NYSE:SEI Q3 2025 Earnings Call Transcript

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Operator | Conference Operator:

Good day and welcome to the Solaris Energy Infrastructure third quarter 2025 earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on a touch-tone phone. To withdraw your question, please press star, then two. Please note this event is being recorded. I would now like to turn the conference over to Yvonne Fletcher, Senior Vice President of Finance and Investor Relations. Please go ahead.

Yvonne Fletcher | Senior Vice President of Finance and Investor Relations:

Thank you, Operator. Good morning and welcome to the Solaris Third Quarter 2025 Earnings Conference Call. Joining us today are our Chairman and Co-CEO, Bill Zartler, and our Co-CEO and Director, Amanda Brock, 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 and presentation. I would like to point out that our earnings release in 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 gap measures are available in our earnings release, which is posted in the news section on our website. For more details on the company's earnings guidance, please refer to the earnings supplement slide deck published on our website. I'll now turn the call over to our chairman and co-CEO, Bill Zartler.

Bill Zartler | Chairman and Co-CEO:

Thank you, Yvonne, and thank you, everyone, for joining us this morning. Solaris had a great third quarter, achieving record levels of quarterly revenue and profits. Our strong results demonstrate that we are executing well and are also showing significant progress on our growth. Solaris is at the center of what appears to be a massive and growing market opportunity. Demand for reliable and efficient power generation is accelerating as data center investment and associated power demand continues to grow at a scale and pace that is providing significant, attractive growth opportunities for Solaris. Many data centers now require more than one gigawatt of electricity demand per site which in some cases represents only the initial phase of what is likely to evolve into a multi-gigawatt facility. Many of these key artificial intelligence players are now planning numerous locations of this size with multi-year development plans. Power is a key bottleneck for many of these projects. Grid delays, extended equipment lead times, regulatory mandates, and surging demand are leading data center developers and hyperscalers to select locations where they can quickly secure significant power for multiple years. Over the course of the last 18 months, Solaris has positioned itself to provide critical infrastructure and services to support this massive investment cycle. In that short time, Solaris has quickly become recognized as a leading power solutions company. This is attributable to our successful track record of delivering a scalable, reliable, and flexible power solutions offering. In order to continue our growth

trajectory, we must execute well in all aspects of the business. This includes growing a capable team while maintaining our culture, developing a strong balance sheet, and creating power offerings that optimize capacity, timing, capital, and flexibility. The optimal power solutions for our customers will likely vary based on the application, scale, location, capital efficiency, and importantly, the timing needs of each unique project. Solaris is in a position to provide our customers with the most appropriate solution or solutions for their range of needs at any particular site. We can provide multiple generation sources to our customers as well as gas supply infrastructure, power distribution equipment, and resiliency equipment such as battery energy storage systems or BESS. Our solutions can include a combination of natural gas turbines, natural gas reciprocating engines, grid power, BESS, fuel cells, and other renewable technologies. It is quickly becoming apparent that an all-of-the-above generation approach could be necessary to meet the rapidly growing power demand. Since we updated you last in July, Solaris has achieved many strategic milestones that have positioned us for substantial growth. First, we continue to demonstrate strong execution. We operated approximately 760 megawatts during the third quarter, up from approximately 150 megawatts only a year ago. Our growing proprietary operational know-how and strong track record of uptime position us as a reliable provider of power. We began successfully providing primary power to a second data center during the third quarter, highlighting our ability to again rapidly deploy power solutions supported by effective collaboration between our employees, our supply chain partners, and our customers. Second, we secured additional capacity to position our business to enable us to react swiftly, and comprehensively to the numerous meaningful commercial opportunities we are pursuing. With the order of 80 megawatts announced a few weeks ago and an additional order of just over 400 megawatts, we now expect to have pro forma generation capacity of approximately 2,200 megawatts by early 2028 compared to our prior plan for 1,700 megawatts by the first half of 2027. Third, we raised significant capital in the form of a new convertible notes pay off our existing term load, providing us the financial and operational flexibility to continue our growth. Kyle will share more detail on this shortly. Fourth, our commercial pipeline is deep and growing as we are currently evaluating a number of potential long-term opportunities. The combination of growing project size, tenor, timing, and reliability has resulted in an increasing interest in solutions like ours. Our recognized track record of execution and investments we've made in capacity has positioned us at the forefront for many of these opportunities, and we are confident that the additional capacity we have on order will convert into long-term contracts. Fifth, we have expanded our capabilities and customer base through M&A. In the third quarter, we acquired and welcomed HVMVLV, provider of specialty voltage distribution and regulation equipment and engineering services. HVMVLV stands for high voltage, medium voltage, low voltage, just so you know. Bringing these capabilities in-house further strengthens our solutions offering by giving us exposure to new high growth end markets. Importantly, these balance of plant solutions are essential across all electricity use cases regardless of generation source. Our acquisition strategy demonstrates how we are strategically both vertically integrating and expanding our technology offering, further enabling us to offer a truly power agnostic approach to meet our customers' power needs. Finally, we have welcomed additional talent to complement our existing team and drive further commercial and operational success. We've added high-impact team members to our engineering, operations, commercial, and support functions. We've also enhanced our executive leadership team with the addition of Amanda Brock as my co-CEO. Amanda has been a trusted partner of mine for the last decade and brings a proven complementary skill set to the office of the CEO. She has an extensive background in building and managing infrastructure, including both water and power, and in leading teams to success. These capabilities come to us at a critical time as we rapidly scale our operations for the significant growth ahead. As I've been asked many times, I would like to make it clear that I have no current plans to retire. This co-CEO appointment is about covering more ground and accelerating our growth. Moving now to a discussion of our logistics solution segment. I've often referred to our logistics solution business as the engine that could. Well, less than a third of our business today we would not have the success we've had in Power Solutions without the stable cash flow provided by this basis segment. This business also is a critical piece of the natural gas value chain required for the Power Solutions segment. We also continue to earn the operational and financial returns on the investments we've made in our logistics systems, which continue to help drive efficiencies for our customers. For example, we've increased our deployment of multiple Solaris systems on customer locations, which enables more efficient throughput, raw materials, and in turn helps our customers accelerate their development schedules. Year-to-date, we've

