



Enphase Energy, Inc.

# Environmental, Social, and Governance Report 2020



# Energy independence starts with Enphase Solar and Storage



Encharge 3™  
storage system

Encharge 10™  
storage system

IQ 7+™  
microinverters

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**Badri Kothandaraman**  
President and CEO

## A letter from our President and CEO

Sustainability is at the core of what we do at Enphase and our purpose is to advance a sustainable future for all. We deliver technology solutions that make clean energy more affordable, reliable, and accessible. Today, Enphase is the world's leading supplier of microinverter-based solar-plus-storage systems. Since inception, we have shipped 30 million solar microinverters and approximately 1.3 million Enphase-based systems have been deployed in more than 130 countries.<sup>1</sup> 8.6 gigawatts DC of Enphase microinverters have been installed in solar systems, offsetting 20.8 million metric tons of CO<sub>2</sub>e - the equivalent of providing electricity to 3.5 million homes for one year.<sup>1</sup>

Enphase was founded in 2006 with five key elements to our value proposition: deliver products that are productive, reliable, smart, simple, and safe. Our value proposition rings as true today as when the company was established. As I write my letter to you for our inaugural Environmental, Social, and Governance (ESG) Report, I am reminded of when I joined Enphase in 2017. I was excited about the opportunity to work with such a talented and diverse global workforce committed to developing technology and products that further enable energy independence. The same commitment exists at Enphase today, and I am proud of our team for their ongoing dedication to serve our communities and better the environment.

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"We know that diversity and an inclusive work culture fuels innovation and helps better represent our customers and partners. As we work towards our vision for a solar-powered planet, we never forget the three commitments that have guided us from the beginning: innovation, quality, and social responsibility."

We know that diversity and an inclusive work culture fuels innovation and helps better represent our customers and partners. As we work towards our vision for a solar-powered planet, we never forget the three commitments that have guided us from the beginning: innovation, quality, and social responsibility. Innovation is the cornerstone of our existence, and we have worked hard to develop the world's best home energy management systems, with energy independence as the goal for our customers. Quality is the bedrock of the Enphase product design, and we have consistently set the bar high for quality and reliability. We are driven by a sense of responsibility towards our planet and our communities as we strive to bring solar energy mainstream. We believe it is because of this focus on innovation, quality, and social responsibility we have built a solid financial foundation driven by operational excellence and the desire for long-term sustainability.

Our commitment to long-term sustainability starts at the top and extends throughout the organization. Our ESG efforts are overseen by a senior management committee, along with board-level oversight led by our Nominating and Corporate Governance Committee. We are publishing this inaugural report with the world still impacted by the COVID-19 pandemic. Our topmost priority has been to ensure the health and safety of our employees, customers, and partners. It is through the collective discipline, efforts, and support of our employees, customers, and partners that we have been able to successfully manage through this global pandemic.

<sup>1</sup> Estimate based on Enphase managed systems data as of 9/30/20 grossed up for non-managed systems based on cumulative sales records; CO<sub>2</sub>e calculations based on [EPA GHG calculator](#).



During 2020, we introduced to customers in North America our [Enphase storage system](#), featuring our Ensemble™ management technology, which powers the world's first grid-independent microinverter-based storage system. The Enphase storage system provides resiliency in the face of natural disasters and grid outages, ensuring that a home is powered even during extended periods of inclement weather, delivering energy independence and peace of mind. We will continue to focus on technology and products that help to improve quality of life while keeping true to our core purpose of sustainability.

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“At Enphase, we developed a culture playbook to provide our current and future employees with a blueprint showing our purpose, core values, how we work together, and achieve results within the company.”

At Enphase, we developed a [culture playbook](#) to provide our current and future employees with a blueprint showing our purpose, [core values](#), how we work together and achieve results within the company. We promote and reinforce five core values every day we come to work: Customer First, Integrity, Innovation, Teamwork, and Quality. We listen to our customers and take action to deliver a superior customer experience; we tell the truth at all times, without making excuses; we actively promote innovation through curiosity and continuous learning; we appreciate and respect different behavioral styles and perspectives; and we place safety and quality above everything else. These core values unify us and enable us to achieve our purpose.

I would like to thank our employees for their continued hard work and dedication, and our customers, partners, and shareholders for their strong support. Enphase embraces the opportunity to create a future of sustainable prosperity for all our stakeholders, while reducing our environmental footprint. I appreciate your interest and engagement in our ESG efforts.

Sincerely,

A handwritten signature in blue ink, appearing to read 'BK', with a long horizontal stroke extending to the right.

**Badri Kothandaraman**  
President and CEO

# About us

The leading microinverter company in the world



**2006**

is the year Enphase was founded



**789**

employees and personnel across all our global offices<sup>1</sup>



**3,900**

installers worldwide<sup>1</sup>



**30 million**

microinverters shipped worldwide<sup>1</sup>



**20.8 million**

metric tons of CO<sub>2</sub>e offset equivalent to providing 3.5 million homes with electricity for one year<sup>2</sup>



**29.5 TWh**

of cumulative shipments of microinverters<sup>2</sup>



**1.3 million**

systems deployed in more than 130 countries<sup>2</sup>



**8.6 GW DC**

of cumulative shipments of microinverters<sup>1</sup>



**2.3 billion**

gallons of gas equivalent to cumulative CO<sub>2</sub>e avoidance<sup>2</sup>



**51.7 billion**

car miles driven equivalent to cumulative CO<sub>2</sub>e avoidance<sup>2</sup>



<sup>1</sup> As of 9/30/20

<sup>2</sup> Estimate based on Enphase managed systems data as of 9/30/20 grossed up for non-managed systems based on cumulative sales records; CO<sub>2</sub>e calculations based on [EPA GHG calculator](#)

# Our purpose

Enphase is a global energy technology company. We deliver smart, easy-to-use solutions that manage solar generation, storage, and communication on one single platform. We have revolutionized the solar industry with our microinverter technology and produce a fully integrated solar-plus-storage solution. We take a systems approach to solar technology and provide advanced energy monitoring and control through our semiconductor-based microinverter, proprietary network, and software technologies.

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“We believe we can have the biggest impact on the planet by pursuing our mission to bring solar energy mainstream.”

At Enphase, we think big. Our purpose is to advance a sustainable future for all. We're on a mission to bring solar energy to the next level, one where it is ready to meet the world's energy demands. As we work toward our vision for a solar-powered planet, we never lose sight of the three commitments that have guided us from the beginning: innovation, quality, and responsibility.

## Innovation

We have always pushed the boundaries of solar technology, ever since our founders took one look at a string inverter and knew they could do better. In 2006, Enphase co-founders Raghu Belur and Martin Fornage knew that entering the solar industry presented both technological challenges and opportunities for widespread impact. With a strong focus on innovation, we are continuously developing new technologies that make energy more intelligent, more connected, and more cost effective than ever before.

## Quality

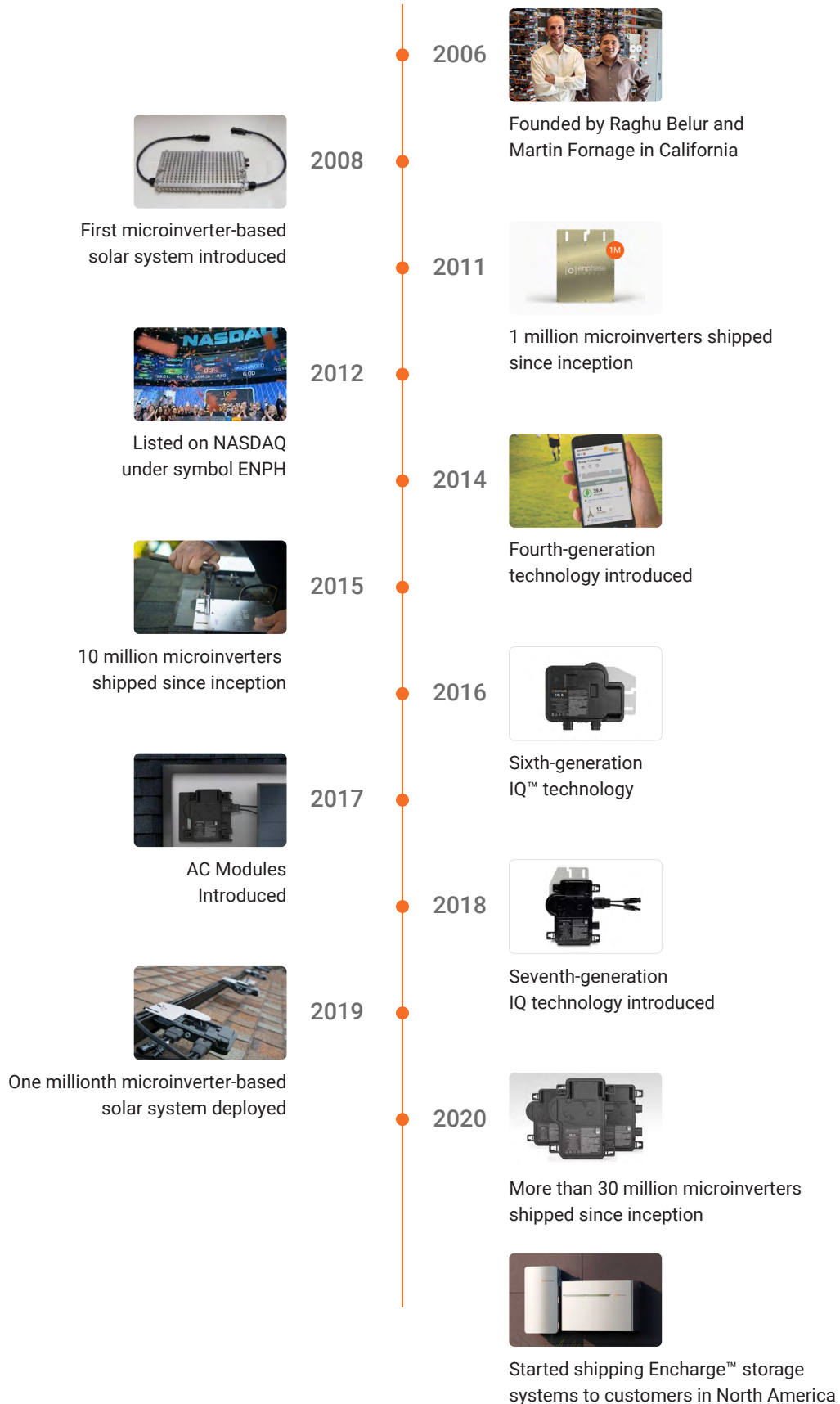
Quality is at the heart of what we do. It is the bedrock of the Enphase product design, and we consistently set the bar high for quality and reliability, with the end goal of providing the most reliable and resilient energy solutions. We're passionate about building products that people can count on for years to come and in all climates. That's why we put quality at the forefront in every step of our design and production process, and why we've established some of the industry's most rigorous quality standards.

