power demand.

A portion of our recent equipment orders are purpose-built modular systems designed to stay on location for longer periods of time, offer enhanced fuel efficiency and additional state-of-the-art emissions control systems. I mentioned earlier that we are observing an evolving need to have behind the meter power on location for extended periods of time. In a few of those cases and to the extent required, we are helping our customers develop emissions permits to allow behind the meter gas-fired turbines to operate on a multi-year basis. The majority of the turbines in our fleet are built on a technology that produces the lowest NOx emissions available in the turbine market. This advantaged "starting point" helps us make the addition of emission controls economic for our customer and enables us to help drive a best-in-class emissions profile.

We continue to build our asset and contract portfolio with a focus on opportunities where we can provide power on a multi-year contract. As we build our fleet, we will be able to service a wider range of applications. This could include providing power for other data centers, other commercial and industrial facilities, oil and gas production and midstream, and possibly also having a smaller portion available for short- and medium-term power needs such as emergency power or shorter-term grid delays that provide attractive returns. We plan to remain disciplined in our deployments and expect to earn attractive returns on capital over time.

Turning to Solaris Logistics ... We are seeing a significant increase in our activity in Q1 – we expect at least a 15% sequential increase in fully utilized systems, despite a relatively flat outlook for overall oil and gas completions. The increase in Solaris Logistics activity is being driven by the continued adoption of our new technology and market share gains. We believe this reflects the excellent job our Logistics team has done in winning work with new and existing customers and the unwavering service they provide for our customers.

Over the past few years we have developed additional equipment to complement our sand silo systems on each well site that increase trucking efficiency. We call this add-on kit a Top Fill System. In the fourth quarter approximately 70% of our locations had both our legacy sand system and a top fill system. Going into the first quarter, we expect closer to 75% of our sites to have multiple Solaris systems and we are effectively sold out of our Top Fill solution. The financial impact to Solaris of having two systems on a location is a near doubling of the earnings potential per location which we expect to materialize over the coming couple of quarters.

Last night we also announced that our Board has approved Solaris' 26th consecutive dividend of 12 cents per share for both A and B class shareholders. Fundamentally, both of our businesses are cash generative and we believe that continues to support our long history of returning cash to shareholders and puts us in a unique position to both grow shareholder returns and invest in growth.

We are excited about the results from both business segments, the continued momentum we are seeing in the Solaris Power Solutions segment, and the exceptional team and innovative culture that we continue to build. We are focused on maximizing shareholder value through growing the company and maintaining our dividend without sacrificing the strong financial profile of our business.

With that, I will turn it over to Kyle.

Kyle Ramachandran, *President and Chief Financial Officer*

Thanks, Bill, and good morning, everyone.

I'll begin this morning by providing additional details on our updated order book, the associated growth capital spending, and our latest thoughts on financing. We also encourage you to refer to our Earnings Supplement slide deck which was published last night on the Investor Relations section of our website under “Events & Presentations.”

Our recent incremental 700 MW order effectively doubles our operated fleet to 1,400 MW. Pro forma for all deliveries, approximately 90% of the resulting fleet will consist of 16.5 and 38 MW units, which we think results in a fleet that offers an attractive level of power density while still allowing us to be responsive to our customers’ needs for scaling and flexibility. We expect to take deliveries under this latest order mostly over the course of 2026, with full effective deployment of our fleet in the first half of 2027.

As Bill mentioned, we are excited about the long-term partnership we are forming with an existing hyperscaler customer. We have reached an agreement with this customer to provide a minimum of 500 MW for an initial tenor of 6 years for a new data center, and we are in the process of finalizing details of a Joint Venture arrangement with our customer to support this investment.

This joint venture structure appeals to us for many reasons. It aligns our interests with those of our customer. It also demonstrates the long-term nature of the customer’s commitment to behind-the-meter power given their desire to retain partial ownership in these assets. And lastly, it demonstrates the confidence they have in Solaris as a partner that has a proven ability to execute over the long term.

Under the proposed structure, we would own 50.1% of the assets and would operate and manage the equipment on behalf of the JV. We expect that the partnership will pursue debt financing directly at the JV level to fund a significant portion of the purchase of the assets. For reporting purposes, we expect to consolidate the financial results of the full partnership, with our customer's equity portion of earnings reported as non-controlling interest.

