



Q3 2017 Earnings Call

November 8, 2017

Prepared Remarks

LYNN JURICH

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 deployed 90 MW generating \$93 million of net present value (NPV), up 21% year-over-year. We've now grown market share for multiple quarters while expanding our NPV margins. This has allowed us to generate cash and add value to our net earning assets. We created NPV per watt of \$1.15, the highest margin result in the company's history, highlighting the progress we have made to drive cost efficiencies while offering valuable products. Recording the highest NPV per watt is particularly rewarding considering the significant investments we are making in future growth and entry barriers through advanced products, grid services and new markets.

Sunrun has well over 160,000 customers who are enjoying the benefits of going solar. We are proud of what this means for our customers and the climate. Too many times this quarter we were reminded of the great need to combat climate change to lessen extreme weather events. We are humbled to be a part of the solution and are excited by the strong consumer and regulatory demand for our solar + storage Brightbox™ offering.

Strategic Advancements

Our customers love their solar service and have a relationship with Sunrun for 20+ years. The expansive value of these relationships is being recognized by our strategic partners.

Our National Grid partnership will develop the upside in our customer value through grid services, and Comcast will develop value through additional home services, customer retention benefits, and high satisfaction.

First, storage and grid services and our partnership with National Grid.

We can both help our customers save money and lower prices for the entire electric system. Demand for BrightBox™ is strong, our customers are now choosing to add storage over 10% of the time in California in our direct business. This has doubled within the quarter.

We are rolling BrightBox™ out to more states shortly, following our initial launch in HI, CA, and AZ.

When you add batteries and the power of the internet you can build a more resilient, secure, dynamic and efficient system to benefit everyone. 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 traditional 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.

Puerto Rico may offer an example sooner than we expected for the expansive societal value of distributed solar + storage. When the power grid went out in Puerto Rico, and estimated restoration times were months away, we knew we had to act. Within weeks we had mobilized and joined forces with Empowered by Light to donate and install systems to first responders in Puerto Rico – and within days of landing we had already activated a first system for a fire station, allowing them to serve their communities 24/7 with solar + storage despite the grid being down. This system can ultimately plug into the grid when it is restored and reduce the amount of infrastructure that needs to be rebuilt. This is just one example of the value of solar + storage: a cost-effective and fast solution to rebuild and future-proof our infrastructure.

I mentioned last call that grid services in the U.S. could represent another \$2,000 in value per customer. Early progress is encouraging: we already secured an opportunity in PG&E's DRAM program, and in just a short time it is apparent how Distributed Energy Resources (DERs) are being recognized as the go-to solution to cost-effectively modernize our grid. We have gone from DERs being sourced to backfill a nuclear plant like SONGS, then backfill a gas storage leak at Aliso, to now being proposed to replace a gas peaker plant in California before it is built. As one of the first movers in the market with a large portfolio of customers we are ready and able to drive value for the system and to consumers.

Our multi-faceted partnership with National Grid includes collaboration on grid services and has made tangible advancements. We are excited to work with such a forward-thinking leader in the global energy space.

This quarter we also announced an exclusive sales partnership with Comcast. Our previous pilot with Comcast proves that solar can help Comcast with customer retention and satisfaction and that Sunrun can add Comcast customers for an attractive acquisition cost. This partnership is a broad expansion of the 2015 pilot.

Comcast will market Sunrun products and services and, in return, earn fees for customers that go solar through the partnership.

The wheels are in motion and marketing efforts will commence by year-end in select markets. While the partnership is multi-year in nature, and expected to ramp gradually, I'm encouraged by the opportunity ahead of us.

Summary & 2018 Outlook

We continue to believe fundamentals support a long-term industry growth rate of 15% to 20%. While weather and other temporary factors impact market growth over the next couple quarters, we believe growth will reaccelerate in 2018, allowing us to grow deployments at, or above, this year's 15% growth rate.

Finally, our massive and growing base of more than 160,000 customers is our largest strategic asset. We aim to differentiate through the best customer experience at the initial interaction and for decades to come. In support of this differentiation we added another industry veteran to our



executive bench, Evelyn Huang, who most recently spearheaded Capital One's transformation into a consumer-centered organization.

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

BOB KOMIN

Thanks, Lynn.

In the third quarter we exceeded our deployment guidance and recorded the highest NPV per watt in the company's history.

NPV

NPV was \$1.15 per watt in Q3, resulting in aggregate NPV created of \$93 million, representing 21% growth compared to the prior year.

