



Q2 2022 Earnings Call August 3, 2022 Transcript

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Presenters

Patrick Jobin, Senior Vice President, Finance & Investor Relations
Edward Fenster, Co-Founder & Executive Co-Chair
Mary Powell, Chief Executive Officer
Danny Abajian, Chief Financial Officer

Q&A Participants

Julian Dumoulin-Smith – Bank of America
Andrew Percoco – Morgan Stanley
James West – Evercore
Maheep Mandloi – Credit Suisse
Mark Strouse – JP Morgan
Philip Shen – ROTH Capital
David Peters – Wolfe Research
Kashy Harrison – Piper Sandler
Sophie Karp – KeyBanc
David Niewood – Curator Fund
Hillary Cauley – Guggenheim
Brian Lee – Goldman Sachs

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.

Julien Dumoulin-Smith

Hey, team, good afternoon. Thank you. And kudos for holding in on that 10,000 -- that figure that we've all been fixating on here. If I can just to -- indeed. If I can, just to keep running with that, if you don't mind, I'd love to hear a little bit more about how you're thinking about future further rate increases. Right? For example, how do your rates compare with utilities today after the -- increases that you've implemented? And considering that typically the cadence of rate increases is fixated around January 1st, can we expect a further step up and expand that 10,000 going into 2023 or at least into Q1 2022? Or 2023?

Mary Powell

Hey, Julian, it's Mary. Thanks so much for the question and for the -- enthusiasm for -- our maintaining -- our focus on net subscriber value. But that said, yeah, your question, I'll hit it first at the broad level and then see if Danny has any additional comments. But we have a lot of headroom. I mean, the bottom line is we have a lot of headroom. We -- you know, we basically are providing customers all across America, but, you know, particularly in some markets with, you know, really, really significant savings value proposition. We're also at the same time, Julian, you know, we're seeing more and more customers, candidly, that are so motivated by other factors. And again, more and more customers are also going solar to power their electric vehicles. So when you also think about the opportunity to power an electric vehicle with your own

independent solar versus the prices, the volatile prices at the pump, that also is a part of what we see as continuing to drive demand. So I would say at the highest level, again, we're being very opportunistic at the same time as we're very, very focused on making sure that we're delivering a significant value proposition to the customers we serve. And with that Dan, I didn't know if you wanted to hit any or --.

Danny Abajian

Yeah, not much to add. Julien, thanks for the question. As we discussed last period and as we've shown this period, we're making progress towards getting the realization of the pricing actions we've made. And as you, as you'll notice, you know, the guidance for Q3 and Q4 this time indicating, you know, we also obviously have gained confidence that the pricing actions we've taken will stick. You know, beyond that, you know, we're not guiding anything at the moment. You know, Mary has kind of given you a sense for how we're thinking about things. And, you know, I think we're confident in what we've said regarding Q3 and Q4 at this time.

Mary Powell

And Julien, lastly, also, as you know, the other adoption that's happening, whether it's electric vehicles, heat pumps, other types of electrification is just then driving up the demand for larger systems as well.

Julien Dumoulin-Smith

Totally. Excellent. Thank you. And just a quick follow-up here, considering IRA obviously is an existing ITC, but the extent to which you could get an additional bump up on the ITC with some of these additional adders, what portion of -- your prospective origination could qualify for some of these additional ITC adders here? Or how nimble could your business be to pivot towards those kind of higher ITC opportunities as best you see it today?

Edward Fenster

Hi, Julian, it's Ed. You know, we have a fantastic opportunity here. I'm a little cautious to share exact numbers because the regulations on each of the adders will be promulgated by Treasury and haven't been issued yet. But, you know, our preliminary analysis is on the, you know, low -- income adder, approximately a third of our existing customers that we originate would qualify based on census tract data. And obviously with our direct marketing sales team in particular, it would be possible for us to seek additional business in those geographic areas.

On the American made component, the opportunity obviously will depend on the percent requirements that are promulgated. But again, we think there's probably a good opportunity there.

And then on the energy communities, there's a significant opportunity there. For instance, I suspect, like most of Houston, would qualify based on the workforce, although we've got additional work to do there. So I think we feel like there's a significant opportunity even on the run rate business and we have a lot of flexibility in targeting to -- achieve higher, you know, sort of attachment rates of those adders. And then obviously I should -- mention again that those adders are only available under the Section 48 tax credit, which is the one available to lessors.

Julien Dumoulin-Smith

Yes, indeed. Excellent. Thank you, guys.

Operator

Our next question is from Andrew Percoco with Morgan Stanley. Please proceed with your question.

Andrew Percoco

So just my first question is just more on the cost side.

