

REFINITIV

DELTA REPORT

10-Q

SHLS - SHOALS TECHNOLOGIES GROUP
10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1009
CHANGES	178
DELETIONS	444
ADDITIONS	387

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2023 March 31, 2024

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)

(615)

451-
1400

(Registrant's telephone number, including area code)

(615) N/A

451-1400 (Former name, former address and former fiscal year, if changed since last report)

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

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

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. ☐

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

As of **October 31, 2023** **April 30, 2024**, the registrant had **170,057,495** **170,420,309** shares of Class A common stock and no shares of Class B common stock issued and outstanding.



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FORWARD-LOOKING STATEMENTS

This **report** Quarterly Report on Form 10-Q ("Form 10-Q") of Shoals Technologies Group, Inc. (the "Company," "we," "us," "our," and "Shoals") 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; **expectations regarding the utility scale solar market; project delays; regulatory environment; pipeline and orders;** business strategies; technology developments; financing and investment plans; warranty, litigation and liability accruals and estimates of loss or gains; litigation strategy and expected benefits or results from the current intellectual property and wire insulation shrinkback **(as defined below)** litigation; competitive position; **industry and regulatory environment;** potential growth opportunities, including international growth, production and capacity at our plants; 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 expectations are included in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Part I and Item 1A "Risk Factors" of Part II of this Form 10-Q, as well as Part I Item 1A "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

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. Some of the key factors that could cause actual results to differ from our expectations include the following:

- 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;
- if we fail to accurately estimate the potential losses related to the wire insulation shrinkback matter, or fail to recover the costs and expenses incurred by us from the supplier, our profit margins, financial results, business and prospects could be materially adversely impacted;
- defects or performance problems in our products or their parts, including those related to the wire insulation shrinkback matter, could result in loss of customers, reputational damage and decreased revenue, and may have a material adverse effect on our business, financial condition and results of operations;
- if we fail may experience delays, disruptions, quality control or reputational problems in our manufacturing operations in part due to accurately estimate the potential losses related to the wire insulation shrinkback warranty liability, our financial results could be materially adversely impacted; vendor concentration;
- if we fail to recover the costs and expenses incurred by us in connection with the identification, repair and replacement of the defective Prysmian wire, our financial results, business and prospects could be materially adversely impacted;
- our industry has historically been cyclical and experienced periodic downturns;
- current macroeconomic events, including high 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 and may continue to disrupt our supply chain, including as a result of the imposition of additional duties, tariffs and other charges on imports and exports;

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- if we fail to retain our key personnel and attract additional qualified personnel, we are unable to execute a smooth transition and successfully integrate our new Chief Executive Officer, 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;
- if we fail to retain our key personnel and attract additional qualified personnel, or successfully integrate our new Chief Executive Officer, our business strategy and prospects 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;

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- we may face difficulties with respect to the planned consolidation and relocation of our Tennessee-based manufacturing and distribution operations, and may not realize the benefits thereof;
- unsatisfactory safety performance may subject us to penalties, negatively impact customer relationships, result in higher operating costs, and negatively impact employee morale and turnover;
- 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;

- current macroeconomic events, including high inflation, high interest rates, a potential recession and geopolitical instability could impact our business and financial results;
- our industry has historically been cyclical and experienced periodic downturns;
- 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 are subject to risks associated with legal proceedings and claims, including the patent infringement complaints that we filed with the U.S. International Trade Commission (the "ITC") and two District Courts, the securities litigation initiated in March 2024, and other legal proceedings and claims, which may or may not arise in the normal course of 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, including those that are subject to the patent infringement complaints we filed with the ITC and two District Courts, 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 Class A 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 electrical vehicle ("EV") EV charging market is highly dependent on the demand for, and consumers' willingness to adopt, EVs; EVs, as well as on the actions of federal, foreign, state and local governments;
- 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;
- 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;
- 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;
- 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;

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- 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 expansion outside the U.S. could subject us to additional business, financial, regulatory and competitive risks;
- 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;
- amounts included in our backlog and awarded orders may not result in actual revenue or translate into profits;
- 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 trade restrictions, import tariffs, and antidumping anti-dumping and countervailing duties could adversely affect the amount or timing of our revenue, results of operations or cash flows;
- future sales 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;
- we cannot assure you that the price of our Class A common stock will not decline or not be subject to significant volatility;

- future sales, or the perception that such of future sales, may occur, by us in the public market could depress cause the market price for our Class A common stock price; to decline;
- 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;

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- 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;
- we do not intend to pay any cash distributions or dividends on our Class A common stock in the foreseeable future;
- we face risks related to actual or threatened health epidemics or pandemics, such as the COVID-19 pandemic; 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.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

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

		September 30, 2023	December 31, 2022		
March 31, 2024				March 31, 2024	December 31, 2023
Assets	Assets				
Current Assets	Current Assets				
Current Assets					
Current Assets					
Cash and cash equivalents					
Cash and cash equivalents					
Cash and cash equivalents	Cash and cash equivalents	\$ 9,224	\$ 8,766		
Accounts receivable, net	Accounts receivable, net	108,886	50,575		
Unbilled receivables	Unbilled receivables	28,506	16,713		
Inventory, net	Inventory, net	60,961	72,854		
Other current assets	Other current assets	6,664	4,632		

Total Current Assets	Total Current Assets	214,241	153,540
Property, plant and equipment, net	Property, plant and equipment, net	22,789	16,870
Goodwill	Goodwill	69,941	69,941
Other intangible assets, net	Other intangible assets, net	50,564	56,585
Deferred tax assets	Deferred tax assets	477,073	291,634
Other assets	Other assets	5,540	6,325
Total Assets	Total Assets	\$ 840,148	\$ 594,895
Liabilities and Stockholders' Equity	Liabilities and Stockholders' Equity		
Liabilities and Stockholders' Equity			
Liabilities and Stockholders' Equity			
Current Liabilities	Current Liabilities		
Current Liabilities			
Current Liabilities			
Accounts payable			
Accounts payable			
Accounts payable	Accounts payable	\$ 16,615	\$ 9,481
Accrued expenses and other	Accrued expenses and other	21,516	17,322
Warranty liability— current portion	Warranty liability— current portion	17,254	560
Deferred revenue	Deferred revenue	27,025	23,259
Long-term debt—current portion	Long-term debt— current portion	2,000	2,000
Total Current Liabilities	Total Current Liabilities	84,410	52,622
Revolving line of credit	Revolving line of credit	—	48,000
Long-term debt, less current portion	Long-term debt, less current portion	188,380	189,063
Warranty liability, less current portion	Warranty liability, less current portion	39,360	—
Other long-term liabilities	Other long- term liabilities	3,358	4,221

Total Liabilities	Total Liabilities	315,508	293,906
Commitments and Contingencies (Note 14)	Commitments and Contingencies (Note 14)	Commitments and Contingencies (Note 14)	
Stockholders' Equity	Stockholders' Equity		
Preferred stock, \$0.00001 par value - 5,000,000 shares authorized; none issued and outstanding as of September 30, 2023 and December 31, 2022		—	—
Class A common stock, \$0.00001 par value - 1,000,000,000 shares authorized; 170,054,787 and 137,904,663 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively		2	1
Class B common stock, \$0.00001 par value - 195,000,000 shares authorized; none and 31,419,913 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively		—	1
Preferred stock, \$0.00001 par value - 5,000,000 shares authorized; none issued and outstanding as of March 31, 2024 and December 31, 2023			
Preferred stock, \$0.00001 par value - 5,000,000 shares authorized; none issued and outstanding as of March 31, 2024 and December 31, 2023			
Preferred stock, \$0.00001 par value - 5,000,000 shares authorized; none issued and outstanding as of March 31, 2024 and December 31, 2023			

Class A
common
stock,
\$0.00001 par
value -
1,000,000,000
shares
authorized;
170,420,309
and
170,117,289
shares issued
and
outstanding
as of March
31, 2024 and
December 31,
2023,
respectively

Class B
common
stock,
\$0.00001 par
value -
195,000,000
shares
authorized;
none issued
and
outstanding as
of March 31,
2024 and
December 31,
2023,
respectively

Additional paid-in capital	Additional paid-in capital	466,768	256,894
Accumulated earnings		57,870	34,478
Total stockholders' equity attributable to Shoals Technologies Group, Inc.		524,640	291,374
Non-controlling interests		—	9,615
Retained earnings			
Total stockholders' equity	Total stockholders' equity	524,640	300,989
Total Liabilities and Stockholders' Equity	Total Liabilities and Stockholders' Equity	\$ 840,148	\$ 594,895

See accompanying notes to condensed consolidated financial statements.

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Three Months Ended March 31,					
2024					
Revenue	Revenue	\$134,209	\$90,823	\$358,503	\$232,289
Cost of revenue	Cost of revenue	120,059	54,776	245,579	141,357
Gross profit	Gross profit	14,150	36,047	112,924	90,932
Operating expenses	Operating expenses				
General and administrative expenses	General and administrative expenses	22,551	13,853	59,266	41,037
General and administrative expenses					
General and administrative expenses					
Depreciation and amortization	Depreciation and amortization	2,170	2,229	6,493	6,939
Total operating expenses	Total operating expenses	24,721	16,082	65,759	47,976
Income (loss) from operations		(10,571)	19,965	47,165	42,956
Income from operations					
Interest expense, net	Interest expense, net	(5,899)	(4,754)	(18,400)	(12,760)
Income (loss) before income taxes		(16,470)	15,211	28,765	30,196
Income tax benefit (expense)		6,642	(2,452)	(2,686)	(5,485)
Net income (loss)		(9,828)	12,759	26,079	24,711
Income before income taxes					
Income tax expense					
Net income					
Less: net income attributable to non-controlling interests	Less: net income attributable to non-controlling interests	—	4,801	2,687	9,711
Net income (loss) attributable to Shoals Technologies Group, Inc.		\$ (9,828)	\$ 7,958	\$ 23,392	\$ 15,000
Net income attributable to Shoals Technologies Group, Inc.					

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Earnings (loss) per share of Class A common stock:					
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		Three Months Ended March 31,			
2024				2024	
		2023			
Earnings per share of Class A common stock:					
Basic					
Basic					
Basic	Basic	\$ (0.06)	\$ 0.07	\$ 0.14	\$ 0.13
Diluted	Diluted	\$ (0.06)	\$ 0.07	\$ 0.14	\$ 0.13
Weighted average shares of Class A common stock outstanding:	Weighted average shares of Class A common stock outstanding:				
Basic	Basic	169,965	112,975	162,173	112,561
Basic					
Basic					
Diluted	Diluted	169,965	113,584	162,611	112,816

See accompanying notes to condensed consolidated financial statements.

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

For the three and nine months ended September 30, 2023 March 31, 2024

Class A Common Stock											Class A Common Stock	
			Class A Common Stock		Class B Common Stock		Additional Paid-in Capital		Accumulated Earnings		Non- Controlling Interests	Total Stockholders' Equity
Shares		Amount	Shares	Amount								
Balance at December 31, 2022		137,904,663	\$ 1	31,419,913	\$ 1	\$256,894	\$34,478	\$ 9,615		\$300,989		
Shares												
Shares												

Shares

Balance at December 31,
2023

Balance at December 31,
2023

Balance at December 31,
2023

Net income	Net income	—	—	—	—	—	14,296	2,687	16,983
Equity-based compensation	Equity-based compensation	—	—	—	—	7,523	—	—	7,523
Activity under equity-based compensation plan	Activity under equity-based compensation plan	—	—	—	—	(4,219)	—	687	(3,532)
Distributions to non-controlling interests		—	—	—	—	—	—	(2,628)	(2,628)
Vesting of restricted / performance stock units	Vesting of restricted / performance stock units	495,831	—	—	—	—	—	—	—
Exchange of Class B to Class A common stock, net		31,419,913	1	(31,419,913)	(1)	186,745	—	—	186,745
Reallocation of non-controlling interests		—	—	—	—	10,361	—	(10,361)	—
Balance at March 31, 2023		169,820,407	2	—	—	457,304	48,774	—	506,080
Net income		—	—	—	—	—	18,924	—	18,924
Equity-based compensation		—	—	—	—	4,445	—	—	4,445
Activity under equity-based compensation plan		—	—	—	—	(44)	—	—	(44)
Vesting of restricted stock units		105,687	—	—	—	—	—	—	—
Balance at June 30, 2023		169,926,094	2	—	—	461,705	67,698	—	529,405
Net loss		—	—	—	—	—	(9,828)	—	(9,828)
Equity-based compensation		—	—	—	—	5,092	—	—	5,092
Activity under equity-based compensation plan		—	—	—	—	(276)	—	—	(276)
Vesting of restricted / performance stock units		128,693	—	—	—	—	—	—	—
Elimination of the umbrella-partnership C corporation structure		—	—	—	—	247	—	—	247
Balance at September 30, 2023		170,054,787	\$ 2	—	\$ —	\$466,768	\$57,870	\$ —	\$524,640
Balance at March 31, 2024									

Shoals Technologies Group, Inc.

