



**4Q 2024 Earnings Call
February 27, 2025
Transcript**

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Presenters

- Patrick Jobin, SVP, Deputy CFO & Investor Relations Officer
- Mary Powell, Chief Executive Officer
- Danny Abajian, Chief Financial Officer
- Paul Dickson, President & Chief Revenue Officer

Q&A Participants

- Praneeth Satish - Wells Fargo
- Philip Shen - Roth Capital Partners
- Maheep Mandloi - Mizuho Securities
- Colin Rusch - Oppenheimer
- Dylan Nassano - Wolfe Research
- Tyler Bisset - Goldman Sachs
- Tim Moore - Clear Street
- Vikram Bagri - Citibank

OPERATOR INSTRUCTIONS

Good afternoon and welcome to Sunrun's fourth quarter and full year 2024 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.

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. 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.

The fourth quarter was an exceptionally strong quarter for Sunrun and our execution positioned us well for 2025. We are delivering high-quality growth, generating meaningful cash, increasing our book value of deployed systems and paying down our parent debt. We are poised to further improve our operating and financial results, and deliver a very strong 2025 with meaningful Cash Generation.

In 2024 we adapted to the rapid increase in interest rates, innovated through changes in state regulations, built a robust supply chain with strong domestic content focus, and remained steadfast in the face of irrational behavior from several industry participants. We are improving in every dimension – focusing on fast, effective execution, delivering strong financial and operating results, gaining share in a disciplined way and building a long-term foundation of valuable grid resources. Executing on our plan does not require equity funding.

In 2024, we optimized our product mix, prioritized the highest value geographies and routes to market with an intense focus on cost efficiency. At the same time, we increased storage attachment rates resulting in the highest Net Subscriber Values Sunrun has ever reported. We have now posted positive Cash Generation for three consecutive quarters and expect to do so in every quarter throughout 2025, including the first quarter which is seasonally the weakest. We have allocated excess cash to pay down our parent debt by \$186 million since Q1 of last year, while making strategic long-term investments in AI to lower costs, streamline operations and create a differentiated customer experience. We also allocated excess cash to execute our end-of-year safe harbor equipment purchases to mitigate what we view as unlikely, but still potential, policy changes.

The fundamental long-term demand drivers for our business are incredibly strong and unrelated to any political party affiliation. Americans want greater energy independence and control of their lives and their pocketbooks. The country also needs more power – from all sources – to fuel rapid growth in electrification, and datacenters, and our growing fleet of energy resources will be part of the solution. For these reasons, it is no surprise that support for the energy we provide spans across all party lines.

Turning to more specifics for the quarter.

In Q4 we grew contracted Total Value Generated, or the aggregate net contracted value of systems installed in the quarter, using capital costs observed in Q4, by 125% compared to the prior year and 48% compared to the prior quarter. We did this by growing our customer additions sequentially, and by increasing Subscriber Values from higher battery attachment rates and ITC realization while holding our Creation Costs flat.

Cash Generation was \$34 million in the quarter. We elected to invest \$18 million of working capital in safe harbor equipment, which obviously lowered our Cash Generation result in the quarter.

In Q4, we also hit all-time highs for storage attachment rates and capacity installed. We installed storage for 62% of our new customers, an increase of 17 percentage points from a year ago. We installed 392 megawatt hours of storage in Q4, up 78% from a year ago. Our fleet of Networked Storage Capacity has reached 2.5 Gigawatt hours with over 156,000 storage systems installed.



We continue to advance programs that generate value for customers, the grid and Sunrun. We have 16 grid service programs active across the country, with over 20,000 customers participating. During 2024, Sunrun's virtual power plants successfully supported power grids across the country with a combined instantaneous peak of nearly 80 megawatts – a capacity greater than many traditional fossil-fuel power plants. Sunrun is leading in establishing a platform to turn homes and vehicles into smart, controllable load that can be dispatched into, and improve, the electric grid.

Industry Leadership

I want to spend a minute on what we are seeing in recent industry data.

