

## **Sunnova Energy International**

### **Second Quarter 2024 Earnings Prepared Remarks**

#### **Operator:**

Good morning, and welcome to Sunnova's second quarter 2024 earnings conference call. Today's call is being recorded and we have allocated an hour for prepared remarks and Q&A.

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 that during today's call we will make forward-looking statements that are subject to various risks and uncertainties as described in our slide presentation, earnings press release, and our 2023 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 Eric Williams, Executive Vice President and Chief Financial Officer.

I will now turn the call over to John.

## **John Berger**

Good morning everyone. First, I want to extend a warm welcome to Eric Williams, our new Chief Financial Officer, who is with us today for his first earnings call with Sunnova.

Eric joined us in June from Diversified Energy, where he accumulated significant expertise in leveraging the capital markets, specifically the asset backed securitization market, which is particularly relevant for Sunnova and our long-term financing strategy. I speak on behalf of the entire management team and our Board when I say we are looking forward to working with him and utilizing his strategic insights and wealth of experience.

### **Slide 4: Key Q2 2024 Updates**

Before I jump into more detailed remarks, I want to provide a quick update on our cash balance and cash generation forecast which can be found on slide 4.

We are continuing to make progress on the four key priorities we outlined last quarter of maximizing asset level capital, driving cost efficiencies, increasing ITC adder utilization, and refocusing on our core adaptive energy customers. Progress against these initiatives resulted in a \$21.5 million increase in our unrestricted cash balance this quarter. Total cash, inclusive of both restricted and unrestricted cash on our consolidated balance sheet, increased by \$142.9 million, resulting in a balance of \$630.4 million as of June 30, 2024.

As we continue to progress our strategy and shift our approach, we remain focused on cash generation. As a result of our efforts, I am pleased to share that we are increasing our cash generation guidance from cash neutral to an estimated \$100 million in 2024. Additionally, we are increasing our cash generation guidance for 2025 and 2026 to \$350 million and \$400 million, respectively. In total, we now expect cash

generation of \$850 million over our three-year guidance period, an increase of 70% from where we guided on our last earnings call.

### **Slide 5: Sunnova's Priorities Remain Consistent**

As I mentioned, the four strategic priorities we introduced last quarter are driving our results, which are summarized on slide 5.

First, given the current inflated cost of corporate capital, we said we wanted to maximize asset-level capital. We have made strides in this area as we were able to issue four securitizations in the first half of 2024, compared to only two in the first half of 2023.

Our focus here goes beyond the securitization market to also include increasing our tax equity commitments and opportunistically generating cash through asset sales.

Second, we said we were going to continue to drive cost efficiencies by utilizing our technology platform and scale. While there is more work ahead in this area, in Q2, for the second quarter in a row, we experienced a sequential decline in our adjusted operating expense per weighted average customer, giving us confidence that the steps we are taking to right-size our cost structure are bearing fruit.

Our third priority is to increase ITC adder utilization. ITC adders continue to serve as a tailwind for cash generation, even more than we expected just a few short months ago, thanks in large part to the domestic content adder guidance issued by the IRS in May of this year.

Our final priority that we laid out last quarter was to put the focus back on our core adaptive energy customers. While we are reducing guidance on the total number of customers we expect to add in 2024, those reductions were once again mostly accessory loan customers. We continue to expect strong additions in solar and solar plus storage customers, with a heavy weighting to leases and PPAs. We also expect

continued growth in our high-margin, capital-light, service-only customers.

### **Slide 6: Maximizing Asset-Level Capital**

On slide 6 you can see the significant increase in the number and size of securitizations we issued in the first half of 2024 compared to the same period last year.

The four securitizations issued through June 30, 2024, totaled \$853 million, a 40% increase in size from last year and twice the number of deals closed in the same period of 2023. I would like to highlight Kroll's recent upgrade of our 2022 and prior TPO securitizations as evidence of the strong underlying asset performance, particularly since these cash flows underpin a portion of our corporate cash flows. We expect these strong asset-level cash flows to improve our position in the ABS market setting us up for a strong second half of 2024 and beyond.

We estimate that in the second half of 2024, we will issue up to an additional \$1 billion of securitizations.

Giving a bit more color to tax equity: during the first half of the year, we added \$811 million in tax equity commitments versus \$264 million over the same period last year.

Additionally, during the second quarter we completed two separate non-solar loan sales. These sales included the sale of our entire home security loan portfolio as well as a portion of our home improvement loan portfolio.

The home improvement loans sold included loans for items such as roofing, generators, and EV chargers which play a role in creating the Sunnova Adaptive Home. We elected to sell a portion of these loans not only to demonstrate to the market it could be done, but also to bring cash in the door ahead of the expected surge in cash from ITC adders.

After fees and debt repayments, the combination of these two loan sales generated cash proceeds of \$52.4 million in the second quarter and will generate another \$8.4 million in future periods.

We continue to evaluate other potential asset sales in a variety of different areas of our business where we believe it makes sense.

### **Slide 7: Continue to Drive Cost Efficiencies**

Another key priority where we are making solid progress is in improving our cost structure and driving efficiency.

