



## **Q2 2022 Earnings Call**

**August 3, 2022**

### **Prepared Remarks**

#### **PATRICK JOBIN**

##### **Forward Looking Statements**

Thank you operator. 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 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 that 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 and Danny Abajian, Sunrun's CFO. Ed Fenster, Sunrun's co-founder and co-executive chair, is also on the call today and will be participating in the Q&A session that follows the prepared remarks.

And now let me turn the call over to Mary.

#### **MARY POWELL**

Thank you, Patrick.

Well well well, so much to talk about since our last quarter. Frankly, I was already looking forward to speaking with all of you this week to talk about the exciting developments and how strong we are delivering on the fundamentals, and then we received the good news coming out of Washington on climate legislation. As a company providing customers with the ability to have a more affordable, innovative, resilient and recession proof future, it truly feels like the sun is shining on our work. That said, in the spirit of 'you make your own luck,' the Sunrun team has been laser focused on crushing the fundamentals and I am excited to talk about the work we have been doing and some of the luck we have created.

We delivered above-guidance volumes in the quarter, growing new installations by 33% from the same period last year and have continued to see incredibly strong momentum, breaking sales records again just last month and growing customer orders 28% compared to last year. We are delivering on improving Net Subscriber Values through continued actions to be faster, better and stronger and to see those benefits



continuing to build and flow through the pipeline, which underpins our guidance of continued margin expansion into Q3.

Looking beyond the quarter, I am very excited about building the future we are running to. We are a clean energy technology company, and we believe the ultimate way to fuel life is through the natural abundance of the sun. We aim to put control, simplicity, and possibility in the hands of every customer to connect with the cleanest energy on earth for powering their homes, their transportation and their lives. We are running to provide a more affordable, resilient and energy independent future for America.

Now is the time for Americans, and the world, to embrace clean energy to help solve some of our greatest problems and to create greater socio-economic prosperity by providing more resilient and affordable clean energy to all. The crippling heat waves across the country, devastating wildfires in areas facing record-breaking droughts and geopolitical tensions highlighting the vulnerabilities of finite, fossil-fuel sources all underscore the need to accelerate to clean, affordable, decentralized energy sources that put customers at the center -- and provide them what they need and want to run their lives.

This summer we celebrated our 15th anniversary as a company -- marking 15 years of continuous and rapid growth and putting us in the enviable position of leading the industry forward. Today, we are operating at a scale that is twice as large as our nearest competitor and we have more than 5 Gigawatts of Networked Solar Energy Capacity, making us the second largest owner of solar assets in the US, across all segments of the industry. As the nation's leader in deployed personal storage, we sit on the capability to deploy over 150 MW of clean stored energy, when called upon. Our track record sets us apart. We have navigated repeated policy uncertainties, various economic cycles, and dynamic supply chains before and I'm proud of the team we have in place today that is executing so well in the current environment. Sunrun is positioned incredibly well for periods of high inflation or even a recession, because fundamentally we offer customers security, price stability and control over a basic human necessity.

My focus since assuming the CEO role has been to make Sunrun even Faster, Better, and Stronger, building on the solid foundation that has been built over the last 15 years, to accelerate what we can accomplish for our customers and stakeholders. And I am proud to share that Sunrunners are embracing the opportunity -- and running to the future where we are the go-to provider for whole home energy services across the country.

We are making great progress against these goals.

First, we are delivering rapid growth. We grew new installations by 33% this quarter. The confluence of a growing understanding about the virtues of powering your home with solar energy and storage, compounded by rapid utility rate inflation across the country, is driving record levels of demand, following on the price actions we took in late March and early April. Rapidly escalating utility rates sustained a very strong customer value proposition. As many of you know, utility rate inflation was over 13% across the



country in the latest CPI data, and is running even higher in many of our large markets, and is poised to remain elevated for the foreseeable future.

Second, we are also continuing to innovate and expand our offerings.

We are benefiting from -- and helping enable -- the transition to electric vehicles by providing our customers the ability to run their vehicles on clean, independently-generated energy. Customers who drive electric vehicles need larger systems. These solar and battery -- and EV -- resources are incredibly valuable for homeowners and the energy system alike.

