



Q2 2020 Earnings Call

August 10, 2020

Prepared Remarks

PATRICK JOBIN

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 may contain and/or constitute forward-looking statements related to Sunrun, Vivint Solar, and the acquisition of Vivint Solar that involve substantial risks, uncertainties, and assumptions that could cause actual results to differ materially from those expressed or implied by such statements. All statements, other than historical facts, included in our discussion including, but not limited to, statements regarding the timing and closing of the transaction; the potential benefits and financial impact of the transaction; Sunrun's and Vivint Solar's plans, objectives, expectations, and intentions; the financial condition, results of operations, and business of Sunrun and Vivint Solar; and any assumptions underlying any of the foregoing are 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 from those anticipated, to reflect circumstances or events that occur after these statements are made. Please refer to the Sunrun's and Vivint Solar's filings with the SEC, and the filings that will be made in connection with the transaction with the SEC, including the joint proxy statement/prospectus, for a more exhaustive discussion of risks and other factors that may cause our actual results to differ from projections made in any forward-looking statements. You may read and copy any reports or other information filed (or that will be filed) by Sunrun and Vivint Solar at the SEC public reference room in Washington D.C. Sunrun and Vivint Solar's filings with the SEC are also available to the public from commercial document retrieval services and at the website maintained by the SEC at www.sec.gov. Although we believe these statements reflect our best judgment based on factors currently known to us, actual results may differ materially and adversely from those anticipated, to reflect circumstances or events that occur after these statements are made. Please refer to Sunrun's and Vivint Solar's filings with the SEC, and the filings that will be made in connection with the transaction with the SEC, including the joint proxy statement/prospectus, for a more exhaustive discussion of risks and other factors that may cause our actual results to differ from projections made in any forward-looking statements. You may read and copy any reports or other information filed (or that will be filed) by Sunrun and Vivint Solar at the SEC public reference room in Washington D.C. 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, Ed Fenster, Sunrun's co-founder and Executive Chairman, and Tom vonReichbauer, Sunrun's CFO.

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.

We grew our base of customers 21% compared to last year, now well over 300,000 strong. In the second quarter we added 10,700 customers, representing 78 MW of deployments. Our performance exceeded our expectations at the onset of COVID, and we are on track to deliver sequential improvements in our growth and net customer margins in the back half of the year.

Summary

Consumer interest in clean, affordable, and resilient power is stronger than ever with increased outages from storms and wildfires combined with more time spent at home. Ongoing technological improvements in energy storage and electric vehicles are leading to an enhanced value proposition, as solar and batteries can affordably replace more of consumer's energy needs and unlock virtual power plant revenue opportunities. These tailwinds combined with our increased operating efficiency and customer reach will lead to strong improvements in the value we create for our customers and shareholders.

Emerging Stronger

Over the last few months, we have accelerated our corporate metabolism and operating effectiveness. Here are a few examples: our sales productivity has increased by approximately 50%; we have improved cycle time from customer signature to install; and installation labor productivity is up 20% compared to the same period last year. These changes result in reduced cost and an improved customer experience. We continue to expect \$2,000 per customer of enduring cost improvements from these initiatives.

Order volumes in March and early April did decline due to restricted access to certain sales channels, not lower customer interest levels, and as a result we have lower installation volumes near-term. We are gradually and safely re-entering the retail channel; our sales team continues to successfully execute with virtual selling; and the direct-to-home channel that several of our partners utilize remains robust. Order



volumes are now returning to pre-COVID levels, and we expect a significant sequential increase in deployments into Q3 and into Q4. For Q3, we expect over 20% sequential growth.

Longer Term Vision

Our strategy is to be the go-to company for clean and reliable energy as our world transitions toward renewable-powered electrification. Consumers spend over \$180 billion per year on electricity, and even more on all energy sources, while utilities invest more than \$100 billion per year in new energy infrastructure. Today, only 3% of US households have made the transition to home solar, and yet surveys show nearly 9 out of 10 people in the US favor expanding the use of solar power.

Over the last few months we have expanded our capabilities to lead the industry and accelerate the transition to consumer-lead electrification.

In July, we reached an agreement to acquire Vivint Solar, which will expand our customer reach, provide cost synergies, and increase our base of customers. As a combined company we already have over half a million customers and will be a leading owner of solar assets globally.

In the quarter, we doubled our number of grid services awards, now totalling 10, and have over \$50 million in awarded contracts or those in advanced stages. These programs are where we network solar and batteries together to form virtual power plants. They present a “flywheel” opportunity: this grid services revenue coupled with lower customer acquisition cost can enable lower customer pricing, allowing for even deeper penetration in regions with these programs. This further increases incremental recurring revenue opportunities while differentiating our customer offering.

