

**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 June 30, 2023

or

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

Commission File Number: 001-39942

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

Delaware

85-3774438

(State or other jurisdiction of
incorporation or organization)

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

1400 Shoals Way

Portland

Tennessee

37148

(Address of principal executive offices)

(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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. ☐

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 July 25, 2023, the registrant had 169,939,501 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 contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, technology developments, financing and investment plans, warranty, litigation and liability accruals and estimates of loss or gains, competitive position, industry and regulatory environment, potential growth opportunities and the effects of competition. Forward-looking statements include statements that are not historical facts and can be identified by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "seek," "should," "will," "would" or similar expressions and the negatives of those terms.

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

Important factors that could cause actual results to differ materially from 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, 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.

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;
- our industry has historically been cyclical and experienced periodic downturns;
- current macroeconomic events, including heightened inflation, rise in interest rates and potential recession could impact our business and financial results;
- defects or performance problems in our products or their parts, including those manufactured by third parties, could result in loss of customers, reputational damage and decreased revenue, and we may face warranty, indemnity and product liability claims arising from defective products;
- 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;
- 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;
- our products are primarily manufactured and shipped from our production facilities in Tennessee, and any damage or disruption at these facilities may harm our business;
- if we fail to, or incur significant costs in order to, obtain, maintain, protect, defend or enforce our intellectual property and other proprietary rights, including those that are subject to the 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”) charging market is highly dependent on the demand for, and consumers’ willingness to adopt, EVs;
- a significant drop in the price of electricity sold may harm our business, financial condition, results of operations and prospects;
- a further increase in interest rates, or a reduction in the availability of tax incentives or project debt capital in the global financial markets could make it difficult for end customers to finance the cost of a solar energy system and could reduce the demand for our products;
- our results of operations may fluctuate from quarter to quarter, which could make our future performance difficult to predict and could cause our results of operations for a particular period to fall below expectations, resulting in a decline in the price of our Class A common stock;
- compromises, interruptions or shutdowns of our information technology systems, including those managed by third parties, whether intentional or inadvertent, could lead to delays in our business operations and, if significant or extreme, affect our results of operations;
- our indebtedness could adversely affect our financial flexibility and our competitive position;
- our indebtedness may restrict our current and future operations, which could adversely affect our ability to respond to changes in our business and to manage our operations;
- developments in alternative technologies may have a material adverse effect on demand for our offerings;
- existing electric utility industry, renewable energy and solar energy policies and regulations, and any subsequent changes, may present technical, regulatory and economic barriers to the purchase and use of solar energy systems that may significantly reduce demand for our products or harm our ability to compete;
- changes in the U.S. trade environment, including the imposition of import tariffs and antidumping and countervailing duties, could adversely affect the amount or timing of our revenue, results of operations or cash flows;
- future sales of our Class A common stock, or the perception that such sales may occur, could depress our Class A common stock price;
- provisions in our certificate of incorporation and our bylaws may have the effect of delaying or preventing a change of control or changes in our management;
- our certificate of incorporation also provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees; and
- if we fail to maintain effective internal controls over financial reporting, we may be unable to accurately or timely report our financial condition or results of operations, which may adversely affect our business.

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)

	June 30, 2023	December 31, 2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,860	\$ 8,766
Accounts receivable, net	97,099	50,575
Unbilled receivables	21,664	16,713
Inventory, net	68,312	72,854
Other current assets	7,180	4,632
Total Current Assets	200,115	153,540
Property, plant and equipment, net	20,198	16,870
Goodwill	69,941	69,941
Other intangible assets, net	52,542	56,585
Deferred tax assets	470,329	291,634
Other assets	5,695	6,325
Total Assets	\$ 818,820	\$ 594,895
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 16,239	\$ 9,481
Accrued expenses and other	27,650	17,882
Deferred revenue	31,298	23,259
Long-term debt—current portion	2,000	2,000
Total Current Liabilities	77,187	52,622
Revolving line of credit	20,000	48,000
Long-term debt, less current portion	188,609	189,063
Other long-term liabilities	3,619	4,221
Total Liabilities	289,415	293,906
Commitments and Contingencies (Note 13)		
Stockholders' Equity		
Preferred stock, \$0.00001 par value - 5,000,000 shares authorized; none issued and outstanding as of June 30, 2023 and December 31, 2022	—	—
Class A common stock, \$0.00001 par value - 1,000,000,000 shares authorized; 169,926,094 and 137,904,663 shares issued and outstanding as of June 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 June 30, 2023 and December 31, 2022, respectively	—	1
Additional paid-in capital	461,705	256,894
Accumulated earnings	67,698	34,478
Total stockholders' equity attributable to Shoals Technologies Group, Inc.	529,405	291,374
Non-controlling interests	—	9,615
Total stockholders' equity	529,405	300,989
Total Liabilities and Stockholders' Equity	\$ 818,820	\$ 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue	\$ 119,208	\$ 73,490	\$ 224,294	\$ 141,466
Cost of revenue	68,691	44,897	125,520	86,581
Gross profit	50,517	28,593	98,774	54,885
Operating expenses				
General and administrative expenses	16,723	13,265	36,715	27,184
Depreciation and amortization	2,158	2,344	4,323	4,710
Total operating expenses	18,881	15,609	41,038	31,894
Income from operations	31,636	12,984	57,736	22,991
Interest expense, net	(6,505)	(4,170)	(12,501)	(8,006)
Income before income taxes	25,131	8,814	45,235	14,985
Income tax expense	(6,207)	(1,511)	(9,328)	(3,033)
Net income	18,924	7,303	35,907	11,952
Less: net income attributable to non-controlling interests	—	2,901	2,687	4,910
Net income attributable to Shoals Technologies Group, Inc.	\$ 18,924	\$ 4,402	\$ 33,220	\$ 7,042
	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Earnings per share of Class A common stock:				
Basic	\$ 0.11	\$ 0.04	\$ 0.21	\$ 0.06
Diluted	\$ 0.11	\$ 0.04	\$ 0.21	\$ 0.06
Weighted average shares of Class A common stock outstanding:				
Basic	169,887	112,489	158,213	112,350
Diluted	170,241	112,616	158,694	112,428

