# Cost per Watt Methodology

November 12, 2019

This memo describes how Sunrun's creation cost and its components are calculated for Q3 2019 using information reported in GAAP financial statements and footnotes plus operating and other data reported by the company.

Creation Cost per watt is equal to the per watt amounts described below for Installation plus Sales and Marketing plus General and Administrative less Platform Services Margin.

## Installation (Blended, includes both Sunrun and Partner Built Systems)

Installation cost per watt is calculated based on capitalized installation costs and megawatts related to solar energy systems for which we have (i) confirmation that the systems are installed on the roof, subject to final inspection, (ii) in the case of certain system installations by our partners, for which we have accrued at least 80% of the expected project cost, or (iii) for multi-family and any other systems that have reached NTP, measured on the percentage of the project that has been completed based on expected project cost. It excludes costs and MW related to solar energy systems sold directly to customers for cash, and also costs and MW associated with solar energy systems that were cancelled before completion, and other period charges expensed in cost of solar energy customer agreements and incentives in the consolidated statement of operations. The capitalized costs included can be found in the notes to our consolidated financial statements and the applicable MW can be found in the calculation detail attached to this memo.

## Sales and Marketing

Sales and marketing cost per watt is calculated based on (i) sales and marketing expenses incurred and total MW deployed in the period and (ii) the capitalized cost to obtain customers along with solar energy systems that have been deployed under lease or PPA agreements in the period. Expensed sales and marketing costs use total MW deployed in the period to normalize these costs. It excludes certain non-cash items such as stock-based compensation expense, amortization of intangibles, and amortization of the capitalized cost to obtain customers.

Prior to the first quarter of 2018, we used a different methodology that calculated the difference in Initial Direct Costs (IDC) which no longer exists under new accounting guidelines. As of March 31, 2018, we now calculate the difference in the *Cost to obtain contracts* asset balance, which is disclosed in accompanying footnotes for the *Other Assets* account on the balance sheet.

## General and Administrative

General and administrative cost per watt is calculated based on the general and administrative expenses incurred and the total MW deployed in the period. It excludes certain non-cash items related to stock-based compensation expense and amortization of intangibles. It also excludes certain items the company has deemed to be non-recurring.

## Platform Services Margin

Platform Services Margin per watt is the gross margin contribution from Sunrun's platform businesses including AEE, SnapNrack, and CEE plus gross margin earned on cash solar system sales. It excludes certain non-cash items related to stock-based compensation expense.

**Sunrun Creation Cost Supplemental Calculations**
**November 12, 2019**
**($000s, except per watt and MW)**

| **Installation Cost per Watt ($ in 000s)** | **Q2 2019 Actuals** | **Q3 2019 Actuals** | |
|---|---|---|---|
| **Solar Energy Systems, net footnote disclosure** | **Q2 2019** | **Q3 2019** | **Change** |
| Solar energy system equipment costs (gross) | $4,177,481 | $4,348,653 | $171,172 |
| Inverters (gross) | 433,730 | 453,204 | 19,474 |
| Solar energy systems under construction | 153,988 | 182,403 | 28,415 |
| Solar energy systems capitalized costs | $4,765,199 | $4,984,260 | $219,061 |
| / Total Megawatts Deployed under leases and PPAs | | | 88.3 |
| **= Installation cost per watt** | | | **$2.48** |

| | **Q3 2019** |
|---|---|
| Sales & marketing operating expense | 77,478 |
| (-) Sales & marketing stock-based compensation expense | 1,352 |
| (-) Sales & marketing intangibles amortization | 485 |
| (-) Sales & marketing amortization of Cost To Obtain Contracts (CTOC) | 3,166 |
| Sales & marketing expense, excluding non-cash and other non-sales related items | 72,475 |
| / Total Megawatts Deployed | 107.2 |
| **= Sales & marketing operating expense per watt** | **$0.68** |

| | **Q2 2019** | **Q3 2019** | **Change** |
|---|---|---|---|
| Cost to obtain contracts - customer agreements (gross, within Other Assets) | $246,434 | $258,169 | $11,735 |
| / Total Megawatts Deployed under leases and PPAs | | | 88.3 |
| **= Capitalized sales costs related to PPAs and leases deployed per watt** | | | **$0.13** |

| | **Q3 2019** |
|---|---|
| Sales & marketing operating expense per watt | $0.68 |
| (+) Capitalized sales cost per watt | $0.13 |
| **= Sales & marketing cost per watt** | **$0.81** |

| | **Q3 2019** |
|---|---|
| General & administrative operating expense | 31,059 |
| (-) General & administrative stock-based compensation expense | 4,295 |
| (-) General & administrative intangibles amortization | 189 |
| (-) General & administrative adjustment | – |
| General & administrative expense, excluding non-cash and one-time items | $26,575 |
| / Total Megawatts Deployed | 107.2 |
| **= General & administrative cost per watt** | **$0.25** |

| | **Q3 2019** |
|---|---|
| Solar energy systems and product sales | 119,293 |
| (-) Cost of solar energy systems and product sales | 92,031 |
| (+) Solar energy systems and product sales stock-based compensation expense | 209 |
| Gross margin from solar energy systems and product sales, excluding non-cash items | $27,471 |
| / Total Megawatts Deployed | 107.2 |
| **= Platform Services Margin per watt** | **$0.26** |

| | **Q3 2019** |
|---|---|
| Installation | $2.48 |
| Sales and marketing | $0.81 |
| General and administrative | $0.25 |
| | **$3.54** |
| (-) Platform Services Margin | ($0.26) |
| **= Creation Cost per watt** | **$3.28** |

**Amounts may not add due to rounding*