



## Q2 2021 Earnings Call

August 5, 2021

### Prepared Remarks

#### PATRICK JOBIN

##### Forward Looking Statements

Thank you operator.

Before we begin, please note that certain remarks we will make on this call constitute forward-looking statements. Although we believe these statements reflect our best judgment 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 a 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 current CEO; Mary Powell, Sunrun's incoming CEO and current board member; Ed Fenster, Sunrun's co-founder and Executive Chairman; and Tom vonReichbauer, Sunrun's CFO.

Following the prepared remarks we will conduct a question and answer session. We ask that you limit yourself to just one question so we can take as many questions from participants as the scheduled time allows.

And now let me turn the call over to Lynn.

#### LYNN JURICH

Thanks, Patrick, and good afternoon, everyone. Before we turn to our results and outlook, I'd like to take a moment to discuss the leadership news we announced today.

After nearly a decade as CEO of Sunrun, I have decided to make the transition to Executive Co-Chair of the Board. Following a thorough process, I am excited that Mary Powell, a visionary leader in the energy sector and distinguished member of our Board, will be appointed CEO on August 31st. Adding Mary to the team brings more firepower to achieve our mission and climate goals, and given the Company's strong foundation and momentum, I believe now is the optimal and natural time to make this transition. I'm thrilled to hand the role over to Mary and confident that she is the right leader.

Mary has a proven track record of driving operational excellence and innovation for customers and shareholders. Her experience running the utility Green Mountain Power for over 10 years makes her an ideal leader for Sunrun's next chapter of growth, as we help this country build a reliable and clean grid with electrified and networked households.

In addition, Mary has a deep understanding of Sunrun's people, business, and strategy, having served as a member of our Board for the last three years. I have gotten to know Mary well and was a driving force to recruit her to Sunrun. I can personally attest to her passion for people, the planet and, and for the Company's success.

And With that, I will hand it over to Mary to introduce herself. Mary to introduce herself...Mary

#### MARY POWELL



Thank you, Lynn. It's a pleasure to have the opportunity to speak with you all today and share why I am so excited to lead this great company.

I've been in the energy industry for over two decades and know the landscape well. Sunrun has always stood out as an innovator and the future of the electric grid. It's clear the team cares deeply about transforming the lives of customers by providing a more resilient and affordable energy experience. My appreciation for Sunrun has grown tremendously seeing first-hand Sunrun's leadership to advance the clean energy revolution while delivering on our value creation objectives.

With the increasing and devastating effects of extreme weather from climate change, and an electric grid system well over 100 years old, I believe Sunrun's mission of creating a planet run by the sun is more critical today than ever before. I have enjoyed overseeing and contributing to Sunrun's strategy as a director over the last few years, and I am eager to build out on this great work.

Sunrun has an incredibly strong foundation in place and I have full confidence in our ability to capitalize on the significant opportunities ahead. As I step into the CEO role in the coming weeks, I look forward to partnering very much with Lynn, Ed and the entire talented Sunrun team to continue to execute the Company's strategic initiatives and drive long-term, sustainable value for all of our stakeholders.

With that Lynn, back to you...

### **LYNN JURICH**

Thank you, Mary. As Executive Co-Chair, I'll be working closely with Ed, Mary and the senior management team. Together, the three of us will focus our respective strengths and talents on where we can make the most impact. I will continue to support Sunrun's strategic initiatives with the freedom to explore and design future scalable solutions for solving the climate crisis.

I am more energized than ever for this next chapter.

Now, to our quarterly results...

### **Second Quarter Results**

Our positive momentum has continued into the second quarter.

Customer orders are accelerating, and we delivered record installation volumes. Orders increased more than 25% quarter-over-quarter, and installations increased more than 10% from the first quarter and over 50% from last year. We are hiring quickly to meet the accelerating demand while executing on the integration with Vivint Solar and navigating a particularly dynamic supply chain environment. Despite these external factors, we are delivering strong unit margins, increasing our cash balance, and growing our stream of recurring cash flows. We are increasing our full-year growth guidance to 30% year-over-year.

More importantly, during the quarter the dire need for our service offering has been made even more apparent. Extreme weather caused by climate change has resulted in a record-setting wildfire season, more power outages, accelerating cost of traditional utility power, and increased pollution. The need to address the climate crisis continues to mount, and Sunrun is positioned to help transition our country away from carbon-emitting fuels to power homes and cars and reduce the need for expensive and vulnerable centralized infrastructure.

We ended Q2 with nearly 600,000 customers, reflecting 19% year-over-year growth. Our installation volumes included records in our new homes business, our channel partner business, and our direct business. We also set records again with the highest battery installations, more than doubling year-over-year in the second quarter.

