

SUNRUN

2Q 2025 Earnings Call

August 6, 2025

Transcript

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Presenters

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

Q&A Participants

- Moses Sutton - BNP Paribas
- Brian Lee - Goldman Sachs
- Praneeth Satish - Wells Fargo
- Joseph Osha - Guggenheim Securities
- David Arcaro - Morgan Stanley
- Jon Windham - UBS
- Dylan Nassano - Wolfe Research
- Hannah Velasquez - Jefferies
- Maheep Mandloi - Mizuho Securities
- Colin Rusch - Oppenheimer
- Philip Shen - ROTH Capital Partners
- Chris Dendrinis - RBC

OPERATOR

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.

Q&A Session

Operator

Thank you. We will now conduct 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 in queue. You may press star, two, to remove yourself from the queue. We ask participants to limit themselves to one question and one follow up question. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment while we poll for the first question.

The first question comes from Moses Sutton with BNP Paribas. Please proceed.

Moses Sutton

Thanks and congrats on quite an impressive update on really everything. On slide 11, where you detailed the start of construction, if three years will have started construction by mid-August, is that like saying extending through all of '28 and '29 because you don't have to Safe Harbor for '26 and '27? And if so, why on that same slide, would you show the bridge above, the 6500 bridge, you have all that done by 2028? It seems to me like you're properly protecting the solar ITCs through year-end '29 and that you'll do 2030 in 1H '26 notwithstanding the new rules.

Danny Abajian



Right. Yeah, two different things. Yeah, on the Safe Harbor, we are articulating that there's a Section 48 of a few months. There's Section 48 Safe Harbor of a few months, and then there's three years that you noted from the slide there. And you're correctly noting that that is extending the runway by a few years beyond 2028. And on the top portion of that slide, we're just doing a very simple walk of the loss in margin from the loss of the solar portion of the ITC.

You could think of that as 2028 or even a different year. But really, to show the build-up back up to full recovery, if not a little bit more than full recovery of that about \$6,000 per system loss in ITC value, and we've shown a few of the factors. Not in here is other cost reduction in the business, so operating cost efficiencies, servicing cost efficiencies. Everything else we'll do on top of this. This was just to show one possible path, just to illustrate that we think it's achievable to recover that solar portion. And of course, we're complementing that prudently with a Safe Harbor strategy as well.

Moses Sutton

Got it. That's what I thought, very helpful. And then on the cash generation being reiterated, the guidance for the year, is that net of the Safe Harbor spend that you've done a little bit already and then finishing through August? Or will you be netting that out when you do the cash generation math at the end of the year? Will it be excluding what you spent on Safe Harbor? How do we think of that? And then I'll pass it on. Thank you.

Danny Abajian

Yeah. We've reflected the working capital effects we noted in Q2. We've also reflected expectations for the balance of the year.

Moses Sutton

Thank you.

Danny Abajian

Thank you.

Operator

The next question comes from Brian Lee with Goldman Sachs. Please proceed.

Brian Lee

Good afternoon. Thanks for taking the questions. Kudos on the nice quarter and execution. I guess first question kind of related to Moses's question. You had the big uptick in net value creation. So one, I was wondering if you could maybe quantify the different buckets to what's driving that significant increase in the view for the year, and then kind of related to that, how come that's not really translating to anything on the cash generation outlook for the year? Maybe some of the puts and takes between what drove the uptick in net value creation, but why that's not translating, at least this year into cash generation. And --

Danny Abajian

Yeah, I'll unpack that a little bit. So the sequential growth in volume definitely was a big factor that if we look on a year-over-year basis, I think that's a good way to try to bridge 17 points of unit level margin expansion. We noted about seven to eight points worth of margin expansion within that, associated with the increase in the weighted average ITC, as we've had more adders in the business. The battery attachment rate, I noted, certainly contributed. And to the aggregate result, as a strength in year-over-year growth in subscriber additions also certainly helped.

