

SMA SOLAR TECHNOLOGY AG

Analyst / Investor Presentation

Quarterly Financial Results: January to September 2018



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Ulrich Hadding, CFO
November 8, 2018



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Managing Board Expects Sales of €800m to €850m in 2018 and Anticipates Sales Growth and Positive EBITDA for 2019



Financial Highlights Q1-Q3/2018

Top Line

- SMA increased volume to >6 GW (+6% y/y)
- Sales decreased slightly y/y to € 575m mainly due to accelerated price pressure in all segments and project postponements.

Profitability, Bankability

- EBITDA decreased by 9% to €51m in Q1-Q3/18 year over year; both periods were impacted by positive net effects.¹
- Solid balance sheet structure with >50% equity ratio, > €370m net cash and €100m long-term credit facility

Outlook 2018

- Market outlook 2018-2020 adjusted mainly due to higher installations in China: In 2018, we expect global new PV installations of 99 GW, thereof 39 GW in China (previously: 83 GW / 25 GW).
- Managing Board expects sales of €800m to €850m in 2018 and a break-even to slightly negative EBITDA (after one-off effects from restructuring).²
- The SMA Managing Board is anticipating sales growth and positive EBITDA for 2019.

Strategic Highlights

New subsidiary



New strategic storage partnership



New Products



> Jürgen Reinert Becomes New Chief Executive Officer

1. Q1-Q3/18 net EBITDA effect of €8m: release of general warranty provision + €33m, devaluation of inventories - €14m and - €11m for single warranty provisions; Q1-Q3/17 included the book gain from the sale of the Railway division (high single-digit €m-amount)

2. Previously: Sales of €900 million to 1,000 million and EBITDA of €90 million to €110 million

Sales Decreased Slightly Mainly due to Accelerated Price Pressure in all Segments and Project Postponements



Key Financials (in € million)

	Q1-Q3/ 2017	Q1-Q3/ 2018	Change
MW sold	5,894	6,216	6%
Sales	593	575	-3%
Residential	170	131	-23%
Commercial	188	192	2%
Utility	190	206	8%
Storage	45	46	3%
Digital Energy	0	0	
Gross Margin (in %)	21%	23%	
EBITDA ¹	55	51	-9%
Depreciation	39	40	0%
EBIT	16	11	-30%
Net income	25	9	-66%
Free Cash Flow (adj.)	57	-66	n.m.
Net CapEx (incl. R&D)	22	27	25%

	2017/12/31	2018/09/30	Change
Net cash	450	373	-17%
Total assets	1,216	1,141	-6%
NWC ratio (in %) ²	19%	24%	

	2017/2018			
	Q4	Q1	Q2	Q3
Sales	299	183	212	180
Residential	63	39	44	48
Commercial	84	57	75	60
Utility	100	67	84	55
Storage	52	20	9	17
Digital Energy	./.	0	0	0
Gross margin	25%	21%	27%	20%
EBITDA	42	18	23	10