On slide 7 you can see we have continued our trajectory of decreasing our adjusted operating expense per customer, reporting an additional sequential decline in this metric in Q2, bringing our total reduction between Q4 2023 and Q2 2024 to 15%.

Also contributing to this increased efficiency is a 10% decline in headcount since the end of 2023.

Moving forward, our efforts to continue scaling the most profitable areas of our business and reducing operating expenses through our technology platform will position us to drive costs per customer even lower.

### **Slide 8: Increasing ITC Adder Utilization**

Next, slide 8 covers the priority that we expect will have the greatest impact in the near-term: increasing our utilization of ITC adders. Given the latest guidance, as I noted earlier, we now expect 2024 cash generation to be \$100 million. Included in this estimate is cash generation from the retroactive capture of domestic content and energy community adders.

As of September 1st of this year we will mandate our dealers to only originate lease and PPA customers who qualify for the domestic content adder.

As a result, we see our weighted average ITC rate rising in the second half of this year, moving up to 45% in 2025. And while last quarter we believed that every 1% increase in our weighted average ITC rate would translate to over \$30 million in cash proceeds per year, we now estimate that number to be approximately \$50 million.

### **Slide 9: Refocusing on Core Adaptive Energy Customers**

Lastly, this year we have refocused on our core adaptive energy customers. As you can see on slide 9, we continue to expect strong growth in our solar customers.

Additionally, we expect to add 59% more megawatt hours of energy storage in 2024 compared to last year as more homeowners look to include a battery with their solar system.

What you will also notice is in 2024 our solar customer deployments will be dominated by leases and PPAs. This is beneficial for our business as it will allow us to generate more cash, as only these types of customer contracts can capitalize on ITC adders, which again, are incredibly valuable. Currently over 90% of our origination is lease or PPA.

### **Slide 10: Powering the Home of the Future**

Now that I have gone through the details of our progress against our short-term priorities, I would like to take a minute to remind you all of our core business strategy: the Sunnova Adaptive Home, illustrated on slide 10.

This innovative approach seamlessly integrates solar energy, battery storage, and energy management solutions to optimize energy usage and enhance resilience across all applications in the home.

The Sunnova Adaptive Home platform is designed first and foremost with our customers in mind, as it minimizes the increasingly complex

nature of energy and utilities. As a trusted energy partner, Sunnova can manage the upfront costs, maintenance, and technical complexities of powering a customer's home or business with affordable, dependable, and sustainable energy solutions.

### **Slide 11: Reliable When it Matters**

Before I turn the call over to Eric, I would be remiss if I did not mention Hurricane Beryl, which left nearly 3 million people in the Houston area without power. To all those affected by the hurricane, our thoughts go out to you and your families.

The tremendous disruption caused by Beryl reaffirms the value of the Sunnova Adaptive Home, specifically in the resiliency it provides when the grid fails.

During the hurricane and its associated outages, our customers produced 485.2 megawatt-hours of energy through their Sunnova solar and storage systems, and 96% of our customers needed no repair to their service, demonstrating the sort of quality, control, and reliability that Sunnova brings to its customers.

These types of events drive people to reevaluate the service they get from utilities at a persistently increasing price and deteriorating reliability. Ultimately, this leads to the adoption of our energy solutions.

We take considerable pride in the fact that Sunnova can be there for our customers when it matters the most and provide some level of comfort, even in the most difficult of times.

With that, I will pass it to Eric.

### **Eric Williams:**

Thanks for the introduction, John. You and the entire Sunnova team have extended me the warmest of welcomes, and I am excited to join you today for my first earnings call. It is great to be here, and I look

forward to combining my experience with that of Sunnova's talented team to advance our commitments to stakeholders and to further refine our strategic focus with an emphasis on profitability and cash generation. Since joining in mid-June, I have spent considerable time with John, the board, our team, and some of you listening to this call. For those listening with whom I have not yet spoken, please do not hesitate to reach out and we will find time to connect.

My near-term focus is simple: to fund our business by securing asset-level capital at attractive terms and simplifying the way we articulate our business to current and potential stakeholders. I am pleased with the progress we made during the first half of 2024 closing ABS and tax equity transactions, which provides momentum to do more in the quarters ahead, including a focus on refining our investor communications.

### **Slide 13: Q2 2024 Financial Results**

To walk through our financial results for the quarter I'll begin on slide 13. In addition to meaningfully growing our cash balances and reducing our per-customer level adjusted operating expense, which John discussed earlier, during the quarter we delivered \$216.7 million of adjusted EBITDA, \$35.4 million of interest income, and \$55.4 million of principal proceeds from customer notes receivable.

Our reported Adjusted EBITDA excludes the non-cash \$24.0 million loss from the sale of our home security loans following our decision to eliminate this sales channel from our business. Conversely, we included in Adjusted EBITDA the non-cash \$18.9 million loss on the sale of certain home improvement loans since we expect to continue originating these types of loans, albeit at a lower volume in the near term.

