



Q3 2019 Earnings Call
November 12, 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 third quarter results and progress against our strategic priorities.

We are on track to deliver cash generation of \$100 million this year, which represents about 60% year over year growth. We expect to lead the industry again by adding well over 50,000 customers in 2019 and growing our customer base over 20%, now approaching 300,000. The near-term customer growth is lower than we were expecting due to labor shortages in both installation and our sales force. However, the strength of orders and the increasing value proposition from batteries and forced blackouts makes us confident in a 15-20% long term growth rate in new customers with continued strong cash generation.

In the quarter we added 14,200 customers representing just over 107 MW of deployments, a 7% year-over-year increase and within our guidance range. We generated \$22 million in cash and have achieved record low capital costs. Consumer interest remains strong, and we are actively working to increase our capacity to meet this demand. We expect to grow 9% quarter over quarter in Q4.



Households across the country are facing unreliable and increasingly expensive electricity service. Forced blackouts in California are the new normal, with PG&E saying they will last a decade. Investing in inefficient, centralized infrastructure and forcing blackouts to lower the risk that transmission lines and equipment start fires is not sustainable. Sunrun offers homeowners the ability to generate and store their own energy with our Brightbox service, and we are networking those together to provide services to the entire system through our Grid Services efforts. The decentralized system we are helping build is the best way to achieve affordable resilient power in a warming world.

Hundreds of Sunrun customers in California were able to keep the lights on during multiple recent outages. The average customer affected lost power for 35 hours. Families facing these outages are eager for resiliency. In the Bay Area, the attachment rate of Brightbox nearly doubled to approximately 60% for new orders in October.

The stories we heard are moving. One family lost power for 142 straight hours — nearly 6 straight days. With Brightbox they were able to run critical loads, like their refrigerator and lighting, without interruption. While some think backup generators are the only solution, they are far inferior: they are expensive, pollute, require constant refueling — which may not be possible with fuel stations also down — and are noisy and need maintenance. Brightbox can power a home's critical needs for about 12 hours through the night and can recharge when the sun is shining, providing power throughout multi-day outages.

Nationally, we now have installed more than 8,000 Brightbox systems. Attachment rate for Brightbox sales in our direct business was approximately 30% in California throughout Q3, and while we have only launched the service in 9 states thus far, we are approaching 15% attachment across all geographies.

Overall demand continues to be strong. We are seeing approximately 15-20% growth in orders in Q3 and into Q4, which is consistent with our views on long-term industry growth rates.

While demand is trending in-line with our expectations, we are facing constraints in our ability to install and meet sales demand, exacerbated by a tight labor market. For example, in California, our largest market, which is seeing some of the strongest growth trends, unemployment rates are at record lows and construction labor is especially tight with all of the rebuilding following the fires.

We are actively working to fill over 600 positions in our installation and sales organizations.

Sunrun can be a preferred employer given the benefits and career mobility our national scale and growth provides. We believe our benefit packages, along with the opportunities for career progression are among the best and can differentiate us from smaller, localized solar companies.

I am confident we can address the labor challenges over the next couple of quarters.



We are focused on delivering strong financial returns — we are on track to generate \$100 million of cash flow this year, which represents growth of 60%. This is repeatable through continued growth in our customer base, resiliency offerings in California, further cost reductions, and advanced grid service offerings combined with a strong financing environment. We are excited about 2020 and will share official guidance on our Q4 call early next year.

I'll now turn the call over to Bob to review Q3 performance and to discuss next quarter's guidance in more detail.

BOB KOMIN

Thanks, Lynn.

NPV

NPV in the third quarter was approximately \$7,000 per customer — or \$0.90 per watt. Year to date NPV is about \$1.02 and unchanged from last year. NPV would have been higher and above \$1.00 in the quarter had it not been for installs lagging sales growth particularly in high value markets like California. We expect NPV to be above \$1.00 in Q4.

Project Value

Project value was approximately \$32,400 per customer — or \$4.18 per watt in Q3.

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 Q3, total Creation Costs were approximately \$25,400 per customer — or \$3.28 per watt, an improvement of \$0.06, or 2%, from last quarter. 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 \$2.48 per watt, an \$0.04 improvement from last quarter.

Install costs for systems built by Sunrun, improved by 16 cents or 8% year over year, to \$1.90 per watt.



In Q3, our sales and marketing costs were \$0.81 per watt up \$0.01 from Q2. 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 a lower cost per watt.

In Q3, G&A costs were \$0.25 per watt, an improvement of \$0.03 from Q2.

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 \$0.26 per watt in Q3, \$0.01 higher than last quarter.

Deployments

In the third quarter we deployed 107 MW.

Our cash and third-party loan mix was 18% in Q3, in-line with recent levels. We expect this mix to continue in the high teens.

Financial Statements

Turning now to our balance sheet.

We ended the third quarter with \$373 million in total cash.

Quarterly cash generation was \$22 million. We continue to expect cash generation of \$100 million in 2019. We define cash generation as the change in our total cash less the change in recourse debt. Cash generation can fluctuate significantly due to the timing of project finance activities. As a reminder, our cash generation excludes strategic opportunities and ITC safe harbor-related activities which we will undertake. Ed will discuss our safe harboring plans in more detail later in the call.

