1Q 2025 Earnings Call
May 7, 2025
Prepared Remarks

OPERATOR INSTRUCTIONS

Good afternoon and welcome to Sunrun's first quarter earnings conference call. Please note that this call is being recorded and that one hour has been allocated for the call, including the Q&A session. To join the Q&A session after prepared remarks, please press star 1 at any time. We ask participants to limit themselves to one question and one follow-up question. I will now turn the call over to Patrick Jobin, Sunrun's Investor Relations Officer.

PATRICK JOBIN

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, Paul Dickson, Sunrun's President and Chief Revenue Officer, and Danny Abajian, Sunrun's CFO.

A presentation is available on Sunrun's investor relations website, along with supplemental materials. An audio replay of today's call, along with a copy of today's prepared remarks and transcript including Q&A will be posted to Sunrun's investor relations website shortly after the call.

And now let me turn the call over to Mary.

MARY POWELL

Thank you, Patrick.

And thank you all for joining us today.

In the first quarter, we exceeded our volume and cash generation targets in what is seasonally the slowest quarter of the year.

We generated $56 million in cash, our fourth consecutive quarter of positive Cash Generation. We delivered market share gains and continued de-levering, paying down our parent debt by $27 million. We ended Q1 with $605 million in unrestricted cash, a $30 million increase from the prior quarter. At the same time, we are excited about the official announcement of our new product, Flex, which Paul will talk about shortly.

It is a dynamic environment for tax policy and tariffs. These uncertainties make planning difficult and may require significant adjustments for the business. Like many companies across the country, we are controlling what we can and are ready to adapt to changes that may occur. Sunrun has faced periods of major change over the last few years, and we used it as an opportunity to become even stronger. We believe the tariff outlook is manageable, and we will generate meaningful cash this year.

We are delivering the best products for customers, underwriting volumes with strong unit margins, optimizing our routes to market, and driving cost discipline, including leveraging AI for innovation, creating significant operating efficiencies and quality enhancements. This has allowed us to gain considerable market share in recent periods and produce strong operating and financial results.

Turning to an update on demand. *Demand remains strong.* In Q1, total Customer Additions grew 6% compared to the prior year — and, more meaningfully, our Aggregate Subscriber Value grew 23% from last year, to more than $1.2 billion. This growth was supported by our higher value storage offerings and Flex. Customer Additions with Storage grew by over 46% from Q1 of last year, hitting a record-high 69% storage attachment rate. We are growing our share of consumers' energy spend and have favorable tailwinds with further electrification, increasing grid instability and utility rate escalation. Americans want affordable and reliable energy. We provide a way for them to lock in predictable energy costs and reliability, with no money down. Demand for our offering is strong in good times *and* during periods of weakening consumer confidence, or even in a recession, as Americans look for ways to control what they can.

On slide 5 you can see the strong volume growth we are achieving. Sunrun is now a multi-product company, primarily providing solar and storage systems, nearly quadrupling this business in the last two years. Demand for residential solar and storage is strong and the industry has only penetrated approximately 6% of households.

Our approach has led us to gain considerable market share, as you can see on slide 6. We have steadily increased our share to approximately 19% of new solar installations and about 45% of new storage installations across the country.

Leading with a storage-first offering provides numerous financial benefits — Subscribers with storage have higher upfront margins, as we are providing a more sophisticated offering that provides additional value to customers, and because it is more complex to sell, design, install, and service. Over time, storage systems also unlock additional recurring revenue streams as they represent valuable energy resources for the grid. While still a nascent business and small source of revenue today, this will grow significantly in the years ahead.

Turning to updates on federal policy and the trade situation.

We are encouraged that congressional offices understand the economic benefits of energy tax credits, especially given new electricity demand from trends like artificial intelligence. Interest in residential solar and storage is bi-partisan — our 1 million customers and their representatives in Congress are politically diverse and want more affordable and reliable energy.

A growing number of Republicans in Congress — including 39 overall House members and four Senators — have publicly expressed support for maintaining energy tax credits through various letters over the past few months. Just last week an additional letter of support for maintaining the technology neutral credit 48(E) for the benefit of nuclear power was signed by 24 members. This credit is also the same technology neutral credit we utilize.

We expect a range of draft proposals to be issued, possibly including some draconian scenarios, but they are expected to be moderated as negotiations progress. As a reminder, Republicans in the House can only lose three votes to pass legislation, and more than three dozen – as well as four U.S. Senators – have been advocating to maintain energy tax credits.