We have now developed ‘proof of concept’ programs, in 10% of our geographies. This quarter our team was incredibly busy, launching programs with Southern California Edison, one of the largest utilities in the US, and Orange & Rockland, a subsidiary of ConEd, and three Community Choice Aggregators in California that provide power for nearly 1 million Bay Area homes.

In addition, we announced that we formed a venture to accelerate the electrification of the home with SK Group and affiliated companies. The new venture will conduct research and development activities to accelerate the adoption of renewables, the electrification of homes, and the transition to a connected and distributed consumer energy system.

Before I turn it over to Ed, I want to say how proud I am of the work our team is doing. We are focused on near-term execution, but also building the strategy for Sunrun to lead the industry forward. Our team’s ability to drive change will deliver benefits not only to customers and shareholders, but also our country.



Over to you, Ed.

EDWARD FENSTER

Thanks, Lynn.

Today I will discuss the financing markets for our assets, our asset performance, and recap our capital runway.

Financing Outlook & Customer Payment Performance

We are now seeing significant tailwinds in financing markets. Our contracted, long-term, high quality recurring cash flows have always been the bedrock on which we raise non-recourse project financing to fund our growth and offer customers a compelling value proposition. The strength of these cash flows is especially apparent in environments like this one.

The positive trend we highlighted last call has continued, with capital costs in continued decline. Senior debt in particular is currently pricing at or below all-time lows. Investors increasingly appreciate the low-risk, stable cash flows of our asset class.

Consistent with my comments last quarter, customer payment trends remain strong, supporting capital costs below 6%, as performance continues to be proven through economic cycles. As of July 31, delinquencies as a percent of total PPA & lease accounts receivable in each basket -- 30, 60, 90, and 120 days -- are lower now than before the onset of COVID.

This is not surprising, as home electricity is at the top of the customer payment waterfall and our customers are home to open the mail. We charge less for power than the incumbent utility, and due to the tiering of electricity pricing in many jurisdictions, savings from solar grows as electricity use increases. This further enhances our value proposition.

Capital Runway

We continue to maintain a long project finance runway that affords us the ability to be selective in capital market activities. Just in the last 4 weeks we have continued to raise tax equity at terms similar to those we saw before the onset of COVID. We also have a long pipeline of additional project finance opportunities that we are evaluating.



As of August 10, considering only committed debt and closed tax equity funds, the company's pre-arranged financings provide capital to fund approximately 200 MW of leased projects beyond what was deployed through the end of the second quarter of 2020. We also have executed term sheets for additional project finance capital to fund installations.

And with that, I'll now turn the call over to Tom.

TOM VONREICHBAUER

Thanks, Ed.

Looking now to the second quarter's results and our outlook.

In spite of the restrictions we faced during the early stages of COVID, the Sunrun team powered through and executed well. Our Q2 volumes exceeded initial expectations and we continue to see strong sequential improvements, with sales activities back to pre-COVID levels. We also responded to the challenge presented and accelerated efforts to streamline our operations, improving both cost and customer experience.

Deployments

In the second quarter we deployed 78 megawatts of solar capacity to approximately 10,700 customers. We now have 309,000 customers, growing 21% year-over-year, with most of them paying us on a recurring, monthly basis for the clean electricity we provide them, under 20 or 25 year contracts.

Deployments in the second quarter declined from the first quarter as a result of restrictions on our business during the onset of COVID, most notably in retail stores and with local permitting authorities.

Customer Value, Customer Costs & Customer Value

Project value was approximately \$31,400 per customer in Q2.

Total Creation Costs were approximately \$27,600 per customer.

NPV in the second quarter was approximately \$3,800 per customer.

The impact of lower volumes in our business during Q2 led to less advantageous cost absorption, offsetting gains from our operational efficiency efforts. As we saw improving indicators of sales in April, we deliberately maintained a measured level of staffing and in-market presence to be able to respond to opportunities as restrictions were lifted. Additionally, we experienced sequential increases in sales in each



month of Q2, which resulted in higher in-period sales & marketing costs for volumes that will be installed in a future period, further pressuring Q2 NPV per customer.

The combination of continued operational improvements and sequential volume increases that Lynn mentioned earlier have us optimistic about the second half of 2020. We expect to see customer net values, or NPV, to continue to improve sequentially in Q3 and Q4, with Q4 levels of more than \$8,000 per customer.

With the operational efficiency improvements discussed earlier, we expect to enter 2021 with an improved cost structure and higher net customer values as an independent company. We also expect the acquisition of Vivint Solar will provide additional competitive differentiation and cost leverage, with the combined entity creating additional value for customers, shareholders, and society at large.

Gross and Net Earning Assets, Cash Balance

Turning now to Gross and Net Earning Assets and our balance sheet.

