

WESTPEAK RESEARCH ASSOCIATION

Vivint Solar – Target (NYSE: VSLR)

Sunrun Inc – Acquirer (NASDAQ: RUN)

Natural Resources – Renewable Energy

Creation of a Rising Solar Giant

January 5, 2022

On Oct 8, 2020, Sunrun Inc (“Sunrun”), a leading provider of residential solar, battery storage and energy services, announced that it had completed the \$3.2 billion acquisition of Vivint Solar (“Vivint”), a fellow producer in the same industry. The combined company now operates as a leader in home solar and energy services across the United States, with more than three gigawatts of solar energy and more than 500,000 customers across 22 states.

Target Company Strategic Objectives

As an offshoot of Vivint Smart Home, Vivint Solar differentiates itself from other residential solar providers with its technological innovations and data-driven services. With Sunrun’s investment, Vivint will have more flexibility for its R&D investments and be able to leverage Sunrun’s customer stream and operation system to maximize the impact of its technology.

Acquirer Company Strategic Objectives

By acquiring Vivint Solar, a similar company in business model and revenue source as Sunrun, the buyer company can capture additional market share, reduce competition, and gain further brand recognition. The 2020 pandemic tempered the growth of Vivint Solar and provided an accretive opportunity for Sunrun to capture the synergies at a reasonable price.

Synergies

Sunrun estimates annual synergies of approximately \$90 million to be realized over 12 to 18 months. The most significant source of synergy would be from the cost-saving side with the streamlined operations and reduced headcount, making solar power more affordable and competitive against the traditional sources of energy. Sunrun will also have increased price-setting capacity with reduced rivalry within the industry.

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Key Statistics – Vivint Solar

| | |
|------------------------------|----------------|
| 52 Week H/L | \$12.99/\$3.17 |
| Market Capitalization | \$1325M |
| Average Daily Trading Volume | \$1.7M |
| Net Debt | \$1634M |
| Enterprise Value | \$3108M |
| EV/Revenue | 8.6x |
| Diluted Shares Outstanding | \$125M |
| Dividend Yield | N/A |

2-Year Price Performance



Key Statistics – Sunrun Inc

| | |
|------------------------------|----------------|
| 52 Week H/L | \$23.66/\$7.84 |
| Market Capitalization | \$2568M |
| Average Daily Trading Volume | \$1.9M |
| Net Debt | \$2717M |
| Enterprise Value | \$6026M |
| EV/Revenue | 6.9x |
| Diluted Shares Outstanding | \$120M |
| Dividend Yield | N/A |

2-Year Price Performance



Business Overview – Vivint Solar

Product Coverages

Founded in 2011 as an offshoot of Vivint Smart Home Inc, Vivint Solar is an American solar energy company headquartered in Lehi, Utah, that designs, installs, and maintains photovoltaic systems. Vivint Solar is a green energy provider and a green home technology company that helps its customers lower their energy consumption. Their business model allows for maximum flexibility with solar-power access with plans like Solar Lease, Solar Purchase, Solar PPA and Solar Loan that fits the client's budget and needs. They also provide energy solutions for portable batteries, EV charging stations, rooftop solar and custom-designed solar systems beyond what is offered by a typical retail solar provider.

Projects and Partnership

Putting innovation and technology at the centre of their competitive advantage, Vivint Solar has created numerous successful partnerships with companies in various industries. In 2018, the company collaborated with Mercedes-Benz for a customizable home energy storage system. The two companies will introduce a joint offering that will provide customers with the German engineering and performance of Mercedes-Benz batteries coupled with Vivint Solar's expertise in designing, installing and servicing solar energy systems. This is the first collaboration to integrate batteries with Vivint's offering and Mercedes's first collaboration with a U.S. solar provider.

Business Overview – Sunrun Inc

Company Highlights

Sunrun Inc. ("Sunrun") is an American provider of residential solar panels and home batteries. Headquartered in San Francisco, California, Sunrun Inc. provides solar panels and batteries to residential homeowners within the United States. Sunrun was co-founded in January 2007 by Lynn Jurich, Ed Fenster, and Nat Kreamer and quickly assumed a leadership position in the residential solar sector. Sunrun's "solar-as-a-service" business model offers its customers either a lease or a Power Purchase Agreement similar to those issued between an independent power producer and the public sector. This allows homeowners to pay for electricity usage only and bypass the heavy initial capital outlay to purchase the solar panels and the installation, maintenance, monitoring and repair costs that the company also covers.

