



Q4 2021 Earnings Call

February 17, 2022

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 Mary Powell, Sunrun's CEO; Tom vonReichbauer, Sunrun's CFO; and Ed Fenster, Sunrun's co-founder and co-executive chair.

Following the prepared remarks we will conduct a question and answer session.

And now let me turn the call over to Mary.

MARY POWELL

Thank you, Patrick.

Hi, it's wonderful to connect with all of you on what Sunrun has been up to in the last quarter. As I close in on six months as CEO, I am so pleased to be able to share our financial and operating results with you. I am encouraged and excited about the progress we are making as the nation's leader in a critically important industry. With climate-related events becoming more urgent daily, never have we felt more passionate and optimistic about our purpose.

The headline is that the Sunrun team delivered record volumes in 2021, having added over 110,000 customers in the year representing 31% growth in new installations while bringing two large companies together and navigating a dynamic operating environment during COVID. We are entering 2022 with a growing, deep backlog of customers who are excited to become more energy independent and secure in their own homes. At the same time as we drove a surge in our business, the surge in Omicron created some late Q4 and early Q1 challenges that already seem to be behind us.

Along those lines, there are four key highlights I want to discuss with you before I turn the call over to Tom and Ed for their quarterly updates.

First, clearly, we continue to see tremendous growth in our business. Again, we closed out 2021 adding over 110 thousand customers representing 31% growth in Solar Energy Capacity Installed, exceeding our guidance, and marking the highest growth rate for Sunrun in five years. And to put our customer additions in context, this is 2x our nearest competitor. We did this all at an operating scale nearly 3 times larger than we were just 5 years ago. We are seeing customer demand accelerating significantly, and our talented team is capturing this interest, generating orders far in excess of installations, resulting in more than a 57% growth in our direct business' backlog. I believe we fundamentally have achieved a tipping point whereby our product and services are something customers increasingly see as essential for affordable, reliable clean energy that puts them in control -- something they simply cannot get from utility power. Ed will touch



on this later, but we also believe the inflationary pressure in the economy, combined with rapidly rising utility rates, and climatic events will continue to turbocharge this customer demand.

Second, during 2021 we closed out significant portions of a massive, transformational integration with Vivint Solar. Today, we are operating as one team. While some might see this as routine -- something easily put together in a spreadsheet -- this was a tremendous accomplishment. Late in the year we also brought together large operating groups and combined the leadership teams to build the strongest, best go-forward team in the business. You may have seen some of our recent appointments, including Paul Dickson who is our new Chief Revenue Officer, along with Chance Allred who is our Chief Sales Officer, both experienced leaders from the Vivint Solar team. Together, along with high powered members of the existing Sunrun team, we are leveraging the best of both organizations and accelerating the impact we will have on the market, the planet and for our customers. I'm also proud to report today that we exceeded our acquisition-related synergy target of \$120 million exiting 2021.

Third, we continue to advance our strategic efforts to accelerate home electrification and transportation. We now have over 32,000 residential battery systems deployed -- far more than any other energy company -- and are increasingly networking these together to form valuable energy resources for the grid, something I am convinced will pay significant dividends in the years to come as grid operators continue to see they fundamentally need our growing fleet of resources. We are also making tremendous progress with our partnership with Ford, where we are the preferred installer of a bi-directional inverter nationwide that we co-developed with Ford. We expect meaningful flywheel effects from this partnership, and the widespread adoption of electric vehicles --- consumers want to charge their cars with clean, affordable energy and often consider a solar and battery system when they make the switch to an EV; it also provides us the opportunity to install larger solar systems, which can carry high incremental margins and bring even more value to customers. Our partnership with Ford is already driving increased brand awareness for Sunrun in all 50 states -- Sunrun is not just the company who can provide solar systems, but the company who can deliver an electrified future. You'll hear a lot from me over the next few quarters on virtual power plants, our electrification efforts and steps forward on providing innovative advanced product and pricing solutions for customers. Importantly, these initiatives not only deliver increased value to customers, they prove how important distributed resources will be to the grid of the future. I believe Sunrun is positioned to lead in this new category given our growing brand strength, technical capabilities, operating scale, broad multi-channel customer reach, and increasing solar + battery system network density.