### **Batteries**



We continue to advance our lead on batteries and virtual power plants to bring clean and resilient energy into more communities. More than 23,000 families are benefiting from our solar and battery systems to power through blackouts. On a daily basis, these batteries optimize when power is purchased or supplied to the grid, helping manage energy constraints during peak times. Battery attachment rates increased again from last quarter and are at record levels across the business.

We network these batteries together to form virtual power plants, providing incremental recurring revenue and offer an enhanced customer value proposition, further differentiating Sunrun's offering from companies 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, even as we work through supply constraints. As more manufacturers expand battery offerings, we do expect costs to improve further, allowing us to meet pent-up demand and accelerate adoption even faster.

### **Electric Vehicles**

Sunrun is actively exploring ways to help consumers and 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 the 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 high incremental margins 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, batteries and EVs – even faster than most realize.

To this end, in May we announced a partnership with Ford to be the preferred installer for Ford's Charge Station Pro and Intelligent Backup Power System. This debuts with the all-electric F-150 Lightning.

Under the partnership, we co-developed Ford's Home Integration System, including the bi-directional inverter, which enables the F-150 Lightning to serve as a reliable home backup energy source by powering the home during an outage event.

Through this partnership, customers will also be provided with the opportunity to install a solar and battery system on their home, enabling them to power their household with clean, affordable energy and charge the truck with the power of the sun.

Ford sells a million F-150s each year. In just the first three weeks since it was announced, they received more than 100,000 reservations. We will be excited to share more in the coming quarters....Mary will be excited to share more in the coming quarters.

### **Concluding Comments**

This year is on track to be the best in the company's history and I'm confident Sunrun is well positioned going forward, especially with Mary at the helm.

Our broad omni-channel go-to-market strategy has enabled us to reach a scale that is two times our nearest competitor's and allows us to further differentiate and enhance the value we bring to our partners. We have built a business that offers consumers a strong value proposition, addresses climate change, and generates strong financial returns.



Before I turn the call over to Ed and Tom, I'd like to thank our employees and partners for their contributions to our success and for being such an important part of my life.

Over to you, Ed.

**EDWARD FENSTER**

Thanks, Lynn.

First, I want to share my excitement that Mary is joining us full time. Her passion for our customers, her intuition for people matters, and her focus on operational efficiency have made her a driving force for years on our board of directors, and I can't wait for Sunrun to get all of her time going forward. Lynn and I have been a team for 14 years, and I am pleased she will be joining me as Co-Executive Chair, where her contributions to Sunrun will continue. I know I was invigorated by the opportunities provided by my transition from CEO to Executive Chairman, completed about seven years ago now, and I am sure Lynn will feel similarly.

Now moving into the details. Turning to slide 8, we have concluded our capital structure review. We have decided principally to pursue a strategy that will drive near-term cash generation using non-recourse debt. Under this strategy, we expect to achieve cash proceeds equal to 95% to 100% of contracted subscriber value measured at a 5% discount rate, or about \$30,000 to \$31,500 per subscriber based on Q2's subscriber values. Because this strategy employs debt that we can ultimately call and refinance, we will be maintaining full ability to upsell additional products and retaining refinancing upside for our common shareholders. Upfront cash proceeds of 95-100% of contracted subscriber value is well in excess of our fully burdened costs, and so we do not need to execute equity or equity-linked financings to fund our strong ongoing growth.

While our capital costs have been steadily falling since inception, in the last year, we have seen an acceleration in these improvements, which have been most pronounced in our non-recourse subordinated debt costs. Today, this market is pricing 175 to 350 bps below where we have placed comparable loans over the last several years. We largely credit our continued asset performance, scale, and consistently strong collections, including through Covid and the 2009 financial crisis, with this continued capital cost decline.

While our large scale affords us access to the lowest cost capital in the industry, the same large ticket sizes that afford us this advantage also make our free cash flow generation a little lumpy. We have developed a backlog of transactions to close, and we expect to be busy clearing this backlog for the balance of the year and into 2022.

Over the near term, cash flow generation may also be non-linear due to investments in working capital. However, under this financing strategy, over several quarters, and especially next year, the cash flow generation of the business should be substantial. We may also selectively employ structures that grow our recurring cash flows from our asset base while pursuing this strategy of generating upfront cash. Normalized for increases in working capital, we expect to see steady quarterly gains in net earning assets. As we head into next year, we will update the market on our cash flow targets and capital allocation strategy to maximize shareholder returns.

**Capital Runway**

We continue to maintain a robust project finance runway.

As of August 5th, closed transactions and executed term sheets provide us expected tax equity and project debt capacity to fund over 430 MW for Subscribers beyond what was deployed through the second quarter.

With that, I'll turn the call over to Tom.

**TOM VONREICHBAUER**



Thanks, Ed.