If you also exclude the \$186.1 million second quarter ITC sales, Adjusted EBITDA for the period would be \$30.6 million or 9% higher than the similarly adjusted \$28.1 million in the second quarter of 2023.



We also continue to see steady year-over-year growth in our net contracted customer value, or NCCV. Assuming a 6% discount rate, NCCV was 3.0 billion or \$23.68 per share at June 30, 2024.

#### **Slide 14: Q2 2024 Unit Economics**

Before I discuss our updated unit economics on slide 14, I mentioned earlier that one of my priorities is working to develop materials for investors that clearly communicates our business including key drivers that provide insight into our financial performance.

Reflective of this commitment, it is worth mentioning that we refined our Fully Burdened Unlevered Return calculation this quarter to provide a more nuanced and accurate measure. Specifically, we now include a higher service cost allocation, an estimate of renewal value and customer purchases, and an estimate of our asset retirement obligations including the cost to remove all equipment and restore the sites to their original condition.

While this is a minor revision, as a newcomer to the industry, I am in the process of evaluating each of the non-GAAP measures we use to provide additional insight into our financial performance and expect to make additional refinements to other measures in the coming quarters.

Turning back to slide 14, the implied spread we present as the difference between our Fully Burdened Unlevered Return less our current Weighted Average Cost of Debt illustrates the durability of our returns even in a high interest rate environment.

Shortages of traditional power generation, continuously increasing demand, lack of competition, a growing backlog of grid maintenance needs, aging infrastructure, higher interest rates, and other variables continue to drive utility rates higher and serve as a catalyst for consumers to reconsider their energy sources. Importantly, these factors

enable Sunnova to continue improving its pricing power which we evaluate and implement on a market-by-market basis.

Ultimately, these factors underpin our ability to maintain our strong implied spreads, allowing us to offset higher debt costs with a higher Fully Burdened Unlevered Return. You can see that on both a trailing twelve-month and quarter-to-date basis we generated an implied spread that exceeds our long-term target of 500 basis points. With the ITC adders we discussed driving a higher realized ITC percentage compounded by potential interest rate cuts that would reduce our Weighted Average Cost of Debt, we would expect to see spreads move even higher.

### **Slides 16: Full Year Guidance**

Flipping to slide 16, I will discuss our guidance. As we execute on our commitment to prioritize profitability and cash generation over growth, we are revising these values where appropriate.

First, we are increasing our Adjusted EBITDA guidance to a range of \$650 million to \$750 million. This increase reflects our expectations in the second half of 2024 of higher lease and PPA revenues, lower per-customer operating expense, and higher ITC sales, which specifically represents between 65% to 70% of our total expected Adjusted EBITDA.

As we prospectively prioritize adding high-margin solar and solar plus storage customers, deploy more capital into leases and PPAs and less into loans including accessory loans, we expect customer additions to range between 110,000 to 120,000.

We are also adjusting our guidance related to interest income and principal proceeds from customer notes receivable, which we now expect to range between \$115 million to \$125 million and \$180 million to \$190 million, respectively. Our update is driven by the recent monetization of accessory loans and the quicker-than-anticipated move

to leases and PPAs. It's worth mentioning that we continue to see upside to our principal proceeds target, as in the past eight weeks loan prepayments have been strong.

### **Slide 17: Liquidity Forecast**

Turning to slide 17, I will reiterate once more the emphasis we have placed on cash generation throughout this call, which I am pleased to say is driving higher the associated guidance not only for the second half of 2024 but significantly for the additional years we forecast this metric.

Just last quarter, we expected to be cash neutral this year. However, thanks to the progress we have made to realize the ITC adders, coupled with our high-margin customer focus, price increases, and more efficient cost structure, we now expect to generate approximately \$100 million of unrestricted cash this year and \$850 million through the end of 2026.

The result: a 70% increase in our expected unrestricted cash over this period. Thus, if you include the \$213 million of unrestricted cash with which we began the year and add the approximate \$850 million of unrestricted cash we expect to add over the next three years, our unrestricted cash balances rises to over \$1 billion by the end of 2026.

Wrapping up on that key highlight, I would now like to turn the call back to John for closing remarks.

### **John Berger:**

Thanks Eric.

Clearly, our first half results have demonstrated that we identified and executed on the correct priorities to properly position Sunnova in the current environment.

For now, and in the near future, we will prioritize cash generation over growth and raise prices to protect margins. The origination flow our

dealer network has experienced these past few weeks has been so great that we simply cannot absorb the growth this quickly. As a result, we recently paused adding new dealers to our network as our planned growth optimizes cash generation. In addition, we are working to better align payment terms with our dealers to the funding schedules of our warehouse and tax equity facilities. This better alignment will lower the working capital needed for our growth, which in turn will lead to even better cash generation.

The opportunity to turbo-charge our growth is clearly there, increased by the recent exit of a large public competitor. However, we will remain disciplined and focused on increasing cash generation to pay down our corporate debt.

While we still have further to go, I remain incredibly encouraged by the significant progress we have made in such a short time, and I continue to be a strong believer in the long-term value proposition of Sunnova, its place in transforming the energy landscape, and its role in meeting society's ever-increasing energy needs.

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