



# SHOALS TECHNOLOGIES GROUP, INC.

2022 Annual Report



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2022

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-39942

**Shoals Technologies Group, Inc.**  
(Exact name of registrant as specified in its charter)

**Delaware**

**85-3774438**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

**1400 Shoals Way**

**Portland**

**Tennessee**

**37148**

(Address of principal executive offices)

(Zip Code)

(Registrant's telephone number, including area code) **(615) 451-1400**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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**Class A Common Stock, \$0.00001 Par Value**

**SHLS**

**Nasdaq Global Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the Registrant, as of June 30, 2022, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$1.5 billion. Solely for purposes of this disclosure, shares of common stock held by executive officers, directors and by each person who owns 10% or more of the outstanding common stock as of such date have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 21, 2023, the registrant had 138,115,306 shares of Class A common stock and 31,419,913 shares of Class B common stock issued and outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission, or SEC, subsequent to the date hereof pursuant to Regulation 14A in connection with the registrant's 2023 Annual Meeting of Stockholders, are incorporated by reference into Part III of this Annual Report on Form 10-K. We intend to file such proxy statement with the SEC not later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2022.

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## PART I

### Item 1. Business

Shoals Technologies Group, Inc. is a Delaware corporation with Class A common stock that trades on the Nasdaq Global Market under the symbol “SHLS”. Unless the context otherwise requires, references to “we,” “us,” “our,” “Shoals,” the “Corporation,” the “Company” and other similar references refer to Shoals Technologies Group, Inc. and, unless otherwise stated, all of its subsidiaries, including Shoals Parent LLC (“Shoals Parent”). Unless the context otherwise requires, references to “Founder” refer to Dean Solon, our founder, and references to “Continuing Equity Owners” refer collectively to direct or indirect holders of LLC Interests (as defined below) and/or our Class B common stock, including our Founder and certain current and former executive officers, employees and their respective permitted transferees who may, exchange at each of their respective options, in whole or in part from time to time, their LLC Interests (along with an equal number of shares of Class B common stock (and such shares shall be immediately cancelled)) for cash or newly issued shares of our Class A common stock.

### Initial Public Offering and Organizational Transactions

On January 29, 2021, the Company completed an initial public offering (“IPO”) of 11,550,000 shares of Class A common stock at a public offering price of \$25.00 per share, including shares issued pursuant to the underwriters’ over-allotment option. The Company received \$278.8 million in proceeds, net of underwriting discounts and commissions of \$9.9 million, which was used to purchase 6,315,790 newly-issued membership interests (“LLC Interests”) from Shoals Parent and 5,234,210 LLC Interests from the Founder and Class B unit holder in Shoals Parent at a price per interest equal to the IPO price of \$25.00 per share.

### Organizational Transactions

In connection with the IPO, the Company and Shoals Parent completed a series of transactions (the “Organizational Transactions”) including the following:

- the limited liability company agreement (the “LLC Agreement”) of Shoals Parent was amended and restated to, among other things, (i) provide for a new single class of LLC Interests in Shoals Parent, (ii) exchange all of the then existing membership interests of the holders of Shoals Parent membership interests for LLC Interests and (iii) appoint the Company as the sole managing member of Shoals Parent;
- the Company’s certificate of incorporation was amended and restated to, among other things, (i) provide for Class A common stock with voting and economic rights (ii) provide for Class B common stock with voting rights but no economic rights and (iii) issue 78,300,817 shares of Class B common stock to the former Class B and Class C members of Shoals Parent (the “Continuing Equity Owners”) on a one-to-one basis with the number of LLC Interests they own; and
- the acquisition, by merger, of Shoals Investment CTB or the former Class A member of Shoals Parent (the “Class A Shoals Equity Owners”), for which the Company issued 81,977,751 shares Class A common stock as merger consideration (the “Merger”).

### Shoals Technologies Group, Inc. Ownership in Shoals Parent

As of December 31, 2022, the Company owned 81.44% of Shoals Parent. The Continuing Equity Owners own the remaining 18.56% of Shoals Parent.

### Overview

Shoals is a leading provider of electrical balance of system (“EBOS”) solutions and components for solar, battery storage and electric vehicle (“EV”) charging applications, selling to customers primarily in the

United States (“U.S.”) as well as internationally. EBOS encompasses all of the components that are necessary to carry the electric current produced by solar panels to an inverter and ultimately to the power grid. EBOS components are mission-critical products that have a high consequence of failure, including lost revenue, equipment damage, fire damage, and even serious injury or death. As a result, we believe customers prioritize reliability and safety over price when selecting EBOS solutions.

EBOS components that we produce include cable assemblies, inline fuses, combiners, disconnects, recombiners, wireless monitoring systems, junction boxes, transition enclosures and splice boxes. We derive the majority of our revenue from selling “system solutions” which are complete EBOS systems that include several of our components, many of which are customized for the customer’s project. We believe our system solutions are unique in our industry because they integrate design and engineering support, proprietary components and innovative installation methods into a single offering that would otherwise be challenging for a customer to obtain from a single provider or at all.

We sell our solar products principally to engineering, procurement and construction firms (“EPCs”) that build solar energy projects. However, given the mission critical nature of EBOS, the decision to use our products typically involves input from both the EPC and the owner of the solar energy project. The custom nature of our system solutions and the long development cycle for solar energy projects typically gives us 12 months or more of lead time to quote, engineer, produce and ship each order we receive, and we do not stock large amounts of finished goods.

Throughout fiscal year 2022, we have maintained focus on our growth strategy, including converting customers to our combine-as-you-go system and developing products for the rapidly growing EV charging infrastructure market. We believe that as of December 31, 2022, 14 of the top 15 solar EPCs as reported by Solar Power World Magazine use our combine-as-you-go system on their projects. As of the date of this report, we are in the process of transitioning an additional 14 EPCs and developers to our system. Additionally, in the fourth quarter of 2021, we introduced four new product families for the EV charging market and began taking orders and shipping some component products in the first quarter of 2022. Order flow and deliveries of our EV system solution continued through the fourth quarter of 2022 with scaled production underway. All products launched in 2022 are certified to UL standards as of December 31, 2022.

We derived approximately 77.8% of our revenue from the sale of system solutions for year ended December 31, 2022. For the same period, we derived substantially all of our revenue from customers in the U.S. As of December 31, 2022, we had \$428.6 million of backlog and awarded orders. Backlog of \$168.9 million represents signed purchase orders or contractual minimum purchase commitments with take-or-pay provisions and awarded orders of \$259.7 million are orders we are in the process of documenting a contract but for which a contract has not yet been signed. As of December 31, 2022, backlog and awarded orders increased by 43% relative to December 31, 2021 and decreased by 9% relative to September 30, 2022.

### **Our Proprietary EBOS System**

Historically, most solar energy projects used a wiring architecture known as “homerun”. Conventional homerun EBOS systems have two distinguishing characteristics: every string of solar panels in the project is connected to a combiner box with individual positive and negative “wire runs,” and connections between wires are made using a process called “crimping”. The combiner box functions as a central point to “combine” the individual wire runs into a single feeder cable and contains fuses to protect each circuit. Making each wire run from the strings to the combiner boxes is a laborious process. Each wire run must be measured, laid out and fished through conduits that are buried in trenches across the project site. Because each string is individually connected to a combiner box, the same distances are covered with multiple wire runs. Making the crimped connections between wires and interconnecting them in the combiner box is a complex, error prone process that requires special tools. Each wire must be cut and have a precise amount of insulation removed; the bare end must be inserted the correct depth into a terminal; and special tools must be used to deform metal sleeves



and torque lock nuts to ensure an environmental seal. The entire installation must be performed by licensed electricians with special training and any mistake in the process can result in a catastrophic system failure.

We invented an alternative to homerun architecture which we refer to as “combine-as-you-go”. Rather than making individual wire runs from each string to combiner boxes, combine-as-you-go architecture connects multiple strings within each row using specialized wire harnesses with integrated fuses that we refer to as “interconnect harnesses”. The interconnect harnesses are then connected to a proprietary above ground feeder cable that we refer to as the Big Lead Assembly (“BLA”). The BLA is our core combine-as-you-go product. The direct connection between the interconnect harness and the BLA and the integration of fuses into the interconnect harness dramatically reduce the number of wire runs required compared to a conventional homerun system and eliminate the need for combiner boxes. We believe our combine-as-you-go architecture using interconnect harnesses and BLA has several advantages when compared to conventional homerun EBOS, including:

- **Installing above ground.** Wiring for conventional homerun systems is typically run through conduits that are buried in trenches. Trenching is costly and time consuming. Making repairs to buried wire can also be challenging and expensive, as well as run the risk of unintentionally damaging other buried wire that did not need to be repaired. Our BLA is hung from the mounting system used for the solar panels, enabling above ground installation. Above ground installation is less costly and far faster than burying wire in conduits. Future maintenance is also significantly easier and less costly because our BLA is easily accessible if repairs are required.
- **Being installable by general labor rather than requiring electricians.** Conventional homerun systems use crimps and other specialized procedures to connect wires and install combiner boxes that must be performed by licensed electricians. Because our interconnect harness and BLA use simple push connectors and don't require combiner boxes, licensed electricians are not needed to install the system.
- **Reducing the number of wire runs.** We believe using our interconnect harness and BLA reduces the number of string and inverter wire runs required for a typical utility-scale solar energy project by up to 95% when compared to a conventional homerun system. Reducing the number of wire runs speeds installation, lowers material and shipping costs, reduces the number of potential failure points and is beneficial to the environment because less copper, aluminum and plastics are consumed.
- **Eliminating combiner boxes.** Conventional homerun systems require combiner boxes to interconnect the wire runs from each string into a feeder cable and house fuses that protect each circuit. Because our BLA is connected directly to strings and our interconnect harness has inline fuses, no combiner boxes are required for our system. Eliminating combiner boxes speeds installation, lowers material and shipping costs, reduces the number of potential failure points and is beneficial to the environment because less copper, aluminum and plastics are consumed.
- **Requiring fewer connections.** We believe using our interconnect harness and BLA reduces the number of connection points in a typical utility-scale solar energy project by more than 80% when compared to a conventional homerun system. Requiring fewer connections reduces the number of labor hours required to install the system as well as the number of potential failure points.
- **Having greater reliability and lower maintenance costs.** Connection points are often the source of failure in EBOS systems and must be inspected regularly. A solar energy project that uses our interconnect harness and BLA will have significantly fewer connections and, as a result, fewer failure points to inspect and maintain than the same project would using a conventional homerun system. We believe fewer potential failure points contributes to higher reliability and lower maintenance costs for solar energy projects that use our combine-as-you-go system when compared to a conventional homerun system.

- **Enabling more energy generation.** We believe the design of our interconnect harness and BLA reduces electrical resistance significantly when compared to a conventional homerun system. Lower resistance reduces energy loss to waste heat dissipation, which we believe results in greater energy generation from solar projects that use our combine-as-you-go system when compared to a conventional homerun system.

Together, we believe these advantages result in lower installation costs and lower material costs for our combine-as-you-go systems when compared to conventional homerun systems.

## **Products and Services**

### **System Solutions**

We refer to complete EBOS systems that use multiple components produced by us as “system solutions”. When we sell a system solution, we work with our customers to design, specify and customize their EBOS system to maximize reliability and energy production while minimizing cost. We also provide technical support during installation and the transition to operations and maintenance.

We design, manufacture and sell system solutions for the two types of wiring architectures used by the U.S. solar industry: homerun and combine-as-you-go.

*Homerun EBOS:* We have developed a proprietary EBOS solution for homerun architectures that we refer to as an “interconnect harness”. Rather than the traditional approach of running a separate wire from each string to a combiner box, our interconnect harness connects multiple strings together at each row using a single wire and simple push connector, rather than a wire crimp. Combining multiple strings together at each row reduces the number of wire runs that have to be made to combiner boxes as well as the number of connections that have to be made in each combiner box which reduces either the total number of combiner boxes or the size of combiner boxes required for the system. Using push connectors allows a large portion of the EBOS installation to be completed by laborers rather than requiring licensed electricians. Our homerun EBOS system solutions typically include our interconnect harness, combiners and jumpers. The majority of solar energy projects in operation today use conventional homerun architecture.

*Combine-as-you-go EBOS:* We invented “combine-as-you-go” architecture in 2014 and began offering combine-as-you-go products widely in 2017. Combine-as-you-go architecture connects all strings in a project to “trunk” wires that feed directly into disconnect boxes, which are connected to the inverter. With our interconnect harness, BLA combines the functionality of cable assemblies, combiner boxes and fusing all into one product that does not require a licensed electrician to install. A combine-as-you-go architecture using BLA has significant advantages over traditional homerun architectures, including using less material, requiring fewer man hours to install and having greater reliability and ease of maintenance. Our combine-as-you-go EBOS system solutions typically include our interconnect harness, BLA and disconnects and, in some projects, transition enclosures and splice boxes.

*eMobility solutions:* In the fourth quarter of 2021, we introduced four new product families for the EV charging market and began taking orders and shipping some component products in the first quarter of 2022. Order flow and deliveries of our EV system solution continued through the fourth quarter of 2022 with scaled production underway. The first new offering within the eMobility product family is the power center which combines equipment needed to protect the charging equipment and transform voltage levels from the electric utility to those needed on the respective site. The power center provides an efficient, cost effective and aesthetically focused option versus traditional methods. The second offering focuses on quick connect solutions for chargers made by any manufacturer and any power level to connect to the Shoals system. The quick connect bases dramatically reduce the time required on site for a deployment and reduce the amount of labor required in the field. The third offering uses our BLA technology in the EV space to connect multiple chargers to a single power center. This solution eliminates the need for homeruns from each dispenser and is above ground rated which allows wire to be run above ground rather than in underground conduit. The fourth

offering is a raceway system that protects the above ground EV BLAs in walk over and drive over applications. The raceway system coupled with the EV BLA deploys much more rapidly and cost effectively than traditional methods of deployment.

We derived approximately 77.8% of our revenue for the year ended December 31, 2022 from the sale of system solutions.

## **Components**

We design, manufacture and sell a variety of individual EBOS and other components used by the solar, battery storage, or EV charging applications and industries, including:

*Combiners:* Enclosures that interconnect wire runs from multiple solar panel strings together so that their current can be fed into a single large cable.

*Plug-n-play branch connectors and inline fuses:* Plug-n-play connectors for small commercial and rooftop solar applications in inline fuse, fuse-T, dual inline fuse, T-shaped, X-shaped, Y-shaped and U-shaped configurations.

*AC disconnects:* Specialized switches that allow the inverter to be isolated from the grid to enable repairs or in cases of emergency.

*Recombiners:* Enclosures that interconnect feeders from several combiner boxes into a smaller number of cables that run to the inverter.

*Wireless monitoring:* Specialized devices that monitor current, voltage, temperature, tracker rotation and other performance characteristics.

*Junction boxes:* Electromechanical interface that provides connection points to collect power from a solar panel.

*Wire management:* A system to secure photovoltaic ("PV") wiring for safety and aesthetic purposes.

*EV power cabinets:* enclosures that provide power conversion and protection for EV power systems.

We derived approximately 22.2% of our revenue for the year ended December 31, 2022, from the sale of components.

## **Sales and Marketing Strategy**

Our sales and marketing strategy is to build product awareness and foster long-term relationships with all key stakeholders that are involved in the lifecycle of a PV, battery energy store system, or eMobility project.

We educate these stakeholders on the value proposition of our solutions which lower installation costs, provide greater reliability, and lower maintenance costs through a variety of marketing strategies which include direct marketing campaigns, white papers, independent third-party studies, training seminars, and participating in industry conferences and events. We sell components and system solutions both on a project-to-project basis or through master supply agreements that support a portfolio of projects.

Our sales process is a highly consultative approach that involves working with developers, engineers, EPC's, subcontractors, and operations and maintenance firms. We work collaboratively to understand the complexities and goals of each project with all stakeholders involved to ensure continuity throughout the decision-making process. This involves us collaborating on site design, product selection, value engineering and optimization. Our project management team supports the process after a sale is completed with providing the customer submittals for approval, real-time shipping information, and assist with any additional items that may be needed to complete the installation and commissioning. Our customer care team engages once a site is fully commissioned for any further technical support that may be required for the life of the project. We believe that our consultative top-down and bottoms-up approach fosters brand loyalty with all stakeholders and results in retention of our customers.

We have three manufacturing facilities located in Tennessee, one in Alabama, and one in California. We have national sales leaders in the United States that are supported with engineering staff in Tennessee and California. From an international standpoint, we have sales personnel located in Spain and Australia. Our team in Spain services Europe, Latin-America, and Africa regions while our personnel in Australia supports Asia-Pacific. These sales representatives are supported with our engineering team in the United States to ensure that we are in compliance with local codes and regulations.

### **Our Customers**

We sell our products principally to EPCs that build solar energy projects. The decision to use our products typically involves input from both the EPC and the owner of the solar energy project given the mission critical nature and high consequence of failure of EBOS. EPCs typically construct multiple projects for several different owners.

For the year ended December 31, 2022, our largest customer and five largest customers constituted approximately 8.4% and 35.8% of total revenue, respectively. None of our customers had revenue exceeding 10% of total revenue for the year ended December 31, 2022.

### **Competition**

Our EBOS system solutions and components are highly specialized products that are specific to the solar industry. The unique expertise required to design EBOS systems and components as well as customers' reluctance to try unproven products has confined the number of firms that produce such EBOS products to a relatively small number. Our principal competitors include SolarBOS Inc., BenteK Corporation, Voltage, LLC and Hikam America, Inc. We compete on the basis of product performance and features, installation cost, reliability and duration of product warranty, sales and distribution capabilities, and training and customer support, as well as the ability to provide system solutions rather than individual components. We believe we are significantly larger as measured by revenue than our next largest competitor.

### **Seasonality**

We have experienced seasonal and quarterly fluctuations in the past as a result of seasonal fluctuations in our customers' business. Our end users' ability to install solar energy systems is affected by weather, as for example during the winter months in the northeastern U.S. Such installation delays can impact the timing of orders for our products.

### **Manufacturing**

We have developed a proprietary manufacturing process for our EBOS products that we believe is unique in our industry. Our process uses specialized manufacturing equipment that we have developed and involves joining wire together using resistance welds and then sealing the joint with two separate layers of insulating material, which we refer to as "undermold/overmold". Resistance welding produces significantly stronger bonds than competing techniques used by our competitors. Specifying complementary materials for the undermold and overmold significantly reduces the risk of moisture infiltrating the connection and enables us to provide superior ultraviolet ("UV") protection, strain relief, impact resistance, and thermal stability over a wide range of environmental conditions. Together, we believe these techniques substantially reduce the risk that our cable develops a fault over its lifetime.

While highly specialized and flexible, our manufacturing equipment is not costly, and we do not require significant capital expenditures to maintain or increase our manufacturing capacity.

Our principal manufacturing facilities are located in Tennessee, Alabama, and California. Our Alabama facility is ISO 9001:2015 certified.

### **Research and Development**

We continually devote resources to research and development (“R&D”), with the objective of developing innovative new products that reduce the cost and improve the reliability and safety of renewable energy. We believe that we have developed and commercialized most of the new EBOS products and installation methods adopted by the U.S. solar industry over the past five years, including plug-n-play wiring, interconnect harnesses and combine-as-you-go architecture for solar energy projects.

Our development strategy is to identify features that bring value to our customers and differentiate us from our competitors. We measure the effectiveness of our R&D using a number of metrics, beginning with a market requirements definition, which includes a program budget, financial payback, resource requirements, and time required to launch the new product, system, or service into the market. We employ a stringent engineering phase gate review process that ensures all R&D programs are meeting their stated objectives from inception to deployment.

We have a strong R&D team with significant experience in solar energy as well as expertise in electrical engineering, systems/control engineering and power electronics. As needed, we collaborate with academia, national laboratories, and consultants to further enhance our capabilities and confirm results independently.

### **Intellectual Property**

The success of our business depends, in part, on our ability to maintain and protect our proprietary technologies, information, processes and know-how. We rely primarily on patent, trademark, copyright and trade secret laws in the U.S., confidentiality agreements and procedures and other contractual arrangements to protect our technology. As of December 31, 2022, we had 26 U.S. trademark registrations, 5 pending U.S. trademark applications, 19 issued U.S. patents, 16 issued non-U.S. patents, 28 patent application pending for examination in the U.S. and 154 domain name registrations. Many of our patents relate to more efficient electrical wiring and power transmission from solar panels to power inverters at solar installations. Our U.S. issued patents are scheduled to expire between 2031 and 2037. As of December 31, 2022, our issued U.S. patents had an average remaining life of approximately 12.0 years.

The term of individual patents extend for varying periods of time, depending upon the date of filing of the patent application, the date of patent issuance, and the legal term of patents in the countries in which they are obtained. Generally, patents issued for applications filed in the U.S. are effective for 20 years from the earliest effective filing date of a non-provisional patent application. The duration of patents outside of the U.S. varies in accordance with provisions of applicable local law, but typically is also 20 years from the earliest effective filing date. However, the actual protection afforded by a patent varies on a country-to-country basis and depends upon many factors, including the type of patent, the scope of its coverage, the availability of legal remedies in a particular country, and the validity and enforceability of the patent.

We rely on trade secret protection and confidentiality agreements to safeguard our interests with respect to proprietary know-how that is not patentable and processes for which patents are difficult to enforce. We believe that many elements of our manufacturing processes involve proprietary know-how, technology or data that are not covered by patents or patent applications, including technical processes, test equipment designs, algorithms and procedures.

Our policy is to require research and development employees to enter into confidentiality and proprietary information agreements with us to address intellectual property protection issues and to assign to us all of the inventions, designs and technologies they develop during the course of employment with us. However, we might not have entered into such agreements with all applicable personnel, and such agreements might not be self-executing. Moreover, such individuals could breach the terms of such agreements.

We also require our customers and business partners to enter into confidentiality agreements before we disclose any sensitive aspects of our technology or business plans.

### **Our Human Capital**

As of December 31, 2022, we had approximately 835 full-time and temporary employees. The vast majority of our employees are located in the United States.

We have a team-oriented culture and encourage candor from our employees, which we believe helps us to succeed and drive operational excellence. We seek to promote within our organization as well as hire top talent from outside the company to expand our capabilities. We aim to hire individuals who share our passion, commitment, and entrepreneurial spirit.

We also encourage our employees to operate by a common set of values, which includes:

- making quality foremost in all we do, make, and sell;
- maintaining integrity in how we act, make decisions, and hold ourselves accountable;
- being responsive to change, to each other, and to our partners, customers, and users;
- being respectful in how we treat all people;
- seeking innovation in the way we approach challenges and build products; and
- being sustainable in our approach to producing our products and our operations.

We believe that operating with purpose, passion and creativity benefits our customers, stockholders, employees, and suppliers as well as the communities where we operate and the environment.

None of our employees are represented by a labor union. We have not experienced any employment-related work stoppages, and we consider relations with our employees to be good.

### ***Diversity and Inclusion***

We are committed to diversity and inclusion because we believe it leads to better outcomes for our business and enables us to better meet the needs of our customers. We believe that diversity is the range of our human differences, including but not limited to race, ethnicity, gender, gender identity, sexual orientation, age, economic status, physical and mental ability, religious or ethical values system, national origin, and political beliefs. We strive to create a workplace where everyone is welcomed, valued, treated fairly, and respected.

We continue to increase our outreach, recruitment, hiring, and retention of diverse groups at all levels of our workforce, including leadership roles. We also focus on listening, learning, and responding to our employees' concerns to help ensure that we can provide a diverse, equitable, and inclusive workplace today and into the future.

Based on our Equal Employment Opportunity data from mid-October 2022, our full-time employee population, which was composed of 477 individuals, had the following diversity metrics:

- 45% of our full-time employee population self-identified as ethnically diverse;
- 39% of our full-time employee population self-identified as female; and
- Women made up 28% of our manager population, which consisted of 40 individuals with management responsibility.

As of December 31, 2022, of the 10 members of our executive management team, which includes the Chief Executive Officer and direct reports, Chief Revenue Officer, Chief Product Officer, Chief Technology Officer, and Senior VP of Business Development, one self-identifies as ethnically diverse and two as female.

As of December 31, 2022, of the seven independent members of our board of directors one self-identifies as ethnically diverse and two as female.

### ***Employee Training and Development***

We recognize the benefits that training can have on building and growing our workforce. We encourage our employees to participate in continuing education and to pursue professional certifications.

We encourage our leaders to provide continuous guidance and feedback to our employees. We believe it is the responsibility of every person in leadership – be it a Team Lead, Supervisor, or Manager – to serve as a resource and support for each of our team members.

### ***Compensation and Benefits***

We strive to provide a comprehensive suite of rewards and benefits. Our benefits program is designed to provide coverage for our employees' overall health and wellbeing. Our program includes medical and dental coverage, life, and disability insurance. We also offer retirement saving plans through our 401(k) plan, which is available to all full-time employees. In 2021, we expanded the benefit with the inclusion of a company matching contribution.

### ***Health and Safety***

The safety and wellbeing of our employees is at the forefront of everything we do. We strive to have a zero accident culture and our safety management system is built upon the principle. Our occupational health and safety program is designed to drive a proactive safety culture beginning with our management setting the tone for our safety culture and ensuring that everyone feels a sense of ownership for each other's safety and well-being.

We strive to have an interdependent safety culture where all employees feel responsible for each other's safety. This begins with our leadership setting the tone through effective communication of shared ownership, proactive approach to accident prevention and instilling a continuous improvement philosophy.

The key to preventing injuries begins with establishing the risk profile in our facilities through effective risk assessment and incident reporting and analysis processes. This process enables the organization to implement proactive safety measures, including ergonomic improvements, behavioral and unsafe condition audits, near miss reporting and assessments, as leading indicators towards our journey to zero accidents.

### **Available Information**

Shoals files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments of such reports with the Securities and Exchange Commission ("SEC"). Any document Shoals files may be inspected, without charge, at the SEC's website at <http://www.sec.gov>. In addition, through our corporate website at [www.shoals.com](http://www.shoals.com), Shoals provides a hyperlink to a third-party SEC filing website which posts these filings as soon as reasonably practicable, where they can be reviewed without charge. The information found on our website is not a part of this Annual Report on Form 10-K or any other report we file with or furnish to the SEC.

## **FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, technology developments, financing and investment plans, dividend policy, competitive position, industry and regulatory environment, potential growth opportunities and the effects of competition. Forward-looking statements include statements that are not historical facts and can be identified by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "seek," "should," "will," "would" or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these uncertainties, you should not place undue reliance on forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this report. You should read this report with the understanding that our actual future results may be materially different from what we expect.

Important factors that could cause actual results to differ materially from of expectations are included in Item 1A "Risk Factors".

Except as required by law, we assume no obligation to update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.