We don't manage to market share – we view our leading position in the industry as a natural long-term result of pursuing a customer-first, disciplined growth strategy. There have been periods with irrational competitive behavior – such as pricing and terms loan providers offered a few years ago, and more recently, pricing and terms being offered by certain financing-only new entrants – but our view is that a focus on the fundamentals and first-rate execution always prevails in the long-term. We lead with the best customer experience, underwrite healthy and financially sound business, and grow in a sustainable, strategic way. We have seen some new entrants become more rational in recent periods, while others continue to scale with uneconomic, cash-consuming activities.

We have seen our share of residential storage installations expand to over 50% in the US while residential solar installations nationwide picked up significantly in the last few quarters – from 13% in Q1 to 19% in Q4. I'm pleased to see these trends, but more pleased that we are doing it in a way that is consistently generating cash and delighting our customers.

Fundamental Demand Drivers

Sunrun is well positioned to drive meaningful value for shareholders in 2025 and beyond. The grid continues to become less reliable and more expensive, consumers are demanding more energy independence and choice, and technology advancements continue to unlock more opportunities.

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

I know we are living in uncertain times, and no one can predict the future perfectly. But what we can do is continue building an incredibly resilient and efficient organization that can pivot and respond to whatever is thrown at it. I recall just a few years ago investors were skeptical because Sunrun had negative cash generation and was facing large regulatory changes in California, massive increases in interest rates, and a challenging supply chain. Sunrun not only managed to adapt to those pressures, but has now started to generate significant cash on a recurring basis – *with* higher rates, *while* operating under NEM3, *and* navigating the various supply chain dynamics. This is the team that knows how to focus on first rate execution and lead this industry.

Supporting our customers and communities

Before handing it over to Danny, I want to take a moment to share how Sunrun employees responded during the devastating Los Angeles wildfires in January.

As soon as high winds and wildfire threats emerged, our team initiated our planned response to support customers and employees. In an emergency like this, the homes we serve become critical infrastructure in impacted communities — supporting both our customers and the communities they live in. Batteries were automatically adjusted to maximize backup power ahead of widespread blackouts. When I visited our Los Angeles teams and customers during that time, I heard numerous stories of how Sunrun customer homes provided essential power and a safe haven for so many who were impacted by this tragedy.



These events highlight the urgent need to more safely generate and deliver energy to customers, and to have onsite power generation and storage systems providing critical power during emergencies. Demand for our storage offering remains robust following this event.

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 10.

Volumes

We have now installed over 156,000 solar and storage systems, with storage attachment rates reaching 62% of installations during the quarter. We expect storage attachment rates to remain around this level or slightly higher for the next few quarters. This higher mix of storage continues to drive Net Subscriber Values higher.

During the quarter, we installed 392 megawatt hours of storage capacity, well above the high-end of our guidance, and an increase of 78% compared to the same quarter last year. Our total Networked Storage Capacity is now above 2.5 gigawatt-hours.

In the fourth quarter, Solar Energy Capacity Installed was approximately 242 megawatts, within our guidance range of 240 to 250 megawatts, and an increase of approximately 7% compared to the prior year.

Customer Additions were approximately 32,900, including approximately 30,700 Subscriber Additions. Our Subscription mix remained at 96% of deployments in the period. Customer Additions with storage was approximately 20,400 in the quarter, an increase of 50% compared to the same quarter last year.

We ended Q4 with approximately one million Customers and 889,000 Subscribers representing 7.5 Gigawatts of Networked Solar Energy Capacity, a 13% 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 Q4, our Annual Recurring Revenue, or ARR, stood at over \$1.6 billion, up 23% 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 10.

In Q4, Subscriber Value was approximately \$55,800 and Creation Cost was approximately \$36,600, delivering a Net Subscriber Value of \$19,177. This strong result was from higher battery attachment rates, a higher average Investment Tax Credit level, and sequential growth in volumes leading to improved fixed cost absorption.

Our Q4 Subscriber Value and Net Subscriber Value reflect a blended Investment Tax Credit of 39.8%. We realized stronger-than-expected achievement in the 2024 low- to middle-income ITC adder allocation process, which provided an approximate \$750 benefit to our reported Subscriber Value in Q4. Qualification for the domestic content ITC adder is picking up, although at a slower ramp within our Affiliate Partner segment. Our blended Investment Tax Credit was at approximately 42% for January installations and we expect this level to increase further to 45% later in 2025.



