



Cost per Watt Methodology

March 8, 2017

This memo describes how Sunrun's creation cost and its components are calculated for Q4 2016 using information reported in GAAP financial statements and footnotes plus operating and other data reported by the company. In Q4 2016, we reviewed our key operating metrics to ensure our reported metrics remain aligned with how we currently operate our business. As a result of such review, Creation Cost is now calculated so that the single component not previously based on either leased or total deployments now will be. Specifically, the portion of period sales and marketing expenses previously divided by megawatts booked is now divided by megawatts deployed.

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 (i) sales and marketing expenses incurred and total MW deployed in the period and (ii) other sales costs capitalized along with solar energy systems that have been deployed under lease or PPA agreements in the period. The calculation previously used total MW booked to normalize expensed sales and marketing costs; however, the methodology now uses total MW deployed in the period to more closely match our internal view of the expensed cost per watt of sales and marketing. 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 system sales. It excludes certain non-cash items related to stock-based compensation expense.



Sunrun Creation Cost Supplemental Calculations

March 8, 2017

(\$000s, except per watt and MW)

Installation Cost per Watt (\$ in 000s)	Q3 2016 Actuals		Q4 2016 Actuals	
		<u>Q3 2016</u>	<u>Q4 2016</u>	<u>Change</u>
Solar Energy Systems, net footnote disclosure				
Solar energy system equipment costs (gross)		\$2,301,601	\$2,459,856	\$158,255
Inverters (gross)		238,637	260,011	21,374
Solar energy systems under construction		92,346	95,217	2,871
Solar energy systems capitalized costs		\$2,632,585	\$2,815,084	\$182,499
/ Total MW Deployed under leases and PPAs				67.3
= Installation cost per watt				\$2.71

	<u>Q4 2016</u>
Sales and marketing operating expense	\$35,685
(-) Sales and marketing stock-based compensation expense	1,839
(-) Sales and marketing intangibles amortization and contingent purchase consideration	1,749
Sales and marketing expense, excluding non-cash and other non-sales related items	\$32,097
/ Total MW Deployed	77.2
= Sales and marketing operating expense per watt	\$0.42

	<u>Q3 2016</u>	<u>Q4 2016</u>	<u>Change</u>
Initial direct costs (from Solar Energy Systems, net footnote disclosure)	\$106,556	\$117,587	\$11,031
/ Total MW Deployed under leases and PPAs			67.3
= Capitalized sales costs related to PPAs and leases deployed per watt			\$0.16

	<u>Q4 2016</u>
Sales and marketing operating expense per watt	\$0.42
(+) Capitalized sales cost per watt	\$0.16
= Sales and marketing cost per watt	\$0.58

	<u>Q4 2016</u>
General and administrative operating expense	\$24,184
(-) General and administrative stock-based compensation expense	2,090
(-) General and administrative intangibles amortization	468
General and administrative expense, excluding non-cash items	\$21,626
/ Total MW Deployed	77.2
= General and administrative cost per watt	\$0.28

	<u>Q4 2016</u>
Solar energy systems and product sales	\$75,251
(-) Cost of solar energy systems and product sales	63,005
(+) Solar energy systems and product sales stock-based compensation expense	130
Gross margin from solar energy systems and product sales, excluding non-cash items	\$12,376
/ Total MW Deployed	77.2
= Platform Services Margin per watt	\$0.16

	<u>Q4 2016</u>
Installation	\$2.71
Sales and marketing	\$0.58
General and administrative	\$0.28
	\$3.57
(-) Platform Services Margin	(\$0.16)
= Creation Cost per watt	\$3.41

*Amounts may not add due to rounding