PRESCIENCE POINT
CAPITAL MANAGEMENT

ENPHASE ENERGY, INC.

NASDAQ: ENPH

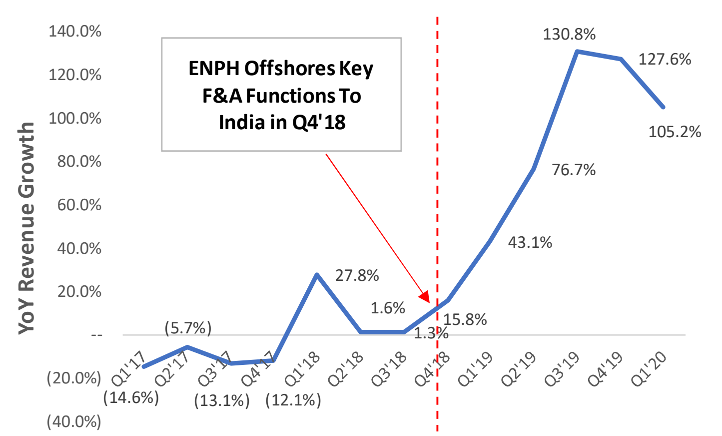
TARGET PRICE: DELISTED

<u>Former ENPH Employee #1:</u> The current market position attained by the company and its stellar revenues are all thanks to inflated numbers…From my vantage point, it appears that the entire efforts are on to pump up the revenues, push up the stock price, cash in and milk the cow dry, before this company too hurtles the SunEdison way towards bankruptcy….

<u>Former ENPH Employee #2:</u> There was a strong rumor in the company last year that this growth is largely unrealistic and manipulated. The business has undoubtedly grown over the 2018-19 cycle…But most employees that I spoke to told me that the numbers just don't add up

<u>Former ENPH Employee #3:</u> Per the GAAP, these deferred revenues should be in the liabilities corner of the balance sheet. But what Yang and Eric under Badri Kothandaraman are doing is overstating income by treating deferred revenue as earned revenue by recognizing revenue before it is actually earned…It is like a pyramid scheme which cannot stop, and if it does, the entire accounting process will completely unravel…there were many questions I asked about the deferred revenue system which to me were appearing to be extra ordinary accounting practices……(I) was told to shut up and comply…

ENPH Offshores Finance & Accounting Functions At The End Of FY'18, Revenue Suddenly Explodes (?!)



Source: ENPH filings with the SEC.

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Prescience Point Research Opinions:

- At least $205.3m of ENPH's reported FY'19 US revenue is fabricated, and a significant portion of its international revenue is fabricated as well
- Most, if not all, of the 2,080 Bps expansion in ENPH's gross margin since Q2'17 is also fabricated
- Deloitte should launch an in-depth investigation of ENPH's accounting practices
- Regulatory and law enforcement agencies with subpoena power should launch a full investigation of the Company, its accounting, its disclosures and trading by insiders
- The Board of Directors should establish an independent committee to examine the findings and analyses presented in this report

DATE OF REPORT
6/17/2020

SHARE PRICE
$52.76

52-WK HI / LOW
$16.15 / $70.36

AVG DAILY VOLUME
6.0m

FULLY DIL. SHARES
138.1m

MARKET CAP
$7.3Bn

DEBT + WARRANY LIAB.
$433.3m

ENTERPRISE VALUE
$7.2Bn

Research Highlights:

- At the end of FY'18, ENPH curiously offshored key finance & accounting ("F&A") functions to India
- According to former employees based in India, ENPH is using its offshore F&A team to assist in cooking the Company's books at the direction of US executives
- ENPH has stacked its executive teams in both the US and India with numerous loyal, former colleagues from Cypress and SunEdison, seemingly to create an environment conducive to fraud
- According to former employees, Ahmad Chatila, the disgraced former SunEdison CEO, is working behind-the-scenes for ENPH and is alleged to be "running the show from the sidelines at Enphase"
- Almost all the former employees our investigators spoke with either claimed or believed that ENPH's financials are fiction. Numerous current employees are alleged to be similarly skeptical
- According to former employees, a significant portion of ENPH's astronomical growth over the past two years is attributable to improper deferred revenue accounting practices
- According to an employee of a distributor in India, his/her company severed its ties with ENPH based on its belief that ENPH was working directly with installers to fraudulently inflate invoices
- According to a solar industry participant in India, employee turnover in ENPH's Bangalore office is an astronomical 70% annually – this is a clear symptom, in our view, of ENPH's alleged book cooking and apparently toxic work culture
- ENPH's largest shareholder suspiciously sold his entire 11% stake in the span of just one day on May 22nd, 2020 which is right around the time our private investigation was concluding. We believe he sold because he learned of the existence our private investigation.
- ENPH executives and board members appear to have caught wind of our private investigation as well, based on their urgent sale of a massive 2.4m shares, amounting to $120.9m, in open market dispositions in a span of just 15 days from June 1st, 2020 to June 15th, 2020 – an admission of guilt?
- The nearly impossible reduction in ENPH's unit costs or cost of revenue / watt from Q3'18 to Q3'19 of 23.6%, or 37.6% on a tariff-adj. basis, amounts to proof, in our view, that the Company's reported gross margin is just as, if not more, inflated than its revenue
- Wood Mackenzie data shows that ENPH's market share declined by 518 Bps from 25.4% in FY'17 to 20.3% in FY'19, which directly contradicts the parabolic revenue growth ENPH has reported – proof, in our view, that its reported revenue is grossly inflated
- Large distributors of ENPH products in the US, accounting for an estimated 69.5% of the distributor market, reported growth in ENPH product sales and market share changes which were far below and did not align with the Company's reported US revenue growth – yet more proof, in our view, that ENPH's reported revenue is grossly inflated
- Egregious accounting discrepancies and irregularities in ENPH's financial reports amounts to proof, in our view that its revenue and gross margin in Q1'18 and Q2'18 were significantly inflated by improper deferred revenue accounting
- In 2018, ENPH apparently acquired ActivStor, which was a startup co-founded by one of its own employees – a Cypress and SunEdison alum who also attended the same college as CEO Kothandaraman. Alarmingly, this transaction was not disclosed in ENPH's SEC filings, and the amount paid for this acquisition was completely excluded from its financial statements
- ENPH's deferred revenue accounting in Q4 2019 and Q1 2020 does not appear to reconcile with GAAP
- ENPH's reported safe harbor revenue from Q3'19 to Q1'20 of $88.9m was suspiciously large and is almost double the amount reported by competitor SolarEdge on a % of revenue basis
- SEDG's former CEO and a mainstream financial journalist recently called ENPH's revenue growth into question
- Former CFO Bert Garcia suddenly resigned in June 2018, right around the time when ENPH's apparent fraudulent accounting practices appear to have begun

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Introduction

Prescience Point is short Enphase Energy ("ENPH" or the "Company") because we believe the Company's financial statements filed with the SEC are fiction. Based on our research, we estimate that at least $205.3m of its reported US revenue in FY 2019 was fabricated. Based on statements provided by former employees and other solar industry participants, it appears that the Company inflated its international revenue significantly as well. We also believe that most, if not all, of the enormous 2,080 Bps expansion in the Company's gross margin during Kothandaraman's tenure as CEO – from 18.4% in Q2 2017 to 39.2% in Q1 2020 - is fiction. We believe government bodies should investigate ENPH, Deloitte should launch an in-depth investigation of the Company's accounting practices, and the Board of Directors should establish an independent committee to examine the findings and analyses presented in this report.

In our initial reports on ENPH published in 2018 (here, here), we provided what we believed to be proof that ENPH had used improper deferred revenue accounting to significantly inflate its reported revenue and gross margins. Unfortunately, our warnings fell on deaf ears, and in the almost two years since our initial report, ENPH's share price has continued to skyrocket as its reported financial performance has become increasingly disconnected from reality.

A breakthrough in our research of ENPH occurred in late 2019 when we were told by a former ENPH employee that the Company had, peculiarly, offshored many of its key finance and accounting ("F&A") functions to its India-based office in late 2018. As past accounting scandals have shown, offshore entities can and have been used as a tool to help companies perpetrate fraud. Given this, and our previous reservations about ENPH's accounting practices, we viewed this as a significant red flag that warranted further investigation.

To learn more about ENPH's India-based operations, we hired a reputable third-party private investigation firm to conduct on-the-ground research in India. During its weeks-long investigation, our private investigators spoke with numerous former ENPH employees and solar industry participants based in India. The findings of this investigation confirmed our suspicions and uncovered numerous troubling revelations about the Company's accounting and business practices. These findings include the following:

- According to former employees, ENPH is using its India-based F&A team to assist the Company in carrying out its allegedly fraudulent accounting practices, under the direction of the US executive team
- ENPH has stacked its executive teams in both the US and India with numerous close, former colleagues from Cypress and SunEdison, seemingly for the purpose of creating a team of 'yes-men' and an environment conducive to fraud. These hires troublingly include Ahmad Chatila, the disgraced former SunEdison CEO, who is purportedly working behind-the-scenes for ENPH and has a considerable amount of influence within the Company
- Almost all of the former employees our private investigators spoke with either claimed or believed that the Company's financial performance was fabricated. Our investigators were also told that numerous current employees are similarly skeptical about ENPH's reported financials
- According to former employees, a large portion of the Company's astronomical growth over the past two years is attributable to improper deferred revenue accounting practices which appear to have become more severe since our initial reports. Furthermore, according to an employee of an ENPH distributor in India, his/her company severed its relationship with ENPH based on its belief that ENPH was circumventing them and working directly with installers to fraudulently inflate invoices.
- According to an industry participant with knowledge of ENPH's India-based operations, employee turnover in the Company's Bangalore office is an alarming 70% annually. We believe ENPH's apparent book cooking and toxic work culture is likely the driving force behind the mass exodus of its India employees.

Meanwhile, ENPH executives and board members, as well as its previous largest shareholder, appear to have learned of the existence of our private investigation and are desperately trying to unload their shares before the ship sinks. In the span of just four days from June 1st, 2020 to June 4th, 2020, ENPH executives sold an unprecedented 254,097 shares worth a whopping $13.7m in open market dispositions, which significantly exceeds the 187,508 or $3.9m worth of shares ENPH executives had sold in the almost 2.5 years prior. Additionally, board member TJ Rodgers sold an astonishing 2.0m shares worth $98.1m, representing almost 60% of his total holdings, in open market dispositions in the span of just four days from June 8th, 2020 to June 11th, 2020. Furthermore, Ben Kortlang disposed of 180,000 ENPH shares worth $9.0m, representing a whopping 65% of his total holdings, in open market dispositions in the span of just one day on June 15th. Lastly, Chilean entrepreneur Isidoro Quirogo, who was ENPH's largest shareholder with an ~11% stake worth more than $800m, sold his entire investment in the span of just one day on May 20th, 2020.

Suspiciously, these frantic and unprecedented share sales by ENPH executives, ENPH board members, and Quirogo occurred within days of the completion of our private investigation in late May. We do not believe this is a coincidence. Instead, we believe that these parties caught wind of our private investigation and were in a panicked rush to dump $millions of shares and cash-in before our findings were made public, indicating that the troubling findings of our private investigation are accurate.

But wait, there's more. Our further diligence of ENPH went far beyond our private investigation and included a thorough examination of ENPH's reported financial statements and disclosures, conversations with several solar industry experts, conversations with the largest distributors of ENPH products and an examination of solar industry datasets and other online information sources. From this additional research and analysis, we uncovered multiple, additional smoking guns and numerous other red flags which, in our view, confirm that ENPH's financials are fabricated and grossly inflated. The additional smoking guns we uncovered include,

- the nearly impossible reduction in ENPH's unit costs or cost of revenue per watt from Q3 2018 to Q3 2019 of 23.6%, or 37.6% on a tariff-adjusted basis, which puzzlingly occurred during the same time period that Section 301 tariffs of 25% were levied on ENPH's microinverters. We cannot recall ever seeing a company reduce its manufacturing / unit costs by such a large amount in such a short period of time.
- the data we received from large MLPE distributors in the US, accounting for an estimated 69.5% of the distributor market, who reported growth in ENPH product sales and market share changes which were far below and did not align with the Company's reported growth,
- the large disconnect between Wood Mackenzie MLPE market share data, which shows that ENPH's market share of US residential solar installations actually declined by 518 Bps from FY 2017 to FY 2019, and the more than doubling in ENPH's reported US revenue during that same timeframe. When asked to provide a reason for this large discrepancy, representatives from Wood Mackenzie could not provide one, and instead pointed us to a recent Financial Times article that called into question ENPH's reported revenue growth. and
- egregious accounting irregularities and discrepancies which, in our view, confirm that ENPH used improper deferred revenue accounting to significantly inflate its financial performance in Q1 2018 and Q2 2018

Following the publishing of our initial reports, ENPH management successfully explained away the egregious accounting issues we uncovered to its auditors, as evidenced by Deloitte's baffling decision to issue an unqualified audit opinion in both FY 2018 and FY 2019. However, given the overwhelming evidence of fraudulent behavior presented in this report, which is backed by numerous former employees, numerous solar industry participants, a forensic accountant, and reliable third-party data sources, we believe that this time will be different, and that this sham turnaround story will soon meet its inevitable, dire fate.

We hope that current and future investors and creditors familiarize themselves with the risks we have addressed and take immediate action to preserve the value of their holdings. We also hope that the NASDAQ, regulatory agencies, and Deloitte take action to protect investors. We believe that the SEC and Deloitte should launch a full-scale investigation into ENPH's accounting and business practices.

Background

The genesis of ENPH's "turnaround" occurred when the Company hired Badri Kothandaraman ("Kothandaraman") – who had worked previously for around 21 years at Cypress Semiconductors ("Cypress") – as COO and then subsequently promoted him to CEO in September 2017.

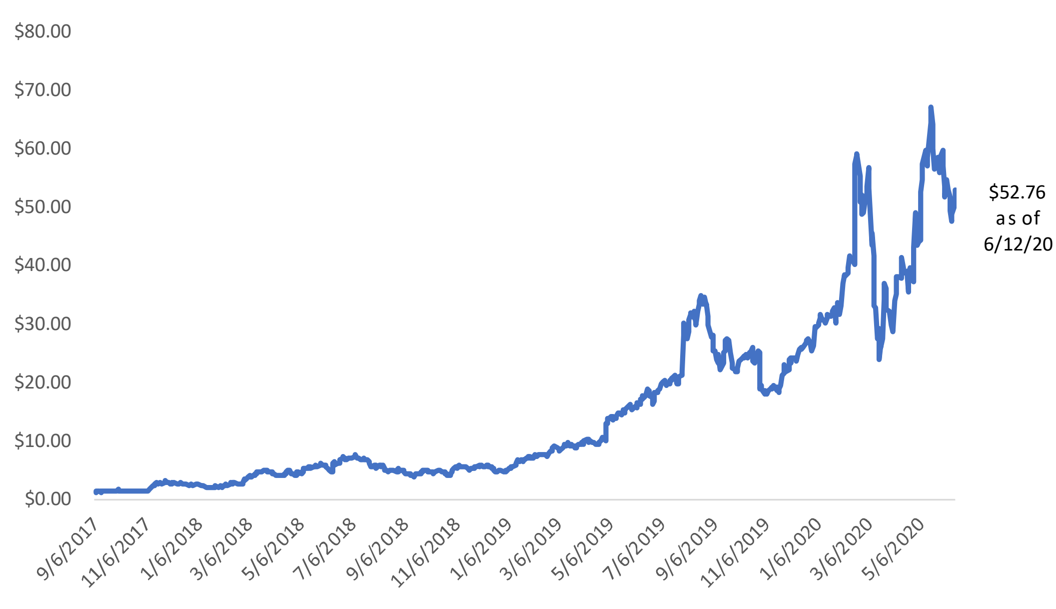
Prior to Kothandaraman's arrival, ENPH had struggled to grow sales and turn a profit due to increasingly intense competition from rivals like SolarEdge ("SEDG"). Upon taking over as CEO, Kothandaraman announced his intention to return the Company to profitability by cutting costs during the first 18 months of his tenure. With this in mind, he told investors that he expected the Company to reach 30% gross margins, reduce OpEx to 20% of revenue, and reach 10% operating margins by Q4 2018. The company dubbed this goal as its 30-20-10 plan.

During the first three quarters of Kothandaraman's tenure as CEO, ENPH's gross margin expanded an astonishing 43.7% or 804 Bps from 18.4% in Q2 2017 to 26.5% in Q1 2018. Investors responded to this rapid turnaround in performance by frantically bidding up the Company's share price. Buyside analysts were just as enthusiastic, publishing bullish report after bullish report with ever-increasing price targets.

We, however, were much more skeptical. In our initial reports on ENPH published in 2018, we provided analysis that proved, in our view, that the reported increase in the Company's gross margin from Q2 2017 to Q1 2018 was a sham and was largely attributable to questionable and potentially fraudulent accounting practices. We estimated that ENPH's reported gross margin in Q1 2018 was inflated by 40.7% or 765 Bps, and that absent accounting shenanigans, its gross margin had expanded just 39 Bps from 18.4% in Q2 2017 to 18.8% in Q1 2018.

Our warnings largely fell on deaf ears. In the almost two years since our initial reports were published, ENPH shares have continued their meteoric rise as investors and buyside analysts have continued to blindly cheer on the Company's increasingly logic-defying results. Since the release of our last report on August 18, 2018, ENPH shares have increased by 979% from $4.89 to $52.76. Overall, since Kothandaraman took over as CEO on September 6, 2017, ENPH shares have increased by a whopping 4,653% from $1.11 to $52.76!

ENPH's Share Price Has Increased An Astonishing 4,653% Since Kothandaraman Took Over As CEO

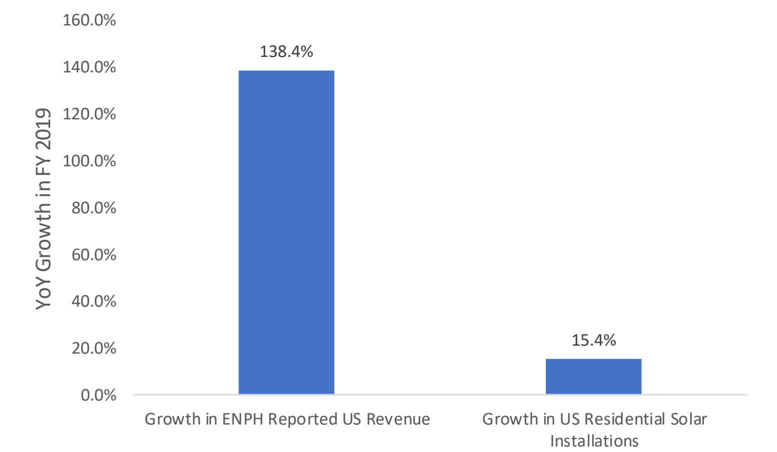


Source: Share price data provided by Yahoo Finance.