## Responsibility

Behind it all, we are driven by a sense of responsibility towards our planet and our communities. We believe we can have the biggest impact on the planet by pursuing our mission to bring solar energy mainstream. On a smaller scale, we are also committed to doing all we can to serve our communities and better the environment. Our footprint is widespread, and we recognize that growth comes with great responsibility.

Our company's purpose is to advance a sustainable future for all. By advancing solar technology and investing in our people and communities, we believe we can create sustainable solutions that may benefit generations to come.

# Start-up to industry leader





# Financial sustainability

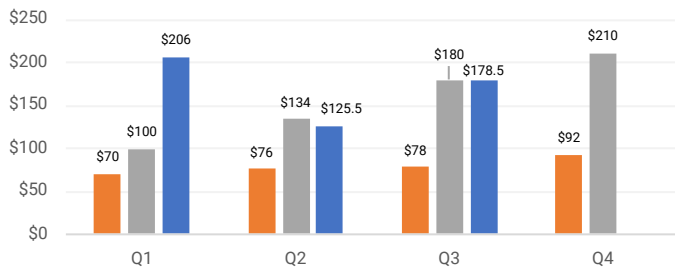
We have built a solid financial foundation driven by a focus on profitable top line growth and operational excellence. Our revenue nearly doubled in 2019 to \$624.3 million, from \$316.2 million in 2018. We shipped 6.2 million microinverters in 2019, compared to 2.8 million microinverters in 2018, representing more than a 100% increase. Our non-GAAP gross margin in 2019 was more than 35.7%, compared to 30.2% in 2018, primarily due to great pricing and cost management.

“We exited the third quarter of 2020 at approximately 41-17-24 – this means 41% gross margin, 17% operating expense and 24% operating income, all as a percentage of revenue – on a non-GAAP basis.”

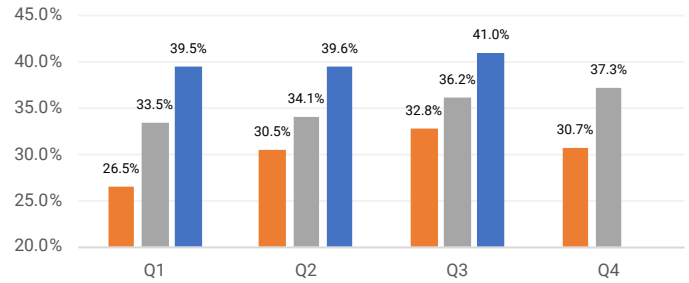
We generated \$139.1 million of cash flow from operations in 2019, compared to \$16.1 million in 2018. GAAP net income was \$161.1 million, resulting in diluted earnings per share of \$1.23. Non-GAAP net income was \$124.2 million, resulting in diluted earnings per share of \$0.95. We were pleased to report that 2019 was the first full year of GAAP profitability in Enphase’s history.

At Enphase we believe in measuring what matters. We surpassed our original 30-20-10 target financial model handily for most of 2019. 30-20-10 stands for 30% gross margin, 20% operating expenses, and 10% operating income, all as a percentage of revenue on a non-GAAP basis. At our Analyst Day in December 2019, we introduced a new baseline financial model of 35-15-20. This baseline model represents the minimum financial performance we expect to achieve over the next 24 months, while demonstrating profitable topline growth. We exited the third quarter of 2020 at approximately 41-17-24 – meaning 41% gross margin, 17% operating expenses and 24% operating income, all as a percentage of revenue – on a non-GAAP basis. In addition, we exited the third quarter of 2020 with an ending cash balance of \$661.8 million.

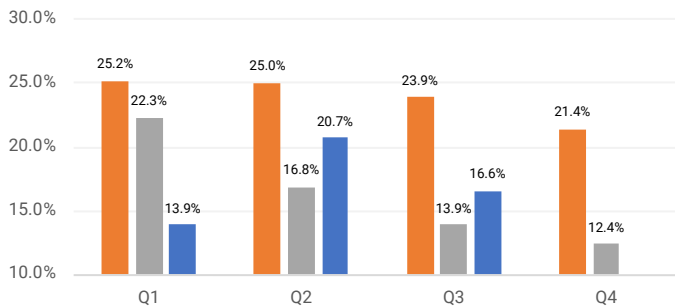
Quarterly revenue by year



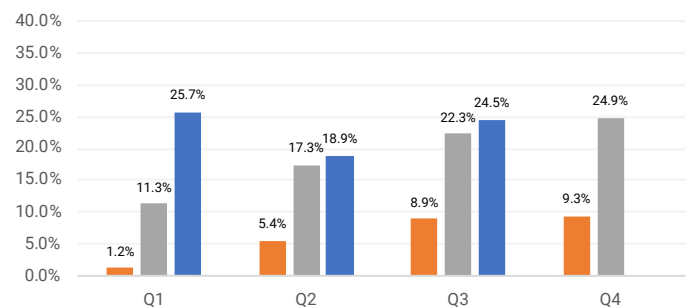
Quarterly gross margin % by year



Quarterly operating expenses % by year



Quarterly operating income % by year



Quarterly revenue by year is in millions, Gross Margin, Operating Expenses and Operating Income are as a percentage of revenue.

All numbers reflected are on a non-GAAP basis. Refer to [page 43](#) for reconciliation to the most comparable GAAP measure.

2018 2019 2020



# Our approach to ESG

Sustainability is at the core of what we do and our purpose is to advance a sustainable future for all. Our focus on ESG starts with our technology solutions that make clean energy more affordable, reliable, and accessible. As our business continues to grow, we are committed to increasing the wellbeing of our stakeholders and communities we serve.

## Importance of ESG

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“We have recognized the importance of ESG issues since our inception and are committed to the success of our employees, customers, partners, shareholders, and the communities we serve.”

We have recognized the importance of ESG issues since our inception and are committed to the success of our employees, customers, partners, shareholders, and the communities we serve. We believe tracking and reporting on environmental, social, and governance business practices makes our company more responsive to a global business environment characterized by finite natural resources, changing legislation, and heightened public expectations for corporate accountability. In this inaugural ESG report, we describe how we integrate ESG in our own operations, identify gaps and opportunities in our products and processes, publicize innovative and environmentally conscious practices, and receive feedback for continuous improvement.

We have identified key focus areas and fundamental ESG standards relevant to our business based on guidance from the Sustainability Accounting Standards Board (SASB) industry-specific standards to help us understand the areas of most relevance to our investors. We have also identified four UN Sustainable Development Goals (SDGs) which most closely align with our business activities and strategy.



## ESG governance and leadership

Our ESG program drives the company's commitment to the triple bottom line of "planet, people, and profit." Our commitment to long-term sustainability starts at the top and extends throughout the organization. Enphase works to not only be a steward in the solar technology field, but also share best practices and influence standards to collectively advance the industry and deliver better products and services to our customers. Our management team and Board of Directors view sustainability as an integral part of our corporate strategy.

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"Our commitment to long-term sustainability starts at the top and extends throughout the organization."