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 six months ended June 30, 2023

	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
Net income	—	—	—	—	—	14,296	2,687	16,983
Equity-based compensation	—	—	—	—	7,523	—	—	7,523
Activity under equity-based compensation plan	—	—	—	—	(4,219)	—	687	(3,532)
Distributions to non-controlling interests	—	—	—	—	—	—	(2,628)	(2,628)
Vesting of restricted 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

For the three and six months ended June 30, 2022

	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

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

	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 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	<u>112,667,006</u>	<u>\$ 1</u>	<u>54,534,591</u>	<u>\$ 1</u>	<u>\$ 101,243</u>	<u>\$ (86,091)</u>	<u>\$ (6,714)</u>	<u>\$ 8,440</u>

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2023	2022
Cash Flows from Operating Activities		
Net income	\$ 35,907	\$ 11,952
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,092	5,402
Amortization/write off of deferred financing costs	692	684
Equity-based compensation	11,968	7,896
Provision for credit losses	296	—
Provision for obsolete or slow-moving inventory	3,140	443
Provision for warranty expense	9,386	—
Deferred taxes	8,953	2,847
Changes in assets and liabilities:		
Accounts receivable	(46,820)	(26,259)
Unbilled receivables	(4,951)	(1,047)
Inventory	1,402	(27,404)
Other assets	(2,064)	(2,059)
Accounts payable	7,014	4,060
Accrued expenses and other	(220)	4,713
Deferred revenue	8,039	12,029
Net Cash Provided by (Used in) Operating Activities	37,834	(6,743)
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(4,377)	(2,149)
Net Cash Used in Investing Activities	(4,377)	(2,149)
Cash Flows from Financing Activities		
Distributions to non-controlling interests	(2,628)	(4,566)
Employee withholding taxes related to net settled equity awards	(3,576)	(1,297)
Payments on term loan facility	(1,000)	(1,000)
Proceeds from revolving credit facility	5,000	38,000
Repayments of revolving credit facility	(33,000)	(8,000)
Other	(1,159)	—
Net Cash Provided by (Used in) Financing Activities	(36,363)	23,137
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(2,906)	14,245
Cash, Cash Equivalents and Restricted Cash—Beginning of Period	8,766	9,557
Cash, Cash Equivalents and Restricted Cash—End of Period	\$ 5,860	\$ 23,802

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

	Six Months Ended June 30,	
	2023	2022
Supplemental Cash Flows Information:		
Cash paid for interest	\$ 11,300	\$ 6,127
Cash paid for taxes	\$ 865	\$ 708
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	\$ 948
Recording of amounts payable pursuant to tax receivable agreement	\$ —	\$ 800
Capital contribution related to tax receivable agreement exchanges of Class B common stock to Class A common stock	\$ 187,648	\$ 148

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”). 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. As of June 30, 2023 the Company, along with a wholly-owned subsidiary, Shoals Intermediate Parent, Inc., owned 100% of Shoals Parent. On July 1, 2023, the Company contributed 100% of its membership interests (“LLC Interests”) in Shoals Parent LLC to Shoals Intermediate Parent, Inc. (“Shoals Intermediate”).

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

In March 2023, following the secondary offering described above, all Continuing Equity Owners (as defined in Note 11 - 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, all of the LLC Interests in Shoals Parent are held by the Company, no other holders own LLC Interests and no Class B common stock is outstanding.

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

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

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

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 represent a portion of earnings or loss attributable to the economic interests in the Company's subsidiary, Shoals Parent, formerly held by the Continuing Equity Owners (as defined in Note 11 - Stockholders' Equity). Non-controlling interests on the condensed consolidated balance sheets represent the portion of net assets of the Company attributable to the Continuing Equity Owners, based on the portion of the LLC Interests owned by such unit holders. As of June 30, 2023, the Company, along with a wholly-owned subsidiary, Shoals Intermediate, owned 100% of Shoals Parent.

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheets as of June 30, 2023 and December 31, 2022, the condensed consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the periods ended June 30, 2023 and 2022 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 June 30, 2023 and the results of its operations and its cash flows for the three and six months ended June 30, 2023 and 2022. The financial data and other information disclosed in these notes related to the three and six months ended June 30, 2023 and 2022 are also unaudited. The results for the three and six months ended June 30, 2023 and 2022 are not necessarily indicative of results to be expected for the year ending December 31, 2023, any other interim periods, or any future year or period. The balance sheet as of December 31, 2022 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.

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 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, significant levels of inflation increased energy prices, freight premiums, and other operating costs, which levels remained elevated during the first two quarters of 2023. As a result of inflation, during 2022 and the first two 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 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.

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

In 2022 and to a lesser extent during the first two 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 two 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 two quarters of 2023, we continued to monitor and optimize our inventory levels.

In March 2023, various financial institutions sustained liquidity problems. Even though the FDIC and other government agencies intervened, there is uncertainty in the markets regarding the stability of the banking system and especially of regional banks. If the banks and financial institutions at which we or our customers hold our cash enter receivership or become insolvent, our liquidity and financial results may be threatened.

As of June 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 \$13.7 million as of June 30, 2022. There was no restricted cash as of June 30, 2023.