## Item 1A. Risk Factors

### Summary Risk Factors

The following is a summary of the material risks and uncertainties that could materially adversely affect our business, financial condition and results of operations. You should read this summary together with the more detailed description of each risk factor contained below.

- if demand for solar energy projects does not continue to grow or grows at a slower rate than we anticipate, we may not be able to achieve our anticipated level of growth and our business will suffer;
- our industry has historically been cyclical and experienced periodic downturns;
- current macroeconomic events, including heightened inflation, rise in interest rates and potential recession could impact our business and financial results;
- the interruption of the flow of components and materials from international vendors has disrupted our supply chain, including as a result of the imposition of additional duties, tariffs and other charges on imports and exports;
- if we fail to retain our key personnel and attract additional qualified personnel, including a chief executive officer successor, or we or our suppliers face disputes with labor unions, we may not be able to achieve our anticipated level of growth and our business could suffer;
- Our products are primarily manufactured and shipped from our production facilities in Tennessee, and any damage or disruption at these facilities may harm our business.
- if we fail to, or incur significant costs in order to, obtain, maintain, protect, defend or enforce our intellectual property and other proprietary rights, our business and results of operations could be materially harmed;
- acquisitions, joint ventures and/or investments and the failure to integrate acquired businesses, could disrupt our business and/or dilute or adversely affect the price of our common stock;
- we may experience delays, disruptions or quality control problems in our manufacturing operations in part due to vendor concentration;
- our future growth in the EV charging market is highly dependent on the demand for, and consumers' willingness to adopt, EVs;
- a significant drop in the price of electricity sold may harm our business, financial condition, results of operations and prospects;
- a further increase in interest rates, or a reduction in the availability of tax incentives or project debt capital in the global financial markets could make it difficult for end customers to finance the cost of a solar energy system and could reduce the demand for our products;
- defects or performance problems in our products could result in loss of customers, reputational damage and decreased revenue, and we may face warranty, indemnity and product liability claims arising from defective products;
- our results of operations may fluctuate from quarter to quarter, which could make our future performance difficult to predict and could cause our results of operations for a particular period to fall below expectations, resulting in a decline in the price of our Class A common stock;
- compromises, interruptions or shutdowns of our information technology systems, including those managed by third parties, whether intentional or inadvertent, could lead to delays in our business operations and, if significant or extreme, affect our results of operations;

- our indebtedness could adversely affect our financial flexibility and our competitive position;
- our indebtedness may restrict our current and future operations, which could adversely affect our ability to respond to changes in our business and to manage our operations;
- developments in alternative technologies may have a material adverse effect on demand for our offerings;
- existing electric utility industry, renewable energy and solar energy policies and regulations, and any subsequent changes, may present technical, regulatory and economic barriers to the purchase and use of solar energy systems that may significantly reduce demand for our products or harm our ability to compete;
- changes in the U.S. trade environment, including the imposition of import tariffs and antidumping and countervailing duties, could adversely affect the amount or timing of our revenue, results of operations or cash flows;
- we are a holding company and our principal asset is our interest in Shoals Parent and, accordingly, we are dependent upon Shoals Parent and its consolidated subsidiaries for our results of operations, cash flows and distributions;
- future sales of our Class A common stock, or the perception that such sales may occur, could depress our Class A common stock price;
- provisions in our certificate of incorporation and our bylaws may have the effect of delaying or preventing a change of control or changes in our management;
- our certificate of incorporation also provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees; and
- if we fail to maintain effective internal controls over financial reporting, we may be unable to accurately or timely report our financial condition or results of operations, which may adversely affect our business.

## **Risks Related to Our Business and Our Industry**

***If demand for solar energy projects does not continue to grow or grows at a slower rate than we anticipate, we may not be able to achieve our anticipated level of growth and our business will suffer.***

Our solutions are utilized in solar energy projects. As a result, our future success depends on continued demand for solar energy solutions and the ability of solar equipment vendors to meet this demand. The solar industry is an evolving industry that has experienced substantial changes in recent years, and we cannot be certain that consumers and businesses will adopt solar energy as an alternative energy source at levels sufficient to grow our business. In addition, our significant growth and expansion, combined with the rapidly evolving and competitive nature of our industry, makes it difficult to predict our future prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, including unpredictable and volatile revenue and increased expenses as we continue to grow our business. Some of the factors outside of our control that may impact the viability and demand for solar energy projects include:

- cost competitiveness, reliability and performance of solar energy systems compared to conventional and non-solar renewable energy sources and products and cost competitiveness, reliability and performance of our products compared to our competitors;

- availability and scale and scope of government subsidies and incentives to support the development and deployment of solar energy solutions;
- prices of traditional carbon-based energy sources;
- levels of investment by end users of solar energy projects, which tend to decrease when economic growth slows; and
- the emergence, continuance or success of, or increased government support for, other alternative energy generation technologies and products.

If demand for solar energy and solar energy projects does not continue to develop, demand for our products will decrease, which would have an adverse impact on our ability to increase our revenue and grow our business.

***Our industry has historically been cyclical and experienced periodic downturns.***

Our future success partly depends on continued demand for solar PV systems in the end markets we serve. The solar industry has historically been cyclical and has experienced periodic downturns, which may affect the demand for the products that we manufacture. The solar industry has undergone challenging business conditions, mainly as a result of overproduction, and reductions in applicable governmental subsidies, contributing to demand decreases. Although the solar industry has been experiencing significant changes over the past years, there is no assurance that the solar industry will not suffer significant downturns in the future, which will adversely affect demand for our solar products and our results of operations.

***Current macroeconomic events, including heightened inflation, rise in interest rates, a potential recession and geopolitical instability could impact our business and financial results.***

Global supply chain issues, heightened inflation, volatility in the capital markets, interest rate and currency rate fluctuations, a potential recession and geopolitical instability, including the conflict between Russia and Ukraine and growing tensions between China and the U.S., have significantly increased economic and demand uncertainty that may result in unfavorable macroeconomic conditions that could negatively affect demand for our products and exacerbate some of the other risks that affect our business, financial condition and results of operations.

Both domestic and international markets experienced significant inflationary pressures in fiscal year 2022 and inflation rates in the U.S., as well as in other countries in which we operate, are currently expected to continue at elevated levels for the near-term. In 2022, significant levels of inflation increased energy prices, freight premiums, and other operating costs, including wages. These increases are expected to persist in 2023. In addition, the Federal Reserve in the U.S. and other central banks in various countries have raised, and may again raise, interest rates in response to concerns about inflation, which, coupled with reduced government spending and volatility in financial markets, may have the effect of further increasing economic uncertainty and heightening these risks. These higher interest rates resulted, and may continue to result in the future, in higher interest rates associated with our Senior Secured Credit Agreement (as defined in Note 9 – Long-Term Debt). Interest rate increases or other government actions taken to reduce inflation could also result in a recession or recessionary environment in many parts of the world.

In 2022, we experienced challenges in our global supply chain, including shortages in raw materials and related price increases. Our ability to obtain raw materials from domestic and international suppliers required to manufacture our components was impacted, along with our ability to secure timely inbound logistics to our facilities. While to date, we have been able to manage the challenges associated with these shortages without significant disruption to our business, no assurance can be given that these efforts will continue to be successful.

If economic conditions worsen or a recession occurs, our business, financial results and liquidity could be materially adversely impacted.

***The interruption of the flow of raw materials from international vendors has disrupted our supply chain, including as a result of the imposition of additional duties, tariffs and other charges on imports and exports.***

We purchase some of our raw materials outside of the U.S. through arrangements with various vendors. Political, social or economic instability in these regions, or in other regions where our raw materials are made, could cause disruptions in trade. Actions in various countries have created uncertainty with respect to tariff impacts on the costs of some of our raw materials. The degree of our exposure is dependent on (among other things) the type of materials, rates imposed, and timing of the tariffs. Other events that could also cause disruptions to our supply chain include:

- the imposition of additional trade law provisions or regulations;
- the imposition of additional duties, tariffs and other charges on imports and exports, including as a result of trade relationships between China and the U.S. and the ongoing conflict between Russia and Ukraine;
- quotas imposed by bilateral trade agreements;
- foreign currency fluctuations;
- natural disasters;
- public health issues and epidemic diseases, their effects (including any disruptions they may cause) or the perception of their effects, such as the novel coronavirus (“COVID-19”) pandemic;
- theft;
- restrictions on the transfer of funds;
- the financial instability or bankruptcy of vendors; and
- significant labor disputes, such as dock strikes.

We cannot predict whether the countries in which our raw materials are sourced, or may be sourced in the future, will be subject to new or additional trade restrictions imposed by the U.S. or other foreign governments, including the likelihood, type or effect of any such restrictions. Trade restrictions, including new or increased tariffs or quotas, border taxes, embargoes, safeguards and customs restrictions against certain raw materials, as well as labor strikes and work stoppages or boycotts, could increase the cost or reduce or delay the supply of raw materials available to us and adversely affect our business, financial condition or results of operations.

***If we fail to retain our key personnel and attract additional qualified personnel, including a chief executive officer successor, or we or our suppliers face disputes with labor unions, we may not be able to achieve our anticipated level of growth and our business could suffer.***

Our future success and ability to implement our business strategy depends, in part, on our ability to attract and retain key personnel, and on the continued contributions of members of our senior management team and key technical personnel, each of whom would be difficult to replace. All of our employees, including our senior management, are free to terminate their employment relationships with us at any time. Competition for highly skilled individuals with technical expertise is extremely intense, and we face challenges in identifying, hiring and retaining qualified personnel in many areas of our business. Since we became a public company, there have been changes in our executive management team resulting from the hiring or departure of executives. As previously announced, our Chief Executive Officer and Board member, Jason Whitaker, will separate from the Company for health reasons, effective March 15, 2023. The Board has appointed Mr. Jeffery Tolnar, our President, to serve as interim principal executive officer upon Mr. Whitaker’s departure and while the Board continues to search for a permanent successor. The succession and transitional nature of the

current arrangement can impact our business strategy, our relations with investors, suppliers and customers and affect employee morale.

Integrating new employees into our team could prove disruptive to our operations, require substantial resources and management attention and ultimately prove unsuccessful. An inability to attract and retain senior management, our inability to effectively provide for the succession of senior management, and our inability to attract and retain other key or qualified personnel could limit or delay our strategic efforts, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, although none of our employees are currently represented by a labor union and our relations with our employees have been good to date, the increased frequency of union activity coupled with the constricted labor market may contribute to efforts by our employees to belong to a union, which may result in higher employee costs, operational restrictions and increased risk of disruption to operations. We may also directly and indirectly depend upon other companies with unionized work forces, such as suppliers and trucking and freight companies, and work stoppages or strikes organized by such unions could have a material adverse impact on our business, prospects, financial condition, results of operations, and cash flows.

***Our products are primarily manufactured and shipped from our production facilities in Tennessee, and any damage or disruption at these facilities may harm our business.***

A significant portion of our operations is located in our Tennessee manufacturing facilities. Issues with our workforce, including illness or absenteeism, or difficulties in recruiting skilled workers in the area, as well as a natural disaster, fire, power interruption or other calamity at any one of our facilities or any combination thereof would significantly disrupt our ability to deliver our products and operate our business. Certain of the equipment used to manufacture our products could be difficult or costly to replace or repair if damaged. Any such disruption or unanticipated event may cause significant interruptions or delays in our business and the reduction or loss of inventory may render us unable to fulfill customer orders in a timely manner, or at all, and may result in lawsuits. We have property and business disruption insurance in place for all of our facilities; however, such insurance coverage may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all.

***If we fail to, or incur significant costs in order to, obtain, maintain, protect, defend or enforce our intellectual property and other proprietary rights, our business and results of operations could be materially harmed.***

Our success depends to a significant degree on our ability to protect our intellectual property and other proprietary rights. We rely on a combination of patent, trademark, copyright, trade secret and unfair competition laws, as well as confidentiality and license agreements and other contractual provisions, to establish and protect our intellectual property and other proprietary rights. Such means may afford only limited protection of our intellectual property and may not (i) prevent our competitors from duplicating our processes or technology; (ii) prevent our competitors from gaining access to our proprietary information and technology; or (iii) permit us to gain or maintain a competitive advantage.

We generally seek or apply for patent protection as and if we deem appropriate, based on then-current facts and circumstances. We have applied for patents in the U.S., some of which have been issued. We cannot guarantee that any of our pending patent applications or other applications for intellectual property registrations will be issued or granted or that our existing and future intellectual property rights will be sufficiently broad to protect our proprietary technology. While a presumption of validity exists with respect to U.S. patents issued to us, there can be no assurance that any of our patents, patent applications, or other intellectual property rights will not be, in whole or in part, opposed, contested, challenged, invalidated, circumvented, designed around, or rendered unenforceable. Any such impairment or other failure to obtain sufficient intellectual property protection could impede our ability to market our products, negatively affect our competitive position and harm our business and operating results, including by forcing us to, among other things, rebrand or redesign our affected

products. Moreover, our patents and patent applications may only cover particular aspects of our products, and competitors and other third parties may be able to circumvent or design around our patents, or develop and obtain patent protection for more effective technologies, designs or methods. There can be no assurance that third parties will not create new products or methods that achieve similar or better results without infringing upon patents we own. If these developments occur, they could have an adverse effect on our sales or market position.

In countries where we have not applied for patent protection or trademark or other intellectual property registration or where effective patent, trademark, trade secret, and other intellectual property laws and judicial systems may not be available to the same extent as in the U.S., we may be at greater risk that our proprietary rights will be circumvented, misappropriated, infringed, or otherwise violated.

We rely heavily on trade secrets and nondisclosure agreements to protect our unpatented know-how, technology, and other proprietary information, and to maintain our competitive position, which we seek to protect, in part, by entering into nondisclosure and confidentiality agreements with parties who have access to them, such as our employees, consultants, and other third parties. However, we cannot guarantee that we have entered into such agreements with each party that has or may have had access to our proprietary information, know-how and trade secrets. Moreover, no assurance can be given that these agreements will be effective in controlling access to, distribution, use, misuse, misappropriation, or disclosure of our proprietary information, know-how and trade secrets, or in preventing our competitors from independently developing technologies that are substantially equivalent or superior to ours.

The registered or unregistered trademarks or trade names that we own may be challenged, infringed, circumvented, declared generic, lapsed or determined to be infringing on or dilutive of other marks. We may not be able to protect our rights in these trademarks and trade names, which we need in order to build name recognition. In addition, third parties may file for registration of trademarks similar or identical to our trademarks, thereby impeding our ability to build brand identity and possibly leading to market confusion. If we are unable to establish name recognition based on our trademarks and trade names, we may not be able to compete effectively.

We may in the future need to initiate infringement claims or litigation in order to try to protect or enforce our intellectual property rights. Litigation, whether we are a plaintiff or a defendant, can be expensive and time consuming and may divert the efforts of our management and other personnel, which could harm our business, whether or not such litigation results in a determination favorable to us. Enforcing our intellectual property rights in all countries throughout the world may be prohibitively expensive, and we may choose to forgo such activities in some jurisdictions. Litigation also puts our patents or other intellectual property at risk of being invalidated or interpreted narrowly and our patent applications or applications for other intellectual property registrations at risk of not issuing. Additionally, any enforcement of our patents or other intellectual property may provoke third parties to assert counterclaims against us. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and prospects.

***Acquisitions, joint ventures and/or investments and the failure to integrate acquired businesses, could disrupt our business and/or dilute or adversely affect the price of our common stock.***

Our success depends, in part, on our ability to expand our product offerings and grow our business in response to changing technologies, customer demands and competitive pressures. In some circumstances, we may pursue growth through the acquisition of complementary businesses, solutions or technologies or through joint ventures or investments rather than through internal development. The identification of suitable acquisition or joint venture candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete identified acquisitions or joint ventures.

Achieving anticipated benefits and synergies from acquisitions is uncertain and depends, among other things, on our inability to integrate or benefit from acquired technologies or services in a profitable manner;

diversion of capital and other resources, including management's attention; unanticipated costs or liabilities related to the acquisition; failure to leverage the increased scale of the combined businesses quickly and effectively; the potential impact of the acquisition on our relationships with employees, vendors, suppliers and customers; the impairment of relationships with, or the loss of, the acquired entity's employees, vendors, suppliers or customers; adverse changes in general economic conditions in regions in which we operate; potential litigation associated with the acquisition; difficulties in the assimilation of employees and culture; difficulties in managing the expanded operations of a larger and more complex company; and challenges in attracting and retaining key personnel. Many of these factors will be outside of our control and any one of them could result in increased costs, decrease in expected revenues and diversion of management's time and attention, which could materially impact the combined company. The full benefits of a particular, or any, acquisition may not be realized within the anticipated time frame or at all. All of these factors could decrease or delay the expected accretive effect of acquisitions and negatively impact our company.

***We may experience delays, disruptions or quality control or reputational problems in our manufacturing operations in part due to our vendor concentration.***

Our product development, manufacturing and testing processes are complex and require significant technological and production process expertise, and we depend on a limited number of vendors and suppliers. Any vendor delay or disruption could cause a delay or disruption in our ability to meet customer requirements which may result in a loss of customers. Such processes involve a number of precise steps from design to production. Any change in our processes could cause one or more production errors, requiring a temporary suspension or delay in our production line until the errors can be researched, identified and properly addressed and rectified. This may occur particularly as we introduce new products, modify our engineering and production techniques, and/or expand our capacity. In addition, our failure to maintain appropriate quality assurance processes could result in increased product failures, loss of customers, increased warranty reserve, increased production and logistics costs and delays. Any of these developments could have a material adverse effect on our business, financial condition, and results of operations.

In addition, we do not control our vendors or suppliers or their business practices. Accordingly, we cannot guarantee that they follow ethical business practices, the divergence of a supplier's labor or other practices from those generally accepted as ethical in the U.S. or other markets in which we do business could also attract negative publicity for us and harm our business.

***We face risks related to actual or threatened health epidemics or pandemics, such as the COVID-19 pandemic, which could significantly disrupt our manufacturing and operations.***

Our business could be adversely impacted by the effects of a widespread outbreak of contagious disease, such as the recent outbreak of respiratory illness caused by the COVID-19 pandemic. Any widespread outbreak of contagious diseases, and other adverse public health developments, could cause disruption to, among other things, our ground operations at project sites, our manufacturing facilities and our suppliers and vendors and have a material and adverse effect on our business operations. While we only experienced a short term work stoppage at the onset of the COVID-19 pandemic, our manufacturing facilities and our suppliers and vendors could be disrupted by worker absenteeism, worker attrition, quarantines, office and factory closures, disruptions to ports and other shipping infrastructure, or other travel or health-related restrictions related to future epidemics or pandemics. If our manufacturing facilities and our suppliers or vendors are so affected, our supply chain, manufacturing and product shipments could be delayed, which could adversely affect our business, operations and customer relationships. In addition, the COVID-19 pandemic adversely affected the economies and financial markets of many countries, and the same may occur with other epidemics or pandemics. Epidemics or pandemics may also have the effect of heightening many of the other risks described in this "Risk Factors" section, such as those relating to our level of indebtedness, our need to generate sufficient cash flows to service our indebtedness and our ability to comply with the covenants contained in the agreements that govern our indebtedness.

***Our future growth in the EV charging market is highly dependent on the demand for, and consumers' willingness to adopt, EVs, as well as on the actions of federal, foreign, state and local governments.***

Our future growth in the EV charging market is highly dependent on the demand for, and consumers' willingness to adopt, EVs. The market for EVs is still rapidly evolving, characterized by rapidly changing technologies, competitive pricing and competitive factors, evolving government regulation and industry standards, and changing consumer demands and behaviors. In addition, any reduction, elimination, or discriminatory application of government subsidies and economic incentives because of policy changes or other reasons may result in the diminished competitiveness of, and demand for, EVs. The U.S. federal government, foreign governments and some state and local governments provide incentives to end users and purchasers of EVs and EV charging stations in the form of rebates, tax credits and other financial incentives, such as payments for regulatory credits. The EV market relies on these governmental rebates, tax credits and other financial incentives to significantly lower the effective price of EVs and EV charging stations to customers. The Infrastructure Investment and Jobs Act signed into law on November 15, 2021 provided additional funding for EVs and EV charging infrastructure through the creation of new programs and grants and the expansion of existing programs, including \$7.5 billion for EV charging along highway corridors. To further these EV charging infrastructure programs, in June 2022, the Biden Administration proposed new minimum standards and requirements to create a framework for states to build federally funded charging station projects. In addition, the Inflation Reduction Act of 2022 signed into law on August 16, 2022 includes numerous incentives and tax credits aimed at reducing the effects of climate change, such as the extension of EV charging infrastructure tax credits and tax credits for EVs under the Internal Revenue Code of 1986, as amended, through 2032. These incentives may expire on a particular date, end when the allocated funding is exhausted, or be reduced or terminated as a matter of regulatory or legislative policy. Any other reduction in rebates, tax credits or other financial incentives for EVs or EV charging stations could materially reduce the demand for EVs, EV charging stations and, thus, our EV charging products and, as a result, may adversely impact our business and expansion potential. Further, federal, state and local laws may impose additional barriers to electric vehicle adoption, including additional costs. For example, many states have enacted laws imposing additional registration fees for certain hybrid and EVs to support transportation infrastructure. Any of the foregoing could materially and adversely affect the growth of the EV markets and our business, prospects, financial condition, results of operations, and cash flows.

***The market for our products is competitive, and we may face increased competition as new and existing competitors introduce EBOS system solutions and components, which could negatively affect our results of operations and market share.***

The market for EBOS system solutions and components, including cable assemblies, inline fuses, combiners, disconnects, recombiners, wireless monitoring systems, junction boxes, transition enclosures and splice boxes, is competitive. Our principal competitors include SolarBOS Inc., BenteK Corporation, Voltage, LLC and Hikam America, Inc. We compete on the basis of product performance and features, installation cost, reliability and duration of product warranty, sales and distribution capabilities, and training and customer support. Competition may intensify as new and existing competitors enter the market. If our competitors introduce new technologies that are successful in offering a price competitive and technological attractive EBOS system solutions and components, it may become more difficult for us to maintain market share.

Several of our existing and potential competitors may have or obtain the financial resources to offer competitive products at aggressive or below-market pricing levels, which could cause us to lose sales or market share or require us to lower prices for our products in order to compete effectively. If we have to reduce our prices by more than we anticipated, or if we are unable to offset any future reductions in our average selling prices by increasing our sales volume, reducing our costs and expenses or introducing new products, our revenue and gross profit will suffer.



In addition, competitors may be able to develop new products more quickly than us, may partner with other competitors to provide combined technologies and competing solutions and may be able to develop products that are more reliable or that provide more functionality than ours.

***A loss of one or more of our significant customers, their inability to perform under their contracts, or their default in payment could harm our business and negatively impact revenue, results of operations, and cash flow.***

Even though we have been able to diversify our customer base, a small number of customers have historically accounted for a material portion of our revenue. For the year ended December 31, 2022, our largest customer and five largest customers constituted approximately 8.4% and 35.8% of total revenue, respectively. Further, the Company's trade accounts receivable are from companies within the solar industry, and as such, the Company is exposed to normal industry credit risks. As of December 31, 2022, our largest customer and five largest customers constituted 3.4% and 24.1% of trade accounts receivable, respectively. Accordingly, loss of a significant customer, a significant reduction in pricing or order volume from a significant customer, their inability to perform under their contracts, or their default in payment could adversely reduce net sales and operating results in any reporting period.

***A significant drop in the price of electricity sold may harm our business, financial condition, results of operations and prospects.***

Significant decreases in the price of electricity, whether in organized electric markets or with contract counterparties, may negatively impact the owners of the solar energy projects or make the purchase of solar energy systems less economically attractive and would likely lower sales of our products. The price of electricity could decrease as a result of:

- construction of a significant number of new lower-cost power generation plants, including plants utilizing natural gas, renewable energy or other generation technologies;
- relief of transmission constraints that enable distant lower-cost generation to transmit energy less expensively or in greater quantities;
- reductions in the price of natural gas or other fuels;
- utility rate adjustment and customer class cost reallocation;
- decreased electricity demand, including from energy conservation technologies and public initiatives to reduce electricity consumption;
- development of smart-grid technologies that lower the peak energy requirements;
- development of new or lower-cost customer-sited energy storage technologies that have the ability to reduce a customer's average cost of electricity by shifting load to off-peak times; and
- development of new energy generation technologies that provide less expensive energy.

Moreover, technological developments in the solar components industry could allow our competitors and their customers to offer electricity at costs lower than those that can be achieved by us and our customers, which could result in reduced demand for our products.

If the cost of electricity generated by solar energy installations incorporating our systems is high relative to the cost of electricity from other sources, then our business, financial condition and results of operations may be harmed.

***A further increase in interest rates or a reduction in the availability of tax incentives or project debt capital in the global financial markets could make it difficult for end customers to finance the cost of a solar energy system and could reduce the demand for our products.***

Even though certain government subsidies and economic incentives are currently in place to encourage the adoption of solar energy and have resulted in increased demand for solar energy projects, many end users still depend on financing to fund the initial capital expenditure required to construct a solar energy project. As a result, increases in interest rates, including the increases effected by the Federal Reserve in the U.S. in 2022, which are expected to continue into 2023, or a reduction in the supply of project debt as a result of a potential recession or otherwise, or a reduction in tax incentives could reduce the number of solar projects that receive financing or otherwise make it difficult for our customers or their customers to secure the financing necessary to construct a solar energy project on favorable terms, or at all, and thus lower demand for our products, which could limit our growth and reduce our net sales. In addition, we believe that a significant percentage of end-users construct solar energy projects as an investment, funding a significant portion of the initial capital expenditure with financing from third parties. Increases in interest rates could lower an investor's return on investment on a solar energy project, increase equity requirements or make alternative investments more attractive relative to solar energy projects and, in each case, could cause these end users to seek alternative investments.

***Defects or performance problems in our products could result in loss of customers, reputational damage and decreased revenue, and we may face warranty, indemnity and product liability claims arising from defective products.***

EBOS components, including cable assemblies, inline fuses, combiners, disconnects, recombiners, wireless monitoring systems, junction boxes, transition enclosures, splice boxes, conventional homerun EBOS system solutions and combine-as-you-go EBOS system solutions, are mission-critical products and systems that have a high consequence of failure, including lost revenue, equipment damage, fire damage, and even serious injury or death because of the high voltages involved and potential for fire. Further, a fault in the wiring of an EBOS system, whether as a result of product malfunctions, defects or improper installation, may cause electrical failures in solar energy projects. Faults typically occur when natural thermal expansion and contraction occurs at a point where two wires have been joined, loosening the insulation, and allowing moisture into the joint. Faults can result in lost production, damage to the equipment, fire and injury or death depending on their severity and whether people are onsite.

