



Estimated Cost per Watt Methodology

August 8, 2017

Cost per watt (CPW) is an important metric in understanding Vivint Solar's residential business. The CPW calculation includes costs associated with systems subject to power purchase agreements, leases, and those sold directly to customers. This memo shows how Vivint Solar's CPW can be estimated using the company's reported GAAP financial statements, other reported operating metrics, and information extracted from the Company's books and records. All data and calculations shown in this memo are as of June 30, 2017.

Installation

Vivint Solar only capitalizes a portion of its installation expense. Equipment expense as well as a portion of other installation expense including direct labor is capitalized on the balance sheet. The portion of installation expense that is not capitalized is expensed through the Income Statement in the period it is incurred. To calculate total installation expense, add the change in system equipment costs, the cost of revenue – operating leases and incentives, the portion of cost of revenue – solar energy system and product sales related to installation, and the change in work in progress - system equipment costs, less associated non-cash expenses (stock-based compensation, depreciation and amortization), and fleet performance. This total is then divided by the megawatts installed in the quarter.

Sales & Marketing

Much like installation expenses, only a portion of sales & marketing expense is capitalized. The remaining portion is expensed through the Income Statement in the period it is incurred. The amount of expense related to non-cash stock-based compensation is removed from the total sales & marketing costs. To calculate the total sales & marketing cost per watt, the portion of sales & marketing expense that is capitalized, including work in progress – initial direct costs and customer incentives, is divided by the megawatts installed during the period. The portion that flows through the income statement is divided by the megawatts booked during the quarter. These two components are then summed to reach the total sales & marketing cost per watt.



Installation Costs per Watt Calculation

	<u>Q2'17</u>	
Installation (in thousands)		
System equipment costs (BS Note)	\$ 49,981	←
Plus: Cost of rev - operating leases and incentives (IS)	33,763	
Plus: Cost of rev - solar energy system and product sale (IS)	17,983	
Plus: WIP - System equipment costs (Company's books)	1,974	←
Less: Stock-based compensation (BS Note)	(293)	←
Less: Depreciation and amortization (BS Note)	(13,642)	←
Less: Fleet performance (Company's books)	(4,716)	
Total installation costs	\$ 85,050	←
Installation (\$ / W)		
Total installation costs (in millions)	\$ 85.1	←
Divided: MW installed	46.9	
Installation cost per watt	\$ 1.81	

Note 5. Solar Energy Systems (in thousands)	<u>Q2'17</u>	<u>Q1'17</u>	<u>Change</u>
Solar energy systems, net			
System equipment costs	\$ 1,343,272	\$ 1,293,291	\$ 49,981
Solar energy system inventory	25,833	27,697	(1,864)
Initial direct costs related to solar energy systems	298,734	279,808	18,926
Solar energy systems	1,667,839	1,600,796	67,043
Less: Accumulated depreciation and amortization	(100,241)	(86,599)	(13,642)
Solar energy systems, net	<u>\$ 1,567,598</u>	<u>\$ 1,514,197</u>	<u>\$ 53,401</u>

Note 4. Inventories (in thousands)	<u>Q2'17</u>	<u>Q1'17</u>	<u>Change</u>
Inventories			
Solmetric inventory	\$ 685	\$ 760	\$ (75)
WIP - System equipment costs	11,793	9,819	1,974
WIP - Initial direct costs	3,663	2,821	842
Inventories	<u>\$ 16,141</u>	<u>\$ 13,400</u>	<u>\$ 2,741</u>

Note 14. Equity Compensation Plans	<u>Q2'17</u>
Stock-based compensation included in operating expenses (in thousands)	
Cost of revenue - operating leases and incentives	\$ 293
Sales and marketing	1,117
Research and development	92
General and administrative	1,828
Total stock-based compensation	<u>\$ 3,330</u>



Sales & Marketing Costs per Watt Calculation

Sales & Marketing (\$ in millions)	Q2'17	
Initial direct costs related to solar energy systems (BS Note)	\$ 18.9	←
Plus: Cost of rev - solar energy system and product sale (IS)	4.8	
Plus: WIP - Initial direct costs (Company's books)	0.8	←
Plus: Customer incentives (Company's books)	0.9	←
	<u>25.4</u>	
Divide: MW installed	<u>46.9</u>	
Initial direct costs per watt	\$ 0.54	←
Sales & Marketing (IS)	\$ 9.4	
Less: Stock-based compensation	<u>1.1</u>	←
	8.3	
Divide: MW booked	<u>55.4</u>	
Non-capitalized Sales & Marketing costs per watt	\$ 0.15	←
Initial direct costs per watt	\$ 0.54	←
Plus: Non-capitalized Sales & Marketing cost per watt	<u>0.15</u>	←
Total Sales & Marketing	<u>\$ 0.69</u>	

Note 5. Solar Energy Systems (in thousands)	Q2'17	Q1'17	Change
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Solar energy systems	1,667,839	1,600,796	67,043
Less: Accumulated depreciation and amortization	<u>(100,241)</u>	<u>(86,599)</u>	<u>(13,642)</u>
Solar energy systems, net	<u>\$ 1,567,598</u>	<u>\$ 1,514,197</u>	<u>\$ 53,401</u>

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Consolidated Balance Sheet (in thousands)	Q2'17	Q1'17	Change
Current assets - Customer incentives	\$ 232	\$ 184	\$ 48
Non-current assets - Customer incentives	<u>5,393</u>	<u>4,562</u>	<u>831</u>
Total customer incentives	<u>\$ 5,625</u>	<u>\$ 4,746</u>	<u>\$ 879</u>

Note: Amounts may not add due to rounding



General & Administrative

General & Administrative expense is taken from the income statement. Expenses that are non-cash such as stock-based compensation and any one-time expenses are removed from the total. The resultant number is divided by the megawatts installed during the quarter to calculate the total general & administrative cost per watt.

	<u>Q2'17</u>
General & Administrative (in thousands)	
General & Administrative (IS)	\$ 20,301
Less: Stock-based compensation (BS Note)	(1,828)
Less: One-time expenses (Company's books)	(538)
General & Administrative Costs	\$ 17,935
General & Administrative costs (in millions)	\$ 17.9
Divide: MW installed	46.9
General & Administrative costs per watt	\$ 0.38
Note 14. Equity Compensation Plans	
Stock-based compensation included in operating expenses (in thousands)	
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General and administrative	1,828
Total stock-based compensation	\$ 3,330
Company's Books (in thousands)	
Legal fees related to SunEdison bankruptcy litigation	\$ 538



Total Estimated Cost per Watt

The sum of installation cost per watt, sales & marketing cost per watt, and general & administrative cost per watt results in the total estimated cost per watt for the period.

	<u>Q2'17</u>
Installation	\$ 1.81
Sales & Marketing	0.69
General & Administrative	<u>0.38</u>
Total costs per watt	<u><u>\$ 2.88</u></u>