Condensed Consolidated Statements of Changes in Stockholders' Deficit (Unaudited) (continued)

(in thousands, except shares)

For the three and nine months ended September 30, 2022 March 31, 2023

	Class A Common Stock		Class B Common Stock		Additional Paid- in Capital	Accumulated Deficit	Non-Controlling Interests	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance at December 31, 2021	112,049,981	\$ 1	54,794,479	\$ 1	\$ 95,684	\$ (93,133)	\$ (10,051)	\$ (7,498)
Equity-based compensation	—	—	—	—	5,636	—	—	5,636
Activity under equity-based compensation plan	—	—	—	—	(2,944)	—	1,647	(1,297)
Vesting of restricted stock units	308,416	—	—	—	—	—	—	—
Distributions to non-controlling interests	—	—	—	—	—	—	(2,938)	(2,938)
Net income	—	—	—	—	—	2,640	2,009	4,649
Balance at March 31, 2022	112,358,397	1	54,794,479	1	98,376	(90,493)	(9,333)	(1,448)
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	148	—	—	148
Exchange of Class B to Class A common stock	259,888	—	(259,888)	—	—	—	—	—
Equity-based compensation	—	—	—	—	4,065	—	—	4,065
Activity under equity-based compensation plan	—	—	—	—	(1,326)	—	1,326	—
Vesting of restricted stock units	48,721	—	—	—	—	—	—	—
Distributions to non-controlling interests	—	—	—	—	—	—	(1,628)	(1,628)
Reallocation of non-controlling interests	—	—	—	—	(20)	—	20	—
Net income	—	—	—	—	—	4,402	2,901	7,303
Balance at June 30, 2022	112,667,006	1	54,534,591	1	101,243	(86,091)	(6,714)	8,440
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	676	—	—	676
Exchange of Class B to Class A common stock	718,377	—	(718,377)	—	—	—	—	—
Equity-based compensation	—	—	—	—	3,991	—	—	3,991
Activity under equity-based compensation plan	—	—	—	—	(1,284)	—	1,284	—
Vesting of restricted stock units	122,979	—	—	—	—	—	—	—
Distributions to non-controlling interests	—	—	—	—	—	—	(3,196)	(3,196)
Reallocation of non-controlling interests	—	—	—	—	(87)	—	87	—

Shoals Technologies Group, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Deficit (Unaudited) (continued)
(in thousands, except shares)

Class A Common Stock										Class A Common Stock	Class Common Stoc	
		Class A Common Stock			Class B Common Stock	Additional Paid-in Capital		Accumulated Deficit		Non- Controlling Interests	Total Stockholders' Equity (Deficit)	
	Shares	Amount	Shares	Amount								
	Shares											
	Shares											
	Shares											
Balance at December 31, 2022												
Balance at December 31, 2023												

December 31, 2022									
Balance at									
December 31, 2022									
Net income	Net income	—	—	—	—	—	7,958	4,801	12,759
Balance at									
September 30, 2022	113,508,362	\$ 1	53,816,214	\$ 1	\$104,539	\$(78,133)	\$(3,738)		\$22,670
Equity-based compensation									
Activity under equity-based compensation plan									
Distributions to non-controlling interests									
Vesting of restricted / performance stock units									
Exchange of Class B to Class A common stock, net									
Reallocation of non-controlling interests									
Balance at March 31, 2023									

See accompanying notes to condensed consolidated financial statements.

Shoals Technologies Group, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

		Nine Months Ended September 30,	
		2023	2022
		Three Months Ended March 31,	
		2024	2023
Cash Flows from Operating Activities	Cash Flows from Operating Activities		
Net income	Net income	\$26,079	\$24,711
Net income			
Net income			

Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	Depreciation and amortization		
Depreciation and amortization	Depreciation and amortization	7,744	8,001
Amortization/write off of deferred financing costs	Amortization/write off of deferred financing costs	1,032	1,023
Equity-based compensation	Equity-based compensation	17,060	11,887
Provision for credit losses	Provision for credit losses	296	—
Provision for obsolete or slow-moving inventory	Provision for obsolete or slow-moving inventory	3,639	443
Provision for warranty expense	Provision for warranty expense	59,723	—
Deferred taxes	Deferred taxes	2,456	5,299
Changes in assets and liabilities:	Changes in assets and liabilities:		
Accounts receivable	Accounts receivable		
Accounts receivable	Accounts receivable	(58,607)	(40,084)
Unbilled receivables	Unbilled receivables	(11,793)	1,972
Inventory	Inventory	8,254	(43,601)
Other assets	Other assets	(1,192)	(381)
Accounts payable	Accounts payable	7,390	1,186
Accrued expenses and other	Accrued expenses and other	3,330	7,679
Warranty liability	Warranty liability	(3,669)	—
Deferred revenue	Deferred revenue	3,766	26,879
Net Cash Provided by Operating Activities	Net Cash Provided by Operating Activities	65,508	5,014
Cash Flows from Investing Activities	Cash Flows from Investing Activities		
Purchases of property, plant and equipment	Purchases of property, plant and equipment	(7,642)	(2,393)
Other	Other	(269)	(503)
Purchases of property, plant and equipment	Purchases of property, plant and equipment		
Purchases of property, plant and equipment	Purchases of property, plant and equipment		
Net Cash Used in Investing Activities	Net Cash Used in Investing Activities	(7,911)	(2,896)
Cash Flows from Financing Activities	Cash Flows from Financing Activities		
Distributions to non-controlling interests	Distributions to non-controlling interests		
Distributions to non-controlling interests	Distributions to non-controlling interests		

Distributions to non-controlling interests	Distributions to non-controlling interests	(2,628)	(7,762)
Employee withholding taxes related to net settled equity awards	Employee withholding taxes related to net settled equity awards	(3,852)	(1,297)
Payments on term loan facility	Payments on term loan facility	(1,500)	(1,500)
Proceeds from revolving credit facility	Proceeds from revolving credit facility	5,000	46,000
Repayments of revolving credit facility	Repayments of revolving credit facility	(53,000)	(15,500)
Deferred financing costs			
Other	Other	(1,159)	—
Net Cash Provided by (Used in) Financing Activities		(57,139)	19,941
Net Increase in Cash, Cash Equivalents and Restricted Cash		458	22,059
Cash, Cash Equivalents and Restricted Cash—Beginning of Period		8,766	9,557
Cash, Cash Equivalents and Restricted Cash—End of Period		\$ 9,224	\$31,616
Net Cash Used in Financing Activities			
Net Decrease in Cash and Cash Equivalents			
Cash and Cash Equivalents—Beginning of Period			
Cash and Cash Equivalents—End of Period			

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

		Nine Months Ended September 30,	
		2023	2022
Three Months Ended March 31,		Three Months Ended March 31,	
2024		2024	2023
Supplemental Cash Flows Information:	Supplemental Cash Flows Information:		
Supplemental Cash Flows Information:			

Supplemental Cash Flows Information:			
Cash paid for interest			
Cash paid for interest			
Cash paid for interest	Cash paid for interest	\$ 17,380	\$8,376
Cash paid for taxes			
Cash paid for taxes	Cash paid for taxes	\$ 991	\$ 767
Non-cash investing and financing activities:			
Recording of deferred tax assets related to exchanges of Class B common stock to Class A common stock			
		\$187,648	\$5,453
Recording of amounts payable pursuant to tax receivable agreement			
		\$ —	\$4,629
Capital contribution related to tax receivable agreement exchanges of Class B common stock to Class A common stock			
		\$187,648	\$ 824
Recording of deferred tax assets and capital contribution related to exchanges of Class B common stock to Class A common stock			
Recording of deferred tax assets and capital contribution related to exchanges of Class B common stock to Class A common stock			
Recording of deferred tax assets and capital contribution related to exchanges of Class B common stock to Class A common stock			

See accompanying notes to condensed consolidated financial statements.

Shoals Technologies Group, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

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 Parent LLC”). Shoals Parent LLC is was a Delaware limited liability company formed on May 9, 2017. The IPO and related reorganization transactions that occurred on January 29, 2021 resulted in the Company becoming the sole managing member of Shoals Parent, with the Company having sole voting power in and control of the

management of Shoals Parent. On July 1, 2023, the Company contributed 100% of its membership interests ("LLC Interests") in Shoals Parent LLC to its wholly-owned subsidiary Shoals Intermediate Parent, Inc. ("Shoals Intermediate"). As of September 30, 2023 the Company, including Shoals Intermediate, owned 100% of Shoals Parent. Following the contribution, Shoals Parent became a disregarded single member limited liability company, eliminating the Company's umbrella-partnership C corporation structure ("Up-C structure"). company.

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 primarily in the United States as well as internationally.

On July 1, 2023, the Company contributed 100% of its limited liability interests of Shoals Parent through LLC ("LLC Interests") to its wholly-owned subsidiaries, subsidiary Shoals Intermediate Holdings LLC Parent, Inc. ("Shoals Intermediate Holdings" Parent"), and following the contribution, Shoals Holdings Parent LLC became a disregarded single member limited liability company, eliminating the umbrella-partnership C corporation structure ("Holdings" Up-C structure"). Following the elimination of the Up-C structure, effective December 31, 2023, the Company consummated an internal reorganization transaction whereby certain of the Company's wholly-owned subsidiaries merged with and into other subsidiaries. As part of this reorganization, Shoals Parent LLC merged with and into Shoals Intermediate Parent, with Shoals Intermediate Parent as the surviving corporation. As of March 31, 2024, the Company owns five other subsidiaries through which it conducts substantially all operations: directly or indirectly four subsidiaries: Shoals Technologies, LLC, Intermediate Parent, Shoals Technologies Group, LLC, Solon, LLC (collectively "Shoals"), Shoals International, LLC and Shoals Connect LLC. Shoals Parent acquired Shoals on May 25, 2017.

Secondary Offering

On March 10, 2023, selling stockholders, which consisted of certain entities controlled by Dean Solon, our founder (the "Founder"), completed a secondary offering consisting of 24,501,650 shares of Class A common stock. Following the closing of the secondary offering, the Founder no longer owned any shares of our Class B common stock or LLC Interests. The Company did not receive any proceeds from the sale of shares of our Class A common stock by the selling stockholders in this offering.

Shoals Technologies Group, Inc. Ownership of Shoals Parent

In March 2023, following the secondary offering described above, all Continuing Equity Owners (as defined in Note 12 - Stockholders' Equity), exchanged all the LLC Interests and corresponding shares of Class B common stock of the Company beneficially owned by them into shares of Class A common stock of the Company. As a result, upon effectiveness of such exchanges, and prior to the July 1, 2023 contribution described above, all of the LLC Interests in Shoals Parent were held by the Company, no other holders own LLC Interests and no Class B common stock is outstanding. Energy Spain, S.L.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The condensed 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

Shoals Technologies Group, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The condensed 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 condensed consolidated statements of operations represented a portion of earnings or loss attributable to the economic interests in the Company's former subsidiary, Shoals Parent LLC, formerly held by the Continuing Equity Owners (as defined in Note 12 - Stockholders' Equity). Non-controlling interests on the condensed consolidated balance sheets represented the portion direct or indirect holders 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, and our Class B common stock, including the founder and certain current and former executive officers, employees and their respective permitted transferees (collectively, the "Continuing Equity Owners"). As of September 30, 2023, March 2023, the Company, along with a wholly-owned subsidiary, Shoals Intermediate Parent, owned 100% of Shoals Parent. Parent LLC. Effective December 31, 2023, Shoals Parent LLC merged with and into Shoals Intermediate Parent with Shoals Intermediate Parent as the surviving corporation.

Unaudited Interim Financial Information

Shoals Technologies Group, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The accompanying condensed consolidated balance sheets as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the condensed consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the audited annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of September 30, 2023 March 31, 2024 and the results of its operations and its cash flows for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023. The financial data and other information disclosed in these notes related to the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 are also unaudited. The results for the three and nine months ended September 30, 2023 March 31, 2024 are not necessarily indicative of results to be expected for the year ending December 31, 2023 December 31, 2024, any other interim periods, or any future year or period. The balance sheet as of December 31, 2022 December 31, 2023 included herein was derived from the audited financial statements as of that date. Certain disclosures have been condensed or omitted from the interim condensed consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP 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 condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially 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, valuation allowance on deferred tax assets, equity-based compensation expense and warranty liability.

