Sunnova Energy International

First Quarter 2023 Earnings Prepared Remarks

Operator:

Good morning and welcome to Sunnova's first quarter 2023 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.

The robust demand for our energy services, as described on our previous earnings calls, has persisted throughout the balance of the first quarter and into the month of April. This strong demand can be attributed to our ability to offer customers more affordable energy, higher reliability, and exceptional customer service relative to the centralized power monopolies.

Our commitment to providing a superior energy service sets us apart as industry leaders. We provide responsive and reliable service to our valued customers, utilizing cutting-edge technologies to efficiently manage energy supply and demand through our Sunnova software platform, which powers our seamless Sunnova Adaptive Home, Sunnova Adaptive Business, and Sunnova Adaptive Community service experiences.

Through our new National Operations Command Center, we are reimagining the way energy is delivered, consumed, and serviced. Our industry-leading service capabilities give us real-time data for the solar and solar plus storage systems we manage, allowing us to monitor and optimize these systems to ensure maximum efficiency and reliability. We are also focused on bolstering our highly experienced and professionally managed service team, while improving our logistics capabilities to meet the robust demand for our service and repair business. Our Command Center is a significant step forward in our ability to deliver a better energy service at a better price that meets the unique needs of each customer and drives progress towards powering energy independence.

Quarter over quarter, we continue to deliver exceptional value to our customers and shareholders, while driving increased revenue, reducing loss of capital, and enhancing our brand. We have built our Energy as a Service business model around these objectives, and we strive to ensure that the power flows at the reliability and price point our customers expect. Our dedication to providing exceptional service to our growing customer base is a key differentiator from our peers, and we will continue to invest in our technological, operational, and logistical capabilities to improve the quality and response time of the energy service we provide.

Indeed, customers who have invested in solar and battery systems for their homes are starting to question the necessity of staying connected to the outdated and unreliable grid, especially as monopoly utilities raise their rates nationwide. In contrast to the centralized utilities, we are proud to offer our customers even greater savings through a more resilient, reliable, and sustainable energy service.

On slide 3 is a summary of our financial metrics for the first quarter. On our fourth quarter call, we noted that we expected to capture approximately 10%, or $53 million, of our full year 2023 Adjusted EBITDA together with the principal and interest we collect on solar loans in the first quarter. We exceeded that target by $13 million through increased Sunnova Repair Services gross margins, lower than budgeted operating costs, and out performance on loan prepayments.

Slide 4 showcases the continued growth in Sunnova's customers, total solar power generation under management, battery penetration, and expected cash inflow over the next twelve months.

During the first quarter, we placed 30,100 customers into service, which brought our total customer count as of March 31, 2023 to 309,300 and brought our total solar power generation under management to 1.95 gigawatts and megawatt hours under management to 801. These first quarter customer additions represented a 97% customer growth rate compared to the same quarter last year.

Included in our customer count are cash sale customers originated through our new homes business and our service only customers who have either benefited from Sunnova Repair Services, or purchased a Sunnova Protect Plan. We expect this customer class to generate approximately $1,000 of Adjusted EBITDA per customer annually, over an average contract life remaining of 17 years.

Our strong customer additions to start the year coupled with continued robust customer origination gives us both the confidence and visibility needed to increase our customer additions guidance for 2023 by 10,000 customers at the midpoint.

Additionally, our battery penetration rate continues to grow and reached 15.6% as of March 31, 2023, inclusive of over 2,867 battery retrofits we have performed life-to-date.

Finally, we have updated our customer contract life and expected cash inflows. As of March 31, 2023, the weighted average contract life remaining on our customer contracts equaled 22.2 years and expected cash inflows from those customers over the next twelve months increased to $553 million, an increase of 37% from March 31, 2022.

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 once again see the year-over-year improvement in our first quarter financial results. This includes a 146% increase in revenues and a 44% increase in the Adjusted EBITDA together with the principal and interest we collect on solar loans. Revenues for the first quarter of 2023 included $59.9 million of revenue from inventory sales; excluding that number, our revenue increase was 55%.

On slide 7 you can see the steps Sunnova recently took to strengthen its access to capital. Thus far in 2023:

– We added $105 million in additional tax equity funds as the tax equity market remains healthy. As we plan to continue utilizing tax equity partnerships, we are closely following IRS guidance on Investment Tax Credit transferability as well as ITC adders. Depending on the outcome of this guidance, we believe in some instances transferring the credit may ultimately be more accretive than leaving it in a tax equity partnership;

– We expanded our warehouse capacity by $500 million. We have a long track record of successfully increasing our warehouse capacity to meet our growth. This includes expanding existing relationships and diversifying our capital partners by bringing new banks into the fold;

– We entered into a $50 million secured revolving credit facility to support our pivot to selling inventory to dealers. This facility allows us to borrow against the value of eligible inventory and eligible inventory accounts receivable, thereby improving our working capital position;

– We announced a conditional commitment by the U.S. Department of Energy Loan Programs Office, which John will discuss in more detail later in the call;

– We issued a $324 million TPO securitization that priced better than market expectations and below the weighted average yield of our November loan securitization, despite TPO typically pricing higher than loans. This improvement is another indicator the cost of capital is potentially stabilizing for our industry; and

– We completed the assignment of certain loans and commitments from Credit Suisse to Apollo affiliate Atlas SP.

