Letter to Shareholders

ENPHASE.

Use of Forward-Looking Statements

This presentation 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 concerning future financial performance; our business strategies, including anticipated trends, growth and developments in markets in which we target; the anticipated market adoption of our current and future products; the capabilities and performance of our technology and products; planned changes to our technology and products; our performance in operations, including component supply management, product quality, and customer service. These forward-looking statements are based upon current expectations that involve risks and uncertainties. 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 report on Form 10-K, 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. 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.

Industry Information

Information regarding market and industry statistics in this presentation is based on information available to us that we believe is accurate. It is generally based on publications that are not produced for purposes of economic analysis.

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 in the Appendix to this presentation. Non-GAAP financial measures presented by the Company include non-GAAP gross margin, operating expenses, income (loss) from operations, and net loss.
- 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" table in the Appendix to this presentation, 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.
- Restructuring 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. This item represents expenses incurred related to the Company's acquisition of SunPower's microinverter business, which are non-recurring in nature and not reflective of the Company's ongoing financial performance.
- Non-cash interest expense. The Company excludes non-cash interest expense, which consists primarily of amortization of debt issuance costs, because the expense does not represent a cash outflow for the Company except in the period the financing was secured and such amortization expense is not reflective of the Company's ongoing financial performance.

Copyright and Trademark Attribution

Badri Kothandaraman,
President and CEO

Dear fellow shareholders,

It has been nearly 18 months since I became the CEO of our company. From the very beginning, it was crystal clear what needed to be done. I remember being amazed by our technology, products and the quality mindset of our employees. Usually, this is the most difficult part for any company to get right. Instead, the company faced significant challenges because we were operationally deficient in some areas and did not have business processes for managing costs or pricing. We had to take steps to strengthen our operations and become a more mature company.

Enphase Energy was founded in 2006 with five key elements to our value proposition: deliver products that are productive, reliable, simple, smart, and safe. Our value proposition rings as true today as when the company was founded. However, the company has undergone a major strategic transformation moving from "growth at any cost" to "profitable growth."

This letter addresses how we accomplished this transformation and what to expect going forward. First, a reminder of what makes our products so amazing along with the markets we play in.

Software, semiconductor and power electronics expertise are central to our strategy.

The brain of the Enphase microinverter is the semiconductor-based Application Specific Integrated Circuit (ASIC) which enables power control and communication to the microinverter. With every microinverter generation, the ASIC achieves higher levels of integration and helps to reduce the total number of components in the microinverter. Our current ASIC called "Heron 3" in the IQ 7™ microinverter contains 3.8 million gates, while our next generation "Swift" ASIC in the IQ 8™ microinverter packs in 5.0 million gates.

IQ microinverters have a software-defined architecture that allows for rapid entry into new regions, complemented by the Enlighten™ cloud platform for homeowners and the Installer Toolkit™ for our partners. Our microinverter system includes a gateway device that is connected to the cloud through the homeowner's router or a cellular modem. This gateway device communicates to each microinverter through Power Line Communication (PLC) technology via the AC power line, thus ensuring all the microinverters are cloud-connected Internet of Things (IoT) devices.

Residential solar and storage are attractive markets.

Solar and storage technologies have the potential to enable energy independence for the homeowner through self-consumption. We estimate that the worldwide solar residential market is more than 13GW in 2019, with a 10% Compound Annual Growth Rate (CAGR) from 2016 through 2022. Our served available market is approximately 40% of this market today. The residential storage market is also picking up a lot of steam and is expected to be around 1.5GWh in 2019 with a 34% CAGR from 2016 through 2022 (*Frost and Sullivan Report, 2016*). These volume increases, coupled with the residential segment catering to customers paying retail rates, make our served markets very attractive.

