



Q2 2019 Earnings Call
August 7, 2019
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 Sunrun's second quarter results and progress against our strategic priorities.

In the quarter we added 12,600 customers representing 103 MW of deployments, a 13% year-over-year improvement. We generated \$95 million of net present value and created NPV per watt of \$1.11, or \$9,500, per customer. We generated \$44 million in cash and, since the last call, have achieved record low capital costs in our financings.

Sunrun offers households a superior energy experience, and our value proposition continues to increase. We were not surprised to see EEI, the utility trade group, raise its capex forecast yet again just a few weeks ago. EEI increased their utility capex projection for the next two years by 15% from their prior estimates --- it now tops \$250 billion and is at all-time highs. With limited growth in energy consumption, this significant increase in spending -- double depreciation expense -- will likely be passed to consumers in



the form of higher electricity rates. At the same time, many customers are experiencing unreliable service, exacerbated by extreme weather and forced power shut-offs. These pain points combined with the attraction of clean solar energy and battery storage, are driving consumers to engage meaningfully in their personal energy usage for the first time. Solar is proving to be a unique access point to obtain significant relationships with customers.

Today I want to highlight the California market to show how much customer growth lies ahead and how distributed assets will help create a more resilient, clean system. First, our modeling shows that in California we are just now exiting the “early adopter” phase and moving into the “early majority” phase, an area of the curve that is twice the size of the earlier segments.

Second, the California mandate for new homes will be additive to the growth during the next few years, both from new home construction and the increased category awareness it will bring as home solar and batteries become mainstream. We are engaged in conversations, or contracted with, half of the top 10 homebuilders in California and are gaining share.

Finally, many Californian communities are racing to retire fossil fuel plants and replace them with virtual power plants comprised of solar and battery storage. Los Angeles, Glendale, and Oakland are recent examples. Sunrun is positioned to win with our Brightbox offering, targeted customer acquisition capabilities, and growing density and scale advantages. In July, we added to our energy services award in ISO-New England with another landmark contract in Oakland. This contract helps replace a retiring fossil fuel power plant with home solar and battery systems on low-income housing. This contract is particularly meaningful because it will help disadvantaged communities who often experience the harmful impact of fossil fuel pollution the most. Furthermore, it shows that Community Choice Aggregators in California are starting to realize that home solar and batteries are a valuable and cost-effective resource planning tool. For context, the virtual power plant opportunity could be 9 GW of potential in California alone. This is the equivalent of 50 fossil fuel power plants or four times the size of the Diablo Canyon nuclear plant slated to retire in 2025. We expect other states to follow this trend.

Because of the huge potential of battery storage paired with solar, we continue to invest in Brightbox even though it is causing short term headwinds from slower install times, an immature supply chain, and permitting and interconnection obstructions. We have now installed more than 6,000 Brightbox battery systems and continue to expect demand is ready to unleash with anticipated cost reductions and severe climate events. We recently expanded Brightbox to Texas, New Jersey and Vermont, and the service is now available in nine states and Puerto Rico. We are encouraged by the growth in grid services programs offered by forward-thinking utilities that recognize consumer-centered solutions are a key path to decarbonizing. Utilities in Vermont, Long Island and Massachusetts are now joining grid operators in



offering programs that enable batteries to participate in capacity markets and other grid services revenue streams. Brightbox represents over 10% of our direct business overall and more than 25% in California.

Our market position and long-term potential continues to improve. Customer demand and our order book are strong. We are forecasting more than 20% annual growth in orders for Q3, and our Direct business continues to grow much faster than that. However, the tight labor market is making timely hiring in our Direct business more challenging than we expected, resulting in growing backlogs. So on the positive side, our focus on efficiency resulted in cost improvements. You can see that Sunrun Built install costs improved seven percent both year-over-year and from Q1, despite wage increases, tariffs and increased battery mix. However, we are behind our staffing plan required to realize customer demand in Q3. We are also prioritizing Brightbox, which we believe is the right long-term decision, but creates longer cycle times and requires additional crew training. We expect to deploy between 107 and 110 mw in Q3. We are working to increase capacity to reduce backlog in Q4 and realize the expected growth in orders.

I'll now turn the call over to Bob, our CFO, to review Q2 performance and to discuss guidance in more detail.

BOB KOMIN

Thanks, Lynn.

NPV

NPV in the second quarter was approximately \$9,500 per customer - or \$1.11 per watt, an improvement of \$.13 from a year ago and up \$.05 from Q1.

Project Value

Project value was approximately \$37,900 per customer - or \$4.44 per watt in Q2.

As a reminder, project value is very sensitive to modest changes in geographic, channel, and tax equity fund mix.

Creation Costs

Turning now to Creation Costs on Slide 8.

