Sunnova Energy International

Fourth Quarter and Full Year 2022 Earnings Prepared Remarks

Operator:

Good morning and welcome to Sunnova's fourth quarter and full year 2022 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 2022 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.

Sunnova is in the best position we have ever been in, thanks to our Energy as a Service business model and strong balance sheet. While others have cautioned about slowdowns in growth, demand for our energy services has never been stronger. Sunnova's ability to provide customers with lower energy costs, higher reliability, and energy independence, all while offering a wide array of service offerings and unparalleled customer service, has allowed us to actively take market share and expand our total addressable market.

On slide 3 is a summary of our financial metrics for full year 2022. Both Adjusted EBITDA and the principal and interest we collect from solar loans fell within our most recent full year guidance ranges.

Slide 4 showcases the continued growth in Sunnova's customers, battery penetration, and dealer network.

During the fourth quarter, we placed a record 33,000 customers into service, which brought our total customer additions in 2022 to 87,000 and brought our total solar power generation under management to 1.8 gigawatts. These full year customer additions represented a 62% customer growth rate year-over-year and equaled the midpoint of our guidance.

Included in our fourth quarter customer additions were approximately 6,900 high-margin service-only customers. While most in the industry have ignored existing solar customers in need of repairs, we see great value in these orphaned customers as they require little to no capital, create opportunities for future upsells, leverage our extensive service footprint, and are immediately additive and highly accretive to our Adjusted EBITDA. We expect continued strong growth in this customer class as those non-Sunnova systems that were sold without a service agreement age across the country.

We have seen the strong demand for our energy services carry into the new year as customer originations last month were approximately 125% higher than in January of last year, a trend that continues. While investors may be concerned that growing macroeconomic challenges could weaken residential solar growth, our business model has enabled us to navigate those challenges while also increasing our market share and total addressable market through our Sunnova Adaptive Home™ and Sunnova Adaptive Business™ offerings.

Additionally, our battery penetration rate continues to grow and reached 15.2% as of December 31, 2022, inclusive of over 2,500 battery retrofits we have performed life-to-date.

In the fourth quarter, we further eclipsed our year-end target of dealers, sub-dealers, and new homes installers, ending the year with well in excess of 1,000 dealers.

Finally, we have updated our customer contract life and expected cash inflows. As of December 31, 2022, the weighted average contract life remaining on our customer contracts equaled 22.3 years and expected cash inflows from those customers over the next twelve months increased to half a billion dollars, an increase of 30% from December 31, 2021.

Our ability to deliver on these metrics, despite various macroeconomic headwinds and significant growth investments, is a testament to the strength of our Energy as a Service business model and our unwavering focus on long term contracted cash flows.

I will now hand the call over to Rob, who will walk you through our financial highlights.

Robert Lane:

Thank you, John.

Starting on slide 6, you will see the continuous improvement in our financial results over the past several years. Our 2022 revenue was over five times greater than our 2018 revenue, while over the same period, Adjusted EBITDA nearly tripled, and the principal and interest we collected from solar loans increased by more than a factor of ten.

Slide 7 summarizes our 2022 financing activity and current liquidity position.

The financing transactions completed in 2022 included $552 million in tax equity funds, $1.1 billion in asset backed securitizations, $600 million of convertible debt, a $575 million loan warehouse restructuring, and a $690 million warehouse restructuring for our leases and power purchase agreements.

While our November 2022 securitization priced at a yield above prior securitizations, our weighted average cost of debt at issuance remains in the 400 basis points range at 4.5%. Additionally, more recent data points indicate that the cost of capital is potentially stabilizing for our industry while monopoly utility rates have continued to increase, giving us and our dealers headroom to expand our unlevered returns.

Included in our $664 million of liquidity as of December 31, 2022, 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 December 31, 2022, this available collateralized liquidity equaled $118 million. Beyond that, subject to available collateral, we had $316 million of additional capacity in our warehouses and open tax equity funds at year end. Combined, these amounts represent nearly $1 billion of liquidity available exclusive of any additional tax equity funds, securitization closures, in the money interest rate hedges, or further warehouse expansions in 2023.

On slide 8 you will see our fully burdened unlevered return on new origination increased to 10% as of December 31, 2022, based on a

trailing twelve months. On a quarter to date basis, this return equaled 11% as of December 31, 2022, an increase of 230 basis points since December 31, 2021.

The implied spread for the trailing twelve months remained unchanged from the prior quarter as the increase in our fully burdened unlevered return was offset by a higher weighted average cost of debt, primarily driven by our November 2022 securitization. Our current view of the capital markets suggests that the implied spread today has increased back to above 500 basis points, and we expect this spread to approach 600 basis points in the coming months.

Slide 9 reflects the strong growth we have seen in our Gross Contracted Customer Value and Net Contracted Customer Value, or NCCV. At a 4% discount rate, wherein we originated our Triple-Double Triple plan, NCCV was $2.9 billion, an increase of 37% compared to December 31, 2021. Our December 31, 2022 NCCV at this discount rate equates to approximately $10,300 per customer and $25.02 per share.

