



## Q1 2017 Earnings Call

May 10, 2017

Prepared Remarks

### **LYNN JURICH**

We are pleased to share with you Sunrun's first quarter financial and operating results along with progress against our priorities for 2017.

In the first quarter we deployed 73 MWs, up 21% year-over-year, exceeding our guidance by over 5%. We gained market share, increased deployments, reduced our creation costs, and generated \$56 million in net present value. We have done so while improving unit-level economics year-over-year and while maintaining our cash position above \$200 million for the seventh consecutive quarter.

Our performance in Q1 and recent trends give us confidence to reiterate our full year 2017 guidance of over 35% growth in NPV, deployment growth of 15%, and our cash flow outlook. I'm pleased with our strong results and our competitive position.

- First, our multi-channel business model. Our channel business provides us with broad reach and leverages cost-effective regional installers. Our direct business allows us to achieve efficiencies in core markets and share best practices with our partners through our platform. As the largest stand-alone residential solar company, Sunrun is the natural choice for big-box retailers and large consumer brands, which are effective acquisition channels and offer geographic expansion opportunities.
- Second, our product suite. We offer products customers want, whether it's service agreements (also known as leases or PPAs), loan or cash products. We enable consumers to save money on their energy bills and purchase cleaner electricity at locked in predictable rates. We've already saved our customers over \$100 million in our short 10-year history. Our customers appreciate that our interests are aligned with them over the long run.

We delivered strong financial results this quarter while also making progress against our long-term strategic priorities.

### **National Grid Partnership Update**

First, our three-pronged partnership with National Grid is off to a great start.

- As previously announced, National Grid is contributing \$100 million in project equity. In the quarter we have already started to contribute assets into the fund and just yesterday closed a \$195 million non-recourse back-leverage facility to complete the capital structure.
- The grid services collaboration is progressing and setting the groundwork for additional revenue streams.



- And, the early results of the co-marketing pilot are encouraging and we are expanding into more zip codes.

It is clear that forward-thinking utilities and regulators recognize the value Distributed Energy resources can bring to the country's energy infrastructure.

### **BrightBox™**

Second, we lead the industry and continue to innovate with the first zero-down Solar + Storage as a Service offering for residential customers. Over the last few months, we advanced installations of our BrightBox™ offering in Hawaii and California.

Sunrun is focused on modernizing our inefficient and dirty \$1 trillion energy infrastructure, playing offense and gaining market share.

Our channel-enabling platform, innovation with BrightBox™, and our capital position builds increasing entry barriers while new markets are opening up to set the stage for continued growth.

I'll now turn the call over to Bob Komin to review Q1 performance in more detail and discuss guidance.

### **BOB KOMIN**

Thanks, Lynn.

In the first quarter, we exceeded our deployment guidance and executed well against our 2017 goals.

### **NPV**

NPV was \$0.83 per watt in Q1, resulting in aggregate NPV created of \$56 million. This represents 145% growth compared to the prior year.

For the year 2017, we continue to expect to generate \$1 per watt in NPV, a 15% improvement to our unit-level economics compared to 2016. We expect the seasonal pattern of NPV to be consistent with prior years, with lower NPV per watt in the first half then gradually increasing throughout the year as volumes increase.

NPV is calculated as Project Value less Creation Costs so let's go through each of the components next.

### **Project Value**

Q1 project value of \$4.21 per watt was 20 cents lower than Q4, principally due to the mix of business in the quarter.

We expect Project Value to be approximately \$4.25 per watt for the year, 5% below 2016, but this decline should be more than offset by cost reductions.



As a reminder, project value is very sensitive to modest changes in geographic, channel, and tax equity fund mix. We expect project value will continue to decline slightly over time with costs declining more, although in the short run there can be quarterly fluctuations.

### **Creation Costs**

Turning now to Creation Costs on Slide 9.

In Q1, total Creation Costs were \$3.38 per watt, an improvement of \$0.69, or 17%, year-over-year. Similar to Project Value, Creation Costs can fluctuate quarter to quarter due to changes in geographic and channel mix, and this quarter we saw some benefit to our costs from our mix of business.

