

# SMA SOLAR TECHNOLOGY AG

## Analyst / Investor Presentation

### Half-Yearly Financial Results: January to June 2014



Pierre-Pascal Urbon, CEO; Lydia Sommer, CFO – August 7, 2014



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# EXECUTIVE SUMMARY

**FOR 2014, THE SMA MANAGING BOARD DOES NOT EXPECT A RISE IN GLOBAL PV-INSTALLATIONS ANYMORE**

**THE REGIONAL SHIFT IN DEMAND WILL AFFECT THE PRODUCT MIX AND SELLING PRICES**

**SMA ADJUSTED ITS SALES AND EARNINGS GUIDANCE AND INITIATED ADDITIONAL MEASURES TO RETURN TO PROFITABILITY**

**SMA'S STRATEGY REMAINS UNCHANGED**

## LOW REVENUES IN Q2-2014 DUE TO WEAK DEMAND IN EUROPE AND SLOW PROJECT BUSINESS

	January - June 2013	January - June 2014	Changes
MW sold	2,505	1,990	-21%
Sales	462	341	-26%
EBITDA	14	-17	-220%
Net loss	-16	-45	177%
NWC ratio	26.1%	31.8%	
Net Capex	31	32	3%
Free Cash Flow (Adj.)	-26	-65	150%

Numbers in million €, unless stated otherwise

►► Q3-2014 started with strong revenues of nearly €80 million in July; SMA has a strong project pipeline in all key growth markets.