We are raising our full-year target for NPV per watt to \$1.05. While NPV per watt can fluctuate from quarter to quarter given business mix, Q3's strong results highlight our leading position and our continued focus on managing the business to drive NPV. We are particularly pleased with the unit economics we achieved this quarter, especially as we invest resources in additional product offerings such as BrightBox™, our solar + storage offering, grid services initiatives with National Grid, and in new market entries.

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

Project Value

Q3 project value was \$4.49 per watt, which is \$0.02 higher than Q2 and \$0.06 higher than last year.

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 8.

In Q3, total creation costs were \$3.34 per watt, an improvement of \$0.02 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 our 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, increased slightly, by \$0.09, or 3%, year-over-year to \$2.72 per watt. The slight increase



was due to a higher mix of channel partner business and an increasing attachment rate of storage offerings.

Install costs for Sunrun-built systems, however, were \$1.72 per watt, reflecting a \$0.29, or 14%, year-over-year improvement. This marks the lowest cost we have been able to achieve to date, highlighting reductions in equipment costs and increased efficiency of our direct installation organization over the last year.

We expect total 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 will continue to increase, which carries a higher per-watt cost, but also delivers higher NPV.

In Q3, our sales and marketing costs were \$0.49 per watt, a 23% improvement from the prior year, primarily driven by channel mix and our continued focus on the most cost effective customer acquisition channels.

Next, G&A cost per watt was \$0.27, a slight improvement compared to the last few quarters. We expect to realize further operating leverage in the long-term, 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 \$0.15 per watt, flat from the prior year.

Deployments

In the third quarter, deployments increased 12% year-over-year to 90 MW, exceeding our guidance of 88 MW. The strength was primarily attributable to an increase in our channel volumes.

Our cash and third party loan mix was 11% in Q3, in-line with recent levels and our outlook of low to mid-teens.

Bookings

In Q3, our net bookings were 93 MW, an increase of 12% 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 Q3 with \$236 million in total cash – including restricted and unrestricted cash – the ninth consecutive quarter we have been above \$200 million.

We continue to expect to increase our total cash balance by the end of the year. On a normalized basis we estimate the increase would be approximately \$40 million for 2017, while growing our



net earning assets by over \$200 million. Given the strength of our balance sheet and due to the rush by utility scale developers to purchase modules in light of the trade case uncertainty, we accelerated procurement of module inventory primarily in Q4 to ensure continued availability, and attractive pricing, even if the recommended tariffs are imposed. We expect this increased procurement activity will accelerate the use of approximately \$20 million of cash into Q4. As we highlighted on the last call, we made a final payment of \$9 million for our 2015 acquisition of Clean Energy Experts in Q2. Including these non-recurring items, reported total cash is forecast to increase by approximately \$10 million during 2017.

Ed will discuss our capital strategy in more detail later on this call.

Guidance

Moving on to guidance on Slide 11.

We remain confident in our growth trajectory and are reiterating our guidance of 325 MW for the full-year, implying a 15% growth rate. In Q4 we expect to deploy 87 MW, consistent with the historic seasonal patterns in our business.

As I mentioned earlier, we are increasing our NPV per watt target to \$1.05 for the year. We now estimate we can generate approximately \$300 million in aggregate NPV in 2017 which represents a 40% increase from the prior year.

Given our outlook for cash mix in Q4 is slightly lower than last year, and on cash or third party loan system installs we recognize all of the revenue upfront instead of over multiple decades, we currently estimate total revenue and earnings per share will be roughly similar in Q4 to Q4 of last year. Slight variations in our business mix can impact these items, however, and we primarily manage the business to NPV.

Now let me turn it over to Ed to discuss project finance and regulatory topics.

ED FENSTER

Thanks, Bob.

Today I want to touch on a few items.

- First, I will review growth in gross and net earnings assets;
- Second, I will discuss our capital structure strategy; and
- Third, I will provide a brief update on the Section 201 trade case.

Gross & Net Earning Assets

Turning first to our installed asset base on Slide 12, we're pleased to report that net earning assets increased by \$97 million in Q3, ending the quarter at \$1.2 billion, reflecting a 24% year-over-year increase.



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 estimated operating and maintenance costs, project-level debt service, and distributions to cash equity and tax equity partners.

Project Capital

For both tax equity and non-recourse debt, we continue to experience gradually declining capital cost and increasing depth of market.

We have tax equity and back-leverage capacity well into Q2 of 2018.