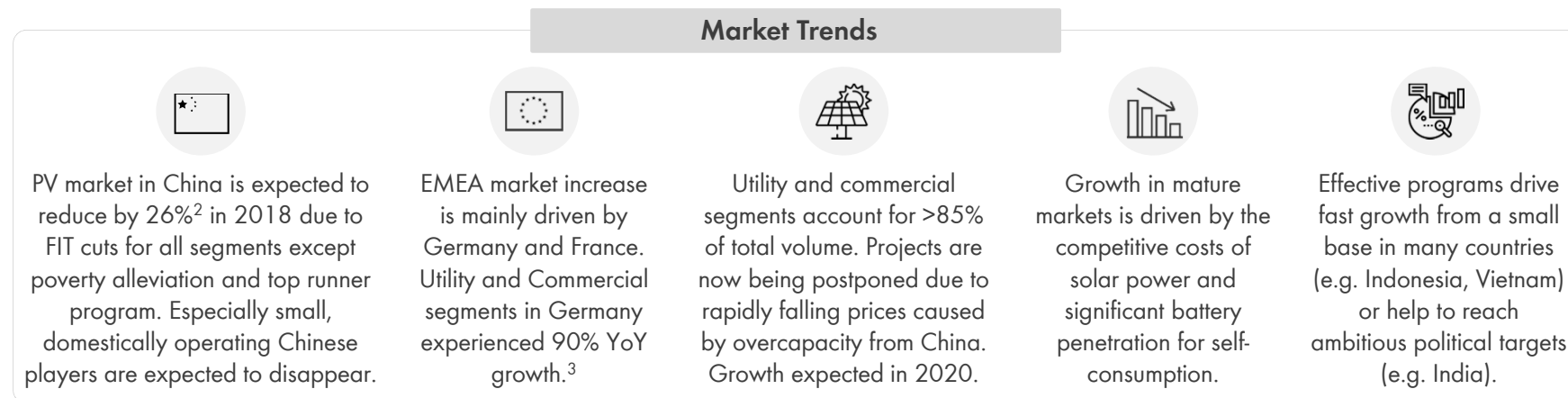
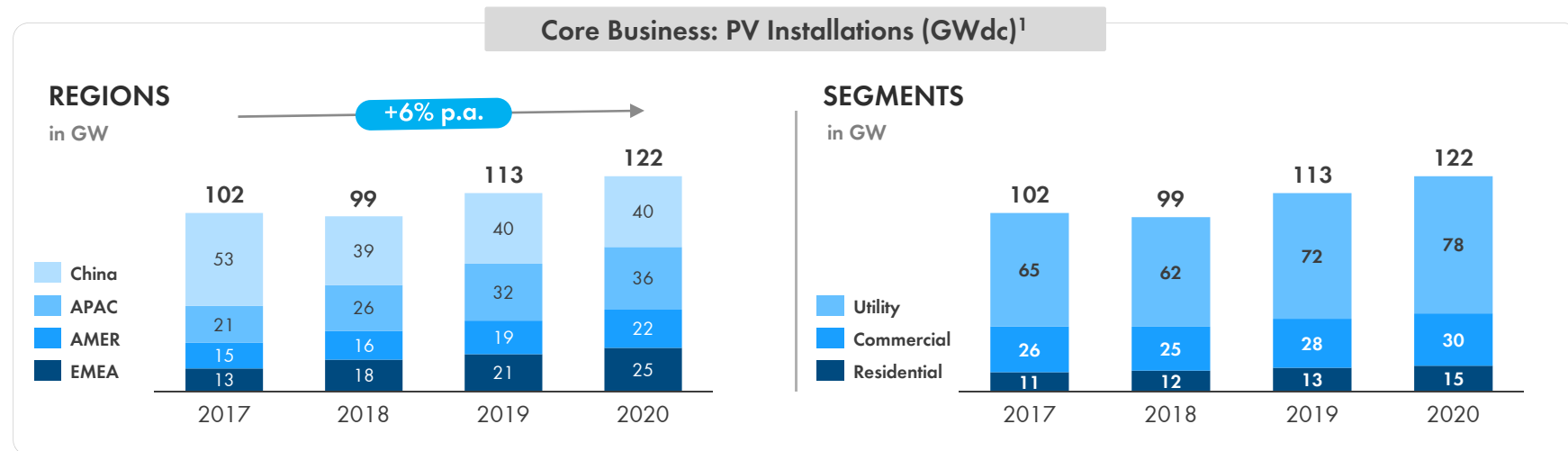
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2. Net Working Capital ratio: inventory + trade receivables - trade payables (advanced payments included); as of last twelve months sales

FIT CUTS IN CHINA LED TO ACCELERATED PRICE
PRESSURE IN INTERNATIONAL MARKETS

SMA EXPECTS MARKET CONSOLIDATION OF
INVERTER MANUFACTURERS TO ACCELERATE

Global PV Market Development is Affected by China due to FIT Cut Announcement of Government



> Most recent price drop may accelerate volume growth in coming years.

1. SMA Market Model Q4 2018; New PV installations, Res ≤10kW plants, Com >10kW to 1MW plants, Uti >1MW plants
2. China PV Installations in January – September 2018 reached 34.5 GW
3. New installations (plant size >10 kW) in January – August 2017 compared to 2018 according to Federal Network Agency

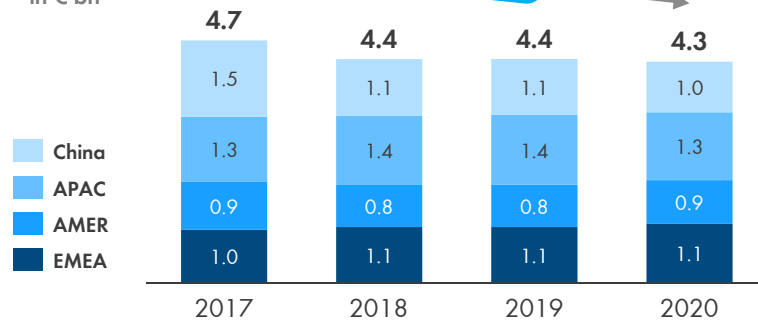
Strong Price Decline for PV Inverters Leads to a Rather Stable Market from 2018 to 2020



Core business: PV Inverter Revenue (€ bn)¹

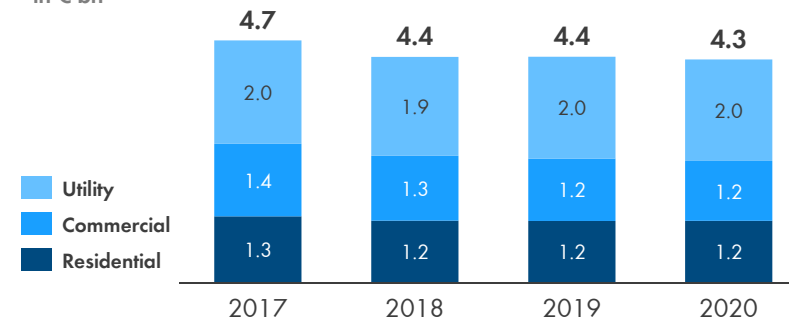
REGIONS

in € bn



SEGMENTS

in € bn



Market Trends



The suspension of approvals for FIT-supported plants in China effective June 2018 led to increasing price pressure on PV inverters for all segments. Annual price drop between 10% and 25%.