We are actively working through scenario planning and corresponding actions if there are material changes. Actions could include 'safe harboring' with equipment purchases and paring back geographies. In the past we have seen industry-wide customer acquisition costs decrease and end-consumer prices increase to absorb compression in margin from regulatory changes and we have a playbook to enact this. These are in addition to our ongoing efforts to drive further cost reductions and further monetize the value of our existing customer base.

Shifting to the current tariff situation. Hardware costs represent about one third of our total costs, and this cost will increase from tariffs. Near-term the effects are mitigated owing to the advance purchasing we did at the end of 2024. We are also shifting to use more domestically produced equipment, but supply is limited. Currently about half of our module supply and 100% of inverter and battery supply is sourced domestically, although with input components sourced globally. We do not directly import any solar equipment from China, although producers in China are important for various upstream components used by our suppliers. Any adverse changes to tax and tariff policy, of course, will also impact utilities and create additional pricing headroom.

Lastly, before I turn the call to Paul, I want to thank all of our Sunrun teams, and partners, that are clearly born to run, driving significant results for our customers and shareholders.

This quarter, I want to highlight our AI team. This team is driving enhanced efficiency and customer experience. As an example, one of our recent projects includes our system design tool. We have been able to unlock 30% higher efficiency in the design process — improving turnaround times and accuracy, reducing costs, and increasing sales realization. We are working on over a hundred AI initiatives across the company. A big shout-out to our Chief Technology Officer, Rachit, and the AI team leads: Chok, Edward, Lakshya, Marko, Parker, Terry, Victor and Yahia. Thank you!

I will now turn the call to Paul to discuss Sunrun Flex.

PAUL DICKSON

Thanks Mary.

One of the reasons we have been gaining significant market share, generating strong unit margins and producing cash is our innovative new product: Sunrun Flex.

Flex is the most important financial product innovation the industry has seen since Sunrun introduced the residential Power Purchase Agreement in 2007.

Currently, there are no solar + storage offerings — cash, loan or subscriptions — that allow customers to plan for their growing energy needs in a flexible, affordable way. Home solar systems have historically been designed to either match a household's current energy usage or be oversized in anticipation of future needs — likely resulting in either unmet needs as energy usage increases or generating solar energy that is not used immediately. Flex removes any uncertainty, offering a solution that fits families' needs now and in the future.

We do this by identifying the customer's current energy usage and contracting with them for that amount of generation, like we always have… we then 'Flex' up their system by adding additional panels and contract with the customer to buy that power when they use it.

Over our history, we have observed homes that go solar on average increase their electrical consumption by 15% within the first year of getting solar. It's also not uncommon for solar customers to adopt an electric vehicle, which drives up their energy consumption even more. This incremental energy consumption is typically coming from the utility at a high cost, or the customer needs to go through the hassle of getting an additional solar system installed. Our offering allows customers to use more electricity at a locked-in affordable rate as they electrify their lifestyles. This means energy is ready for them as they want it, at a low rate. If they don't use more electricity beyond their contracted minimum baseline, they don't pay for it.

Assuming 100,000 typical customers with Flex use just 15% more electricity, we would generate approximately $20 million per year in *additional* customer payments — *repeating every year*. We are actively building out home specific insights and education to help our Flex customers make electrification decisions that fit their lifestyle, and tap into more of the Flex capacity available to them, which will result in many using significantly more than 15%.

We include only the baseline contracted amount in our Contracted Subscriber Value, and the Flex upside revenues are additive to strong Contracted Net Subscriber Values from the product.

Since we launched Flex in several pilot markets over the last few months, we have seen over ten thousand, or over half of Flex-eligible customers select Flex over our non-Flex alternative. Since Flex systems are larger, we benefit from cost efficiencies from installing larger systems, and therefore can earn a similar margin to our standard product. If you assume the customers' planned consumption increases, we will earn even higher returns from the recurring cash flows.

Additionally, larger Flex systems are paired with more batteries, and the excess storage capacity creates an even more valuable grid resource, allowing these distributed batteries to benefit ALL ratepayers.

Sunrun is playing a different game, leading with storage, generating cash and innovating. Flex is only available through Sunrun.

I'll now turn the call to Danny for the financial update and outlook.

DANNY ABAJIAN

Thank you, Paul.

Turning first to slide 12. As we discussed last quarter, we made modifications to our key operating metrics. We made these changes to simplify how we communicate our value creation activities. We now report both unit margins and aggregate value, starting from the top-line gross value of Subscribers, to present values of expected Subscriber cash flows including non-contracted or upside revenues, present values including only contracted cash flows, and to margins that just reflect proceeds we expect to obtain from financing.

