



**Q3 2018 Earnings Call
November 7, 2018
Prepared Remarks**

Forward Looking Statements

Thank you operator, and thank you to those on the call for joining us today.

Before we begin, please note that certain remarks we will make on this conference 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 Lynn Jurich, Sunrun's co-founder and CEO, Bob Komin, Sunrun's CFO, and Ed Fenster, Sunrun's co-founder and Executive Chairman.

The presentation today will use slides which are available on our website at investors.sunrun.com.

And now let me turn the call over to Lynn.

LYNN JURICH

Thanks, Patrick.

We are pleased to share with you Sunrun's third quarter financial and operating results along with progress against our strategic priorities.

In the third quarter we added more than 13,000 customers representing 100 MW of deployments. This is the highest quarterly volume in the company's history. We generated \$86 million of net present value and created NPV per watt of \$1.00 or over \$7,700 per customer.

We are reiterating our full-year guidance of 15% growth in deployments and growth in cash generation above this rate. Demand is accelerating and we expect Q4's growth rate to increase above 30% year-over-year. This growth plus investments in customer acquisition and product innovation will be achieved while delivering NPVs above \$1 per watt for the full-year.



Consumer Interest

Americans are united on the value of rooftop solar energy and batteries in their homes. This especially resonates as we experience an increase in extreme weather events. Just today, PG&E warned its customers of its decision to force sudden blackouts in up to nine Northern California counties. A centralized grid is not the solution to protect customers and provide reliable power when the wind blows. Our Brightbox home solar and battery service gives people what they want: affordable, reliable power, which results in less pollution and healthier communities.

Not only can we provide a product customers want today, but the assets we are deploying can be leveraged over time to help alleviate congestion on the grid when and where it is needed most. Working collaboratively with utilities and grid operators, we can help America transition to a carbon-free and affordable power system. This is the goal of our partnership with National Grid.

Renewable energy is a uniting force and it makes me optimistic about the future of Sunrun and the country. Two recent surveys underscore the popular views: the first, commissioned by EEI, the utility industry group, found that 74% of Americans think we should use solar “as much as possible” and 70% agree that in the near future, we should produce 100% of our electricity from renewable energy sources. The second survey, from Consumer Reports, highlights an overwhelming majority of Americans support greater reliance on cleaner energy sources. Yet only 22% think that their utility is doing a good job investing in renewables. It is not surprising that governments are responding with new renewable portfolio standards and other mandates that provide strong tailwinds to our business.

Growth Outlook & Product Leadership

Sunrun’s competitive advantages are accelerating. As we continue to execute quarter after quarter and take share we separate ourselves from the rest of the field. This means we are more attractive to large national partners like big-box retailers and homebuilders, we have supply chain advantages that we are seeing play out today with batteries, and we are engaged with utilities to design the energy system of the future.

We’re capitalizing on this market-leading position by investing in our direct customer acquisition and customer experience capabilities, which we believe will increase the moat around our business and deliver a superior cost structure over time. The results are encouraging: our direct business is growing over 50% year-over-year, an acceleration from last quarter, and we are increasing the adoption of Brightbox home solar and battery service.

We will have installed nearly 5,000 Brightbox systems by the end of the year and expect Brightbox installations to grow more quickly than solar-only. We have already launched the service in eight markets and it represents about 10% of our direct business overall and more than 25% in California. Financial returns are attractive and the service further differentiates Sunrun as the nation’s leader. Brightbox



provides customers with backup power, ability to manage time-of-use pricing, and offers Sunrun additional revenue streams through Grid Services. It also protects us against attempts by utilities to undermine the value of residential solar.

Comcast Partnership Update

We have updated our agreement with Comcast to reflect learnings over the prior year and to accelerate the pace of the partnership. Under the amendment, Comcast must spend an incremental \$15 million in marketing prior to September 30, 2019, weighted towards our target markets. In addition, the partnership is now non-exclusive. In exchange, we have reduced the minimum cliff for Comcast to vest into Sunrun common stock, but have left unchanged the number of warrant shares issued per customer. Comcast is delivering an attractive customer acquisition cost to Sunrun, even with a continued rising stock price. This amendment will make it easier for both parties to include results from the partnership in our 2019 plans.

Financial Strength

Finally, we are cash flow positive, even while investing in future growth and product leadership, and we have maintained our strong balance sheet.

I'll now turn the call over to Bob Komin, our CFO, to review Q3 performance and discuss guidance in more detail.