Fourth, as noted in my opening comment, while we did exceed our volume guidance, we experienced significant effects from the national Omicron surge on our installation organization, limiting our ability to quickly fulfill customer orders, hindering labor productivity and requiring us to pursue higher-cost fulfillment options in certain circumstances. The health and safety of our crews is paramount, and our operating procedures reflect that. Some of these capacity, productivity and cost pressures persisted into early 2022. Tom will discuss these impacts in more detail, but the brutal fact in terms of this quarter is that our strong sales growth combined with pressures from the Omicron surge late in the quarter led to in-period margins that were below the target we shared with you in early November. The very good news is that the backlog growth provides us great visibility into 2022 and, as we see the Omicron wave abate, this should lessen the effects on our installation team.

Last, but certainly not least, before I turn the call over to Tom and Ed I want to thank our team for their hard work. Disrupting a multi-trillion dollar industry, while also integrating two massive operating companies, during a pandemic is a big challenge, and Sunrunners deserve a lot of credit for their dedication to our mission and these strong results in 2021. I also want to express my gratitude for our customers who are transforming our country's energy system and helping to solve climate change, one home at a time, at a very rapid pace.

Over to you, Tom.

TOM VONREICHBAUER

Thanks, Mary.



We are entering 2022 in a strong position, with strong order momentum, record backlog and a healthy balance sheet. We're growing faster at scale, exceeding our prior volume guidance and continue to be excited by the consumer demand trends in our business.

Volumes

Turning first to volumes.

In the fourth quarter, Customer Additions were approximately 30,000, including approximately 22,000 Subscriber Additions. For the full year, Customer Additions were over 110,000, including nearly 89,000 Subscriber Additions.

Solar Energy Capacity Installed was 220 Megawatts in the fourth quarter of 2021, a 28% increase from the same quarter last year, pro-forma to include Vivint Solar. For the full-year 2021, Solar Energy Capacity Installed was 792 Megawatts, representing 31% growth compared to the prior year. This growth rate exceeded our prior guidance and represents the highest annual growth rate in new Solar Energy Capacity Installed that Sunrun has reported in 5 years and at nearly 3 times the operating scale.

We continued to experience strong customer demand for our products and services in Q4, continuing a trend we've seen throughout 2021. Over the course of the full year, while installs grew 31%, our backlog grew by 57% due to strong demand and sales productivity. While this sets up a strong 2022, the mismatch between sales and installation activities in 2021 creates a drag on financial performance in the year, as we first highlighted on our Q2 results call.

We closed out the year installing a record number of batteries, representing over 100% year over year growth in 2021. While battery availability constraints continue, resulting in fewer battery projects than we initially forecast at the beginning of the year, the supply situation is improving, and we expect to ramp battery installations considerably in the quarters to come. We qualified a third battery supplier in Q3 that met our price and performance criteria, and expect to introduce more battery suppliers in the next few quarters to meet the strong consumer interest.

We ended Q4 with over 660,000 Customers and nearly 568,000 Subscribers, representing 4.7 Gigawatts of Networked Solar Energy Capacity, an increase of 20% compared to the prior year. Our Subscribers generate significant, recurring revenue with most under 20 or 25 year contracts for the clean energy we provide. At the end of Q4, our Annual Recurring Revenue, or ARR, stood at \$851 million with an average contract life remaining of over 17 years.

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

In Q4, Subscriber Value was approximately \$37,000 and Creation Cost was approximately \$29,900, delivering a Net Subscriber Value of approximately \$7,100.

Total Value Generated, which is the Net Subscriber Value multiplied by the number of Subscriber Additions in the period, was \$156 million in the fourth quarter. Total Value Generated was \$631 million for the full year.

This result was lower than our guidance, driven primarily by the effects of Omicron on reduced installation capacity and knock-on effects, and faster-than anticipated growth in orders. Additionally, as crew availability in each geography moved around during the Omicron surge and battery availability remained tight in the quarter, the specific product mix that was ultimately installed from our backlog in Q4 was slightly less advantageous than anticipated. Put simply, we were caught with significant Omicron-related installation productivity and cost challenges but we continued to execute above our expectations on customer orders.

As you can see on slide 7, we estimate these pressures impacted Total Value Generated by approximately \$107 million in 2021. The excess growth in backlog during the year resulted in stranded margin of more than \$75 million, which we expect to harvest in 2022. Additionally, in Q4, the Omicron related labor



productivity impacts and resulting product mix changes delivered a \$31 million headwind. If you removed these headwinds, Total Value Generated would have been above \$737 million in 2021.

We believe in our ability to ultimately fulfill the strong consumer demand we're facing as we move throughout 2022, and in Q4 made no efforts to throttle sales activities in the face of short-term operational challenges. As a result we continued to incur the sales-related and initial project development costs as we built a large backlog of orders, pressuring our reported Net Subscriber Margin and therefore Total Value Generated. We made this decision with a long-term perspective -- we want to build the largest base of high-value customers and know that trying to solve for single-period reported results by throttling sales won't drive the most long-term value for the company.

