



Q1 2022 Earnings Call May 4, 2022 Transcript

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Presenters

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

Q&A Participants

Brian Lee - Goldman Sachs
Julien Dumoulin-Smith - Bank of America
Kashy Harrison - Piper Sandler
Maheep Mandloi - Credit Suisse
Joseph Osha - Guggenheim Partners
Mark Strouse - JPMorgan
Andrew Percoco - Morgan Stanley
Philip Shen - ROTH Capital
Ameet Thakkar - BMO Capital Markets
David Peters - Wolfe Research

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; Tom vonReichbauer, Sunrun's CFO; and Ed Fenster, Sunrun's co-founder and co-executive chair.

Following the prepared remarks we will conduct a question and answer session.

And now let me turn the call over to Mary.



MARY POWELL

Thank you, Patrick.

Hi, it's wonderful to connect with all of you again today on what Sunrun has been up to in the last quarter. It's hard to believe it has only been about two months since our Q4 call because we have been incredibly active, and I am pleased to say we have a lot of positive developments to share.

I am encouraged and excited about the progress we are making as a leading provider of clean energy. With climate-related events becoming more urgent daily, our passion and optimism about our purpose and our ability to lead a distributed clean energy revolution has never been stronger.

Bottom line is we delivered results in Q1 that beat our expectations. We added over 29,000 customers in Q1, representing over 213 megawatts of Solar Energy Capacity Installed, a 27% increase from last year, and well above our guidance. We delivered a Net Subscriber Margin of over \$7,100, which was also slightly above guidance with an increase from last quarter.

I want to cover a few topics today before I turn the call over to Tom and Ed for their quarterly updates.

First, customer demand remains incredibly strong, and Sunrun is growing at a rapid rate. We are also achieving these growth levels at a scale that is 2x our nearest competitor, while innovating and continuing to generate value from the combination of the two companies. Our customer orders grew 39% compared to last year, outpacing our still-impressive robust installation growth of 27%. These strong demand trends resulted in expected growth in our backlog of customers. We are working strategically and expeditiously to ramp our installation capacity, both internally and with our partners. We are seeing strong improvements in our internal installation capabilities and feel blessed to have some of the longest standing channel partner relationships in the business, which are strategic and valuable for not just the incredible reach they provide in the market but also for meeting additional customer demand. I fundamentally believe we are at a tipping point of adoption -- where clean energy is no longer seen as a novel concept but something customers are demanding. Customers see escalating energy costs and a lack of reliable power all around them and they want the security and peace of mind that comes with energy independence. Climate change and geopolitical issues are now affecting the daily lives of so many consumers, accelerating what I have always seen as a looming consumer led revolution to a cleaner more decentralized energy future, one that is customer centric and can incorporate the more reliable, localized, and innovative way consumers are thinking about powering their vehicles and home - from their rooftops.

Second, we are quickly adapting to the world around us. Material costs and interest rates have increased and we have taken fast and effective action to adjust to these industry-wide dynamics, in a way that will make us faster, better and stronger. We recently increased prices across most markets, with flexibility granted to us by double digit utility rate inflation around us. These pricing adjustments will lead to considerable increases in Subscriber Values and can help mitigate the recent cost pressures faced by our industry. You can see in the accompanying slide deck that the customer additions to our backlog following this price change and other changes we have made are coming at much higher Subscriber Values, which we expect to realize over the coming quarters, given the size of our backlog and cycle times, which vary by market.

Third, we are continuing our focus on innovation. We have now deployed over 37,000 residential batteries -- far more than any other energy company -- and are networking these batteries together to form virtual power plants in many markets. While it takes time to enter new markets and show how valuable dispatchable, distributed energy resources are for the grid, at a certain point I believe it will become self-evident to traditional utility companies and grid operators that they need to partner with us and our growing customer base. As utilities start to realize the resiliency value we can offer to the grid and their customers, regulators will undoubtedly push them to do so as well. There is no quicker way to get to a more affordable resilient grid than by embracing the rapid adoption of distributed resources.



Our partnership with Ford is on track and poised for exciting things in the very near future. Ford launched production of the F150 Lightning last week, and Sunrun is now in the process of connecting with customers to facilitate the installation of the Charge Station Pro and the Home Integration System along with providing options for solar and battery systems in participating markets. Over the next few months, Sunrun expects to install thousands of these systems for F150 Lightning customers, and we will provide an update on the realized benefits of the partnership later this summer.

During the quarter we also invested an incremental \$75 million in equity into the venture we co-established with SK. The venture is making significant progress and expects to unveil powerful new technology by the end of 2022 with commercialization expected this year or early 2023. Sunrun currently owns approximately 37% of the venture and has preferential access to the technology being deployed. Sunrun expects the differentiated products and services will accelerate Sunrun's business and expand the customer value proposition considerably. I am incredibly excited by the unique product offerings we will have for Sunrun customers through this partnership.

Fourth, we have a strong team and we're moving fast. I am leveraging my experience transforming companies and finding ways we can make Sunrun even faster, better and stronger, adding to the foundation that has been put in place. Over the last few months, we have collapsed several layers of management structures in various parts of the business to ensure we operate nimbly and can share information and learnings from our branches and from our customers in the fastest, most streamlined way possible. We have also taken actions to expand certain areas of the business while reducing investments in others; for instance, we opted to transition a few of our sub-scale branches to a channel-partner driven go-to-market strategy and took decisive action to walk away from aspects of markets that fundamentally weren't hitting our return thresholds. We also refined our approach to pricing home-upgrade projects and increased our investment in our customer-facing teams. With this change we are now achieving customer care agent answer times of 10 seconds on average when a customer calls with an issue -- this is a big improvement from where we were in Q4 at about 3 minutes.