Trends and Uncertainties

In 2022 and to a lesser extent during the first three quarters of 2023, significant levels of inflation resulted in increased energy prices, freight premiums, and other operating costs. As a result of inflation, during 2022 and the first three quarters of 2023, the Federal Reserve increased interest rates. Such increased interest rates have resulted in higher interest rates associated with our Senior Secured Credit Agreement, as defined in

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 8 - Long-Term Debt. 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 and to a lesser extent during the first three quarters of 2023, as a consequence of macroeconomic events, our ability to obtain raw materials required to manufacture our components and system solutions from domestic and international suppliers, 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 a significant amount of raw materials from Europe. However, the ongoing conflict in Ukraine has reduced the availability of certain materials 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 throughout the year. 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, although we did not experience such negative effects during the first three quarters of 2023. 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. During the first three quarters of 2023, we continued to monitor and optimize our inventory levels.

As of September 30, 2023, other than increased interest expense, we did not experience material adverse effects on our financial results from the events and trends discussed above.

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 condensed consolidated statements of cash flows. Restricted cash is restricted as to withdrawal or use. Prior to the termination of the Tax Receivable Agreement ("TRA"), tax distributions paid by Shoals Parent to the Company were restricted under the limited liability company agreement ("LLC Agreement") for future payments under the TRA and totaled \$20.4 million as of September 30, 2022. There was no restricted cash as of September 30, 2023.

	September 30, 2023	September 30, 2022
Cash and cash equivalents	\$ 9,224	\$ 11,202
Restricted cash included in other current asset	—	3,583

Restricted cash included in other assets	—	16,831
Total cash, cash equivalents and restricted cash	\$ 9,224	\$ 31,616

Shoals Technologies Group, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Customer Concentrations

The Company had the following revenue concentrations representing approximately 10% or more of revenue for the **nine three** months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** and related accounts receivable concentrations as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**:

	2023		2022	
	Revenue %	Accounts Receivable %	Revenue %	Accounts Receivable %
Customer A	34.1 %	41.3 %	9.0 %	8.4 %

	2024		2023	
	Revenue %	Accounts Receivable %	Revenue %	Accounts Receivable %
Customer A	36.0 %	33.1 %	19.0 %	37.5 %

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.

Shoals Technologies Group, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

- **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 long-term debt approximates fair value and is considered level 2, as it is based on current market rates at which the Company could borrow funds with similar terms.

Recent Accounting Pronouncements

Not Yet Adopted

In October **2021, 2023**, the FASB issued **Accounting Standard ASU 2023-06 Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update ("ASU") No. 2021-08, Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, Simplification Initiative**. This ASU **requires** amends the disclosure or presentation requirements related to various subtopics in the FASB Accounting Standards Codification. For SEC registrants, the effective date for each amendment will be the date on which the SEC's removal of that **contract assets and contract liabilities acquired** related disclosure requirement from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The Company will monitor the removal of various requirements from the current regulations in a business combination be recognized and measured in accordance with Topic 606. **At the acquisition date, an acquirer should account for order to determine when to adopt the related revenue contracts amendments, but does not anticipate the adoption of the new guidance will have a material impact on the Company's consolidated financial statements. The Company will continue to evaluate the impact of this guidance on its consolidated financial statements.**

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which modifies the disclosure and presentation requirements of reportable segments. The amendments in accordance with Topic 606 as if it had originated the contracts, update require the disclosure of significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and included within each reported measure of segment profit and loss. The amendments also require disclosure of all other segment items by reportable segment and a description of its composition. Additionally, the amendments require disclosure of the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. This guidance update is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2022, including interim periods within December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact that fiscal year. The adoption of this standard on January 1, 2023 did not guidance will have an impact on the Company's condensed presentation of its consolidated financial statements.

Not Yet Adopted In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which expands disclosures in an entity's income tax rate reconciliation table and disclosures regarding cash taxes paid both in the U.S. and foreign jurisdictions. The update will be effective for annual periods beginning after December 15, 2024. The Company is currently evaluating the impact that this guidance will have on the presentation of its consolidated financial statements.

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 condensed consolidated financial statements.

3. Accounts Receivable

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

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

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

		September 30, 2023	December 31, 2022		
		March 31, 2024		March 31, 2024	December 31, 2023
Accounts receivable	Accounts receivable	\$ 109,645	\$ 51,061		
Less: allowance for credit losses	Less: allowance for credit losses	(759)	(486)		
Accounts receivable, net	Accounts receivable, net	\$ 108,886	\$ 50,575		

4. Inventory

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

		September 30, 2023	December 31, 2022		
		March 31, 2024		March 31, 2024	December 31, 2023
Raw materials	Raw materials	\$ 64,105	\$ 73,970		
Work in process	Work in process	2,699	1,023		
Finished goods	Finished goods	592	785		

Allowance for obsolete or slow-moving inventory	Allowance for obsolete or slow-moving inventory	(6,435)	(2,924)
Inventory, net	Inventory, net	\$ 60,961	\$ 72,854

5. Property, Plant and Equipment

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

		Estimated Useful Lives (Years)	Estimated Useful Lives (Years)	March 31, 2024	March 31, 2024
				September 30, 2023	December 31, 2022
		Estimated Useful Lives (Years)	March 31, 2024	December 31, 2023	
Land	Land		\$ 840	\$ 840	
Building and land improvements	Building and land improvements	5-40	11,975	9,031	
Machinery and equipment	Machinery and equipment	3-5	16,379	12,371	
Furniture and fixtures	Furniture and fixtures	3-7	2,336	1,787	
Vehicles	Vehicles	5	125	125	
			31,655	24,154	
			36,836		
Less: accumulated depreciation	Less: accumulated depreciation		(8,866)	(7,284)	
Property, plant and equipment, net	Property, plant and equipment, net		\$ 22,789	\$ 16,870	

Depreciation expense for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 was \$0.7 million \$1.1 million and \$0.5 million, respectively. During the three months ended September 30, 2023 March 31, 2024 and 2022, \$0.5 million 2023, \$0.9 million and \$0.4 million, respectively, of depreciation expense was allocated to cost of revenue and \$0.2 million and \$0.1 million, respectively, of depreciation expense was allocated to operating expenses.

Depreciation expense for

6. Goodwill and Other Intangible Assets

Goodwill

There were no changes in the nine carrying amount of goodwill during the three months ended September 30, 2023 March 31, 2024. Goodwill totaled \$69.9 million as of March 31, 2024 and 2022 was \$1.7 million and \$1.4 million, respectively. During the nine months ended September 30, 2023 and 2022, \$1.2 million and \$1.1 million, respectively, of depreciation expense was allocated to cost of revenue and \$0.5 million and \$0.3 million, respectively, of depreciation expense was allocated to operating expenses. December 31, 2023.

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

6. Goodwill and Other Intangible Assets

Goodwill

Goodwill relates to the acquisition of Shoals and ConnectPV, Inc. There were no changes in the carrying amount of goodwill during the nine months ended September 30, 2023. Goodwill totaled \$69.9 million as of September 30, 2023 and December 31, 2022.

Other Intangible Assets

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

		Estimated Useful Lives (Years)	September 30, 2023	December 31, 2022		
Estimated Useful Lives (Years)					March 31, 2024	December 31, 2023
Amortizable:	Amortizable:					
Costs:	Costs:					
Costs:						
Costs:						
	Customer relationships					
	Customer relationships					
Customer relationships	Customer relationships	13	\$ 53,100	\$ 53,100		
Developed technology	Developed technology	13	34,600	34,600		
Trade names	Trade names	13	11,900	11,900		
Backlog	Backlog	1	600	600		
Noncompete agreements	Noncompete agreements	5	2,000	2,000		
Total amortizable intangibles	Total amortizable intangibles		102,200	102,200		
Accumulated amortization:	Accumulated amortization:					
Customer relationships	Customer relationships		26,124	22,925		
	Customer relationships					
	Customer relationships					
Developed technology	Developed technology		16,856	14,860		
Trade names	Trade names		6,056	5,230		
Backlog	Backlog		600	600		
Noncompete agreements	Noncompete agreements		2,000	2,000		
Total accumulated amortization	Total accumulated amortization		51,636	45,615		
Total other intangible assets, net	Total other intangible assets, net		\$ 50,564	\$ 56,585		

Amortization expense related to intangible assets amounted to \$2.0 million \$1.9 million and \$2.1 million \$2.0 million for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively, and \$6.0 million and \$6.6 million for the nine months ended September 30, 2023 and 2022, 2023, respectively.

7. Accrued Expenses and Other

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

		September 30, 2023	December 31, 2022		
	March 31, 2024			March 31, 2024	December 31, 2023
Accrued compensation	Accrued compensation \$	9,033	\$ 4,917		
Accrued interest	Accrued interest	7,095	7,226		
Other accrued expenses	Other accrued expenses	5,388	5,179		
Total accrued expenses and other	Total accrued expenses and other	\$ 21,516	\$ 17,322		

8. Warranty Liability

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

General Warranty

The Company offers an assurance type warranty for its products against manufacturer defects which 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. As of September 30, 2023, March 31, 2024 and December 31, 2023, our estimated general warranty liability was approximately zero, \$0.6 million and \$0.1 million, zero, respectively. The Company recorded total warranty expense related to general warranty matters of \$0.2, \$0.6 million and \$0.6 million, zero, respectively, for the three and nine months ended September 30, 2023, respectively, March 31, 2024 and zero for the three and nine months ended September 30, 2022, 2023.

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

Wire Insulation Shrinkback Warranty

The Company has been notified by certain customers that a subset of wire harnesses used in its EBOS solutions is presenting unacceptable levels of pull back contraction of wire insulation at connection points ("wire insulation shrinkback"). Based upon the Company's ongoing assessment, the Company currently believes the wire insulation shrinkback is related to defective red wire manufactured by Prysmian. Prysmian Cables and Systems USA, LLC ("Prysmian"). Based on the Company's continued analysis of information available as of the date of this Quarterly Report, which includes better visibility into the scope of affected sites and potential solutions, including identification, repair and replacement of harnesses, the Company has determined that a potential range of loss was both probable and reasonably estimable and has updated its estimable. As of March 31, 2024, the estimate of potential losses remains unchanged from the estimate provided in the previous quarter. However, as of December 31, 2023, As no amount within the current range of loss appears to be a better estimate than any other amount, the Company has recorded a warranty liability and related expense representing the low end of the range of potential loss of \$59.7 million. The high-end of the range of potential loss is \$184.9 million, which is \$125.2 million higher than the amount we recorded. As of September 30, 2023, March 31, 2024 and December 31, 2023, our recorded warranty liability related to this matter was \$56.6 million, \$51.2 million and \$54.9 million, respectively.

The estimated range is based on several assumptions, including the potential magnitude of engineering, procurement and as additional information becomes available, construction firm's labor cost to identify and perform the repair and replacement of impacted harnesses, estimated failure rates, materials replacement cost, planned remediation method, inspection costs, and other various assumptions. While our wire insulation shrinkback warranty liability represents our best estimate of the range of expected losses at any given time, the Company is in the early stages of the identification, repair and replacement process and may increase or decrease its estimated warranty liability from its current estimate and such as additional information becomes available, including with respect to experience relating to weather delays, site access, vegetation management or other factors. Such increase or decrease may be material. The Company does not maintain insurance for product warranty issues and has commenced a lawsuit against Prysmian, as discussed in more detail under Wire Insulation Shrinkback

Litigation section of Note 14 - Commitments and Contingencies. Because the lawsuit against Prysmian is ongoing, potential recovery from Prysmian is not considered probable as defined in ASC 450, and has not been considered in our estimate of the warranty liability as of **September 30, 2023** **March 31, 2024**.

The Company recorded total warranty expense related to this matter of **\$50.2 million** and **\$59.1 million** for the three and nine months ended **September 30, 2023**, respectively, and zero for the three and nine months ended **September 30, 2022**, **March 31, 2024** and **2023**.