2012 TO 2016 – GROWING REVENUE TO $300M/YR

Enphase became a public company on March 30, 2012. Roughly every five quarters since then, we released a new generation of microinverter. This product evolution allowed us to follow the performance curves associated with Moore's Law for semiconductors and solidify our value proposition of quality and reliability. We expanded beyond our Petaluma location: added an R&D center in New Zealand in 2011; started European sales in 2012, including the UK, Switzerland and Benelux; and expanded into Australia in 2013. We shipped our 10 millionth microinverter in November 2015.

Enphase faced an existential threat in 2016.

While we were growing our revenue, our product innovation engine was running well, but we were not operationally savvy in reducing product costs, managing pricing and controlling operating expenses. As a result, we found ourselves in a challenging situation towards the end of 2016, when our cash dropped below the level we needed to effectively manage our business. Something needed to change.

2017 TO 2018 – EMPHASIZING PROFITABILITY

Fortunately, we had new investors, T.J. Rodgers and John Doerr, who believed in the technology and injected cash into the company in January 2017. We started the restructuring journey, aided by leadership and business process changes. As documented in my 2017 Letter to Shareholders, we restructured and retooled operations. In July 2017, we opened an R&D and Operations center in India to take advantage of the great talent available there.

The focus was squarely on cash management and gross margin improvement through supply chain optimization, pricing management and IQ new product introduction. At our Analyst Day in June 2017, we announced our financial goals in the form of a 30-20-10 target financial model. This set our targets for Gross Margin at 30% of Revenue, Operating Expenses at 20% of Revenue and Operating Income at 10% of Revenue by Q4'18. (These target levels are tied to our non-GAAP results.)

So how did we do in 2018? Our revenue was $316.2 million, a 10% increase from 2017. For Q4'18, our results were 30.7% non-GAAP gross margin, 21.4% non-GAAP operating expenses, and 9.3% non-GAAP operating income [1]. We are pleased with the significant progress towards making the 30-20-10 target financial model a reality as we exited 2018. We ended Q4'18 with $106.2 million in cash. These financials represented a significant accomplishment and reaffirmed customer confidence, and it's important to understand how we did it.

There was no magic formula in making progress towards reaching our financial goals; we did it with a combination of disciplined planning and rigorous execution. In the seminal book titled *Execution*, Ram Charan and Larry Bossidy state that "organizations don't execute unless the right people, individually and collectively, focus on the right details at the right time." On December 31, 2018, Enphase had 438 employees; 66.5% were hired since April 1, 2017, when the company had 391 employees. While we overhauled the executive management team and transitioned operations to cost-effective locations, we were still able to capitalize on the expertise of our co-founders, Raghu Belur and Martin Fornage.

PERFORMANCE METRICS

Dollars in thousands, except per-share data and percentages

	GAAP		
	Q4 2018	**2018**	**2017**
Revenue	$ 92,289	$ 316,159	$ 286,166
Gross margin	30.5 %	29.9%	19.6%
Operating expense	25.1%	29.4%	33.3%
Operating income (loss)	$ 5,003	$ 1,596	$ (39,378)
Net income (loss)	$ 709	$ (11,627)	$ (45,192)
Basic EPS	$ 0.01	$ (0.12)	$ (0.54)
Diluted EPS	$ 0.01	$ (0.12)	$ (0.54)

	Non-GAAP [1]		
	Q4 2018	**2018**	**2017**
Revenue	$ 92,289	$ 316,159	$ 286,166
Gross margin	30.7 %	30.2%	20.0%
Operating expense	21.4%	23.7%	25.5%
Operating income (loss)	$ 8,565	$ 20.535	$ (15,733)
Net income (loss)	$ 5,092	$ 10,013	$ (20,530)
Basic EPS	$ 0.05	$ 0.10	$ (0.25)
Diluted EPS	$ 0.04	$ 0.10	$ (0.25)

(1) See Appendix for reconciliation to comparable GAAP Measures

Reaching our gross margin targets required rigor and discipline regarding cost and price. We ceased destructive deal-making and chasing low margins.