Many customers in all regions wait with purchase decision until prices stabilize.



Projects compete on the cost of energy independent from the technology.³ Key success factors for ground-mounted projects are the right market focus and cost-competitiveness over lifetime.



In contrast, roof-top projects compete for the best site. Key success factors are the right segment focus, the technical know-how to integrate the solution and the brand.



Regulatory framework (import tariffs, NEC) impact market development as well.

1. SMA Market Model Q4 2018; PV Inverter incl. new and repowering installations, Res ≤10kW plants, Com >10kW to 1MW plants, Uti >1MW plants

2. Power Purchase Agreement

3. Wind, PV, Gas

The Disruption in the Energy Sector will Open up New Value Pools for Technology Driven Companies such as SMA

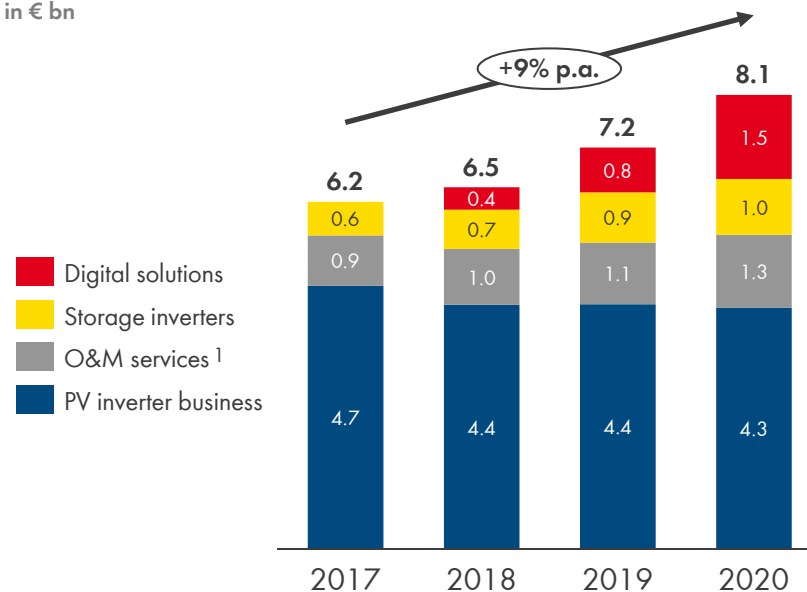


Core and New Business: Global Market Outlook by Sector (in € bn)

New PV Installs²
in GWdc

102 99 113 122

in € bn



Market Comments

- The megatrends decarbonization, technical cost decrease, sector convergence and digitalization will lead to a higher share of renewable energy and its growth.
- The need for digital solutions and battery storage will create new value pools.
- PV inverters will serve as the backbone for smart grid solutions connecting the components and collecting data.
- The traditional PV market is expected to grow outside China in volume until 2020. The stabilization of price pressure is expected towards 2020.
- O&M services gain importance with continuously declining equipment prices and are key for sustainable PV investments.

> The China announcement changed the PV market landscape. Going forward, SMA expects market consolidation of inverter manufacturers to accelerate.