	June 30, 2023	June 30, 2022
Cash and cash equivalents	\$ 5,860	\$ 10,094
Restricted cash included in other current asset	—	3,583
Restricted cash included in other assets	—	10,125
Total cash, cash equivalents and restricted cash	<u>\$ 5,860</u>	<u>\$ 23,802</u>

Customer Concentrations

The Company had the following revenue concentrations representing approximately 10% or more of revenue for the six months ended June 30, 2023 and 2022 and related accounts receivable concentrations as of June 30, 2023 and December 31, 2022:

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

	2023		2022	
	Revenue %	Accounts Receivable %	Revenue %	Accounts Receivable %
Customer A	25.7 %	26.6 %	12.3 %	8.4 %
Customer B	9.3 %	16.7 %	10.0 %	9.0 %

Recent Accounting Pronouncements

Adopted

In October 2021, the FASB issued Accounting Standard Update (“ASU”) No. 2021-08, *Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This ASU requires that contract assets and contract liabilities acquired in a business combination be recognized and measured in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. This guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within that fiscal year. The adoption of this standard on January 1, 2023 did not have an impact on the Company’s condensed consolidated financial statements.

Not Yet Adopted

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):

	June 30, 2023	December 31, 2022
Accounts receivable	\$ 97,858	\$ 51,061
Less: allowance for credit losses	(759)	(486)
Accounts receivable, net	<u>\$ 97,099</u>	<u>\$ 50,575</u>

4. Inventory

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

	June 30, 2023	December 31, 2022
Raw materials	\$ 74,376	\$ 75,778
Allowance for obsolete or slow-moving inventory	(6,064)	(2,924)
Inventory, net	<u>\$ 68,312</u>	<u>\$ 72,854</u>

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5. Property, Plant and Equipment

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

	Estimated Useful Lives (Years)	June 30, 2023	December 31, 2022
Land	N/A	\$ 840	\$ 840
Building and land improvements	5-40	10,167	9,031
Machinery and equipment	3-5	15,144	12,371
Furniture and fixtures	3-7	2,169	1,787
Vehicles	5	125	125
		28,445	24,154
Less: accumulated depreciation		(8,247)	(7,284)
Property, plant and equipment, net		\$ 20,198	\$ 16,870

Depreciation expense for the three months ended June 30, 2023 and 2022 was \$0.6 million and \$0.5 million, respectively. During the three months ended June 30, 2023 and 2022, \$0.4 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 the six months ended June 30, 2023 and 2022 was \$1.1 million and \$0.9 million, respectively. During the six months ended June 30, 2023 and 2022, \$0.8 million and \$0.7 million, respectively, of depreciation expense was allocated to cost of revenue and \$0.3 million and \$0.2 million, respectively, of depreciation expense was allocated to operating expenses.

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 six months ended June 30, 2023. Goodwill totaled \$69.9 million as of June 30, 2023 and December 31, 2022.

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Other Intangible Assets

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

	Estimated Useful Lives (Years)	June 30, 2023	December 31, 2022
Amortizable:			
Costs:			
Customer relationships	13	\$ 53,100	\$ 53,100
Developed technology	13	34,600	34,600
Trade names	13	11,900	11,900
Backlog	1	600	600
Noncompete agreements	5	2,000	2,000
Total amortizable intangibles		102,200	102,200
Accumulated amortization:			
Customer relationships		25,072	22,925
Developed technology		16,191	14,860
Trade names		5,795	5,230
Backlog		600	600
Noncompete agreements		2,000	2,000
Total accumulated amortization		49,658	45,615
Total other intangible assets, net		\$ 52,542	\$ 56,585

Amortization expense related to intangible assets amounted to \$2.0 million and \$2.2 million for the three months ended June 30, 2023 and 2022, respectively, and \$4.0 million and \$4.5 million for the six months ended June 30, 2023 and 2022, respectively.

7. Accrued Expenses and Other

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

	June 30, 2023	December 31, 2022
Accrued compensation	\$ 4,969	\$ 4,917
Accrued interest	7,639	7,226
Warranty liability	9,634	560
Other accrued expenses	5,408	5,179
Total accrued expenses and other	\$ 27,650	\$ 17,882

8. Long-Term Debt

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

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	June 30, 2023	December 31, 2022
Term Loan Facility	\$ 194,250	\$ 195,250
Revolving Credit Facility	20,000	48,000
Less: deferred financing costs	(3,641)	(4,187)
Total debt, net of deferred financing costs	210,609	239,063
Less: current portion	(2,000)	(2,000)
Long-term debt, net current portion	\$ 208,609	\$ 237,063

Senior Secured Credit Agreement

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

As of June 30, 2023, interest rates on the Term Loan Facility were SOFR plus 5.75%, or 10.98%, and on the Revolving Credit Facility, SOFR plus 3.25%, ranging from 8.32% to 8.48%. As of June 30, 2023, there were \$194.3 million outstanding under the Term Loan Facility, \$20.0 million outstanding under the Revolving Credit Facility, letters of credit of \$0.6 million, and \$129.4 million of availability under the Revolving Credit Facility.

The Senior Secured Credit Agreement contains affirmative and negative covenants, including covenants that restrict the Company’s incurrence of indebtedness, incurrence of liens, dispositions, investments, acquisitions, restricted payments, and transactions with affiliates. The Senior Secured Credit Agreement also includes customary events of default, including the occurrence of a change of control.

The Revolving Credit Facility also includes a consolidated leverage ratio financial covenant that is tested on the last day of each fiscal quarter. To remain in compliance with the financial covenant, Shoals Intermediate Holdings’ consolidated leverage ratio, as of the last day of any quarter, cannot be greater than 6.50 to 1.00. As of June 30, 2023, the Company was in compliance with all the required covenants.