So I'd say more volume with tilted towards higher value mix, and then we also noted the operating cost efficiencies have been -- when you look at it on the surface, it appears as a 4% year-on-year reduction, but actually, once you unpack it and realize that all the extra materials cost consumption being fully absorbed by ops and sales and marketing cost reduction around it, the ability to keep creation costs flying year-over-year as we raised the top line, led to huge margin expansion. Now, we're also noting in Q2 in particular, some of the activity with our inventory balance and associated change in working capital, a little



bit of extra time in the capital markets, as people are kind of coming back from digesting the effects of the budget bill. That market is picking up in activity.

I think it's also a little bit of the summer period coming into effect as well. But as the tax planning for the balance of the year continues, that activity picks up. So when you couple that with the sequential growth in volume and some of the installation activity to full cash conversion cycle with tax equity and turnout that we normally have, we expect to be more back half weighted in the cash generation in the business.

Brian Lee

OK. Fair enough. That's helpful color. And then just on the safe harboring, presumably you're focused on meeting the 5% threshold to satisfy the commence construction criteria. Can you give us the sense of what the kind of working capital financing needs will be between now and sort of, I guess, July 2026, kind of quantify that for us? And then where you are with respect to discussions with lenders on securing -- what percent have you secured? What percent do you have a line of have a line of sight to secure? Thank you.

Danny Abajian

I'll take the first part. I might need to clarify the lender question. But we did a bunch of activity at the end of last year. That's several months' worth. We talked about additional activity in the quarter, the associated effects you can kind of see in the inventory balance and some of the change in working capital. We've continued to pursue a capital like strategy for doing Safe Harbor. I think we'll continue to do that. There's also the -- whatever the outcome of the executive order will be, will impact the timing for more Safe Harboring. Of course, we feel like that'll be prospective changes, not retroactive, and we've already done a few years' worth of that. Again, I think maybe your lender question was around the capital to maybe finance it. I'm not sure if I'm following that, but again, we've been able to do it in a very capital efficient manner.

Brian Lee

OK. I appreciate it. Thank you, guys.

Operator

The next question comes from Praneeth Satish with Wells Fargo. Please proceed.

Praneeth Satish

Thanks. Good afternoon. Maybe just going back to the Safe Harboring question, just in terms of trying to quantify how much cash you've spent so far in Q2 and then into Q3, I guess we should look at maybe the inventory changes as kind of a proxy that goes \$70 million, \$80 million, something like that. And then you mentioned that by mid-August, you'll have enough Safe Harbor to cover volume, current volume through 2030. I guess, is that -- we'll see what happens with the executive order, but is that where you stop, or will you continue to Safe Harbor to cover expected volume growth, to create a bit of a buffer?

Danny Abajian

I think we did note that there's about three years' worth of activity. There's a one-year period from the date of bill passage to supplement with more Safe Harbor activity, and we would plan to do more. The details of that will very much depend on the Treasury guidance that comes out following the executive order. So we still need some more time to firm up thoughts on how much more, but we can comment by saying we do intend to do more. It's just kind of a matter of the details with what qualifies and what that strategy looks like.

Praneeth Satish

Got it. And maybe switching gears a little bit on the grid services. So I know you're estimating at least \$2,000 NPV per customer, but maybe if you can help frame how much you're getting on a recurring revenue basis. Currently, I think we're kind of triangulating around \$20 million per year of recurring revenue from your enrolled customers. I guess, is that in the in the ballpark? And then as a follow up, at what point do you securitize that revenue stream? Can you securitize it if it gets to \$50 million? Is that large enough, or do you need to go higher than that? Because it seems like, based on the guidance you provided, of



getting to 10 gigawatt hours by 2029, maybe you can get to \$50 million, \$60 million of recurring revenue by 2029, so just trying to understand if there's a possibility of some securitizations there.

Paul Dickson

Yeah. I think I'll start with that, and then I'll let Danny maybe take the securitization and financing of it. But today, we have about, 3.2 gigawatts of storage devices, roughly 200,000 devices out in the market. 35% of those are currently enrolled in programs, so a little over 70,000 of our battery devices are enrolled in functioning and paying programs. We're focusing heavily in our go-forward strategy around deploying battery devices and reaching penetration and concentration in areas that would have and do have attractive home to grid vertical power plant type program set up. And so 35% enrollment rate is today, and we anticipate that growing nicely.