Warranty liability, which includes both general warranty and wire insulation shrinkback warranty, is estimated as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
Warranty liability, beginning of period	\$ 54,914	\$ 560
Warranty expense	565	—
Payments	(3,680)	(160)
Warranty liability, end of period	51,799	400
Less: current portion	31,708	400
Warranty liability, net current portion	\$ 20,091	\$ —

9. Long-Term Debt

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

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

Warranty liability, which includes both general warranty and wire insulation shrinkback warranty, consists of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Warranty liability, beginning of period	\$ 9,634	\$ 60	\$ 560	\$ 60
Warranty expense	50,421	—	59,723	—
Payments	(3,441)	—	(3,669)	—
Warranty liability, end of period	56,614	60	56,614	60
Less: current portion	17,254	60	17,254	60
Warranty liability, less current portion	\$ 39,360	\$ —	\$ 39,360	\$ —

9. Long-Term Debt

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

		September 30, 2023	December 31, 2022
March 31, 2024		March 31, 2024	
		December 31, 2023	
Term	Term		
Loan	Loan		
Facility	Facility	\$ 193,750	\$ 195,250
Revolving	Revolving		
Credit	Credit		
Facility	Facility	—	48,000
Less:	Less:		
deferred	deferred		
financing	financing		
costs	costs	(3,370)	(4,187)

Total debt, net of deferred financing costs	Total debt, net of deferred financing costs	190,380	239,063
Less: current portion	Less: current portion	(2,000)	(2,000)
Long-term debt, net current portion	Long-term debt, net current portion	\$ 188,380	\$ 237,063

Senior Secured Credit Agreement

Holdings The Company has a senior secured credit agreement (as amended, the "Senior Secured Credit Agreement"), consisting which consisted of (i) a \$350.0 million senior secured six-year term loan facility (the "Term Loan Facility") and (ii) a \$150.0 million revolving credit facility (the "Revolving Credit Facility").

On January 19, 2024, the Company used proceeds from the Revolving Credit Facility to make a \$100.0 million voluntary prepayment of outstanding borrowings under the Term Loan Facility.

On March 19, 2024, the Company entered into an amendment to the Senior Secured Credit Agreement. The amendment, among other things, (i) increases the amount available for borrowing under the Revolving Credit Facility from \$150.0 million to \$200.0 million, (ii) reduces the interest rate margin applicable to the Revolving Credit Facility by at least 0.25%, with additional 0.25% step-downs if the consolidated first lien secured leverage ratio does not exceed certain thresholds (which step-downs will step back up if such leverage ratio exceeds those thresholds), (iii) reduces the commitment fee applicable to the undrawn amount of the Revolving Credit Facility by at least 0.10% with additional 0.05% step-downs if the consolidated first lien secured leverage ratio does not exceed certain thresholds (which step-downs will step back up if such leverage ratio exceeds such thresholds), (iv) lowers the maximum consolidated leverage ratio permitted under the Senior Secured Credit Agreement to (a) 4.25:1.00 from April 1, 2024 through March 31, 2025 and (b) thereafter, 4.00:1.00 (with temporary increases to the maximum consolidated first lien secured leverage ratio in the event a material acquisition closes), (v) extends the maturity date applicable to the Revolving Credit Facility to March 19, 2029, the fifth anniversary of the amendment's effective date, and (vi) amends certain covenants under the Senior Secured Credit Agreement in a manner customary for facilities of this type.

On March 19, 2024, the Company made a \$43.8 million voluntary prepayment of all the outstanding term loans under the Term Loan Facility, thereby terminating all term loan commitments under the Term Loan Facility.

Beginning March 19, 2024 and until the delivery of the Company's compliance certificate for the second quarter of 2024 pursuant to the Senior Secured Credit Agreement, the Revolving Credit Facility bears interest at a rate equal to, at the Company's election, either adjusted term SOFR or base rate (each, as defined in the Senior Secured Credit Agreement) plus (i) in the case of SOFR rate loans, 2.50% per annum and (ii) in the case of base rate loans, 1.50% per annum.

Following the delivery of the Company's compliance certificate for the second quarter of 2024, pursuant to our Senior Secured Credit Agreement, the Revolving Credit Facility bears interest at a rate equal to, at the Company's election, either adjusted term SOFR or base rate (each, as defined in the Senior Secured Credit Agreement) plus an applicable interest rate margin, based upon the consolidated first lien secured leverage ratio. The applicable interest rate margin varies from 2.25% to 3.00% per annum for term benchmark loans and 1.25% to 2.00% per annum for base rate loans.

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

As of September 30, 2023 March 31, 2024, interest rates on the Term Loan Facility were SOFR plus 5.75%, or 11.27%, and on the Revolving Credit Facility ranged from 7.91% to 7.93%, which represented SOFR plus 3.25% 2.50%. As of September 30, 2023 March 31, 2024, there were \$193.8 million \$168.8 million of outstanding under the Term Loan Facility, no borrowings, \$0.2 million of outstanding under the Revolving Credit Facility, letters of credit, of \$0.6 million, and \$149.4 million \$31.0 million of availability under the Revolving Credit Facility.

The Senior Secured Credit Agreement contains affirmative and negative covenants that are customary for financings of this type, including covenants that restrict the Company's 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 As discussed above, 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' consolidated leverage ratio, as of the last day of any quarter,

cannot be greater than 6.50 to 1.00. As of September 30, 2023 March 31, 2024, the Company was in compliance with all the required covenants.

10. Earnings (Loss) per Share ("EPS")

Shoals Technologies Group, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

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 that 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 and restricted/performance stock units are considered common stock equivalents for this purpose.

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Three Months Ended March 31,		Three Months Ended March 31,			
2024		2024		2023	
Numerator:	Numerator:				
Net income (loss) attributable to Shoals Technologies Group, Inc.					
- basic		\$ (9,828)	\$ 7,958	\$23,392	\$15,000
Net income attributable to Shoals Technologies Group, Inc.					
- basic					
Net income attributable to Shoals Technologies Group, Inc.					
- basic					
Net income attributable to Shoals Technologies Group, Inc.					
- basic					
Reallocation of net income attributable to non-controlling interests from the assumed exchange of Class B common stock	Reallocation of net income attributable to non-controlling interests from the assumed exchange of Class B common stock	—	—	—	—
Net income (loss) attributable to Shoals Technologies Group, Inc.					
- diluted		\$ (9,828)	\$ 7,958	\$23,392	\$15,000
Net income attributable to Shoals Technologies Group, Inc. - diluted					
Denominator:	Denominator:				

Weighted average shares of Class A common stock outstanding - basic	Weighted average shares of Class A common stock outstanding - basic	169,965	112,975	162,173	112,561
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Weighted average shares of
Class A common stock
outstanding - basic

Weighted average shares of
Class A common stock
outstanding - basic

Effect of dilutive securities:	Effect of dilutive securities:
<p>1. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>2. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>3. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>4. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>5. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>6. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>7. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>8. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>9. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>10. $\frac{1}{2}$ of the 100 shares are owned by the company.</p>	<p>1. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>2. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>3. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>4. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>5. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>6. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>7. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>8. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>9. $\frac{1}{2}$ of the 100 shares are owned by the company.</p> <p>10. $\frac{1}{2}$ of the 100 shares are owned by the company.</p>

Restricted / performance stock units

Restricted / performance
stock units

Restricted / performance stock units	Restricted / performance stock units	—	609	438	255
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Class B common stock	Class B common stock	—	—	—	—
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Weighted average shares of Class A common stock outstanding - diluted	Weighted average shares of Class A common stock outstanding - diluted	169,965	113,584	162,611	112,816
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Earnings (loss) per share of Class				
A common stock - basic	\$ (0.06)	\$ 0.07	\$ 0.14	\$ 0.13
Earnings (loss) per share of Class				
A common stock - diluted	\$ (0.06)	\$ 0.07	\$ 0.14	\$ 0.13

Earnings per share of Class A
common stock - basic

Earnings per share of Class A common stock - basic

Earnings per share of Class A common stock - basic:

Earnings per share of Class A common stock - diluted

For the **nine** months ended **September 30, 2023** and **March 31, 2024**, there were no shares of Class B common stock outstanding. For the **three** and **nine** months ended **September 30, 2022** and **March 31, 2023**, the reallocation of net income attributable to non-controlling interests 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. For the three months ended September 30, 2023 there were no shares of Class B common stock outstanding and the assumed exercise of any restricted and performance stock units has been excluded as they were antidilutive.

11. Equity-Based Compensation

2021 Long-term Incentive Plan

dilutive effect of Class B common stock to the weighted average shares of Class A common stock outstanding - dilutive, as they were antidilutive.

2021 Long-Term Incentive Plan

Restricted Stock Units

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

Three Months Ended March 31, 2024				Three Months Ended March 31, 2024			
				Nine Months Ended September 30, 2023			
		Restricted Stock Units	Weighted Average Price				
Outstanding, December 31, 2022		1,736,975	\$ 22.34				
		Restricted Stock Units					
		Restricted Stock Units					
		Restricted Stock Units		Weighted Average Price			
Outstanding, December 31, 2023							
Granted	Granted	392,672	\$ 25.25				
Vested	Vested	(823,736)	\$ 20.99				
Forfeited	Forfeited	(74,178)	\$ 22.88				
Outstanding, September 30, 2023		1,231,733	\$ 24.14				
Outstanding, March 31, 2024							

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

		Three Months Ended March 31, 2024		Three Months Ended March 31, 2024	
		Three Months Ended March 31, 2024		Nine Months Ended September 30, 2023	
		Performance Stock Units		Performance Stock Units	
		Nine Months Ended September 30, 2023		Performance Stock Units	
		Performance Stock Units		Weighted Average Price	
Outstanding, December 31, 2022		256,305		\$	11.89
		Performance Stock Units			
Outstanding, December 31, 2023					
Outstanding, December 31, 2023					
Outstanding, December 31, 2023					
Granted					
Granted					
Granted	Granted	205,585		\$	27.75
Vested	Vested	(67,101)		\$	11.86
Vested					
Vested					
Forfeited	Forfeited	(101,323)		\$	13.08
Outstanding, September 30, 2023		293,466		\$	22.59
Forfeited					
Forfeited					
Outstanding, March 31, 2024					
Outstanding, March 31, 2024					
Outstanding, March 31, 2024					

The Company recognized equity-based compensation of \$5.1 million and \$4.0 million for the three months ended September 30, 2023 and 2022, respectively, and \$17.1 million and \$11.9 million for the nine months ended September 30, 2023 and 2022, respectively. As of September 30, 2023, the Company had \$27.7 million of unrecognized compensation costs which is expected to be recognized over a period of 1.7 years.

Shoals Technologies Group, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

The Company recognized equity-based compensation of \$5.0 million and \$7.5 million, respectively, for the three months ended March 31, 2024 and 2023. As of March 31, 2024, the Company had \$26.5 million of unrecognized compensation costs which is expected to be recognized over a weighted average period of 2.0 years.

12. Stockholders' Equity

Shoals Parent LLC Ownership

Prior to July 1, 2023, the Company owned 100% of Shoals Parent LLC, was the sole managing member of Shoals Parent LLC and had the sole voting power in, and controlled the management of, Shoals Parent. As of September 30, 2023 Parent LLC. On July 1, 2023, the Company owned contributed 100% of its LLC Interests to Shoals Intermediate Parent. Following the contribution, Shoals Parent LLC became a disregarded single member limited liability company, eliminating the Company's Up-C structure. Effective December 31, 2023, Shoals Parent LLC merged with and into Shoals Intermediate Parent with Shoals Intermediate Parent as the surviving corporation.

Prior to the Company owning 100% of Shoals Parent LLC, the remaining interest in Shoals Parent LLC, was held by direct or indirect holders of LLC Interests and our Class B common stock, including the Founder and certain current and former executive officers, employees and their respective permitted

transferees (collectively, the “Continuing Continuing Equity Owners”), Owners, who could 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 (which shares were then immediately canceled)) for cash or newly issued shares of our Class A common stock. Accordingly, the Company consolidated the financial results of Shoals Parent LLC and reported non-controlling interests in its condensed consolidated financial statements. In accordance with the LLC Agreement, limited liability company agreement of Shoals Parent LLC, Shoals Parent LLC made cash distributions to its members in an amount sufficient to cover the members' tax liabilities, if any, with respect to each member's share of Shoals Parent LLC taxable earnings. The payment of these cash distributions by Shoals Parent LLC to Continuing Equity Owners was recorded as distributions to holders of LLC Interests in the accompanying condensed consolidated statements of stockholders' equity (deficit) and condensed consolidated statements of cash flows.

Common Stock Economic and Voting Rights

Holders of Class A common stock and Class B common stock (if any shares are outstanding) are entitled to one vote per share and, except as otherwise required, vote together as a single class on all matters on which stockholders generally are entitled to vote. Holders of Class B common stock (if any shares are outstanding) 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 were only issuable 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. As of September 30, 2023, March 2023, there were no shares of Class B common stock nor LLC Interests outstanding, and no shares of Class B common stock are currently issuable. Shares of Class B common stock were transferable only together with an equal number of LLC Interests.