We are always innovating and finding new opportunities for improvement, but these are a few examples of the kinds of investments we are making to make the company stronger. All of these changes were made with a laser focus on customers and the culture of customer obsession we are building together. I firmly believe that the more focused and deliberate we can be in our go-to-market strategies and organizational structure, the faster we can grow, innovate and respond to the needs of our customers and the communities we serve.

CFO Transition

Today we are also announcing that, effective May 30th, Danny Abajian will succeed Tom vonReichbauer as our CFO. Danny currently oversees Sunrun's project finance group, where he has produced significant results for the company for nearly 12 years. He is a talented, driven and passionate member of the Sunrun team who brings a wealth of experience and knowledge to the CFO role. I look forward to partnering with him for the next chapter in Sunrun's journey as he leads a combined project finance and corporate finance team. Tom, who has been our CFO for the last two years, will be leaving Sunrun to pursue another opportunity at a private technology company outside of our industry. I am so grateful for the partnership with Tom over the last two years, a period which included transformational changes with the acquisition of Vivint Solar and rapid growth - while navigating the challenges of COVID. Tom will remain in a consulting capacity to ensure a smooth transition for the next four months, and we wish him all the best in his future endeavors.

Closing Comments

Last, but certainly not least, before I turn the call over to Tom and Ed I want to thank our team for their hard work. Every time I am in a branch location or out in the field with our team, I am inspired by their passion, ingenuity, and willingness to take on challenges. My mantra is delivering on our customer obsession faster, better, stronger, and I am proud of Sunrun's team who is embracing this opportunity to maximize our impact for our customers, investors and the communities we serve. In addition to thanking our amazing



employees, I also want to express my sincerest gratitude to our customers; they are the ones transforming our country's energy system and helping to solve climate change, one home at a time, at a very rapid pace, it is an honor to serve them.

Over to you, Tom, and again, thank you so much for your service to Sunrun, and our planet.

TOM VONREICHBAUER

Thanks, Mary.

It has been a privilege to get to work with you and so many talented and passionate Sunrunners over the last two years, and I look forward to following the company's continued success.

Turning to the results for the quarter.

Volumes

In the first quarter, Customer Additions were approximately 29,500, including approximately 22,000 Subscriber Additions. Solar Energy Capacity Installed was 213 Megawatts in the first quarter of 2022, a 27% increase from the same quarter last year, which exceeded the guidance we provided of 195 to 200 Megawatts.

We saw strong customer demand for our products and services in Q1, continuing a trend we saw throughout 2021. Customer orders increased by 39% in the quarter compared to the prior year, outpacing installations, leading to a growing backlog. While this sets us up for continued strong deployment growth, the mismatch between sales and installation activities creates a drag on reported financial performance, as we have been highlighting over the last few quarters.

We have now installed over 37,000 batteries, and we expect battery installations to increase by more than 50% in 2022, which is twice the growth rate of overall solar installations. While battery availability constraints continue, and supply chains remain dynamic, we expect to ramp up battery installations considerably in the quarters to come as supply increases.

We ended Q1 with approximately 690,000 Customers and nearly 589,000 Subscribers, representing 4.9 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 Q1, our Annual Recurring Revenue, or ARR, stood at \$883 million with an average contract life remaining of over 17 years.

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

In Q1, Subscriber Value was approximately \$37,000 and Creation Cost was approximately \$29,900, delivering a Net Subscriber Value of over \$7,100.

Total Value Generated, which is the Net Subscriber Value multiplied by the number of Subscriber Additions in the period, was \$151 million in the first quarter.

This result was slightly above the outlook we provided last quarter, as we noted the continued effects of COVID on reduced installation capacity and knock-on effects for crew productivity in early Q1, and continued fast growth in orders. While demand has been incredibly strong over the last few quarters and our backlog has grown, we believe in our ability to scale fulfillment capabilities to serve this backlog as we move through 2022.

As Mary mentioned, we adapted to changes in our underlying cost environment - both on higher material costs and capital costs - by increasing prices across our markets with some markets seeing double digit increases. The underlying utility rate inflation that our customers are experiencing is inline with these



pricing changes, and in many cases, utility rates are rising even faster, creating an opportunity for price increases without impairing the savings component of our customer value proposition. As you can see on slide 9, this is having a significant impact on the Subscriber Values we are adding to our backlog, increasing by over \$3,000 per Subscriber. As we work through the backlog over the coming quarters, you'll start to see this flow through our reported Subscriber Value once installed, offsetting many of the cost pressures the industry is facing and delivering Net Subscriber Values of more than \$10,000 in the third quarter of this year.

We are strategically optimizing overall sales activities and revising our policies on pricing and product mix in certain markets. These moves are already producing positive results.

Gross and Net Earning Assets. Cash Balance

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

Gross Earning Assets were \$10.2 billion at the end of the first 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 capital cost.

Net Earnings Assets were \$4.5 billion at the end of the first quarter, an increase of over \$200 million from the prior year but a reduction of around \$150 million compared to the fourth quarter. Net Earning Assets is Gross Earning Assets, plus cash, less all debt. The sequential decline is primarily due to the \$75 million investment in the venture with SK, the continued consumption of working capital given the strong sales activities and growing backlog, and our decision to maintain strong inventory positions in the face of a dynamic supply chain environment.

We ended the quarter with \$863 million in total cash.

Outlook

Turning now to our outlook.

The strong customer demand we continue to see and success increasing our fulfillment capacity gives us confidence to revise our full-year guidance to over 25% year-over-year growth in Solar Energy Capacity Installed.

