



Q1 2022 Earnings Call

May 4, 2022

Prepared Remarks

PATRICK JOBIN

Forward Looking Statements

Thank you operator.

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

On the call today are Mary Powell, Sunrun's CEO; 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.

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 retrain 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.