sunrun

Q3 2020 Earnings Call
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Transcript

Presenters
Patrick Jobin, SVP, Finance and IR
Lynn Jurich, Co-Founder and CEO
Ed Fenster, Co-Founder and Executive Chairman
Tom vonReichbauer, CFO

Q&A Participants
Moses Sutton, Barclays
Mark Strouse, J.P. Morgan
Julien Dumoulin-Smith, Bank of America
Brian Lee, Goldman Sachs
Michael Weinstein, Credit Suisse
Stephen Byrd, Morgan Stanley
Kashy Harrison, Simmons Energy
Colin Rusch, Oppenheimer
Philip Shen, ROTH Capital Partners
Sophie Karp, KeyBank

Operator
Greetings and welcome to Sunrun's Third Quarter 2020 Earnings Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Patrick Jobin, senior vice president, Finance and Investor Relations.

Patrick Jobin
Thank you, operator.

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

Please note that the results we will discuss today do not include Vivint Solar unless otherwise specified as the acquisition closed after the end of the third quarter. On the call, today are Lynn Jurich, Sunrun's co-founder and CEO, Ed Fenster, Sunrun's co-founder and executive chairman, and Tom vonReichbauer, Sunrun's CFO.

And now let me turn the call over to Lynn.

Lynn Jurich
Thanks, Patrick.

We are pleased to share Sunrun's third-quarter results and progress against our strategic priorities. We grew our base of customers by 20%, compared to last year to 326,000, and to over 500,000 with the acquisition of Vivint Solar in October. In the quarter, Sunrun added 14,700 customers, representing 109 megawatts of deployment, a 40% sequential improvement in exceeding our prior outlook. This performance is a testament to growing consumer interest and Sunrun's leading execution at scale. We expect improving customer margins and accelerating growth to continue into 2021.

Consumer desire for clean, affordable, and resilient power is stronger than ever, with increased outages from storms and wildfires combined with more time spent at home. As we discussed last quarter, the Sunrun team pivoted quickly at the onset of COVID, increasing our digital lead generation activities, virtual selling capabilities, and other operational efficiency initiatives. The sales productivity increases we highlighted the last call have sustained with our sales force productivity up around 80% compared to the same period last year. Our cycle times from customer signature to install have continued to improve, along with our installation labor productivity.

These positive trends mean less wasted resources and a better customer experience. As a result, we continue to expect $2000 per customer and cost improvements compared to earlier this year. And we enter 2021 in a strong position.

The U.S. is at the early stages of significant innovation in electrifying our buildings and transportation. Ongoing improvements in solar energy storage and electric vehicles are leading to an enhanced value proposition. And solar plus batteries will affordably replace more of consumer's energy needs and, together with EVs, (PH) will unlock virtual powerplant revenue opportunities.

Sunrun aims to be the consumer brand synonymous with repowering your home with renewable energy. And the network created by owning more of these nodes will lead to a winner-take-both market.

Integration of the companies during the first four weeks has progressed well. The complementary operational strengths and cultures have exceeded our expectations. We are already leveraging best practices from each company. For example, survive Vivint Solar Sales Teams have more than doubled their battery attachment rate in California to over 20% since close.

On the installation side, we have piloted the use of drones for site surveys, along with our proprietary racking technology, and the Vivint Polar Cruise love it and are excited to roll them out. We have already been able to fill excess demand in markets by leveraging our combined companies cruise to maintain high scheduled density and system throughput. We are rolling out Vivint Solar sales and training practices developed through their world-class direct-to-home channel to enhance the effectiveness of our complimentary sales team.

Our channel partners are also excited about the scale we bring and our increasing brand strengths. These partners delivered a strong quarter, and we will continue to grow this segment as it is an important part of our strategy and maximizes our market reach.

Our Bright Box Battery offering is now available in all of our active markets. Sales attachment rates hit a record high this quarter, and installations grew more than 45% compared to last year. We expect bright box installations to accelerate and grow over 100% next year.

Our efforts to develop grid services markets across the country are progressing well, and we expect to announce meaningful virtual powerplant contracts in the coming quarters. To date, we have won 11 virtual powerplant awards, which cover over 10% of our geographic footprint.

Today, we are announcing a new virtual power plant award. Sunrun recently executed a contract with Southern California Edison to provide five megawatts of capacity. During the 10-year fixed-price contract, Sunrun will dispatch energy from thousands of its Bright Box Solar Battery systems installed in the SCE territory, lowering the overall cost of power, and reducing critical strain on the energy system.

The same solar panel--solar powered home batteries will also provide reliable backup power to these households if the power goes out. We'll share more details soon.

We have a pipeline of over 50 million in awarded contracts or those in the works, which it expands--which would expand that 10% coverage to 50%. These opportunities not only provide us with additional recurring revenue streams, they provide a differentiated customer offering. We also finalized a joint venture with SK Group to accelerate electrification of the home. This is still in stealth mode, but we will have exciting updates in the coming quarters.

We believe that the expected growth in electric vehicles will also benefit Sunrun on multiple dimensions. One, households will consume more electricity, necessitating a larger and more profitable solar system. Two, we can be the provider of charging infrastructure and resource management throughout the home. And three, it creates an urgency to adopt solar and batteries.

In the U.S., residential--electricity sales are over $180 billion, and Utility CAPEX is over $100 billion annually. This doesn't even consider the fuel-switching opportunities. Residential solar has only penetrated 3% of U.S. homes, and Sunrun represents a tiny fraction of this massive energy market with ambitions to become a significant player. The runway ahead is just enormous.

