



Cost per Watt Methodology

May 8, 2019

This memo describes how Sunrun's creation cost and its components are calculated for Q1 2019 using information reported in GAAP financial statements and footnotes plus operating and other data reported by the company.

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

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

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

Sales and Marketing

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

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

General and Administrative

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

Platform Services Margin

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



Sunrun Creation Cost Supplemental Calculations

May 8, 2019

(\$000s, except per watt and MW)

Installation Cost per Watt (\$ in 000s)	<u>Q4 2018 Actuals</u>	<u>Q1 2019 Actuals</u>	
Solar Energy Systems, net footnote disclosure	<u>Q4 2018</u>	<u>Q1 2019</u>	<u>Change</u>
Solar energy system equipment costs (gross)	\$3,823,853	\$4,012,116	\$188,263
Inverters (gross)	396,054	416,088	20,034
Solar energy systems under construction	136,001	123,394	(12,607)
(-) Adjustment for Fund Buy-In of Pre-paid Systems Previously Accounted for as System Sales ¹			(7,641)
Solar energy systems capitalized costs	\$4,355,908	\$4,551,598	\$188,049
/ Total MW Deployed under leases and PPAs			72.8
= Installation cost per watt			\$2.58

	<u>Q1 2019</u>
Sales & marketing operating expense	55,953
(-) Sales & marketing stock-based compensation expense	1,128
(-) Sales & marketing intangibles amortization	638
(-) Sales & marketing amortization of Cost To Obtain Contracts (CTOC)	2,659
Sales & marketing expense, excluding non-cash and other non-sales related items	\$51,528
/ Total MW Deployed	86.2
= Sales & marketing operating expense per watt	\$0.60

	<u>Q4 2018</u>	<u>Q1 2019</u>	<u>Change</u>
Cost to obtain contracts - customer agreements (gross, within Other Assets)	\$219,307	\$232,567	\$13,260
/ Total MW Deployed under leases and PPAs			72.8
= Capitalized sales costs related to PPAs and leases deployed per watt			\$0.18

	<u>Q1 2019</u>
Sales & marketing operating expense per watt	\$0.60
(+) Capitalized sales cost per watt	\$0.18
= Sales & marketing cost per watt	\$0.78

	<u>Q1 2019</u>
General & administrative operating expense	29,063
(-) General & administrative stock-based compensation expense	3,520
(-) General & administrative intangibles amortization	200
(-) General & administrative adjustment	-
General & administrative expense, excluding non-cash and one-time items	\$25,343
/ Total MW Deployed	86.2
= General & administrative cost per watt	\$0.29

	<u>Q1 2019</u>
Solar energy systems and product sales	94,654
(-) Cost of solar energy systems and product sales	77,799
(+) Solar energy systems and product sales stock-based compensation expense	167
Gross margin from solar energy systems and product sales, excluding non-cash items	\$17,022
/ Total MW Deployed	86.2
= Platform Services Margin per watt	\$0.20

	<u>Q1 2019</u>
Installation	\$2.58
Sales and marketing	\$0.78
General and administrative	\$0.29
	\$3.66
(-) Platform Services Margin	(\$0.20)
= Creation Cost per watt	\$3.46

*Amounts may not add due to rounding

1) The \$7.6m adjustment is owing to the re-classification of assets as Solar Energy Systems as a result of a fund buy-in of systems deployed prior to 2015 and previously reclassified as system sales in 1Q18 following the adoption of certain accounting standards.