You know, totally understand you have pricing power to offset some of the near-term pricing headwinds. But just curious if you have any thoughts on when we might start seeing the actual creation costs start to drift down, you know, more towards that 5% decline per annum, you know, that we saw historically?

Danny Abajian

Yeah. Yeah. So yeah, we've talked a lot about some of the cost pressures. I think we, as Mary mentioned, one of the positives on that dimension over the quarter was, you know, we were able to achieve the sequential growth with our headcount virtually unchanged or not materially up as we described it. And it's speaking to the improving efficiency of the business. You know, there are equipment, cost pressures, there are other kind of pressures around us. And we continue to kind of, you know, work through those things by delivering greater efficiency through the business as we continue to scale up the volumes. You know, in addition, you know, driving towards, you know, higher margin product via battery attach rate. Like we commented about battery attach, you know that that is a product that kind of has momentarily had, you know, dip in or a lack of further increase in the attachment rate, which we think is going to resume as that supply eases. And certainly the consumer demand is there. So like you have -- margin expansion opportunities coupled with just grinding out day by day, further efficiency in the business to compensate the inflation pressures we know are all around us.

Andrew Percoco

Got it. Super helpful. And then just one more on the funding strategy for me. You know, ABS has been a big component of your, you know, funding strategy in the past. And I think, Ed, last call, you alluded to the fact that there was, you know, a noticeable difference between the credit spreads in the ABS markets and -- what you're seeing from some depository capital. So just curious, you know, maybe where your cost of capital is today and how that funding strategy might change, if at all going forward.

Danny Abajian

Yeah. Yeah. So, so it's -- quite habitual for us to be looking at, you know, the broad access to the capital markets we have and continuing to evaluate those cost of capital difference we see between markets. And I think we've played that quite favorably over different cycles and periods of time. And then we're certainly in one of those where, you know, we think there is a cost of capital difference between the markets. We also understand that that cost of capital difference can often be fleeting. And we are, you know, strategically designed, as, you know, in our approach to the capital markets to be able to access both and, you know, pivot back and forth quickly as needed.

So -- today we have said and continue to believe that the commercial bank market is a little bit ahead or more favorable than the ABS market on a pricing basis. That pricing difference is relatively narrow, but it exists. And we continue to look at that.

And to your question about cost of capital, we continue to see cost of capital, which is the blended cost of capital with our senior and subordinated debt, all in run in that 5 to 6% range. It has varied through the quarter as we've seen credit spreads move around a little bit. We've seen base rates move around a little bit more, but I think, as we mentioned in the opening remarks, have tapered off recently to a much more favorable spot. So, you know, cost of capital recently, trending positive, still up from late last year. And as we've discussed, we've taken a lot of action to kind of work through that and those dynamics broadly.

Andrew Percoco

Great. Thanks so much. I'll leave it there.

Danny Abajian

Thank you.

Operator

Our next question is from Brian Lee with Goldman Sachs. Please proceed with your question.

Brian Lee

Hey, everyone. Thanks for taking the questions. I had two kind of related to the model. First, on the growth guidance. You're implying 3% sequential growth for Q3, and then maybe mid-to-high single digits growth in Q4 to hit the full year target. That's, you know, a little bit slower than what you just saw on Q2 which was robust and above the high end of the guide. So just question would be, was there any sort of pull forward ahead of your pricing increases? Or maybe you can just talk us through the cadence of growth you're seeing in bookings activity versus prior quarters right now. And then if there's been any notable shifts in customer trends you're seeing between the different offerings, PPAs leases, loans, etc.? And then I had a follow-up.

Danny Abajian

Yep. Thank you for the question. So on sequential growth in volumes, I think -- we've had, as we've discussed previously, major increase in new customer orders at the beginning part of the year, even late last year heading into this year, on the last call, we guided to a backlog or a pipeline encroaching on nearly two quarters. As the sequential growth in the business has picked up, that has reduced to closer to one quarter. And as we look at the next couple of quarters and even the next few quarters, that is also -- obviously there are some challenges on the cost side we've talked about with a growing pipeline, but the ability to bring it in and continue to work that down on a measured pace I think is valuable to the -- business. That is a deliberate focus. As we see some of these uncertainties and the macro picture, you know, growing the physical footprint of the business in a measured, deliberate pace, you know, has been -- a focus. You know, and the guidance we provide, we are comfortable with.

As far as the product mix, the lease versus loan. We've seen a little bit of a shift. We've seen a relative pickup of the lease product where last quarter that was 72% and this quarter that increased to 74%.