Total Value Generated, which is Net Subscriber Value multiplied by the number of Subscriber Additions in the period, was \$589 million in the fourth 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 7.3% in Q4. At a 7.3% discount rate, Net Subscriber Value was approximately \$14,400 and Total Value Generated was \$441 million. Excluding the non-contracted portion of Subscriber Value, but still adjusting for a 7.3% discount rate, contracted Net Subscriber Value was approximately \$11,600 and Total Value Generated was \$357 million, an increase of 125% compared to the prior year.

On slide 11 you can see our progress increasing Subscriber Value through higher-value mix and higher ITC levels, while keeping creation costs largely flat, generating expanded Net Subscriber Values. Efficiency improvements and hardware cost declines, coupled with operating cost leverage from sequential volume growth, have largely offset the increased costs associated with higher storage attachment rates.

Gross and Net Earning Assets

Turning now to Gross and Net Earning Assets and our balance sheet on slide 13.

Gross Earning Assets were \$17.8 billion at the end of the fourth 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 \$6.8 billion at the end of the fourth quarter, up \$536 million from the prior quarter. Net Earning Assets is Gross Earning Assets, plus cash, less all debt. Net Earning Assets does not include inventory, other construction in progress assets or any net derivative assets related to interest rate hedges, 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.

In our prudent risk management approach, 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.

Capital Markets & Capital Runway

Turning to our capital markets activities.

Sunrun's industry-leading performance as an originator and servicer of residential solar assets 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 500 megawatts of projects for Subscribers beyond what was deployed through the fourth quarter. Thus far in 2025 we have added more than \$1.3 billion in tax equity, resulting in this strong runway.

We also have over \$680 million in unused commitments available in our non-recourse senior revolving warehouse loan after our January securitization. This unused amount would fund approximately 230 megawatts of projects for Subscribers. Our strong debt capital runway allows us to be selective in timing term-out transactions.

In January we priced the industry's second largest securitization, behind only our own transaction from June of last year. The oversubscribed transaction was structured with three separate classes of A rated notes, only two of which were publicly offered. The weighted average spread of the notes was 197 basis points, which was an improvement of approximately 38 basis points from our prior securitization in September. Similar to prior transactions, we raised additional subordinated non-recourse debt financing which increased the cumulative advance rate, as measured against our Contracted Subscriber Value metric, to above 80%.



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 is designed to avoid the use of parent capital to fund our recurring origination activity.

Balance Sheet, Cash Generation & Capital Allocation

Cash Generation was \$34 million in Q4, the third consecutive quarter of positive Cash Generation.

Cash Generation would have been approximately \$66 million had it not been for a few factors. First, we decided to invest \$18 million in cash for safe harbor equipment purchases in late Q4. Second, our Affiliate Partners experienced a slower ramp in domestic content ITC adder qualification. These two primary factors, along with other minor working capital timing differences, collectively represented over \$32 million in reductions to Cash Generation for the period.

During the fourth quarter we executed a safe harbor program to insulate various tax policy risks. The program was executed in a very capital-efficient way, securing \$350 million in equipment purchases while only consuming about \$18 million in net working capital. These purchases provide risk mitigation for volumes throughout 2025 for solar projects and midway through 2025 for storage projects. We will explore additional safe harbor initiatives if circumstances warrant in the future, and we intend to maintain availability of non-equity capital dedicated for this purpose.

We have a strong balance sheet with no near-term corporate debt maturities. We ended the quarter with \$947 million in Total Cash.

During the fourth quarter, we repurchased \$126 million in principal of our 2026 Convertible Notes at a discount. As of the end of 2024 we had only \$8 million in principal outstanding of these notes, which we plan to repurchase in 2025. Since March 2024 we have paid down recourse debt by \$186 million by repurchasing our 2026 Convertible Notes and reducing borrowings under our recourse Working Capital Facility.

We expect to further pay down \$100 million or more in recourse debt in 2025. Aside from the \$8 million outstanding of our 2026 Convertible Notes, we have no recourse debt maturities until March 2027.

We have no parent capital needs at this time.

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

Outlook

Turning now to our financial outlook.