Although our products meet our stringent quality requirements, they may contain undetected errors or defects, especially when first introduced or when new generations are released. Errors, defects, product failures, destructions or poor performance can arise due to design flaws, defects in raw materials or components or manufacturing difficulties, which can affect both the quality and the yield of the product. Any actual or perceived errors, defects or poor performance in our products could result in the replacement or recall of our products, shipment delays, rejection of our products, damage to our reputation, lost revenue, diversion of our engineering personnel from our product development efforts and increases in customer service and support costs, all of which could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, defective components may give rise to warranty, indemnity or product liability claims against us that exceed any revenue or profit we receive from the affected products. Our limited warranties cover defects in materials and workmanship of our products under normal use and service conditions. As a result, we bear the risk of warranty claims long after we have sold products and recognized revenue. While we have accrued reserves for warranty claims, our estimated warranty costs for previously sold products may change to the extent future products are not compatible with earlier generation products under warranty. Our warranty accruals are based on our assumptions and we do not have a long history of making such assumptions. As a result, these assumptions could prove to be materially different from the actual performance of our systems, causing us to incur substantial unanticipated expense to repair or replace defective products in the future or to compensate customers for defective products. Our failure to accurately predict future claims could result in unexpected volatility and have a material adverse effect on, our financial condition.

If one of our products causes injury to someone or causes property damage, including as a result of product malfunctions, defects or improper installation, then we could be exposed to product liability claims. We could incur significant costs and liabilities if we are sued and if damages are awarded against us. Further, any product liability claim we face could be expensive to defend and could divert management's attention. The successful assertion of a product liability claim against us could result in potentially significant monetary damages, penalties or fines; subject us to adverse publicity; damage our reputation and competitive position; and adversely affect sales of our products. In addition, product liability claims, injuries, defects or other problems experienced by other companies in the solar industry could lead to unfavorable market conditions for the industry as a whole and may have an adverse effect on our ability to attract new customers, thus harming our growth and financial performance.

***Our results of operations may fluctuate from quarter to quarter, which could make our future performance difficult to predict and could cause our results of operations for a particular period to fall below expectations, resulting in a decline in the price of our Class A common stock.***

Our quarterly results of operations are difficult to predict and may fluctuate significantly in the future. We have experienced seasonal and quarterly fluctuations in the past as a result of seasonal fluctuations in our customers' business. Our end users' ability to install solar energy systems is affected by weather, as for example during the winter months in the northeastern U.S. Such installation delays can impact the timing of orders for our products. Further, given that we are an early-stage company operating in a rapidly growing industry, the true extent of these fluctuations may have been masked by our recent growth rates and consequently may not be readily apparent from our historical results of operations and may be difficult to predict. Our financial performance, sales, working capital requirements and cash flow may fluctuate, and our past quarterly results of operations may not be good indicators of future performance. Any substantial decrease in revenue would have an adverse effect on our financial condition, results of operations, cash flows and stock price.

***Failure to effectively utilize information technology systems or implement new technologies and the unauthorized disclosure of personal or sensitive data or confidential information, whether through a breach of our computer system or otherwise, could severely disrupt our business or reduce our sales or profitability.***

We rely extensively on various information technology systems, including data centers, hardware, software and applications to manage many aspects of our business, including to operate and provide our products and services, to process and record transactions, to enable effective communication systems, to track inventory flow, to manage logistics and to generate performance and financial reports. We are dependent on the integrity, security and consistent operations of these systems and related backup systems. Our computer and information technology systems and the third-party systems we rely upon are also subject to damage or interruption from a number of causes, including power outages; computer and telecommunications failures; computer viruses, malware, phishing or distributed denial-of-service attacks; security breaches; cyberattacks; catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes; acts of war or terrorism and design or usage errors by our employees or contractors. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusions, including by computer hackers, nation-state affiliated actors, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased as well.

Some aspects of our business involves the collection, receipt, use, storage, processing and transmission of personal information (of our customers' and end users of our customers' solar energy systems, including names, addresses, e-mail addresses, credit information, energy production statistics), consumer preferences as well as confidential information and personal data about our employees, our suppliers and us, some of which is entrusted to third-party service providers and vendors. Despite the security measures we have in place, our facilities and systems, and those of third parties with which we do business, may be

vulnerable to security breaches, cyberattacks, acts of vandalism and theft, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events, and there is no guarantee that inadvertent or unauthorized use or disclosure will not occur or that third parties will not gain unauthorized access to this type of confidential information and personal data. Any perceived or actual unauthorized access to, or use or disclosure of, such information could harm our reputation, substantially impair our ability to attract and retain customers and have an adverse impact on our business, financial condition and results of operations.

We have been and expect to continue to be the target of fraudulent calls, emails and other forms of activities and have experienced security breaches; however, to date, they have not had a material impact on our business, results of operations or financial condition.

In addition, as the regulatory environment relating to companies' obligation to protect such sensitive data becomes increasingly rigorous, with new and constantly changing requirements, compliance with those requirements could result in additional costs, and a material failure on our part to comply could subject us to fines or other regulatory sanctions and potentially to lawsuits. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and prospects.

***Compromises, interruptions or shutdowns of our information technology systems, including those managed by third parties, whether intentional or inadvertent, could lead to delays in our business operations and, if significant or extreme, affect our results of operations.***

From time to time, our information technology systems require modifications and updates, including by adding new hardware, software and applications; maintaining, updating or replacing legacy programs; and integrating new service providers and adding enhanced or new functionality. Although we are actively selecting systems and vendors and implementing procedures to enable us to maintain the integrity of our systems when we modify them, there are inherent risks associated with modifying or replacing systems, and with new or changed relationships, including accurately capturing and maintaining data, realizing the expected benefit of the change and managing the potential disruption of the operation of the systems as the changes are implemented. Potential issues associated with implementation of these technology initiatives could reduce the efficiency of our operations in the short term. In addition, any interruption in the operation of our websites or systems could cause us to suffer reputational harm or to lose sales if customers are unable to access our site or purchase merchandise from us during such interruption. The efficient operation and successful growth of our business depends upon our information technology systems. The failure of our information technology systems and the third-party systems we rely on to perform as designed, or our failure to implement and operate them effectively, could disrupt our business or subject us to liability and thereby have a material adverse effect on our business, financial condition, results of operations and prospects.

***Our indebtedness could adversely affect our financial flexibility and our competitive position.***

As of December 31, 2022, we had \$195.3 million of term loans and \$48.0 million of revolving credit loans outstanding under the Senior Secured Credit Agreement (as defined below). Our level of indebtedness increases the risk that we may be unable to generate cash sufficient to pay amounts due in respect of our indebtedness. Our indebtedness could have other important consequences to you and significant effects on our business. For example, it could:

- increase our vulnerability to adverse changes in general economic, industry and competitive conditions;
- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict us from exploiting business opportunities;

- make it more difficult to satisfy our financial obligations, including payments on our indebtedness;
- place us at a disadvantage compared to our competitors that have less debt; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general corporate purposes.

In addition, the Senior Secured Credit Agreement contains, and the agreements evidencing or governing any other future indebtedness may contain, restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all of our indebtedness.

***Our indebtedness may restrict our current and future operations, which could adversely affect our ability to respond to changes in our business and to manage our operations.***

The Senior Secured Credit Agreement contains, and the agreements evidencing or governing any other future indebtedness may contain, financial restrictions on us and our restricted subsidiaries, including restrictions on our or our restricted subsidiaries' ability to, among other things:

- place liens on our or our restricted subsidiaries' assets;
- make investments other than permitted investments;
- incur additional indebtedness;
- prepay or redeem certain indebtedness;
- merge, consolidate or dissolve;
- sell assets;
- engage in transactions with affiliates;
- change the nature of our business;
- change our or our subsidiaries' fiscal year or organizational documents; and
- make restricted payments (including certain equity issuances).

In addition, we are required to maintain compliance with various financial ratios in the Senior Secured Credit Agreement. A failure by us or our subsidiaries to comply with the covenants or to maintain the required financial ratios contained in the Senior Secured Credit Agreement could result in an event of default under such indebtedness, which could adversely affect our ability to respond to changes in our business and manage our operations. Additionally, a default by us under the Senior Secured Credit Agreement or an agreement governing any other future indebtedness may trigger cross-defaults under any other future agreements governing our indebtedness. Upon the occurrence of an event of default or cross-default under any of the present or future agreements governing our indebtedness, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in the agreements. If any of our indebtedness is accelerated, there can be no assurance that our assets will be sufficient to repay this indebtedness in full, which could have a material adverse effect on our ability to continue to operate as a going concern.

***Developments in alternative technologies may have a material adverse effect on demand for our offerings.***

Significant developments in alternative technologies, such as advances in other forms of EBOS systems may have a material adverse effect on our business and prospects. Any failure by us to adopt new or enhanced technologies or processes, or to react to changes in existing technologies, could result in product obsolescence, the loss of competitiveness of our products, decreased revenue and a loss of market share to competitors.

***Amounts included in our backlog and awarded orders may not result in actual revenue or translate into profits.***

As of December 31, 2022, we had \$428.6 million of backlog and awarded orders, backlog of \$168.9 million represents signed purchase orders or contractual minimum purchase commitments with take-or-pay provisions and awarded orders of \$259.7 million are orders we are in the process of documenting a contract but for which a contract has not yet been signed. We cannot guarantee that our backlog or awarded orders will result in actual revenue in the originally anticipated period or at all. In addition, the contracts included in our backlog or awarded orders may not generate margins equal to our historical operating results. Our customers may experience project delays or cancel orders as a result of external market factors and economic or other factors beyond our control. If our backlog and awarded orders fail to result in revenue at all or in a timely manner, we could experience a reduction in revenue, profitability and liquidity.

**Risks Related to Regulatory Matters**

***Existing electric utility industry, renewable energy and solar energy policies and regulations, and any subsequent changes, may present technical, regulatory and economic barriers to the purchase and use of solar energy systems that may significantly reduce demand for our products or harm our ability to compete.***

Federal, state, local and foreign government regulations and policies concerning the broader electric utility industry, as well as internal policies and regulations promulgated by electric utilities and organized electric markets with respect to fees, practices, and rate design, heavily influence the market for electricity generation products and services. These regulations and policies often affect electricity pricing and the interconnection of generation facilities, and can be subject to frequent modifications by governments, regulatory bodies, utilities and market operators. For example, changes in fee structures, electricity pricing structures, and system permitting, interconnection and operating requirements can deter purchases of renewable energy products, including solar energy systems, by reducing anticipated revenue or increasing costs or regulatory burdens for would-be system purchasers. The resulting reductions in demand for solar energy systems could harm our business, prospects, financial condition and results of operations.

Chief among policies intended to promote renewable electricity generally, or solar electricity in particular, are renewable portfolio standards (RPS) and clean energy standards (“CES”). Currently, 31 U.S. states, the District of Columbia, and two U.S. territories have implemented some form of RPS/CES policy, which mandates that a certain portion of electricity delivered by regulated utilities to customers come from a set of eligible renewable or clean energy resources by a certain compliance date. Additionally, three states and one territory have set voluntary renewable energy goals. RPS/CES policies vary widely by jurisdiction. In some areas, requirements have been satisfied and utilities must only prevent reductions in qualifying energy purchases and sales, while in other jurisdictions’ RPS/CES policies continue to require substantial increases, up to 100 percent renewable electric generation, with final compliance dates typically 20 or more years out. Proposals to extend compliance deadlines, reduce renewable requirements or solar set-asides, or entirely repeal RPS/CES policies emerge periodically in various jurisdictions. While the recent trend has been for jurisdictions with RPS/CES policies to maintain or expand them, there can be no assurances that RPS/CES policies or other policies supporting renewable energy will continue.

Net metering policies have also promoted solar electricity by allowing solar PV system owners to only pay for power usage net of production from the solar PV system. Under a net metering program, the customer typically pays for the net energy used or receives a credit against future bills if more energy is produced than consumed. While most U.S. states have adopted some form of net metering, these programs have recently come under regulatory scrutiny in some jurisdictions due to allegations that net metering policies inequitably shift costs onto non-solar ratepayers. As a result, net metering policies in the future may be modified or even

eliminated. The absence of favorable net metering policies or of net metering entirely, or the imposition of new charges that only or disproportionately affect end-users that use net metering would significantly limit demand for our products and could have a material adverse effect on our business, financial condition, results of operations and future growth.

A significant development in renewable-energy pricing policies in the U.S. occurred on July 16, 2020, when the Federal Energy Regulatory Commission (“FERC”) issued Order No. 872 amending regulations that implement the Public Utility Regulatory Policies Act (“PURPA”). Among other requirements, PURPA mandates that FERC implement regulations requiring electric utilities to buy the output of certain renewable generators, including qualifying solar energy facilities, below established capacity thresholds, excluding renewable generation located in states where FERC has approved an exception to the PURPA purchase requirement. PURPA also requires that such sales occur at a utility’s “avoided cost” rate. FERC’s reforms in Order No. 872 include modifications (1) to how regulators and electric utilities may establish avoided cost rates for new contracts; (2) that reduce from 20 MW to 5 MW the capacity threshold above which a renewable-energy qualifying facility is rebuttably presumed to have nondiscriminatory market access, thereby removing the requirement for utilities to purchase its output; (3) that require regulators to establish criteria for determining when an electric utility incurs a legally enforceable obligation to purchase from a PURPA facility; and (4) that reduce barriers for third parties to challenge PURPA eligibility. Order No. 872 became effective on February 16, 2021. In general, FERC’s PURPA reforms have the potential to reduce prices for the output from certain new renewable generation projects while also narrowing the scope of PURPA eligibility for new projects. These effects could reduce demand for PURPA-eligible solar energy systems and could harm our business, prospects, financial condition and results of operations.

Changes in other current laws or regulations applicable to us or the imposition of new laws, regulations or policies in the U.S. or other jurisdictions in which we do business could have a material adverse effect on our business, financial condition and results of operations. Any changes to government, utility or electric market regulations or policies that favor electric utilities, non-solar generation, or other market participants, or that make construction or operation of new solar generation facilities more expensive or difficult, could reduce the competitiveness of solar energy systems and cause a significant reduction in demand for our products and services and adversely impact our growth. In addition, changes in our products or changes in export and import laws and implementing regulations may create delays in the introduction of new products in international markets, prevent our customers from deploying our products internationally or, in some cases, prevent the export or import of our products to certain countries altogether. Any such event could have a material adverse effect on our business, financial condition and results of operations.

***Changes in the U.S. trade environment, including the imposition of trade restrictions, import tariffs, anti-dumping and countervailing duties could adversely affect the amount or timing of our revenue, results of operations or cash flows.***

Escalating trade tensions, particularly between the U.S. and China, have led to increased tariffs and trade restrictions, including tariffs applicable to certain materials and components for our products or for products used in solar energy projects more broadly, such as module supply and availability. More specifically, in March 2018, the U.S. imposed a 25% tariff on steel imports and a 10% tariff on aluminum imports pursuant to Section 301 of the Trade Act of 1974 and has imposed additional tariffs on steel and aluminum imports pursuant to Section 232 of the Trade Expansion Act of 1962. Additionally, in January 2018, the U.S. adopted a tariff on imported solar modules and cells pursuant to Section 201 of the Trade Act of 1974, which was extended in February 2022 for another four years. The tariff was initially set at 30%, with a gradual reduction over four years to 15%. This tariff may indirectly affect us by impacting the financial viability of solar energy projects, which could in turn reduce demand for our products. Furthermore, in July 2018, the U.S. adopted a 10% tariff on a long list of products imported from China under Section 301 of the Trade Act of 1974, including inverters and power optimizers, which became effective on September 24, 2018. In June 2019, the U.S. Trade

Representative increased the rate of such tariffs from 10% to 25%. These tariffs could impact the solar energy projects in which our products are used, which could lead to decreased demand for our products.

On January 15, 2020, the U.S. and China entered into an initial trade deal that preserves the bulk of the tariffs placed in 2018 and maintains a threat of additional tariffs should China breach the terms of the deal.

In December 2021, President Biden signed the Uyghur Forced Labor Prevention Act (“UFLPA”) into law, which seeks to block the import of products made with forced labor in certain areas of China. As a result, some suppliers of solar modules have seen shipments detained by U.S. Customs and Border Patrol pursuant to the UFLPA. These detentions have not significantly impacted any of our customers’ projects to date; however, continued or future detentions could affect the industry and impact solar energy projects more broadly, which in turn could affect our business. We are monitoring developments in this area.

In addition, the U.S. currently imposes antidumping and countervailing duties on certain imported crystalline silicon PV cells and modules from China and Taiwan. Such antidumping and countervailing duties can change over time pursuant to annual reviews conducted by the U.S. Department of Commerce (“USDOC”), and an increase in duty rates could have an adverse impact on our operating results. In February 2022, a petitioner requested that the USDOC investigate alleged circumvention of antidumping and countervailing duties on Chinese imports by crystalline silicon PV cells and module imports assembled and completed in Cambodia, Malaysia, Thailand, and Vietnam. On March 28, 2022, the USDOC announced that it would investigate the circumvention alleged in the petition. On June 6, 2022, President Biden issued Proclamation 10414 that declared an emergency with respect to U.S. electricity generation capacity and stated that immediate action was needed to ensure access to a sufficient supply of solar cells and modules to assist in meeting the U.S.’ electricity generation needs temporarily waiving for 24 months the collection of antidumping and countervailing duties for certain cells and modules subject to USDOC’s investigation. As the timing and progress of many of our customers’ projects depend upon the supply of PV cells and modules, our operating results could be adversely impacted if the USDOC investigation is not resolved quickly and/or the USDOC makes negative circumvention determinations. More recently, on October 7, 2022, the Biden Administration adopted export controls related to technology that could harm U.S. national security.

Tariffs and the possibility of additional tariffs in the future, including as a result of the petition pending with the USDOC regarding circumvention of antidumping and countervailing duties, have created uncertainty in the industry. If the price of solar systems in the U.S. increases, the use of solar systems could become less economically feasible and could reduce our gross margins or reduce the demand of solar systems manufactured and sold, which in turn may decrease demand for our products. Additionally, existing or future tariffs or other trade restrictions may negatively affect key customers, suppliers, and manufacturing partners. Such outcomes could adversely affect the amount or timing of our revenue, results of operations or cash flows, and continuing uncertainty could cause sales volatility, price fluctuations or supply shortages or cause our customers to advance or delay their purchase of our products. It is difficult to predict what further trade-related actions governments may take, which may include additional or increased tariffs and trade restrictions, and we may be unable to quickly and effectively react to such actions.

***Changes in tax laws or regulations that are applied adversely to us or our customers could materially adversely affect our business, financial condition, results of operations and prospects.***

Changes in corporate tax rates, tax incentives for renewable energy projects, the realization of net deferred tax assets relating to our U.S. operations, the taxation of foreign earnings, and the deductibility of expenses under future tax reform legislation could have a material impact on the value of our deferred tax assets, could result in significant one-time charges in the current or future taxable years, and could increase our future U.S. tax expense, which could have a material adverse effect on our business, financial condition, results of operations, and prospects.



## **Risks Related to Our Organizational Structure**

***We are a holding company and our principal asset is our interest in Shoals Parent and, accordingly, we are dependent upon Shoals Parent and its consolidated subsidiaries for our results of operations, cash flows and distributions.***

We are a holding company and have no material assets other than our ownership of the LLC Interests. As such, we have no independent means of generating revenue or cash flow, and our ability to pay our taxes and operating expenses, or declare and pay dividends in the future, if any, depend upon the results of operations and cash flows of Shoals Parent and its consolidated subsidiaries and distributions we receive from Shoals Parent. There can be no assurance that our subsidiaries will generate sufficient cash flow to distribute funds to us or that applicable state law and contractual restrictions will permit such distributions.

***In certain circumstances, under its limited liability company agreement, Shoals Parent will be required to make tax distributions to the Company and the Continuing Equity Owners, and the distributions that Shoals Parent will be required to make may be substantial.***

Funds used by Shoals Parent to satisfy its tax distribution obligations to the Continuing Equity Owners will not be available for reinvestment in our business. Moreover, the tax distributions that Shoals Parent will be required to make may be substantial and will likely exceed (as a percentage of Shoals Parent's net income) the overall effective tax rate applicable to a similarly situated corporate taxpayer.

As a result of potential differences in the amount of net taxable income allocable to us and to the Continuing Equity Owners, as well as the use of an assumed tax rate in calculating Shoals Parent's tax distribution obligations to the Continuing Equity Owners, we may receive distributions significantly in excess of our tax liabilities. To the extent, as currently expected, we will not distribute such cash balances as dividends on shares of our Class A common stock and instead, for example, hold such cash balances or lend them to Shoals Parent, the Continuing Equity Owners would benefit from any value attributable to such accumulated cash balances as a result of their ownership of Class A common stock following an exchange of their LLC Interest for such Class A common stock.

## **Risks Related to Our Class A Common Stock**

***We cannot assure you that the price of our Class A common stock will not decline or not be subject to significant volatility.***

The market price of our Class A common stock has and could be subject to significant fluctuations. The price of our stock may change in response to fluctuations in our results of operations in future periods and also may change in response to other factors, including macroeconomic factors as well as factors specific to companies in our industry, many of which are beyond our control. As a result, our share price may experience significant volatility and may not necessarily reflect the value of our expected performance.

***Future sales, or the perception of future sales, by us or our existing stockholders in the public market could cause the market price for our Class A common stock to decline.***

The sale of shares of our Class A common stock in the public market, or the perception that such sales could occur, could harm the prevailing market price of shares of our Class A common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. Our certificate of incorporation authorizes us to issue up to 1,000,000,000 of our authorized shares of Class A common stock, of which 137,904,663 shares are outstanding and 31,419,913 are available upon the exchange of outstanding LLC Interests as of December 31, 2022. The exchange of LLC Interests into shares of Class A common stock and the subsequent sale of such shares, could impact the trading price of our Class A common stock.

In addition, we have, and in the future, we may also issue securities in connection with investments, acquisitions or capital raising activities. In particular, the number of shares of our Class A common stock issued in connection with an investment or acquisition, or to raise additional equity capital, could constitute a material portion of our then-outstanding shares of our Class A common stock. Any such issuance of additional securities in the future may result in additional dilution to you or may adversely impact the price of our Class A common stock.

***Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management.***

Our certificate of incorporation and bylaws contain provisions that could depress the trading price of our Class A common stock by discouraging, delaying or preventing a change of control of our Company or changes in our management that the stockholders of our Company may believe advantageous. These provisions include:

- authorizing “blank check” preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- providing for a classified board of directors with staggered three-year terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- not providing for cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- limiting the ability of stockholders to call a special stockholder meeting;
- prohibiting stockholders from acting by written consent;
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- the removal of directors only for cause and only upon the affirmative vote of the holders of at least 66 2/3% in voting power of all the then-outstanding shares of common stock of the Company entitled to vote thereon;
- providing that our board of directors is expressly authorized to amend, alter, rescind or repeal our bylaws; and
- requiring the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then-outstanding shares of Class A common stock to amend provisions of our certificate of incorporation relating to the management of our business, our board of directors, stockholder action by written consent, calling special meetings of stockholders, competition and corporate opportunities, Section 203 of the Delaware General Corporation Law (the “DGCL”), forum selection and the liability of our directors, or to amend, alter, rescind or repeal our bylaws.

In addition, we are not governed by the provisions of Section 203 of the DGCL, which generally prohibits a Delaware corporation from engaging in a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder becomes an “interested” stockholder.

In addition, our certificate of incorporation provides that U.S. federal district courts will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act but that the forum selection provision will not apply to claims brought to enforce a duty or liability created by the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

***Our certificate of incorporation also provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could***

***limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.***

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternate forum, the Court of Chancery of the State of Delaware will, to the fullest extent permitted by applicable law, be the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the DGCL, our certificate of incorporation or our bylaws; any action to interpret, apply, enforce or determine the validity of our certificate of incorporation or our bylaws; any action asserting a claim against us that is governed by the internal affairs doctrine; or any action asserting an "internal corporate claim" as defined in Section 115 of the DGCL. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court finds the choice of forum provision contained in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could materially and adversely affect our business, financial condition, and results of operations.

Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. In addition, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our certificate of incorporation provides that, unless we consent in writing to the selection of an alternate forum, the federal district court for the District of Delaware will be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the federal securities laws. We note that there is uncertainty as to whether a court would enforce the choice of forum provision with respect to claims under the federal securities laws, and that investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder.

***We do not intend to pay any cash distributions or dividends on our Class A common stock in the foreseeable future.***

We have never declared or paid any distributions or dividends on our Class A common stock. We currently intend to retain any future earnings and do not expect to pay any cash distributions or dividends in the foreseeable future. Any future determination to declare cash distributions or dividends will be made at the discretion of our board of directors, subject to applicable laws and provisions of our debt instruments and organizational documents, after taking into account our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant. As a result, capital appreciation in the price of our Class A common stock, if any, may be your only source of gain on an investment in our Class A common stock.

## **General Risk Factors**

***If we fail to maintain effective internal controls over financial reporting, we may be unable to accurately or timely report our financial condition or results of operations, which may adversely affect our business.***

Our management is responsible for establishing and maintaining effective internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance

that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. A significant financial reporting failure or material weakness in internal control over financial reporting could cause a loss of investor confidence and decline in the market price of our common stock.

***Our planned expansion could subject us to additional business, financial, regulatory and competitive risks.***

Our strategy is to introduce new products and grow our revenue outside of the U.S. by developing region-specific products; entering into joint-venture or licensing arrangements with companies in certain markets; expanding our relationships with value-added resellers of our products in some countries; and utilizing locally sourced components in our products in jurisdictions where locally sourced components are a regulatory or customer requirement.

Our products and services to be offered outside of the U.S. may differ from our current products and services in several ways, such as the consumption and utilization of local raw materials, components and logistics, the reengineering of select components to reduce costs, and region-specific customer training, site commissioning, warranty remediation and other technical services.

These markets have different characteristics from the markets in which we currently sell products, and our success will depend on our ability to adapt properly to these differences. These differences may include differing regulatory requirements, including tax laws, trade laws, labor regulations, tariffs, export quotas, customs duties or other trade restrictions, limited or unfavorable intellectual property protection, international political or economic conditions, restrictions on the repatriation of earnings, longer sales cycles, warranty expectations, product return policies and cost, performance and compatibility requirements. In addition, expanding into new geographic markets will increase our exposure to presently existing risks, such as fluctuations in the value of foreign currencies and difficulties and increased expenses in complying with U.S. and foreign laws, regulations and trade standards, including the Foreign Corrupt Practices Act of 1977, as amended (the "FCPA"). The FCPA generally prohibits companies and their intermediaries from making improper payments to foreign government officials for the purpose of obtaining or retaining business. Other countries in which we operate and may operate in the future may also have anti-bribery laws. Our policies mandate compliance with these anti-bribery laws. However, we currently operate in and intend to further expand into, many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. It is possible that our employees, subcontractors, agents and partners may take actions in violation of our policies and anti-bribery laws. Any such violation, even if prohibited by our policies, could subject us to criminal or civil penalties or other sanctions, which could have a material adverse effect on our business, financial condition, cash flows and reputation.