While the initial increase in ENPH's share price during Kothandaraman's tenure was primarily driven by an astonishing increase in gross margin, the increase in its share price over the past few quarters has been driven by an even more astonishing increase in revenue. From FY 2018 to FY 2019, the Company's revenue grew by 97.5% from $316.2m to $624.3m. The vast majority of this growth was driven by sales to the US market – As disclosed in its FY 2019 10-K, revenue from the US market grew by 138.4% from $219.6m in FY 2018 to $523.6m in FY 2019.

The large increase in ENPH's reported revenue has been quite baffling when compared against the overall growth rate of the US residential solar sector – In 2019, the YoY growth in ENPH's revenue to the US market was 9.0x higher than the overall growth of US residential market as reported by Wood MacKenzie (138.4% vs. 15.4%).

ENPH's Reported US Revenue Growth In FY 2019 Was 9.0x Higher Than The Growth In The US Residential Solar Sector



Source: ENPH filings with the SEC. Wood Mackenzie solar data.

Given this puzzling disparity between ENPH's reported growth vs. the overall industry growth, we suspected ENPH's logic-defying revenue growth was, like the astonishing increase in its gross margin in FY 2018, too good be true. As we will detail, the findings of our research over the past few months has, in our view, confirmed that our suspicions were correct.

ENPH's Reported Financials Are Fiction, Based On The Findings Of Our Private Investigation

One of the biggest breakthroughs in our research of ENPH occurred in late 2019 when a former ENPH employee told us that the Company had, peculiarly, moved many of its key finance and accounting functions to its India-based office toward the end of FY 2018. As demonstrated by past accounting scandals, including the Saba Software accounting scandal of 2014, offshore entities can and have often been used by companies as a tool to help perpetrate fraud. Because of this, and our prior reservations about the Company's accounting practices, we viewed its decision to offshore F&A functions to India as a severe red flag.

To learn more about ENPH's India-based operations, and in particular the F&A functions being performed offshore, we hired a reputable, third-party private investigation firm to conduct thorough on-the-ground research in India. Over the course of several weeks, our investigators in India interviewed numerous former ENPH employees, as well as several solar industry participants who have conducted business with ENPH. What they uncovered amounts to proof, in our view, that ENPH's reported financials are fiction.

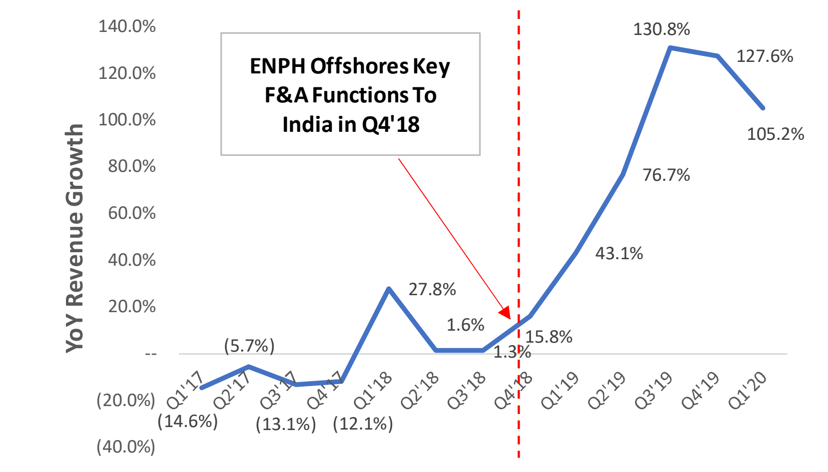
To be more specific, the former employees and industry participants our investigators spoke with confirmed what we suspected – that the India-based F&A team was assisting in ENPH's book cooking – and also revealed a number of other troubling revelations about the Company's accounting and business practices. The key findings of our private investigation, which are more thoroughly detailed in the sections below, include the following:

- *According to former employees, ENPH's offshore F&A team in India is assisting in the Company's apparent book cooking::* Former employees told our investigators that ENPH is using its offshore F&A team to help perpetrate its allegedly fraudulent accounting practices, under the direction of the US executive team. This has apparently helped the Company take its book cooking to new heights, as evidenced by the parabolic increase in its revenue since the India-based F&A team was established at the end of FY 2018.
- *ENPH has stacked its executive teams in the US and India with 'Yes-Men' from Cypress and SunEdison, including with disgraced former SunEdison CEO Ahmad Chatila:* According to former employees, Ahmad Chatila ("Chatila") is allegedly working for ENPH in some type of consultant or unofficial executive role, and apparently has a substantial amount of influence within the Company. In addition to Chatila, ENPH has stacked its executive teams in both the US and India with numerous other close, former colleagues from Cypress and SunEdison, seemingly for the purpose of creating an environment conducive to fraud. Former employees claim that these executives are very tight-knit and secretive, and have, at times, reprimanded or even fired certain employees who questioned their accounting and business practices.
- *The belief that ENPH's reported financials are likely fiction appears to be widespread amongst both former and current employees:* Almost all of the former employees our private investigators spoke with either claimed or believed that the Company's financial performance was fabricated. Our investigators were also told that numerous current employees are similarly skeptical about ENPH's reported financials.
- *According to former employees, ENPH is using improper deferred revenue accounting to inflate its financial performance:* Former employees indicated that a significant portion of the Company's astronomical growth over the past two years is attributable to improper deferred revenue accounting. Our investigators were also told that, as part of its deferred revenue accounting scheme, the Company may be "tweaking" some of its contracts, enabling it to recognize revenue prior to the actual service being provided.
- *A distributor in India severed its relationship with ENPH based on its belief that ENPH was fraudulently inflating invoices:* According to an employee of an ENPH distributor in India, his/her company severed its relationship with ENPH based on its belief that ENPH was circumventing them and working directly with installers to fraudulently inflate invoices. We believe this suspected practice of forging invoices likely extends beyond what this one distributor experienced.
- *Employee turnover in ENPH's India office is alarmingly high:* According to an industry participant with knowledge of ENPH's India-based operations, employee turnover in the Company's Bangalore office is an astronomical 70% annually. We believe ENPH's apparent book cooking and toxic work culture are likely the driving force behind the mass exodus of its India employees.

ENPH Moves Key Accounting Functions To India, Revenue Suddenly Explodes

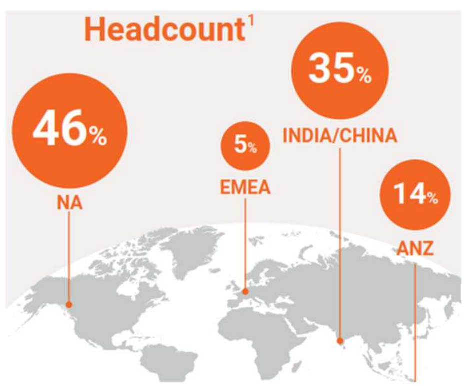
Our investigators in India spoke with several former ENPH employees with detailed knowledge of the Company's India-based operations. They were told that ENPH moved key F&A functions to its India office at the end of FY 2018, confirming what we were previously told by a former ENPH employee based in the US. Our investigators were also told that the Company is using its offshore F&A team to help fabricate its financial performance at the direction of the US executive team. Based on the explosion in ENPH's revenue growth since the end of FY 2018, it appears that this has helped the Company take its book cooking, which we believe began in Q1 2018 (as detailed in our initiation report), to the next level.

ENPH's Revenue Growth Has Exploded Since Offshoring F&A Functions



Source: ENPH filings with the SEC.

- *ENPH has greatly expanded its presence in India during Kothandaraman's tenure:* According to corporate records in India, ENPH established its wholly-owned India-based subsidiary – Enphase Solar Energy Private Limited – on July 24th, 2017. Our investigators were told that the Company has greatly expanded its presence in India under Kothandaraman and has outsourced an increasing number of key business functions to its office in Bangalore including human resources, engineering, marketing, pricing and finance and accounting. They were also told that India is now one of the Company's largest sites in the world with over 300 employees. This is confirmed by ENPH's May 2020 [investor presentation]:



Source: May 2020 ENPH investor presentation

- *ENPH offshored key F&A functions to India at the end of FY 2018:* Several former employees told our investigators that ENPH moved key F&A functions to its office in Bangalore at the end of 2018. Our investigators were told that this team provides support for both the US-based parent company, as well as the domestic Indian business.

- *The India-based F&A team is assisting the US executives with their alleged book cooking, according to former employees:* So, what tasks does the India-based team perform for the parent company? Based on statements provided by former ENPH employees, it appears that one of the responsibilities of the F&A team in India is to assist in 'cooking the books' based on instructions provided to them by CFO Eric Branderiz, CAO Mandy Yang and other US executives. Provided below are some of the relevant extracts from a summary of these conversations.

> The previous Director of Finance (of the India office) Raman was handling both front office and back office F&A. It is known to everyone in the company that he was given a very handsome severance package last year as a reward for complying with the regular and irregular instructions in writing the books per whatever was told to him by Mandy Yang CFO from the US.
>
> They expected [REDACTED] to comply with the instructions flowing from the corporate office, but [REDACTED] was not at all comfortable with their accounting practices…The real scoop is, what does the back office exactly do? To be clear, the back office does not need a CA (chartered accountant). It just needs data entry operators while Mandy, Eric and their team guides them from the US.
>
> Everything is micromanaged by the CEO Kothandaraman from US and the MD (in India) Sunil Thamaran, a docile & servile Malayali, simply executes his orders… There is hardly anything right with this company. Their HR function is in total disarray, there is no financial transparency.
>
> The company moved the F&A function to India in 2018…Not that all (the accounting) was kosher under the previous leadership, but it became more ingenious after Badri took over the reins with a possible agenda of duping investors.

- *Offshore vehicles can be used as a tool for companies to perpetrate fraud:* As past accounting scandals have shown, the use of offshore operations can provide a vehicle for companies to more easily perpetrate fraud and avoid the scrutiny of auditors. SEC Pacific Regional Director Jina L. Choi highlighted the pitfalls of offshore operations when discussing the SEC's charges against Saba Software executives in 2014:

> Saba Software used off-shore operations to cut costs, but also cut corners on its internal controls over financial reporting…Weak internal controls create greater opportunity for accounting fraud, and investors are left holding the bag.

Ahmad Chatila: The Secret Mastermind Behind ENPH's Allegedly Fraudulent Behavior?

In our August 2018 report on ENPH, we disclosed that an individual in the solar industry had told us that Ahmad Chatila – the disgraced former CEO of SunEdison and architect of the largest US bankruptcy of 2016 – was working behind-the-scenes in some type of executive or consultant role for ENPH. Given Chatila's troubled past at SunEdison, we found this claim to be highly disturbing.

Unfortunately for ENPH shareholders, our investigators in India were told by former employees that this claim is true. They were also told that Chatila has a highly prominent and influential role within the Company.

To further elaborate, one former ENPH employee told our investigators that Chatila was secretly running the Company without the general public's knowledge. The former employee also spoke negatively about Chatila's past, and stated that Chatila's over-reliance on debt, inflation of revenue and book cooking is what led to SunEdison's downfall. Provided below are some of the relevant extracts from a summary of this conversation.

> …Ahmad Chatila the disgraced CEO of SunEdison a solar power company that went bankrupt in 2016, all due to Chatila's over reliance on debt, inflating revenues and cooking up the books. Chatila, is in fact running the show from the sidelines at Enphase.

Another former employee indicated to our investigators that Chatila was an owner of ENPH, and that he/she believed Chatila was going to run the Company into the ground in a similar fashion as SunEdison. Provided below are some of the relevant extracts from a summary of this conversation.

> The first thing that I can tell you at the very outset is that Enphase is virtually a company owned by Ahmad Chatila, the disgraced former CEO of SunEdison. It is literally his back-door entry into the solar energy business…How do I know this for certain? Well, pull out any employee from the office and ask him and he will happily tell you the open secret in the company…Ahmad Chatila is a mastermind. He got rich with SunEdison, running the company to the ground in the process. He is doing the same to Enphase.

So why is Chatila's apparently deep involvement with ENPH so troubling?

As has already been alluded to, Chatila was the former CEO of SunEdison, a solar project developer based in the US. With Chatila at the helm, SunEdison employed a reckless, debt-fueled growth-at-all-costs business strategy which ultimately led its demise as the business collapsed under the weight of $billions of liabilities. SunEdison was the largest US bankruptcy of 2016.

Chatila and other SunEdison executives were investigated by the SEC and DOJ, and multiple former employees claimed in whistleblower suits that senior management had intentionally misled investors about the company's rapidly deteriorating financial condition. The below extract from a March 2017 RightingInjustice article provides more detail.

> Even as the company's situation grew bleaker, senior management misled investors about the company's financial standing, the whistleblowers allege. The company pressured executives to revise their internal projections to look more optimistic "even as the company was hemorrhaging cash, delaying payments and seeking emergency sources of funding," according to the Wall Street Journal.
>
> In November 2015, an internal report circulated showing SunEdison had about $90 million in available cash, yet that same day a presentation to investors said the company had $1.4 billion in cash. In another internal meeting, the company projected it would spend $1.3 billion over the next six months. At a board meeting a week later, however, projected expenses were set at $650 million.

Chatila and other executives were also accused of inappropriately diverting $231m of cash from Terraform Global – one of SunEdison's solar Yieldco partners – to SunEdison. The below extract is from a April 2016 Real Money article.

> On Friday, TerraForm Global filed suit against SunEdison and several of its executives, including CEO Ahmad Chatila and former CFO Brian Wuebbels, in Delaware's Court of Chancery. The suit calls out SunEdison for breach of fiduciary duty and misappropriation of $231 million.
>
> The suit alleges that SunEdison diverted $231 million from TerraForm Global to "prop up its flagging liquidity position" instead of funding renewable energy projects in India that were expected to be dropped down to the yieldco.

Given this highly questionable behavior, it is not surprising that ENPH has tried to keep Chatila's role within the Company a secret from market participants.

ENPH Has Stacked Its Executive Team With 'Yes Men' From Cypress & SunEdison

ENPH has filled its key executive positions in both the US and India primarily with loyal former colleagues from Cypress and SunEdison. Based on what former employees told our investigators, we believe the Company did so in order to help enable and conceal its allegedly fraudulent accounting practices.

- ***ENPH has filled its executive team in the US with ex-colleagues from Cypress and SunEdison:*** Following the hiring of Kothandarman, the Company proceeded to replace most of its senior executive team in the US. As shown in the table below, the majority of these new hires have been former colleagues from either Cypress or SunEdison. While current CFO Eric Branderiz ("Branderiz") and Chief Accounting Officer Mandy Yang ("Yang") did not previously work at either Cypress or SunEdison, both had previously worked at SunPower, whose microinverter business was acquired in FY 2018 by ENPH. Both Branderiz and Yang also previously worked at Spansion, which was acquired by Cypress in 2015.

ENPH: US Executive Team

	Position	New Hire?	Prior Work Experience: Cypress	Prior Work Experience: SunEdison	Prior Work Experience: SunPower	Comments
Badri Kothandaraman	President, CEO	Yes	✓			
Eric Branderiz	CFO	Yes			✓	• Mr. Branderiz also previously worked for Spansion Inc. which was acquired by Cypress in 2015.
Jeff McNeil	COO	Yes	✓			
Dave Ranhoff	CCO	Yes		✓		
Mandy Yang	CAO	Yes			✓	• Ms. Yang also previously worked for Spansion Inc. which was acquired by Cypress in 2015.
Ahmad Chatila	Consultant	Yes		✓		
Raghu Belur	Co-founder, Chief Products	No				
Martin Fornage	Co-founder, Technical Advisor	No				

Source: ENPH disclosures.

- *The newly installed CEO, CFO, CAO and COO have highly questionable backgrounds:* Chatila is just one of many ENPH executives with a highly questionable background. ENPH's decision to hire and then subsequently promote Kothandaraman to CEO was quite puzzling given his uninspired professional history at Cypress, about which ENPH has troublingly lied about. To be more specific, on the management bio section of its website, ENPH misleadingly claims that, as an executive VP at Cypress from 2011 to 2016, Kothandaraman quadrupled the revenue of the data communications division.

> Before joining Enphase, Badri (Kothandaraman) served as executive vice president at Cypress Semiconductor, **quadrupling revenue of the data communications division over four years** and establishing Cypress as a market leader in USB-C and Internet-of-Things technologies.

However, this is contradicted by Cypress' own SEC filings which show that its revenue declined by 42.9% from $127.4m in FY 2011 to $72.8m in FY 2015. We assume that the quadrupling of revenue ENPH is referring to is the result of Cypress' acquisition of Broadcom's IoT business in June 2016 which added $189m of annualized revenue to its data communications division, but even then, this would not have resulted in the quadrupling of revenue claimed in Kothandaraman's bio.

	Year Ended		
	December 29, 2013	December 30, 2012	January 1, 2012
	(In thousands)		
Programmable Systems Division	$ 292,707	$ 345,430	$ 468,190
Memory Products Division	338,986	330,504	394,832
Data Communications Division	79,410	86,591	127,388
Emerging Technologies and Other	11,590	7,162	4,794
Total revenues	$ 722,693	$ 769,687	$ 995,204

	Year Ended		
	January 3, 2016	December 28, 2014	December 29, 2013
	(In thousands)		
Programmable Systems Division	$ 613,884	$ 283,206	$ 292,707
Memory Products Division	871,640	347,887	338,986
Data Communications Division	72,791	70,378	79,410
Emerging Technologies and Other	49,538	24,026	11,590
Total revenues	$ 1,607,853	$ 725,497	$ 722,693

Source: Cypress FY 2015 and FY 2013 10-Ks.

We are also troubled by the hiring and then subsequent promotion of Jeff McNeil ("McNeil) to COO given his prior history at Energous Corporation ("WATT") which has been accused of misleading investors about the effectiveness of its technology and whose stock has fallen by around 90% since he joined ENPH in January 2018.

Finally, CFO Branderiz and CAO Yang also share a history at Tesla which has been the subject of its own regulatory scrutiny. Branderiz served as CAO of Tesla from October 2016 to March 2018, while Mandy Yang served as worldwide controller of Tesla from February 2017 to September 2018. Tesla has been accused of engaging in potentially improper accounting practices which include the sale of regulatory credits to increase its profits and questionable warranty expense accounting.

- *ENPH has filled its executive team in India with ex-colleagues from Cypress and SunEdison as well:* As shown in the table below, our investigators learned that the key executive positions in India are also filled primarily with former colleagues from Cypress and SunEdison. This notably includes those executives who are responsible for managing the F&A operations in India.

ENPH: India Executive Team				
		Prior Work Experience		
	Position	Cypress	SunEdison	Comments
Former India Executives				
Raman Ramanarayanan	Former Head of F&A Team	✔		• Mr. Ramanarayanan left Enphase in July 2019.
India Executive Team				
Sunil Thamaran	Head of India Office	✔	✔	
[REDACTED]	Co-Head of F&A Team		✔	
[REDACTED]	Co-Head of F&A Team	✔		
Pravin Vemuri	Director of Pricing	✔		
Ashish Jha	Director of Human Resources		✔	
Harsha Venkatesh	Director of Product Line Management	✔		
Nitish Mathur	Sr. Director of Customer Experience	✔		

Source: Former India-based ENPH employees, LinkedIn.

- *The recently installed executives are extremely secretive and loyal to one another, according to former employees:* When speaking with our investigators, several former employees noted that the recently installed executives in the US and India are very tight-knit and loyal to one another. One former employee described senior management as a "Cypress Old Boys club" and claimed that employees who are not from Cypress or SunEdison are treated very poorly by management. The source also indicated that Chatila was likely the driving force behind Kothandaraman's hiring as CEO. Provided below are some of the relevant extracts from a summary of this conversation.

> …most employees, those who didn't join the company from a parallel entry system from Cypress Semi-Conductors, are treated miserably by the higher management, especially the CEO Kota (Kothandaraman) who is a rather uncouth & ungracious person who would not pass off as a leader in any other professional organization. Kota owes his position to Chatila…The senior management in the Enphase India office is basically a Cypress Old Boys (and girls) club. Pick up any key manager or Director and they will have a Cypress link.

Another former employee further elaborated that most of the managers at the Company were "totally loyal" to both Kothandaraman, as well as to Sunil Thamaran ("Thamaran") – the head of the India office. He further noted that Kothandaraman and Thamaran are, in turn, loyal to Chatila. Provided below are some of the relevant extracts from a summary of this conversation.

> Kothandaraman and Thamaran share an interesting past having worked at Cypress Semi-Conductors, a US based company founded by visionary inventor TJ Rodgers… Most managers at the top are totally loyal to Thamaran and Kota (Kothandaraman), who in turn are loyal to Chatila.

Finally, a third former employee stated that the employees from Cypress and SunEdison were highly secretive and hardly interacted with any non-Cypress and SunEdison team members. Provided below are some of the relevant extracts from a summary of this conversation.

> The employees in these divisions are primarily ex Cypress-SunEdison staffers. They work differently, have their own groups, keep to themselves, almost furtively, and hardly interact

- *The recently installed executives have control over the F&A functions, while dissenting voices are largely silenced, according to former employees:* One former employee told our investigators that the key functions of the Company, including the F&A operations, are led by ex-Cypress and SunEdison employees. The source further elaborated that the F&A team in India was previously headed by Raman Ramanarayanan, and is now headed by two former Cypress / SunEdison employees who report directly to Branderiz, the US CFO. Senior US executives allegedly trust the new F&A heads because of their prior background at Cypress and SunEdison. Provided below are some of the relevant extracts from a summary of this conversation.

> If you review the company structure, the vital functions and PnL pillars are all headed by ex-Cypress or SunEdison employees…Raman Ramanaryanan (was) the Director (of) Finance as there was no CEO as such of this office. The F&A functions, back office, are now handled by two Finance Managers…Both have ex SunEdison/Cypress background and are therefore trusted by the seniors in the USA. They report to the CFO directly in the US.

The same former employee also told our investigators that no "outsider," presumably meaning anyone who is not a part of or loyal to the ex-Cypress and SunEdison executives, is involved in the F&A operations. As an example, that former employee stated that the executives who handle the "front office" finance operations in India – Ravi Joshi and Vijay Reddy – are not involved in the "back-end" F&A operations because neither is from Cypress or SunEdison, and thus not part of the loyalists of the Company. Provided below are some of the relevant extracts from a summary of this conversation.

> No "outsider" is involved in the company's F&A function. They have recently appointed a Director Finance, Ravi Joshi, to control the front office finance and another CA Vijay Reddy supports him in front office accounting. The two are not involved in the back-end F& A at all as they are not part of the loyalists.

Another former employee claimed that Chatila and other executives have reprimanded and even fired employees for questioning the Company's ethics and accounting practices. That former employee also told our investigators that mid-level managers have no say in the Company's decision-making, and that their job is to simply execute orders given to them from the senior executives. Provided below are some of the relevant extracts from a summary of this conversation.

> It is basically Chatila' s inner circle who determine politics in the office, openly put down people who question the ethics or accounting practices adopted or simply fire those questioning them too much, meanwhile they remain absolutely loyal to him…Mid-level managers [REDACTED] in

> any pillar of the company, be it Operations, Order management, Planning or Engineering teams have no say in matters…are merely robots executing commands from the top. There is no process and no documentation whatsoever generated by the middle management.

- *ENPH's incestuous hires were made for the purpose of helping to create an environment more conducive to fraud, in our view:* Based on the above findings, we believe that ENPH's hiring of numerous former colleagues from Cypress and SunEdison was not made out of simple nepotism. Instead, we believe that ENPH made these hires to create an environment that is more conducive to fraud, and more specifically, to create a loyal network of close former colleagues who could be trusted to 1) obediently follow orders given to them by Kothandaraman & Co, and 2) keep the Company's illicit activities a secret from any "non-loyalists" at the Company, as well as Deloitte and other parties.

Former Employees Claim That ENPH's Reported Financials Are Fiction

Perhaps most telling about the legitimacy of ENPH's reported financials is the fact that almost all of the former employees our private investigators spoke with either claimed or believed that the Company's financial performance was fabricated. Furthermore, based on what our investigators were told, it appears that numerous current employees are similarly skeptical about ENPH's reported financials.

For example, one former employee told our investigators in India that he/she believed that the Company's reported growth does not make sense given that it is highly unlikely for a B2B business to grow at such a brisk pace. This source also stated that several current employees agree with this assessment. Provided below are some of the relevant extracts from a summary of this conversation.

> You should know that Enphase itself does not provide any solar roofs or solar power accessories, which is where the money is to be made in this business, but sells its micro inverters and energy consumption software to the installers, not to the end consumer. This is not a B2C business and I simply can't accept this exponential growth only in a B2B format. I can give you contact details of currently serving employees who would certainly back up my statements with as much vigor

Another former ENPH employee told our investigators that the Company's current revenue is 'inflated' and does not line up with the amount of work he/she has observed being performed, and that he/she believed that management was pumping up the revenues to enrich themselves before the Company collapses. Provided below are some of the relevant extracts from a summary of this conversation.

> There is an absolute lack of vision as there is no talk of any new product line, no plans to expand in the current market or fashion new strategies. The current market position attained by the company and its stellar revenues are all thanks to inflated numbers… From my vantage point , it appears that the entire efforts are on to pump up the revenues , push up the stock price, cash in and milk the cow dry, before this company too hurtles the SunEdison way towards bankruptcy…Of course, the company has sold many micro inverters and energy saving solutions to its installation partners, however the revenue earned, claimed in the balance sheets, does not add up with the kind or quantum of work we are doing.

Finally, a third former ENPH employee told our investigators that the seven-fold increase of its India-based revenue had "shocked" almost all current employees with the exception of ex-Cypress and SunEdison employees, and that last year a "strong rumor" circulated within the Company that the reported growth was "unrealistic and manipulated." Provided below are some of the relevant extracts from a summary of this conversation.

> The seven-fold increase in the bottom line of the India based operations has shocked everyone within the company with the possible exception of ex Cypress and SunEdison staffers but I hear that a similar spike has been observed in all the geographies that Enphase operates from. There was a strong rumor in the company last year that this growth is largely unrealistic and manipulated. The business has undoubtedly grown over the 2018-19 cycle…But most employees that I spoke to told me that the numbers just don't add up.

ENPH Has Used Improper Deferred Revenue Accounting To Inflate Its Financial Performance, According To Former Employees

In our initial reports on ENPH published in 2018, we provided proof, in our view, that the Company had used improper deferred revenue accounting to significantly inflate its reported revenue and gross margin. Our private investigators in India spoke with former ENPH employees with knowledge of the Company's accounting practices. Based on what our investigators were told, it appears that the analysis presented in our initial reports was accurate, and that the Company's improper deferred revenue accounting has continued and apparently become more severe over the past two years.

- *ENPH's adoption of ASC 606 at the beginning of FY 2018 almost tripled the size of its deferred revenue balance:* On January 1, 2018, ENPH instituted a major accounting change upon adopting the new ASC 606 accounting standard. Prior to adopting ASC 606, ENPH deferred only the software portion of its Envoy revenue, while the hardware revenue was recognized at the time of sale. However, with the adoption of ASC 606, the Company is / was now deferring both the hardware and software portion of its Envoy revenue.

  Due to this change in accounting treatment for its Envoy hardware revenue, ENPH's deferred revenue liabilities balance increased by $77.5m and almost tripled to $123.1m upon adoption of ASC 606. As of the end of Q1 2020, ENPH's total deferred revenue liabilities amounted to $145.2m.

- *A former employee claimed that ENPH is using its sizable deferred revenue balance as a tool to fabricate its financial performance:* Our investigators in India learned that, since adopting ASC 606, ENPH has been taking advantage of its much more sizable deferred revenue balance by using it as a tool to fabricate and significantly inflate its financial performance.

  A former employee with knowledge of ENPH's accounting practices told our investigators that ENPH moved certain F&A functions at the end of 2018 to India in order to help enable its improper deferred revenue accounting practices under the guise of ASC 606. The source indicated that <u>a significant portion of the $77.5m of deferred Envoy hardware revenue which ENPH added to its balance sheet upon adopting ASC 606 was prematurely recognized in FY 2018 and FY 2019, and that the improper recognition of this large amount of revenue was hidden or "not publicly declared" in its financial reports. That former employee also claimed that the Company did a "similar sleight of hand" in Q1 2020</u>. Provided below are some of the relevant extracts from a summary of this conversation.

> The F&A function in India that supports the US operations of Enphase Inc operates per the relatively new ASC 606 standards. The company moved the F&A function to India in 2018 to implement these standards. Previously, till the time the company was following ASC 605 under the previous CEO Nahi, this F&A function was in the US…Under ASC 606 the full consideration for

> these (Envoy) products now represents a single product, a package deal of sorts, which is deferred and recognized over the estimated service period.
>
> Enphase makes no bones about using this accounting practice and has revealed as much in its SEC declarations. However, what is also true, and something that they have not publicly declared, is that the company moved USD 77.5 m from liabilities, where the deferred revenues from the hardware should have been, to the earned revenue counter in 2018-19. They have done a similar sleight of hand in FY 2020…

- *Another former employee claimed that ENPH is using improper deferred revenue accounting practices, seemingly confirming the other employee's claims:* Another former employee with knowledge of ENPH's accounting practices told our investigators that executives had artificially boosted the Company's financial performance by improperly recognizing deferred revenue before it was actually earned. Further, the former employee seemed to suggest that a large portion of ENPH's growth since Kothandaraman took over was attributable to improper deferred revenue accounting by stating that these accounting shenanigans were Kothandaraman's "magic contribution to the Company's turnaround." Provided below are some of the relevant extracts from a summary of this conversation.

> …the accounting doctors hide behind a newly introduced accounting standard in the US, effective Jan 2018, called ASC 606 that allows tinkering with deferred revenue accounting mechanism.
>
> …the company had already instituted a major accounting change via the ASC 606. Prior to adopting this practice, and before Badri was promoted to CEO, Enphase deferred only the software portion of its sales…However, after the adoption of AS 606, the company has been deferring both the hardware and software portion of its Envoy revenue since Jan 18…This is Badri's magic contribution to the company's turnaround.
>
> Deferred revenue is basically the advance payments that Enphase receives for orders of its inverters and software services that are to be delivered or performed in the future. Per the GAAP, these deferred revenues should be in the liabilities corner of the balance sheet. But what Yang and Eric under Badri Kothandaraman are doing is overstating income by treating deferred revenue as earned revenue by recognizing revenue before it is actually earned.

- *ENPH is allegedly altering contracts and "buying" revenue to help enable its improper deferred revenue accounting practices:* One of the former employees our investigators spoke with claimed that, to help enable its improper deferred revenue accounting practices, the Company was "tweaking" the contracts of certain orders to enable it to capture revenue from these contracts before the services are actually provided. Provided below are some of the relevant extracts from a summary of this conversation.

> ...the company continues to recognize the deferred revenues from the future orders due to tweaking of the contracts in a manner that income is captured in a staggered manner much before the service is actually delivered.

Our investigators were also told by former employees that, as part of this contract "tweaking" scheme, ENPH was in certain instances "buying" revenue by offering some of its customers a sizable upfront discount to incentivize them to place future orders today. This practice of "buying" revenue has allegedly helped the Company maintain a pipeline of contracts which it can then "tweak" in order to "continue to draw from the nectar of the deferred revenue." Former employees described these practices as a sort-of pyramid-type or ponzi-type scheme which borrows from the future to make the present look better, and claimed that "the entire accounting process would completely unravel" without it. Provided below are some of the relevant extracts from summaries of these conversations.

> ...(I think) that Enphase was buying turnover (revenue) using the services of shady CA (chartered accounting) firms...(The cost would be) clearly off set by the geometric gains that one makes in terms of valuation that this company has been achieving... The products are shipped at future dates as these resellers begin to get contracts from their installation partners. As long as you can show the advance orders you can continue to draw from the nectar of the deferred revenue.
>
> It is like a pyramid scheme which cannot stop, and if it does, the entire accounting process will completely unravel. Expansion is therefore the key and that is why they have expanded to India and more relaxed territories like NZ and Australia and not to China where they might not be able to game their books.
>
> It is kind of borrowing from the future to make the present look rosy...Now for a pyramid like scheme, which this accounting ingenious practice is all about, to continue the new money must continue to come in without interruption. That has stopped for a while now in India and their existing markets abroad, with the exception of the US. The company will need to find new markets quickly and this is the why they are moving so fast in the African markets.

Is ENPH Forging Invoices To Further Inflate Its Financial Performance?

Soon after establishing operations in India in August 2017, ENPH signed up Sun-AP Ecopower and Redington as its distribution partners in the country. However, our investigators learned that both distributors had completely severed ties with ENPH by 2019. According to an employee of one of these distributors, his/her company severed its ties with ENPH based on that company's belief that ENPH was working directly with installers in India to fraudulently boost its revenue by forging and inflating invoices.

Providing more details, the source stated that, after ENPH opened its Bangalore office, the Company began circumventing distributors by establishing direct contact with installers in India. The source further stated that he/she believed ENPH was circumventing distributors in order to work directly with installers to inflate invoices. The source also told our investigators that he/she did not believe that ENPH's reported growth in India was legitimate due to unfavorable industry conditions and a lack of shaded areas in the country where the Company's microinverters would be useful. Provided below are some of the relevant extracts from a summary of this conversation.

> We began to have second thoughts about our partnership the very moment Enphase moved to their Bangalore office and began establishing contact with the installers directly, leaving us out of the picture. One of the main reasons is because with us in between, the invoice inflation method is not possible…We couldn't continue in such a partnership and severed ties with them.
>
> We have however kept tabs of their operations, especially after seeing their stellar balance sheet. I don't understand how the operations or revenues have grown so much. Till 2018…the micro inverter business was doing only INR 7 Cr and the software business has not grown much in India since then. Plus, this inverter is only really useful in those parts of India that experience substantial shade during the day, a place like Bangalore or hill stations or forest areas…So where is the demand coming from? They are not directly selling it to customers either. Therefore, this seven-fold increase in only micro converter sales is highly doubtful…Why I say this with certainty is because their market share in India has remained low despite such stellar numbers and the industry meanwhile has not expanded so much.
>
> It is a clear case of colluding with the vendors, by inflating invoices and showing sales of more micro inverters than normal…What I'm hearing from my peers in the industry is that similar numbers were being reported in the North America business as well as in Europe and New Zealand. I am not an expert in these markets but I'm quite an experienced person in the India market and I can vouch that their micro inverters couldn't have been sold at this frenetic pace because the domestic solar market in India, where the installation partners are most active, didn't move at this pace due to the structural and pricing issues that I have explained earlier.

As the old saying goes, "where there is one cockroach, there are likely many others," and we believe this suspected practice of inflating invoices likely extends further beyond what this one distributor experienced. Consider that both, and not just one, of ENPH's main distribution partners in India abruptly severed ties with the Company at around the same time. We have a hard time believing this is merely coincidence, and instead believe that both distributors pulled out of the relationship because both believed that the Company was forging invoices.

Unusually High Attrition Rate In India: A Symptom Of ENPH's Alleged Book Cooking And Toxic Work Culture?

Given the alleged book cooking being conducted in, and apparently toxic work culture of the India office, we were not surprised to learn that ENPH's India-based employees are leaving the Company in droves.

To be more specific, our investigators were told by an industry participant with knowledge of ENPH's India-based operations that the Company's Bangalore office has an astronomical attrition rate of around 70% annually. The source further elaborated that this high attrition rate was unusual given that the labor market was soft in India, and that the Company appeared to pay its employees well. He also speculated that there must be something "rotten in the core" at the Company which was causing employees to leave in droves. He even went as far as comparing ENPH to Satyam, an India-based company which was exposed in 2009 for committing massive accounting fraud. Provided below are the relevant extracts from this conversation.

> There is something very "Satyam like" about Enphase. I am not being able to put a finger on it…some things don't seem to add up. Even in a soft labor market, they have had a close to 70% attrition. They pay rather well as all their employees seem to use their own vehicles but obviously, something is rotten in the core that is repulsing their employees?"

ENPH's Largest Shareholder Completely Cashes Out On May 20th: We Believe He Learned Of The Existence Of Our Private Investigation

On May 22nd, 2020, ENPH's largest shareholder – Chilean entrepreneur Isidoro Quirogo ("Quirogo) – disclosed in a [Form 4 filing]() that his firm had sold its entire 11% stake in the Company. Although major shareholders exiting their investments is a common market occurrence, we found the timing of when, and speed with which Quirogo unloaded his entire holdings to be highly suspicious.

To be more specific, as disclosed in his Form 4 filing, it appears that Quirogo unloaded his entire 13.5m shares of ENPH stock, which were worth more than $800m, in only one day on May 20th, 2020. Typically, when a major shareholder unwinds such a large position, it is done over the course of several days or even weeks in order to maximize the value of their shares by selling them in a controlled manner. We believe Quirogo's decision to sell nearly $1 billion worth of ENPH shares in just one day indicates that he may have been desperate to get out.

So, why was he seemingly so desperate to exit his position after more than two years of being a major ENPH shareholder? We find it curious that his share sales on May 20th occurred right around the time that our private investigators were wrapping up their investigation in India. This, combined with the similarly frantic pace with which ENPH executives and board members have recently been liquidating massive amounts of ENPH shares in June (which will be discussed in the next section), leads us to conclude that Quirogo had caught wind of our investigation and wanted to quickly get out before the contents of our investigation were made public.

ENPH Executives And Board Members Have Also Been Desperately Liquidating Shares In June – Proof, In Our View, That The Existence Of Our Investigation Leaked And That Our Findings Are Accurate

Based on the frantic, and frankly ridiculous pace with which they have been liquidating $millions worth of ENPH shares in June, we believe that ENPH management and board members, like Quiroga, almost certainly caught wind of our private investigation and are now in a panicked rush to cash-in before the ship sinks, which would amount to confirmation that the findings of our private investigation are accurate.

As shown in the table below, in a series of Form 4 filings, CFO Eric Branderiz, CAO Mandy Yang, COO Jeff McNeil and CCO Dave Ranhoff, disclosed that they had collectively sold an astounding 254,097 ENPH shares – 100,249, 36,570, 7,500 and 109,778 shares, respectively – in open market dispositions in the span of just four days from June 1st to June 4th. Furthermore, in a series of Form 4 filings, board members TJ Rodgers, Ben Kortlang and Joseph Malchow disclosed that they had sold an even more astounding 2,186,250 shares – 2,000,000, 180,000 and 6,250, respectively – in open market dispositions in the span of just eight days from June 8th to June 15th.

ENPH Executives and Board Members Collectively Sold $120.9m of ENPH Shares In The Span Of Just 15 Days In June				
	Date of Share Sales	# of Shares Sold	Average Sale Price	Proceeds From Share Sales
ENPH Board Members:				
TJ Rodgers	6/8/2020	1,477	$52.500	$0.1m
	6/10/2020	1,668,721	$49.168	$82.0m
	6/11/2020	329,802	$48.453	$16.0m
	Total	**2,000,000**		**$98.1m**
Ben Kortlang	6/15/2020	180,000	$50.231	$9.0m
Joseph Malchow	6/15/2020	6,250	$50.510	$0.3m
ENPH Executives:				
Eric Branderiz	6/3/2020	63,892	$53.549	$3.4m
	6/3/2020	22,066	$55.341	$1.2m
	6/3/2020	14,291	$55.985	$0.8m
	Total	**100,249**		**$5.4m**
Mandy Yang	6/3/2020	36,570	$55.064	$2.0m
Jeff McNeil	6/1/2020	5,990	$58.383	$0.3m
	6/1/2020	1,510	$58.804	$0.1m
	Total	**7,500**		**$0.4m**
Dave Ranhoff	6/4/2020	109,778	$53.066	$5.8m
Total		**2,434,097**		**$120.9m**
Total, Executive Sales		**254,097**		**$13.7m**
Total, Board Member Sales		**2,186,250**		**$107.5m**

Source: ENPH filings with the SEC.

The large number of shares that ENPH executives and board members have recently sold is shocking and unprecedented for this Company:

- The 254,097 shares recently sold by ENPH executives in open market dispositions over the span of just four days in June significantly exceeded the 187,508 shares that they had sold in the almost 2.5 years prior from January 1st, 2017 to May 31st, 2020! Furthermore, the $13.7m that ENPH executives pocketed from their June sales was 3.5x the $3.9m they had pocketed from their share sales over the prior 2.5 years.
- Ben Kortlang's sale of 180,000 or $9.0m of ENPH shares in open market dispositions occurred in the span of just one day, and represented a whopping 65% of his total holdings in the Company
- TJ Rodgers' sale of 2.0m or $98.1m of ENPH shares in open market dispositions occurred over the span of just four days, and represented almost 58.7% of his total holdings in the Company

Given – 1) the unusually frantic pace with which ENPH executives and board members have been selling their shares in June, 2) the fact that Quirogo, ENPH's largest shareholder, had sold his entire ~11% stake at an even faster pace just days earlier, and 3) that the recent large share sales by ENPH executives and board members occurred just a few days following the completion of our private investigation, which concluded in late May – we believe that ENPH executives and board members, like Quirogo, must have caught wind of our private investigation and have been desperately trying to unload their shares before our findings were made public.

Our Additional Diligence Further Confirms, In Our View, That ENPH's Reported Financials Are Fabricated And Grossly Inflated

Our diligence of ENPH went far beyond our private investigation and included a thorough examination of ENPH's reported financial statements and disclosures, conversations with several solar industry experts, conversations with the largest distributors of ENPH products and an examination of solar industry datasets and other online information sources.

From this additional research, we uncovered numerous additional smoking guns and other severe red flags which, in our view, prove that ENPH's reported financial performance is fabricated and grossly inflated. Provided below is a summary of our findings and analysis which form the basis for our conclusion, which is more thoroughly supported in the sections to follow.

- *Additional smoking guns emerge which, in our view, confirm that ENPH's reported financials are fiction:* Our further diligence has uncovered multiple, additional smoking guns which, in our view, amount to proof that ENPH's reported revenue and gross margin are fabricated and grossly inflated. These smoking guns include 1) the seemingly impossible reduction in ENPH's unit costs or cost of revenue per watt of 23.6%, or 37.6% on a tariff-adjusted basis, from Q3 2018 to Q3 2019, 2) the data we received from large distributors of ENPH products in the US, accounting for an estimated 69.5% of the market, who reported growth in ENPH product sales and market share changes which were far below and did not align with the Company's reported revenue growth, 3) the large disconnect between Wood Mackenzie market share data, which shows that ENPH actually lost meaningful share from FY 2017 to FY 2019, and ENPH's parabolic revenue growth during that same timeframe, and 4) definitive evidence, in our view, that ENPH used improper deferred revenue accounting to significantly inflate its financial performance in Q1 2018 and Q2 2018.
- *Numerous red flags further confirm that ENPH's financial reporting cannot be trusted:* Our further diligence identified numerous additional red flags which we believe further support our conclusion that ENPH's reported financials are fiction. These additional red flags include 1) alarming deferred revenue accounting irregularities in ENPH's Q4 2019 and Q1 2020 financial reports, 2) ENPH's apparent acquisition of a related party which was troublingly not disclosed to investors and was improperly excluded from its financial statements, 3) the suspiciously large amount of safe harbor revenue ENPH reported relative to SEDG, 4) negative Glassdoor employee reviews which echo many of the same issues and concerns discussed in this report, 5) the significant increase in the Company's accounts receivable days during the tenure of Kothandaraman, and 6) ENPH management's apparent attempts to pump up its share price with frequent, fluff PRs and brash public statements.
- *PP estimates that <u>at least</u> $205.3m of ENPH's US revenue in FY 2019 was fabricated, and that a significant portion of its international revenue was fabricated as well:* Based on market share data provided by Wood Mackenzie, we estimate that <u>at least</u> $205.3m of ENPH's reported US revenue in FY 2019 was fabricated. We also estimate that, after excluding potentially fabricated revenue and one-time safe harbor sales, the Company's 'actual and sustainable' US revenue in FY 2019 amounted to just $273.8m, which is almost 50% lower than what it reported. Furthermore, based on 1) the claims of former employees that ENPH's reported Indian revenue is fabricated, and 2) the statements by an employee of an India-based distributor that he/she believed the Company was working with installers to forge invoices, we believe that ENPH's reported international revenue, in India as well as in other countries, is also significantly inflated.
- *PP believes that most, if not all, of the 2,080 Bps expansion in ENPH's gross margin during Kothandaraman's tenure is also fiction:* Finally, based on 1) our analysis which, in our view, proves that almost all of the 804 Bps increase in ENPH's reported gross margin

from 18.4% in Q2 2017 to 26.5% in Q1 2018 was attributable to deferred revenue accounting shenanigans, and 2) the nearly impossible decrease in the Company's unit costs of 37.6% on a tariff-adjusted basis from Q3 2018 and Q3 2019, we believe that most, if not all, of the 2,080 Bps expansion in ENPH's gross margin during Kothandaraman's tenure as CEO was also fabricated.

Multiple, Additional Smoking Guns Emerge

From our additional research, we uncovered multiple smoking guns which support the findings of our private investigation and, in our view, amount to further proof that ENPH's reported financials are fiction. These smoking guns, which are listed and detailed below, indicate that ENPH's reported revenue, as well as its reported gross margin and profits, are fabricated and grossly inflated.

#1: Nearly impossible reduction in reported cost of revenue per watt

From Q3 2018 to Q3 2019, ENPH's reported cost of revenue per watt decreased by a logic-defying 23.6%, or an even more logic-defying 37.6% on a tariff-adjusted basis, meaning that the Company was able to reduce its manufacturing or unit costs by almost 40% during that timeframe. We believe it would have been nearly impossible for ENPH to achieve this dramatic reduction in unit costs given that,

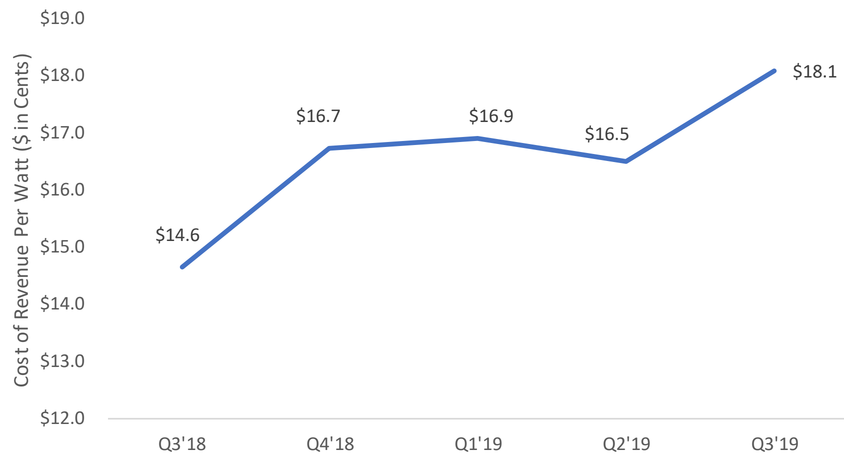
1. This reduction in manufacturing / unit costs was achieved in an unrealistically short timeframe of just 12 months,
2. ENPH did not release a game-changing new product during that period, and
3. The Company outsources all of its manufacturing to third-parties in China (e.g. Flextronics) and thus do not have much control over its manufacturing costs.

The above leads us to conclude that ENPH's reported cost of revenue per watt and, in turn, its cost of revenue is fabricated, and that the Company's reported gross margin is just as, if not more, inflated than its reported revenue. A more detailed summary of our findings and analysis is provided in the bullets below.

- *The US government, via its Section 301 tariffs, recently levied a 25% tariff on imported solar components from China:* On September 24, 2018, the first phase of the US government's Section 301 tariffs took effect, resulting in a 10% tariff on solar components imported from China. Then, on June 15, 2019, the second phase of the 301 tariffs kicked in, raising the tariff on solar components from China to 25%.

- *Due in large part to the 25% tariff, SEDG reported an almost 25% increase in unit costs from Q3 2018 to Q3 2019:* As would be expected, SEDG, which manufactures a significant portion of its components in China, reported a large increase in cost of revenue per watt following the enactment of these tariffs. As shown in the figure below, SEDG's cost of revenue per watt increased significantly in the first full quarter after both the first and second phase of the tariffs kicked-in – 14.2% in Q4 2018 and 9.7% in Q3 2019. In total, SEDG's cost of revenue per watt increased by 23.5% from Q3 2018 to Q3 2019, nearly matching the full amount of the 25% tariff.

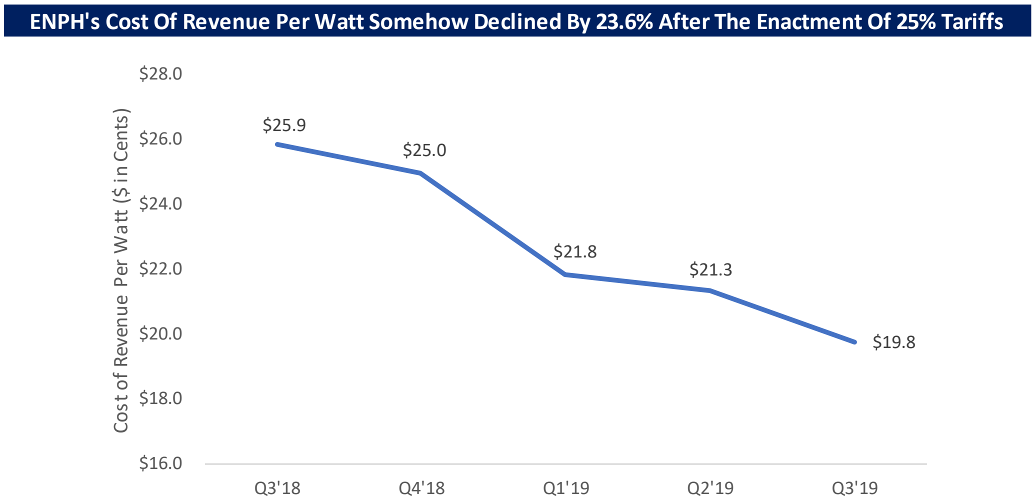
SEDG's Cost Of Revenue Per Watt Increased By 23.5% After The Enactment Of 25% Tariffs



($ in millions, except on a per watt basis)	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Cost of Revenue	$158.6	$184.0	$185.8	$214.3	$271.2
Megawatts Shipped (AC)	1,083	1,100	1,100	1,300	1,500
Reported Cost of Revenue / Watt ($ in Cents)	***$14.6***	***$16.7***	***$16.9***	***$16.5***	***$18.1***
QoQ Increase / (Decrease) - %		***14.2%***	***1.0%***	***(2.4%)***	***9.7%***
Cumulative Increase / (Decrease) - %		***14.2%***	***15.3%***	***12.6%***	***23.5%***

Source: SEDG filings with the SEC and earnings reports.

- *Despite the 25% tariff, ENPH, which manufactures all of its components in China, reported a massive 23.6% decrease in unit costs from Q3 2018 to Q3 2019:* By contrast and quite puzzlingly, ENPH, which at the time outsourced all of its manufacturing to China, actually reported a large decrease in cost of revenue per watt from Q3 2018 to Q3 2019. As shown in the figure below, ENPH's cost of revenue per watt decreased significantly in the first full quarter after both the first and second phase of the tariffs kicked-in – 3.5% in Q4 2018 and 7.4% in Q3 2019. In total, despite having to contend with the introduction of a 25% tariff, ENPH was somehow able to decrease its reported cost of revenue per watt by a massive 23.6%(!) from Q3 2018 to Q3 2019.



($ in millions, except on a per watt basis)	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Cost of Revenue	$52.7	$64.1	$66.8	$88.8	$115.4
Megawatts Shipped (DC)	204	257	306	416	584
Reported Cost of Revenue / Watt ($ in Cents)	***$25.9***	***$25.0***	***$21.8***	***$21.3***	***$19.8***
QoQ Increase / (Decrease) - %		***(3.5%)***	***(12.5%)***	***(2.3%)***	***(7.4%)***
Cumulative Increase / (Decrease) - %		***(3.5%)***	***(15.5%)***	***(17.5%)***	***(23.6%)***

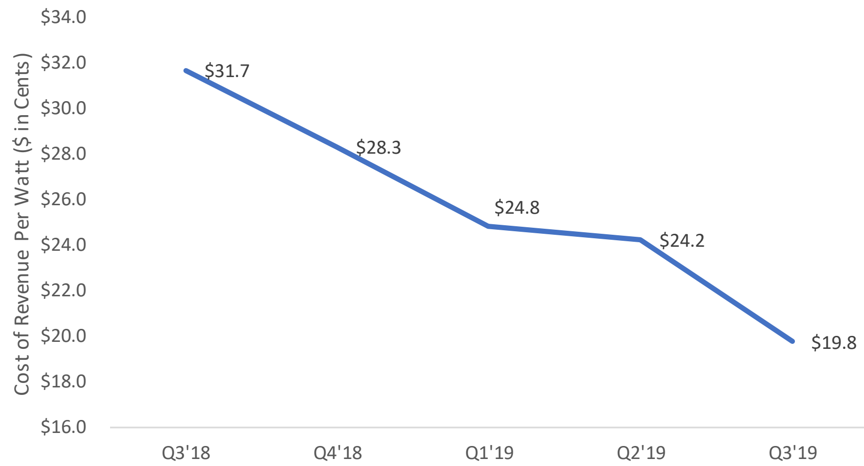
Source: ENPH filings with the SEC and earnings reports.

- *On a tariff-adjusted basis, ENPH's unit costs decreased by an even more logic-defying 37.6% from Q3 2018 to Q3 2019:* As puzzling as the trend in ENPH's reported unit costs shown in the above figure is, it does not fully reflect just how mind-boggling the decline in the Company's cost of revenue per watt was. In order to capture the true decline in ENPH's costs, cost of revenue per watt must be compared on an apples-to-apples basis by normalizing for the impact of the tariffs. In order to do so, we adjusted all quarters prior to Q3 2019 to include the full 25% tariff.

  To be more specific, given that the 10% phase one tariff was instituted near the end of Q3 2018, we increased cost of revenue per watt in Q3 2018 by the full 25% for comparative purposes. Additionally, given that the full 25% phase two tariff was instituted near the end of Q2 2019, we also increased, for comparative purposes, cost of revenue per watt in Q4 2018, Q1 2019 and Q2 2019, which already included a 10% tariff, by an additional 15%. Finally, Q3 2019 already included the full 25% tariff and therefore was not adjusted.

  After adjusting all quarters to include the full 25% tariff, the true decline in cost of revenue per watt was much greater than what the Company reported. As shown in the figure below, we calculate that ENPH's tariff-adjusted cost of revenue per watt declined by a logic-defying 37.6%(!!) from Q3 2018 to Q3 2019.

ENPH's Tariff-Adj. Cost Of Revenue Per Watt Has Declined By A Logic-Defying 37.6%



($ in millions, except on a per watt basis)	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Cost of Revenue	$52.7	$64.1	$66.8	$88.8	$115.4
Megawatts Shipped (DC)	204	257	306	416	584
Reported Cost of Revenue / Watt ($ in Cents)	**$25.9**	**$25.0**	**$21.8**	**$21.3**	**$19.8**
(+) Tariff Adjustment ($ in Cents) (1)	$5.8	$3.4	$2.9	$2.9	$0.0
Tariff-Adj. Cost of Revenue / Watt ($ in Cents)	***$31.7***	***$28.3***	***$24.8***	***$24.2***	***$19.8***
QoQ Increase / (Decrease) - %		***(10.6%)***	***(12.5%)***	***(2.3%)***	***(18.5%)***
Cumulative Increase / (Decrease) - %		***(10.6%)***	***(21.7%)***	***(23.5%)***	***(37.6%)***

Source: ENPH filings with the SEC and earnings reports. PP estimates.

- *The logic-defying decrease in ENPH's reported unit costs is fiction, in our view:* Based on common sense alone, a nearly 40% reduction in manufacturing / unit costs would be impossible for almost any company to achieve in just 12 months. It is even more remote that ENPH could have achieved this miraculous feat when taking into account that the Company did not release a game-changing new product during that time period – the IQ7 accounted for the bulk of its sales in both Q3'18 (78% of microinverter sales) and Q3'19 (99% of microinverter sales). Furthermore, ENPH outsources all of its manufacturing to third parties (e.g. Flextronics) which gives it little control over its manufacturing costs and, in turn, greatly limits its ability to institute impactful cost savings measures over the short-term. Finally, ENPH did not begin to move some of its contract manufacturing to Mexico until Q2 2019, and only manufactured around 9% of its microinverters in Mexico in Q3 2019, while the remaining 91% was manufactured in China and thus was still subject to the 25% tariff.

#2: Reported revenue growth far exceeds the growth in ENPH sales reported to us by large solar distributors, who collectively account for an estimated 69.5% of the distributor market

In FY 2019, almost all of ENPH's growth was driven by sales to its US customers which, after adjusting to exclude the one-time impact of safe harbor sales and the ramp-up of the SunPower contract, grew by a whopping 97.0% from $207.2m in FY 2018 to $408.3m in FY 2019. However, based on the findings of our research, we do not believe it is possible that ENPH's US revenue could have grown even close to this amount.

Over the past several months, we have spoken and exchanged emails with employees from the largest MLPE distributors in the US – including CED Greentech, Sonepar, WESCO, Soligent, BayWa and CivicSolar – who collectively account for an estimated 69.5% of the distributor market. As summarized in the table below, all of the distributors we contacted reported growth in ENPH product sales and market share changes which were far below and did not reconcile with the growth ENPH reported. Particularly telling is that fact that CED Greentech and Sonepar, the two largest MLPE distributors in the US with an estimated combined market share of 42.5%, reported that their FY 2019 sales of ENPH products grew just 30% and 15% YoY, respectively.

Data Provided By US MLPE Distributors Does Not Reconcile With ENPH's Reported US Growth

	Estimated Market Share (1)	YoY Growth In ENPH Product Sales / Market Share Changes	Distributor Data vs. ENPH's Reported Growth
CED Greentech	25.0%	• ENPH FY'19 sales grew 30% YoY from ~$67m to ~$87m • SEDG FY'19 sales also grew 30% YoY, implying no change in share	DOES NOT RECONCILE
Sonepar	17.5%	• ENPH FY'19 sales grew 15% YoY from $48m to $55m • SEDG FY'19 sales grew 19% YoY, indicating that SEDG took incremental share from ENPH	DOES NOT RECONCILE
Soligent	10.0%	• ENPH FY'19 sales grew 63% YoY which was still far below ENPH's reported growth. ENPH FY'19 sales grew just 15% vs FY'17 • SEDG FY'19 sales grew 42% YoY, implying an increase in ENPH share, but not close to the share gains implied by ENPH's reported growth in FY'19 • ENPH growth in FY'19 artifically inflated by abnormally low FY'18 sales caused by internal supply decisions at WESCO	DOES NOT RECONCILE
WESCO	10.0%	• Little to no growth in ENPH product sales as of YTD Q3'19 • Share losses for ENPH were potentially around 300 bps in YTD Q3'19	DOES NOT RECONCILE
BayWa	5.0%	• ENPH FY'19 sales grew 55% YoY which was still far below ENPH's reported growth	DOES NOT RECONCILE
CivicSolar	2.0%	• Share of ENPH product sales grew by ~500 bps in FY'19 • Although this share gain is meaningful, it is nowhere near the share gain implied by the growth in ENPH's reported US revenue	DOES NOT RECONCILE
Total	**69.5%**		

Source: Sales managers of US MLPE distributors, PP estimates.
(1) PP estimates based on information provided by solar industry participants.

Given that 1) the vast majority of ENPH's US revenue is generated from distributors, and 2) the distributors we contacted collectively account for an estimated 69.5% of the MLPE distributor market in the US, we believe our findings amount to proof that ENPH's reported US revenue and, in turn, its consolidated revenue is fabricated and grossly inflated.

A more detailed summary of our findings is provided in the bullet points below.

- *In FY 2019, ENPH's adjusted reported US revenue growth, which excludes safe harbor and SunPower sales, was 6.3x higher than the overall market:* ENPH's growth in FY 2019 was driven almost entirely by its sales to the US market which grew 138.4% YoY from $219.6m to $523.6m. A good portion of this growth was driven by safe harbor sales and the ramp-up of the SunPower contract. However, as shown in the figure below, even after adjusting for these one-time events, ENPH's adjusted reported US revenue growth was still an eye-popping 97.0%, 6.3x the 15.4% growth of the overall US residential solar sector in FY 2019 as reported by Wood Mackenzie.

ENPH: Reported FY 2019 Revenue

($ in millions)	FY'18	FY'19
US Revenue	219.6	523.6
International Revenue	96.6	100.8
Total Reported Revenue	**316.2**	**624.3**

ENPH: Adjusted Reported FY 2019 US Revenue Growth

($ in millions)	FY'18	FY'19
Reported US Revenue	$219.6	$523.6
Less: SunPower Revenue	(12.4)	(70.9)
Less: Safe Harbor Revenue	0.0	(44.4)
Adjusted Reported US Revenue	***$207.2***	***$408.3***
YoY Increase / (Decrease)		***97.0%***

Source: ENPH filings with the SEC and earnings reports.

- *ENPH's revenue growth in the US is mostly dependent on and driven by sales to distributors:* Based on our recent conversation with ENPH's IR representative, as well as management comments during its Q1 2020 earnings call, ENPH's sales to distributors accounted for around 80% of its total revenue in FY 2019, meaning that the nearly doubling of the Company's adjusted reported US revenue in FY 2019 should have been primarily driven by sales to distributors.

- *Employees of large US distributors were unable to explain and expressed doubts to us about ENPH's parabolic revenue growth:* We spoke with sales managers, business directors and executives of many of the largest distributors of ENPH products in the US, including the four largest distributors in the MLPE space – CED Greentech, Sonepar, Soligent and WESCO. All were unable to provide an explanation for, and many were dumbfounded by how ENPH was able to almost double its adjusted reported US revenue in FY 2019 when the overall market grew by just 15.4%.

  For example, during a conversation in late 2019, a sales manager from WESCO stated that he would trust Wood MacKenzie's reported market share data (which we will discuss in the next section) over ENPH's reported financials. He also told us that SEDG had taken incremental share through the first three quarters of FY 2019 and that, based on his observations, Enphase had certainly not doubled its US sales. Provided below are some of the relevant extracts from a summary of this conversation.

  > I would trust the third party (Wood Mackenzie) information over Enphase's…Market share, certainly the trend is certainly still in SolarEdge's corner on that one…they've taken more share for sure. Just based on the traction that I've seen, particularly with solar installers, certainly they (Enphase) haven't growth that fast…over the last year I have definitely not seen that Enphase has doubled.

  As another example, a sales manager that we spoke with from Sonepar was incredulous and simply could not believe that ENPH could have doubled its US revenue YoY. The source speculated that this growth must have come from outside the US because, based on what the source observed, it could not have come from within the US.

- *Sales of ENPH products by CED Greentech and Sonepar, the two largest MLPE distributors in the US, grew just 30% and 15%, respectively, in FY 2019:* CED Greentech is the largest solar distributor in the US which, based on our conversations with solar industry participants, has an estimated 25% share of the US MLPE distributor space. In an email exchange in May 2020, we were told by a CED Greentech sales manager wrote to us that sales of ENPH products to CED Greentech's customers grew $20m or 30% YoY in FY 2019. This was far lower than the almost 100% growth ENPH reported. He also told us that CED Greentech's sales of SEDG products grew by 30% as well, meaning that there was little to no share change in FY 2019. Provided below are the relevant extracts from this email exchange.

  > PP: How much did your US residential sales of Enphase products increase from 2018 to 2019?

> Sales Manager from CED Greentech: (YoY Enphase sales increased by) $20m, (ENPH and SEDG both grew by) 30% across the board

Sonepar is the second largest solar distributor in the US which, based on our conversations with solar industry participants, have an estimated 17.5% share of the US MLPE distributor space. In an email exchange in May 2020, a Sonepar sales manager wrote to us that sales of ENPH products to Sonepar's customers grew by 15% YoY from $48m in FY 2018 to $55m in FY 2019. Once again, this was far lower than the almost 100% growth in ENPH's adjusted reported US revenue. He also told us that SEDG sales grew by 19%, indicating that SEDG gained incremental share from ENPH in FY 2019. Provided below are the relevant extracts from this email exchange.

> PP: How much did your US residential sales of Enphase products increase from 2018 to 2019?

> Sales Manager from Sonepar: There was an increase of 15%. $48M to $55M

- *Based on the 30% and 15% growth reported by CED Greentech and Sonepar, ENPH's sales to its 'other' US customers should have grown by an estimated 155%(!!) in FY 2019:* As just mentioned, Sonepar's sales of ENPH products to its customers increased by 15% from $48m in FY 2018 to $55m in FY 2019. Based on the 30% or $20m YoY growth reported to us by CED Greentech, we calculate that CED Greentech's sales of ENPH products to its customers increased from $66.7m in FY 2018 to $86.7m in FY 2019.

Implied FY 2018 & FY 2019 CED Greentech Sales of ENPH Products

($ in millions)	FY'18
$ Growth in ENPH Product Sales in FY'19	$20.0
(÷) % Growth in ENPH Product Sales in FY'19	30.0%
Implied CED Greentech Sales of ENPH Products	**$66.7**

($ in millions)	FY'18	FY'19
Implied CED Greentech Sales of ENPH Products	***$66.7***	***$86.7***
% Growth		***30.0%***

Source: Sales manager from CED Greentech

Assuming that CED Greentech sold ENPH products at a 20% margin, we calculate that ENPH's sales to CED Greentech amounted to $53.3m in FY 2018 and $69.3m in FY 2019. Similarly, assuming that Sonepar also sold ENPH products at a 20% margin, we calculate that ENPH's sales to Sonepar amounted to $38.4m in FY 2018 and $44.0m in FY 2019.

Estimated Sales of ENPH Products to CED Greentech

($ in millions)	FY'18	FY'19
CED Greentech Sales of ENPH Products	$66.7	$86.7
(x) (1 - Estimated Gross Margin) (1)	80.0%	80.0%
Estimated Sales of ENPH Products to CED Greentech	***$53.3***	***$69.3***

Source: Sales manager from CED Greentech
(1) Prescience Point estimate.

Estimated Sales of ENPH Products to Sonepar

($ in millions)	FY'18	FY'19
Sonepar Sales of ENPH Products	$48.0	$55.0
(x) (1 - Estimated Gross Margin) (1)	80.0%	80.0%
Estimated Sales of ENPH Products to Sonepar	***$38.4***	***$44.0***

Source: Sales manager from Sonepar
(1) Prescience Point estimate.

Using the above figures, we calculate that ENPH's revenue from its 'other' US customers, excluding safe harbor, SunPower, CED Greentech and Sonepar sales, should have grown by an astronomical 155.4% in FY 2019!

ENPH: Implied Growth In Revenue From 'Other' US Customers

($ in millions)	FY'18	FY'19
Reported US Revenue	$219.6	$523.6
Less: SunPower Revenue	(12.4)	(70.9)
Less: Safe Harbor Revenue	0.0	(44.4)
Less: CED Greentech Revenue	(53.3)	(69.3)
Less: Sonepar Revenue	(38.4)	(44.0)
Implied Revenue From 'Other' US Customers	***$115.5***	***$294.9***
YoY Increase / (Decrease)		***155.4%***

Source: PP estimates. ENPH filings with the SEC and earnings reports.

- *The growth in ENPH's revenue from 'other' US customers appears to have been far less than 155%, based on our discussions with several other large distributors:* In addition to CED Greentech and Sonepar, we also spoke and exchanged emails with employees from Soligent, WESCO, BayWa and CivicSolar. As detailed below, based on the growth in ENPH product sales and market share changes reported to us by these additional distributors – who collectively account for an estimated 27% of the MLPE distributor market in the US – the growth in ENPH's revenue from 'other' US customers appears to have been far less than 155%.

  Soligent is among the top four MLPE distributors in the US with an estimated 10% market share. In an email exchange in May, a Soligent sales manager wrote to us that sales of ENPH products to its customers grew by 63% from FY 2018 to FY 2019, which was still far lower than our calculation that ENPH's sales to 'other' US customers should have grown by 155% in FY 2019. Furthermore, Soligent's sales of SEDG products also grew significantly in FY 2019 – 42% according to the sales manager – which means that ENPH's growth was not due to enormous share gains. Lastly, we were told that FY 2019 growth was artificially boosted by internal supply decisions which depressed FY 2018 sales, and that ENPH sales had grown by a much lower 23% from FY 2017 to FY 2019. Provided below are the relevant extracts from this email exchange.

  > PP: How much did your US residential sales of Enphase products increase from 2018 to 2019?
  >
  > Sales Manager from Soligent: 2018 was a down year due to internal supply decisions not market conditions. We reversed our strategy in 2019 to what our approach was in 2017. 2019 ENPH sales were up 63% vs 18 and up 23% from 2017… 2019 SEDG sales were up 42% vs 18 and up 15% from 2017

  Like Soligent, WESCO is among the top four MLPE distributors in the US with an estimated 10% market share. In late 2019, we spoke with a WESCO sales manager about the growth in ENPH product sales at his company. Although he did not provide us with exact sales figures, he did tell us that, based on sales trends reported by reps, WESCO's sales of ENPH products did not grow much if at all in the first three quarters of FY 2019. He also estimated that the share of ENPH product sales may have declined by up to 300 bps YTD.

  BayWa is a leading MLPE distributor in the US with an estimated 5% market share. In an email exchange in June, a BayWa business director wrote to us that sales of ENPH products to its customers grew by ~55% from FY 2018 to FY 2019 which was still far lower than our calculation that ENPH's sales to 'other' US customers should have grown by 155% in FY 2019.

  > PP: How much did your US residential sales of Enphase products increase from 2018 to 2019?

> Sales Manager from Soligent: Residential sales grew by ~55% year over year between 2018 and 2019.

Finally, CivicSolar is an MLPE distributor in the US with an estimated 2% market share. In late 2020, we spoke with an executive from CivicSolar about the growth in ENPH product sales at his company. Although the CivicSolar executive did not provide us with exact sales figures, he did tell us that the share of ENPH product sales by CivicSolar had increased by around 500 Bps in FY 2019, which is nowhere close to the amount of share gain implied by a 155% growth rate.

#3: Reported revenue growth does not reconcile with Wood Mackenzie MLPE market share data

ENPH's reported revenue growth also does not reconcile with and is far below what is implied by MLPE market share data provided by Wood Mackenzie, one of the most reputable and comprehensive providers of solar industry data. ENPH's adjusted reported US revenue, which excludes one-time safe harbor revenue and sales to SunPower, grew by a cumulative total of 104.6% from FY 2017 to FY 2019, almost 4x the 26.1% the US residential solar sector grew during that same timeframe.

Adjusted Reported US Revenue

($ in millions)	FY'17	FY'18	FY'19
Reported US Revenue	$199.6	$219.6	$523.6
Less: SunPower Revenue	0.0	(12.4)	(70.9)
Less: Safe Harbor Revenue	0.0	0.0	(44.4)
Adjusted Reported US Revenue	**$199.6**	**$207.2**	**$408.3**
YoY Growth		*3.8%*	*97.0%*
Cumulative Growth			*104.6%*

Source: ENPH filings with the SEC and earnings reports.

However, despite having grown much faster than the overall market, ENPH's market share of US residential solar installations, as reported by Wood Mackenzie, actually declined by a cumulative total of 518 Bps or 20.4% from 25.4% in FY 2017 to 20.3% in FY 2019. By comparison, during that same timeframe, SEDG's market share increased by a robust 1,879 Bps or 46.6% from 40.3% in FY 2017 to 59.1% in FY 2019. We believe this puzzling and large disparity between ENPH's reported growth and the Wood Mackenzie market share data amounts to further proof that the Company's reported revenue is fabricated and grossly inflated. Provided below is a more detailed discussion of our findings.

- *Wood Mackenzie is a highly reputable and comprehensive provider of solar industry data:* Wood Mackenzie is one of, if not the most, reputable providers of third-party data for the solar industry, whose data is frequently cited by trade groups and government bodies such as the Solar Energy Industries Association, Department of Energy and National Renewable Laboratory. According to its sales representatives, the company's MLPE market share data for the US residential solar sector is quite comprehensive and is based on a large sample of ~50% to 60% of the total market.

- *Based on Wood Mackenzie data, in FY 2019, ENPH's US residential market share actually decreased significantly from FY 2017 to FY 2019, while SEDG's market share grew significantly during that same timeframe:* As shown in the figure below, based on data provided by Wood Mackenzie, ENPH's market share in the US residential sector, excluding its sales to SunPower, actually decreased by 518 Bps or 20.4% from 25.4% in FY 2017 to 20.3% in FY 2019. By comparison, during that same timeframe, SEDG's market share in the US residential sector increased by a robust 1,879 Bps or 46.6% from 40.3% to 59.1%.

According To Wood MacKenzie, ENPH's Market Share Decreased 518 Bps From FY 2017 to FY 2019...	FY'17	FY'18	FY'19
ENPH - Market Share (1)	25.4%	18.5%	20.3%
Growth / (Decline) From FY'17 to FY'19 - Bps			***(518) Bps***
Growth - %			***(20.4%)***

...While SEDG's Market Share Increased A Robust 1,879 Bps From FY 2017 to FY 2019	FY'17	FY'18	FY'19
SEDG - Market Share	40.3%	51.8%	59.1%
YoY Growth - Bps			***1,879 Bps***
YoY Growth - %			***46.6%***

Source: Wood MacKenzie US MLPE market share data.
(1) Excludes direct sales to Sunpower.

- *The Wood Mackenzie data amounts to further proof, in our view, that ENPH's reported US revenue and, in turn, its consolidated revenue in FY 2019 was fabricated and grossly inflated:* As we discussed previously, the growth and market share changes reported to us by sales managers of large distributors was far below and did not align with ENPH's reported US revenue in FY 2019. We believe the Wood Mackenzie data corroborates these findings.

  From FY 2017 to FY 2019, ENPH's adjusted reported US revenue, which excludes one-time safe harbor revenue and sales to SunPower, increased by a cumulative total of 104.6%. If ENPH had grown anywhere close to the amount it reported, then this should have translated into a huge increase in its market share of installations. Yet, this did not happen, and in fact, the opposite happened as ENPH's share of installations actually declined significantly from FY 2017 to FY 2019, while SEDG's share of installations increased by a significant amount. We believe this puzzling and large disparity between ENPH's reported growth and the Wood Mackenzie data amount to further proof that ENPH's reported US revenue and, in turn, its consolidated revenue is fabricated and grossly inflated.

  It should also be noted that, when we asked representatives from Wood Mackenzie to provide a reason for the large discrepancy between their company's data and ENPH's reported US revenue growth, they could not provide one. Instead, they pointed us to a recent Financial Times article, which we will discuss in more detail later in this report, that called into question ENPH's reported revenue growth.

#4: Clear evidence of improper deferred revenue accounting in ENPH's financial statements

In our initial reports on ENPH published in 2018, we provided proof, in our view, that the Company used improper deferred revenue accounting practices to inflate its performance in both Q1 2018 and Q2 2018 – the first two quarters following its adoption of ASC 606 on January 1, 2018.

In our initiation report, we concluded that almost all of the 43.7% or 804 bps increase in ENPH's reported gross margin from 18.4% in Q2 2017 to 26.5% in Q1 2018 was attributable to deferred accounting shenanigans. After adjusting ENPH's results to exclude the impact of its deferred revenue accounting shenanigans, we calculated that its adjusted Q1 2018 gross margin was just 18.8%. In our follow-up report, we provided the basis for our conclusion that the Company's Q2 2018 gross margin was inflated by a similar amount. A summary of our analysis of ENPH's apparently improper deferred revenue accounting practices in Q1 2018 and Q2 2018, as presented in our initial reports on the Company, is provided below.

- *ENPH reported that deferred revenue amounted to $10.6m or 15.2% of its total revenue in Q1 2018:* Because ENPH was now deferring both its Envoy software and hardware revenue, the company reported a sizable increase in the amount of deferred revenue it recognized in Q1 2018. As disclosed on pg. 10 of its Q1 2018 10-Q, the Company recognized $10.6m of deferred revenue during the quarter.

- *We calculate that deferred revenue actually amounted to $16.9m or 24.2% of ENPH's total revenue in Q1 2018:* In its Q1 2018 10-Q, ENPH reported that Envoy billings amounted to $9.4m in the quarter, and that its ending deferred revenue balance was $115.7m.

Additionally, the Company also disclosed in its Q1 2018 10-Q that the adoption of ASC 606 added $77.5m of deferred revenue liabilities to its balance sheet on 1/1/2018. Adding $77.5m to the $45.6m of deferred revenue on its balance sheet on 12/31/2018, we calculate that the Company's beginning deferred revenue balance in Q1 2018 was $123.1m.

PP Calculation of Beginning Q1 2018 Deferred Revenue Balance

($ in millions)	
Deferred Revenue Balance as of 12/31/2018	$45.6
(+) Additional Deferred Revenue From Adoption Of ASC 606	$77.5
Deferred Revenue Balance as of 1/1/2018	**$123.1**

Source: ENPH 10Qs. PP Calculations.

Using the above figures, we calculate that ENPH actually recognized $16.9m of deferred revenue in Q1 2018, $6.3m higher than reported.

PP Calculation Of Q1 2018 Deferred Revenue Recognition

($ in millions)	Q1 2018
Beginning Deferred Revenue Balance	$123.1
(+) Envoy Billings	$9.4
(-) Ending Deferred Revenue Balance	($115.7)
Implied Q1 2018 Deferred Revenue Recognition	**$16.9**

Source: ENPH 10Qs. Prescience Point estimates.

- *Discrepancy in beginning deferred revenue balance indicates that ENPH improperly recognized $6.3m of deferred revenue in Q1 2018:* On pg. 10 of its Q1 2018 10-Q, ENPH reported that its beginning deferred revenue balance in Q1 2018 was $116.8m, or $6.3m less than the $123.1m we calculated. As shown in the table below, this discrepancy was the source of the $6.3m difference between the $10.6m of deferred revenue recognition ENPH reported versus the $16.9m we calculated:

Q1 2018 Deferred Revenue Recognition: Implied vs. Reported

($ in millions)	Implied	Reported	Difference
Beginning Deferred Revenue Balance	$123.1	$116.8	$6.3
(+) Envoy Billings	$9.4	$9.4	$0.0
(-) Ending Deferred Revenue Balance	($115.7)	($115.7)	$0.0
Q1 2018 Deferred Revenue Recognition	**$16.9**	**$10.6**	**$6.3**

Source: ENPH 10Qs. Prescience Point estimates.

The accounting for the addition that ENPH made to its deferred revenue balance should not be subject to much discretion. It should simply be an A + B = C calculation. Therefore, we do not believe that $6.3m of deferred revenue could have simply vanished into thin air.

Instead, we believe that ENPH's beginning deferred revenue balance in Q1 2018 was actually $123.1m, and thus the company recognized $6.3m more deferred revenue than what it reported. Given the company's apparent attempts to hide the recognition of this revenue from investors, we believe it was improperly and prematurely recognized in violation of GAAP.

- *PP estimates that ENPH's Q1 2018 gross margin was inflated by 40.7% or 765 bps:* As shown in the table below, after adjusting ENPH's results to exclude the impact of its deferred revenue accounting shenanigans and fluctuations in warranty accruals, we calculate that its adjusted Q1 2018 gross margin was just 18.8%. Thus, we estimate that its reported Q1 2018 gross margin was inflated by 40.7% or 765 bps! We also estimate that its reported Q1 2018 revenue and gross profit were inflated by 11.9% and 57.5%, respectively.

Prescience Point Adjusted Q1 2018 Financials

($ in millions)	**Q1 2018**
Reported Revenue	$70.0
(-) Benefit From Accelerated Amortization Of Deferred Revenue	($1.2)
(-) Benefit From Improper Deferred Revenue Recognition	($6.3)
PP Adjusted Non-GAAP Revenue	**$62.5**
Revenue, % Overstatement in Reported Financials	***11.9%***
Reported Non-GAAP Gross Profit	$18.5
(+) Reduction From Over-Accrual Of Warranty Expenses	$0.7
(-) Benefit From Accelerated Amortization Of Deferred Revenue	($1.2)
(-) Benefit From Improper Deferred Revenue Recognition	($6.3)
PP Adjusted Non-GAAP Gross Profit	**$11.8**
PP Adjusted Non-GAAP Gross Margin	*18.8%*
Reported Non-GAAP Gross Margin	*26.5%*
Gross Profit, % Overstatement in Reported Financials	***57.5%***
Gross Margin, % Overstatement in Reported Financials	***40.7%***

Source: ENPH 10Qs. Prescience Point estimates.

- *Unusually large drawdown in deferred revenue balance indicates that ENPH's Q2 2018 results were inflated by a similar amount as in Q1 2018:* In Q2 2018, ENPH's deferred revenue balance declined by $5.6m from $115.7m as of 3/31/2018 to $110.1m as of 6/30/2018, meaning that ENPH recognized $5.6m more deferred Envoy revenue than what it actually billed in the quarter.

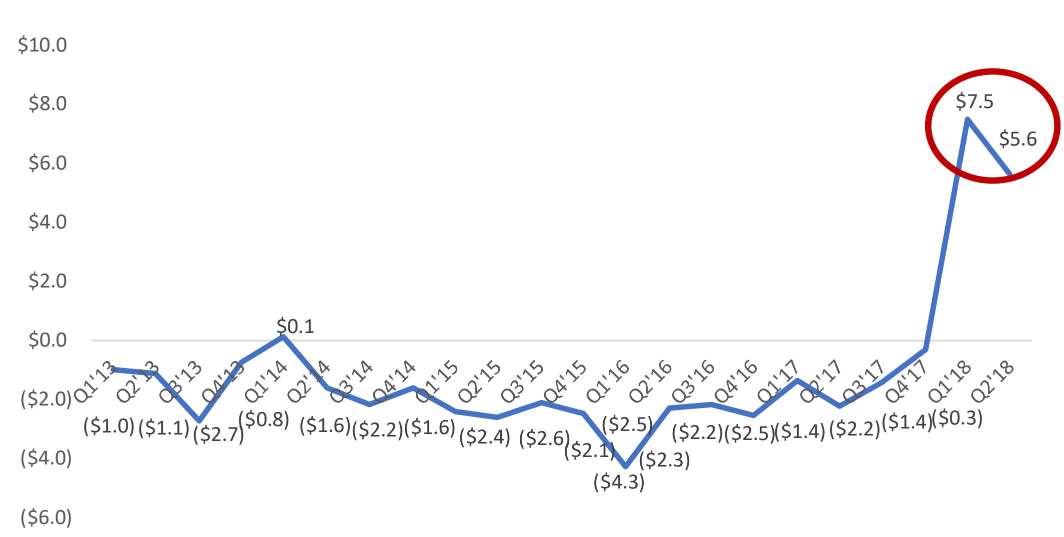
Q2 2018 Recognized Deferred Revenue vs. Billings

($ in millions)	**Q2'18**
Beginning Deferred Revenue Balance	$115.7
Ending Deferred Revenue Balance	$110.1
Change in Deferred Revenue Balance	**($5.6)**
Recognized Deferred Revenue, Amount in Excess of Billings	***$5.6***

Source: ENPH 10Qs.

We believe this unusually large drawdown in its deferred revenue balance amounts to proof that the Company's Q2 2018 results were inflated by a similar amount as in Q1 2018 by improper deferred revenue accounting. In support, consider that Q2 2018 and Q1 2018 were the only two quarters from Q1 2013 to Q2 2018 in which recognized deferred revenue significantly exceeded billings.

Recognized Deferred Revenue: Amount In Excess Of / (Lower Than) Billings

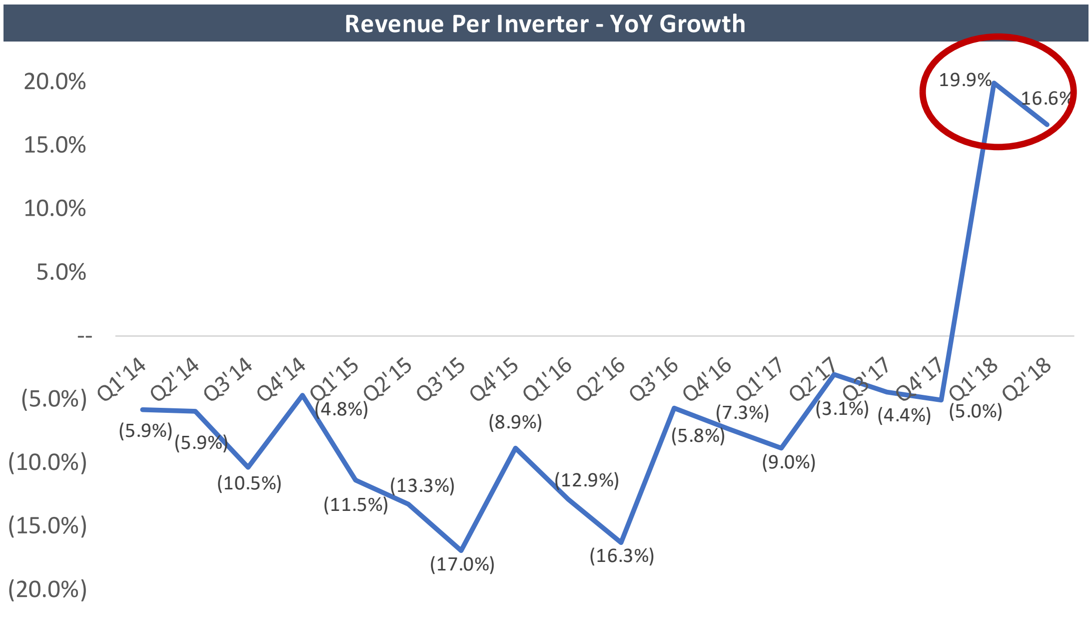


Source: ENPH filings with the SEC. Prescience Point estimates.

Our conclusion that ENPH's Q1 2018 and Q2 2018 financial results were significantly inflated by improper deferred revenue accounting practices is further supported and, in our view, confirmed by the additional analysis which is presented below.

- *ENPH reported an anomalously large increase in revenue per inverter in Q1 2018 and Q2 2018:* ENPH's revenue per inverter increased by 19.9% YoY in Q1 2018 and 16.6% YoY in Q2 2018. In our view, this unusually large increase in revenue per inverter confirms our analysis that ENPH's Q1 2018 and Q2 2018 revenue were significantly inflated by deferred revenue accounting shenanigans.

  Consider that pricing for MLPE components typically decline around 5% - 10% per year. As such, large increases in revenue per inverter, such as those reported in Q1 2018 and Q2 2018, should not occur absent accounting shenanigans. This is clearly illustrated by the fact that, prior to Q1 2018, ENPH's revenue per inverter had declined in every single quarter dating back to Q1 2014.



Source: ENPH earnings reports.

- ***Management provided conflicting explanations for ENPH's anomalous revenue per inverter increase:*** In an attempt to explain the large YoY increase in revenue per inverter in Q1 2018 and Q2 2018, ENPH management stated during its Q2 2018 earnings call that its transition to more small and medium sized or "long-tail" customers had resulted in a 10% to 15% increase in pricing over the past four to five quarters. Provided below are management's comments from the earnings call.

> Basically in the last four to five quarters what has happened is, because of our excellent pricing management we have gradually have transitioned from to few big accounts and more of a long tail accounts. Because of that our average price per microinverter has gone up nearly by 10% to 15%

However, this explanation directly contradicts management's comments just a quarter earlier – During its Q1 2018 earnings call, management stated that pricing in Q1 2018 had remained flat and that the increase in its revenue per watt – which is closely tied to revenuer per inverter – in the quarter increased due to a change in product mix. Management also stated that they had modeled a 2% price erosion per quarter for the remaining three quarters of 2018. Provided below are management's comments from the earnings call.

> Total net revenue per DC watt increased by 8% from the fourth quarter of 2017, largely as a result of changes in product mix... With regarding how we model pricing, we usually model a couple of percent every quarter. And historically, for Q1 '18, for example, our pricing was flat. There has been not much change. In fact, it was up a little bit. But we model 2% erosion, price erosion quarter-on-quarter for the -- I mean for the 3 quarters in 2018.

We do not believe that management could be so clueless about the recent pricing trends of its own business. Instead, we believe management was unable to coherently answer such a simple and important question about its business because ENPH's financial results are unsupportable.

- ***Management could not credibly explain the $6.3m shortfall in its beginning Q1 2018 deferred revenue balance, while a forensic accountant agreed with our analysis:*** As mentioned earlier, our analysis indicates that, pro forma for ASC 606, ENPH's Q1 2018 beginning deferred revenue balance should have been $123.1m, $6.3m higher than what the $116.8m the Company reported.

  During its Q2 2018 earnings call, ENPH tried to explain away the $6.3m shortfall in its beginning Q1 2018 deferred revenue balance by claiming that it was due to a $6.4m invoice receivables adjustment (*Note: ENPH quantified the discrepancy as being $6.4m rather than $6.3m*). However, the ASC 606 adjustments disclosed in ENPH's Q1 2018 10-Q do not include an adjustment to its receivables balance. Thus, we believe that management's explanation is clearly bogus.

What ENPH Tells Investors…

*So these transactions that we booked basically the $6.4 million that you referred to did not impact the P&L nor cash…**we took the, what we call it an invoice receivable balance** which is an asset seen on the books **and against that, we offset it against the deferred revenue account** on the books*

(Source: CFO Eric Branderiz, ENPH Q2'18 Earnings Call)

???

…Is Not Reflected In The ASC 606 Adjustments Disclosed In Its Q1'18 10Q:

	March 31, 2018		
	As Reported	Adjustments	Without Adoption of Topic 606
Prepaid expenses and other	20,435	(10,761)	9,674
Other assets	35,236	(27,330)	7,906
Accrued liabilities	30,223	(5,736)	$ 24,487
Deferred revenues	37,408	(21,350)	$ 16,058
Deferred revenues, noncurrent	78,265	(49,714)	28,551
Accumulated deficit	(339,803)	38,709	(301,094)

Going a step further, we asked a forensic accountant to assess the validity of management's explanation for the $6.3m shortfall in its deferred revenue balance. Viewing the same information upon which we based our analysis, the accountant agreed with our assessment that ENPH's explanation did not add up as it did not appear to be supported by the actual adjustments made to the Company's financial statements.

> On its Q2'2018 Conference Call on 07/31/18, Enphase indicated the $6.4 million "gap" in the Q4'2017 pro forma adjusted deferred revenue balance and the beginning deferred revenue balance (as of 01/01/18) in the Q1'2018 deferred revenue rollforward was "purely a balance sheet transaction" and related to an "invoice receivable" asset that offset the deferred revenue balance. From an accounting perspective, it's possible to book deferred revenue (i.e. credit) with a corresponding receivable (i.e. debit), but in our experience this doesn't happen very often. Generally, deferred revenue is booked when a Company actually receives cash. Moreover, <u>the ASC 606 adjustments provided in the Company's Q1'2018 10Q do not show that any adjustments were made to accounts receivable</u>; the only asset adjusted was deferred costs. As a result, <u>we are skeptical about the Company's explanation as the commentary on the Conference Call is not supported by the adjustments provided in the Company's financial statements.</u>
>
> (Source: Forensic Accountant Report, 8/2/2018)

Even More Red Flags

We have not even come close to covering all of our concerns regarding ENPH's accounting methods and business practices, and won't be able discuss many of them in this report. In the below sections, we will list some among the myriad of additional red flags which reinforce our opinion that ENPH's financial reporting cannot be trusted.

#1: Alarming deferred revenue accounting irregularities in Q4 2019 and Q1 2020

Just as in Q1 2018 and Q2 2018, ENPH's deferred revenue accounting methods in Q4 2019 and Q1 2020 do not add up.

Before diving into our analysis, we will first provide a quick overview of the critical applicable concepts of deferred revenue accounting:

Typically, when cash is prepaid before a service is provided, a company will book the cash as an asset, and will also book deferred revenue as a liability in an amount equal to the cash received. Then, when the service is provided, the deferred revenue liability is recognized as revenue.

For example, as shown in the figure below, if a customer makes a prepayment of $10, a company will add $10 to both its cash & equivalents and to its deferred revenue liabilities on its balance sheet. Then, if the service is delivered in the next quarter, the company will recognize $10 of revenue in its income statement and convert the $10 of deferred revenue liabilities into equity.

Deferred Revenue Accounting: Illustrative Example

Income Statement

	QTR 1	QTR 2
Revenue	$0.0	$10.0

Balance Sheet

	QTR 1	QTR 2
Assets:		
Cash and Equivalents	$10.0	$10.0
Total Assets	$10.0	$10.0
Liabilities & Equity:		
Deferred Revenue Liabilities	$10.0	$0.0
Shareholders' Equity	$0.0	$10.0
Total Liabilities + Equity	$10.0	$10.0

In its FY 2019 10-K, ENPH disclosed that it had received a $49.9m safe harbor prepayment in Q4 2019. It also disclosed that $44.7m of the $49.9m of cash it received was being held in restricted cash as collateral for a letter of credit it issued in relation to the safe harbor prepayment it received from a customer.

> For the year ended December 31, 2019, contract liabilities include $49.9 million of safe harbor cash prepayments from its customers for products to be delivered in 2020, which represents the amount equal to the aggregate purchase price of the executed sales agreement. Of the $49.9

> million, a letter of credit of $44.7 million was issued for the benefit of one customer and the Company has collateralized under the letter of credit a certificate of deposit of $44.7 million. (Source: Pg. 75, ENPH FY 2019 10-K)

One quarter later, in its Q1 2020 10-Q, ENPH puzzlingly disclosed that it had collected $52.9m of accounts receivable due to the delivery of safe harbor orders in Q1 2020 which were prepaid in Q4 2019.

> …changes in the working capital in the first quarter of 2020, compared to the same period in 2019, was primarily due to $38.0 million decrease in deferred revenue as we delivered safe harbor orders that were prepaid in the fourth quarter of 2019, $26.9 million decrease in accounts payable due to pay off of liabilities, $5.9 million increase in inventory and $2.6 million increase in prepaid expenses and other assets, <u>partially offset by collections of $52.9 million of accounts receivable mainly driven by our safe harbor order deliveries in the first quarter of 2020 that was prepaid in the fourth quarter of 2019.</u> (Source: Pg. 36, ENPH Q1 2020 10-Q)

ENPH's deferred revenue accounting methods as described in the above disclosures do not reconcile with the proper GAAP accounting for deferred revenue outlined at the beginning of this section. The Company's disclosure that its accounts receivable balance fell by $52.9m during the quarter primarily due to safe harbor deliveries implies that, in addition to the $49.9m of cash it had already added to its balance sheet from safe harbor prepayments, it had added $49.9m to its accounts receivable balance in Q4 2019. As shown in the figure below, this does not make any sense as adding $49.9m to both cash and equivalents and accounts receivable in Q4 2019 would have resulted in an imbalance of $49.9m on its balance sheet.

ENPH's Deferred Revenue Accounting Does Not Reconcile With GAAP

($ in millions)	**Q4'19**
Assets:	
Cash and Equivalents	$49.9
Accounts Receivable	$49.9
Total Assets	$99.8
Liabilities & Equity:	
Deferred Revenue Liabilities	$49.9
Shareholders' Equity	$0.0
Total Liabilities + Equity	$49.9
Total Assets - (Total Liabilities + Equity)	***$49.9***

Source: ENPH filings with the SEC. PP estimates.

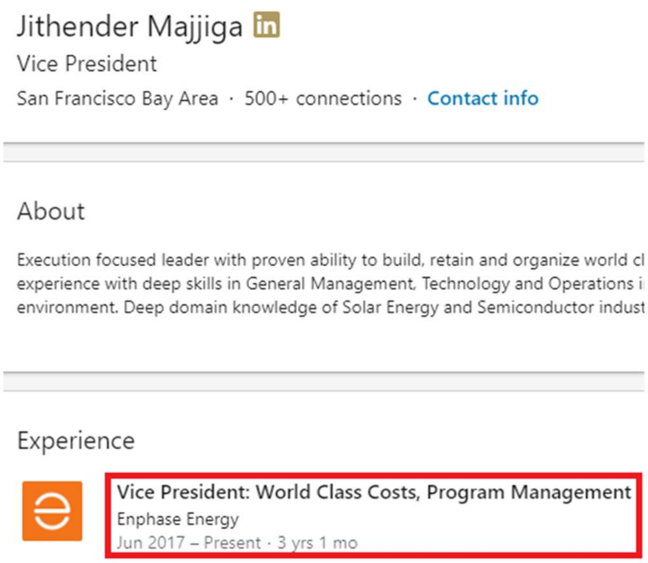
Furthermore, we are puzzled as to why ENPH added $49.9m to its accounts receivable balance in the first place, given that it has no relation to deferred revenue. Accounts receivable is defined as revenue that is recognized for services provided but not yet paid for by a customer. By contrast, a deferred revenue liability is a liability that is added to the balance sheet for cash that has been received from a customer for services which have not yet been provided.

So, how exactly did ENPH manage to balance its balance sheet in Q4 2019 and Q1 2020 after adding $49.9m to both its cash and equivalents and accounts receivable balance? Why and for what purpose is the Company using accounts receivable as part of its deferred revenue accounting? Unfortunately, only ENPH management can answer these questions. However, what we do know is that ENPH's deferred revenue accounting practices in Q4 2019 and Q1 2020 do not add up, and amount to yet another red flag that the Company's financial reporting cannot be trusted.

#2: A troubling, undisclosed acquisition

In January 2018, ENPH apparently acquired a business which was co-founded by one of its mid-level executives – who is a former SunEdison and Cypress alum (*surprise, surprise*) and who attended the same college as Kothandaraman at around the same time – but troublingly failed to disclose this apparent acquisition of a current employee's business in its SEC filings. Even worse, it appears that ENPH improperly excluded the amount it paid to acquire this related party from its FY 2018 financial statements, providing even further proof that the Company's reported financials cannot be trusted.

As disclosed on his LinkedIn profile, Jithender Majjiga joined ENPH in June 2017 and currently serves as the VP of World Class Costs, Program Management.



Source: LinkedIn

As also disclosed on his LinkedIn profile, prior to joining ENPH, Majjiga had co-founded an energy storage startup called ActivStor, which Majjiga revealed was acquired by ENPH in January 2018. Given that Majjiga was an ENPH employee when this acquisition occurred, we believe it should have been disclosed in the Company's SEC filings as a related party transaction. Yet, puzzlingly it was not.

Co-Founder & CEO
ActivStor Inc.
Feb 2016 – Jun 2017 · 1 yr 5 mos
Cupertino CA

Co-founded ActivStor, is an early stage startup developing next generation Energy Storage Solutions to disrupt Residential energy storage solutions. Raised capital, hired a team and helped build prototype. Successfully exited in Jan 2018 by selling to Enphase Energy

Source: LinkedIn

Interestingly, Majjiga previously worked at SunEdison for more than 4 years and before that at Cypress for around 16 years. He also attended the same college as Kothandaraman – Indian Institute of Technology – from 1988 to 1992 which is around the same time that Kothandaraman attended. These years of shared work and education experiences with other ENPH executives, and particularly with Kothandaraman, indicates that the Company's acquisition of ActivStor, presuming that Majjiga's profile is accurate, raises the serious question as to the business purpose behind the transaction, and which could amount to an egregious misappropriation of shareholder capital.

SunEdison
4 yrs 5 mos

Vice President of Operations and Technology – Advanced Solutions (Storage Solutions)
Sep 2014 – Nov 2015 · 1 yr 3 mos
Belmont CA

Responsible for evaluating/qualifying bankable energy storage solutions and deploying them for various applications in commercial and residential markets.

Cypress Semiconductor Corporation
16 yrs

Senior Business Unit Director – Memory Products Division
Dec 2008 – Jun 2011 · 2 yrs 7 mos

Lead the Non Volatile Products Business Unit. Responsible for P&L. all Engineering and Marketing Functions. Doubled the Revenue for the BU to $35M/YR and turned the BU around from losing $5M/QTR to Operating Income of >$2M/QTR in 2 years

Indian Institute of Technology, Madras
B Tech, Metullurgiical Engineering
1988 – 1992

Source: LinkedIn

Perhaps most troubling is the fact that ENPH appears to have completely excluded the amount it paid to acquire ActivStor from its FY 2018 cash flow statement, a clear violation of GAAP accounting rules.

As shown in the below figure, ENPH's reported cash invested in acquisitions in FY 2018 amounted to $15m, the entire amount of which was for the acquisition of SunPower's microinverter.

ENPHASE ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2019	2018	2017
Cash flows from investing activities:			
Purchases of property and equipment	(14,788)	(4,151)	(4,121)
Acquisition	—	(15,000)	—
Net cash used in investing activities	(14,788)	(19,151)	(4,121)

Source: ENPH FY 2019 10-K

- Reflects zero cash spent on the ActivStor acquisition.
- The entire $15m of cash spent on acquisitions in FY'18 was for its acquisition of SunPower's microinverter business.

Furthermore, as shown in the below figure, ENPH's cash flow statement also does not include any common stock issued for the ActivStor acquisition. The entire $19.2m of common stock issued for acquisitions, based on the Company's own disclosures, reflected in the cash flow statement was for the acquisition of SunPower's microinverter business.

	Years Ended December 31,		
	2019	2018	2017
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets			
Cash and cash equivalents	251,409	106,237	29,144
Restricted cash	44,700	—	—
Total cash, cash equivalents, and restricted cash	$ 296,109	$ 106,237	$ 29,144
Supplemental cash flow disclosure:			
Cash paid for interest	$ 2,689	$ 6,343	$ 5,816
Cash paid for income taxes	$ 1,755	$ 775	$ 909
Supplemental disclosures of non-cash investing and financing activities:			
Acquisition funded by issuance of common stock	$ —	$ 19,219	$ —
Purchases of fixed assets included in accounts payable	$ 672	$ 895	$ 551

Source: ENPH FY 2019 10-K

- Reflects zero common stock issued for ActivStor acquisition.
- The entire $19.2m worth of common stock issued for acquisitions in FY'18 was for the acquisition of SunPower's microinverter business.

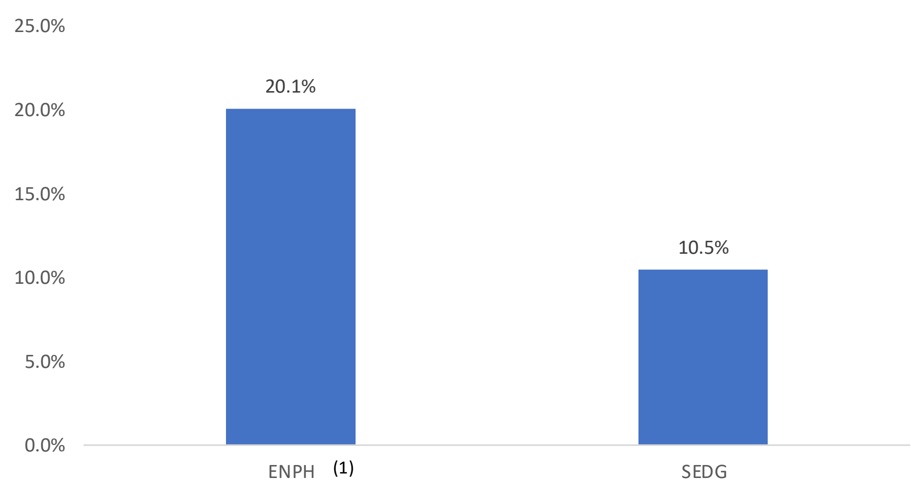
#3: Suspiciously large amount of reported safe harbor revenue

We believe the legitimacy of ENPH's reported safe harbor revenue from Q3 2019 to Q1 2020 totaling $88.9m is also highly questionable. Effective January 1, 2020, the Investment Tax Credit ("ITC") for the US solar industry stepped down from 30% to 26%. However, as per the IRS's safe harbor agreement issued in June 2018, solar components shipped in the first 3.5 months of 2020 could still qualify for the 30% tax credit, so long as the components were paid for in 2019. This, as expected, led to a meaningful amount of advanced purchasing by several solar distributors and installers toward the end of 2019.

From Q3 2019 to Q1 2020, ENPH reported a total of $88.9m in safe harbor revenue from its customers – $8.0m in Q3 2019, $36.4m in Q4 2019 and $44.5m in Q1 2020. The Company has stated that it will not recognize any safe harbor revenue in Q2 2020.

When compared to competitor SEDG, the amount of safe harbor revenue ENPH has reported appears suspiciously large, especially after adjusting for sales to SunPower. As disclosed in its FY 2019 10-K, safe harbor sales to SunPower amounted to $5.2m, meaning that ENPH's total safe harbor sales excluding SunPower totaled $83.7m. This represents 20.1% of ENPH's FY 2019 US revenue, adjusted for the exclusion of $70.9m in SunPower sales, of $416.3m. By comparison, SEDG expects to generate a total of $71.1m in safe harbor revenue – $54.1m in Q1 2020 and a projected $17.0m in Q2 2020 – which represents just 10.5% of its reported FY 2019 US revenue of $678.6m.

ENPH's Safe Harbor Sales As a % Of Reported FY'19 US Revenue Is Almost Double That Of SEDG



Source: ENPH and SEDG filings with the SEC and earnings reports.

(1) Excludes $70.9m of total sales to SunPower in FY'19 and $5.2m of safe harbor sales to SunPower.

We believe the only legitimate way that ENPH could have generated such a large amount of safe harbor revenue is by offering massive discounts to its customers to buy product before the end of 2019. However, this explanation does not align with the fact that ENPH reported a robust gross margin of 37.1% in Q4 2019 and an all-time record gross margin of almost 40% in Q1 2020. So, just like its deferred revenue accounting in Q4 2019 and Q1 2020, the only thing we can say with certainty is that ENPH's reported safe harbor revenue does not add up and appears to us as yet another red flag suggesting that the Company's reported financials are fiction.

#4: Negative Glassdoor reviews support some of the key findings of our research

Also concerning are the poor reviews ENPH has received on Glassdoor from current and former employees, several of whom echoed many of the same issues and concerns which have been highlighted in this report.

For example, in a review posted on August 2019 titled "B-Team of Cypress," one current employee appeared to express frustration about the presence of former Cypress employees within the Company. This individual also stated that ENPH's numbers were inflated due to the influence of "Ahmad Chatila & Co." This individual then went on to claim that current management's intention was to "milk the cow dry" before the Company goes bankrupt.

August 16, 2019 Helpful (8)

"B-team of Cypress"

Current Employee - Anonymous Employee

Doesn't Recommend Positive Outlook Disapproves of CEO

I have been working at Enphase Energy full-time

Pros

1. Good product
2. Few capable individuals left
3. Current market share (which may last for next 2 quarters)

Cons

1. Politics (If you have an offer, better join Cypress and then join this company)
2. Horrible culture (No-one in management respects their team members nor peers)
3. Absolute lack of Vision (No new products in-line, no plans to expand in current market)
4. All time high market position (Thanks to inflated numbers and market influencers like Ahmad Chatila & co. the numbers are as high as it can ever get -Q2-19, it's all downhill from here)
5. Pathetic Management style (Mid management has absolutely no say nor clue about what they are doing; Zero process-Zero documentation-Zero effort made to complete the false promises made to top management)
6. Miserably inadequate HR policies (HR has almost no say in anything; and just uni directional in passing orders from top)
7. ESOP is a joke (Don't fall for their new secret weapon during hiring)
8. Operations, Order management, Planning, Indian engineering teams are the most inept teams you will ever see)
9. Founders have given up on trying to get current management on board with their vision/mission as the latter's intentions are only to milk the cow dry as much as they can, before it goes to chptr-11.

Advice to Management

You have lost most of the good assets, at least now take actions before its too late.

Source: Glassdoor

As another example, in a review posted on February 2020 titled "Stop BS!!," a current employee in India claimed that ENPH was caught in the "clutches of CY gang," which we assume is in reference to the large number of former Cypress employees at the Company. This individual then went on to claim that former Cypress employees were given preferential treatment and that non-Cypress employees were treated as "outsiders."

February 6, 2020 Helpful (2)

"Stop BS!!"

Current Employee - SCM in Bangalore

Doesn't Recommend · Neutral Outlook · No opinion of CEO

I have been working at Enphase Energy full-time for less than a year

Pros

Job profile is good. Learning opportunities are more.

Cons

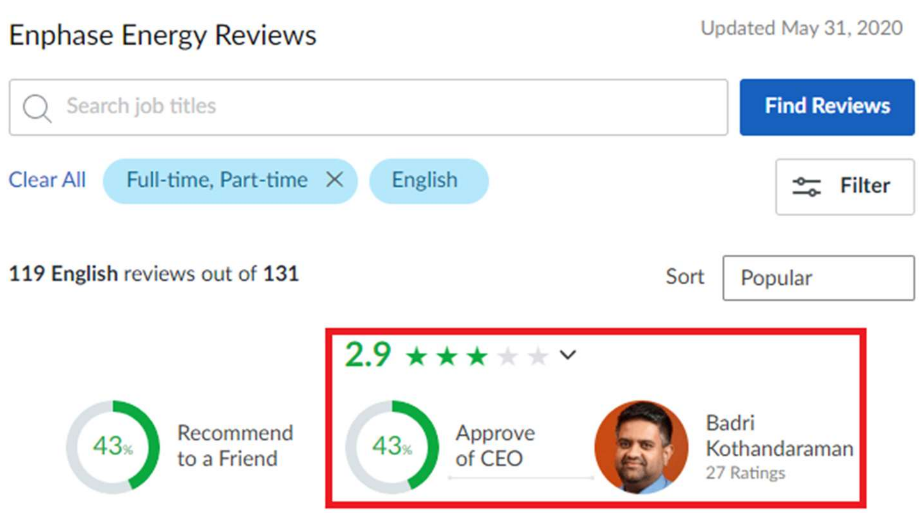
Am caught in the clutches of CY gang! Disgusting team members. Only CY tags get to work in flexible timings, work from home options, hardly 25 hrs of login through the week. We see lot of co-operation within CY returns , but not with other non-CY hires. Non Cy hires are treated as outsiders and that is a real bad discrimination. Not just bunch of people, we are honoured to see love birds also being migrated from CY to ENPH.

Advice to Management

Please identify real talent and encourage skilled resources. Do not be biased based on previous organisation name tags!!

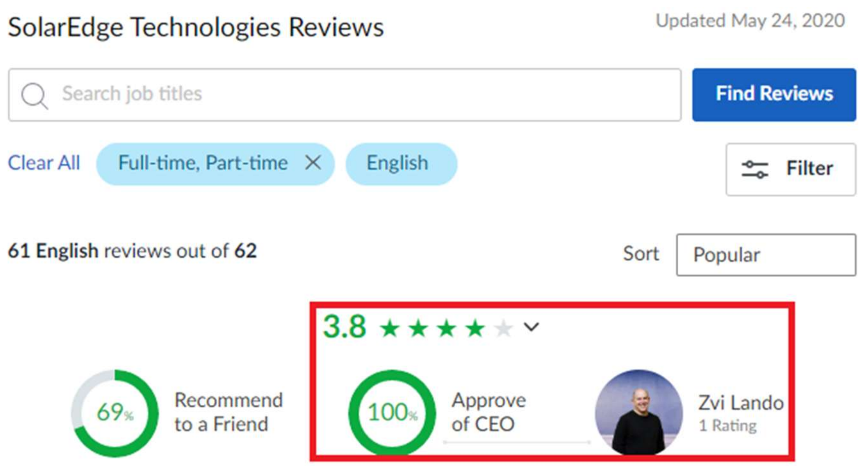
Source: Glassdoor

Although the above represents the views of just a couple of employees, as evidenced by ENPH's low average rating of 2.9 stars and low CEO approval rate of 43% on Glassdoor, numerous other current and former employees appear to have similarly negative views.



Source: Glassdoor

By comparison, SEDG has a significantly higher average review rating of 3.8 stars on Glassdoor with a 100% CEO approval rate.



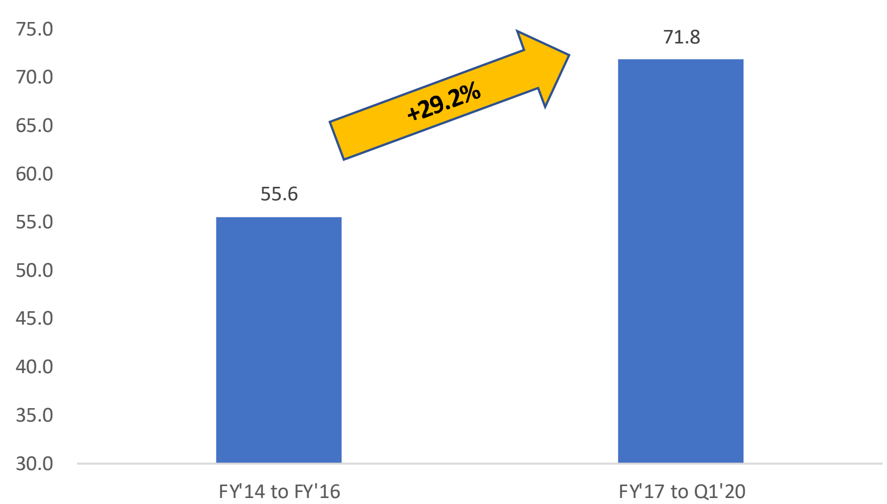
Source: Glassdoor

#5: Elevated accounts receivable balance

As found in numerous past frauds, an elevated accounts receivable balance, particularly one that is growing at a faster pace than revenue, is a red flag that reported revenue may have been misstated or improperly manipulated. ENPH exhibits this red flag.

ENPH's accounts receivable days ("AR days") have increased significantly during Kothandaraman's tenure as CEO. As shown in the figure below, during the three years from FY 2014 to FY 2016, AR days averaged 55.6. By contrast, during the most recent 3.25 years from FY 2017 to Q1 2020, average AR days increased by almost 30% to 71.8 days.

Average AR Days Have Increased By 29.2% Under Kothandaraman



Source: ENPH filings with the SEC and earnings reports.

Given our conclusions from the findings of our research which suggest that Kothandaraman & Co. will go to almost any length to inflate ENPH's financial performance, we suspect that this increase in AR days is not benign. Instead, we suspect that the Company may be using its accounts receivable balance as another tool to further inflate its financial performance.

#6: Overly promotional management

We are always wary of management teams who appear to be more focused on the stock price rather than the operations of their company. This can often be an indication that management is more concerned with lining its own pockets at any cost, rather than building sustainable long-term shareholder value.

With Ahmad Chatila at the helm, SunEdison was known for frequently issuing fluff press releases seemingly with the intention of pumping up its stock price. Chatila would also often make bold public proclamations about SunEdison's shares, and at one point predicted that SunEdison's market cap would someday reach $350 billion.

Not surprisingly, given Chatila's apparently deep involvement, ENPH appears to have adopted some of the same tactics that SunEdison previously employed, seemingly in an attempt to promote and inflate the value of its shares. For example, in a GTM article published in July 2018, the Company's VP of Marketing proclaimed with an unusual amount of bravado and certainty that ENPH shares were going "to the moon."

> After a scary dip in share prices over the past few years and the risk of a Nasdaq delisting* last summer, the acquisition marks an upward trajectory that will continue, according to Enphase Vice President of Marketing and Pricing JD Dillon, during an interview at Intersolar North America.
>
> "The amount of profitable growth in front of the company, we know how to do it, the path is clear," he said, adding that the share price is "going to go up — higher. Quote me on that. To the moon!"

Further evidence of ENPH's overly promotional ways can be seen in its frequent issuance of press releases, a good portion of which are often short on details and long on fluff. For example, ENPH issued 51 press releases in FY 2019 alone (here). This was almost 2.5x the 21 press release that SEDG issued in the same year (here). Similarly, in FY 2018, ENPH issued 50 press releases (here) which again was almost 2.5x the 21 that SEDG issued in the same year (here).

PP Estimates That At Least $205.3m Of ENPH's FY 2019 Reported US Revenue Was Fabricated, And That A Significant Portion Of Its International Revenue Was Also Fabricated

To reiterate, in our view, the overwhelming evidence presented in this report proves to us that ENPH is grossly inflating its reported revenue.

We can use the Wood Mackenzie market share data to provide a reasonable estimate from which to derive how much ENPH inflated its reported US revenue in FY 2019. According to Wood Mackenzie, total megawatts ("MWs") installed in the US residential solar sector from FY 2017 to FY 2019 increased by a cumulative total of 26.1% from 2,239 MWs in FY 2017 to 2,822 MWs in FY 2019. Based on this, and the decrease in ENPH's market share from 25.4% in FY 2017 to 20.3% in FY 2019, we calculate that MWs of ENPH products installed in the US residential solar sector increased by a cumulative total of just 1.7% YoY from 562 MWs in FY 2017 to 572 MWs in FY 2019.

Based On Wood Mackenzie Data, MWs Installed Of ENPH Products Excluding Sales To SunPower Grew By A Cumulative Total Of Just 1.7% From FY 2017 to FY 2019			
($ in millions)	FY'17	FY'18	FY'19
MWs Installed - US Residential Solar Market	2,239	2,445	2,822
Market Share - ENPH [(1)]	25.1%	18.5%	20.3%
Implied MWs Installed - ENPH [(1)]	562	453	572
YoY Growth - %		***(19.4%)***	***26.1%***
Cumulative Growth - %			***1.7%***

Source: Wood MacKenzie US MLPE market share data.
(1) Excludes direct sales to Sunpower.

According to the distributors that we contacted, pricing for ENPH products declined by around mid-to-high single digits from FY 2017 to FY 2019. However, for the purposes of being conservative, we have assumed that pricing for ENPH products remained flat from FY 2017 and FY 2019. Assuming flat pricing, the Wood Mackenzie data implies that ENPH's US revenue growth from FY 2017 to FY 2019, excluding sales to SunPower, should have been roughly equal to the growth in MWs installed of 1.7%.

Based on 1.7% cumulative growth, the Wood Mackenzie data implies that ENPH's adjusted reported US revenue, which excludes one-time safe harbor sales and sales to SunPower, grew from $199.6m in FY 2017 to $202.9m in FY 2019. By comparison, as shown in the figure below, ENPH's adjusted reported US revenue was $408.3m in FY 2019, exceeding the revenue implied by the Wood Mackenzie data by $205.3m. Based on this, we conclude that at least $205.3m of ENPH's reported US revenue in FY 2019 was fabricated.

Wood Mackenzie Data Implies That ENPH's Reported FY 2019 US Revenue Was Inflated By At Least $205.3m

Adjusted Reported FY 2019 US Revenue:

($ in millions)	FY'17	FY'18	FY'19
Reported US Revenue	$199.6	$219.6	$523.6
Less: SunPower Revenue	0.0	(12.4)	(70.9)
Less: Safe Harbor Revenue	0.0	0.0	(44.4)
Adjusted Reported US Revenue	**$199.6**	**$207.2**	**$408.3**
YoY Growth		*3.8%*	*97.0%*
Cumulative Growth			*104.6%*

Implied Inflation of FY 2019 Revenue:

($ in millions)	FY'17	FY'19
Adjusted Reported US Revenue	$199.6	$408.3
% Growth		*104.6%*
Wood Mackenzie Implied Revenue	199.6	202.9
% Growth		*1.7%*
Implied Inflation of US Revenue - $		***$205.3***

Source: Wood Mackenzie data. ENPH filings with the SEC and earnings reports.

Based on our estimate that at least $205.3m of ENPH's reported US revenue is fabricated, as well as the $44.4m of safe harbor revenue ENPH reported in FY 2019, we calculate that ENPH's 'actual and sustainable' FY 2019 revenue, which excludes fabricated revenue and one-time safe harbor revenue, was $273.8m, which is $249.7m or 47.7% lower than what it reported.

PP Estimates That ENPH's 'Actual And Sustainable' US Revenue Was ~$250m Lower Than Its Reported US Revenue In FY 2019	
($ in millions)	FY'19
Reported US Revenue	$523.6
Less: PP Estimate Of Fabricated Revenue	(205.3)
Less: One-Time Safe Harbor Revenue	(44.4)
'Actual and Sustainable' US Revenue	**$273.8**
Discount To Reported Revenue - $	***$249.7***
Discount To Reported Revenue - %	***(47.7%)***

Source: ENPH filings with the SEC and earnings reports. PP estimates.

Based on the evidence we developed, we also believe that ENPH's international revenue has also been significantly inflated. This is based on the fact that, as discussed earlier, multiple former employees and an employee of a solar distributor in India told our investigators that they believed the astronomical growth in ENPH's revenue from the Indian market – which reportedly increased by around 7x from $0.9m in FY 2018 to $6.5m in FY 2019 – was grossly fabricated. Furthermore, as also discussed earlier, an employee of a solar distributor in India expressed to us a belief that the Company was forging invoices in an effort to inflate its revenue. Given these factors, and the apparent great lengths to which ENPH will go to fabricate its financials, we believe it is reasonable to assume that the Company's reported revenue has been similarly inflated in other international countries as well.

PP Believes That Most, If Not All, Of The Increase In ENPH's Gross Margin During Kothandaraman's Tenure Was Fabricated As Well

In this report, as well as in our initial reports, we presented proof, in our view, that almost all of the 43.7% or 804 bps increase in ENPH's reported gross margin from 18.4% in Q2 2017 to 26.5% in Q1 2018 was attributable to deferred revenue accounting shenanigans. Furthermore, as detailed in this report, the nearly impossible decline of 37.6%, on a tariff-adjusted basis, of ENPH's cost of revenue per watt from Q3 2018 to Q3 2019 amounts to proof, in our view, that the Company's cost of revenue and, in turn, its reported gross margins during that timeframe were fabricated and grossly inflated.

Based on all of the above, we believe it is reasonable to conclude that most, if not all, of the astounding 2,080 Bps expansion in ENPH's reported gross margin from 18.4% in Q2 2017 to 39.2% in Q1'20 is likely fiction.

SEDG's Former CEO And A Mainstream Financial Journalist Have Expressed Skepticism About ENPH's Reported Financials

ENPH's reported revenue growth has become so disconnected from reality that SEDG's former CEO and a mainstream financial journalist have recently taken notice independently and called it into question.

During SEDG's [Q2 2019 earnings call] on August 6th, 2019, founder and former SEDG CEO Guy Sella, who sadly passed away in late August 2019 from a battle with cancer, appeared to cast doubt on the legitimacy of ENPH's reported revenue figures in his final public comments as SEDG's CEO. Prior to this, we had never seen a public company CEO even imply that a competitor's financial performance may be manipulated, but perhaps Sella was emboldened to speak out given his deteriorating health condition.

During the call, Sella commented that Wood MacKenzie, which he highlighted as being the only objective market share data source in the industry, had shown that SEDG's market share had increased in Q1 2019 despite ENPH's rapid growth in the quarter. He then closed by speculating that ENPH's reported revenue numbers may be the result of inventory build, and thus may not accurately reflect market demand. Based on our interpretation, it appears that Sella was implying that ENPH's reported revenue figures were inflated and may be the result of channel stuffing.

The relevant comments from Sella during the Q2 2019 earnings call are provided below:

> Just before the closing remark, in all of the last calls, people were asking us about the market share of us against the other MLP companies. This time, it hasn't been us, but I decided to help you a bit and give you the details from the only objective source in the market. So, as we said in the past, there is no ability for a company to measure market share of newly installed systems. The only one who does it constantly is media Greentech Media. Since Q1 2018, Greentech Media show steady growth of SolarEdge market share in the U.S. residential market from 45.7% in Q1 2018 to 59.5% in Q1 2019. At the same time, tells Greentech Media again the other MLP company market share from 23.1% into in Q1 2018 to 17.1% to Q1 2019. As you may know, the other MLP company acquired the micro inverter business of SunPower on August 2018. And since this quarter, they also include the sales of SunPower. Even when combining or taken into -- the share of the other MLP company, the SunPower micro inverter business since Q4 2018, the combined share decreased from 29.2% in Q4 2018 to 26.8% in Q1 2019.
>
> Lastly to those who try to calculate market share from reported shipments, **the shipment number are not representing market share trends and these are affected by customer inventory**. I hope this will give you the motivation to **get into the numbers of market share from Greentech Media rather from the shipment numbers that companies (ENPH) reported on themselves.**

Jamie Powell from the Financial Times also called ENPH's recent growth into question in an article published on February 28th titled "Enphase's Particularly Peculiar Parabolic Growth." Financial journalists infrequently write articles questioning the accuracy of a company's financial reporting, so to see one do so was quite eyebrow raising.

In the article, Mr. Powell presented analysis, similar to what we provided earlier, which showed that ENPH's large increase in reported revenue in 2019 did not add up when compared to market share data from Wood McKenzie. He also noted that ENPH curiously declined to offer an explanation for the large discrepancy between its reported revenue and the Wood McKenzie data, and that the executive team was equally as cagey when asked by buyside analysts about the same topic. Finally, he concluded, just as we did, that Guy Sella appeared to question the accuracy of ENPH's reported growth during SEDG's Q2 2019 earnings call.

The relevant extracts from Mr. Powell's article are:

> Its main competitor, SolarEdge, has also questioned Enphase's growth. On 2019's second quarter conference call former chief executive, the late Guy Sella, discussed Enphase's growth versus its

> reported market share…Throwing shade at a competitor on a conference call is relatively rare, so let's get into those Greentech Media market share numbers to see if Sella still has a point.
>
> Provided by the energy research and consultancy Wood Mackenzie, the Greentech Media installation data is collected from a variety of trade sources…the disparity is striking isn't it? Enphase managed to double US sales almost every quarter last year, but its market share stayed pretty much flat through to the third quarter.
>
> We wanted to hear an explanation from Enphase, but it declined to comment for this story even after we presented some of our calculations to them. Parsing the recent conference call transcripts, its executive suite is equally as cagey about discussing the topic.

Revisiting The Sudden Resignation Of Former CFO Bert Garcia In 2018

On May 1, 2018, ENPH announced that Mr. Garcia was resigning as CFO and would be departing the Company at the end of June.

> Enphase Energy…today announced that its Chief Financial Officer, Bert Garcia, is leaving the Company to pursue other opportunities. Enphase has an external search underway to identify a replacement. Garcia will continue as CFO until June 30, 2018… (Source: ENPH 5/1/2018 press release)

On the surface, Mr. Garcia's sudden departure after eight long years at the Company made little sense at the time. Why would he suddenly leave right at the moment when ENPH's financial performance appeared to finally be turning a corner?

However, given the findings of our research and our private investigation which have been detailed in this report, his sudden departure makes a lot more sense. Consider that Mr. Garcia announced that he was leaving ENPH right around the same time that the Company was reporting its Q1 2018 earnings – the quarter in which we believe ENPH's apparent accounting irregularities began. This leads us to conclude that Mr. Garcia likely jumped ship because 1) he was not comfortable putting his name behind the numbers ENPH was reporting to investors in Q1 2018, and/or 2) he wanted to avoid any potential fallout that would result if the company's accounting issues were eventually exposed as they have been in this report.

Public Interest Statement

We believe the information contained in this report about ENPH's apparently fraudulent accounting practices is a matter of public interest. ENPH is a publicly traded company on the NASDAQ with a market capitalization of almost $7Bn. Some of the Company's largest investors include high profile institutional investment firms whose clients, in turn, include many retail investors and institutional retirement funds.

Also, ENPH has raised more than $517m from convertible debt offerings over the past two years and may seek to raise additional money in the future from other capital market participants. Based on the research we have provided in this report, it is our opinion that investors in the Company's previous convertible offerings and in any future offerings could face exposure to significant financial loss if our comprehensive research is confirmed.

Thus, given the potentially negative financial impact that ENPH's actions could have on its large and diverse investor base, we believe it is important to disclose our findings about the Company in a published report. As noted in our disclaimer, we do have a short interest in securities of ENPH.

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