



**Q2 2024 Earnings Call  
August 6, 2024  
Prepared Remarks**

**OPERATOR INSTRUCTIONS**

Good afternoon and welcome to Sunrun's second quarter 2024 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 Investor Relations Officer. 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.

During today's call, we will also be discussing certain non-GAAP financial measures, which we believe can provide meaningful supplemental information for investors regarding the performance of our business and facilitate a meaningful evaluation of current period performance on a comparable basis with prior periods. These non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, superior to, or in isolation from GAAP results. You will find additional disclosures regarding the non-GAAP financial measures discussed on today's call in our press release issued this afternoon and our filings with the SEC, each of which is posted on our website.

On the call today are Mary Powell, Sunrun's CEO and Danny Abajian, Sunrun's CFO. Ed Fenster, Sunrun's co-founder and co-executive chair, along with Paul Dickson, Sunrun's President and Chief Revenue Officer are also on the call for the Q&A session.

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. We have allocated 60 minutes for today's call, including the question and answer session.

And now let me turn the call over to Mary.

**MARY POWELL**

Thank you, Patrick.

And thank you all for joining us today.

Sunrun's strategy to become the beloved, trusted provider of clean energy and storage for households across America is delivering strong results.



In the second quarter the Sunrun team set records for storage installation and attachment rates, beating the high-end of our installation guidance, while delivering solid quarter-over-quarter solar installation and net subscriber value growth. We also delivered strong Cash Generation of \$217 million in Q2, recouping the tax credit transfer-related working capital investment noted in Q1.

Our primary focus is accelerating our differentiation, launching additional products and services to expand customer lifetime values, and remaining the disciplined, margin- and customer-focused leader, growing Cash Generation in the business, for years to come.

We are on track to achieve our Cash Generation objectives as we exit 2024, and are increasing Cash Generation guidance for 2025.

We are also on track to exceed the high-end of our full-year storage installation guidance this year, as our focus on storage products pays dividends faster than we even expected. Driven by our margin-focused strategy, and slightly lower sales pacing than we initially expected, we now expect our solar volumes for 2024 to be at the lower-end of our guidance range. Nevertheless, we are seeing strong sequential growth in order activity as consumer interest continues to build over this hot summer with soaring electricity rates. We continue to focus on the most margin-accretive customers. The hot summer and high utility bills are driving consumers to focus on their home energy use and related costs. Our strategy is to focus on products and geographies where Sunrun shareholders can earn a strong return while Sunrun customers experience an excellent value proposition.

Driven by these dynamics, we are increasing our storage capacity installation guidance from approximately 58% to approximately 86% growth in the year, and are narrowing our solar installation guidance to reflect the low end of our prior range, down approximately 15% for the year. We expect to see solid high-teens sequential growth in solar installations into Q3 and Q4, and to resume double-digit year-over-year growth in Q4.

We are reiterating our Cash Generation guidance of \$50 million to \$125 million in Q4. In addition, we are initiating even higher Cash Generation guidance for 2025 of \$350 million to \$600 million.

The fundamental drivers of our business continue to accelerate. Utility rates continue to rise, while solar and storage equipment costs are declining. Our operating efficiency and customer experience continues to improve. Customers remain eager to take control of their energy needs with affordable and resilient solutions to power their lives, the ultimate in independence. A Pew study issued in June affirmed what polls have said for years: the majority of Americans – Republicans, Democrats and Independents – favor expanding solar power in the United States.



### **Storage-first Strategy & Accelerating Innovation**

Over a year ago we oriented the business to be storage-first, which increases the customer value proposition and lays the foundation for future value creation from grid services. This strategy has also allowed us to capitalize on regulatory changes faster and better than others in the industry.

In Q2, we installed storage on 54% of our new customers, up from an 18% attachment rate in the prior year, and a four point increase from levels achieved in Q1. We installed 265 megawatt hours of storage in Q2, up 152% from a year ago, and the most we have installed in any quarter. Sunrun's experience selling, installing and monetizing storage for the grid is a clear differentiator.

Storage systems provide increased customer value through enhanced resiliency and control, while providing higher margins for Sunrun. Our fleet of Networked Storage Capacity has reached 1.8 Gigawatt hours with 116,000 systems installed.

While still in the early stages of commercializing these valuable, dispatchable energy resources, we continue to advance programs which prove their value potential. We now have more than a dozen operating virtual power plants across the country.

Just this afternoon we announced a program with Tesla in Texas. The program has already enrolled customers and will scale up while dispatching stored solar energy from at-home batteries to rapidly increase capacity on the grid during periods of high consumption. Customers will be compensated for their participation while retaining a portion of their stored energy to provide back-up power to their homes in the event of a power outage. Sunrun will also earn incremental recurring revenue for the program.

