sunrun

Q1 2021 Earnings Call
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Transcript

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Lynn Jurich, Co-Founder and CEO
Ed Fenster, Co-Founder and Executive Chairman
Tom vonReichbauer, CFO

Q&A Participants
Brian Lee, Goldman Sachs
Julien Dumoulin-Smith, Bank of America
Moses Sutton, Barclays
Stephen Byrd, Morgan Stanley
Kashy Harrison, Simmons Energy
James West, Evercore ISI
Mark Strouse, J.P. Morgan
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Operator
Greetings, and welcome to the Sunrun First Quarter 2021 Earnings Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mr. Patrick Jobin, Investor Relations. Please go ahead, sir.

Patrick Jobin
Thank you, Hector. Before we begin, please note that certain remarks we will make on this conference call constitute forward-looking statements. Although we believe these statements reflect our best judgement based on factors currently known to us, actual results may differ materially and adversely. Please refer to the company's filings with the SEC for more inclusive discussion of risks and other factors that may cause our actual results to differ from projections made in any forward-looking statements. Please also note, these statements are being made as of today, and we disclaim any obligation to update or revise them. On the call today are Lynn Jurich, Sunrun's Co-Founder and CEO, Ed Fenster, Sunrun's

Co-Founder and Executive Chairman, and Tom vonReichbauer, Sunrun's CFO. I'll now turn the call over to Lynn.

Lynn Jurich
Thanks, Patrick. we are pleased to share Sunrun's first quarter results are improving outlooks for 2021, and our progress transitioning the country to a clean, affordable, and resilient grid. The year is on track to be the best in the company's history, with an accelerating growth rate, operating scale, and expanding market reach, we are leading the country to a clean energy future. We ended Q1 with more than 573,000 customers, reflecting 18% year-over-year growth. We are increasing our new solar capacity installations guidance from 20 to 25% to 25 to 30% for the full year.

We are innovating, accelerating growth, and integrating Vivint Solar, while maintaining strong unit margins and performing at a scale that is two-times greater than our nearest competitor. Sunrun's expanding customer value proposition and competitive advantages are delivering market share gains. We delivered all-time record Q1 volumes through our direct-to-home sales channel. And our home builder and our channel partner businesses delivered all-time record volumes. We have an unmatched consumer reach through our multi-channel strategy.

We focus on working with a selective group of channel partners, and grew the number of partners we work with by over 20% in Q1. Given the value of our brand strength, technology platform, and financing advantages, nearly all of our new channel partners have agreed to exclusive agreements. Our new home business is starting to scale, and grew by more than 50% in the first quarter compared to the prior year, pro forma for Vivint Solar. We are working with 20 of the top 30 home builders in California. Our pipeline of new homes spans hundreds of communities across the country. We continue to advance our lead on batteries and virtual power plants. Sunrun has installed nearly 20,000 Brightbox systems nationwide, which offer homeowners the ability to power through blackouts with clean and reliable locally produced home energy.

On a daily basis, these batteries optimize when power is purchased or supplied to grid, helping manage energy constraints during peak times. Battery attachment rates increased again from last quarter, and are at record levels across the business. Sunrun has already forged 12 virtual power plant opportunities, and we continue to grow the pipeline. We now have over 75 million in expected revenue from grid services opportunities that have been awarded or in late stage discussions.

These opportunities provide incremental recurring revenue, and offer an enhanced customer value proposition, while further differentiating Sunrun's offering from competitors that lack the scale, network density, and the technical capabilities necessary to serve this market. We continue to expect more than 100% growth in battery installations this year, despite supply constraints. As more manufacturers expand battery offerings, we expect costs to improve further, and supply constraints to ease, allowing us to meet pent-up demand and accelerate adoption even faster.

We are actively exploring ways to help consumers in the grid manage the transition to electric vehicles. We know the country must make the switch to EVs to further reduce carbon emissions, and we believe Sunrun will be a key enabler of this transition. Homes with EVs consume approximately double the amount of electricity. Home solar and batteries are needed to meet this increased strain on the electric system, and Sunrun is well positioned to be a leading provider of these services, given our expertise managing and installing at-home energy infrastructure and our national footprint.

Electric vehicles create positive flywheel effects. Homes need larger solar systems to support the increased electricity consumption. These larger systems come at a high incremental margin, since the cost to increase the size is relatively low. And EVs can be integrated into a comprehensive home energy management system to maximize the economic benefits and resiliency for families. These compounding benefits will accelerate the transition to a distributed grid, with home solar, batters, and EVs even faster than most realize.

Turning now to our ESG and sustainability efforts. We are proud to lead one of the fastest-growing sectors in the American economy. In Q1, we launched the Sunrun Academy, a set of initiatives and programs that expands job opportunities and enhances career advancement. By investing in our people, we can attract and retain the best workforce with the skills needed to electrify homes across the country. As part of this initiative, all Sunrun employees have access to an expanded tuition reimbursement program to develop career-building skills. The Sunrun Academy will help us develop and train our emerging leaders, with a focus on critical in-demand skills, like electrical work.

In April, we unveiled sustainability goals in our Annual Impact Report. These goals include offsetting more than 600 million metric tons of carbon emissions from the systems we will deploy over the next decade, achieving net zero carbon emissions from our operations by 2040, transitioning our vehicles to fleet to one-third electric or hybrid within five years, and deploying at least 500 megawatts of solar to lower income households by 2030.

Finally, we aim to create a healthier environment for future generations by aggressively retiring fossil fuel plants with the virtual power plants powered by local solar energy. The solar systems we deployed in just Q1 are expected to prevent the emission of over 3.9 million metric tons of CO_2 over the next 30 years. Before I turn it over to Ed, I'd like to thank our fantastic team for another great quarter. Over to you, Ed.

Ed Fenster
Thanks, Lynn. Today, I'll touch on some recent political developments, our evolving capital structure strategy, and recap our robust capital runway. Washington is taking note that distributed solar represents about seven in 10 of all jobs in wind and solar development. The Labor Department predicts that job growth for solar installers will exceed any other category of employment through 2026. Even better, our jobs are desirable. We employ people nationwide throughout local communities, rather than in desolate locations. Our jobs remain consistent year in and year out, rather than the feast or famine reality of project-driven jobs. And the need to automate, scale, and organize our industry's growth creates a wide range of career advancement opportunities.