Failure to manage the risks and challenges associated with our potential expansion into new geographic markets could adversely affect our revenue and our ability to achieve or sustain profitability.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The table below describes the material facilities owned or leased by Shoals Technologies Group, Inc. as of December 31, 2022:

Location	Status	Square Feet	Uses
1400 Shoals Way, Portland, TN	Owned	103,200	Office, manufacturing, warehousing and shipping
1035 Fred White Blvd., Portland, TN	Owned	75,360	Office, manufacturing, warehousing and shipping
109 Kirby Drive, Portland, TN	Leased	219,767	Office, manufacturing, warehousing and shipping
215 Industrial Drive, Muscle Shoals, AL	Owned	16,910	Office, manufacturing, warehousing and shipping
13370 Kirkham Way, Poway, CA	Leased	21,761	Office, manufacturing, warehousing and shipping
13651 Danielson Street, Poway, CA	Leased	15,411	Office, manufacturing, warehousing and shipping

We believe that our existing properties are in good condition and are sufficient and suitable for the conduct of our business for the foreseeable future. To the extent our needs change as our business grows, we expect that additional space and facilities will be available.

### Item 3. Legal Proceedings

From time to time, we may be involved in litigation relating to claims that arise out of our operations and businesses and that cover a wide range of matters, including, among others, intellectual property matters, contract and employment claims, personal injury claims, product liability claims and warranty claims. Currently, there are no claims or proceedings against us that we believe will have a material adverse effect on our business, financial condition, results of operations or cash flows. However, the results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, we may incur significant costs and experience a diversion of management resources as a result of litigation.

### Item 4. Mine Safety Disclosures

Not applicable.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information

Our Class A common stock is traded on the NASDAQ Global Market under the symbol “SHLS”. Our Class B common stock is not listed nor traded on any stock exchange.

#### Holders of Record

As of February 21, 2023, there were five registered account holders of our Class A common stock. The number of record holders does not include persons who held shares of our Class A common stock in nominee or “street name” accounts through brokers. As of February 21, 2023, there were four registered account holders of our Class B common stock.

#### Dividend Policy

We currently intend to retain all available funds and any future earnings for use in the operation of our business, and therefore we do not currently expect to pay any cash dividends. Any future determination to declare cash distributions or dividends will be made at the discretion of our board of directors, subject to applicable laws and provisions of our debt instruments and organizational documents, after taking into account

our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

### **Securities Authorized for Issuance Under Our Equity Compensation Plans**

Information regarding securities authorized for issuance under our equity compensation plans is incorporated herein by reference to Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” of Part III of this Annual Report on Form 10-K.

### **Recent Sales of Unregistered Equity Securities**

There were no unregistered sales of equity during the quarter ended December 31, 2022.

During the quarter ended December 31, 2022, pursuant to the terms of the Exchange Agreement entered into in connection with our IPO, certain Continuing Equity Owners exchanged 22,396,301 LLC Units together with an equal number of shares of Class B common stock for 22,396,301 newly-issued shares of Class A common stock. These shares of Class A common stock were issued in reliance on an exemption from registration pursuant to Section 4(a)(2) of the Securities Act of 1933.

### **Use of Proceeds from Registered Securities**

Not applicable.

### **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

## **Item 6. Reserved**

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*This Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and the related notes and other financial information included in this Annual Report on Form 10-K. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. For this purpose, any statements contained in this Form 10-K that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “estimate” or “continue” or comparable terminology are intended to identify forward-looking statements. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under the sections of this Form 10-K captioned “Forward-Looking Statements” and “Risk Factors”. Management’s discussion and analysis relating to the fiscal year ended December 31, 2021 and the applicable year-to-year comparisons to the fiscal year ended December 31, 2020 are not included in this Annual Report on Form 10-K but can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.*

*This Management’s Discussion and Analysis of Financial Condition and Results of Operations contains the presentation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share, which are not presented in accordance with generally accepted accounting principles in the U.S. (“GAAP”). Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share are being presented because they provide the Company, investors and readers of this Form 10-K with additional insight into our operational performance relative to earlier periods and relative to our competitors. We do not intend Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share to be substitutes for any GAAP financial*

*information. Readers of this Form 10-K should use Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share only in conjunction with Net Income and Net Income Attributable to Shoals Technologies Group, Inc., the most closely comparable GAAP financial measure, as applicable. Reconciliations of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share, to the respective most closely comparable GAAP measure, as well as a calculation of Adjusted Diluted Weighted Average Shares Outstanding, are provided in “—Non-GAAP Financial Measures”.*

## **Overview**

We are a leading provider of EBOS solutions and components for solar, battery storage and electrical vehicle (“EV”) charging applications, selling to customers across the United States and internationally. EBOS encompasses all of the components that are necessary to carry the electric current produced by solar panels to an inverter and ultimately to the power grid. EBOS components are mission-critical products that have a high consequence of failure, including lost revenue, equipment damage, fire damage, and even serious injury or death. As a result, we believe customers prioritize reliability and safety over price when selecting EBOS solutions.

EBOS components that we produce include cable assemblies, inline fuses, combiners, disconnects, recombiners, wireless monitoring systems, junction boxes, transition enclosures and splice boxes. We derive the majority of our revenue from selling “system solutions” which are complete EBOS systems that include several of our products, many of which are customized for the customer’s project. We believe our system solutions are unique in our industry because they integrate design and engineering support, proprietary components and innovative installation methods into a single offering that would otherwise be challenging for a customer to obtain from a single provider or at all.

We sell our solar products principally to EPCs that build solar energy projects. However, given the mission-critical nature of EBOS, the decision to use our products typically involves input from both the EPC and the owner of the solar energy project. The custom nature of our system solutions and the long development cycle for solar energy projects typically gives us 12 months or more of lead time to quote, engineer, produce and ship each order we receive, and we do not stock large amounts of finished goods.

Throughout fiscal year 2022, we have maintained focus on our growth strategy, including converting customers to our combine-as-you-go system and developing products for the rapidly growing EV charging infrastructure market. We believe that as of December 31, 2022, 14 of the top 15 solar EPCs as reported by Solar Power World Magazine use our combine-as-you-go system on their projects. As of the date of this report, we are in the process of transitioning an additional 14 EPCs and developers to our system. Additionally, in the fourth quarter of 2021, we introduced four new product families for the EV charging market and began taking orders and shipping some component products in the first quarter of 2022. Order flow and deliveries of our EV system solution continued through the fourth quarter of 2022 with scaled production underway. The first new product family is the power center which combines equipment needed to protect the charging equipment and transform voltage levels from the electric utility to those needed on the respective site. The power center provides an efficient, cost effective and aesthetically focused option versus traditional methods. The second offering focuses on quick connect solutions for chargers made by any manufacturer and any power level to connect to the Shoals system. The quick connect bases dramatically reduce the time required on site for a deployment and reduce the amount of labor required in the field. The third offering uses our BLA technology in the EV space to connect multiple chargers to a single power center. This solution eliminates the need for homeruns from each dispenser and is above ground rated which allows wire to be run above ground rather than in underground conduit. The fourth offering is a raceway system that protects the above ground EV BLAs in walk over and drive over applications. The raceway system coupled with the EV BLA deploys much more

rapidly and cost effectively than traditional methods of deployment. All products launched in 2022 are certified to UL standards as of December 31, 2022.

We derived approximately 77.8% of our revenue from the sale of system solutions for the year ended December 31, 2022. For the same period, we derived substantially all of our revenue from customers in the U.S. As of December 31, 2022, we had \$428.6 million of backlog and awarded orders. Backlog of \$168.9 million represents signed purchase orders or contractual minimum purchase commitments with take-or-pay provisions and awarded orders of \$259.7 million are orders we are in the process of documenting a contract but for which a contract has not yet been signed. As of December 31, 2022, backlog and awarded orders increased by 43% relative to December 31, 2021 and decreased by 9% relative to September 30, 2022.

### **Follow On Offering and Termination of Tax Receivable Agreement**

On December 6, 2022, the Company completed a follow-on offering consisting of 27,900,000 shares of Class A common stock offered by the selling stockholders and 2,000,000 shares of Class A common stock offered by the Company. Following the closing of the follow-on offering, our Founder and certain of his affiliates beneficially own approximately 16.9% of the shares of our Class A common stock, including LLC Interests and shares of Class B common stock on an as converted basis. The Company used the proceeds of the sale of Class A common stock together with cash on hand, to make a payment of \$58.0 million to terminate the Tax Receivable Agreement (“TRA”), as discussed in Note 17 of the consolidated financial statements.

### **Shoals Technologies Group, Inc. Ownership in Shoals Parent**

As of December 31, 2022, the Company owned 81.44% of Shoals Parent. The Continuing Equity Owners owned the remaining 18.56% of Shoals Parent.

### **Trends and Uncertainties**

In 2022, significant levels of inflation increased energy prices, freight premiums, and other operating costs, including wages. These increases are expected to persist into 2023. As a result of inflation, during 2022, the Federal Reserve increased interest rates resulting in higher interest rates associated with our Senior Secured Credit Agreement. The Federal Reserve may continue raising interest rates, and any such additional increases will have a corresponding increase in the interest rates charged under our Senior Secured Credit Agreement. The eventual implications of higher government deficits and debt, tighter monetary policy, and potentially higher long-term interest rates may drive a higher cost of capital during our forecast period.

In 2022, in part as a consequence of the COVID-19 pandemic and other macroeconomic events, our ability to obtain raw materials from domestic and international suppliers required to manufacture our components and system solutions, as well as our ability to secure inbound logistics to and from our facilities, were impacted, with additional delays linked to international border crossings and the associated approvals and documentation. The Company does not directly source raw materials from Europe. However, the ongoing conflict in Ukraine has reduced the availability of certain material that can be sourced in Europe and, as a result, increased global logistics costs for the procurement of some inputs and materials used in our products. We expect these trends to persist into 2023. In addition, changes over the last few years in the international relations and tariff regimes between the U.S. and China in response to various political issues and heightened uncertainty regarding China-Taiwan relations could significantly adversely impact the availability of parts and components to us, and, correspondingly, our ability to produce our components at targeted levels. We are continuously monitoring the situation of our supply chain and evaluating our procurement strategy and supply chain to reduce any negative impact on our business, financial condition, and results of operations.

In response to supply chain constraints, in 2022 we increased certain raw materials inventory, partly to limit the potential impact of supply chain issues of raw materials in the near term. For 2023, we anticipate continuing to carry increased inventories to mitigate these issues.



To date we have not had any material adverse effects on our financial results from the events and trends discussed above.

## **Key Components of Our Results of Operations**

The following discussion describes certain line items in our consolidated statements of operations.

### ***Revenue***

We generate revenue from the sale of EBOS systems and components for homerun and combine-as-you-go architectures, battery storage and EV charging infrastructure. Our customers include EPCs, utilities, solar developers, independent power producers, solar module manufacturers and charge point operators. We derive the majority of our revenue from selling solar system solutions. When we sell a solar system solution, we enter into a contract with our customers covering the price, specifications, delivery dates and warranty for the products being purchased, among other things. Our contractual delivery period for solar system solutions can vary from one to three months whereas manufacturing typically requires a shorter time frame. Contracts for solar system solutions can range in value from several hundred thousand to several million dollars.

Our revenue is affected by changes in the price, volume and mix of solar system solutions and components purchased by our customers. The price and volume of our system solutions and components is driven by the demand for our solar system solutions and components, changes in product mix between homerun and combine-as-you-go EBOS, geographic mix of our customers, strength of competitors' product offerings, and availability of government incentives to the end-users of our products.

Our revenue growth is dependent on continued growth in the amount of solar energy projects constructed each year and our ability to increase our share of demand in the geographies where we currently compete and plan to compete in the future as well as our ability to continue to develop and commercialize new and innovative products that address the changing technology and performance requirements of our customers.

### ***Cost of Revenue and Gross Profit***

Cost of revenue consists primarily of system solutions and components costs, including purchased raw materials, as well as costs related to shipping, customer support, product warranty, personnel and depreciation of manufacturing and testing equipment. Personnel costs in cost of revenue include both direct labor costs as well as costs attributable to any individuals whose activities relate to the transformation of raw materials or component parts into finished goods or the transportation of materials to the customer. Our product costs are affected by the underlying cost of raw materials, including copper and aluminum; component costs, including fuses, resin, enclosures, and cable; technological innovation; economies of scale resulting in lower component costs; and improvements in production processes and automation. We do not currently hedge against changes in the price of raw materials. Some of these costs, primarily indirect personnel and depreciation of manufacturing and testing equipment, are not directly affected by sales volume. Gross profit may vary from year to year and is primarily affected by our sales volume, product prices, product costs, product mix, customer mix, geographical mix, shipping method and warranty costs.

### ***Operating Expenses***

Operating expenses consist of general and administrative costs as well as depreciation and amortization expense. Personnel-related costs are the most significant component of our operating expenses and include salaries, equity-based compensation, benefits, payroll taxes and commissions. The number of full-time employees in our general and administrative departments increased from 99 to 115 from December 31, 2021 to December 31, 2022, and we expect to hire new employees in the future to support our growth. The timing of these additional hires could materially affect our operating expenses in any particular period, both in absolute dollars and as a percentage of revenue. We expect to invest in additional resources to support our growth which will increase our operating expenses.

### *General and Administrative Expenses*

General and administrative expenses consist primarily of salaries, equity-based compensation expense, employee benefits and payroll taxes related to our executives, and our sales, finance, human resources, information technology, engineering and legal organizations, travel expenses, facilities costs, marketing expenses, insurance, bad debt expense and fees for professional services. Professional services consist of audit, tax, accounting, legal, internal controls, information technology, investor relations and other costs. We expect to increase our sales and marketing personnel as we expand into new geographic markets. Substantially all of our sales are currently in the U.S. We currently have a sales presence in the U.S., Australia, Europe and Latin America. We intend to expand our sales presence and marketing efforts to additional countries in the future.

#### *Depreciation*

Depreciation in our operating expenses consists of costs associated with property, plant and equipment (“PP&E”) not used in manufacturing our products. We expect that as we increase both our revenue and the number of our general and administrative personnel, we will invest in additional PP&E to support our growth resulting in additional depreciation expense.

#### *Amortization*

Amortization of intangibles consists of amortization of customer relationships, developed technology, trade names, backlog and noncompete agreements over their expected period of use.

### ***Non-operating Expenses***

#### *Interest Expense*

Interest expense consists of interest and other charges paid in connection with our Senior Secured Credit Agreement.

#### *Payable Pursuant to the Tax Receivable Agreement Adjustment*

TRA adjustment consists of changes to our tax rate since the initial recording of the liability related to our TRA.

#### *Gain on Termination of Tax Receivable Agreement*

Gain on termination of TRA is related to the early termination and settlement of the TRA, as discussed in Note 17 of the consolidated financial statements.

#### *Loss on Debt Repayment*

Loss on debt repayment consists of prepayment premiums and the write-off of a portion of the deferred financing costs from the prepayment of outstanding borrowings under the Term Loan Facility.

#### *Income Tax Expense*

Shoals Technologies Group, Inc. is subject to U.S. federal and state income tax in multiple jurisdictions with respect to our allocable share of any net taxable income of Shoals Parent. Shoals Parent is a pass-through entity for federal income tax purposes but incurs income tax in certain state jurisdictions.

## Results of Operations

Set forth below is a comparison of the results of operations and changes in financial condition for the years ended December 31, 2022 and 2021.

The following table summarizes our results of operations (dollars in thousands):

	Year Ended December 31,		2022 vs 2021	
	2022	2021	\$ variance	% variance
<b>Revenue</b>	\$ 326,940	\$ 213,212	\$ 113,728	53 %
<b>Cost of revenue</b>	195,629	130,567	65,062	50 %
<b>Gross profit</b>	131,311	82,645	48,666	59 %
<b>Operating expenses</b>				
General and administrative expenses	55,908	37,893	18,015	48 %
Depreciation and amortization	9,073	8,520	553	6 %
<b>Total operating expenses</b>	64,981	46,413	18,568	40 %
<b>Income from operations</b>	66,330	36,232	30,098	83 %
Interest expense, net	(18,538)	(14,549)	(3,989)	27 %
Payable pursuant to the tax receivable agreement adjustment	(6,675)	(1,663)	(5,012)	301 %
Gain on termination of tax receivable agreement	110,883	—	110,883	100 %
Loss on debt repayment	—	(15,990)	15,990	(100)%
<b>Income before income taxes</b>	152,000	4,030	147,970	3,672 %
Income tax expense	(8,987)	(86)	(8,901)	10,350 %
<b>Net income</b>	143,013	3,944	139,069	3,526 %
Less: net income attributable to non-controlling interests	15,402	1,596	13,806	865 %
<b>Net income attributable to Shoals Technologies Group, Inc.</b>	<u>\$ 127,611</u>	<u>\$ 2,348</u>	<u>\$ 125,263</u>	5,335 %

## Comparison of the years ended December 31, 2022 and 2021

### Revenue

Revenue increased by \$113.7 million, or 53%, for the year ended December 31, 2022 as compared to the year ended December 31, 2021, driven by higher sales volumes as a result of increased demand for solar EBOS generally and our combine-as-you-go system solutions specifically. Our total number of customers increased in 2022 as compared to 2021. We believe expanding customer recognition of the benefits of our combine-as-you-go system is continuing to result in increased demand for our products.

### Cost of Revenue and Gross Profit

Cost of revenue increased by \$65.1 million, or 50%, for the year ended December 31, 2022 as compared to the year ended December 31, 2021, primarily driven by an increase in revenue. Gross profit as a percentage of revenue increased from 38.8% in 2021 to 40.2% in 2022 due to a higher proportion of revenue generated from our combine-as-you-go system solutions, which carry higher margins than our other products, and increased leverage on fixed costs as a result of higher sales volumes.

### Operating Expenses

#### General and Administrative

General and administrative expenses increased \$18.0 million, or 48%, for the year ended December 31, 2022 as compared to the year ended December 31, 2021. The increase in general and administrative expenses was primarily the result of an increase in wages and related taxes of \$7.7 million due to increased employee headcount to support our growth and public company compliance, an increase in equity-based compensation of \$4.0 million, a \$2.9 million increase in professional fees, mainly related to accounting, legal, and recruiting services, an increase of \$0.9 million related to travel and trade shows, and a \$0.7 million increase in research and development expenses.

#### *Depreciation and Amortization*

Depreciation and amortization expense increased by \$0.6 million, or 6%, for the year ended December 31, 2022 as compared to the year ended December 31, 2021, due to the addition of intangibles acquired in the ConnectPV acquisition.

#### *Interest Expense*

Interest expense, net increased by \$4.0 million or 27%, for the year ended December 31, 2022 as compared to the year ended December 31, 2021, due to increased borrowings and borrowing rates. During 2022, the Federal Reserve increased interest rates resulting in higher interest rates associated with our Senior Secured Credit Agreement. Any additional increases in interest rates by the Federal Reserve would have a corresponding increase in the interest rates charged under our Senior Secured Credit Agreement.

#### *Payable Pursuant to the Tax Receivable Agreement Adjustment*

Payable pursuant to the TRA adjustment increased \$5.0 million or 301% for the year ended December 31, 2022 as compared to the year ended December 31, 2021, due to changes in our state tax rate in the current period, as compared to the prior year and a larger deferred tax asset.

#### *Gain on Termination of Tax Receivable Agreement*

Gain on termination of TRA for the year ended December 31, 2022 totaled \$110.9 million, which is equal to the difference between the carrying value of the payable pursuant to the TRA recorded as of the TRA amendment date, net of related fees. There was no gain on termination of TRA for the year ended December 31, 2021.

#### *Loss on Debt Repayment*

There was no loss on debt repayment for the year ended December 31, 2022. Loss on debt repayment for the year ended December 31, 2021 totaled \$16.0 million which consisted of \$11.3 million of prepayment premium and \$4.7 million in write-off of a portion of the deferred financing costs related to a prepayment of \$150.0 million of outstanding borrowings under the Term Loan Facility.

#### *Income Tax Expense*

Income tax expense was \$9.0 million for the year ended December 31, 2022 as compared to an income tax expense of \$0.1 million for the year ended December 31, 2021. Our effective income tax rate for the year ended December 31, 2022 and 2021 was 5.9% and 2.1%, respectively. The 2022 and 2021 rate was impacted by a change in our effective income tax rate resulting from changes in our state nexus footprint offset with deferred tax expense related to the termination of the TRA..

## **Non-GAAP Financial Measures**

### ***Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share (“EPS”)***

We define Adjusted EBITDA as net income (loss) plus (i) interest expense, net, (ii) income tax expense, (iii) depreciation expense, (iv) amortization of intangibles, (v) payable pursuant to the TRA adjustment, (vi) gain on termination of TRA, (vii) loss on debt repayment, (viii) equity-based compensation, (ix) acquisition-related

expenses, (x) COVID-19 expenses and (xi) non-recurring and other expenses. We define Adjusted Net Income as net income (loss) attributable to Shoals Technologies Group, Inc. plus (i) net income impact from assumed exchange of Class B common stock to Class A common stock as of the beginning of the earliest period presented, (ii) amortization of intangibles, (iii) amortization of deferred financing costs, (iv) payable pursuant to the TRA adjustment, (v) gain on termination of TRA, (vi) loss on debt repayment, (vii) equity-based compensation, (viii) acquisition-related expenses, (ix) COVID-19 expenses and (x) non-recurring and other expenses, all net of applicable income taxes. We define Adjusted Diluted EPS as Adjusted Net Income divided by the diluted weighted average shares of Class A common stock outstanding for the applicable period, which assumes the exchange of all outstanding Class B common stock for Class A common stock as of the beginning of the earliest period presented.

Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS are intended as supplemental measures of performance that are neither required by, nor presented in accordance with, GAAP. We present Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS because we believe they assist investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS: (i) as factors in evaluating management's performance when determining incentive compensation; (ii) to evaluate the effectiveness of our business strategies; and (iii) because our credit agreement uses measures similar to Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS to measure our compliance with certain covenants.

Among other limitations, Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments; do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; in the case of Adjusted EBITDA, does not reflect income tax expense or benefit for periods prior to the reorganization; and may be calculated by other companies in our industry differently than we do or not at all, which may limit their usefulness as comparative measures.

Because of these limitations, Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS should not be considered in isolation or as substitutes for performance measures calculated in accordance with GAAP. You should review the reconciliation of net income to Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS below and not rely on any single financial measure to evaluate our business.

Reconciliation of Net Income to Adjusted EBITDA (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Net income	\$ 143,013	\$ 3,944	\$ 33,766
Interest expense, net	18,538	14,549	3,510
Income tax expense	8,987	86	—
Depreciation expense	1,858	1,701	1,420
Amortization of intangibles	8,651	8,352	7,985
Payable pursuant to the TRA adjustment <sup>(a)</sup>	6,675	1,663	—
Gain on termination of TRA	(110,883)	—	—
Loss on debt repayment	—	15,990	—
Equity-based compensation	16,108	11,286	8,251
Acquisition-related expenses	42	2,349	—
COVID-19 expenses <sup>(b)</sup>	—	339	2,890
Non-recurring and other expenses <sup>(c)</sup>	—	2,598	3,077
Adjusted EBITDA	<u>\$ 92,989</u>	<u>\$ 62,857</u>	<u>\$ 60,899</u>

<sup>(a)</sup> Represents an adjustment to eliminate the adjustment of the payable pursuant to the TRA.

<sup>(b)</sup> Represents costs incurred as a direct impact from the COVID-19 pandemic, disinfecting and reconfiguration of facilities, medical professionals to conduct daily screenings of employees and direct legal costs associated with the pandemic.

<sup>(c)</sup> Represents certain costs associated with non-recurring professional services, our prior private equity owners' expenses and other costs.

Reconciliation of Net Income Attributable to Shoals Technologies Group, Inc. to Adjusted Net Income (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Net income attributable to Shoals Technologies Group, Inc.	\$ 127,611	\$ 2,348	\$ 33,766
Net income impact from assumed exchange of Class B common stock to Class A common stock <sup>(a)</sup>	15,402	1,596	—
Adjustment to the provision for income tax <sup>(b)</sup>	(3,726)	(456)	(7,327)
Tax effected net income	139,287	3,488	26,439
Amortization of intangibles	8,651	8,352	7,985
Amortization of deferred financing costs	1,365	1,230	351
Payable pursuant to the TRA adjustment <sup>(c)</sup>	6,675	1,663	—
Gain on termination of TRA	(110,883)	—	—
Loss on debt repayment	—	15,990	—
Equity-based compensation	16,108	11,286	8,251
Acquisition-related expenses	42	2,349	—
COVID-19 expenses <sup>(d)</sup>	—	339	2,890
Non-recurring and other expenses <sup>(e)</sup>	—	2,598	3,077
Tax impact of adjustments <sup>(f)</sup>	1,158	(11,381)	(3,104)
Adjusted Net Income	<u>\$ 62,403</u>	<u>\$ 35,914</u>	<u>\$ 45,889</u>

<sup>(a)</sup> Reflects net income to Class A common stock from assumed exchange of corresponding shares of our Class B common stock held by our Founder and management.

<sup>(b)</sup> Shoals Technologies Group, Inc. is subject to U.S. Federal income taxes, in addition to state and local taxes with respect to its allocable share of any net taxable income of Shoals Parent LLC. The adjustment to the provision for income tax reflects the effective tax rates below, assuming Shoals Technologies Group, Inc. owns 100% of the units in Shoals Parent LLC.

	<b>Year Ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Statutory U.S. Federal income tax rate	21.0 %	21.0 %	21.0 %
State and local taxes (net of federal benefit)	3.0 %	6.4 %	0.7 %
Permanent adjustments	0.2 %	1.2 %	— %
Effective income tax rate for Adjusted Net Income	<u>24.2 %</u>	<u>28.6 %</u>	<u>21.7 %</u>

<sup>(c)</sup> Represents an adjustment to eliminate the adjustment of the payable pursuant to the TRA.

<sup>(d)</sup> Represents costs incurred as a direct impact from the COVID-19 pandemic, disinfecting and reconfiguration of facilities, medical professionals to conduct daily screenings of employees and direct legal costs associated with the pandemic.

<sup>(e)</sup> Represents certain costs associated with non-recurring professional services, our prior private equity owners' expenses and other costs.

<sup>(f)</sup> Represents the estimated tax impact of all Adjusted Net Income add-backs, excluding those which represent permanent differences between book versus tax.

