



## Sunrun Inc. Q3 2016 Earnings Call Script

November 10, 2016

**Lynn**

Good afternoon, everyone.

I am pleased to share with you Sunrun's Q3 financial and operating results. Year to date we have taken market share, expanded our unit-level economics, and have kept our cash balance flat at \$200 million. I'm also pleased to raise our deployment guidance for the full year by 10MW to approximately 285, which reflects our market strength and continuing customer demand for cheaper, cleaner energy. In the quarter, we realized a 43% year over year increase in megawatts deployed, a 53% year over year increase in net present value creation, a 10% year over year improvement in our costs, and an improvement in our already-leading customer satisfaction scores. We have achieved these record results by consistently executing our strategy to build the industry's most satisfied and valuable customer base -- all despite short term retail rate uncertainty and negative investor sentiment. We and our customers will help lead the United States' inevitable transition to clean energy.

As I have said before, the market size and industry fundamentals support a long term annual growth rate of more than 20% percent. And this estimate is informed by only the technology improvements and cost reductions in sight today. In parallel, some of the most important developments supporting rooftop solar over the long-run are being unappreciated by many observers.

First, the regulatory market is evolving positively. Market leaders like California and New York are laying the regulatory foundation for the value provided by distributed solar to enable a lower-cost, modernized grid.

Second, consumers continue to want and demand rooftop solar. As we have been saying for quarters, rooftop solar enjoys strong bipartisan support -- 85% of the public and 84% of Republicans -- so we do not see this election as changing its course. Homeowners go solar as a matter of choice. Furthermore, the investment tax credit has been passed by Republican Congresses, and signed by a Republican President. When it comes to market opportunity,



state level regulations are really what matters. On Tuesday, even as the state voted Republican in the Senate and Presidential elections, Florida voters defeated a ballot measure funded by the utility establishment that spent over \$20 million to slow the growth of rooftop solar; and less than a year after we were forced to exit Nevada, the utility commission has grandfathered existing solar customers; and on Tuesday, Nevada voters had their first chance to respond with a proposed constitutional amendment to establish a competitive retail electricity market and an overwhelming majority voted for energy choice. Perhaps most importantly, the solar industry employs hundreds of thousands of solar workers across the country, adding workers at a rate nearly 12 times faster than the overall economy.

Finally, innovation and cost reductions are happening faster than experts have predicted. We've far surpassed our initial forecast of bookings for our BrightBox solar + PV product with hundreds of orders, and the terms of our supply agreement with LG for batteries would have been unimaginable just a few quarters ago.

As the largest state market, California has been a focus this year. We expect industry growth in California to be approximately 10% in 2016. We are pleased to be taking share in this attractive market, with growth in our Sunrun-managed business that continues to outpace the industry. Our multi-channel approach is showing its strength: close industry observers will know that in California the middle tier of the market representing regional installers has grown this year relative to the long tail, and partnering with regional installers in California and nationally is where we have focused our channel strategy.

Our estimate remains that CA has five times more solar ready homes than currently installed and will continue to be an important market. Over the next two to three years, our Sunrun-managed solar cost declines combined with utility rate increases promise to open new states that can double the number of single family homes in our addressable market. A 20% industry CAGR for 10 years would mean just 15 million solar homes or an estimated 19% of U.S. single family homes at that point, and markets like Australia and Hawaii have already reached this level of penetration proving that consumer interest and housing stock supports it at the right value proposition.



Another positive trend is that the residential solar industry has repositioned to a more stable and healthier model setting the stage for long-term value creation. Especially during this time of industry transition, our consistent execution has become a differentiator. Our access to capital and strong liquidity has enabled us the ability to sell the products that customers want -- whether through PPAs, leases, or for cash. We have also been able to reach more customers by expanding our flexible channel model. As a result, we have grown market share with growth in deployments of 52% year to date even while pruning certain activities to focus on near term cash flow positive efforts. Our strategy of focusing on customer value, driving net present value, leveraging our platform through channel partners, and a low cost, non-recourse, capital structure is delivering strong results.