# MARKET AND COMPETITION

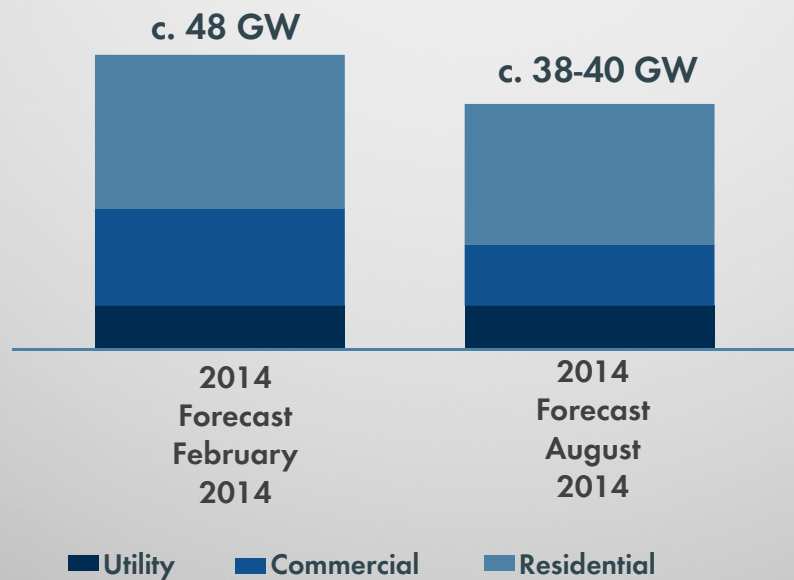
**WEAK DEMAND IN CHINA AND EUROPE DURING  
FIRST SIX MONTHS 2014**

**STRONG DEMAND IN THE SECOND HALF OF 2014  
DRIVEN BY PROJECT BUSINESS**

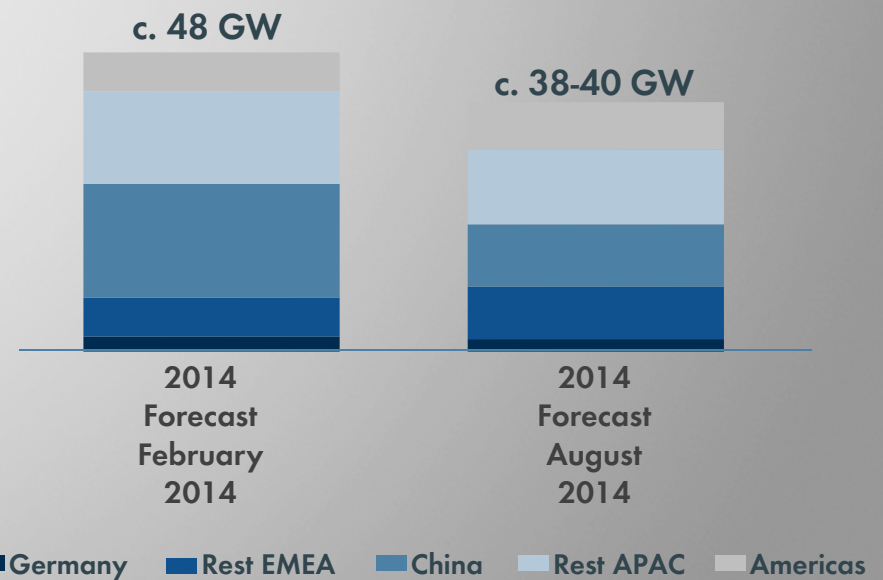
**SMA STRIVES TO GAIN MARKET SHARE IN 2014**

# SMA REDUCED THE **MARKET OUTLOOK 2014 BY 20%** DUE TO WEAKER DEMAND IN CHINA AND CONTINENTAL EUROPE

## PV-Market by Application<sup>1</sup>



## PV-Market by Region<sup>1</sup>



<sup>1</sup> SMA estimate

# THE MAJORITY OF NEW PV-INSTALLATIONS ARE EXPECTED IN THE **SECOND HALF OF 2014**

- > In Europe, the UK will compensate for the decline in Continental European markets<sup>1</sup>
- > Outside Europe, China, the Americas and Japan are the driving forces behind demand<sup>2</sup>
- > In China, demand was significant weaker than expected due to the slow start of the „distributed power“ segment<sup>3</sup>
- > The utility market will account for more than half of the new installations in 2014 Commercial and Residential account for 25% and 20% respectively
- > Within Residential and Commercial, a trend towards smaller power classes is discernable
- > High price competition due to regional shift in demand and smaller power classes

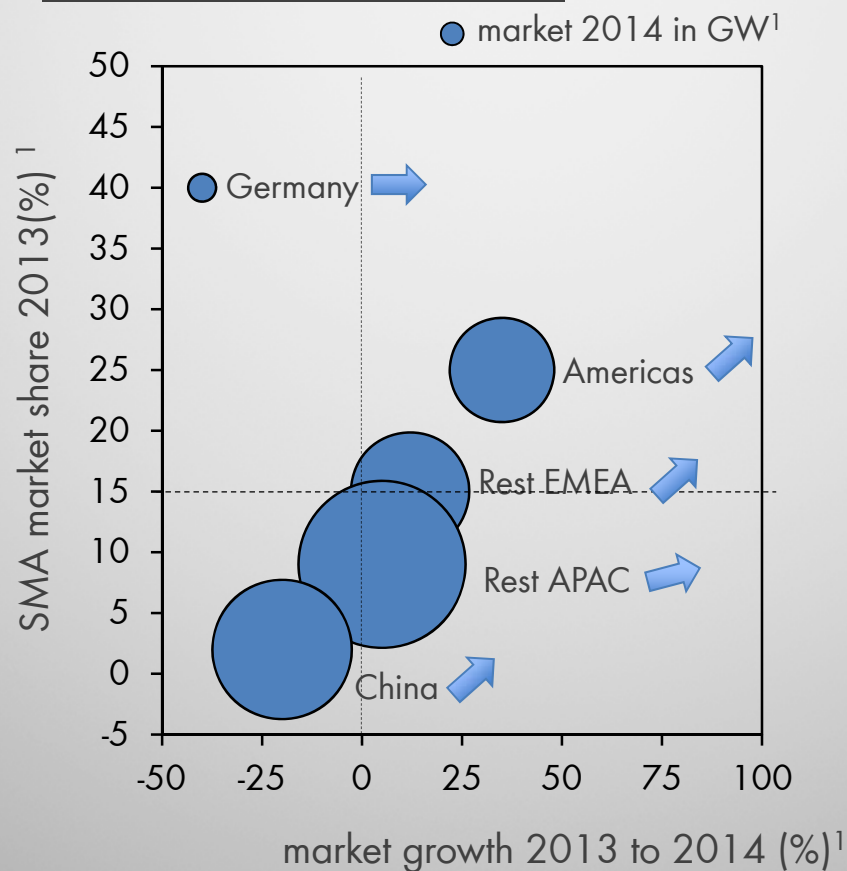
<sup>1</sup> SMA estimates a strong increase in demand in UK in the second half of the year 2014