Brian Lee

Okay. That's awesome. And then on net subscriber value expansion, kudos on um hitting the targets and reiterating the second half. Just wondering, can you sort of bridge the \$2,000 plus step up from Q2? How much of that is pricing reading out versus other drivers like mix and so forth? And then as we think about the model longer term here, what's the normalized target for net subscriber value? I know you had talked about kind of reaching \$10,000 to \$12,000 per customer in the past. Obviously, you're kind of already there. So wondering if there's an update to that and what some of the step-up drivers from here would be, if you can quantify? Thank you.

Danny Abajian

Yep. Thank you. We have we have, you know, still -- room to run on the realization of the -- pricing increases so that those are late March early April. Coupling that with the backlog which we said again encroaching upon two quarters means, you know, about one quarter has passed and we've got a little bit



more room to run here for those pricing actions to kind of take hold through the metric. So, it's a partial realization of those, you know, through the through the quarter. And that's also what's, you know, causing us to form the guidance to greater than \$10,000, you know, for the for the balance of the year.

As we continue to deliver scale, we get some operating cost leverage as well, which we'll see on the on the cost side in the back half of the year. And, you know, we continue to see margin improvement within our creation cost. We have platform services margin. We expect some margin improvement there as well through the through the balance of the year, all contributing to that positive direction in the metric.

Brian Lee

All right, fair enough. I'll pass it on. Thanks, guys.

Operator

Our next question is from James West with Evercore. Please proceed with your question.

James West

Hey. Good afternoon, guys.

Unknown

Hey.

Unknown

Good afternoon.

James West

So, Mary, you've had some -- back and forth with, you know, a notable short seller here recently, or at least there's been some assertions made against Sunrun and some of the accounting. And then of course, there was a response for you and another response from them. I'm curious if you wanted to comment or take this opportunity with the microphone that you have right now on your conference call to respond to them.

Mary Powell

Sure. Yeah. Actually, James, you know, from a high level, I think as you know, we -- went to lengths to sort of go sort of point by point and just make sure that -- folks were so clear that, you know, from our perspective, Muddy Waters, you know, has it wrong. You know, I thought actually it'd be great for Danny as CFO, given his tenure with the company. I would just I would actually love to have you, Danny, share your thoughts and sort of how we look at it. You know, we certainly welcome any and all dialog -- as we always have as a company. So. Yeah, Danny, I thought it'd be great if you could hit --.

Danny Abajian

Yeah, I just layer on those internally prepared remarks that we posted on our website. We're kind of, you know, at our fingertips, if you will, given the long history here of delivering just very high quality, you know, and reputation from a due diligence standpoint. Over the course of 15 years, my 12 years here with probably close to about \$20 billion raised, much of which was under private situations, private deals where investors really have the opportunity to come in, even some for like spanning multiple days to -- have asked us these questions. And we've answered them, some over a decade ago.

So, you know, we felt quite good about the response. I don't think we plan to elaborate further here on those point-by-point responses. I think that record speaks for itself on our website. But again, it's a culture of awesome reputation with our investors. That comes from the transparency and humility with which we've treated a lot of the due diligence we've had to go through to raise all the capital we've raised. And I think, you know, as -- far as like anybody you could reach in the market to ask them about our reputation in those situations, I think they would speak very highly. They've certainly said those things to us. And we definitely appreciate that level of rigor we already get from a lot of these private investors where we do have to kind of open up the hood a bit and get really get into these very specific issues which we've done so many times, which is why, again, you saw a pretty robust response, you know, go -- on our website that the team kind of, you know, very quickly prepared here. And, you know, I think that's kind of basically it on the matter. And we're excited about all of the execution. You know, there's a dynamic macro environment, but we're excited about the execution of this team and we're excited about the trajectory of the business.

James West

Okay, fair enough. I'll leave it there. Thanks, Danny.

Operator

Our next question is from Maheep Mandloi with Credit Suisse. Please proceed with your question.

Maheep Mandloi

Hey. Hey, good evening. Thanks for taking questions. First, just on the growth over here in terms of targeting kind of 275 plus megawatts in Q4, could you kind of talk about the sensitivity to that growth from California, the NEM 3.0 proceedings over there?

Danny Abajian

Yeah, not -- I mean, there is a question on the -- timing. So there is some timing uncertainty there. You know, at the moment, the base assumption is any impact given it's unknown, the impact of any action would deliver kind of more into next year. And we obviously have to see what comes out of it, measure those impacts and more clearly guide to them. But at the moment, we don't believe there is a high impact to the -- volumes that we've guided to, you know, in Q3 and what's implied for Q4 with the annual guidance.

Maheep Mandloi

Gotcha. And just two more from me, one on the IRA. Does a tax credit transferability, does that help with tax equity? And for the EV charges, who's the OEM supplier or is it related to the SK JV? Thanks.