deployed multiple Solaris systems on 90% of our customers' locations, which compares to approximately 60% a year ago and 40% the year before that. We believe that our technology portfolio positions Solaris as the partner of choice for operators and service companies pursuing the industry's leading-edge completion designs. During the third quarter, lower 48 oil and gas industry activity contracted to what we believe reflects a near-term trough, as evidenced by early fourth quarter activity levels. We believe this segment will continue to generate significant free cash flow while providing a highly reliable and efficient system for our customers. In summary, we are pleased with both the operational and commercial advancements achieved during the quarter. We are confident that the growing demand for our power services will continue and and we're demonstrating that confidence through our incremental generation orders as well as our continued inorganic investment. We're also taking deliberate steps to ensure that we have the right balance sheet and the right people in place to position Solaris for continued growth. As has been emphasized by our country's leaders, winning the AI race is an imperative strategic objective for the U.S. Solaris can play an important role in advancing this objective by using its technology to efficiently generate and deliver large-scale, reliable clean energy. With that, I'll turn it over to Kyle.

Kyle Ramachandran | President and CFO:

Thanks, Bill, and good morning, everyone. Solaris' third quarter demonstrated another quarter of significant growth and solid execution in our power solution segment, as well as continued execution and strong free cash flow generation in our logistics solution segment. This growth and execution were driven by the dedication and skills of our team, the continued support of our customers, and the dependability and flexibility of our suppliers. During the third quarter, Power Solutions contributed more than 60% of our revenue and over three-quarters of our segment-level adjusted EBITDA. These results are attributable not only to a robust industry backdrop, but also to the value of the Solaris offering and the team's execution. As Bill highlighted, in addition to the previously announced 80 megawatts we recently ordered, we have also secured additional generation capacity for a total of approximately 500 megawatts. This brings our pro forma expected generation capacity to approximately 2.2 gigawatts by early 2028, which compares to our prior order book of approximately 1.7 gigawatts. As previously announced concurrent with our recent convertible financing, we expect the first 80 megawatts of our new orders to be delivered by year end. The remaining delivery schedule is concentrated around the second half of 2026 and the second half of 2027 with final deliveries of this most recent order occurring in early 2028. Capital expenditures associated with the 500 megawatts total approximately $450 million, consisting mostly of turbines and associated emissions control equipment. Once equipment is contracted at a particular site, we expect to add additional project scope to accommodate the unique specifications of any given location and customer need. This increased content would be expected to generate returns on invested capital comparable to the economics of our current power solutions offering. As a result of our recent financing and the ongoing cash flow generation ahead of these deliveries, we have sufficient cash to fund these incremental generation orders. In early October, Solaris raised approximately $748 million in the form of senior convertible notes due 2031 with a 0.25 percent coupon. The proceeds from this offering were used to repay our existing term loan and will be used to fund the 500 megawatt org. This financing also unlocks significant flexibility for Solaris, given the removal of restrictive covenants, as well as the meaningful incremental near-term cash flow it unlocks. Over the next four quarters, we now expect to save approximately $45 million in the form of interest and amortization savings as compared to our prior capital structure. Turning now to a review of our third quarter results and our outlook for the next two quarters. During the third quarter, Solaris generated revenue of $167 million and adjusted EBITDA of $68 million on a consolidated basis. Our adjusted EBITDA grew 12% from the prior quarter and increased more than three times as compared to the same quarter last year, driven by the acceleration of our power solutions segment. The primary driver of growth versus the prior quarter is continued activity growth in power solutions which more than offset a modest decline in logistics solutions activity. We generated revenue from approximately 760 megawatts of capacity during the third quarter, which reflects an increase of more than 27% from the prior quarter. This increase in activity was driven by increased and accelerated demand from our customers, which we are meeting using a combination of new turbine deliveries as well as selective short-term sourcing