Lastly, our commitment to sustainability will help our customers, shareholders, employees, and communities. In September, we announced a partnership with CHANEL to install approximately 30 megawatts of energy projects for low-income multifamily households, expanding access to solar for nearly 30,000 low-income residents across California. CHANEL investment will also support more than 20,000 hours of job training, offering valuable vocational skills and certification to hundreds of people in disadvantaged communities.

Also, during the quarter, we provided 1400 hours of paid job training opportunities for people to gain hands-on experience with solar installation projects through grid alternatives. We expanded our product suite for low-income families in California to Illinois and announced a partnership with the Honnold Foundation to launch a new grant fund that will offer grants to community-based nonprofits led by black, indigenous, and people of color in the most polluted places in America. This will help install solar--energy systems.

Before I turn it over to Ed, I want to say how proud I am of the Sunrun and Vivint Solar teams. Bringing together organizations is never easy and simple, but the passion, ingenuity, and dedication to our collective mission is inspiring. We are collectively energized to lead this industry forward, to deliver the best service for our customers, provide meaningful and rewarding career opportunities for our employees, and address climate change head-on for our country and the world. We're over 500,000 customers from today, and just imagine the value we can create when we welcome millions to the Sunrun network.

Over to you, Ed.

Edward Fenster
Thanks, Lynn.

Today, I'll discuss the financial markets for our assets, our asset performance, and recap our capital runway.

We're now seeing significant tailwinds in financing markets. Our contracted long-term, high-quality, recurring cash flows have always been the bedrock on which we raised non-recourse project financing to fund our growth and offer customers a compelling value proposition. The positive trend we highlighted last call has continued with capital costs and continued decline. Senior debt, in particular, is pricing at all-time lows.

The improving spreads and strong project finance markets for solar assets are driven by investor's desire for stable, long-term cash flows, a growing track record of the asset class performance, including through another economic cycle, and a growing appreciation of Sunrun's strong underwriting criteria and service performance. For instance, in late September, Vivint Solar issued two asset-backed securities that, taken together, provided $246 million in proceeds at a 2.33% weighted average yield and an 84% advance rate. Assuming a 9% cost of capital for the remainder of the capital stack as measured against the securitization, the share of the asset value, the weighted average cost of capital would be below 3.5%.

Consistent with my comments over the last two quarters, customer payment performance remains strong, with delinquencies at or below where they were before the onset of COVID.

We continue to maintain a healthy, project financed runway that affords us the ability to be selective in capital market activities. Sunrun and Vivint Solar together have closed $2.4 billion in project capital in 2020 year to date, all on attractive terms.

As of November five, closed transactions and executed term sheets provide us expected tax equity and project debt capacity to fund over 275 megawatts of leased projects beyond what was deployed through the end of the third quarter of 2020.

I'll now turn the call over to Tom.

Tom vonReichbauer
Thanks, Ed.

Looking now to the third quarter results and our outlook. The quick actions we made and to position the company to emerge even stronger through COVID, combined with the increasing value proposition of our service offering, has enabled Sunrun to thrive and deliver another strong quarter with increasing volumes, rebounding net customer margins, and a strong balance sheet.

In the third quarter, we deployed 109 megawatts of solar capacity, a 40% sequential increase from the second quarter and a 2% increase from the prior year, exceeding our initial expectations. We deployed systems to approximately 14,700 customers in the quarter. We ended Q3 with 326,000 customers growing 20% year over year, with most of them paying us on a recurring monthly basis for the clean electricity we provide them under 20- or 25-year contracts. In Q3, project value was approximately $33,200, and creation cost was approximately $26,800, resulting in an NPV of approximately $6500 per customer. With a higher volume in Q3 compared to Q2, we improved our cost absorption. We also continue to realize benefits from our operational efficiency improvement efforts.

A quick update on Vivint Solar's financial and operating performance, we close the acquisition of events on October 8, in the fourth quarter. As such, we will report Q4 results as a combined company with a partial period, accounting as of the acquisition. Date during the third quarter, Vivint Solar installed approximately 47 megawatts and ended the third quarter with $404 million in total cash. Vivint Solar was impacted by areas which suffered more significant restrictions during COVID, principally Massachusetts and Illinois. If you excluded these two states, Vivant Solar's volumes would have grown 20% sequentially and 8%, including them.

We are encouraged by recent trends and expect strong growth from Vivant Solar's direct-to-home channel. As an early indicator, their sales force headcount is at the highest level it has been all year, including pre-COVID due in no small part from the enthusiasm for selling with the Sunrun brand and product offering.

Turning now to gross and net earning assets on our balance sheet. Gross earning assets were $4 billion at the end of the third quarter, reflecting an increase of $132 million from the second quarter. Gross earning assets is the measure of cash flows we expect to receive from customers over time. Net of distributions to tax equity partners and partnership clip structures, project equity financing partners, and operating--maintenance expenses discounted at a 6% unlevered whack. Net earning assets were $1.7 billion at the end of the third quarter, reflecting an increase of $24 million from the second quarter. Net earning assets is gross earning assets less all project-level non-recourse financings.

We ended the third quarter with $382 million in total cash, an increase of $20 million from the prior quarter. We believe looking at the combination of cash and net earning assets provides a way to evaluate our performance in generating shareholder value. We have increased both cash and net earning assets this quarter compared to last quarter and have increased the combination by $228 million compared to the prior year.

Turning now to our outlook, we expect to see continued growth and margin expansion in Q4. We expect total volumes, pro forma for the Vivant Solar acquisition to increase over 10% sequentially to approximately 172 megawatts. We also expect to see continued improvements in our net customer margins to above $8000 per leased customer.