9. Earnings per Share (“EPS”)

Basic EPS of Class A common stock is computed by dividing net income attributable to the Company by the weighted average number of shares of Class A common stock outstanding during the period. Diluted EPS of Class A common stock is computed similarly to basic EPS except the weighted average shares outstanding are increased to include additional shares from the exchange of Class B common stock under the if-converted method and the assumed exercise of any common stock equivalents using the treasury stock method, if dilutive. The Company’s restricted and 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Numerator:				
Net income attributable to Shoals Technologies Group, Inc. - basic	\$ 18,924	\$ 4,402	\$ 33,220	\$ 7,042

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Reallocation of net income attributable to non-controlling interests from the assumed exchange of Class B common stock	—	—	—	—
Net income attributable to Shoals Technologies Group, Inc. - diluted	\$ 18,924	\$ 4,402	\$ 33,220	\$ 7,042
Denominator:				
Weighted average shares of Class A common stock outstanding - basic	169,887	112,489	158,213	112,350
Effect of dilutive securities:				
Restricted / performance stock units	354	127	481	78
Class B common stock	—	—	—	—
Weighted average shares of Class A common stock outstanding - diluted	170,241	112,616	158,694	112,428
Earnings per share of Class A common stock - basic	\$ 0.11	\$ 0.04	\$ 0.21	\$ 0.06
Earnings per share of Class A common stock - diluted	\$ 0.11	\$ 0.04	\$ 0.21	\$ 0.06

For the six months ended June 30, 2023 and three and six months ended June 30, 2022, 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. There were no shares of Class B common stock outstanding during the three months ended June 30, 2023.

10. Equity-Based Compensation

2021 Long-term Incentive Plan

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

Restricted Stock Units

During the six months ended June 30, 2023, the Company granted 289,713 restricted stock units (“RSUs”) to certain employees, officers and directors of the Company. The RSUs have grant date fair values ranging from \$18.12 to \$28.26 per unit and generally vest ratably over 3 years, except director grants which vest over 1 year.

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

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	Six Months Ended June 30, 2023	
	Restricted Stock Units	Weighted Average Price
Outstanding, December 31, 2022	1,736,975	\$ 22.34
Granted	289,713	\$ 24.73
Vested	(697,847)	\$ 19.67
Forfeited	(46,582)	\$ 22.54
Outstanding, June 30, 2023	1,282,259	\$ 24.33

Performance Stock Units

During the six months ended June 30, 2023, the Company granted an aggregate of 143,810 Performance Stock Units ("PSUs") to certain executives. The PSUs cliff vest after 3 years upon meeting certain revenue and gross margin targets and contain certain modifiers which could increase or decrease the ultimate number of shares of Class A common stock issued to the executives. The PSUs were valued using the market value of the Class A common stock on the grant date ranging from \$26.55 to \$28.26.

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

	Six Months Ended June 30, 2023	
	Performance Stock Units	Weighted Average Price
Outstanding, December 31, 2022	256,305	\$ 11.89
Granted	143,810	\$ 28.19
Vested	(53,144)	\$ 10.42
Forfeited	(79,533)	\$ 10.42
Outstanding, June 30, 2023	267,438	\$ 21.38

The Company recognized equity-based compensation of \$4.4 million and \$4.1 million for the three months ended June 30, 2023 and 2022, respectively, and \$12.0 million and \$7.9 million for the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023, the Company had \$29.4 million of unrecognized compensation costs which is expected to be recognized over a period of 1.9 years.

11. Stockholders' Equity

Shoals Parent Ownership

The Company is the sole managing member of Shoals Parent and has the sole voting power in, and controls the management of Shoals Parent. As of June 30, 2023, the Company owned 100% of Shoals Parent. Prior to owning 100% of Shoals Parent, the remaining interest in Shoals Parent, 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 Equity 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

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immediately canceled)) for cash or newly issued shares of our Class A common stock. Accordingly, the Company consolidated the financial results of Shoals Parent and reported non-controlling interests in its condensed consolidated financial statements. In accordance with the LLC Agreement, Shoals Parent has 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 taxable earnings. The payment of these cash distributions by Shoals Parent 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 June 30, 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.

12. Non-Controlling Interests

As of June 30, 2023, the Company owned 100% of Shoals Parent. The following table summarizes the effects of the changes in ownership in Shoals Parent on equity:

	Six Months Ended June 30,	
	2023	2022
Net income attributable to non-controlling interests	\$ 2,687	\$ 4,910
Transfers to non-controlling interests:		
Increase as a result of activity under equity-based compensation plan	687	2,973
Decrease from tax distributions to non-controlling interests	(2,628)	(4,566)
Reallocation of non-controlling interests	(10,361)	20
Change from net income attributable to non-controlling interests and transfers to non-controlling interests	<u>\$ (9,615)</u>	<u>\$ 3,337</u>

Issuance of Additional LLC Interests

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

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of Class A common stock. During the six months ended June 30, 2023 and 2022, the Company caused Shoals Parent to issue to the Company a total of 601,518 and 357,137 LLC Interests, respectively, for the vesting of awards granted under the 2021 Incentive Plan.

Distributions for Taxes

As a limited liability company (treated as a partnership for income tax purposes), Shoals Parent does not incur significant federal, state or local income taxes, as these taxes are primarily the obligations of its members. As authorized by the LLC Agreement, Shoals Parent 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, with a final accounting once actual taxable income or loss has been determined. During the six months ended June 30, 2023 and 2022, tax distributions to non-controlling LLC Interests holders were \$2.6 million and \$4.6 million, respectively.

13. 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.

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, California, and its related foreign entities (together, "Hikam"), and Voltage LLC, a limited liability company based in Chapel Hill, North Carolina, and its related foreign entities (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, the Company filed an amended complaint with the ITC, adding allegations that the Voltage respondents also infringe 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 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 Company intends to vigorously pursue 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*.

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 June 30, 2023, the maximum potential payment obligation with regard to surety bonds was \$30.0 million.

Product 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 June 30, 2023 and December 31, 2022 our estimated warranty liability was approximately \$9.6 million and \$0.6 million, respectively.

The Company has been notified by certain customers that a subset of wire harnesses used in its EBOS solutions is presenting excessive pull back of wire insulation at connection points ("shrinkback"). Based upon the Company's ongoing assessment, the Company currently believes the shrinkback is related to wire provided by one specific supplier. The Company believes it is probable that it will incur costs related to the repair or replacement of the impacted wire harnesses. Based on the Company's analysis of information available as of the date of this Quarterly Report, the Company has determined that it has sufficient information to estimate the low end of the range of potential outcomes. However, the Company continues to be unable to estimate the upper end of the range of potential outcomes based on the limited information available as of the date of this Quarterly Report, including the scope of affected sites, potential solutions and the possibility of recovery from the wire supplier. No amount within the range of potential outcomes appears to be a better estimate than any other amount within the range. Accordingly, as of June 30, 2023, the Company has recorded a warranty liability of \$9.3 million related to this matter, representing the low end of the range of potential outcomes. The Company is continuing its investigation of this matter to determine a course of action, and has ceased use of the related wire from this supplier. As additional information becomes available, the Company may increase its estimated warranty liability from its current accrual, and such increase may be material. The Company does not maintain insurance for product warranty, continues to work with the supplier, and as necessary, intends to seek recovery. Potential recovery from the third party supplier has not been considered in our estimate of the warranty liability as of June 30, 2023.

14. Income Taxes

In August 2022, the U.S. President signed into law the Inflation Reduction Act of 2022 (the "IRA"), which revised U.S. tax law by, among other things, including a new corporate alternative minimum tax (the "CAMT") of 15% on certain large corporations, imposing a 1% excise tax on stock buybacks, and providing incentives to address climate change, including the introduction of advanced manufacturing production tax credits. The provisions of the IRA are generally effective for tax years beginning after 2022. Given the complexities of the IRA, 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 Shoals Parent, which is a limited liability company that is taxed as a partnership for U.S. federal and certain state and local income tax purposes. Shoals Parent's net taxable income and related tax credits, if any, are passed through to its members and included in the member's tax returns.

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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 umbrella-partnership C corporation structure (Up-C structure). The Company is in the process of analyzing the impact on deferred taxes related to the contribution and does not expect any material impact. Any change to deferred taxes as a result of the contribution will be recorded in the third quarter.

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 is 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 six months ended June 30, 2023 and 2022, was 20.6% and 20.2%, respectively.

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 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 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 line in the accompanying condensed consolidated statements of operations. As of the quarter ended June 30, 2023, the Company has recorded \$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.

15. Revenue Recognition

Disaggregation of revenue

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
System solutions	\$ 102,061	\$ 56,821	\$ 193,360	\$ 103,650
Components	17,147	16,669	30,934	37,816
Total revenue	<u>\$ 119,208</u>	<u>\$ 73,490</u>	<u>\$ 224,294</u>	<u>\$ 141,466</u>

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):

	(*)	June 30, 2023	December 31, 2022
Billed accounts receivable	Accounts receivable, net	\$ 89,556	\$ 48,571
Retainage	Accounts receivable, net	\$ 7,543	\$ 2,004
Unbilled receivables	Unbilled receivables	\$ 21,664	\$ 16,713
Deferred revenue	Deferred revenue	\$ 31,298	\$ 23,259

(*) Location on the condensed consolidated balance sheets.

The majority of the Company's contract amounts are billed as work progresses in accordance with agreed-upon contractual terms, which generally coincide with the shipment of one or more phases of the project. Billing sometimes occurs subsequent to revenue recognition, resulting in unbilled receivables. The changes in unbilled receivables relate to fluctuations in the timing of billings for the Company's revenue recognized over time.

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

The Company also receives deferred revenue in the form of customer deposits. The customer deposits are short term as the related performance obligations are typically fulfilled within 12 months. The changes in deferred revenue relate to fluctuations in the timing of customer deposits and completion of performance

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obligations. During the six months ended June 30, 2023, \$18.4 million of deferred revenue recorded as of December 31, 2022 was recognized in revenue.

16. Related Party Transactions

As part of the LLC Agreement we were required to pay tax distributions to the non-controlling interest holders, some of which were considered related parties at the time of distribution. See Note 12 - Non-Controlling Interests.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our consolidated financial statements and the related notes and other financial information included in our Annual Report on Form 10-K for the year ended December 31, 2022 ("2022 Form 10-K") and this Quarterly Report on Form 10-Q. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. For this purpose, any statements contained in this Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "estimate" or "continue" or comparable terminology are intended to identify forward-looking statements. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under the sections of our 2022 Form 10-K and this Form 10-Q captioned "Forward-Looking Statements" and "Risk Factors".

This MD&A contains the presentation of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share, which are not presented in accordance with generally accepted accounting principles in the U.S. ("GAAP"). Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share are being presented because management believes they provide investors and readers of this Form 10-Q with additional insight into the Company's operational performance relative to earlier periods and relative to its competitors. We do not intend Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share to be substitutes for any GAAP financial information. Readers of this Form 10-Q should use Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share only in conjunction with Net Income and Net Income Attributable to Shoals Technologies Group, Inc., the most closely comparable GAAP financial measures, as applicable. Reconciliations of Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share, to the respective most closely comparable GAAP measure, as well as a calculation of Adjusted Diluted Weighted Average Shares Outstanding, are provided 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 believe customers prioritize reliability and safety over price when selecting EBOS solutions.

