

SMA SOLAR TECHNOLOGY AG

Analyst / Investor Presentation

Half-Yearly Financial Report: January to June 2016

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August 11, 2016



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# **SMA INCREASED SALES & EARNINGS DURING THE FIRST SIX MONTHS OF 2016**

# Based on Current Performance and Solid Order Backlog SMA's Management Confirms Full Year Guidance



## Top-Line

- > SMA had €494m sales (H1 2015: €429m); in line with Guidance
- > Commercial was key growth driver (+44% Y/Y) due to new products for key markets (JP/US). Utility growth (+16% Y/Y) was impacted by project delays; Residential declined (-13% Y/Y) due to weaker than expected demand in the US and Japan.
- > Export business increased to >90% of sales (Americas: +35%; EMEA: -2%; APAC: +6% Y/Y)

## Profitability/ Bankability

- > Stable gross margin of 24% in Q2 2016 compared to Q1 2016 despite product mix changes
- > 4%-pts lower EBIT-margin in Q2 (compared to Q1) mainly due to volume, product mix, one-offs and reduced R&D capitalization
- > SMA increased EBIT to €39m (H1 2015: €-15m); in line with lower-end of guidance
- > Positive free cash flow (adj.) of €38m (H1 2015: €-20m) due to higher earnings, NWC improvements and lower capital expenditures
- > Rock solid balance sheet structure with c. 50% equity ratio, €294m net cash and €100m long-term credit facility

## Outlook

- > Management increased market forecast for 2016 to 66 GW (+25% Y/Y). Due to accelerated price pressure global demand is expected to remain flattish at €4.6bn in 2016.
- > SMA will introduce cost-improved products and further reduce its fixed costs by up to 15% (€-40m) within the next 12 months to improve its competitiveness.
- > Management expects an accelerated industry consolidation in light of most recent price developments. SMA is well positioned to benefit from market dynamics and to prosper.
- > SMA expects sales between €950m to €1,050m and EBIT between €80m to €120m. The upper end of the earnings guidance seems ambitious.

**> SMA's strategic investments in product/systems, sales, and services, driven by our talented workforce remain unequalled in the PV industry**

# SMA had a Strong Start into the Third Quarter – More Than 65% of Full Year Earnings Target Achieved<sup>1</sup>



## Key Financials (in € million)

	H1/2015	H1/2016	Δ
MW sold	3,153	3,876	+23%
Sales	429	494	+15%
Residential	114	99	-13%
Commercial	86	124	+44%
Utility	176	205	+16%
Service <sup>2</sup>	22	25	+10%
Other Business	31	41	+32%
Gross margin	17%	25%	
EBITDA	21	73	n.m.
EBIT	-15	39	n.m.
Thereof One-Offs	-1	-2	n.m.
Free cash flow (adj.)	-20	38	n.m.
Depreciation	36	34	-7%
Capex (incl. R&D)	32	12	-62%

## Key Financials (in € million)

	2015/12/31	2016/06/30	Δ	
Net cash	286	294	+3%	
Total assets	1,160	1,181	+2%	
NWC ratio <sup>3</sup>	22%	23%		
	2015		2016	
	Q3	Q4	Q1	Q2
Sales	270	301	254	240
Residential	73	66	46	53
Commercial	57	64	60	64
Utility	111	130	115	90
Service <sup>2</sup>	13	14	13	12
Other Business	16	27	20	21
Gross margin	23%	26%	25%	24%
EBIT	18	30	25	14
One-Offs	-13	-10	0	-2

1. Lower-End of EBIT Guidance for 2016 (€80m); as of July 31, 2016

2. External Sales

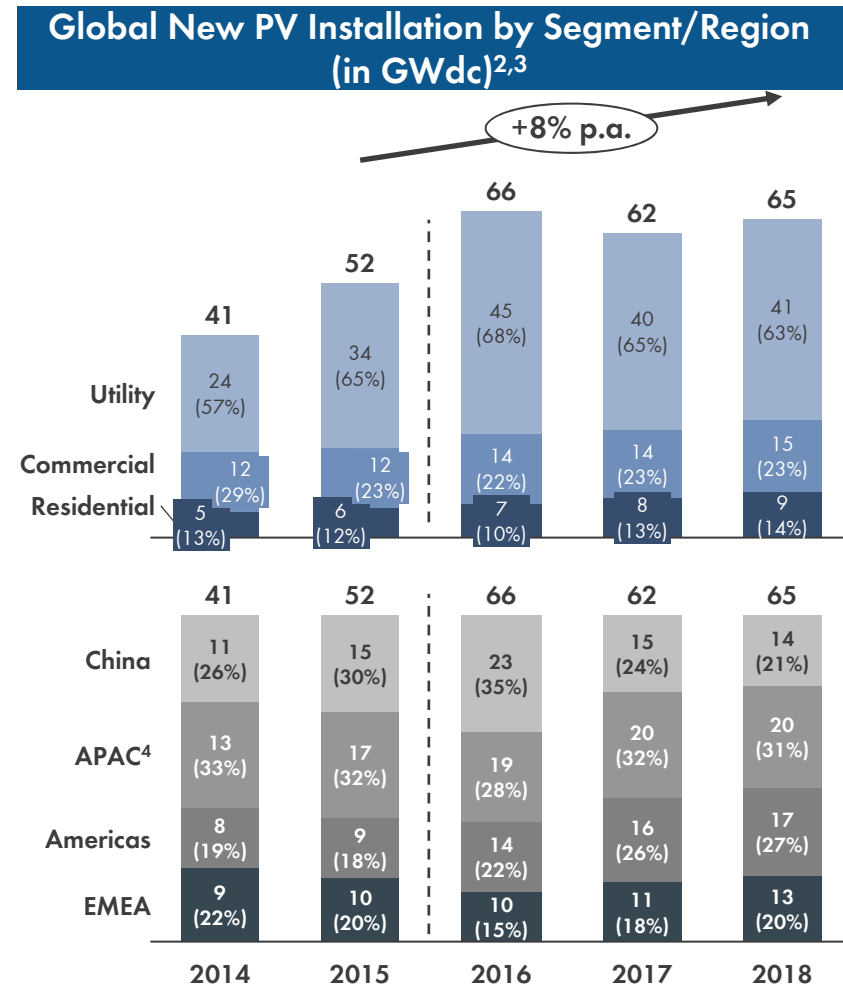
3. NWC= inventory+trade receivables-trade payables (no advanced payments included); as of last twelve month's sales

# THE MARKET ENVIRONMENT HAS CHANGED IN RECENT WEEKS

# SMA Increased the Outlook for 2016 due to H1 Installs in China - New Targets in China will Impact Future Installations



- > SMA increased global market outlook for 2016 by >10% to 66 GW due to high level of new installations in H1 in China.<sup>1</sup> However, the expected national target reduction will cool-down the Chinese market in 2017.
- > Main drivers for global volume growth of up to 8% are long-term incentive programs (e.g. ITC (USA); FIT (EU/JP)) and CO<sub>2</sub> emission targets.
- > Americas, China and India are driving forces for new installations in coming years (>60% of global demand). Middle East, South East Asia and South America are expected to gain importance (>10% of global demand).
- > Utility remains the most important segment (>60% of global demand). However, smaller Utility plants are increasingly designed with string inverters.