Our governance framework is firmly rooted in risk management and compliance and establishes the foundation for sustainability at Enphase. We take ESG risks and opportunities seriously and are working to integrate ESG deeper into our existing governance structure and process. This includes expanded oversight and governance by the Board of Directors and the executive leadership team. A cross-functional ESG Working Group manages and operationalizes the program in various parts of the company. The annual Enterprise Risk Management (ERM) program incorporates ESG risk factors and is reviewed formally by Enphase management and executives with oversight from the Audit Committee of the Board

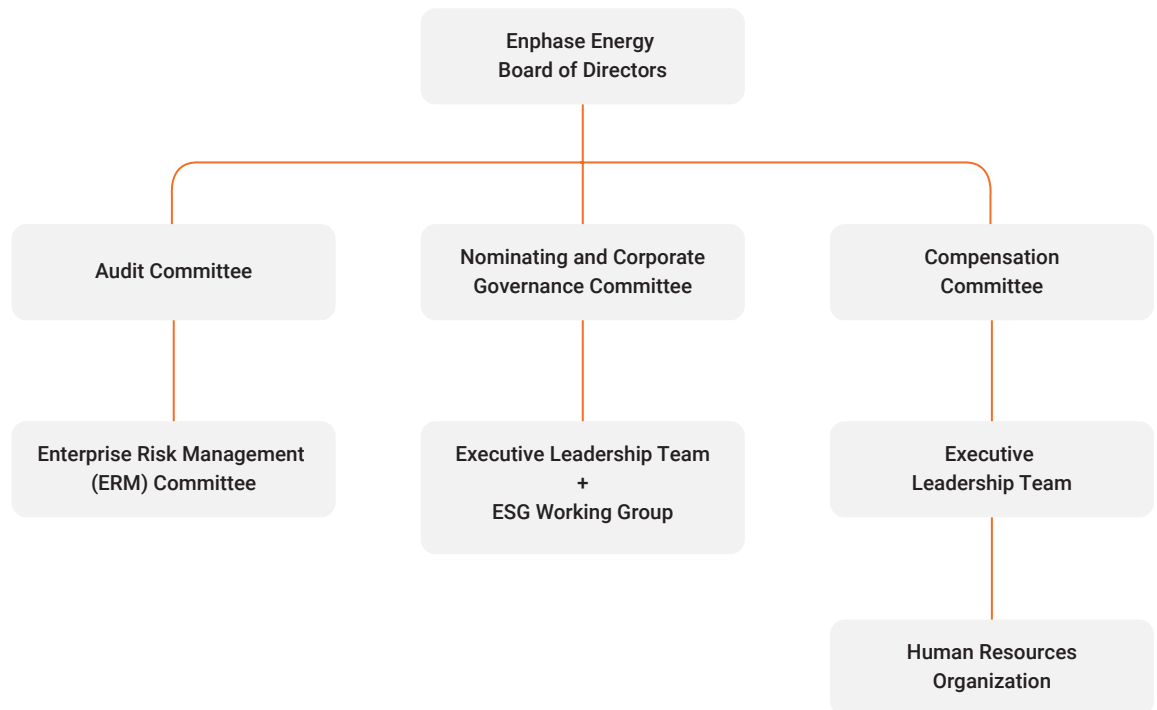
We recently expanded our [Nominating and Corporate Governance Committee Charter](#) with language that reflects the Committee's oversight responsibility regarding our Sustainability and ESG strategy, initiatives, and policies. The Board will receive reports on sustainability and ESG matters from the Nominating and Corporate Governance Committee and Executive Leadership Team on an annual basis at a minimum. Additional information about the role of the Board and its various committees is available in our [Corporate Governance Guidelines](#).

The ESG Working Group looks for sustainability opportunities in the company and alignment to industry stakeholder initiatives and goals. The company's ESG Working Group is comprised of senior leaders and key internal stakeholders representing legal, investor relations, global policy and government affairs, facilities, procurement, supply chain, human resources, IT, quality, compliance, and risk management. The purpose of the group is to monitor existing ESG programs and policies and identify opportunities to expand activities.

Our Compensation Committee of the Board of Directors is charged with overseeing the company's compensation policies, plans, and programs on behalf of the Board. The policy of the Committee includes maintaining an overall compensation structure designed to attract, retain, and motivate management and other employees by providing appropriate levels of risk and reward in proportion to individual contribution and performance. In discharging its duties, the Compensation Committee ensures that the company equitably applies its compensation programs.

Enphase is committed to providing a work environment free of discrimination and harassment, in which all individuals are treated with respect and dignity. We apply a compensation philosophy that helps frame our pay and reward strategy. We follow a pay-for-performance culture that ties compensation to the performance of the individual and the company. We provide competitive compensation programs that focus on the following five key elements:

1. Pay-for-performance -- Reward and recognize leading contributors and high potential individuals, named executive officers excluded, by targeting the 65th percentile of market for total direct compensation, which includes base salary, quarterly bonus, and stock awards;
2. External market factors -- Pay levels of compensation that are competitive with respect to the labor markets in which we compete for talent;
3. Internal equity-- Provide fair pay relationships within the company;
4. Fiscal responsibility -- Establish affordable compensation programs that are within our budget; and
5. Legal compliance -- Ensure that the company is compliant with the laws of the states and countries in which we operate.



## Board diversity and independence

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“We believe that our Board should represent a diversity of thoughts, backgrounds, skills, experiences, and expertise.”

We believe that our Board should represent a diversity of thoughts, backgrounds, skills, experiences, and expertise. Consistent with this philosophy, the Nominating and Corporate Governance Committee works to ensure each pool of qualified candidates for additional or vacant Board positions from which Board nominees are chosen includes candidates who bring racial and/or gender diversity. In 2020, we appointed our first female director, Jamie Haenggi, to our Board of Directors. Ms. Haenggi brings more than 25 years of leadership in marketing, sales, and customer experience.

Our seven-person Board is represented by a variety of experience and tenures. We value Board refreshment in order to provide new perspectives, as represented by the two Board members added in 2020. We look forward to continued guidance by these leaders as they play an active role in shaping Enphase’s future in sustainable development.

For more information about our [Board of Directors](#), please see our [Proxy Statement](#).

An aerial photograph of a residential property. The house has a prominent red metal roof with several dark blue solar panels installed. To the left of the house is a swimming pool with a green cover. The property is surrounded by lush greenery, including palm trees and other tropical plants. A paved driveway leads to a red car parked in front of the house. A white car is visible on the street to the left. The overall scene is bright and clear, suggesting a sunny day.

# Environment

We collectively require a fundamental shift toward a more circular and low-carbon model. Companies with adequate sustainability management systems will thrive in a resource constrained future and will be well placed to help customers do the same. We are in the business of enabling access to intelligent, clean energy solutions for our customers in order to help reduce the world's carbon footprint. Sustainability is at the core of what we do.

# E1. Energy administration

“Through various energy reduction initiatives, we are reducing our energy footprint through tailored programs that also benefit our employees.”

Enphase adheres to the strongest environmental regulations and standards. Of our ten offices worldwide, seven are certified to ISO 14001 standards. Through various energy reduction initiatives, we are reducing our energy footprint through tailored programs that also benefit our employees.

We are in the process of transitioning almost entirely to the cloud and relying on SAS applications for logistics, payroll, and most internal processes. This means we have a very small footprint when it comes to data center energy use.

As a company focused on enabling clean energy at scale, we support and encourage our employees to transition to solar energy at home and use more sustainable transportation alternatives. We provide our people the infrastructure to make these changes by offering electric charging stations at our offices and discounts on Enphase solar powered systems installed in their homes. We also offer rideshare and carpooling subsidies for U.S. offices to reduce transportation emissions.







## United States case study

**16.8 kW**  
Solar array

**100%**  
offset expected to building's  
energy needs

**12.8 metric tons CO<sub>2</sub>e**  
expected offset per year

**18,105 kWh**  
of electricity per year

In partnership with 603 Solar, we deployed a 16.8 kW solar array in the town hall building of Shelburne, New Hampshire. This project is expected to offset 100% of the building's energy needs and provides a wonderful gathering point for the community. According to estimates by 603 Solar, the system is expected to offset approximately 12.8 metric tons of CO<sub>2</sub>e per year.



## Australia case study

**39.6 kW**  
Solar array

**80%**  
approximate electricity bill reduction

**36 metric tons CO<sub>2</sub>e**  
expected offset per year

**50,919 kWh**  
of electricity per year

In partnership with Solar Concept, we deployed a 39.6 kW solar array on the roof of APEI (Association of Parents of Maladjusted Children) in Noumea, New Caledonia, which works to support the education and social integration of people with intellectual disabilities. The system has eliminated all power cut disruptions and reduced the association's electricity bills by approximately 80%. In addition, the association expects that the system will also offset approximately 36 metric tons of CO<sub>2</sub>e per year based upon their calculations.



## Europe case study

**78 kW**  
Solar array

**660.9 metric tons CO<sub>2</sub>e**  
expected offset over 20 years

**934,722 kWh**  
of electricity over 20 years

In partnership with SCJ Renewables and Electrical, we deployed a 78 kW solar array on the roof of Fergyspace, a self-storage facility on the Northumberland Business Park West in Cranlington, Northumberland. Fergyspace boasts 50,000 square feet of rentable space and is one of the biggest facilities of its kind in the northeast region of England. Based upon estimates made by SCJ Renewables and Electrical, the system is anticipated to offset more than 660.9 metric tons of CO<sub>2</sub>e over 20 years.