These same resources are providing tremendous value for our customers. During prolonged power outages in the aftermath of Hurricane Beryl, more than 1,600 Sunrun customers in the greater Houston area were able to keep their homes energized with more than 70,000 hours of backup energy provided by their solar and storage systems. With over 3 million homes and businesses without power, we are seeing strong demand in Texas as many are seeing the obvious value our service can provide.

Just last week, we announced the operation of the nation's first vehicle-to-home power plant using a small group of customer-owned bi-directional electric vehicles. Initiated by forward-thinking regulation, and in partnership with Maryland's largest utility, Baltimore Gas and Electric, this program utilizes all-electric Ford F-150 Lightning trucks to deliver power this summer during peak demand times.

These programs build on many others we are operating, including the Demand Side Grid Support program initiated by regulators. This virtual power plant is being actively used to support California's power grid. Just last month during a heat wave, over 16,000 Sunrun customers' solar-plus-storage systems dispatched power during peak hours, supplying the grid with an average of 48 megawatts each night exceeding the capacity of several costly and polluting gas-fired peaker plants in California. Home solar and battery



systems are modernizing and strengthening the electric grid. With forward-thinking regulation these resources could lower the cost of the overall grid for all users. As a reminder, California has 14,000 megawatts of power plants that are used less than 5% of the time.

### **Lifetime Value Opportunities**

We are quickly becoming a multi-product company that offers a suite of clean energy products to our customers in a bundled, easy-to-finance way. By continuing to invest heavily in service and providing a leading customer experience, we are able to monetize opportunities to provide additional services to our large base of customers for decades into the future. We are proud of our customer-first approach, evidenced by a continued increase in customer Net Promoter Scores at the time of installation, which this quarter reached 76 points, up over five points in the past year.

We have invested time and resources to develop products and learn from pilots to best inform our strategy to harness these opportunities. On slide 7 we highlight our focus – including renewals, repowering customers with new equipment that meet increased energy needs, installing batteries for existing solar-only customers to provide energy resilience, networking systems to form virtual power plants, and providing electric vehicle charging, or even bi-directional, solutions. We are seeing strong traction – for instance, we have over 1,000 orders by existing customers to add batteries. While we just recently launched this, orders are growing at a rapid rate.

### **Market Opportunities**

I want to spend a minute discussing developments with a public peer who recently announced their market exit and restructuring. This presents an opportunity for Sunrun to continue our industry leadership and gain share in a financially disciplined and measured way.

We are engaged in conversations with many of their former dealers and are selectively onboarding partners that share our vision and commitment to provide the best customer experience.

We have been an established leader in the new homes business for many years, and are engaging with many large national homebuilders about joining the Sunrun platform. In July we announced the addition of two strong leaders and industry veterans, who most recently led the new homes business at SunPower. We expect strategic growth in the new homes segment in the coming quarters, driven by our leading platform, expanded leadership team, and long track record of being a reliable, trusted partner for homebuilders.

This dislocation will provide opportunities for competitors as well, especially new entrants in the financing segment eager for volume. We continue to see irrational pricing and immature controls from some of the entrants, but have also seen some indications that as they have gained more experience, they are adjusting pricing and controls accordingly. We continue to hear from our partners that they value Sunrun



most for being a sustainable, reliable partner, and that has led to strong, long-term relationships. We deeply value these partners and our shared vision of success, particularly some of our longest-standing and largest partners.

### **Celebrate our people**

Before handing over to Danny, as always, I want to take a moment to celebrate some of our people who truly embrace the power of clean energy and the desire to connect customers to the cleanest energy on earth. Thank you to our leading direct-to-home sales team in Los Angeles, thanks so much to our team members Adler, Rich, and Jon, for delivering on safety, quality, battery attachment rates and customer experience, delivering some incredible results this quarter.

I also want to celebrate the team at SnapNrack, our independently-run business which is proudly manufacturing premium solar racking in the United States, creating jobs and helping improve the efficiency of Sunrun's installation activities and those across the industry. The team is busy innovating and ramping production of US-made equipment to help the entire industry, including Sunrun, meet domestic content standards. Thanks so much, Troy, Charles, Aroon and team.

With that, let me turn the call over to Danny for our financial update.

### **DANNY ABAJIAN**

Thank you, Mary.

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 on slide 11.

### **Volumes**

We have now installed over 116,000 solar and storage systems, with storage attachment rates reaching 54% of installations nationally during the quarter. We expect storage attachment rates to remain at or above this level throughout the remainder of the year. This higher mix of storage continues to drive Net Subscriber Values higher as backup storage offerings carry higher margins.