We've articulated this 10-gigawatt number that we think is very achievable for us. And so kind of anchoring around a \$20 million number is, I think, conservative, but directionally OK. We see that that \$2,000 per subscriber number being something that we are currently beating and plan to continue to beat. And I think as we build out more capacity and more robust programs, we'll have more stability that will make financing those easier, but I'll let Danny kind of take that.

Danny Abajian

Yeah, and the latching on the \$2,000 per customer, a vision that in a realistic path to tripling the deployed capacity over the next few years, we start to push in the several hundred thousand customer range for participating customers with their batteries. So on a present value basis, that starts to look very meaningful in terms of scale, several hundred million dollars of total present value. As far as the financing outlook for that, I don't think we've concluded yet. I think we're happy with the way the scale is building. It's a new bank financing activity, certainly sub scale. But as it scales, those options will open up and become very obvious to us.

Praneeth Satish

Got it. Thank you very much.

Operator

The next question comes from Joe Osha with Guggenheim. Please proceed.

Joe Osha

Hi. Thank you. I've got two questions for you. First, just thinking about the market, as 25D goes away, maybe I'm asking this question in the right way, is some portion of that cash and loan market sort of convertible to lease or PPA, or do we just think about it going away? I'm just trying to think about how to think about that. Thanks. And I have a follow up.

Paul Dickson

Yeah, great question. Kind of independent research consensus suggests half the market is that cash loan today, and about half of that goes away. So a 25% pullback in the market overall, and we think that is quite reasonable. So 25% of that market largely is areas where third-party owned isn't a viable solution, so most of that market, I think, goes away. The sales and fulfillment partners that operate in third-party owned markets that are today selling under 25D, I do think most of them make a reasonably successful transition over into a third-party-owned model with the solutions available to us, or to them.

I think for us, there maintains a really heavy focus on quality, margin control. And I think most of the players who are a bit more focused on the superior consumer offering that third-party has been for quite some time are focused around an understanding the value of dispatchable, controllable load, have already migrated into a third-party model and are working with us. And so while I do see some migration of the 25D volume flowing into Sunrun, I think there's a lot of development and maturity for many of the partners that would need to take place, even simple things, like, we deploy domestically manufactured equipment and are focused on that. So how can these organizations build out the supply chain and sophistication to track and report on that to adhere with that standard for us, for example. I think there's some development that



would need to take place, but I think overall, 25% contraction in the overall market, some of that flowing to Sunrun will be natural.

Joe Osha

Yeah. I agree, and I'm just wondering if that -- OK. Thanks. And my other question, this just occurred to me listening to your call. It's interesting that if I heard correctly, only about a third of your existing storage fleet is signed up for grid services. I'm wondering if there's been any effort to go back to the existing installed base and see if you can sign up non-participants.

Paul Dickson

Are you talking about signing them up to install storage with them, or going back to [inaudible]

Joe Osha

No. I believe I heard you say that of your installed storage fleet, about a third is signed up for grid services. Did I hear that correctly?

Paul Dickson

Yeah. Sorry. So --

Mary Powell

That's because of the programs and the geographies, Joe. It's not like all of our customers are technically capable to participate in programs. So again, it's more to the geographies of where we are already seeing a lot of grid constraints and challenges, and we expect to see that grow. And then we also just --

Joe Osha

Yeah, I wasn't trying to be negative. I'm just wondering whether there's some opportunity to go back and try and sort of remarket that existing fleet of storage. That was my question.

Paul Dickson

Absolutely.

Mary Powell

100%. Yep, absolutely. As is we also see tremendous opportunities with our existing customer base, and we've started to do that successfully, which is scale in a super low CAC way, storage attachment for the 800,000 customers that we have that don't currently have storage, so that we can enroll them in these programs.

Joe Osha

OK. Thank you.

Operator

The next question comes from David Arcaro with Morgan Stanley. Please proceed.

David Arcaro

Hi. Thanks so much for taking my questions. I was wondering, could you touch on just maybe how aggressively you're pursuing cost savings and cost efficiencies right now? Where do efforts stand in terms of cutting customer acquisition costs? Good progress here on creation costs, obviously, for the quarter. Just wondering, how much of that is you really pushing more aggressively there? And is that part of the near-term strategy that you plan to pursue?