We're in the process of harmonizing our reporting systems and methodologies across both companies to commence with reporting for the combined company in Q4. Note that there will be some changes in how costs are reported as a combined company starting in Q4. For example, the addition of the Vivant Solar business will result in a reduced channel mix as a percent of total volume, which will decrease install costs and increase sales and marketing costs purely based on the gap treatment of a customer originated through each part of our business. Additionally, geography and product mix shifts will result in fluctuations from historical Sunrun cost trends in the near term as we progress through integration.

With the operational efficiency improvements discussed earlier and the acquisition of Vivant Solar, we expect to enter 2021 with an improved cost structure and higher net customer values. In 2021, we expect to grow above market--above the long-term industry growth rates we've discussed in the past. We will provide more detail on our 2021 outlook on the Q4 call in February.

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

Operator
Thank you, sir.

We will now be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two 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.

Our first question today comes from Moses Sutton of Barclays. Please proceed with your question.

Moses Sutton
Thanks for taking my questions. And congrats on the merger close and strong results, especially off of the COVID lows there.

Ed, how is the ABS market looking now for a new issuance? Any chance we'd get something this year, especially following this Vivant transaction? And would you see similar terms, do you expect?

Edward Fenster
Hey, Moses, a great question.

So the-- ABS market is strong and definitely supportive of incremental issuances. We've often shied away from issuing transactions deep in the fourth quarter because some buyers step out of the market, awaiting a reset in their budget. So I wouldn't expect further transactions in the quarter but do expect that next year we will avail ourselves of that market. And indications suggest terms would be, you know, similar to the last transaction issued.

Moses Sutton
Great, great, great, that's helpful.

And then, the 275 megawatts of funding capacity sound good, but any thoughts of targeting a larger rolling amount of funding capacity available given the increased scale of the business? You know, basic calculation. Maybe this comes out to a bit--less than half of--you know, of a year's deployment's worth not accounting for seasonality. Any thoughts on how you would design the funds going forward?

Edward Fenster
Yeah, a great question.

So--we actually disclosed debt and tax equity because the debt runway is substantially greater than that, incidentally, but you know, we limit it by the two here constrained by tax equity. Tax equity is generally lowest for us as we head into the fourth quarter because next--you know, most--tax equity investors receive a new budget, you know, in January, and so most of the transactions don't straddle the calendar year. But we have discussions ongoing, you know, for (INAUDIBLE) to supply another 500 megawatts in tax equity. So I would expect as we go into next year, you'd see those numbers increase.

Moses Sutton
Great, great, very helpful.

One last one, if I could squeeze in before I pass it on, lease versus loans become a sort of a bigger topic again. Any thoughts on how that market's trending at the fourth quarter? It sounds like your volumes are pacing above the market. But really, anything on that more specific, you know, the subtopic of the mix that you sort of see this quarter and into next year?

Edward Fenster
Yeah, sure.

Lynn Jurich
A great question, again.

Lynn Jurich
Go ahead, Ed.

Edward Fenster
Thank you.

Lynn Jurich
So, you know, again, our lease and loan mix has remained pretty consistent. I think you probably will see a little bit more of the loan at the tail end of the year. Just again, given the, you know, the tax credit Delta. But you know, not saying that you know, nothing that's going to materially change the numbers, we still believe, you know, that the tailwinds in the industry point to more solar as a service versus customer-owned projects.

I think it's just one besides just being a better value proposition for the customer, you know, right now, just interests are aligned, were--we guarantee the--power and--you know, we have higher quality equipment. I think we also have a capital cost advantage. You know, if you look at the third party owned market versus the loan market, you're starting to see it diverge in terms of--loss rates, and they're superior in the solar and the service market. And then you also have the ongoing trend of the assets being plugged into the grid services market and the home relationship to energy being a little more complex, which I think lends itself to a managed and owned system by a third party.

And then finally, in terms of the--ITC, of course, we have a strong, safe harbor program and are able to benefit from that arbitrage over the next few years and then really in perpetuity if the law stays as it is, the solar's of service assets will receive a 10% tax credit and customer-owned will be at zero.

Moses Sutton
Great, very helpful. Thank you.

Operator
The next question is from Mark Strouse of J.P. Morgan. Please proceed with your question.

Mark Strouse
Yeah, good afternoon. Thank you very much for taking our questions.

So it's good to see the--grid services announcement with SoCal, Ed. can you just talk about how material grid services is to your--revenue or your cash flow or your--unlevered NPV per household? Whichever do you think is the best metric, you know, kind of currently, and how you expect that to trend over the next year or two?

Lynn Jurich
Yeah, so--we believe--. Thank you. Great question.

We believe that the--and what we're seeing in our first 11 grid service program is about $2000 in NPV per customer. You know, and that's been really consistent. The--you know, many of these programs you bid into in advance and so specific to the grid services revenue, you won't see that for a few years.

But the short-term value is there. It's really in the fact that we have a differentiated offer to sell our customers in these markets. And then it also starts to leave the industry structure into more of a winner-take-most market. And so we'll start to, you know, see us really differentiated on that--on that consumer offering.

And, you know, again, the--current contracts cover about 10% of our geographies that we serve. But the pipeline that we have covered about 50%. So, you know, again, I think the next couple of years its differentiated consumer offering, and the grid services revenue will follow beyond that.

Mark Strouse
Okay. And just to clarify on that, the unlevered NPV per household on these initial contracts, are you seeing close to $2000 there, or is that something that you have to scale into?

Lynn Jurich
Yeah. Yes.

Mark Strouse
You are. Okay. Perfect.

And then, just one more quick one, sorry. Just the last comment regarding the acceleration in volume in 2021, just was that on an organic basis, or was that just simply a function of layering and Vivint?

Lynn Jurich
Organic. It's some form of organic. Yeah.

Edward Fenster
That's on an organic--. Yep.

Mark Strouse
Perfect. Okay, that's it for us. Thank you.