Consistent with last quarter's guidance, the volatile interest rate environment, pending California net metering policy, and proposals in Congress to extend and/or increase the investment tax credit limit our ability to provide 2022 guidance for Total Value Generated and cash generation. Due to the rapid rise in interest rates, we now expect the projects we originated prior to the recent pricing changes to generate less proceeds than previously anticipated. The opportunity to build a large California backlog, or further changes to interest rates, and the resulting timing of project finance activities, could result in meaningful swings in Total Value Generated and cash generation in either direction. We currently forecast Total Value Generated for the full year 2022 will grow meaningfully faster than volumes and that Net Subscriber Values will increase sequentially throughout the year; as I mentioned earlier, we expect to deliver Net Subscriber Values above \$10,000 in Q3.

For the second quarter, we expect Solar Energy Capacity Installed to be in a range of 235 to 245 megawatts, which reflects more than 12% sequential growth and more than 25% year-over-year growth at the midpoint, well on track for our increased annual outlook.

Now, I'll turn it over to Ed.

EDWARD FENSTER



Thanks, Tom.

I want to echo Mary's appreciation of Tom's contributions and also to share my excitement for Danny's promotion to CFO. I've worked shoulder-to-shoulder with Danny for over a decade and know he is the right person for this role. His knowledge of Sunrun and his finance capabilities are unparalleled. In his nearly 12 years at the Company, Danny has also pinch hit in several other areas, for instance in corporate planning and M&A. He was instrumental to our convertible debt offering as well. Following Danny's ascension to CFO, Stewart Bewley will lead project finance and report to Danny directly. I have been looking forward to Danny having this opportunity, and I am very excited to see him open this next chapter.

Today I will discuss the impacts of increases in inflation and interest rates on the Company, summarize our recent capital market activities, and provide an update on regulatory matters.

Interest Rates, Discount Rates & Inflation

This quarter, we have been busy positioning for increasing interest rates, for instance raising prices to new customers as necessary behind the large utility price increases that are underway. As regulated monopolies, utilities are able to pass through their higher labor, fuel, and capital costs to customers, and despite an 11% year-over-year increase in national electricity prices, this pass-through has just begun. In addition, our existing capital structure is well hedged through a mix of interest rate swaps and fixed coupon, long-dated debt securities.

As Mary noted, we have implemented meaningful price increases and expect recently originated customers, when installed, to generate at least \$3,000 in incremental net subscriber value, as measured at a 5% discount rate. This benefit will flow through in Q3 and is designed to mitigate the higher material and capital costs the industry is facing.

On slide 9, you can see the sensitivity to Subscriber Values using various discount rates. We currently observe our capital costs as between 5% and 6%. Increasing the discount rate 25 to 75 bps above 5%, for instance, would reduce pro-forma Subscriber Values by approximately \$750 to \$2,100. As you may recall, several years ago we used to report the figure 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 above 5%.

Recent Capital Market Activity

In April we priced a half billion dollar Asset Backed Security senior note. The transaction was the largest solar lease portfolio placed in the ABS market ever, across all issuers in the sector.

We expect to achieve proceeds on this portfolio, net of fees, from all sources – rebates, tax equity, customer prepayments, swap terminations, and senior and subordinated debt – of about 95% of contracted subscriber value, measured at a 5% discount rate. We expect to achieve a weighted average cost of capital for this pool of assets of about four and a half percent including benefits from interest rate swaps, or about five and a half percent excluding swap benefits. As we've shared before, we frequently enter into interest rate swaps to hedge capital costs on our newly installed customers.

As we tweak our financing strategy and benefit from less robust swap terminations, we expect total advance rates to settle over the moderate term between 85% and 95% of contracted Subscriber Values, discounted at a 5% rate. We believe a wider range is appropriate given the current volatility in the fixed income markets.

Finally, as described on the last earnings call, we retired our \$250 million recourse lending facility and arranged a larger \$425 million facility at enhanced terms and with a longer tenor. During the quarter we upsized that facility to \$600 million on the same terms. The facility is only partly drawn.

Capital Runway



We continue to maintain a robust project finance runway. As of today, closed transactions and executed term sheets provide us expected tax equity and project debt capacity to fund over 400 MW for Subscribers beyond what was deployed through the first quarter.

The multitude of events causing massive delays in the utility-scale segment are causing several capital providers to experience unexpected short falls in 2022 transaction volumes, especially among tax equity investors. We expect this to provide a modest tailwind for us.

Turning now to an update on regulatory matters.

AC/CVD Proceeding

Sunrun is in a strong position to navigate a dynamic supply chain environment, most recently compounded by the uncertainty of the potential retroactive tariffs, catchily called by many the AD/CVD anti-circumvention matter. This investigation by the Department of Commerce concerns solar imports from Malaysia, Thailand, Vietnam and Cambodia using Chinese inputs.

To maintain high levels of component supply, particularly solar modules, we continue to increase our inventory position. As of March 31, we held over half a billion dollars of inventory on-balance sheet, up \$49 million during the quarter and up \$273 million since the start of 2021. We have over 100 days of supply on hand of both modules and inverters and continue to procure modules from a diversified base of manufacturers.

We believe the Department of Commerce's investigation is misplaced and contrary to the Administration's objective to encourage the transition to clean energy. Most head-scratching is that the application of tariffs against these countries would simply cause American solar developers to buy panels directly from China, which currently exports almost no product to the United States.

We have entered into several supply agreements for hundreds of megawatts of solar modules in total from manufacturers unaffected by the investigation. We also expect to enter into additional agreements in the coming months. Purchases from such manufacturers may be on less favorable terms than our existing suppliers and result in increased working capital investment.