Mary Powell

Yeah. I would say, we have had a laser focus on running incredibly efficient and effectively for our customers for some time, and it's really gaining a lot of traction, particularly as we've talked about onboarding a really strong AI team that has helped to accelerate that throughout the business. So we still see opportunity for years to come in the context of continuing to drive down costs in the business, drive



down the cost of customer acquisition. And so yes, we not only have achieved a lot of that, but we see a lot of continued opportunity as a business.

Paul Dickson

Yeah, the only additional call out I'll make is on post installation servicing costs, we've seen those come down quite a bit over the last year as well, and that's been a key focus on top of installation and customer acquisition cost efficiency. On that side, we are also seeing, as we kind of scale up volume, we're seeing operating cost leverage across our fixed cost base in a very, very meaningful, nice way.

David Arcaro

Yeah, absolutely, makes sense. And then separately, where do you stand with regard to the FIOC provisions, particularly with your storage supply? How much visibility do you have there to manage within the thresholds of the OBBB?

Paul Dickson

Yeah, we've worked a lot with our partners, and have had a lot of really good collaboration. We think the capabilities that we have in the timeline works quite nicely, and we see a good ability to walk into it in compliant.

David Arcaro

Great. Thank you so much.

Operator

The next question comes from Jon Windham with UBS. Please proceed.

Jon Windham

There we go. I had to get off mute. Sorry. First of all, I'm not usually one to dole out compliments on quarterly calls, but over \$5,700 on the upfront net subscriber value is a massive number, so good work by the team. I wanted to ask a question, maybe it's been an area where people aren't looking these days. We've obviously had so much focus on the federal level. Can I give you the opportunity maybe to walk around the room a little bit and talk about anything you have an eye on in terms of state level subsidies and policy programs? Historically in this industry, when the federal government wants to go sort of one way under one administration, the opposite states tend to go to another, meaning the last time we saw Trump elected, saw some of the more Democratic states sort of double down on their commitment to renewables. Just if you could help us on anything, we should be keeping an eye on, investors should be keeping an eye on at the state level over the next six or 12 months. Would really appreciate just your high-level thoughts. Thank you so much.

Paul Dickson

I think in an overall perspective, you articulated a dynamic we've seen play out and to be true multiple times, and continue to be the right way to think about it. Overall, there are and have been longstanding, durable rebate programs that we continue to see as strong, stable elements, like the abstract programs that exist, for example, or other state programs that have dedicated funding and continued stability. And we've seen, I think, in some areas, some enhancements there, and some further commitments there. And then, I would say early conversations are kind of budding in several new markets that create interesting and exciting opportunities for us.

Mary Powell

Yeah. The only thing I would add to that is that as we all know from reading the news every day, the grid is running into challenges. And now, with also the AI challenge and the AI race with China, you're seeing a lot more focus on energy capacity. So not only do I expect to see some of the same phenomenon we've seen in the past, but I think someone is in a particularly athletic position, because I think you're going to see a real focus on storage as a part of that. So as states are looking at that exact topic of how do we make sure we're accelerating it in our jurisdiction, I think there is also a very strong focus on dispatchable resources, which again, plays very well into our vision and our work in the energy space.



Jon Windham

Appreciate it. Thank you.

Operator

The next question, comes from Dylan Nassano with Wolfe Research. Please proceed.

Dylan Nassano

Yeah. Hi. Thanks for taking my question. I just want to go back to the slide 11, where you show what a post ITC world could look like. So my question is, how can the industry kind of drive down those customer acquisition costs without significantly lowering volumes? It just seems like there's a view in the industry that sales commission payments are kind of like the lifeblood of volume growth. So to me, it seems like a little bit of a chicken and egg problem. Curious how you think you could kind of achieve both?

