SUNRUN

2Q 2025 Earnings Call
August 6, 2025
Prepared Remarks

OPERATOR INSTRUCTIONS

Good afternoon and welcome to Sunrun's second quarter earnings conference call. 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 Investor Relations Officer.

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.

Please note, during this earnings call, we may refer to certain non-GAAP measures, including Cash Generation and Aggregate Creation Costs, which are not measures prepared in accordance with U.S. GAAP. The non-GAAP measures are being presented because we believe that they provide investors with a means of evaluating and understanding how the company's management evaluates the company's operating performance. Reconciliation of these measures can be found in our earnings press release and other investor materials available on the company's investor relations website. These non-GAAP measures should not be considered in isolation from, as substitutes for, or superior to, financial measures prepared in accordance with U.S. GAAP.

On the call today are Mary Powell, Sunrun's CEO, Danny Abajian, Sunrun's CFO, and Paul Dickson, Sunrun's President and Chief Revenue Officer.

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.

And thank you all for joining us today.

In the second quarter, we delivered strong financial and operating results while delivering a best-in-class customer experience for over a million Americans. We generated $1.6 billion in top-line Aggregate Subscriber Value, significantly exceeding our guidance and growing 40% year-over-year. Contracted Net Value Creation of $376 million, which was our highest ever, more than doubled from last quarter and was also well above guidance. We generated this record profitability by growing the attachment rate of our storage offerings to an all time high of 70% of Customer Additions in the period, and by driving significant cost efficiencies and performance improvements across the business.

We also reported the highest Upfront Net Subscriber Value quarter in the company's history, a 17 percentage point margin improvement compared to the prior year and now representing an 11% margin on Contracted Subscriber Value. We achieved this result by growing Contracted Subscriber Value while reducing our installation and customer acquisition costs. The trends in our operating performance highlight the Cash Generation trajectory of the business, as our customer origination activities are financed over the coming quarters.

We are structurally generating cash. In the quarter we generated $27 million in cash, our fifth consecutive quarter of positive Cash Generation. While the quarterly number is lower than our prior guidance, we are on track to meet our Cash Generation outlook of $200 to $500 million for the full year. We paid down another $21 million in recourse debt in the quarter and ended with $618 million in unrestricted cash, a $13 million increase from the prior quarter.

One of the things that excites me the most about the work of the team over the last couple of years, and that accelerated this quarter, is our definitive leading position as the nation's largest home-to-grid distributed power plant operator. We have transformed the business to be a provider of energy resilience for homeowners, and a formidable Independent Power Producer, now with more than 3 gigawatt hours of dispatchable energy from our fleet of home batteries and nearly 8 gigawatts of solar generation capacity. Our transition to lead with storage, and provide more sophisticated products and services not only differentiates us in the market but also provides a tremendous energy resource that is extremely valuable to the grid.

We now have nearly 200,000 storage systems installed. Over 71,000 customers have enrolled in home-to-grid programs, representing 300% year-over-year growth. These programs provided 354 megawatts of power capacity to the grid over the last year. Based on current activities, and the energy capacity challenges our country faces, we are finding that our prior estimate of $2,000 or more in incremental net present value per participating customer is not only realistic, it is likely conservative. As we continue to scale storage, and provide utility-scale energy resources back to the grid, we expect a rapidly growing cash flow stream over the coming years. We expect to have more than 10 gigawatt hours of dispatchable energy online by 2029.

Turning to an update on policy on slide 8.

Paul and I spent a good portion of the quarter actively engaged in Washington, DC and in legislative offices around the country to ensure that the work we are doing to build the nation's largest distributed power plant, driving American energy independence and dominance is well understood. What we do is provide our customers with an opportunity to take control of their own energy future, and at the same time help Americans get vital energy capacity they need by strengthening the grid. Given our rapid transition over the last couple of years, many stakeholders hadn't realized we are scaling just what the country needs – a massive customer base of Americans who become independent power producers that provide a valuable dispatchable energy resource to America's grid. While there were a few twists and turns in the process that led up to the budget bill, the ultimate legislation is something that will encourage the continued build out of dispatchable energy. Sunrun is well positioned to continue to generate strong financial returns under the enacted legislation.

The investment tax credit for customers who purchase solar outright or finance it with a loan, known as 25D, will sunset at the end of 2025. Sunrun, however, primarily benefits from the commercial investment tax credit, known as 48E, as 94% of new customer additions are subscribers. The 48E credit ends starting in 2028 for the solar portion of a project, but remains in place for storage through 2033.

While the sunset of the 25D homeowner tax credit could lead to large declines for a segment of the market in certain geographies, Sunrun is positioned to continue to grow margins and volumes into 2026. You can see on slides 9 and 10 that nationally we represent over 40% of storage installations and more than one-third of subscription volumes. While market dynamics will present significant growth and market share opportunities, our focus will remain on running a sustainable business with strong margins, high quality installations and delighted customers.

We are building a business that can generate value with lower incentives. On slide 11, we demonstrate one of many achievable paths to generating strong margins in 2028 without the solar portion of the tax credit. With conservative assumptions for pricing increases against utility rate escalation, equipment cost declines, customer acquisition cost reductions and grid services value, we would more than offset the reduction of the solar tax credit. These items are just a subset of the value we plan to unlock in the years ahead.

While we are planning for a step-down in the solar portion of the tax credit in 2028, we are of course taking actions to lengthen our runway. Per statute and current Treasury guidance, projects that have commenced construction before July 2026 are eligible for the solar portion of the tax credit beyond 2027. In accordance with these rules, Sunrun has already commenced construction on projects, or plans to soon, in order to retain the full solar portion of the tax credits through 2030. Treasury guidance on the requirements to commence construction may be updated, but new guidance is not expected to be retroactive, and must be consistent with legislative statute.

I'll now turn the call to Danny for the financial update and outlook.

DANNY ABAJIAN

Thank you, Mary.

Unit-level Economics

Turning first to the unit-level results for the quarter on slide 13. Subscriber Value increased to approximately $54,000, a 22% increase compared to the prior year, as we increased our Storage Attachment Rate by 16 percentage points to 70%, grew our Flex deployments, and benefited from a 43% weighted average ITC level, an increase of 7 percentage points from Q2 of last year. Subscriber Value reflects a 7.4% discount rate this period.

We meaningfully reduced costs as well, with Creation Costs falling 4% from the prior year. Though installation costs were approximately flat to the prior year, we were able to offset a 12% increase in equipment costs – driven by the jump in storage attachment rate – with a 13% improvement in non-equipment costs such as install labor and other soft costs. We also lowered customer acquisition costs and overhead by 10% on a per Subscriber Addition basis. We accomplished these strong cost reduction outcomes while delivering high quality, maintaining strict safety standards, and embracing product and technological innovation.

The higher Subscriber Value and lower Creation Costs led to a 182% year-over-year growth in Net Subscriber Value to $17,000, the highest outcome in the company's history.

Aggregate Gross and Net Value

Turning now to aggregate results on slide 14. These results are the average unit margins multiplied by the number of units.

First on the top-line, Aggregate Subscriber Value was $1.6 billion in the second quarter, a 40% increase from the prior year. Aggregate Creation Costs were $1.1 billion, which includes all capex and asset-origination opex including overhead expenses.

Excluding the expected present value from Non-contracted or Upside Cash Flows, our Contracted Net Value Creation was $376 million, an increase of $285 million from last year, and about $1.64 per share. This level of value creation reflects a net margin of approximately 26% of Contracted Subscriber Value. Slide 15 breaks down the unit-level economics and aggregate economics on a contracted-only basis, along with the main underlying drivers for the increases.

Upfront Net Margins & Cash Generation

Turning now to slide 16.

Sunrun raises non-recourse capital against the value of the systems we originate each period from tax equity, which monetizes the tax credits and a share of cash flows, and asset-backed debt, along with receiving cash from Subscribers opting for pre-paid leases and from governments and utilities under incentive programs.

We estimate these upfront sources of cash will be approximately $1.2 billion for Subscriber Additions in Q2, representing approximately 85% of the Aggregate Contracted Subscriber Value, or what we call the Advance Rate.

When we deduct our Aggregate Creation Costs of $1.1 billion, we are left with an expected Upfront Net Value Creation of approximately $165 million. This represents our estimate for the expected net cash to Sunrun from Subscriber Additions in the period after raising non-recourse capital and receiving upfront cash from Subscribers and incentive programs. This figure excludes any value from our equity position in the assets over time – including potential asset refinancing proceeds and cash flows from other sources such as grid services, repowering or renewals, or upside from Flex electricity consumption above the contracted minimum.

Actual Realized Proceeds in the quarter were $1.3 billion, with $679 million from tax equity, $526 million from non-recourse debt, and $82 million from customer prepayments and upfront incentives. Aggregate Upfront Proceeds differ from Proceeds Realized due to the former being an estimate for Subscriber Additions in the period, and the latter being the proceeds received against Subscriber Additions that may have occurred in a different period.

Cash Generation, which reflects Realized Proceeds as opposed to Aggregate Upfront Proceeds, and is after working capital changes and parent interest expense, was $27 million in Q2. Though Upfront Net Value Creation is different from Cash Generation due to working capital and other items, it is a strong indicator of Cash Generation over time.

Cash Generation was impacted negatively by working capital timing in Q2. Inventory increased by $77 million from Q1, and taken together with changes to payables and receivables, this represented an investment of $45 million in Q2 as you can see on our cash flow statement. We also are continuing to see tax equity partners spend extra time digesting policy developments and changes with competitors, leading to extended timelines associated with monetizing tax credits.