Net Metering

Last week, the Republican Governor of Florida vetoed an anti-solar bill that was drafted by the state's utilities and pushed through the legislature earlier this year. The vetoed bill, which was somewhat watered down as it went through the legislature, proposed certain reductions to net metering in future years and called for a regulatory proceeding to consider a fixed fee for solar customers. While also citing inflationary pressures, Governor DeSantis's veto statement essentially said that no one should be forced to pay a utility for power the utility never produced or sold in the first place. Prior to the veto, the largest utility in Florida was granted a double-digit rate increase.

We believe the readthrough to California is positive and the comparison was immediately taken up by the media. For instance, *Politico* opined, "DeSantis is now in the position of setting a pro-solar bar for his rival, California Gov. Gavin Newsom, to clear."

In addition, the massive delays in utility scale renewable development are causing elevated blackout risk in California. On April 27th, Gov Newsom wrote the Commerce Department that their investigation alone "threaten[s] our ability to maintain energy reliability ahead of the retirement of 6,000 megawatts primarily generated by aging, gas powered once through cooling plants." Utility scale projects are also struggling under pressure from unforeseen capital cost increases and permitting delays. Throttling rooftop solar and storage deployment against such a shortfall looks even less wise than it did in December.

Federal Policy



We remain optimistic that Congress may come together to pass some sort of climate legislation which includes an Investment Tax Credit extension, but we don't proclaim to have a crystal ball to predict when parties will come to the table, if they will reach an agreement, or what the scope of any agreement might be. We will remain active in urging Congress to act, but will manage the business assuming the status quo for the time being.

With that, let me turn it back over to Mary.

MARY POWELL

Thanks Ed.

I'm so excited about Sunrun's leading position in this industry. I believe we are at a tipping point of adoption and starting to see a transformational change in how consumers think about energy. Before we open the line for questions, I want to stress how appreciative I am of our team, our customers, and our partners who are all helping create a planet run by the sun.

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

Operator

Thank you very much. At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press "*", and "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*" and "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

One moment, please, while we pull for questions. The first question comes from Brian Lee from Goldman Sachs. Please state your question, Brian.

Brian Lee

Hey, everyone. Thanks for taking the questions and kudos on the nice execution here. I guess first question I had was just on the subscriber value. You're going from \$7,000 here for the past couple quarters to now \$10,000 plus, in Q3. I know you have talked about pricing a ton, so that I know that's a clear driver. But I would assume there is other drivers here in terms of mix and cost improvements, more batteries. So, can you kind of give us a bit of the bridge from the \$7,000 to \$10,000. How much is price? How much is other drivers? And then I know, historically, you've talked about subscriber value targets up into the \$10,000 to \$12,000 range. What is this sort of pull-forward here this year to get to that \$10,000 range already mean for kind of the longer-term targets? And then I had a follow up

Tom vonReichbauer

Yeah. Thanks, Brian. So, the last two quarters we saw abnormal effects from the drag of COVID and labor productivity challenges there at the end of Q4 and early Q1. So, we saw those abate throughout Q1 and, certainly, having continued here into Q2. The pricing moves will be a large component of this, but continuing to increase battery attach rate as well, some of the general ongoing efficiency measures we've taken, as well, will show up as positive moves on that subscriber value, offset partially by rising material costs. So, as we've taken on slightly more expensive components over the last couple of quarters, those start to work their way into the installed volume here in subsequent quarters.

We view the greater than \$10,000 number for Q3 as an outcome that we're, particularly excited about and optimistic in. And I don't think it's a fundamental change from long-term views, maybe it sounds like to your point, it's sooner than you had expected, but definitely the direction we've been pushing for quite a while. I think we want to see where the pricing changes land and work through our backlog. The one dynamic that we continue to work through is the incredibly strong demand we're facing that in any given period, if demand outpaces, that creates this reported margin drag because of the timing of sales and marketing

expenses versus installed volumes. So, that may have some variability in there. But we're confident in the \$10,000 number, feel like the majority here is moving through these pricing and product mix changes.

Brian Lee

All right. That's great. I appreciate that. And then just the second question I had, and I'll pass it on was around some of the comments you just made, Tom, about the strong sales pipeline, kind of not being able to keep up the healthy backlog, so high-quality problem to have. But can you kind of elaborate a bit more on the sort of labor or if you're seeing any challenges there on the EPC side, if you're having to adopt any new strategies or thinking about that differently, just kind of how you're addressing the high level of backlog and trying to keep up here, as you move through the year? Thanks.

Mary Powell

Yeah. Actually, Brian, it's Mary. I can answer that one. Yeah. So, as I hit, basically a lot of what you're seeing that Tom hit that's flowing through subscriber value is attached to not just the pricing but like are really going at the go-to-market strategy, taking decisive action in some markets where we weren't hitting the return thresholds. We wanted to and at the same time some streamlining and improvement and putting into place a team and an approach that can help us make significant progress on the backlog, in the next couple of months. So, what we have is we're in a strong position.

From a labor perspective, we're growing fast, we're hiring people, we're finding we're a very attractive employer. We're really hiring high quality installation crew and, at the same time we also, as I was talking about, are leveraging this amazing position we're in in the market with the kind of partners we have, channel partners we have, where some also want to be build partners. So, we're working very decisively with them in terms of having a real approach to make sure that we're closing a lot of that backlog in the coming months.

Brian Lee

All right. Thanks a lot. I'll pass it on.

Operator

Thank you. Your next question comes from Julien Dumoulin-Smith from Bank of America.

