

SMA SOLAR TECHNOLOGY AG

Analyst / Investor Presentation

Quarterly Financial Results: January to September 2017



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Ulrich Hadding, CFO
November 9, 2017



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SMA's Managing Board Specifies Guidance for 2017. High Order Intake and Expected Strong Performance in Q4/17



Top-Line

- > In Q1-Q3/17, SMA generated sales of €593m (Q1-Q3/16: €709m).
- > Sales decline in Utility (-42% Y/Y) was driven by weak demand in US project business.
- > Balanced sales distribution among main segments (Q1-Q3/17: Utility 28%, Commercial 31% and Residential 25%; Q1-Q3/16: 41%, 28% and 22%).
- > Strong sales in APAC in all segments (+43% Y/Y) and in EMEA (+5%Y/Y), especially in Residential (+21% Y/Y) and Other Business (+43% Y/Y). Sales decline in Americas after record year 2016 (-55% Y/Y).

Profitability/ Bankability

- > Strong Q3/17 with a solid gross margin of 25% and an EBITDA of €26m which doubled compared to previous quarter (Q2/2017: gross margin 20%; EBITDA €13m).
- > EBITDA decreased to €55m (Q1-Q3/16: €108m) due to lower sales and gross margin.
- > With €16m EBIT, SMA already reached the lower end of our profit guidance (Q1-Q3/16: €59m)
- > Net income of €25m (Q1-Q3/2016: €37m).
- > Free cash flow (adj.) remains high (Q1-Q3/2017: €57m; Q1-Q3/2016: €106m).
- > Rock solid balance sheet structure with c. 50% equity ratio, > €430m net cash.

Outlook

- > Market Outlook adjusted until 2020 mainly due to higher demand in China and strong growth in the storage segment.¹
- > USITC commissioners presented diverse remedy recommendations in the Section 201 trade case; all of them below the quotas and tariffs called for. The impact on the US PV market remains unclear.
- > Order backlog as of October 31, 2017 amounts to €761m, thereof €350m for product business. For products this is 25% more than at the end of H1 2017.
- > Management specifies guidance with sales of more than €900m and EBITDA of €85m to €100m. Sales development is impacted by supply shortage of critical components.

1. In 2017, Global new PV installations expected to reach 98 GW, thereof 50 GW in China (previously: 84 GW and 36 GW); Global inverter revenues expected to increase to €5.5bn, thereof €1.4bn in China (previously: €5.1bn and €1.1bn) with strong growth in the storage segment.

SMA Generated a Gross Margin of 25% in Q3/2017



Key Financials (in € million)			
	Q1-Q3/ 2016	Q1-Q3/ 2017	Δ
MW sold	5,655	5,894	4%
Sales	709	593	-16%
Residential	152	151	-1%
Commercial	200	185	-7%
Utility	289	168	-42%
Service	39	44	11%
Other Business	29	45	57%
Gross margin	25%	21%	
EBITDA	108	55	-49%
EBIT	59	16	-74%
Thereof one-offs ¹	-11	-5	
Free cash flow (adj.)	106	57	-46%
Depreciation/amortization	49	39	-18%
Capex (incl. R&D) ²	18	22	21%

Key Financials (in € million)				
	2016/12/31	2017/09/30	Δ	
Net cash	362	436	20%	
Total assets	1,211	1,231	2%	
NWC ratio ³	24%	25%		
	2016 Q4	2017 Q1	2017 Q2	2017 Q3
Sales	238	173	208	211
Residential	33	37	57	57
Commercial	68	57	66	62
Utility	108	49	59	60
Service	6	15	13	15
Other Business	23	15	13	17
Gross margin	27%	19%	20%	25%
EBITDA	34	16 ⁴	13	26
One-offs ¹	-20	-1	-4	0

1. Q1-Q3/2017 w/o the book gain from the sale of the Railway Technology business division: Impairment on working capital (neg.); thereof in COGS (€-4m)

2. Thereof €14m R&D (Q1-Q3/16: €9m R&D)

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

4. Including the book gain from the sale of the Railway Technology business division

MARKET OUTLOOK INCREASED UNTIL 2020:
MAINLY DUE TO HIGHER DEMAND IN CHINA

GLOBAL PV INVERTER REVENUE GROWTH OF AT
LEAST 11% P.A. EXPECTED UNTIL 2030

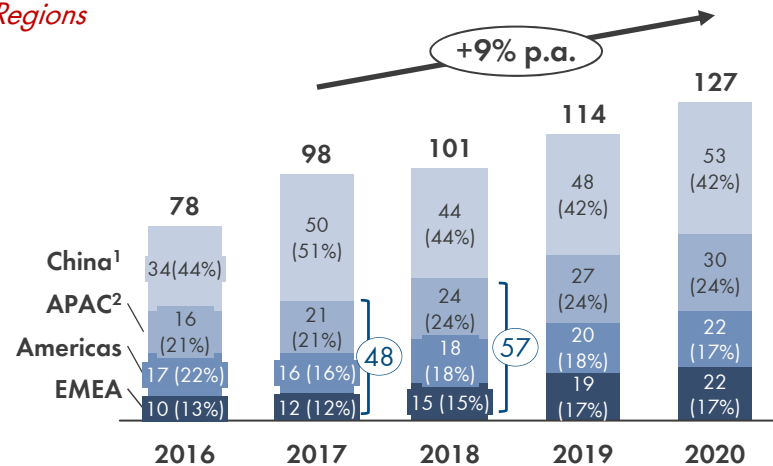
DIGITAL TRANSFORMATION OFFERS HUGE
OPPORTUNITIES FOR SMA

SMA Increased its Market Outlook - Key Growth Drivers for PV Installations are Climate Targets and Low Generation Costs

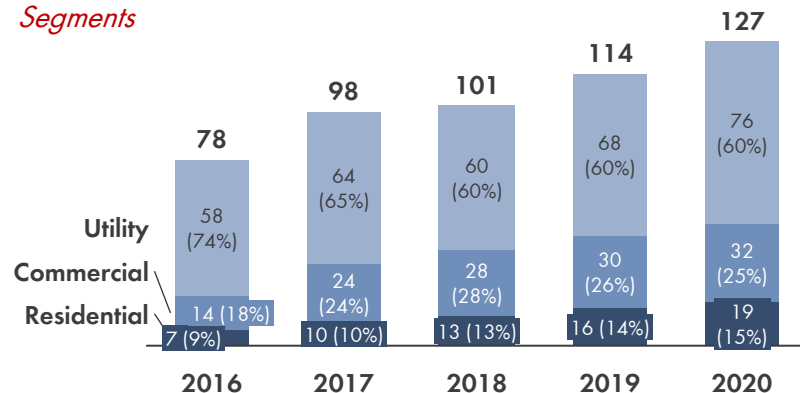


Global New PV Installations (GWdc)^{3,4}

Regions



Segments



Comments

- > Cumulated PV installations are expected to increase at least tenfold to 3 terawatt by 2030; 10 TW solar by 2030 is possible⁵ (11% CAGR; c. 400 GW new PV installs in 2030).
- > Strong demand in China driven by Residential and Commercial applications.
- > International markets are expected to grow by 15% p.a. until 2020. Demand well distributed across regions.⁶
- > Market structure in the Utility segment changed during last 12 months. Today, long-term asset owners and developers select critical components to ensure high energy production over lifetime. EPCs are increasingly being kicked out of the value chain.

> PV projects > 1 MW account for 60% of global demand by 2020.

1. China (NEA) revised guidance for solar installations in 13th Five-Year-Plan on July 19th 2017

2. w/o China

3. SMA MI Market Model Q4 2017; Res ≤10kW plants, Com >10kW to 1MW plants, Uti >1MW plants

4. Incl. ~1 GW off-grid installations p.a.: residential, remote and micro-grid applications

5. According to the German solar research institute Fraunhofer, the National Renewable Energy Laboratory (NREL), Japanese research institute AIST Koriyama in "Terawatt Scale Photovoltaics: Trajectories and Challenges" 04/2017 and the Int. Solar Alliance

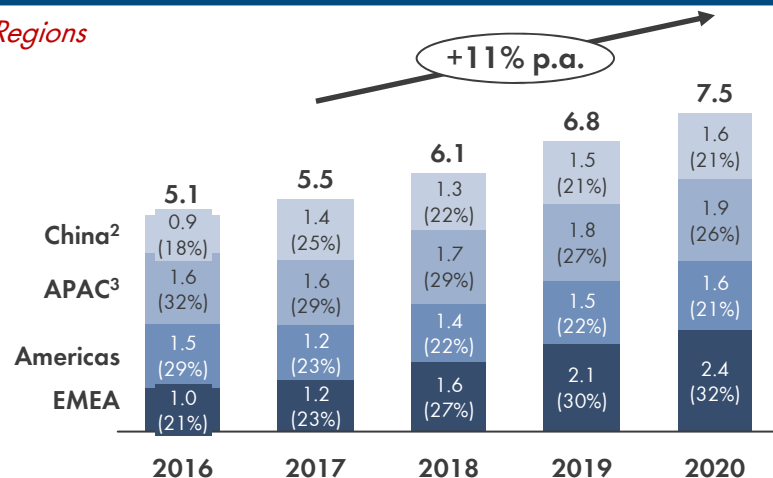
6. w/o China

Global Inverter Sales are Expected to Increase by €2bn until 2020 due to Storage, MLPE¹ and Energy Management

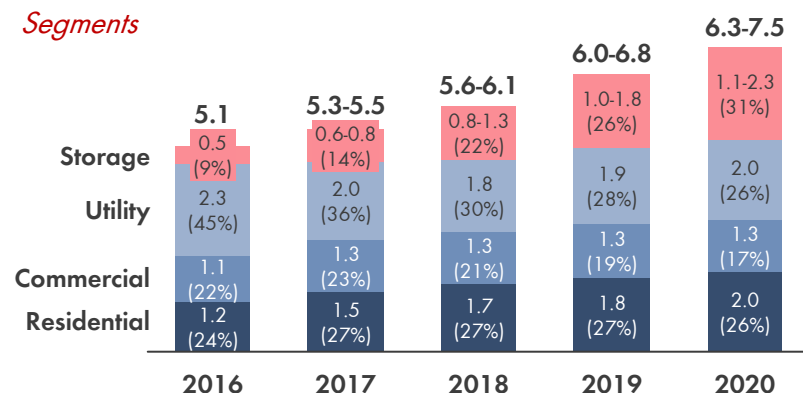


Global Inverter Revenues (€bn)^{4,5,6}

Regions



Segments



Comments

- > Price targets for commercial and utility projects⁷ are set by low power purchase agreement (PPA) prices. Financial engineering becomes increasingly important.
- > High power density ratios paved the way to meet new price targets for commercial and utility PV applications. Only innovative market participants will survive.
- > Regulatory environment enforced the installation of module-level power electronics (MLPE) in key solar markets. Only moderate price decrease in many markets. However, only market participants with a MLPE portfolio will benefit from market dynamics.
- > Batteries are an enabling technology for the PV industry. Batteries are used for grid stabilization as well as to shift solar power into the evening.

> Revenues from new digital business models will generate additional market volume.

1. Module-level power electronics

2. China (NEA) revised guidance for solar installations in 13th Five-Year-Plan on July 19th 2017

3. w/o China

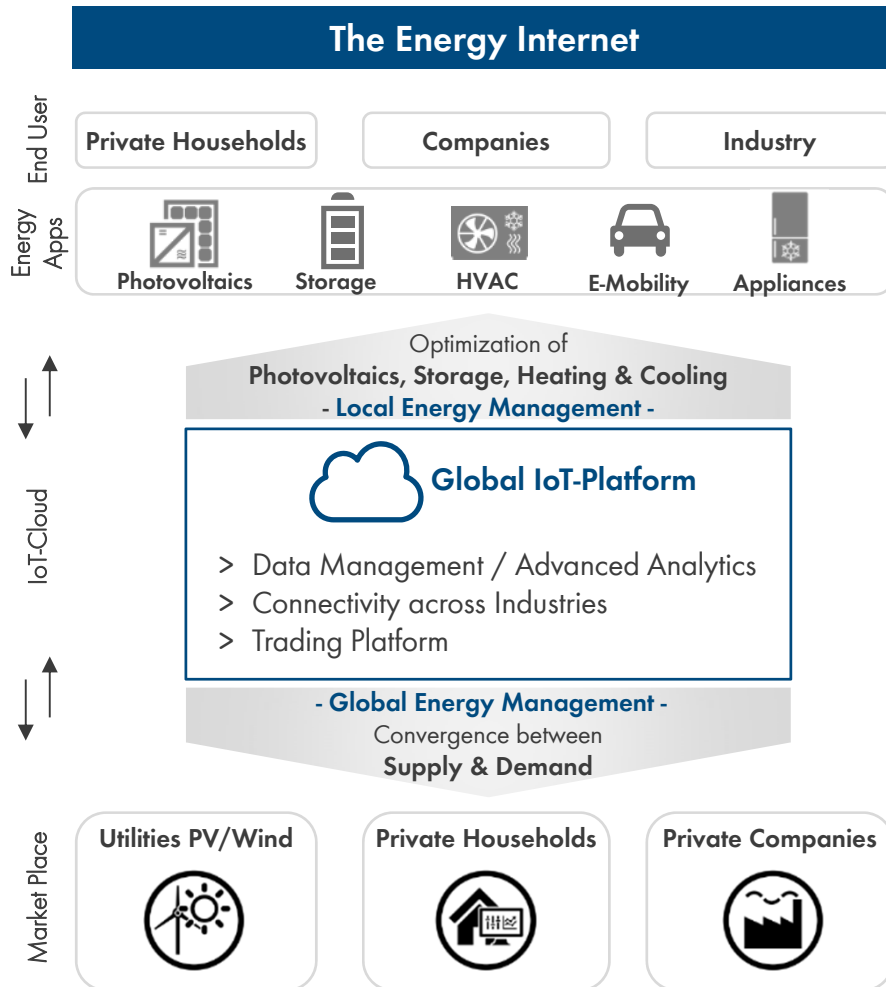
4. SMA MI Market Model Q4 2017; Res ≤10kW plants, Com >10kW to 1MW plants, Uti >1MW plants

5. Incl. ~1 GW off-grid installations p.a.: residential, remote and micro-grid applications

6. Incl. inverter potential for retrofit

7. Ground-mounted >1MW

In Future, Artificial Intelligence will Help to Match Energy Supply and Demand



Impact of Advanced Analytics

- > Matching of supply and demand across sectors (PV, storage, e-mobility, HVAC¹, load-managed appliances) is paramount to reduce overall energy costs.
- > General artificial intelligence will help end-users to manage the complexity of the convergence of energy supply and demand in future.
- > New platforms will benchmark data collected with inverters and batteries, etc. and connect consumer and producer.
- > SMA invested in the energy management app ennexOS to create valuable content for existing platforms Sunny Portal/ Sunny Places.²

> The digital transformation offers huge opportunities for SMA. We will invest further into our Sunny Portal and Sunny Places platforms to benefit from this development.

SMA OFFERS A COMPLETE PORTFOLIO FOR ALL
TRADITIONAL PV APPLICATIONS AND ALL
REGIONS

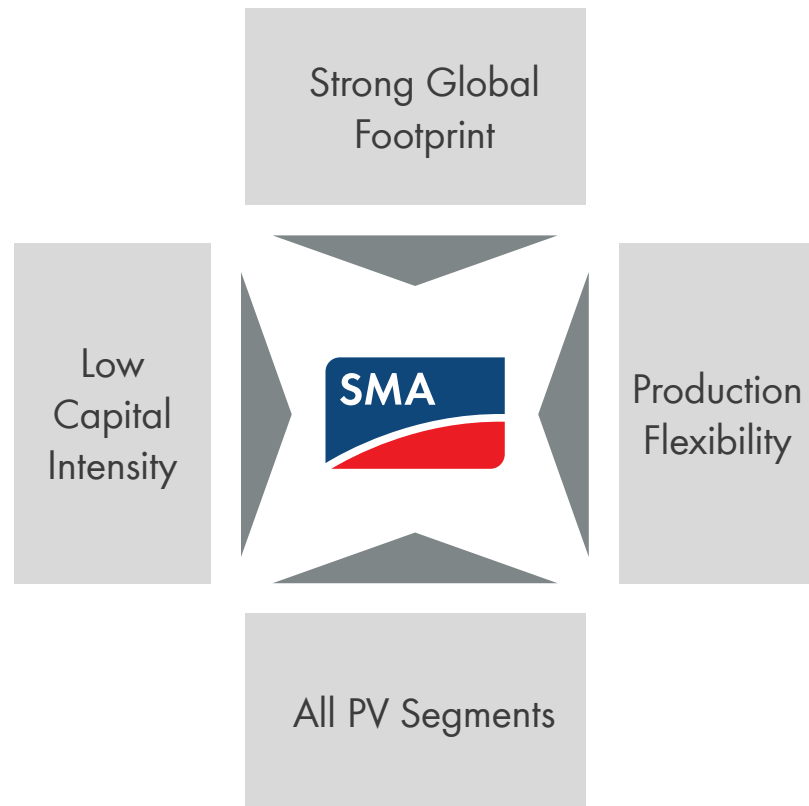
SMA IS BEST POSITIONED TO BENEFIT FROM
GROWTH IN THE STORAGE MARKET

SMA WILL INTRODUCE AN ALL NEW ENERGY
MANAGEMENT SOLUTION EARLY NEXT YEAR

Complete Portfolio and Global Presence are the Backbone of SMA's Global Leadership Position



Characteristics of a Favorable Risk Portfolio



SMA – a Global Market Leader for PV Inverters

- > SMA accounted nearly 20% of global PV inverter sales and was the best-known inverter brand in 2016.¹
- > SMA invested c. €500m in R&D over the last 5 years to develop an internationally compliant and complete portfolio.
- > SMA invested in its global reach to balance the revenue distribution across the regions.
- > Many competitors can only offer a limited portfolio² and / or focus only on selected markets.³
- > Top Chinese brands shipped only \$234m into international markets in Q1-Q3/2017 (FY 2016: \$135m).

> **PV inverters are high-tech products with distinct sales and service requirements. The inverter is a key element to build an energy platform.**

1. IHS PV Inverter Customer Insight Survey-2016, 11/2016

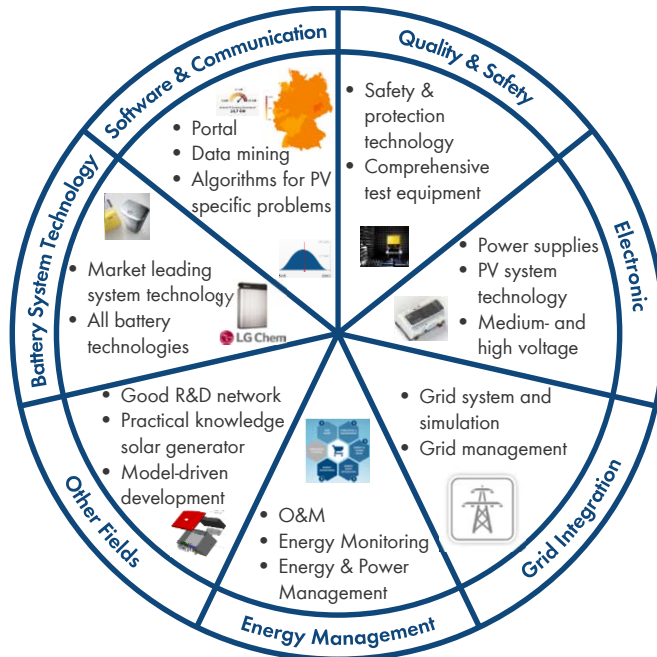
2. E.g. String inverter or central inverter

3. E.g. US, Japan, China, Europe

PV Know-how: SMA is an Engine of Innovation with Unmatched Competencies in the PV Industry



500 Employees in R&D Develop Tomorrow's Products



From Watt to Megawatt (Σ c. 100 products)

Sunny Boy

Residential



25% of total sales¹

Sunny Tripower

Commercial



c. 30% of total sales¹

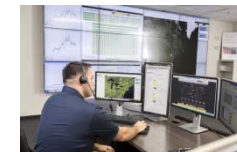
Sunny Island

Storage / Off-Grid



<10% of total sales¹

Service/O&M



<10% of total sales¹

**SMA's
Product
Families**

Sunny Central

Utility



c. 30% of total sales¹

> New products will help SMA to improve the gross margin.

1. Q1-Q3/2016: 22% Residential, 28% Commercial, 41% Utility, 6% Service, 4% Other business)

Energy Management and Global Reach: SMA is the Trendsetter Serving all Key Solar Markets



EnnexOS



Platform

- > Data Manager with interfaces for meter and sensors
- > E-Shop and first Apps (e.g. SMA Direct Selling)

Energy Management

- > Monitoring of thermal and electrical systems (energy costs and savings)
- > Peak load shaving and direct-selling function

Operation & Maintenance

- > Live data for commercial applications
- > Satellite-based yield monitoring

Planning & Simulation

- > Simulation for thermo-electric energy systems
- > Take-over of simulation and configuration data for commissioning and operation

>690 Sales and Service Professionals



As of 09/30/2017

	AMERICAS	EMEA	APAC
Sales/ Service Experts	170+	370+	150+
Share of Total Sales	26%	41%	33%

> **SMA will introduce an all new Energy Management Solution early next year.**

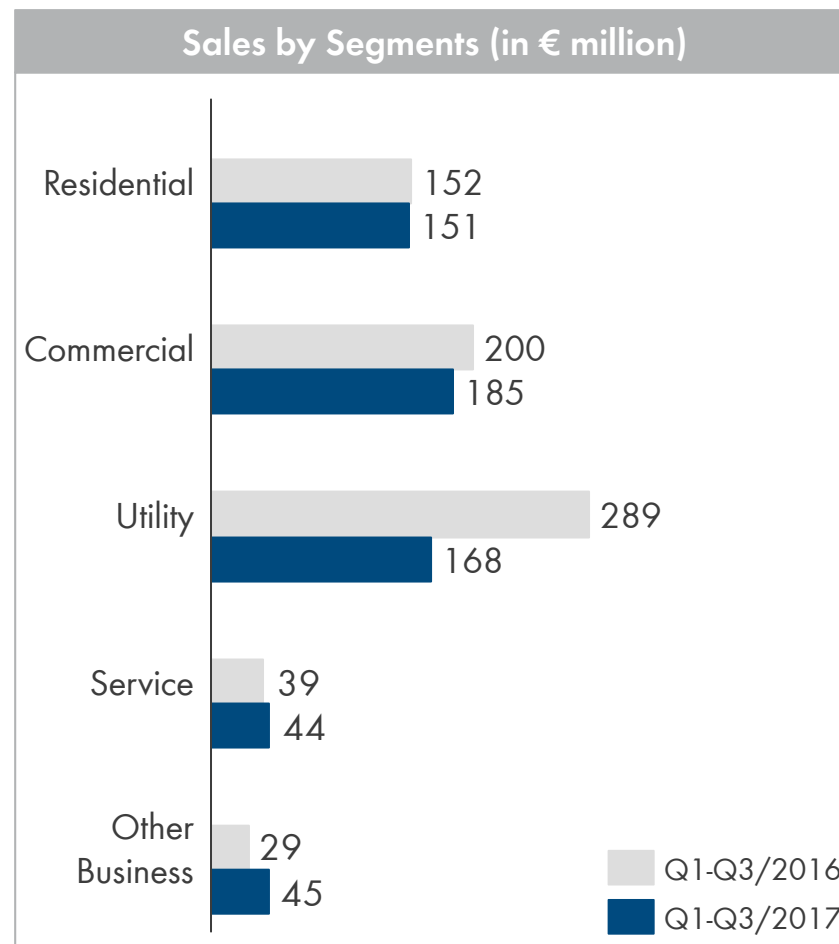
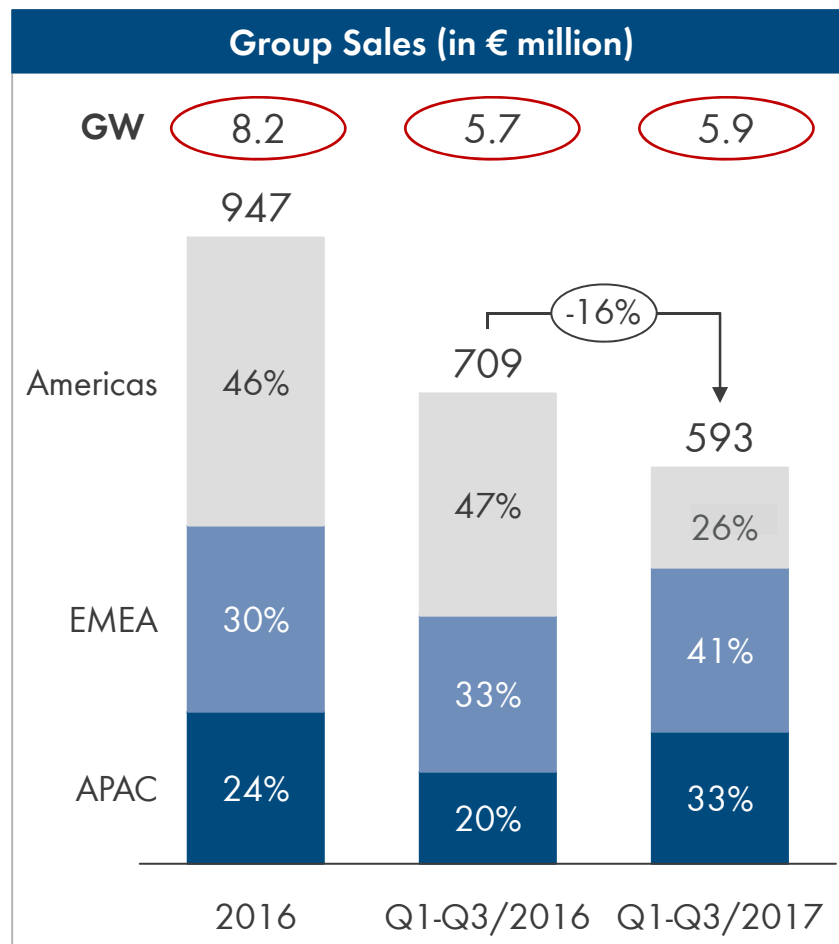
SMA GENERATED SALES OF €593M

EQUITY RATIO OF C. 50%, NET CASH
INCREASED TO MORE THAN €430M

BACKLOG OF €760M; POSITIVE BOOK-TO-BILL
RATIO SINCE JANUARY 2017

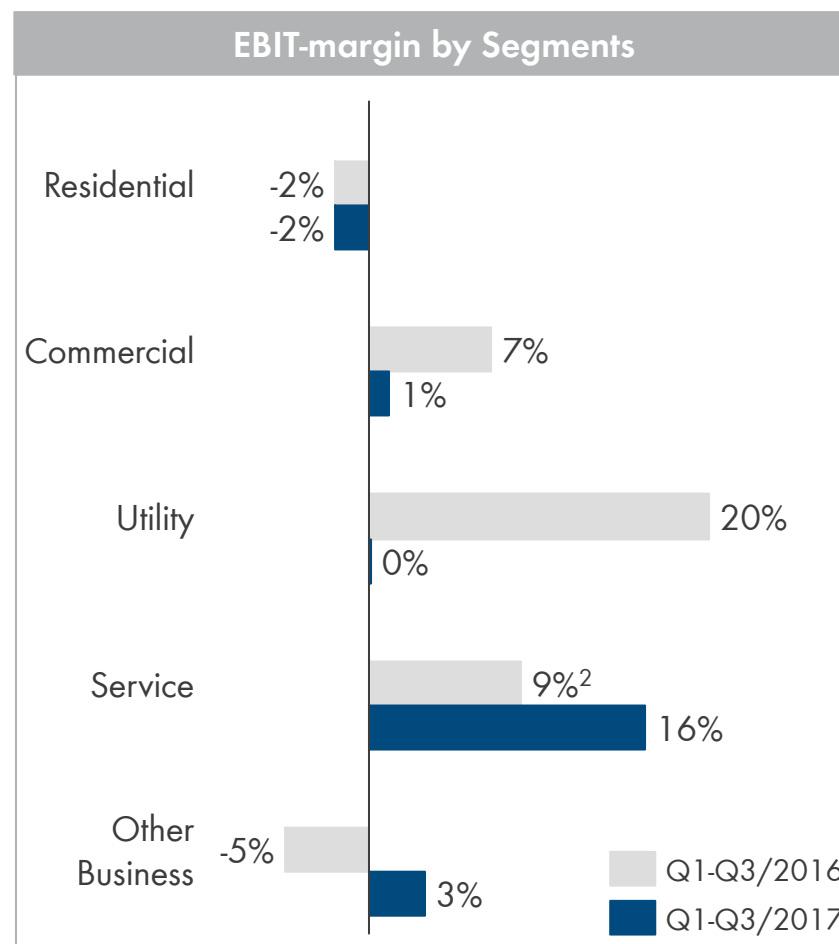
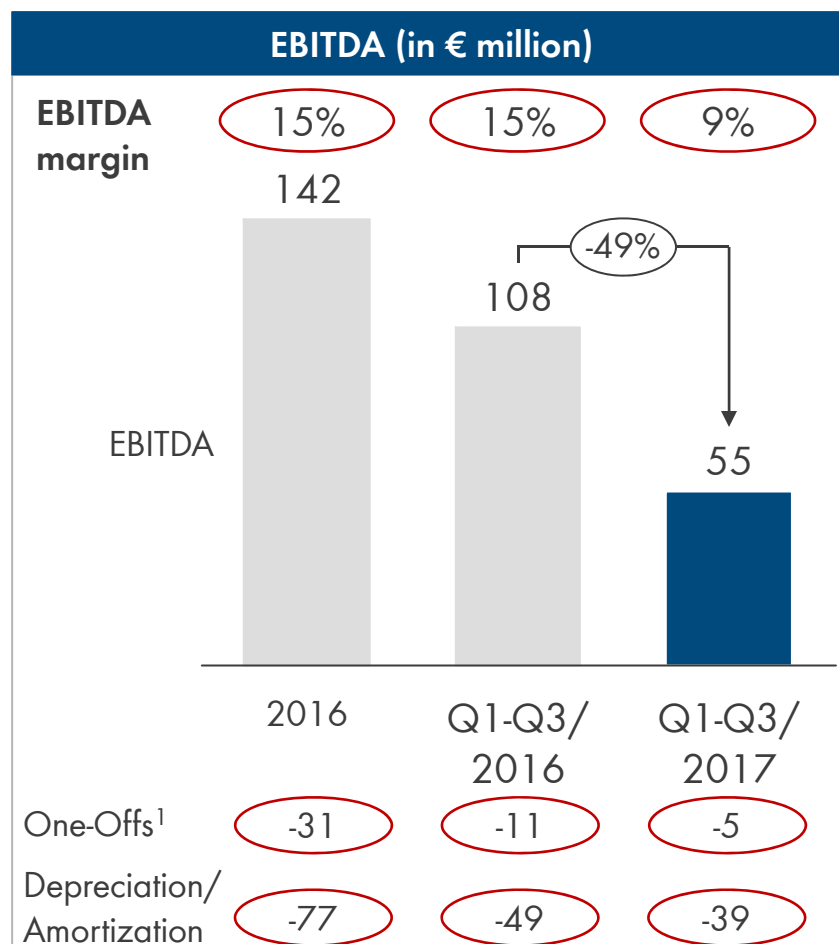
SMA'S MANAGING BOARD CONFIRMS
GUIDANCE FOR 2017

Sales Growth in APAC and EMEA Could not fully Compensate Weaker Demand in North America after a Record Year 2016



> The most important markets were the U.S., followed by Germany, India, Australia and Japan in Q1-Q3/2017.

SMA Expects all Segments to Become Profitable in 2017 (Full Year)

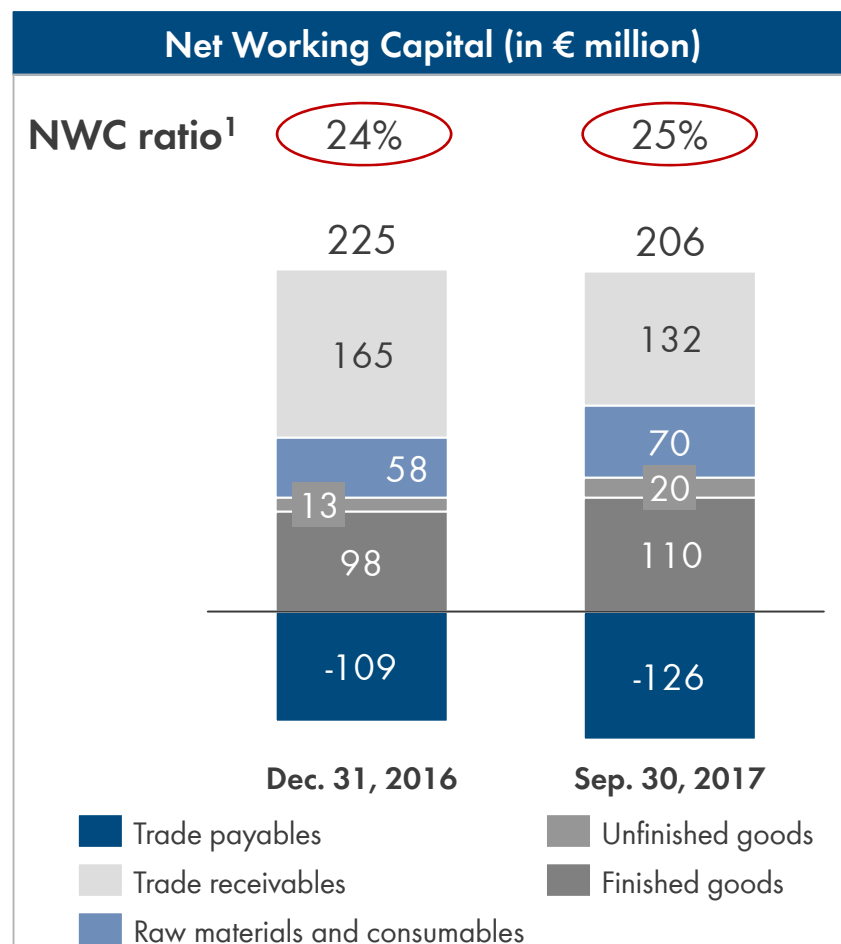


> With €16m EBIT, SMA already reached the lower end of our profit guidance.

1. Q1-Q3/2017 (w/o the book gain from the sale of the Railway Technology business division): Impairment on working capital (neg.); thereof in COGS (€-4m)

2. Internal and external sales

With an Equity Ratio of c. 50% and Net Cash of More Than €430m SMA has Strong Fundamentals



Group Balance Sheet, reclassified (in € million)

	2016/12/31	2017/09/30	Δ
Non-current assets	426	386	-9%
Working capital	334	333	0%
Other assets	66	55	-17%
Total cash	385	457	19%
Shareholders' equity	585	608	4%
Provisions ²	177	156	-12%
Trade payables	109	126	16%
Financial liabilities ³	23	21	-9%
Other liabilities ²	317	320	1%
Total	1,211	1,231	2%

> SMA improved the structure of Net Working Capital during 2017.

1. NWC= inventory + trade receivables - trade payables (no advanced payments included); As of last twelve months sales (guidance range of 22% to 25%)

2. Not interest-bearing

3. w/o not-interest-bearing derivatives: €5m (31.12.2016: €18m)

SMA's Business is not Capital Intense; Therefore, SMA Offers an Attractive Cash Flow Profile

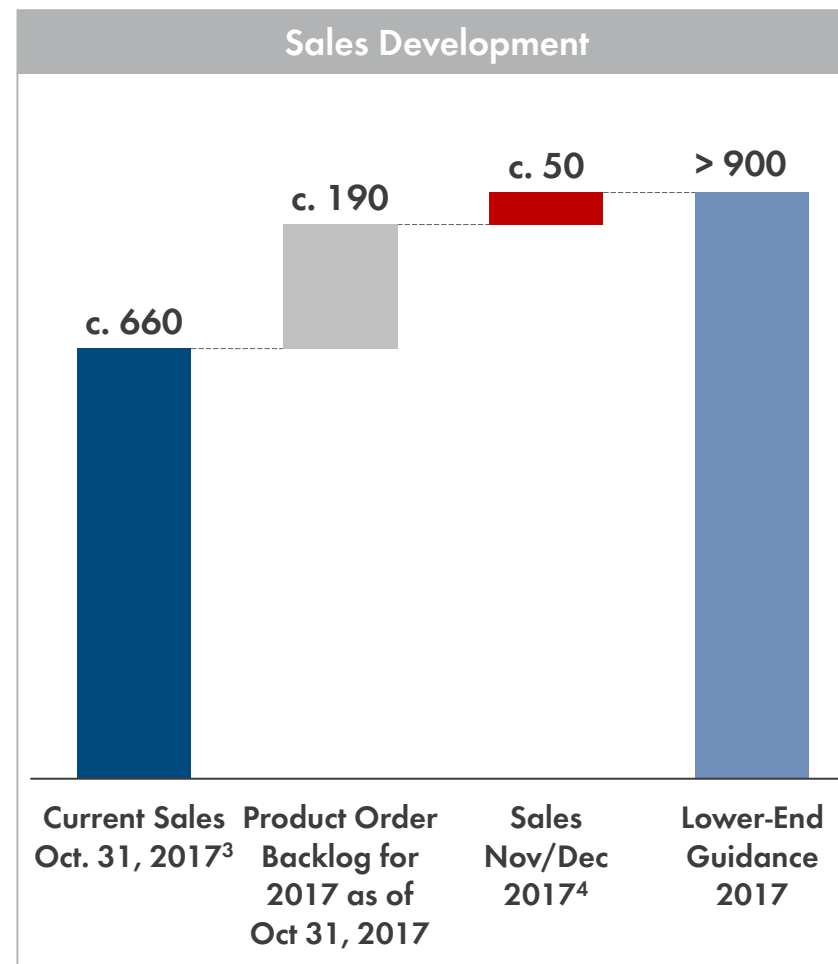
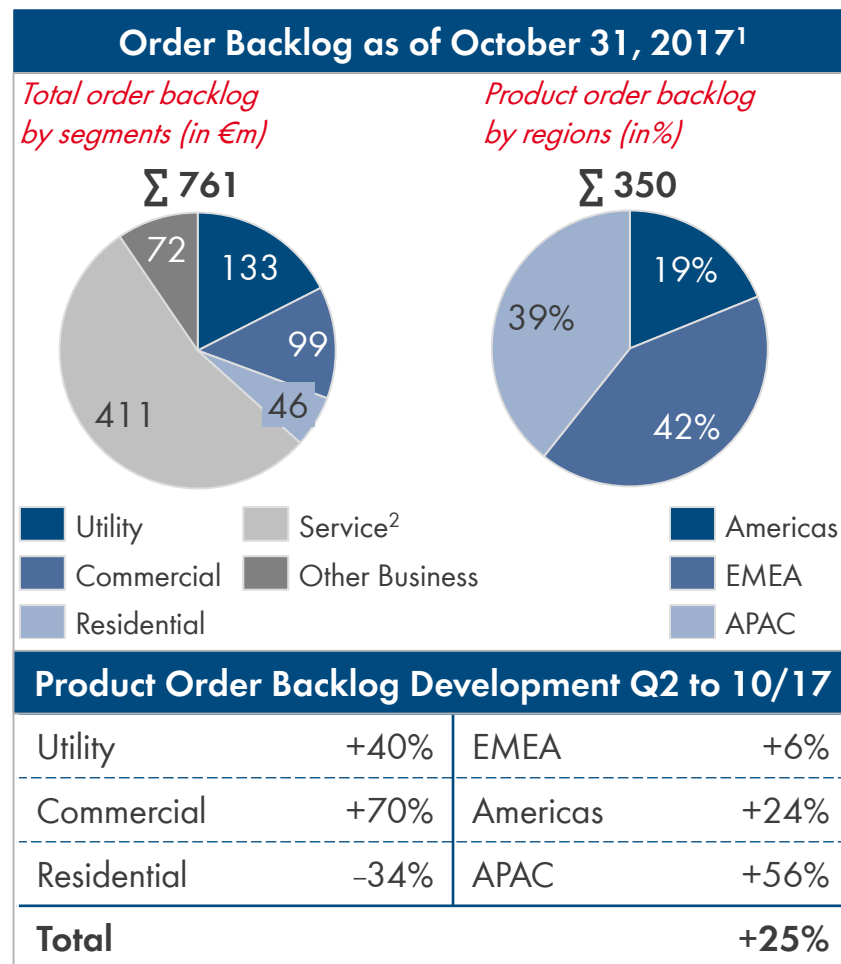


Cash Flow (in € million)			
	Q1-Q3/ 2016	Q1-Q3/ 2017	Δ
Net income	36	25	-31%
Gross cash flow	105	51	-51%
Cash flow from operating activities	124	79	-36%
Net capex ¹	-18	-22	22%
Free cash flow (Adj.)	106	57	-46%
Net investments from securities and other financial assets	-47	-85	81%
Acquisition/ Cash inflow from divestments	-19	17	n.m.
Free cash flow (IFRS)	40	-11	n.m.

> Cash flow profile during first nine months was very much impacted by weak sales development.

1. Thereof R&D capitalization Q1-Q3/2017: €14m (Q1-Q3/2016: €9m)

Increased Product Order Backlog by 25 % since H1/2017 Driven by APAC and Americas



> **Current sales are impacted by supply issues – management expects strong Q4/2017.**

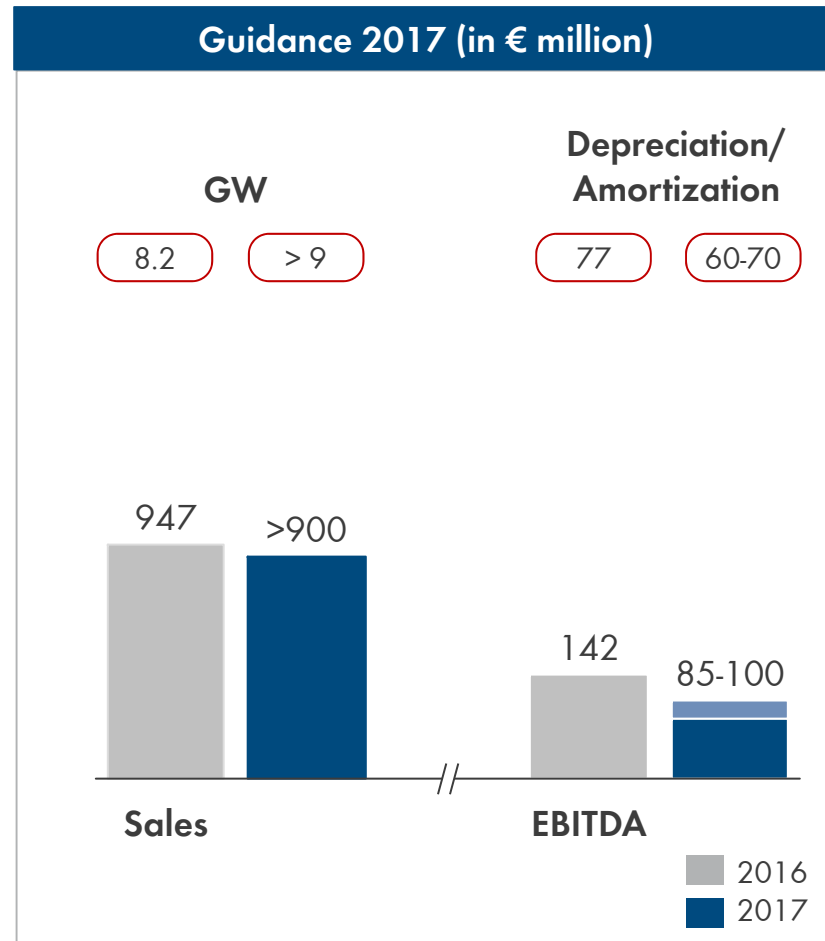
1. Order backlog as of September 30, 2017: total order backlog €746m; order backlog for products €338m

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

3. Preliminary figures

4. Sales including Service, Accessories to be generated to reach low end of guidance range

Managing Board Specifies Guidance for 2017



- Comments on Guidance 2017**
- > SMA Management board expects sales to be at more than €900m (before: €900m to €950m).
 - > EBITDA is expected to reach €85m to €100m.
 - > Net working capital ratio will be between 22% and 25% of sales.
 - > SMA plans to invest about €50m (incl. capitalized R&D).
 - > Net cash will rise to more than €450m.
 - > It is SMA's policy to distribute 20% to 40% of the group net income to shareholders.

> 2018 Guidance Announcement: Capital Markets Day January 26, 2018.

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 new solutions for the energy Internet
- ✓ 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 with proven track record



BACK UP

At Your Service



Investor Relations Team:



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Active Research Coverage with access to SMA's Management:

Independent Research, Landesbank Baden Württemberg,
Macquarie Research, Metzler; Oddo BHF, Warburg Research

Financial Calendar:

January 26, 2018	Capital Markets Day, Kassel: Guidance Announcement
March 29, 2018	Publication of the SMA Group 2017 Annual Report Analyst Conference Call: 09:00 a.m. (CET)
May 24, 2018	Annual General Meeting 2018

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