



**Q1 2023 Earnings Call
May 3, 2023
Prepared Remarks**

OPERATOR

Good afternoon and welcome to Sunrun's first quarter 2023 earnings conference call. All participants have been placed on mute. Please note that this call is being recorded and that one hour has been allocated for the call, including the Q&A session. To join the Q&A session after prepared remarks, please press star 1 at any time. We ask participants to limit themselves to one question and one follow-up question. I will now turn the call over to Patrick Jobin, Sunrun's Senior Vice President, Investor Relations. Please go ahead.

PATRICK JOBIN

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, Paul Dickson, Sunrun's Chief Revenue Officer, and Danny Abajian, Sunrun's CFO.

A presentation is available on Sunrun's investor relations website, along with supplemental materials. An audio replay of today's call, along with a copy of today's prepared remarks and transcript including Q&A will be posted to Sunrun's investor relations website shortly after the call.

And now let me turn the call over to Mary.

MARY POWELL

Thank you, Patrick.

Hi all, we have a lot to catch up on today, so let's get going. 'Faster, better, stronger' and 'doing it right' were the themes of our first quarter as we laser focused on crushing it on the fundamentals and delivering value for our customers, shareholders and the planet.

Frankly, we pleasantly surprised ourselves with the momentum that our culture of high performance created as we entered the first quarter of our year, and we plan to accelerate this momentum as we move into the rest of the year.

In the first quarter we installed systems for over 32,000 customers, representing approximately 240 megawatts of solar capacity, 12% higher than the first quarter of the prior year, and significantly above our guidance range. Even with challenging weather conditions, including atmospheric rivers in many parts of California, our teams worked to safely install solar systems on rooftops. We did so with a higher-than-expected Net Subscriber Value and, most importantly, positive trends in customer satisfaction metrics.

We are powering a customer-led revolution to clean, affordable and locally-generated energy, and doing it at massive scale and unprecedented pace. Our Networked Solar Energy Capacity now stands at 5.9 Gigawatts and we are on track to add well over 1 Gigawatt of clean power capacity this year alone. To put



that in context, the capacity we are adding this year is equivalent to an average nuclear power plant which takes decades to build. Most utility scale solar projects are generally 5 Megawatts or smaller, and take 6 to 12 months to bring online. We do well over 20 megawatts per week! Think about that... just think about that. As a former utility CEO, who knows full well the amount of time and capital it takes to build projects of scale, Sunrun is scaling at a gigawatt pace with low-risk, fast development times. The modern energy system we are developing is built efficiently on existing housing infrastructure, avoiding the intense environmental impacts that come from the massive land use tied to utility scale renewables, which would require use of five to ten thousand acres of land to produce similar scale, and would certainly take years, not quarters, to build. Most important of all is that our offerings provide what customers *really* want: clean, affordable and predictably-priced energy to power their homes, their lives and with increasing frequency, their transportation.

Based on what we are seeing in our business and across the industry, I could not be more pleased with Sunrun's competitive position and market leadership. Sales activities were up over 30% in the first quarter compared to the prior year – with much faster growth in California. Sales in California increased by more than 80% year-over-year in Q1, as we successfully helped customers lock-in value from the existing rate structure. Even excluding California, total sales activities increased by double-digits, with about half of the states we operate in growing more than 20%. Part of this outcome, of course, was the expected acceleration ahead of the changes in California, but the results are also indicative of the loss of confidence in the utility grid infrastructure, rapidly rising utility rates, and growing consumer awareness of the energy independence afforded by our products and services. Our strong traction is also a result of our ability to attract the best sales talent in the industry, eager to work with the nation's leading residential clean energy provider, especially one that leads on storage and innovation.

Sunrun is the clear leader providing clean energy as a subscription service, with over 60% share of new subscriptions across the residential solar industry. Recent trends in financing costs for loans, the growing need for advanced systems with storage, awareness of the value of service and performance guarantees, along with the uncertain economic climate, have all increased the advantages of our subscription offering. We are seeing a significant shift in preference towards the subscription offering, with the mix of new subscribers increasing nearly seven percentage points from last quarter, to 78% of our installations in Q1.

Storage solutions are not only a significant competitive advantage for Sunrun and differentiator in the eyes of customers and salespeople, they are meaningfully accretive to our margins. We have now installed more than 58,000 residential solar and storage systems across the country. While storage supply was a constraint to growth as recently as last year, supply chain conditions have improved considerably for us given our strong vendor relationships, and we are well positioned to dramatically increase the attachment rate. Our wherewithal to tackle the increasing capital intensity required for a rapid transition to high battery attachment rates positions us well to continue to lead the charge on battery adoption.