We also want to share two corporate finance updates.

First, we amended our Working Capital facility — our only recourse credit facility — to extend its maturity to April 2022 and to enhance its flexibility. Rate and size were unchanged.

Second, our Board has authorized a three-year, up to \$50 million share repurchase program. As we continue to generate cash and now have an equity-light safe harbor strategy in place, we view this program as another tool to create shareholder value.



Guidance

Moving on to guidance on Slide 9.

We expect to deploy between 115 and 118 MWs in Q4.

As our direct business represents a larger portion of our mix, more expenses are front loaded for increasing sales and deployment capacity. The dynamics of a tight labor market, and these more front-loaded expenses, put pressure on NPV and cash generation. Despite this, given the strong financing environment, we still expect to generate \$100 million of cash in 2019. We expect NPV per watt in Q4 to be above \$1.00, and for 2019 to be near prior year levels.

Now let me turn it over to Ed.

EDWARD FENSTER

Thanks, Bob.

We have lots of good news to share across all of our capital raising activities.

Today I plan to focus on our recent capital market activities, implied capital costs, and our investment tax credit safe harbor strategy. I will also review cash generation, Net Earning Assets, and capital runway.

Capital Market Activities

Low interest rates and strong finance execution continue to provide a strong tailwind for the Company.

In October, we once again set new records for capital cost and advance rate with our \$312 million securitization of solar assets. We priced the senior notes at 3.63% with an 80% advance rate, demonstrating that the market, and ratings agencies, increasingly recognize both the high quality of residential solar assets as well as our industry-leading performance. The depth of investors for senior and subordinated debt continues to increase significantly as well.

October's transaction was similar in structure to the one we closed in December 2018. Comparing the two securitizations however, this year, we achieved a yield that was 191 basis points lower, an advance rate that was 8 percentage points higher, and a single A, rather than A minus, credit rating. In addition, we achieved a BB credit rating on an additional tranche of debt with a 95% cumulative advance rate at a 6% discount rate, setting the stage for us to raise more than 100% of contracted asset value from subordinated debt outside the ABS market in a transaction we expect to close during Q4. In addition, these facts lay bare that a 6% unlevered discount rate for our assets is now too high. To put our current labor constraints and growth trajectory in our development business in context, if we measure customer



values using a 5% discount rate rather than a 6% one, our net present value year-to-date would be approximately 25 cents a watt higher marked to market.

Safe Harbor Strategy

Next, I would like to preview our investment tax credit safe harbor strategy. While we are planning for our business to thrive in a lower-ITC environment, we are also availing ourselves of safe harbor provisions the IRS has codified to extend access to higher tax credit levels.

We expect to extend access to the 30% tax credit for about 500 MW of projects by incurring more than 5% of the cost of these projects in 2019. Because we expect to debt finance, on a non-recourse basis, the vast majority of these costs, we initially expect to carry about \$25 million in equity capital against this strategy. Note, the actual amount of equity capital deployed at exactly December 31, 2019 may vary based on the exact timing of payments and capital draws.

The credit facility we anticipate closing is a multi-year, revolving facility. As such, we can elect to add equipment to it during future years to further safe harbor at 26% or 22% ITC levels. We expect to benefit from at least a 22% investment tax credit through December 2023 on our leased projects, with the 10% permanent tax credit becoming relevant in 2024. This ability to extend access to higher tax credit levels exists only for residential solar systems that are subject to a PPA or lease, or what we call solar-as-a-service. Solar-as-a-service represents approximately 80% of our run-rate business.

Absent a change in law, next year, and for all future years, solar-as-a-service will therefore enjoy a substantial competitive advantage vs. systems purchased with cash or a loan. This structural advantage in favor of solar-as-a-service will begin at 4% of cost next year, climb to about 26% of cost in 2022, and settle at 10% of cost in 2024 and for all subsequent years. The perpetual 10% advantage for solar-as-a-service is because it benefits from a 10% tax credit under permanent law, while homeowner-purchased systems do not.

We are also monitoring the environment in Washington and are pleased to report there is a growing coalition in support of extending renewable energy tax credits as the single highest impact actionable policy opportunity to combat climate change. However, especially with the wildcard of impeachment, handicapping the chance of passage at any specific moment in time is difficult. We are nevertheless increasingly optimistic for its eventual extension.

Net Earning Assets & Cash Generation

Moving to slide 10, Net Earning Assets increased both year-over-year and quarter-over-quarter to \$1.4 billion. Net Earning Assets, measured at a 6% unlevered discount rate, is our way to describe the value of the cash flows to Sunrun shareholders after payments to financing counterparties.



Cash was \$373 million. Total cash, less recourse debt, increased \$106 million year-over-year.

Capital Runway

Turning finally to our pipeline, our project debt and tax equity runway each extend into the fourth quarter of 2020.

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

LYNN JURICH

Thanks Ed.

With that, 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, the expected size and timeframe of our stock repurchase program, operational and financial results such as growth, value creation, cash generation, Megawatts Deployed, investment tax credit safe harbor strategy, 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.