We also made several other key modifications to methodologies. First, we moved to measuring Subscriber Values using a variable discount rate based on observed project-level capital costs each period, instead of using a fixed 6% discount rate. Second, we are now reporting a precise advance rate each period to estimate proceeds, based on market terms, as opposed to reporting ranges. Third, we simplified how we calculate Creation Costs, including more costs such as R&D expenses along with tying the Creation Cost build-up directly to cash flow statement items. We did not remove any metrics we previously provided.

We have provided a full reconciliation of these metrics in our posted materials and have provided recast historical metrics starting with the first quarter of 2023 for comparative purposes.

Unit-level Economics

Turning first to the unit-level results for the quarter on slide 13. Subscriber Value increased to approximately $52,000, a 15% increase compared to the prior year, as we increased our Storage Attachment Rate by 19 percentage points to 69%, grew our Flex deployments, and benefited from a 44% weighted average ITC level, an increase of 8 percentage points from Q1 of last year. Subscriber Value reflects a 7.5% discount rate this period.

We were able to maintain cost discipline, with Creation Costs increasing only 7% from the prior year – a smaller increase than the 15% growth in Subscriber Value. Creation Costs increased due to higher battery hardware and associated installation labor costs from the Storage Attachment Rate increase, though labor productivity and fixed cost absorption offset a portion of these increases. This led to a 66% year-over-year growth in Net Subscriber Value to $10,390.

Consistent with prior years, the first quarter of the year is seasonally the lowest margin period of the year as we are ramping sales activities for the busier summer months and have worse fixed cost absorption from lower in-period installation activities.

Aggregate Gross and Net Value

Turning now to aggregate results on slide 14. These results are the average unit margins multiplied by the number of units.

First on the top-line, Aggregate Subscriber Value was $1.2 billion in the first quarter, a 23% increase from the prior year. Aggregate costs were $991 million, which includes all capex and asset-origination opex including overhead expenses. This resulted in Net Value Creation of $246 million or approximately $1.09 per share.

Excluding the expected present value from Non-contracted or Upside Cash Flows, Contracted Net Value Creation was $164 million, a 104% increase from last year, and about $0.72 per share. This level of value creation reflects a net margin of approximately 14% of Contracted Subscriber Value. Slide 15 breaks down the unit-level economics and aggregate economics on a contracted-only basis, along with the main underlying drivers for the increases.

Upfront Net Margins & Cash Generation

Turning now to slide 16.

Sunrun raises non-recourse capital against the value of the systems we originate each period from tax equity, which monetizes the tax credits and a share of cash flows, and asset-backed debt, along with receiving cash from Subscribers opting for pre-paid leases and from governments and utilities under incentive programs.

We estimate these upfront sources of cash will be approximately $1 billion for Subscriber Additions in Q1, representing approximately 87% of the Aggregate Contracted Subscriber Value, or what we call the Advance Rate.

When we deduct our Aggregate Creation Costs of $991 million, we are left with an expected Upfront Net Value Creation of approximately $12 million. This represents our estimate for the expected net cash to Sunrun from Subscriber Additions in the period after raising non-recourse capital and receiving upfront cash from Subscribers and incentive programs. It conservatively excludes any value from our equity position in the assets over time – including potential asset refinancing proceeds and cash flows from non-contracted sources such as grid services, repowering or renewals, or upside from Flex electricity consumption above the contracted minimum.

Actual Realized Proceeds in the quarter which were just over $1 billion, with $256 million from tax equity, $755 million from non-recourse debt, and $53 million from customer prepayments and upfront incentives. Aggregate Upfront Proceeds differ from Proceeds Realized due to the former being an estimate for Subscriber Additions in the period, and the latter being the proceeds received against Subscriber Additions that may have occurred in a different period.

Cash Generation, which reflects *Realized Proceeds* and is after other working capital changes and parent interest expense, was $56 million in Q1. We expect Upfront Net Value Creation and Cash Generation to correlate over time.

These value- and cash-based metrics clearly articulate how we create net value, finance our growth, and ultimately generate cash.

Asset-level Capital Market Update

Turning now to slide 19 for a brief update on our capital markets activities.

Sunrun's industry-leading performance as an originator and servicer of residential solar and storage continues to provide deep access to attractively-priced capital.

As of today, closed transactions and executed term sheets provide us with expected tax equity capacity to fund over 375 megawatts of projects for Subscribers beyond what was deployed through the first quarter. Thus far in 2025 we have added more than $1.3 billion in tax equity, resulting in this strong runway.

We also have $819 million in unused commitments available in our non-recourse senior revolving warehouse loan to fund over 286 megawatts of projects for Subscribers. Our strong debt capital runway allows us to be selective in timing term-out transactions.