Our partnership with Ford has officially kicked off and is tremendously exciting. Hundreds of orders have already been placed and we have started conversations with over a thousand additional potential customers as they approach delivery of their Ford F-150 Lightning. Approximately two-thirds of customers placing orders are opting for the advanced bidirectional power flow and home backup capabilities from the Charge Station Pro along with the Home Integration System. Based on initial numbers, we are seeing over 10% uptake of bundling solar at the same time as the installation of a Home Integration System. Sunrun has already installed several systems and expects to install thousands more in the coming months.

We have also just launched our new Level 2 electric vehicle (EV) charger to complement the company's home energy management solutions. This allows customers to achieve even greater benefits, independence and stability by powering their vehicles at home, tapping into the most abundant and affordable clean energy source on the planet, the sun. The offering will be available later this month in California, New Jersey, and Vermont, and will be rolled out to all Sunrun markets as an optional add-on by year-end.

We are also the leader in deploying batteries with solar systems today, installing more than any other solar company. With more than 42,000 battery systems installed thus far, we can provide a critical service by discharging electricity to the grid during the times it's most needed. As more severe and frequent heat waves continue to stress our nation's grid this summer, we strongly encourage grid operators, utilities and policy makers alike to leverage this amazing source of solar energy. Not only do our solar customers take load off the grid, our batteries export during times of peak demand, which reduces the overall stress on the grid.

We expect as battery availability improves, we will see even faster adoption by customers choosing to add batteries alongside solar systems, and as electric vehicle adoption increases, we will have tremendous opportunities to innovate even further with our service offerings and grid service capabilities.

Yesterday Sunrun announced an exclusive agreement with SPAN, making the company's smart home electrical panel available to residents in Puerto Rico. The offering is available exclusively through Sunrun and Sunrun's partners in Puerto Rico, further differentiating our offering. Still recovering from the



devastating effects of Hurricane Maria, Puerto Rico's fragile electric grid remains prone to unplanned power outages and protracted blackouts. With this partnership and state-of-the-art innovation, customers will be able to shift home solar and battery power supply to different uses throughout the home during an outage, controlling where and how backup power is used. This technology also provides Sunrun with an even more sophisticated ability to control and dispatch energy back to the grid, if called upon by grid operators. Sunrun entered Puerto Rico in 2018 and has quickly become one of the island's largest providers of residential solar energy and battery systems. Sunrun will start offering this incredible, next innovation to customers this month.

We are accomplishing all of this with a laser focus on efficiency. While tremendous growth opportunities and innovation initiatives can pressure organizations to deprioritize efficiency, we are focused on delivering growth, innovation and efficiency together. As an example of our combined focus, Sunrun delivered 16% sequential growth in new solar installations in Q2 while headcount remained materially unchanged in the organization. We are driving cost efficiency while also remaining committed to delivering a great experience to forge enduring, decades long relationships with our beloved customers.

### **Update on Policy**

Shifting gears to some external items...

### **Federal ITC**

We were delighted that Senator Joe Manchin came back to the table on climate legislation and there seems to be a highly likely passage of a meaningful commitment to clean energy. It is clear that by providing incentives to invest in clean energy, we can actually combat inflation and provide customers what they need: clean, affordable energy, insulating them from skyrocketing utility bills. We also see tremendous opportunity in the latest legislation to build on our success of providing clean affordable energy as a path to building greater socio-economic impact through our work with multi-family housing, and to first time home buyers and those in communities most in need of energy security, stability, independence and cost savings.

### **Trade**

It has also been a busy period for trade policy. We were encouraged that the administration took steps to block the anti-circumvention tariffs for two years. However, the current bureaucratic process from the Customs and Border Patrol is causing delays to the timely release of football-fields worth of modules currently sitting at the ports, for us and many in the industry. This results in unnecessary friction costs, such as customer system redesigns. We have called upon the Customs and Border Patrol to follow guidelines, respond to consumer demand, and quickly release solar modules that are demonstrated to be



in compliance with the latest requirements, and we have seen some recent progress. These delays are slowing the deployment of what Americans need and want: clean, affordable solar energy.