Sunrun will continue to lead with the best product offerings for customers, and deliver them in the most cost effective way possible, always prioritizing the customer experience and serving them with love, grit and ingenuity. At Sunrun we are building the beloved trusted brand that will help Americans achieve their clean energy lifestyle goals, powering their lives with the abundance of clean energy.

We have built a high performance team focused on the fundamentals, which will generate meaningful and sustainable value for our shareholders, customers and employees. This has been a central factor in our ability to adapt to market changes with rapid speed and decisiveness. Our team not only stood up the infrastructure to process a wave of orders and qualify customers under California's prior rate structure in a way that maximized value for our customers and Sunrun, but we also started selling under the new rate structure with a compelling subscription offering faster than others in the industry. I have always espoused that culture eats strategy... for breakfast, lunch and dinner, and our team culture is all about the kind of high performance collaboration that drives strong execution, and growth.

We're starting to see the progress on these elements, with improved field efficiency, improving customer satisfaction rankings, and continued innovation.



An example of our focus on operating efficiency is the work we are doing to streamline field operations. We moved to job-site delivery of equipment in many geographies, allowing crews to spend more time at customer locations instead of branches, increasing productivity, employee engagement and customer satisfaction. As an anecdote, we improved installation crew efficiency by approximately 17% in March compared to the prior year.

Driving the best financial outcome is critical to our success as we focus on growth and scale, and is directly linked to how we increase the accessibility of solar energy across the country and make the largest impact on our communities and the environment. Last month we published our sixth annual Impact Report. This is an inside view into what drives us as a company and how we operate the business – our purpose, our mission, and our people-first approach. I'm so proud to share the many amazing initiatives at Sunrun and the positive impact our important work is making on the planet.

Concluding Comments

In summary, the Sunrun team is driving meaningful long-term value by focusing on sustainable, profitable growth, crushing it on the fundamentals, and accelerating the customer-led revolution in clean independent energy lifestyles. This is the company that is focused on producing strong unit margins which can enable strong, recurring cash generation.

I will now turn the call over to Paul Dickson. Paul is Sunrun's Chief Revenue Officer and is a tremendous asset on our executive team, overseeing our go-to-market strategy, sales channels, product strategy and technology development. He was one of the early leaders at Vivint Solar and a pioneer in the industry, building tremendously successful, impactful and mission-oriented organizations. Over to you Paul!

PAUL DICKSON

Thank you Mary.

I'm thrilled to share updates on Sunrun's market position and how we are poised to accelerate our market share in quarters ahead, as well as the exciting innovative offering we just launched in California. Our subscription offering, which makes going solar easy, is extremely well positioned in the marketplace, and the advantages of a diversified multi-channel go-to-market strategy, paired with a vertically integrated business is beginning to really demonstrate its strength and ability to adjust to market conditions and drive responsible growth, and improving margins.

Strength of Multi-Channel Sales Model

Sunrun goes to market through multiple channels – our direct-to-home sales force, which is comprised of regional teams who sell direct to customers; our field sales organization, which leverages leads through our presence in retail stores, such as Costco and Home Depot; our national inside sales organization, which helps customers from our digital channels go solar through a virtual process; our business to business routes which include low income multi family and new homes, and last but not least our affiliate partner program, which we used to refer to as channel partners, where we partner to round out our go to market strategy with the sharpest and most innovative large, regional operators.

Our multi-channel go-to-market approach delivers meaningful advantages at different moments in time. For instance, our Direct-to-Home organization is particularly well situated to find customers and create density in targeted locations due to the mobile and nimble nature of the organization. This is especially helpful to address the location-specific investment tax credit adders for low-income and Energy Communities. Additionally, our Direct-to-Home channel often reaches customers who have not already understood the value of solar and storage. Our national inside sales organization can flex resources in areas where needed, and serve customers desiring to be met through virtual engagements. Our Field sales organization helps customers who wish to shop through companies they are already familiar with as they meet our associates working in big box stores. Lastly, our affiliate partners allow us to expand our reach, share best practices, and benefit from deep local knowledge. Having the solar industry's largest



internal sales force, many times over, and deep integration with our key affiliate partners enables us to meet customers most effectively, and move quicker to meet market conditions.