## E2. Waste and hazardous materials management

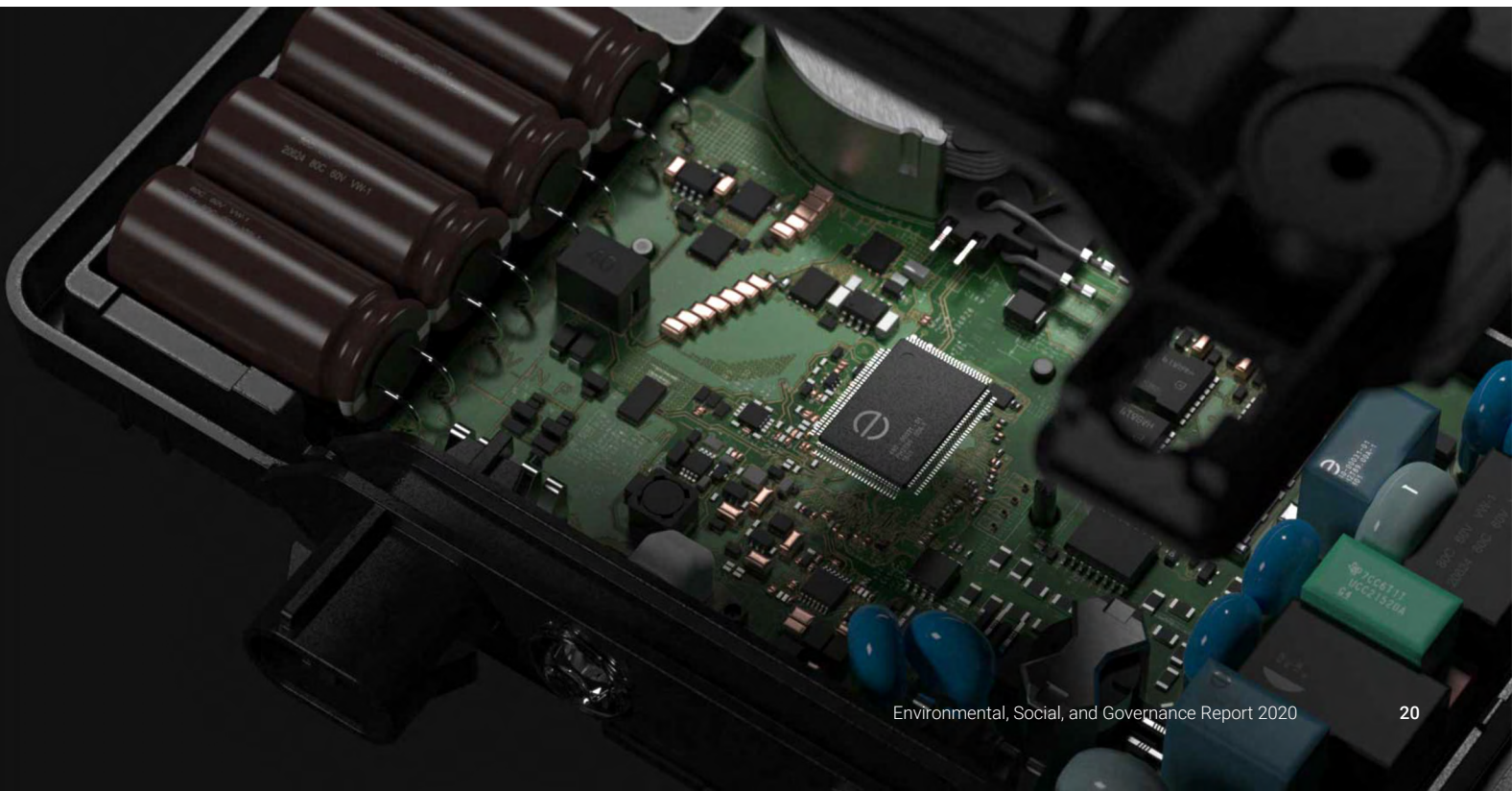
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“The goal of our internal universal waste policy and training is to promote the site’s commitment to recycling and removal of products and materials from landfills, to assure compliance with federal, state, and local regulations, and to provide an internal system within the company for collection, pickup, and recycling.”

We realize there are opportunities for reducing our environmental footprint. Due to the critical nature and prevalence of batteries in our industry, we focus significant efforts on proper disposal and recycling of both household and residential storage battery systems. We have collection boxes in every U.S. office, and we work with a third-party provider to recycle batteries used in testing centers. We recycle approximately 90% of our total electronic waste every year.

In our U.S. offices, we generate approximately 5,000 yd<sup>3</sup> of waste every year and about 50% of it is recycled. We focus on the use of supplies with a low environmental impact, including reusable and compostable materials where possible. In the U.S. and New Zealand, we have eliminated paper cups and provide our employees with re-usable dishware, utensils, and drinkware in our employee cafeterias.

All site employees who handle hazardous materials in California take additional training to ensure compliance with universal waste management in California Code of Regulations, Title 22. The goal of our internal universal waste policy and training is to promote the sites’ commitment to recycling and removal of products and materials from landfills, to assure compliance with federal, state, and local regulations, and to provide an internal system within the company for collection, pickup, and recycling. Employees outside of the U.S. working in labs also undergo annual training, including how to properly dispose of any toxic or hazardous materials.



## E3. Product design and lifecycle management

Designing for the environment has been a priority since our co-founders first thought about which technology would yield the most impact. Not only are we using less materials and increasing efficiency, but we are also taking a systems approach for seamless integration into broader energy systems. We know that we are at the cusp of major technology and energy and market transformations. Our strategy is to transform into a home energy management systems company, providing our customers with clean, reliable energy solutions.

From the beginning, we have understood that installers must have ease of installation while system owners demand safety and ease of use long after the installation experts have left their homes. Of course, both require a system that provides years of reliability and high performance with a simple expansion and upgrade path. Central to realizing this vision has been a laser-like focus on delivering a superior customer experience. We consider our customers to be both the installers and the final system owners because both depend on us delivering products of high quality and exceptional reliability. Solar as well as storage systems often represent the most significant investment for new construction or renovations. Energy system upgrades based on our technology are therefore designed to deliver innovative features that are:

- Reliable and resilient** -- No moving parts and a fail-safe design supported by a single company
- Safe** -- Free of high-voltage batteries and powered by fire-resistant battery chemistry
- Powerful** -- Automatic backup, single-app monitoring and upgradeable

Our microinverters have evolved significantly from the first product released to the market in 2008. Our cloud-based Enphase Enlighten™ monitoring system allows for remote problem-solving and saves time on installations. The distributed architecture requires less maintenance, creating systems without a single point of failure. We are also designing microinverters to last longer. This is especially important to divert waste from landfills. When units are sent back to Enphase, they are recycled and disposed of according to local law. In our testing center in Fuyong, China, products are taken apart and scraps and materials are collected for reuse.



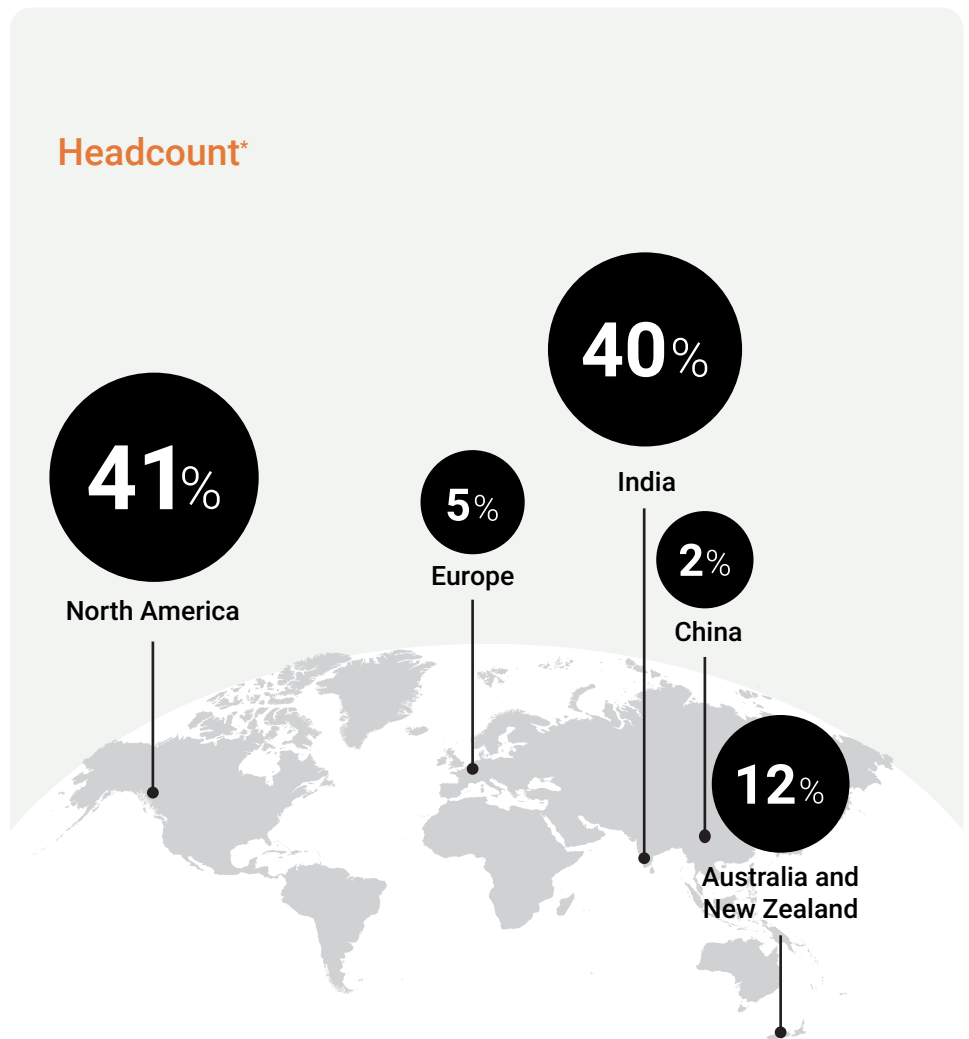
A man in a dark t-shirt and blue jeans is working on a server rack in a data center. He is wearing glasses and is focused on a piece of equipment. The server rack is filled with various components and cables, with red cables being prominent. The background shows more server racks and the interior of the data center.

