Solaris Energy Infrastructure, Inc. (NYSE: SEI)

First Quarter 2025 Earnings Call Prepared Remarks

April 29, 2025 8:00 AM Central

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

Thank you, operator. Good morning and welcome to the Solaris First Quarter 2025 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. 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."

I would 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.

Solaris' first quarter results reflect strong performance from both of our business segments. This was the second full quarter executing with our combined business units, focusing on generating strong free cash flow generation from our legacy Logistics Solutions business and reinvesting that cash flow into growing our Power Solutions business. The strong performance from both segments and the continued benefits we are observing from integration highlight the complementary nature of these two businesses.

I will begin with an update on our Power Solutions commercial and growth strategy, including a discussion of several exciting developments announced in our first quarter earnings press release last night.

In our prior update in late February, we announced that Solaris signed an initial six-year contract with a major customer for approximately 500 MW of power generation capacity to support a new data center campus and that equipment to support this contract was to be capitalized within a joint venture.

Last night, we announced that the commercial contract has been upsized to approximately 900 MW for an extended initial tenor of seven years. We also announced that we have closed on the joint venture agreement under which Solaris will perform as manager and power operator of the joint venture. The structure of the upsized JV remains unchanged from prior communication, with Solaris owning 50.1% of the partnership and our partner and customer retaining 49.1%.

We are excited about the opportunity to partner with and provide primary power for our fast-moving customer who is one of the leaders in the evolving artificial intelligence industry. We believe this joint

venture demonstrates the value Solaris provides as a partner in providing reliable power solutions that extend beyond temporary bridge power needs.

The extended tenor of the upsized commercial contract improves earnings visibility of our Power Solutions business into 2033. The average tenor in our Power Solutions contract book now exceeds five years, as compared to six months less than a year ago when we announced the acquisition of MER.

This upsizing of the contract and JV resulted in the effective full commitment of our power fleet, at a time when secular power demand continues to grow, with numerous opportunities in our commercial pipeline coalescing around the second half of 2026. Given this backdrop, we secured approximately 330 MW of additional generation capacity from our manufacturing partner to continue to service the needs of new and existing customers. This capacity was not easy to obtain as the OEM supply chain has gotten progressively tighter since our initial orders.

We expect to take delivery of a majority of this most recent order in the second half of 2026, which results in a new pro forma total capacity of approximately 1,700 MW operated by Solaris, of which we will own approximately 1,250 MW on a net basis after giving effect to our 50.1% interest in the joint venture.

On the new pro forma delivered total fleet of 1,700 MW, we remain approximately 70% contracted with around 500 MW of open capacity to bid into the growing number of opportunities we continue to pursue. These opportunities include a combination of data center opportunities with new potential customers, projects for energy production and processing facilities, and various other industrial applications.

The data center opportunity presents both unique challenges and exciting prospects. We continue to receive inquiries for larger applications, which render the traditional methods of power procurement and

reliability planning a challenge for those prospective customers. A large data center used to be under 50 MW and would rely primarily on grid power, with a bank of reciprocating generators as standby backup. It is becoming increasingly evident that the largest data centers will tap a variety of sources for their primary, secondary, and emergency back-up power.

Modern data centers have grown to several hundred MWs, with leading-edge capacity surpassing 1,000 MWs. Managing loads at this scale is challenging for anyone, including grid operators. By co-locating generation on site as part of their primary power mix, power consumers gain the ability to diversify their energy source and to control some of their own primary and built-in back-up power that can operate either independent of or in conjunction with the grid. By using best-in-class gas turbines and associated equipment such as SCRs, customers gain additional benefits of power density, capability to modularly scale, and relatively low emissions and water use profiles. Under the Solaris power-as-a-service model, these benefits can be provided at a compelling all-in cost often competitive with the delivered price of base load grid power.

Considering total cost of ownership, our model is akin to a fixed capacity payment and with a variable commodity price input via the natural gas, that is paid for by the customer. This results in a significant portion of our customers' costs being hedged for the duration of the contract. We can remain economically competitive with the grid, offer visibility to long-term power costs, and provide built-in back-up through redundancy and reserve margin.