Over the coming years, distributed energy is uniquely positioned to add hundreds of thousands of jobs that are secure, well paid, close to home, and don't require a college degree, exactly the sort that are the focus of our leaders today. We're at a crossroads, and believe our vision of an intelligent grid, where power is reliably produced and locally consumed, is the obvious future. Support for our vision within the media and at the state level is strong. Key editorial boards continue to see the intuitive elegance of distributed solar and storage.

And to that end, we've seen recent compelling editorials in the most influential publications such as The New York Times, the Los Angeles Times, and the Sacramento Beat. These papers recognize that electrifying our vehicles and our heating will require doubling the electricity needs of our communities, and that the major utilities, particularly in California, have fallen decades behind maintaining the grid and are unable, alone, to deliver against the urgent needs of today, let alone tomorrow. State regulators by and large appreciate this as well. For instance, in South Carolina, we reached a win-win settlement with Duke Energy. When Dominion was unable to negotiate in good faith, the public utilities commission that regulates them, entirely rejected their request.

Our all-in capital costs are at or near all-time lows, despite the increase of treasuries earlier this year. For now, treasuries have stabilized at very attractive levels, while the spreads we pay to treasuries continues to fall. While we don't expect materially higher interest rates in the near term, I note that Sunrun delivered excellent customer values and cash flow results in recent periods when base rates were at least twice what they are now. And today, we enjoy lower costs and more revenue sources, like batteries and virtual power plants.

A modest inflationary environment, which would further drive up retail electric rates, would frankly be good for us. Meanwhile, our increased scale continues to open new financing opportunities. We expect to leverage that scale into an overall lower cost capital strategy that will increase long term cashflows available to our common shareholders. We're evaluating a number of possibilities to achieve this vision, and we'll share updates over the next quarter or so as we finalize a course of action.

We continue to maintain a robust project finance runway. As of May 5th, closed transactions and executed term sheets provided us expected tax equity and project debt capacity to fund over 540 megawatts for subscribers, beyond what was deployed through the first quarter. I'll now turn the call over to Tom.

Tom vonReichbauer
Thanks, Ed. The strong momentum we saw in the fourth quarter has continued in 2021. The Sunrun team, again, delivered an exceptional quarter with year-over-year volume growth at strong margins. We are proud to post a solid quarter, even as we meet the significant ongoing demands of integrating Vivint Solar into our operations. We are leaning in to accelerate our growth even further while enhancing our customer offering and value we bring to our partners.

Turning first to volumes. In the first quarter, customer additions were approximately 23,500, including approximately 20,100 subscriber additions. Solar energy capacity installed was 168 megawatts in the first quarter of 2021, a nine percent increase from the first quarter last year, pro forma to include Vivint Solar, and down approximately two percent from Q4, a much smaller decline from Q4 into Q1 than what we have historically observed given seasonality in our business. Our network solar energy capacity was 4.1 gigawatts at the end of Q1, an increase of 18% compared to the prior year. We ended Q1 with over 573,000 customers and nearly 499,000 subscribers.

Our subscribers generate significant recurring revenue with most under 20 or 25-year contracts with the clean energy we provide. At the end of Q1, our annual recurring revenue, or ARR, stood at $683 million, with an average contract life remaining of 17 years, representing over $10 billion in revenue visibility just from existing customers. In Q1, subscriber value was approximately $35,700, and creation cost was approximately $27,500, delivering a net subscriber value of approximately $8,200. Total value generated, which is the net subscriber value multiplied by the number of subscriber additions in the period was 165 million in the first quarter.

Turning now to gross and net earning assets on our balance sheet. Gross earning assets were 8.1 billion at the end of the first quarter. Gross earning assets is the measure of cashflows we expect to receive from customers over time, net of distributions to tax equity partners and partnership flip structures, private equity financing partners, and operating and maintenance expenses, discounted at a five percent unlevered WAC. Net earning assets were $4.2 billion at the end of the first quarter. Net earning assets is gross earning assets plus cash, less all debt. We ended the first quarter with $813 million in total cash. Note that in Q1, we consumed approximately $43 million in cash related to the convert capped call on acquisition-related costs.

Turning now to our outlook. Our team is executing exceptionally well, with strong sales momentum across all of our channels, even as we focus on integrating Vivint Solar. We believe our strengthening brand, investment in customer experience, and expanded sales reach have us well positioned to respond to the market opportunity in front of us. We are increasing our growth outlook for 2021. We now forecast solar energy capacity installed growth to be in the range of 25 to 30% in 2021 for the full year, an increase from the prior guidance of 20 to 25%. Total value generated is now expected to be over $750 million for the full year, up from the prior guidance of more than $700 million. We continue to estimate cost synergies derived from the acquisition of Vivint Solar to be approximately $120 million in run rate synergies, exiting this year.

While we are very focused on integration in the near term, we expect to see sequential quarterly growth in solar energy capacity installed in Q2 that is well above 10%. The combination of investments to accelerate growth and our progressive ramp in the synergy realization will result in more front-loaded costs, resulting in lower net subscriber values in Q2, but with sequential increases throughout the second half of the year. Consumer demand for alternatives to an old, expensive, and dirty energy infrastructure continues to increase at a rapid pace, and we believe we have the products, business model, and operational capabilities to deliver against this demand in 2021 and beyond. With that, let's open the line for questions, please.

Operator
Thank you. At this time, we will be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions. Your first question comes from the line of Brian Lee with Goldman Sachs. Please proceed with your question.

Brian Lee
Hey, everyone. Thanks for taking the questions, and kudos on the solid execution here and increased guidance. I guess on that topic, just wondering, you know, understandably comps are easy for Q2. But if we assume, you know, a 50% growth in Q2, it still implies 30% average growth through, you know, Q3 and Q4 on a year-on-year basis to get to your range. Is that kind of the right cadence of how we should be thinking about the run rate here in the second half, given the skew that we'll see in Q2? And then I had a follow up.