# Human capital

People and communities build the fabric of our company. As a growing enterprise, we are dedicated to ensuring the health, safety, wellbeing, and professional growth of our employees in order to best serve our external stakeholders.

At Enphase, we put our people first and foster an environment of innovation, integrity, teamwork, quality, and exceptional customer service. We promote and reinforce five core values every day we come to work: Customer First, Integrity, Innovation, Teamwork, and Quality. These core values are demonstrated in how we work together, how we perform, and how we all get rewarded.

Our workforce is global, bringing diverse ideas and perspectives to our growing teams. As of September 30, 2020, we had 789 employees, 41% of which was in North America, including Canada and Mexico; while 40% was in India; 12% was in Australia and New Zealand; 5% was in Europe; and 2% was in China.



\*Percentage of worldwide headcount as of 9/30/20

# HC1. Employee development programs and policies

Successful execution of our strategy is dependent on attracting, developing, and retaining key employees and members of our management team. The skills, experience, and industry knowledge of our employees significantly benefit our operations and performance. We continuously evaluate, modify, and enhance our internal processes and technologies to increase employee engagement, productivity, and efficiency.

## Onboarding

New employees undergo a 30-day onboarding with company-wide trainings, meetings with company leaders, presentations by industry experts, and tailored material developed by their manager and team. Standard training includes a robust introduction to the company's policies, products, procedures, and expectations. Employees establish development plans with their managers and set short-term and long-term goals. Managers are expected to provide feedback on a quarterly basis as they review employee achievements against individual goals.

## Training opportunities

As we grow, we also find opportunities for mentorship, cross-training, and continued education. By fostering professional development opportunities for our employees, we gain new insights, process improvements, and greater retention. With close to 80 new graduates onboarded during 2020 in our India office, we brought in experts from the solar energy industry to provide employees with a broad perspective of solar technology. We also offer an employee tuition reimbursement program where employees can get sponsored to take coursework outside of Enphase.

Within Enphase, we leverage specialized learning platforms that allow employees all over the world to access webinars, trainings, and classes in a variety of subjects. Topics include Code of Conduct, Environment, Workplace Safety, Human Resources, Customer Service, Pandemic Response, IT, Harassment Prevention, Intellectual Property Protection, Professional Development, and more.

## Engagement

To measure employee engagement and satisfaction, we conduct an annual team member survey to assess and track team members' retention and satisfaction. The 2019 survey indicated positive responses particularly around aligning to Enphase's core values and ethics. Responders believed that decisions were being made for the betterment of the overall organization and that Enphase has a large focus on customer value. Employees also noted high performing teams and satisfaction with rewards as a result. These survey responses inform our initiatives, and we track success over time. In 2019, we expanded participation in the employee stock purchase plan to include employees outside the U.S. as a result of those employees voicing their desire to participate.





We developed a culture playbook in 2019 to provide our current and future employees with an easy-to-read document stating our purpose, core values, and examples of how we work together to achieve results. We traveled to all key Enphase sites around the world and worked with small groups to capture our collective thinking. We will continue to evaluate the playbook annually so that it accurately reflects the cultural transformation journey we are all on together.

We are committed to promoting and cultivating an inclusive and diverse workforce that welcomes and celebrates everyone without bias. During 2020, we executed on our culture action plan to promote a healthy work environment, employee appreciation, and to incorporate regular coaching and feedback. We conduct quarterly all-hands meetings to celebrate our success during the past quarter. Along with a global business review, we showcase all new employees and those who are celebrating their 5-year and 10-year work anniversaries with Enphase. We also encourage managers to have periodic gatherings with their teams (in person prior to the COVID-19 pandemic and virtually during the pandemic) for both team and community building outside the workplace. In-region activities to recognize local staff are also popular, as are quarterly contests designed to illustrate our global culture.

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“We know that our diversity fuels innovation and helps us better represent our client base.”

## HC2. Diversity, equity, and inclusion

We strive to build a community where everyone feels valued and treated equally, regardless of race, gender, ethnicity, or age. We know that diversity fuels innovation and helps us better represent our client base. With most of our workforce outside of the U.S., we find valuable insight and innovation from having international perspectives and multi-stakeholder teams that traverse borders. We promote equality and human rights for all people across our value chain, guided by internal policies as well as external standards such as the United Nations Sustainable Development Goals.

Enphase is an Equal Opportunity Employer (EOE) that is committed to diversity and inclusion in the workplace. We prohibit discrimination and harassment of any kind based on race, color, sex, gender, gender expression, religion, sexual orientation, national origin, ancestry, disability, medical condition, genetic information, marital status, pregnancy, military or veteran status, or any other protected characteristic as outlined by federal, state, or local laws. This policy applies to all employment practices within our organization, including hiring, recruiting, promotion, termination, layoff, recall, leave of absence, compensation, benefits, training, and apprenticeship.

## Diversity within Enphase



### Gender diversity\*

Workforce	Women	Total	% Rounded
Executives	4	25	16%
Managers	15	130	12%
Employees	115	634	18%
<b>Total</b>	<b>134</b>	<b>789</b>	<b>17%</b>



### Ethnic diversity\*

Ethnicity	Employees	% Rounded
Caucasian	202	26%
Asian	289	36%
African American	3	0%
Latino/Hispanic	28	4%
Two or More Races	12	2%
Native American, Alaskan Native, Hawaiian Native	2	0%
Not Specified / Not Disclosed	253	32%
<b>Total</b>	<b>789</b>	<b>100%</b>



### Age diversity\*

Age group	Employees	% Rounded
Less than 30 years of age	197	25%
30-50 years of age	416	53%
More than 50 years of age	161	20%
Not Specified / Not Disclosed	15	2%
<b>Total</b>	<b>789</b>	<b>100%</b>

\*As of 9/30/20

## HC3. Employee health and safety

We are committed to the health, safety and wellbeing of all our employees. This year has presented unprecedented challenges with employees, suppliers, customers, and partners affected by the COVID-19 pandemic and climate related disasters. COVID-19 has pushed us to work creatively and support each other like never before.

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“We are committed to the health, safety and wellbeing of all our employees. This year has presented unprecedented challenges with employees, suppliers, customers, and partners affected by the COVID-19 pandemic and climate related disasters.”

Early in 2020, we drew upon our ability to communicate openly and rapidly to employees about crisis management related to the pandemic as it was evolving. We developed a task force that met every other day, and currently meets as necessary and at least every two weeks, to receive updates from each site and to share information regarding the various work-from-home orders, supply of appropriate personal protective equipment (PPE) and other efforts to protect the safety of our employees, phased office returns, and employee assistance. We have supported employees as needed with work equipment and flexible hours to accommodate work routines at home. We have taken, and will continue to take, proactive and preventative measures to help minimize the risk of COVID-19 in our organization and communities. To help our team members stay apprised of the latest information, we share communication resources where they can connect and ask questions about our response to the current situation through corporate email addresses and a dedicated internal webpage.

Enphase employees undergo health and safety and emergency preparedness training on an annual basis. We are pleased to have had zero reportable work-related injuries or incidents from 2011 to the time of this report. Each site undergoes a quarterly safety inspection. Lab researchers are expected to comply with internal protocols and policies such as our Hazard Communications/SDS Management Program and Managing Hazardous Materials guide.

We also encourage worker wellbeing by offering facilities and incentives, including discounted gym memberships for health and fitness. In addition, we are currently building out a fitness space at our headquarters in Fremont, California.





# Social

At Enphase, we recognize and take seriously our responsibility to help protect, preserve, and promote human rights around the world.

For us, this means creating accessible, clean technology for underserved communities, ensuring privacy and security for our partners and users, and perpetuating ethical practices along our value chain.