California NBT Transition & Shift Launch

Leading up to the transition from NEM 2 to the new rate regime, called Net Billing Tariff or NBT, we saw tremendous growth in new orders. With Q1 sales growing over 80% year-over-year in California, we were able to build a pipeline of over 20,000 customers, representing 150 megawatts. This pipeline will be installed over the next couple of quarters.

The vertically integrated nature of our business enabled us to align quickly with sales, design, technology, supply chain, operations, and customer service, not only to ensure that NEM 2 projects were submitted properly and on time, but also to launch a product to address the needs of customers under NBT.

I am extremely excited about the new offering we launched in California, called Sunrun Shift. This is the innovative offering we alluded to on the last earnings call. It incorporates storage to optimize the economics of energy produced by the solar system. It does this by charging up the Shift device with daytime solar production, rather than exporting at low-value rates, and by enabling self-consumption in the evening during peak utility rates. This system delivers a far better customer offering than solar alone and will be easier and quicker to install than full battery backup. This new offering delivers a strong value proposition for our customers, and a strong Net Subscriber Value for Sunrun. Another benefit is that Shift customers are able to participate in grid service opportunities, providing enhanced value over time to these customers, Sunrun, and the grid.

Because of our leading position on innovation and investments in advanced product development, we were able to launch a solution that meets utility needs and provides incredibly strong savings for most customers, in a range from approximately 10 to 30 plus percent. At these robust savings levels, we are seeing over 85 percent of customers select Shift or battery backup since launch. Bottom line – *at Sunrun*, California is open for business.

As expected, immediately following the transition in early April we saw a decline in sales activities. Part of this was driven by the sales teams spending more of their time advancing a larger than normal pipeline, which was created from the policy change, while simultaneously refining the explanation of the new Shift offering. We have seen a strong rebound in sales activities, increasing 25% week-on-week, and we are already back to approximately two-thirds of the level from one year ago. We expect the rebound to continue.

With Shift preserving strong customer savings, sales activity rebounding nicely, and the strong sales-driven pipeline we built prior to the policy transition, we expect to deliver year-over-year growth in the quarters ahead in California.

I'm extremely proud of the way the team came together to leverage our diverse routes to market and our innovation to deliver strong growth and attractive unit economics. The resiliency, flexibility and ingenuity our sales leadership demonstrated was amazing.

With that, I will turn the call over to Danny for the financial update.

DANNY ABAJIAN

Thank you, Paul.

Today I will cover our operating and financial performance in the quarter along with an update on our capital markets activities and outlook.

Turning first to the results for the quarter.



Volumes

In the first quarter, Customer Additions were approximately 32,400, including approximately 25,200 Subscriber Additions. Our Subscriber Additions were 78% of our total Customer Additions in the period, a meaningful increase from 72% last quarter. Our recent sales activities, and the forthcoming benefits from the tax credit adders in the Inflation Reduction Act, which are only available to the solar subscription model, indicate the mix of Customer Additions is likely to continue to shift more toward Subscribers in the quarters ahead. Solar Energy Capacity Installed was approximately 240 megawatts in the first quarter of 2023, a greater than 12% increase from the same quarter last year, and significantly exceeding our guidance of 215 to 225 megawatts.

We have now installed over 58,000 solar and storage systems. We expect storage installations will grow rapidly in the quarters ahead and attachment rates will increase meaningfully, particularly in California due to the transition to NBT, which will drive customers toward our Shift and home backup offerings. Our backup-power storage offerings not only provide customers increased value from energy rate optimization and backup power capabilities, but they carry higher margins, typically by several thousand dollars per customer. We expect our Shift offering will achieve margins that are similar to prior solar-only margins realized in California under NEM 2. Our ability to satisfy demand for storage installations with superior operational fulfillment is a clear differentiator for Sunrun in the marketplace.

We ended Q1 with approximately 830,000 Customers and 692,000 Subscribers, representing 5.9 Gigawatts of Networked Solar Energy Capacity, an increase of over 20% year-over-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 \$1.1 billion, up over 23% over the same period last year. We had an average contract life remaining of over 17 years.

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

As we noted on the last call, commencing with Q1 reporting, our present value-based metrics are now presented using a 6% discount rate, reflecting the higher cost of capital environment. We continue to provide sensitivity tables to allow investors to adjust these figures as they see appropriate. Furthermore, our cost of capital, advance rate and proceeds commentary reflects realizable outcomes based on current market conditions.