We believe time to power, delivered cost, and surety of supply were the primary drivers behind our customer's desire to enter into the long-term partnership with Solaris. For customers that take a similar, longer-term, strategic view to solving power constraints, but do not have the expertise or bandwidth to manage a large, co-located power plant, Solaris' power-as-a-service model provides a solution that is evolving with the market need.

Increasing regulatory challenges for data centers are also highly supportive of the power-as-a service theme. The notion of "bring your own power" is real as evidenced by growing recognition from grid regulators and operators regarding the limited availability of baseload power for new additional large loads.

By co-locating generation off-grid, in "island mode," customers can accelerate time to power and benefit from true, uninterruptible power. We've discussed how this approach also enhances the resiliency of their operations and may eventually contribute to overall grid resiliency, as well.

Turning to our Logistics Solutions segment...

Solaris Logistics had a very strong first quarter, with system activity up over 25% sequentially as we benefited not only from the seasonal rebound but also from new customer wins and continued adoption of our top fill system. Our advanced technology offering continues to position us as the partner of choice; our silo systems have the ability to handle increasing sand throughput as completion intensity and, in turn, efficiencies continue to accelerate.

These increased efficiencies have contributed significantly to the success of our top-fill system, as well, which was effectively sold out during the first quarter. During the quarter, approximately 75% of our locations were equipped with both our legacy sand silo system and a top-fill system. This natural "cross selling" has resulted in a substantial increase in Solaris' earnings capacity, effectively doubling our earnings potential at the individual wellsite level.

As we look ahead, we have conviction in the relative stability of activity levels during the early part of the second quarter, resulting in no changes to our prior second quarter guidance. We are, however, beginning

to observe some operators respond to the recent commodity price softness by delaying jobs or reducing the number of frac crews expected in the second half of the year within oil-directed basins.

During the first quarter, we also continued to harvest significant free cash flow generation resulting from the fleet investments made in prior years. Our “early-mover” advantage in the complete electrification of our Logistics Solutions fleet continues to provide a commercial advantage as our fleet is already well positioned for the ongoing electrification trend, allowing us to redirect cash to reinvest in our growing Power Solutions segment.

We also observe unique synergies between our two segments as we continue to integrate our businesses. We will continue to have hiring needs in the Power Solutions segment for some time, enabling us to continue to cross-train many of our logistics field technicians to fulfill this visible need with trusted in-house expertise.

Our efforts to integrate our engineering, supply chain and manufacturing functions also continue to progress. Meeting the air permitting requirements of certain jurisdictions for multi-year fixtures requires investment in Selective Catalytic Reduction emissions control systems, or SCRs. We have collaborated with our customers to select the best available control technology and are in advanced stages of planning manufacturing and assembly of some components of the SCRs in our manufacturing facility located in Early, Texas. Bringing some of this manufacturing in-house is expected to lower costs and potentially mitigate exposure to tariffs, both of which help to improve our returns on capital. In-house manufacturing also provides us with greater control over product quality and design.

We are excited about the first quarter results from both business segments, as well as the continued momentum and visibility we are seeing in the Solaris Power Solutions segment. I’m proud of the exceptional team and innovative culture that we continue to build. We are focused on maximizing

shareholder value through growing the company 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. As Yvonne, mentioned, please refer to our Earnings Supplement slide deck on our website.

Following the upsizing of the commercial contract and Joint Venture to approximately 900 MW, our power fleet had limited open capacity. To ensure we continue to meet accelerating market demand, during the quarter, we secured an incremental 330 MW of 16.5 MW turbines. This order brings our total expected operated fleet to approximately 1,700 MW. Pro forma for all deliveries, more than 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 over the second half of 2026, with full effective deployment of our fleet in the first half of 2027.

We are excited to have finalized this Joint Venture with an existing large-scale AI client. The near doubling of power generation capacity to 900 MW and the increased tenor to 7 years from 6 years are positive indications, in our view, of both market demand for these solutions combined with the confidence our customer has in Solaris' ability to execute over the long term.

The extension in contract tenor brings our average contract tenor up to approximately 5.5 years on a blended basis, compared to approximately 4 years last quarter and approximately 6 months when we closed on the MER transaction 8 months ago. The revenue from this contract is also subject to a take or pay provision, further solidifying contracted earnings visibility.

