



## Q2 2017 Earnings Call

August 7, 2017

Prepared Remarks

### **LYNN JURICH**

We are pleased to share with you Sunrun's second quarter financial and operating results along with progress against our priorities for 2017.

In the second quarter we deployed 76 MW generating \$74 million of NPV, up 56% year-over-year. We gained market share and increased unit economics, while maintaining our cash position above \$200 million for the eighth consecutive quarter. A huge thank you to our customers and our employees for building the industry's most valuable and satisfied customer base and delivering the financial and operating results to prove it.

We have now surpassed 1 GW of deployed systems. We are most proud of what this means for our customers and the climate. We have helped families save over \$150 million on their electric bills proving that it doesn't need to be inconvenient to help defeat extreme weather and climate change.

Our strong financial and operating results in the quarter were complimented by progress against our long-term strategic priorities and supported by an increasingly constructive regulatory environment.

### **Brilliant Energy Progress**

Turning to slide 6 now.

Sunrun is focused on building long-term customer relationships and modernizing our inefficient and dirty trillion dollar energy infrastructure.

We can both help our customers save money and better manage their energy, while lowering prices for the entire electric system. It's a simple concept, using the existing infrastructure of rooftops and delivering power right where it's consumed is a more efficient model. When you add batteries and the power of the internet you can build a more resilient, secure, dynamic and efficient system to benefit everyone. This is starting to be realized faster than we expected. The cost improvements and innovation are stunning.

As you know, we continue to innovate with BrightBox™, the first zero-down solar + storage as a service offering for residential customers. Homeowners benefit from backup power during power outages and can optimize when they consume or export power to the grid. We have received over 2,000 BrightBox™ orders and installs are ramping nicely in Hawaii and California. More states are just getting underway.

There is also a value proposition for the electric grid at large as these resources can provide energy when, and where, it is needed most. Because our resources are located where power is consumed, they are at the most valuable locations on the grid and can improve stability through



participation in capacity, energy and ancillary service markets. We can solve local imbalances or acute congestion much more cost effectively than investing in centralized resources and transmission and distribution. And because we have a decade building customer relationships and a large install base, we are well positioned to deliver products that meet the needs of both homeowners and the utilities operating the grid.

It is in fact this opportunity that we are exploring as part of our partnership with National Grid. We recently welcomed an industry veteran from Advanced Microgrid Solutions, Audrey Lee, to help spearhead these initiatives as the Vice President of Grid Services.

While we are still in the early phases of exploring monetization options, an initial analysis suggests that grid services could represent an additional \$2,000 or more in net present value, on top of the \$7,000 of value per customer today. In support of this future, we were successful in securing grid services opportunities in PG&E's DRAM program. While the program itself is small, our fleet of over 1 GW of capacity is massive - and growing.

### **Selective Market Entries**

Over the last few months we have also launched into seven new geographies, nearly doubling our available market size, and establishing the foundation for long-term growth.

We're particularly pleased to re-enter Nevada after the state legislature unanimously approved the reinstatement of net metering. The voice of consumers is strong and clear - they want the ability to choose lower-cost, predictable and clean energy options. While many viewed Nevada's 2015 action as precedent-setting, the reversal sets an even stronger precedent that consumer choice for rooftop solar will be protected and regulators that don't get it right the first time will correct. Retail net metering, coupled with TOU rates and open-access grid service markets, is a sound and proven policy to encourage cost-effective modernization of our grid, even up to high levels of penetration of around 40%. In fact, over the last five years, net metering has been protected or expanded 32 times and only reduced six times. When NEM was reduced, it was often overturned when the full set of facts were appropriately evaluated. Despite the media hype and well-funded lobbying efforts of many utilities, the adoption of distributed resources is the future.

The market opportunity ahead remains massive. Residential energy sales is a \$175 billion annual market and there are more than 61 million single-family owner-occupied homes in the U.S. We are just 2% penetrated today, but we know the housing stock and customer interest supports much higher adoption - in Hawaii, for instance, where the value proposition was first evident, 38% of houses have solar - and adoption continues to grow.

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

### **BOB KOMIN**

Thanks, Lynn.

In the second quarter, we exceeded our deployment guidance and made solid progress on our 2017 goals.



## **NPV**

NPV was \$1.10 per watt in Q2, resulting in aggregate NPV created of \$74 million, representing 56% growth compared to the prior year.