13. Non-Controlling Interests

Effective July 1, 2023, the Company owned 100% of Shoals Parent. The following table summarizes the effects of the changes in ownership in Shoals Parent on equity:

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

	Nine months ended September 30,	
	2023	2022
Net income attributable to non-controlling interests	\$ 2,687	\$ 9,711
Transfers to non-controlling interests:		
Increase as a result of activity under equity-based compensation plan	687	4,257
Decrease from tax distributions to non-controlling interests	(2,628)	(7,762)
Reallocation of non-controlling interests	(10,361)	107
Change from net income attributable to non-controlling interests and transfers to non-controlling interests	\$ (9,615)	\$ 6,313

Issuance of Additional LLC Interests

Under the LLC Agreement, the Company was required to cause Shoals Parent to issue additional LLC Interests to the Company when the Company issued 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 contributed 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 caused Shoals Parent to issue a number of LLC Interests equal to the number of shares of Class A common stock issued such that, at all times, the number of LLC Interests held by the Company was equal to the number of outstanding shares of Class A common stock. During the nine months ended September 30, 2023 and 2022, the Company caused Shoals Parent to issue to the Company a total of 601,518 and 480,116 LLC Interests, respectively, for the vesting of awards granted under the 2021 Incentive Plan. On July 1, 2023, the Company contributed 100% of its LLC Interests in Shoals Parent LLC to its wholly-owned subsidiary, Shoals Intermediate. Following the contribution, Shoals Parent LLC became a disregarded single member limited liability company, eliminating the Up-C structure.

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 was required to distribute cash, to the extent that Shoals Parent had 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 made 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. During the nine months ended September 30, 2023 and 2022, tax distributions to non-controlling LLC Interests holders were \$2.6 million and \$7.8 million, respectively.

14. 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, except as disclosed below, the amount of losses or gains 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.

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

results of operations or cash flows of the Company. The Company records legal costs associated with loss contingencies, including fees and costs associated with preservation of evidence in connection with the wire insulation shrinkback litigation, as incurred.

Intellectual Property Litigation

On May 4, 2023, the Company filed a patent infringement complaint with the U.S. International Trade Commission ("ITC") against Hikam America, Inc., a corporation based in Chula Vista, California, and its related foreign entities (together, "Hikam"), and Voltage LLC, a limited liability company based in Chapel Hill, North Carolina, and its a related foreign entities entity (together, "Voltage"). The complaint primarily requests that the ITC (i) investigate unlawful imports of certain photovoltaic connectors and components that the Company alleges infringe on two valid and enforceable patents owned by the Company related to improved connectors for solar panel arrays and (ii) issue a limited exclusion order and a cease and desist order against the Hikam respondents and the Voltage respondents to bar them from importing, marketing, distributing, selling, offering for sale, licensing, advertising, transferring, or otherwise using the infringing photovoltaic connectors and components in and into the United States. On July 18, 2023 July 19, 2023, the Company filed an amended complaint with the ITC, adding allegations that the Voltage respondents also infringe infringes a third, recently-issued patent owned by the Company. Also on May 4, 2023, the Company filed complaints against the Hikam defendants in the U.S. District Court for the Southern District of California, and against the Voltage defendants in the U.S. District Court for the Middle District of North Carolina on the same subject matter. On June 28, 2023, the Company filed an amended complaint in the U.S. District Court for the Middle District of North Carolina action against the Voltage respondents alleging that they also infringe on a third, recently-issued patent owned by the Company. These complaints seek injunctive relief and damages for reasonable royalty and lost profits. The District Court actions have been stayed pending the final disposition of the ITC investigation. The Administrative Law Judge issued a Claim Construction Ruling on February 21, 2024, as a result of which, the Company filed an unopposed motion on February 26, 2024, which was granted on February 28, 2024, to remove one of the three asserted patents covering duplicative subject matter against Voltage. An evidentiary hearing in the ITC investigation has been scheduled for was held from March 18 through 22, 2024. The Administrative Law Judge is scheduled to issue an Initial Determination around July 12, 2024, the ITC has set a target date for completion of the investigation of November 12, 2024, and final resolution following a potential Presidential review in January 2025. The Company intends to is vigorously pursue pursuing these actions. However, at this stage, the Company is unable to predict the outcome or impact on its business and financial results. The Company is accounting for this matter as a gain contingency, and will record any such gain in future periods if and when the contingency is resolved, in accordance with ASC 450 Contingencies.

Wire Insulation Shrinkback Litigation

On October 31, 2023, the Company filed a complaint against Prysmian in the U.S. District Court for the Middle District of Tennessee, Nashville Division, against Prysmian Cables and Systems USA, LLC ("Prysmian"), Division. The complaint alleges that the Company suffered damages caused by defective red wire Prysmian sold the Company between from approximately 2020 through approximately 2022. The defective red complaint alleges that the wire at issue in the litigation has presented unacceptable levels of wire insulation shrinkback. The complaint includes, among other causes of action, product liability, breach of contract, breach of warranty, indemnity, and negligence claims. The Company seeks compensatory and punitive damages, recovery of all costs and expenses incurred by the Company in connection with the identification, repair and replacement of the Prysmian wire alleged to be defective, wire, and other legal and equitable relief. The Company intends to is vigorously pursue this action, pursuing its complaint, and as the Company continues to assess this matter, it may, from time to time, amend, update or supplement the complaint to, among other things,

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

increase the damages sought for various purposes, including in accordance with increases to the Company's estimated warranty liability and related expenses related to this matter. At this stage, the Company is unable to predict the outcome of this litigation or the impact on its business and financial results. The Company

is accounting for this matter as a gain contingency, and will record any such gain in future periods if and when the contingency is resolved, in accordance with ASC 450 *Contingencies*.

Securities Litigation

On March 21, 2024, a purported shareholder filed a putative securities class action against the Company and certain of its current and former executive officers in the United States District Court for the Middle District of Tennessee, Nashville Division, captioned *Westchester Putnam Counties Heavy & Highway Laborers Local 60 Benefits Fund v. Shoals Technologies Group, Inc., et al.* The complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder, based on allegedly false and misleading statements and omissions relating to the wire insulation shrinkback matter. The complaint seeks unspecified monetary damages, recovery of fees and costs, and other relief that the court may find appropriate. Although the Company intends to vigorously defend against this claim, there is no guarantee that the Company will prevail. Accordingly, the Company is unable to determine the ultimate outcome of this lawsuit or determine the amount or range of potential losses associated with the lawsuit.

Surety Bonds

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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 September 30, 2023, the maximum potential payment obligation with regard to surety bonds was \$31.6 million.

15. Income Taxes

In August 2022, the U.S. President signed into law the Inflation Reduction Act. During the year ended December 31, 2023, the Company acquired the remaining non-controlling interest in Shoals Parent LLC and contributed 100% of 2022 (the "IRA"), which revised U.S. tax law by, among other things, including its interest to its wholly-owned subsidiary Shoals Intermediate Parent, thereby eliminating the Company's Up-C structure. As 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 result of the IRA are generally effective for tax years beginning after 2022. Given the complexities of the IRA, including recently issued 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 contribution, Shoals Parent which is a limited liability company that was taxed LLC ceased to be treated as a partnership for U.S. federal and certain state and local income tax purposes. Shoals Parent's net taxable income purposes and related tax credits, if any, were passed through to its members and included in the member's tax returns.

On July 1, 2023, became a single-member disregarded entity. Accordingly, the Company contributed 100% of converted its LLC interests outside basis differences in its investment in Shoals Parent LLC to and remeasured its wholly-owned subsidiary, Shoals Intermediate. Following deferred taxes using the contribution, inside basis differences of Shoals Parent LLC became a disregarded single member limited liability company, eliminating the Up-C structure. The contribution resulted in a \$5.1 million income tax benefit during the nine months ended September 30, 2023 LLC's assets and a corresponding increase to the deferred tax asset as of September 30, 2023.

Shoals Parent is subject to and reports an entity level tax in various states. The income tax burden on the earnings taxed to the non-controlling interest holders was not reported by the Company in its condensed consolidated financial statements under U.S. GAAP. As a result, the Company's effective tax rate can differ materially from the statutory rate, depending on the ownership percentage of the non-controlling interests. The Company's effective income tax rate for the nine months ended September 30, 2023 and 2022, was 9.3% and 18.2%, respectively, liabilities.

In calculating the provision for interim income taxes, in accordance with ASC Topic 740, an estimated annual effective tax rate is applied to year-to-date ordinary income. At the end of each interim period, the Company estimates the effective tax rate expected to be applicable for the full fiscal year.

For annual periods, 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. 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. 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

Shoals Technologies Group, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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.

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

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

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 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 provision (benefit) for income taxes tax expense line in the accompanying condensed consolidated statements of operations. As of the quarter ended September 30, 2023 March 31, 2024, the Company has recorded \$1.0 million \$1.0 million 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 income tax expense line in the accompanying condensed consolidated statements of operations.

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 those jurisdictions' rules, generally after the income tax returns are filed.

16. Revenue Recognition

Disaggregation of revenue

Based on ASC 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):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
		Three Months Ended March 31,		Three Months Ended March 31,	
		2024		2024	2023
System solutions	System solutions	\$ 99,461	\$69,486	\$292,822	\$173,136
Components	Components	34,748	21,337	65,681	59,153
Total revenue	Total revenue	\$134,209	\$90,823	\$358,503	\$232,289

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 condensed consolidated balance sheets, 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):

Shoals Technologies Group, Inc. Notes to Condensed Consolidated Financial Statements (Unaudited)

relative to **its** competitors. We do not intend Adjusted Gross Profit, Adjusted Gross Profit Percentage, Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted Earnings per Share to be substitutes for any GAAP financial information. Readers of this Form 10-Q should use Adjusted Gross Profit, Adjusted Gross Profit Percentage, Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted Earnings per Share only in conjunction with Gross Profit, Net Income, **(Loss)**, and Net Income **(Loss)** Attributable to Shoals Technologies Group, Inc., the most closely comparable GAAP financial measures, as applicable. Reconciliations of Adjusted Gross Profit, 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 Gross Profit Percentage and Adjusted Diluted Weighted Average Shares Outstanding, are provided below, in “Non-GAAP Financial Measures.”

Overview

We are a leading provider of electrical balance of systems (“EBOS”) solutions and components for solar, battery storage and electrical vehicle (“EV”) charging applications, selling to customers primarily in the United States 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 **generally** 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, **splice boxes**, and **splice boxes**. **battery energy storage cabinets**. 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 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 the first **three quarters** **quarter** of **2023, 2024**, we have maintained focus on our growth strategy **including converting customers to and continued strengthening our combine-as-you-go system**. **leadership position in the industry**. We believe that as of **September 30, 2023** **March 31, 2024**, **13** we have worked with **14** of the top 15 and **15** of the top 25 solar EPCs, as reported by Solar Power World Magazine, use per Wood Mackenzie data from 2019-2023, and **12** of those **EPCs used** 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 15 EPCs and developers to our system.**

We derived **81.7%** **71.6%** of our revenue from the sale of system solutions for the **nine three** months ended **September 30, 2023** **March 31, 2024**. For the same period, we derived substantially all of our revenue from customers in the U.S. As of **September 30, 2023** **March 31, 2024**, we had **\$633.3** **\$615.2** million of backlog and awarded orders, backlog of **\$267.3** **\$196.2** million represents signed purchase orders or contractual minimum purchase commitments with take-or-pay provisions and awarded orders of **\$366.0** **\$419.0** million are orders we are in the process of documenting a contract for but for which a contract has not yet been signed. As of **September 30, 2023** **March 31, 2024**, we believe approximately **\$196.2** million of backlog and **\$214.6** million of awarded orders have delivery dates in **2024**. The remaining **\$204.4** million have planned delivery dates beyond 2024. Additionally, more than 12% of our **March 31, 2024** backlog and awarded orders related to international projects. As of **March 31, 2024**, backlog and awarded orders increased by **34%** **17%** relative to the same date last year and **increased decreased** by **16%** **3%** relative to **June 30, 2023**.

Secondary Offering

On March 10, 2023, selling stockholders, which consisted of certain entities controlled by Dean Solon, our founder (the “Founder”) completed a secondary offering consisting of 24,501,650 shares of Class A common stock. Following the closing of the secondary offering, the Founder no longer owned any shares of our Class B common stock or membership interests in Shoals Parent (“LLC Interests”). The Company did not receive any proceeds from the sale of shares of our Class A common stock by the selling stockholders in this offering.

Exchange of LLC Interests and Contributions

In March 2023, certain Continuing Equity Owners (as defined in Note 12 - Stockholders' Equity), including the Founder, exchanged an aggregate of 31,419,913 LLC Interests together with an equal number of shares of Class B common stock for 31,419,913 newly-issued shares of Class A common stock. As a result, upon effectiveness of such exchanges, all of the LLC Interests in Shoals Parent were held by the Company, no other holders owned LLC Interests and no Class B common stock is outstanding.

On July 1, 2023, the Company contributed 100% of its LLC Interests of Shoals Parent LLC to Shoals Intermediate Parent, Inc. Following the contribution, Shoals Parent LLC became a disregarded single member limited liability company, eliminating the umbrella-partnership C corporation structure (“Up-C structure”).

Effective July 1, 2023, the Company owned 100% of Shoals Parent together with its wholly-owned subsidiary, Shoals Intermediate Parent, Inc. (“Shoals Intermediate”) **December 31, 2023**.

Trends and Uncertainties

In 2022 and **Global inflationary pressures are expected to a lesser extent persist** during the **first three quarters** **remainder** of 2023, significant levels of inflation resulted in 2024. As a result, increased energy prices, freight premiums, and other operating costs. As a result of inflation, during 2022 and costs continued in the first three quarters **quarter** of **2023, 2024** and are expected to persist during the **Federal Reserve increased interest rates**. Such increased **rest of 2024**. Increased interest rates **have resulted** **also continued to result** in higher interest rates associated with our Senior Secured Credit Agreement as defined in **Note 8 - Long-Term**

Debt. The Federal Reserve may continue raising interest rates, and any such additional the three months ended March 31, 2024. 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 forecasted period.

In While the delays in securing raw materials have abated since the highs in 2022, and to a lesser extent during the first three quarters of 2023, as a consequence of macroeconomic events, our ability to obtain raw materials required to manufacture our components and system solutions from domestic and international suppliers, as well as our ability to secure inbound logistics to and from our facilities, were still impacted with additional delays linked to international border crossings in 2023 and the associated approvals and documentation. first quarter of 2024. The Company does not directly source a significant amount of raw materials from Europe. However, the ongoing conflict in Ukraine Russia-Ukraine war has reduced the availability of certain materials 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 throughout the year. 2024.

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, although we did not experience such negative effects during the first three quarters quarter of 2023, 2024. We are continuously monitoring the situation condition 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 and 2023 we increased certain raw materials inventory, partly to limit the potential impact of supply chain issues of raw materials in the near term. During the first three quarters of 2023, months ended March 31, 2024 we continued to monitor and optimize reduce our inventory levels.

During 2023 and continuing in the first quarter in 2024, the domestic utility scale solar market experienced project delays that have pushed projects out from the first half of 2024. Additionally, in 2023, the domestic utility scale solar market started experiencing slowing growth, which is expected to persist in the near term. These trends are the result of the costs of permitting issues, project financing, lingering uncertainty about the application of the Inflation Reduction Act of 2022 to solar projects, supply chain constraints and interconnection complications. We expect these trends to persist throughout 2024. These project slowdowns and delays have impacted our results, though we expect this trend to reverse over time. However, even though we expect our growth rate to decline from the very high levels of the last few years, we believe that our domestic utility scale business will continue growing at an attractive rate.

As of September 30, 2023 March 31, 2024, other than increased interest rates and project pushouts, which resulted in increased interest expense and decreased revenue, respectively, we did not experience 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 condensed 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. infrastructure, and operations and maintenance offerings. 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 expense.

Operating Expenses

Operating expenses consist of general and administrative expenses 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

Depreciation and amortization	Depreciation and amortization	2,170	2,229	(59)	(3)%	6,493	6,939	(446)	(6)%	Depreciation and amortization	2,104	2,165		2,165	(
Total operating expenses	Total operating expenses	24,721	16,082	8,639	54 %	65,759	47,976	17,783	37 %	Total operating expenses	24,876	22,157		22,157	2.7
Income (loss) from operations		(10,571)	19,965	(30,536)	(153)%	47,165	42,956	4,209	10 %						
Income from operations										Income from operations	11,584			26,100	
Interest expense, net	Interest expense, net	(5,899)	(4,754)	1,145	24 %	(18,400)	(12,760)	5,640	44 %	Interest expense, net	(4,362)	(5,996)		(5,996)	(1.6
Income (loss) before income taxes		(16,470)	15,211	(31,681)	(208)%	28,765	30,196	(1,431)	(5)%						
Income tax benefit (expense)		6,642	(2,452)	(9,094)	(371)%	(2,686)	(5,485)	(2,799)	(51)%						
Net income (loss)		(9,828)	12,759	(22,587)	(177)%	26,079	24,711	1,368	6 %						
Income before income taxes										Income before income taxes	7,222			20,104	
Income tax expense										Income tax expense	(2,448)			(3,121)	
Net income										Net income	4,774			16,983	
Less: net income attributable to non-controlling interests	Less: net income attributable to non-controlling interests	—	4,801	(4,801)	(100)%	2,687	9,711	(7,024)	(72)%	Less: net income attributable to non-controlling interests	—	2,687		2,687	(2.6
Net income (loss) attributable to Shoals Technologies Group, Inc.		<u>\$ (9,828)</u>	<u>\$ 7,958</u>	<u>\$(17,786)</u>	<u>(223)%</u>	<u>\$ 23,392</u>	<u>\$ 15,000</u>	<u>\$ 8,392</u>	<u>56 %</u>						
Net income attributable to Shoals Technologies Group, Inc.										Net income attributable to Shoals Technologies Group, Inc.	<u>\$4,774</u>			<u>\$14,296</u>	

Comparison of the Three Months Ended September 30, 2023 March 31, 2024 and 2022 2023

Revenue

Revenue increased decreased by \$43.4 million \$14.3 million, or 48% 14%, for the three months ended September 30, 2023 March 31, 2024 as compared to the three months ended September 30, 2022 March 31, 2023, driven by higher lower sales volumes resulting from fewer production days, as a result well as solar project delays that have pushed projects out from the first half of increased demand for solar EBOS generally and our combine-as-you-go system solutions specifically. Our total number of customers along with the number of combine-as-you-go system solutions projects increased during the three months ended September 30, 2023, as compared to the same period in 2022. We believe expanding customer recognition of the benefits of our combine-as-you-go system solutions is continuing to result in increased demand for our products. 2024.

Cost of Revenue and Gross Profit

Cost of revenue increased decreased by \$65.3 million \$2.5 million, or 119% 4%, for the three months ended September 30, 2023 March 31, 2024, as compared to the three months ended September 30, 2022 March 31, 2023, driven by \$50.2 million of wire insulation shrinkback warranty expense recorded during three months ended September 30, 2023, compared to none recorded during the same period during 2022. The remaining increase is driven by the increase decrease in revenue. Gross profit as a percentage of revenue was 39.7% 40.2% during three months ended March 31, 2024, and 45.9% during the three months ended September 30, 2022, and 10.5% during three months ended September 30, 2023 March 31, 2023. The decrease in gross profit as a percentage of revenue was driven by the product mix, an increase in recorded wire insulation shrinkback warranty expense labor costs, and was offset by slightly lower raw materials input costs, increased a reduction in leverage on fixed costs, and efficiencies gained in operations.

costs.

Operating Expenses

General and Administrative

General and administrative expenses increased \$8.7 million \$2.8 million, or 63% 14%, for the three months ended September 30, 2023 March 31, 2024, as compared to the three months ended September 30, 2022 March 31, 2023. The increase in general and administrative expenses was the result of an increase in wages and related taxes of \$3.4 million due to increased employee headcount to support our growth initiatives, as well as an increase in professional fees of \$3.0 million \$3.7 million, primarily related to legal fees incurred in connection with the ongoing patent infringement and wire insulation shrinkback litigation, as well as an increase in wages and related taxes of \$1.0 million related \$1.2 million due to increased employee headcount to support our growth initiatives. This increase is offset by a decrease of \$2.5 million in equity-based compensation, and an increase which is attributable to the termination of \$0.8 million in expense related to travel and trade shows, our former CEO's employment for disability during March 2023.

Depreciation and Amortization

Depreciation and amortization expenses decreased \$0.1 million, or 3%, for the three months ended September 30, 2023 March 31, 2024, as compared to the three months ended September 30, 2022 March 31, 2023. The decrease in depreciation and amortization was due to a reduction in amortization expense related to definite lived intangible assets that became fully amortized during 2022. 2023. This decrease is offset by an increase in depreciation expense related to additional purchases of plant, property and equipment to support our growth initiatives.

Interest Expense

Interest expense, net increased decreased by \$1.1 million \$1.6 million or 24% 27%, for the three months ended September 30, 2023 March 31, 2024, as compared to the three months ended September 30, 2022, which March 31, 2023. This decrease was due to increased borrowing rates. During 2022 a write-off of \$2.5 million of unamortized deferred interest as a result of voluntary prepayments made on, and the first three quarters payoff of, 2023, 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. This increase in interest expense was offset by a decrease in the weighted average outstanding balance of the Revolving Credit Facility and Term Loan Facility during the three months ended September 30, 2023 March 31, 2024, as well as a decrease in the total weighted average outstanding balance of the Term Loan Facility and Revolving Credit Facility (as defined in Note 9 - Long-Term Debt) during the three months ended March 31, 2024 compared to the three months ended September 30, 2022 March 31, 2023. The decrease was offset by a write-off of \$2.3 million of unamortized deferred financing costs as a result of voluntary prepayments made on, and the payoff of, the Term Loan Facility during the three months ended March 31, 2024, as well as an increase in borrowing rates.

Income tax benefit (expense) expense

Income tax benefit expense totaled \$6.6 million \$2.4 million for the three months ended September 30, 2023 March 31, 2024, as compared to income tax expense of \$2.5 million \$3.1 million for the three months ended September 30, 2022 March 31, 2023. Our effective income tax rate for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 was 40.3% 33.9% and 16.1% 15.5%, respectively. The 2023 increase in our effective income tax rate for the three months ended September 30, 2023 March 31, 2024 as compared to the three months ended September 30, 2022 March 31, 2023 was due to an income tax benefit of \$5.1 million recorded in connection with termination of the Up-C structure on July 1, 2023, as discussed in more detail in Note 15 - Income Taxes, and a reduction in favorable permanent differences as a result of related to net income attributable to non-controlling interests.

interests and discrete tax adjustments related to RSU and PSU vestings during the three months ended March 31, 2024.

Comparison of the Nine Months Ended September 30, 2023 and 2022

Revenue

Revenue increased by \$126.2 million, or 54%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022, 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 along with the number of combine-as-you-go system solutions projects increased during the nine months ended September 30, 2023 as compared to the same period in 2022. We believe expanding customer recognition of the benefits of our combine-as-you-go system solutions is continuing to result in increased demand for our products.

Cost of Revenue and Gross Profit

Cost of revenue increased by \$104.2 million, or 74%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022, driven by \$59.1 million of wire insulation shrinkback warranty expense recorded during nine months ended September 30, 2023, compared to none recorded during the same period during 2022. The remaining increase is driven by the increase in revenue. Gross profit as a percentage of revenue was from 39.1% during the nine months ended September 30, 2022, and 31.5% during the nine months ended September 30, 2023. The decrease in gross profit as a percentage of revenue was driven by the increase in wire insulation shrinkback warranty expense and was offset by a higher portion of overall revenue coming from the Company's combine-as-you-go system solutions, which carry higher margins than the Company's other products, slightly lower raw materials input costs, increased leverage on fixed costs, and efficiencies gained in operations.

Operating Expenses

General and Administrative

General and administrative expenses increased \$18.2 million, or 44%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The increase in general and administrative expenses was the result of an increase in wages and related taxes of \$7.6 million due to increased employee headcount to support our growth, as well as an increase in equity-based compensation of \$4.6 million related to termination of our former CEO for disability and an increase in employee headcount, and an increase in professional fees of \$4.1 million primarily related to legal fees incurred in connection with the ongoing patent infringement and wire insulation shrinkback litigation.

Depreciation and Amortization

Depreciation and amortization expense decreased by \$0.4 million, or 6%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022, due to definite lived intangible assets that became fully amortized during 2022.

Interest Expense

Interest expense, net increased by \$5.6 million or 44%, for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022, which was due to increased borrowing rates. During 2022 and the first three quarters of 2023, 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. This increase in interest expense was offset by a decrease in the weighted average outstanding balance of the Revolving Credit Facility and Term Loan Facility during the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022.

Income tax benefit (expense)

Income tax expense was \$2.7 million for the nine months ended September 30, 2023 as compared to income tax expense of \$5.5 million for the nine months ended September 30, 2022. Our effective income tax rate for the nine months ended September 30, 2023 and 2022 was 9.3% and 18.2%, respectively. The decrease in the effective tax rate was due to an income tax benefit of \$5.1 million recorded in connection with termination of the Up-C structure on July 1, 2023, as discussed in more detail in Note 15 - Income Taxes. This decrease was offset by an increase due to a reduction in permanent differences as a result of net income attributable to non-controlling interests.