The impact of this partnership on our fleet would result in a net owned fleet of approximately 1,100 MW out of the total owned and operated fleet of 1,400 MW. Of this capacity, roughly 450 MW are available for future contracting with customers for deliveries beginning in the second half of 2026. The pace and trajectory of our ongoing commercial discussions give us confidence that we will contract the remaining capacity.

The addition of the contract announced last night also helps to extend our average contract tenor. In a very short period of time, we have extended term from approximately 6 months to 4-to-5 years on a blended basis, including this most recent contract at 6 years.

Bill mentioned a few of the primary drivers behind accelerating contract tenor including the extension of wait times for grid power as well as an evolution in strategy to include behind-the-meter power on a more permanent basis in certain applications as primary power. And we offer this solution at an all-in cost that is competitive with today's grid, which, in our view, has a higher inflationary risk as compared to the structure of behind-the-meter generation under a long-term contract.

I'll now describe our earnings potential once the fleet is fully deployed... At full deployment, we expect the total Company to generate $475 to $500 million of Adjusted EBITDA on a consolidated basis. Accounting for the contemplated Joint Venture structure, we expect Adjusted EBITDA net to Solaris of approximately $400 to 425 million. These estimates consider the current contract book and assume a 3- to 4- year payback on the uncontracted equipment we have on order today.

As we continue to work with our existing and potential customers to address their evolving power needs, we see the potential for our fleet to continue to grow in the future. We also see potential for growth beyond our generation capacity to include adjacencies, such as distribution and balance of plant equipment. Our recent investment in emissions control equipment is an example where we have opportunities to continue growing our earnings per customer location.

On a consolidated basis, the incremental orders should add approximately $600 million to our prior capital estimates, including allowance for balance of plant and emissions control technology. We expect the JV to reduce Solaris' capital requirements by approximately $215 million. We are currently in discussions with our term loan lenders, who are supportive of providing flexibility under the existing agreement to pursue our growth plans and have expressed support for potential additional future financing.

Turning to a recap of our fourth quarter 2024 performance and our guidance expectations for the next two quarters...

During the fourth quarter, Solaris generated total revenue of $96 million, which reflected a 28% increase from the prior quarter due to a full-quarter contribution from Solaris Power Solutions as well as continued activity growth in Power. Adjusted EBITDA of $37 million represented a 68% increase from the prior quarter. Solaris Power Solutions contributed >50% of our Adjusted EBITDA mix and is on track to contribute nearly 80% of our earnings after our on-order fleet is deployed.

During the fourth quarter, we earned revenue on an average of approximately 260 MW in Solaris Power Solutions. For the first quarter of 2025, we are increasing our activity guidance, as measured by average MW earning revenue, by 20% to 360 MW. This increase is being driven by increased power demand from our customers and we are meeting this demand by a combination of accelerated deliveries of our equipment orders and selective sourcing of third-party turbines. For the second quarter, we expect average MW on revenue to increase by 17% to approximately 420 megawatts.

In our Solaris Logistics Solutions segment, we expect fully utilized systems to grow over 15% to approximately 90 to 95 systems and remain there for the first half of the year. We expect profit per system to return to third quarter 2024 levels as we demonstrate strong incremental profitability on the systems going back to work.

For a corporate or unallocated expense impact to Adjusted EBITDA, we expect approximately $9 million of expense in the first quarter due to the expected cash settlement of stock-based performance units granted in 2023 and 2024. We expect a more normal run-rate expense of approximately $7 million in Q2.

These items net to Adjusted EBITDA between $44 and $48 million in Q1 and Adjusted EBITDA between $50 and $55 million for Q2. For more detail on the guidance and other corporate modeling items such as interest expense, depreciation and amortization, tax rate and share count to use for modeling purposes, please refer to our Earnings Supplement Slide deck.

As Bill mentioned, our Board recently approved our 26th consecutive dividend of 12 cents per share, which will be paid on March 21 to holders of record as of March 11, 2025. Considering our latest share count, this should equate to a little more than $8 million. Pro forma for the first quarter dividend payment, we will have returned $198 million to shareholders since we began our shareholder returns program in 2018.

We are excited about the growing opportunities for Solaris in both of its business lines. We will remain focused on generating strong returns on capital invested as we continue to build our Power Solutions business while maintaining the strong cash generation from our Logistics business, our shareholder return program via dividends, and attractive financial profile.

With that, we'd be happy to take your questions.