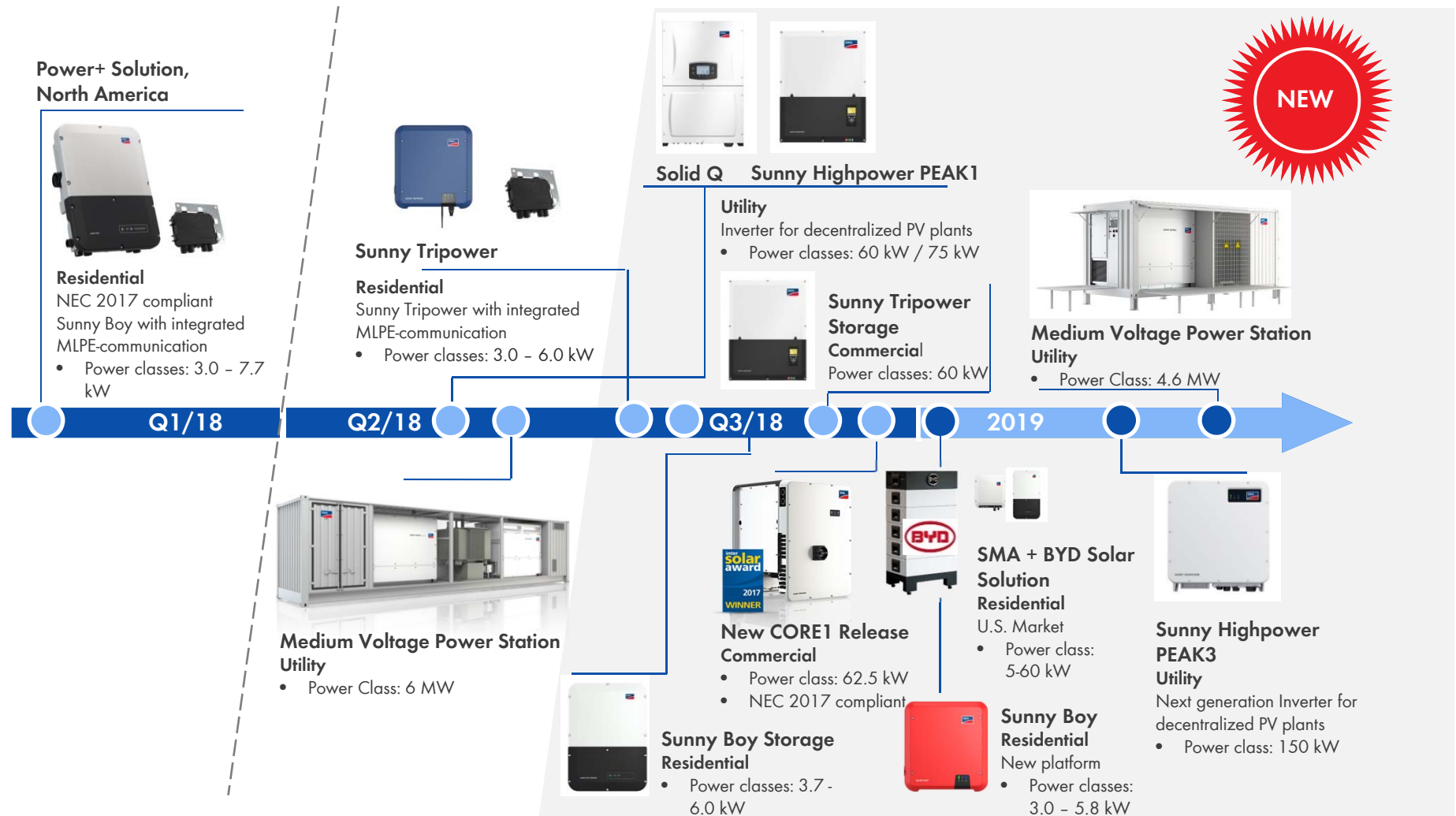
1. Full O&M

2. SMA Market Model Q4 2018

SMA WILL LAUNCH COST IMPROVED PRODUCTS
IN ALL SEGMENTS TO REDUCE VARIABLE COSTS

SMA WILL RESTRUCTURE THE INFRASTRUCTURE TO
LOWER FIXED COSTS

SMA's New Cost Improved Products Improve Variable Cost in All Segments



Due to the High Price Pressure SMA has to Lower the Fixed Cost Base as well to Protect Profitability



Key Restructuring Areas

1

Reduce Complexity in R&D and Production

SMA operates sites in Germany, Poland and China. Going forward, SMA will consolidate its footprint to lower fixed costs and complexity.

2

Adjust Service Concept

SMA operates field service teams and contact centers in all key regions. Going forward, SMA will outsource certain activities to improve efficiency.

3

Adjust Portfolio

SMA serves all segments and regions. Going forward, SMA will streamline the portfolio to reduce complexity.

4

Restructuring of Overhead

SMA will adjust processes and work scope to increase efficiency across all overhead functions.



