



Q4 2020 Earnings Call
February 25, 2021
Prepared Remarks

PATRICK JOBIN

Thank you operator.

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, Ed Fenster, Sunrun's co-founder and Executive Chairman, and Tom vonReichbauer, Sunrun's CFO.

And now let me turn the call over to Lynn.

LYNN JURICH

Thanks, Patrick.

We are pleased to share Sunrun's fourth quarter results, progress against our strategic priorities, and outlook for 2021.

We ended the year with more than 550,000 Customers, 18% year-over-year growth, pro-forma to include Vivint Solar. We adapted swiftly to the dynamic environment during the year, improving our cost structure, increasing our market position, and strengthening our competitive advantages. The Vivint Solar acquisition expands our scale and solidifies our position as a top owner of solar assets globally with nearly four gigawatts of Networked Solar Energy Capacity.

I am excited to share our results for the first time as a combined company. In the fourth quarter, we added 23,500 customers. We saw continued improvements in our margins and beat the targets we set last quarter. The integration is progressing well with the team operating as a single organization.



In 2021 we expect to significantly accelerate our growth rate to 20-25%, from a baseline scale that's already twice the next competitor, and with strong customer margins. At the same time, we will increase our competitive advantages through our unmatched sales reach, investment in customer experience, brand and talent, significant head start in batteries and grid services, and an improved cost structure from scale and synergies, which exceed our initial expectations.

Need for Resiliency

The unprecedented winter storm in Texas last week that left more than three million people without power, yet again, exposed the current grid's vulnerability and the superiority of local solar and batteries. During the extreme demand on the power grid our customers produced their own electricity from solar behind the meter and helped offset the need for additional blackouts. For each customer with Sunrun solar, we helped keep another homeowner's power on. Furthermore, our customers with Brightbox were able to power through the blackouts and stay warm. Even customers with outages over 50 hours were able to power critical circuits uninterrupted, as the solar systems continued to generate energy and recharge batteries during the winter storm.

It is no surprise that our website traffic increased 350% over the past few days in Texas and our sales teams reported a record number of appointments in a single day. We saw a similar trend following the power shut-offs in California. Accelerating extreme weather events will continue to drive consumers to choose solar and batteries.

Nationally, we have now installed more than 16,000 Brightbox systems. The Vivint Solar attachment rates doubled in the fourth quarter, and we continue to expect Brightbox installations to accelerate and grow over 100% in 2021, despite expected constraints in battery supply.

Increasing Our Value Proposition

Utilities invested more than \$120 billion in capex last year, yet storms, heat waves and wildfires continue to prove that our centralized grid is failing. As utilities across the country spend more to upgrade infrastructure with their guaranteed rate of return, these costs are falling on homeowners. In December, PG&E announced that its customers will be hit with an average rate increase of 8% over the next two years to pay for improvements to reduce the risks that its equipment will ignite deadly wildfires. This is compounded by the fact that 71% of California homeowners say they think the pandemic has increased demand for electricity.

This dynamic is happening across the country, with retail utility rates in our markets increasing 3% per year on average for the last 15 years. Utility capital spending is forecast to continue to rise, which increases the value we can bring to customers and expands our addressable market. This month we launched in



additional areas of Texas and Florida, including San Antonio and Miami, offering residents a way to power through outages and manage their energy costs.

A Positive Impact on Society

Turning now to our sustainability efforts. We are proud to lead one of the fastest growing sectors in the American economy and the Vivint Solar acquisition enables us to accelerate job growth. The combined company now has approximately 8,500 full-time employees. We have committed to providing all of our employees wages of at least \$15 per hour.

In the fourth quarter, we strengthened our talent communities with over 800 employees participating in our six Employee Resource Groups. In November, we announced four environmental justice initiatives to expand access to solar and its benefits. Sunrun was also the first solar company, and one of only 500 total companies, selected to be part of the Department of Defense Military Spouse Employment Partnership.