I will now turn it over to Bob to review our financial performance.

## **Bob**

Thanks, Lynn.

Our strategic focus continues to be creating high net present value over the long run through delivering the industry's most valuable and satisfied customer base.

In Q3 we continued to make solid progress on this objective and against the key financial and operating goals we set for this year.

## **NPV**

For NPV, we achieved \$1.06 per watt in NPV in Q3, and remain on track to meet our goal for the second half of 2016 of achieving our \$1.00 NPV target. This means we would generate about \$140 million in aggregate NPV just in the second half of the year.

NPV is calculated as Project Value less Creation Costs so let's go through each of the components next.

## **Project Value**



Q3 project value of \$4.43 per watt was \$0.18 per watt or 4% below Q2, and within 2% of our average estimate of approximately \$4.50 per watt for this year. As a reminder, project value is very sensitive to modest changes in geographic, channel, and tax equity fund mix. We expect project value will continue to decline slightly over time but costs should decline more although in the short run there can be quarterly fluctuation.

### **Creation Costs**

In Q3, total creation costs were \$3.37 per watt, an improvement of \$0.30 or 8% from Q216 levels. This is slightly ahead of the \$3.46 per watt target we set for year-end described in our Q116 earnings call and within a few percentage points variation we can see on a quarterly basis due to factors like changes in channel partner mix and the timing of fees related to closing additional project finance transactions. We expect Q4 creation costs will meet our target for the year.

As a reminder, our cost stack is not directly comparable to those of peers because of our channel partner business. Blended installation cost per watt, which includes both solar projects deployed by our channel partners, as well as by Sunrun, decreased by \$0.17 from Q2 to \$2.63 per watt. Install costs for systems built by Sunrun improved even more to \$2.01 per watt, a reduction of \$0.26 from Q2 and \$0.34 year-over-year, and is now comparable to other residential solar peers. We are realizing the benefits of several favorable trends mentioned last quarter including higher utilization of Sunrun installation facilities and infrastructure, increased labor efficiency, and lower equipment costs. We expect Sunrun built install costs to be flat in Q4.

In Q3, our sales and marketing costs were \$0.64 per watt, an improvement of \$0.14 or 18% over Q2. This improvement reflects the focus we have previously described on adjusting investment levels and channel mix at the local market level to achieve our near-term net present value goals and optimize for cash flow.

Next, G&A cost per watt declined to \$0.24, a \$0.09 or 27% decrease from Q2. We continue to tightly manage costs in this area, which have been largely flat for the last several quarters, excluding transaction costs for project financings, which we expect to increase in Q4.



Finally, when we calculate creation costs, we subtract the GAAP gross margin contribution realized from our platform services. This includes our distribution, racking, and lead generation businesses as well as solar systems we sell for cash or with a third party loan. We achieved platform services gross margin of \$0.15 per watt, a reduction of 38% or \$0.09 over Q2. This reduction was primarily due to lower cash system deployments in the quarter.

### **Installs**

In the third quarter, deployments were up 43% year-over-year to 80 MW. Through the first three quarters this year we deployed 205 MW, an increase of 52% over the same period last year. We expect to deploy approximately 80 MW in Q4 which would bring us to approximately 285 MW for 2016, which is a slight raise from our most recent guidance of 270 - 280 MW. This implies a 40% annual growth rate and means that we are taking market share.

Our channel partner mix grew in the third quarter and we expect it to remain at a similar level in the fourth quarter. We had previously expected a moderate decline in channel partner deployment mix during the year, but in the current market environment we are seeing more opportunities that are favorable to work with partners while meeting our NPV goals. As we have previously described, this trajectory can fluctuate quarter to quarter since we do not manage to a mix target -- we instead prioritize unit level margin and mutually beneficial outcomes. Our cash and third party loan mix was 10%, somewhat below the 16% in Q2 due to lower deployment volume and the higher channel partner mix which includes only leased systems. We are forecasting cash product mix to be in the low to mid-teens in the near term. As discussed previously, we believe our PPA and lease product mix of over 80% better matches consumer preferences and delivers our customers significant value, which is one of the reasons we have been able to grow faster than the market in 2016.