We spent 2018 rolling out IQ 7™ product family, the smallest, lightest and most powerful microinverter we have ever made. Every region of the world where our products are sold is now on this seventh generation microinverter. In Q4'18, 84% of our microinverter shipments were IQ 7.

Our average selling price (ASP) for the full microinverter system was higher in 2018 versus 2017. We established rules for pricing. Likewise, we were diligent about evaluating businesses to ensure that we engage with customers who are willing to pay for the value that Enphase delivers. We systematically rolled out high-power and high-efficiency variants of the IQ 7 microinverters in 2018. Selling these variants simultaneously improved the ASP and margin as well as ultimately delivering a better price per watt to the installer – a true win-win. These higher efficiency products were sold both stand-alone and to AC Modules (ACM) partners including Solaria and SunPower.

The 30-20-10 target financial model explicitly focuses on profitability at the expense of market share. A financially stable Enphase is better for investors, partners, suppliers, and customers. Our Q4'18 revenue of $92.3 million is our highest since Q4'16 and our non-GAAP gross margin improved from 18.2% in Q4'16 to 30.7% in Q4'18.

We would like to acknowledge key investments made in Enphase during 2018. In February 2018, we sold common stock for gross proceeds of approximately $20.0 million to an entity affiliated with Isidoro Quiroga, a prominent Chilean entrepreneur and investor. In August 2018, we raised approximately $62.4 million from a convertible debt offering. We subsequently used a portion of these proceeds to repay in full our high-interest bearing senior secured term loan with Tennenbaum Capital Partners, LLC in January 2019.

We made significant improvements in our customer experience, but we have much more to do.

Quality and customer service are the cornerstones of our strategy and were instrumental in our financial turnaround in 2018. We began focusing on call center metrics in the U.S., Europe and Australia. Our average customer wait times were approximately two minutes by the end of 2018, down from greater than ten minutes in 2017. The key metric we used to measure customer experience is the Net Promoter Score, or NPS, which is calculated based on feedback from customer surveys on how likely customers or partners will recommend Enphase to a friend or colleague. Our NPS in North America was approximately 50% in Q4'18.

We introduced self-service tools such as the Service-On-The-Go™ which allow our installer partners to submit returns from their mobile devices. We also introduced a Seed Stock Program, which allows installer partners to use microinverters from their own inventory for serving homeowners, versus waiting for a shipment from Enphase. Finally, we launched an upgrade program for early adopters of our microinverters. Approximately 18% of the customers we contacted asked for some form of an upgrade during 2018, reflecting confidence in the considerable improvements in quality and reliability over the years. We have seen a substantial improvement in quality with every generation of microinverters and consistently hear customers reaffirm this.

We are working closely with customers and suppliers to manage supply shortages.

Nearly every customer finished the year 2018 with higher demand than Enphase could supply. IQ 7 component shortages constrained our revenue in the second half of 2018, and we worked closely with our customers and partners to manage these shortages. We made the necessary investments to increase our microinverter supply going forward and expect additional supply to become available in the second half of 2019.

In summary, we achieved two out of the three priorities for 2018 which I set forth in my letter last year. We laid the foundation for great customer experience and we made significant progress towards the 30-20-10 target financial model. However, we did not achieve the third priority, which was gearing up for the launch of our Ensemble™ Solar and Storage technology. The promise of our grid-agnostic solution, including the IQ 8 microinverter, is as vibrant today as it was a year ago. The software and hardware complexities are more challenging than we anticipated. A small win however, was the shipment of our pure off-grid microinverter in limited quantities to an IQ 8 partner in Q4'18. We believe this demonstration of off-grid capability is a promising precursor to future success.

2019 – PRIORITIES

We believe our execution in 2018 positions us well to take advantage of future growth opportunities. But we need to maintain focus in order to capitalize on such opportunities. Our top three priorities for 2019 are highlighted below.

Customer experience matters.

