



Q4 and FY2018 Earnings Call
February 28, 2019
Prepared Remarks

Forward Looking Statements

Thank you operator, and thank you to those on the call for joining us today.

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 these statements are being made as of today, and we disclaim any obligation to update or revise them.

On the call today are Lynn Jurich, Sunrun's co-founder and CEO, Bob Komin, Sunrun's CFO, and Ed Fenster, Sunrun's co-founder and Executive Chairman.

The presentation today will use slides which are available on our website at investors.sunrun.com.

And now let me turn the call over to Lynn.

LYNN JURICH

Thanks, Patrick.

We are pleased to share with you Sunrun's fourth quarter and full-year financial and operating results along with progress against our strategic priorities.

In the fourth quarter we added more than 14,700 customers representing 115 MW of deployments, again breaking the record for the highest quarterly volume in the company's history. We generated \$116 million of net present value and created NPV per watt of \$1.21 or over \$9,600 per customer.

In 2018, we executed our full-year volume, NPV margin and cash generation targets. We grew deployments over 15% in the year. We added almost 50,000 customers, growing our total customer base by 29% and closed out the year with about 233,000 customers.

We are excited about the year ahead. We are introducing guidance for growth to accelerate in 2019, unit margins to expand further, and cash generation to grow by more than 50% to over \$100 million. These

strong financial and operating results can be achieved while continuing to invest in our customer experience and product leadership.

By the end of 2018 we had installed nearly 5,000 Brightbox™ systems, and we expect Brightbox installations to grow in the triple-digits in 2019. We have already launched the service in eight states and it represents over 10% of our direct business and more than 25% in California. Brightbox provides customers with backup power, ability to manage time-of-use pricing, and offers Sunrun additional revenue streams through energy services. It also protects us against attempts by incumbents to undermine the value of residential solar.

Home Depot Expansion

Today we announced a large expansion with The Home Depot, further demonstrating the advantages of being the category leader. We will offer our solar and Brightbox battery service at Home Depot stores in 15 states, including California. We expect installations arising from the new stores to ramp throughout the year.

Future Architecture of the Grid

As David Wallace-Wells articulates, the slowness of climate change is a fairy tale. Not only is it happening faster than expected, its extreme weather events are destroying the very electric grid we rely on. We need to take action quickly.

Sunrun is helping our country decarbonize through our rapidly growing customer base and pioneering work building the grid architecture of the future. Consumer preferences for clean energy they can control and rapid advancements in battery technology mean that households will increasingly get a major portion of their energy on-site. The available market size, our leadership position, and declining costs support our 200,000+ solar customers turning into millions, independent of regulatory structures. However there is even more opportunity for Sunrun and our country's ability to decarbonize if we advance grid architectures that incorporate the full value these assets can provide. Therefore, we are designing our footprint of energy assets to provide ongoing value to utilities and grid operators, as well as our individual customers. Most importantly this will help us create a 100% clean energy future for Americans and a model for the rest of the world, whether or not you have solar panels on your roof.

Demonstrating our success with these initial efforts, Sunrun won its bid to provide 20 MWs of energy capacity from Sunrun's Brightbox home solar and battery service to ISO New England beginning in 2022. We expect to deliver this capacity from approximately 5,000 New England customers.

Our participation in New England's capacity market is the first time in the United States that home solar and battery storage has directly participated alongside centralized power plants in a wholesale market. This signals a transformational shift away from the traditional, more polluting centralized electricity model, towards a system powered by local clean energy like home solar and batteries.

While the size of the award is small compared to our large and growing customer base, it is meaningful because it suggests the future as utilities and regulators recognize the value our assets can provide to the grid.

This also represents an incremental source of recurring revenue for Sunrun, which would be upside to Customer Values. We conservatively estimate grid services such as the capacity market in New England could represent over \$2,000 in customer NPV. Our market share and density advantages will be an ongoing competitive advantage in accessing these opportunities.

Sustainability

Today we also published our second annual Impact Report. Sunrun is a company that is committed to leading in ESG and sustainability. Our approach is to benefit everyone: our customers, our employees, and the communities in which we operate, as well as our business and financial partners.

I'm proud that Sunrun has prevented 3.7 million metric tons of CO₂. We've also saved households over \$300 million in electricity costs.

A few other key highlights to point out for 2018: we committed to and achieved 100% gender pay parity, we implemented a robust supplier code of conduct, and we committed to developing 100 MWs of solar for affordable multi-family housing over the next decade.

I'll now turn the call over to Bob Komin, our CFO, to review Q4 performance and discuss guidance in more detail.

BOB KOMIN

Thanks, Lynn.

NPV

Customer NPV in the fourth quarter was approximately \$9,600 - or \$1.21 per watt.

For the full year 2018, NPV per watt was \$1.08, in-line with our target levels, despite the headwinds from tax reform and tariffs, with continuing investments in growth and product leadership.

Project Value

Project value per customer was approximately \$34,900 - or \$4.38 per watt in Q4. As a reminder, project value is very sensitive to modest changes in geographic, channel, and tax equity fund mix.

Creation Costs

Turning now to Creation Costs on Slide 9.

In Q4, total Creation Costs were approximately \$25,300 per customer - or \$3.17 per watt. Similar to Project Value, Creation Costs can fluctuate quarter to quarter. Creation Costs per watt were down 4% year-over-year. We expect Creation Costs to show modest declines for the full year 2019 even as we deploy more Brightbox battery systems.