Finally, we want to create a healthier environment for future generations by aggressively retiring fossil fuel plants. In 2020, our Networked Solar Energy Capacity prevented GHG emissions totaling an estimated 2.4 million metric tons of CO₂e. In 2020, we installed more than 600 megawatts of solar to over 85,000 Customers. These systems are expected to prevent the emission of over 13 million metric tons of CO₂e over the next thirty years.

Before I turn it over Ed I want to thank our fantastic team for another great quarter..

Over to you, Ed.

EDWARD FENSTER

Thanks, Lynn.

Today I will touch on some recent federal political developments, our evolving capital structure strategy, and recap our robust capital runway.

Political Developments

Over the last year and quarter, we have advocated for, and achieved, numerous political victories, and we continue to enjoy tailwinds in this area.

On December 21st, the investment tax credit was extended for two more years. As before, this measure passed with bipartisan support, passing through a Republican-controlled Senate and signed by a



Republican president. Taken in combination with our safe harbor capabilities, we now enjoy an investment tax credit of up to 26% through December 31, 2025.

That said, we are pleased that the Biden administration is demonstrating genuine interest not just in renewable energy, but also distributed energy and soft cost reduction. President Biden specifically cited home solar and batteries during last year's debates as critical investments for rebuilding our energy infrastructure with clean technology. Given its track record of success and bipartisan support, we think a longer-term extension of the solar investment tax credit is probable. The Biden administration is also taking steps to support soft cost reduction through continued DOE funding for training and software development.

In addition, the Biden administration has begun releasing the funds previously appropriated by Congress for use in repairing and modernizing Puerto Rico's electric grid. We believe this funding may open significant virtual power plant opportunities for us on the island, along with an expanded market for home solar and battery installations.

Capital Structure Strategy

Meanwhile, a number of factors are combining to offer us several paths to reducing our capital costs even further. Our increased scale, market capitalization, and profitability following the Vivint Solar acquisition are opening new doors for us. Lenders and ratings agencies have taken note that our collections actually improved during Covid. We are also seeing an unprecedented increase in lender interest in green bonds, and just generally low costs of capital in most markets. We believe we can leverage these factors into an updated capital structure that will increase long-term cash flows available to our common shareholders. In part because the various strategies we are evaluating provide different combinations of cash upfront vs cash distributions over time, we are not providing 2021 cash flow guidance at this time. We will share updates on this strategy review over the next two quarters, however, as we finalize a course of action.

Capital Runway

We continue to maintain a robust project finance runway that affords us the ability to be selective in capital market activities.

As of February 25th, closed transactions and executed term sheets provide us expected tax equity and project debt capacity to fund over 500 MW for Subscribers in 2021. We are clearing both the tax equity and credit markets at or near all-time low costs of capital.

I'll now turn the call over to Tom.



TOM VONREICHBAUER

Thanks, Ed.

The fourth quarter capped off a transformative year for Sunrun. The Sunrun team continued to deliver sequential volume growth and margin expansion, while beginning the integration of Vivint Solar. The combination of continued operational improvements and strategic advantage from our increased scale have set up the company for a break-out 2021.

Metrics Update

As we previewed on the last call, this quarter we have made various changes to our operating metrics, converging methodologies between Sunrun and Vivint Solar, and more clearly reflecting our business post-acquisition. On slide 8 of our earnings presentation, you can see a summary of the updates to nomenclature and definitions of the key metrics we use.

For example, we now refer to customers under lease or power purchase agreements as Subscribers given the long-term and recurring nature of our relationships.

We now refer to the present value of upfront and recurring cash flows from customers as Subscriber Value, instead of Project Value, and present it on a per subscriber basis, instead of per unit of solar energy capacity. 'Per watt' figures are still available in the supplemental materials, but presenting metrics on a 'per customer' basis better aligns to our cost and value drivers of the business.

We now present Subscriber Value and Gross Earning Assets using a 5% discount rate, reflecting the lower cost of capital environment and our continued ability to raise capital at rates well below 6%.