Lynn Jurich
Thanks, Brian. Yes, that is the right way to think about it.

Brian Lee
Okay. And then I guess as a follow-up, you know, just given the better demand outlook, two questions here, and then I'll pass it on. One on the supply chain, just anything whether panels, inverters, batteries, that you're seeing tightness or potential price fluctuations that could impact the guidance for the year? And then on--the second part of the question would be around labor. You know, we are hearing some industries are having challenges getting workers back to work, with the increased volume growth outlook. You know, it's a high quality problem to have, but how are you guys thinking about--or what sort of visibility do you have on the labor side of things? Thanks a lot.

Ed Fenster
Sure, Brian. So, this is Ed. Maybe I'll just kick it off on batteries, and then hand it off to Tom to keep going. You know, in terms of battery supply, the good news is we installed more batteries in Q1 than in--sorry, than in Q4, you know, which represented total install growth of more than 100% year-over-year. And we also still expect to grow battery installations over 100% during 2021. The bad news is, we could be growing that even faster if not for the tightness in the market. And one impact of the tightness, the end pricing for batteries has not fallen alongside the raw material input costs for those batteries.

We do forecast, you know, significant increases in both supply and demand of batteries, with supply increasing a little faster than demand over the near term, which should help a little bit. You know, across all manufacturers, we expect to obtain enough batteries to support the growth we have forecast, if not, you know, full intrinsic customer demand. And you know, we are experiencing a little bit of low inventory levels, but we've been working through that and planning around that successfully so far. Maybe I will hand it to Tom, to talk about inventory.

Tom vonReichbauer
Hey, Brian. So, across the rest of the supply chain, you know, we feel comfortable that we're well insulated to the supply chain situation that some manufacturers are highlighting. As we said before, our position as the market leader, you know, we sit in a pretty important customer position for these companies, and believe that puts us in a strong position in their pecking order. Given our scale, we have strong supply contracts that, in many cases, have penalties for non-delivery of orders.

We've also increased our target inventory levels in response to some of the supply chain disruptions, and we already reached those new buffered levels without difficulty. Finally, the diversified supply chain that we manage, you know, using multiple suppliers for all of our components helps further mitigate risk here. So, we feel pretty good on this issue. Let me pass it over to Lynn for the labor issue.

Lynn Jurich
Yeah, yeah, sure, Brian, great question. This is something we're extremely vigilant about. You know, as we know, electrifying all of the homes in the U.S. can add 25 million jobs. You know, so, that's why it has the bipartisan support it does. We do feel like we're in a solid position for the foreseeable future, but you know, we're investing a lot here.

We talked about some of the external partnerships we've launched like Skillbridge, you know, partnerships with the Department of Defense, which gives us access to a council of 75,000 people. You know, we're launching our Sunrun Academy to develop internal talent and you know, just always offering competitive wages and career pathing, and you know, really focusing on building that talent brand out. So, short story, we feel solid, you know, right now, and we're--and continuing to invest here.

Brian Lee
Alright. Thanks, everyone, so much for the comments. Appreciate it.

Operator
Your next question comes from the line of Julien Dumoulin-Smith with Bank of America. Please proceed with your question.

Julien Dumoulin-Smith
Hey, good afternoon, team. Thanks for the time. Congrats again on all the updates here. So, perhaps, to start with that, you talked about the 750 million in value generated this year, right? And I suppose this flows naturally from the added compounding customer growth that's 25 to 30. So, how do you think about this trend through the course of the year? It's a little bit like the last one, given that the NEA growth for 1Q I think here was 59 million.

How do you think about that trending through the course of the year? Again, I think it's the same genre of the question, how do you think about that backend weighted, presumably? And then, in terms of the percent increase versus customers, going from 20 to 25, to 25 to 30, I would have thought that going from 700 to the baseline maybe might be implied a little bit more than 750. So, both kind of trend and cadence as well as, you know, how do you think about the customer growth relative to the value addition in terms of the uptick?

Ed Fenster
Yeah, sure, Julian. So, on--first, on the guidance point, you know, we increased volume guidance at the midpoint of the range by approximately 4%. That increased total value generated by approximately 7%. So, you are seeing some of that incremental leverage there as we bump up volume guidance, if you just kind of look at the midpoint of the range on volume. You know, throughout the course of the year, we expect to continue to, you know, tighten operating costs, continue process improvements, reductions in our physical branch footprint as a result of the acquisition, as well as cycle time improvements. And you know, further we reaffirm the synergy delivery this year of 120 million, and exit rate value. That obviously has a ramp throughout the year.

And then, with the market opportunity that we're seeing in front of us right now, the, you know, accelerating growth and investment in that opportunity, you know, as the timing of some of these sales cost recognition does create a bit more drag in Q1 and Q2, where we're seeing a higher ratio of sales to installs. If you look at the results here in Q1, you know, install costs are down in spite of higher battery mix, and G&A costs are coming down. So, you can see a lot of this beginning to materialize.

At the beginning of Q1, we also had the--a higher mix of 26% ITC-eligible projects than we had in 2020. So, you know, I think you will see, you know, some of that drag here in the first half of the year, but continue to ramp throughout the year as synergies are realized. And then I think on NEA and cash, you know, we mentioned in the commentary there that we had about $43 million of one-time cash expenses from the convert the cap call, and some integration items that created a bit of a drag of NEA under the new definition, which is now inclusive of cash.

Julien Dumoulin-Smith
All fair points. Thank you. And then, if I may, right, I want to sidestep in that energy metering conversation, but really thinking, you know, beyond the current year into '22 onward. How do you think about the various puts and takes on value creation leverage, right? Whether that's, you know, again, storage deflation returns in terms of cost, you've got solar panels continuing going down, perhaps other scale advantages, etcetera. But you know, at the end of the day, when you think about the dev-co side of the piece here, obviously perhaps you might have a little bit of pressure from an NEM perspective. What are the offsets when you think about customer value creation sort of beyond the current year?