In Q1, Subscriber Value was approximately \$44,000 and Creation Cost was approximately \$32,000, delivering a Net Subscriber Value of \$12,000, exceeding our guidance of approximately \$10,000. The sequential decline from Q4's Net Subscriber Value of \$16,600 was primarily driven by the change to our discount rate assumption. Pro-forma using a 5% discount rate, Net Subscriber Value would have been \$15,761 in Q1. After isolating the discount rate impact, the remaining \$839 decrease from Q4 was driven by typical seasonal effects of less favorable fixed cost absorption and accelerating sales activities ahead of volume recognition, offset partially by more favorable pricing. Our Q1 Subscriber Value and Net Subscriber Value both assume a 30% Investment Tax Credit and thus exclude any benefits associated with the tax credit adders, as final guidance is still pending.

We are seeing easing supply chain conditions and substantial cost reductions across our key hardware components, which should provide further unit cost reductions as we work through inventory. These beneficial trends may be obscured, however, by an increasing mix of storage, which carries higher net margins, but will increase hardware and install costs and therefore impact Creation Costs.

Total Value Generated, which is the Net Subscriber Value multiplied by the number of Subscriber Additions in the period, was \$302 million in the first quarter. This represents an almost doubling compared to the prior year period, even without adjusting for the less favorable discount rate used this year.

Each quarter we provide ranges for advance rate, measured as a percentage of contracted Subscriber Value, that reflect current capital costs. We finance our systems upon installation with tax equity and project-level non-recourse debt, which monetizes a portion of our Subscriber Value. Our advance rate



ranges allow investors to approximate proceeds from all sources, net of fees, and gauge the obtainable net cash unit margins on deployments.

As you can see on slide 10, as the cost of capital increased over the last year, advance rates declined. We currently estimate advance rates are approximately 80 to 90 percent of Contracted Subscriber Value, consistent with the range we shared last quarter, and recent market transactions would imply our advance rate is around the midpoint of this range, slightly skewed toward the low end.

You can also see on slide 10 that our steadily increasing Subscriber Values, due primarily to price increases and numerous other profitability actions, have allowed proceeds as measured at the midpoint of the advance rate ranges, to increase modestly and mitigate increases we have faced from higher capital costs.

Gross and Net Earning Assets, Cash Balance

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

Gross Earning Assets were \$11.6 billion at the end of the first quarter. Gross Earning Assets is the measure of cash flows we expect to receive from customers over time, net of operating and maintenance costs, distributions to tax equity partners in partnership flip structures, and distributions to project equity financing partners, discounted at a 6% unlevered capital cost.

Net Earnings Assets were over \$4 billion at the end of the first quarter. Net Earning Assets is Gross Earning Assets, plus cash, less all debt. Net Earning Assets declined compared to Q4 owing primarily to the change in discount rates. Pro forma for a 6% discount rate, however, the decline was slight and for a few reasons, including increased inventory and timing of sales and marketing costs, as well as timing of project finance activities. We expect Net Earning Assets to grow meaningfully over the next several quarters.

We ended the quarter with \$843 million in total cash, a decline of \$110 million compared to the prior quarter, principally driven by working capital consumption and timing of project finance activities.

Capital Runway

We continue to maintain a robust project finance runway. As of today, closed transactions and executed term sheets provide us with expected tax equity capacity to fund over 450 megawatts of projects for Subscribers beyond what was deployed through the first quarter. Sunrun also had \$522 million in unused commitments available in its \$1.8 billion non-recourse senior revolving warehouse loan at the end of the quarter to fund over 175 megawatts of projects for Subscribers. We priced a \$327 million securitization last week which is scheduled to close next week, significantly increasing the available capacity in our warehouse loan. This strong capital runway allows us to be selective in timing our capital markets activity.

Outlook

Turning now to our outlook.

We continue to guide growth in Solar Energy Capacity Installed to be between 10 and 15 percent for the full year 2023, which we believe will result in market share gains. We see more upside opportunity than downside risk in achieving growth in this range, and expect to finish the year around the high-end of the guidance range. As we obtain more California sales data and further Treasury guidance on the tax credit adders we may increase our outlook next quarter.

We expect our storage attachment rate will increase significantly in 2023 from approximately 15% both in 2022 and Q1.



In Q2, we expect Solar Energy Capacity Installed to be in a range of 270 and 290 megawatts. This represents double-digit growth year-over-year and double-digit sequential growth from our Q1 installations, and implies second-half growth squarely on track with our full-year guidance.

We expect Net Subscriber Value to increase sequentially in the second quarter and to be materially higher in the second half of the year compared to the first half.

We are focused on delivering profitable growth while adapting to the economic and regulatory environment. Coupled with the likelihood for substantial value from ITC adders, this places us on a path to achieving our goal for meaningful cash generation.

