



Q1 2020 Earnings Call
May 6, 2020
Prepared Remarks

Forward Looking Statements

Thank you operator, and thank you to those on the call for joining us today.

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.

On the call today are Lynn Jurich, Sunrun's co-founder and CEO, Bob Komin, Sunrun's current CFO, and Ed Fenster, Sunrun's co-founder and Executive Chairman.

The presentation today will use slides which are available on our website at investors.sunrun.com.

And now let me turn the call over to Lynn.

LYNN JURICH

Thanks, Patrick.

We are pleased to share Sunrun's first quarter results and progress against our strategic priorities.

In the first quarter we added 13,500 customers, representing 97 MW of deployments, a 13% year-over-year increase. We generated \$81 million of net present value and created NPV per watt of \$0.98, or over \$7,100 per customer. We grew our base of customers 23% compared to last year, now nearly 300,000 strong.

Upon completing the initial analysis of the likely near-term impacts of COVID in March, we expressly pivoted our strategy to focus foremost on prioritizing the strength of our balance sheet, with a secondary consideration to remain in position to quickly ramp growth when appropriate. We believe this strategy is proving successful.

Today, we expect the Company will maintain our cash balance and generate Net Earning Assets during 2020. But what I'm most excited about is our increased corporate metabolism, specifically the



improvement in our operating pace and agility. Many of the changes we have recently made were based on improvement initiatives that have been underway for some time - COVID simply provided a powerful catalyst. Our teams have compressed what might have been months or even years of evolution into weeks. We ramped up our digital lead generation efforts rapidly and that led to an all-time high number of digital leads in April. We launched a successful consumer promotion inside of two weeks. We moved our entire field sales team to digital sales within one week. We changed our lead routing and improved the productivity of our sales consultants. All of these actions culminated in end-of-April order volumes that were at and even above pre-COVID levels.

Down funnel, we have moved to drone-based site inspections in over 80% of our branches, allowing us to quickly pivot to contact-free inspections. We have also been streamlining our processes and testing new approaches in order to drive down cycle times. We have accelerated our progress in reducing permitting costs by bringing more building departments online. We are starting to use a new proprietary racking technology that we expect to have a meaningful impact on install productivity. We have also launched a new field optimization software platform. While it is too early to determine the full benefits of these actions, it is clear that our teams are embracing the changes necessary to help us drive meaningful improvements to our profitability and ability to scale quickly.

While sales volumes in our direct business were briefly down as much as 40% in late March, they have been growing steadily since, and we have begun recalling furloughed workers. We do expect that our withdrawal from big box retail stores, permitting delays in certain jurisdictions, and other frictional costs related to COVID may continue for some time and impede our near-term cost declines and installation volumes. Because our generally strong unit margins and low capital costs afford us the ability to operate at reduced NPV levels without consuming cash, we are choosing to maintain an athletic position to benefit from a quick recovery. As such, we expect NPV levels will be below our typical targets for the next two quarters. However, we expect our increased change management will enable us to emerge with lower unit costs, higher volumes, and an even more diverse set of lead channels into 2021. These sales and operating initiatives combined could deliver around \$2,000 in cost savings per customer in the medium-term, which would be a 25% improvement in NPV per customer.

Competitive differentiation

I'm confident that we will emerge stronger and in a position to gain market share both through improvements in our direct business and share gains in our channel business. The current environment has highlighted to local solar companies that Sunrun is the best partner. We have the tools to enable virtual selling, a strong brand that customers trust, and a reputation of financial stability. We have built our channel partner business to maximize the value for our partners, our investors, and our customers and to be run sustainably.



We have recently added five new channel partners to our platform, with the majority on exclusive terms. They have chosen to partner with us for the value they derive from Sunrun, not because of higher pricing or bonus payments.

All five new channel partners will utilize our advanced selling tool and cited this as one of the many reasons for wanting to work with Sunrun. Overall, more than 90% of our channel partners have signed on to use this quoting and design platform as it helps them optimize their sales activities, including virtual selling. We believe the tool is unique in the marketplace and further differentiates us.

Grid services

In addition to all of the exciting transitions that are underway in sales and operations, we continue to advance our grid service business development activities and increase the adoption of Brightbox, our solar and storage offering.

Attachment rates for Brightbox sales remain strong and it is clear that solar plus storage will be the standard offering in the coming years. In April, battery attachment rates were over 60% in the Bay Area. Across all geographies in the first quarter, we grew Brightbox installations in our direct business more than 50% year-over-year. Nationally, we have now installed over 10,000 Brightbox systems and we will be launching more markets in the coming months.

Our solar and battery offering is important because it provides customers with the ability to better manage when they consume energy from the grid and provide backup power during blackouts. It is also strategically important because it unlocks additional sources of value to utilities and grid operators, and to Sunrun as the resources can be shared with the grid.

We now have more than \$50 million of grid service revenue either contracted or in the pipeline. We have already announced 5 awards and expect to announce more programs in the coming months. The interest is very strong - for instance, in California, we are in discussions with all types of load-serving entities that serve millions of potential customers to partner with them to provide capacity and energy at the local level to build a more reliable and efficient system. And as the market leader, Sunrun is the natural partner. These partnerships will not only provide further proof of the value of home solar and batteries, but extend our scale advantages and improve our customer acquisition costs by leveraging co-marketing opportunities and enhanced data-driven lead generation.

Long-term outlook

With our solar-as-a-service model, customers can adopt solar with zero upfront cost and realize immediate savings. As more people are working and staying at home, they will be relying on more daytime energy than they did previously. In California, households are using as much as 20% more electricity.



Home solar and batteries can offer more certainty during uncertain times, greater financial value, and protection for families when they need it most. This is particularly critical in markets like California, which will soon enter another wildfire season with rolling blackouts as part of the utilities' wildfire prevention efforts. This year, many fire preventative actions may not be completed, as prescribed burns have been halted.

While we are not providing guidance in this environment, early indications are that even if the country enters a prolonged economic downturn with poor consumer confidence, people will still want solar, and may want it even more, since it allows them to save money and receive reliable power without constraining their debt capacity. The recent events have only strengthened my conviction in a strong long-term growth outlook for the sector, and Sunrun's ability to gain share as the clear leader in the coming years. Our improving sales performance through April affirms this outlook.

ESG Update

Turning to a brief update on our ESG efforts. We believe building a sustainable business by embracing Environmental, Social and Governance is important for our employees, our partners, our investors and for the communities in which we operate. This year, we created a formal committee of senior management to oversee ESG matters in addition to board-level oversight.

A few weeks ago we also published our third annual Impact Report. I'm pleased to share that we are making a big difference. Sunrun systems have prevented the emission of pollutants known to harm public health, including preventing nearly 5 million tons of CO2. In short, ESG is core to our business model and our company culture.

CFO Transition

Last week we announced that Tom vonReichbauer has joined Sunrun as it's new CFO, effective next week, replacing Bob Komin who has decided to leave the company to spend additional time with his extended family and support his interest in higher education.

While we are sad to see Bob leave, we are excited that Tom has agreed to join the team. Tom brings a wealth of experience that will help Sunrun scale its service offering even further into the home. He has been a leader at disruptive, mission-driven companies in the consumer energy industry including Google, Nest, and Tesla.

With that, I want to turn it over to Bob to review Q1 performance. We won't let him off the hook just yet...

BOB KOMIN

Thanks, Lynn.



It has been a personal and professional highlight to be part of this tremendous team from before the IPO to becoming the market-leader, while nearly tripling the base of customers and helping the company build cash flow momentum over these last 5 years.

Looking now to the first quarter's results:

NPV

NPV in the first quarter was approximately \$7,100 per customer — or \$0.98 per watt.

Project Value

Project value was approximately \$29,700 per customer — or \$4.07 per watt in Q1.

Creation Costs

Moving on to Creation Costs on Slide 9.

In Q1, total Creation Costs were approximately \$22,600 per customer — or \$3.09 per watt, an improvement of \$0.37, or 11%, from the first quarter of 2019. As with Project Value, Creation Costs can fluctuate quarter to quarter.

Blended installation cost per watt, which includes the costs of solar projects deployed by our channel partners, as well as installation costs incurred for Sunrun built systems, was \$2.39 per watt, a \$0.20 improvement from the first quarter of 2019.

Install costs for systems built by Sunrun were \$2.07 per watt, an increase of \$0.11 from last quarter. The increasing mix of batteries, combined with typical seasonal decrease in Q1 deployment volume, contributed to the increase in costs computed on a unit basis.

In Q1, our sales and marketing costs were \$0.76 per watt, down \$0.02 from the first quarter of 2019. Our total sales and marketing unit costs are calculated by dividing costs in the period by total MWs deployed.

In Q1, G&A costs were \$0.16 per watt.

Finally, when we calculate Creation Costs, we subtract the GAAP gross margin contribution realized from our platform services. This includes our distribution, racking, and lead generation businesses as well as solar systems we sell for cash or with a third-party loan. Our platform services gross margin was \$0.21 per watt in Q1, \$0.01 higher than the first quarter of 2019.