### **Closing Comments**

With that, before I turn the call over to Danny, I want to share a few words of appreciation for the amazing employees at Sunrun and most of all, to our customers, who we are privileged to serve. Our team is doing tremendous work to deliver on rapid growth, accelerate innovation and drive a customer-obsessed culture at Sunrun. We are running a marathon to help combat climate change and provide customers control over their energy future -- we appreciate all of our customers and Sunrunners who are part of this journey with us.

With that, over to you, Danny.

### **DANNY ABAJIAN**

Thank you, Mary.

Hi, everyone. I'm pleased to be joining Mary and Ed today on my first quarterly call as CFO. Today I will cover our operating and financial performance in the quarter along with an update on our capital markets activities and outlook.

Turning first to the results for the quarter.

### **Volumes**

In the second quarter, Customer Additions were approximately 34,400, including more than 25,000 Subscriber Additions. Our Subscriber Additions were nearly 74% of our total Customer Additions in the period, up from nearly 72% in Q1. Solar Energy Capacity Installed was over 246 megawatts in the second quarter of 2022, a 33% increase from the same quarter last year, and exceeding the high end of our guidance range.

We saw strong customer demand for our products and services in Q2. Customer orders increased by 28% in the quarter compared to the prior year. While we are still adding customers to our pipeline, the increased pace of installations is allowing us to gradually work down our pipeline. Our current pipeline is closer to one quarter at this point.

We have now installed over 42,000 batteries. We expect battery installations to grow rapidly in the quarters ahead. Current battery supply conditions and longer install cycle times have resulted in lower battery attachment expectations in the near future, but we expect that as we introduce additional battery suppliers and work through our pipeline, attachment rates will increase meaningfully. Today we are



prioritizing allocation of batteries in key markets where they are needed the most for grid reliability concerns.

We ended Q2 with approximately 724,000 Customers and more than 614,000 Subscribers, representing 5.1 Gigawatts of Networked Solar Energy Capacity, an increase of 21% 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 Q2, our Annual Recurring Revenue, or ARR, stood at \$917 million with an average contract life remaining of over 17 years.

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

In Q2, Subscriber Value was approximately \$38,700 and Creation Cost was approximately \$30,800, delivering a Net Subscriber Value of approximately \$7,900.

Total Value Generated, which is the Net Subscriber Value multiplied by the number of Subscriber Additions in the period, was \$200 million in the second quarter.

The adjustments we made to pricing and home upgrade policies in late March and early April are starting to partially flow through our installations in Q2 and will be more fully reflected in Q3 deployments.

We are optimizing overall sales activities and revising our policies on pricing and product mix in certain markets. These moves are already producing positive results in Q2 and we will continue to evaluate our customer offering based on incumbent utility rate trends and the capital markets environment.

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

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

Gross Earning Assets were \$10.8 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 operating and maintenance costs, distributions to tax equity partners in partnership flip structures and distributions to project equity financing partners, discounted at a 5% unlevered capital cost.

Net Earnings Assets were \$4.6 billion at the end of the second quarter, an increase of over \$130 million from the prior year and \$145 million compared to the first quarter. Net Earning Assets is Gross Earning Assets, plus cash, less all debt.

We ended the quarter with \$863 million in total cash.

#### **Capital Runway**



We continue to maintain a robust project finance runway. As of today, closed transactions and executed term sheets provide us with expected tax equity and project debt capacity to fund over 360 megawatts for Subscribers beyond what was deployed through the second quarter.

### **Outlook**

Turning now to our outlook.

The current solar module import disruptions Mary mentioned create some uncertainty around volumes during the second half of 2022, but the strong consumer demand we see, our further improving operational efficiencies and fulfillment capacity, and the visibility of our robust pipeline gives us confidence to confirm our full year guidance of over 25% year-over-year growth in Solar Energy Capacity Installed.