BOB KOMIN

Thanks, Lynn.

NPV

Customer NPV in the third quarter was approximately \$7,700 - or \$1.00 per watt.

Year-to-date in 2018, NPV per watt was \$1.02, in-line with our target levels, despite the headwinds from tax reform and tariffs, along with the investments we are making to accelerate our direct business and product leadership.

Project Value

Project value per customer was approximately \$33,400 - or \$4.34 per watt in Q3.

As a reminder, project value is very sensitive to modest changes in geographic, channel, and tax equity fund mix. We expect project value will decline slightly over time, but with costs declining more, although in the short run there can be quarterly fluctuations.



Creation Costs

Turning now to Creation Costs on Slide 7.

In Q3, total Creation Costs were approximately \$25,600 per customer - or \$3.34 per watt. Similar to Project Value, Creation Costs can fluctuate quarter to quarter. Creation Costs per watt were flat year-over-year. We continue to expect Creation Costs to show modest declines for the full year even with the module tariff impact and as we continue to invest in growth in our direct business as Lynn described.

As a reminder, our cost stack is not directly comparable to those of peers because of our channel partner business. Blended installation cost per watt, which includes the costs of solar projects deployed by our channel partners, as well as installation costs incurred for Sunrun built systems, improved by \$0.20 year-over-year to \$2.52 per watt.

Install costs for systems built by Sunrun were \$2.06 per watt. We expect the adoption rate of home batteries to continue to increase which will carry a higher per-watt cost, but also a higher Project Value.

In Q3, our sales and marketing costs were \$0.73 per watt, about flat with our year to date results for the first half of 2018. Our total sales and marketing unit costs are calculated by dividing costs in the period by total megawatts deployed. Most of these expenses relate to our direct business and these sales activities occur somewhat earlier than when the related systems are deployed. During periods when we are growing direct sales rapidly this timing impact causes reported unit sales and marketing costs to increase. A higher mix of direct business also results in higher reported sales and marketing cost per watt, but it also means there will be lower blended installation costs per watt over time due to the higher mix of Sunrun managed installations at a lower reported cost per watt. For the first nine months of 2018 compared to a year ago, sales and marketing costs were higher, and blended installation costs were lower, by approximately \$0.20 per watt.

Our total GAAP sales and marketing expenses increased 42% year over year, as our volumes in the Sunrun direct business grew at a faster rate than last quarter and exceeded 50% year-over-year. Sales costs per new customer in our direct business declined as we grew volumes at a faster rate than reported costs in the quarter.

In Q3, G&A costs were \$0.23 per watt, a \$0.04, or 15% improvement year-over year.

Finally, when we calculate Creation Costs, we subtract the GAAP gross margin contribution realized from our platform services. This includes our distribution, racking, and lead generation businesses as well as solar systems we sell for cash or with a third party loan. We achieved platform services gross margin of \$0.14 per watt, in-line with recent trends.



Deployments

In the third quarter we deployed 100 MW, in-line with our guidance.

While we don't manage the business for a specific mix between channel partner and direct, our direct business is growing at a strong rate and is the platform that enables Sunrun to be the desired partner for large national strategic and retail partners. The direct business is also the platform where we focus our initial Brightbox sales and installation efforts.

Severe weather and natural disasters did require us to suspend operations for several days in two markets late into the quarter. We always prioritize the safety of our installation crews. If it were not for the hurricanes that affected South Carolina and Hawaii, deployments would have come in higher. The increased frequency of extreme weather events, however, underscores the urgent need to address climate change now and to build a more resilient power system.

Our cash and third party loan mix was 15% in Q3, also in-line with recent levels, and consistent with our outlook of low to mid-teens.

Liquidity, Balance Sheet & Cash Flow

Turning now to our balance sheet.

Our liquidity position remains strong. We ended Q3 with \$275 million in total cash, a \$5 million increase from last quarter.

We continue to forecast our cash generation will grow 15% or more - which would be \$50 million or higher for 2018. Quarterly cash generation can fluctuate due to the timing of project finance activities, but this represents our best view based on expected project finance activities for the remainder of this year.

We define cash generation as the change in our total cash less the change in recourse debt. Also please note that our cash generation outlook excludes any strategic opportunities beyond our current plans.

Guidance

Moving on to guidance on Slide 9.

We are reiterating our full-year guidance of 15% growth in deployments and unit economics of \$1.00 or greater per watt in NPV.

Now let me turn it over to Ed.

EDWARD FENSTER

Thanks, Bob.