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 the costs of solar projects deployed by our channel partners, as well as installation costs incurred for Sunrun built systems, improved by \$0.13 year-over-year to \$2.48 per watt.

Install costs for systems built by Sunrun were \$1.96 per watt. We expect the adoption rate of Brightbox batteries to continue to increase which will carry a higher per-watt cost, but also a higher Project Value.

In Q4, our sales and marketing costs were \$0.65 per watt. Our total sales and marketing unit costs are calculated by dividing costs in the period by total MWs deployed. A higher mix of direct business results in higher reported sales and marketing cost per watt, but it also means that there will be lower blended installation costs per watt over time due to the higher mix of direct business installations at a lower cost per watt. For the full year 2018 compared to 2017, sales and marketing costs were higher, and blended install costs were lower, by approximately \$0.18 per watt.

In Q4, G&A costs were \$0.22 per watt, a \$0.08, or 28% improvement year-over year, demonstrating the benefits of operating leverage as the market leader.

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 \$0.17 per watt, in-line with recent trends.

Deployments

In the fourth quarter we deployed 115 MWs.

Our cash and third party loan mix was 16% in Q4, also in-line with recent levels. We expect this mix to be in the mid to high teens in 2019.

Financial Statements

Turning now to our balance sheet.

We ended the year with \$304 million in total cash, a \$29 million increase from last quarter. For the full year 2018 we increased our total cash balance by \$63 million without increasing our parent-level debt by monetizing the tax attributes of systems we deployed and raising project-level non-recourse debt, which is solely secured by cash flows from the underlying systems.

We expect cash generation to increase to over \$100 million in 2019. Quarterly cash generation can fluctuate due to the timing of project finance activities, but this represents our best view based on our plans for the year.

We define cash generation as the change in our total cash less the change in recourse debt. Also please note that our cash generation outlook excludes any strategic opportunities beyond our current plans, along with ITC safe harboring activities which we may undertake.

You'll note the net income to Sunrun was slightly negative in the quarter but positive for the year. We expect net income will also be positive for the full-year 2019.

Guidance

Moving on to guidance on Slide 10.

We are issuing full-year guidance of 16 to 18% growth in deployments and increasing unit economics of \$1.10 per watt or greater in NPV. In the first quarter, we expect deployments to be in a range of 83 to 85 MWs.

Now let me turn it over to Ed.

EDWARD FENSTER

Thanks, Bob.

Today I plan to recap our December asset-backed security issuance and discuss our capital strategy for 2019. I will also review Net Earning Assets and capital runway.

Over the last decade, strong asset performance has led the cost of capital for residential solar assets to improve steadily. That said, general market turbulence in November and December, when we priced our \$322 million ABS transaction, bucked the trend a little. Despite the imperfect market conditions, we are

pleased to have exceeded our cash guidance for 2018. Although the cost of debt wasn't all that we had hoped, we achieved a lower yield, and a substantially higher advance rate, than the other residential solar lease securitization in-market at the time. The print suggests that our capital cost advantage versus competitors is amplified during imperfect market conditions. A first for the industry, our transaction is also fully amortizing and, in about five years, callable, thereby both reducing risk and preserving refinancing upside for the future. The note priced at a yield of 5.55%, but by January had already traded up in the secondary market to a yield of 5.16%, and market conditions continue to improve.

In December, we also closed a subordinated loan against the same asset pool as the ABS transaction. This loan is similar in nature to the National Grid project equity transaction, but structured as non-recourse debt. The loan is callable after the underlying tax equity funds flip, affording us refinancing upside at that time. The total advance through tax equity, the ABS transaction, and this subordinated loan implies an advance against 20-Year Project Value in the 95%-100% range, consistent with our prior comments.

Looking forward, we still see the opportunity for higher advance rates and lower capital costs when refinancing seasoned assets. We expect to execute such a transaction by mid-year.

For the full-year 2019, we remain confident we can achieve more than \$100 million in cash flow. We also expect that number can grow in years to come. I note this view of our free cash flow is presented before considering the impact of any inventory pre-purchasing we may do to preserve access to the investment tax credit at a 30% rate into 2020 and beyond, given the high expected return on capital associated with such a purchase.

As the year progresses and our financing plans take firmer shape, we will update our outlook for cash generation accordingly.

Net Earning Assets

Moving to slide 11, at quarter end, Net Earning Assets was \$1.4 billion, an increase of \$222 million, or 19%, year over year. Cash was \$304 million, an increase of \$63 million, or 26%, year over year.

Net Earning Assets is our way to describe the value of the cash flows to Sunrun shareholders after payments to financing counterparties.

Capital Runway

Turning finally to our pipeline, our debt and tax equity capital commitments already provide us runway well into Q3.

With that, I'll turn the call back over to Lynn.

LYNN JURICH

Thanks Ed.

Let's please open the line for questions.

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 market leadership, competitive advantages, investments, market adoption rates, our future financial and operating guidance, operational and financial results such as growth, value creation, cash generation, MW deployed, estimates of gross and net earning assets, 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, ability to execute on financing transactions and our strategic partnerships with Comcast and National Grid. 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 interest rates; 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.