The strong momentum we saw in the first quarter has continued further into 2021. Our team again delivered an exceptional quarter with strong year-over-year and sequential volume growth. We are proud of what the team accomplished, especially as we meet the significant ongoing demands of integrating Vivint Solar into our operations and as we navigate a dynamic supply chain environment.

### **Volumes**

Turning first to volumes.

In the second quarter, Customer Additions were approximately 26,100, including approximately 21,900 Subscriber Additions.

Solar Energy Capacity Installed was 186 Megawatts in the second quarter of 2021, an 11% increase from the first quarter this year, and a 53% increase from the second quarter of last year, pro-forma to include Vivint Solar.

Our Networked Solar Energy Capacity was 4.2 Gigawatts at the end of Q2, an increase of 19% compared to the prior year.

We ended Q2 with approximately 600,000 Customers and nearly 521,000 Subscribers. Our Subscribers generate significant, recurring revenue with most under 20 or 25 year contracts for the clean energy we provide. At the end of Q2, our Annual Recurring Revenue, or ARR, stood at \$747 million with an average contract life remaining of 17 years, representing well over \$10 billion in revenue visibility just from existing customers.

### **Subscriber Value, Creation Cost, Net Subscriber Value & Total Value Generated**

In Q2, Subscriber Value was approximately \$34,500 and Creation Cost was approximately \$28,900, delivering a Net Subscriber Value of approximately \$5,600. Pro forma for growth timing effects on cost recognition, it would be approximately \$8,000.

Total Value Generated, which is the Net Subscriber Value multiplied by the number of Subscriber Additions in the period, was \$122 million in the second quarter. On a pro-forma basis for the adjustment related to accelerating growth, Total Value Generated would be \$176 million.

As we noted in our outlook during last quarter's call, Net Subscriber Margins were sequentially lower in Q2 owing to our accelerating growth trends and synergy realization timing. While our Subscriber Values were down slightly quarter-over-quarter due to changes in ITC mix, and our G&A & platform services saw solid sequential improvements, the accelerating growth in our business creates a near-term drag on installation and sales & marketing costs. Creation Costs are calculated as total in-period costs, including opex and capex, divided by recognized volumes. As our growth rates accelerate, we incur more costs upfront -- such as sales and marketing costs, along with in-construction systems -- prior to recognizing the volume in future periods. If we were to normalize sales costs by the growth in customer orders and exclude costs associated with systems that are not complete, reported Net Subscriber Margins would be approximately \$2,400 higher, or approximately \$8,000 in Q2.

### **Gross and Net Earning Assets, Cash Balance**

Turning now to Gross and Net Earning Assets and our balance sheet.

Gross Earning Assets were \$8.6 billion at the end of the second quarter. Gross Earnings Assets is the measure of cash flows we expect to receive from customers over time, net of distributions to tax equity partners in partnership-flip structures, project equity financing partners, and operating & maintenance expenses, discounted at a 5% unlevered WACC.



Net Earnings Assets were \$4.5 billion at the end of the second quarter, an increase of over \$233 million from the first quarter. Net Earning Assets is Gross Earning Assets, plus cash, less all debt.

We ended the first quarter with \$858 million in total cash, an increase of \$44 million from the prior quarter.

### **Outlook**

Turning now to our outlook.

The continued acceleration in sales activities, the integration of Vivint Solar, and investments in customer experience and differentiation set us up for a strong second half.

We are increasing our growth outlook for 2021. We forecast Solar Energy Capacity Installed growth to be 30% for the full-year, an increase from the prior guidance range of 25% to 30%. Total Value Generated is now expected to be in a range of \$700 to \$750 million for the full year, which has been revised to include the effects of accelerating growth, and to a lesser extent, the dynamic supply chain environment. This range includes the drag highlighted earlier and does not reflect the pro forma adjustment of \$54 million for Q2 2021.

We forecast Net Subscriber Values will be significantly higher in the second half of the year than Q2, as the gap between sales activities and installation activities normalizes and as we realize more synergies from the Vivint Solar acquisition.

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 still very focused on integration in the near-term, we expect to see strong sequential quarterly growth in Solar Energy Capacity Installed in Q3, with growth of approximately 15% sequentially from Q2.

The mandate for a modern energy infrastructure with consumers at the center continues to grow, and we believe our products and capabilities have positioned us well to respond to the opportunity in the quarters and years ahead.

With that, let's open the line for questions please.

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### **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 leadership team; 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; expectations regarding the Company's storage and energy services businesses, the Company's acquisition of Vivint Solar (including cost synergies), the Company's partnership with Ford, anticipated emissions reductions due to utilization of the Company's solar systems, and expectations regarding the growth of home electrification, electric vehicles, virtual power plants, and distributed energy resources. 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 Company's leadership team and ability to retract and retain key employees; 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, 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.*