Gross Earning Assets were \$3.9 billion at the end of the second quarter, reflecting an increase of \$31 million from the first quarter. Gross Earnings Assets is the measure of cash flows we expect to receive from customers over time, net of distributions to tax equity partners in partnership-flip structures, project equity financing partners, and operating & maintenance expenses, discounted at a 6% unlevered WACC.

We generally have several active funds at any point in time, and during the second quarter, our fund mix was more heavily weighted towards a partnership-fund that allocates more cash flows to the partner, but with a competitive cost of capital. As a result, Q2 had less growth in Gross Earning Assets, but more proceeds, and less new project debt.

Net Earnings Assets were \$1.6 billion at the end of the second quarter, also reflecting an increase of \$31 million from the first quarter. Net Earning Assets is Gross Earning Assets less all project-level non-recourse financings.

We ended the second quarter with \$354 million in total cash, reflecting a decline of \$12 million from the prior quarter, but flat on a year-over-year basis.

We believe looking at the combination of Cash and Net Earning Assets provides a way to evaluate our performance in generating shareholder value. Despite the lower volumes in Q2 and the corresponding cost absorption challenges, we increased the combination of Cash and Net Earning Assets by over \$200 million compared to the prior year.

We expect to maintain our strong cash balance this year while also increasing our Net Earning Assets.



With that, let's open the line for questions please.

Forward Looking Statements

This script contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, but not limited to, statements based upon or relating to Sunrun's and Vivint Solar's expectations or predictions of future financial or business performance or conditions.

Forward-looking statements generally relate to future events or future financial or operating performance.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "would," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," "will be," "will likely result" or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions.

Forward-looking statements may include, but are not limited to, statements concerning the expected benefits of the transaction; cost synergies and opportunities resulting from the transaction; Sunrun's leadership position in the industry; the availability of rebates, tax credits and other financial incentives including solar renewable energy certificates, or SRECs, and federal and state incentives; regulations and policies related to net metering and interconnection limits or caps and decreases to federal solar tax credits; determinations by the Internal Revenue Service of the fair market value of Sunrun's and Vivint Solar's solar energy systems; changes in regulations, tariffs and other trade barriers and tax policy; the retail price of utility-generated electricity or electricity from other energy sources; federal, state and local regulations and policies governing the electric utility industry and developments or changes with respect to such regulations and policies; the ability of Sunrun and Vivint Solar to manage their supply chains (including the availability and price of solar panels and other system components and raw materials) and distribution channels and the impact of natural disasters and other events beyond their control; the ability of Sunrun and Vivint Solar and their industry to manage recent and future growth, product offering mix, and costs (including, but not limited to, equipment costs) effectively, including attracting, training and retaining sales personnel and solar energy system installers; Sunrun's and Vivint Solar's strategic partnerships and expected benefits of such partnerships; the sufficiency of Sunrun's and Vivint Solar's cash, investment fund commitments and available borrowings to meet anticipated cash needs; the need and ability of Sunrun and Vivint Solar to raise capital, refinance existing debt and finance their respective obligations and solar energy systems from new and existing investors; the potential impact of interest rates on Sunrun's and Vivint Solar's interest expense; the course and outcome of litigation and investigations and the ability of Sunrun and Vivint Solar to consummate the transactions contemplated by the definitive transaction agreement in a timely manner or at all. These statements are not guarantees of future performance; they reflect Sunrun's and Vivint Solar's current views with respect to future events and are based on assumptions and estimates and subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements. These risks include, but are not limited to: the occurrence of any event, change or other circumstances that could give rise to the termination of the definitive transaction agreement or the failure to satisfy the closing conditions; the possibility that the consummation of the proposed transactions is delayed or does not occur, including the failure of the parties' stockholders to approve the proposed transactions; uncertainty regarding the timing of the receipt of required regulatory approvals for the merger and the possibility that the parties may be required to accept conditions that could reduce or eliminate the anticipated benefits of the merger as a condition to obtaining regulatory approvals or that the required regulatory approvals might not be obtained at all; the outcome of any legal proceedings that have been or may be instituted against the parties or others following announcement of the transactions contemplated by the definitive transaction agreement; challenges, disruptions and costs of closing, integrating and achieving anticipated synergies, or that such synergies will take longer to realize than expected; risks that the merger and other transactions contemplated by the definitive transaction agreement disrupt current plans and operations that may harm the parties' businesses; the amount of any costs, fees, expenses, impairments and charges related to the merger; uncertainty as to the effects of the announcement or pendency of the merger on the market price of the parties' respective common stock and/or on their respective financial performance; uncertainty as to