Strategy and Timing

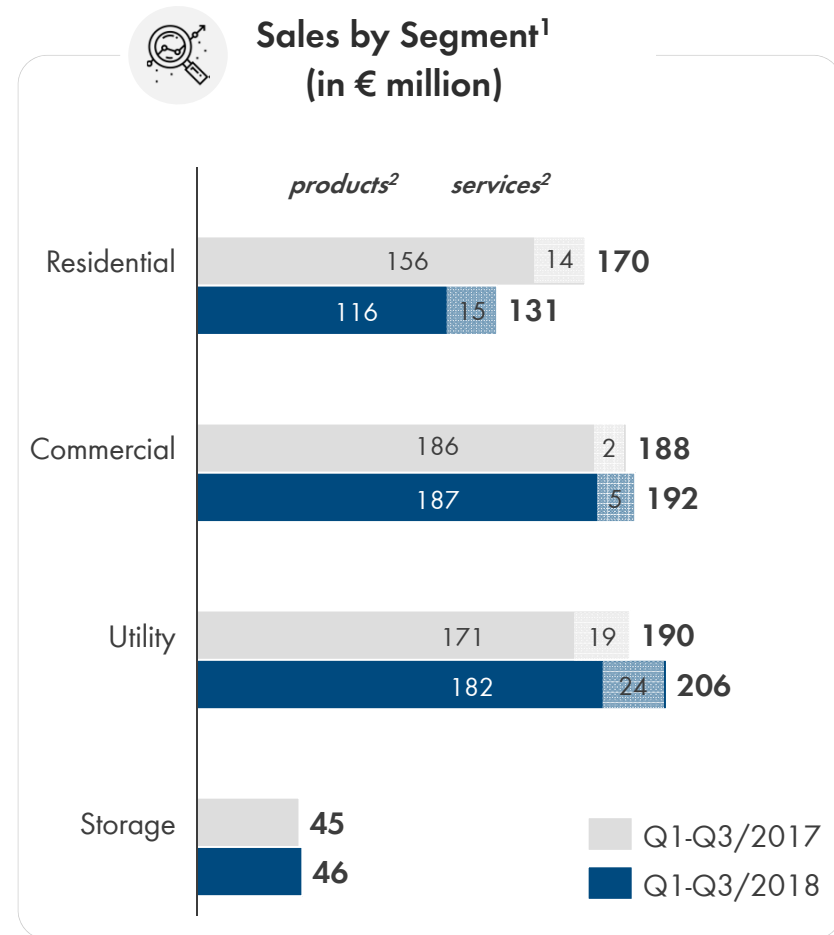
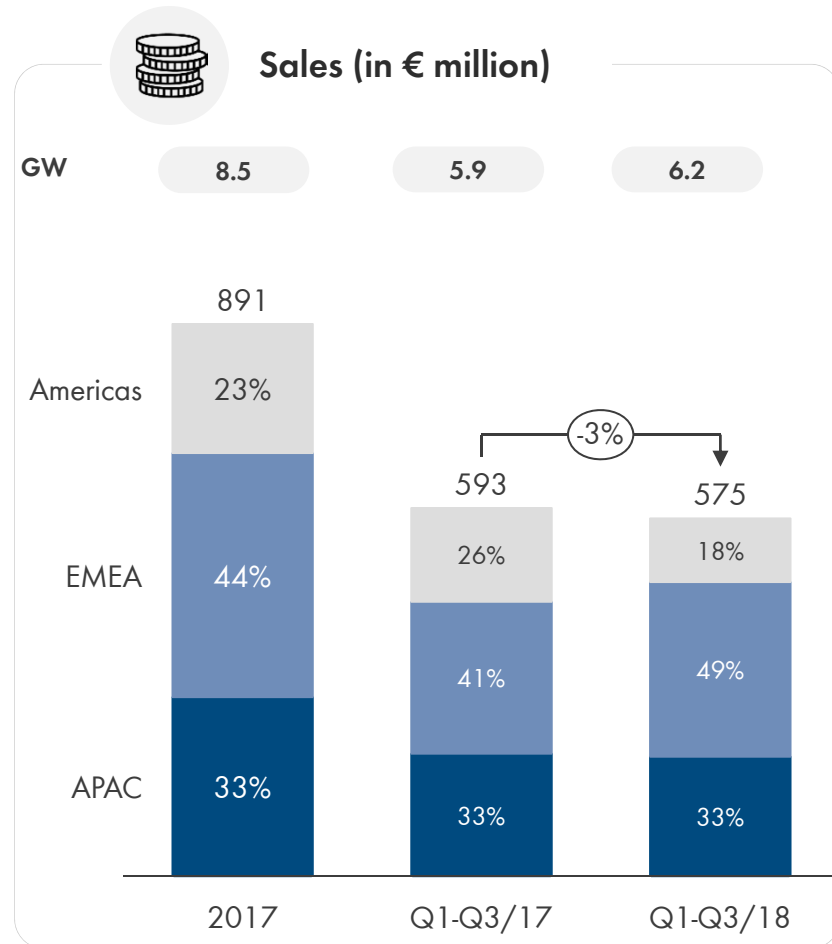
- The strategy 2020 remains in place.
- SMA will accelerate its effects to become a system and solution provider to enter into higher margin business.
- SMA will foster its service business to capitalize on its installed base of 70 GW.
- SMA will continue to offer energy services (Coneva) to benefit from the transition in the energy sector.
- SMA's management will negotiate the restructuring concept with the workers council until end of 2018.
- Implementation is planned for 2019. EBIT effectiveness of restructuring measures will take beyond 2019.

> One-offs for key restructuring measures will amount to an upper double-digit million euro figure. Details will be disclosed once negotiations with workers council are completed.