You can see that on an absolute basis our product mix and pricing remains strong, with the highest Subscriber Value of the year in Q4, and only off 1% from Q4 in 2020, despite flowing through a significant reduction in the ITC level. In fact, the current backdrop of rapidly escalating utility rates and inflation provides meaningful opportunities for us to increase pricing in many markets again, and we intend to execute these changes over the coming months.

Gross and Net Earning Assets, Cash Balance

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

Gross Earning Assets were \$6.7 billion at the end of the fourth 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 capital cost.

Net Earnings Assets were \$4.6 billion at the end of the fourth quarter, an increase of over \$55 million from the third quarter and \$434 million from the prior year. Net Earning Assets is Gross Earning Assets, plus cash, less all debt.

We ended the year with \$850 million in total cash.

Outlook

Turning now to our outlook.

We are forecasting Solar Energy Capacity Installed growth of 20% or more for the full year 2022.

Several factors, including California net metering, various proposals in Congress to extend and/or increase the investment tax credit, and a volatile interest rate and inflation environment, limit our ability to provide precise guidance on Total Value Generated and cash generation at this time. We believe, however, the trajectory for cash generation remains robust, especially over the longer term. The opportunity to build a large California backlog, or further changes to interest rates, and the resulting timing of project finance activities, could result in meaningful swings in these metrics in either direction. We currently believe, however, Total Value Generated for the full year 2022 will grow *faster* than volumes and that margins will increase sequentially throughout the year.

For the first quarter, we expect Solar Energy Capacity Installed to be in a range of 195 to 200 megawatts. As noted previously, many of the omicron related effects on margins and product mix continued into Q1, and we expect Q1 margins to be comparable to Q4, but increasing in subsequent quarters.

Now, I'll turn it over to Ed.

EDWARD FENSTER

Thanks, Tom.



Today I will discuss the impacts of increases in inflation and interest rates on the Company and also touch on California net metering and our new corporate credit facility.

Inflation

Sunrun is well positioned for increasing interest rates, especially those driven by escalating inflation, as we are able to raise prices to new customers as necessary behind the large utility price increases that are underway. In addition, our existing capital structure is well hedged through a mix of interest rate swaps and fixed coupon, long-dated debt securities.

Utilities, famous for ensuring customer rates escalate faster than overall inflation, are wasting no time exercising their monopoly powers to raise prices. In January, inflation in electricity services was 10.7% year-over-year. We've seen a handful of utilities in our largest markets file for even larger increases. Pacific Gas and Electric and ConEdison have filed for rate increases of 18% and 11%, respectively, on the backs of a capital expenditure bonanza as well as higher labor, fuel, and capital costs. Just last quarter, Florida Power and Light was granted a 12% increase. In 2021, Sunrun implemented modest price increases that offset the reduction in realized ITC percentage across the year. In 2022, we have a more significant pricing opportunity, which we can execute against while still expanding the wedge between incumbent utility costs and our customer offering. This will allow us to drive significant value for customers even as we pass through higher costs.

Hedges, Advance Rate

Our existing portfolio is well hedged through interest rates swaps and long-term fixed-rate debt. As we deploy systems, we use interest rate swaps to programmatically fix the cost of debt for about 20 years. The vast majority of our \$2.6 billion in floating rate debt is fixed as a result. Our current portfolio of long-dated, amortizing interest rate swaps has an average final maturity extending nearly 16 years. Of our \$3.9 billion in fixed rate debt, including recourse debt, only 7% has a maturity or anticipated repayment date before December 31, 2025, and only 5% has an actual maturity in this period.

Despite the recent increase in interest rates, we still expect to achieve an advance rate on our upcoming long-term financing in the range of 95% - 100% of contracted subscriber value, at a 5% discount rate.

CANEM

In December, the California Public Utilities Commission published a proposal materially to reduce the value of power that residential solar customers export to the grid, to tax power both generated and consumed on-site through a fee, and to reduce the grandfathering period of existing customers by 5 years. As described in my statement posted to our website in December, the proposal is contrary to the state's objectives of addressing climate change and eliminating frequent blackouts, as well as contrary to what Californians say they want.