Please go ahead, Julien.

Julien Dumoulin-Smith

Hey. Good afternoon. Thanks, team. Congrats to all those with the new roles, here. Hey, just to come back to the core question here on the \$10,000. Can you talk about like the puts and takes if you will, right? I mean, obviously, you know cost especially if you rolling off your inventory could be a detriment there, but can you talk about the extent of that price increase being a positive sort of like a growth thing before you net it out to that \$10,000 versus where you're starting out, today? And just to go back to the prior point, the sustainability and trajectory from here, any nuance we should be considering beyond 3Q here, as you roll it forward?

Tom vonReichbauer

Yeah. So, the price increase is certainly our additive. Obviously, there have been modest material cost increases. As Ed noted, we've presented net subscriber value at a 5% basis, have had moments in time where we've been well below that on capital costs. We're now in that range. We're still going to hold that at 5%. And so, the price increases are moves that more than offset material cost increases for us. The additional moves around higher battery attach rate and some of the changes that Mary noted that we've made around product and pricing policy that will drive more profitable projects through. The one area, again, where we're obviously confident enough to put out the \$10,000 number here for Q3, the item we've noted now for several quarters has been this backlog growth dynamic. I think with the things Mary just noted in the last question, we're really confident in our ability to ramp.

It is worth noting we're at massive scale and still growing installation volume, quite considerably, 27% year-over-year for the quarter, continuing to believe that we're going to increase at very fast rates. What appear to be share gaining rates relative to some of the external forecasts, and we're doing that at scale. So, we're able to add a lot of capacity both through ourselves and through partners. There's some chance, I guess in there, that demand continues to rip and that, again, creates a drag on reported values, but with where we are right now and what we see, we feel confident in our ability to execute and get to this level.

Ed Fenster

And Julien, it's Ed. Maybe just to add to that, it's our expectation that the improvements that we're describing are structural and not like some temporary high watermark for Q3.

Julien Dumoulin-Smith

Right. No. Indeed I'm almost curious to push again in the second question here on just how far you can go with it, not if it's sustainable, really. But if I can actually, I mean, Professor Ed, if I can address you as such, you work on a little bit more--

Ed Fenster

--Go on. You're new.

Julien Dumoulin-Smith

Can you talk a little bit about this? I hear you on the customer metric, but let's talk about leveraging value creation, quickly, and how we might think about a metric there, especially, against this notion of lower advance rates. How do you think about that metric evolving very specifically here against your \$10,000 target, and how is your financing strategy evolving more specifically? I know you laid it out in part here, I just want to make sure we've got that clear cut?

Ed Fenster

Sure. So, maybe just to recap a few of the things we described on the call, first. The transaction that we're in the process of wrapping up, right now, will have an experienced weighted average cost of capital of about 4.5%. It is benefiting from interest rate swaps. Without those swaps, we think it would have been about 5.5%. In the presentation, we make the point that a subscriber value at 5.25% to 5.325% discount rate, as compared to 5%, would be worth about \$750 to \$2,100, less.

So, we see the improvements in net subscriber buy that we're describing and outpacing the increases in interest rates. Obviously, that's a moving target which we're watching carefully, including today, but one that we are staying on top of. We see, obviously, as we mentioned, significant and escalating increases in utility cost prices, which is fundamentally the--our most significant competition. In terms of the strategy for how we finance the assets, I don't know that we're looking at any significant differences. One dynamic worth mentioning is that the spreads that, yeah, as you know, the cost of our capital that is over treasury's, right now appears to be lower in the bank market than in the EVF market.

My suspicion for the reason of that is, there have been capital withdrawals from long-term fixed income, based on the rapid increases in interest rates. And obviously, those rapid increases in interest rates haven't caused bank deposit withdrawals. So, there's still significant excess liquidity in bank deposits, and so we haven't seen spreads in that market move. So, it's possible in the future you will see us doing more work in the commercial bank markets, if the current relative spread dynamics between those markets continues to hold.

Julien Dumoulin-Smith

Got it. All right. Fair enough. I'm curious to see what happens. Cheers, guys.

Mary Powell

Thanks.

Ed Fenster

Thanks, Julien.

Operator

Thank you. The next question comes from Kashy Harrison from Piper Sandler. Please go ahead, Kashy.

Kashy Harrison

Good afternoon, everyone, and thank you for taking the questions. So, just first one from me, you've obviously highlighted a very strong order growth here in Q1 and 39%, which is solid. The market, right now, is very focused on leading edge demand trends these days, just giving just the massive amount of uncertainty, globally. And so, I was wondering if you would maybe just give us a sense on how order growth in April is tracking? Are you still seeing that 39%, year-over-year, continue or are you seeing any sort of deceleration in April?

Mary Powell

Yeah. I mean, basically, again, as I hit, we feel like we're really at an incredible tipping point that's happening from a consumer perspective. So, overall, we see the trends of adoption continuing. So, that's what informed everything that we've reported today, informed our raising guidance on the year to now 25%, or higher. So, yes, we're feeling like there is really sustainable demand.

Kashy Harrison

Okay. And my follow up, Ed, you highlighted in your prepared remarks that you're currently experiencing a tailwind in the tax equity market, due to the AD/CVD issue. Can you give us an update on where you see the cash cost of tax equity today and maybe talk about how that's evolved, just given the fluctuation in the interest rate market? Thank you.

Ed Fenster

Sure. So, a good question. So, I should mention. So, first, when I discussed the delays in the utility scale segment, I think it's much more profound than the Commerce Department investigation. My suspicion is that the changes in capital costs and equipment prices would probably drive under water a third of utility scale projects, even if the Commerce Department investigation was resolved with no further tariffs.