Lynn Jurich
Thanks, great question. You know, we--the outlook is extremely positive. So, you know, on the top end here, you know, you have the grid services markets opening up. So, you know--and for those newer to this, right, grid are markets where we're able to actually monetize the capacity out of the battery to add another source of value. And if you look at the grid services programs, we have in our pipeline right now, that represents about 10% of our--or, excuse me, the contracts we have represent about 10% of our geographies, but our pipeline shows about 50%.

And you know, as the--you know, as the country moves further to intermittent, you know, renewable resources, the demand for, you know, instantly dispatching power out of the battery will become increasingly valuable. So, that's one. You know, you also have just the additional revenue from the battery. And the battery adoption, I think we're just still on the very early innings of people feeling the resiliency pain around outages like we saw in California and Texas, which will continue to really drive the consumer interest and adding the battery. You know, you also have the further electrification of vehicles in the house, and this is a huge one. So, if we--just by electrifying your vehicle in your home, you need twice the amount of power to your house.

And you know, so, one that increases the potential system size, which is really the most profitable, you know, business for us, because a lot of our costs are, you know, per home, not per KW. So, you have that, you know, massive increase in the system. So, I think what you're really seeing for, you know, what our vision is, is to help really lead this energy transition. And we're really moving from just a solar-only company to a company that offers broader electrification both for the home, but then also into the grid to help build a stable grid that can actually hit the carbon goals. So, you know, I think the unit level economics are going to look, you know, different going forward because of that, and you know, the overwhelming majority of the trends are tailwinds.

Julien Dumoulin-Smith
Got it. Well, thank you.

Lynn Jurich
Thanks.

Operator
Your next question comes from the line of Moses Sutton with Barclays. Please proceed with your question.

Moses Sutton
Thanks for taking my questions, and congrats on seismically beating on what seems like every metric. Is California specifically helping drive the NPV strength? You know, simply looking at average realized utility

rates in California rising about seven percent year-to-date, wondering if you're capturing this in lease and QPA origination pricing?

Lynn Jurich
Thanks for that question. And we--while that will be a long-term benefit, we have not, you know, changed pricing in Californian, so it's not coming from that.

Moses Sutton
Great, great. And then, thinking about which states and areas you're actually pushing deeper into, maybe you could provide an update on high-growth markets like Texas and Florida, and really any new states you're looking at where utility rates versus the solar economics are starting to emerge, that you're not at yet?

Lynn Jurich
Sure. I think, you know, we are in about 23 states right now. I think, you know, some of the places we're, you know, really excited about are Texas, Florida. I think, you know, Puerto Rico is poised to deliver some growth for us as well. But I would note that, you know, the current growth rate and the current guidance is not predicated on a lot of geographic expansion. I think you will see a return for us to more geographic expansion this year.

And you know, particularly, like you said, the value drivers are enabling that, whereas grid power prices are getting higher, our equipment costs are decreasing, the appeal of batteries is that much more powerful. And then again, this addition of electric vehicles and the bigger system sizes makes that even that much more economical. So, we do--you know, last year, we did not expand into a lot of new geographies, and this year we will be doing that. But again, the growth expectations are not reliant on that.

Moses Sutton
That's very helpful. And maybe one last one, I'll jump in the queue. Maybe this one's for Ed. You came to market with an ABS on legacy Vivint assets, recently, with great terms. It's been maybe one and a half years now since you came to market with Run assets, any update on timing? Could we expect something in the next one to two quarters?

Ed Fenster
Hi, great question. We are--you know, we obviously periodically access the financing markets in various different formats. And you know, during the pandemic, actually raised the number of delayed straw credit facilities that were designed to be delayed--to be drawn and used over time, you know, as a way to mitigate risk, you know, had things looked different than they did ultimately during that period.

So, we will again continue to avail ourselves of the securitization market, but haven't made any, you know, public statements at the moment as to when the next transaction will occur. But we certainly do have, you know, a number of obviously funds deploying and a number of refinancing opportunities that are starting to develop this year. And obviously, you know, for assets originated recently, you know, there is no delineation between a legacy Vivint and a legacy Sunrun asset.

Moses Sutton
Great. Thanks, very helpful.

Lynn Jurich
Thank you.

Operator
Your next question comes from the line of Stephen Byrd with Morgan Stanley. Please proceed with your question.

Stephen Byrd
Hi. Congratulations on the great results and the excellent update on growth. I wanted to focus on the opportunity for home electrification. And Lynn, you've spoken quite a bit about this, y'all have a couple of very good slides describing it, I wanted to talk about EV charging. And just maybe talk a little bit more about sort of the capabilities you would need to be able to pursue this, the time period over which this could be very meaningful. I mean, it strikes me as very logical. Pretty exciting, as you mentioned, in terms of being an additional value to customers as well as shareholders. But wondered if you could just talk a bit more about how this might unfold.

Lynn Jurich
Sure. I think there is a couple of dimensions to note. The one, just to, you know, quickly repeat that, the increase of power needed in the house really can drive larger system size, which, again, I can't emphasize, you know, how, you know, those incremental kilowatt hours are really quite, you know, valuable. So I think that's number one. I think it also gives a moment of consideration for the homeowner.

So, you know, one of the issues of our business is conversion. And you know, it's--most people want solar, they like it, you know, it's very popular, but it's a why now? There's not often, you know, an urgency around that. And so, what the purchase of the electric vehicle, can create a moment of it makes sense then to make the investment in the solar, particularly if the solar company can then also take care of the car charger installation, and you know you're going to have double the electric vehicle, and that you want it to be powered by clean energy.

So, it's, you know, certainly an area that we're investing in business development efforts around. And you know, so, I do think that our success in that market should parallel the growth rate in EVs. So, stay tuned on that one, but it's something we're really excited about. And again, you know, because we have the installation footprint, it really--it just makes sense for us to take care of that charging at the same time we install the solar panels.

Stephen Byrd
That's great. And maybe just following up on that, Lynn. I mean, the--I very much take your point that at the point of sale, when a consumer buys an EV, that's a logical point for them to consider, you know, providing their energy with renewable energy, so sort of awareness of Sunrun at that particular point strikes me as fairly important. is that fair, or could it just sort of be important--?