The underpenetrated nature of our industry 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 our mix of higher-value products and by keeping our costs low. Our margin-focused growth is yielding strong results and provides a high-growth outlook for aggregate value creation, which will translate into Cash Generation *and* growth in our book value of deployed systems, or Net Earning Assets.

Turning to slides 17 and 18.

Before I share our specific guidance for Q1 and the full-year 2025, I want to detail a few of the key metrics we will report and guide to commencing with our Q1 2025 release that we believe align with our strategy.

Over a year ago, we started reporting Subscriber Value and Net Subscriber Value pro forma for the market cost of capital we observed each period and used to make our financial underwriting decisions. This



additional disclosure showed our ability to substantially grow unit margins even as capital costs remained elevated and fluctuated. Importantly, we also directly addressed critiques about our use of a fixed 6% discount rate in the higher capital cost environment. Going forward, we will report Subscriber Value, Net Subscriber Value, Total Value Generated, and any similar metrics derived from Subscriber Value, using only a floating discount rate that reflects market-observed cost of capital for each period.

Gross Earning Assets, our book value measure, will continue to use a fixed discount rate. As I noted, because the vast majority of our customer cash flows are not subject to floating rate exposure, adjusting the discount rate each quarter is not appropriate.

Continuing to increase our aggregate value creation correlates with growth in Cash Generation over time. Accordingly, we will start guiding to aggregate value creation metrics, while moving away from guiding to specific solar and storage deployment volumes and unit margins each period. We will continue to report and provide commentary on deployments and unit margins, including our optimization between the two, so that analysts and investors can continue to track the fundamental building blocks in our business.

On our next call, we will provide guidance on the following primary metrics – first, Aggregate Subscriber Value, which is Subscriber Value multiplied by the number of Subscriber Additions in a period; second, Contracted Net Value Creation, which is the contracted-only portion of Aggregate Subscriber Value conservatively excluding non-contracted value, less aggregate Creation Costs; and third, Cash Generation.

On slides 19 and 20, we detail our guidance.

Strong value creation will allow us to deliver Cash Generation of \$40 to \$50 million in Q1, which will be our fourth consecutive quarter of positive Cash Generation.

Underpinning our Q1 Cash Generation guidance, storage installations are expected to grow at a robust pace, while solar installations are expected to be approximately flat compared to the prior year – with higher growth in our direct business than our Affiliate Partner business. In Q1, Storage Capacity Installed is expected to be in a range of 265 to 275 megawatt hours, and Solar Capacity Installed is expected to be in a range of 170 to 180 megawatts.

For the full year 2025, we expect Cash Generation to be in a range of \$200 to \$500 million. This is a revision from our prior guidance of \$350 to \$600 million, driven by a slower ramp in Domestic Content ITC adders in our Affiliate Partner business, higher capital cost assumptions, and slightly lower volume expectations, partially offset by higher storage mix.

On slide 20, we outline the assumptions and sensitivities related to key variables that would affect our achievement of our 2025 outlook. We expect a 44% weighted average ITC level in 2025, and further underpinning our guidance are assumptions of 7.5 to 8 percent average cost of project-level capital, battery attachment rates around 66%, and slight improvements to the timing of tax credit transfers as that market further matures. Our Cash Generation outlook does not reflect additional safe harbor equipment purchases. We expect solar install volumes to be approximately flat this year.

As we achieve Cash Generation, we will continue to allocate excess unrestricted cash to deleverage, with a target to pay down parent recourse debt by \$100 million or more by the end of 2025. We are committed to a capital allocation strategy beyond this initial de-leveraging period that drives significant shareholder value.

With that, let me turn it back to Mary.

MARY POWELL

Thanks, Danny.

I so appreciate the work of the entire Sunrun team. At our scale, even with more modest growth in new additions, we are adding over 100,000 customers a year -- which is double digit growth to our fleet -- and



with 66% battery attachment rates, that's well over a gigawatt-hour of valuable storage capacity, or the peak capacity of a nuclear plant... on an annual basis. The strategic shift we undertook nearly two years ago to emphasize high-quality growth is yielding strong results in terms of repeatable and meaningful Cash Generation along with providing customers with a greater sense of independence, stability and security in their own homes.

Operator, let's open the line for questions.

Operator

Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star key. Again, we ask participants to limit themselves to one question and one follow-up question. One moment while we poll for questions.