Reconciliation of Diluted Weighted Average Shares Outstanding to Adjusted Diluted Weighted Average Shares Outstanding (in thousands, except per share):

	Year Ended December 31,		
	2022	2021	2020
Diluted weighted average shares of Class A common stock outstanding, excluding Class B common stock	114,803	99,507	N/A <sup>(b)</sup>
Assumed exchange of Class B common stock to Class A common stock	52,828	67,429	N/A <sup>(b)</sup>
Adjusted diluted weighted average shares outstanding	<u>167,631</u>	<u>166,936</u>	<u>N/A <sup>(b)</sup></u>
Adjusted Net Income <sup>(a)</sup>	\$ 62,403	\$ 35,914	N/A <sup>(b)</sup>
Adjusted Diluted EPS	\$ 0.37	\$ 0.22	N/A <sup>(b)</sup>

<sup>(a)</sup> Represents Adjusted Net Income for the full period presented.

<sup>(b)</sup> This Non-GAAP measure is not applicable for this period, as the reorganization transactions had not yet occurred.

## Liquidity and Capital Resources

	Year Ended December 31,		
	2022	2021	2020
Net cash provided by (used in) operating activities	\$ 39,455	\$ (4,083)	\$ 54,082
Net cash used in investing activities	(3,657)	(17,035)	(3,236)
Net cash provided by (used in) financing activities	(36,589)	20,602	(47,855)
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ (791)</u>	<u>\$ (516)</u>	<u>\$ 2,991</u>

We finance our operations primarily with operating cash flows and short and long-term borrowings. Our ability to generate positive cash flow from operations is dependent on the strength of our gross margins as well as our ability to quickly turn our working capital. Based on our past performance and current expectations, we believe that operating cash flows and availability under our Revolving Credit Facility will be sufficient to meet our near and long-term future cash needs.

We (used) generated cash from operating activities of \$39.5 million, \$(4.1) million and \$54.1 million in the years ended December 31, 2022, 2021 and 2020, respectively. As of December 31, 2022, our cash and cash equivalents were \$8.8 million and we had outstanding borrowings of \$243.3 million. We also had \$102.0 million available for additional borrowings under our \$150.0 million Revolving Credit Facility.

### Operating Activities

For the year ended December 31, 2022, cash provided by operating activities was \$39.5 million, primarily due to operating results that included \$143.0 million of net income, which included \$65.6 million of non-cash income, an increase of \$21.4 million in deferred revenue, and an increase of \$10.7 million in accrued expenses and other. These cash inflows were partially offset by an increase in inventory of \$36.9 million as a result of increasing our raw materials inventory to support growth and reduce the likelihood of supply chain issues from our raw materials suppliers, an increase of \$22.4 million in accounts receivable and unbilled receivables, which is primarily driven by an increase in revenues, and a decrease of \$11.0 million in accounts payable.



### ***Investing Activities***

For the year ended December 31, 2022, net cash used in investing activities was \$3.7 million, of which \$3.2 million was attributable to the purchase of property and equipment.

### ***Financing Activities***

For the year ended December 31, 2022, net cash used in financing activities was \$36.6 million, primarily due to \$58.0 million paid to terminate the TRA, as discussed in Note 17 of the consolidated financial statements, plus related fees of \$1.9 million, \$2.0 million in payments on the Term Loan, \$7.1 million in net payments on the Revolving Credit Facility, \$7.8 million in distributions to our non-controlling interest holders, \$1.5 million of offering costs, and \$1.3 million in taxes related to net share settled equity awards. These cash outflows are partially offset by \$42.9 million received in connection with the issuance of Class A common stock sold in follow-on offering, net of underwriting discounts and commissions.

### ***Debt Obligations***

For a discussion of our debt obligations see Note 9 - Long-Term Debt in our consolidated financial statements.

### ***Surety Bonds***

We provide surety bonds to various parties as required for certain transactions initiated during the ordinary course of business to guarantee our performance in accordance with contractual or legal obligations. As of December 31, 2022, the maximum potential payment obligation with regard to surety bonds was \$8.7 million.

### ***Critical Accounting Policies and Estimates***

We prepare our consolidated financial statements in accordance with GAAP. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates. Critical accounting policies and estimates are those that we consider the most important to the portrayal of our financial condition and results of operations because they require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

### ***Revenue Recognition***

We primarily recognize revenue over time as a result of the continuous transfer of control of our product to the customer using the output method based on units manufactured. This continuous transfer of control to the customer is supported by clauses in the contracts that provide right to payment of the transaction price associated with work performed to date on products that do not have an alternative use. We believe that recognizing revenue using the output method based on units manufactured best depicts the extent of transfer of control to the customer. If revenue were recognized at a point in time rather than over time, then for the year ended December 31, 2022, net income would have been \$0.8 million lower, and EPS - basic and diluted would remain unchanged.

In certain instances the promised goods do have an alternative use. In these instances we recognize revenue when the customer obtains control of the product. Contracts of this nature typically include customer acceptance clauses, which results in revenue recognition occurring upon customer acceptance.

The manufacturing process generally takes less than one week to complete production. The accounting for each contract involves a judgmental process of estimating total sales, costs, and profit for each performance obligation. Cost of revenue is recognized based on the unit of production. The amount reported as revenue is determined by adding a proportionate amount of the estimated profit to the amount reported as cost of revenue.

We have elected to adopt certain practical expedients and exemptions as allowed under the new revenue recognition guidance such as (i) recording sales commissions as incurred because the amortization period is less than one year, (ii) excluding any collected sales tax amounts from the calculation of revenue, and (iii) accounting for shipping and handling activities that are incurred after the customer has obtained control of the product as fulfillment costs rather than a separate service provided to the customer for which consideration would need to be allocated.

### ***Payable Pursuant to the Tax Receivable Agreement***

As discussed in Note 17 to the consolidated financial statements, we were party to a TRA , dated January 29, 2021, under which we were contractually committed to pay the TRA Owners 85% of the amount of the tax benefits, if any, that we were deemed to realize, as a result of certain transactions. Amounts payable under the TRA were contingent upon, among other things, (i) generation of future taxable income over the term of the TRA and (ii) future changes in tax laws.

On November 29, 2022, the Company entered into an amendment to the TRA (the “TRA Amendment”), pursuant to which the parties thereto agreed to grant the Company a right to terminate the TRA until December 31, 2022 (the “TRA Termination Right”) in exchange for a termination consideration of \$58.0 million payable in cash (the “TRA Termination Consideration”). The Company exercised its TRA Termination Right, and the TRA was terminated on December 6, 2022.

As of the TRA Amendment date, we concluded it was probable that the expected payments related to the payable pursuant to the TRA had changed. As a result of this change, the Company remeasured the payable pursuant to the TRA to \$58.0 million. We analyzed the relevant accounting guidance and considered the nature of the TRA termination and the involved parties in order to determine if the transaction should be recorded as a gain in the Consolidated Statement of Operations or as a stockholder contribution. Ultimately, we determined that, despite the involvement of the Founder, the transaction was performed at arm's length, both parties received the same payment based upon ownership percentage, and therefore, the gain should be recorded in the Consolidated Statement of Operations as of the TRA Amendment date. If the transaction had been accounted for as a stockholder contribution rather than a gain in the Consolidated Statement of Operations, then for the year ended December 31, 2022 net income would have been \$110.9 million lower, EPS - basic would have decreased by \$0.96 and EPS - diluted would have decreased by \$0.70.

### ***Equity-Based Compensation***

#### ***2021 Long-term Incentive Plan***

The Company recognizes equity-based compensation expense based on the equity award's grant date fair value. The determination of the fair value of equity awards issued to employees of the Company is based upon the closing market price of the Company's common stock on the day prior to the grant date. Equity-based compensation expense related to performance stock units is recognized if it is probable that the performance conditions will be satisfied. The Company accounts for forfeitures as they occur. The grant date fair value of each unit is amortized on a straight-line basis over the requisite service period, including those units with

graded vesting. However, the amount of equity-based compensation at any date is at least equal to the portion of the grant date fair value of the award that is vested.

### **Income Taxes**

We record valuation allowances against our deferred tax assets when it is more likely than not that all or a portion of a deferred tax asset will not be realized. In making such determination, we consider all available evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and results of operations. We routinely evaluate the realizability of our deferred tax assets by assessing the likelihood that our deferred tax assets will be recovered based on all available positive and negative evidence. Estimating future taxable income is inherently uncertain and requires judgment. In projecting future taxable income, we consider our historical results and incorporate certain assumptions, including revenue growth and operating margins, among others. As of December 31, 2022, we had \$291.6 million of deferred tax assets, and no valuation allowance. We expect to realize future tax benefits related to the utilization of these assets. If we determine in the future that we will not be able to fully utilize all or part of these deferred tax assets, we would record a valuation allowance through earnings in the period the determination was made, which would have an adverse effect on our results of operations and earnings in future periods.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in steel, aluminum and copper prices and customer concentrations. We do not hold or issue financial instruments for trading purposes.

#### **Concentrations of Major Customers**

Our customers include EPCs, utilities, solar developers, and solar module manufacturers, but we derive the majority of our revenue from the sale of products to EPCs. Our EPC customers typically construct multiple projects for several different owners. For the year ended December 31, 2022, our largest customer and five largest customers constituted approximately 8.4% and 35.8% of total revenue, respectively. The loss of any one of our top five customers could have a material adverse effect on our financial conditions and results of operations. Further, our trade accounts receivable are from companies within the solar industry and, as such, we are exposed to normal industry credit risks. As of December 31, 2022, our largest customer and five largest customers constituted 3.4% and 24.1% of trade accounts receivable, respectively. We do not require collateral on our customers' trade receivables. We continually evaluate our reserves for potential credit losses and establish reserves for such losses.

#### **Commodity Price Risk**

We are subject to risk from fluctuating market prices of certain commodity raw materials, including copper, that are used in our products. Prices of these raw materials may be affected by supply restrictions, inflation or other market factors from time to time, and we do not enter into hedging arrangements to mitigate commodity risk. Significant price increases for these raw materials could reduce our operating margins if we are unable to recover such increases from our customers, in the form of increased prices, which could harm our business, financial condition and results of operations.

#### **Interest Rate Risk**

As of December 31, 2022, our long-term debt totaled \$243.3 million. We have interest rate exposure with respect to the \$243.3 million balance as it is all variable interest rate debt. A 100 basis point increase in interest rates would impact our expected annual interest expense for the next 12 months by approximately \$2.4 million.

## **Item 8. Financial Statements and Supplementary Data**

The financial statements required by this item are included in this Annual Report on Form 10-K beginning on page F-1.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. Controls and Procedures**

### **Management's Evaluation of Disclosure Controls and Procedures**

We maintain "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2022. Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2022, our disclosure controls and procedures were effective at the reasonable assurance level.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term as defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the U.S.

As of December 31, 2022, our management assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013 Framework). Based on this assessment, our management concluded that, as of December 31, 2022, our internal control over financial reporting was effective based on those criteria.

### **Attestation Report of the Registered Public Accounting Firm**

BDO USA, LLP, the independent registered public accounting firm that audited our financial statements included elsewhere in this Form 10-K, has issued an attestation report on our internal control over financial reporting. That report appears in "Item 8. Financial Statements and Supplementary Data" and is incorporated by reference to this Item 9A.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during the fourth quarter of 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

Not applicable.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required to be disclosed by this item is incorporated by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report.

**Item 11. Executive Compensation**

The information required to be disclosed by this item is incorporated by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required to be disclosed by this item is incorporated by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required to be disclosed by this item is incorporated by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report.

**Item 14. Principal Accountant Fees and Services**

The information required to be disclosed by this item is incorporated by reference to the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report.

## PART IV

### Item 15. Exhibit and Financial Statement Schedules

(a)(1) Financial Statements.

The financial statements and supplementary data required by this item are included after the Signature page of this Annual Report on Form 10-K beginning on page F-1.

(a)(2) Financial Statement Schedules.

All schedules have been omitted because they are not required or because the required information is given in the Financial Statements or Notes thereto.

(a)(3) Exhibits.

The exhibits listed in the Exhibit Index below are filed or incorporated by reference as part of this Annual Report.

#### EXHIBIT INDEX

Number	Description of Document	Incorporated by Reference		
		Form	Filing Date	Exhibit No.
3.1	Amended and Restated Certificate of Incorporation of Shoals Technologies Group, Inc., dated January 28, 2021	8-K	1/29/2021	3.1
3.2	Amended and Restated Bylaws of Shoals Technologies Group, Inc., dated January 28, 2021	8-K	1/29/2021	3.2
4.1	Description of Registered Securities	10-K	3/11/2022	4.1
10.1†	Employment Agreement, effective as of October 3, 2022, by and between Dominic Bardos and Shoals Technologies Group, LLC	10-Q	11/14/2022	10.1
10.2	Tax Receivable Agreement, dated as of January 29, 2021 by and among Shoals Technologies Group, Inc., Shoals Parent LLC and the other parties	8-K	1/29/2021	10.1
10.3	Tax Receivable Agreement Amendment, dated as of November 29, 2022, by and among Shoals Technologies Group, Inc. and the other parties thereto	8-K	11/30/2022	10.1
10.4	Third Amended and Restated Limited Liability Company Agreement, dated as of January 29, 2021, by and among Shoals Parent LLC, Dean Solon and Shoals Management	8-K	1/29/2021	10.3
10.5	Amendment No. 1 to the Third Amended and Restated Limited Liability Company Agreement of Shoals Parent LLC, dated December 6, 2022	8-K	12/6/2022	10.1
10.6	Registration Rights Agreement, dated January 29, 2021 by and among Shoals Technologies Group, Inc. and certain holders identified therein	8-K	1/29/2021	4.1
10.7†	Shoals Technologies Group, Inc. 2021 Long-Term Incentive Plan	S-8	1/29/2021	10.1

## EXHIBIT INDEX

Number	Description of Document	Incorporated by Reference		
		Form	Filing Date	Exhibit No.
10.8†	Form of RSU Grant Notice and Award Agreement (Employees)	S-8	1/29/2021	10.2
10.9†	Form of RSU Grant Notice and Award Agreement (Directors)	S-8	1/29/2021	10.3
10.10†	Form of Director and Officer Indemnification Agreement	S-1/A	1/25/2021	10.5
10.11	Stockholders' Agreement, dated as of January 29, 2021 by and among Shoals Technologies Group, Inc., Oaktree Power Opportunities Fund IV (Delaware) Holdings, LP, Solon Holdco I, GP, Solon Holdco II, GP, Dean Solon and Shoals Management Holdings LLC	8-K	1/29/2021	10.2
10.12†	Employment Agreement, effective as of December 18, 2020, by and between Dean Solon and Shoals Technologies Group, LLC	S-1/A	1/25/2021	10.8
10.13†	Employment Agreement, effective as of December 18, 2020, by and between Jason Whitaker and Shoals Technologies Group, LLC	S-1/A	1/25/2021	10.9
10.14†	Employment Agreement, effective as of December 18, 2020, by and between Philip Garton and Shoals Technologies Group, LLC	S-1/A	1/25/2021	10.10
10.15†	Employment Agreement, effective as of December 31, 2020, by and between Mehgan Peetz and Shoals Technologies Group, LLC	S-1/A	1/25/2021	10.11
10.16	Amendment No. 2, dated as of December 30, 2020, to the Credit Agreement, dated as of November 25, 2020, by and among Shoals Holdings LLC, Shoals Intermediate Holdings LLC, Wilmington Trust, National Association, as administrative agent and collateral agent, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A. and Guggenheim Securities, LLC, as lead arrangers and bookrunners	S-1/A	1/25/2021	10.1
10.17	Amendment No. 3 to Credit Agreement, dated as of November 10, 2022, between Shoals Holdings LLC, Shoals Intermediate Holdings LLC, Wilmington Trust, National Association, as Term Loan Administrative Agent and Collateral Agent, JPMorgan Chase Bank, N.A.	10-Q	11/10/2021	10.1
10.18	Amendment No. 5 to Credit Agreement, dated as of May 2, 2022, between Shoals Holdings LLC, Shoals Intermediate Holdings LLC, Wilmington Trust, National Association, as Term Loan Administrative Agent and Collateral Agent, JPMorgan Chase Bank, N.A., as Revolving Facility Administrative Agent and each L/C Issuer and lender	8-K	5/5/2022	10.1
10.19†	Engagement Letter, dated as of April 7, 2022, between Shoals Technologies Group, Inc. and Ham, Langston & Brezina, L.L.P.	8-K	4/8/2022	10.1
21.1*	Subsidiaries of the Registrant			
23.1*	Consent of BDO USA, LLP, as to Shoals Technologies Group, Inc.			

## EXHIBIT INDEX

Number	Description of Document	Incorporated by Reference		
		Form	Filing Date	Exhibit No.
31.1*	Certification of the Chief Executive Officer, as required by Section 302 of the Sarbanes- Oxley Act of 2002 (18 U.S.C. 1350)			
31.2*	Certification of the Chief Financial Officer, as required by Section 302 of the Sarbanes- Oxley Act of 2002 (18 U.S.C. 1350)			
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002			
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document			
101.SCH*	XBRL Taxonomy Extension Schema Document			
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document			
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document			

\* Filed herewith

† Indicates a management contract or compensatory plan.

### Item 16. Form 10-K Summary

None



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on February 28, 2023.

### Shoals Technologies Group, Inc.

By: /s/ Jason Whitaker  
Name: Jason Whitaker  
Title: Chief Executive Officer

\* \* \* \*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jason Whitaker</u> Jason Whitaker	Chief Executive Officer and Member of the Board of Directors (Principal Executive Officer)	February 28, 2023
<u>/s/ Dominic Bardos</u> Dominic Bardos	Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2023
<u>/s/ Brad Forth</u> Brad Forth	Chair of the Board of Directors	February 28, 2023
<u>/s/ Ty Daul</u> Ty Daul	Member of the Board of Directors	February 28, 2023
<u>/s/ Lori Sundberg</u> Lori Sundberg	Member of the Board of Directors	February 28, 2023
<u>/s/ Toni Volpe</u> Toni Volpe	Member of the Board of Directors	February 28, 2023
<u>/s/ Peter Wilver</u> Peter Wilver	Member of the Board of Directors	February 28, 2023
<u>/s/ Jeannette Mills</u> Jeannette Mills	Member of the Board of Directors	February 28, 2023
<u>/s/ Robert Julian</u> Robert Julian	Member of the Board of Directors	February 28, 2023

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## INDEX TO FINANCIAL STATEMENTS

### Shoals Technologies Group, Inc.

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## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors  
Shoals Technologies Group, Inc.  
Portland, Tennessee

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Shoals Technologies Group, Inc. and Subsidiaries (the “Company”) as of December 31, 2022 and 2021, the related consolidated statements of operations, changes in members’/stockholders’ equity (deficit), and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 28, 2023 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication

of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Termination of the Tax Receivable Agreement*

As described in Note 17 to the consolidated financial statements, the Company entered into an amendment to the Tax Receivable Agreement (“TRA”, collectively the “TRA Amendment”) on November 29, 2022, pursuant to which the parties thereto agreed to grant the Company a right to terminate the TRA in exchange for a termination consideration of \$58.0 million, payable in cash (the “TRA Termination”). The Company reassessed the liability related to the payable pursuant to the TRA at the TRA Amendment date and concluded it was probable that the expected payments related to the payable pursuant to the TRA had changed. As a result of this change, the Company remeasured the payable pursuant to the TRA to \$58.0 million on the TRA Amendment date, resulting in a gain on the termination of the TRA of \$110.9 million. As part of the evaluation to determine if the gain should be recognized as income in the consolidated statement of operations or a stockholder contribution the Company concluded the termination of the TRA was negotiated in an arm’s length transaction with the majority owner of the TRA, a third party, and both the third party and the related party received the same value based upon ownership percentage, and therefore, the gain should be recorded in the consolidated statement of operations.

We identified the accounting for the TRA Termination as a critical audit matter. The principal considerations for our determination were the significant judgment required in the evaluation of the contract terms pursuant to the TRA to determine the appropriate accounting treatment. Auditing these elements involved especially complex auditor judgment due to the nature and extent of audit effort required to address these matters, including the need to involve personnel with specialized skill and knowledge.

The primary procedures we performed to address this critical audit matter included:

- Inspecting related TRA agreements and amendments, and minutes of the Board of Directors, and vouching the TRA termination payment to the underlying bank statement.
- Utilizing personnel with specialized knowledge and experience in technical accounting to assist in (i) evaluating management’s interpretation of relevant terms and conditions of the agreements, and (ii) evaluating management’s application of authoritative accounting guidance.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2017.

Austin, Texas

February 28, 2023

## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors  
Shoals Technologies Group, Inc.  
Portland, Tennessee

### **Opinion on Internal Control over Financial Reporting**

We have audited Shoals Technologies Group, Inc. and Subsidiaries (the “Company’s”) internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO criteria”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of operations, changes in members’/stockholders’ equity (deficit), and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the “consolidated financial statements”) and our report dated February 28, 2023 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Item 9A, Management’s Report on Internal Control over Financial Reporting”. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and

directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Austin, Texas

February 28, 2023

**Shoals Technologies Group, Inc.**  
**Consolidated Balance Sheets**  
*(in thousands, except shares and par value)*

	December 31,	
	2022	2021
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 8,766	\$ 5,006
Accounts receivable, net	50,575	31,499
Unbilled receivables	16,713	13,533
Inventory, net	72,854	38,368
Other current assets	4,632	5,042
Total Current Assets	153,540	93,448
Property, plant and equipment, net	16,870	15,574
Goodwill	69,941	69,436
Other intangible assets, net	56,585	65,236
Deferred tax assets	291,634	176,958
Other assets	6,325	5,762
<b>Total Assets</b>	<b>\$ 594,895</b>	<b>\$ 426,414</b>
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
Current Liabilities		
Accounts payable	\$ 9,481	\$ 19,985
Accrued expenses and other	17,882	7,728
Deferred revenue	23,259	1,841
Long-term debt—current portion	2,000	2,000
Total Current Liabilities	52,622	31,554
Revolving line of credit	48,000	55,140
Long-term debt, less current portion	189,063	189,913
Payable pursuant to the tax receivable agreement	—	156,374
Other long-term liabilities	4,221	931
Total Liabilities	293,906	433,912
Commitments and Contingencies (Note 15)		
Stockholders' Equity (Deficit)		
Preferred stock, \$0.00001 par value - 5,000,000 shares authorized; none issued and outstanding as of December 31, 2022 and 2021	—	—
Class A common stock, \$0.00001 par value - 1,000,000,000 shares authorized; 137,904,663 and 112,049,981 shares issued and outstanding as of December 31, 2022 and 2021, respectively	1	1
Class B common stock, \$0.00001 par value - 195,000,000 shares authorized; 31,419,913 and 54,794,479 shares issued and outstanding as of December 31, 2022 and 2021, respectively	1	1
Additional paid-in capital	256,894	95,684
Accumulated earnings (deficit)	34,478	(93,133)
Total stockholders' equity attributable to Shoals Technologies Group, Inc.	291,374	2,553
Non-controlling interests	9,615	(10,051)
Total stockholders' equity (deficit)	300,989	(7,498)
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>	<b>\$ 594,895</b>	<b>\$ 426,414</b>

*See accompanying notes to consolidated financial statements.*



**Shoals Technologies Group, Inc.**  
**Consolidated Statements of Operations**  
*(in thousands, except per share amounts)*

	Year Ended December 31,		
	2022	2021	2020
<b>Revenue</b>	\$ 326,940	\$ 213,212	\$ 175,518
<b>Cost of revenue</b>	195,629	130,567	108,972
<b>Gross profit</b>	131,311	82,645	66,546
<b>Operating expenses</b>			
General and administrative expenses	55,908	37,893	21,008
Depreciation and amortization	9,073	8,520	8,262
<b>Total operating expenses</b>	64,981	46,413	29,270
<b>Income from operations</b>	66,330	36,232	37,276
Interest expense, net	(18,538)	(14,549)	(3,510)
Payable pursuant to the tax receivable agreement adjustment	(6,675)	(1,663)	—
Gain on termination of tax receivable agreement	110,883	—	—
Loss on debt repayment	—	(15,990)	—
<b>Income before income taxes</b>	152,000	4,030	33,766
Income tax expense	(8,987)	(86)	—
<b>Net income</b>	143,013	3,944	33,766
Less: net income attributable to non-controlling interests	15,402	1,596	—
<b>Net income attributable to Shoals Technologies Group, Inc.</b>	<u>\$ 127,611</u>	<u>\$ 2,348</u>	<u>\$ 33,766</u>

	Year Ended December 31, 2022	Period from January 27, 2021 to December 31, 2021
	<b>Earnings (loss) per share of Class A common stock:</b>	
Basic	\$ 1.11	\$ (0.00)
Diluted	\$ 0.85	\$ (0.00)
<b>Weighted average shares of Class A common stock outstanding:</b>		
Basic	114,495	99,269
Diluted	167,631	99,269

*See accompanying notes to consolidated financial statements.*

**Shoals Technologies Group, Inc.**  
**Consolidated Statements of Changes in Members' / Stockholders' Equity (Deficit)**  
*(in thousands, except shares)*

	Members' Equity (Deficit)		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Non-Controlling Interests	Total Members' / Stockholders' Equity (Deficit)
	Members' Equity (Deficit)	Amount	Class A Common Stock		Class B Common Stock					
			Shares	Amount	Shares	Amount				
<b>Balance at December 31, 2019</b>	\$ 149,906	—	\$ —	—	\$ —	—	\$ —	—	\$ —	149,906
Member distributions	(376,046)	—	—	—	—	—	—	—	—	(376,046)
Equity-based compensation	8,251	—	—	—	—	—	—	—	—	8,251
Net income	33,766	—	—	—	—	—	—	—	—	33,766
<b>Balance at December 31, 2020</b>	(184,123)	—	—	—	—	—	—	—	—	(184,123)
Net income prior to the Organizational Transactions	2,675	—	—	—	—	—	—	—	—	2,675
Effect of Organizational Transactions	181,448	81,977,751	1	78,300,817	1	—	(92,806)	(88,644)	—	—
Issuance of Class A common stock sold in IPO, net of underwriting discounts and commissions and offering costs	—	11,550,000	—	(5,234,210)	—	—	69,939	70,976	140,915	140,915
<b>Activity subsequent to the Organizational Transactions:</b>										
Deferred tax adjustments related to Tax Receivable Agreements	—	—	—	—	—	—	20,997	—	—	20,997
Issuance of Class A common stock sold in follow-on offering, net of underwriting discounts and commissions	—	10,402,086	—	—	—	—	281,064	—	—	281,064
Purchase of LLC Interests and Class B common stock	—	—	—	(10,402,086)	—	—	(281,064)	—	—	(281,064)
Exchange of Class B to Class A common stock	—	7,870,042	—	(7,870,042)	—	—	—	—	—	—
Deferred tax adjustment related to ConnectPV LLC conversion	—	—	—	—	—	—	(238)	—	—	(238)
Issuance of Class A common stock in connection with an acquisition	—	209,437	—	—	—	—	6,500	—	—	6,500

**Shoals Technologies Group, Inc.**  
**Consolidated Statements of Changes in Members' / Stockholders' Equity (Deficit) (continued)**  
*(in thousands, except shares)*

	Members' Equity (Deficit)		Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Non-Controlling Interests	Total Members' / Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
Net income	—	—	—	—	—	—	—	(327)	1,596	1,269
Equity-based compensation	—	—	—	—	—	—	9,481	—	—	9,481
Activity under stock compensation plan	—	—	—	—	—	—	(3,755)	—	3,618	(137)
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(4,837)	(4,837)
Vesting of restricted stock units	—	40,665	—	—	—	—	—	—	—	—
Reallocation of non-controlling interests	—	—	—	—	—	—	(7,240)	—	7,240	—
<b>Balance at December 31, 2021</b>	—	112,049,981	1	54,794,479	1	95,684	(93,133)	(10,051)	(7,498)	(7,498)
Net income	—	—	—	—	—	—	127,611	15,402	—	143,013
Equity-based compensation	—	—	—	—	—	17,913	—	—	—	17,913
Activity under equity-based compensation plan	—	—	—	—	—	(6,719)	—	—	5,422	(1,297)
Distributions to non-controlling interests	—	—	—	—	—	—	—	(7,762)	—	(7,762)
Vesting of restricted stock units	—	480,116	—	—	—	—	—	—	—	—
Exchange of Class B to Class A common stock	—	23,374,566	—	(23,374,566)	—	115,396	—	—	—	115,396
Issuance of Class A common stock sold in follow-on offering, net of underwriting discounts and commissions and offering costs	—	2,000,000	—	—	—	41,224	—	—	—	41,224
Reallocation of non-controlling interests	—	—	—	—	—	(6,604)	—	6,604	—	—
<b>Balance at December 31, 2022</b>	\$ —	\$ 137,904,663	\$ 1	\$ 31,419,913	\$ 1	\$ 256,894	\$ 34,478	\$ 9,615	\$ 41,224	\$ 300,989

See accompanying notes to consolidated financial statements.