Edward Fenster

Sure. So this is Ed. So a couple of questions. So first, again, on the potential for tax credit transfer in the current IRA draft. That is something, again, where Treasury will have to promulgate rules. And I, you know, don't want to speak in advance of those rules. I think my high-level suspicion is that sort of traditional tax equity capital will continue to be cheaper, but that that will certainly expand the market and be helpful and potentially for more off the run products or something like that. So we continue to monitor that and chat more about it. But I think that the traditional structure which monetizes depreciation as well, ought to give a better financial outcome, most likely.

As to the EV charger, that is a product that we're sourcing separately, although we are not manufacturing it ourselves. It continues to be that we expect to be or I should say that the SK JV will be talking more about itself sometime during the calendar year.

Maheep Mandloi

Gotcha. Thanks for taking my questions.

Operator

Our next question is from Mark Strouse with JPMorgan. Please proceed with your question.

Mark Strouse

Yes, good afternoon. Thank you very much for taking our questions. Just had one kind of two-part question on inventory. Going back to the comments about UFLPA, creating some kind of delays in the market. Is that having a tangible impact on your ability to meet demand here in Q3? Or are you kind of leaning into your inventory during this period?

And then kind of the second part of that question is assuming that U LPA kind of gets, you know, cleared up over the next quarter or two, kind of what your strategy on inventory would be if that becomes kind of a working capital tailwind? Thank you.

Danny Abajian

Yeah. Hey, Mark, thanks for calling in. I didn't know if you were done with the question. I didn't want to talk over you. Yeah, so great, great questions. On the inventory balance itself, given those dynamics with UFLPA. You know, we -- if you look at our financials, you know, you'll still see inventory balance up for the year. If you kind of compare June 30th to December 31st, you'll also notice that it's slightly down about \$9 million quarter over quarter. So we did dip into the inventory a little bit through the period. We're still overall up.

Obviously, some of that is being driven by increased volume in the business. Some of it is being driven by keeping that days of supply high. You know, we did guide last time that we were carrying a balance of days in excess of 100. Now, with both the volumes increasing and some of our product getting detained, that has dipped below the 100 days. But I think we've -- planned around it in a way where I think we feel comfortable for the -- balance of the year. Although it remains a risk, we feel comfortable given all the procurement activity that we've done very tightly around the situation.

Mark Strouse

Okay. Thank you, Danny.

Operator

Our next question is from Philip Shen with Roth Capital. Please proceed with your question.

Philip Shen

Everybody, thanks for taking my questions. As a follow-up on the UFLPA situation, Mary, I think you referenced some of the CBD challenges. Can you provide some additional color on how the UF LPA may have impacted your business? You know, how much redesigning did you guys actually have to do? You know, -- was one of the -- module vendors that you had contracted with possibly impacted? Thanks.

Mary Powell

Yeah. So at a high level, I mean, again, we're crushing it on the fundamentals. So, you know, and as we reported, like, yes, we had some, you know, flexing we have to do in the organization. And again, we have -- we work with a number of suppliers, so make no mistake, there's always some flexing we've had to do in the business. So it's just highlighting that risk and that, you know, that that's where it shows up is in the context of the friction it causes in the business and the amount of redesigning that you might have to do for customers. -- if you're finding that you have one set of vendor panels versus another.

You know, the good news is we're in a, you know, (inaudible) position. We work with really good vendors. We've had longstanding relationships. We've been a leader in having standards for who we operate with, making sure that they meet all of the requirements. So it's really been around, you know, just working very directly, you know, most recently with Customs and Border Patrol to make sure they're aware of that, to really put the pressure on ensuring that we get product released as quickly as possible that's sitting at the port. But we, you know, as Danny said, you know, we are still sitting on a good amount of supply. We have great vendor relationships. We've been a leader in making sure that folks meet requirements. And so really ultimately, I see it largely as -- just being something we've really got to keep our eye on and keep pushing on in this quarter.

Philip Shen

Great. Thanks, Mary. As a follow-up to net subscriber value, I wanted to see if we could hit the potential view on 2023 again specifically, you know, would you expect net subscriber value to be flat in 2023 as we get through the year, maybe potential for, you know, even more expansion? Thanks.

Danny Abajian

Yeah, yeah, yeah. So far, we've we haven't, you know, we haven't guided to 2023. I think in the remarks we noted some of the swinging variables around net subscriber value, total value generated, and those come into play more so in 2023 than they do for the balance of the year. You know, that includes impacts from what happens in California, the ITC stepping up to 30%, the interest rate environment. So with -- enough of those uncertainties and you know, I think our focus on, you know, closing out the year strong and having those pricing increases stick, I think we've kind of stayed away at the moment from getting deep into 2023 on the -- guidance.