<sup>2</sup> China, the Americas and Japan account for c. 60% of total demand in 2014

<sup>3</sup> China installed only c. 2 GW during the first six months of 2014

# SMA TARGETS A SLIGHT **INCREASE IN MARKET SHARE** IN 2014

## Market Share Estimations



- > SMA is clearly the market leader in North America and well positioned for the booming UK-market due to its superior turn-key solution for utility-scale solar projects
- > SMA attracted new Japanese accounts with its complete product portfolio and certified production plant in Germany
- > SMA maintained high market shares in Europe due to strong customer relations and complete portfolio
- > Zenersolar introduced new portfolio and won the first large tenders in China

<sup>1</sup> SMA estimates



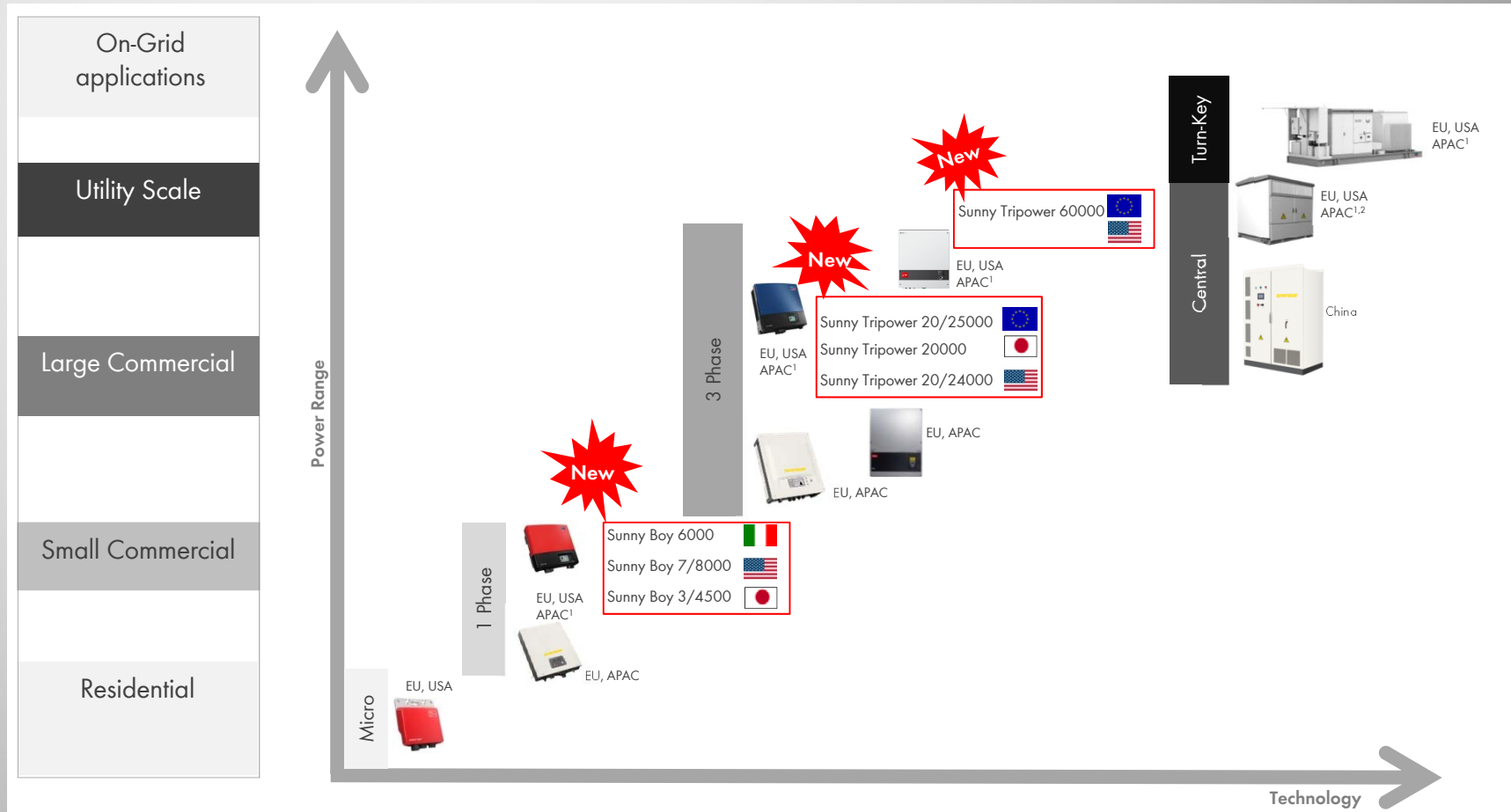
# HIGHLIGHTS

**SMA INTRODUCED NEW SOLAR INVERTERS AND  
ENERGY MANAGEMENT SOLUTIONS**

**ZEVERSOLAR PRESENTED NEW PORTFOLIO IN  
CHINA**

**SMA ACQUIRED 180 MW O&M SERVICE PORTFOLIO**

# SMA ALREADY LAUNCHED COST-IMPROVED PRODUCTS TO GAIN MARKET SHARE IN KEY GROWTH MARKETS; **ZEVEVSOLAR** PRESENTED OVERHAULED PRODUCT PORTFOLIO TO CUSTOMERS



►► The first products of SMA's new inverter generation will be launched in Q1-2015.

<sup>1</sup> Without China

<sup>2</sup> 2.5 MW-System will be introduced mid 2015

# OUR AWARD-WINNING PRODUCTS UNDERLINE SMA'S **TECHNOLOGY LEADERSHIP POSITION**

## SMA Energy Management Technology Sunny Boy Smart Energy



- > Usage of solar power nearly 24 hours a day
- > No need to design battery system
- > Automatic optimization to secure high level of eco-friendly energy supply

## SMA Hybrid System Technology SMA Fuel Save Controller



- > Integration of large PV-systems into genset-systems