Capital Markets

Turning briefly to our capital markets activities and outlook.

After a period of rapidly increasing rates in 2022, our cost of capital has recently stabilized. We currently see capital costs in the mid-six to mid-seven percent range, skewed slightly toward the high end of the range.

While the events around the banking sector garnered significant headlines in March, there was no adverse impact to Sunrun. We responded to developments quickly and decisively, and numerous capital partners reached out to us indicating interest to step into another lender's funding commitments, which we ultimately did not need. We continued to utilize our lending facilities without interruption throughout the entire period and continue to do so today.

We raise capital commitments in advance and from a diverse set of institutions. As we install systems for customers, assets are placed into our non-recourse revolving warehouse facility. This facility includes a diverse group of nine lenders. As assets are aggregated to form appropriately sized pools, typically in the \$200 to \$500 million range, we execute term-out financings, raising non-recourse capital either in the securitization market or directly with banks. Because of the revolving nature of the warehouse facility, we can be selective when we choose to execute term-out transactions. We periodically extend our warehouse availability and upsize it to accommodate a target of at least a year's worth of new subscriber additions.

Contrary to fears about the capital markets being closed for our asset class, debt markets have remained solidly open. The durability of these sources of capital is intuitive as lenders appreciate our stable, predictable, cash-flow producing assets that are backed by a diverse group of high-FICO customers with a proven incentive to pay.

Demonstrating our continued access to capital and recognition as a leading sponsor, last week we priced a \$327 million asset backed securitization. The senior tranche of 'A-' rated notes priced at a yield of 6.13% and at a credit spread of 265 basis points. The book was solidly oversubscribed with a diverse set of both repeat Sunrun investors and numerous new entrants. The yield we achieved was over a half point better than a similar transaction in the sector which priced within a week of our transaction.

As we've shared before, we regularly enter into interest rate swaps to hedge capital costs on our newly installed customers. We are principally exposed to interest rate fluctuations between customer origination through shortly after installation. Around the time of installation, our systems are financed with project-level non-recourse debt. Nearly all of this financing is insulated from near-term interest rate fluctuations, as our debt is either fixed-coupon long-dated securities, or floating-rate loans that have been hedged with interest rate swaps.

The longstanding relationships we have cultivated with many capital providers in multiple markets, our reputation as a high-quality sponsor, and the consistently strong payment performance trends of our customers through multiple economic cycles, affords us ready access to capital.

With that, let me turn it back to Mary.



MARY POWELL

Thanks, Danny. Thanks, Paul.

I am so appreciative of our hard-working team whose incredible passion for the work we do and commitment to our purpose helped deliver another quarter of strong results. Our team is laser focused on accelerating the strong momentum, driving continued efficiencies across the business, and generating more value for our shareholders, our partners, and our customers. One of the greatest joys of my role is the time I spend every single quarter out in the field seeing our employees in action, talking to our customers, and literally witnessing the dramatic acceleration of this customer-led revolution ... as we like to say at Sunrun, LET'S RUN. Operator, that's your queue -- 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 financial and operating guidance and expectations; the Company's business plan, trajectory, and expectations, 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 its business strategies including its ESG efforts, 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 derive value from the anticipated benefits of partnerships, new technologies, and pilot programs; anticipated demand, market acceptance, and market adoption of the Company's offerings, including new products, services, and technologies; expectations regarding the growth of home electrification, electric vehicles, virtual power plants, and distributed energy resources; the Company's ability to manage suppliers, inventory, and workforce; supply chains and regulatory impacts affecting supply chains; the Company's leadership team and talent development; 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 expectations regarding the Company's storage and energy services businesses and anticipated emissions reductions due to utilization of the Company's solar systems; anticipated or potential residual impacts of the COVID-19 pandemic; and factors outside of the Company's control such as macroeconomic trends, bank failures, public health emergencies, natural disasters, acts of war, terrorism, geopolitical conflict, or armed conflict / invasion, and the impacts of climate change. 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 and inflation; volatile or rising interest rates; changes in policies and regulations, including net metering, interconnection limits, and fixed fees, or caps and licensing restrictions and the impact of these changes on the solar industry and our business; the Company's ability to attract and retain the Company's business partners; supply chain risks and associated costs; the residual impacts of COVID-19 on the Company's operations; realizing the anticipated benefits of past or future investments, partnerships, strategic transactions, or acquisitions, and integrating those acquisitions; the Company's leadership team and ability to attract 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 home electrification and 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.