of third-party generation capacity. Segment-adjusted EBITDA for the power solution segment was $58 million, a 27 percent increase from the second quarter. We expect segment-adjusted EBITDA next quarter to be relatively flat as a full quarter's benefit from the ramp in operated megawatts and the HVMZ-LV acquisition is offset by a mixed impact from lower spot utilization and commissioning work. While we expect the recent order of 80 megawatts to have a limited impact on fourth quarter results given the expected timing of deliveries, We expect this incremental capacity to drive first quarter 2026 segment-adjusted EBITDA for power solutions higher sequentially relative to the fourth quarter of this year. In our logistics solutions segment, we averaged 84 fully utilized systems, a decline of 11% from the second quarter. We believe the third quarter represents a near-term bottom in drilling and completion activity and expect our segment-adjusted EBITDA to improve slightly in the fourth quarter. Netting these factors and considering corporate and other expenses, total adjusted EBITDA guidance for the fourth quarter is now $65 to $70 million, up from the prior guidance of $58 to $63 million, and relatively flat from the third. We're also introducing our first quarter, 2026, total adjusted EBITDA guidance of $70 to $75 million. Accounting for expected longer-term tenor are fully delivered 2,200 megawatt generation capacity, and our recent acquisition, our new estimate of pro forma earnings of the company could be over $600 million before considering any additional scope or growth with our existing customers or new opportunities. We are excited about the accelerating growth of the industry and about the significant strategic steps we've taken to maximize our opportunity to continue to grow. Our priority remains to deliver strong returns on invested capital as we continue to develop our power solutions business while sustaining leading market share and strong cash flow generation from our logistics solutions operations. With that, we'd be happy to take your questions.

Operator | Conference Operator:

We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone telephone. If you're using a speaker phone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster. The next question is from Dave Anderson Barclays. Please go ahead.

Dave Anderson | Analyst, Barclays:

Hi, good morning. I was wondering if you could talk a little bit about how you see the supply chain today. You're placing orders now for 2028 deliveries. Is this going to get stretched out a bit more than, say, a year ago? And I would imagine the competition for OEM slots has become substantially tighter the last few months. I was wondering if you could talk about some of those challenges that you're facing as you look to build out the power business. Thank you.

Bill Zartler | Chairman and Co-CEO:

Well, I think you surmised it well, David. The supply chain is growing out. We're lucky to get the slots we have with our relationships, and we're exploring, you other avenues for, for getting power. Hence the, hence I think what, what we referred to as multiple sources of generation to power these things, especially in, in, in timing wise. Um, and we're spending a lot of time on the distribution side and the equipment side. We had a team, uh, over in Asia last week, you know, looking at, at a couple of OEM flexibility options around, you know, how we, um, get ahead of transformers and switchgear and breakers and, and those kinds of things, uh, on a, on a portable basis as well as for permanent equipment. So I think that is a, That's a very important part. As I said, we needed to execute on all phases of the business, and supply chain is clearly one of those phases that's really driving a lot of things today.