MANAGEMENT EXPERIENCED ACCELERATED
PRICE PRESSURE IN ALL SEGMENTS AND
POSTPONEMENTS OF PROJECTS IN Q3/2018

ON SEPTEMBER 27, MANAGEMENT LOWERED
SALES AND EARNINGS GUIDANCE AND
ANNOUNCED RESTRUCTURING

Sales Decreased Slightly Mainly due to the Residential Segment

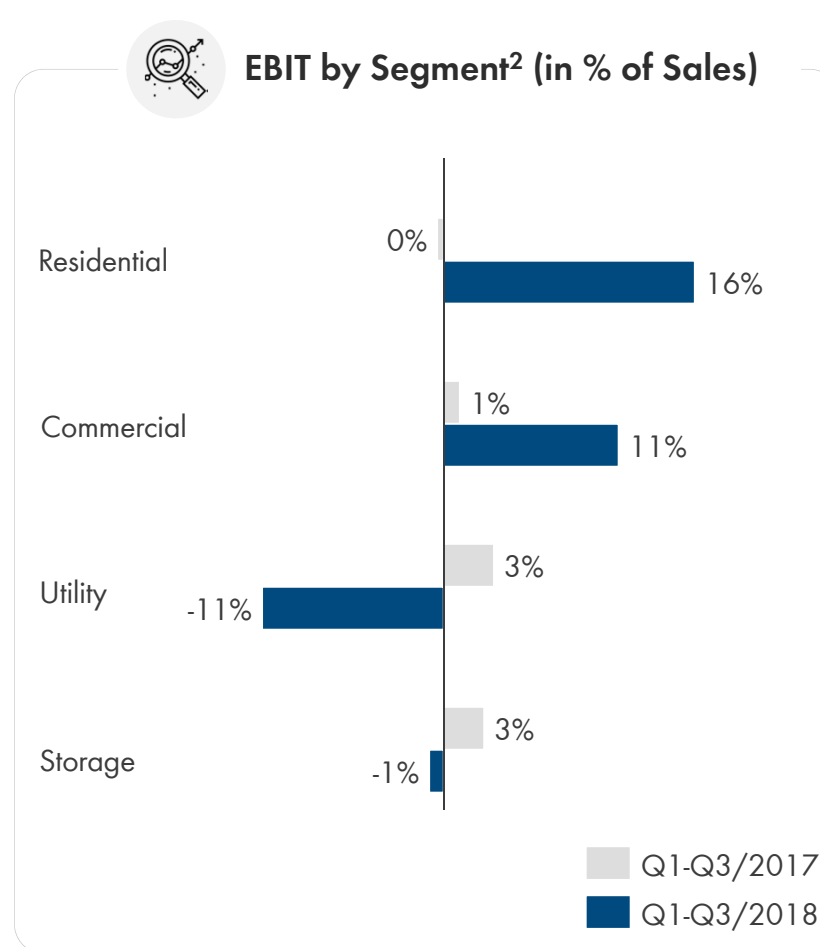
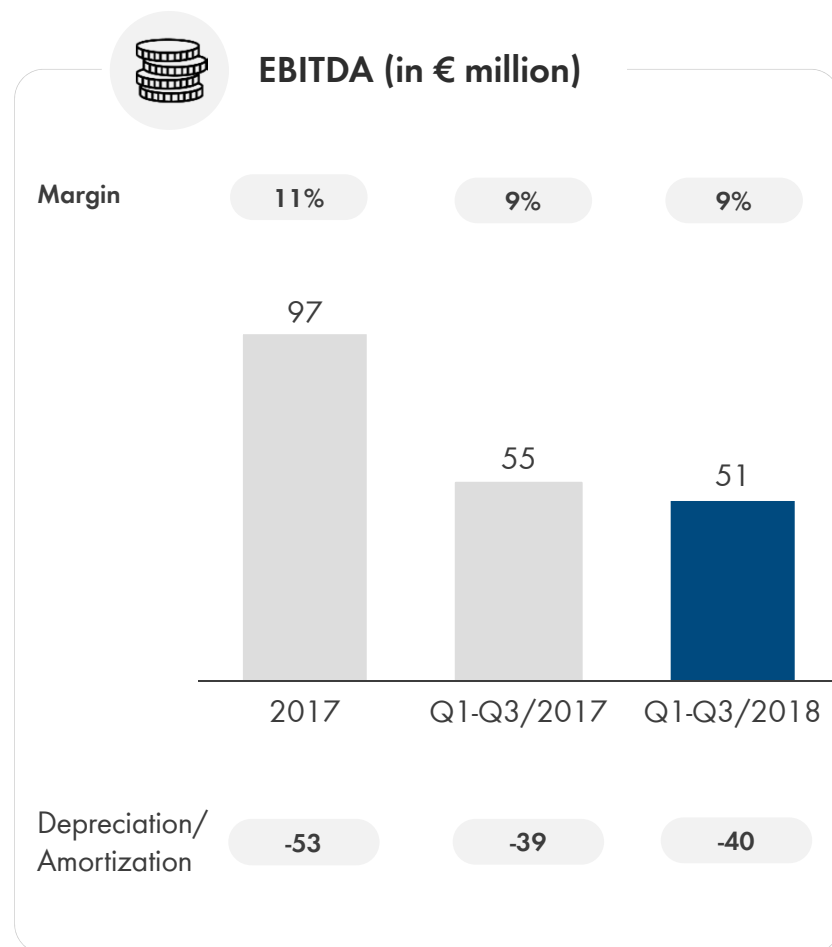


> **U.S. market remains below expectations in the commercial and utility segments.**

1. w/o Digital Energy

2. New Segment information according to IFRS 15 shows sales with external services per segment. Thereby, External Services are unlike the former Service segment and include commissioning, extended warranties, service and maintenance contracts, operational management, remote system monitoring and digital energy services. External Product Sales include inverters, storage systems, communication products, spare parts and accessories. See back up for further information.