Asset-level Capital Market Update

Turning now to slide 19 for a brief update on our capital markets activities.

Sunrun's industry-leading performance as an originator and servicer of residential solar and storage continues to provide deep access to attractively-priced capital.

As of today, closed transactions and executed term sheets provide us with expected tax equity capacity to fund over 210 megawatts of projects for Subscribers beyond what was deployed through the second quarter. Thus far in 2025 we have added $1.7 billion in tax equity, resulting in this strong runway.

We also have $323 million in unused commitments available in our non-recourse senior revolving warehouse loan to fund over 114 megawatts of projects for Subscribers. We are underway with plans to execute multiple term-out transactions in the coming months, including a private transaction with counterparties already identified. Our strong debt capital runway has allowed us to be selective in timing term-out transactions.

In July we priced our third securitization transaction of 2025 where we refinanced a seasoned pool of residential solar systems. The $431 million securitization priced at a yield of 6.37%, in-line with the yield of our prior securitization in March. The weighted average spread of the notes was 240 basis points, which is approximately 15 basis points higher than our securitization in March. The higher spread followed overall market movements in credit spreads for similarly-rated credit. Inclusive of this transaction, we have issued approximately $1.4 billion in asset-backed securitizations thus far in 2025.

Though some investors are taking extra time to assess transactions as noted earlier, asset financing markets are open and healthy, and there are an increasing number of investors, especially from private credit, who have done repeat transactions with us. We plan to continue executing both publicly-placed transactions and direct placements in the private credit markets, and to expand our tax credit buyer universe with more large corporations.

Parent Recourse Capital & Balance Sheet

On the parent capital side, we continue to pay down recourse debt, paying down another $21 million during the second quarter.

Since March of last year we have paid down recourse debt by $235 million. We have also increased our unrestricted cash balance by $131 million and grown Net Earning Assets by $2.4 billion over this time period. We expect to pay down our recourse debt by $100 million or more in 2025.

Aside from the $5.5 million outstanding of our 2026 Convertible Notes, we have no recourse debt maturities until March 2027.

Over time we will explore further capital allocation options to maximize shareholder value, based on market conditions and our long-term outlook.

Outlook

Turning now to our outlook on slide 20.

We are either reiterating or raising all of our guidance for 2025.

For the full-year, we are reiterating our guidance for Aggregate Subscriber Value to be between $5.7 and $6 billion, representing 14% growth at the midpoint. We expect Contracted Net Value Creation to be in a range of $1 to $1.3 billion, an increase from our prior range of $650 to $850 million, and representing 67% growth at the midpoint. The strong performance in the second quarter, along with continued cost efficiency improvements and value optimization is leading to improvements in our Contracted Net Value Creation outlook for the year.

We are reiterating our Cash Generation guidance for the year of $200 to $500 million. This reflects the strong operating performance along with the increased working capital investments.

For the third quarter, we expect Aggregate Subscriber Value to be approximately $1.5 to $1.6 billion, representing 8% growth at the midpoint, and Contracted Net Value Creation to be between $275 and $375 million, representing 58% growth at the midpoint. We expect Cash Generation to be between $50 and $100 million.

Operator, let's open the line for questions.

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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, 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 expectations regarding market share, total addressable market, growth in certain geographies, customer value proposition, market penetration, growth of certain divisions, financing activities, financing capacity, product mix, and ability to manage cash flow and liquidity; the Company's introduction of new products, including Sunrun Flex; the growth of the solar industry; the Company's financing activities and expectations to refinance, amend, and/or extend any financing facilities; trends or potential trends within the solar industry, our business, customer base, and market; the Company's ability to derive value from the anticipated benefits of partnerships, new technologies, and pilot programs, including contract renewal and repowering programs; anticipated demand, market acceptance, and market adoption of the Company's offerings, including new products, services, and technologies; the Company's strategy to be a margin-focused, multi-product, customer-oriented Company; the ability to increase margins based on a shift in product focus; expectations regarding the growth of home electrification, electric vehicles, home-to-grid distributed power plants, and distributed energy resources; the Company's ability to manage suppliers, inventory, and workforce; supply chains and regulatory impacts affecting supply chains including reliance on specific countries for critical components; 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, including federal and state-level solar incentive programs (such as the One Big Beautiful Bill Act and Investment Tax Credit), net metering policies, and utility rate structures; the ongoing expectations regarding the Company's storage and energy services businesses and anticipated emissions reductions due to utilization of the Company's solar energy systems; 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, including restrictions on components and materials sourced from designated foreign entities of concern and our reliance on specific countries for critical components, tariff and trade policy impacts, and raw material availability for solar panels and batteries; 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.