

Complete Solar

Transcript of Complete Solar's Presentation at Cantor Global Technology Conference

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Participants

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Presenter: Will Anderson, Founder & Director, Complete Solar

Presentation

Derek:

All right, I think we're going to get started here.

So, we have the pleasure of having Will Anderson, Founder of Complete Solaria. You've been through...you look back on the company history, there's been a few mergers, acquisitions, divestitures, so Will has been through the company through all of that. So, there's been a lot of change recently with the acquisition of SunPower. So, Will is the perfect person to have here today to go over the story, so we're glad he's here.

So how we're going to do this, Will is going to go through about 15 minutes of a presentation. I'll kick off Q&A and then I'll push it out to the audience if they have any questions and we'll go from there.

So, Will, thanks for being with us.

Will Anderson:

Thank you. It's a pleasure to be here.

Can you hear me all right?

All right, so I just have a few slides to introduce Complete Solar, formerly Complete Solaria, formerly Complete Solar. That's one of the divestitures Derek just referred to. But just to introduce you to the company if you're not familiar, and talk a little bit about a major acquisition, which we completed in October, of SunPower Corporation. And then we'll go to Q&A.

So just to kick us off again, to introduce you to me a little bit, I founded the company in 2010. I was the CEO through the end of '23. In 2023, we went public via de-SPAC with Freedom [Acquisition] Corp, our SPAC sponsor. And during that time, I've seen a lot of ups and downs in the industry. I went through the startup phase, a few growth phases, and ultimately built a highly resilient and valuable company for the solar market.

In 2024, our largest shareholder and board member, TJ Rogers, who is a famous CEO from Cypress Semiconductor, a Silicon Valley icon. Again, as our largest shareholder and somebody

putting in more capital, he and I came together and discussed the opportunity for him to lead the company into the next phase of our growth. He has the experience and the reputation to be able to take us to the next level. And so, his focus is on execution, quality, capitalization, and M&A. And as I said earlier, we'll go over the first big M&A transaction that we did under his leadership.

So, to start out though, the solar industry has been under attack in a lot of ways. There's a lot of money that's cycled out of it. There's a lot of concern or fear, misunderstanding about what's available in the solar industry. But I'm here to tell you that we are setting a new standard for excellence in the industry. And that's by establishing a culture that's led by TJ and that really emphasizes and focuses on first optimizing our operational processes, implementing strict quality standards, - something that has been lacking in the solar industry in general. But we are a leader in bringing semiconductor quality to the solar industry and to a service business. We're delivering top quartile customer service. We're improving constantly with iterative feedback loops from our customers, prioritizing regular and honest investor communications.

That's why I'm here today. If you've seen TJ's quarterly reports, you know that he doesn't hold back, you can get the straight scoop on exactly what's happening from the company. And imposing unrelenting capital discipline, which is also critical in a capital-intensive industry, even if we are an asset-light, less capital-intensive business ourselves.

The bottom line is what you're going to see is a profitable solar company, something that's somewhat rare, and like I said, becomes a bright spot for the industry. So, to understand who we are, you really have to understand how we've rounded out the business with our acquisition of SunPower.

In October of '24, we acquired them out of bankruptcy. We now offer solar and battery storage solutions through three channels. We have a Direct-to-Homeowners channel, a Sales Partner or a third-party sales originator channel, which is Complete Solar's traditional business, and a solar for New Homes - by going through commercial builders. So, by bringing these three divisions together, we have become, pun intended, a “complete solar company”.

With the SunPower acquisition, we've been able to expand our market access throughout the US. Complete's traditional markets had been California, New England, Texas, a little smattering of a few other states. But by adding SunPower, we've now added their Dealer network and more importantly their Direct to Consumer, which they operated under the brand Blue Raven Solar, that operates throughout the middle of the US, - and then New Homes as well. So, we now have very broad access to the entire US by bringing these companies together.

The integration of SunPower is a key point that I think most investors probably still don't have a good appreciation of what's actually happened there. We have rapidly yet thoughtfully integrated these businesses. We've followed TJ's M&A Playbook, which he had 26 successful acquisitions at Cypress. They did about one a year and they would not take two or three years to integrate them. They did it in the matter of a quarter or two, which is what we did as well.

So we are fully integrated systems, leadership, personnel - as of the beginning of Q1, and that's after a beginning of Q4 acquisition. And this is of a company that was at one point 10 times our size. We had to go through a lot of effort to stabilize the SunPower revenue.

And equally, or more important perhaps is rapid cost-cutting to make sure that we weren't stuck with a lot of operating costs that we didn't frankly have the capital to support. TJ has used this image in his last quarterly report to give the sense of how we went about doing this. We communicated to SunPower that Complete Solar is Noah's Arc and we only have a certain number of seats available and if you're interested in joining the company as a SunPower employee, there are a couple of things that you have to do. We posted 1,000 positions and at the time there were approximately 3,700 SunPower employees...so we didn't buy all 3,700 employees, we said, "We will take a thousand of you. Your next step is apply. Apply and be interviewed for the job that you're in, or for any other job that you feel like you can do better."

Those who didn't apply we knew weren't going to be a good fit. We didn't want to drag them along kicking and screaming. They simply did not get hired over.

We were able to retain our top performers and identify those with the best cultural fit. We did interview all 1,000 plus interviewees and ended up keeping about 980 of them. And so, in the matter of two months, we had trimmed our, well, SunPower's costs by about 70%.

SunPower is an icon of the solar industry. They've been a public company for over two decades. They were founded in '99 or 2000. Just a few years ago, they were worth over \$4 billion dollars in market capitalization, and they precipitously declined in value after that, but not because of the underlying businesses. They went through issues with accounting - with their auditors. Their auditors dropped them, and they had restatements of their financials. They were burdened by a ton of debt, and they couldn't raise money and that's what forced them into bankruptcy.

We engaged with them about a month before they went into bankruptcy and became the stalking horse bidder, which ultimately was awarded by the courts. And so, by taking on these businesses, we paid \$45 million for businesses that only a few years ago were worth literally 100 times that. So, a single penny on the dollar for the value of these business units.

The next step, as I had already said, was to stabilize the revenue in Q4. We hit the bottom of the revenue deterioration that was happening throughout that period of both bankruptcy and struggles. And then even more importantly, we're doing it again this quarter to demonstrate that indeed we have hit the bottom of their revenue deterioration and are now starting to grow.

Most importantly, we're doing so profitably. So, with the cost cuts, we're projecting to report a Q1 operating income profit, and that's an enormous milestone for both SunPower and Complete now together as a single operating company.

But the market's not giving us credit for it yet. That's a big part of why I'm here today. I want to share this message. We're fairly thinly traded. There's not a lot of attention on us. The entire industry has been getting sold off with Trump and Republicans coming into Congress, fear that there's going to be headwinds in the future.

However, we are here to assert that solar is an incredible opportunity. It is an inevitability for our energy future. And where we're trading, even compared to our comparables - our industry comps, so these are all industry comps, - we are a fraction of a percent on our price to sales.

Take any other ratio you want. We are being undervalued as if SunPower is about to take us under. I hope what I've been able to share with you today is evidence that we've indeed converted that SunPower icon into a profit-making business with a highly valuable brand. And well doggonit on it, we want some credit for that. This is my last slide and just some key takeaways to emphasize the point.

The SunPower business units are fully integrated. Revenue is now stable, and the cost-cutting has resulted in our ability to actually make money. We are an asset-like business model, so we don't have any real future cash needs except for other possible M&A opportunities. And the bottom line is we are reiterating our positive guidance for our Q1 operating income. And we remain undervalued, and so right now is a great entry point to get into our stock.

That's all I have for prepared marks. Love to open to questions and just, I'm also joined by our Vice President of IR and our CFO, Dan Foley, who can...

Unidentified audience member #1:

Can you just go back two slides to where you had the footnote you had on peers. What were the peers?

Will Anderson:

Absolutely. Can you go back one more? Right there. Sunrun, Sunnova, Enphase, SolarEdge, First Solar, Maxeon.

Unidentified audience member #1:

So, who would you say is the best peer you compare yourself to?

Will Anderson:

The best comparable is probably Sunrun. Their business model is the closest to ours. The others are all in solar and we tried to be fair with these peers. Maxeon is completely upside down. Sunnova is going to zero. So, we've got a good mix of peers in this one.

Derek:

Great. Well, I have a few questions of my own, but anyone feel free to jump in.

So Will, you talked about the acquisition being complete with SunPower. You've been through multiple cycles. Where do you think we're at with the latest cycle? You mentioned you guys aren't necessarily getting the credit. Where are we at within the next cycle for resi solar?

And then can you talk about SunPower, what it's doing for the business? And what gives you the confidence that we're at the point where now we're going to see growth?

Will Anderson:

Yeah, so we've been fighting through some headwinds for the last couple of years. There was some policy questions about changing net energy metering, which is the exchange rate between the utility and homeowners if they send power out to the grid, - became very unfavorable in California, and there was a lot of concern that that was going to kill the market. With policy uncertainty at the federal level, interest rates being high, and this is...I am sorry for those of you who are investing in public equities, - but public investors are just replacing interest rates as a proxy for investing in companies in the sector. Let's just say nobody in this room, but that's what dumb money is doing right now.

The fact of the matter is we've been through this for about a couple of years and we are seeing things turn a corner on the first point that I highlighted, that was specific to California. The concern was it would spread to the rest of the US, which it has started to actually. But in California today, the value proposition that we can deliver to homeowners is equally strong as it was two years ago. And that's because as soon as that policy went into effect, utility rates went up. That's something you can always count on. Death, taxes, and utility rates going up. So, the utility rates went up very fast. And again, homeowner savings are just as strong today as they were before that policy change.

We have not actually seen any of the worst fears come to fruition yet on some of the federal policy stuff. We feel actually pretty confident that the income tax credit that's associated with solar is probably fairly safe. It was part of the IRA, the Inflation Reduction Act. So, there are other elements of the IRA that are probably not safe, but nothing that's game-changing for our industry.

And solar is becoming more prevalent and top of mind for individuals. So I am seeing an uptick in our business in terms of consumer sentiment and an opportunity to grow. I think we are at the end of those headwinds, or towards the tail end of them, and we'll start feeling at least some neutral air or maybe even tailwinds behind us soon.

Unidentified audience member #2:

Thank you. Just two quick questions.

You talked a lot about your acquisition of SunPower, so I'm just wondering if you can elaborate a bit further on that. How quickly do you see yourself getting back to those run rates that SunPower had before?

And separately with the proliferation of data centers and the acceleration of AI, there's obviously been a large increase in the demand for energy, so just curious what you're seeing and what role can solar play there?

Will Anderson:

Yeah. So, demand for energy is going up. ...I'm going to answer the second question first and I'll go back to the first one.

Demand for energy is up and continuing to go up. AI is a contributor. Another major contributor is electrification of transportation. And so solar years ago crossed over into being more cost-competitive or cost-advantageous vis-à-vis fossil fuels. That's especially true with residential solar

because there we're not competing with the cost of the natural gas-fired plant. We're competing with the cost that it requires the utility to actually deliver the power to the house.

We're already at the house delivering power for far cheaper than the utility can. And so, I see solar being a key contributor to increasing our energy production. And again, I'm particular to the residential and small commercial distributed generation because if you can generate power where the power is consumed, you eliminate a lot of those costs.

That's number one. And then regarding SunPower, we're not giving guidance that we're going to get back to the billion and a half of annual revenue quickly. Okay. We're going to take our time and build it back up on the other slide that I showed. We're only in our first full quarter of having purchased them and we're going to show flat revenue, but with better operating income results. And so, each quarter as we move forward, we expect growth, but we're going to make sure that we're doing it profitably.

The other ways of growing is - we do think there are a lot of additional M&A opportunities out there where we can pick up more of these assets for less than what they're truly worth, - with a particular skill set for being able to both integrate them and make them more effective and more valuable simply by virtue of being part of Complete Solar. So that's how I expect we'll see most of our growth in the future is through M&A.

Derek:

So, you mentioned one of your peers having some challenges. Then you mentioned there are potential M&A opportunities for you guys. Is that the case, are there more opportunities still?

If the market turns, maybe you guys are in a position to bring on additional acquisitions; is that the growth plan going forward - continuing to find valuable assets on the cheap? Is that how you guys plan on growing in the future inorganically?

And then on the organic side, can you touch on some of the things that you're doing with SunPower to pour gas on the fire and return the New Home's business to growth? Can you talk about the organic versus inorganic piece going forward?

Will Anderson:

Yeah. Well, we're not going to pour gas on the fire. We're going to put logs on the fire. So, we'll grow it a little bit more slowly, but those fires burn a lot hotter and don't flame out. So that's for our organic growth.

The reason why there are a lot of opportunities for acquisitions is...I mean, so you again alluded to what I had said about Sunnova, which is struggling right now. They're not paying their project developers. There are a lot of people who are cash strapped right now, and that's not an unfamiliar scenario for solar companies. Solar companies are not inherently unprofitable. They do inherently struggle with cash management and liquidity.

And so, there are a lot of companies out there who are profitable, who do good business, who are not getting paid by Sunnova and are going to be in a lot of trouble, especially if [Sunnova] goes

under. They're in trouble right now just because of Sunnova. We're out talking to those companies right now. What we offer to them is....

...And let me just state for everybody's benefit as well, we have zero exposure to Sunnova, zero direct exposure to Sunnova. We don't do any business with them; they don't owe us any money.

So, we represent a little bit of a safe harbor for those companies to come in, get some value for their business even if it's not what they were once hoping for. But then as part of the Complete story - to be able to grow with our equity. We want to pay equity for these, not cash, and bring them in under our financing programs, under our capital structure where they can actually continue to operate profitably but without the stresses of the capital constraints that they're facing right now. So that'll never go away, but right now it's particularly present in the industry.

Derek:

And so, from my perspective, I think it's very significant. You guys are starting to talk about operating income being positive. That's not something you always see in this space. So maybe talk a little bit about that.

I know the integration is largely complete. Are there other ways to cut costs from here? Is that part of the plan going forward?

And then after that, one of the big things in the past that's been a huge expense for the industry has been sales commissions. This last quarter you guys talked about sales commissions around 20%. Historically it's been north of 30%. So maybe if we can talk about that after. But it seems to me like maybe there's a little bit more room for you guys to cut, but I don't know if there's anything you can add.

Will Anderson:

Yeah, so when we report OpEx, it's two components. That's a sales commission, which is the largest component, which is variable. And then there's the fixed OpEx. The fixed OpEx I would say we've largely got to the right place there. We get a lot of operating leverage off of that fixed OpEx category. But the big opportunity is in the sales commission, the cost of acquisition, and that's for the industry. It's typical for the industry to be 30 plus percent.

So two things that we got from Sun Power, the New Homes division and the Direct-to-Consumer or the Direct Sales I should say. So, there's a lot of margin stacking that happens with third-party sellers versus in-house sales. And we acquired a really well run business in the Blue Raven Solar. ...Again, we're not moving forward with that brand anymore as part of our integration, but they do operate at much lower selling costs than the rest of the industry does - that utilizes the dealer model or the third-party originators.

And then our New Homes business, so one thing I didn't mention, but it is worth highlighting, SunPower has been the market leader in solar construction for new homes. During the bankruptcy some of that went away, but we were able to preserve a lot of it and continue to be, between us and Sunrun, tied for market leader in that business. And that has a much lower cost of acquisition and is therefore more profitable.

We're going to grow both of those businesses, and the Dealer Channel actually became much smaller as a percentage...we're going to continue to grow it as well. But by growing the other two divisions and possibly acquiring some of these third-party originators, that will drive our acquisition costs down and that double marginalization that happens there.

Derek:

And then part of the company's history is in producing actual panels, both Sun Power and Complete Solar. That obviously it's a little bit more challenging, and in recent years Chinese panel competition. So margins of that business really pulled down margins, but when you look back at the company historically, we saw margins that were much stronger. With the new acquisition of SunPower, that being complete...

Will Anderson:

Are we going back to that? Is that the question?

Derek:

Yeah, just maybe talk about the growth margin, growth margin path and what investors should see on gross margins trending.

Will Anderson:

Yeah, so I have no desire to go back to manufacturing panels. The margins have pulled down, they went from zero to negative, so it's just not a great business.

Having said that, one of the things that is a particular strength of ours is our relationship with Enphase, an equipment manufacturer. They manufacture batteries and inverters, which are critical components. The CEO used to work for TJ. We have a very tight relationship with them.

That's where a lot of the intelligence for the solar system itself rests. And so I see us doing some strategic integrations with Enphase in that respect. But I'll get back to one of the key points that I highlighted that TJ is bringing to the company, which is our intense operational focus and our commitment to improving our margins and becoming profitable. And so, I do expect margins will creep up overtime, but that's doing the hard work of trimming out the pennies and nickels wherever you can find them on your cost stack and then just growing your business to exceed your operating overhead.

Unidentified audience member #3:

One more. Sorry.

Will Anderson:

Please. Yeah.

Unidentified audience member #3:

More of a technology question, I guess. How do you see technology for battery storage improving? And I guess how far are we from having the ability to store enough power to power our homes say for a few days or a week, and it obviously depends on what we're powering and how big our homes

are, but I think we're not nearly there yet where we fully power our house just solar energy. So, I guess how far?

Will Anderson:

Yeah, we're actually a lot closer than you think.

So, there's enough roof space to produce the power that's consumed by a home and I have three electric vehicles in my home and it's fully powered by my solar and I still have a little bit more space on my roof if I had to add to it. I don't have an enormous roof. And so yeah, I drive and power my home completely from the sun.

With batteries, it's really a matter of cost and cost-effectiveness of the storage, and I don't ever see us actually being fully disconnected from a grid. I see a future of extreme redundancy where every home produces power, every home stores power, and every home uses power, and they share those resources across one another. That's where you get to a lot of those cost reductions and again, redundancy and resiliency of the grid comes up that way. Because you don't really want to be an island where if your solar goes down and you're now powerless. If you're tapped into the grid or to a microgrid with your neighbors, their power production can power you while your solar is getting fixed.

So really, it's just a cost question on the storage. And today most homes can power themselves through the night until the solar comes back up and starts producing again - with one or two, two by three foot boxes on the side of their wall. And so, the cost of that is about \$25,000 installed today. So, it's still a little bit pricey to do that. It's cheaper in most places to not install a battery and just produce your power with solar and send excess to the grid and use the grid whenever you need to access it at night. But eventually, I think we'll all get there.

And we are seeing the cost curve on batteries come down very rapidly. It's not a technology improvement that's needed. It's really just a manufacturing cost curve.

Derek:

So just taking a step back, with SunPower, you've got a business that already with cost cuts is going to be hitting positive operating income pretty quickly here. You've got a nationwide network, so now you're positioned in all the best markets. Again, you've been doing this for quite some time in the industry. Is there anything that people don't understand about residential solar? Some people just won't really hear...they'll never be investors in it. What do you love about the business? Why do you continue to do this? What sort of opportunities are ahead in residential solar?

Will Anderson:

Well, you said people, so I'm going to separate that out into consumers and investors.

Consumers don't fully realize or appreciate that you can go solar without having to invest any money up front by utilizing a solar financing like a PPA or a loan, and your payment is going to be less than what you're paying for electricity today. So instant savings, it's really a matter of, "Hey, would you like to switch the way that you get your power from the utility at 300 bucks a

month and get it from us for 250 instead?" "Well, what's the catch?" "There's no catch. You just have to switch."

That simple message is not understood. There've been a lot of different types of efforts to try to educate consumers on that point, and a lot of theory of - as soon as people realize that, well then, we will become order takers instead of proactive salespeople. That hasn't happened yet, and it probably won't for another 10 or 15 years.

Solar is just a product that most people have never bought before. It's not at the front of their mind. They have some assumptions about it that, oh, it's probably hard, or it's probably expensive, or it's probably only for people who are super green, or whatever it is. And it's those preconceived notions that stop them from ever actually even exploring it. So that's our job is to figure out how to get in front of those people and deliver that simple message.

From an investor's perspective, I started my career in solar, like I said about 16 years ago. For me, there was a profound realization that we need a better way to power our society. Solar can do it not just more environmentally friendly, but for less money. But there's just this big activation energy that we have to overcome to displace, or replace, or reconfigure our utilities system. But it's not something that relies on government subsidies to be cost-effective. It is cost-effective even if we end up losing some of the tax credits and other things that are supporting the industry.

Solar is an inevitability. If you're a long-term investor, the wrong place to put your money is in Exxon. The right place to put your money is in solar and the companies associated with it. I committed my entire career to it and am still as committed as I ever was and would encourage investors to commit their capital to it.

Derek:

Any other questions for Will?

Unidentified audience member #4:

Are there any good estimates on what industry changed last year for resi and what it's looking like this year and next year?

Will Anderson:

In terms of market size? Or-

Unidentified audience member #4:

All industry. Yeah.

Will Anderson:

Yeah. So expectations are that the industry will grow a little bit this year. At our company, we're seeing more than a little bit, we see opportunity to really increase our penetration into the market.

I think what's preventing much higher expected growth is things that are happening that are more idiosyncratic with specific companies like Sunnova and others that are going to - on the balance

bring down the industry. But all of the others that aren't in those positions are going to be doing much better than what you see as an industry average.

Unidentified audience member #5:

Can you tell us your thoughts on the subsidy risk with Republicans in office, how you think about that?

Will Anderson:

Yeah, I wish I knew exactly what was going to happen, I don't. But we have formed an opinion...I mean, we're planning on all kinds of contingencies. But the most important policy for us right now is there's a 30% tax credit available to any homeowner who goes solar. So 30% of the cost of their system, they can reduce their taxes. What gives us hope is getting rid of that is increasing a tax or raising taxes, which is traditionally a no-no for Republicans obviously, but some of them like to target solar just because it's environmental.

So we expect that 30% to stay intact. There are some other tax credits for manufacturing, for domestic content, some either low-income additional credits that go on top of that - that we feel like are probably in danger in the next budgeting cycle. But the baseline 30% tax credit, which started in 2005 and has been renewed twice by Republican Congresses is probably going to continue.

Derek:

Well, if there's any follow-up questions, we've got the Complete Solar team right here. Feel free to ping them after this. Will, thank you for doing this. Thanks everyone for joining.

Will Anderson:

Thank you.