Lynn Jurich
--That's absolutely fair. And then, you know, what it also---a follow-on effect too is resiliency becomes that much more important as well, you know. And so, I think this is a point that we're starting to talk about, we're starting to see in California, we saw it in Texas. But we will continue to see outages and multi-day outages. And so, the demand for the solar plus the battery to power through that, especially if you're exposed to electric vehicles, I think that that also is, you know, another potential reason to pique the interest of consumers and to encourage them to convert over.

Stephen Byrd
Yep. And I guess it just strikes me that auto--that there's not a--I guess there's a positive overlap between you and auto OEMs. I mean, you're not competing with them. You can offer quite a bit of value to their--

Lynn Jurich
--Exactly.

Stephen Byrd
Yep, yep. Okay--

Lynn Jurich
--Exactly.

Stephen Byrd
That's all I had.

Lynn Jurich
Thank you.

Stephen Byrd
Thank you.

Operator
Your next question comes from the line of Kashy Harrison with Simmons Energy. Please proceed with your question.

Kashy Harrison
Good afternoon. Thanks for taking the questions, and you know, congrats on the beat and raise. So, you know, just looking at your cash balance net of recourse debt, it's grown quite considerably over the past several years. Just wondering, is there a targeted level of net cash that you're looking for, and maybe before you start exploring doing something creative with that cash? And then, maybe just educate us on, you know, what you might be thinking about using any excess cash for to create value for shareholders?

Ed Fenster
Sure. This is Ed. So, that's a great question. And it's one that, you know, we've been working on this year, and definitely falls into the, you know, excellent problem to have category. So, as I mentioned on the call, we're looking at, you know, what do we think is the right future run rate way to finance new asset growth, and then also to reevaluate our existing credit arrangements to figure out which, you know, are most above market, which we should get rid of, or maybe refinance or replace.

And then, as we finish, you know, that particular exercise, and I think communicate the results of that, you know, we'll then have more opportunities to talk about our general capital allocation strategy. I think, you know, I'd like to believe we have a reputation of being good capital allocators. You know, we have in the past, you know, had a share buyback program. We have no immediate plans at the moment to return that. You know, but I think the short story right now is we want to nail down the right capital structure for the business, and then turn to figure out what we want to do after we achieve that goal. So, stay tuned, and we'll probably be sharing more in the coming quarters.

Kashy Harrison
That's great, Ed. Thanks for that. And then, my next question is, you know--surrounds the cost structure for resi solar. You know, looking at the external model that y'all provide, you know, customer acquisitions, costs are still pretty high. And you know, it seems like that's the biggest opportunity for cost reduction, which, you know, feels even more crucial, because, you know, net energy metering in its current form is unsustainable. And you know, I know you talked about some of the opportunities to increase value post NEM, but maybe, if you could talk about some opportunities for rapid cost reduction that you think are possible, and maybe give us a sense for a timeline so that, you know, we can see, you know, how you intend to attack the cost structure of the business moving forward?

Lynn Jurich
Yes. Great question. So, on--so, a couple things in there. First on customer acquisition costs. One dynamic you're seeing is that the customer lifetime values support a high acquisition cost. So, if we didn't spend that next incremental dollar to acquire that next customer, we'd be, you know, leaving money on the table. You know, and that's a market force. And the reason--you know, a proof point to support that is if you actually look in some geographies where, you know, maybe the value proposition is a little weaker to the consumer, you can actually see pretty materially lower acquisition costs.

So, it's highly variable based on that. So, that's one, you know, just feature, which makes it unlikely really to reduce in the near term, and not something we would target. Because again, you know, we would want to--that incremental customer is valuable to us. Now, we're still--don't get me wrong, like we're still tightening, you know, our operating playbook and increasing--improving our close rates and moving more to virtual, you know, selling, and you know, expanding and building out, you know, sort of online experience.

So all of those initiatives are under way, and will, you know, tighten it. But because of these market forces, it's unlikely to see that materially, you know, decline in the short-term. You know, over time, I'm confident it will come down, because I think the category will be more, you know, comfortable for people, the ecomm people will get more comfortable through an ecommerce experience.

There will be the opportunity as I highlighted earlier with electric vehicles, the resiliency benefit of batteries is going to get more and more painful when the outages come, which will drive, you know, increased adoption. So all of those are positive trends going forward. And then, the biggest opportunity here is the red tape around local construction of these assets. And you know, we've been talking about this for a long time, around the soft costs around permit variations, code variations, you know, delay of interconnection at about $7,000 per customer, including a lot in that TAC area, because you're spending money on customers that don't end up converting because it's too cumbersome of a process.

So, the biggest way to eliminate this is to streamline all the bureaucracy going forward. And we're working on that. It's getting a ton of attention, finally, from the administration. The Department of Energy, in the recent infrastructure bill, there's a proposal for $20 million every year to help fund soft cost reductions. As an industry, we're building a software program called the Solar App to have instant permitting. You know, that's in trial right now in a number of HJs. So, again, as a proof point of how that will be meaningful, if we look at the customer acquisition costs in markets where there's instantaneous permitting and interconnection, it is dramatically lower than other markets.

So, that's an initiative we're really excited about. And then, if I could, I wanted to go back, one more benefit of EVs that I had left off that I think is worth discussing, which is, the strain on the grid from EVs will make our batteries and solar that much more valuable. And that is--again, I don't think people really appreciate that yet, is that our--you know, the amount of investment we're going to have to make in the distribution system and locally, it will be served easier and more cost effectively with using existing infrastructure of rooftops and batteries. So, that'll be another, you know, benefit from the electrification of vehicles.

Kashy Harrison
That's great color. Thanks so much for that, I really appreciate it. Have a good one.

Lynn Jurich
Thanks.

Operator
Your next question comes from then line of James West with Evercore ISI. Please proceed with your question.

James West
Hey. Good afternoon, everyone. Curious if there's any issues that perhaps are out of your control that have driven this recent acceleration in growth, things like housing market tightness, or you know, fear of inflation and driving up electricity costs. Is there something outside of just the pure, you know, brand recognition, and you know, the drive toward solar?

Lynn Jurich
I don't believe that there's any short-term effect driving these sort of growths. I think if anything, it's just accelerating in a sustainable way.