We delivered strong NPV per watt in Q2 and a solid first-half of the year that sets us up well to achieve our \$1 per watt target for all of 2017. NPV per watt can fluctuate from quarter to quarter given business mix and Q2 was somewhat favorable.

We calculate NPV as project value less creation costs so let's go through each of the components next.

## **Project Value**

Q2 project value of \$4.47 per watt was \$0.26 higher than Q1, principally due to the mix of business in the quarter.

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

## **Creation Costs**

Turning now to creation costs on slide 11.

In Q2, total creation costs were \$3.37 per watt, an improvement of \$0.38, or 10%, year-over-year. Similar to project value, creation costs can fluctuate quarter to quarter due to changes in geographic and channel mix.

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 both solar projects deployed by our channel partners, as well as by Sunrun, improved by \$0.10, or 4%, year-over-year to \$2.70 per watt. Install costs for systems built by Sunrun, however, were \$1.87 per watt, reflecting a \$0.40, or 18%, year-over-year improvement.

Our installation costs benefited from lower equipment costs this quarter, as we worked through higher-cost inventory. We expect installation costs to remain roughly stable owing to fluctuations in business mix as we remain on offense by investing in new geographies and grid services. We also expect the attachment rate of storage to increase, which carries a higher per-watt cost, but also delivers higher NPV.

In Q2, our sales and marketing costs were \$0.54 per watt, a 37% improvement from the prior year, primarily driven by channel mix and our focus on the most cost effective customer acquisition channels.

Next, G&A cost per watt was \$0.29, flat from Q1 and a \$0.04 improvement from the prior year. These costs have remained largely flat for the last several quarters. We expect to realize further



operating leverage, with volume growth exceeding G&A cost increases over time although there can be quarterly fluctuations.

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 \$0.16 per watt, higher than Q1 due primarily to a slightly higher mix of solar system sales that have better gross margins.

### **Deployments**

In the second quarter, deployments increased 16% year-over-year to 76 MW, exceeding our guidance of 72 MW. The strength was primarily attributable to an increase in our channel volumes. The flexibility of our multi-channel platform model continued to serve us well in the current market conditions. As we have highlighted over the past year, we are seeing more opportunities that are favorable to work with partners while meeting our NPV and cash contribution goals. We do not manage to a specific mix or volume target - we instead prioritize realization of NPV.

Our cash and third party loan mix was 11% in Q2, slightly higher than Q1 but in-line with recent levels and our outlook of low to mid-teens.

### **Bookings**

In Q2, our net bookings were 88 MW, an increase of 28% from the prior year. As a reminder, bookings are calculated net of cancellations.

### **Liquidity, Balance Sheet & Cash Flow**

Turning now to our balance sheet.

Our liquidity position remains strong. We ended Q2 with \$211 million in unrestricted cash, the eighth consecutive quarter we have been above \$200 million.

We believe we will increase our cash balance by the end of the year. Our primary objective is to maximize equity returns over the long-run, while optimizing for the most efficient capital structure, balanced with near-term cash generation. We plan to continue to invest in ramping new geographies and further increasing our market share.

Our cash generation outlook excludes any strategic opportunities or accelerated market entries beyond our current plan. Our primary objective is to optimize for the lowest long-term cost of capital and we focus first and foremost on the best execution of this financing, which could impact the timing of our cash balance on a specific quarter end measurement date.

### **Guidance**

Moving on to guidance on slide 11.

We remain confident in our growth trajectory with Q3 guidance of 88 MW, which reflects approximately 15% year-over-year growth for the first three quarters of 2017.



We are reiterating our guidance of 325 MW for 2017, reflecting a 15% growth rate year-over-year.

Our principal focus is generating approximately \$1 of NPV per watt for the year. We continue to believe we can generate approximately \$290 million in aggregate NPV in 2017, which is about a 35% increase from the prior year.

Before I turn the call over to Ed, I wanted to share an update on the independent review that we asked the Audit Committee to launch in June following media claims about Sunrun's historical practices relating to the timing and processing of customer cancellations.

The Audit Committee completed its inquiry and determined that the claims in the Wall Street Journal report were unfounded. Specifically, the Committee concluded that (1) senior management did not instruct employees to hold back or delay the recording of customer cancellations and (2) sales representatives did not alter cancellation dates. Based on its review, the Audit Committee expressed confidence in the company's current cancellation processes and did not recommend any changes.