the long-term value of Sunrun's and Vivint Solar's common stock; the ability of Sunrun and Vivint Solar to raise capital from third parties to grow their business; any rise in interest rates which would increase the cost of capital; the ability to meet covenants in investment funds and debt facilities; the potential inaccuracy of the assumptions employed in calculating operating metrics; the failure of the energy industry to develop to the size or at the rate Sunrun and Vivint Solar expect; and the inability of Sunrun and Vivint Solar to finance their solar service offerings to customers on an economically viable basis. These risks and uncertainties may be amplified by the ongoing COVID-19 pandemic, which has caused significant economic uncertainty and negative impacts on capital and credit markets. The extent to which the COVID-19 pandemic impacts Sunrun's and Vivint Solar's businesses, operations, and financial results, including the duration and magnitude of such effects, will depend on numerous factors, many of which are unpredictable, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the pandemic or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

Any financial projections in this filing are forward-looking statements that are based on assumptions that are inherently subject to significant uncertainties and contingencies, many of which are beyond Sunrun's and Vivint Solar's control. While all projections are necessarily speculative, Sunrun and Vivint Solar believe that the preparation of prospective financial information involves increasingly higher levels of uncertainty the further out the projection extends from the date of preparation. The assumptions and estimates underlying the projected results are inherently uncertain and are subject to a wide variety of significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the projections. The inclusion of projections in this filing should not be regarded as an indication that Sunrun and Vivint Solar, or their representatives, considered or consider the projections to be a reliable prediction of future events.

Annualized, pro forma, projected and estimated numbers are used for illustrative purpose only, are not forecasts and may not reflect actual results.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included herein and elsewhere, including the risk factors included in Sunrun's and Vivint Solar's most recent reports on Form 10-K, Form 10-Q, Form 8-K and other documents on file with the United States Securities and Exchange Commission ("SEC"). These forward-looking statements represent estimates and assumptions only as of the date made. Unless required by federal securities laws, Sunrun and Vivint Solar assume no obligation to update any of these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated, to reflect circumstances or events that occur after the statements are made. Given these uncertainties, investors should not place undue reliance on these forward-looking statements. Investors should read this document with the understanding that Sunrun's and Vivint Solar's actual future results may be materially different from what Sunrun and Vivint Solar expect. Sunrun and Vivint Solar qualify all of their forward-looking statements by these cautionary statements.

Additional Information and Where to Find It

In connection with the proposed merger, Sunrun intends to file with the SEC a registration statement on Form S-4, which will include a document that serves as a prospectus of Sunrun and a joint proxy statement of Sunrun and Vivint Solar (the "joint proxy statement/prospectus"). After the registration statement has been declared effective by the SEC, the joint proxy statement/prospectus will be delivered to stockholders of Sunrun and Vivint Solar. BEFORE MAKING ANY VOTING OR INVESTMENT DECISION, SECURITY HOLDERS OF SUNRUN AND VIVINT SOLAR ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS (INCLUDING ALL AMENDMENTS AND SUPPLEMENTS THERETO) AND OTHER DOCUMENTS RELATING TO THE MERGER THAT WILL BE FILED WITH THE SEC WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED MERGER. Investors and security holders will be able to obtain copies of the joint proxy statement/prospectus (when available) and other documents filed by Sunrun and Vivint Solar with the SEC, without charge, through the website maintained by the SEC at <http://www.sec.gov>. Copies of documents filed with the SEC by Sunrun will be made available free of charge on Sunrun's website at <http://investors.sunrun.com/> under the heading "Filings & Financials" and



then under the subheading “SEC Filings.” Copies of documents filed with the SEC by Vivint Solar will be made available free of charge on Vivint Solar’s website at <http://investors.vivintsolar.com/> under the link “Financial Information” and then under the heading “SEC Filings.”

Participants in the Solicitation

Sunrun and Vivint Solar and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the holders of Sunrun common stock and Vivint Solar common stock in respect of the proposed transaction. Information about Sunrun’s directors and executive officers is set forth in Sunrun’s Form 10-K for the year ended December 31, 2019 and the proxy statement for Sunrun’s 2020 Annual Meeting of Stockholders, which were filed with the SEC on February 27, 2020 and April 17, 2020, respectively. Information about Vivint Solar’s directors and executive officers is set forth in Vivint Solar’s Form 10-K for the year ended December 31, 2019 and the proxy statement for Vivint Solar’s 2020 Annual Meeting of Stockholders, which were filed with the SEC on March 10, 2020 and April 24, 2020, respectively. Stockholders may obtain additional information regarding the interests of such participants by reading the registration statement and the joint proxy statement/prospectus and other relevant materials to be filed with the SEC regarding the proposed merger when they become available. Investors should read the joint proxy statement/prospectus carefully when it becomes available before making any voting or investment decisions.

No Offer or Solicitation

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.