So, I think that, generally speaking, among capital providers who are focused on renewable projects, there's just a lot of slippage and some people are looking for additional 2022 product, and the tax equity market is even more of a calendar year market than most markets, so you're seeing that.

That said, the cash cost of tax equity continues to be up and down in the 15--13 years I have been doing this really very, very close to 2% on a pretax basis, like that's really about what it costs. Usually, when you see excess supply flush through the market, it's usually whether it's just bigger funds or more flexible terms on certain other things. But you don't--we don't typically see very significant variation in the actual like pretax IRR in those transactions.

Kashy Harrison

Thank you.

Operator

Thank you. The next question comes from Maheep Mandloi from Credit Suisse. Please go ahead.

Maheep Mandloi

Hey. Good evening and thanks for taking the questions and congratulations on the quarter and the guidance increase, here. Maybe just one question from me on the price increases or potentially higher value kind of like thing for the customers, going forward. Now you just think the price increases because of

higher electric bills from the utilities or is that something you're kind of expecting later this year or next as we--the utilities get into their rate base approvals? Thanks.

Ed Fenster

Sure. This is Ed. So, as I mentioned, obviously, the three major costs of utilities are all increasing--fuel, labor and capital. These are reflected in different speeds in retail rates. Capital, certainly in rate cases, fuel, some time most quickly, labor, in the middle, and what we're describing is the clear CPI data for National Electric Energy is up 11%. And to your point, a lot of those cost dynamics haven't yet been approved or measured or even filed for. So, that's what gives me the confidence that the 11%, which we've seen so far, is only the tip of the iceberg.

Mary Powell

Yeah. And just to pile on to that, Ed, from my perspective in the utility business, one of the things I saw many years ago and I have only seen it accelerate is, we have to remember that with all of the investment you're seeing, so, all of the investment in transmission, distribution, all of that is creating long term systemic rate pressure. So, really on top of the sort of shorter-term items that that Ed has hit that are absolutely going to cause pressure, you also just have, systemically, these significant drivers of rate increase pressures.

Ed Fenster

Right. On a recent call, I described the bonanza--

Mary Powell

--Yeah.

Ed Fenster

--utility capital expenditures, which are running multiples ahead of depreciation which, programmatically, causes increased rate base and rates.

Maheep Mandloi

Got it. Yeah. Thanks for the color. And just the last one from me and then I'll jump back in the queue--is around your partnership with Ford. And they talked about being more than 200,000 of reservations. But like--could you just talk about like how should we think about upside or EBITDA contribution from that segment for this year, going forward? Thanks.

Tom vonReichbauer

Yeah. So, we're relatively early in the ramp, as Mary noted, production and the launch just began. We're reaching out to those early customers. You can think about a couple of different components of the business. There's our EV charger, sale and installation business that extends to include the home integration system with the bidirectional inverter enabling whole home backup from the vehicle. That portion of the business on its own, you can think of as a solid hardware and services distribution business, where we're selling hardware at reasonable margins and providing our installation services. And then I think the--that'll ramp as vehicle production ramps and will be a nice business in its own right.

I think the larger unlock here is when those offerings then get coupled with a solar install where I think those customers are more likely to have a larger system, potentially, a home battery. It might have lower customer acquisition costs because of the efficiency of coming through the Ford channel, and that'll have a much more meaningful impact on subscriber values. But given the shape of the ramp in vehicle deliveries, you can expect more of that to probably materialize in 2023 and beyond, although, there's definitely positive benefits, this year.

Ed Fenster

And just to underscore the customer unlock, if you're a Ford customer wanting the bidirectional feature, for example, you can pay thousands of dollars to get a bidirectional charger installed, right, or you can get solar installed with it all, in which case now it has a negative cost for it. You're now saving money from the solar system and you've got the home backup. So, it's like a very compelling customer value proposition.

Maheep Mandloi

Yeah. And looks like they have to buy the backup generator from you, also the backup charger from you, right?

Tom vonReichbauer

Yeah. We're their installation provider of choice and their co-developed operation system.

Maheep Mandloi

Got you. All right. Thanks for answering the questions.

Operator

Thank you. The next question comes from Joseph Osha from Guggenheim Partners. Please go ahead, Joseph.

Joseph Osha

Thanks very much. Professor, you're now stuck with that nickname for all time, by the way. Just so you know that. The--you--I think you commented during your prepared comments a little bit about hedging out cost of capital exposure, as it relates to your pricing. Can you help me understand that a little more? I'm thinking about the backlog and how that backlog continues to grow, how you manage to hedge out your cost of capital exposure? And then I have another question.

Ed Fenster

Sure. So, typically, how that works, Joe, is that, as we install a system, we're locking in the interest rate prevailing at the time of installation, and installation could occur nine months or 12 months before term out. So, in the transaction that we just completed, obviously, you see the treasury rate embedded in the coupon, at the time that we issue the security. But really, economically, we locked in the treasury rate at the time of installation. So, all of the assets that we have developed and that are sitting in our warehouse facilities are hedged with the interest rates that were in effect, at the time those projects were installed. So, certainly, as Tom pointed out, there are systems that we sold late last year that haven't yet been constructed, that we're now constructing, and the proceeds we will receive on those systems are going to be less than we forecast. But the systems that were installed prior to the large run up in rates, we were able to lock in the rates on those systems and, obviously, the more recent systems which are being sold at higher rates are insulated from capital costs in that regard. So, we do have this sort of like middle zone that we need to work through. But other than that, I feel like we're pretty well matched.

