Q3 2021 Earnings Call

November 4, 2021

Prepared Remarks

PATRICK JOBIN

Forward Looking Statements

Thank you operator.

Before we begin, please note that certain remarks we will make on this call constitute forward-looking statements. Although we believe these statements reflect our best judgment based on factors currently known to us, actual results may differ materially and adversely. Please refer to the Company's filings with the SEC for a more inclusive discussion of risks and other factors that may cause our actual results to differ from projections made in any forward-looking statements. Please also note these statements are being made as of today, and we disclaim any obligation to update or revise them.

On the call today are Mary Powell, Sunrun's CEO; Ed Fenster, Sunrun's co-founder and co-executive chair; and Tom vonReichbauer, Sunrun's CFO.

Following the prepared remarks we will conduct a question and answer session. We ask that you limit yourself to just one question so we can take as many questions from participants as the scheduled time allows.

And now let me turn the call over to Mary.

MARY POWELL

Thank you, Patrick.

Hi, I am so pleased to be speaking to all of you today on my first quarterly call as CEO of this industry leading transformational company. While I am only just a couple of months into the role, my excitement for all we have, and will, accomplish to accelerate the customer-led revolution to distributed energy is building in intensity. In my first months, I have particularly enjoyed working directly in the field with our customer facing teams, our dedicated installation crews, our partners and, most importantly, with our customers.

First, I will touch on our performance in the quarter, and then I will discuss my priorities for the company in the months ahead.

The Sunrun team delivered a strong third quarter, growing our customer base by over 30 thousand customers, reflecting an 18% growth of Solar Energy Capacity Installed compared to the prior quarter. We continue to see very strong sales activities as well, with more than 20% sequential growth in customer orders.

Our volumes included records in our new homes business, our channel partner business, and our direct business. We also set records again with our highest battery installations in Q3, achieving more than 100% year-over-year growth, providing what customers want to power through grid outages and to optimize when and how they consume energy. This is an incredibly powerful accomplishment and bodes incredibly well for our work going forward on dramatically advancing whole home electrification.

We continue to expect 30% growth in new Solar Energy Capacity Installed this year, as the team continues to execute and homeowners demand clean, affordable energy options. Importantly, we delivered a strong

improvement in our Net Subscriber Value, which increased over $2,000 sequentially, and we expect to report even higher Net Subscriber Values again in Q4.

As many of you know, the industry continues to navigate a very dynamic supply chain environment, with higher logistics and material costs, in addition to continued tightness on battery supply. This is why I am so pleased that Sunrun was able to onboard a third battery supplier, and we are seeing that tightness gradually improve for our customers. As everyone in the industry is facing these cost increases, and limitations on battery availability, we have selectively, and modestly, raised prices several times during the quarter to mitigate some of these effects. That said, it is important to put these price increases in the context of utility rates which are continuing to escalate at a rapid pace, which means our value proposition continues to grow, particularly when you consider that we offer a form of resilience that customers are demanding, and utilities simply aren't able to provide.

I am filled with optimism and hope simply because today, we have the tools to address the climatic challenges and provide customers with clean, affordable and resilient energy, which the centralized 'grandpa's grid' simply cannot do. Our electric grid system is failing more frequently and fundamentally not built for the changing climate. Sunrun's mission of creating a planet run by the sun is more critical today than ever before.

We've made lots of progress to-date --- Sunrun has built a large base of over 630,000 customers and leads the market with our accessible solar and storage service offerings. We are operating at a scale that is 2 times larger than our nearest competitor, which drives more efficiency and value creation opportunities. We are investing heavily to differentiate further and build the brand customers think of to not just power their homes, but to transform their lives.

Sunrun has now installed over 28,000 solar and battery systems nationwide, which offer homeowners the ability to power through multi-day outages with clean and reliable home energy. Solar and battery systems also optimize when power is purchased or supplied to the grid, helping to manage constraints on the grid during peak times.

We are starting to network these batteries together to form virtual power plants, which generates incremental recurring revenue and offers an enhanced customer value proposition, further differentiating Sunrun's offering from companies that lack the scale, network density, and the technical capabilities necessary to serve this market. Sunrun has forged 12 virtual power plant awards to-date and has a pipeline of more than $75 million in revenue. We expect to convert more of this pipeline in the quarters ahead and show how valuable distributed resources can be to solve challenges the traditional energy system faces. I believe NOW is the time for *radical collaboration* with incumbent players; moving faster together we can solve challenges they face through this modern thinking about how to manage the grid.