The partnership has also secured its own financing to support this growth. We recently executed a term sheet and are negotiating definitive documentation for a senior secured term loan facility of up to $550 million to support roughly 80% of the forecasted capex requirements of the JV. Solaris' first quarter capital expenditures included its cash equity investment into the JV. Our JV partner will contribute its pro rata share of cash equity in the second quarter of 2025. We expect the JV debt facility to fund the remainder of the JV's capital needs.

The ownership structure of the JV remains unchanged relative to prior disclosure. We will own 50.1% of the assets and will operate and manage the equipment on behalf of the JV. The net impact to our fleet ownership results in approximately 1,250 MW owned by Solaris out of a total operated fleet of approximately 1,700 MW. For purposes of financial reporting, we will consolidate the results of the full partnership with our customer's equity portion of earnings reported as non-controlling interest.

Including our latest order of 330 MW, we believe we will have enough power-dense, power generation equipment 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.

At full deployment, we see potential for the total Company to generate $575 to $600 million of annual run-rate Adjusted EBITDA on a consolidated basis. Accounting for the economics of the Joint Venture structure, we expect annual run-rate Adjusted EBITDA net to Solaris of approximately $440 to 465 million. These estimates consider the current contract book and assume a 3- to 4- year payback on the currently uncontracted equipment on order today.

Turning to a recap of our first quarter 2025 performance and our guidance expectations for the next two quarters...

During the first quarter, Solaris generated total revenue of $126 million, which reflected a 31% increase from the prior quarter due to continued activity growth in Power Solutions as well as growth in Logistics. Adjusted EBITDA of $47 million represented a 25% increase from the prior quarter. Power Solutions contributed 55% of our total Segment Adjusted EBITDA and is on track to contribute more than 80% of our consolidated Adjusted EBITDA after our on-order fleet is deployed.

During the first quarter, Solaris Power Solutions generated revenue from approximately 390 MW of capacity. For the second quarter of 2025, we expect activity, as measured by average MW earning revenue, to increase 13% sequentially to 440 MW. This increase is being driven by increased power demand from our customers which we are meeting using selective sourcing of third-party turbines. For the third quarter, we expect average MW on revenue to increase by 18% to approximately 520 megawatts.

In our Logistics Solutions segment, our guidance for fully-utilized systems remains unchanged at approximately 90 to 95 systems in the second quarter; We expect profit per system in Q2 to be in-line with Q1 levels. For the third quarter, we expect oil-directed activity could soften should commodity prices remain at or below current levels.

We expect approximately $7 million of corporate or unallocated expense in the second quarter, which reflects a more normal run rate. First quarter reflected a cash settlement of stock-based performance units

granted in 2023 and 2024, as well as higher employer taxes associated with the vesting of restricted stock that should not repeat in the remaining quarters of 2025.

These items result in Adjusted EBITDA between $50 and $55 million in Q2 and Adjusted EBITDA between $55 and $60 million for Q3. 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.

Before we turn the call over to the operator for Q&A, I'd like to spend a couple minutes addressing the potential impact of tariffs on Solaris. While the ultimate tariff impact is still unknown and is evolving frequently, we believe several factors help mitigate any material impact to our business.

Starting with the Power Solutions business. Most of our planned growth capital spend is allocated for new turbines. Our primary turbine vendor already manufactures in the U.S. and has a well-established, flexible supply chain. Pricing for the majority of our current orders is fixed, resulting in no material impact from tariffs. On our recent 330 MW order, we believe the maximum potential tariff impact is limited to 5% of the total cost and then only to the extent tariffs are actually incurred. To the extent that higher capital costs are realized, we expect an ability to pass those along to customers and maintain our targeted returns on capital.

Bill mentioned we are planning to manufacture certain capital items, such as components of the SCRs for emissions control, in-house at our existing manufacturing facility in central Texas. This initiative aims to reduce costs and enhance overall returns, which could further buffer any potential tariff impact.

In Logistics Solutions, our large capital program has concluded, and we are now in maintenance mode for those assets. Since we manufactured this equipment ourselves, we can manage repairs and maintenance domestically at our facility or directly in the field. Many of the inputs required to support these systems come with relatively little expense, and we already source most of these items within the U.S.

We remain excited about the growing opportunities for Solaris. We continue to focus on generating strong returns on invested capital as we build out our Power Solutions business while maintaining the strong cash flow generation from our Logistics business, to further enhance our attractive financial profile.

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