**Shoals Technologies Group, Inc.**  
**Consolidated Statements of Cash Flows**  
*(in thousands)*

	Year Ended December 31,		
	2022	2021	2020
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 143,013	\$ 3,944	\$ 33,766
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,509	10,053	9,405
Amortization/write off of deferred financing costs	1,365	5,969	351
Equity-based compensation	16,108	11,286	8,251
Provision for credit losses	200	—	—
Provision for obsolete or slow-moving inventory	2,073	(1,418)	188
Deferred taxes	8,406	(1,476)	—
Payable pursuant to the tax receivable agreement adjustment	6,675	1,663	—
Gain on termination of tax receivable agreement	(110,883)	—	—
Gain on sale of assets	—	52	—
Changes in assets and liabilities, net of business acquisition:			
Accounts receivable	(19,207)	818	288
Unbilled receivables	(3,180)	(9,739)	(1,289)
Inventory	(36,927)	(17,188)	(6,475)
Other assets	244	341	643
Accounts payable	(11,029)	(3,877)	4,251
Accrued expenses and other	10,670	(6,179)	4,949
Deferred revenue	21,418	1,668	(246)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>39,455</b>	<b>(4,083)</b>	<b>54,082</b>
<b>Cash Flows Used In Investing Activities</b>			
Purchases of property, plant and equipment	(3,154)	(4,126)	(3,236)
Acquisition of a business, net of cash acquired	—	(12,909)	—
Other	(503)	—	—
<b>Net Cash Used in Investing Activities</b>	<b>(3,657)</b>	<b>(17,035)</b>	<b>(3,236)</b>
<b>Cash Flows from Financing Activities</b>			
Distributions to non-controlling interests	(7,762)	(4,837)	(376,046)
Employee withholding taxes related to net settled equity awards	(1,297)	(137)	—
Deferred financing costs	—	(94)	(11,821)
Proceeds from term loan facility	—	—	350,000
Payments on term loan facility	(2,000)	(152,750)	—
Proceeds from revolving credit facility	46,000	49,140	20,000
Repayments of revolving credit facility	(53,140)	(14,000)	—
Proceeds from issuance of Class A common stock sold in an IPO, net of underwriting discounts and commissions	—	278,833	—
Purchase of LLC Interests with proceeds from IPO	—	(124,312)	—
Proceeds from issuance of Class A common stock in follow-on offering, net of underwriting discounts and commissions	42,943	281,064	—
Purchase of LLC Interests with proceeds from follow-on offering	—	(281,064)	—

**Shoals Technologies Group, Inc.**  
**Consolidated Statements of Cash Flows** *(continued)*  
*(in thousands)*

	Year Ended December 31,		
	2022	2021	2020
Payment of debt assumed in acquisition	—	(1,537)	—
Deferred offering costs	(1,463)	(9,704)	(3,738)
Payments on senior debt - term loan	—	—	(26,250)
Proceeds from delayed draw term loan facility	—	—	20,000
Payments on delayed draw term loan facility	—	—	(20,000)
Early termination payment of tax receivable agreement	(58,000)	—	—
Payment of fees for tax receivable agreement termination	(1,870)	—	—
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(36,589)</b>	<b>20,602</b>	<b>(47,855)</b>
<b>Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash</b>	<b>(791)</b>	<b>(516)</b>	<b>2,991</b>
<b>Cash, Cash Equivalents and Restricted Cash—Beginning of Period</b>	<b>9,557</b>	<b>10,073</b>	<b>7,082</b>
<b>Cash, Cash Equivalents and Restricted Cash—End of Period</b>	<b>\$ 8,766</b>	<b>\$ 9,557</b>	<b>\$ 10,073</b>

	Year Ended December 31,		
	2022	2021	2020
<b>Supplemental Cash Flows Information:</b>			
Cash paid for interest	\$ 12,840	\$ 10,809	\$ 3,033
Cash paid for taxes	\$ 786	\$ 1,190	\$ —
Non-cash investing and financing activities:			
Reclassification of deferred offering costs to additional paid-in capital	\$ —	\$ 3,902	\$ —
Recording of deferred tax assets related to exchanges of Class B common stock to Class A common stock	\$ 123,157	\$ 187,915	\$ —
Recording of amounts payable pursuant to tax receivable agreement	\$ 7,761	\$ 154,711	\$ —
Capital contribution related to tax receivable agreement exchanges of Class B common stock to Class A common stock	\$ 115,396	\$ 27,011	\$ —
Income tax receivable from merger due to former owner	\$ —	\$ 3,842	\$ —
Deferred tax asset and additional paid-in capital from ConnectPV	\$ —	\$ 238	\$ —
Class A common stock issued in ConnectPV acquisition	\$ —	\$ 6,500	\$ —

*See accompanying notes to consolidated financial statements.*

**Shoals Technologies Group, Inc.**  
**Notes to Consolidated Financial Statements**

**1. Organization and Business**

Shoals Technologies Group, Inc. (the “Company”) was formed as a Delaware corporation on November 4, 2020 for the purpose of facilitating an initial public offering (“IPO”) and other related organizational transactions to carry on the business of Shoals Parent LLC and its subsidiaries (“Shoals Parent”).

Shoals Parent is a Delaware limited liability company formed on May 9, 2017. The Company is headquartered in Portland, Tennessee and is a manufacturer of electrical balance of systems (“EBOS”) solutions and components for solar, battery storage and electric vehicle charging applications, selling to customers across the United States and internationally. Shoals Parent, through its wholly-owned subsidiaries, Shoals Intermediate Holdings LLC (“Intermediate”) and Shoals Holdings LLC (“Holdings”) owns four other subsidiaries through which it conducts substantially all operations: Shoals Technologies, LLC, Shoals Technologies Group, LLC, Solon, LLC, (collectively “Shoals”) and Shoals Connect LLC. Shoals Parent acquired Shoals on May 25, 2017.

On August 26, 2021, the Company acquired 100% of the stock of ConnectPV, Inc. (“ConnectPV”) with cash and Class A common stock. The acquisition was accounted for as a business combination and following the acquisition, the Company immediately converted ConnectPV to a limited liability company (Shoals Connect LLC) and contributed the entity to Shoals Parent, LLC through a series of transactions – see Note 3 - Acquisition of ConnectPV.

**Initial Public Offering**

On January 29, 2021, the Company completed an IPO of 11,550,000 shares of Class A common stock at a public offering price of \$25.00 per share, including shares issued pursuant to the underwriters’ over-allotment option. The Company received \$278.8 million in proceeds, net of underwriting discounts and commissions of \$9.9 million, which was used to purchase 6,315,790 newly-issued membership interests (“LLC Interests”) from Shoals Parent and 5,234,210 LLC Interests from the founder and Class B unit holder in Shoals Parent at a price per interest equal to the IPO price of \$25.00 per share.

**Organizational Transactions**

In connection with the IPO, the Company and Shoals Parent completed a series of transactions (the “Organizational Transactions”) including the following:

- the limited liability company agreement (the “LLC Agreement”) of Shoals Parent was amended and restated to, among other things, (i) provide for a new single class of LLC Interests in Shoals Parent, (ii) exchange all of the then existing membership interests of the holders of Shoals Parent membership interests for LLC Interests and (iii) appoint the Company as the sole managing member of Shoals Parent;
- the Company’s certificate of incorporation was amended and restated to, among other things, (i) provide for Class A common stock with voting and economic rights (ii) provide for Class B common stock with voting rights but no economic rights and (iii) issue 78,300,817 shares of Class B common stock to the former Class B and Class C members of Shoals Parent (the “Continuing Equity Owners”) on a one-to-one basis with the number of LLC Interests they own; and
- the acquisition, by merger, of Shoals Investment CTB or the former Class A member of Shoals Parent (the “Class A Shoals Equity Owners”), for which the Company issued 81,977,751 shares Class A common stock as merger consideration (the “Merger”).

**Follow-On Offerings**

**Shoals Technologies Group, Inc.**  
**Notes to Consolidated Financial Statements**

On July 16, 2021, the Company completed a follow-on offering consisting of 4,989,692 shares of Class A common stock offered by selling stockholders and 10,402,086 shares of Class A common stock offered by the Company. The Company used the proceeds of the sale of Class A common stock to purchase an equal number of LLC Interests and Class B common stock from our founder and management.

On December 6, 2022, the Company completed a follow-on offering consisting of 27,900,000 shares of Class A common stock offered by the selling stockholders and 2,000,000 shares of Class A common stock offered by the Company. The Company used the proceeds of the sale of Class A common stock together with cash on hand, to make a payment of \$58.0 million to terminate the Tax Receivable Agreement (“TRA”). See Note 17 – Payable Pursuant to the Tax Receivable Agreement.

## **2. Summary of Significant Accounting Policies**

### **Basis of Accounting and Presentation**

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

### **Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation.

### **Non-controlling Interests**

The non-controlling interests on the consolidated statement of operations represents the portion of earnings or loss attributable to the economic interests in the Company’s subsidiary, Shoals Parent, held by the Continuing Equity Owners. Non-controlling interests on the consolidated balance sheet represents the portion of net assets of the Company attributable to the Continuing Equity Owners, based on the portion of the LLC Interests owned by such unit holders. As of December 31, 2022, the non-controlling interests were 18.56%.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include revenue recognition, allowance for credit losses, useful lives of property, plant and equipment and other intangible assets, impairment of long-lived assets, allowance for obsolete or slow moving inventory, payable pursuant to the TRA, valuation allowance on deferred tax assets and equity-based compensation expense.

### **Impact of Macroeconomic Events**

In 2022, macroeconomic events, including the ongoing COVID-19 pandemic, impacted our business in the following ways:

- Our ability to obtain raw materials from domestic and international suppliers required to manufacture our components; and

**Shoals Technologies Group, Inc.**  
**Notes to Consolidated Financial Statements**

- Our ability to secure inbound logistics to our facilities, with additional delays linked to international border crossings.

Significant levels of inflation have increased energy prices, freight premiums, and other operating costs. As a result of inflation, during 2022, the Federal Reserve increased interest rates resulting in higher interest rates associated with our Senior Secured Credit Agreement, as defined below. Any additional increases in interest rates by the Federal Reserve would have a corresponding increase in the interest rates charged under our Senior Secured Credit Agreement. The eventual implications of higher government deficits and debt, tighter monetary policy, and potentially higher long-term interest rates may drive a higher cost of capital during 2023.

The Company does not directly source raw materials from Europe. However, the ongoing conflict in Ukraine has reduced the availability of certain material that can be sourced in Europe and, as a result, increased global costs for the procurement of some inputs and materials used in our products. We do not know the ultimate severity or duration of the conflict in Ukraine, but we are continuously monitoring the situation and evaluating our procurement strategy and supply chain as to reduce any negative impact on our business, financial condition, and results of operations.

As response to supply chain constraints, in 2022 we increased certain raw materials inventory, partly to limit the potential impact of supply chain issues of raw materials in the near term.

To date we have not had any material adverse effects on our financial results from these events.

### **Cash and Cash Equivalents**

The Company considers cash and cash equivalents to include cash on hand, cash held in demand deposit accounts, and all highly liquid financial instruments purchased with a maturity of three months or less.

### **Restricted Cash**

Restricted cash is included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Restricted cash is restricted as to withdrawal or use. Prior to the termination of the TRA, tax distributions paid by Shoals Parent to the Company were restricted under the LLC Agreement for future payments under the TRA and totaled \$4.6 million as of December 31, 2021.

A reconciliation of cash, cash equivalents and restricted cash to the consolidated statement of cash flows is as follows (in thousands):

	As of December 31,		
	2022	2021	2020
Cash and cash equivalents	\$ 8,766	\$ 5,006	\$ 10,073
Restricted cash included in other current asset	—	—	—
Restricted cash included in other assets	—	4,551	—
Total cash, cash equivalents and restricted cash	\$ 8,766	\$ 9,557	\$ 10,073

### **Accounts Receivable and Allowance for Credit Losses**

Accounts receivable is comprised of amounts billed to customers, net of an allowance for credit losses. Interest is not charged on receivables. The allowance for credit losses is estimated by management and is based on historical experience, current conditions and reasonable forecasts. Periodically, management reviews the accounts receivable balances of its customers and adjusts the allowance based on current circumstances



**Shoals Technologies Group, Inc.**  
**Notes to Consolidated Financial Statements**

and charges off uncollectible receivables when all attempts to collect have failed, although collection efforts may continue.

**Unbilled Receivables**

Unbilled receivables arise when the Company recognizes revenue for amounts which cannot yet be billed under terms of the contract with the customer.

**Inventory**

Inventories consist of raw materials. Inventories are stated at the lower of cost or net realizable value. Cost is calculated using the first-in first-out method. Provisions are made to reduce excess or obsolete inventories to their estimated net realizable values.

**Property, Plant, and Equipment**

Property, plant, and equipment acquired in the acquisition of Shoals and ConnectPV are recorded at fair value at the date of acquisition; all other property, plant and equipment are recorded at cost, net of accumulated depreciation. Improvements, betterments and replacements which significantly extend the life of an asset are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Repair and maintenance costs are expensed as incurred.

A gain or loss on the sale of property, plant and equipment is calculated as the difference between the cost of the asset disposed of, net of accumulated depreciation, and the sales proceeds received. A gain or loss on an asset disposal is recognized in the period that the sale occurs.

**Impairment of Long-Lived Assets**

When events, circumstances or operating results indicate that the carrying values of long-lived assets might not be recoverable through future operations, the Company prepares projections of the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the projections indicate that the recorded amounts are not expected to be recoverable, such amounts are reduced to estimated fair value. Fair value is estimated based upon internal evaluation of each asset that includes quantitative analyses of net revenue and cash flows, review of recent sales of similar assets and market responses based upon discussions in connection with offers received from potential buyers. Management determined there was no impairment for the years ended December 31, 2022, 2021 and 2020.

**Goodwill**

Goodwill is assessed using either a qualitative assessment or quantitative approach to determine whether it is more likely than not that the fair value of the reporting unit is less than the carrying amount. The qualitative assessment evaluates factors including macroeconomic conditions, industry-specific and company-specific considerations, legal and regulatory environments, and historical performance. If the Company determines that is more likely than not that the fair value of a reporting unit is less than its carrying value, a quantitative assessment is performed. Otherwise, no further assessment is required. The quantitative approach compares the estimate fair value of the reporting units to its carrying amount, including goodwill. Impairment is indicated if the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, and an impairment charge is recognized for the differential.

The Company completes its annual goodwill impairment test as of October 1 each year. For the years ended December 31, 2022, 2021 and 2020, the Company performed a qualitative assessment of its goodwill and determined no impairment. Since the Company's formation on May 9, 2017, the Company has not had any goodwill impairment.

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**Amortizable and Other Intangible Assets**

The Company amortizes identifiable intangible assets consisting of customer relationships, developed technology, trade names, backlog and noncompete agreements because these assets have finite lives. The Company's intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives. The basis of amortization approximates the pattern in which the assets are utilized over their estimated useful lives. The Company reviews for impairment indicators of finite-lived intangibles, as described in the "Impairment of Long-Lived Assets" significant accounting policy.

**Deferred Offering Costs**

Deferred offering costs consist primarily of registration fees, filing fees, listing fees, specific legal and accounting costs and transfer agent fees, which are direct and incremental fees related to the IPO and follow-on offerings.

**Deferred Financing Costs**

Costs incurred to issue debt are capitalized and recorded net of the related debt and amortized using the effective interest method as a component of interest expense over the terms of the related debt agreement.

**Revenue Recognition**

The Company recognizes revenue primarily from the sale of EBOS systems and components. The Company determines its revenue recognition through the following steps: (i) identification of the contract or contracts with a customer, (ii) identification of the performance obligations within the contract, (iii) determination of the transaction price, (iv) allocation of the transaction price to the performance obligations within the contract, and (v) recognition of revenue as the performance obligation has been satisfied.

The Company's contracts with customers predominately are accounted for as one performance obligation, as the majority of the obligations under the contracts relate to a single project. For each contract entered into, the Company determines the transaction price based on the consideration expected to be received. The transaction price identified is allocated to each distinct performance obligation to deliver a good or service based on the relative standalone selling prices. Management has concluded that the prices negotiated with each individual customer are representative of the standalone selling price of the product.

The Company primarily recognizes revenue over time as a result of the continuous transfer of control of its product to the customer using the output method based on units manufactured. This continuous transfer of control to the customer is supported by clauses in the contracts that provide rights to payment of the transaction price associated with work performed to date on products that do not have an alternative use to the Company. Management believes that recognizing revenue using the output method based on units manufactured best depicts the extent of transfer of control to the customer.

In certain instances the promised goods do have an alternative use. In these instances revenue is recognized when the customer obtains control of the product. Contracts of this nature typically include customer acceptance clauses, which results in revenue recognition occurring upon customer acceptance.

The manufacturing process generally takes less than one week to complete production. The accounting for each contract involves a judgmental process of estimating total sales, costs, and profit for each performance obligation. Cost of revenue is recognized based on the unit of production. The amount reported as revenue is determined by adding a proportionate amount of the estimated profit to the amount reported as cost of revenue.

The Company has elected to adopt certain practical expedients and exemptions as allowed under the new revenue recognition guidance such as (i) recording sales commissions as incurred because the

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amortization period is less than one year, (ii) excluding any collected sales tax amounts from the calculation of revenue, and (iii) accounting for shipping and handling activities that are incurred after the customer has obtained control of the product as fulfillment costs rather than a separate service provided to the customer for which consideration would need to be allocated (see Shipping and Handling).

**Shipping and Handling**

The Company accounts for shipping and handling related to contracts with customers as costs to fulfill its promise to transfer the associated products. Accordingly, payment by the Company’s customers for shipping and handling costs for delivery of the Company’s products are recorded as a component of revenue in the accompanying consolidated statements of operations. Shipping and handling expenses are included as a component of cost of revenue as incurred and totaled \$7.0 million, \$5.2 million and \$4.9 million for the years ended December 31, 2022, 2021 and 2020, respectively.

**Concentrations**

The Company has cash deposited at certain financial institutions which, at times, may exceed the limits provided by the Federal Deposit Insurance Corporation (“FDIC”). The Company has not experienced any losses on such amount and believes it is not subject to significant credit risk related to cash balances. As of December 31, 2022, \$8.3 million of the Company’s bank balances were in excess of FDIC insurance limits.

The Company had the following revenue concentrations representing 10% or more of revenue for any period in the years ended December 31, 2022, 2021 and 2020 and related accounts receivable concentrations as of December 31, 2022 and 2021:

	2022		2021		2020
	Revenue %	Accounts Receivable %	Revenue %	Accounts Receivable %	Revenue %
Customer A	6.3 %	5.1 %	11.3 %	4.6 %	21.8 %
Customer B	7.0 %	8.4 %	18.3 %	15.8 %	18.4 %
Customer C	6.0 %	12.6 %	10.0 %	23.7 %	9.4 %

**Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company follows a fair value hierarchy which requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value, as follows:

- **Level 1** – Quoted prices in active markets for identical assets or liabilities.
- **Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3** – Unobservable inputs that are supported by little or no market activity that are significant to the fair value of the assets or liabilities.

The fair values of the Company’s cash and cash equivalents, accounts receivable, and accounts payable approximate their carrying values due to their short maturities. The carrying value of the Company’s

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long-term debt approximates fair value, as it is based on current market rates at which the Company could borrow funds with similar terms.

The Company follows the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820-10 for nonfinancial assets and liabilities measured at fair value on a nonrecurring basis. As it relates to the Company, this applies to certain nonfinancial assets and liabilities acquired in business combinations.

**Income Taxes**

*Pre-IPO Income Taxes*

Shoals Parent was treated as a partnership and was not subject to federal income tax; rather, Shoals Parent’s taxable income was passed through to its members and subject to federal income tax at the member level.

Shoals Parent is the sole member of the following subsidiary LLCs, which are treated as disregarded entities for federal income tax purposes: Intermediate, Holdings, and Shoals. The activities of Shoals Parent and its subsidiary LLCs are reported on the federal income tax return of Shoals Parent.

Shoals Parent and its subsidiary LLCs are generally not subject to state income tax; however, Shoals Technologies Group, LLC and Shoals Technologies, LLC pay various state and franchise taxes.

*Post-IPO Income Taxes*

The Company is taxed as a corporation for U.S. federal and state income tax purposes. The Company’s sole material asset is Shoals Parent, which is a limited liability company that is taxed as a partnership for US federal and certain state and local income tax purposes. Shoals Parent’s net taxable income and related tax credits, if any, are passed through to its members and included in the member’s tax returns.

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are calculated by applying existing tax laws and the rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the year of the enacted rate change.

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that the deferred tax assets will be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, carryback potential if permitted under the tax law, and results of recent operations.

The Company accounts for uncertainty in income taxes using a recognition and measurement threshold for tax positions taken or expected to be taken in a tax return, which are subject to examination by federal and state taxing authorities. The tax benefit from an uncertain tax position is recognized when it is more likely than not that the position will be sustained upon examination by taxing authorities based on the technical merits of the position. The amount of the tax benefit recognized is the largest amount of the benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The effective tax rate and the tax basis of assets and liabilities reflect management’s estimates of the ultimate outcome of various tax uncertainties. The Company recognizes penalties and interest related to uncertain tax positions within the income tax expense

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financial statement caption in the accompanying consolidated statements of operations. The Company did not have any material interest and penalties during the years ended December 31, 2022, 2021 and 2020.

The Company files U.S. federal and certain state income tax returns. The income tax returns of the Company are subject to examination by U.S. federal and state taxing authorities for various time periods, depending on each jurisdictions' rules, beginning generally after the income tax returns are filed.

### **Product Warranty**

The Company offers an assurance type warranty for its products against manufacturer defects and does not contain a service element. For these assurance type warranties, a provision for estimated future costs related to warranty expense is recorded when they are probable and reasonably estimable. This provision is based on historical information on the nature, frequency and average cost of claims for each product line. When little or no experience exists for an immature product line, the estimate is based on comparable product lines. Specific reserves are established once an issue is identified with the amounts for such reserves based on the estimated cost of correction. These estimates are re-evaluated on an ongoing basis using best-available information and revisions to estimates are made as necessary. As of December 31, 2022 and 2021 our estimated accrued warranty reserve was \$0.6 million and \$0.1 million, respectively.

### **Acquisition Accounting**

The Company accounts for its business acquisitions under the acquisition method of accounting in ASC 805. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives, and market multiples amongst other items.

### **Equity-Based Compensation**

The Company recognizes equity-based compensation expense based on the equity award's grant date fair value. The determination of the fair value of equity awards issued to employees of the Company is based upon the closing market price of the Company's common stock on the day prior to the grant date. Equity-based compensation expense related to performance stock units is recognized if it is probable that the performance condition will be satisfied. The Company accounts for forfeitures as they occur. The grant date fair value of each unit is amortized on a straight-line basis over the requisite service period, including those units with graded vesting. However, the amount of equity-based compensation at any date is at least equal to the portion of the grant date fair value of the award that is vested.

### **Earnings per Share ("EPS")**

Basic EPS is computed by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted EPS takes into account the potential dilution that could occur if securities or other contracts to issue shares, such as unvested restricted stock units, were exercised and converted into shares. Diluted EPS is computed by dividing net income available to common stockholders by the weighted average shares outstanding during the period, increased by the number of additional shares that would have been outstanding if the potential shares had been issued and were dilutive.

### **Segment Reporting**

ASC 280 ("Segment Reporting") establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to

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allocate resources and in assessing performance. The Company manages its business on the basis of one operating and reportable segment and derives revenues from selling its product.

**Advertising Expenses**

Advertising expenses are expensed as incurred. Advertising expenses for the years ended December 31, 2022, 2021 and 2020 were not material to our consolidated financial statements.

**Research and Development Expenses**

Research and development expenses are expensed as incurred. Research and development expenses for the years ended December 31, 2022, 2021 and 2020 were not material to our consolidated financial statements.

**New Accounting Standards**

*Adopted*

On January 1, 2022, the Company adopted Accounting Standards Update (“ASU”) No. 2016-02 (Topic 842) “Leases” which supersedes the lease recognition requirements in Accounting Standards Codification (“ASC”) Topic 840, “Leases”. Under ASU No. 2016-02, lessees are required to recognize assets and liabilities on the consolidated balance sheets for most leases and provide enhanced disclosures. For companies that are not emerging growth companies (“EGCs”), the ASU was effective for fiscal years beginning after December 15, 2018. For EGCs, the ASU is effective for fiscal years beginning after December 15, 2021. The Company adopted the new standard using the modified retrospective method by recording a right-of-use asset of \$1.2 million, short-term portion of lease liabilities of \$0.4 million and long-term portion of lease liabilities of \$0.8 million as of the effective date. Prior periods will not be restated and will continue to be reported under Topic 840 guidance in effect during those periods. The Company applied the package of practical expedients to leases that commenced before the effective date whereby the Company elected to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. The adoption did not have a material impact on its consolidated statements of operations or its consolidated statements of cash flows. See Note 14 - Leases for further information and disclosures related to the adoption of this standard.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses*, which was subsequently amended by ASU No. 2018-19 and ASU No. 2019-10, and which requires the measurement of expected credit losses for financial instruments carried at amortized cost held at the reporting date based on historical experience, current conditions and reasonable forecasts. The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security’s amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The standard was adopted on December 31, 2022 as the Company lost its status as an Emerging Growth Company effective December 31, 2022 and therefore was required to adopt the standard for the year ending December 31, 2022. As the Company’s credit losses are typically minimal, the adoption of this standard did not have a significant impact on the consolidated financial statements.

*Not Yet Adopted*

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In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This ASU requires that contract assets and contract liabilities acquired in a business combination be recognized and measured in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. This guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within that fiscal year. Early adoption of the amendments is permitted, including adoption in an interim period. An entity that early adopts in an interim period should apply the amendments (1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and (2) prospectively to all business combinations that occur on or after the date of initial application. We are currently evaluating the impact of the new standard on our financial statements and related disclosures.

Management does not believe that any other recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the Company's financial statements.

### **3. Acquisition of ConnectPV**

On August 26, 2021, the Company acquired 100% of the common stock of ConnectPV. The acquisition of ConnectPV was accounted for as a business combination using the acquisition method of accounting. The aggregate purchase price was \$13.8 million in cash (net of \$0.8 million cash acquired) and 209,437 shares of Class A common stock valued at \$6.5 million.

The cash portion of the purchase price was funded by borrowing under our Revolving Credit Facility (as defined below). The purchase price paid has been allocated to record the acquired assets and assumed liabilities based upon their estimated fair value. When determining the fair values of the assets acquired and assumed liabilities, management made significant estimates, judgements and assumptions. Management estimated that consideration paid exceeded the fair value of the net assets acquired. Therefore, goodwill of \$19.8 million was recorded. The goodwill recognized was primarily attributable to the workforce and synergies related to the Company's EBOS solutions and components business that are expected to arise from the ConnectPV acquisition.

The following table is the balance sheet of ConnectPV as of the acquisition date, August 26, 2021, and includes the estimated fair value of the assets acquired and assumed liabilities. The estimated fair value allocated to certain property, plant and equipment, identifiable intangible assets and goodwill was determined based on a combination of market, cost and income approaches with the assistance of a third-party valuation firm (in thousands):

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**Purchase Price Allocation**

Cash and cash equivalents	\$ 849
Accounts receivable	5,382
Inventory	4,273
Other current assets	1,583
Total current assets	<u>12,087</u>
Property, plant and equipment	438
Goodwill	19,765
Other intangible assets	1,600
Total Assets	<u>33,890</u>
Accounts payable	9,440
Accrued expenses	2,655
Debt	1,537
Total Liabilities	<u>13,632</u>
Net assets acquired	<u>\$ 20,258</u>

The Company expensed acquisition-related costs of \$2.3 million which are included in general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2021. The goodwill and acquisition costs are not deductible for tax purposes.

**Pro Forma Financial Information (Unaudited)**

The pro forma information below gives effect to the ConnectPV acquisition as if it had been completed on the first day of each period presented. The pro forma results of operations are presented for informational purposes only. As such, they are not necessarily indicative of the Company's results had the acquisition been completed on the first day of each period presented, nor do they intend to represent the Company's future results. The pro forma information does not reflect any cost savings from operating efficiencies or synergies that could result from the acquisition and does not reflect additional revenue opportunities following the acquisition. The pro forma information includes adjustments to record the assets and liabilities associated with the acquisition at their respective fair values, based on available information and to give effect to the financing for the acquisition (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Revenue	\$ 229,709	\$ 200,892
Net income	\$ 3,305	\$ 29,861

**4. Accounts Receivable**

Accounts receivable, net consists of the following (in thousands):



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	December 31,	
	2022	2021
Accounts receivable	\$ 51,061	\$ 32,015
Less: allowance for credit losses	(486)	(516)
Accounts receivable, net	\$ 50,575	\$ 31,499

**5. Inventory**

Inventory, net consists of the following (in thousands):

	December 31,	
	2022	2021
Raw materials	\$ 75,778	\$ 39,265
Allowance for obsolete or slow-moving inventory	(2,924)	(897)
Inventory, net	\$ 72,854	\$ 38,368

**6. Property, Plant and Equipment**

Property, plant, and equipment, net consists of the following (in thousands):

	Estimated Useful Lives (Years)	December 31,	
		2022	2021
Land	N/A	\$ 840	\$ 840
Building and land improvements	5-40	9,031	7,801
Machinery and equipment	3-5	12,371	10,693
Furniture and fixtures	3-7	1,787	1,775
Vehicles	5	125	65
		24,154	21,174
Less: accumulated depreciation		(7,284)	(5,600)
Property, plant and equipment, net		\$ 16,870	\$ 15,574

Depreciation expense for the years ended December 31, 2022, 2021 and 2020 was \$1.9 million, \$1.7 million and \$1.4 million, respectively. During the years ended December 31, 2022, 2021 and 2020, \$1.5 million, \$1.5 million and \$1.1 million, respectively, of depreciation expense was allocated to cost of revenue. During the years ended December 31, 2022, 2021 and 2020, \$0.4 million, \$0.2 million and \$0.3 million, respectively, of depreciation expense was allocated to operating expenses.

**7. Goodwill and Other Intangible Assets**

**Goodwill**

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Goodwill relates to the acquisition of Shoals and ConnectPV. As of December 31, 2022 and 2021, goodwill totaled \$69.9 million and \$69.4 million, respectively. Changes in the carrying amount of goodwill during the years ended December 31, 2022 and 2021 are shown below (in thousands):

	<b>Goodwill</b>
Balance at December 31, 2020	\$ 50,176
Acquisition of ConnectPV	19,260
Balance at December 31, 2021	69,436
Adjustments related to finalization of working capital in the acquisition of ConnectPV	505
Balance at December 31, 2022	\$ 69,941

**Other Intangible Assets**

Other intangible assets, net consisted of the following (in thousands):

	<b>Estimated Useful Lives (Years)</b>	<b>December 31,</b>	
		<b>2022</b>	<b>2021</b>
Amortizable:			
Costs:			
Customer relationships	13	\$ 53,100	\$ 53,100
Developed technology	13	34,600	34,600
Trade names	13	11,900	11,900
Backlog	1	600	600
Noncompete agreements	5	2,000	2,000
Total amortizable intangibles		102,200	102,200
Accumulated amortization:			
Customer relationships		22,925	18,629
Developed technology		14,860	12,199
Trade names		5,230	4,103
Backlog		600	200
Noncompete agreements		2,000	1,833
Total accumulated amortization		45,615	36,964
Total other intangible assets, net		\$ 56,585	\$ 65,236

Amortization expense related to intangible assets amounted to \$8.7 million, \$8.4 million and \$8.0 million for the years ended December 31, 2022, 2021 and 2020, respectively. Estimated future annual amortization expense for other intangible assets, net are as follows (in thousands):

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For the Year Ended December 31,	<b>Amortization Expense</b>
2023	\$ 7,918
2024	7,585
2025	7,585
2026	7,585
2027	7,585
Thereafter	18,327
	<u>\$ 56,585</u>

**8. Accrued Expenses and Other**

Accrued expenses and other consists of the following (in thousands):

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
Accrued compensation	\$ 4,917	\$ 2,882
Accrued interest	7,226	3,095
Other accrued expenses	5,739	1,751
Total accrued expenses and other	<u>\$ 17,882</u>	<u>\$ 7,728</u>

**9. Long-Term Debt**

Long-term debt consists of the following (in thousands):

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
Term Loan Facility	\$ 195,250	\$ 197,250
Revolving Credit Facility	48,000	55,140
Less: deferred financing costs	(4,187)	(5,337)
Total debt, net of deferred financing costs	239,063	247,053
Less: current portion	(2,000)	(2,000)
Long-term debt, net current portion	<u>\$ 237,063</u>	<u>\$ 245,053</u>

The aggregate amounts of principal maturities on the Company's long-term debt is as follows (in thousands):

For the Year Ended December 31,	
2023	\$ 2,000
2024	2,000
2025	2,000
2026	237,250
	<u>\$ 243,250</u>

**Senior Secured Credit Agreement**

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On November 25, 2020 Shoals Holdings, entered into a senior secured credit agreement (as amended, the “Senior Secured Credit Agreement”), consisting of (i) a \$350.0 million senior secured six-year term loan facility (the “Term Loan Facility”), (ii) a \$30.0 million senior secured delayed draw term loan facility, which matures concurrently with the six-year Term Loan Facility (the “Delayed Draw Term Loan Facility”) and (iii) an uncommitted super senior first out revolving credit facility (the “Revolving Credit Facility”).

In December 2020, Shoals Holdings entered into two amendments to the Senior Secured Credit Agreement in order to obtain a \$100.0 million increase (the “Revolver Upsize”) to the Revolving Credit Facility and modify the terms of the interest rate and prepayment premium. As part of the first amendment the Company repaid and terminated all outstanding commitments under the Delayed Draw Term Loan Facility.

On January 29, 2021, the Company used proceeds from the IPO to repay \$150.0 million of outstanding borrowings under the Term Loan Facility. The repayment of a portion of the borrowings under the Term Loan Facility resulted in a \$16.0 million loss on debt repayment as the result of the \$11.3 million prepayment premium and \$4.7 million write-off of a portion of the deferred financing costs.

On May 2, 2022, Shoals Holdings entered into an amendment to the Senior Secured Credit Agreement in order to increase the amount available for borrowing under the Revolving Credit Facility from \$100.0 million to \$150.0 million. The amendment also set forth Secured Overnight Financing Rate (“SOFR”) as the benchmark rate to succeed London Interbank Offered Rate and amended the financial covenant such that, commencing with September 30, 2022, Shoals Holdings shall not permit its Consolidated First Lien Secured Leverage Ratio (as defined in the Senior Secured Credit Agreement) to exceed 6.50:1.00.

As of December 31, 2022, the outstanding balance of the Term Loan Facility was \$195.3 million. The balance of the Term Loan Facility is presented in the accompanying consolidated balance sheets net of deferred financing fees of \$4.2 million and \$5.3 million as of December 31, 2022 and 2021, respectively. The deferred financing fees are being amortized using the effective interest method. The effective interest rate as of December 31, 2022 and 2021, was 7.06% and 6.42%, respectively. As of December 31, 2022, the Revolving Credit Facility balance was \$48.0 million and the Company had \$102.0 million of availability under the Revolving Credit Facility.

*Interest Rate*

The interest rates applicable to the loans under the Term Loan Facility are based on a rate of interest determined by reference to either: (i) a base rate plus an applicable margin equal to (a) on and after December 30, 2020 until the later of either (1) February 28, 2021 or (2) December 31, 2022 so long as Holdings has prepaid the loans under the Term Loan Facility on or prior to February 28, 2021 in an amount that results in the aggregate outstanding principal amount of loans under the Term Loan Facility being equal to or less than the sum of (A) \$200.0 million minus (B) any mandatory prepayments of the principal amount of loans under the Term Loan Facility or amortization payments made prior to February 28, 2021, 2.25% and (b) thereafter, either (1) if Holdings has consummated an IPO the net cash proceeds of which have been used to repay the principal amount of the loans under the Term Loan Facility in an amount no less than \$70.0 million, 4.75% or (2) otherwise, 5.00%; or (ii) a SOFR rate plus an applicable margin equal to (a) on and after December 30, 2020 until the later of either (1) February 28, 2021 or (2) December 31, 2022 so long as Holdings has prepaid the loans under the Term Loan Facility on or prior to February 28, 2021 in an amount that results in the aggregate outstanding principal amount of loans under the Term Loan Facility being equal to or less than the sum of (A) \$200.0 million minus (B) any mandatory prepayments of the principal amount of loans under the Term Loan Facility or amortization payments made prior to February 28, 2021, 3.25% and (b) thereafter, either (1) if Holdings has consummated an IPO the net cash proceeds of which have been used to repay the principal

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amount of the loans under the Term Loan Facility in an amount no less than \$70.0 million, 5.75% or (2) otherwise, 6.00%.

The interest rates applicable to the loans under the Revolving Credit Facility are based on a rate of interest determined by reference to either (i) a base rate plus an applicable margin equal to 2.25% or (ii) a SOFR rate plus an applicable margin equal to 3.25%.

As of December 31, 2022, interest rates on the Term Loan Facility was SOFR plus 3.25%, or 7.51%, and the Revolving Credit Facility was SOFR plus 3.25%, ranging from 7.00% to 7.92%.

*Guarantees and Security*

The obligations under the Senior Secured Credit Agreement are guaranteed by Shoals Intermediate Holdings and its wholly owned domestic subsidiaries other than certain immaterial subsidiaries and other excluded subsidiaries. The obligations under the Senior Secured Credit Agreement are secured by a first priority security interest in substantially all of Holdings' and the other guarantors' existing and future property and assets, including accounts receivable, inventory, equipment, general intangibles, intellectual property, investment property, other personal property, material owned real property, cash and proceeds of the foregoing.

*Prepayments and Amortization*

Loans under the Revolving Credit Facility may be voluntarily prepaid, at Shoals Holdings' option, in whole, or in part, in each case without premium or penalty.

Loans under the Term Loan Facility may be voluntarily prepaid, at Holdings' option, in whole, or in part, in each case without premium or penalty other than (i) a prepayment premium in an amount equal to (a) if such prepayment occurs prior to the first anniversary of the Senior Secured Credit Agreement Closing Date, a make-whole premium, (b) if such prepayment occurs on or after the first anniversary but prior to the second anniversary of the Senior Secured Credit Agreement Closing Date, 2.00% and (c) if such prepayment occurs on or after the second anniversary but prior to the third anniversary of the Senior Secured Credit Agreement Closing Date, 1.00% and (ii) with respect to prepayments in connection with an IPO, a change of control or a transformative disposition subject to certain exceptions and conditions, a prepayment premium equal to (a) if such prepayment occurs prior to the first anniversary of the Senior Secured Credit Agreement Closing Date, 2.00% and (b) if such prepayment occurs after the first anniversary of the Senior Secured Credit Agreement Closing Date but prior to the second anniversary of the Senior Secured Credit Agreement Closing Date, 1.00%.

Notwithstanding anything to the contrary in the preceding paragraph, in the event that, on or after December 30, 2020 but prior to February 28, 2021, Shoals Holdings made any prepayment (including with respect to any acceleration) of any loans under the Term Loan Facility, Holdings would pay a premium on such prepayments made up to \$150.0 million of the principal amount of such loans prepaid in an amount equal to 7.50% multiplied by the principal amount of such loans prepaid, which, if applicable, would be in lieu of any applicable prepayment premium set forth in the preceding paragraph or in the paragraph below; provided that no amortization payments or mandatory prepayments required under the Senior Secured Credit Agreement shall be subject to the prepayment premium set forth in this paragraph. On January 29, 2021, the Company used proceeds from the IPO to repay \$150.0 million of outstanding borrowings under the Term Loan Facility resulting in a prepayment premium of \$11.3 million.

Additionally, after February 28, 2021 but prior to the second anniversary of the Senior Secured Credit Agreement Closing Date, up to \$175.0 million of the outstanding principal amount of the Term Loan Facility may be voluntarily prepaid upon the consummation of an IPO with proceeds from such IPO, subject to a

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prepayment premium in an amount equal to 1.00% in lieu of any applicable call protection premiums set forth in the second preceding paragraph.

The Senior Secured Credit Agreement requires mandatory prepayments, but not permanent reductions of commitments thereunder, for excess cash flow, asset sales, subject to a right of reinvestment, and refinancing facilities.

The Term Loan Facility amortizes in equal quarterly installments in aggregate annual amounts equal to 1.00% per annum of the original principal amount of the loans funded thereunder. There is no scheduled amortization under the Revolving Credit Facility.

*Restrictive Covenants and Other Matters*

The Senior Secured Credit Agreement contains affirmative and negative covenants that are customary for financings of this type, including covenants that restrict our incurrence of indebtedness, incurrence of liens, dispositions, investments, acquisitions, restricted payments, and transactions with affiliates.

The Senior Secured Credit Agreement also includes customary events of default, including the occurrence of a change of control.

The Revolving Credit Facility also includes a Consolidated Leverage Ratio financial covenant that is tested on the last day of each fiscal quarter. To remain in compliance with the financial covenant, Shoals Intermediate Holdings shall not permit the Consolidated Leverage Ratio, as of the last day of any quarter, to be greater than 6.50 to 1.00.

As of December 31, 2022, the Company was in compliance with all the required covenants.

**10. Earnings per Share (“EPS”)**

Basic EPS of Class A common stock is computed by dividing net income (loss) attributable to the Company by the weighted average number of shares of Class A common stock outstanding during the period. Diluted EPS of Class A common stock is computed similarly to basic EPS except the weighted average shares outstanding are increased to include additional shares from the exchange of Class B common stock under the if-converted method and the assumed exercise of any common stock equivalents using the treasury stock method, if dilutive. The Company’s restricted/performance stock units are considered common stock equivalents for this purpose.

All earnings prior to and up to January 26, 2021, the date of the IPO, were entirely allocable to non-controlling interests and, as a result, EPS information is not applicable for reporting periods prior to this date. Consequently, only the net income (loss) allocable to Shoals Technologies Group, Inc. from the period subsequent to January 26, 2021 is included in the net income (loss) attributable to the stockholders of Class A common stock for the periods ended December 31, 2022.

Basic and diluted EPS of Class A common stock have been computed as follows (in thousands, except per share amounts):

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	Year Ended December 31, 2022	Period from January 27, 2021 to December 31, 2021
Numerator:		
Net income (loss) attributable to Shoals Technologies Group, Inc. - basic	\$ 127,611	\$ (327)
Reallocation of net income attributable to non-controlling interests from the assumed exchange of Class B common stock	15,402	—
Net income (loss) attributable to Shoals Technologies Group, Inc. - diluted	<u>\$ 143,013</u>	<u>\$ (327)</u>
Denominator:		
Weighted average shares of Class A common stock outstanding - basic	114,495	99,269
Effect of dilutive securities:		
Restricted / performance stock units	308	—
Class B common stock	52,828	—
Weighted average shares of Class A common stock outstanding - diluted	<u>167,631</u>	<u>99,269</u>
Earnings (loss) per share of Class A common stock - basic	<u>\$ 1.11</u>	<u>\$ (0.00)</u>
Earnings (loss) per share of Class A common stock - diluted	<u>\$ 0.85</u>	<u>\$ (0.00)</u>

For the period from January 27, 2021 to December 31, 2021, the reallocation of net income attributable to non-controlling interest from the assumed exchange of Class B common stock has been excluded along with the dilutive effect of Class B common stock to the weighted average shares of Class A common stock outstanding – dilutive, as they were antidilutive.

## 11. Equity-Based Compensation

### 2021 Long-term Incentive Plan

On January 26, 2021, the Shoals Technologies Group, Inc. 2021 Long-Term incentive Plan (the “2021 Incentive Plan”) became effective. The 2021 Incentive Plan authorized 8,768,124 new shares, subject to adjustment pursuant to the 2021 Incentive Plan.

#### *Restricted Stock Units*

During the period from January 26, 2021 to December 31, 2021, the Company granted 1,701,306 restricted stock units (“RSUs”) to certain employees, officers and directors of the Company. The RSUs had grant date fair values ranging from \$21.50 to \$34.60 per unit and generally vest ratably over either 4 years or 3 years, except for some officer and employee grants for bonuses which immediately vested or vest over 1 year. There were a limited number of awards with immediate vesting.

During the year ended December 31, 2022, the Company granted 727,001 restricted stock units (“RSUs”) to certain employees, officers and directors of the Company. The RSUs have grant date fair values ranging from \$10.42 to \$25.82 per unit and generally vest ratably over 3 years, except for some officer and employee grants for bonuses which immediately vested.

Activity under the 2021 Incentive Plan for RSUs was as follows:

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	<u>Restricted Stock Units</u>	<u>Weighted Average Price</u>
Outstanding, December 31, 2020	—	\$ —
Granted	1,701,306	\$ 27.61
Forfeited	(23,738)	\$ 29.46
Vested	(44,724)	\$ 28.60
Outstanding, December 31, 2021	<u>1,632,844</u>	<u>\$ 27.55</u>
Granted	727,001	\$ 13.78
Forfeited	(63,534)	\$ 25.56
Vested	(559,336)	\$ 26.05
Outstanding, December 31, 2022	<u><u>1,736,975</u></u>	<u><u>\$ 22.34</u></u>

*Performance Stock Units*

During the year ended December 31, 2022, the Company granted an aggregate of 256,305 Performance Stock Units (“PSUs”) to certain executives. The PSUs cliff vest after 3.0 years upon meeting certain revenue and gross margin targets and contain certain modifiers which could increase or decrease the ultimate number of Class A common stock issued to the executives. The PSUs were valued using the market value of the Class A common stock on the grant date ranging from \$10.42 to \$20.58 per PSUs. Based on results achieved in 2022 and the forecasted amounts over the remainder of the performance period, the Company expects the units to vest and the modifier to be achieved related to the revenue target.

Activity under the 2021 Incentive Plan for PSUs was as follows:

	<u>Performance Stock Units</u>	<u>Weighted Average Price</u>
Outstanding, December 31, 2021	—	\$ —
Granted	256,305	\$ 11.89
Vested	—	\$ —
Forfeited	—	\$ —
Outstanding, December 31, 2022	<u><u>256,305</u></u>	<u><u>\$ 11.89</u></u>

During the years ended December 31, 2022 and 2021, the Company recognized \$16.1 million and \$11.3 million, respectively, in equity-based compensation. As of December 31, 2022, the Company had \$31.9 million of unrecognized compensation costs which is expected to be recognized over a period of 2.1 years.

*Pre-IPO Class C Units*

The Company accounted for equity grants to employees (Class C units) as equity-based compensation. The Class C units contained vesting provisions as defined in the agreement. Vested units did not forfeit upon termination and represented a residual interest in the Company. Equity-based compensation cost was measured at the grant date fair value and was recognized on a straight-line basis over the requisite service period, including those units with graded vesting with a corresponding credit to members’ equity (deficit). However, the amount of equity-based compensation at any date was at least equal to the portion of the grant date value of the award that was vested.



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In May 2020, the Company issued 11,150,000 Class C units to certain employees of the Company of which approximately 77% were vested on the grant date. The fair value of such units was determined by management with the assistance of a third party valuation firm by considering a number of factors, including comparison companies, operating and financial performance, the lack of liquidity of the units, and general and industry specific economic outlook, amongst other factors. The grant date fair value of the Class C units granted during 2020 was \$0.74 per unit. In November 2020, the Company modified and accelerated the remaining vesting on the unvested Class C units. On January 26, 2021 as part of the Corporate Conversion the 11,150,000 Class C Units were converted into 9,986,025 LLC Interest in Shoals Parent.

For the year ended December 31, 2020 the Company recognized \$8.3 million in equity-based compensation. At December 31, 2020, the Company had no remaining unrecognized compensation costs related to Class C units. There were no forfeitures during the year ended December 31, 2020.

## **12. Stockholders' Equity (Deficit)**

### **Amendment and Restatement of Certificate of Incorporation**

As discussed in Note 1, on January 26, 2021, the Company's certificate of incorporation was amended and restated to, among other things, provide for the (i) authorization of 1,000,000,000 shares of Class A common stock with a par value of \$0.00001 per share; (ii) authorization of 195,000,000 shares of Class B common stock with a par value of \$0.00001 per share; (iii) authorization of 5,000,000 shares of preferred stock that may be issued from time to time by the Company's Board of Directors in one or more series; and (iv) establishment of a classified board of directors, divided into three classes, the members of which will serve for staggered terms.

Holders of Class A common stock and Class B common stock are entitled to one vote per share and, except as otherwise required, will vote together as a single class on all matters on which stockholders generally are entitled to vote. Holders of Class B common stock are not entitled to receive dividends and will not be entitled to receive any distributions upon the liquidation, dissolution or winding up of the Company. Shares of Class B common stock may only be issued to the extent necessary to maintain the one-to-one ratio between the number of LLC Interests held by the Continuing Equity Owners and the number of shares of Class B common stock held by the Continuing Equity Owners. Shares of Class B common stock are transferable only together with an equal number of LLC Interests. Shares of Class B common stock will be canceled on a one-for-one basis if the Company, at the election of a Continuing Equity Owner, redeem or exchange LLC Interests.

The Company must, at all times, maintain a one-to-one ratio between the number of shares of Class A common stock issued by the Company and the number of LLC Interests owned by the Company (subject to certain exceptions for treasury shares and shares underlying certain convertible or exchangeable securities).

### **Initial Public Offering**

As discussed in Note 1, on January 29, 2021, the Company closed an IPO of 11,550,000 shares of the Class A common stock at a public offering price of \$25.00 per share. The Company received \$278.8 million in proceeds, net of underwriting discounts and commissions, which was used to purchase 6,315,790 LLC Interests from Shoals Parent and 5,234,210 LLC Interests from the founder and Class B unit holder in Shoals Parent at a price per interest equal to the IPO price of the Class A common stock of \$25.00 per share.

### **Shoals Parent Recapitalization**

As noted above, in connection with the IPO, the limited liability company agreement of Shoals Parent was amended and restated to, among other things, (i) provide for a new single class of common membership

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interests in Shoals Parent, or the LLC Interests; (ii) exchange all of the then existing membership interests of the Continuing Equity Owners for LLC Interests (iii) exchange all the then existing membership interest of the Class A Shoals Equity Owners for LLC Interests and (iv) appoint the Company as the sole managing member of Shoals Parent. The Company has a majority economic interest in, is the sole managing member of, has the sole voting power in, and controls the management of Shoals Parent.

The amendment also requires that Shoals Parent, at all times, maintain (i) a one-to-one ratio between the number of shares of Class A common stock issued by the Company and the number of LLC Interests owned by the Company and (ii) a one-to-one ratio between the number of shares of Class B common stock owned by the Continuing Equity Owners and the number of LLC Interests owned by the Continuing Equity Owners.

**Acquisition of Former Shoals Equity Owners**

On January 26, 2021, the Company acquired, by merger, an entity that was a member of Shoals Parent, or the Class A Shoals Equity Owners, for which the Company issued 81,977,751 shares of Class A common stock as merger consideration. The only assets held by the Class A Shoals Equity Owners were 81,977,751 LLC Interests. Upon consummation of the Merger, the Company recognized the LLC Interests at carrying value, as the Merger is considered to be a transaction between entities under common control.