As stated before, quality and customer service constitute customer experience. Our long-term target is 500 defects per million (dppm) on an annual basis. We expect to make progress towards this goal by using the Pareto principle and 8D method of problem solving. On the service front, we must treat our installer, distributor and module partners right, so we can serve our homeowner customers well. Our target is to achieve a worldwide NPS of 60% or higher in 2019. Not only is this an area where Enphase can continue to improve, it is an industry-wide area of weakness. We are convinced that continued improvements will make service a competitive strength for Enphase.

Improve internal business processes.

There are three critical business processes we are working on this year: Operational Business Process for streamlining the Quote to Cash Cycle, New Product Business Process for launching new products predictably and Human Resources Business Process for talent management. Although not as obvious to the outside world, these processes are critical in improving every aspect of Enphase for sustainable long-term profitable growth.

Focus on the vectors for profitable top line growth.

In quarterly earnings conference calls, we outline our four vectors for achieving profitable top line growth: IQ 7™ regional expansion, high-power and high-performance products, ACMs, and Ensemble™ Solar and Storage technology.

As stated before, the IQ 7 transition is almost complete. Component shortages limited our ability to meet customers demand and we expect to alleviate these shortages in the second half of 2019, allowing us to unlock this vector.

The second vector involves introducing high-power products, including IQ 7A™, which cater to 375-450W DC panels, much like the IQ 7+™ and IQ 7X™ which cater to 325-400W DC panels. We have started sampling the IQ 7A product in limited quantities to one of our lead customers.

ACMs represent the third vector as part of our strategy to achieve profitable top line growth. Approximately 420 different installers have used Enphase Energized™ ACMs. This plug and play solution allows installers to be more competitive through improved logistics, reduced installation time, faster inspection and training. We completed our acquisition of SunPower's microinverter business in August 2018 and began volume shipments of our IQ 7XS™ in Q4'18, with a continuing ramp in 2019. SunPower joins other leading module manufacturers such as Solaria, LONGi, Panasonic, and LG in developing Enphase Energized™ ACMs and we are excited about strengthening these partnerships in 2019.

Ensemble™ Solar and Storage technology represents a complete system that provides homeowners with new levels of choice and energy independence. With improved business processes as outlined above and a high-quality robust solution for customers, we expect to release Ensemble grid-agnostic products in a phased manner starting in Q4'19. While there will be limited financial contribution from Ensemble in 2019, we will be preparing the market, aligning customers and educating homeowners for an expected robust 2020 with this technology. Despite the delay, we are confident the additional work towards releasing a complete system will be appreciated by our customers in the long run.

FINAL THOUGHTS

The last two years of extraordinary work by our employees, with strong support from our customers, partners and shareholders has enabled us to build a solid financial foundation. This allows us to focus on building amazing products to provide outstanding customer experience which will drive profitable growth in the years to come.

To be continued.

Badri Kothandaraman

Appendix

ENPHASE ENERGY, INC.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
(In thousands, except per share data)
(Unaudited)