Now let me turn it over to Ed.

## **ED FENSTER**

Thanks, Bob.

Today I want to touch on three items.

- First, I will discuss Gross and Net Earnings Asset figures for the quarter and how our use of cash equity with National Grid impacted these figures during the quarter.
- Second, I will report out on what we see as a strong project finance environment generally.
- Third, I will provide an update on the Section 201 Trade Case and how Sunrun is positioned.

## **Gross & Net Earning Assets**

Turning first to our installed asset base, we're pleased to report that as of June 30, net earning assets rose slightly to \$1.1 billion, reflecting a 29% year-over-year increase. Net earning assets total \$10 per share.

As a reminder, net earning assets represents the present value of cash flows that Sunrun Inc. expects to receive from our fleet of deployed solar systems, after deducting our estimated operating and maintenance costs, our project-level debt service and distributions to cash equity and tax equity partners.

The use of cash equity capital, such as the National Grid partnership, increases our corporate cash balance compared to the use of just non-recourse debt. As I mentioned last call, growth in net earning assets slows as we utilize cash equity, because the solar facilities in such partnerships are largely monetized upfront.



This quarter we continued to contribute certain assets to the National Grid partnership, which resulted in high upfront monetization of those assets within the range previously guided. As a result, in the quarter, we generated approximately \$20 million in restricted and unrestricted cash, offset by a final payment of \$9 million for our 2015 acquisition of Clean Energy Experts, resulting in a net increase in total cash of about \$11 million during the quarter. We expect to be able to increase cash while adding to net earning assets between now and year end. ■

### **Tax Equity and Project Capital**

Including executed term sheets, we have tax equity capacity into Q2 2018 and back-leverage capacity into Q4 2017.

We continue to see robust interest from tax equity providers and lenders in providing Sunrun additional capital. We observe improving terms for back-leverage project debt, and in particular, non-recourse subordinated, or "Term Loan B," debt. Non-recourse Term Loan B debt may increasingly allow us to achieve much of the proceeds benefit of cash equity, while allowing us to maintain more flexibility and long-term upside, as capital costs continue to fall. At the same time, there is a growing market for cash equity. Particularly as we further improve our development margins, we see non-recourse B-loans or cash equity transactions as potentially part of our capital strategy.

While we have capacity remaining within the National Grid partnership, we continuously consider options to balance our goals of maximizing long-term equity returns, minimizing our capital costs and exposure to changes in base interest rates, and providing attractive upfront cash flow dynamics.

### **Trade Case**

I turn now to my final topic, on slide 14, the Suniva trade case.

Sunrun is actively involved in the case through the Solar Energy Industry Association and as a direct participant. A diverse group of unusual bedfellows, including the Heritage Foundation, the American Legislative Exchange Council, the Solar Energy Industry Association, and many utilities have all taken actions in opposition to the petition.

America needs, and the President has promised to provide, jobs that cannot be automated or exported, and that create opportunity for all Americans. The U.S. solar industry now employs more than 260,000 workers - up almost four fold since 2010 - who reside in thousands of communities across the country. 99% of U.S. solar jobs are outside of solar cell manufacturing. As detailed on the slide, the procedural hurdles for the petitioners are real and the opposing coalition is strong.

That said, we have module supply secured through 2017 and have already established frameworks for a large portion of 2018 volumes at terms that remain favorable for Sunrun. We remain comfortable with our overall outlook on equipment cost reductions of about \$0.15 by the end of the year.

I'll now turn the call back to Lynn for closing remarks.



## **LYNN JURICH**

Thanks Ed.

It is truly amazing what we can do with technology and the sun. The Solar Eclipse highlights just how bright the future will be - the sun is one of the most reliable and predictable energy sources in the world. Just think about it, at any given place on earth the sun on average takes a break once every 300 to 400 years, and we know about it well in advance. In contrast, our aging fossil fuel plants are riddled with unexpected outages and our nuclear plants are being abandoned after years of delays and billions of dollars wasted. We build clean power assets in as little as one day - on budget and capable of generating low-cost power within hours.

\*\*\*\*\*

## **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 future financial and operating guidance, operational and financial results such as growth, value creation, MW bookings and deployments, 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 and financing capacity and our strategic partnership with 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 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.*