As of December 31, 2022, NCCV was $2.3 billion discounted at 6%, an increase of 42% compared to December 31, 2021. Our December 31, 2022 NCCV at this discount rate equates to approximately $8,200 per customer and $20.01 per share.

Our commitment to service allows us to benefit from low default and delinquency rates. This is not a new or unintentional phenomenon, rather it is the foundation of our business model. Currently, we are seeing approximately 25 basis points in value loss from net defaults, while the market assumes this loss rate to be closer to 120 basis points. This disconnect between reality and market assumptions directly benefits us as we have elected to retain the underlying contracted cash flows, meaning that the NCCV we actually realize in cash is above the discounted value, especially at higher discount rates.

In the ten plus years Sunnova has been in business, our total capital loss for all systems is only $100 million, which represents less than 2%

of cumulative capital deployed over those ten years. This compares quite favorably to the recent KBRA listed average of 1.4% for solar loans, which would have translated to a 14% cumulative capital loss for our peers taken as a whole over the same period.

On slide 10 you will see our NCCV per share as of our IPO date and each subsequent year end compared to Sunnova's share price as of the same day. While our NCCV per share has approximately doubled since our IPO, with over half of this value creation coming in 2022, our equity has not responded. In fact, even though our business model has created significant operating leverage and long term contracted cash flows, shares of Sunnova recently have been trading, and continue to trade, well below our NCCV per share. This means our equity value is reflecting negative value for growth, our platform, and the customer option value we retain.

On slide 11 we have taken a different approach to our valuation by referencing our stock price as a multiple of Adjusted EBITDA plus principal and interest from solar loans. Even though our key financial metrics have grown significantly, our valuation clearly has not followed suit, as at the end of 2022 shares of Sunnova were trading at a multiple lower than at the end of any of the previous years post IPO. This is all despite solid execution as a public company, rapid growth, and the passage of the Inflation Reduction Act.

Slides 13 through 15 provide our detailed 2023 guidance and liquidity forecast issued during Sunnova's Analyst Day and our major metric growth plan, the Triple-Double Triple.

Given the strong demand we continue to see for our energy services, accompanied by our robust backlog and the insight we have into our future financial results from retaining our long term contracted cash flows, we can confidently reaffirm our full year 2023 guidance as well as our Triple-Double Triple Plan.

We expect to capture 10% of our 2023 Adjusted EBITDA together with the principal and interest we collect from solar loans in the first quarter, increasing to 20% in Q2, 30% in Q3, and 40% in Q4.

We expect our 2023 customer additions to occur more evenly with 45% of additions occurring during the first half of the year.

I will now turn the call back over to John.

John Berger:

Thanks, Rob.

Consumer energy service demands have quickly evolved over the last few years, and we have seen what used to be a simple solar sale shift in the consumers' mind from that of a product purchase of panels on a roof, to a more sophisticated, technology-enabled service purchase. We continue to bring new technologies, such as batteries, load managers, electric vehicle chargers, quiet generators, and other hardware from various manufacturers together. We are integrating these technologies from various manufacturers in a way that delivers a superior energy service for the stationary and transportation energy needs of homeowners and businesses. We have increasingly seen more home and business owners acknowledge the inherent value of the energy services that Sunnova provides resulting in continued strong demand.

Illustrated on slide 17, Sunnova's Energy as a Service business model, which encompasses our Adaptive Home, Business and Community platforms, our large network of dealers, and our access to best-in-class equipment manufacturers, is allowing us to scale at an increasing rate. By supplying consumers with best in market solutions that are supported by our Sunnova software platform and up to 25 years of Sunnova Protect service, we continue to pick up additional market share from single product and service-constrained companies and expand our total addressable market.

On slide 18 you will see Sunnova's U.S. residential market coverage. We currently offer services in 54 U.S. states and territories. Sunnova has an extensive and growing footprint, and we are confident in our ability to reach comprehensive national coverage by 2024 with the broadest Energy as a Service portfolio in the industry.

We believe that energy technologies should be integrated together through software and prompt service response to deliver a more reliable power service at a better price. Sunnova offers solutions that complement the energy sale and create additional pathways to value creation, allowing us to deepen our service relationships over time while increasing our share of wallet and overall NCCV per customer. This extends to our Sunnova Protect and Repair services and aggregation sales and is supported by our open approach to all forms of contractors and financing. The Sunnova portfolio is comprehensive and growing, and you should expect to see additional innovation from us in the months ahead.

Turning to slide 19, Sunnova's commercial business continues to see significant market expansion and project pipeline growth, including demand for microgrids, electric vehicle charging, and resiliency solutions. Escalating utility rates have further increased demand for Sunnova's Adaptive Business offerings as business owners increasingly seek greater savings on operating expenses in a high interest rate environment. We will continue to expand Sunnova's business markets to mirror our residential markets coverage.

Indeed, Sunnova continues to execute across the board on our Energy as a Service business model, we continue to take market share and increase our total addressable market, thus we are confident in our ability to meet or exceed our 2023 guidance targets.

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