The proposal met with swift and significant push-back from national and international electric rate design experts, national and state politicians, community groups, environmental justice groups, environmental groups, influencers, and at least 125,000 individual petition signers. On January 10th, Governor Newsom said there is "work to do" on the proposal. On January 21st, the one major environmental group that had supported the proposal walked back its position. On February 3rd, the Commission said it was pausing the proceeding "until further notice" to "consider revisions." The CPUC also likely needs more time because the head of the energy division and the two commissioners most involved in the proceeding have all left the commission, causing the matter to be re-assigned.

The response of environmental and solar groups broadly has been that the grandfathering period should be maintained, the reduction in export prices be phased in over time to permit battery manufacturing capacity to increase, and the tax on power both produced and consumed on-site be eliminated. That tax alone, at about \$0.14/kWh, would be higher than the full retail cost of electricity in 42 states.



Despite the outpouring of concern over the proposal, it is too early to know how significant the revisions to the proposal may be, or how long achieving a final outcome may take. However, we are hopeful a more even-handed policy, which also encourages solar customers to support the grid with peak-period exports, will be adopted. Californians demand and deserve resiliency, control over their energy costs and future, and faster progress against global warming. We hope to answer these needs with products that benefit all Californians, whether or not they are Sunrun customers. But we are confident that in time, we and the industry will innovate to meet this overwhelming customer desire regardless.

Due to the delay in the proceeding, the size of our existing installation backlog, and our expectation that we will build an even larger backlog of California systems prior to the enactment of any new policy, we may not deploy a material number of customers under a new policy until late 2022. However, 2022 financial results, especially quarterly results, are likely to be impacted by strong demand from Californians eager to sign up before rates change. We will refine our go-to-market strategy and forecast as clarity emerges from the CPUC.

Corporate Credit Facility

In January we retired our \$250 million recourse lending facility and arranged a larger \$425 million facility at enhanced terms and with a longer tenor. The cost of the new facility was unchanged while the asset borrowing base was expanded, financing terms for inventory and project backlogs were improved, and the discount rate applied to existing assets was updated from 6% to 5%. These changes will support the scale, growth and backlog of the combined company.

Capital Runway

We continue to maintain a robust project finance runway. As of today, closed transactions and executed term sheets provide us expected tax equity and project debt capacity to fund over 375 MW for Subscribers beyond what was deployed through the fourth quarter.

With that, let me turn it back to Mary.

MARY POWELL

Thanks Ed.

I'm so excited about this year and what this team can accomplish.... I know rapid growth distorts some of our metrics but the underlying fundamentals are enviable. To be the nation's leader in a fast growing space with unprecedented customer demand provides a tremendous opportunity for value creation. I'm so encouraged and excited about the work we have done delivering record volumes in 2021. With climate change accelerating, and the utility rates rising around us, the time is now to fulfill our aspirations of working with customers all over the country to self generate, store energy, electrify their homes, adopt leading EV technology and together create a more affordable and resilient future and a planet run by the sun.

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

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 Company’s leadership team and talent development; the Company’s financial and operating guidance and expectations; the Company’s business plan, trajectory and expectations in 2022 and beyond, market leadership, competitive advantages, operational and financial results and metrics (and the assumptions related to the calculation of such metrics); the ongoing, anticipated, or potential impacts of the COVID-19 pandemic and its variants; the Company’s momentum in the company’s business strategies, expectations regarding market share, total addressable market, 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 suppliers, inventory, and workforce; supply chains and regulatory impacts affecting supply chains; 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 the potential impacts of proposed, amended, and newly adopted legislation and regulation on the solar industry and our business; expectations regarding the Company’s storage and energy services businesses, the Company’s acquisition of Vivint Solar (including cost synergies), anticipated emissions reductions due to utilization of the Company’s solar systems; the Company’s ability to derive value from the anticipated benefits of partnerships, new technologies, and pilot programs; 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 and its variants on the Company’s operations; the Company’s continued ability to manage costs and compete effectively; the availability of additional financing on acceptable terms; worldwide economic conditions, including slow or negative growth rates; rising interest rates; changes in policies and regulations, including net metering and interconnection limits or caps and licensing restrictions; the Company’s ability to attract and retain the Company’s solar partners; supply chain risks and associated costs; the successful integration of Vivint Solar; realizing the anticipated benefits of past or future investments, strategic transactions, or acquisitions, and integrating those acquisitions; the Company’s leadership team and ability to retract and retain key employees; changes in the retail prices of traditional utility generated electricity; the availability of rebates, tax credits and other incentives; the availability of solar panels, batteries, and other components and raw materials; 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.

Citations to industry and market statistics used herein may be found in our Investor Presentation, available via the “Investor Relations” section of Sunrun’s website at <https://investors.sunrun.com>.