Further, Net Subscriber Value also includes uncapitalized operating expenses within Creation Cost, harmonizing with Vivint Solar's former reporting method and reflecting the increased mix of direct business as a result of the acquisition.

NPV is now referred to as Total Value Generated and represents the Net Subscriber Value multiplied by Subscriber Additions.

Net Earning Assets now includes both recourse and non-recourse debt, along with total cash. Megawatts Deployed is now referred to as Solar Energy Capacity Installed while Cumulative Megawatts Deployed is now referred to as the Network of Solar Energy Capacity.



We believe these changes improve the usefulness of the metrics we present and will make our business less burdensome to understand.

Volumes

Turning now to volumes.

In the fourth quarter, Customer Additions were approximately 23,500, including approximately 18,800 Subscriber Additions.

Solar Energy Capacity Installed was 172 Megawatts in the fourth quarter of 2020, a 10% sequential increase from the third quarter, and 603 Megawatts for the full-year 2020.

Our Networked Solar Energy Capacity was 3.9 Gigawatts at the end of Q4, an increase of 18% compared to the prior year.

We ended Q4 with over 550,000 Customers and nearly 479,000 Subscribers, both growing 18% year-over-year. Our Subscribers generate significant, recurring revenue with most under 20 or 25 year contracts for the clean energy we provide. At the end of the year, our Annual Recurring Revenue, or ARR, stood at \$668 million with an average contract life remaining of 17 years. That's over \$10 billion in revenue visibility just from customers we already have.

Subscriber Value, Creation Cost, Net Subscriber Value & Total Value Generated

In Q4, Subscriber Value was approximately \$37,400 and Creation Cost was approximately \$28,300, delivering a Net Subscriber Value of \$9,051.

While we are presenting metrics on a 'per customer' basis now, we appreciate that many investors have modeled per-watt metrics. These metrics can still be calculated if desired. For instance, Subscriber Value per watt of Solar Energy Capacity Installed for Subscribers was \$5.07, or what we used to call Project Value. Net Subscriber Value per watt, or what we used to call NPV per watt, would be \$1.23 in the quarter.

As discussed earlier, the changes we have made to the metrics resulted in some puts and takes. For instance, moving to a 5% discount rate increased Subscriber Values, while the inclusion of uncapitalized operating expenses within Creation Cost, aligning with Vivint Solar's former method reduced the reported figure. We believe the changes that we have made are appropriate now given our increased mix of direct business following the acquisition of Vivint Solar, the financing environment, and improvements we have made to internal cost accounting for fleet servicing expenses. Under the prior methodology which we had provided guidance against last quarter, Net Subscriber Value would have been approximately \$8,500, exceeding our target.



Total Value Generated, which is the Net Subscriber Value multiplied by the number of Subscriber Additions in the period, was \$170 million in the fourth quarter.

Gross and Net Earning Assets, Cash Balance

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

Gross Earning Assets were \$7.8 billion at the end of the fourth quarter, reflecting an increase of \$3.6 billion from the prior year. 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 5% unlevered WACC.

Net Earnings Assets were \$4.2 billion at the end of the fourth quarter, reflecting an increase of \$2.1 billion from last year. Net Earning Assets is Gross Earning Assets, plus cash, less all debt.

We ended the fourth quarter with \$708 million in total cash.

A simple way many approach valuation is to look at the value of the growth business of new subscribers Total Value Generated times a multiple given the growth prospects, plus Net Earning Assets which represents the value of existing customers and net debt.

GAAP Results

A quick note on our GAAP income statement for the quarter and upcoming periods. There are a few one-time items along with purchase accounting treatment of Vivint Solar that depress near-term GAAP results.