In Q2, total Creation Costs were approximately \$28,400 per customer - or \$3.33 per watt, an improvement of \$0.13, or 4%, from last quarter. We expect Creation Costs will continue to improve from Q2 levels in the second half of this year. As with Project Value, Creation Costs can fluctuate quarter to quarter. 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, was \$2.50 per watt, an \$.08 improvement from last quarter.

Install costs for systems built by Sunrun, improved by 13 cents or 7%, both sequentially and year over year, to \$1.82 per watt.

In Q2, our sales and marketing costs were \$0.80 per watt up \$.02 from Q1. Our total sales and marketing unit costs are calculated by dividing costs in the period by total MWs deployed. A higher mix of direct business 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 built systems at the lower cost per watt.

In Q2, G&A costs were \$0.28 per watt, an improvement of \$.01 from Q1.

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. Our platform services gross margin was \$0.25 per watt in Q2.

Deployments

In the second quarter we deployed 103 MW.

Our cash and third party loan mix was 17% in Q2, in-line with recent levels. We expect this mix to continue in the high teens for the rest of the year.

Financial Statements

Turning now to our balance sheet.

We ended the second quarter with \$354 million in total cash, a \$44 million increase from last quarter.

We continue to expect cash generation of over \$100 million in 2019. Quarterly cash generation can fluctuate due to the timing of project finance activities, but this represents our best view based on our plans for the remainder of the 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, and also does not include ITC safe harboring activities.



Guidance

Moving on to guidance on Slide 9.

We continue to expect full year 2019 deployments to grow between 16% and 18%. As our direct business outpaces our overall growth rate, more expenses are front loaded for sales and deployment capacity.

The dynamics of a tight labor market, and more front-loaded expenses, puts pressure on NPV and cash generation. Despite this, we still expect to generate \$100 million or more in total cash for 2019 and to exceed last year's \$1.08 NPV result. We also expect to be in the range of our previous \$1.15 NPV target for the year.

As mentioned earlier, in the third quarter, we expect deployments to be in a range of 107 to 110 MWs.

Now let me turn it over to Ed.

EDWARD FENSTER

Thanks, Bob.

Today I plan to discuss our recent project finance activities along with our capital strategy for the remainder of 2019. I will also touch on Net Earning Assets and capital runway.

Recent Project Finance Activities

Reductions in long-term interest rates and growing interest in residential solar assets are causing capital costs and advance rates to improve across the entire capital stack. Since our last call, we executed transactions in the ABS market, bank market, and subordinated debt market, all on record terms.

In May we completed a securitization of assets that have been operating for 5 or more years, so they no longer included a tax equity investor. The notes were priced at a 4% yield with an 80% advance rate. The advance rate of 80% is nearly 10 percentage points higher than the senior tranche in Sunrun's prior securitization and represents the highest advance rate for any similarly rated tranche in a solar lease and PPA transaction to date. The yield of 4.00% is the lowest yield for any solar lease and PPA transaction to date. Combined with the subordinated debt on the transaction, which brought the total proceeds to over 100% of the portfolio's contracted gross earning assets, the weighted average cost of debt was 5.75%, or 6.17% including all fees. This transaction presents another data point in support of using a 6% discount rate to calculate asset value. Since we are now able to structure these sorts of facilities solely as non-recourse debt, rather than structured equity, we are able to retain upside on the portfolio overtime.



Although we received significant gross proceeds in this refinancing, net proceeds were materially reduced by swap breakage costs. As we've discussed before, when refinancing a hedged portfolio, we don't materially benefit when base interest rates fall, and we likewise aren't materially harmed when they rise. We will begin to see incremental proceeds from these lower capital costs as we place in service newly built systems in this new lower interest rate environment.

In July, we repriced \$229 million of bank debt. We reduced the spread to LIBOR plus 212.5 basis points from 275, stepping up over time to 300, basis points. We also increased the advance rate from 68% to 72%. We repriced, rather than refinanced, this facility for expediency and to lower transaction-related costs.

We expect to execute another debt transaction in either the ABS or bank market during Q4, depending on market conditions.

Net Earning Assets & Cash Generation

Moving to slide 10, at quarter end, Net Earning Assets was \$1.4 billion, an increase of \$139 million, or 11%, 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.

Cash was \$354 million. Total cash, less recourse debt, increased \$91 million from the prior year period, and increased \$44 million from Q2.

Capital Runway

Turning finally to our pipeline, our project debt commitments provide runway through 2019 while our tax equity commitments extend into the second quarter of 2020.

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

LYNN JURICH

Thank you, and we'll now open it up for questions.

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 deployments, estimates of gross and net earning assets, project value, estimated creation costs, gross orders and demand, and NPV, and the assumptions related to the calculation of the foregoing metrics, as well as our expectations regarding our growth, financing activities, and financing capacity. 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; our continued ability to manage costs associated with solar service offerings; our business plan and our ability to effectively manage our growth and labor constraints; 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.