



## **Cost per Watt Methodology**

November 12, 2015

This memo describes how Sunrun's creation cost and its components are calculated for Q2 2015 and Q3 2015 using information reported in GAAP financial statements and footnotes plus operating and other data reported by the company.

Creation Cost per watt is equal to the per watt amounts described below for Installation plus Sales and Marketing plus General and Administrative less Platform Services Margin.

### **Installation (Blended, includes both Sunrun and Partner Built Systems)**

Installation cost per watt is calculated based on capitalized installation costs and megawatts related to solar energy systems for which we have (i) confirmation that the systems are installed on the roof, subject to final inspection or (ii) in the case of certain system installations by our partners, accrued at least 80% of the expected project cost, and are under lease or PPA agreements in the period. It excludes costs and MW related to solar energy systems sold directly to customers for cash, and also costs and MW associated with solar energy systems that were cancelled before completion, and other period charges expensed in cost of operating leases and incentives in the consolidated statement of operations. The capitalized costs included can be found in the notes to our consolidated financial statements and the applicable MW can be found in the calculation detail attached to this memo.

### **Sales and Marketing**

Sales and marketing cost per watt is calculated based on sales and marketing expenses incurred and total MW booked in the period, plus other sales costs capitalized along with solar energy systems that have been deployed under lease or PPA agreements in the period. The calculation uses a mixed denominator because the majority of capitalized sales costs are incurred and capitalized at deployment rather than at booking of the contract. It excludes certain non-cash items such as stock-based compensation expense, amortization of intangibles, and contingent consideration related to an acquisition.

### **General and Administrative**

General and administrative cost per watt is calculated based on the general and administrative expenses incurred and the total MW deployed in the period. It excludes certain non-cash items related to stock-based compensation expense and amortization of intangibles.

### **Platform Services Margin**

Platform Services Margin per watt is the gross margin contribution from Sunrun's platform businesses including AEE, SnapNrack, and CEE plus gross margin earned on cash solar systems sales. It excludes certain non-cash items related to stock-based compensation expense.



**Sunrun Creation Cost Supplemental Calculations**  
**November 12, 2015**  
**(\$000s, except per watt and MW)**

<b>Solar Energy Systems, net footnote disclosure</b>	<b>Q2 2015</b>	<b>Change</b>	<b>Q3 2015</b>	<b>Change</b>
Solar energy system equipment costs (gross)	\$1,610,120	\$96,693	\$1,723,605	\$113,485
Inverters (gross)	148,714	13,362	162,203	13,489
Solar energy systems under construction	64,246	13,928	86,769	22,523
Solar energy systems capitalized costs	\$1,823,080	\$123,983	\$1,972,577	\$149,497
/ Total MW Deployed under leases and PPAs		40.4		52.1
<b>= Installation cost per watt</b>		<b>\$3.07</b>		<b>\$2.87</b>

	<b>Q2 2015</b>	<b>Q3 2015</b>
Sales and marketing operating expense	\$33,976	\$45,382
(-) Sales and marketing stock-based compensation expense	1,209	1,656
(-) Sales and marketing intangibles amortization and contingent purchase consideration	1,798	1,714
(-) Non-cash charge for discontinued capitalized software for internal use	-	1,057
Sales and marketing expense, excluding non-cash and other non-sales related items	\$30,969	\$40,954
/ MW Booked	61.2	94.5
<b>= Sales and marketing operating expense per watt</b>	<b>\$0.51</b>	<b>\$0.43</b>

	<b>Q2 2015</b>	<b>Change</b>	<b>Q3 2015</b>	<b>Change</b>
Initial direct costs (from Solar Energy Systems, net footnote disclosure)	\$48,809	\$7,385	\$58,246	\$9,436
/ MW Deployed under leases and PPAs		40.4		52.1
<b>= Capitalized sales costs related to PPAs and leases deployed per watt</b>		<b>\$0.18</b>		<b>\$0.18</b>

	<b>Q2 2015</b>	<b>Q3 2015</b>
Sales and marketing operating expense per watt	\$0.51	\$0.43
(+) Capitalized sales cost per watt	\$0.18	\$0.18
<b>= Sales and marketing cost per watt</b>	<b>\$0.69</b>	<b>\$0.61</b>

	<b>Q2 2015</b>	<b>Q3 2015</b>
General and administrative operating expense	\$19,677	\$21,486
(-) General and administrative stock-based compensation expense	1,645	1,743
(-) General and administrative intangibles amortization	375	331
General and administrative expense, excluding non-cash items	\$17,657	\$19,412
/ MW Deployed	42.4	55.7
<b>= General and administrative cost per watt</b>	<b>\$0.42</b>	<b>\$0.35</b>

	<b>Q2 2015</b>	<b>Q3 2015</b>
Solar energy systems and product sales	\$38,232	\$50,950
(-) Cost of solar energy systems and product sales	34,624	46,468
(+) Solar energy systems and product sales stock-based compensation expense	35	61
Gross margin from solar energy systems and product sales, excluding non-cash items	\$3,643	\$4,543
/ MW Deployed	42.4	55.7
<b>= Platform Services Margin per watt</b>	<b>\$0.09</b>	<b>\$0.08</b>

	<b>Q2 2015</b>	<b>Q3 2015</b>
Installation	\$3.07	\$2.87
Sales and marketing	\$0.69	\$0.61
General and administrative	\$0.42	\$0.35
	<b>\$4.17</b>	<b>\$3.83</b>
(-) Platform Services Margin	(\$0.09)	(\$0.08)
<b>= Creation Cost per watt</b>	<b>\$4.08</b>	<b>\$3.75</b>

\*Amounts may not add due to rounding