Non-GAAP Financial Measures

Adjusted Gross Profit, Adjusted Gross Profit Percentage, Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted Earnings per Share ("EPS")

We define Adjusted Gross Profit as gross profit plus wire insulation shrinkback expenses. We define Adjusted Gross Profit Percentage as Adjusted Gross Profit divided by revenue. We define Adjusted EBITDA as net income (loss) plus (i) interest expense, net, (ii) income tax benefit (expense), expense, (iii) depreciation expense, (iv) amortization of intangibles, (v) equity-based compensation, (vi) acquisition-related expenses, (vii) wire insulation shrinkback expenses, and (viii) (vii) wire insulation shrinkback litigation 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) adjustment to the provision for income tax, (iii) amortization of intangibles, (iii) (iv) amortization / write-off of deferred financing costs, (iv) (v) equity-based compensation, (v) acquisition-related expenses, (vi) wire insulation shrinkback expenses, and (vii) wire insulation shrinkback litigation 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 Gross Profit, Adjusted Gross Profit Percentage, 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 Gross Profit, Adjusted Gross Profit Percentage, 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 Gross Profit, Adjusted Gross Profit Percentage, Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS: (i) as factors in evaluating management's performance when determining incentive compensation, as applicable; (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 Gross Profit, Adjusted Gross Profit Percentage, 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; 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 Gross Profit, Adjusted Gross Profit Percentage, 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 gross profit to Adjusted Gross Profit and Adjusted Gross Profit Percentage, net income (loss) to Adjusted EBITDA, and net income (loss) attributable to Shoals Technologies Group, Inc. to Adjusted Net Income and Adjusted Diluted EPS below and not rely on any single financial measure to evaluate our business.

Reconciliation of Gross Profit to Adjusted Gross Profit and Adjusted Gross Profit Percentage (in thousands):

	Three Months					
	Ended September		Nine Months Ended			
	30,		September 30,			
	2023	2022	2023	2022		
Three Months Ended						
	March 31,					
	2024					
Revenue	Revenue	\$134,209	\$90,823	\$358,503	\$232,289	
Cost of revenue	Cost of revenue	120,059	54,776	245,579	141,357	
Gross profit	Gross profit	14,150	36,047	112,924	90,932	
Gross profit percentage						
			Gross profit percentage		40.2%	45.9%
Wire insulation shrinkback expenses (a)						
Wire insulation shrinkback expenses (a)						
Wire insulation shrinkback expenses(a)	Wire insulation shrinkback expensesS(a)	50,211	—	61,705	—	
Adjusted gross profit	Adjusted gross profit	\$ 64,361	\$36,047	\$174,629	\$ 90,932	
Adjusted gross profit percentage	Adjusted gross profit percentage	48.0%	39.7%	48.7%	39.1%	
			Adjusted gross profit percentage		40.2%	47.8%

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

		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2023	2022	2023	2022
Net income (loss)		\$ (9,828)	\$12,759	\$ 26,079	\$24,711
Three Months Ended					
March 31,					
2024		2024		2023	
Net income					
Interest expense, net	Interest expense, net	5,899	4,754	18,400	12,760
Income tax expense (benefit)		(6,642)	2,452	2,686	5,485
Income tax expense					
Depreciation expense	Depreciation expense	674	478	1,723	1,371
Amortization of intangibles	Amortization of intangibles	1,978	2,121	6,021	6,630
Equity-based compensation	Equity-based compensation	5,092	3,991	17,060	11,887
Acquisition-related expenses		—	20	—	32

Wire insulation shrinkback expenses ^(a)	Wire insulation shrinkback expenses ^(a)	50,211	—	61,705	—
Wire insulation shrinkback litigation expenses ^(b)	Wire insulation shrinkback litigation expenses ^(b)	598	—	598	—
Adjusted EBITDA	Adjusted EBITDA	\$47,982	\$26,575	\$134,272	\$62,876

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income (loss) attributable to Shoals Technologies Group, Inc.	\$ (9,828)	\$ 7,958	\$ 23,392	\$ 15,000
Net income impact from assumed exchange of Class B common stock to Class A common stock ^(c)	—	4,801	2,687	9,711
Adjustment to the provision for income tax ^(d)	—	(1,134)	(653)	(2,293)
Tax effected net income (loss)	(9,828)	11,625	25,426	22,418
Amortization of intangibles	1,978	2,121	6,021	6,630
Amortization of deferred financing costs	341	339	1,032	1,023
Equity-based compensation	5,092	3,991	17,060	11,887
Acquisition-related expenses	—	20	—	32
Wire insulation shrinkback expenses ^(a)	50,211	—	61,705	—
Wire insulation shrinkback litigation expenses ^(b)	598	—	598	—

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	Three Months Ended March 31,		Three Months Ended March 31,	
	2024		2024	2023
Net income attributable to Shoals Technologies Group, Inc.				
Net income impact from assumed exchange of Class B common stock to Class A common stock ^(c)				
Adjustment to the provision for income tax ^(d)				
Tax effected net income				

Amortization of intangibles					
Amortization / write-off of deferred financing costs					
Equity-based compensation					
Wire insulation shrinkback expenses ^(a)					
Wire insulation shrinkback litigation expenses ^(b)					
Tax impact of adjustments					
(e)	(e)	(15,039)	(1,529)	(21,969)	(4,621)
Adjusted Net Income	Adjusted Net Income	\$33,353	\$16,567	\$89,873	\$37,369

- (a) For the three months ended September 30, 2023 March 31, 2023, represents, (i) \$50.2 million \$2.0 million of inventory write-downs of defective wire insulation shrinkback warranty expenses related to in connection with the identification, repair and replacement of a subset of wire harnesses presenting unacceptable levels of wire insulation shrinkback. For the nine months ended September 30, 2023 represents, (i) \$59.1 million wire insulation shrinkback warranty expenses related to the identification, repair and replacement of a subset of wire harnesses presenting unacceptable levels of wire insulation shrinkback, including \$8.9 million recorded during the six months ended June 30, 2023, and (ii) \$2.6 million of inventory write-downs of the defective red wire. We consider expenses incurred in connection with the identification, repair and replacement of the impacted wire harnesses as well as the write-down of related inventory distinct from normal, ongoing service identification, repair and replacement expenses that would be reflected under ongoing warranty expenses within the operation of our business, and normal write-downs of inventory, which we do not exclude from our non-GAAP measures. In the future, we also intend to exclude from our non-GAAP measures the benefit of liability releases, if any. We believe excluding expenses from these discrete liability events provides investors with a better view of the operating performance of our business and allows for comparability through periods. See Note 14 8 - Commitments and Contingencies, Warranty Liability, in our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.
- (b) For the three and nine months ended September 30, 2023 March 31, 2024, represents \$0.6 million \$0.8 million of expenses incurred in connection with the lawsuit initiated by the Company against the supplier of the defective red wire. We consider this litigation distinct from ordinary course legal matters given the expected magnitude of the expenses, the nature of the allegations in the Company's complaint, the amount of damages sought, and the impact of the matter underlying the litigation on the Company's financial results. In the future, we also intend to exclude from our non-GAAP measures the benefit of recovery, if any. We believe excluding expenses from these discrete litigation events provides investors with a better view of the operating performance of our business and allows for comparability through periods. See Note 14 - Commitments and Contingencies, in our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.
- (c) Reflects net income to Class A common stock from assumed exchange of corresponding shares of our Class B common stock held by the Founder our founder and management. There were no shares of Class B common stock outstanding during the three months ended September 30, 2023.
- (d) 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, taxes. The adjustment to the provision for income tax reflects the effective tax rates below, assuming Shoals Technologies Group, Inc. owned 100% of the units in Shoals Parent LLC for all periods presented. prior to March 10, 2023.

Three Months Ended September 30,		Nine Months Ended September 30,	
2023	2022	2023	2022

Three Months Ended
March 31,

Three Months Ended March 31,

2024						2024		2023
Statutory U.S. Federal income tax rate	Statutory U.S. Federal income tax rate	21.0 %	21.0 %	21.0 %	21.0 %	Statutory U.S. Federal income tax rate		
Permanent adjustments	Permanent adjustments	1.8 %	0.1 %	1.4 %	0.1 %	Permanent adjustments		
State and local taxes (net of federal benefit)	State and local taxes (net of federal benefit)	3.3 %	2.5 %	3.2 %	2.5 %	State and local taxes (net of federal benefit)		
Effective income tax rate for Adjusted Net Income	Effective income tax rate for Adjusted Net Income	26.1 %	23.6 %	25.6 %	23.6 %	Effective income tax rate for Adjusted Net Income		

(e) 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):

		Three Months Ended September 30, 2023		Nine Months Ended September 30, 2022	
		Three Months Ended March 31, 2024		Three Months Ended March 31, 2023	
Diluted weighted average shares of Class A common stock outstanding, excluding Class B common stock	Diluted weighted average shares of Class A common stock outstanding, excluding Class B common stock	170,365	113,584	162,611	112,816
Assumed exchange of Class B common stock to Class A common stock	Assumed exchange of Class B common stock to Class A common stock	—	54,253	7,619	54,579
Adjusted diluted weighted average shares outstanding	Adjusted diluted weighted average shares outstanding	170,365	167,837	170,230	167,395
Adjusted Net Income	Adjusted Net Income	\$33,353	\$16,567	\$89,873	\$37,369
Adjusted Net Income					

Adjusted Net Income					
Adjusted	Adjusted				
Diluted EPS	Diluted EPS	\$	0.20	\$	0.10
		\$	0.53	\$	0.22

Liquidity and Capital Resources

	Nine Months Ended September 30,	
	2023	2022
Net cash provided by operating activities	\$ 65,508	\$ 5,014
Net cash used in investing activities	(7,911)	(2,896)
Net cash provided by (used in) financing activities	(57,139)	19,941
Net increase in cash, cash equivalents and restricted cash	\$ 458	\$ 22,059

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 profits 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 generated cash from operating activities of \$65.5 million during the nine months ended September 30, 2023, as compared to cash provided by operating activities of \$5.0 million during the nine months ended September 30, 2022. As of September 30, 2023, our cash and cash equivalents were \$9.2 million, an increase from \$8.8 million as of December 31, 2022. As of September 30, 2023, we had outstanding borrowings of \$193.8 million, a decrease from \$243.3 million as of December 31, 2022. As of September 30, 2023, we also had \$149.4 million available for additional borrowings under our \$150.0 million Revolving Credit Facility.

On December 27, 2023 and January 19, 2024 we used borrowings under the Revolving Credit Facility and cash on hand to make voluntary prepayments of outstanding borrowings under the Term Loan Facility of \$50.0 million and \$100.0 million, respectively. Following the amendment to the Senior Secured Credit Agreement on March 19, 2024, which, among other things, increased the amount available for borrowing under the Revolving Credit Facility from \$150.0 million to \$200.0 million, we made a \$43.8 million voluntary prepayment of all the outstanding term loans under the Senior Secured Credit Agreement, thereby terminating the Term Loan Facility.

During the three months ended March 31, 2024, we also used approximately \$3.7 million of cash to pay for expenses related to the identification, repair and replacement of the wire harnesses impacted in connection with the wire insulation shrinkback matter. We expect to continue spending significant amounts of cash in connection thereof. For more information, see Note 8 - Warranty Liability in our condensed consolidated financial statements.

	Three Months Ended March 31,	
	2024	2023
Net cash provided by operating activities	\$ 12,860	\$ 9,913
Net cash used in investing activities	(2,483)	(2,003)
Net cash used in financing activities	(17,848)	(10,216)
Net decrease in cash and cash equivalents	\$ (7,471)	\$ (2,306)

Operating Activities

For the nine months ended September 30, 2023, cash provided by operating activities was \$65.5 million, primarily due to operating results that included \$26.1 million of net income, which included \$92.0 million of non-cash expense, along with a decrease in accounts receivable and unbilled receivables of \$20.4 million. These cash inflows were offset by a decrease of \$12.1 million in accounts payable and accrued expenses, an increase of \$6.8 million in inventory, cash outflows of \$3.7 million related to the warranty liability, and a decrease of \$0.4 million in deferred revenue.

For the three months ended March 31, 2023, cash provided by operating activities was \$9.9 million, primarily due to operating results that included \$17.0 million of net income, which included \$16.0 million of non-cash expense, along with an increase of \$10.7 million in accounts payable and accrued expenses, a decrease of \$8.3 million in inventory, and an increase of \$3.8 million in deferred revenue. These cash inflows were partially offset by an increase in accounts receivable and unbilled receivables of \$70.4 million, which was primarily driven by an increase in revenues, a \$3.2 million increase in inventory as a result of increasing our raw materials inventory to support growth and cash outflows reduce the likelihood of \$3.7 million supply chain issues from our raw materials suppliers, and an increase of \$3.3 million in other assets, which is primarily related to the warranty liability prepayment of a directors and officers insurance policy.

Investing Activities

For the nine months ended September 30, 2023, net cash used in investing activities was \$7.9 million, all of which was primarily attributable to the purchase of property and equipment.