Philip Shen

Okay. Fair enough. Thanks very much.

Operator

Our next question is from David Peters with Wolfe Research. Please proceed with your question.

David Peters

Yeah. Hey, good afternoon, everybody. Just curious, with respect to the IRA. I think in the past you've said the industry could grow anywhere from 10 to 15% annually over the next several years. And you made the comment in the release about, I think, the incentives turbocharging your growth. Do you have any sense in magnitude at this point or just any thoughts about how much bigger the TAM would get from day one, just in new markets that you could enter where it wasn't quite economic enough before? Thanks.

Edward Fenster

So this is, Ed. I mean, assuming if the IRA were to pass, which we expect it will, I think, you know, TAM could increase from quite -- a few areas, right? There's obviously the base increase in the tax credit. They're also tax credits now available for things or there would be like main panel electric upgrades, which also will make storage more affordable for more people. There are the adders that we discussed earlier on the call, particularly for lower income Americans, but also for other situations. And then also, it's also very -- it's a long-term extension of the credit, which is also helpful. So with those elements and obviously against the backdrop of just rapidly escalating commodity and electricity prices, you know, we think that the opportunity for, you know, robustly quicker growth is significant. We obviously have -- we haven't quantified that yet. And obviously, our -- you know, we want the bill to path and the regulations to be made clear, but.

Mary Powell

Yeah, yeah. Right. Yeah. And Ed, thank you so much. And just to put a point on that, so again, I mean, we're sitting at a place of like really strong growth, surging customer demand, right? And then with a -- you know, potential passage of a bill that is going to encourage more Americans to move faster towards electrification, which means more Americans are going to also want to move faster, not just to the other kinds of -- electrification products we can help them with, but with the ability to generate their own energy that is way more affordable, reliable and, you know, and energy independent. So we really believe, you know, as I said, that we're on the precipice of really some monumental and impactful climate legislation that, again, is going to be felt not just in like the TAM, not just in sort of these very practical ways, but -- seismic waves in terms of the drive towards electrification and -- the surging demand that's going to turbo charge around, you know, the need for -- solar energy.

David Peters

Great. And I appreciate those thoughts. Just one other one. Just back to the net subscriber value. I guess you guys are kind of guiding to exit year around that \$10,000 level, but just how quick can we see that step up just from the higher ITC alone? Again, assuming the bill pass is just, you know, understanding the value of tax equity would be marked up in that calculation, right? What it would it flow through pretty fast or just how should we think about that?

Danny Abajian

Yeah. Yeah. It depends on obviously the legislation and in its current form it is dated to January 1st so that there would be an immediate flow on future installations and then there would be some additional value pick up on the systems we've already placed in service for the year. And that that would show up as a as an impact through our investment funds as well as we calculate the -- tax equity returns with the 26% versus the 30%, I think it will factor in there and have some positive, you know, financing and working capital benefits as well, but should be pretty immediate and apply to systems across the year this year.

David Peters

Thank you. Appreciate it.

Operator

Our next question is from Colin Rusch with Oppenheimer. Please proceed with your question.

Colin Rusch

Thanks so much. I'm just curious about a couple elements on the cycle time. So can you talk a little bit about changes in the sales cycle? And then also in terms of recruiting and training new installation staff?



Danny Abajian

Yeah. Yeah. Can -- what specifically was -- the question on the sales cycle, if you can elaborate on that first one?

Colin Rusch

Yeah. Just the directionality of it, yeah. Are you able to shorten it here with some of the elements that you've been working on with permitting? You know, our customers getting to a point where they're educated enough or they make faster decisions and they are able to get out and install these systems quicker? You know, just --.

Mary Powell

Yeah, 100%.

Colin Rusch

Sure.

Mary Powell

Gotcha. Yeah. So -- in that context, again, I was -- really pleased with the progress we made in this last quarter with really tightening on the cycle time. You know, candidly, it's not so much in the sales process. It's actually, you know, again, with a lot of the COVID related challenges over the last couple of years, it was more -- you know, the cycle time we really focused on was shortening the time from, you know, customer signature to installation. And that's where we have, again, made some -- in this last quarter, we made some real nice headway. But yes, we're seeing as again, you know, as I've talked about before, that we've you know, in my view, we've really already hit this, you know, consumer tipping point where, again, you know, solar is really becoming a way more mainstream to be thinking about and talking about. So in the context of the work that our sales teams are doing, you know, -- it has been really fundamentally dealing with really incredible customer demand. And that part of the process is moving very slow --.