Our first question comes from the line of Praneeth Satish with Wells Fargo. Please proceed with your question.

Praneeth Satish

Thanks. Good evening. I guess I wanted to start first on the Safe Harbor. Maybe this is too simplistic of a way to look at this. But if I take the \$350 million of Safe Harbor that you did and divide by 5% and get to \$7 billion. So that kind of seems like you could cover a few years' worth of solar and storage installations. I'm just trying to square that with the commentary you made on how the Safe Harbor will cover, I think, solar installed for one year and storage for half a year.

Danny Abajian

Yeah. Hey, it's Danny. I can help bridge that a little bit. So we said on the prepared remarks, it's about 12 months for solar deployments and approximately half the year for storage deployments. One element of bridge is with the amount of equipment purchases and the kind of ticket price, if you will, it's not a perfect optimization for every project to exactly 5%. So the actual amount of purchase could represent more than 25%. That simple division would cause you to overstate the amount of value. And then, the amount of aggregate value against which it applies is the fair market value of projects. So you should be looking at aggregate system value created over an annual period, or any period to bridge that kind of remainder of difference. But it is six months for batteries, about 12 months for storage-only projects.

Praneeth Satish

Got it. That's helpful. And then, secondly on the guidance here, so you're guiding to \$200 million to \$500 million of cash generation in '25. You're committing to pay down \$100 million of recourse debt, basically, I guess, the working capital facility. So that leaves a good amount of unallocated cash generation. Maybe if you could just kind of walk us through your priorities for deploying that additional cash and, I guess, why not pay down more debt?

Danny Abajian

Yeah. I think priority is to continue to deleverage. As far as deleveraging target, I think we're looking at a target range of 1.5x to 3x free cash flow multiple, which for us, we would use cash generation. And it's important to build multiple corners of trailing look back of cash generation as we do that, and with an outlook to continue. So we're obviously multiple quarters into that. With the Q1 guide achievement, that would make four consecutive quarters of positive cash generation. We would want to continue to use this period of time to de-lever the balance sheet to within those targets. That's about a one-year outlook.

Beyond that, there could be more deleveraging or during the period of time, there could be substantially more than \$100 million. I think we view that as the floor. And the ultimate priority is to strengthen balance sheet over this period of time. And as we get closer and closer to our deleveraging targets, what comes into focus is capital allocation beyond that period, which would be in the interest of maximizing shareholder value.

Praneeth Satish

Got it. Thank you.

Operator

Thank you. Our next question comes from the line of Philip Shen with ROTH Capital Partners, LLC. Please proceed with your question.

Philip Shen

Hey, all. Congrats on your solid execution, cash generation, debt paydown, and stable performance overall during this challenging time. This stands in contrast with some peers in the industry who are struggling. I wanted to see if you could comment on the tax equity and upfront funding dynamics. It seems like things may be slowing down on the front-end, especially following the election. Can you give some color on this? And importantly, how are you guys managing through, perhaps, a lengthening of the tax equity payment terms? Thanks.

Danny Abajian

Yeah. So on the prepared remarks, we talked about \$1.3 billion in tax equity added to our runway this year. If we include debt, I know your question is not specific to debt, but we've had a very busy start to the year in terms of raising capital and front-ending our capital raises and being on a pretty high velocity deal base. And so that's \$2 billion or more in aggregate of capital if you add the two together. But on the tax equity piece specifically, we're continuing to see both the re-emergence of certain traditional tax equity buyers who might have been for reasons unspecific to the space, in the market for a little bit of time.

We've seen traditional tax equity continue to participate in greater and greater ways in the hybrid transaction format. And we've definitely seen most significantly, a big broadening out of the transfer credit buyer universe, very large corporates increasing in the mix. And we're certainly seeing our investor universe broaden out and the deal activity be quite active at the front end of the year.

Philip Shen

Right. And so as that broadening of that buyer universe happens, and with the uncertainty with the IRA, have you seen payment terms change as a result? Perhaps the traditional tax equity investors who are syndicating, for lack of a better word, the deals now, instead of participant being the entire source of the tax equity, they might be bringing in other tax credit investors. But those guys might be getting a little bit skittish with the IRA. How are you guys managing through that, where some of the traditional tax equity might be very comfortable with the situation, but some of the new players who may not have deep expertise in this space be dealing with that?