EBITDA Decreased by 9% to €51m Year over Year; Both Periods Were Impacted by Positive Net Effects.¹



> **The Residential and Commercial segments increased profitability as a result of new product launches and a positive effect from the release of general warranty provisions.**

1. Q1-Q3/18 net EBITDA effect of €8m: release of general warranty provisions + €33m, devaluation of inventories - €14m and - €11m for single warranty provisions

2. w/o Digital Energy

Strong Balance Sheet with Equity Ratio of > 50 % - Provisions Declined Significantly due to Adjustment of Warranty Provisions

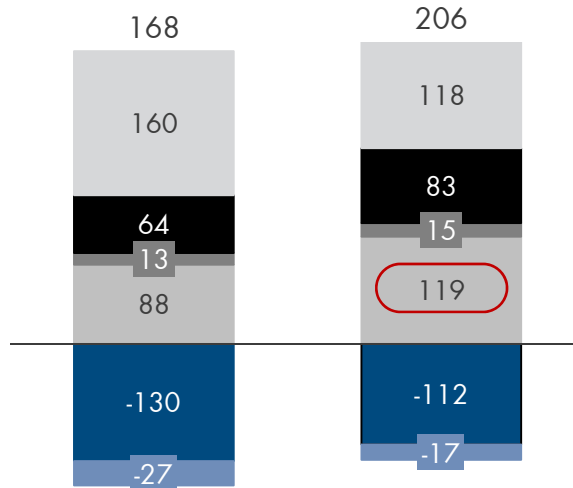


Net Working Capital (in € million)

NWC ratio¹

19%

24%



Trade receivables
 Raw materials and consumables
 Unfinished goods
 Trade payables
 Advanced Payments
 Finished goods



Group Balance Sheet, reclassified (in € million)

	2017/12/31	2018/09/30	Change
Non-current assets	358	344	-4%
Working capital	325	335	3%
Other assets	63	70	13%
Total cash	470	392	-17%
Shareholder's equity	612	608	-1%
Provisions ³	156	126	-19%
Trade payables	130	112	-15%
Financial liabilities ⁴	20	18	-10%
Other liabilities ³	298	277	-7%
Total	1,216	1,141	-6%

> Net working capital increased due to a build-up in inventories to ensure the ability to deliver in the Residential and Commercial segments.

1. Net Working Capital ratio: inventory + trade receivables - trade payables (advanced payments included); as of last twelve months sales
 2. NWC ratio as of 2018 reporting includes advanced payments; the year end figure 2017 has been adjusted accordingly (see back up for further information)
 3. Not interest-bearing
 4. w/o not interest bearing derivatives: € 2.0m (2017: € 0.4m)

Cash Flow from Operating Activities Lower than Previous Year Mainly due to Tax Payments and Higher Inventories¹



Cash Flow (in € million)

	Q1-Q3/2017	Q1-Q3/2018	Change
Net Income	25	9	-66%
Gross Cash Flow	51	10	-81%
Cash Flow from Operating Activities	79	-39	n.m.
Net Capex ²	-22	-27	25%
Free Cash Flow (Adj.)	57	-66	n.m.
Net Investments from Securities and Other Financial Assets	-85	14	n.m.
Acquisitions/ Divestitures	17	0	
Free Cash Flow (IFRS)	-11	-52	n.m.

> **SMA's business is not capital intense. Gross cash flow will remain positive in 2018.**

1. Income tax paid: Q1-Q3/2018: -€25m; Q1-Q3/2017: -€12m; change in inventories Q1-Q3/2018: -€65m, Q1-Q3/2017: -€38m
2. Thereof R&D capitalization: Q1-Q3/2018: €14m (Q1-Q3/2017: €14m)

Order Backlog Decreased due to Higher Ability to Deliver and Lower than Expected Order Intake

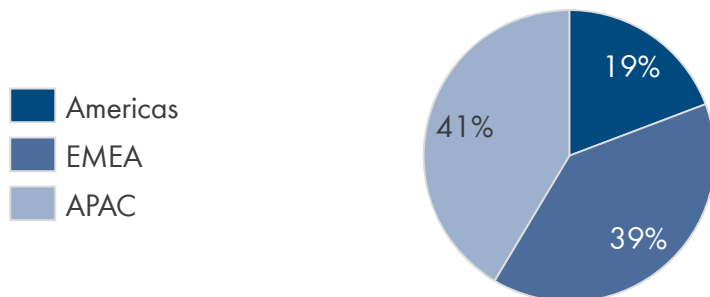


Order Backlog by Segment (in €m) and Region (in %)

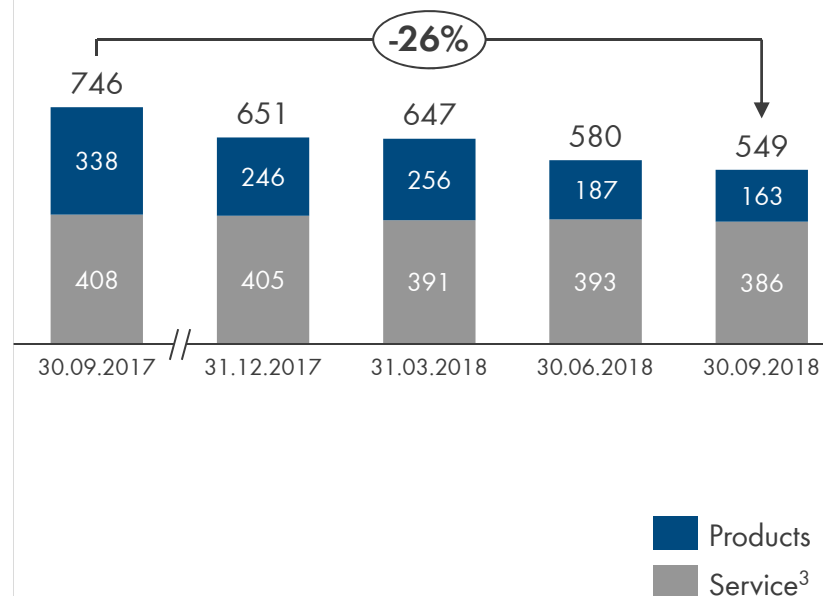
Total order backlog: €549m (Sep. 30, 2018)¹



Product order backlog by regions (in%)



Order Backlog Development (in € million)



> The order backlog is expected to increase in the months to come.