This quarter, operating costs included non-recurring acquisition and deal related expenses and restructuring costs of \$25.3 million. Operating costs this quarter also include stock-based compensation expenses of \$133 million, a significant step-up from prior periods. Consistent with purchase accounting standards under GAAP, the fair value of outstanding equity awards for Vivint Solar employees was reevaluated upon the closing of the acquisition, which resulted in a step-up of the value of such awards because of the higher stock price on the date of close. This results in an increase to non-cash stock-based compensation expense until such awards have fully vested. Additionally, the value of Solar Energy Systems was recorded based on a fair value assessment, which was approximately \$1.1 billion higher than the book value at the date of the acquisition, and will result in additional non-cash depreciation expense over the estimated useful life of the assets, partially offset by a write-off of Vivint Solar's Cost to Obtain Customer Agreements.

These purchase accounting adjustments have no effect on our cash flows and how we measure the performance of the business.



Outlook

Turning now to our outlook.

As Lynn noted earlier, the integration with Vivint Solar is going exceedingly well. While we initially targeted \$90 million in run rate cost synergies, we are now confident that we can realize \$120 million in run rate cost synergies exiting this year.

We also believe our strengthening brand, investment in customer experience and product innovation, and expanded sales channels have us well positioned to capture strong underlying consumer interest for reliable, clean energy in the year ahead. Furthermore, the combination of our business transformation in 2020 and increased cost synergy expectations enables us to both invest in growth and maintain strong margins in 2021.

We forecast Solar Energy Capacity Installed growth to be in a range of 20% to 25% in 2021 for the full-year. Total Value Generated is expected to be over \$700 million for the full year.

While we are very focused on integration in the near-term, we expect a return to year-over-year growth in Solar Energy Capacity Installed in Q1, with accelerating growth thereafter. Similarly, because of seasonality in our business and the shape of our post-acquisition cost structure as synergies are realized, we expect to see slightly lower Net Subscriber Margins in the first half and higher margins in the second half of 2021.

As Lynn mentioned at the beginning of the call, consumer demand for alternatives to an old, expensive, and dirty energy infrastructure is increasing and we believe we have the products, business model, and operational capabilities to deliver against this demand in 2021 and beyond.

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

Forward Looking Statements

This communication contains forward-looking statements related to Sunrun (the "Company") within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements related to: the impact of COVID-19 on the Company and its business and operations; the Company's financial and operating guidance and expectations; the Company's business plan, market leadership, competitive advantages, operational and financial results and metrics (and the assumptions related to the calculation of such metrics); the Company's momentum in the company's business strategies, expectations regarding market share, customer value proposition, market penetration, financing activities, financing capacity, product mix, and ability to manage cash flow and liquidity; the growth of the solar industry; the Company's ability to manage supply chains and workforce; factors outside of the Company's control such as macroeconomic trends, public health emergencies, natural disasters,



and the impacts of climate change; the legislative and regulatory environment of the solar industry; and expectations regarding the Company's storage and energy services businesses, the Company's acquisition of Vivint Solar (including cost synergies), and anticipated emissions reductions due to utilization of the Company's solar systems. These statements are not guarantees of future performance; they reflect the Company's current views with respect to future events and are based on assumptions and estimates and are 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. The risks and uncertainties that could cause the Company's results to differ materially from those expressed or implied by such forward-looking statements include: the impact of COVID-19 on the Company and its business and operations; the successful integration of Vivint Solar; the availability of additional financing on acceptable terms; changes in the retail prices of traditional utility generated electricity; worldwide economic conditions, including slow or negative growth rates in global and domestic economies and weakened consumer confidence and spending; 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, batteries, and other components and raw materials; the Company's ability to attract and retain the Company's relationships with third parties, including the Company's solar partners; the Company's continued ability to manage costs associated with solar service offerings; the Company's business plan and the Company's ability to effectively manage the Company's growth and labor constraints; the Company's ability to meet the covenants in the Company's investment funds and debt facilities; factors impacting the solar industry generally, and such other risks and uncertainties identified in the reports that we file with the U.S. Securities and Exchange Commission from time to time. All forward-looking statements used herein are based on information available to us as of the date hereof, and we assume no obligation to update publicly these forward-looking statements for any reason, except as required by law.