And then, shifting to my other topic on domestic content. And last quarter, you guys talked about Powerwall 3 not having shortages for you guys. And so they recently shared some new allocations for Q2 in terms of how much people are getting in terms of Powerwall 3. Are you getting the full allocation that you've been expecting? Thanks.

Danny Abajian

Sure, Phil. I'll take the tie off on that first question, and then I'll pass it over. But on the tax equity dynamics, I would say if you track our commentary of the past, which is as we moved into the tax credit transfer market, there have been impacts to the price of credits that we sell. I would say not much new to report there. Low to mid-90s on a cents per credit basis continues to be the price. I would say those impacts are already borne by the system, and we're expecting to continue with potential for upside.

As far as policy, tax policy, uncertainty, risk, and how it's being digested by the market, I think people are generally comfortable at this point. If we're talking about in-calendar year 2025 tax credit sales, people are generally comfortable with the current law that's in place and underwriting those credits. So we're not really seeing an impact that's noticeable there.

Paul Dickson

And then, I'll just add to the question on Powerwall supply, generally in great shape there. As you're seeing, we're steadily raising our guidance and Tesla in particular remains a strong partner for us, generally keeping up with demand. We do have other partners in our fleet and portfolio that we use that have great partnership and really has aligned supply chain and have very little issues whatsoever.

Philip Shen

Great. Thanks, guys. Keep up the good work, and I'll pass it on.

Mary Powell

Thanks.

Operator

Thank you. Our next question comes from the line of Maheep Mandloi with Mizuho Securities. Please proceed with your question.

Maheep Mandloi

Hey. Good evening. Thanks for taking the questions. Nice to see this cash generation hitting at 200, including that \$18 million, if I do that. But maybe one question just on the guidance for '25. You talked about solar being slightly flattish. Is that due to your affiliate partners or just broader market slowdown you're seeing there or just more competition with the other leading companies? So you could just highlight any color on that would be great.

Mary Powell

Yeah, so for sure. This is Mary. Thank you for the question. Our volume outcome is a bottoms-up, go-to-market approach. Our direct business is seeing solid growth. We are seeing some less growth in affiliate partners. As you know, we shifted to a storage-first strategy, margin-focused strategy that's generating cash. So again, we feel we're growing market share, and the data clearly indicates this, so that's our view.

Maheep Mandloi

Got it. And maybe just on top of that, so you talked about one of the reasons for reduced cash generation for '25 was a slow ramp in domestic content. That is for affiliate partners. Could you elaborate on that? Is that your partners getting less domestic equipment, or batteries or solar or anything specific there?

Paul Dickson

Yeah. I think you hit exactly that. So I think there's some challenges with obtaining, qualifying domestic content hardware. And then, as the rules evolve and clarity comes on them, operationalizing processes to be able to qualify can be challenging for some smaller partners, since we've seen solar adoption with our affiliate business.

Maheep Mandloi

Good. Thank you.

Operator

Thank you. Our next question comes from the line of Colin Rusch with Oppenheimer. Please proceed with your question.

Colin Rusch

Thanks so much. Can you just talk a little bit about the labor pool that you're seeing right now and shifts in terms of any impact of immigration law or other folks exiting the business and being able to pick up some new folks?

Mary Powell

Thanks for the question. This is Mary. We're not seeing any labor impact changes. Sunrun repeatedly comes out as one of the best companies to work for. We have a really good pipeline to support our needs across the business, so we're feeling really good in that arena.

Paul Dickson

I think on the second part of the question, just as others slow down in this space, us picking up talent, I would say yes. I mean, people do see Sunrun as kind of a safe haven, a place to go and build a long, stable career. And on the sales front and on the installation front, we see people who have been out in the industry kind of migrate into Sunrun.

Colin Rusch

Great.

Operator



Thank you. Our next question comes from the line of Dylan Nassano with Wolfe Research. Please proceed with your question.

Dylan Nassano

Hey. Good afternoon, everyone.

Danny Abajian

Hey, Dylan.