## S1. Access and affordability

As Tim Sears, co-founder of GRID said, “Partnerships like this help to make the environmental and economic benefits of the clean energy economy accessible to families and workers across the country.”

As a company, we believe strongly in the ability to bring safe and clean power to families. Our vision has always been to make solar simple and energy smart and to develop advanced energy systems with solar and storage accessible to all. In December 2019, we achieved a large milestone of installing our one millionth microinverter system, and we did it alongside one of our long-standing partners, GRID Alternatives (GRID), the nation's largest nonprofit solar installer.

We work with GRID to help power the United States' low-income communities at no cost. With Enphase's technology, GRID helps individual homeowners who qualify as low-income by installing residential solar systems on their single-family homes, as well as working with affordable housing developers to install residential solar systems on qualified multi-family developments. The engagement extends beyond installation to provide hands-on job training for people in low-income communities. Through a combination of donated Enphase products, sponsored builds and volunteer hours by Enphase employees, we are able to bring added value to thousands of homes each year, and Enphase employees can be engaged and active in their communities.

This partnership has yielded some incredible results. Through the donation of Enphase microinverters, GRID has installed more than 29 MW of solar power for low-income communities in the U.S., benefitting more than 8,200 families, and has provided job trainees and volunteers with approximately 524,000 hours of solar education and training. As Tim Sears, co-founder of GRID said, “Partnerships like this help to make the environmental and economic benefits of the clean energy economy accessible to families and workers across the country.”



## S2. Data security and customer privacy

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“We have made significant efforts designed to maintain the security, integrity, and availability of our energy systems and technology.”

Data privacy and security have become significant issues in the U.S., Europe, and in many other jurisdictions in which we offer our products and services. We are subject to a variety of foreign, federal, state, and local laws, regulations and rules relating to the collection, use, storage, retention, security, disclosure, transfer, and other processing of personal information.

The regulatory frameworks for privacy and security issues are constantly evolving and may be subject to differing interpretations. For example, we are subject to both the California Consumer Privacy Act (CCPA), which went into effect on January 1, 2020, and the European Union’s General Data Protection Regulation (GDPR), which went into effect on May 25, 2018. We maintain a significant number of organizational, technical, and physical safeguards designed to protect the security, integrity, and privacy of the personal information we process and to achieve compliance with applicable regulatory frameworks, privacy policies, and contractual obligations. More information on the personal information we collect and how we use and protect it is outlined in our [Privacy Policy](#).

We have made significant efforts designed to maintain the security, integrity, and availability of our energy systems and technology. We have implemented substantial security measures designed to protect our information systems from traditional “hackers”, malicious code (such as malware, viruses, worms, and ransomware), password spraying, phishing attacks, employee theft or misuse, and denial-of-service attacks. We continuously evaluate our information security measures and identify potential areas of improvement.

We devote substantial resources designed to prevent information security incidents. These methods include, but are not limited to, the following: (i) conducting training about social-engineering attacks; (ii) cybersecurity training for new employees; and (iii) presenting to executive management regarding product security, escalations, and information technology development.

## S3. Supply chain management

The success of our product would not be possible without suppliers and partners that share our values of quality, design, and sustainability. We work closely with all our contract manufacturers, from onboarding to client delivery, to ensure that our products are made to the highest standards. Suppliers are involved in the development of our products right from the onset.



### Vendor assessment

When selecting a supplier, we conduct an in-depth risk assessment and require an extensive questionnaire where suppliers are evaluated on location, management system, technology, quality, and risk. If selected as a supplier, these factors carry into ongoing conversations with management on both sides to ensure proper alignment and continuous improvement.

We see our suppliers as partners. We conduct quarterly reviews and audit our high-risk suppliers who receive quality scores that factor in their performance discussions. We expect that suppliers have management systems and oversight of their own suppliers and are open and transparent with us about issues regarding environmental management and ethics. If there is an issue, the supplier develops a corrective action plan alongside our supplier managers and executive sponsors until the issue is corrected.



### Social supply chain responsibility

Enphase is committed to protecting human rights, enforcing fair labor practices, and addressing the potential risks of forced labor, child labor, human trafficking, and slavery across our operations and supply chain.

Our [Code of Conduct](#) sets forth and highlights important legal, ethical, behavioral, and other requirements for parties that wish to be Enphase suppliers. Specifically, Section 15 of the Code states that suppliers must not support, promote or engage in the practice of slavery or human trafficking, and it requires suppliers to comply with all international standards and applicable laws regarding slavery and human trafficking. Enphase suppliers are further expected to take reasonable and necessary steps to help ensure their sub-contractors and sub-suppliers also comply with all international standards and applicable laws regarding slavery and human trafficking.

Enphase provides its suppliers with a Quality Assurance Manual that outlines our Supply Chain Expectations and requires suppliers and subcontractors to comply with all international standards and applicable laws and regulations regarding slavery and human trafficking. It is our expectation that they do not support, promote or engage in slavery and human trafficking and that slavery and human trafficking do not exist in their respective organizations and supply chains. For more information, please read our [California Transparency in Supply Chains Act disclosure](#).



## Supply chain environmental management

Enphase's contract manufacturing suppliers are located in different regions to best serve our different markets. In 2019, we optimized our logistics management to achieve approximately a 63% reduction in the use of air shipping in the fourth quarter, as compared to the fourth quarter of 2018.

Our primary suppliers are located in China and Mexico. We focus heavily on quality and innovation as they are highly specialized and play a large role in both the design and execution of our microinverters and other products. In order to create further flexibility as we continue to grow our business and serve our customers, we began microinverter production in Chennai, India in 2020.



One of our primary contract manufacturers has made large strides to reduce their environmental footprint. We encourage continuous improvement along the supply chain and transparency around social and environmental risks that impact production in our industry. In late 2019, a major supplier site in China upgraded their plumbing system with smart leak control and changed the underground piping to above ground for early detection and quick repairing of any minor leakage. This upgrade led to a 26% reduction in water consumption, highlighting the positive impact of incremental changes and innovation.





## S4. Material sourcing and efficiency

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“Enphase is committed to following all materials guidance and environmental regulatory compliance requirements in all the countries in which it operates and sells.”

As we bring our eighth-generation family of microinverters with Enphase Ensemble™ technology to market, Enphase will once again demonstrate how we leverage semiconductor integration and scalability, a culture of continuous learning, and dedication to high quality in order to build the world’s most advanced software-defined microinverter.

Enphase is committed to following all materials guidance and environmental regulatory compliance requirements in all the countries in which it operates and sells. We are compliant with RoHS, REACH, and 7 of our 10 offices are ISO 14001 compliant. A copy of our [RoHS certification](#) is updated annually on our website.

One important design target of our batteries that benefits the environment is to make them for long-term duration, which can help to decrease battery waste. The long-term duration can be achieved by using Lithium Iron Phosphate (LFP) as the energy storage material for our batteries. We do not use cobalt in our batteries as this mineral represents an increased risk of being sourced from areas that have unfair labor practices.

We are cognizant that materials such as cobalt present an increased risk of being sourced from the Democratic Republic of the Congo (DRC) and other Conflict-Affected Areas associated with unfair labor practices. Enphase expects its vendors to source materials and operate in a responsible manner consistent with the Organization for Economic Cooperation and Development’s (OECD) Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. Our [SEC disclosure](#) on responsible sourcing is updated annually on our website.

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# Governance

We combine strong internal governance with clear communication to ensure that stakeholder goals and objectives translate into actionable business practices by all Enphase employees. To support our commitment to drive the adoption of sustainable clean energy solutions for our customers, we participate in the development of policies and regulations around the world as part of our core governance principles.



## G1. Business ethics

At Enphase, we believe that all people should be treated with dignity and respect. We have adopted the [Enphase Energy Code of Conduct](#) (“Code of Conduct”) that applies to all officers, directors, employees, contractors, and consultants. It provides general guidelines to ensure proper and ethical behavior, compliance with laws, and compliance with our standards, policies, and procedures. Outlined in the Code of Conduct are topics pertaining to anti-corruption, insider trading, health and safety, conflicts of interest, competition, and others. Enphase is committed to complying with all applicable laws and regulations everywhere that we operate.

We also provide information about our [Whistleblower policy](#), an anonymous platform for reporting violations of the Code of Conduct. Concerns are investigated promptly with the highest level of confidentiality. Employees also have the option to report any suspicious or unethical activity to their manager, human resources, or the legal department, directly.

## G2. Risk management

We work collectively to mitigate and address all the top risks affecting our company’s ability to meet its stated objectives. Our ERM Committee annually identifies and assesses key company risks and monitors risk mitigation efforts. To determine risks year-over-year, 80 risk events are assessed by approximately 60 cross functional employees. We look at risks associated with governance, integrity, employee satisfaction, finance, IT, and business processes. The same employees are also asked to provide input on top risks impacting the company. A robust methodology then combines risk responses and evaluates risk likelihood, impact, and velocity to rank risks by priority.

Top risks are identified for every business unit and presented to our Board of Directors. Risk leaders are identified across the company to help mitigate existing risks and proactively address emerging risk factors.