Operator
The next question is from Julian Dumoulin-Smith of Bank of America. Please proceed with your question.

Julien Dumoulin-Smith
Hey, good afternoon. Congratulations on everything.

Perhaps just to kick it off on the storage front. I just want to understand a little bit more on the decision to expand here. I mean, first off, I suppose implicitly that you have confidence in just being able to obtain enough supply to meet your demand. If you can comment first on that. And then secondly, can you elaborate a little bit more on the implied attach rates across geographies? It seems as if, and certainly reinforced by your comments here, that--it's no longer just California wildfires that are driving this. Certainly, resiliency concerns in the southeast, rainstorms, etc. I just want to understand why the expansion, but more importantly, the thought process from your customers too.

Lynn Jurich
Great.

Edward Fenster
Julian, this is Ed. I can touch on the battery supply, and maybe Lynn wants to take it from there.

You know, I think across all manufacturers, we definitely have enough batteries to support our growth. You know, we think our scale puts us in a preferred--position for supply presently. And certainly, the supply agreements we have in place also help further reduce that risk.

You know, for sure, it's true that the rapid growth in demand for batteries has not been outpaced by manufacturing capacity yet, and so cost declines have been a little bit limited. And obviously, with lower battery costs, the growth rate in batteries would accelerate further yet. But multiple existing manufacturers are increasing capacity. We also expect further entrants in the coming year, and so we do expect, you know, to have the batteries that we need to service our customers.

Lynn Jurich
And on the--and on the demand side, it's very strong. You know, in the quarter, we had our highest attach rate on sales that we've had, so that continues to--grow. If you look at installs, they grew 45% year over year, and we expect that to grow 100% next year. And--the attachment rate by market is highly variable. You know, 100% in Hawaii.

You know, we've said in the past, you know, above 30% in California. We also have--one of the benefits from the integration as well, which we didn't specify in, you know, count in the $90 million synergy number is that Vivint had been--had less adoption of solar. And, you know, just in the first month, we've increased the attachment rate in California to 20% with their sales force. So, you know, we're very encouraged, and we expect it to continue--the battery growth rate to dramatically outpace the solar growth rate, which is, you know, already strong over the future.

I think also the--you know, one of the reasons to expand into all the markets is there is a, you know, learning curve, too, in terms of getting your crews trained on this, educating the HJ's, and so we really want to lay the groundwork for, you know, what we believe will be a market where in two or three years every solar system has a battery.

Julien Dumoulin-Smith
Got it, excellent.

And if I can just quickly follow-up to clarify the above market on 21. What does that mean, a little bit more quantitatively?

Tom vonReichbauer
Yeah, so we've historically said--we think the industry can grow, you know, 15 to 20% annually over the long run. And, you know, we think next year returns to more normal growth rates. And, you know, our expectation is that we'll grow above market, given our--strength of--you know, position now with the larger sales force, stronger brand, and--improved product offering.

Julien Dumoulin-Smith
Okay. All right, so that's not changing. That's--key.

Julien Dumoulin-Smith
Yeah, all right. Thanks, guys.

Operator
The next question is from Brian Lee of Goldman Sachs. Please proceed with your question.

Brian Lee
Hey, everyone, thanks for taking the questions here.

And maybe just to follow on Julian's questions around growth. Yeah, I know you're talking about 2021, but if we--just hone in on the 4Q outlook, you know, deployments guidance are better than 10% sequentially. I appreciate you guys giving us the baseline, including the--Vivint actuals, but it implies roughly, I guess, 180 megawatts on a combined basis for 4Q, which is actually kind of flat to slightly down year on year. And if I recall correctly, last year, you guys were still having a little bit of issues around the labor side of things. And so I felt like the count might have been easier. And you grew 2% year on year--in 3Q. So just wondering what--why that's not maybe seeing a faster acceleration out of the end of the year here on year on year basis?

Lynn Jurich
Yeah, so we're--seeing the, you know, 10% increase quarter over quarter. Important to note that the--you know, the NPV and profitability increased quarter over quarter is north of 20%, which, you know, is a really strong result.

We also--you know, there's--a couple of things going on. One is we're really focused on a fast and swift integration. And that's why you've seen just in the first 30 days, we've already, you know, put best practices from each company into--you know, into each respective--into each respective team, which has us, you know, feeling quite confident in terms of what our growth acceleration will be. And then we have the--factor that Tom mentioned on the call where, you know, that direct-to-home model of Vivint Solar was--had a bigger share in some key markets like Illinois and Massachusetts that had more restrictive COVID, and so we're just growing out of that.

So I wouldn't read too much into the fourth quarter. I think there's, you know, a lot of integration and sort of COVID rebounds still in there. And we do expect strong growth performance and 2021.

Brian Lee
Okay, fair enough. No, I appreciate the color.

And then just a second question on, you know, one of the other metrics here that you guys have highlighted, cash generation and continue to report. You know, historically, Vivint hasn't provided that metric, so I'm wondering how you're thinking about cash generation. Does the Vivint deal really impact that capability? And maybe any early thoughts on how that particular figure can grow into 2021 versus historical trends? I know you guys were, if I recall correctly, tracking to $100 million or more on cash generation this year before the pandemic. And so how--you know, is that a high level? Should we be thinking about cash generation? Is that--is it as a relevant metric on a combined basis? And does the--Vivint model change sort of the--economics for you when it comes to cash-Jen? Thanks, Ed.

Edward Fenster
Yeah, thanks. Good question here.

A couple--of things I'll hit here. So, first, we're still in the process of combining metrics. As you can imagine, there are a few things around the edges--that we're aligning. And we'll report Q4 with the combined company metrics. You know, overall, customer and--volume growth, as well as customer margins or NPV, and then the cash and NEA combo, I think, continue to be good indicators of our overall performance. And so, you know--we're largely going to gravitate towards that.