Today I plan to address three topics:

- Our strategy regarding interest rates;
- A recap of upcoming capital markets transactions; and
- A review of Net Earning Assets and capital runway.

Interest Rates

First, interest rates.

While the long-term interest rates that matter to Sunrun have nudged up slightly, the project finance market, and returns for Sunrun, remain healthy. We remain on track to achieve our target of at least \$50 million in 2018 cash generation and about \$100 million in 2019 cash generation. We are bullish on the overall finance opportunity and strategy for the coming years.

Our cost of capital is the sum of the benchmark 10-year risk-free interest rate and the credit spread that investors demand to finance our residential solar assets. Over the last three years, the 10-year Treasury has increased approximately 90 basis points. Over the same time period, debt spreads for new residential solar assets have declined approximately 75 to 100 basis points, while investment-grade advance rates have actually increased.

Opportunity for further spread compression remains. Although spreads for residential solar senior debt are beginning to reflect the maturity of the asset class, spreads for residential project equity have not. Spreads for residential solar project equity are still about 300 basis points above typical utility-scale financing costs. Certain strategic investors are bidding utility scale portfolios even more aggressively, pricing many buyers out of the market. Based on increasing interest in residential solar portfolios, we expect to see compression in the cost of residential project equity over the coming years.

For our existing systems, the majority of our floating rate debt is swapped for the weighted average life of the assets, significantly insulating us from changes in interest rates. The value of these swaps is not lost in refinancing events.

For new assets, changes in capital cost do impact our cash proceeds. For example, a 50 basis point increase in both our debt and project equity capital costs would reduce the proceeds we receive on new assets by approximately \$0.12/Watt. This can be offset by approximately 3% higher pricing or 4% lower costs, or some mix of the two. Currently, interest rates futures imply a five basis point increase in the 10-year during 2019.

Finally, regulators typically set the rates incumbent utilities charge their customers in order to permit the utility to earn a return on deployed capital. As such, retail electric rates are themselves sensitive to interest rates, and we expect that over the longer-term, higher interest rates will result in higher utility rates for



customers, increasing our headroom to increase prices. A multi-decade correlation between interest rates and utility rates demonstrates this strong relationship.

As we mentioned on prior calls, we are anticipating project finance activity will increase cash in the fourth quarter. As before, we believe we will achieve the best possible execution by sequencing our transactions first in the public senior debt market; next, if applicable, in the subordinated debt market; and finally, to the extent desired, in the project equity market. We are well underway with these transactions and expect to launch the marketing of an asset-backed-security transaction in the coming weeks. We expect to accelerate the pace of ABS issuances next year.

On balance, the overall changes in debt markets these last several years have been attractive, despite rising underlying interest rates. We have assumed rising interest rates in our own internal projections for this and next year and remain bullish as to our cash flow generation capabilities.

Net Earning Assets

Moving to slide 11, at quarter end, Net Earning Assets was \$1.4 billion, an increase of \$198 million, or 17%, year-over-year. Cash was \$275 million, an increase of \$39 million, or 17%, year-over-year.

Net Earning Assets is our way to describe the value of the cash flows to Sunrun shareholders after payments to financing counterparties.

Capital Runway

Turning finally to our pipeline, our debt and tax equity capital commitments already provide runway into next year.

With that, I'll turn the call back over to Lynn.

LYNN JURICH

Thanks Ed.

Let's open the line for questions please.



Forward Looking Statements

This script contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, including statements regarding our market leadership, competitive advantages, investments, market adoption rates, our future financial and operating guidance, operational and financial results such as growth, value creation, cash generation, MW deployed, estimates of gross and net earning assets, project value, estimated creation costs and NPV, and the assumptions related to the calculation of the foregoing metrics, as well as our expectations regarding our growth, ability to execute on financing transactions and our strategic partnerships with Comcast and National Grid. The risks and uncertainties that could cause our results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to: the availability of additional financing on acceptable terms; changes in the retail prices of traditional utility generated electricity; changes in interest rates; changes in policies and regulations including net metering and interconnection limits or caps; the availability of rebates, tax credits and other incentives; the availability of solar panels and other raw materials; our limited operating history, particularly as a new public company; our ability to attract and retain our relationships with third parties, including our solar partners; our ability to meet the covenants in our investment funds and debt facilities; and such other risks identified in the reports that we file with the U.S. Securities and Exchange Commission, or SEC, from time to time. All forward-looking statements in this script are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements.