



Q3 2020 Earnings Call

November 5, 2020

Prepared Remarks

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 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 MW of deployments, a 40% sequential improvement and exceeding our prior outlook. This performance is a testament to growing consumer interest and Sunrun's leading execution at scale. We expect improving net customer margins and accelerated growth to continue into 2021.

Emerging Stronger



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 last call have sustained -- with our salesforce productivity up around 40% 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 \$2,000 per customer in cost improvements compared to earlier this year, and we enter 2021 in a strong position.

Poised to Lead the Industry Forward

The US 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. Solar plus batteries will affordably replace more of consumers' energy needs and together with EVs will unlock virtual power plant 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-most 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, the 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 --- the Vivint Solar crews love it and are excited to roll them out. We have already been able to fill excess demand in markets by leveraging our combined company's crews to maintain high schedule density and system throughput. We are rolling out Vivint Solar's sales and training practices developed through their world-class direct-to-home channel to enhance the effectiveness of our complementary sales teams. Our channel partners are also excited about the scale we bring and our increasing brand strength. 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 Brightbox 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 Brightbox 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 power plant contracts in the coming quarters. To date we have won 11 virtual power plant 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 Brightbox solar-powered battery systems installed in the SCE territory, lowering the overall cost of power and reducing critical strain on the energy system. The same 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 \$50m in awarded contracts or those in the works, 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.

Fourth, we 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: (1) households will consume more electricity necessitating larger, and more profitable, solar systems; (2) we can be the provider of charging infrastructure and resource management throughout the home; and (3) it creates urgency to adopt solar and batteries.

In the US, residential electricity sales are over \$180 billion and utility capex is over \$100 billion annually, that doesn't even considering the fuel switching opportunities. Residential solar has only penetrated 3% of US 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.

ESG Efforts

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's investment will also support more than 20,000 hours of job training in the first year, offering valuable vocational skills and certifications to hundreds of people in disadvantaged communities. Also during the quarter we provided 1,400 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.

Conclusion

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 strong 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 will discuss the financing markets for our assets, our asset performance, and recap our capital runway.

Financing Outlook & Customer Payment Performance

We are now seeing significant tailwinds in financing markets. Our contracted, long-term, high quality recurring cash flows have always been the bedrock on which we raise 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 in 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 investors' 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’s 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.

Capital Runway

We continue to maintain a healthy project finance 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 5, closed transactions and executed term sheets provide us expected tax equity and project debt capacity to fund over 275 MW 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’s results and our outlook.

The quick actions we made 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.

Deployments

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.

Customer Value, Customer Costs & Customer Value



In Q3, Project Value was approximately \$33,200 and Creation Cost was approximately \$26,800, resulting in NPV of approximately \$6,500 per leased customer.

With higher volume in Q3 compared to Q2, we improved our cost absorption. We also continued to realize benefits from our operational efficiency improvement efforts.

Vivint Solar

A quick update on Vivint Solar's financial and operating performance.

We closed the acquisition of Vivint Solar on October 8th, in the fourth quarter. As such, we will report Q4 results as a combined company, with partial-period accounting as of the acquisition date.

During the third quarter, Vivint Solar installed approximately 47 MWs 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, Vivint Solar's volumes would have grown 20% sequentially --- and 8% including them. We are encouraged by recent trends and expect strong growth from Vivint Solar's direct-to-home channel. As an early indicator, their salesforce 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.

Gross and Net Earning Assets, Cash Balance

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

Gross Earning Assets were \$4.0 billion at the end of the third quarter, reflecting an increase of \$132 million from the second 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 6% unlevered WACC.

Net Earnings 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 \$28 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 Earnings Assets this quarter compared to last quarter, and have increased the combination by \$228 million compared to the prior year.



Outlook

Turning now to our outlook.

We expect to see continued growth and margin expansion in Q4. We expect total volumes, pro-forma for the Vivint Solar Acquisition to increase over 10% sequentially, to approximately 172 MWs. We also expect to see continued improvements in our net customer margins, to above \$8,000 per leased customer.

We are 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 Vivint Solar business will result in a reduced channel mix as a percent of total volume, which will decrease install costs and increase sales & marketing costs purely based on the GAAP 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 Vivint 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.

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.