During the quarter, we installed 265 megawatt hours of storage capacity, well above the high-end of our guidance and an increase of 152% compared to the same quarter last year. Our total networked storage capacity is now approximately 1.8 gigawatt-hours.

In the second quarter, Solar Energy Capacity Installed was approximately 192 megawatts, within our guidance range of 190 to 200 megawatts.



Customer Additions were approximately 26,700, including approximately 25,000 Subscriber Additions. Our Subscription mix reached 95% of deployments in the period, an increase from 93% last quarter and again the highest level in many years.

We ended Q2 with 984,000 Customers and approximately 828,000 Subscribers representing 7.1 Gigawatts of Networked Solar Energy Capacity, a 14% increase 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 Q2, our Annual Recurring Revenue, or ARR, stood at almost \$1.5 billion, up 27% over the same period last year. We had an average contract life remaining of nearly 18 years.

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

Turning to slide 12.

In Q2, Subscriber Value was approximately \$49,600 and Creation Cost was approximately \$37,200, delivering a Net Subscriber Value of \$12,394. This strong result was from higher battery attachment rates, efficiency and sequential growth in volumes. Although Subscriber Value decreased slightly in Q2 due to a smaller average system size relative to Q1, we expect this trend to reverse in Q3 and Q4 with higher average system sizes. If measured on a per-watt basis to normalize for system size, Subscriber Value per watt increased slightly from Q1.

Our Q2 Subscriber Value and Net Subscriber Value reflect a blended Investment Tax Credit of approximately 35%, again reflecting the portion of our deployed systems qualifying for the energy communities and low-income ITC adders.

Total Value Generated, which is the Net Subscriber Value multiplied by the number of Subscriber Additions in the period, was \$310 million in the second quarter.

Our present value-based metrics are presented using a 6% discount rate, but our financial underwriting already accounts for our current cost of capital, which was approximately 7.5% in Q2. As a reminder, to enable ease of comparison across periods, we generally do not update the discount rate frequently. Instead, we provide advance rate ranges that reflect current interest rates, enabling investors to calculate the obtainable net cash unit margins on our deployments. In addition, we provide a pro forma Net Subscriber Value using the capital cost observed for the quarter.

At a 7.5% discount rate, Net Subscriber Value was \$7,075 and Total Value Generated was \$177 million.

We expect additional tailwinds to Net Subscriber Value in future periods from the following variety of factors: more favorable business mix, increased realization of ITC adders, lower hardware prices, labor efficiency and operating leverage from strong sequential volume growth.



On slide 13, we detail the tailwinds from ITC adders.

In Q2, we recognized a weighted average ITC of approximately 35%, the equivalent of approximately half of our systems qualifying for the energy communities or low-income adder.

Proceeds from domestic content adders are expected to be realized in the coming quarters, including a retroactive monetization of a portion of 2023 and year-to-date 2024 installations. We were encouraged to see the updated guidance in May, which should allow for a strong majority of our installations to qualify for this adder within a few quarters, and increase our weighted average ITC level to around 45% in 2025.

### **Gross and Net Earning Assets**

Turning now to Gross and Net Earning Assets and our balance sheet on slide 15.

Gross Earning Assets were \$15.7 billion at the end of the second quarter. Gross Earning Assets is the measure of cash flows we expect to receive from Subscribers over time, net of operating and maintenance costs, distributions to tax equity partners, and distributions to project equity financing partners, all discounted at a 6% unlevered capital cost.

Net Earnings Assets were \$5.7 billion at the end of the second quarter, up approximately \$430 million from the prior quarter. Net Earning Assets is Gross Earning Assets, plus cash, less all debt. Net Earning Assets does not include inventory, or other construction in progress assets or net derivative assets related to our interest rate swaps, all of which represent additional value. The value creation upside we expect from future grid service opportunities and selling additional products and services to our customer base are not reflected in these metrics.

We programmatically enter into interest rate hedges to insulate our capital costs from adverse near-term fluctuations. The vast majority of our debt is either fixed-coupon long-dated securities, or floating-rate loans that have been hedged with interest rate swaps. As such, we do not adjust the discount rate used in Net Earning Assets to match current capital costs for new installations.

### **Cash Balance and Cash Generation**

We ended the quarter with over \$1 billion in total cash, an increase of \$259 million compared to the prior quarter.

Cash Generation was \$217 million in Q2, which included the recovery of timing-related items, most notably the \$181 million reduction in Q1 proceeds as a result of the transition from traditional tax equity to tax credit transfers.