Kyle Ramachandran | President and CFO:

And I think that's also coming at a time where the customers are recognizing the sort of opportunity of speed here to build behind-the-meter solutions in a way that provides the right levels of reliability, the right levels of generation in a way that really aligns well with their strategic goals. And I think that's informed in terms of how we're thinking about expanding the fleet at this stage. The size of the prize appears to be growing at a rate where the sort of cost of poker, i.e. how much capacity you have available, is needing to go up. And so what we're sort of What I'm indicating here is the size of each of these opportunities is growing. And so, we've added capacity here, sort of second half of 27. And as we look at making further orders beyond this, you're spot on. The delivery dates are extended. But we've got a tremendous track record, I think, of finding unique ways to find capacity. We continue to benefit from a team that's got tremendous experience and legacy in looking at generation over decades all over the world. And I think that really positions us somewhat differently than than maybe others in the market that are kind of just getting into it. So we've got literally decades of experience both on the generation side as well as on all the distribution side within the company now that we're really able to benefit from.

Dave Anderson | Analyst, Barclays:

So I think there's actually a big distinction about how you're actually already managing the megawatts today. And you've talked about the balance of plant and how kind of the challenge is to actually manage this power is more than just owning it. You made that acquisition over the summer, the HVMVLV. I did it. The acquisition in terms of the balance of plant. I also noticed this quarter the megawatts and revenue per megawatts increased about 10% this quarter. Are we starting to already see the impacts on the balance of plant, or is that more about efficiency and utilization of the equipment? And can you tell me how we should be thinking about modeling that going forward? Is that a number that should be kind of steadily increasing over time?

Kyle Ramachandran | President and CFO:

There's a lot of puts and takes in that. And I think if we specifically look at the third quarter, what we were able to do was to deploy a significant amount of additional generation that was sort of beyond what we initially guided to. And so we are benefiting in the third quarter with some level of contribution from some of our commissioning efforts. I think the fundamental returns on the equipment are still sort of in line with where we've indicated in the past. The other kind of puts and takes on it align with duration. And as we think about different customer mix and different duration mix, there could be some different ways of looking at returns.

Dave Anderson | Analyst, Barclays:

Okay.

Kyle Ramachandran | President and CFO:

Thank you, Kyle. Thank you.

Operator | Conference Operator:

The next question is from Derek Whitfield, Texas Capital. Please go ahead.

Derek Whitfield | Analyst, Texas Capital:

Good morning, all. Congrats on your update. And Amanda, congrats on your appointment.

Amanda Brock | Co-CEO and Director:

Thank you.

Derek Whitfield | Analyst, Texas Capital:

For my first question, I wanted to focus more on the competitive landscape. With this announcement, it's clear that you feel confident in your ability to place your power generation capacity. With that said, to what degree did the recent announcements from Halliburton and Liberty change your view on the size of the growth opportunity for Solaris?

Bill Zartler | Chairman and Co-CEO:

We're having our own discussions, and what others do don't necessarily impact it. I don't think that this is a very, very large market if you look at the numbers, and it's going to require multiple companies to perform to satisfy the needs of the growing power demand. So I think that has not changed our outlook at all in any way.

Kyle Ramachandran | President and CFO:

Yeah, and I'd say just to put it in context, so the 2,200 megawatts we're talking about here, to satisfy the leading-edge sort of incremental demand, data center, I'm not sure that satisfies even two at this stage. So the sizes of these infrastructure projects continue to grow to Bill's point such that it's just a large market.

Derek Whitfield | Analyst, Texas Capital:

Yeah, fair point. And maybe just to build on that, based on the flurry of recent power AI development announcements across West Texas and the amount of BTC miners that are converting to data centers, Do you guys see an opportunity to co-bid these developments with those operators to meet reliability needs of the end client?

Bill Zartler | Chairman and Co-CEO:

I think that's one of the points on the flexible generation here is that the distribution equipment and the packaging up of multiple sources and the way that gets run is something that I think we're developing a pretty good expertise on. And I think that will be the way some of this gets executed is a combination of multiple sources, whether it's excess grid power that a Bitcoin miner may have been using, whether they've got some on-site backup generation that flexes and we put some new kind of permanent power or bridge to backup kind of power on-site, I think is going to really be what the ultimate solution looks like for the size of this activity and the timing needs that the industry has.

Kyle Ramachandran | President and CFO:

In our fleet, if you think about just max flexibility with respect to, in general, the mobility of the actual equipment, also the size of These are medium-sized gas turbines that are able to be mowed and rigged up quite quickly relative to some of the other larger equipment that may be more permanent in nature. And so to your point, as the opportunities shift around in terms of geography, we really benefit from that. And that also ties into our legacy business. One of the real keys of success of the 10-plus years track record of the legacy Solaris business has been the fact that we've had equipment that can go anywhere at a moment's time's notice. And so that's allowed us to be very nimble, and I think that'll continue to be a paramount sort of culture tenant to our business.

Bill Zartler | Chairman and Co-CEO:

And as I add to the engineering team that's associated with the legacy business and our ability to take a look at this power generation business and modify equipment to make it more mobile, I think the oil field led the way in developing and partnering to make the mobile turbines to start with, and then the addition of of mobility around the Cadillac reforming technology. We've modified and built our own with our own in-house engineering mobile SCRs that pair up quite quickly, quite easily, minimize downtime for the emission control system. So I think that combination of engineering know-how and the focus on mobility and quick execution has been paramount to the continued success in both businesses.

Derek Whitfield | Analyst, Texas Capital:

Great update. Thanks for your time.

Operator | Conference Operator:

The next question is from . Please go ahead.

Don | Analyst:

Good morning, guys. Hopefully, you all are doing well this morning. Given that I'm one of the only analysts that covered both ARIS and Solaris, I have kind of unique impact or relation to Amanda. Just quick question on the co-CEO role. Is it expected to be kind of divide and conquer, or are you all going to make kind of decisions together? And kind of second part of that question, Amanda, I know you've only been there a week or so, but your initial impressions on kind of how the team is put together and your initial impressions, you know, as you kind of get into work? I'll let you start, yeah.

Amanda Brock | Co-CEO and Director:

Certainly, and thanks, Don. So, look, I'm very happy to be here. With this team, I've known Kyle since, you know, I think 2017, and it's great to still be side by side with Bill. And anybody who knows Bill and I knows that we are different but have very sort of complementary skill sets. So some of it is, and Bill will talk about it, you know, divide and conquer so we can cover more ground. And, of course, you know, not getting in each other's way and make decisions that are going to enhance the effectiveness and to use Kyle's word, nimbleness of the company. In terms of observations, actually, this is the beginning of week three because there was no downtime, and it is really drinking from the proverbial fire hose. The speed at which this market is moving is unprecedented, and there are huge tailwinds and opportunities for us as we focus on delivering these power solutions into a market where power is emerging as a critical bottleneck. The deals we're

engaging on and the deals that I've gone straight in to work on are real and tangible with very credible counterparties. We have a distinct advantage to have already demonstrated our ability to deliver. I mean, we've been out there, we've been operating, and that just gives you a real perspective. And as Bill has repeatedly emphasized, we've got this track record of executing on large scale and getting larger data center projects, and have developed know-how, software, proprietary processes that we can apply on new projects, and that is an advantage. So, high-quality opportunities for continued growth. I'm very optimistic. I'm happy to be here, and there's one incredible road ahead of us. So, Bill?

Bill Zartler | Chairman and Co-CEO:

You know, as the divide and conquer, you just covered it all, so no need to double up.

Scott Gruber | Analyst, Citigroup:

Sure.

Don | Analyst:

I appreciate that color. You know, a big question coming into this earnings cycle is going to be whether or not you announced a new contract or not. But I think you have said in past calls and whatnot that you wouldn't order any additional equipment if you weren't close on another contract signing for a data center or a large project. Is that still the case? And, you know, I know you don't want to give specific timing, but should we assume something in the next, you know, 90 to 180 days that could kind of soak up all that equipment you have on order today?

Bill Zartler | Chairman and Co-CEO:

That is still the case, and your assumptions are pretty good. Okay.

Don | Analyst:

I appreciate the call. Thanks. I'll turn it back. Thanks, Don.

Operator | Conference Operator:

The next question is from Derek Potheiser at Piper Sandler. Please go ahead.

Derek Potheiser | Analyst, Piper Sandler:

Hey, good morning. Maybe just a bigger picture question. I want to discuss the type of advantage HVMVLV gives you when you're bidding on these large data center projects, and we're talking a gigawatt plus here. So obviously there's a lot of companies out there going for this behind-the-meter power market. It creates a lot of confusion for investors, who's best positioned and what's the differentiating factor. Maybe you could just help us understand your differentiating factor versus your peers, including this integrated solution, which has just both been bolstered by HVMVLV. Just help us and investors how we should really think about that.