James West

Okay, makes sense. And then, obviously, Lynn, you've driven home how important the EVs are--will be for your business. How do you think about that with your go-to-market strategy and your salesforce? Do you kind of link around where the EVs--you agree you have the strongest, and how are you guys thinking about that?

Lynn Jurich
Great question. You know, again, we have, you know, a pretty broad distribution, you know, right now, and are taking a ton of the share in just our existing business. And so, again, not counting on EVs to hit these growth targets, or, you know, to even kind of sustain this accelerated growth. But what we are--but because, you know, the cross-selling opportunity here is so--makes so much sense, I think you will, you know, see us working to, you know, link up with (INAUDIBLE) to offer, you know, programs that are win-win. So, you know, again, stay tuned on that, but that'll be a way to, you know, sort of cross-sell and reach customers at the moment when they, you know, are enticed to power their homes with solar and meet that additional need. And I--one of the other advantages that Sunrun has is--with our nationwide footprint is, you know, we're also appealing for those types of partnerships because we have such a broad geographic reach.

James West
Right.

Lynn Jurich
That makes more sense for, you know, large OEMs to choose at-scale players.

James West
Right. That's great color. Thanks, Lynn.

Lynn Jurich
Thank you.

Operator
Your next question comes from the line of Mark Strouse with J.P. Morgan. Please proceed with your question.

Mark Strouse
Yeah, good afternoon. Thank you very much for taking our question. You mentioned just kind of record volume across your channels in 1Q. You know, when you look out to your guidance, the increase that you had, is that fairly broad-based as well, or are you particularly seeing strength in one particular channel? And kind of a related follow-up to that is, you know, the supply constraints that you're seeing within the industry, do you think that that has accelerated--and I understand, it's probably a bit early. But are you starting to see an acceleration in some of the smaller mom and pop installers that are looking to partner with a larger installer, such as Sunrun?

Lynn Jurich
Great questions, Mark. We are seeing growth across the board. So, you know, if you look at our different avenues to market, our direct to home business, our ecomm--you know, online business, our retail business in the Home Depot/Costco stores, our new homes business, our, you know, low income, and our channel partner business, all will deliver growth. So, it's really across the board.

And I think we're pretty excited about the sort of brands that we're creating, and the consumer mindset that we're creating around being in all those different, you know, places. And the--to your point around the local installers, that has been a growth area for us. If you look at our Q1 results, which is typically--Q1 is typically seasonally the--you know, the lowest quarter of the year, given weather. And we saw a record in our partner business in that quarter, so--across, you know, all quarters, historically. So, yes, we are seeing strong growth there. And you know, we believe we uniquely serve that installer market with our--you know, our tech, our financing advantages, and the brand that we can offer them.

Mark Strouse
Yeah. Alright. Makes sense. Thank you very much.

Lynn Jurich
Thank you.

Operator
Your next question comes from the line of Michael Weinstein with Credit Suisse. Please proceed with your question.

Maheep Mandloi
Hey, this is Maheep on behalf of Mike. Thanks for taking the questions. The first one, just on the MVP per customer, and Tom spoke about potential decline in Q2, given the higher costs up front. But just wanted to understand how we should think about it in the second half, just thinking of the annual cadence. Seems like in the $7,000 per customer range, but just wanted to make sure we got the right number.

Tom vonReichbauer
Yeah, great question. So, you know, in Q1, we were just shy of $8200 per customer. If you take the--you know, the guidance here of $750 million and midpoint of the range, you get to a full year number that's more in the $8300 range. My suspicion is, you're not adjusting for some amount of cash and loan mix in the volumes there, and doing it on a--and not doing it on a lease customer basis, which is what we guide to.

Maheep Mandloi
I got you, yeah. That would make sense. And maybe just on the channel strategy, could you talk about the split of the in-house and channel business? I think the press release spoke about channel business growing year-over-year. So, how should we think about that mix going into this year, or into next year?

Lynn Jurich
Great question. You know, what we do is we really look at a geography, and you know, route our paths to market in that geography with, you know, the best way to reach consumers. So, we don't manage it to a mix of, you know, Sunrun sales versus channel partner sales. So, you know, we will give color on how it turned out, you know, each quarter, but we don't manage to a mix there, and so we don't disclose it or guide to it.

Maheep Mandloi
Alright. And then, just a last one from me, and then I'll jump back in the queue. It's just on the potential impact of any higher costs in the supply chain. And so far for this year, you have said it's manageable and you have enough inventory, and you have enough contracts to manage the higher cost of modules or other components. But to the extent they increase later this year or next year, who absorbs that cost? Is it something which passes down to the end customer, or does the acquisition cost absorb that, any higher hardware costs?

Tom vonReichbauer
Yeah, so, you know, I think this year we feel really well positioned given, you know, supply contracts, purchase orders in place, levels of inventory that we have on hand to be well buffered there. You know, I think longer term, actually, you get back into the general deflationary trends that we've seen on a lot of the equipment, you know, places like batteries where you'll continue to see new manufactures bring products to market. That will, you know, increase competition there. I think you'll see similar stories across inverters and ample of other components.

So, I think, you know, we'll continue to be in this cost decline environment, and the economic wedge between, you know, distributed, residential solar. And as a local utility, we'll continue to get wider over time. So, you know, nothing significant of note there that we're particularly concerned about. We feel pretty well positioned, you know, given rising utility rates in terms of pricing power and the opportunity to have, you know, a small amount of buffer there to offset if needed.

Maheep Mandloi
Gotcha. Alright, thanks for the questions.

Operator
Your next question comes from the line of Philip Shen with Roth Capital Partners. Please proceed with your question.

Philip Shen
Hey, everyone. Thanks for taking my questions. The first one is on the channel partners, the new ones that you've added. You know, for those dealers, you highlighted some exclusives, was wondering if you could provide some color on that. How many new exclusives did you add? And maybe on some color on the structure would be helpful. So, how long are they? How are those payments structured? How large are those payments? And when you think about your net subscriber value, with the exclusive payments, do you expect incremental megawatts from those dealers to be in line, lower, or higher relative to net subscriber value? Thanks.

