Sunnova Energy International

Q3 2021 Earnings Prepared Remarks

Operator:

Good morning and welcome to Sunnova's third quarter 2021 earnings conference call. Today's call is being recorded and we have allocated an hour for prepared remarks and question and answer. At this time, I would like to turn the conference over to Rodney McMahan, Vice President, Investor Relations at Sunnova. Thank you. Please go ahead.

Rodney McMahan:

Thank you, operator. Before we begin, please note during today's call we will make forward-looking statements that are subject to various risks and uncertainties that are described in our slide presentation, earnings press release, and our 2020 form 10-K. Please see those documents for additional information regarding those factors that may affect these forward-looking statements.

Also, we will reference certain non-GAAP measures during today's call. Please refer to the appendix of our presentation as well as the earnings press release for the appropriate GAAP to non-GAAP reconciliations and cautionary disclosures.

On the call today are John Berger, Sunnova's Chairman and Chief Executive Officer and Robert Lane, Executive Vice President and Chief Financial Officer.

I will now turn the call over to John.

John Berger:

Good morning and thank you for joining us.

Today I am pleased to report another quarter of strong results, to reaffirm our 2021 guidance, and to officially initiate our 2022 guidance.

Slide 3 summarizes the growth in Sunnova's customers, battery attachment, and dealer network.

In the third quarter, we added over 14,000 customers, double the number added in the same quarter last year. This growth is notable not just for its magnitude, but for the optionality it creates. Each new customer Sunnova adds presents the opportunity for additional revenues in the future as we continue to broaden our service offerings.

Sunnova's battery attachment rate on origination now stands at 30%, up from 19% in the fourth quarter of 2020. Improved equipment availability has contributed to this steady improvement in our battery attachment rate. We are encouraged by the progress our equipment partners have made in delivering energy storage systems over the past several weeks and months, which has helped alleviate supply chain constraints. This is great news for the ever-increasing number of homeowners seeking reliable power service.

Our growth remains powered by over 700 dealers, sub-dealers, and new homes installers strategically located across 33 U.S. states and territories. Our dealer growth is driven by the strength of Sunnova's business model, our best-in-class technology platform, and our brand's growing ability to deliver strong lead generation to our dealers.

Lastly, on this slide we have updated our information on customer contract life and expected cash inflows. As of September 30, 2021, the weighted average contract life remaining on our customer contracts equaled 22.4 years and expected cash inflows over the next twelve months has increased to $330 million.

On slide 4, we provide a summary of our Q3 2021 financial results: Adjusted EBITDA, the principal and interest we collect on solar

loans, Adjusted Operating Cash Flow, and Recurring Operating Cash Flow. Our financial results have shown strong growth over the past three years and, as I will discuss later in the call, we expect that trend to continue.

Slide 5 outlines our unique and unparalleled service commitment to customers. Launching first in select key markets, we have established a goal well beyond that of any other residential energy service provider: to provide service within 72 hours for our solar-only customers and within 24 hours for our solar plus storage customers. This responsiveness, when combined with the resilience of our storage product offering, amounts to a superior energy experience for customers who are frustrated with the increasing cost and decreasing reliability they experience with a monopoly power provider. We will accomplish this goal by accelerating the build-out of our software platform, continuing to build up our highly experienced and professionally managed service team, and continuously improve our logistics capabilities. This unprecedented service commitment will allow us to provide our customers with the power to live life uninterrupted. In time, it is our goal for the Sunnova name to be synonymous with the best energy service in the world.

Slide 6 illustrates our expansive, customer-centric vision for the future, the Sunnova Adaptive Home. With the Adaptive Home our customers will have the option when it comes to staying connected to the centralized grid or not, an option many are already seeking in the wake of increased power outages and the rising cost of centralized power. We are working to achieve a service offering above what a traditional utility can provide. A service offering that integrates solar power, battery storage, possible secondary generation, electric vehicle charging, and energy control and management technologies which will give consumers unparalleled energy reliability and capabilities for their homes. What will further differentiate Sunnova will be our ability to

integrate multiple technologies from multiple manufacturers into a single software and service interface.

Our vision for increased customer touchpoints and engagement impacts our forward-looking outlook, which is increasingly more constructive on growth. Slide 7 updates expected growth in both Net Contracted Customer Value, or ("NCCV") and services provided on a per customer basis. Currently we provide an average 3.5 services per customer, which equates to approximately $10,000 of NCCV generated per customer. We anticipate both metrics to increase over time as it is only natural the number of services per customer and the NCCV from those services increases as the technology and costs continue to improve.

We estimate by 2025 we will be providing an average of seven services per customer. This, in turn, should increase the amount of NCCV per customer into the range of $18,000 to $20,000 of NCCV.

Last quarter, we noted we are seeing significant opportunities in grid services. To date, we have ten grid service programs in place with an estimated value of at least $67 million over the next 20 years, and a pipeline with the potential for an additional $445 million in value.

Turning to slide 8, we are unveiling our intermediate term major metric growth plan. We have dubbed this the Triple-Double Triple Plan. This plan consists of the following:

- A doubling of our estimated year-end 2021 customer count by year-end 2023;

- A doubling of our estimated year-end 2021 NCCV per share by year-end 2023;

- A doubling of our estimated year-end 2021 services sold per customer by year-end 2025; and

- A tripling of our estimated 2021 full-year Adjusted EBITDA together with the principal and interest we collect on solar loans for full-year 2023.

Our expectation is that our plan will assist shareholders in understanding how management anticipates creating value for shareholders over the coming quarters.

I will now hand the call over to Rob.

Rob Lane:

Thank you, John.

Turning to slide 10, you will see the continued improvement in our third quarter results over the past few years. Q3 2021 revenues are up 88% from Q3 2019 while over the same period Adjusted EBITDA and the principal and interest received on solar loans increased by 58% and over 200%, respectively.

Slide 11 contains both our Gross Contracted Customer Value, or GCCV, and NCCV, discounted at 4%. As the slide reflects, we are experiencing significant increases to these metrics. In just three years time NCCV went from $892 million as of September 30, 2018 to $1.8 billion as of September 30, 2021.

Overall, we deem 4% a conservative cost of capital as we continue to incur an incremental fully burdened cost of capital of 2.8% or less for our growth. Given our operations are generating flat to positive recurring cash flow, inclusive of our legacy securitizations and their heavy debt amortization profile, it is clear that our NCCV per share, as measured by a 4% discount, should naturally increase over time even if our treasury bill reference rates increase.

Slide 12 summarizes our recent financing activity and liquidity position.

Just this week, we closed our fourth securitization of the year. This loan securitization was our third loan securitization of 2021, and like the three issuances that proceeded it, was structured to include only investment grade tranches of debt. As a reminder, investment grade-only securitizations are less punitive in their amortization than those that include high-yield tranches. This approach to generating long-lived, recurring cash flows gives us strong visibility into our expected financial performance over the next several years. This capitalization strategy also gives Sunnova an advantage in the cost of capital in our industry, which aids us in capturing the full spread, resulting in Sunnova generating some of the highest margins in the industry.

Our total liquidity as of September 30, 2021 was $951 million, up from $629 million on June 30, 2021, and up from $212 million on September 30, 2020.

Included in these numbers are both our restricted and unrestricted cash, as well as the available collateralized liquidity we could draw upon from our tax equity and warehouse credit facilities. Given available unencumbered assets as of September 30, 2021, this available collateralized liquidity equaled $431 million on September 30, 2021.

Beyond that, subject to available collateral, we have $578 million of additional capacity in our warehouses and open tax equity funds. That represents over $1.5 billion of liquidity available exclusive of any additional tax equity funds or securitization closures.

Turning to slide 13, we have updated our forecasted sources and uses of cash for 2021 through 2023.

In addition to the takeaways from last quarter, keen-eyed investors will note that while our capital commitments have increased somewhat,

so has our expected debt utilization, which is reflective of the strong reception we have received in the ABS markets in our most recent transactions. This, in turn, has decreased our expected corporate capital requirements for 2023. Again, our options for capital in 2023 are numerous. These include issuing another bullet-maturity bond, service-retained asset sales now that we have the critical mass of cash flows and assets have appreciated, refinancing of older securitizations, and incremental thickening of investment grade tranches of our securitizations.

On slide 14 you will see our fully burdened unlevered return on new origination remained at 9.4% as of September 30, 2021, based on a trailing twelve months, while our weighted average cost of debt was 2.8%. This resulted in a trailing twelve months implied spread of 6.6% as of September 30, 2021.

On slide 16, you will see our guidance ranges remain unchanged for 2021 and then on slide 17 you will find our guidance ranges for 2022 which are:

- Customer additions of 83,000 - 87,000
- Adjusted EBITDA of $117 - $137 million
- Principal payments received from solar loans, net of amounts recorded in revenue of $134 - $154 million
- Interest received from solar loans of $45 - $55 million
- Adjusted Operating Cash Flow of $143 - $153 million
- Recurring Operating Cash Flow of $39 - $59 million

Please note the midpoints of Adjusted EBITDA together with the interest and principal we collect on solar loans and customer additions

are in line with how we guided investors in previous earnings calls. This includes a forecasted year-over-year increase of 80% in full-year Adjusted EBITDA together with the interest and principal we collect on solar loans and a year-over-year increase of approximately 50% in organic customer additions.

I should also note that we expect to have at least 75% of the mid-point of our 2022 targeted revenue and principal and interest collected from solar loans locked in through existing customers as of December 31, 2021.

I will now turn the call back over to John.

John Berger:

Thanks, Rob.

This could not be a more opportune time for our industry, especially for service providers like Sunnova. What was once often seen as an "install and forget" product sale, dealing only in solar panels and a single inverter, has now become an evolving energy service offering that contains an increasing number of pieces of equipment made by a growing number of manufacturers.

Over time, this increasingly complex energy system will demand a level of service that is well beyond what our nascent industry currently provides, especially when juxtaposed with an ever-increasing consumer demand for higher energy reliability.

Financing and software are enablers for this new energy service and we now have enough financial and operational scale in these areas to drive forward our long-term vision for service. Our service response goals are ambitious, but we see what the future of service **must** be for our industry to truly flourish, and we are well on our way to delivering on these goals.

At Sunnova, we are here to provide our customers with an energy service unlike anything they have experienced with traditional or new energy providers. And with the climate crisis on our front doorsteps, we are proud to be able to provide our customers with an energy solution that not only provides them with the ability to live life uninterrupted, but to also be a part of solving the biggest crisis facing our world today - climate change.

With that, operator, please open the line for questions.