In the context of also I think you mentioned training. You know, again, as you would expect, you know, we definitely have robust training that we have in new employees go through. But one of the things I've also been really impressed with from a labor perspective at Sunrun is we just we continue to remain a highly attractive employer. So we also just seem to have a relatively straightforward time in the context of recruiting and bringing on a lot of new, enthusiastic Sunrunners, where and when we need them.

So we're in a really good position from labor, from the productivity metrics that we're seeing and what we're driving towards in terms of the installation cycles.

Colin Rusch

Fantastic. And then the second question is the conversion rate of the referrals you're getting from Ford. Can you speak to how many or what percentage of those referrals are actually turning into sales for you guys?

Mary Powell

Well, you know, again, it's -- we're early in the process. I think, as I described, you know, when I -- opened, you know, we are talking to literally thousands of customers. And what I also described is, I think right now, again, it's -- super early, but we're like 10% of the of the currently scheduled customers for the bi-directional charging are -- you know, -- have also decided they want to go solar at the same time which

is -- super powerful. And you know, not surprising just because there is such an incredible correlation between those -- between electric vehicle drivers and those who want to go solar. So we're -- expecting to see great continued uptake.

Colin Rusch

Perfect. Thanks a lot, you guys.

Operator

Our next question is from Kashy Harrison with Piper Sandler. Please proceed with your question.

Kashy Harrison

Good afternoon, everyone, and thank you for taking the questions. So I noticed that you disclosed the value -- generation target of a greater than \$900 million. I think there was some also some mention to it in the prepared remarks, and you indicated that is way up relative to 2021. However, corporate cash net and a recourse debt is down about \$215 net of the SK investment from Q1. And so just wondering if you could help us think through the corporate cash trajectory as you -- look into the second half of the year? And I have a follow-up.

Danny Abajian

Yeah. Yeah. The corporate -- cash dynamic for the I think we might have talked on the -- I forget exactly what we said on the last call, but I think the -- enormous growth over the first half of the year was such that it was -- cash consuming on the working capital side as we have increased sequentially by large numbers quarter over quarter. Getting that installation footprint increased and catching up to the demand. You know, we have also mentioned -- the increasing inventory balances we've had to carry over the supply chain situations. So there's been general working capital consumption through the year. And I think quarter over quarter the movement was -- less significant.

Edward Fenster

And this is Ed. I think the one thing we did mention on the prior call, which, you know, continues to be the case, is that, you know, from a cash flow performance, the systems that we originated prior to the quick run up in interest rates that we've now placed in service during the period of higher interest rates, you know, don't meet our, you know, kind of long term desires for cash generation. But as we now transition back to the projects, to installing the projects that we originated after we increased pricing, you know, that is very helpful to the -- cash trajectory as well.

Kashy Harrison

That's helpful context. Thanks. And then as my follow -- up, as you -- contemplate strategies to maximize customer economics, you know, not just in the second half of the year, but just really long term. I was wondering if we can maybe talk a little bit about customer acquisition costs, because that is something that you -- have the ability, the ability to control on like NEM and ITC, etc., you know, looking at where customer acquisition costs are now relative to prior to the Vivint deal, those -- numbers are up a bunch. And so just wondering, is that somewhere where with downturn coming -- on the economy, you can -- maybe bring those down and rapidly improve customer economics, rapidly improve levered cash generation for 2023?

Danny Abajian

Yeah. Yeah. So definitely the dynamics and the economy, you know, particularly as the economy softens, I think that -- could generally be a tailwind to the business on the cost side. And I think that would apply

whether you're talking about equipment, you're talking about input labor on the install side or you're talking about labor on the sale side, you know that that could certainly be a factor that that would be beneficial over time.

You know, we've also seen just the record demand for the product. I think the benefits as we see those tailwinds just from just consumer awareness, adoption, you know, their -- wallets being pinched with rising utility rates and everything else. I think that -- those are generally favorable dynamics to customer acquisition costs. We did see the sales and marketing and our creation cost metric go up quarter over quarter. And that is reflecting because of the way we realize that upon the install to the dynamic Ed mentioned earlier, you are also seeing in our metric some of the sales and marketing costs get realized upon install from systems we originated in Q1 prior to those pricing changes, which should have a beneficial impact over the next period or two.

Mary Powell

Yeah. And I would just add to that. Yes, from a big picture perspective, back to your -- you know, your fundamental question, we are 100% focused in like as we're getting faster, better, stronger in, you know, driving down the cost stack like in every area., Right? And -- at the same time, really, again, dramatically driving up customer experience. So we're -- doing a lot of things around simplifying process and other activities that should, you know, continue to improve the overall profile.