Accelerated Growth

In their most recent quarterly report, Sunrun reported that they expect to accelerate the growth rate to 30%, an increase from the prior guidance of 25% to 30%. This growth is from a baseline scale that's already twice the next competitor. Sunrun's expanding customer value proposition, growing brand strength, and increasing competitive advantages deliver share gains. Externally, the vulnerabilities of the traditional power grid under extreme weather conditions and favourable legislative decisions are also contributing to this growth and will be discussed further in the following sections.

ESG Considerations

Sunrun has 550,000 customers across the United States and 16,000 solar-powered rechargeable batteries. Since 2007, Sunrun has produced 11.4 billion KWh of clean energy and cumulatively deployed 3,885 MW of solar power, making it one of the largest solar companies in the world. With its significant size comes the considerable sustainable impact with its operation. Sunrun has offset 8.1 million metric tons of carbon since 2007, an equivalent of negating 908 million gallons of gasoline or 1.3 million homes' annual electricity use.

Industry Analysis

Solar power developers and producers own and operate photovoltaic panels or solar thermal power stations that use mirrors or lenses to concentrate the sun's heat and energy. In the United States, there are currently 327 solar energy providers, generating a combined revenue of USD 10.88 billion. The industry's average annual growth for the past five years is 21.8%, and the forecasted growth rate for the next five years is 11.0% per year. The leading players in the industry are NextEra Energy, a Florida-based green-energy giant with an estimated 48,400.0 MW of electricity-generating capacity, and Consolidated Edison Inc, a 198-year-old New York energy producer. The two businesses occupy 12% and 7.3% of the market, respectively. The key drivers of the industry are governmental policies towards energy efficiency, power consumption, and prices of natural gas, coal, and semiconductors.

Key Trends

- Government legislation that removes access barriers, provides financial incentives, and promotes technological innovation has been a vital force in the industry both in the commercial expansion and the scientific improvement side of the growth factors.
- The rise of innovative financing mechanisms from the private sector also contributed to the revenue growth of small-to-medium-sized solar providers. ESG and sustainable investing firms provide capital to these companies for long-term goals beyond a pure financial return.
- Community solar, shared solar or residential solar is an emerging trend that will likely grow more than the traditional interconnection mechanisms, bypassing the public power grid and delivering value to remote, microscopic or indigenous communities.

Because of these factors above, the price of solar power has been continuously decreasing due to lowered capital requirements and increased energy efficiency. What was a novel immature idea of turning sunlight into force is becoming increasingly competitive against the nonrenewable, traditional sources of energy.

Competitive Landscape

Being a young and relatively small industry compared to other energy providers on the market, the Solar Power industry has a low concentration level and a high growth potential. Geographically, many areas receive an ample amount of solar light each year without a provider of solar technologies within the United States and beyond. While individual solar power facilities are getting larger, there appears to be little movement toward owning facilities across many areas. Over the five years to 2021, market share concentration has declined as many players enter the industry to benefit from the growing opportunities and existing operators scale their solar energy production.

M&A Rationale

Strategic Objectives

Market Expansion - Sunrun and Vivint Solar are very similar in their market space, target customers, and business models. The acquisition serves mainly as a step in Sunrun's strategy to increase its market share and become the residential solar giant in terms of US customer base and geographic coverages. Purchasing Vivint Solar allows it to do so without deviating from its original vision and industry.

Leveraged technologies - Sunrun can take advantage of Vivint's R&D pipeline and leverage its business partners to create the most significant impact and innovative power solutions with the consolidated operation. Vivint's focus on innovation differentiates itself from just another smaller Sunrun with the same features in a developing industry where efficiency and new technological development are crucial to outperforming competitors.

Synergies

Revenue

- With the increase in market share, Sunrun is now more likely to become the go-to solar producer for large community or residential power projects, bringing considerable revenue from the increased brand recognition. It also attracts more attention from geographic areas previously occupied by Vivint Solar only.
- While Vivint Solar is much smaller in size, its fast growth and comparable services make it a potential competitor of Sunrun in the future. With reduced competitors in the market, the combined new business gains additional power to set a higher price for their service and increase the top-line revenue by taking advantage of the growing demand for solar energy on the market.