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

We sell our solar products principally to 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 two quarters of 2023, we have maintained focus on our growth strategy, including converting customers to our combine-as-you-go system. We believe that as of June 30, 2023, 14 of the top 15 and 17 of the top 25 solar EPCs, as reported by Solar Power World Magazine, use our combine-as-you-go system on their projects. As of the date of this report, we are in the process of transitioning an additional 14 EPCs and developers to our system.

We derived 86.2% of our revenue from the sale of system solutions for the six months ended June 30, 2023. For the same period, we derived substantially all of our revenue from customers in the U.S. As of June 30, 2023, we had \$546.1 million of backlog and awarded orders, backlog of \$303.7 million represents signed purchase orders or contractual minimum purchase commitments with take-or-pay provisions and awarded orders of \$242.4 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 June 30, 2023, backlog and awarded orders increased by 67% relative to the same date last year and increased by 4% relative to March 31, 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 owns 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 11 - 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. As of June 30, 2023, the Company owned 100% of Shoals Parent together with its wholly-owned subsidiary, Shoals Intermediate Parent, Inc. ("Shoals Intermediate").

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).

Trends and Uncertainties

In 2022, significant levels of inflation increased energy prices, freight premiums, and other operating costs, which levels remained elevated during the first two quarters of 2023. As a result of inflation, during 2022 and the first two 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 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 two 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 two 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 two quarters of 2023, we continued to monitor and optimize our inventory levels.

In March 2023, various financial institutions sustained liquidity problems. Even though the FDIC and other government agencies intervened, there is uncertainty in the markets regarding the stability of the banking system and especially of regional banks. If the banks and financial institutions at which we or our customers hold our cash enter receivership or become insolvent, our liquidity and financial results may be threatened.

As of June 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.

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. 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 employees in our general and administrative departments increased from 98 to 121 from June 30, 2022 to June 30, 2023, and we expect to hire new employees in the future to support our growth. The timing of these additional hires could materially affect our operating expenses in any particular period, both in absolute dollars and as a percentage of revenue. We expect to invest in additional resources to support our growth which will increase our operating expenses.

General and Administrative Expenses

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

Depreciation

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

Amortization

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

Non-operating Expenses

Interest Expense

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

Income Tax Expense

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

Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023	2022	Increase / (Decrease)		2023	2022	Increase / (Decrease)	
Revenue	\$ 119,208	\$ 73,490	\$ 45,718	62 %	\$ 224,294	\$ 141,466	\$ 82,828	59 %
Cost of revenue	68,691	44,897	23,794	53 %	125,520	86,581	38,939	45 %
Gross profit	50,517	28,593	21,924	77 %	98,774	54,885	43,889	80 %
Operating expenses								
General and administrative expenses	16,723	13,265	3,458	26 %	36,715	27,184	9,531	35 %
Depreciation and amortization	2,158	2,344	(186)	(8)%	4,323	4,710	(387)	(8)%
Total operating expenses	18,881	15,609	3,272	21 %	41,038	31,894	9,144	29 %
Income from operations	31,636	12,984	18,652	144 %	57,736	22,991	34,745	151 %
Interest expense, net	(6,505)	(4,170)	2,335	56 %	(12,501)	(8,006)	4,495	56 %
Income before income taxes	25,131	8,814	16,317	185 %	45,235	14,985	30,250	202 %
Income tax expense	(6,207)	(1,511)	4,696	311 %	(9,328)	(3,033)	6,295	208 %
Net income	18,924	7,303	11,621	159 %	35,907	11,952	23,955	200 %
Less: net income attributable to non-controlling interests	—	2,901	(2,901)	(100)%	2,687	4,910	(2,223)	(45)%
Net income attributable to Shoals Technologies Group, Inc.	<u>\$ 18,924</u>	<u>\$ 4,402</u>	<u>\$ 14,522</u>	330 %	<u>\$ 33,220</u>	<u>\$ 7,042</u>	<u>\$ 26,178</u>	372 %

Comparison of the Three Months Ended June 30, 2023 and 2022

Revenue

Revenue increased by \$45.7 million, or 62%, for the three months ended June 30, 2023 as compared to the three months ended June 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 and average revenue per project increased during the three months ended June 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 \$23.8 million, or 53%, for the three months ended June 30, 2023 as compared to the three months ended June 30, 2022, primarily driven by an increase in revenue. Gross profit as a percentage of revenue increased from 38.9% during the three months ended June 30, 2022 to 42.4% during three months ended June 30, 2023. This increase was driven 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. These increases in gross margin were offset by an increase in warranty expense recorded during the three months ended June 30, 2023 compared to the same period during 2022.

Operating Expenses

General and Administrative

General and administrative expenses increased \$3.5 million, or 26%, for the three months ended June 30, 2023 as compared to the three months ended June 30, 2022. The increase in general and administrative expenses was primarily the result of an increase in wages and related taxes of \$2.3 million due to increased employee headcount to support our growth initiatives, as well as an increase in professional fees of \$0.4 million primarily related to legal fees incurred in connection with the ongoing patent infringement complaint, and an increase of \$0.2 million related to equity-based compensation.

Depreciation and Amortization

Depreciation and amortization expenses decreased \$0.2 million, or 8%, for the three months ended June 30, 2023 as compared to the three months ended June 30, 2022. The decrease in depreciation and amortization was due to definite lived intangible assets that became fully amortized during 2022.

Interest Expense

Interest expense, net increased by \$2.3 million or 56%, for the three months ended June 30, 2023 as compared to the three months ended June 30, 2022, which was due to increased borrowing rates. During 2022 and the first two 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 three months ended June 30, 2023 compared to the three months ended June 30, 2022.

Income tax expense

Income tax expense totaled \$6.2 million for the three months ended June 30, 2023 as compared to income tax expense of \$1.5 million for the three months ended June 30, 2022. Our effective income tax rate for the three months ended June 30, 2023 and 2022 was 24.7% and 17.1%, respectively. The 2023 increase in our effective income tax rate for the three months ended June 30, 2023 as compared to the three months ended June 30, 2022 was primarily due to a reduction in permanent differences as a result of net income attributable to non-controlling interests.