Joseph Osha

But, again, that just to amplify on the question, it does sound like you have the way this works for now still some sort of open cost of capital exposure between the time when you sell the system and when you install it. Is that what you're saying?

Ed Fenster

Correct.

Joseph Osha

Okay. And is there any way to mitigate that or is that just kind of it is what it is.

Ed Fenster

I mean, you could buy options to mitigate it and, therefore, likely pay the expected value price of it. So, if you took a strong position, you thought interest rates were going to rise faster than everyone who trades. Interest securities like you could do that. But I think that our general approach is that is just to drive the cycle times down. That is a better customer experience. It's a more natural process for us, and that's the way we've been handling it.

Joseph Osha

Okay. Great. Got it. And then second, much more simple question, given how all of this is washing through your business model, how do you feel not just this year, but on a sort of a go-forward basis about how cash generation for the business looks, relative to growth? Thanks.

Ed Fenster

Yeah. I think over the long-term, we continue to sell a product that is in excellently high demand, right. It is lower and more certain energy cost. It is better reliability. It is environmentally clean, and the tailwind there is significant, like certainly in the 13 years, 15 years we've been doing this, we've never seen a demand environment like this.

And so, certainly, that's helpful if you're experiencing increased costs, whether that's operational or capital. We're doing our best and I think meeting with some success, getting efficiency up and costs down and all the things that you would want to do in any business anyway, but also have the ability to pass through pricing because our competitor, the Electric Utility, turns out also capital cost is an input in their business.

And so I have still a very good--I'm still very optimistic about the long-term cash flow capabilities of the business for that reason, right. It's not like we're the only energy company that capital cost is an input to. So, capital costs may go up that can pressure us, but it pressures everybody up. So, everyone else prices up. We price up and, lo and behold, everyone is still make money.

Joseph Osha

Okay. Thank you.

Operator

Thank you. The next question comes from Mark Strouse from JPMorgan. Please go ahead, Mark.

Mark Strouse

Yes. Good afternoon. Thank you very much for taking our questions. I just want to go back to the anti-circ case. You mentioned the inventory you have. You mentioned the existing agreements and then the potential future agreements that you have with kind of non-tariff supplies. Can you just kind of directly address how--does that give you enough visibility to meet this greater than 25% growth target for the year? And then kind of a hypothetical follow up to that is, in the event that supply does become limited, I mean, what would be the strategy, do you see you from buying for China with a known tariff? Do you do you keep buying from Southeast Asia with an unknown tariff? What would be the hypothetical, there? Thank you.

Tom vonReichbauer

I got you.

Ed Fenster

You start, Tom.

Tom vonReichbauer

So, on the general--the first question as it relates to inventory levels and outlook, we feel very well positioned. As you can see on the balance sheet, we increased the absolute dollar of inventory that we

were carrying, quarter-over-quarter, again now north of \$550 million, triple-digit days of supply on the vast majority of the things we need and continue to have strong and steady flow of products, even as we're ramping our installation volume here, over the quarter and throughout this quarter.

So, I think the general view is we felt really confident moving up to the 25% plus, year-over-year, growth and should be able to meet that even as things moderate, though, you have got at least a quarter that's fully covered, here.

And then, as we look at the general supply picture, as Ed noted, we're continuing to look at new sources of supply from different portions of the world, looking at other options here to get access to product to the extent there's a large contraction in the available supply in the market. That obviously creates some pressure on terms that may be available for those products. But one where I think, thus far, we feel, yeah, reasonably well protected.

Ed Fenster

Yeah. I would mention like, there are avenues to take to get the panels that are not from affected manufacturers. Those could be international manufacturers, not in Southeast Asia, it could be American manufacturers. And to your point, Commerce just very recently made clear they wouldn't see tariffs from Southeast Asia exceeding tariffs from China. So, if you did end up with tariffs, Chinese manufacturer is cheaper, so you'd probably end up buying from China, as compared to Southeast Asia, but there's no reason to do that, preemptively.

And I think just stepping back, like everyone in government has made really clear how frustrated they are by this petitioner and by this petition. And the Commerce Department has used language like our hands are tied in terms of opening the investigation. I think the chance of a negative investigation here, a negative result is very, very low. But we are very confident we can meet demand from the module side, irrespective of what direction it goes. There will be a question of around the edges, what's the module cost like, what are the days payable on it, but we'll find the--we're very comfortable that we'll meet our customer interest.

Mark Strouse

Okay. Very helpful. Thank you.

Operator

Thank you. The next question comes from Andrew Percoco from Morgan Stanley. Please go ahead, Andrew.

Andrew Percoco

Great. Thank you for the time. So, just one quick one for me. We talked a lot about or heard a lot today about utility price increases across the U.S. Has that opened up any new markets for you guys that you don't currently operate in today and, if so, what would be the potential go to market strategy there?

Mary Powell

I mean, we're always monitoring what is going on across the country, for sure, and evaluating strategic moves as it relates to new territories. As you know now, we're operating in 22 states, in Puerto Rico, in Hawaii, and we're feeling very comfortable in the markets that we're in. But we're always continuing to evaluate that, to your point. So, yes, I do foresee that in the years to come, there are going to be other markets that again, might not look attractive today but will quickly be looking attractive because of utility rate cost pressures.

Andrew Percoco

Great. The rest of my questions have been answered, so I'll just leave it there. Thank you.

Operator

Thank you. The next question comes from Philip Shen from ROTH Capital. Please go ahead, Philip.

Philip Shen

Hi, everyone. Thanks for taking my questions. I think you just filed a mix shelf along with the results today, and in your Q looks like maybe you have \$107 million undrawn. Can you walk us through your liquidity situation, and what is your view on tapping into the equity markets, near-term?