As we--you know, as we think about 2021, we'll again provide a bit more precise color--when we update Q4, but I think the, you know, above industry growth rates we expect as well as the expanded margins, you know, will translate well into strong cash generation and/or any growth dependent upon the capital structure decisions that we make there. You know, we're really focused on--the integration work, as Lynn mentioned, given the acquisition just closed four weeks ago. But I'm very confident heading into 2021.

Brian Lee
Okay. Thanks a lot. I appreciate it.

Operator
The next question is from Michael Weinstein of Credit Suisse. Please proceed with your question. Hi, guys.

Michael Weinstein
Hi, guys.

Hey, I'm sorry if you already mentioned this, but is the Q4 deployment guidance 10%, is that include Vivint Solar historically? Or, you know if it did, did it--how did Vivint Solar perform in Q3?

Tom vonReichbauer
Yeah, good--question.

So the--10% growth, quarter over quarter is inclusive of-- Vivint Solar. And their deployments for Q3 were approximately 47 megawatts.

Michael Weinstein
Gotcha.

And--I don't know, can you talk a little bit about FERC 2222 and when--I know that you know, the participation in New England ISO market is a lot bigger than some of the other may be smaller contracts you have with the utilities. Is there a timeline out there of expectations you might have for other ISO type participation in markets?

Edward Fenster
Sure, great question. It's going to be to backup for everyone on the call.

So the FERC 2222 order, you know, we're excited about. As you know, we've already met with significant success, finding counterparts to grow our virtual power plant business. And this order, you know, by opening up wholesale markets, expands the number of counterparties we can work with. You know, actually, FERCs own press release said it pretty nicely. They said the order will help usher in the electric grid of the future and promote competition in electric markets by removing the barriers preventing distributed energy resources from competing on a level playing field. So we couldn't agree with that more.

To your point, I think it might take a year or more to fully establish all the rules for our participation. You know, these could often also have to be done individually and on a regional basis. So there's not going to be a very near-term impact from this order. But these sorts of opportunities which are, you know, complex and benefit from scale, really play to our competitive advantages. And also exist, obviously, in this area of virtual power plants where we're leading the industry by leaps and bounds.

So we're very excited about it, but probably wouldn't, you know, see it increasing our virtual power plant business for at least a year. Although we do expect significant growth in that business, you know, from the existing pipeline, as Lynn mentioned earlier, heading into next year.

Michael Weinstein
Right.

And you mentioned earlier that tax equity is an important part of the capital--structure. And I'm just wondering. I know you guys are large players in that market, so you don't really--you don't have the same concerns that smaller--uses of tax equity might have. But can you talk a little bit about what you're seeing for 2021? How that market is shaping up in terms of scarcity? And then also any thoughts on how the election might impact--might be impacting that market going forward?

Edward Fenster
Well, I feel like the last thing the world needs is more electron--election speculation at the moment.

But I think that you know, the tax equity market, you know, might be a little smaller in 2021 than in 2020, which candidly probably plays to our advantage. You know, I'm quite confident that, you know, we have the supply that we need to support, you know, our growth and more than that. And you know, in markets like this, our long and excellent track record, our scale, our--steady deployment cadence are attractive. And frankly, the counterparties like residential because it provides smooth gap earnings profiles for them as compared to utility-scale. You know, they can kind of deploy, you know, a fund of whatever size they want to. And it's fantastically diversified.

It's also still very much a relationship business. And obviously, this is a place that, you know, we've built strong relationships with a counterparty, as you know, over, you know, almost 15 years now. So I feel very good about it. I think it actually might turn into a strategic advantage.

You know, I think probably people who provide it, you know, plan their budgets around the existing corporate tax rate, so if those rates were to go up, you know, it would probably increase supply. Higher corporate tax rates also increase the value of our assets because they benefit from more depreciation, so all that would be an upside, but not anything we're contemplating in the comments that we're making today.

Michael Weinstein
Great.

And just one last one. You know, maybe Ed, you could talk about your strategy for safe harboring. How much cash you intend to put into that now that--with the election--post-election, you--you're probably developing a new strategy or at least tweaking it. I'm wondering how that's going.

Edward Fenster
Yeah, that is a great question, as well.

So we expect to enter 2021 with a significant number of megawatts, safe harbor at 30%. You know, and as a reminder, next year, solar systems sold to a customer for cash or a loan will receive a 22% credit, so that's about $2000 less than if there was a 30% credit. Earlier this year, we entered into an agreement to make additional safe harbor purchases of modules and inverters, which would qualify as a 26% credit and be in addition to those 30.

Simultaneously, we negotiated options expiring mid-November that would allow us to add to our 26% safe harbor purchases if we choose to. We haven't yet decided whether or not to execute those options. And so I think that probably the best time for us to provide a complete view of our safe harbor position would be on the next call.

Michael Weinstein
All right. Thanks a lot, Lynn and Ed. and have a good--have a good week. Thank you

Lynn Jurich
Thank--you.

Operator
The next question is from Stephen Byrd of Morgan Stanley. Please proceed with your question.

Stephen Byrd
Hey, good afternoon.

Lynn Jurich
Good afternoon.

Stephen Byrd
Congrats on the strong growth and good MP--NPV per watt progress.

A lot of my questions have been addressed. I wanted to maybe focus on California for a moment. Just with the blackouts that we saw in California this summer, I'm curious if you see any additional opportunities for--grid services or changes to compensation on storage or just sort of other developments you're watching in--California, given there's clearly the need for--more storage?

Lynn Jurich
Absolutely.