For the three months ended March 31, 2023, net cash used in investing activities was \$2.0 million, all of which was attributable to the purchase of property and equipment.

Financing Activities

For the **nine** months ended **September 30, 2023** **March 31, 2024**, net cash used in financing activities was **\$57.1** **\$17.8** million, primarily due to **\$3.9** **\$143.8** million in voluntary prepayments on, and the payoff of, the Term Loan Facility, **\$2.0** million of deferred financing costs paid in connection with the amendment of the Senior Secured Credit Facility on March 19, 2024, and **\$0.8** million in taxes related to net share settled equity awards. These cash outflows were offset by **\$128.8** million in net borrowings on the Revolving Credit Facility.

For the three months ended March 31, 2023, net cash used in financing activities was **\$10.2** million, primarily due to **\$3.6** million in taxes related to net share settled equity awards, **\$48.0 million** **\$3.0 million** in net payments on the Revolving Credit Facility, **\$1.5 million** in principal payments on the Term Loan Facility, and **\$2.6 million** **\$2.6 million** in distributions to our non-controlling interest holders.

Debt Obligations

For a discussion of our debt obligations, see Note 9 - Long-Term Debt in our condensed consolidated financial statements included in this **Quarterly Report on Form 10-Q**.

Surety Bonds

For a discussion of our surety bond obligations see Note 14 - Commitments and Contingencies in our condensed consolidated financial statements included in this **Quarterly Report on Form 10-Q**.

Product Warranty

For a discussion of our product warranties see Note **14** - **Commitments and Contingencies** **Warranty Liability** in our condensed consolidated financial statements included in this **Quarterly Report on Form 10-Q**.

Critical Accounting Policies and Accounting Estimates

Except as set forth below, as **For a description** of September 30, 2023, there were no significant changes in the application of our critical accounting policies or estimation procedures, **from those presented in** see our **2022 2023** Form 10-K.

Product Warranty

General 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. These estimates are inherently uncertain given our relatively short history of sales, and actual results that differ from our assumptions and judgments could have a material adverse effect on our business, financial condition and results of operations.

Wire Insulation Shrinkback Warranty

The Company has been notified by certain customers that a subset of wire harnesses used in its EBOS solutions is presenting unacceptable levels of wire insulation shrinkback. Based upon the Company's ongoing assessment, the Company currently believes the wire insulation shrinkback is related to defective red wire manufactured by Prysmian. Based on the Company's continued analysis of information available as of the date of this Quarterly Report, which includes better visibility into the scope of affected sites and potential solutions, including identification, repair and replacement of harnesses, the Company has determined that a potential range of loss was both probable and reasonably estimable and has updated its estimate of potential losses from the \$9.3 million estimate provided in the previous quarter. However, as no amount within the current range of loss appears to be a better estimate than any other amount, the Company has recorded a warranty liability and related expense representing the low end of the range of potential loss of \$59.7 million. The high-end of the range of potential loss is \$184.9 million, which is \$125.2 million higher than the amount we recorded. As of September 30, 2023, the Company recorded a warranty liability of \$56.6 million related to this matter. The Company recorded total warranty expense related to this matter of \$50.2 million and \$59.1 million for the three and nine months ended September 30, 2023, respectively, and zero for the three and nine months ended September 30, 2022.

The estimated range is based on several assumptions, including with respect to the magnitude of engineering, procurement and construction firms' ("EPCs") labor cost to identify and perform the repair and replacement of impacted harnesses, estimated failure rates, materials replacement cost, planned remediation method, inspection costs, and other various assumptions. These assumptions are highly subjective and require significant management judgment. As a result, these assumptions could prove to be materially different from our current estimate, causing us to incur substantial unanticipated expense to identify, repair or replace the defective wire or to compensate customers. As additional information becomes available, the Company may increase or decrease its estimated warranty liability and related expense from its current estimate, and such increase or decrease may be material.

As of September 30, 2023, a 10% increase in EPC labor costs, failure rate, materials replacement cost, and inspection costs would result in an increase of the low end of the range of potential losses of \$2.8 million, \$0.9 million, \$1.6 million, and \$0.5 million, respectively. A 10% increase in EPC labor costs, materials replacement cost, and inspection costs would result in an increase of the high end of the range of potential loss of \$11.0 million, \$5.2 million, and \$0.5 million, respectively. Additionally, changes to the planned remediation method could also have a material impact on the warranty liability.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes with respect to For a description of our analysis of quantitative and qualitative market risk, disclosed in see our 2022 2023 Form 10-K.

Item 4. Controls and Procedures

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 September 30, 2023 March 31, 2024. Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2023 March 31, 2024, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the quarter ended September 30, 2023 March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. 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. Except as described under Litigation in Note 14 - Commitments and Contingencies, there are no claims or proceedings to which we are party that we believe would 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 1A. Risk Factors

Except as set forth below, there have been no For a discussion of the material changes with respect to our factors that make an investment in the Company speculative or risky, please see the risk factors disclosed in our 2022 2023 Form 10-K.

Defects or performance problems in our products or their parts, including those related to the wire insulation shrinkback matter, could result in loss of customers, reputational damage and decreased revenue, and may have a material adverse effect on our business, financial condition and results of operations.

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, whether manufactured by us or third party suppliers, are products and systems that have a high consequence of failure, including 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 for customers, damage to the equipment, fire and injury or death depending on their severity and whether people are onsite.

Although we conduct quality assessments on our products and these products have 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 accrue reserves for warranty claims, our estimated warranty expense for previously sold products may change to the extent future products are not compatible with earlier generation products under warranty.

The Company has been notified by certain customers that a subset of wire harnesses used in its EBOS solutions is presenting unacceptable levels of wire insulation shrinkback. Based upon the Company's ongoing assessment, the Company currently believes the wire insulation shrinkback is related to defective red wire manufactured by Prysmian. Based on the Company's continued analysis of information available as of the date of this Quarterly Report, which includes better visibility into the scope of affected sites and potential solutions, including identification, repair and replacement of harnesses, the Company has determined that a potential range of loss was both probable and reasonably estimable and has updated its estimate of potential losses from the estimate provided in the previous quarter. However, as no amount within the current range of loss appears to be a better estimate than any other amount, the Company has recorded a warranty liability and related expense representing the low end of the range of potential loss of \$59.7 million. The high-end of the range of potential loss is \$184.9 million, which is \$125.2 million higher than the amount we recorded. As of September 30, 2023, we recorded a warranty liability of \$56.6 million related to this matter. The estimated range is based on several assumptions, and as additional information becomes available, the Company may increase or decrease its estimated warranty liability from its current estimate, and such increase or decrease may be material. The Company recorded total warranty expense related to this matter of \$50.2 million and \$59.1 million for the three and nine months ended September 30, 2023, respectively, and zero for the three and nine months ended September 30, 2022. The Company does not maintain insurance for product warranty and has commenced a lawsuit against Prysmian, as discussed in more detail under Litigation in Note 14 - Commitments and Contingencies in our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. Because the lawsuit against Prysmian is ongoing, potential recovery from Prysmian is not considered probable as defined in ASC 450, and has not been considered in our estimate of the warranty liability as of September 30, 2023.

Our warranty liability for this matter is based on a number of assumptions, including with respect to the magnitude of engineering, procurement and construction firms' ("EPCs") labor cost to perform the repair and replacement of impacted harnesses, estimated failure rates, materials replacement cost, planned remediation method, and other various assumptions. We do not have a long history of making assumptions relating to warranties. As a result, these assumptions could prove to be materially different from our current estimate, causing us to incur substantial unanticipated expense to identify, repair or replace the defective wire or to compensate customers. As additional information becomes available, the Company may increase or decrease its estimated warranty liability from its current estimate, and such increase or decrease may be material. Our failure to accurately estimate this liability could result in unexpected volatility and have a material adverse effect on, our financial condition.

In addition, results of the litigation we have commenced against Prysmian are inherently uncertain and we cannot guarantee the outcome of that litigation. Litigation can be expensive and time consuming and will 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. If we fail to recover the costs and expenses incurred by us in connection with the identification, repair and replacement of the defective Prysmian wire, our financial results, business and prospects could be materially adversely impacted. Our actual loss in this matter is uncertain and may have a material adverse effect on our business, financial condition and results of operations.

If one of our products, including those that contain the defective red wires mentioned above, causes injury to someone or causes property damage, including as a result of product malfunctions, defects or improper installation, we could also 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, including those related to the wires mentioned above, could be expensive to defend and could divert management's attention. The successful assertion of a product liability claim against us, including those related to the defective wire harnesses mentioned above, 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.

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 have and may in the future need to initiate infringement claims or litigation in order to protect or enforce our intellectual property rights. As disclosed under Litigation in Note 14 - Commitments and Contingencies in our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, on May 4, 2023, we filed patent infringement complaints with the ITC and with the U.S. District Courts against each of Hikam and Voltage seeking to ban the importing, marketing, distributing, selling, offering for sale, licensing, advertising, transferring, or otherwise using the infringing photovoltaic connectors and components in and into the United States in a manner that we allege infringes on the Company's enforceable patents. On June 28, 2023 and July 18, 2023, we filed an amended complaint with the ITC and the U.S. District Court for the Middle District of North Carolina, respectively, against the Voltage respondents alleging that they also infringe on a third, recently issued patent owned by the Company. The District Court actions have been stayed pending the final disposition of the ITC investigation. An evidentiary hearing in the ITC investigation has been scheduled for March 18 through 22, 2024. The ITC has set a target date for completion of the investigation of November 12, 2024. We intend to vigorously pursue these actions, however, at this stage, we are unable to predict the outcome or impact on our business. 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, including the complaints discussed above, 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. If we are unsuccessful with respect to the patent infringement complaints against Hikam and Voltage, the alleged counterfeit products may continue to be imported and sold in the United States. In such case, we could lose potential revenue to the defendants as well as other parties who may sell similar products. 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.

If we fail to retain our key personnel and attract additional qualified personnel, or successfully integrate our new Chief Executive Officer, 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 Board of Directors appointed Brandon Moss as our Chief Executive Officer effective July 17, 2023. Even though Mr. Moss has had a long and successful career managing and scaling businesses for long-term growth, joining the Company from Southwire Company, one of North America's largest wire and cable developers, manufacturers and suppliers, failure to execute a smooth transition could affect the execution of our business strategy.

Integrating new employees, such as our new Chief Executive Officer, 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.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Equity Securities

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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
10.1	Form of RSU Grant Notice and Award Agreement 2024	10-K	2/28/2024	10.12
10.2	Form of PSU Grant Notice and Award Agreement 2024	10-K	2/28/2024	10.13
10.3	Amendment No. 6 to Credit Agreement, dated as of March 19, 2024, between Shoals Technologies Group, Inc., as Borrower, Wilmington Trust, National Association, as Collateral Agent, JPMorgan Chase Bank, N.A., as Administrative Agent and each L/C Issuer and lender from time to time party thereto.	8-K	3/22/2024	10.1
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)			

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
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	Inline 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*	Inline XBRL Taxonomy Extension Schema Document			

101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline 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

EXHIBIT INDEX

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* Filed herewith.

** Furnished herewith.

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 report to be signed on its behalf by the undersigned, thereunto duly authorized.

Shoals Technologies Group, Inc.

Date: November 7, 2023 2024

By: /s/ Brandon Moss
 Name: Brandon Moss
 Title: Chief Executive Officer

Date: November 7, 2023 2024

By: /s/ Dominic Bardos Inez Lund
 Name: Dominic Bardos Inez Lund
 Title: Chief Financial Accounting Officer

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**CERTIFICATION BY CHIEF EXECUTIVE OFFICER PURSUANT TO
RULE 13a-14(a) AND 15d-14(a) UNDER THE EXCHANGE ACT**

I, Brandon Moss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Shoals Technologies Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Brandon Moss

Brandon Moss

Chief Executive Officer

Date: **November 7, 2023** May 7, 2024

**CERTIFICATION BY CHIEF FINANCIAL OFFICER PURSUANT TO
RULE 13a-14(a) AND 15d-14(a) UNDER THE EXCHANGE ACT**

I, Dominic Bardos, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Shoals Technologies Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
- designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Dominic Bardos

Dominic Bardos

Chief Financial Officer

Date: November 7, 2023 May 7, 2024

EXHIBIT 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Shoals Technologies Group, Inc. (the "Company") for the quarter ended September 30, 2023 March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Brandon Moss, as Chief Executive Officer of the Company, and Dominic Bardos, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2023 May 7, 2024

/s/ Brandon Moss

Brandon Moss

Chief Executive Officer

(Principal Executive Officer)

/s/ Dominic Bardos

Dominic Bardos

Chief Financial Officer

(Principal Financial and Accounting Officer)

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