Important characteristics of our ERM program are the inclusion of risk inputs from all levels (all geographies and cost centers - executive, operations, finance, IT, among others) and treating risks in the collective. This holistic approach to risk management considers how individual risks interrelate and assists in coordinating risk management strategies spanning all functions of the company.

ERM program participants are given absolute assurance that responses are anonymous and individual survey responses are held in confidence. The ERM program is designed to deliver an aggregation of knowledge sharing from our employees on specific risk topics and to accumulate information on areas of opportunity and concern for action by leadership.

## G3. Management of energy infrastructure and related regulations

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“We believe that cross industry collaboration is also critical to address challenges in technology development, grid integration and systems capacity, and permitting.”

We track market and regulatory requirements that impact our business and play an active role in the development of new standards for the solar industry. We believe that cross industry collaboration is also critical to address challenges in technology development, grid integration and systems capacity, and permitting. We collaborate with national labs, government agencies, and university research groups to develop innovative solutions that enable more efficient and sustainable products.

We work closely with the California Solar and Storage Association (CALSSA) to rationalize requirements for both commercial and residential energy storage systems. In 2020, we collaborated with the California Office of the State Fire Marshal to clarify and harmonize the language set forth by the California Fire Code (CFC) and California Residential Code (CRC). This language was approved unanimously by the California State Building Standards Commission and will be reflected nationally in the next edition of the International Residential Code (IRC) and International Fire Code (IFC). We are proud to have influenced this decision that fosters alignment in requirements for energy storage limits.

Enphase identified a significant barrier within the National Electrical Code which would block the adoption of Energy Storage Systems (ESS). Through our ongoing participation on the National Fire Protection Agency (NFPA) Code Making Panel 4, we successfully submitted proposals for the creation of a new section in the 2020 edition of the National Electrical Code. This new section acknowledges the ability of Power Control Systems (PCS) to limit currents to safe levels, thereby eliminating this impediment to the deployment of ESS. Enphase then formed and led a UL Task Group to develop the corresponding product safety and performance standard necessary for compliance with the new National Electrical Code requirements. The Institute of Electrical and Electronics Engineers (IEEE) and the Electric Power Resource Institute (EPRI) have both recognized the potential benefits of PCS and the scheduling function.







Enphase also partners with numerous prestigious universities throughout the United States to promote technological innovation, conduct research, and engage in development projects, including projects funded by the Department of Energy, relating to energy efficiency and renewable energy.



# SASB Index

According to the SASB Industry Level Materiality Map, the following categories are “the most likely material issues for companies” in the Solar Technology industry. The following table references accounting metrics within this report and other sources.







SASB Topic	Enphase alignment	Section in ESG
<b>Energy management in manufacturing</b> 	<p>Enphase does not manufacture its products and relies on contract suppliers and partners who set their own standards and practices for energy use. We do collect information from high-spending suppliers who have efforts underway to optimize operations and reduce electricity use.</p>	<b>Energy management</b>
<b>Water management in manufacturing</b> 	<p>With only ten Enphase offices worldwide, our water footprint remains small compared to other industry peers and manufacturers. We follow local, state, and federal regulations for water use and management. Except for three small offices with low headcounts, we are ISO 14001 certified for seven remaining offices where we follow proper wastewater treatment and have management systems in place that are verified by a third party.</p>	<b>Supply chain management</b>
<b>Hazardous waste management</b> 	<p>Enphase does not produce a lot of hazardous waste or material except for labs conducting research and development. All hazardous material will be stored and disposed of as per Occupational Safety and Health Administration (OSHA) requirements.</p>	<b>Waste and hazardous materials management</b>
<b>Ecological impacts of project development</b> 	<p>Enphase also relies on a strong network of distributors and partners in the installation, upkeep, and use of our microinverters. We work to address community and ecological impacts by collaborating with organizations such as GRID Alternatives, the largest nonprofit solar provider.</p>	<b>Access and affordability</b>
<b>Management of energy infrastructure integration and related regulations</b> 	<p>Enphase identifies annually risks pertinent to our business. We also track regulations that influence the development and dissemination of solar technology and influence and advance standards affecting our industry.</p>	<b>Management of energy infrastructure integration and related regulations</b>
<b>Product end-of life management and materials sourcing</b> 	<p>Innovation is one of our core principles. Sustainability is at our core and our purpose is to advance a sustainable future for all. We work to continuously make new iterations of our technology that increase efficiency to extend our products' lifecycles. We rely on our strong and long-lasting partnerships to carry out sustainable business practices throughout our value chain.</p>	<b>Supply chain management and materials sourcing</b>

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# United Nations sustainable development goals

Enphase supports the United Nations Sustainable Development Goals (SDGs), and remains committed to driving progress on select goals that are closely aligned to our ESG priorities. The following table references sections of this report that relate to each such goal.



	SDG Target	Report section	Alignment to Enphase
 <p><b>7</b> AFFORDABLE AND CLEAN ENERGY</p> <p>Ensure access to affordable, reliable, sustainable and modern energy for all</p>	<p>7.1</p> <p>7.2</p>	<p>Access and affordability, Product design and lifecycle management</p>	<p>Access to reliable, affordable, and modern energy services is what Enphase offers its customers. Enphase microinverters boast maximum reliability, and our next generation of off-grid solutions are paving the way for further energy access.</p> <p>As Enphase continues to grow and gain market share, it is accelerating the positive impact and contribution towards increasing the renewables energy mix globally.</p>
 <p><b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> <p>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</p>	<p>9.4</p> <p>9.5</p>	<p>Supply chain management, Material sourcing and efficiency, About us</p>	<p>The core business of Enphase contributes directly to the “adoption of clean and environmentally sound technologies and industrial processes.”</p> <p>Enphase has prioritized the growth of its R&amp;D teams globally, including in India which now contains 40% of total company employees with a strong emphasis on R&amp;D and innovation.</p> <p>Our energy storage systems provide resiliency and deliver energy independence.</p>
 <p><b>11</b> SUSTAINABLE CITIES AND COMMUNITIES</p> <p>Make cities and human settlements inclusive, safe, resilient and sustainable</p>	<p>11.3</p>	<p>Access and affordability, Employee health and safety</p>	<p>Sustainable urbanization is a priority for both the residential and small commercial applications of Enphase products and services. Additionally, Enphase supports this goal through its long-standing philanthropic activities that help to provide solar energy for low-income communities.</p>
 <p><b>13</b> CLIMATE ACTION</p> <p>Take urgent action to combat climate change and its impacts</p>	<p>13.1</p>	<p>Environment</p>	<p>The Enphase storage system helps communities around the world be more resilient in the face of natural disasters and grid outages, ensuring that a home is powered during periods of inclement weather, delivering energy independence and peace of mind.</p>



# Methodology

We relied upon the Sustainability Accounting Standards Board (SASB) to help us understand the areas that may be most relevant to our U.S. investors and we referred broadly to the Global Reporting Initiative (GRI) to help us identify areas that we may have missed. We drew upon the subject matter expertise of our colleagues throughout Enphase to collect and organize the content relative to the areas we identified in our benchmarking. Lastly, we compared our activities to the United Nations Sustainable Development Goals (SDGs) to assess how we may be contributing to these important goals.

# Forward-looking statements and non-GAAP measures

## Use of Forward-Looking Statements

This report contains forward-looking statements made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to statements regarding our key initiatives; our financial results and business strategies; our operations, logistics and supply chain, including management and efforts to reduce waste, consumption, emissions and offsetting of carbon dioxide; the capabilities and performance of our technology and products; our initiatives related to human capital; our product and data security efforts. Any statements that are not of historical fact, may be forward-looking statements. Words used such as “anticipates,” “believes,” “continues,” “designed,” “estimates,” “expects,” “goal,” “intends,” “likely,” “may,” “ongoing,” “plans,” “projects,” “pursuing,” “seeks,” “should,” “will,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these words. All forward-looking statements are based on our current assumptions, expectations and beliefs, and involve substantial risks and uncertainties that may cause results, performance or achievement to materially differ from those expressed or implied by these forward-looking statements. Therefore, you should not place undue reliance on our forward-looking statements. A detailed discussion of risk factors that affect our business is included in the filings we make with the Securities and Exchange Commission (SEC) from time to time, including our most recent reports on Form 10-K and Form 10-Q, particularly under the heading “Risk Factors.” Copies of these filings are available on the Enphase website at <http://investor.enphase.com/sec.cfm>, or on the SEC website at [www.sec.gov](http://www.sec.gov). All forward-looking statements in this presentation are based on information currently available to us, and we assume no obligation to update these forward-looking statements in light of new information or future events.

## Non-GAAP Financial Metrics

- The Company has presented certain non-GAAP financial measures in this presentation. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the United States of America, or GAAP. Reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure can be found on page 43 of this report. Non-GAAP financial measures presented by the Company include non-GAAP gross margin, operating expenses, income from operations, and adjusted free cash flow.
- These non-GAAP financial measures do not reflect a comprehensive system of accounting, differ from GAAP measures with the same captions and may differ from non-GAAP financial measures with the same or similar captions that are used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. As such, these non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. The Company uses these non-GAAP financial

measures to analyze its operating performance and future prospects, develop internal budgets and financial goals, and to facilitate period-to-period comparisons. Enphase believes that these non-GAAP financial measures reflect an additional way of viewing aspects of its operations that, when viewed with its GAAP results, provide a more complete understanding of factors and trends affecting its business.