The, you know, consumer interests across all the indicators is very high. And, you know, like we've said previously, I think this just builds. It's just--you know, these outages are going to happen, you know, every year. And so the interest, it just continues to build, so. So we're encouraged by that long-term trend.

I think the--you know, from a California policy and regulators, you know, there's a lot of opportunities here to use this one to accelerate our efforts at streamlining permitting, you know, the--we estimate that with automatic permitting and interconnection, we can save, you know, $7000 off our customers' contracts. And also that's just even that much more important when people need a solution, you know, quickly to, you know, anticipate power outages.

I think you're also seeing--you know, it's likely to contribute to additional support for, you know, programs like the one they rolled out for batteries in disadvantaged communities that are in wildlife areas. And that's a program we are participating in, and that has been quite successful. So there's just a number of ways that, I think, this will lead to, you know, great markets. There isn't necessarily something that I can specifically point to today, you know, but there's no question that it's a strong tailwind for the business.

Stephen Byrd
Understood.

I'm going to shift to the federal level, and I know there's a lot of uncertainty even as we speak in terms of the direction of federal policy. But just stepping back, if there were to be a federal stimulus bill and there were sort of some--green elements in that stimulus bill, I'd just like to get your latest thoughts and sort of ideally what you would like to see in terms of support for--clean energy and how, you know, that might impact your growth to margin potential? I know that's expected. I'm just curious on your latest policy thoughts there at the federal level.

Edward Fenster
Yeah, so I think first I should, you know, really underscore that consumers choose rooftop solar and batteries because it's more reliable. It's a better value proposition than grid power. And provided by companies that deliver better customer experience than, you know, utilities do.

You know, and recently, frankly, the most supportive federal policy for renewables has been low-interest rates. You know, which we expect is going to persist, kind of regardless of the election outcome.

And, you know, going to the fundamentals. You know, with more than 90% of Americans obviously are far across party lines, supporting rooftop solar and with rooftop solar, comprising 69% of all jobs in wind and solar development, and, you know, our product obviously makes unreliable power reliable, and so, because of all these things, we do expect increasingly supportive policies over time will further accelerate our growth future.

You know, the--probably the, you know, policy that you know, would be most likely to be included in a measure like that, if one were, would be some form of an extension to the tax credit, would be my suspicion. You know, that's previously been expanded under Republican presidents and Congresses--you know, has always been and perhaps of late increasingly as a sort of bipartisan supported effort.

So, again, as I think I've always said, it's very difficult to predict exactly when these sorts of policies might be enacted. But I think our view taking a long-term horizon is that, you know, for sure, the fact that you know, we're able to decarbonize, make more reliable power and, you know, drive significant economic growth--and employment, you know, makes us an attractive candidate, you know, for government--you know, for the government support.

Stephen Byrd
Yeah.

It's a fair point that you're--you know, you're providing value with or without, you know, any change to federal policy. One thing I guess I was thinking about in terms of solar tax credit extensions is the possibility of--Congress going in a direction where they would take away that limiting factor relating to tax equity, convert it into something that's more easily monetizable, a direct cash payment or some other form. You know, but I--take your point earlier to the question you answered earlier about the availability of tax equity, that you're in a relatively good position. But if that were to change and there were no limits from that perspective, would that have a material impact in terms of your growth? I hadn't been thinking of that as a--major limiter to your--growth debt, you know, as we stand now. But just curious, how you think about that.

Edward Fenster
Yeah.

So, as you know, we have a very significant policy team, and we're engaged on countless policy topics. You know, this year, we've not been active asking for refundability, which is the term that people use to describe what you're talking about. And certainly, you know, in the current environment, do not view our growth as in any way constrained, you know, by the availability of tax equity. You know, and I think probably refundability is marginally less likely to occur under a Republican Congress, not for any reason related to renewables, but just because generally Republicans don't love refundable anything. And so, you know, that's not really been a topic we've been engaged in one way or the other.

Stephen Byrd
Understood. That's all I had. Thank you.

Operator
The next question is from Kashy Harrison of Simmons Energy. Please proceed with your question.

Kashy Harrison
Thanks for taking my questions.

So, you know, I know it's early, but I was just wondering if you--all have any expectations of where net energy metering 3.0 in California may be headed. You know, do you think investors should be looking to Hawaii as an example for what, you know--net energy metering is going into the future? Or maybe you have some other framework that we should be thinking about?

Edward Fenster
Yeah, great question.

So first of all--you know, it's funny. I feel like if there's a cost shift to talk about today, it's that, you know, utilities are earning a regulated rate of return on equity in excess of 10%. You know, when anyone with a dollar to invest knows that with today's valuation can low interest rates, you know, investors would candidly be ecstatic at a five or 6% return from a regulated business.

That said, you know, early discussions around NEM 3.0 are underway with an anticipated decision date of late 2021. The timing could be impacted if the parties, you know, come to an earlier settlement. You know, obviously, as has always been the case, you know, our goal in these discussions is to ensure correct information that would challenge any information or proposals to undermine fair compensation to our customers, you know, for the solar energy they share with the grid or dispatch from their batteries.

It's interesting you mentioned Hawaii. I think Hawaii is a fantastic example. Because, as you may know, Hawaii did move years ago to basically eliminate exports., You know, with the Utilities Act, we actually--you know, one in three homes have solar. We can't handle them. And, you know, our response to that was that we installed 30-kilowatt hours of storage on every system we installed, you know. And after several years of doing that, you know, the Hawaii Utility called us up and actually now has offered to pay us to dispatch that power in the evening. You know, which is effectively what time of use rates, you know, encourages.