As a reminder, our cost stack is not directly comparable to those of peers because of our channel partner business. Blended installation cost per watt, which includes both solar projects deployed by our channel partners as well as by Sunrun, improved by \$0.31, or 10%, year-over-year to \$2.67 per watt. Install costs for systems built by Sunrun were \$2.14 per watt, reflecting a \$0.22, or 9%, year-over-year decline. We expect installation costs to improve further as we realize more of the benefits of lower panel and inverter prices beginning in Q2.

In Q1, our sales and marketing costs were \$0.51 per watt, a 12% improvement from Q4 and a 41% improvement from the prior year, primarily driven by channel mix and our focus on the most cost effective customer acquisition channels.

Next, G&A cost per watt was \$0.29, a \$0.01 increase from Q4. These costs have been largely flat for the last several quarters. In 2017, we expect to realize further operating leverage, with volume growth exceeding G&A cost increases.

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 our solar systems we sell for cash or with a third party loan. We achieved platform services gross margin of \$0.09 per watt, lower than Q4 due primarily to a lower mix of solar system sales and seasonality in our distribution business.

### **Deployments**

In the first quarter, deployments increased 21% year-over-year to 73 MW, exceeding our guidance of 69 MW. The beat was primarily attributable to an increase in our channel volumes. The strength and flexibility of our multi-channel platform model continued to serve us well in the current market conditions. As we have highlighted over the last few quarters, we are seeing more opportunities that are favorable to work with partners while meeting our NPV and cash contribution goals. As we have previously described, this trajectory can fluctuate quarter to quarter since we do not manage to a mix or volume target--we instead prioritize based on unit level margins.

Our cash and third party loan mix was 7% in Q1, lower than Q4. We expect this to increase slightly and return to more recent levels of low to mid-teens. As discussed previously, we believe our PPA and lease product mix of over 80% better matches consumer preferences and delivers



our customers significant value and predictability, which is one of the reasons we have been able to take share.

### **Bookings**

In Q1, our net bookings were 74 MW, an increase of 19% from the prior year. As a reminder, bookings are calculated net of cancellations.

### **Liquidity, Balance Sheet & Cash Flow**

Our liquidity position remains strong. We ended Q1 with \$204 million in unrestricted cash, the seventh consecutive quarter we have been above \$200 million. Our view that we will be able to maintain, or potentially increase our cash position, by the end of 2017 without issuing additional equity remains unchanged. This excludes any strategic opportunities or accelerated market entries beyond our current plan. As a reminder, the timing of project finance proceeds can vary quarter to quarter, and our primary objective is to optimize for the lowest long term cost of capital so we focus first and foremost on the best execution of financing, which could impact the timing of our cash balance on a specific quarter end measurement date.

### **Guidance**

Moving on to guidance on slide 10.

We remain confident in our growth trajectory with Q2 guidance of 72 MW, which reflects approximately 15% year-over-year growth in the first half of 2017.

We are reiterating our guidance of 15% growth for deployments for the year which is approximately 325 MW.

Our principle focus is generating approximately \$1 of NPV per watt. We continue to believe we can generate more than \$290 million in aggregate NPV in 2017, a more than 35% increase from the prior year.

Now let me turn it over to Ed.

### **ED FENSTER**

Thanks, Bob.

Today I wanted to touch on three items:

- First, I will discuss how our use of cash equity, such as with National Grid, impacts our Gross and Net Earning Assets figures.
- Second, I will summarize the back-leverage facility we arranged for the National Grid partnership and report out on what we see as a strong project finance environment generally.
- And lastly, I will touch on our customer-centric business model and very happy customer base.



### **Gross & Net Earning Assets; Renewal Value**

Turning first to our installed asset base, we're pleased to report that as of March 31, Net Earning Assets were \$1.1 billion, reflecting a 35% year-over-year increase. Net Earning Assets now total \$10 per share.

As a reminder, Net Earning Assets represents the present value of cash flows we expect to receive from our fleet of deployed solar systems, after deducting our estimated operating and maintenance costs, our project-level financing, and distributions to our tax equity partners.