Kashy Harrison

Thank you.

Operator

Our next question is from Sophie Karp with KeyBanc. Please proceed with your question.

Sophie Karp

Hi. Good afternoon and thank you for taking my question here. It's been a long discussion.

Okay. So first, I was curious looking at the net subscriber -- net earning asset -- value, right, and how the trajectory of that metric has tracked in the last 12 months. That's been growing in low single digits, especially if you look at it on a per share basis. And it pretty much goes flat, right?

So do you expect to target that growth and that metric as one of your core targets at some point? Or would you just prefer to focus on, I guess, customer value? I guess what I'm trying to say is like, how should we think about increase in customer value translating into ultimate increase in that earning asset? And is this the right way of looking at the economics of the business?

Danny Abajian

Yeah. Thanks for the question. Yeah. Again, going back to one of my responses to the prior questions in the last couple of quarters, and again, echoing what Ed mentioned, there was that period of time where we had that major increase in volumes, that major increase in interest rates, where we did write a lot of business that had -- impacts to their ultimate unit economics from the financing environment as well as the working capital environment, which we're still kind of working through as we, you know, raise up to the higher volume level over the course of the year. So you also see the related impacts through the metric. The metric is also burdened by the SK investment we've also talked about.

Sophie Karp

So eventually we should see that metric, too, kind of recover to a more robust level of growth.

Danny Abajian

Yeah. So the -- Yeah, we have we have seen a modest pickup between Q1 and Q2. So in the most recent period, there has been a resumption of growth in the metric.

Sophie Karp

Yep. Okay. And then I have a follow-up. So we talked about utility rate inflation and such, and we all know the energy costs are up. Here's my question. So the most recent spike in the utility rates or the rates that we are seeing is to a large degree driven by the spike in energy and fuel prices, right.

Let's say if we -- the economy softens and the energy prices moderate, so the -- we will -- consumers would see a corresponding decline or moderation at least in the utility and growth rate. Is there any risk that some of your most recently underwritten customers could actually see negative savings versus their utility rate if that happens?

Mary Powell

Sorry. Could you repeat the last part of your question?

Sophie Karp

If the utility rates come down because energy prices, let's say, crash in this softening economy, is it possible that some of your most recent customers would see negative savings, so no savings, or maybe paying even more with the solar installation versus the utility rate because they were underwritten in the higher energy cost environment?

Mary Powell

Yeah. Hi, Sophie, it's Mary. Yeah, no, I think that's my -- short answer. You know, again, as a former utility executive for 20 years, you know, fundamentally the fundamental cost drivers of what you're seeing from a utility rate perspective like, yes, you're right, fuel costs were a big part of the driver of a lot of the recent uptake. But what you're also seeing is fundamentally, you know, just really billions of dollars of rate base investment that needs to make its way through the process of being absorbed in rates. You also are seeing, you know, in like as I think about different major markets, we're in like California, you know, you're seeing the effects of climate change and fires and droughts creating, you know, again, unprecedented levels of utility spending, both from a distribution and a transmission perspective. You're also seeing much higher labor costs. You're seeing so many fundamentals that are -- that really take years. Like, you know, even if some of those fundamental's change, which I'm having a hard time seeing what would be driving that change in the short term, you know, you're literally talking about like things that take sort of a decade to work their way through the system.

So even if you had other countervailing positive trends, it would just take an incredibly long time for that to feed through. I mean, where you see the -- you know, where you see fuel prices affect utility rates positively and negatively more quickly is just in power adjusters, right? So in certain parts of the country or in certain states or regions where there's the pass thrus, right? Then you're going to see those really huge upticks that may -- -- be purported as being temporary. But, you know, the reality is they shake customers to their core in the context of price stability. So again, that's a big part of what our customers want. It isn't honestly just the savings as much as it is about the stability. It's about really knowing what the cost is going to be of this really important, essential service and knowing what that's going to be for a given period of time. So I think there's a lot of dynamics. I know, Ed, I don't know if you want to add something to that.

Edward Fenster

Yeah, there are a few things I wanted to add. So in the background, as Mary mentioned, there is this CapEx extravaganza. Utilities nationwide are incurring two and a half times as much CapEx as depreciation. This is why, for instance, in Arizona, you know, over the last half decade, even before the recent rise in energy costs, wholesale power costs fell in half while retail power costs doubled. In addition, retail power costs kind of go up with made off like efficiency, because even if there is a savings on the fuel side, usually someone finds a CapEx experiment to plug the hole.