In January we priced a $629 million asset backed securitization at a yield of 6.35%. In March we priced a $369 million securitization at a similar yield of 6.36%. The March securitization was placed into the private credit market given strong interest from large alternative asset managers active in the space. The weighted average spread of the notes was 225 basis points, which is approximately 28 basis points higher than our January securitization. The higher spread followed overall market movements in credit spreads for similarly rated credit. Similar to prior transactions, we raised additional capital in a subordinated non-recourse financing, which increased the cumulative advance rate to well above 80% net of all fees, as measured against the initial Contracted Subscriber Value of the portfolio.

Asset financing markets are open and healthy and there are an increasing number of investors, especially from private credit, who have done repeat transactions with us. We expect to continue executing both publicly-placed transactions and direct placements in the private credit markets.

Parent Recourse Capital & Balance Sheet

On the parent capital side, we continue to pay down parent recourse debt. During the first quarter, we repaid $27 million of borrowings under our Working Capital Facility and repurchased a small amount of our 2026 Convertible Notes.

Since March of last year we have paid down recourse debt by $214 million. We have also increased our unrestricted cash balance by $118 million and grown Net Earning Assets by $1.6 billion over this time period. We expect to pay down our recourse debt by $100 million or more in 2025.

Aside from the $5.5 million outstanding of our 2026 Convertible Notes, we have no recourse debt maturities until March 2027.

Over time we will explore further capital allocation options to maximize shareholder value, based on market conditions and our long-term outlook.

Outlook

Turning now to our outlook on slide 20.

For the full-year, we are introducing guidance for Aggregate Subscriber Value and Contracted Net Value Creation. We expect Aggregate Subscriber Value to be between $5.7 and $6 billion, representing 14% growth at the midpoint. We expect Contracted Net Value Creation to be in a range of $650 to $850 million, representing 9% growth at the midpoint.

We are reiterating our Cash Generation guidance for the year of $200 to $500 million.

Underpinning this guidance are a couple things that have changed since our last call. We are seeing strong demand across channels, and as such now forecast Subscriber Additions will grow in the mid-single digits instead of our prior outlook of approximately flat for the year. This strength led to us beating our prior Q1 guidance for Solar Capacity Installed and Storage Capacity Installed.

Offsetting these improving volume and unit margin fundamentals are the tariff developments. We expect the series of tariffs in place today to create cost headwinds of approximately $1,000 to $3,000 per Subscriber in 2025, which is about 3% to 7% of Creation Costs. This reflects tariff impacts being felt in the second half of the year and includes only partial mitigation measures, excluding any price increases and other cost reductions we may explore. These tariff impacts represent approximately $100 to $200 million of potential variance within our guidance range. At current tariff levels, we are trending in the lower half of our Cash Generation guidance range, but if tariffs are substantially reduced, we would be trending in the upper half of the range.

For the second quarter, we expect Aggregate Subscriber Value to be approximately $1.3 to $1.375 billion, representing 21% growth at the midpoint, and Contracted Net Value Creation to be between $125 and $200 million, representing 80% growth at the midpoint. We expect Cash Generation to be between $50 and $60 million.

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, expectations, 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 its business strategies including expectations regarding market share, total addressable market, growth in certain geographies, customer value proposition, market penetration, growth of certain divisions, financing activities, financing capacity, product mix, and ability to manage cash flow and liquidity; the Company's introduction of new products, including Sunrun Flex; the growth of the solar industry; the Company's financing activities and expectations to refinance, amend, and/or extend any financing facilities; trends or potential trends within the solar industry, our business, customer base, and market; the Company's ability to derive value from the anticipated benefits of partnerships, new technologies, and pilot programs, including contract renewal and repowering programs; anticipated demand, market acceptance, and market adoption of the Company's offerings, including new products, services, and technologies; the Company's strategy to be a margin-focused, multi-product, customer-oriented company; the ability to increase margins based on a shift in product focus; 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 including reliance on specific countries for critical components; 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, including federal and state-level solar incentive programs (such as the Investment Tax Credit), net metering policies, and utility rate structures; the ongoing expectations regarding the Company's storage and energy services businesses and anticipated emissions reductions due to utilization of the Company's solar energy systems; and factors outside of the Company's control such as macroeconomic trends, bank failures, public health emergencies, natural disasters, acts of war, terrorism, geopolitical conflict, 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 and inflation; volatile or rising interest rates; changes in policies and regulations, including net metering, interconnection limits, and fixed fees, or caps and licensing restrictions and the impact of these changes on the solar industry and our business; the Company's ability to attract and retain the Company's business partners; supply chain risks and associated costs, including reliance on specific countries for critical components, tariff and trade policy impacts, and raw material availability for solar panels and batteries; 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.