Bill Zartler | Chairman and Co-CEO:

I think you think about it from actual operations and skill sets, and then when we add on power, what comes out of the generator isn't what feeds the data center or any other utility. You have to regulate that power. You have to convert it to the right voltage level. You have to get it to what the building needs. You have to control power. lots of elements of that with switchgears, and you've got to protect it with breakers and switchgears. So the notion that the rest of that stuff really does drive the generation source, and as we mentioned, there's going to be multiple sources of generation to supply this demand because it's too fast and too quick. And as that happens, it's more and more imperative that you pair up the right set of electrical distribution equipment downstream of that. As an edge and the ability to engineer, design, and operate those systems, I think we have a pretty unique advantage with that with respect to the turbines. The modeling of these businesses, and I think we set a little bit of a trap up on megawatts times a dollar equals this times the multiples of value, but there's a lot more to this around protecting that business, building the moat around the operating processes and technology and the pieces of electrical equipment that, that blew it all together. So, you know, there's a house, a set of bricks doesn't really work without the mortar and that's the mortar in this business.

Derek Potheiser | Analyst, Piper Sandler:

Got it. That's helpful. Um, and then maybe back to your comments about your, all the above power approach, you know, historically you've been heavy on the turbines, obviously the 5.7, 16 and a half 38, but sounds like you'll be exploring, you know, the battery, systems, potentially resits? Just, you know, could you help us understand kind of that all the above approach and then maybe just your latest, you know, the additional 400 megawatts? Was that all turbines? Was that a mix of a different type of kit? Just maybe a little bit more color around that.

Bill Zartler | Chairman and Co-CEO:

Yeah, and I think we will, the view forward is the turbine is going to be the workhorse of the power generation industry. It's no different than the way the utilities work. The gas turbine is driving our system in this country of power. So that will be our workhorse as we complement things for timing and flexibility. The turbines have unique curves with heat and altitude that change their output. And so pairing that up with an engine that doesn't have quite the turndown in the heat, like a large reciprocating generation and generator, and we're running them as part of the kit today. So it's not It's a small piece. Does it grow slightly? I think we'll see it growing as part of the generation piece slightly going forward. Batteries are an important part of this. It comes down to what is the reliability that you're looking for. In data centers, there's an element of this that they have to have. virtually 100% reliability when it hits the cooling system to keep the buildings cool and the chips from melting down. The investment is enormous. So thinking about how batteries both provide protection against the volatile loads coming out of the chips, as well as very short-term bridges as you flex with your redundancy built into the power grid. And not every data center is the same. And so there's not a standard design gigawatt data center. They're built in multiple data halls. The data halls can be powered independently. They can be powered together. They can power the cooling systems different from the chip systems. And so the notion that it's just kind of one-size-fits-all is there, and that's one of the other reasons why the distribution part of this is so important, so you can match up what the actual data center power needs look like with the generation equipment.

Derek Potheiser | Analyst, Piper Sandler:

Got it. Very helpful, caller. Thank you all for the back. Thanks, guys.

Operator | Conference Operator:

The next question is from Scott Gruber, Citigroup. Please go ahead.

Scott Gruber | Analyst, Citigroup:

Yes, good morning. You know some gross capex in your 27 outlook. I'm curious about the state line JV, you know, once the 900 megawatts is deployed. Is the JV expected to send cash back up to Solaris or do you pay down the term loan or does that cash get recycled back into expanding the JV? Just some thoughts on how to think about the JV and the JV cash flow once the 900 megawatts is deployed?

Kyle Ramachandran | President and CFO:

Yeah, good question, Scott. I think there's debt down at the JV, and so that does need to be serviced with respect to interest and amortization. But there's a fair amount of flexibility within the constructs of that debt instrument that do allow us to send cash up to both ourselves, as well as our partner in that JV. Options with respect to what to do with that cash, the board of the JV, which is composed of both Solaris and our customer, can choose to distribute the cash, or to your point, we can make a choice of keeping cash there and continue to invest at that level to provide additional power to that customer, which obviously has ongoing and growing power needs and demands. So a lot of flexibility in that structure, and we were able to obviously finance that at a pretty attractive rate with respect to the advance rate on the equipment. So that structure, you know, we feel is going to provide a lot of flexibility and ability to drive returns for us.

Scott Gruber | Analyst, Citigroup:

Thanks for that, Kyle. And then just some color on how you see Megawatch deployed over the next several quarters and how you see the transition from you know, third-party re-rents to wholly owned capacity based upon the delivery schedule and what seems to be, you know, greater, obviously greater demand, you know, from the customer. When do you see kind of fully getting to kind of fully owned capacity in the field?