	Three Months Ended			Year Ended	
	December 31, 2018	September 30, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Gross profit (GAAP)	$ 28,165	$ 25,264	$ 18,989	$ 94,445	$ 56,043
Stock-based compensation	126	330	275	1,071	1,072
Gross profit (Non-GAAP)	$ 28,291	$ 25,594	$ 19,264	$ 95,516	$ 57,115
Gross margin (GAAP)	30.5 %	32.4 %	23.8 %	29.9 %	19.6 %
Stock-based compensation	0.2 %	0.4 %	0.4 %	0.3 %	0.4 %
Gross margin (Non-GAAP)	30.7 %	32.8 %	24.2 %	30.2 %	20.0 %
Operating expenses (GAAP)	$ 23,162	$ 25,638	$ 21,122	$ 92,849	$ 95,421
Stock-based compensation (1)	(1,395)	(3,721)	(1,174)	(10,361)	(5,655)
Restructuring and asset impairment charges	(1,540)	(2,588)	(1,991)	(4,128)	(16,918)
Reserve for non-recurring legal matter	—	—	—	(1,765)	—
Acquisition related expenses and amortization	(501)	(710)	—	(1,614)	—
Operating expenses (Non-GAAP)	$ 19,726	$ 18,619	$ 17,957	$ 74,981	$ 72,848
(1) Includes stock-based compensation as follows:					
Research and development	$ 295	$ 878	$ 579	$ 2,940	$ 2,573
Sales and marketing	565	1,151	268	3,074	1,157
General and administrative	535	1,692	327	4,347	1,925
Total	$ 1,395	$ 3,721	$ 1,174	$ 10,361	$ 5,655
Income (loss) from operations (GAAP)	$ 5,003	$ (374)	$ (2,133)	$ 1,596	$ (39,378)
Stock-based compensation	1,521	4,051	1,449	11,432	6,727
Restructuring and asset impairment charges	1,540	2,588	1,991	4,128	16,918
Reserve for non-recurring legal matter	—	—	—	1,765	—
Acquisition related expenses and amortization	501	710	—	1,614	—
Income (loss) from operations (Non-GAAP)	$ 8,565	$ 6,975	$ 1,307	$ 20,535	$ (15,733)
Net income (loss) (GAAP)	$ 709	$ (3,470)	$ (2,940)	$ (11,627)	$ (45,192)
Stock-based compensation	1,521	4,051	1,449	11,432	6,727
Restructuring and asset impairment charges	1,540	2,588	1,991	4,128	16,918
Reserve for non-recurring legal matter	—	—	—	1,765	—
Acquisition related expenses and amortization	501	710	—	1,614	—
Non-cash interest expense	821	747	183	2,701	1,017
Net income (loss) (Non-GAAP)	$ 5,092	$ 4,626	$ 683	$ 10,013	$ (20,530)
Net income (loss) per share, basic (GAAP)	$ 0.01	$ (0.03)	$ (0.03)	$ (0.12)	$ (0.54)
Stock-based compensation	0.01	0.04	0.02	0.11	0.08
Restructuring and asset impairment charges	0.01	0.02	0.02	0.04	0.20
Reserve for non-recurring legal matter	—	—	—	0.02	—
Acquisition related expenses and amortization	0.01	0.01	—	0.02	—
Non-cash interest expense	0.01	0.01	—	0.03	0.01
Net income (loss) per share, basic (Non-GAAP)	$ 0.05	$ 0.05	$ 0.01	$ 0.10	$ (0.25)
Shares used in basic per share calculation GAAP and Non-GAAP	106,638	102,798	85,689	99,619	82,939
Net income (loss) per share, diluted (GAAP)	$ 0.01	$ (0.03)	$ (0.03)	$ (0.12)	$ (0.54)
Stock-based compensation	0.01	0.03	0.02	0.11	0.08
Restructuring and asset impairment charges	0.01	0.02	0.02	0.04	0.20
Reserve for non-recurring legal matter	—	—	—	0.02	—
Acquisition related expenses and amortization	—	0.01	—	0.02	—
Non-cash interest expense	0.01	0.01	—	0.02	0.01
Convertible note interest (2)	—	—	—	0.01	—
Net income (loss) per share, diluted (Non-GAAP) (2)	$ 0.04	$ 0.04	$ 0.01	$ 0.10	$ (0.25)
Shares used in diluted per share calculation GAAP	113,888	102,798	85,689	99,619	82,939
Shares used in diluted per share calculation Non-GAAP	125,589	110,900	95,620	111,696	82,939

(2) Calculation of non-GAAP diluted net income per share for the three months and year ended December 31, 2018 excludes convertible note interest expense, net of tax of $0.5 million and $0.7 million, respectively, from non-GAAP net income.

Enphase Energy Management System

IQ Microinverter

IQ Combiner

AC Battery

Enlighten™ mobile app

ENPHASE

47281 Bayside Pkwy.
Fremont, CA 94538
enphase.com