Dylan Nassano

Just want to start with, it looks like sales and marketing has been kind of one of the more meaningful tailwinds for creation costs, which were flat in the quarter. Can you just talk a little bit about what you're seeing with commissions and the competitive dynamics that you've talked about, how has that been factoring into how you're kind of paying commissions?

Paul Dickson

Yeah. I think one of the areas of focus for us has been standardization and speed installation in our operations business. Our operations team, I think is, I can confidently say, the best in the industry and the fastest and most efficient they've ever been. And so as salespeople evaluate where do they want to sell, the experience that their customers get is first-class at Sunrun. So that's really helped us to be able to have commission leverage, if you will, by providing a superior operations experience for our salespeople.

The second would be the product that we sell and being a storage-first business. So when you're out there trying to compete on price or deliver customer savings against utility rate versus talking about the benefits of resiliency and battery backup and future revenue sources for the customer through virtual power plants, it's a completely different offering. And more sophisticated, thoughtful salespeople are recognizing that and are seeing they're able to generate assets that have higher value, that earn them a more attractive commission, but on a relative basis, create good economies of scale for us on a per-unit basis.

Dylan Nassano

Got it. Thank you. And then, I guess, just a more timely question. Trump administration seems like it's trying to keep everybody on their toes with the tariffs. I guess, specifically for Sunrun, I'm assuming that would kind of flow through the snap-and-wrap business in terms of exposure to tariffs, whether that be China, Canada, or Mexico. Can you just speak to any exposure that you might have?

Danny Abajian

Yeah. I'll talk through it at a high level as we think about it from the holistic financial picture. So yeah, first, as a reminder, there have been various forms of tariffs burdening the industry since 2012. Today, as we look at the total cost stack, hardware is about a third of our total costs, and we estimate that when you kind of put--it's about a \$0.20 per watt aggregate cost between all of the elements, not just racking equipment. That would be about a 13-ish percent increase to overall hardware costs. But then, when you cut that down for what it means for overall capital creation cost stack, if you will, that's about a 4% increase in overall costs.

So I would say a large portion of which we've already also baked into our expectations. And so if we look at it and we take that in combination with the fact that pricing related to our safe harbor purchases has already been locked in, there's a good mitigation for cost impacts this year. And ultimately, in 2026, that's a few percentage points of potential impact and we'll continue to grind costs down around it to be best positioned to kind of continue to grow cash generation beyond '25.

Dylan Nassano

Great. Thank you. I'll pass it on.

Operator

Thank you. Our next question comes from the line of Brian Lee with Goldman Sachs. Please proceed with your question.

Tyler Bisset



Hey, guys. This is Tyler Bisset on for Brian. Thanks for taking our questions. Just wanted to first touch on your updated key assumptions for the different cash generation metrics. Can you just discuss what drivers led you to revise those? Is it just higher costs you're seeing, or is it something else?

Danny Abajian

Yeah. I think just in the course of the planning exercise, we talked about the ITC realization, that's 44%. So that's mainly a reflection of not ultimately where we'll end up, but the delayed near-term graph we discussed and covered, that is mainly related to the affiliate partner. We said also expecting to reach 45% for the year, but maybe attaining 44% for the whole calendar year. So long-term, not a change, but near-term impact for the calendar year.

On cost to capital, I would say today, obviously, we gave the 7.3% discount rate looking back on Q4 actuals. And we planned a little bit more conservatively. Obviously, there's been multiple quarters now with rates fluctuating, so we planned a little bit higher than where we're currently running for sake of conservatism. And then battery attachment rates, that's just updating to the normal run rate. Of course, we also gave commentary both on the call and during the Q&A here on volume and how that's moved around from the past quarters' outlook.

Tyler Bisset

Great. Super helpful. And then, just on Safe Harbor, you mentioned you spent \$18 million in cash in 4Q to secure the \$350 million. Should we expect any continued cash deployment for that, like incrementally here in the first-half or anything?

Danny Abajian

Not in a one-time fashion. I would say it would probably look more like a run rate activity through the year. The one thing we've also mentioned is we don't assume--yeah, right. Just to step back, there's also consumption of equipment through the year, which is cash timing of monetization and install, occurring concurrently with equipment payments for committed purchases. So the one-time activity we called out for Q4 will run rate out for the year. And then as far as any future Safe Harbor activity, we haven't planned for that in the numbers. That could be incremental activity as we plan out the year. So there could be future forthcoming impacts if we took on more Safe Harbor purchases to extend that out.