Paul Dickson

I think we've programmatically been focused on innovation and creating a differentiated consumer offering. And as we've done that CAC as a percent of proceeds or a value created, has been, as I said, programmatically falling. And we're in, I would say, the early stages of that innovation cycle and building out that differentiated offering. So our sell reps are focused more on selling consumers features and functionality and benefit. Layer on top of that, revenue that we were talking about with home to grid capabilities around virtual power plants, and that's coming a more substantial thing, is the grid builds the impacts of the electron shortage, the price you'll be able to fetch to be sitting on currently, a little over three gigawatts of dispatchable capabilities, soon to be 10 gigawatts over the next few years, becomes very meaningful and a real source of incremental top line revenue with no real associated CAC, speak of burdening it. And so as those kind of dynamics play out, we have been seeing, and expect that trend to continue to walk us into CAC reductions in line with what's shown on slide 11.

Dylan Nassano

Got it. Thanks. And then just as a follow up, so I guess, just given that residential solar is generally shorter cycle than utility scale solar, can you talk a little bit about how you plan to balance Safe Harbor related equipment acquisitions with a little bit more limited for demand visibility? I'm just trying to think through some potential headwinds stuff like equipment degradation. And then separately, kind of on that point, are you looking to further diversify your supply chain mix kind of maybe more towards some historically less represented suppliers?

Danny Abajian

I would say, take the second part. I think the Safe Harbor activity and the available capacity and ability to do the Safe Harbor activity with our existing vendor mix has been a very achievable exercise. So I wouldn't say the activity of Safe Harbor necessitates a big, big change in vendor mix. It could impact the mix amongst our vendor universe, but it's not like a drastic change in mix. So then I would say the multiple year -- the question on the multiple year runway, it's definitely a big combination of activity, aggregating into a few years. Yeah. I think we would like to see the executive order fully play out, fully complete the strategy, before we kind of get into the details.

Dylan Nassano

Got it. Thank you.

Operator

The next question comes from Julian Dumoulin-Smith with Jefferies. Please proceed.

Hannah Velasquez

Hey. Good afternoon. This is Hannah Velasquez on for Julian. Like everyone else has said, congrats on the quarter. So I just wanted to open up with a clarifying question. It sounds like of the three-year Safe Harbor program that you all are pursuing, you Safe Harbored about one year's worth, post the One Big Bill to date. And then you're waiting, I assume, until Treasury issues guidance for the remaining two years. So clarifying questionnaire, is that correct? And the follow up there is what gives you confidence that no



portion of guidance will be retroactive? I'm sure you're hearing all the whispering is that it could be retroactive back to 7/4 or 7/7, or even retroactive back to January 1st.

Mary Powell

Yeah, I can hit the retroactive comment first. This is Mary. Yeah. What we're hearing, having spent quite a bit of time in Washington, and was just there last week, like, what we're hearing is retroactivity is very, very low likelihood, extremely low likelihood. And I think as we've all seen, we already are seeing a lot of Republican Senate leadership expressing their desire, frankly, not for there to be a lot of changes at all, let alone retroactive changes. So everything we're hearing is that there likely will be some changes, and they will be prospective. So Danny, why don't you think the rest of it?

Danny Abajian

Yeah. The end of your activity was about 12 months of solar equipment, six months of battery. So just to bridge that to the bullet point you see at the bottom of slide 11, it's two months of Section 48. That implies the equipment that is available from that Safe Harbor activity. There's six months that have immense construction in the calendar year before the passage of the bill. That's the six month. And then there's three years expecting to have commenced by this August. So that's fully incremental to the first two. And then what we're talking about further to that, is doing more than the three years by July 2026, which is the one-year deadline from the date of bill passage, and that's still in flight. But again, that's the part that's more TBD based on the Treasury guidance.

Hannah Velasquez

OK. Thank you. And then just as a follow up on the battery side, when you talk about potentially getting to 10 gigawatt hours by 2029, what macro and market level assumptions are you considering to underwrite that number? Does it assume other states adopting maybe VPP programs across utilities or expanding across the current basis states where batteries is particularly strong? And then maybe you could also just identify which of the key states currently you feel will drive a bulk of this ramp to 10 gigawatt hours through 2029?