That said, a lot of the operating cost increases that utilities have already experienced, they have not yet been able to pass through because they get approved in rate cases. So increases in operating costs, increases in capital costs and long term, you know, and increases in long term fuel procurement, you haven't seen actually in rate increases. What you've only really seen in the last six months is the impact from the small portion of energy that utilities kind of buy on the spot market. And so there is this, you know, giant animal that the snake still has to digest in terms of price increases. And then you've also got happening in the background this huge CapEx increase. So I think that the best increase, the best projections for retail rate increases are that they will continue to be, you know, double digit or close to double digit for years, even if you saw wholesale prices moderate or decline --.

Mary Powell

And it's one of the many reasons why we've talked a lot and this company has done so much work on radical collaboration around, you know, really having our assets become a valuable part of how we operate the grid going forward. Because, you know, fundamentally the work we do and the work we're doing around particularly like with Ford, with the bidirectional charger, with solar, with storage, you know, we are in essence creating an opportunity for utilities to have access to smart, controllable load. So as we electrify more -- of, you know, devices and transportation around the country, we could play a really, really critical role in helping utilities and grid operators operate the grid much more cost effectively.

Patrick Jobin

And operator, I think we're going to try to squeeze in two more quick questions if we can. And maybe we -- have folks just do one question and then I think we are out of time.

Operator

Our next question comes from David Niewood with Curator Fun. Please proceed with your question.

David Niewood

Hi, guys. Thanks for taking my question. Very quick question. The -- value proposition to customers has expanded rapidly from just being solar to being solar plus storage plus backup power plus EV and bi-directional and I guess a whole home energy storage, energy service application. You have a very large installed customer base. Have you given thought or how should we think about the potential to upsell existing customers on the expanded offering? And what would that mean for customer acquisition costs and something akin to a refinancing or renewing of a contract that captures renewal value that was somewhat amorphous previously? I hope that question is clear.

Mary Powell

Yeah. Thank you. It's a great question and actually one we're very focused on because, again, you're right. We're really well positioned. We are already for many customers, you know, acting as their -- clean energy company that can help them with the transformation of their -- electric vehicle as well. And 100% I mean, we've actually already seen that in some cases, right, where a customer, you know, already needs to make

their system larger. We definitely see, you know, increased opportunity around system sizes. We absolutely see opportunity to bring, you know, to existing customers, new products and technologies that we're bringing to the market.

So again, we see not just rapid growth in the number of customers that we serve, but also the opportunity to continue to deepen and enrich our relationship with our existing customers. And it's also interesting to think about the fact that, you know, a lot of customers stay in their home, what, on average seven years. So in many cases, we're already seeing cases where we've picked up a new customer because they bought the home of an existing customer who then becomes a new customer again with their new home. So it really -- the expansion opportunities of their relationship are endless. They're limitless in our minds. And, you know, again, that's why I talk a lot about customer obsession and being that beloved, trusted partner for customers all across America in helping them get to that more affordable, clean, independent, smarter energy future.

Edward Fenster

And let me -- I would add to that. You know, we've tested the interest, particularly in retrofit storage is enormous. You know, we -- while we support that for our customers, we haven't marketed it yet given some of the constraints in battery supply. But as those constraints relieve, you know, we would expect to market that and think there's a really enormous opportunity there.

Mary Powell

100%.

Operator

Our final question comes from Joseph Osha with Guggenheim. Please proceed with your question.

Hillary

Hi. This is actually Hillary on for Joe and thanks for squeezing me in here at the end. I just wanted to touch real quickly on storage. And if you could just give us a better sense for where kind of attach rates are and particularly as you work through bringing down those install cycle times, kind of what has to happen and how quickly we might see that stronger adoption rate? Thank you.

Danny Abajian

Yep. Thanks -- for the question. Yeah. So we -- if we look at the demand for storage, I think it far outpaces the supply that we have of batteries. So -- the -- if we look at the volume growth rate in our storage customers that has been robust like far outpacing the overall growth in the business. I think if we look at the tax rate, I don't have the number, the exact number in front of me. It's somewhere in the teens. But also our volumes have been increasing for overall installations at a -- pretty robust pace relative to the amount of battery supply available. So that's been putting downward pressure on the tax rate, but the physical units and the number of customers have been growing at a pretty robust pace.

Mary Powell

Yeah, as we said, we have 42,000 customers with storage. And again, one -- of the largest providers. I think actually the largest provider in the country. You know, no doubt in my mind that, again, you know, the -- there are so many customers that want to go -- with storage, as Ed highlighted already. You know, there's just incredible opportunity to go back to customers, existing customers with storage capabilities as



we again, see the tightening and the tightening that's happened in the market sort of loosen up and free up. So tremendous upside opportunity for us.

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