The use of cash equity financing, such as the National Grid partnership, increases our corporate cash balance vs. the use of just non-recourse debt. However, with the solar facilities in such partnerships largely monetized upfront, growth in Gross and Net Earning Assets will slow, as we exclude from these metrics cash flows destined for cash equity partners. In 2017, we expect to be able to maintain or grow corporate cash while adding to Net Earning Assets.

Lastly, on slide 12, we have again included the table we introduced last quarter, which presents the present value of our renewal cash flows as a function of the number of years of renewal payments received and the per kWh rate realized in the renewal period. As you can tell from the table, even very low real PPA rates -- below even wholesale power rates -- provide significant present value for Sunrun, given our large and growing fleet.

### **Capital Structure**

Transitioning to financing activity, yesterday, we closed a \$195 million back-leverage facility for our partnership with National Grid. At closing, we partially drew on this credit facility, with most of the proceeds being used to repay our existing aggregation facility or return capital to National Grid. As we continue to place assets into this partnership, we will draw down further on the facility. As is our customary practice, we entered into 20-year interest rate swaps to predominantly fix LIBOR for the initial contracted term of the customer agreements. The swaps we have executed thus far have set an all-in interest rate of 5.1% for the credit facility's 7-year term, generating proceeds at the high end of the 95%-100% range of contracted project value we discussed last quarter. This result is before considering the 50% upside sharing arrangement we have with National Grid for refinancings.

We believe the closing of this facility marks a major milestone. First, this type of back-leverage facility has become sufficiently plain-vanilla and supported by a large enough number of lenders that we didn't even use a syndication agent to place it. Second, the combined proceeds we received in this transaction is consistent with our reported contracted project values. We believe there is a growing market for cash equity, and that the proceeds we realized in this transaction can be achieved while offering such investors an attractive return on equity of about 10%, even before considering the benefits they may realize from future refinancings.

With this closing, we have committed tax equity, back-leverage and project equity runway into Q4. We also continue to see robust interest from tax equity investors in providing additional capital to Sunrun.



### **Customer-Centric Business Model**

Turning to my final topic, I wanted to share some metrics that underscore our customer-centric approach towards the business.

- Our Net Promoter Score, a best-practice measure of customer satisfaction, for the last 12 months has been 69, which is excellent and puts us on-par with some of the best companies in the world, like Apple, Amazon, and Netflix. Our NPS score this quarter was the highest we've ever recorded, and it is representative of the fact we are always investing in improving our customer experience.
- Our customer referral rates have grown sequentially for each of the last four quarters, which is a further sign customers are increasingly pleased with Sunrun.
- Our Better Business Bureau rating is an A+.
- And our product offerings ensure we are naturally aligned with customers. Not everyone in the industry can make this claim. For instance, we provide performance guarantees that ensure customers only pay for power delivered, and we make the kWh rate customers pay entirely transparent. We stand by and service our systems. For those installers that only sell a system and walk away, customers have no guarantee of the true cost of solar energy received and can be left without a service provider to maintain their system. We offer consumers a low price for solar energy that is fixed for 20 years; what utility can say that?
- We care about having a happy customer base that is generating value from their solar systems. Our asset performance statistics show it - our cumulative loss ratio is less than 1% and, in the aggregate, our systems produce more power than we have promised our customers.
- Our commitment to best practices also extends to safety and construction quality.
- And importantly, our employees care. In the quarter, we received an appreciative call from a bystander who reported that on a major South Carolina road, when cars came to a stop, a dog ran out into traffic. She said two Sunrun employees jumped out of their vehicle and caught the dog just before it would have been hit by oncoming traffic. They returned the dog to its owner and drove off to their job-site.

These are the sort of people and culture we are proud to have at Sunrun. We pride ourselves on delivering excellent customer service not just throughout the sales process, but the decades that follow, and I'm pleased to report the data support our excellent track record.

I'll now turn the call back over to Lynn for closing remarks.

### **LYNN JURICH**

Thanks Ed.



While we are pleased with Sunrun's performance in Q1, we are even more excited about the tremendous market opportunity in front of us and how Sunrun is positioned.

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## **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 partnership with National Grid. 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.*