- As presented in the “Reconciliation of Non-GAAP Financial Measures” page, each of the non-GAAP financial measures excludes one or more of the following items for purposes of calculating non-GAAP financial measures to facilitate an evaluation of the Company's current operating performance and a comparison to its past operating performance:
- Stock-based compensation expense. The Company excludes stock-based compensation expense from its non-GAAP measures primarily because they are non-cash in nature. Moreover, the impact of this expense is significantly affected by the Company's stock price at the time of an award over which management has limited to no control.
- Tariff refunds. This item represents approved tariff refunds by the U.S. Customs and Border Protection that qualify for the tariff exclusion on Chinese imported microinverter products that fit the dimensions and weight limits within a Section 301 Tariff exclusion under U.S. note 20(ss)(40) to subchapter III of chapter 99 of the Harmonized Tariff Schedule of the United States. Approved refunds relate to tariffs previously paid from September 24, 2018 to March 31, 2020 and are excluded from the non-GAAP measures as the refunds are non-recurring in nature for tariff costs incurred in the past and are not reflective of the Company's ongoing financial performance.
- Restructuring and asset impairment charges. The Company excludes restructuring charges due to the nature of the expenses being unplanned and arising outside the ordinary course of continuing operations. These costs primarily consist of fees paid for restructuring-related management consulting services, cash-based severance costs related to workforce reduction actions, asset write-downs of property and equipment and lease loss reserves, and other contract termination costs resulting from restructuring initiatives.
- Reserve for non-recurring legal matter. This item represents a charge taken for the potential settlement cost related to a dispute with a vendor. This item is excluded as it relates to a specific matter and is not reflective of the Company's ongoing financial performance.
- Acquisition related expenses and amortization. This item represents expenses incurred related to the Company's acquisition of SunPower's microinverter business, which are non-recurring in nature, and amortization of acquired intangible assets, which is a non-cash expense. Acquisition related expenses and amortization of acquired intangible assets are not reflective of the Company's ongoing financial performance.
- Adjusted free cash flow. This item represents cash flows from operating activities excluding payments for the acquisition reported in operating activities less purchases of property and equipment. The Company believes the adjusted free cash flow is the best measure of how much cash the business generates after accounting for capital expenditures.

# GAAP to non-GAAP reconciliation

\$ in MUSD	Q1'18	Q2'18	Q3'18	Q4'18	FY18	Q1'19	Q2'19	Q3'19	Q4'19	FY19	Q1'20	Q2'20	Q3'20
<b>Gross profit (GAAP)</b>	\$ 18.3	\$ 22.7	\$ 25.3	\$ 28.2	\$ 94.4	\$ 33.4	\$ 45.3	\$ 64.7	\$ 77.9	\$ 221.2	\$ 80.7	\$ 48.4	\$ 95.0
Stock-based compensation	0.2	0.4	0.3	0.1	1.1	0.2	0.4	0.5	0.5	1.7	0.6	1.3	1.2
Tariff refunds	-	-	-	-	-	-	-	-	-	-	-	-	(23.0)
<b>Gross profit (Non-GAAP)</b>	<b>\$ 18.5</b>	<b>\$ 23.1</b>	<b>\$ 25.6</b>	<b>\$ 28.3</b>	<b>\$ 95.5</b>	<b>\$ 33.6</b>	<b>\$ 45.7</b>	<b>\$ 65.2</b>	<b>\$ 78.4</b>	<b>\$ 222.9</b>	<b>\$ 81.3</b>	<b>\$ 49.7</b>	<b>\$ 73.2</b>
<b>Gross margin (GAAP)</b>	26.2%	29.9%	32.4%	30.5%	29.9%	33.3%	33.8%	35.9%	37.1%	35.4%	39.2%	38.5%	53.2%
Stock-based compensation	0.3%	0.6%	0.4%	0.2%	0.3%	0.2%	0.3%	0.3%	0.2%	0.3%	0.3%	1.1%	0.7%
Tariff refunds	-	-	-	-	-	-	-	-	-	-	-	-	(12.9)%
<b>Gross margin (Non-GAAP)</b>	<b>26.5%</b>	<b>30.5%</b>	<b>32.8%</b>	<b>30.7%</b>	<b>30.2%</b>	<b>33.5%</b>	<b>34.1%</b>	<b>36.2%</b>	<b>37.3%</b>	<b>35.7%</b>	<b>39.5%</b>	<b>39.6%</b>	<b>41.0%</b>
<b>Operating expenses (GAAP)</b>	\$ 20.8	\$ 23.3	\$ 25.6	\$ 23.2	\$ 92.8	\$ 26.2	\$ 27.9	\$ 31.0	\$ 33.4	\$ 118.5	\$ 36.0	\$ 37.5	\$ 43.2
Stock-based compensation	(1.4)	(3.9)	(3.7)	(1.4)	(10.4)	(3.0)	(4.2)	(5.0)	(5.6)	(17.8)	(6.9)	(11.0)	(13.1)
Restructuring and asset impairment charges	-	-	(2.6)	(1.5)	(4.1)	(0.4)	(0.7)	(0.5)	(1.1)	(2.6)	-	-	-
Reserve for non-recurring legal matter	(1.8)	-	-	-	(1.8)	-	-	-	-	-	-	-	-
Acquisition related expenses and amortization	-	(0.4)	(0.7)	(0.5)	(1.6)	(0.5)	(0.5)	(0.5)	(0.6)	(2.2)	(0.6)	(0.5)	(0.5)
<b>Operating expenses (Non-GAAP)</b>	<b>\$ 17.7</b>	<b>\$ 19.0</b>	<b>\$ 18.6</b>	<b>\$ 19.7</b>	<b>\$ 75.0</b>	<b>22.3</b>	<b>22.5</b>	<b>25.0</b>	<b>26.1</b>	<b>\$ 95.9</b>	<b>28.5</b>	<b>26.0</b>	<b>29.6</b>
<b>Income (loss) from operations (GAAP)</b>	\$ (2.5)	\$ (0.6)	\$ (0.4)	\$ 5.0	\$ 1.6	\$ 7.1	\$ 17.4	\$ 33.7	\$ 44.4	\$ 102.7	\$ 44.7	\$ 10.9	\$ 51.8
Stock-based compensation	1.6	4.3	4.1	1.5	11.4	3.3	4.6	5.5	6.2	19.4	7.5	12.3	14.4
Tariff refunds	-	-	-	-	-	-	-	-	-	-	-	-	(23.0)
Restructuring and asset impairment charges	-	-	2.6	1.5	4.1	0.4	0.7	0.5	1.1	2.6	-	-	-
Reserve for non-recurring legal matter	1.8	-	-	-	1.8	-	-	-	-	-	-	-	-
Acquisition related expenses and amortization	-	0.4	0.7	0.5	1.6	0.5	0.5	0.5	0.6	2.2	0.6	0.5	0.5
<b>Income from operations (Non-GAAP)</b>	<b>\$ 0.9</b>	<b>\$ 4.1</b>	<b>\$ 7.0</b>	<b>\$ 8.6</b>	<b>\$ 20.5</b>	<b>\$ 11.3</b>	<b>\$ 23.2</b>	<b>\$ 40.2</b>	<b>\$ 52.3</b>	<b>\$ 127.0</b>	<b>\$ 52.8</b>	<b>\$ 23.7</b>	<b>\$ 43.7</b>
<b>Cash flows from operating activities</b>	<b>\$ 3.4</b>	<b>\$ 4.1</b>	<b>\$ 6.8</b>	<b>\$ 1.9</b>	<b>\$ 16.1</b>	<b>\$ 17.1</b>	<b>\$ 14.8</b>	<b>\$ 5.0</b>	<b>\$ 102.3</b>	<b>\$ 139.1</b>	<b>\$ 39.2</b>	<b>\$ 25.4</b>	<b>\$ 67.5</b>
Payments for acquisition reported in cash flows from operating activities	-	-	6.0	4.0	10.0	-	-	-	-	-	-	-	-
Purchases of property and equipment	(1.0)	(0.4)	(0.9)	(1.8)	(4.2)	(0.7)	(2.5)	(4.2)	(7.4)	(14.8)	(3.4)	(4.4)	(3.9)
<b>Adjusted free cash flow</b>	<b>\$ 2.3</b>	<b>\$ 3.6</b>	<b>\$ 11.9</b>	<b>\$ 4.1</b>	<b>\$ 22.0</b>	<b>\$ 16.4</b>	<b>\$ 12.3</b>	<b>\$ 0.8</b>	<b>\$ 94.9</b>	<b>\$ 124.3</b>	<b>\$ 35.8</b>	<b>\$ 21.0</b>	<b>\$ 63.6</b>

Amounts may not total due to rounding



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