Lynn Jurich
Thanks, all great questions. The--as we've mentioned, we've kept our channel partner business fairly exclusive. So, our strategy is to focus on--you know, is 80/20 strategy, so focus on the larger, you know regional players that have competitive routes to market and unique routes to market in their communities and high-quality customer experience, most importantly. And so, we've kept that fairly, fairly tight, and that's served us well. And so, what we've said was in the quarter, we grew those numbers by 20%.

So, we could--certainly, it could have been, there's much more demand in that, we could grow it much faster. But we really, again, manage for, who are the really high-quality partners that deliver great customer experience that bring something unique in reaching an incremental customer base? And when we strike those relationships, you know, yes, we are quite disciplined at managing to unit level economics thresholds and targets, and maintaining consistency across our different channels and across out network in order to avoid any sort of channel conflict. And you know, so, you wouldn't expect any material changes in any of the unit level economics or the results going forward.

Philip Shen
Okay. Thanks, Lynn. And then, I know we've talked about the EV opportunity for a while now, but just to be very clear, it sounds like near term there's an opportunity to strike a deal with, you know, maybe a utility or an auto company, or somebody of that ilk, or maybe a combination to perhaps drive volumes for both solar and EV charges, and at the point of sale, perhaps of EV. Am I characterizing that correctly? And then, you talked about, you know, staying tuned near term. So, any sense of--any more color perhaps that you can share on that would be nice. Thanks.

Lynn Jurich
I'm sorry, Phil, what was the last point? More color on what?

Philip Shen
Oh, just, if you could share any more color would be fantastic. Thank you, Lynn.

Lynn Jurich
Oh, okay. You know, I think we're--on the utility comment, I think we have a two-pronged approach here for our go-to-market strategy. One is, you know, we go direct to customers, and we believe we provide them a superior electricity service with cheaper electricity, with clean electricity, with increasingly a battery for resiliency, and we try to make that as affordable as possible, and just compete on a better value proposition. In parallel, we're trying to work with utilities and open markets to enable those--that home to

be an energy asset that can plug into the market and get another revenue stream, and you know, benefit the entire grid.

However, those--you know, we have to build those. And you know, like we've said, we've been working these grid services programs, and you know, many of these--the incumbent industry can be quite slow to change on those things. And so, we're not waiting for that. So, we're--but we have the assets in place. We're going to build the market structures to enable us to participate through the grid services and other programs. And increasingly, I think utilities and other load serving entities recognize that, okay, this is a place--this a way to get, you know, the capacity that we need. And so, that's what you see throughout programs with the CCAs in California, and you know, some of the other bilateral agreements with utilities.

So, those are building. You know, they're a slow burn, but it's a place where we have a head start, and you know, continuing to invest. And that'll reap a lot of benefits, we think, in the decades to come. On the EV side, you are correct, you know, again, because it's such a natural time for consumers to adopt solar. You know, the cross-selling relationship there is quite intuitive and accretive to all parties. So, we are, you know, continuing to work those efforts from a business development standpoint.

Philip Shen
Okay. Thanks, Lynn. Congrats on the--

Lynn Jurich
--Thanks, Phil--.

Operator
Your next question comes from the line of Tristan Richardson with Truist Securities. Please proceed with your question.

Tristan Richardson
Hi. Good afternoon, guys. Appreciate all the comments today, just one on my end on storage adoption. Certainly, there's a big obvious value proposition to the customer. I guess, though, we've heard of one anecdotal instance where an installer out there is instituting sort of a mandatory bundling of solar plus storage, almost as one product. That seems a bit one-off in nature, but do you see the installer market moving in that direction at all?

Lynn Jurich
Great, great question. I do believe that over time, all--effectively all solar will be paired with storage, because the battery prices will come down and it will be proven that aggregating these batteries is, you know, the most effective way to reach--to deliver peaking power and to really actually help smooth out, you know, some of the intermittencies that's going to come from a big renewable base system. So, I do believe that those markets will develop. And independent of what the consumer value prop is, there will be enough value in that battery capacity in delivering to the grid for that to be a large market.

In terms of Tesla's, you know, announcement, I think--again, I like the purity of the announcement. I think that is where the industry is going. However, the reality of today is it's not appropriate for, you know, every customer to have a battery. If you're in a place where you have a resilient grid and, you know, there isn't this opportunity to monetize the battery versus with a virtual power plant, you know, you may not--it may not make sense right now, and that is the case in many places.

And you know, one of the realities of our business is that it does require a bit of customization at the home, because just the physical nature of homes are different. And so, one way we've differentiated why we've emerged as the market leader is that we can attack that customization with, you know, process, with technology that we've built over a decade plus to serve a more customized need that a residential project demands.

Tristan Richardson

That makes a lot of sense. Thank you all very much. Appreciate it.

Lynn Jurich
Thank you.

Operator
Your next question comes from the line of Colin Rucsh with Oppenheimer. Please proceed with your question.

Colin Rusch
Thanks so much, guys. Could you speak to what the key gating factor is on growth right now? It seems like there's an awful lot of opportunity, and you're building capacity. So, I'm wondering what's slowing you down at this point?

Lynn Jurich
Well, we think we're going pretty fast. I think, you know, one, we're a physical business, and there is just a reality of that. I think, you know, one of the ways we can't even really not have that be a concern is to continue to expand the channel partner business as well. So, I think that's pretty unique about is, is that we're building the operating infrastructure, and our own salesforce, and avenues to market, and we're also, you know, have the partner business where, you know, we can get some scale efficiencies there and increase reach in really a market that's still way under penetrated. So, that's been our strategy there.

But you're right, I think the growth is in acceleration this year. You know, we've said for many years that this industry can deliver a 10% compounded annual growth rate for a decade without, you know, reaching--with reasonable penetration, and there's no reason why that shouldn't be faster. And you know, particularly with the electrification I discussed and the home needing two-times and more electricity, and the unit value is increasing that much more too. So, it's not only just additional units and capacity, but it's also just the home--you know, the wallet share of the energy footprint. So, I think there's opportunities on both those dimensions, and you still have to do it sustainably and remember that, of course, this is a physical business, you know. It's not a software business.