1. Thereof €187m for products

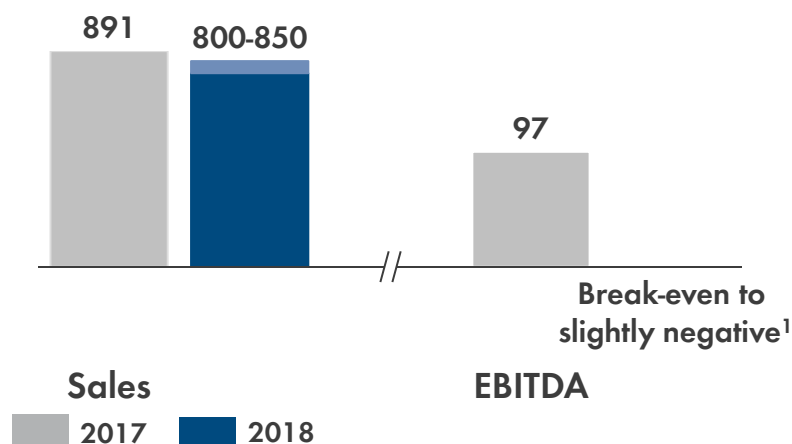
2. w/o „Service“

3. Order backlog attributable to the former segment „Service“, which will be recognized over a period of 5 to 10 years

For 2019 Management Expects Slight Sales Growth and Positive EBITDA



Guidance 2018 (in € million)



	2018
Expenses for Digital Solutions	>€10m
NWC-Ratio ²	19-23%
Tax Ratio	n.m.
CapEx (incl R&D) ³	c. €45m
Depreciation / Amortization	c. €50m



Management Comment

- Supply constraints that impacted SMA's business in H1/2018 will have only a small impact for the rest of the year.
- Price pressure in Utility remains high. Higher price reductions than initially expected in Residential and Commercial.
- Strong sales growth in Commercial due to new products and less supply constraints.
- Energy Management and digital solution business will only have limited sales contribution.
- SMA plans to increase market share, mainly in APAC (China, Japan, Australia).
- Acquisitions in the fields of energy management technology and O&M (total volume €50-100 m) possible.

> One-offs for key restructuring measures will amount to an upper double-digit million euro figure. Details will be disclosed once negotiations with workers council are completed.

1. After one-off effects from restructuring

2. As of 2018, the net working capital ratio includes advanced payments: inventory +

trade receivables-trade payables (incl. advanced payments); as of LTM

3. Incl. c. €20m for R&D

SMA is a Leading Player for PV Inverters, Storage and O&M



Investment Highlights

Uniquely positioned in the solar market / best brand

- A leading global specialist for photovoltaics system technology with 70 GW installed base
- Complete portfolio to serve all PV segments
- Present in 19 countries with strong service capabilities and access to all channels
- Award-winning 20 GW production to achieve scale

Leverage PV expertise to enter into high margin business

- Strong partnerships to create a new ecosystem
- Know-how & products to benefit from strong growth in the field of battery storage
- With ennexOS¹, SMA has set the basis to manage the complexity of integrated solutions
- Infrastructure to expand into data-driven business models and services



Key Financials 2018

Sales

€800 m - €850 m

EBITDA

Break-even to slightly negative



Key Product Innovations 2018



> **SMA has an experienced management team with a proven track record.**

ENERGY
THAT
CHANGES



SOCIAL MEDIA
www.SMA.de/Newsroom





BACK UP

SMA has a Sound Strategy in Place to Benefit from the Disruption in the Energy Sector



O1

GLOBAL MARKET LEADER in all Segments

We want to be #1 in the RESIDENTIAL, COMMERCIAL, UTILITY, SERVICE and STORAGE segments.

O2

SMA is a Provider of Systems and Solutions

By 2020, sales of non-PV inverters are expected to rise from around 20% of total sales to > 40%.

O3

Sustainable Profitability and low Capital Intensity

SMA strives for continuous efficiency improvements. If necessary, the profitability will be ensured by means of reductions in structural costs.

O4

Development of SMA by means of Disruptive Approaches

We want to achieve this by focusing on three disruptive initiatives. "Energy Services" and "Energy Portal" are technology-driven, data-based business models while "Energy Shop" is an end-to-end sales model to digitize our sales channel.

O5

SMA is an ATTRACTIVE COMPANY

We live by our values and provide freedom for responsible entrepreneurial action. We stand out due to fairness, internationality and sustainability.