### **Capital Markets & Capital Runway**

Turning to our capital markets activities.



As we discussed last call, we were very active in Q1 arranging capital to support our growth and further optimizing our balance sheet by extending maturities. To navigate potential and unexpected economic conditions and volatility, we have been prudent to extend facilities early and proactively.

As of today, closed transactions and executed term sheets provide us with expected tax equity capacity to fund over 313 megawatts of projects for Subscribers beyond what was deployed through the second quarter.

We also have over \$1 billion in unused commitments available in our non-recourse senior revolving warehouse loan. This unused amount would fund approximately 373 megawatts of projects for Subscribers. Our strong debt capital runway allows us to be selective in timing term-out transactions.

Since the start of the year we have closed three ABS transactions. Sunrun's industry-leading performance as an originator and servicer of residential solar assets continues to provide deep access to attractively priced capital.

In June, we closed an \$886 million ABS transaction, representing the largest ever securitization for Sunrun and the residential solar industry. We also arranged a subordinated financing on the portfolio. The Class A non-recourse senior debt, comprising both publicly- and privately-placed tranches, was rated A+ by Kroll. The Class A notes had a higher rating than precedent ABS transactions with comparable advance rates, evidencing the higher quality of our portfolios. The spread of 205 basis points on the public tranche represented a 35 basis point improvement from our previous comparable ABS transaction in September 2023. The advance rates on the portfolio were 73% for the Class A notes, and 83% cumulatively when including the additional subordinated financing.

As previously noted, in February we issued \$483 million in convertible notes due in 2030 and concurrently commenced repurchases of our 2026 notes. To date, we have repurchased over \$266 million, or two-thirds, of our 2026 convertible notes. This amount includes repurchases of \$50 million in July. We will continue to be disciplined and selective with repurchases.

When we think about our balance sheet, we prioritize a strong cash position and use of asset-level non-recourse debt financing. This strategy provides the lowest cost capital to finance cash-flow producing assets backed by highly creditworthy consumers, and to use parent recourse debt that is appropriately sized and balances maturity dates, cash interest costs, and flexibility.

### **Outlook**

Turning now to our outlook on slide 18.





The underpenetrated nature of our market gives us confidence we can sustain robust growth throughout this decade. In this strong long-term demand backdrop, our priority is to generate cash by continuing to increase customer values through growing storage adoption and other higher value products and services, and by reducing our costs.

Storage Capacity Installed is expected to be in a range of 275 to 300 megawatt-hours in Q3. This represents approximately 64% growth year-over-year at the midpoint. For the full-year, we are increasing our storage guidance to a range of 1,030 to 1,100 Megawatt-hours, representing 86% growth at the midpoint, an increase from our prior guidance range of 800 to 1,000 Megawatt-hours.

Solar Energy Capacity Installed is expected to be in a range between 220 and 230 megawatts in Q3. At the midpoint, this represents 17% growth from Q2.

For the full-year, we expect Solar Energy Capacity Installed to decline approximately 15%, in-line with the low-end of our prior guidance range. We believe this guidance still represents market share gains underpinned by the strength of our subscription offering and our disciplined go-to-market approach. We also expect year-over-year growth to be positive starting in Q4.

Given our focus on increasing Net Subscriber Values through product mix, additional ITC adders, and cost efficiencies, we expect our Net Subscriber Values will be materially higher in the second half of the year relative to Q2 levels.

Because we have been increasing unit economics, Total Value Generated growth will be at least 15 percentage points higher than solar installation growth.

We remain committed to driving meaningful Cash Generation as we execute our margin-focused and disciplined-growth strategy.

We are reiterating our Cash Generation outlook for Q4. We expect Cash Generation to be positive in Q3, \$50 to \$125 million in Q4, and now \$350 to \$600 million in 2025. On slide 19, we have outlined sensitivities related to key variables that would affect our achievement. We now expect a large portion of our solar-only systems, in addition to our storage systems, to qualify for the domestic content adder starting later this year and into 2025. We will provide more concrete expectations for amounts and timing of initial receipt of domestic content adders during the coming quarters. Our 2025 Cash Generation guidance reflects an approximately 45% average ITC.

With that, let me turn it back to Mary.

**MARY POWELL**

Thanks, Danny.



I want to again express my appreciation to the entire Sunrun team. Your continued commitment to providing our customers and communities with clean, affordable energy to power their lives and to create value for all of our stakeholders is what drives us forward.

Our rapid transition to a storage-first company is extending our differentiation, driving enhanced margins, and delivering the best value to customers.

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 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 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 storage-first company; the ability to increase margins based on a shift in product focus; 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 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 and associated costs; 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.