Kyle Ramachandran | President and CFO:

Okay. Good question. Obviously, that's continued to change and extend as we've added capacity into the order book. As we look at next year, there's really two legs of growth as far as operating capacity. The first is the JV getting stood up with respect to its permanent generation, and we are supporting the power needs of our customer that will ultimately be funded with the JV vis-a-vis some of the re-rented assets today as well as some of our own assets. So next year we'll see the construction of roughly 900 megawatts of permanent power for the JV. And then we'll also see delivery of about 400 megawatts that was placed back in March of this year. So those are the two avenues of growth for 26. And then as we look into 27, it's primarily the order that we just placed. One small additional note, we did pick up some capacity in the fourth quarter of this year. which will have a full impact beginning in the first quarter of next year. So as we look at the full stood-up fleet, it's sort of a second half of 28 is sort of how I would look at it.

Scott Gruber | Analyst, Citigroup:

Got it. I appreciate the call.

Kyle Ramachandran | President and CFO:

Thank you.

Scott Gruber | Analyst, Citigroup:

Thanks, Jeff.

Operator | Conference Operator:

Next question is from Jeff LeBlanc, TPH. Please go ahead.

Jeff LeBlanc | Analyst, TPH:

Good morning. Thank you for taking my question. Morning, Jeff. Hi. Bill, in the prepared remarks, you mentioned locations involving to multiple gigawatt sites over the next several years. Given this opportunity set, could you help frame the size of your customer pipeline? And is it safe to assume that by the end of the decade, your operating fleet will be larger than 2.2 gigawatts? Thank you.

Bill Zartler | Chairman and Co-CEO:

I think the pipeline is enormous, and that's a technical term. It's just so much activity, it's frightening. I've never seen anything like it in my life. it's probably fair to say that we'll be beyond what we have on order today operating in a couple years.

Jeff LeBlanc | Analyst, TPH:

Thank you very much. I'll turn the call back to the operator. Thank you.

Operator | Conference Operator:

The next question is from Michael Dudas, Vertical Research. Please go ahead.

Michael Dudas | Analyst, Vertical Research:

Good morning, everyone. Good morning. Good morning, Michael. Two questions. One, Bill, could you maybe share some of the – circumstances surrounding the second data center order that you cited in the press release. And secondly, as you are negotiating regarding contract tenor, any further confidence, thoughts on length? Is that still a sticking point given where people are expecting, you know, grid connections out into the future or other BTM solutions? Just wanted to get a sense of that's still part of the negotiations. Yes.

Bill Zartler | Chairman and Co-CEO:

I think the second data center that we stood up during the second quarter was known and predicted and it's rolling into our joint venture, State Line Power LLC. So we have it running on a temporary power with full emissions control and then we're constructing the gigawatt plus power plant starting really in the next quarter, rolling into next year as we ramp up the deliveries of equipment to roll into the permanent site for that facility. So if That's up and running. We got it up and running very quickly over the course of the quarter, and it's

stable, and we'll be rolling it into the permanent site really beginning 1st of January or so thereafter. What was the second question? Contract tenor. Oh, contract tenor. It's clearly morphing to longer term. I think that the grid delays, the announcement of grid delays, the magnitude of the power the SB6 approach from the government coming up, the recognition that these guys are going to need this power for a while is really morphing average contract tenors out significantly from where the thought was maybe a year ago about what this business needed to be. So it's morphing into more of a behind-the-meter permanent power or permanent power to a portion of it becomes backup if the grid gets there at a lower cost. But I think there's a heightened sensitivity within the regulatory framework and the public about power prices going up and the notion that the behind the meter helps defray some of that, I think, is an important element that our customers are evaluating.

Michael Dudas | Analyst, Vertical Research:

I appreciate it. Just a quick follow-up. When you talk about behind the meter and all the above approach that you've talked about throughout this call, could you maybe rank where other approaches are in solutions relative to what Solaris on the gas, on your core gas turbine side is, and how that may incorporate your lead time or your ability to kind of secure these projects relative to other solutions in the market behind you.

Bill Zartler | Chairman and Co-CEO:

Well, I think the other solutions are, you know, finding a specific grid location where there may be excess power and pulling that down. Most of that at this point with the size of the data centers is need some element of either backup or complementary prime power. And so as those sites or nodes that may have excess power on the grid, they're getting filled up, and that is getting scarcer and scarcer, and those are now being complemented by power solutions like ours. I think the others in the market that are doing this, I think the Williams team is a very professional organization. They run a lot of equipment and assets around the country, and they're doing it. similar to, I think, the approach we're taking with equipment and long-term tender contracts. And I think the market is recognizing that it will be powered on the increment by natural gas, whether that's actually over the next 10 years, whether that's a backup behind the meter or whether that's an additional utility-based big turbine running on the grid. So it will all be fired by natural gas on the increment for the stable power that's needed to run those data centers.