Paul Dickson

Yeah. So the state participation in grid service programs would just be the enrollment rate and the economics we would drive off of that 10 gigawatts. But the batteries absent grid service programs are highly economical and attractive for us to be selling and create a great grid resource and good customer functionality. So building the 10-gigawatt basis [inaudible] independent of program enrollment. As we said, we're at 3.2 gigs right now. And I think a kind of steady state mix, or consistent state mix of what you've been seeing. We're at about 70% attach rate today, so that puts us at about 70,000 new batteries installed on an annual basis. That puts us not far off with little acceleration needed to be walking right into 10 gigawatts through 2028.

Hannah Velasquez

OK. Thank you.

Operator

The next question comes from Maheep Mandoli with Mizuho. Please proceed.

Maheep Mandoli

Hey. Thanks for taking the questions here and congratulations on the quarter here. I just want to clarify one thing on the Safe Harbor through '28 [inaudible] on that. What growth rates are we assuming here for that? Is this \$5.76 billion per year kind of run rate, or slightly higher than that for those years? Thanks.

Danny Abajian

Just to clarify, the growth rate, is that the growth rate we're assuming for our business when we design the Safe Harbor activity?

Maheep Mandoli



Yeah, yeah, because I think most of -- only part of that shows up in inventory, presume, right? The rest shows up as --

Danny Abajian

Yeah. It's modestly growing. I would say the expectation, obviously, we've talked about the industry dynamics of 25D and the opportunity we have there. I think also, we're being very disciplined on the volume growth. I think we're just anchored, as we've said for many quarters, on the margin growth. I think that has us with a view of modest growth and the resulting multiple year runway comment, when we're talking about the magnitude of the Safe Harbor activity is underpinned by that assumption.

Maheep Mandoli

Got it. Appreciate that. Thanks.

Operator

The next question comes from Colin Rusch with Oppenheimer. Please proceed.

Colin Rusch

Thanks so much, guys. Given some of the distress that's out there in the market, are you seeing any opportunities to pick up portfolios of assets that you could optimize and leverage with add on sales, especially given what you're doing with the balance sheet right now?

Paul Dickson

That's definitely an opportunity that exists out in the market. It's not something that we're pursuing. I think there's an opportunity for us to do more with battery deployments and growing up with and optimizing our own fleet, and we're really focused on that for the time being.

Colin Rusch

That's super helpful. And then just on the battery side, given some of the innovations around battery chemistry and some of the extended lifetimes, are you seeing any material step functions in terms of new chemistries that you guys could start deploying and an ability to start driving some price in margin just through some of those incremental chemistry improvements?

Paul Dickson

Yeah. One of the benefits of being the largest deployer of residential batteries in the country is you get the third [ph] pick and you get insights into what anybody is doing. So we do look at a lot of technologies. There's some incredibly impressive innovators out there, and we're excited about the prospects of continuing development around cheaper batteries, core functionality, better installability. There's a lot of innovation taking place in that space, and we think we're seeing it both from our existing partners as well as new emerging opportunities.

Colin Rusch

Great. Thanks so much, guys.

Operator

The next question comes from Philip Shen with Roth Capital. Please proceed.

Philip Shen

Hey, guys. Thanks for taking my questions. First one is a follow up on retroactivity. I know, Mary, you talked about it being an extremely low likelihood. We're hearing similar, that they're not leaning that way. That said, there is still a probability out there that's non-zero. And so what happens if there is retroactivity? What's the path? And then, in terms of what you guys have Safe Harbored thus far, how have you guys done that? Is it through inverters, batteries, modules? What's the dominant category of equipment? Thanks.

Mary Powell



Yeah. And the first part, So Phil, nice to chat with you. The key context to keep in mind for Sunrun is that it would be isolated to claiming the ITC for solar for '28 through '30. And I think, as we show in our slide, we see it as -- we believe Sunrun can generate attractive returns without the solar portion of the ITC. So first and foremost, that's really important understand from a base stakes' perspective. And then when you layer on top of that, that you've heard exactly what I'm hearing, exactly what everybody else is hearing, which is very low likelihood of retroactivity, I think we're feeling in a very strong position.

Danny Abajian

Vendor equipment type mix, say, kind of all of the above. I think we'll reserve comment on exact specifics of our strategy.