Tyler Bisset

Great. Thank you very much.

Operator

Thank you. Our next question comes from the line of Tim Moore with Clear Street. Please proceed with your question.

Tim Moore

Thanks so much. Investors are clearly starting to appreciate your cash generation and focusing that as the main metric. And we like that you're doing profitability and cash generation rather than solely focusing on the top line. I guess, I'm just wondering, with your guidance commentary on flat solar energy capacity installation versus the robust growth on the battery energy storage, and just kind of factoring in new home sales should be a driver this year. You've been doing good on that since last summer. California rebound, retrofits, battery attachment rate might go up, I don't know, 8% the first-half of the year, as you lapped the 52% first-half last year. So can you just, any color maybe on what you think revenue growth could be, even though it's not the main metric? I mean, is it too assertive to think upper single digits growth for the year?

Danny Abajian

So from a top line revenue growth perspective, the revenue should be growing faster than the units, because we're creating higher value units. I think you already hit all the factors, storage attachment rate, continuing to focus and grow in the highest value markets, and de-prioritization, if you will, of solar only. And as we do that, the other thing we notice is the ability to hold the cost discipline and the creation cost flat, inclusive of sales and marketing, enables us to extend margin, reduce cost as a percent of revenue, and that's correlating with cash generation.

So the other part of this is, I did shed a little bit of light for a few minutes on the new metrics. We're excited about that. And I think they'll be able to better illustrate all those dimensions over time to see better how the top line growth is not just units, but it's higher value units and margin expansion.

Tim Moore

And that's helpful. And the only other question I had was just on irrational competitive behavior. I know Mary mentioned that some new entrants aren't irrational, but there's probably some incumbents that still haven't changed their ways. I mean, can you just give us a flavor, or at least benchmark, if irrational behavior peaked sometime last summer. I don't know if it did, but if it was something like five out of 10 last summer. How have you seen it in the last few months? Has it improved overall a little bit?

Paul Dickson

Yeah, great question. I would say it's about stable. With what prices are rationing, they have a tendency to not be able to do it forever. And so as one kind of unwinds, a new one has kind of replaced them, and then quickly gets filled up with volume with sales reps that are happy to take advantage of someone paying more for assets than the proceeds you can generate on them. And so I would say it's largely stable in terms of a percent of the market that is overpaying for assets, but there's kind of been some exchange of who those people are.

Tim Moore

Great. No, that's very helpful that it hasn't worsened. I appreciate that.

Paul Dickson

Thank you.

Tim Moore

Thanks.

Operator

And thank you. Our next question comes from the line of Vikram Bagri with Citibank. Please proceed with your question.

Vikram Bagri

Hi. Thanks for taking the question. Just going back to the safe harboring of the equipment, are you able to quantify whether you'll face any higher inventory costs on those modules and storage that you're safe harboring this year? Is there any incremental warehousing costs that you might face on that?

Danny Abajian

Yeah, we've been able--so you could look at the Q4 inventory balance that did take up in the range of \$60 million. So there is a little bit higher carrying, but as you'll also see, that number is not \$350 million. So it's not necessarily showing up as a big front-ended impact on inventory warehouse costs. But we also did know we did it in a very capital-efficient manner on use of corporate cash, which implies we used third-party capital to fund it, which has some interest costs. So I'd say the bigger share costs right more on the financing charges as opposed to the holding costs, which I think we're going to be very, quite efficient on.

Vikram Bagri

Got it. And just one follow-up, maybe I might have missed it earlier, but what was the rationale for having a little bit of the longer lead time on the modules as opposed to storage?

Danny Abajian

Could you repeat that question?

Vikram Bagri

What was the thinking behind having a bit of a longer runway for safe harboring on the module side as opposed to on the storage side?

Danny Abajian

Yeah, I think it's just relevant availability of equipment in the market, one year of modules being available, one year of batteries not being available.

Vikram Bagri

Okay. Thank you.



Operator

Thank you. And that concludes the time that has been allocated for Q&A. You may now disconnect.

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 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, 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.