Kyle Ramachandran | President and CFO:

I think just one small piece to add. When we allude to other sources of generation to complement our turbine workhorse, as Bill referred to it as, that allows us to extend the turbine capacity that we have today. In other words, if we're able to complement with a larger size or amount of gas resips as well as potentially fuel cells, that allows us to extend the turbine capacity that we have today on balance sheet to a broader amount of megawatts from a total demand from a data center perspective. So in other words, we've got, I would say, the critical piece that's got the longest lead time associated with it secured with the gas turbines. And if we're able to complement that with additional sources of generation, whether it be a combined cycle plant that's getting stood up either interconnected to the grid or in an islanded mode or its resips or something like fuel cells, it gives us optionality to continue to extend and grow the 2200 megawatts with not necessarily adding specific turbines inside of the sort of timeframe where we could be bringing on other sources of generation.

Michael Dudas | Analyst, Vertical Research:

Excellent, Kyle. Thank you, Bill.

Operator | Conference Operator:

The next question is from Bobby Brooks, Northland Capital Markets. Please go ahead.

Bobby Brooks | Analyst, Northland Capital Markets:

Hey, good morning, guys. Thank you for taking my question, and congrats, Amanda, on the co-CEO role. I just wanted to have a quick follow-up for Kyle, mentioning how adding new power generation can kind of extend the core turbine power that you have on the balance sheet. I'm just curious, in your future contract negotiations, has that worked into the contract where it's like, hey, we'll provide you 400 megawatts of power, but it's not specific as to what type of asset is generating that power? Just curious on that.

Kyle Ramachandran | President and CFO:

Sort of a mix of all, I would say. So I think the key asset we have today to engage with customers is our order book as it sits today. But as we discuss with them, here's what it is, generally speaking, the needs are greater than that. And so as we're looking at putting together contracts, it's sort of step one, locking what we've got on balance sheet, and step two is their demands ultimately are larger, and we're giving them options and flexibility around different levers to pull to increase the total capacity. So it also could be a combination of other gas turbines that we haven't secured to date. So I think every opportunity we're discussing, we've got a great, somewhat of a starter kit for the customer's needs, and additional capacity can be met with additional gas turbines, reciprocating engines, or other forms of generation. So we've got the optionality.

Bobby Brooks | Analyst, Northland Capital Markets:

Got it. That makes a lot of sense. And then I was just hoping to get a bit more insight of how you guys have been consistently able to secure more managed megawatts near term the last few quarters. Obviously, I can appreciate that you want to keep the specifics close to the chest, but could you maybe just walk us through at a high level how these opportunities arise and ultimately how you execute on them? And then the second piece is, is it right to think that the 160 megawatt sequential step up was The majority of that was re-rented capacity, or were you able to secure any early deliveries?

Bill Zartler | Chairman and Co-CEO:

So I think Kyle kind of mentioned earlier, we've got the MER team and the HVNDLV team has decades and decades of experience in the market globally, and we've scoured the market both in the U.S. and internationally to find equipment that we could put to work, mostly on a rental basis. We evaluated purchasing some of it, and we might, but we have not done that yet. But it is really about our ability to go find those pieces of the puzzle and put them to work and have the distribution equipment ready to go to make it all work together.

Bobby Brooks | Analyst, Northland Capital Markets:

Fair enough. Appreciate the call, Eric.

Operator | Conference Operator:

Thanks. This was the last question. I would like to turn the conference back to Mr. Zartler for any closing remarks.

Bill Zartler | Chairman and Co-CEO:

Thank you. Thank you, everyone, for joining us today. I'm excited about the continued growth we've achieved to date as well as the growth that's to come. Excited to see the Solaris family continue to grow both organically and through acquisitions. Our success is a testament to the dedication and hard work of our employees, the trust of our customers, and the strong partnerships with our suppliers. Thank you for being part of the Solaris team. We believe we are just getting started and continuing to meet the industry's growing and urgent needs for comprehensive power solutions. We look forward to sharing our progress with you in a few months. Thank you.

Operator | Conference Operator:

Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect.