

SMA SOLAR TECHNOLOGY AG

Analyst / Investor Presentation

Quarterly Financial Results: January to September 2015

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November 12, 2015



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# Strong Sales Growth is Driven by International Markets, Especially in the Utility Segment



## Financial Highlights Q1-Q3 2015

- > SMA shipped 5 GW during the first nine months, as much as in the entire year 2014.
- > 27% sales increase to €699 million (Q1-Q3 2014: €549 million). International business grew by c. 45% compared to last year. Americas was the strongest growth region (+54%), followed by APAC (+18%) and EMEA (+8%). Utility accounted for c. 70% of growth (+€103 million).
- > SMA returned to profitability earlier than expected and generated a positive EBIT of €3 million during the first nine months.
- > Margin improvement is mainly driven by Residential and Utility segments. New products and cost out programs on existing products helped to increase gross margin. Furthermore, fixed cost reduction program already impacted profitability.
- > Free Cash flow (adj.) of €22 million includes cash out-flow from severance payments. The increase of €109 million compared to the previous year (Q1-Q3 2014) is due to higher earnings and improved Net Working Capital.
- > Strong balance sheet with 47% equity ratio and €251 million net cash.

> **New and cost improved products as well as the fixed cost reduction program improved SMA's profitability**

# SMA's Management Increased the Sales Guidance to €925-975m and Expects an EBIT between €10-30m<sup>1</sup>



## Key Financials (in € m)

	Q1-Q3 2014	Q1-Q3 2015	Change
MW sold	3,311	5,031	+52%
Sales	549	699	+27%
Gross Margin	17%	19%	n.m.
EBITDA	-8	59	n.m.
EBIT	-73	3	n.m.
Free Cash Flow (Adj.)	-87	22	n.m.
Net Cash	225	251	+11%
NWC Ratio <sup>2</sup>	35%	23%	n.m.

> The Guidance for 2016 will be presented during SMA's Capital Markets Day on January 29, 2016

1. Previous Guidance: Sales 850-900 MEUR; EBIT 0-10 MEUR

2. Net Working Capital= Inventory+Trade Receivables- Trade Payables (no advanced payments included); As of last 12 months sales



## 2. Market and SMA Segments



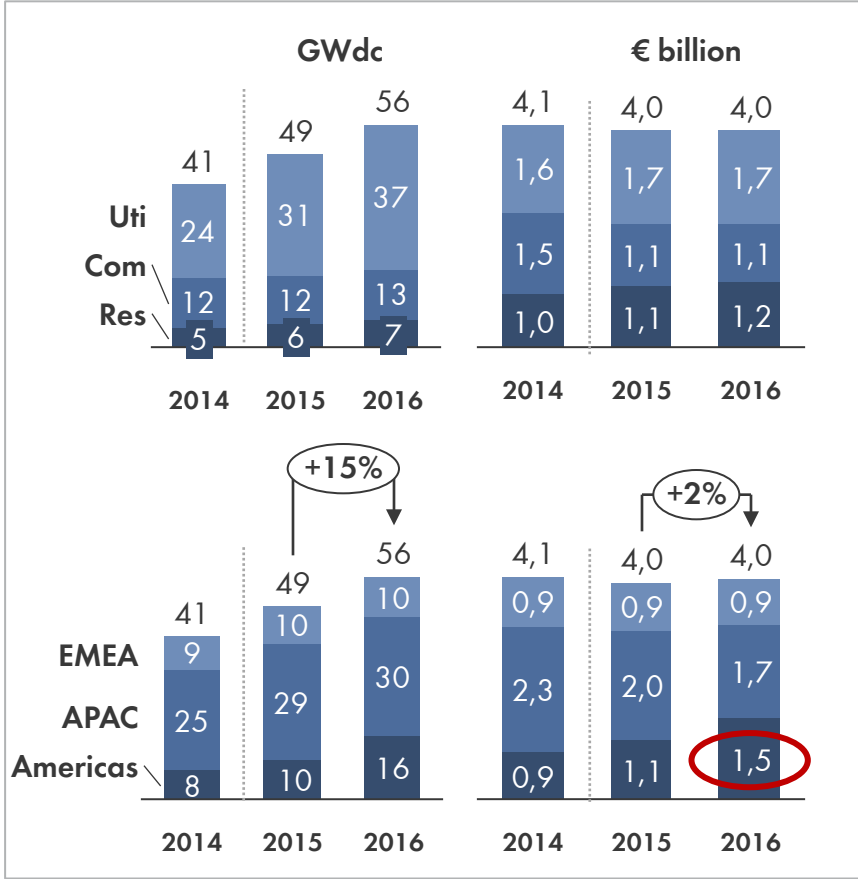
# SMA's Market Outlook Shows an Increased Demand in 2016 - The North American Utility Segment is the Main Growth Driver



## Comments

- > In Americas solar inverter sales are expected to grow by >35% to €1.5 bn in 2016. The utility segment remains the key growth driver in revenue terms.
- > In Japan solar inverter sales are estimated to decline by more than 25% due to the already introduced FIT cuts. India and South East Asia are expected to grow slightly in revenue-terms. This trend is mainly driven by commercial and utility-scale PV systems.
- > The EMEA markets remain stable. Attractive demand in UK until Q1 2016 due to the deadline for ROC<sup>3</sup>. Other key markets are France, Benelux and Germany. Those markets have strong demand for commercial and residential systems.

## Global PV Installations per Segment/Region<sup>1,2</sup>



> **The shift in demand towards Utility and North America will change the competitive environment. SMA is best positioned for future sales growth and clearly the global #1 player.<sup>4</sup>**

1. Excl. Off-grid and Hybrid Systems

2. Source: SMA MI Market Model; Prices according to IHS PV Inverter Market Tracker Q3 2015 (Sept. 2015)

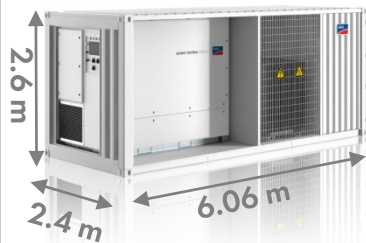
3. ROC: Renewable Obligation Certificate, incentive scheme for >1MW PV system

4. IHS PV Inverter Market Tracker Q3 2015 (Sept. 2015)

# SMA Serves All Market Segments and All Power Ranges - This is a Key Success Factor in a Fast Changing Market Environment



## SMA Utility (c. 40 % of 2015 Group Sales)



Sunny Central

- > New **2.5 MW turnkey solution<sup>1</sup>**
- > Less design work
- > Less working capital
- > More yield

## SMA Commercial (> 20 % of 2015 Group Sales)



Sunny Tripower

- > New **60 kW US** unit & **25 kW JP** unit
- > Simple installation
- > Low maintenance costs
- > Comprehensive plant performance analysis

## SMA Residential (> 25 % of 2015 Group Sales)



Sunny Boy

- > New **1.5 kW / 2.5 kW** units
- > Simple installation
- > Ease of integration into the home grid
- > PV Monitoring via smartphone or tablet

## SMA Service (> 5 % of 2015 Group Sales)



- > **O&M Service<sup>2</sup>**
- > Largest service infrastructure for fast response
- > Advanced preventive monitoring features to secure investments

> **SMA has a balanced product sales mix and opened up successfully new market segments (e.g. O&M-Service, Storage)**

1. Sunny Central Inverter + MV transformer + MV Switchgear  
2. In Europe and North America

# Based on the New Platform Concept, SMA will Introduce Key Products for Fast Growing Solar Applications



## Sunny Boy for Residential Homes



**Sunny Boy (Q1 2016)**

Target Segment:	Residential
Target Market:	North America
Target Customer:	Leasing Companies / Distribution Channel
Power Range:	5 – 8 kW <sub>AC</sub> single phase
Benefits:	Low ASP; Key Features for TPOs <sup>1</sup> already included; Commissioning with Smartphone possible within seconds

## Sunny Boy for Residential Storage



**Sunny Boy (Q1 2016)**

Target Segment:	Residential (New / Retrofit)
Target Market:	North America / Europe
Target Customer:	Automotive / Distribution Channel
Power Range:	1,0 – 3,5 kW <sub>AC</sub> single phase
Benefits:	Low ASP, High Voltage (up to 500 V <sub>DC</sub> ); Ready for vehicle to grid; Easy to bundle with batteries; Low complexity

➤ **SMA will present it's product innovation during the next Capital Markets Day to investors<sup>2</sup>**

1. Third Party Ownership / Leasing Company  
2. The Capital Markets Day will be held end of January 29, 2016 in Kassel, Germany



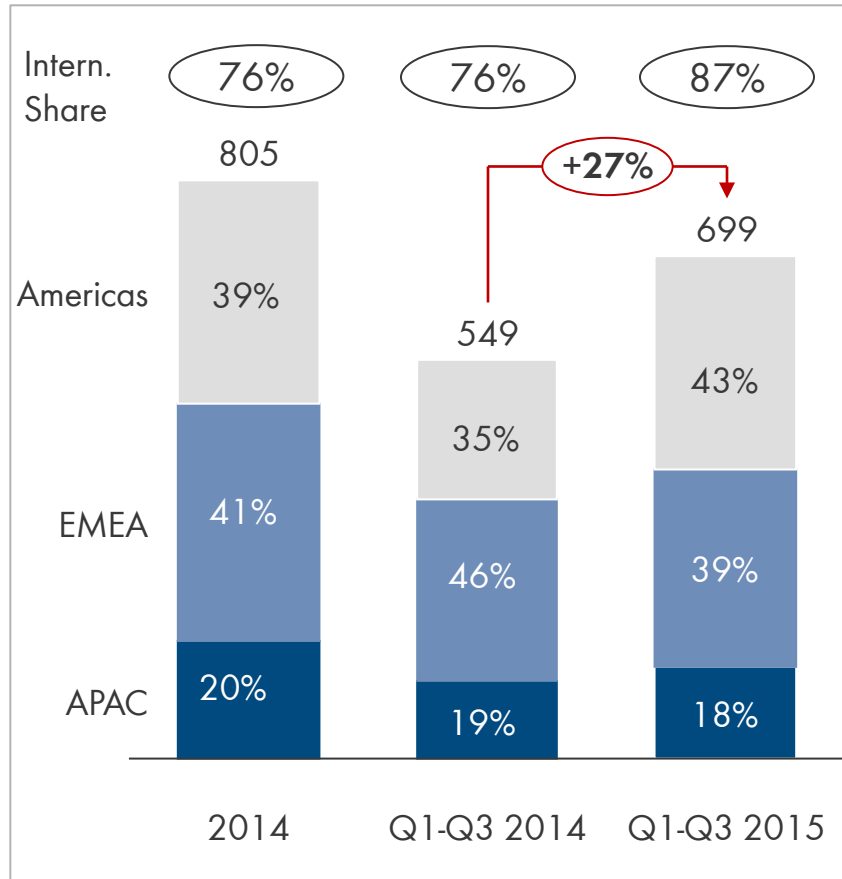
### 3. Financials & Investment Highlights



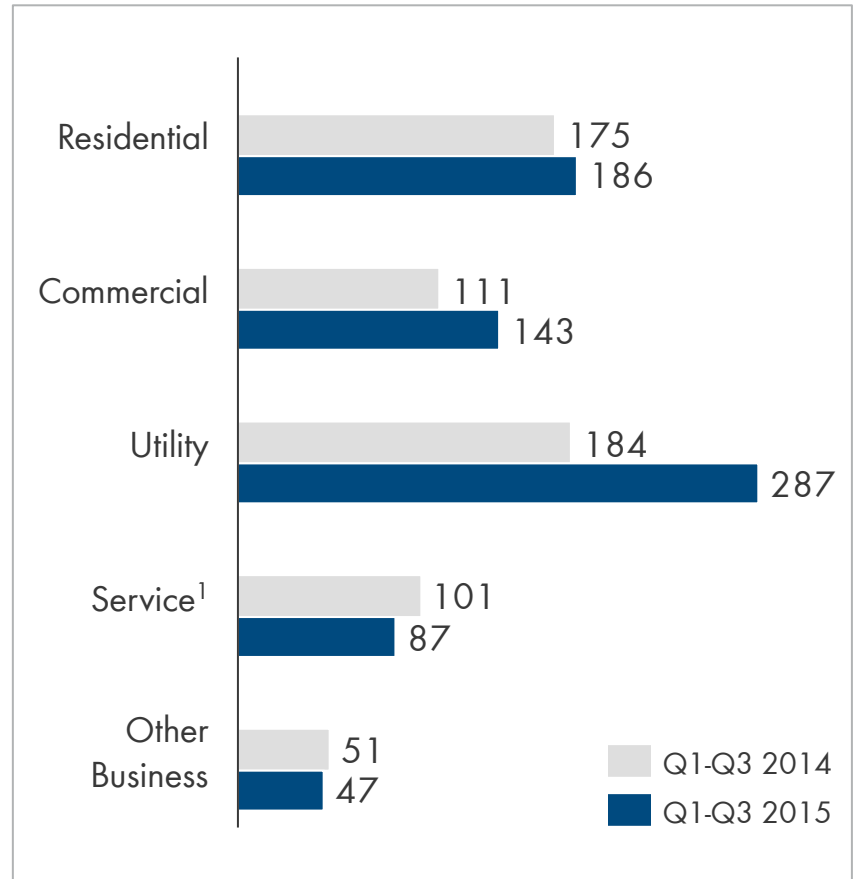
# Americas was the Strongest Growth Region (+54%), Followed by APAC (+18%) and EMEA (+8%) in the Reporting Period



## Group Sales (in € m)



## Sales by Segments (in € m)

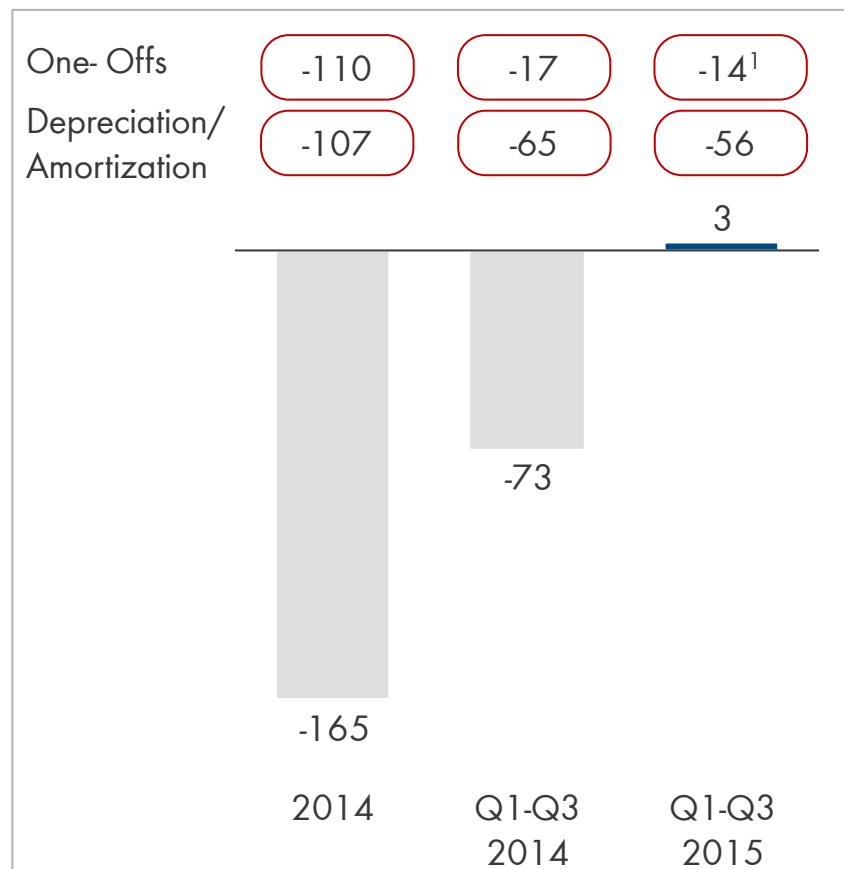


> **Utility was the key growth driver with an increase of more than €100 million (c.70% of total growth)**

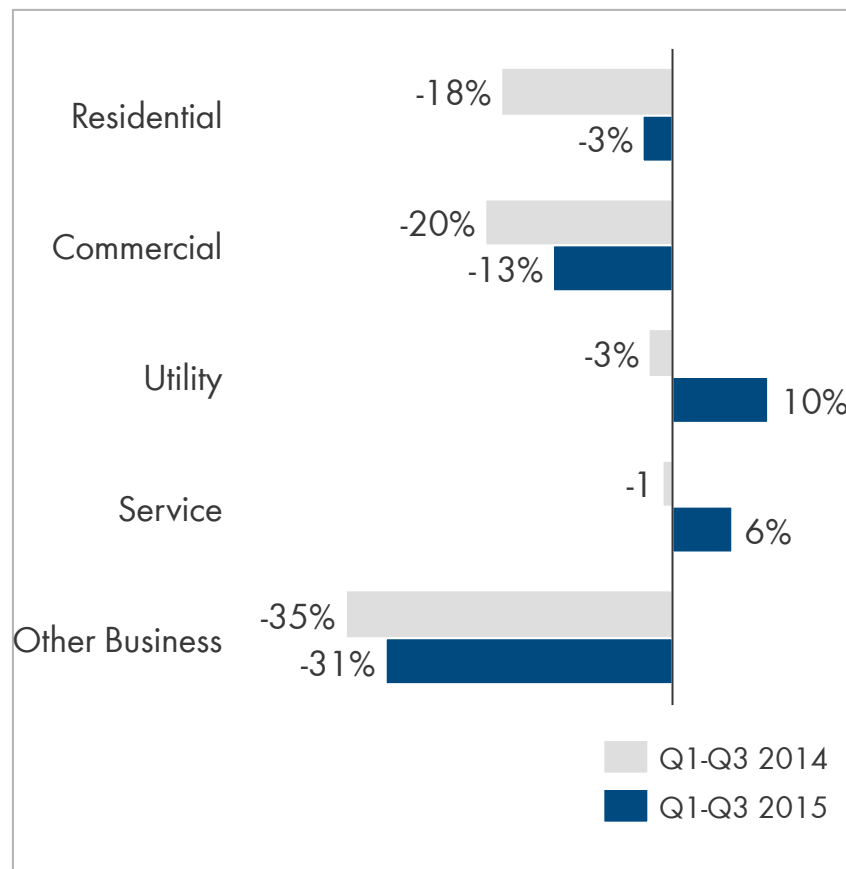
# The Utility and Residential Segments are Key Drivers of Margin Improvement - Commercial Segment is Impacted by One-Offs



## SMA EBIT (in € m)



## EBIT-margin by Segments



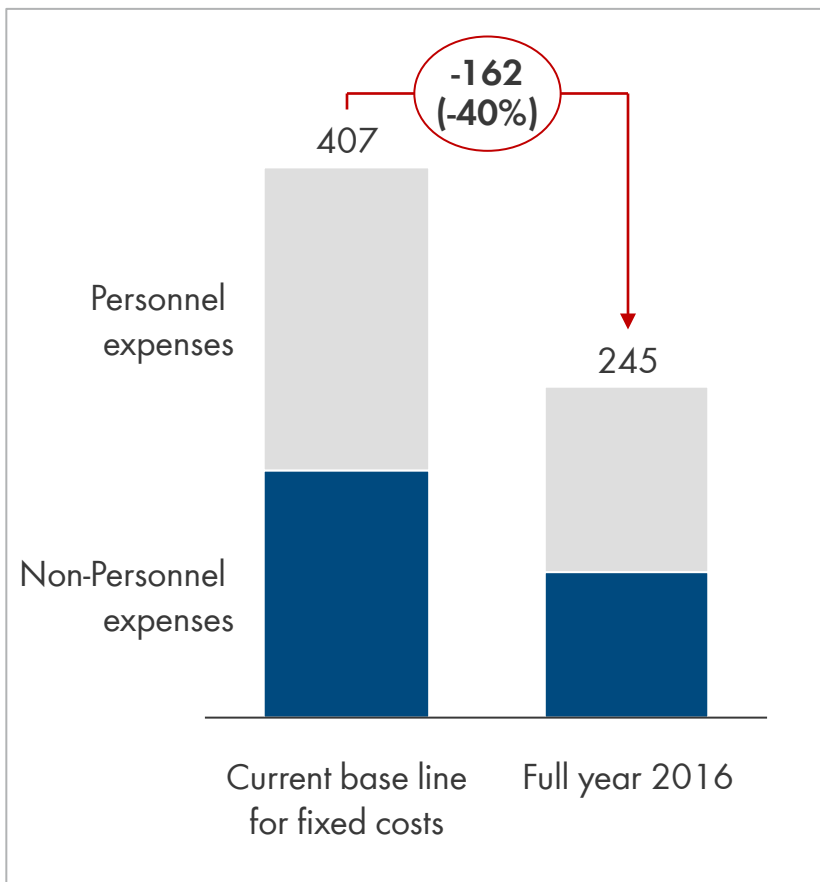
**> Margin improvements in Residential and Utility mainly result from cost-out programs for existing products and a better cost structure of new products**

1. Q1-Q3 2015: €20 m Impairment on Working Capital; R&D impairment: €1.3 m, €-7.3 m Release of Severance Payment Provision / thereof in COGS €18.3m

# SMA is on Track to Reduce its Fixed Cost Base by c. €160 Million by the End of 2015



## Fixed cost base, w/o depreciation (in € million)



## Key transformation measures (FTE)<sup>1</sup>

<b>Technology</b>	<ul style="list-style-type: none"> <li>&gt; Downsizing Kassel, Denver, Suzhou</li> <li>&gt; Reduction of ext. service providers</li> <li>&gt; Focus R&amp;D projects / portfolio</li> </ul>
<b>Operations</b>	<ul style="list-style-type: none"> <li>&gt; Outsourcing of non-core activities</li> <li>&gt; Phase out interim managers</li> <li>&gt; Improvement of SCM and central inverter production</li> </ul>
<b>Administration</b>	<ul style="list-style-type: none"> <li>&gt; Restructuring CFO/CEO functions</li> <li>&gt; Centralization of administration funct.</li> <li>&gt; Reduction of non-personnel expenses</li> </ul>
<b>Sales &amp; Marketing</b>	<ul style="list-style-type: none"> <li>&gt; Reduction of back office staff</li> <li>&gt; Downsizing of communication &amp; marketing</li> <li>&gt; Closure of subsidiaries</li> </ul>
<b>Service</b>	<ul style="list-style-type: none"> <li>&gt; Rightsizing infrastructure EMEA/APAC</li> <li>&gt; Reduction of service level</li> </ul>
<b>Others</b>	<ul style="list-style-type: none"> <li>&gt; Reduction of office/production space</li> <li>&gt; Restructuring of IT services</li> </ul>

> More than 1,250 employees<sup>2</sup> left the company by the end of September 2015 already

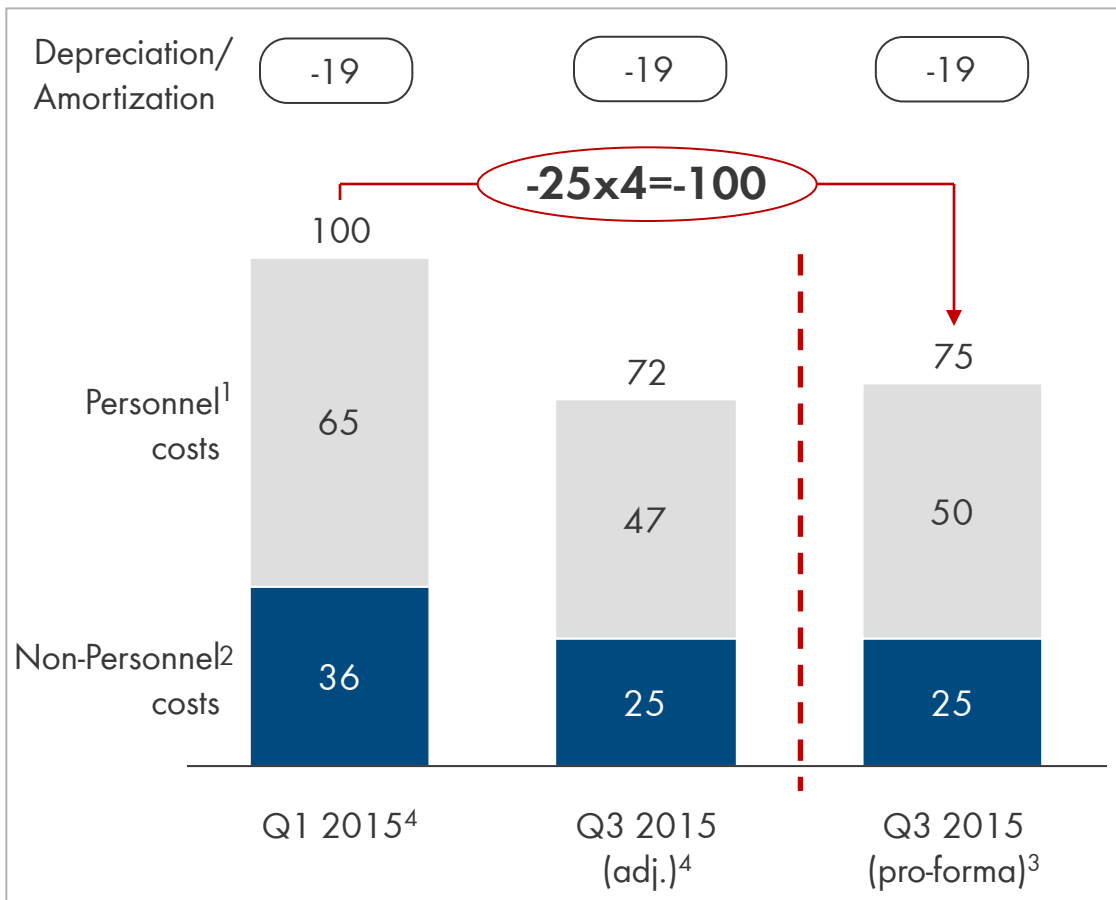
1. Without temporary employees, trainees, interns  
 2. FTE's w/o temporary employees, trainees, interns as of September 30, 2015. Additional c. 200 employees are expected to leave SMA until the end of the year.



# SMA Realized Annualized Fixed Cost Savings of €100 Million Already by the End of Q3 2015



Fixed cost structure, w/o depreciation (in € m)



Comments

- > Full year target of c. €160 million will almost be reached by the end of 2015
- > 75% of all measures are already implemented, 25% are not completed yet
- > The implementation of measures to reduce fix costs are closely monitored
- > Reported personnel costs in Q3 2015 include performance bonuses and Christmas allowance

> **Fix cost reduction program almost completed by year-end 2015, full EBIT impact starting 2016**

1. W/o temporary workers (Q1 2015: €2,6m, Q3 2015: €5,0m)

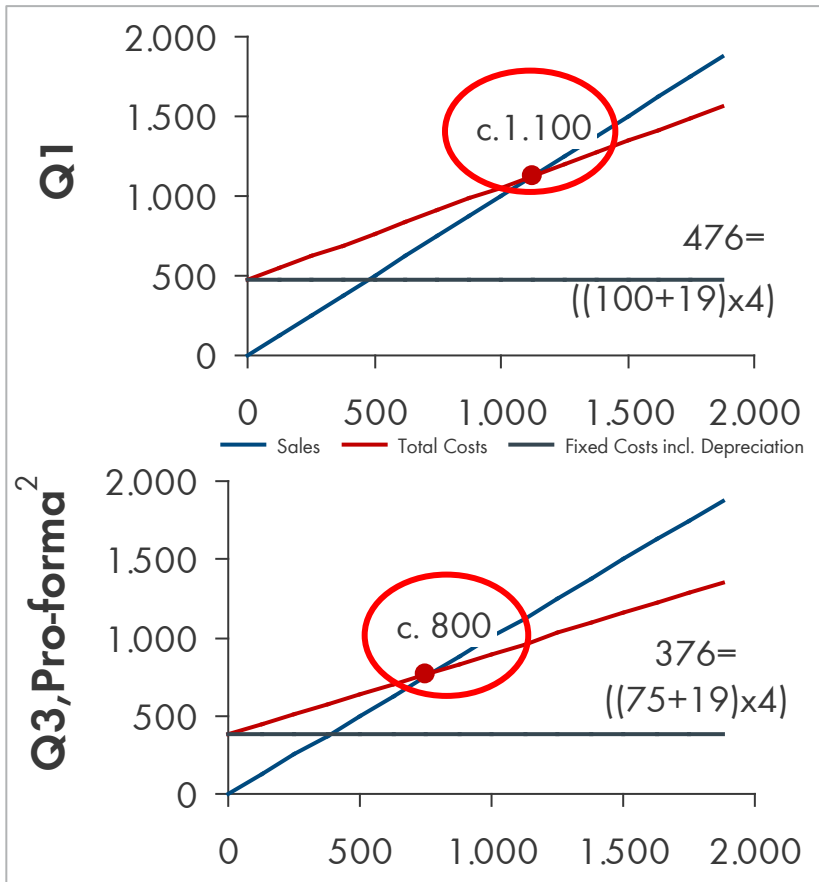
2. See Notes 5-8 to the Income Statement SMA Group: SGA, Gross R&D & COGS w/o material expenses

3. Including normalized Bonuses and Christmas allowances / 4. Without Performance Bonuses and Christmas allowance (original plan)

# SMA Reduced its Break Even Point by More than 25% to €800 Million since the Beginning of the Year



## Break Even Point<sup>1</sup> annualized



## Comments

- > Reduction in Fixed Costs by 25% compared to Q1 2015, Depreciation/Amortization are stable.
- > Annualized fixed costs in COGS are c. €200 million in Q3 2015. In SGA and R&D the annualized fixed costs amounted to €176 million in Q3 2015
- > Most fixed cost reduction measures are implemented by the end of Q3 and will already be EBIT effective in Q4 2015
- > Improvement in variable costs due to new products and cost out activities

> With its improved cost structure SMA has a high operating leverage

1. Operating Business: Including Capitalization of R&D Projects and Other operating income and costs  
 2. Including normalized personnel expenses (Performance Bonuses and Christmas allowance)

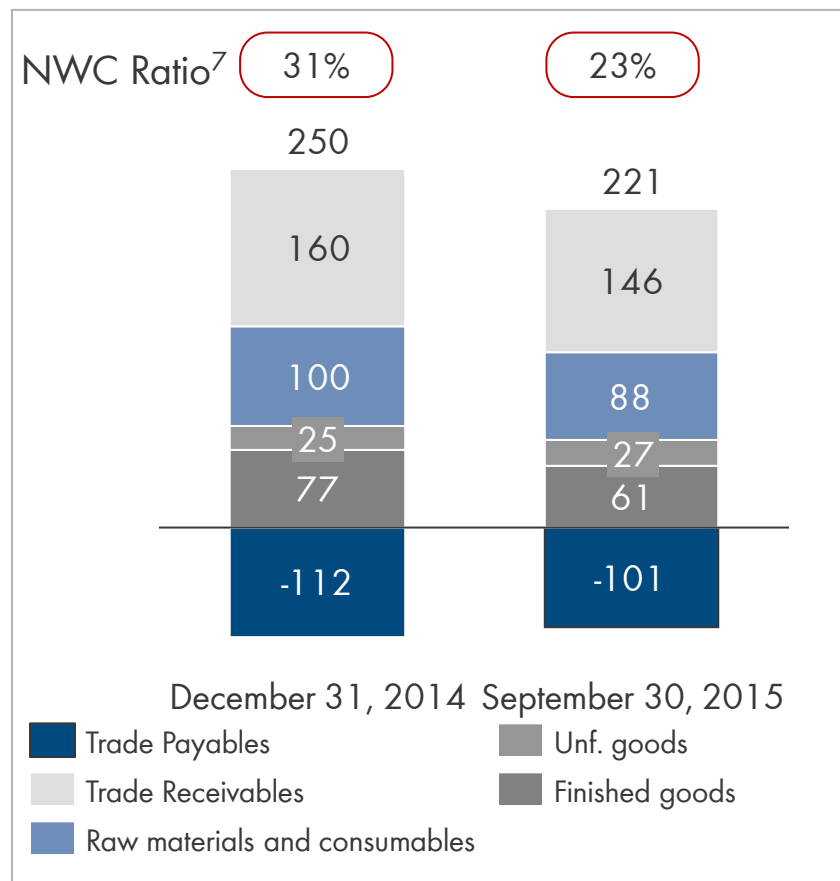
# SMA Significantly Reduced Trade Receivables and Raw Materials Despite Stronger Sales Development



## Group Balance Sheet (reclassified, in € m)

	12/31/2014	09/30/2015	Change
Non Current Assets <sup>1</sup>	488	486	-0%
Working Capital	363	322	-11%
Other Assets	42	40	-5%
Cash & Deposits <sup>2</sup>	287	312	9%
Shareholders' Equity	552	541	-2%
Provisions <sup>3</sup>	213	177	-17%
Trade Payables	112	101	-10%
Financial Liabilities <sup>4</sup>	62	61	-2%
Other liabilities <sup>5</sup>	241	280	16%
<b>Total</b>	<b>1,180</b>	<b>1,160</b>	<b>-2%</b>

## Net Working Capital (in € m)<sup>6</sup>



> **SMA has a high Net Cash position of €251 million, despite cash outflow for severance payments**

1. W/o rent deposits (€3 m)

2. Cash and cash equivalents (€201 m), time deposits (€36 m), asset mgmt (€49 m), pledges (€ 24 m), rent deposits (€3m)

3. Non-interest bearing

4. W/o derivative financial liabilities (€5m)

5. Incl. derivative financial liabilities (€5m)

6. NWC= Inventory+Trade Receivables- Trade Payables (no advanced payments included)

7. As of LTM sales

# SMA Generated a Positive Free Cash Flow due to Higher Earnings and Improved Net Working Capital



## Cash Flow (in € million)

	Q1-Q3 2014	Q1-Q3 2015
Net Income	-54	-14
Gross Cash Flow	-46	26
Cash Flow from Operating Activities	-33	63
Net Capex <sup>1</sup>	54	41
Free Cash Flow (Adj.)	-87	22
Net Investments from Securities and Other Financial Assets	60	-2
Acquisitions <sup>2</sup>	2	-1
Free Cash Flow (IFRS)	-25	19

➤ **SMA's business model is not capital intense with capital expenditures (w/o R&D capitalization) of c. 2% of sales**

1. Thereof R&D capitalization: Q1-Q3 2014: €28 m, Q1-Q3 2015: €26 m

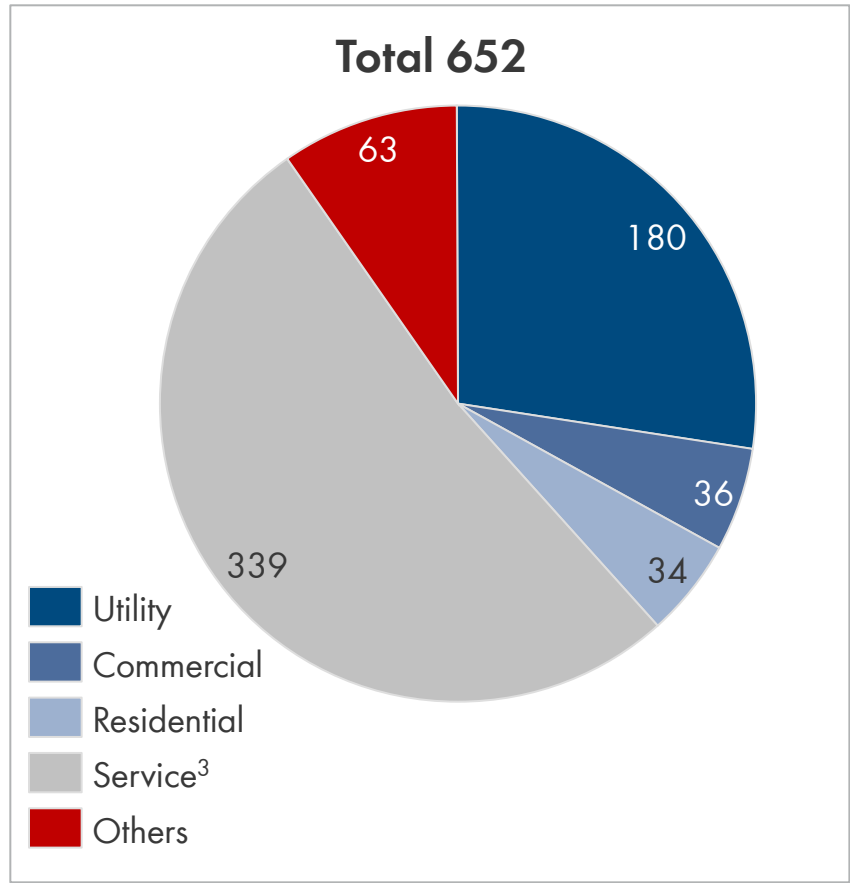
2. Cash flow from Danfoss asset deal



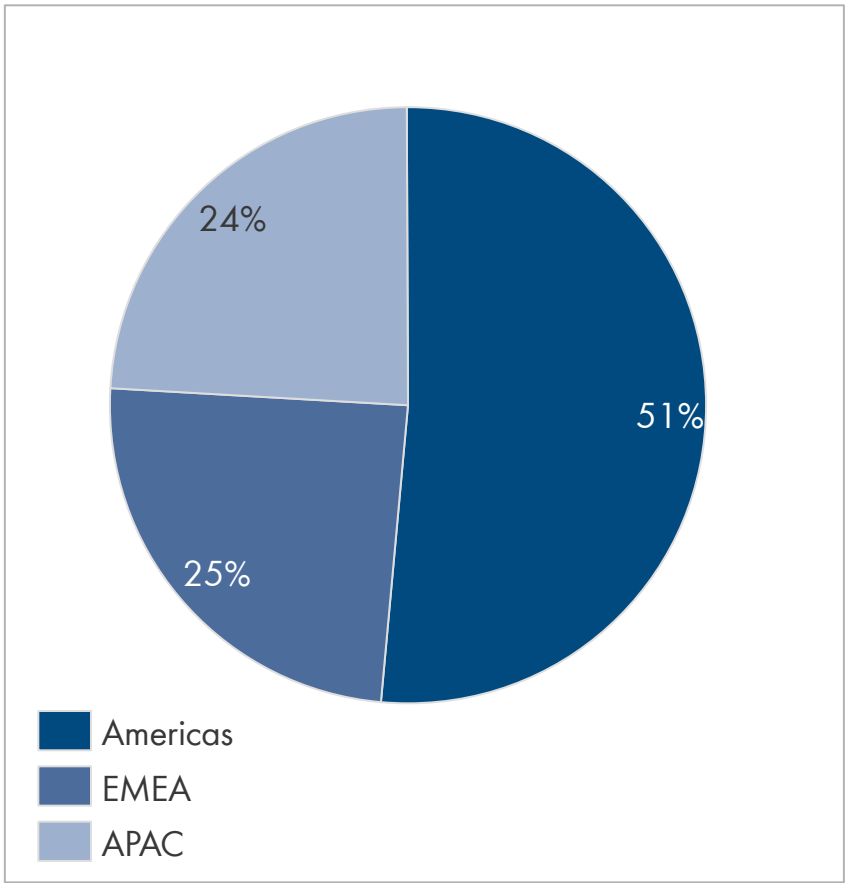
# SMA has a Strong Order Backlog of c. €652 Million; thereof c. €313 from Products



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



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



> SMA works already on utility scale projects for 2017 to be installed in North America

1. As of October 31, 2015

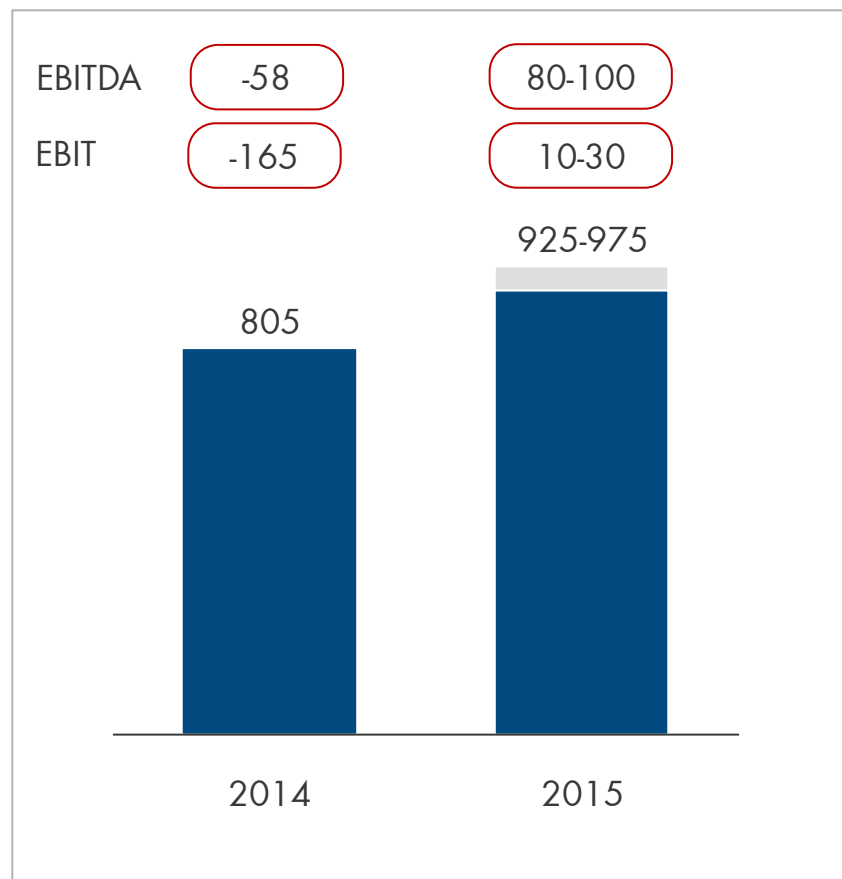
2. Only Utility, Commercial, Residential, Other Business

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

# SMA's Management Increased Sales Guidance to €925-975 Million; EBITDA is Expected to be Between €80-100 Million



## 2015 Sales & EBIT-Guidance (in € m)



## 2015 Guidance (in € m)

	2014	2015
Depreciation /Amortization	-107	-70
Gross margin	17%	19-21%
NWC ratio	31%	23-26%
Equity ratio	47%	>47%
Capex	72	<55
thereof fixed assets	26	<20
thereof intangible assets	46	<35

> SMA applied conservative planning assumptions despite unique positioning in the solar industry

# SMA is a Technology Driven Company With a Global Presence and a Flexible Business Model



- ✓ 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
- ✓ Transformation process will lead to significant cost reduction
- ✓ Bankable partner due to high equity ratio and net cash position
- ✓ Conservative guidance, despite unique positioning
- ✓ Stable shareholder structure with Danfoss as strategic anchor investor

# Backup

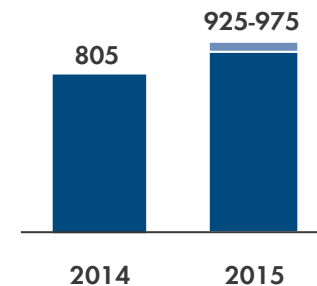
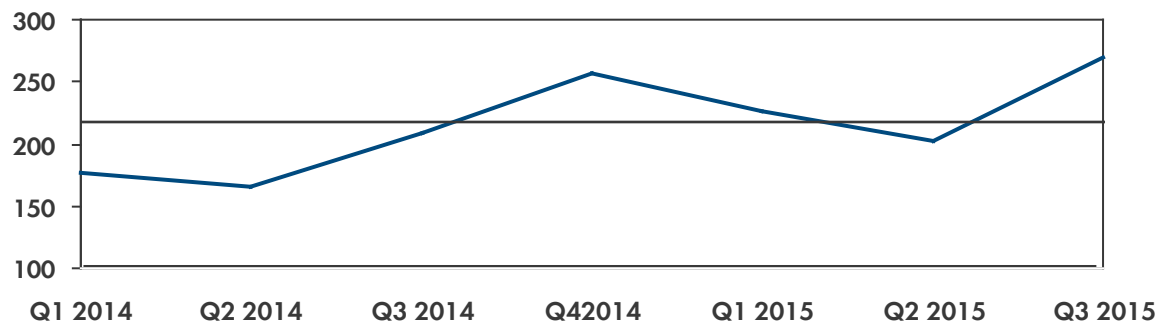




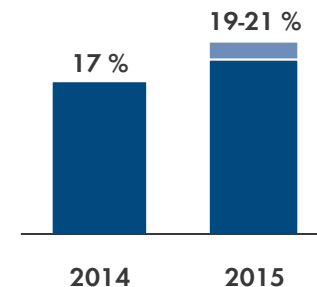
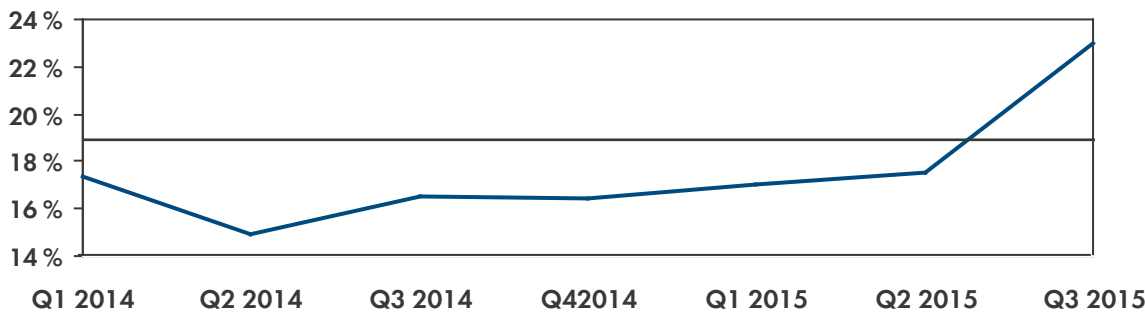


# Development of Key Financials

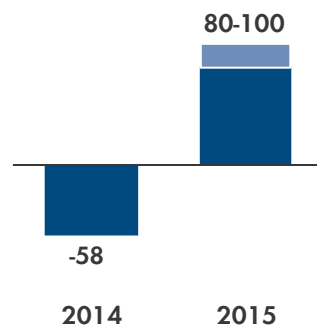
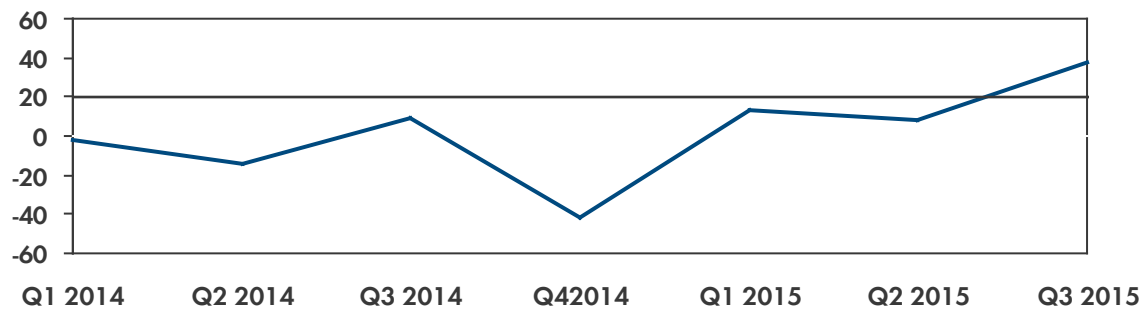
Sales in € million



Gross margin



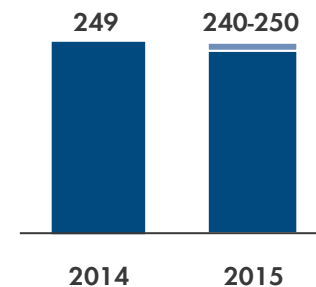
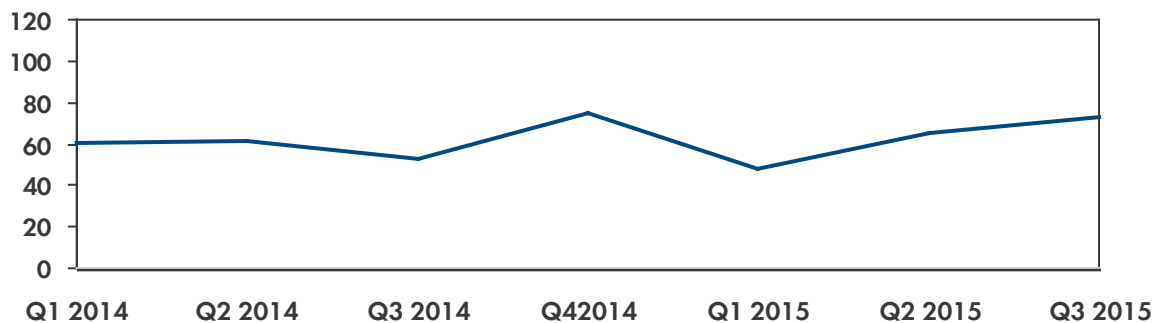
EBITDA in € million



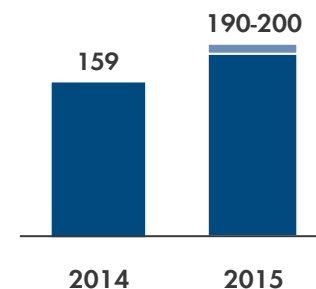
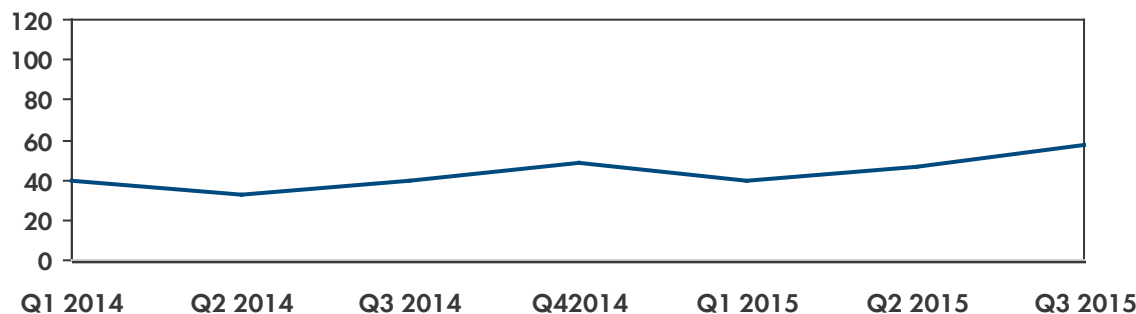


# Development of Key Financials (Cont') - Sales Development by Segment in (€ million)

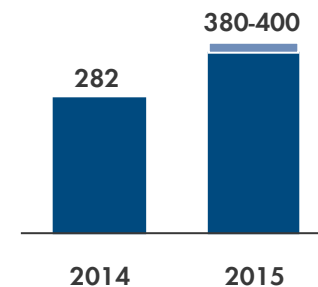
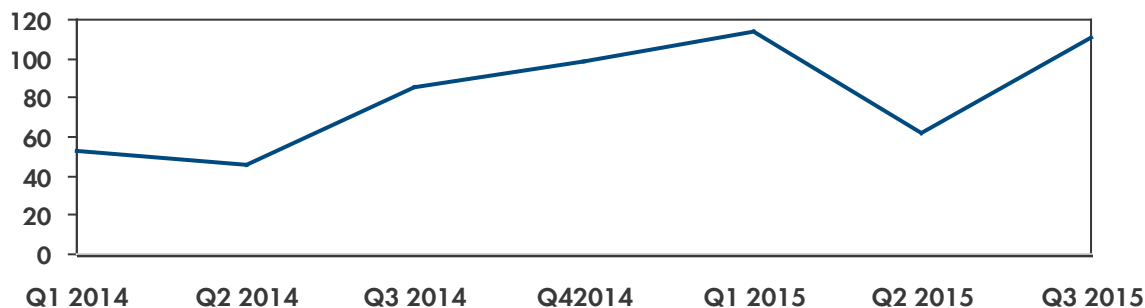
Residential



Commercial



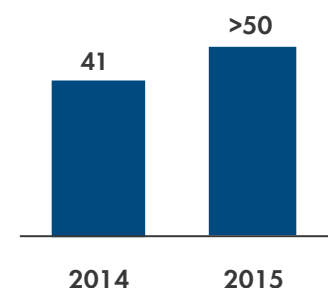
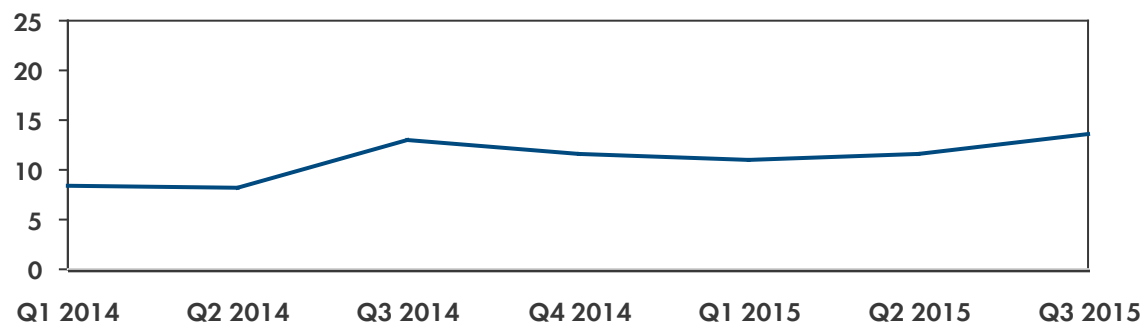
Utility



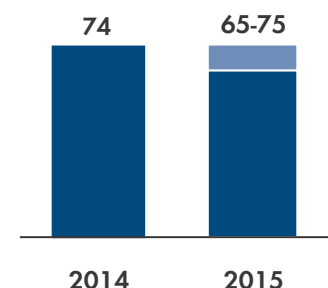
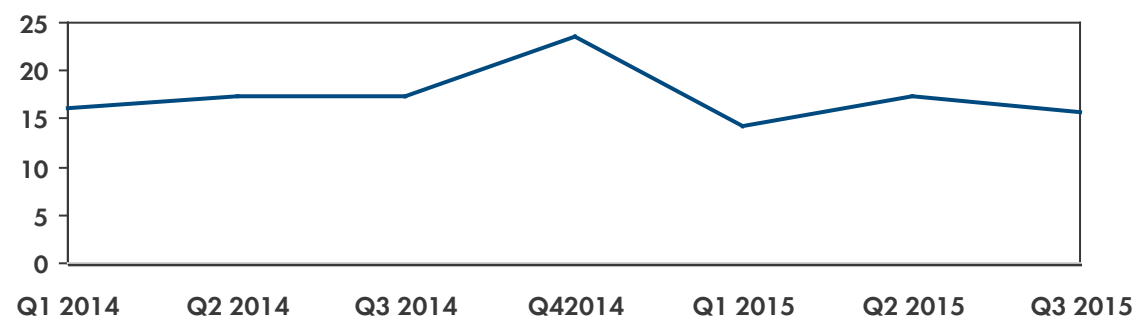


# Development of Key Financials (Cont') - Sales Development by Segment in (€ million)

Service



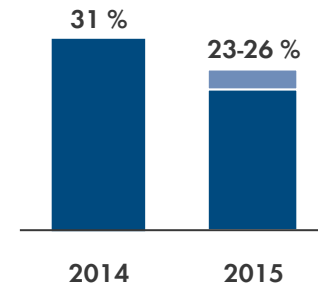
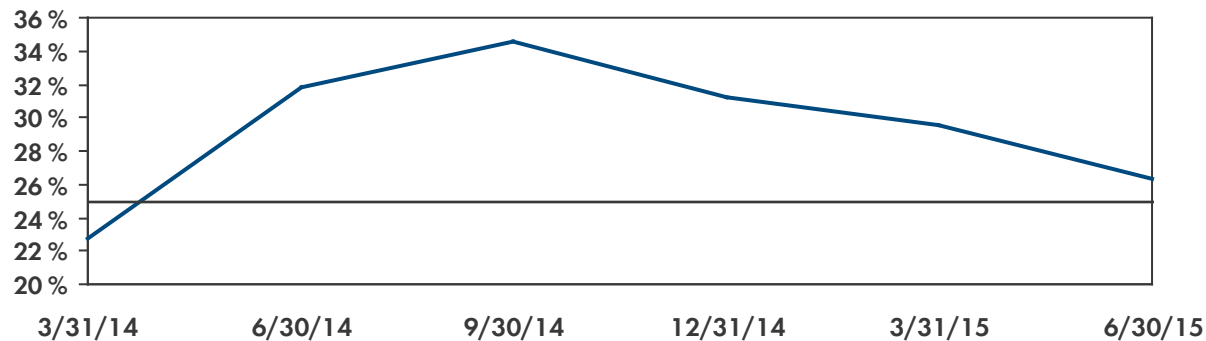
Other Business



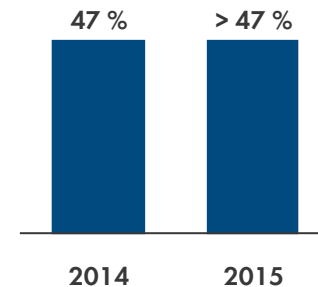
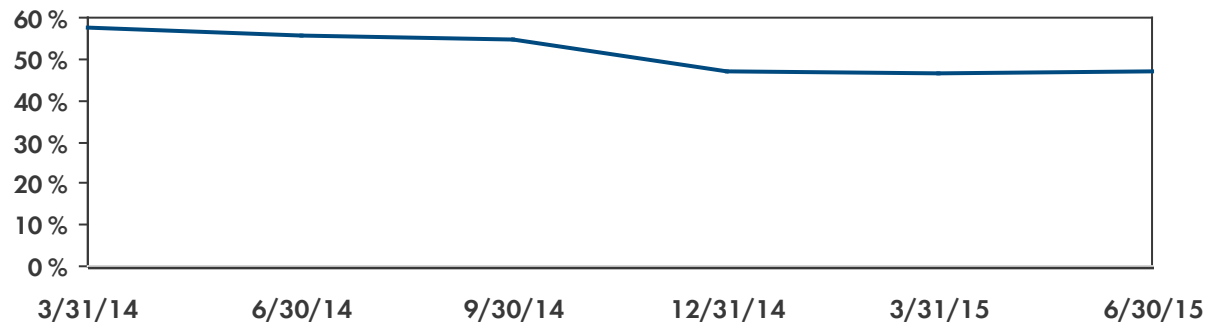


# Development of Key Financials (Cont')

NWC ratio



Equity ratio



ENERGY  
THAT  
CHANGES



SOCIAL MEDIA  
[www.SMA.de/Newsroom](http://www.SMA.de/Newsroom)