We continue to be excited about our partnership with Ford and expect meaningful flywheel effects from the widespread adoption of electric vehicles. As we have noted in the past, the adoption of electric vehicles provides meaningful tailwinds to our business -- consumers want to charge their cars with clean, affordable energy and often consider a solar and battery system when they make the switch to an EV; it also provides us the opportunity to increase the size of systems, which can carry high incremental margins and bring even more value to customers. We believe we are well on our way as the leader in the nation on distributed energy, paired with a clear strategy to be a trusted partner on whole home electrification.

To sum it up, I am very excited about our progress thus far, the path we are on, and the opportunities in front of us. I believe 2022 will be another break-out year for Sunrun, with above-market, sustainable growth, accelerating investments in innovation and driving continued differentiation by launching more whole-home electrification offerings. I also believe that our leading scale, operating discipline and strong capital markets will enable us to generate significant value for our stakeholders. We'll provide more specifics as we finalize our 2022 plan and see what emerges from DC.

Before I turn the call over to Ed and Tom, I'd really like to thank our employees, our customers and our partners for their contributions to our success and for their dedication to our mission.

Over to you, Ed.

EDWARD FENSTER

Thanks, Mary.

We continue to exceed our own expectations in capital markets execution, and today I will provide an update on our progress and strategy. I will also touch on a couple policy matters.

Capital Markets
As we discussed last quarter, we have decided principally to pursue a strategy that will drive near-term cash generation using non-recourse debt.

I have been saying for years that cost-of-capital in residential solar transactions should be lower than in utility-scale transactions. I concluded this because the diversity of customer, equipment, location, and regulations in a residential solar transaction make for less risk than in utility-scale transactions, which lack diversity and typically include a single customer with a weak investment-grade credit rating. In addition, Sunrun finances billions of dollars against the same form contract, whereas utility-scale transactions are all bespoke, and so more costly for lenders to review.

This quarter, we made my vision a reality, at least in the senior debt market, where we priced an asset backed security at a spread to the benchmark swap rate of 120 basis points. Recent senior loans in the utility-scale solar, wind, and storage markets have been pricing at spreads between 125 and 175.

We also made significant progress reducing the cost of our subordinated capital. In this transaction, we achieved interest rate savings of 20%-33% as compared to recent transactions. However, we still have significant room for interest rate reduction before our subordinated capital under-prices utility-scale transactions, which I ultimately predict it will.

The all-in proceeds on this transaction significantly exceeded 100% of contracted subscriber value, when measured using a 5% discount rate. The transaction included both newly-placed-in-service assets and seasoned assets, and we estimate the advance rate on the newly-placed-in-service assets was slightly more than 100% of contracted subscriber value. This result is above the high end of the 95-100% range we forecast on the last call. We continue to believe 95 to 100% of contracted subscriber value is a good rule of thumb to use in cash flow forecasting of newly placed-in-service assets. This level of proceeds is well in excess of our fully-burdened costs, so we do not need to execute equity or equity-linked financings to fund our strong ongoing customer growth, despite the fact we are incurring billions in capital expenditures and operating costs. The portion of the assets in this transaction that were seasoned received an advance rate well in excess of the newly-placed-in-service assets, raising the average advance rate on the overall transaction. This result is a further proof point of the cash flows available to us upon refinancing seasoned assets.

Last month we also expanded our warehouse facility to support continued growth while also lowering the cost of financing. We increased our non-recourse warehouse lending facility to $1.8 billion in commitments, an increase of $1 billion, while also reducing the interest cost to a spread of 200 basis points over LIBOR.

Cash flow in Q3 was reduced by two factors, one temporary and one permanent. First, in connection with the retirement of our old warehouse facility, we settled several out-of-the-money interest rate swaps, many of which we entered into during 2018. As a reminder, our strategy is to enter into interest-rate swaps to mitigate the impact of interest rate fluctuations on our business. Because rates were higher in 2018, this swap termination resulted in a cash outflow of approximately $45 million. Because we do not include swap mark-to-market in our Net Earning Assets (NEA) calculation, this unusual repayment created a dollar-for-dollar headwind to NEA in the quarter. In addition, we made two draws on the new subordinated debt placement, one in Q3 and the other in Q4.

While the transactions we executed in Q3 serve as proof-points that our large scale affords us access to the lowest cost capital in the industry, the same large ticket sizes that afford us this advantage also make

our free cash flow generation a little lumpy. Over the near term, cash flow generation may also be non-linear due to investments in working capital. However, under this financing strategy, over several quarters, and especially next year, the cash flow generation of the business should be substantial.

Capital Runway
We continue to maintain a robust project finance runway.