Comparison of the Six Months Ended June 30, 2023 and 2022

Revenue

Revenue increased by \$82.8 million, or 59%, for the six months ended June 30, 2023 as compared to the six months ended June 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 and average revenue per project increased during the six months ended June 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 \$38.9 million, or 45%, for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022, primarily driven by an increase in revenue. Gross profit as a percentage of revenue increased from 38.8% during the six months ended June 30, 2022 to 44.0% during the six months ended June 30, 2023. The increase was driven 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. These increases in gross margin were offset by an increase in warranty expense recorded during the six months ended June 30, 2023 compared to the same period during 2022.

Operating Expenses

General and Administrative

General and administrative expenses increased \$9.5 million, or 35%, for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022. The increase in general and administrative expenses was the result of an increase in wages and related taxes of \$4.2 million due to increased employee headcount to support our growth, as well as an increase in equity-based compensation of \$3.6 million mainly related to termination of our former CEO for disability, and an increase in professional fees of \$1.1 million primarily related to legal fees incurred in connection with the ongoing patent infringement complaint.

Depreciation and Amortization

Depreciation and amortization expense decreased by \$0.4 million, or 8%, for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022, due to definite lived intangible assets that became fully amortized during 2022.

Interest Expense

Interest expense, net increased by \$4.5 million or 56%, for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022, which was due to increased borrowing rates. During 2022 and the first two 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 six months ended June 30, 2023 compared to the six months ended June 30, 2022.

Income tax expense

Income tax expense was \$9.3 million for the six months ended June 30, 2023 as compared to income tax expense of \$3.0 million for the six months ended June 30, 2022. Our effective income tax rate for the six months ended June 30, 2023 and 2022 was 20.6% and 20.2%, respectively.

Non-GAAP Financial Measures

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

We define Adjusted EBITDA as net income (loss) plus (i) interest expense, net, (ii) income tax expense, (iii) depreciation expense, (iv) amortization of intangibles, (v) equity-based compensation, and (vi) acquisition-related expenses. We define Adjusted Net Income as net income attributable to Shoals Technologies Group, Inc. plus (i) net income impact from assumed exchange of Class B common stock to Class A common stock as of the beginning of the earliest period presented, (ii) amortization of intangibles, (iii) amortization of deferred financing costs, (iv) equity-based compensation, and (v) acquisition-related expenses, all net of applicable income taxes. We define Adjusted Diluted EPS as Adjusted Net Income divided by the diluted weighted average shares of Class A common stock outstanding for the applicable period, which assumes the exchange of all outstanding Class B common stock for Class A common stock as of the beginning of the earliest period presented.

Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS are intended as supplemental measures of performance that are neither required by, nor presented in accordance with, GAAP. We present

Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS because we believe they assist investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS: (i) as factors in evaluating management's performance when determining incentive compensation; (ii) to evaluate the effectiveness of our business strategies; and (iii) because our credit agreement uses measures similar to Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted EPS to measure our compliance with certain covenants.

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 18,924	\$ 7,303	\$ 35,907	\$ 11,952
Interest expense, net	6,505	4,170	12,501	8,006
Income tax expense	6,207	1,511	9,328	3,033
Depreciation expense	565	470	1,049	893
Amortization of intangibles	2,021	2,238	4,043	4,509
Equity-based compensation	4,445	4,063	11,968	7,896
Acquisition-related expenses	—	12	—	12
Adjusted EBITDA	<u>\$ 38,667</u>	<u>\$ 19,767</u>	<u>\$ 74,796</u>	<u>\$ 36,301</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income attributable to Shoals Technologies Group, Inc.	\$ 18,924	\$ 4,402	\$ 33,220	\$ 7,042
Net income impact from assumed exchange of Class B common stock to Class A common stock	—	2,901	2,687	4,910
Adjustment to the provision for income tax ^(b)	—	(686)	(653)	(1,159)
Tax effected net income	18,924	6,617	35,254	10,793
Amortization of intangibles	2,021	2,238	4,043	4,509
Amortization of deferred financing costs	342	408	692	684
Equity-based compensation	4,445	4,063	11,968	7,896
Acquisition-related expenses	—	12	—	12

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Tax impact of adjustments ^(c)	(1,688)	(1,588)	(4,092)	(3,093)
Adjusted Net Income	\$ 24,044	\$ 11,750	\$ 47,865	\$ 20,801

^(a) Reflects net income to Class A common stock from assumed exchange of corresponding shares of our Class B common stock held by the Founder and management. There were no shares of Class B common stock outstanding during the three months ended June 30, 2023.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Statutory U.S. Federal income tax rate	21.0 %	21.0 %	21.0 %	21.0 %
Permanent adjustments	0.5 %	0.1 %	0.4 %	0.1 %
State and local taxes (net of federal benefit)	3.3 %	2.5 %	3.1 %	2.5 %
Effective income tax rate for Adjusted Net Income	24.8 %	23.6 %	24.5 %	23.6 %

^(c) 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Diluted weighted average shares of Class A common stock outstanding, excluding Class B common stock	170,241	112,616	158,694	112,428
Assumed exchange of Class B common stock to Class A common stock	—	54,635	11,491	54,585
Adjusted diluted weighted average shares outstanding	170,241	167,251	170,185	167,013
Adjusted Net Income	\$ 24,044	\$ 11,750	\$ 47,865	\$ 20,801
Adjusted Diluted EPS	\$ 0.14	\$ 0.07	\$ 0.28	\$ 0.12

Liquidity and Capital Resources

	Six Months Ended June 30,	
	2023	2022
Net cash provided by (used in) operating activities	\$ 37,834	\$ (6,743)
Net cash used in investing activities	(4,377)	(2,149)
Net cash provided by (used in) financing activities	(36,363)	23,137
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ (2,906)</u>	<u>\$ 14,245</u>

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

We generated cash from operating activities of \$37.8 million during the six months ended June 30, 2023, as compared to cash used in operating activities of \$6.7 million during the six months ended June 30, 2022. As of June 30, 2023, our cash and cash equivalents were \$5.9 million, a decrease from \$10.1 million as of June 30, 2022. As of June 30, 2023 we had outstanding borrowings of \$214.3 million, a decrease from \$243.3 million as of December 31, 2022. As of June 30, 2023, we also had \$129.4 million available for additional borrowings under our \$150.0 million Revolving Credit Facility.