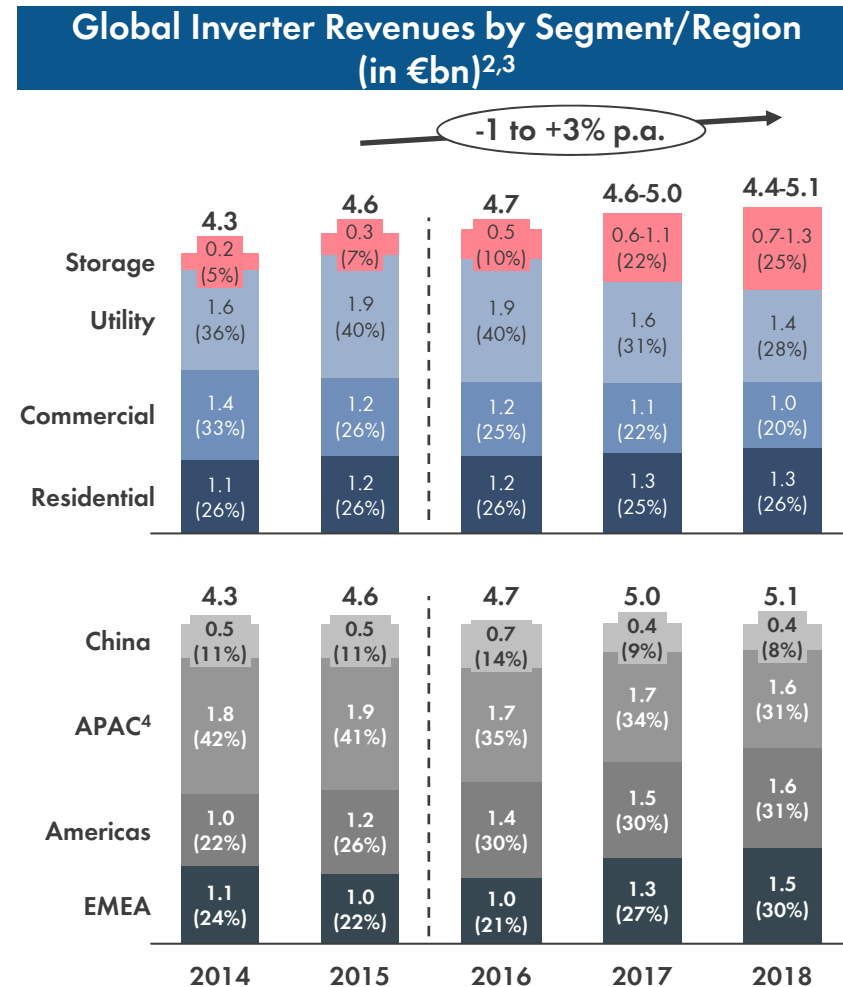
## > Photovoltaic becomes more and more popular in new markets – SMA's Management remains its positive mid-term view

1. China reduced the Feed-in-Tariff (FIT) by the end of June 2016  
 2. SMA MI Market Model Q3 2016  
 3. Incl. ~1 GW off-grid installations p.a.: residential, remote and micro-grid applications  
 4. w/o China

# Price Pressure for Solar Inverters and Services Accelerated Since Mid-2016 in all Segments and Regions



- > In recent weeks especially Chinese players reduced their average selling prices to get faster access to established markets. The price strategy shall compensate the shift in regional demand.
- > However, compliance with regulations, cybersecurity, product quality, service and product features remain key decision criteria for solar inverter technology in many regions and segments.
- > SMA reduced its latest global inverter sales outlook for 2017 and 2018 by 4%. We expect a global market growth of up to 3% p.a. to €5.1bn until 2018 (before: up to €5.3 bn).
- > In €-terms Americas, Europe and Japan remain the most important markets (c. 65% of revenues).
- > Sales growth is driven by storage applications and highly efficient residential plants.<sup>1</sup>



> **SMA's Management expects PV power to become competitive with on-shore Wind by 2020**

1. Including Module Level Power Electronics  
 2. Prices for revenue calculation according to IHS (EUR/Wac) and SMA MI Market Model\_Q3 2016

3. Incl. system technology for storage applications (e.g. hybrid, behind the meter, in the grid, co-located, etc.) and demand for replacement inverters  
 4. w/o China









**SMA WILL INTRODUCE NEW PRODUCTS AND  
REDUCE ITS BREAK-EVEN POINT TO BENEFIT  
FROM THE INDUSTRY CONSOLIDATION**

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# SMA will Capitalize on its Strength in R&D to Reduce Product Costs









Business Unit	Unique Selling Proposition	Market Launch	ASP <sup>1</sup> Impact
Residential	 Sunny Boy 3.0-5.0	<ul style="list-style-type: none"> <li>&gt; Higher energy harvest with integrated Tigo MPLE<sup>2</sup> technology</li> <li>&gt; Higher technical uptime with new service package<sup>3</sup></li> </ul>	Q3 2016  
	 Sunny Boy 5.0/6.0		
Commercial	 Roof-top Sunny Tripower	<ul style="list-style-type: none"> <li>&gt; Higher self-consumption with new integrated energy management tool</li> <li>&gt; Faster installation and better design flexibility due to technical features</li> </ul>	Q1 2017  
	 Ground-mounted Sunny Tripower	<ul style="list-style-type: none"> <li>&gt; Minimized consumer cost of electricity due to power-up</li> <li>&gt; Advanced grid management features</li> </ul>	Q1 2017  

1. ASP: Average Selling Price  
 2. MLPE: Module Level Power Electronics  
 3. Active monitoring included in selective markets

# SMA will Capitalize on Strategic Alliances to Create Higher Customer Value



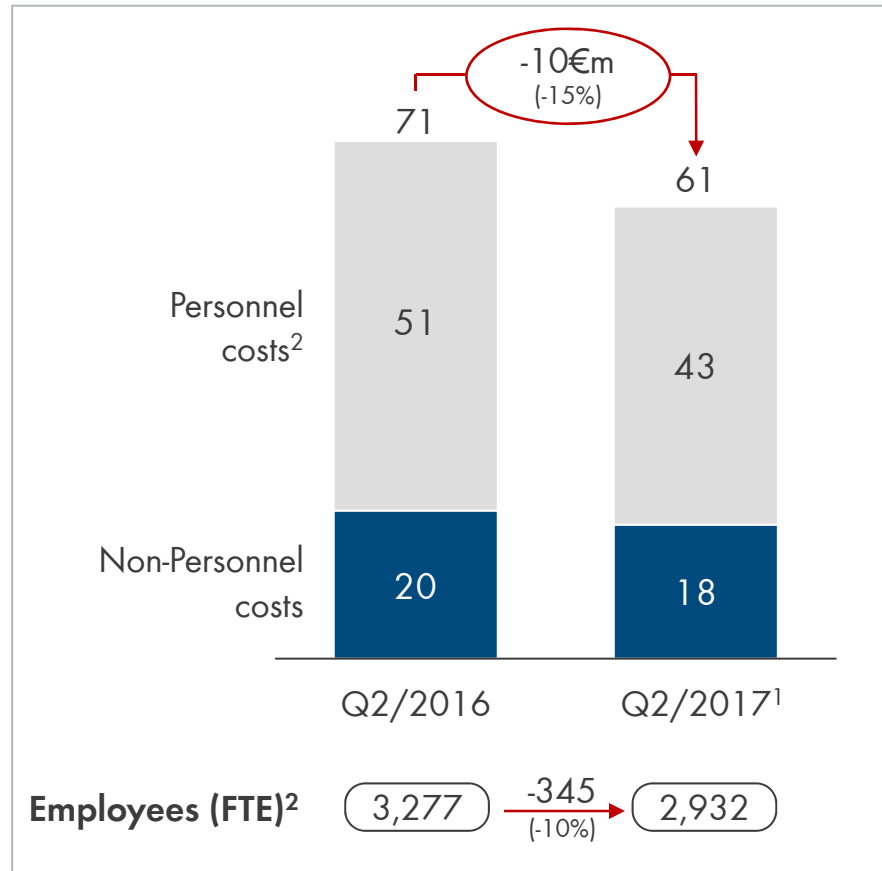
Business Unit	Unique Selling Proposition	Market Launch	ASP <sup>1</sup> Impact
<p data-bbox="257 598 302 710">Utility</p>  <p data-bbox="331 695 591 762">Sunny Central 5MW Turnkey Solution</p> 	<ul style="list-style-type: none"> <li>&gt; Reduced cost of medium voltage technology due to new product design</li> <li>&gt; Reduced installation time due to bundling in a 40" container</li> <li>&gt; Advanced grid management function and powerful communication platform</li> <li>&gt; Sunny Central 2.5 MW with 1,500 Volt is UL-certified</li> </ul>	<p data-bbox="1350 651 1491 683">Q1 2017</p>	
<p data-bbox="257 1066 302 1209">Storage</p>  	<ul style="list-style-type: none"> <li>&gt; High flexibility in system design, application.</li> <li>&gt; Ready for refurbishment market due to AC-coupled concept</li> <li>&gt; Ease of installation and connectivity with energy management</li> <li>&gt; New distribution channels due to collaboration with Daimler and Tesla</li> </ul>	<p data-bbox="1350 1018 1491 1050">Q3 2016</p> <p data-bbox="1350 1289 1491 1321">Q3 2016</p>	

1. ASP: Average Selling Price

# SMA will Reduce the Fixed Costs by up to €40m p.a. within the Next 12 Months



## Fixed Cost Structure, w/o Depreciation (in €m)



## Key Measures

- Operations**
  - > Closure of production sites in Denver (USA) and Cape Town (South Africa).
  - > Set up of local hubs in the USA (East/West Coast) to allow fast delivery times.<sup>3</sup>
  - > Increase utilization of production and repair facilities in Kassel (Germany) and Yangzhong (China). No significant investment required.
- Sales & Service**
  - > Closure of subsidiaries in markets with unattractive mid-term market outlook (Greece, Portugal).
  - > Increase sales & service professionals in markets with attractive mid-term outlook (USA, India, Japan).
- Others**
  - > Divestment of non-core assets (e.g. SMA Railway Technology; 165 FTE).
  - > Lease of office buildings in Kassel (>10,000 sqm; annual lease c. €1.5m).
  - > Cost reduction due to consolidation of admin. functions and streamlining of processes.

> **SMA's production sites in Germany and China with a capacity of more than 10 GW are not capital intense; capacity can be adjusted in a short period of time**

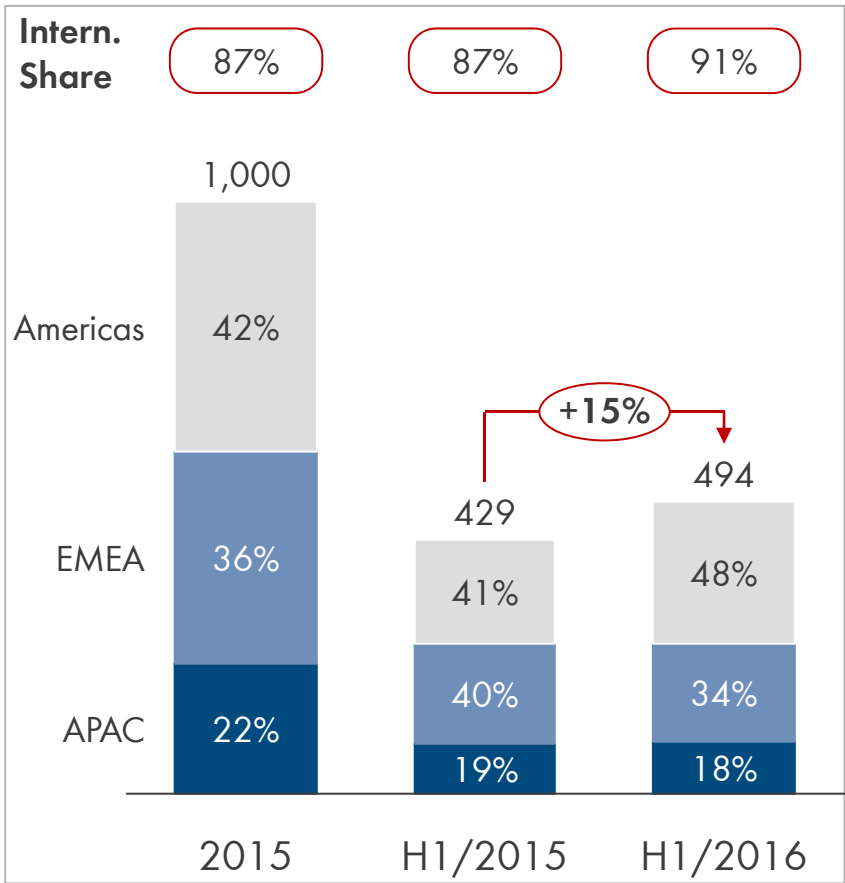
1. Target  
 2. Full-time employees w/o temporary employees  
 3. Managed by Third Party Providers

# SMA'S MANAGEMENT CONFIRMS GUIDANCE 2016

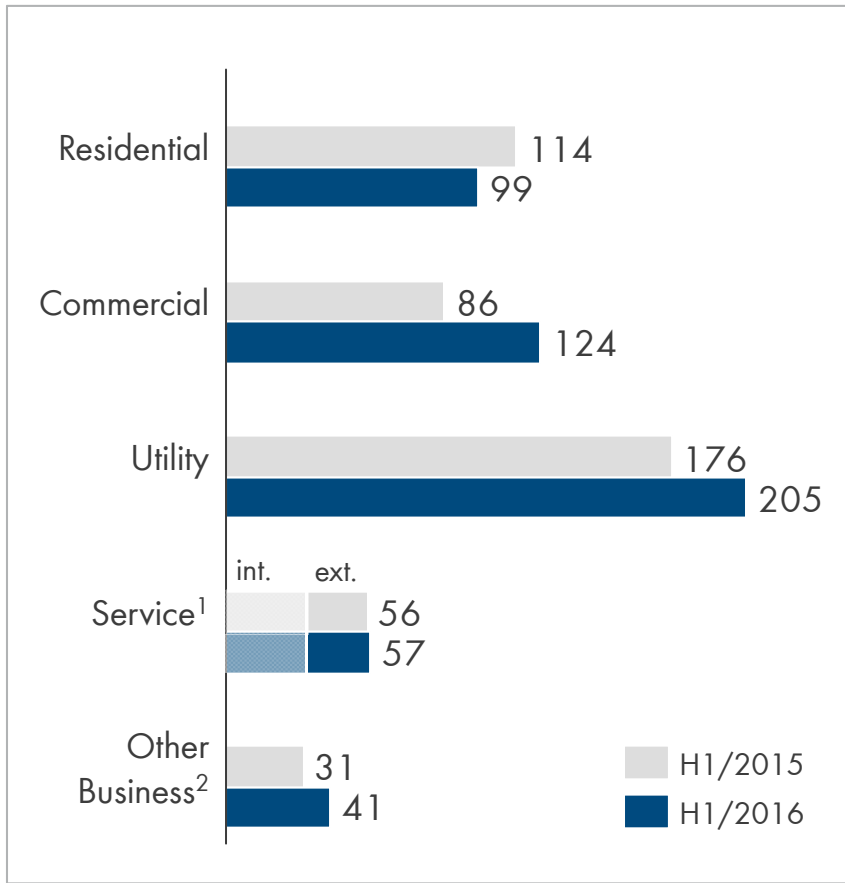
# Business in North America is the Main Growth Driver



## Group Sales (in € million)



## Sales by Segment (in € million)



> SMA benefited from the trend towards commercial applications (+ €38m Y/Y)

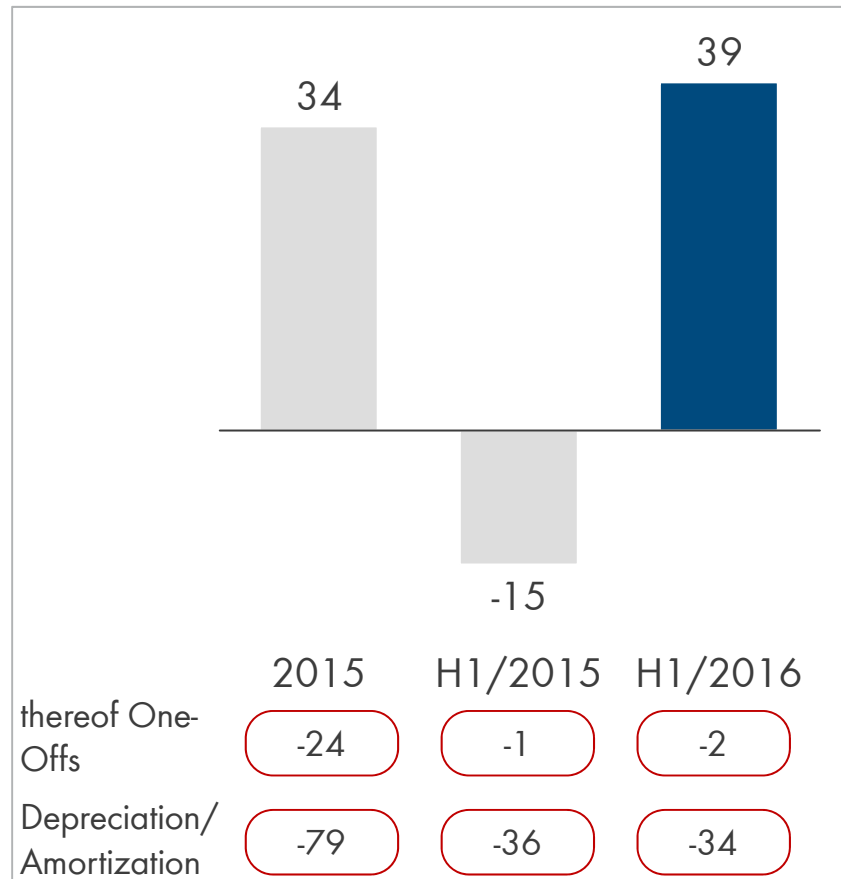
1. Internal sales (H1/2015: €33m; H1/2016: €32m) and external sales (H1/2015: €23m; H1/2016: €25m)

2. Including Zerversolar

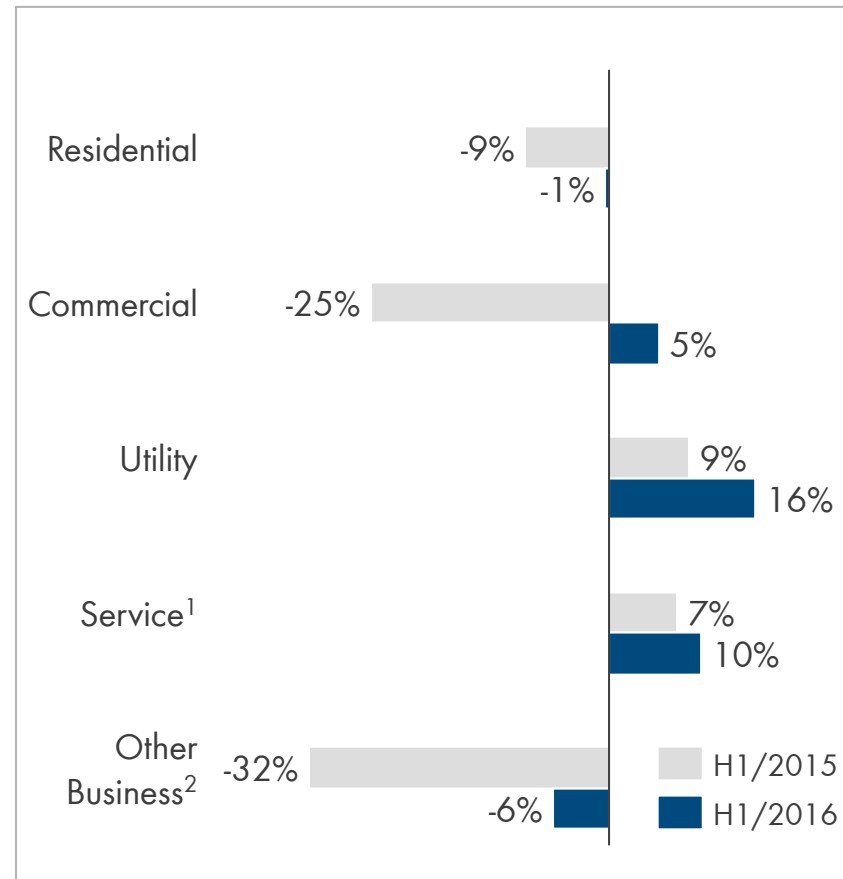
# Profitability in Q2 was Impacted by Volume, Product Mix, One-Offs and Reduced R&D Capitalization



**EBIT (in € million)**



**EBIT-margin by Segment (in %)**



> EBIT during the first six months 2016 includes one-off items of €2m

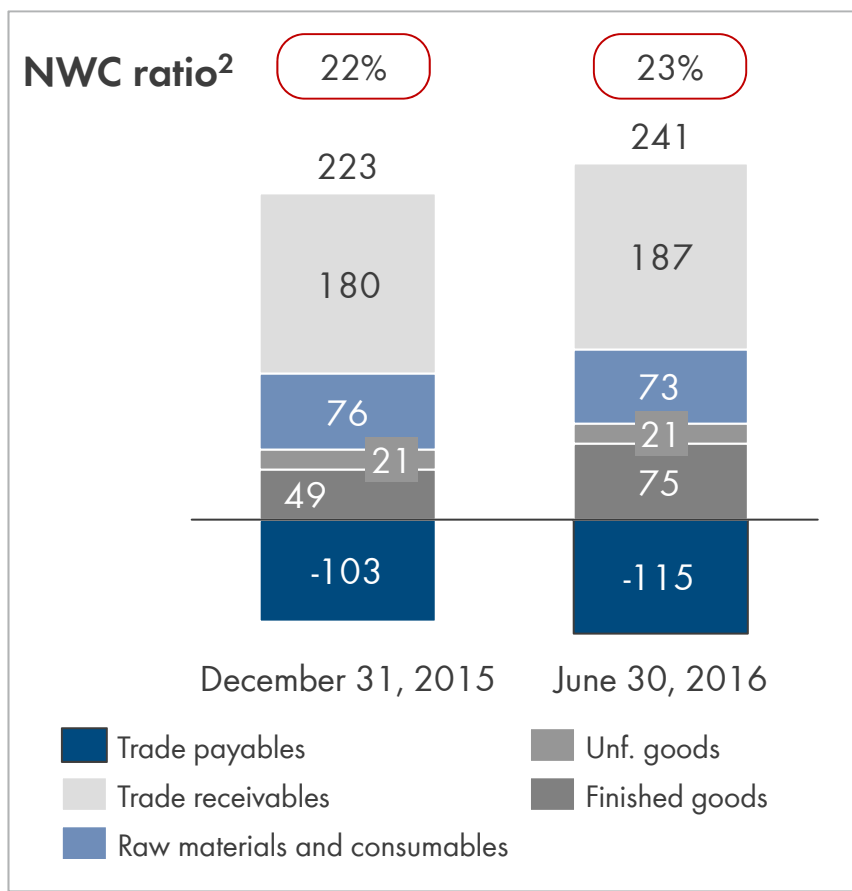
1. In relation to internal and external sales

2. Including Zeversolar

With an Equity Ratio of c. 50% and High Net Cash of €294m, SMA is Rock Solid



**Net Working Capital (in € million)<sup>1</sup>**



**Group Balance Sheet (reclassified, €m)**

	2015/12/31	2016/06/30	Δ
Non current assets	471	462	-2%
Working capital	326	356	9%
Other assets	38	36	-5%
Total cash	325	327	1%
Shareholders' equity	570	581	2%
Provisions <sup>3</sup>	170	171	1%
Trade payables	103	115	12%
Financial liabilities <sup>4</sup>	39	33	-15%
Other liabilities <sup>3</sup>	278	281	1%
<b>Total</b>	<b>1,160</b>	<b>1,181</b>	<b>2%</b>

> **Higher NWC ratio mainly due to higher accounts receivables and goods in transit**

1. NWC= inventory+trade receivables+trade payables (no advanced payments included)

2. As of last twelve months sales

3. Not interest-bearing

4. W/o not-interest-bearing derivatives: €4m (2015: €8m)



# Higher Cash Flow due to Higher Earnings, Improved Net Working Capital and Lower Capital Expenditures



Cash Flow (in € million)		
	H1/2015	H1/2016
Net income	-21	19
Gross cash flow	-5	61
Cash flow from operating activities	12	50
Net capex <sup>1</sup>	-32	-12
Free cash flow (Adj.)	-20	38
Acquisition	0	-19
Net investments from securities and other financial assets	-2	1
Free cash flow (IFRS)	-22	20

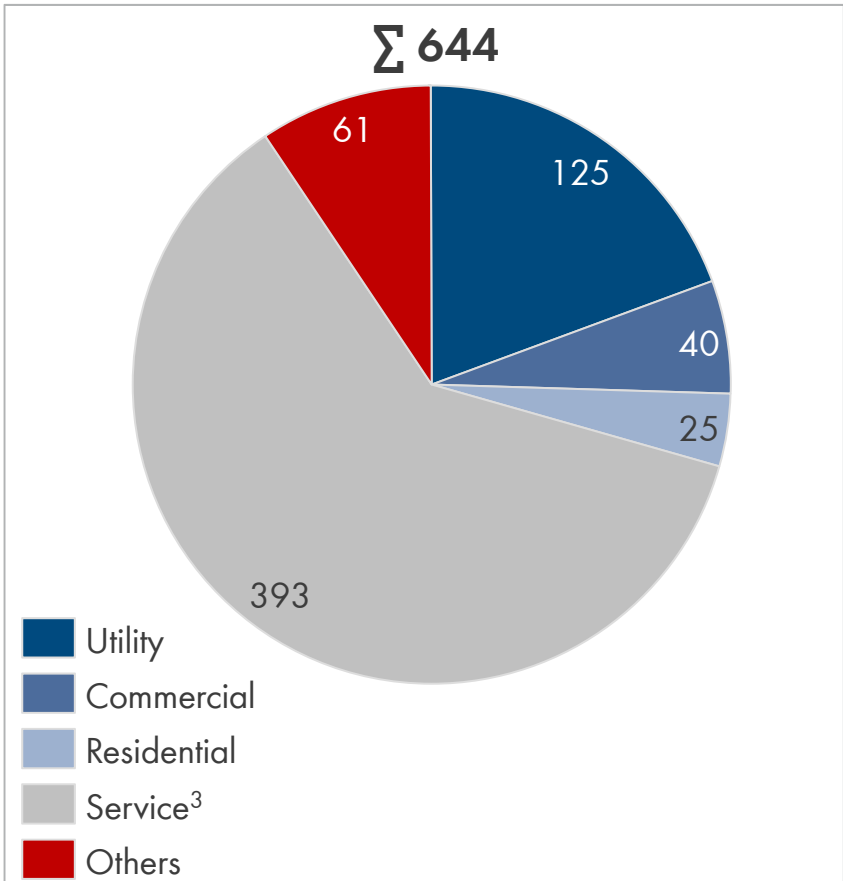
> SMA's cash flow is impacted by bonus payments as well as the acquisition of a minority stake in Tigo Energy

1. Thereof R&D capitalization: €7m (H1/15: €19m)

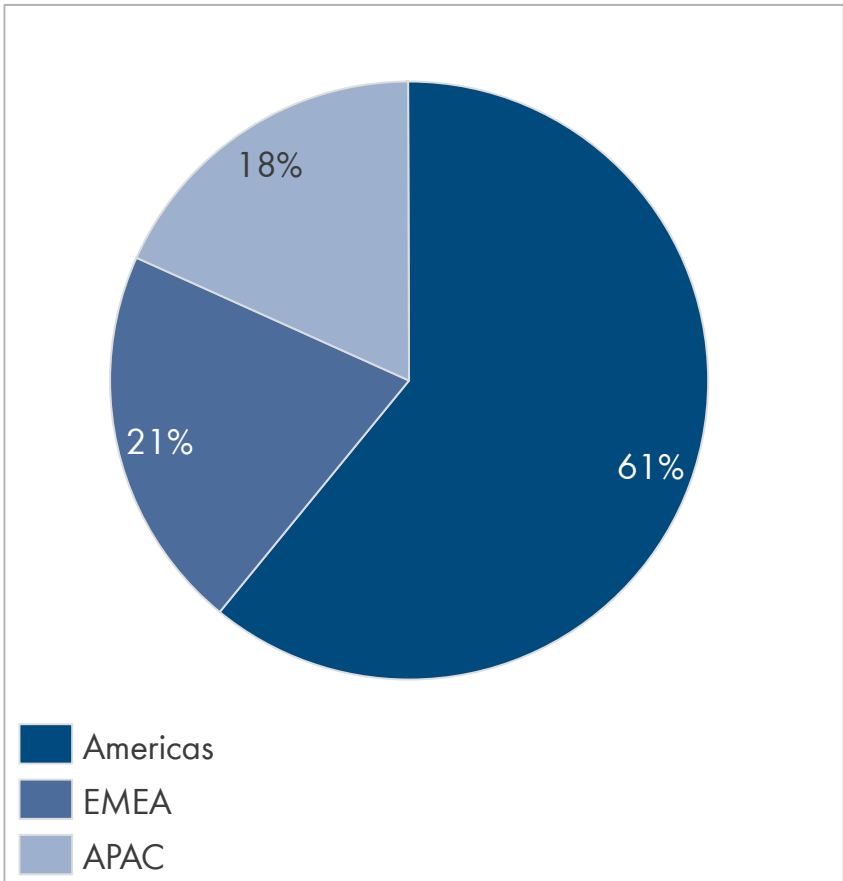
SMA has a Strong Order Backlog of c. €644m; thereof c. €251 m from Products



**Order Backlog by Segments (in € m)<sup>1</sup>**



**Order Backlog by Region (in %)<sup>1,2</sup>**



> **Approx. 75% of the full year sales guidance<sup>4</sup> is already covered with current sales and backlog for products**

1. As of June30, 2016  
2. Only Utility, Commercial, Residential, Other Business

3. Order backlog in Service will be recognized over a period of 5 to 10 years

4. Midpoint (€950m-1,050m)

# The Upper End of the Earnings Guidance Seems Ambitious in Light of the Current Price Dynamic in the Solar Industry



## Guidance 2016 (in € million)

<b>Sales</b>		
<b>EBIT</b>	34	80-120
	1,000	950-1,050
	<b>2015</b>	<b>2016</b>
thereof Residential	25%	>20%
thereof Commercial	21%	>20%
thereof Utility	42%	>40%
International Share	87%	c. 90%
Depreciation/ Amortization	79	c. 70
CapEx (incl. R&D)	51	25-30
NWC ratio	22%	20-23%
Tax rate	51% <sup>1</sup>	c. 40% <sup>2</sup>

- > The order backlog gives SMA's Management confidence to reach the sales guidance. Majority of Utility projects will be shipped in Q4 2016.
- > More than 65% of lower end of earnings guidance already achieved at the end of July 2016. However, to reach the upper end seems ambitious due to price pressure.
- > Lower CapEx due to Denver closure
- > Positive one-offs from divestments will likely compensate negative one-offs from restructuring.
- > Improvement in variable and fixed costs will start to kick-in early 2017. Full effect is expected by mid-2017.
- > Tigo MLPE technology will impact sales and earnings in Q4 2016 at the earliest.

1. Tax Rate 2015 incl. One-Off from tax audit (2010-2012)    2. Tax Rate 2016 incl. One-Off from tax review for previous years

# Investment Highlights: Attractive Investment Opportunity



- ✓ Direct exposure to the global solar market
- ✓ SMA has been the #1 for solar inverters for more than 2 decades
- ✓ Proven technology and game changing new products
- ✓ Flexible business model and best-cost sourcing strategy
- ✓ Powerful sales and service infrastructure
- ✓ Bankable partner due to high equity ratio, net cash position and credit facility
- ✓ Stable shareholder structure with Danfoss as strategic anchor investor
- ✓ Experienced management team

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BACK UP

# Financial Calendar

BACKUP



Sep 16, 2016	Macquarie's 9th Alternative Energy Conference London
Oct 24 - Nov 10, 2016	Investor Relations - Quiet Period
Nov 10, 2016	Publication of Quarterly Financial Statement: January to September 2016 Analyst Conference Call: 09:00 a. m. (CET)
Jan 16-27, 2017	Investor Relations - Quiet Period
Jan 27, 2017	Capital Markets Day: <b>Publication of Guidance 2017</b> Kassel/Niestetal
Mar 13-30, 2017	Investor Relations - Quiet Period
Mar 30, 2017	Publication of the SMA Group 2016 Annual Report Analyst Conference Call: 09:00 a.m. (CET)

# Development of Key Financials

BACKUP



## Quarterly Key Financials (in € million)

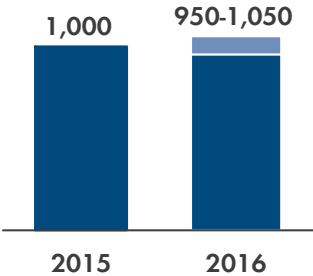
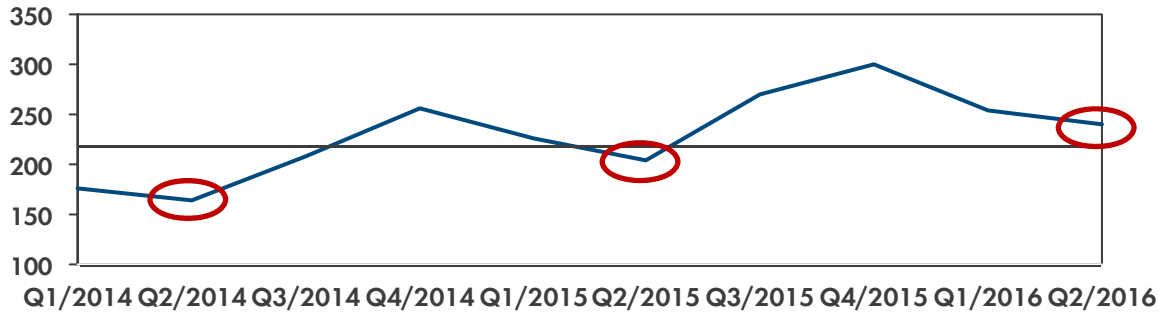
	Q1/2015	Q2/2015	Q3/2015	Q4/2015	Q1/2016	Q2/2016
Sales	226	203	270	301	254	240
Gross margin	17%	18%	23%	26%	25%	24%
EBITDA	13	8	38	54	42	31
EBIT	-5	-9	18	30	25	14
One-Offs	-3	2	-13	-10	0	-2



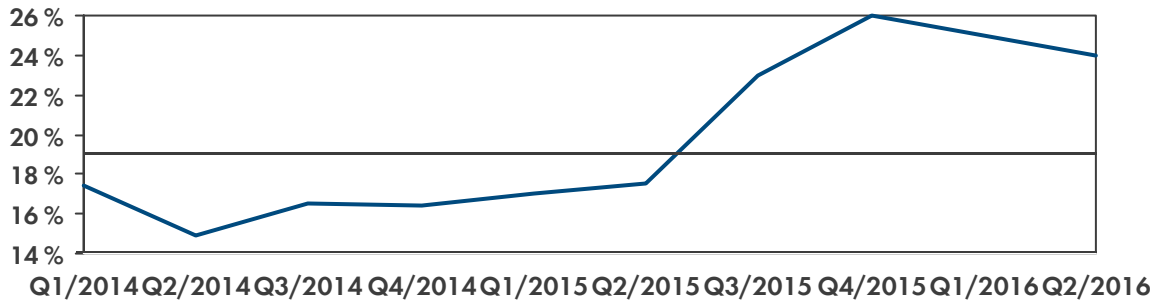


# Development of Key Financials (Cont')

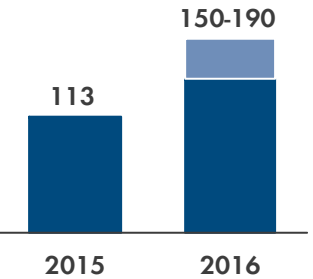
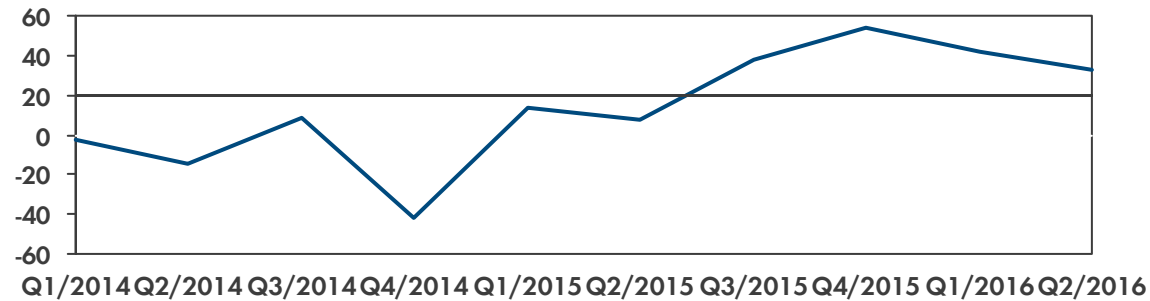
Sales in € million



Gross margin

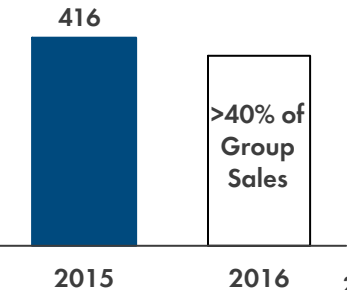
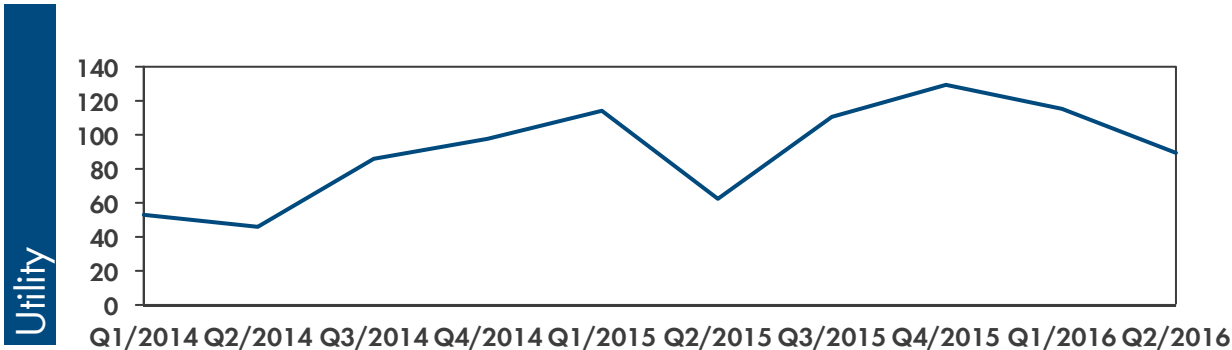
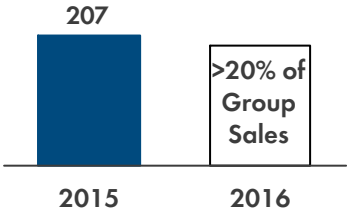
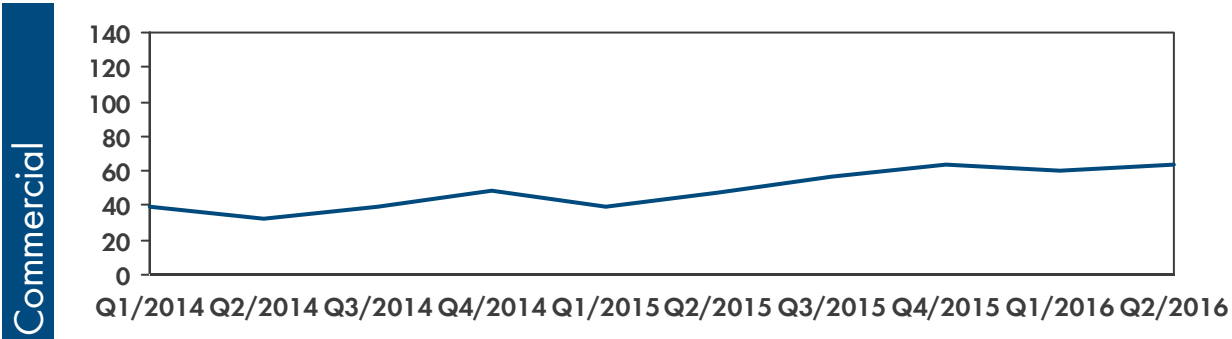
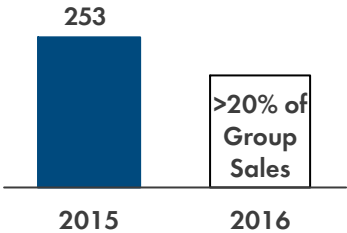
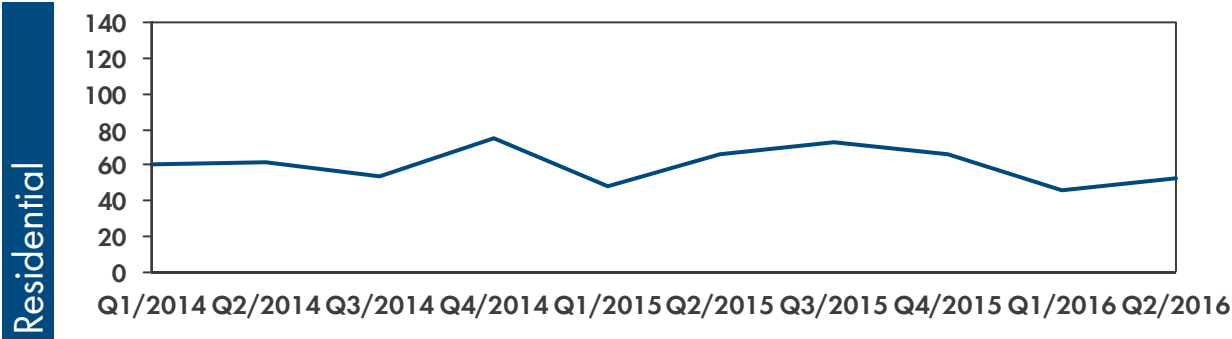


EBITDA in € million





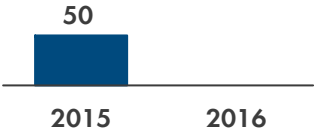
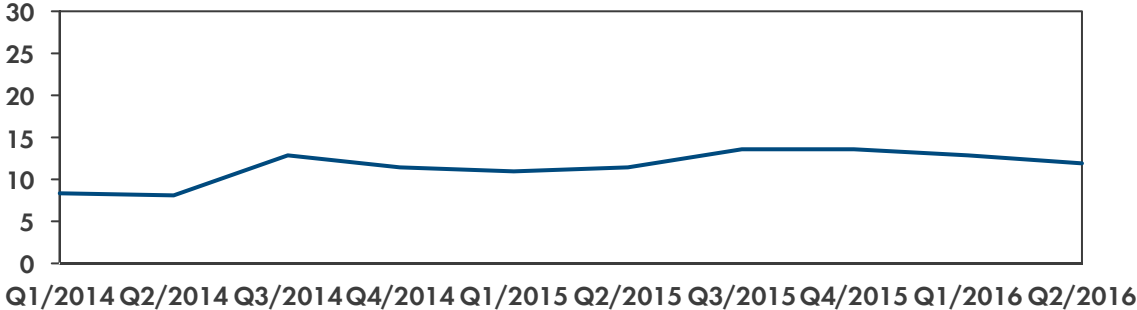
# Development of Key Financials (Cont') - Sales Development by Segment (in € million)



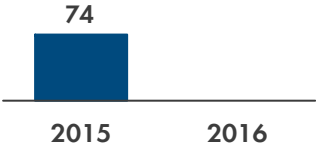
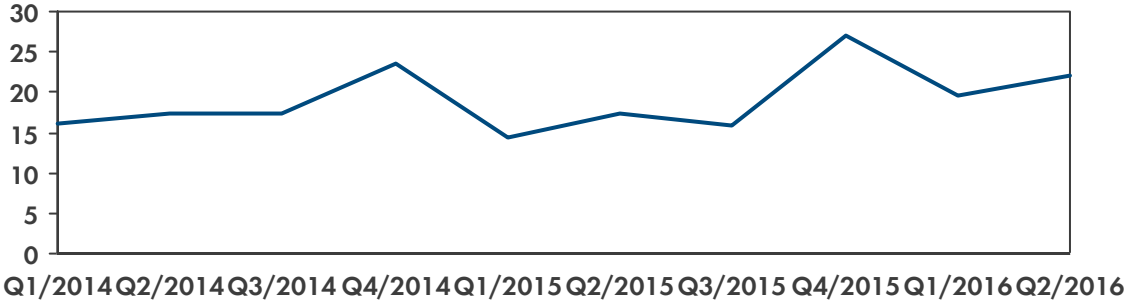


# Development of Key Financials (Cont') - Sales Development by Segment (in € million)

Service (external)



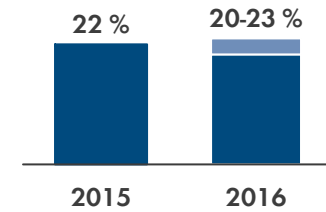
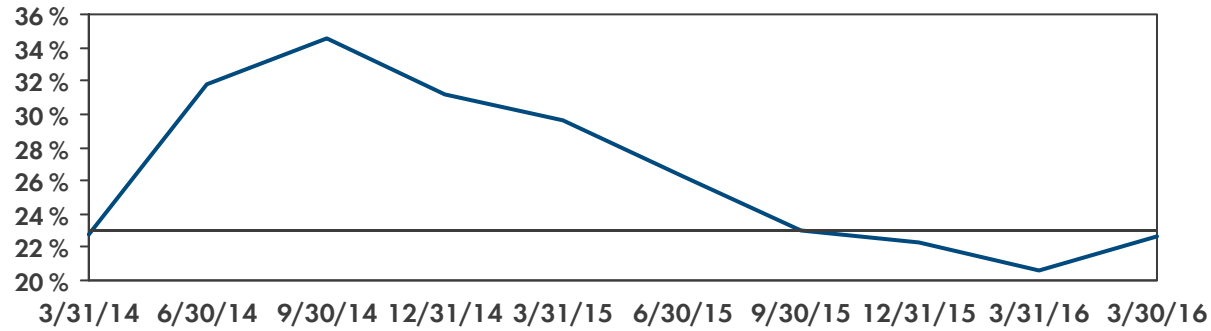
Other Business



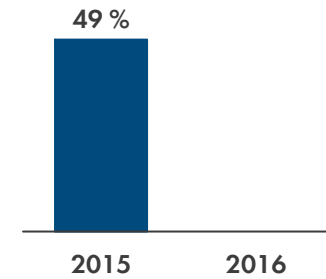
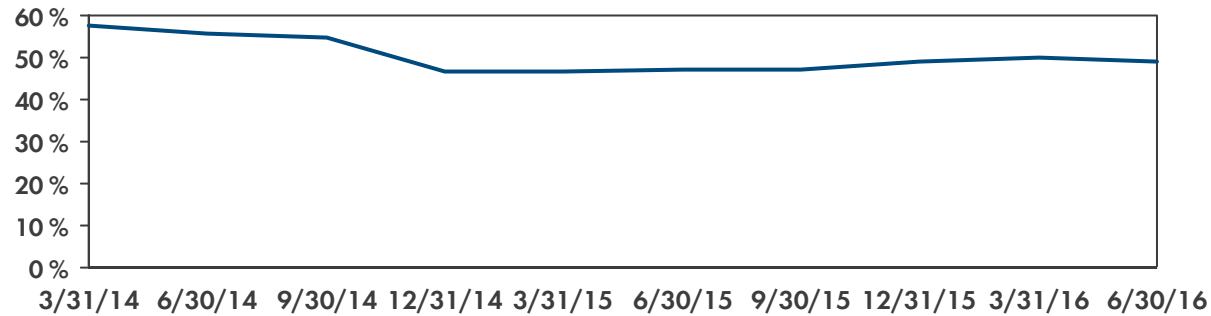
# Development of Key Financials (Cont')



NWC ratio



Equity ratio



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