Included in our $602 million of liquidity as of March 31, 2023, 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 March 31, 2023, this available collateralized liquidity equaled $181 million. Beyond that, subject to available collateral, we had $215 million of additional capacity in our warehouses and open tax equity funds. Combined, these amounts represent over $800 million of liquidity available exclusive of any additional tax equity funds, securitization closures, including the one just priced, in the money interest rate hedges, or further warehouse expansions during the year.

On slide 8 you will see our fully burdened unlevered return on new origination increased to 10.6% as of March 31, 2023, based on a trailing twelve months. On a quarter to date basis, this return equaled 11% as of March 31, 2023, an increase of 180 basis points since March 31, 2022. We are forecasting further increases to our fully burdened unlevered return over the next two quarters.

The implied spread for the trailing twelve months increased to above 500 basis points as our fully burdened unlevered return increased while our weighted average cost of debt remained unchanged.

Our current view of the capital markets continues to suggest that the implied spread today has increased back to above 500 basis points, and is moving towards 600 basis points.

Slide 9 reflects the strong growth we have seen in our Net Contracted Customer Value, or NCCV. At a 6% discount rate, NCCV was $2.6 billion, an increase of 51% compared to March 31, 2022. Our March 31, 2023 NCCV at this discount rate equates to approximately $8,500 per customer and $22.68 per share.

Slides 11 through 13 provide our 2023 guidance and liquidity forecast as well as our major metric growth plan, the Triple-Double Triple.

As John noted earlier, given the strong growth we have experienced to start the year, and the continued demand for our services, we are increasing our customer additions guidance for 2023 by 10,000

customers at the midpoint, bringing our updated guidance range to between 125,000 to 135,000 customers additions. There are no changes to our other 2023 guidance targets.

We captured 12% of our expected 2023 Adjusted EBITDA together with the principal and interest we collect on solar loans in the first quarter, above our target of 10%. As previously forecasted, we expect to capture an additional 20%, or $106 million, of this combined financial metric in the second quarter. As with our customer additions, there is certainly upside potential to our financial metrics, but we have elected to remain conservative and maintain our financial guidance ranges.

As of March 31, 2023, over 90% of the mid-point of our total 2023 targeted customer revenue and principal and interest we expect to collect on solar loans was locked in through existing customers as of that same day, respectively.

I will now turn the call back over to John.

John Berger:

Thanks, Rob.

Sunnova continues to innovate by finding new ways to not only provide great service to our customers, but also to fuel our growth and maintain our strong balance sheet. Our latest advancement is the recently announced conditional commitment by the U.S. Department of Energy Loan Programs Office to provide an up to $3.0 billion partial loan guarantee, which equates to a 90% guarantee of up to $3.3 billion of financing to support loans originated by Sunnova under a new solar loan channel named “Project Hestia.”

This project, supported by the DOE loan guarantee, would provide disadvantaged individuals and communities with increased access to Sunnova services by indirectly and partially guaranteeing the cash flows

associated with those customers' loans. If issued, the DOE guarantee would support Sunnova customers that choose to finance their energy service through loans that include solar, storage, or other Sunnova Adaptive Home™ technologies that utilize Sunnova's purpose-built demand response, aggregation, and grid services enabling software, Sunnova Sentient.

We anticipate the guarantee will support up to $4 - $5 billion in loan originations, reduce our weighted average cost of capital, and generate hundreds of millions of dollars in interest savings.

The DOE's conditional commitment is expected to support grid reliability, improve access to clean energy, and enhance ratings and advance rates on our senior bonds. Importantly, this financing would allow us to realize issuance spreads commensurate with the expected credit uplift and introduce new investment grade investors to our long term strategy.

We expect the transaction with the DOE to close in the second quarter of 2023.

The first quarter of 2023 was a strong quarter. Our execution continues to be superior as demonstrated by our continued gains in market share and increases to our total addressable market. Our Energy as a Service business model increasingly demonstrates strong, profitable growth, not just growth at any price. Thus, we are confident in our ability to meet or exceed our 2023 guidance targets and we eagerly look forward to a healthy 2024.

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