Operating Activities

For the six months ended June 30, 2023, cash provided by operating activities was \$37.8 million, primarily due to operating results that included \$35.9 million of net income, which included \$39.5 million of non-cash expense, along with an increase of \$8.0 million in deferred revenue and an increase of \$6.8 million in accounts payable and accrued expenses. These cash inflows were partially offset by an increase in accounts receivable and unbilled receivables of \$51.8 million.

Investing Activities

For the six months ended June 30, 2023, net cash used in investing activities was \$4.4 million, all of which was attributable to the purchase of property and equipment.

Financing Activities

For the six months ended June 30, 2023, net cash used in financing activities was \$36.4 million, primarily due to \$3.6 million in taxes related to net share settled equity awards, \$28.0 million in net payments on the Revolving Credit Facility, \$1.0 million in principal payments on the Term Loan Facility, and \$2.6 million in distributions to our non-controlling interest holders.

Debt Obligations

For a discussion of our debt obligations see Note 8 - 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 13 - 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 13 - Commitments and Contingencies 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 of June 30, 2023, there were no significant changes in the application of our critical accounting policies or estimation procedures from those presented in our 2022 Form 10-K.

Product Warranty

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes with respect to our market risk disclosed in our 2022 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 June 30, 2023. Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2023, 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 June 30, 2023 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

discussed below, 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.

On May 4, 2023, we filed a patent infringement complaint with the U.S. International Trade Commission (“ITC”) against Hikam America, Inc., a corporation based in Chula, California, and its related foreign entities (together, “Hikam”), and Voltage LLC, a limited liability company based in Chapel Hill, North Carolina, and its related foreign entities (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, the Company filed an amended complaint with the ITC, adding allegations that the Voltage respondents also infringe a third, recently-issued patent owned by the Company. Also on May 4, 2023, we 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 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. We intend to vigorously pursue these actions. However, at this stage, we are unable to predict the outcome or impact on our business.

Item 1A. Risk Factors

Except as set forth below, there have been no material changes with respect to our risk factors disclosed in our 2022 Form 10-K.

Defects or performance problems in our products or their parts, including those manufactured by third parties, could result in loss of customers, reputational damage and decreased revenue, and we may face warranty, indemnity and product liability claims arising from defective products, which 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. Our warranty liability is based on our assumptions and we do not have a long history of making such assumptions. As a result, these assumptions could prove to be materially different from the actual performance of our systems, causing us to incur substantial unanticipated expense to repair or replace defective products in the future or to compensate customers for defective products. Our failure to accurately predict future claims could result in unexpected volatility and have a material adverse effect on, our financial condition.

The Company has been notified by certain customers that a subset of wire harnesses used in its EBOS solutions is presenting excessive pull back of wire insulation at connection points (“shrinkback”). Based upon the Company’s ongoing assessment, the Company currently believes the shrinkback is related to wire provided by one specific supplier. The Company believes it is probable that it will incur costs related to the repair or replacement of the impacted wire harnesses. Based on the Company’s analysis of information available as of the date of this Quarterly Report, the Company has determined that it has sufficient information to estimate the low end of the range of potential outcomes. However, the Company continues to be unable to estimate the upper end of the range of potential outcomes based on the limited information available as of the date of this Quarterly Report, including the scope of affected sites, potential solutions and the possibility of recovery from the wire supplier. No amount within the range of potential outcomes appears to be a better estimate than any other amount within the range. Accordingly, as of June 30, 2023, the Company has recorded a warranty liability of \$9.3 million related to this matter, representing the low end of the range of potential outcomes. The Company is continuing its investigation of this matter to determine a course of action, and has ceased use of the related wire from this supplier. As additional information becomes available, the Company may increase its estimated warranty liability from its current accrual, and such increase may be material. The Company does not maintain insurance for product warranty, continues to work with the supplier, and as necessary, intends to seek recovery. Potential recovery from the third party supplier has not been considered in our estimate of the warranty liability as of June 30, 2023. 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 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 Part II, Item 1, Legal Proceedings, 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. 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
31.1*	Certification of the Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).			
31.2*	Certification of the Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).			
32.1**	Certification of the Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002			
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document			

EXHIBIT INDEX

Number	Description of Document	Incorporated by Reference		
		Form	Filing Date	Exhibit No.
101.SCH*	XBRL Taxonomy Extension Schema Document			
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document			
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document			

* Filed herewith.

** 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: August 1, 2023

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

Date: August 1, 2023

By: /s/ Dominic Bardos
Name: Dominic Bardos
Title: Chief Financial Officer

**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: August 1, 2023

**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:
 - 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/ Dominic Bardos

Dominic Bardos

Chief Financial Officer

Date: August 1, 2023

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 June 30, 2023 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:

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

Date: August 1, 2023

/s/ Brandon Moss

Brandon Moss
Chief Executive Officer
(Principal Executive Officer)

/s/ Dominic Bardos

Dominic Bardos
Chief Financial Officer
(Principal Financial and Accounting Officer)