

Ticker	Stock Price	2023 Sales Estimate	Free Cash Flow (last 12 months)	Annual Sales Growth	Gross Margin	Price/Sales (2023)	Market Cap	Relative Strength Index	Dividend Yield
Enphase Energy (ENPH)	237.87	\$16.8 billion	\$467 million	63.6%	39.6%	1.92x	\$32.2 billion	30.64	N/A



**ENPHASE ENERGY (ENPH):** An investment in Enphase Energy is a play on growing worldwide demand for solar energy and comprehensive solutions to manage residential solar power. Enphase has grown rapidly to become a leader in the US market for microinverters, necessary to convert solar power to usable energy for households. Success for the company will depend on its ability to continue innovating and gaining its share of customer solar spend, through cross-selling. With a push worldwide to move to a future powered by green energy, we think Enphase is the best pure play on the renewable theme.

We have followed Enphase closely over the last half decade, watching as the company iterated from a producer of a small part necessary to convert solar electricity to usable power to more of a platform company, selling batteries, grid services, and monitoring software. The more comprehensive solution has enabled Enphase to continue growing revenues at an impressive rate of 64% over the last 12 months. The change in product mix has allowed Enphase to improve gross margins steadily, from 35% in 2019 to nearly 40% in 2021, though supply chain challenges have caused margins to plateau in 2022. When ENPH sells a microinverter to a customer, the total spend usually is limited to \$2,000, while the complete solution generates roughly \$12,000 in revenue. We will watch progress in conversion rate to the full system in the coming years.

Inflation has impacted companies of all types, particularly manufacturing businesses like ENPH. Our analyst, Madhu Chaudhry, notes in his report that the company has maintained robust growth throughout this inflationary period not by passing production cost increases to customers, rather through steadily increasing demand. According to Madhu, this is evidence that consumers are finding value in Enphase's line of microinverters. Also, the company's new generation of products has an average selling price of 18% higher than previous models, another data point suggesting that profitability is on the rise. At this point, the market tells the story of the quality of Enphase's microinverters: nearly half of microinverters sold are produced by Enphase, giving the company ample opportunity to cross-sell additional services to existing customers and drive customer stickiness. We also like the management here: CEO Badri Kothandaraman is a semiconductor industry veteran of more than 25 years and has presided over a period of excellent stock performance since taking the helm in 2017.

In the current market, it is difficult to find growth stocks that are holding their own. When we find one that is maintaining its growth rate into a worldwide recession, while increasing profitability in a growing addressable market, we will take notice. The fact that Enphase is able to maintain a growth rate of more than 60% while expanding margins and increasing market share impresses us. Thus, we are selecting ENPH as The Chosen stock for October 2022.