Colin Rusch
Yeah, no, understood. And thanks for the color on the utility scale partners. I mean, could you guys speak to, you know, internal targets around ROE, and how that's evolving as you look at, you know, the potential for partnering with utilities that are really looking for additional resiliency and deployment partners around distributed assets?

Lynn Jurich
So, our returns on those types of programs is your question?

Colin Rusch
No, no, is it changing how you think about your targeted ROE as you move forward into, you know, incremental programs over the next few years?

Lynn Jurich
Well, so, you know, Ed, you can chime in here, but right now, we have an infinite ROE because we're actually pulling, you know, more cash out--historically, we've pulled more cash out of systems than we've invested. You know, that's one of the really financial highlights of our business.

Colin Rusch
Alright. I'll take it offline, guys. Thanks so much.

Lynn Jurich
Okay.

sunrun

Operator
Your next question comes from the line of Sophie Carp with KeyBanc. Please proceed with your question.

Sophie Carp
Hi, good afternoon. Congrats on the quarter, and thank you for squeezing me in here. Just a question on cashflows, if I may. You guys highlighted a recurring revenue metric. Would it make sense to also bridge that to recurring cashflows, and so use that on a go-forward basis? And maybe, if you could also in this context discuss how you think about the capital structure moving forward, now that your scale is growing rapidly, and then with the additional Vivint and such? Thank you.

Ed Fenster
Hey, Sophie. It's Ed. So, that's a great question. I think one of the reasons Tom has been talking about the recurring revenue is that it's a clean, growing metric that doesn't vary significantly quarter to quarter. A number of our credit facilities, as you know, either mature inside of the customer contract life, or we'll refinance them, you know, inside of their maturity proactively, due to declining capital costs. And so, the cash flow forecast from existing assets varies from year to year, and depends significantly on the timeline on which we execute those transactions.

So, we do expect significant cash flows from our existing assets and distributions from those assets, and refinancing proceeds from those assets. But it's not a simple, clean, you know, linear growth over time. On the development side of the business, you know, with increasing margins over time, and increasing volumes, you know, we'll expect to see a nice steady growth from there as well. And again, exactly how much of that cash flow we realize in the first period, you know, when we install the asset, or later over time, is an analysis and review that we're going through now to see if we have the right balance there.

But either way, as Lynn just mentioned, we do expect all of our systems, you know, on average, when they go into service, we're receiving proceeds from non-recourse finance that exceed the cost to install the customers and also pay all of our G&A. So, I think we'll hopefully be able to talk more about cash flow soon, particularly once we're more buttoned up on the project that I described. But probably will be able to do that as more, you know, giving multi-year cash flow views, you know, rather than sort of periodic quarterly number that compounds cleanly at a certain rate over one period of time.

Sophie Carp
Yeah, that's super helpful color, thank you. And the last one, real quick if I may. Do you anticipate that the virtual power plant business will grow to be sizeable enough to merit this kind of separate line item on the P&L or a separate segment, maybe anytime soon?

Lynn Jurich
Great question. You know, not--I would say not anytime soon. So, if you--again, you look at the value we have under the contracts that are booked, or you know, near booked, it's about 75 million. So, again, you know, I think these will take a while to develop, but it's not anytime soon that'll be meaningful enough to break it out. I think the other benefit of the grid services relationship, independent of what the financial contribution may be, which right now, it’s looking like about $2,000 per customer of incremental value.

The other value of it is it really just differentiates you to the customer, and again provides the--you know, moves the market to more of a winner take most market with companies that have the technical capabilities of doing that and the networks effects. So, that in many cases will be a bigger financial driver than the actual revenues that, you know, come off of programs in the near term.

Sophie Carp
Terrific. Thank you so much. Appreciate the comments.

Lynn Jurich
Thanks, Sophie.

Operator
Ladies and gentlemen, we have reached the end of the question and answer session, and this does conclude today's conference. You may disconnect your liens at this time. Thank you all for your participation.

Lynn Jurich
Thank you, very robust discussion. Appreciate it.

Forward Looking Statements
This communication contains forward-looking statements related to Sunrun (the "Company") within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements related to: the impact of COVID-19 on the Company and its business and operations; the Company's financial and operating guidance and expectations; the Company's business plan, market leadership, competitive advantages, operational and financial results and metrics (and the assumptions related to the calculation of such metrics); the Company's momentum in the company's business strategies, expectations regarding market share, customer value proposition, market penetration, financing activities, financing capacity, product mix, and ability to manage cash flow and liquidity; the growth of the solar industry; the Company's ability to manage supply chains and workforce; factors outside of the Company's control such as macroeconomic trends, public health emergencies, natural disasters, and the impacts of climate change; the legislative and regulatory environment of the solar industry; and expectations regarding the Company's storage and energy services businesses, the Company's acquisition of Vivint Solar (including cost synergies), and anticipated emissions reductions due to utilization of the Company's solar systems. These statements are not guarantees of future performance; they reflect the Company's current views with respect to future events and are based on assumptions and estimates and are subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements. The risks and uncertainties that could cause the Company's results to differ materially from those expressed or implied by such forward-looking statements include: the impact of COVID-19 on the Company and its business and operations; the successful integration of Vivint Solar; the availability of additional financing on acceptable terms; changes in the retail prices of traditional utility generated electricity; worldwide economic conditions, including slow or negative growth rates in global and domestic economies and weakened consumer confidence and spending; changes in policies and regulations including net metering and interconnection limits or caps; the availability of rebates, tax credits and other incentives; the availability of solar panels, batteries, and other components and raw materials; the Company's ability to attract and retain the Company's relationships with third parties, including the Company's solar partners; the Company's continued ability to manage costs associated with solar service offerings; the Company's business plan and the Company's ability to effectively manage the Company's growth and labor constraints; the Company's ability to meet the covenants in the Company's investment funds and debt facilities; factors impacting the solar industry generally, an and such other risks and uncertainties identified in the reports that we file with the U.S. Securities and Exchange Commission from time to time. All forward-looking statements used herein are based on information available to us as of the date hereof, and we assume no obligation to update publicly these forward-looking statements for any reason, except as required by law.