Philip Shen

OK. Thanks, guys. And then shifting to my second question here on tax credit buyers and buying, some of our checks suggest a substantial percentage of the tax credit buyers out there are not interested in resi solar as a category in general. So then you have just less demand, right? And there's a fair amount of supply, especially with the new entrants, [inaudible] BK notwithstanding. Pricing appears to be challenged with some of these resi players. We're hearing kind of in the, call it mid to high 80 cents on \$1 of credit. I got to imagine the pricing for you guys is better, but to what degree has that overall kind of challenge sentiment for resi solar impacted your pricing for tax credits? Have you seen meaningful change that could impact margins despite your strong margins in the quarter, but could it impact margins ahead? Thanks.

Danny Abajian

Yeah. I think it's a big, big market. We've raised \$1.7 billion into year-to-date. We did note on the call, in the prepared comments, that buyers over the period with the playing out of the bill between the different versions, I think going into summer that, the players in the market did slow down a little bit. Some of it was residential driven, wanting to understand the sponsor differentiation in the space. That's not different than we see in the debt capital markets as well when we're doing our securitization transactions.

I think, in a moment like today where we're showing the results of our work, we do encourage capital providers across all markets to really due diligence on the unit margins of what the originator is originating. And we're very proud to show how healthy that looks, and the results of all the work we've done to make that be the case. And I think that's a key credit point when somebody's looking at an asset deal, but wanting to understand how the sponsor differentiates from the others they may have come across.

Now, residential versus utility scale, there are definitely different considerations in utility scale. You do have a very, very long deployment window, the timing of which can be very uncertain, the overall completion rate of the project, which could be uncertain. So the fact that we're unique in that there aren't that many business models with a flow rate that is very reliable, we see that in the residential space. I think that is an attractive point. There are pricing differences between where residential clears and where utility clears. We feel like, over time, those two should still converge.

I think in the moment, there might be certain price points that are -- there's market chat around certain price points that may or may not clear. I would say, that's more of an in the moment thing, as opposed to a big, long-term structural deviation from what we expect the economics to be.

Philip Shen

OK. Great. Thanks. Danny. Thanks, Mary.

Danny Abajian

Thank you.

Operator

The next question comes from Chris Dendrinis with RBC. Please proceed.

Chris Dendrinis



Yeah, thank you. I wanted to follow up on the 25D conversation and the opportunity to capture some of that, I guess, call it non-TPO market that might come to TPO. You mentioned you're not looking to employ a long tail or roll up strategy. What kind of is the strategy here? Do you do anything different, I guess, from this point forward, in terms of onboarding new installers? Are you looking to add new installers, or how are you thinking about making sure that you're benefiting from some of this opportunity here? Thanks.

Paul Dickson

Yeah. We have a really successful and great relationships with our affiliate partner business and do see some opportunity to onboard people in the 25D space to join that affiliate partner network. Just calling out that there are some limitations given our strict underwriting, quality safety controls and things like that. So there's really strict things that we think limit out much of that market. That being said, there are some fantastic players in that space that we see could be and likely will become good Sunrun partners.

Beyond that, we do see some companies seeing this as an opportunity to kind of go to Safer Harbors, and we've seen the onboarding and actually organizations come into Sunrun and become Sunrun employees, joining our sales force or our installation labor force. And so we see that taking place as well, but those are the two mechanisms and interaction points between Sunrun and kind of the 25D market.

Chris Dendrinis

Got it. Thanks. And I guess maybe separately, a follow up. Tariff impacts, last quarter you had highlighted, I want to say it was maybe \$1,000 or \$1,300 per customer from tariffs. How has that changed, I guess, today, just given fluctuations and tariff rates? Thanks.

Danny Abajian

Yeah. I mean, the short answer is, we've moderated and ended up at the low end of the tariff range, and all of the associated impacts we've kind of reflected in our forecast and all the guidance we've given.

Chris Dendrinis

Great. Thank you.

Operator

Thank you. This does conclude the allotted time for today's teleconference. We thank you for your participation. You may disconnect your lines at this time and have a great day.

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.