So I think Hawaii is actually one of several examples. Nevada being another, Arizona being another, where, you know, regulators where they've typically gone the direction of complicating net metering, you know, end up actually ultimately returning the other--way. So, you know, I'm confident that, you know, our customers will continue to be fairly compensated for the energy that they create and the contributions they make to the grid. And, you know, we'll be working through that process, you know, over the next year.

Kashy Harrison
Thank you for that. Appreciate it.

And--maybe just, you know, I know tax equities, we've talked about a lot, but--just maybe a follow up on that. And--can you discuss maybe some of the trends in the tax equity required rate of return? You know, clearly, you know, interest rates are a lot lower. And generally, the market's rate of return has moved lower. But I'm just curious if--the supply-demand dynamics are at play? You know, how those are impacting, you know, what tax equity investors want in terms of IRRs?

Edward Fenster
Yeah.

So we just, frankly, don't see any variation. I mean, I--it wouldn't surprise me. Like if you look at our partnership transact--partnership flip transactions that we've entered into over 15 years, you know, the highest pre-tax and lowest pre-tax capital cost are maybe 50 basis points different. I mean, it's totally immaterial. Really, what constrains pricing in the tax equity market is that it has to be a pre-tax rate of return, you know, in order to clear the safe harbor. And so the after-tax in turn kind of falls out of that. So we just don't see a variation in the cost of tax equity--really ever across any economic cycle. We didn't see it in 2010. You know, we didn't see it before COVID. We haven't seen it during COVID. It just really kind of always prices at the same level.

Kashy Harrison
Awesome. That's it for me. Thank you.

Operator
The next question is from Colin Rusch of Oppenheimer. Please proceed with your question.

Colin Rusch
Thanks so much, guys.

You know, if you think about the--opportunities enabled by lower-cost capital, can you talk about your--plans to expand into new geographies and--the lower cost capital influencing that decision?

Lynn Jurich
Absolutely.

The--you know, our current--outlook and the growth that we described for 2021 does not depend on any additional geographic expansion. That being said, you know when we started the business, we were in California only. And now, we're in 22 markets. And that really was predicated on the cost reductions.

So when we look at, you know, the opportunities ahead of us with the cost reductions from efficiencies, from the synergies, with the additional value created from batteries and grid services, with utility rates continue to increase, we absolutely expect that you know, this will be a product that will be available nationwide. But again, for next year, there isn't--you know, there isn't a need to expand in order to hit those sort of growth targets. And there's probably not, you know, in the next quarter a geographic expansion on the horizon.

Colin Rusch
That's super helpful.

And then, just thinking about the--you know, now that we've seen the energy storage products in action, you know, been able to sign a number of deals, and you've got a couple of strategic partnerships in terms of deployment, can you talk about the pipeline of potential new partnerships--that you guys are thinking about and considering? You know, not just similar to the (INAUDIBLE) Edison deal or--others that you've got as we think about, you know, what might happen on a go-forward basis?

Lynn Jurich
Absolutely.

The current contracts that we have only cover 10% of the market that we operate in. And--but the pipeline, which is over $50 million, includes--you know, would be 50% of our geographies. So it's a pretty significant market development work that we--have in the process. So, you know--you should certainly expect that we continue to expand these virtual power plant opportunities.

Colin Rusch
Okay. I'll take it off-line and get a clarification on that. Thanks so much.

Operator
The next question is from Philip, Philip Shen of ROTH Capital Partners. Please proceed with your question.

Philip Shen

Hey, guys. Thanks for taking my questions. I wanted to follow-up on the 2021 outlook. You know, if you look at Q3, you're down on a combined basis 9% year over year. Q4 looks like it could be--you guys could be down 6%. So as we get into next year, you know, you highlighted the issues and the reasons why, you know, with integration and so forth for Q4, but how long do you think that extends? You know, so does it persist into Q1? Do you think you're flat year over year? And I know it's tough to--tough in the sense that you haven't given guidance, but any commentary on that cadence of year over year growth in megawatts that we could see on a combined basis in Q1, 2, and 3 of next year would be fantastic. Thanks.

Tom vonReichbauer
Yeah, thanks.

Lynn Jurich
Great question.

For--. Oh, go ahead, Tom.

Tom vonReichbauer
Yeah, so we 'll--come back with, you know, a more precise figure for the year. And I think it's too early for us to call a quarterly cadence at this point. But, you know, I think the--issues around, you know, Illinois and Massachusetts for the Vivint direct-to-home team that we highlighted earlier, you know, we're working through. And I think with the integration efforts that Lynn mentioned of, you know, adding batteries to--that the Vivint team is offering--and more grid services partnerships, who I think we--you know, we feel good about where growth trends--and getting through, you know, some of--the near-term elements, you know, notwithstanding other, you know, potential disruptions here--on COVID. I think we feel good about where that's at right now, but it's too early to call specific quarters.

Philip Shen
Okay, thanks, Tom.

That's--.

Lynn Jurich
Hey, Phil. Phil, one thing that I--.

Philip Shen
Please.

Lynn Jurich
Phil, if I can just add one thing to that.

You know, we're in a--you know, it's a--operational business, and we manage both growth and achieve margin. And I think, you know if you look at the results, it's pretty--they're pretty outstanding. I think you know, moving, you know, quarter to quarter, going up 40% and then--and then, you know, into Q4 increasing by another 10% while doing integration in addition to expanding the profit margin by, you know, 20%, that's--you know, that's pretty significant growth. And on our scale, you know, I think in 2021, we'll probably have more profit than all our competitors combined. So, you know, the--sequential growth rate is quite--strong and, you know, something that gives us a lot of confidence going forward.

Operator
The next question is from Sophie Karp of KeyBank. Please proceed with your question.

Sophie Karp
Hi, good afternoon. Thank you for squeezing me in here.