Cost

- **Sunrun estimates annual cost synergies of approximately \$90 million to be realized over 12 to 18 months.**
- The homogeneous products that the two companies offer indicate that their internal company structure would also be interchangeable. The combined company can reduce headcount for overlapping departments such as sales and marketing, human resources, regional management, and general administrative teams with the acquisition.
- While Sunrun produces solar panels and batteries in-house, it still has lots of external suppliers for services like delivery and installation essential to its business. With the increased market share and reduced competitors on the market, Sunrun will negotiate with the suppliers with greater power and bring energy to its clients with further reduced costs.
- Unlike a traditional solar power producer that signs interconnection agreements with the public sector, retail companies like Sunrun and Vivint deal with thousands of customers individually. The quality of their customer service dramatically impacts their sales. With a streamlined internal communication, production, and delivery process, the new company would expect fewer issues arising from the clients and save spending on additional costs.

Valuation

For the acquisition, Sunrun will buy Vivint for about \$1.46 billion in an all-stock deal, valuing the entire company at \$3.2 billion, including debt. Vivint Solar's stockholders are entitled to receive 0.55 shares of Sunrun common stock for each share of the former's stock owned. The exchange ratio implies a 10% premium based on closing prices on July 6, 2020, and a 15% premium to the exchange ratio indicated by the three-month volume-weighted average price of Vivint Solar and Sunrun shares. Vivint Solar stockholders are expected to own approximately 36%, and Sunrun stockholders are expected to own 64% of the fully diluted shares of the combined company. The enterprise value of the combined clean energy company is estimated at \$22 billion.

Comps

Nine companies are selected for the comparable company analysis, all of which are solar energy producers that operate in the United States and within Canada. Companies with different market capitalization and capital structures are selected to represent an emerging industry's diverse and dynamic nature. As a result, the EV/Revenue multiple calculated based on market information on the announcement date of the deal and the last twelve-month financial performance displays an extensive range of data that is positively skewed. Using the median of the data set, the intrinsic share price of Vivint Solar is \$22.11, a 108% increase compared to its market price of \$10.63, or an estimated 90% premium over that Sunrun is paying for the company.

Precedent Transactions

Acquisition transactions that happened within the year of the announcement date provide adequate comparisons to Vivint Solar's intrinsic value. Acquisitions of both private and public solar providers around the world are noted and analysis of their EV/Revenue multiple based on the transaction price returned a median intrinsic share price of \$14.19, a 33% premium of the company's market price.

Risks

Vivint's Legal Issue

A few years earlier, in 2017 and 2018, Vivint Solar received multiple lawsuits from its customers and state governments for its marketing tactic that allegedly convinces its customers to sign harmful long-term contracts without providing them with enough information beforehand. The issue was later resolved, and there have been no more conflicts in recent years. However, Sunrun should still be cautious of adopting Vivint's operation and take extra steps to ensure all business practices are lawful.

Geographic Coverage too Broad

While previously mentioned as an advantage, expanding the geographic area of the newly formed business might propose challenges to the operation. Vivint Solar and Sunrun were initially based far apart from each other. With the new company now servicing customers in 22 states in the US, careful management of the supply chain is required to prevent a decrease in customer satisfaction.