**13. Non-Controlling Interests**

As of December 31, 2022, the Company owned 81.44% of Shoals Parent. The following table summarizes the effects of the changes in ownership in Shoals Parent on equity:

	<b>Year Ended December 31, 2022</b>	<b>Period from January 27, 2021 to December 31, 2021</b>
Net income attributable to non-controlling interest	\$ 15,402	\$ 1,596
Transfers to non-controlling interests		
Decrease as a result of the Organizational Transactions	—	(88,644)
Increase as a result of newly issued LLC Interests in IPO	—	70,976
Increase as a result of activity under equity-based compensation plan	5,422	3,618
Decrease from tax distributions to non-controlling interest	(7,762)	(4,837)
Reallocation of non-controlling interest	6,604	7,240
Change from net income attributable to/from non-controlling interest and transfers to non-controlling interest	<u>\$ 19,666</u>	<u>\$ (10,051)</u>

**Issuance of Additional LLC Interests**

Under the LLC Agreement, the Company is required to cause Shoals Parent to issue additional LLC Interests to the Company when the Company issues additional shares of Class A common stock. Other than as it relates to the issuance of Class A common stock in connection with an equity incentive program, the Company must contribute to Shoals Parent net proceeds and property, if any, received by the Company with respect to the issuance of such additional shares of Class A common stock. The Company must cause Shoals Parent to issue a number of LLC Interests equal to the number of shares of Class A common stock issued such

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that, at all times, the number of LLC Interests held by the Company equals the number of outstanding shares of Class A common stock. During the years ended December 31, 2022 and 2021, the Company caused Shoals Parent to issue to the Company a total of 480,116 and 40,665 LLC Interests, respectively, for the vesting of awards granted under the Shoals Technologies Group, Inc. 2021 Long-Term Incentive Plan.

**Distributions for Taxes**

As a limited liability company (treated as a partnership for income tax purposes), Shoals Parent does not incur significant federal, state or local income taxes, as these taxes are primarily the obligations of its members. As authorized by the LLC Agreement, Shoals Parent is required to distribute cash, to the extent that Shoals Parent has cash available, on a pro rata basis, to its members to the extent necessary to cover the members' tax liabilities, if any, with respect to each member's share of Shoals Parent taxable earnings. Shoals Parent makes such tax distributions to its members quarterly, based on the single highest marginal tax rate applicable to its members applied to projected year-to-date taxable income, with a final accounting once actual taxable income or loss has been determined. During the years ended December 31, 2022 and 2021, tax distributions to non-controlling LLC Interests holders was \$7.8 million and \$4.8 million, respectively.

**Other Distributions**

Pursuant to the LLC Agreement, the Company has the right to determine when distributions will be made to LLC members and the amount of any such distributions. If the Company authorizes a distribution, such distribution will be made to the members of the LLC (including the Company) pro rata in accordance with the percentages of their respective LLC units.

**14. Leases**

Effective January 1, 2022, the Company adopted ASC 842 Leases using the modified retrospective approach. The Company elected the use of the package of practical expedients permitted under the transition guidance which allows the Company not to reassess whether a contract contains a lease, carry forward the historical lease classification and not reassess initial direct lease costs. The Company also elected to apply the short-term measurement and recognition exemption in which the right-of-use ("ROU") assets and lease liabilities are not recognized for short-term leases. Adoption of this standard resulted in recording of net operating lease ROU assets and corresponding operating lease liabilities of \$1.2 million and \$1.2 million, respectively. The standard did not materially affect the consolidated statements of income and had no impact on the consolidated statements of cash flows.

The following table summarizes the balances as it relates to leases at the end of the period (in thousands):

	(*)	<b>December 31, 2022</b>
ROU asset	Other assets	\$ 4,060
Lease liability, current portion	Accrued expenses and other	\$ 1,162
Lease liability, long-term portion	Other long-term liabilities	3,256
Total lease liability		<u>\$ 4,418</u>

(\*) Location on the consolidated balance sheet

The Company determines if an arrangement is a lease at its inception. Operating lease ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over

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the lease term. Operating lease ROU assets also include any initial direct costs and prepayments less lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. As the Company's leases generally do not provide an implicit rate, the Company uses its collateralized incremental borrowing rate based on the information available at the lease commencement date, including lease term, in determining the present value of lease payments. Lease expense for these leases is recognized on a straight-line basis over the lease term.

Operating lease arrangements are comprised primarily of real estate and equipment agreements for which the right-of-use assets are included in other assets and the corresponding lease liabilities, depending on their maturity, are included in accrued expenses and other or other long-term liabilities in the consolidated balance sheets. The Company also elected to apply the practical expedient to consider non-lease components as a part of the lease. The Company's leases contain certain non-lease components for common area maintenance which are variable on a month to month basis and as such recorded as a variable lease expense as incurred.

The details of the Company's operating leases are as follows (in thousands):

	<b>Year Ended December 31, 2022</b>
Operating lease expense	\$ 1,126
Variable lease expense	142
Short-term lease expense	177
Total lease expense	\$ 1,445

The following table presents the maturities of lease liabilities as of December 31, 2022 (in thousands):

	<b>Operating Leases</b>
For the Year Ended December 31, 2023	\$ 1,337
2024	1,261
2025	958
2026	950
2027	325
Total lease payments	4,831
Less: Imputed lease interest	(413)
Total lease liabilities	\$ 4,418

The Company's weighted average remaining lease-term and weighted average discount rate are as follows:

	<b>Year Ended December 31, 2022</b>
Weighted average remaining lease-term	3.9 years
Weighted average discount rate	4.5 %

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Supplemental cash flow and other information related to operating leases are as follows (in thousands):

	<b>Year Ended December 31, 2022</b>
Operating cash flows from operating leases	\$ 1,295
Non-cash investing activities:	
Lease liabilities arising from obtaining right-of-use assets as of January 1, 2022	\$ 1,239
Lease liabilities arising from obtaining right-of-use assets during the year ended December 31, 2022	\$ 3,990

The following table represents future minimum lease obligations under non-cancelable operating leases accounted for in accordance with ASC 840, as of December 31, 2021 (in thousands):

	<b>Operating Leases</b>
For the Year Ended December 31, 2022	\$ 489
2023	499
2024	200
2025	58
2026	6
Total	\$ 1,252

## **15. Commitments and Contingencies**

### **Litigation**

The Company is from time to time subject to legal proceedings and claims, which arise in the normal course of its business. In the opinion of management and legal counsel, the amount of losses that may be sustained, if any, would not have a material effect on the financial position, results of operations or cash flows of the Company.

### **Surety Bonds**

The Company provides surety bonds to various parties as required for certain transactions initiated during the ordinary course of business to guarantee the Company's performance in accordance with contractual or legal obligations. As of December 31, 2022, the maximum potential payment obligation with regard to surety bonds was \$8.7 million.

### **Employee Benefit Plan**

The Company has a 401(k) retirement plan for substantially all of its employees based on certain eligibility requirements. Effective January 1, 2021 the Company began making matching contributions to the plan and may also provide discretionary contributions to the plan at the discretion of management. No such discretionary contributions have been made since inception of the plan. For the years ended December 31, 2022 and 2021, the Company made matching contributions totaling \$0.3 million and \$0.2 million, respectively.

## **16. Income Taxes**

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In August 2022, the U.S. President signed into law the Inflation Reduction Act of 2022 (the “IRA”), which revised U.S. tax law by, among other things, including a new corporate alternative minimum tax (the “CAMT”) of 15% on certain large corporations, imposing a 1% excise tax on stock buybacks, and providing incentives to address climate change, including the introduction of advanced manufacturing production tax credits. The provisions of the IRA are generally effective for tax years beginning after 2022. Given the complexities of the IRA, which is pending technical guidance and regulations from the Internal Revenue Service and U.S. Treasury Department, we will continue to monitor these developments and evaluate the potential future impact to our results of operations.

The Company is taxed as a subchapter C corporation and is subject to federal and state income taxes. The Company’s sole material asset is Shoals Parent, which is a limited liability company that is taxed as a partnership for US federal and certain state and local income tax purposes. Shoals Parent’s net taxable income and related tax credits, if any, are passed through to its members and included in the member’s tax returns.

Shoals Parent is subject to and reports an entity level tax in various states. The income tax burden on the earnings taxed to the noncontrolling interest holders is not reported by the Company in its consolidated financial statements under U.S. GAAP. As a result, the Company’s effective tax rate differs materially from the statutory rate. Our effective income tax rate for the years ended December 31, 2022 and 2021, was 6% and 2% respectively.

The components of income before income taxes are as follows (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Domestic	\$ 152,000	\$ 4,030
Foreign	—	—
Income before income taxes	\$ 152,000	\$ 4,030

The components of income tax expense are as follows (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Current income taxes:		
Federal	\$ —	\$ —
State	554	631
Foreign	—	—
Total current income taxes	554	631
Deferred income taxes:		
Federal	13,639	397
State	(5,233)	(1,873)
Foreign	—	—
Total deferred income taxes	8,406	(1,476)
Other tax expense	27	931
Income tax expense	\$ 8,987	\$ 86

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The differences between income taxes expected at the U.S. federal statutory income tax rate and the reported income tax expense are summarized as follows (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
U.S. federal income taxes at statutory rate	\$ 31,920	\$ 846
State and local income tax net of federal benefit	4,786	(1,380)
Permanent tax adjustments	268	342
Pre-IPO income	—	(562)
Non-controlling interest	(3,289)	(342)
Termination of TRA	(15,905)	349
Remeasurement of deferred taxes	(5,966)	(1,939)
Research and development credit	—	(77)
Uncertain tax positions	27	789
Change in valuation allowance	(1,983)	1,983
Other	(871)	77
Income tax expense	<u>\$ 8,987</u>	<u>\$ 86</u>

The income tax burden on the earnings taxed to the noncontrolling interests holders is not reported by the Company in its consolidated financial statements under U.S. GAAP. As a result, the Company's effective tax rate differs materially from the statutory rate. The primary factors impacting the effective tax rate are the allocation of income taxes to the noncontrolling interest, remeasurement of deferred tax attributes due to tax rate changes, state taxes and changes in our valuation allowance.

The components of the deferred tax assets and liabilities are as follows (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Investment in Shoals Parent	\$ 286,759	\$ 161,078
Tax receivable agreement	—	13,014
Net operating loss	4,626	3,772
Other	249	1,077
Total deferred income taxes	<u>291,634</u>	<u>178,941</u>
Valuation allowance	—	(1,983)
Net deferred tax asset	<u>\$ 291,634</u>	<u>\$ 176,958</u>

The Company has recorded deferred tax assets of \$286.8 million, included above in Investment in Shoals Parent, associated with basis differences in the net assets of Shoals Parent and pursuant to making an election under Section 754 of the Internal Revenue Code of 1986, as amended. Prior to termination of the TRA, the aggregate payable pursuant to the TRA represented 85% of the tax benefits that the Company expected to receive in connection with the Section 754 election.

As of December 31, 2022, the Company has \$20.2 million and \$6.4 million federal and state net operating loss carryforwards, respectively. If not utilized, \$20.2 million of the federal net operating loss can be

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carried forward indefinitely. If not utilized, \$0.4 million of the state net operating loss can be carried forward indefinitely and \$6.0 million will expire between 2036-2042.

Quarterly, the Company considers whether it is more-likely-than-not that the deferred tax assets will be realized based on available positive and negative evidence. As of December 31, 2022, we determined, based upon weighing all positive and negative evidence, that a valuation allowance related to state taxes was no longer required. Accordingly, we reversed the valuation allowance related to state taxes. As of December 31, 2021, the valuation allowance of \$2.0 million related to state taxes.

**Uncertain Tax Positions**

The Company accounts for uncertainty in income taxes using a recognition and measurement threshold for tax positions taken or expected to be taken in a tax return, which are subject to examination by federal and state taxing authorities. The tax benefit from an uncertain tax position is recognized when it is more likely than not that the position will be sustained upon examination by taxing authorities based on the technical merits of the position. The amount of the tax benefit recognized is the largest amount of the benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The effective tax rate and the tax basis of assets and liabilities reflect management’s estimates of the ultimate outcome of various tax uncertainties. As of December 31, 2022 and 2021, the Company has recorded \$1.0 million and \$0.9 million, respectively, of gross unrecognized tax benefits inclusive of interest and penalties, all of which, if recognized, would favorably impact the effective tax rate. The Company recognizes penalties and interest related to uncertain tax positions within the provision (benefit) for income taxes line in the accompanying consolidated statements of operations.

The following table presents a reconciliation of the total amounts of unrecognized tax benefits, excluding interest and penalties as follows (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Beginning Balance	\$ 604	\$ —
Gross increases - tax positions in prior period	—	604
Gross decreases - tax positions in prior period	—	—
Gross increases - tax positions in current period	—	—
Settlement	—	—
Lapse of statute of limitations	—	—
Ending balance	\$ 604	\$ 604

We do not expect a significant change in our uncertain tax benefits in the next twelve months.

The Company files U.S. federal and certain state income tax returns. The income tax returns of the Company are generally subject to examination by U.S. federal and state taxing authorities for years beginning after 2018.

**17. Payable Pursuant to the Tax Receivable Agreement**

The Company had a TRA with the Founder, a “related party,” and a former equity owner of Shoals Investment CTB (the “TRA Owners”) that provided for the payment by the Company to the TRA Owners (or their permitted assignees) of 85% of the amount of the benefits, if any, that the Company actually realized or was deemed to realize as a result of (i) the Company’s allocable share of existing tax basis acquired in



**Shoals Technologies Group, Inc.**  
**Notes to Consolidated Financial Statements**

connection with the Organizational Transactions (including Blocker’s share of existing tax basis) and increases to such allocable share of existing tax basis, (ii) certain increases in the tax basis of assets of Shoals Parent and its subsidiaries resulting from purchases or exchanges of LLC Interests, and (iii) certain other tax benefits related to the Company entering into the TRA, including those attributable to payments made under the TRA. These contractual payment obligations were obligations of the Company and not of Shoals Parent. The Company’s payable pursuant to the TRA was determined on an undiscounted basis in accordance with ASC 450, *Contingencies*, since the contractual payment obligations were deemed to be probable and reasonably estimable. For purposes of the TRA, the benefit deemed realized by the Company was computed by comparing the actual income tax liability of the Company (calculated with certain assumptions) to the amount of such taxes that the Company would have been required to pay had there been no increase to the tax basis of the assets of Shoals Parent as a result of the purchases or exchanges, and had the Company not entered into the TRA.

When estimating the expected tax rate to use in order to determine the tax benefit expected to be recognized from the Company’s increased tax basis as a result of exchanges of LLC Interests by the TRA Owners, the Company continuously monitored changes in its overall tax posture, including changes resulting from new legislation and changes as a result of new jurisdictions in which the Company was subject to tax.

On November 29, 2022, the Company entered into an amendment to the TRA (the “TRA Amendment”), dated as of January 29, 2021, pursuant to which the parties thereto agreed to grant the Company a right to terminate the TRA until December 31, 2022 (the “TRA Termination Right”) in exchange for a termination consideration of \$58.0 million, payable in cash. The Company reassessed the liability related to the payable pursuant to the TRA at the TRA Amendment date and concluded it was probable that the expected payments related to the payable pursuant to the TRA had changed. As a result of this change, the Company remeasured the payable pursuant to the TRA to \$58.0 million on the TRA Amendment date, resulting in a gain on the termination of the TRA of \$110.9 million. As part of the evaluation to determine if the gain should be recognized as income in the consolidated statement of operations or a stockholder contribution the Company concluded the termination of the TRA was negotiated in an arm’s length transaction with the majority owner of the TRA, a third party, and both the third party and the related party received the same value based upon ownership percentage, and therefore, the gain should be recorded in the consolidated statement of operations. The Company exercised its TRA Termination Right, and the TRA was terminated on December 6, 2022.

The following table reflects the changes to the Company’s payable pursuant to the TRA (in thousands):

	Year ended	
	2022	2021
Beginning balance	\$ 156,374	\$ —
Additions to TRA:		
Exchange of LLC Interests for Class A common stock	7,761	140,293
Merger of Shoals investment CTB	—	14,418
Adjustment for change in estimated effective income tax rate	6,675	1,663
Adjustment related to TRA termination	(112,810)	—
Early termination payment of TRA	(58,000)	—
Payable pursuant to TRA	<u>\$ —</u>	<u>\$ 156,374</u>

**18. Revenue Recognition**

**Shoals Technologies Group, Inc.**  
**Notes to Consolidated Financial Statements**

*Disaggregation of revenue*

Based on Topic 606 provisions, the Company disaggregates its revenue from contracts with customers based on product type. Revenue by product type is disaggregated between system solutions and components. System solutions are contracts under which the Company provides multiple products typically in connection with the design and specification of an entire EBOS system. Components represents sales of individual components.

The following table presents the Company's revenue disaggregated by product type (in thousands):

	Year Ended December 31,		
	2022	2021	2020
System solutions	\$ 254,415	\$ 155,818	\$ 116,720
Components	72,525	57,394	58,798
Total revenue	\$ 326,940	\$ 213,212	\$ 175,518

*Contract Balances*

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), retainage (contract assets), and deferred revenue (contract liabilities) on the consolidated balance sheet, recorded on a contract-by-contract basis at the end of each reporting period.

The Company's contract balances consist of the following (in thousands):

	(*)	December 31,	
		2022	2021
Billed accounts receivable	Accounts receivable, net	\$ 48,571	\$ 26,669
Retainage	Accounts receivable, net	\$ 2,004	\$ 4,830
Unbilled receivables	Unbilled receivables	\$ 16,713	\$ 13,533
Deferred revenue	Accrued expenses and other	\$ 23,259	\$ 1,841

(\*) Location on the consolidated balance sheet

The majority of the Company's contract amounts are billed as work progresses in accordance with agreed-upon contractual terms, which generally coincide with the shipment of one or more phases of the project. Billing sometimes occurs subsequent to revenue recognition, resulting in unbilled receivables. The changes in unbilled receivables relate to fluctuations in the timing of billings for the Company's revenue recognized over-time. As of December 31, 2020, billed accounts receivable and unbilled receivables were \$24.2 million and \$3.8 million, respectively.

Certain contracts contain retainage provisions. Retainage represents a contract asset for the portion of the contract price earned by the Company for work performed but held for payment by the customer as a form of security until the Company obtains specified milestones. The Company typically bills retainage amounts as work is performed. Retainage provisions are not considered a significant financing component because they are intended to protect the customer in the event that some or all of the obligations under the contract are not completed. The changes in retainage relate to fluctuations in the timing of retainage billings and achievement of specified milestones. As of December 31, 2020, retainage was \$2.8 million.

**Shoals Technologies Group, Inc.**  
**Notes to Consolidated Financial Statements**

The Company also receives deferred revenue in the form of customer deposits. The customer deposits are short term as the related performance obligations are typically fulfilled within 12 months. The changes in deferred revenue relate to fluctuations in the timing of customer deposits and completion of performance obligations. During the year ended December 31, 2022, \$1.8 million, or 100% of deferred revenue recorded as of December 31, 2021, was recognized in revenue. During the year ended December 31, 2021, \$0.2 million, or 100% of deferred revenue recorded as of December 31, 2020, was recognized in revenue.

**19. Related Party Transaction**

Our Founder is a party to the TRA and received approximately 45% of the TRA Termination Consideration. See Note 17 - Payable Pursuant to the Tax Receivable Agreement.

As part of the LLC Agreement we are required to pay tax distributions to the non-controlling interest holders, some of which are considered related parties. See Note 13 - Non-Controlling Interests.

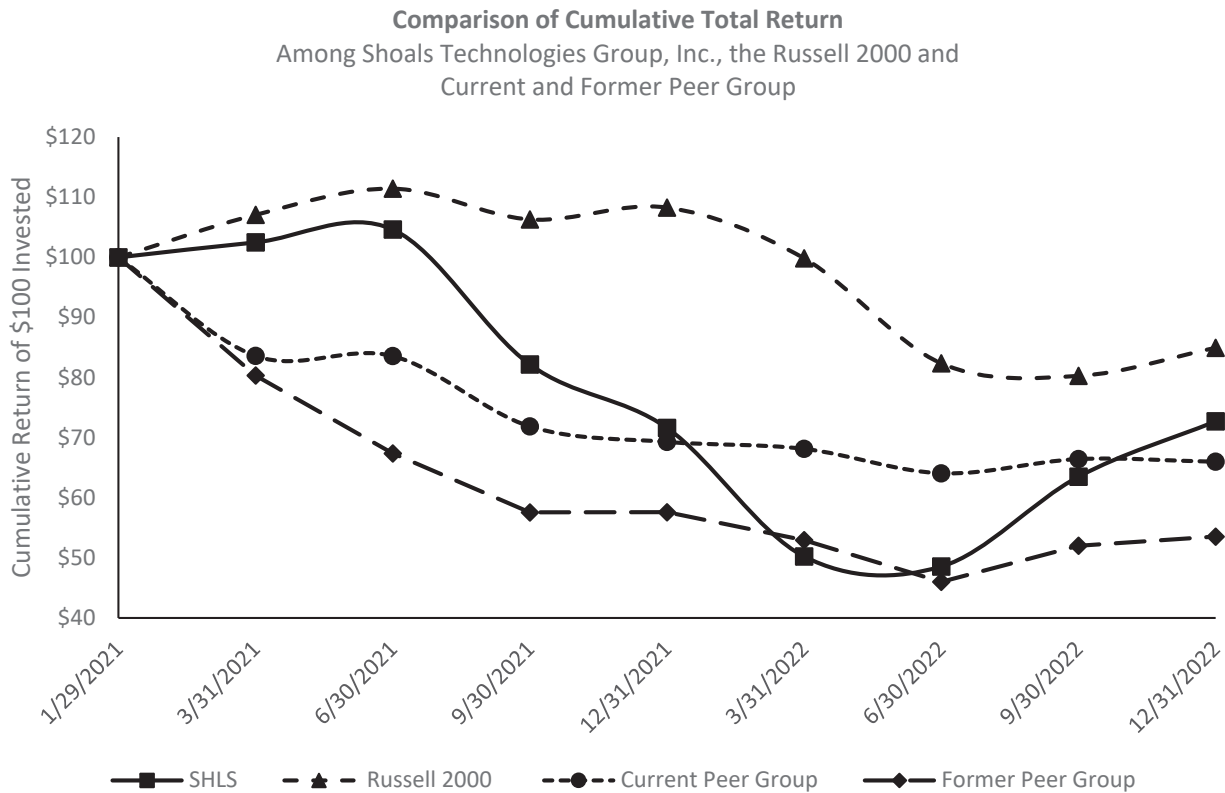
**20. Subsequent Events**

On February 24, 2023, we entered into a separation agreement with our Chief Executive Officer, memorializing the terms and conditions of his termination for disability for health reasons, effective as of March 15, 2023. As a result of the separation, pursuant to his grant agreements, subject to our Chief Executive Officer's continued employment in good standing with the Company through March 15, 2023 and certain other conditions, all unvested RSUs will accelerate and immediately vest, and a prorated portion of unvested PSUs will accelerate and immediately vest based on target performance, determined by the number of days of employment with the Company during the three-year performance period that started on January 1, 2022. In connection with the acceleration of the RSUs and PSUs, we estimate that equity-based compensation expense related to the separation will total \$4.0 million, which will be recognized during the three months ended March 31, 2023.

## SHAREHOLDER RETURN PERFORMANCE GRAPH

The following graph compares the cumulative total return on our Class A common stock with that of the Russell 2000 Index and our peer group during each quarterly accounting period from January 29, 2021 (the date our common stock began trading on the Nasdaq Global Market) through December 31, 2022. Our peer group is the MAC Global Solar Energy Index (SUNIDX), which is comprised of companies in the solar energy industry (and which we believe provides a better benchmark to compare our cumulative total returns and intend to use going forward), the Russell 2000 Index, and the peer group we presented in 2021, which includes Enphase Energy, Inc., Solaredge Technologies, Inc., FTC Solar, Inc., ReneSola Ltd., and Array Technologies, Inc. and do not intend to present going forward (the “Former Peer Group”). The graph assumes \$100 was invested in our Class A common stock in each of the aforementioned indices at the close of market on January 29, 2021, and assumes the reinvestment of any dividends. The returns shown are based on historical results and are not intended to suggest future performance.

### Comparison of Shareholder Returns among Shoals Technologies Group, Inc., the Russell 2000 Index and our Current and Former Peer Group



	Jan 29, 2021	Mar 31, 2021	June 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	June 30, 2022	Sep 30, 2022	Dec 31, 2022
Shoals Technologies Group, Inc.	\$ 100	\$ 103	\$ 105	\$ 82	\$ 72	\$ 50	\$ 49	\$ 64	\$ 73
Russell 2000	\$ 100	\$ 107	\$ 111	\$ 106	\$ 108	\$ 100	\$ 82	\$ 80	\$ 85
Peer Group	\$ 100	\$ 84	\$ 84	\$ 72	\$ 69	\$ 68	\$ 64	\$ 66	\$ 66
Former Peer Group	\$100	\$80	\$67	\$58	\$58	\$53	\$46	\$52	\$54



## COMPANY INFORMATION

### ANNUAL MEETING

Shoals Technologies Group, Inc.'s 2023 Annual Meeting will be held on May 4, 2023 at 10:00 a.m., Eastern Time, virtually, via live audio webcast at [www.virtualshareholdermeeting.com/SHLS2023](http://www.virtualshareholdermeeting.com/SHLS2023).

### FORM 10-K ANNUAL REPORT

A copy of the Shoals Technologies Group, Inc. Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission is available to shareholders upon written request to our Secretary or by visiting our website at <https://investors.shoals.com>

### COMMON STOCK LISTED (SHLS)

Nasdaq Global Market

### INVESTOR RELATIONS

1400 Shoals Way  
Portland, TN 37148  
[investors@shoals.com](mailto:investors@shoals.com)

### TRANSFER AGENT

Computershare Trust  
Company, N.A.  
P.O. Box 505005  
Louisville, KY 40233-5005

### PRINCIPAL EXECUTIVE OFFICES

1400 Shoals Way  
Portland, TN 37148

### OUR BOARD OF DIRECTORS

**Brad Forth** C, NCG\*  
*Chair of the Board of  
Directors*  
Director, Array Technologies

**Peter Wilver** A, NCG  
*Director*  
Director, Evoqua Water  
Technologies, Baxter  
International and  
LivaNova PLC

**Ty Daul** A  
*Director*  
Chief Executive Officer and Director,  
Primergy Solar

**Toni Volpe** A  
*Director*  
Chief Executive Officer and  
Director, Falck Renewables S.p.A.

**Lori Sundberg** C\*, NCG  
*Director*  
HR Executive at Performance and  
Talent Solutions

**Robert Julian** A\*  
*Director*  
Chief Financial Officer, The  
RealReal, Inc.

**Jeannette Mills** C  
*Director*  
Executive Vice President and Chief  
External Relations Officer at  
Tennessee Valley Authority

### OUR EXECUTIVE OFFICERS

Jeffery Tolnar  
President, Interim Chief Executive  
Officer

**Dominic Bardos**  
Chief Financial Officer

**Mehgan Peetz**  
Chief Legal Officer and  
Corporate Secretary

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A Audit Committee  
C Compensation Committee  
NCG Nominating & Corporate  
Governance Committee  
\* Denotes Chair of Committee