As always, we continuously consider options to balance our goals of maximizing long-term equity returns while delivering upfront cash flow, while minimizing our exposure to changes in base interest rates.

On Slide 13 we set forth the two strategies we employed this year to capitalize assets. Earlier this year, we completed a cash equity structure, which prioritizes upfront cash. This quarter, we closed a loan structure, which prioritizes long-term value. Because we aim to balance upfront cash with the creation of long-term value, we are employing a mix of the two strategies. Both structures continue to be available to us, and next year we may again make use of both markets.

For the curious, I will spend a few minutes discussing how we think about balancing these objectives.

In a cash equity structure, we receive cash upfront equal to approximately 95-100% of contracted project value. In addition, when we refinance the National Grid transaction in about 6 years, based on advance rates available in today's debt markets and our partnership agreement with National Grid, we expect to receive incremental proceeds of approximately 2-3% of initially contracted project value.

In a loan structure, we receive approximately 90% of contracted project value upon closing. However, at year 6, when we refinance, based on today's capital costs, we expect to achieve cumulative cash proceeds of approximately 105-110% of initially contracted project value.

Compared to applying cash equity today, the loan structure delivers more cumulative cash to Sunrun by year 6. This is because, over the first 6 years, the loan balance amortizes, while at the same time, the present value of cash flows distributable to Sunrun Inc. actually increases. This increase occurs because periodic distributions of cash flow to Sunrun Inc. are greater once tax equity investors are repaid. In addition, the repayment of tax equity simplifies the capital structure, allowing for higher advance rates and access to a deeper market.

So the loan structure creates more overall value, but less cash this year. The loan structure has become increasingly attractive to us as the continued strong performance of Sunrun and our decade-old fleet causes lenders to offer us increasingly better terms. For example, each of the senior and junior loans we just closed includes lower spreads and higher advance rates than our prior comparable transactions.



Pulling back from our latest transactions, we note that the cash proceeds available to us as we refinance assets aged about 6 years is material. During Q3, we closed a warehouse facility to begin aggregating such assets. We expect to amass the scale to become a regular ABS issuer of refinanced assets by Q1 2019, with expected transaction sizes of \$200 million annually. We will further discuss the net cash flow benefits to Sunrun of this refinancing program as we enter 2018.

In sum, we continue to be very pleased with overall project finance conditions, our relative position, and our strategy.

Before moving on to the trade case, I want to touch quickly on restricted cash. Given the structure of some of the non-recourse financings we entered into during the second half of 2017, our restricted cash balances will tick up slightly in Q4. This is primarily related to debt service reserve accounts, which are available to service debt. We expect restricted cash levels to fall to more historical levels by mid-2018.

Trade Case

I turn now to my final topic, the Section 201 trade case.

On October 31st, the U.S. Trade Commission recommended increasing trade restraints on solar panels.

Two of the three proposals recommended tariffs that could amount to \$0.12 per watt in 2018, declining about \$0.02/watt per year thereafter. Tariffs are paid to the U.S. Treasury. The third recommendation proposed charging importers a \$0.01/watt fee that would be paid directly to domestic manufacturers. All proposals are limited by law to 4 years.

In response to a question from the trade commission, SEIA provided written analysis demonstrating that the Petitioners' financial outcome is about the same under a \$0.01/watt license fee and a \$0.32/watt tariff. This is because the Petitioners receive the license fee based on all imported quantities, but only benefit from tariffs on the products they sell and only to the extent they can raise price. As is widely known, imports dwarf domestic production. Thus, the Petitioners may advocate and negotiate for the license fee construct, rather than a tariff. A final decision is expected by January 12th; however, if the parties to the case are in settlement negotiations, as frequently occurs in such situations, the President may delay a decision until April.

We firmly believe the facts and politics are on our side and see no compelling economic or political reason the Administration would prioritize a bailout of lenders to two foreign-owned, bankrupt companies over tens of thousands of good American jobs. The purpose of trade protections is to create jobs, not to eliminate them. Even the editorial boards of *The Wall Street Journal* and *The Washington Post* agree the President should fully reject the U.S. Trade Commission's proposals.

The cost of any trade restraint would be absorbed partly by our suppliers, channel partners, customers, changes in renewable energy credit prices, and the investment tax credit. Nevertheless, we have taken actions to ensure continued, attractive pricing on modules for a large portion of volumes for next year, even if a recommended tariff is imposed.



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 partnerships with National Grid and Comcast. 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.