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Appendix

| Comparable Company Analysis | | | | | | | | | |
|----------------------------------|---------------------|-----------------|----------------------------|-----------------|----------------|------------------|----------------------|------------------|----------------------|
| As of 07/06/2020 | | | | | | | | | |
| Company | Ticker | Share Price | Diluted Shares Outstanding | Equity Value | Cash | Debt | Other EV Adjustments | Enterprise Value | Multiple |
| | | | | | | | | LTM Revenue | EV/Revenue |
| NRG Energy Inc | (NYSE: NRG) | \$ 36.02 | 244.8 | 8,817.7 | 3,905.0 | 8,538.0 | 3,906.4 | 17,357.1 | 21,970.0 0.8 x |
| First Solar Inc | (NASDAQ: FSLR) | \$ 103.60 | 106.3 | 11,012.7 | 1,227.0 | (1,455.7) | 1,229.8 | 9,559.8 | 2,625.3 3.6 x |
| Just Energy Group Inc | (TSXV: JE) | \$ 1.10 | 48.1 | 52.9 | 168.7 | 336.6 | 168.5 | 389.3 | 2,054.1 0.2 x |
| SunPower Corp | (NASDAQ: SPWR) | \$ 28.65 | 173.0 | 4,956.5 | 232.8 | 1.2 | 233.3 | 4,958.1 | 1,280.8 3.9 x |
| Canadian Solar Inc | (NASDAQ: CSIQ) | \$ 37.94 | 63.6 | 2,413.0 | 1,178.8 | 1,354.3 | 1,500.7 | 4,089.2 | 4,789.1 0.9 x |
| Enphase Energy Inc | (NASDAQ: ENPH) | \$ 250.00 | 134.9 | 33,725.0 | 679.4 | (351.1) | 682.5 | 33,377.0 | 1,234.2 27.0 x |
| Azure Power Global Ltd | (NYSE: AZRE) | \$ 20.60 | 48.2 | 992.9 | 147.8 | 1,480.5 | 166.4 | 2,492.0 | 209.5 11.9 x |
| SunNova Energy International Inc | (NYSE: NOVA) | \$ 36.97 | 112.3 | 4,151.7 | 209.9 | 2,660.2 | 605.7 | 7,207.7 | 214.8 33.6 x |
| UGE International Inc | (TSXV: UGE) | \$ 1.29 | 32.2 | 41.5 | 1.0 | 8.2 | 0.9 | 49.6 | 1.9 26.1 x |
| Vivint Solar Inc | (NYSE: VSLR) | \$ 10.63 | 124.7 | 1,325.6 | 166.0 | 1,634.1 | 314.5 | 3,108.2 | 378.5 8.2 x |
| Median | | 36.0 | 106.3 | 4,151.7 | 232.8 | 336.6 | 605.7 | 4,958.1 | 1,280.8 3.9 |
| Mean | | 57.4 | 107.0 | 7,351.5 | 861.2 | 1,396.9 | 943.8 | 8,831.1 | 3,820.0 12.0 |
| High | | 250.0 | 244.8 | 33,725.0 | 3,905.0 | 8,538.0 | 3,906.4 | 33,377.0 | 21,970.0 33.6 |
| Low | | 1.1 | 32.2 | 41.5 | 1.0 | (1,455.7) | 0.9 | 49.6 | 1.9 0.2 |
| | | | | | | | | | Implied Price |
| Median | | | | | | | | | -\$ 2.55 |
| Mean | | | | | | | | | \$ 22.11 |
| High | | | | | | | | | \$ 87.56 |
| Low | | | | | | | | | -\$ 13.72 |

| Precedent Transaction Analysis | | | | | | | | | |
|--------------------------------|---------------------------|--------------------------|---------------------|--------------------|------------------------|-------------------|---------------------------|--------------|----------------------|
| Announcement | | | | | | | | | |
| Date | Buyer Company | Target Company | Ticker | Segment | Location | Transaction Value | Adjusted Enterprise Value | LTM Revenue | Multiple |
| | | | | | | | | | EV/Revenue |
| 11/17/21 | ADT Inc | Sunpower Corp | (NASDAQ: SPWR) | Solar | US & Canada | 825.0 | 825.0 | 334.4 | 2.5 x |
| 10/20/21 | JP Morgan Investment Mgmt | Falck Renewables Spa | (BIT: FKR) | Various Renewables | Europe | 1,780.1 | 2,966.8 | 434.0 | 6.8 x |
| 10/8/21 | Sunpower Corp | Blue Raven Solar | - | Solar | US & Canada | 165.0 | 165.0 | 135.0 | 1.2 x |
| 6/17/21 | Iberdrola | Infigen Energy Limited | (ASX: IFN) | Wind/Solar | Australia | 1,106.2 | 1,133.4 | 209.7 | 5.4 x |
| 3/14/21 | Mercury NZ and PowAR | Tilt Renewables Ltd | (ASX: TLT) | Wind/Solar | Australia | 2,634.8 | 2,634.8 | 95.9 | 27.5 x |
| 11/4/19 | CPP Investments | Pattern Energy Group Inc | (NASDAQ: PEGI) | Wind/Solar | US & Canada | 6,414.3 | 6,414.3 | 497.0 | 12.9 x |
| 7/6/20 | Sunrun Inc | Vivint Solar | (NYSE: VSLR) | Solar | US & Canada | 3,638.2 | 3,108.2 | 378.5 | 8.2 x |
| Median | | | | | | | | 272.1 | 6.1 |
| Mean | | | | | | | | 284.3 | 9.4 |
| High | | | | | | | | 497.0 | 27.5 |
| Low | | | | | | | | 95.9 | 1.2 |
| | | | | | | | | | Implied Price |
| Median | | | | | | | | | \$ 4.28 |
| Mean | | | | | | | | | \$ 14.19 |
| High | | | | | | | | | \$ 69.10 |
| Low | | | | | | | | | -\$ 10.59 |