We now expect Total Value Generated to be substantially greater than \$900 million for the full year, confirming our prior guidance that Total Value Generated will grow meaningfully faster than volumes. We continue to expect Net Subscriber Value above \$10,000 in Q3 and Q4. In our forecast, we do not assume any increase to the Federal investment tax credit that may result from passage of the Inflation Reduction Act of 2022. An increase in the investment tax credit, pending California net metering policy, and any impacts to volumes from supply chain disruptions could obviously result in variations in Total Value Generated in either direction.

For the third quarter, we expect Solar Energy Capacity Installed to be in a range of 250 to 260 megawatts.

### **Interest Rates, Discount Rates & Inflation**

Since the April pricing of our half-billion-dollar senior-note securitization, capital availability has remained strong in both the securitization and bank markets. Apart from a brief period in June, market interest rates have remained in a narrow range. Our borrowing costs, which are indexed to long-term interest rates, have benefited from downward pressure recently as expectations for economic growth have softened.

We continue to expect advance rates on our deployed portfolios to be between 85 to 95% of contracted Subscriber Values, which are discounted at a 5% rate. We believe the wide range is appropriate given the potential volatility in debt capital markets. As a reminder, the numerator in advance rate includes proceeds received, net of fees, from all sources – rebates, tax equity, customer prepayments, senior and subordinated debt, and swap terminations. As we've shared before, we frequently enter into interest rate swaps to hedge capital costs on our newly installed customers. Our existing capital structure is also well hedged through a mix of interest rate swaps and fixed-coupon, long-dated debt securities.

We currently observe our capital costs as between 5 and 6%. As you may recall, several years ago we used to report Subscriber Value and Gross Earning Assets figures using a 6% discount rate and didn't



update it to 5% until we saw capital costs below 4%. While we actively monitor capital costs, we don't plan to update the discount rate for minor fluctuations around 5%.

As mentioned, we implemented meaningful price increases earlier this year behind large electric utility price inflation and high interest rates. Since then, utility price inflation has remained persistently in the double digits, as utilities pass through their higher labor, fuel, and capital costs to customers. This provides ample headroom to continue to evaluate market and pricing opportunities while still delivering customers an incredibly attractive value proposition.

With that, let me turn it back to Mary.

### **MARY POWELL**

Thanks, Danny.

It is such a powerful time in our nation's history to be working in clean energy, shoulder to shoulder with thousands of Sunrunners, every day working hard to deliver to Americans what they want and need, clean affordable independent energy to power their lives and give to them a greater sense of comfort and security.

We sit on the precipice of perhaps the most impactful climate and inflation reduction legislation the US has ever seen. It is so exciting to think about the measures and how they could dramatically accelerate our work and maximize our impact, all while addressing rampant energy inflation which is squeezing households across the country.

That said, no matter what the world throws at us, at Sunrun we stay focused on making our own luck, growing faster better and stronger and delivering on our obsession with our customers, with the employees who serve them and delivering strong results for our investors.

Before opening the line for questions, I want to again express my deep appreciation for the big hearted, ambitious team of employees at Sunrun, the customers we are blessed to serve and the many partners who work with us every single day to deliver on creating a planet run by the sun.

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

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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 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 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 derive value from the anticipated benefits of partnerships, new technologies, and pilot programs; anticipated demand, market acceptance, and market adoption of the Company’s offerings, including new products, services, and technologies; expectations regarding the growth of home electrification, electric vehicles, virtual power plants, and distributed energy resources; the Company’s ability to manage suppliers, inventory, and workforce; supply chains and regulatory impacts affecting supply chains; the Company’s leadership team and talent development; 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; the ongoing, anticipated, or potential impacts of the COVID-19 pandemic and its variants; 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; and factors outside of the Company’s control such as macroeconomic trends, public health emergencies, natural disasters, act of war, terrorism, or armed conflict / invasion, and the impacts of climate change. 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 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; volatile or 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 business partners; supply chain risks and associated costs; the impact of COVID-19 and its variants on the Company’s operations; the successful integration of Vivint Solar; realizing the anticipated benefits of past or future investments, partnerships, strategic transactions, or acquisitions, and integrating those acquisitions; the Company’s leadership team and ability to attract 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 home electrification and 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>.*