As of November 4th, closed transactions and executed term sheets provide us expected tax equity and project debt capacity to fund over 270 MW for Subscribers beyond what was deployed through the third quarter.

Policy
Given likely tax law changes in the reconciliation bill, which is currently being discussed in Congress, we are advancing a handful of additional transactions without formal term sheets. This is because the proposed tax law changes, once finalized, will require modifications to financing structure and terms, and likely expand our business strategy. Including these advanced-stage discussions in our runway would add about two quarters' worth of additional tax equity capacity. Key among the considerations are an increase in the investment tax credit from 26% to 30%, a potential additional 10% to 20% credit for systems deployed in certain census tracts or to certain multi-family buildings, and direct pay.

In local policy news, the Arizona Commerce Commission voted last week to eliminate the existing Grid Access Charge for solar customers, improving the economics of rooftop solar in the state by about $90 per year. We and others argued, and the commission agreed, that the cost of service for solar customers does not warrant an incremental fixed fee. Despite the data, Arizona Public Service, the local investor-owned utility, has advocated for fees as high as $288 per year. Also interesting is that the approved regulated rate of return for Arizona Public Service is 8.7%, compared to the California utilities' requests of about 12%. Especially in this low-interest-rate environment where expected equity returns for GDP growth companies are in the mid-to-high single digits, a comparison of these ROEs underscores that if there is a cost shift in the state of California, it is from ratepayers to utility stockholders.

I'll now turn the call over to Tom.

TOM VONREICHBAUER

Thanks, Ed.

Throughout the third quarter we made continued progress on our integration with Vivint Solar and navigated a dynamic operating environment. We delivered solid results, posting strong volume growth and a significant rebound in our reported Net Subscriber Values while also marking another quarter of growing our cash balance. Importantly, we are able to reiterate our strong 30% growth outlook for the year and deliver meaningful Total Value Generated for the full year.

Volumes

Turning first to volumes.

In the third quarter, Customer Additions were approximately 30,700, including approximately 24,800 Subscriber Additions.

Solar Energy Capacity Installed was 219 Megawatts in the third quarter of 2021, an 18% increase from the second quarter this year, and a 40% increase from the third quarter of last year, pro-forma to include Vivint Solar.

We continued to experience strong customer demand for our products and services in Q3, with sales growth outpacing install growth, but the gap between sales and installs was narrowed meaningfully vs what we experienced in the second quarter. Installation growth was strong across all of our channels, with

double digit install growth rates vs prior year in every route to market. There was notable strength in our direct and new homes businesses in the quarter.

Our continued customer additions offer us the opportunity to upsell additional products and services over time, such as battery retrofits, EV chargers, re-powered or expanded systems, and home energy management offerings. Additionally, increasing our total fleet of assets helps unlock valuable opportunities to grow our virtual power plant business. To this point, the inability of a small competitor to perform created an opportunity to add approximately 2,000 customers, or 13 MW, to this quarter's growth in our fleet of solar systems. While such opportunities may present themselves again in the future, we do not expect more in the near-term, but will evaluate future opportunities to further consolidate the industry and grow our customer base if they arise.

Installation volumes and attachment rates of batteries have increased again in Q3 to record levels. We continue to expect battery installations to increase more than 100% in 2021 compared to the prior year, although battery supply and logistics constraints have lowered our expected battery volumes meaningfully in the near-term compared to our prior outlook.

Our Networked Solar Energy Capacity was 4.5 Gigawatts at the end of Q3, an increase of 20% compared to the prior year, also pro-forma to include Vivint Solar.

We ended Q3 with approximately 630,000 Customers and nearly 546,000 Subscribers. Our Subscribers generate significant, recurring revenue with most under 20 or 25 year contracts for the clean energy we provide. At the end of Q3, our Annual Recurring Revenue, or ARR, stood at $787 million with an average contract life remaining of over 17 years.

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

In Q3, Subscriber Value was approximately $35,700 and Creation Cost was approximately $28,100, delivering a Net Subscriber Value of approximately $7,600. This represents a significant increase of over $2,000 from last quarter, as we expected, as we narrowed the gap between sales activities and installation activities.

Total Value Generated, which is the Net Subscriber Value multiplied by the number of Subscriber Additions in the period, was $189 million in the third quarter.

Gross and Net Earning Assets, Cash Balance

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

Gross Earning Assets were $9.2 billion at the end of the third quarter. Gross Earnings Assets is the measure of cash flows we expect to receive from customers over time, net of distributions to tax equity partners in partnership-flip structures, project equity financing partners, and operating & maintenance expenses, discounted at a 5% unlevered WACC.