Ed Fenster

That's simply a corporate hygiene move that we, periodically, do. And as I mentioned, we have ample liquidity, and we just increased the size of the company's revolver, which isn't fully drawn to where we feel very comfortable in our current position.

Philip Shen

Thanks, Ed. And then as it relates, Mary, to your comment that you collapsed several layers of management structures, can you talk about how many people left and departed the organization? And then how many more do you expect, as you right size? Are the layoffs over and what do you expect ahead, there? Thanks.

Mary Powell

So, I mean, overall, the company is we're growing fast and so, overall, from like a overall headcount perspective, we are in a growth mode. That is--that's the position we're in. But yes-no, you're absolutely right, we did really collapse layers and look at, again, making sure it's a really streamlined flat as possible close to the customer organization and we're hiring--we're bringing in a lot of new employees. In terms of getting into specific numbers, no, that's not really, I don't think it's a place I want to go. But I will tell you, overall, we are a growing organization and, again, we're hiring fast to keep up with the demand.

Philip Shen

Great. Appreciate the color. Thanks, Mary.

Operator

Thank you. The next question comes from Ameet Thakkar from BMO Capital Markets. Please go ahead, Ameet.

Ameet Thakkar

Hey. Good afternoon. Thanks for squeezing me in. You guys have talked a lot about potential headwinds from higher interest rates or financing costs. But I was just wondering on kind of the other side, are you guys seeing a pickup in customers kind of opting for kind of third-party ownership models versus loans? Seems like loans have become a little bit more popular in the last year. I was just wondering if you're getting a bit of a tailwind from that.

Ed Fenster

Yeah. Hi. This is Ed. It's an interesting dynamic, mostly speaking, it's really the sales reps that drive interest in loans versus leases where sales reps who are looking for a simple sale with a better feature set, but kind of willing to accept the controls that we put on something because we care about production and things like that, prefer to sell lease and those that prefer the lighter controls that tend to sell loans. The interesting dynamic in the market right now, which is that the capital costs for solar loans have gone up almost 2.5% and, for the most part, we haven't seen any change in solar loan pricing. Like I doubt actually the United States Treasury could make money buying solar loans from us, at the moment. So, it'll be interesting to see how the dynamics play out in that market. But certainly, right now, that is an attractive customer value proposition.

Ameet Thakkar

Great. Thanks. And just one more real quick one, the battery growth of 50%, I mean, that's pretty good off of the low base, I guess. Is some of that driven by people coming back and retrofitting their systems or is this all kind of just more availability higher attach rates?

Mary Powell

There is a little bit of that. But, again, I wouldn't say it's on a small base. I mean, just to remind you, we have 37,000 residential batteries deployed; I think one of the highest numbers in the country. So, yes, we're seeing just greater interest in the context of providing a lot more to customers than just the benefits of going solar. So, it is we're rapidly moving into this customer obsessed place of providing customers a lot more, as they think about improving their lives in their homes-in what they drive. So, yes, we continue to see that attach rate go up in the future.

Ameet Thakkar

Thank you.

Operator

Thank you. The next question comes from David Peters from Wolfe Research. Please go ahead, David.

David Peters

Yeah. Hey. Good afternoon. The question I had is just on the mix of subscribers versus purchase customers. This quarter, it dipped even a little lower than Q4, which I understand has a bit of a seasonal component to it being at the end of the year. But just going forward, should we expect this level to stay in the low to mid-70s, or would you expect that to ramp back up?

Tom vonReichbauer

Yeah. No. Ed noted some of the short-term dynamics that are in play, there. But what we saw in Q4 and Q1 here simply is a mix of what was coming out of our backlog. We've seen with some of the pricing and product changes that we made of late, we've seen up funnel sales mix begin to move back more in the direction of TPO or third-party own, and so I think we'll come off the current levels. And the points that I had mentioned there will impact maybe a little bit how long loan remains as attractive as it is, at the moment. But would expect to see a return to something higher than what we were in Q1.

David Peters

Great. And then just switching gears, so the additional investment in the SK venture, \$75 million, I think, you highlight. Could you maybe give a little preview of some of the initiatives you're working on through that? And when you do expect to commercialize some of these products and services, would you expect to see these flow into your net subscriber value metrics, in other words, be additive to the \$10,000 that you pointed to, later this year?

Mary Powell

I mean, make no mistake, everything we do is about how it can be additive from a customer perspective, clearly an investor perspective and a community perspective. So, we're very excited about the technology that this venture is working on. But we're not in a position to give any more specifics about, it at this time.

David Peters

Okay. Thank you.

Patrick Jobin

I think that's all the time we've for questions. Appreciate it.

Operator



Yes. It is. Ladies and gentlemen, we have reached the end of the question-and-answer session. This does conclude today's conference. You may disconnect your lines at this time and thank you very much for participating.



Forward Looking Statements

This communication contains forward-looking statements related to Sunrun (the “Company”) within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements related to: the Company’s leadership team and talent development; the Company’s financial and operating guidance and expectations; the Company’s business plan, trajectory and expectations in 2022 and beyond, 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, act of war, terrorism, or armed conflict / invasion, and the impacts of climate change; the legislative and regulatory environment of the solar industry and the potential impacts of proposed, amended, and newly adopted legislation and regulation on the solar industry and our business; the ongoing, anticipated, or potential impacts of the COVID-19 pandemic and its variants; 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; the Company’s ability to derive value from the anticipated benefits of partnerships, new technologies, and pilot programs; 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 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; volatile or 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 impact of COVID-19 and its variants on the Company’s operations; 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.