I was just wondering if you could maybe comment on--the relative economics of grid services that you guys access via different channels for ‘20 to ‘22 versus drug deals that you do? And how soon do you think that line of revenue, if you will, will be big enough to become maybe its own segment or its own line item?

Lynn Jurich
Thanks. Thanks, Sophie, good question.
The--you know, the--because these contracts are, you know, contracted in advance, you know, most of them are for fulfillment in 2022 and 2023, you won’t see it in the next, you know, couple of years, results in a meaningful way. That being said, it will drive meaningful business value over the next couple of years. First, because we’ll have a differentiated offer to sell our customers, and, you know, second, because that differential offering will enable us to, you know, create really an industry structure that’s more of a winner--take most structure than it currently is with solar only.

Sophie Karp
Great, thank you.

And then, also on that topic, should we be thinking about some degree of cannibalization of cash flows between sort of, you know, the traditional (INAUDIBLE) revenue and great services revenue because the same assets are being used for both, right? So are these strictly additive, or is this a cannibalization that goes between these cash flows?

Lynn Jurich
Good question.

It’s--additive. So, you know, the way that you would see that roll through would be in your net present value per customer. You know, so, you know, again today in Q4, we expect that to return to $8000-plus per customer. And we expect the grid services and the initial contacts--contracts support an additional $2000. So you’ll see it show up in that NPV number. Now, some of it, we--you know, you may pass through to, you know, consumers to grow adoption. You know, we’ll fill--we’ll work through all the elasticity in making those calls. But you should think of it as additive.

Sophie Karp
Got it. Thank you. That’s all for me.

OPERATOR
The next question is from Philip Shen of ROTH Capital Partners. Please proceed with your question.

Philip Shen
Hey, guys. Thanks for this follow-up. I think I got cut off. But anyway, I was looking into--and so in terms of 2021, you guys talked about growing above market. At what point do you think you grow above market? Do you think it’s--do you think you end the year at a run rate above market? Or do you think you can actually grow above-market for the full year of 2021?

Lynn Jurich
Yes, we’re--.

Lynn Jurich
What we’ve--stated was will grow above market for the full year, 2021. And again, I would caution anybody to, you know, draw a conclusion about, you know, one core quarter, you know, sort of going forward with integration and everything underlying it. It’s an absolutely, you know, strong result. And I think, you know, positions us to have out--outsized growth rates for the--you know, the years to come.

Philip Shen
Yeah, totally get that. As numbers get larger, they’re tougher.

That--in terms of backlog--.

Lynn Jurich
No, I--let me clarify. Let me clear--let me clarify that.

Philip Shen
Please do.

Lynn Jurich
Not as we get larger. I mean, you know, certainly, certainly we--I'm not saying that as we get larger, the growth rate slows. I'm saying the opposite. I believe that you know, given the industry dynamics that continue to invest in the brand, that continues to invest in product differentiation will enable us to exceed market growth rates because of our scale.

Philip Shen
Great.

And then in terms of backlog, you know, we're hearing out there that backlogs are growing. I mean, there are some people talking about labor constraints and so forth--and other constraints in the--ecosystem. Are you guys seeing that at all? And are you seeing backlogs increasing? Or are you guys able to get through that okay?

Lynn Jurich
That was a question on--labor, Phil?

Philip Shen
Yeah, just backlog and--labor in general.

Lynn Jurich
Got it.

You know, we don't see any issues with labor in our business. We--you know, we obviously will stay vigilant on that. You know, our expectation is that the world will embark in dramatic electrification of the home. And if you look at the U.S., that would create 25 million jobs, which is why it's so politically popular.

And so we'll always stay vigilant, build a differentiated talent brand, invest--in job growth. And one of the things I'll note is, you know, we use the McKinsey process to evaluate the cultures of both Sunrun and Vivint Solar. And the result was that you know very similar results and both in Tier 1. So both companies are--you know, are places that attract high-quality employees. And then we also have our channel model as well, which we--which also, you know, helps tap into the local market of the local solar installers to, you know, additionally fulfill deployments.

Philip Shen
Great, thanks, Lynn. I'll pass it on.

Unknown
Sure.

Lynn Jurich
Great. Thank you. I think we're at the top--of the hour. I believe that's the end of the queue, so appreciate everybody's attention. And we'll talk again next quarter. Take care.

Operator
This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

sunrun

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Forward Looking Statements

This presentation 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, business plan, investments, market adoption rates, our future financial and operating performance, the impact of the COVID-19 on Sunrun and its business and operations, the expected benefits of the acquisition of Vivint Solar, the expected benefits of our partnership with Southern California Edison, our leadership position in the industry, our expectations as to the opportunities for the proposed joint venture to electrify the home, the expected benefits of the joint venture, the expected benefits of our exclusive partnerships with the CCAs, our customer value proposition with new virtual power plant contracts, increased battery adoption, our transitioning to a digital sales model, reductions to our workforce and labor-related costs, our operational and financial results such as growth, value creation, Cash Generation, Megawatts Deployed, Unlevered NPV, total cash balance, our investment tax credit safe harbor strategy, estimates of Gross and Net Earning Assets, Project Value, estimated Creation Costs, gross orders, demand, customer acquisition costs, NPV and the assumptions related to the calculation of the foregoing metrics, as well as our expectations regarding our growth, financing activities, and financing capacity, and factors outside of our control such as public health emergencies and natural disasters. 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; the impact of COVID-19 on the Company and its business and operations; worldwide economic conditions, including slow or negative growth rates in global and domestic economies and weakened consumer confidence and spending; 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; 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; our continued ability to manage costs associated with solar service offerings; our business plan and our ability to effectively manage our growth and labor constraints; 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.