Net Earnings Assets were $4.5 billion at the end of the third quarter, an increase of over $86 million from the second quarter. Net Earning Assets is Gross Earning Assets, plus cash, less all debt.

We ended the third quarter with $941 million in total cash, an increase of $84 million from the prior quarter.

Outlook

Turning now to our outlook.

The current federal investment tax credit proposals for higher incentive levels in 2022 creates some uncertainty around volumes at year-end, but we continue to forecast Solar Energy Capacity Installed growth of 30% for the full year 2021, consistent with our prior guidance.

Total Value Generated is now expected to be around $700 million for the full year, owing to higher material and logistics costs, continued strong sales growth, and a lower mix of margin-accretive battery installations in Q4 than we had previously expected given the current supply chain environment. We continue to monitor the global supply chain and related regulatory environment, which could cause headwinds to the solar industry and global economy; however, we think we are well positioned to weather current conditions.

We forecast Net Subscriber Values will be higher in Q4 than Q3, which already saw a strong increase from Q2. As the difference between sales activities and installation activities normalizes, our battery mix increases, recent price adjustments are reflected in installations, and as we realize more synergies from the Vivint Solar acquisition, we expect Net Subscriber Values to be strong in 2022.

We continue to estimate cost synergies derived from the acquisition of Vivint Solar to be approximately $120 million in run-rate synergies exiting this year.

While 2021 is not yet over, the work we've undertaken this year to integrate Vivint Solar into our operations, realize valuable cost synergies from that transaction, invest in our growth and competitive positioning across all routes to market, and extend our leadership in project-based financing capabilities has set us up for another excellent year in 2022. We believe we are well positioned for strong, above-market volume growth and healthy net subscriber values, resulting in meaningful cash generation -- likely more than $300 million in 2022. We anticipate sharing more details on our specific 2022 volume, margin and cash generation outlook on the Q4 conference call in February. We will also share more details about how we will approach our capital structure strategy to optimize shareholder returns, at that time.

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

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Forward Looking Statements

This communication contains forward-looking statements related to Sunrun (the "Company") within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements related to: the impact of COVID-19 on the Company and its business and operations; the Company's leadership team and talent development; the Company's financial and operating guidance and expectations; the Company's business plan, trajectory and expectations heading into 2022, market leadership, competitive advantages, operational and financial results and metrics (and the assumptions related to the calculation of such metrics); the Company's momentum in the company's business strategies, expectations regarding market share, total addressable market, customer value proposition, market penetration, financing activities, financing capacity, product mix, and ability to manage cash flow and liquidity; the growth of the solar industry; the Company's ability to manage suppliers, inventory, and workforce; supply chains and regulatory impacts affecting supply chains; factors outside of the Company's control such as macroeconomic trends, public health emergencies, natural disasters, and the impacts of climate change; the legislative and regulatory environment of the solar industry; expectations regarding the Company's storage and energy services businesses, the Company's acquisition of Vivint Solar (including cost synergies), anticipated emissions reductions due to utilization of the Company's solar systems; expectations regarding the growth of home electrification, electric vehicles, virtual power plants, and distributed energy resources. These statements are not guarantees of future performance; they reflect the Company's current views with respect to future events and are based on assumptions and estimates and are subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements. The risks and uncertainties that could cause the Company's results to differ materially from those expressed or implied by such forward-looking statements include: the impact of COVID-19 on the Company's operations; the Company's continued ability to manage costs and compete effectively; the availability of additional financing on acceptable terms; worldwide economic conditions, including slow or negative growth rates; rising interest rates; changes in policies and regulations, including net metering and interconnection limits or caps and

licensing restrictions; the Company's ability to attract and retain the Company's solar partners; supply chain risks and associated costs; the successful integration of Vivint Solar; realizing the anticipated benefits of past or future investments, strategic transactions, or acquisitions, and integrating those acquisitions; the Company's leadership team and ability to retract and retain key employees; changes in the retail prices of traditional utility generated electricity; the availability of rebates, tax credits and other incentives; the availability of solar panels, batteries, and other components and raw materials; the Company's business plan and the Company's ability to effectively manage the Company's growth and labor constraints; the Company's ability to meet the covenants in the Company's investment funds and debt facilities; factors impacting the solar industry generally, and such other risks and uncertainties identified in the reports that we file with the U.S. Securities and Exchange Commission from time to time. All forward-looking statements used herein are based on information available to us as of the date hereof, and we assume no obligation to update publicly these forward-looking statements for any reason, except as required by law.