Our cash and third party loan mix was 15% in Q1. We expect this mix to remain in the teens. Leased systems are able to benefit from safe-harboring to extend the ITC at higher levels.



Deployments

In the first quarter we deployed 97 megawatts.

Financial Statements

Turning now to our balance sheet.

We ended the first quarter with \$366 million in total cash.

Quarterly Cash Generation was \$5 million. We define cash generation as the change in our total cash less the change in recourse debt and other adjustments, including our safe harbor program, business acquisitions, and common stock repurchases. Cash generation can fluctuate significantly due to the timing of project finance activities.

Now let me turn it over to Ed.

EDWARD FENSTER

Thanks, Bob.

Today I'm going to review our gross and net earning assets metrics for the quarter and then I will discuss the financing markets for our assets, our asset performance, and recap our capital runway.

Gross & Net Earning Assets

Turning to slide 10.

Gross Earning Assets were \$3.9 billion as of March 31, an increase of 22%, or \$695 million, from the prior year. Net Earning Assets were \$1.6 billion, an increase of 12%, or \$170 million, from the prior year.

Our total cash balance was \$366 million as of March 31st, an increase of \$3 million from last quarter, or \$56 million from March 31 of last year.

Financing Outlook & Collections

While the onset of COVID caused certain public-market investors to divest assets while they digested the implications on their portfolios, as ongoing data becomes available and fact-based decision making is again possible, markets are beginning to normalize. This return to data-based decision making is where residential solar shines brightest.



Consistent with the 2008 to 2011 financial crisis, we continue to experience excellent customer payment performance. As of April 30, 2020, delinquencies as a percent of total PPA & lease accounts receivable in each basket -- 30, 60, 90, and 120 days -- are lower than they have been at any time in the past six months. Home electricity is at the top of the customer payment waterfall. We charge less for power than the incumbent utility, and due to the tiering of electricity pricing in many jurisdictions, savings from solar grows as electricity use increases. This further enhances our value proposition. You can see this strong asset performance on slide 13.

The initial credit market reaction from the onset of COVID would have increased our weighted average capital costs from around 5% to around 6% had we been forced to raise capital, as both senior and subordinated debt became slightly more expensive. However, because we are printing strong payment performance, and we expect that trend to continue, spreads should fall over the medium term, likely to all-time lows. At the same time, we have entered a long-term ultra-low-interest-rate environment. Today, the interest rate futures market quotes the 10-year swap at or below 1.05% at all times through 2039. As we demonstrate the resiliency of this asset class through a second recession, we expect that the resultant lower spreads will combine with low base rates to provide a weighted average capital cost below 5% soon and for decades to come.

While we have been active in the asset-backed securities market the last couple years, we have inception-to-date raised twice as much senior debt in the commercial bank market as in the ABS market. We enjoy numerous, strong relationships with commercial bank lenders. Today, the commercial bank market offers relatively better terms for senior debt, with all-in yields at about 4%. One additional advantage to the commercial bank market right now is that we can lock in today's base rate with long-term interest rate swaps, while enjoying the ability to reduce spreads as market conditions improve. In addition, as capital inflows to asset-backed securities return, we expect that market will recover, becoming cheaper than ever as our collection performance through this time period extends and becomes understood.

We also continue to see significant interest from tax equity investors, where pricing and terms don't vary significantly through cycles. In April, we upsized one tax equity fund on terms materially identical to the existing facility, and we are in ongoing discussions with other investors, also at capital costs in-line with existing funds.

Capital Runway

Sunrun has a long, and improving, project finance runway that affords us the ability to be selective in capital market activities.

As of May 6, 2020, considering only closed tax equity and debt capital commitments, the Company's pre-arranged financings provide capital to fund approximately 220 MW of leased projects beyond what was



deployed in Q1, at above 90% of contracted Project Value. We also have additional project finance capital to fund installations at lower advance rates.

With that, I'll turn the call back over to Lynn.

LYNN JURICH

Thanks Ed.

Let's open the line for questions please.

Forward Looking Statements

This script 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 the Company and its business and operations, transitioning to a digital sales model, reductions to our workforce and labor-related costs, the expected size and timeframe of our stock repurchase program, operational and financial results such as growth, value creation, cash generation, Megawatts Deployed, investment tax credit safe harbor strategy, estimates of gross and net earning assets, project value, estimated creation costs, gross orders, customer acquisition costs, demand, and NPV, the assumptions related to the calculation of the foregoing metrics, as well as our expectations regarding our growth, financing activities, potential sales and installation partnerships and channels, 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, particularly as a new public company; 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.