In Q3, our net bookings were 79 MW, up 5 MW from Q2.

Now let me turn it over to Ed.

**Ed**



Thanks, Bob.

We get a lot of questions on how to value our leased systems -- and we think a good starting point for how to think about it is our upfront non-recourse finance proceeds, which you can calculate from our GAAP financial statements.

We continue to expect total non-recourse proceeds for leased systems of at least 70-75% of reported Project Value.

It's possible we haven't been clear enough about the contemporaneous timing of these receipts, and how close they have come to covering our costs, even with growth. As such, we want to demonstrate that these proceeds can easily be reconstructed and measured using our GAAP financial statements. We lay out how to perform these calculations on Appendix pages 18 and 19 of our quarterly presentation. You'll see that beginning Q1 2016, we simplified our cash flow statement presentation to make the calculation more straightforward. Further detail on how to do the calculation is contained in the Appendix.

Finance proceeds are all non-recourse and from sophisticated lenders who perform significant asset-level diligence and price the risk of their capital at or below 6%. As such, one can safely assume that project value meaningfully exceeds proceeds, no matter what equity discount rate you want to use.

From those slides, you can see that the total components of proceeds sum to about \$902 million over the trailing twelve month period. Since we deployed about 237 leased megawatts during the last 12 months, you can calculate that we received about \$3.81/watt, or actually more than 75% of project value, in proceeds in-period. Because of variations in the timing of proceeds, mix of tax equity and back-leverage facilities and use, and fees, we've set guidance in the range of 70-75%. We do occasionally see more significant variations -- for instance in Q4 2015 (to the low side) and Q1 2016 (to the high side), but that's not typical. We believe GAAP-calculated proceeds represents a fair measure of our ability to generate cash proceeds on a rolling twelve month basis. However, because of the variations I just mentioned, we caution against extrapolating from only one or two quarterly periods.

Project financing continues to be an area of strength for us. Our ability to execute on back-leverage, tax equity, and the growth of our corporate revolver has allowed to us maintain a



relatively flat cash balance of over \$200 million this year. We are sufficiently well positioned not to need to raise further equity capital to achieve our growth plans. Including executed term sheets, we have project finance capacity through approximately Q2 2017.

Finally, I'll close by highlighting that our steady-as-she-goes strategy has allowed us consistently to add to our net earning assets, which have increased 55% year over year. As a reminder, net earning assets is a measure of the value of our solar facilities, after debt, and is further defined in the materials.

With that, I'll turn it back to Lynn for guidance.

**Lynn**

Thanks, Ed.

As Bob mentioned, in Q4, we expect to deploy approximately 80 MW with our focus in the back half continuing to be delivery of \$1 watt in customer net present value.

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

*This script contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, including statements regarding our future financial and operating guidance, operational and financial results such as growth, value creation, MW bookings and deployments, estimates of nominal contracted payments remaining, estimated retained value, project value, estimated creation costs and NPV, and the assumptions related to the calculation of the foregoing metrics, as well as our expectations regarding our growth and financing capacity. The risks and uncertainties that could cause our results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to: the availability of additional financing on acceptable terms; changes in the retail prices of traditional utility generated electricity; changes in policies and regulations including net metering and interconnection limits or caps; the availability of rebates, tax credits and other incentives; the availability of solar*



*panels and other raw materials; our limited operating history, particularly as a new public company; our ability to attract and retain our relationships with third parties, including our solar partners; our ability to meet the covenants in our investment funds and debt facilities; and such other risks identified in the reports that we file with the U.S. Securities and Exchange Commission, or SEC, from time to time. All forward-looking statements in this script are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements.*