- > Sufficient spinning reserve in the event of major load changes
- > Intelligent management of load and grid connections

## SMA SIGNED AN **ASSET DEAL** WITH PHOENIX SOLAR TO ACQUIRE A **180 MW O&M SERVICE** PORTFOLIO

- > The Americas and European market for megawatt scale PV O&M services is expected to double to reach more than 60 GW by 2017<sup>1</sup>
- > SMA offers comprehensive investment-grade services to grow in the PV- O&M market in the Americas and Europe
- > Within the last 12 months SMA has been chosen to supply O&M services for 200 MW utility-scale PV-systems in North America
- > With the new portfolio SMA unlocks the European O&M market and becomes one of the top global players in this business field

▶▶ **SMA's strategy follows a stepwise approach to enhance the service portfolio and to leverage the potential of its installed base.**

<sup>1</sup> GTM Research + SoliChamba Consulting

## THE TRANSACTION IS EXPECTED TO BE **CLOSED BY Q4 2014** AND WILL HAVE A **POSITIVE EARNINGS IMPACT**

- > SMA acquired O&M contracts in Germany, France, Spain and Italy with annual revenues of more than €5 million
  - > In addition, SMA acquired inventory and accounts receivables
  - > SMA will integrate the Phoenix Solar O&M team located in Ulm, Germany, into its existing service organization (15 FTE)
  - > The contract excludes warranties for solar parks and solar modules as well as claims from pending law suits
- ▶▶ **SMA is the best O&M service provider, because the inverter is the key component of every solar system and SMA has the largest service infrastructure in the industry.**

# FINANCIALS

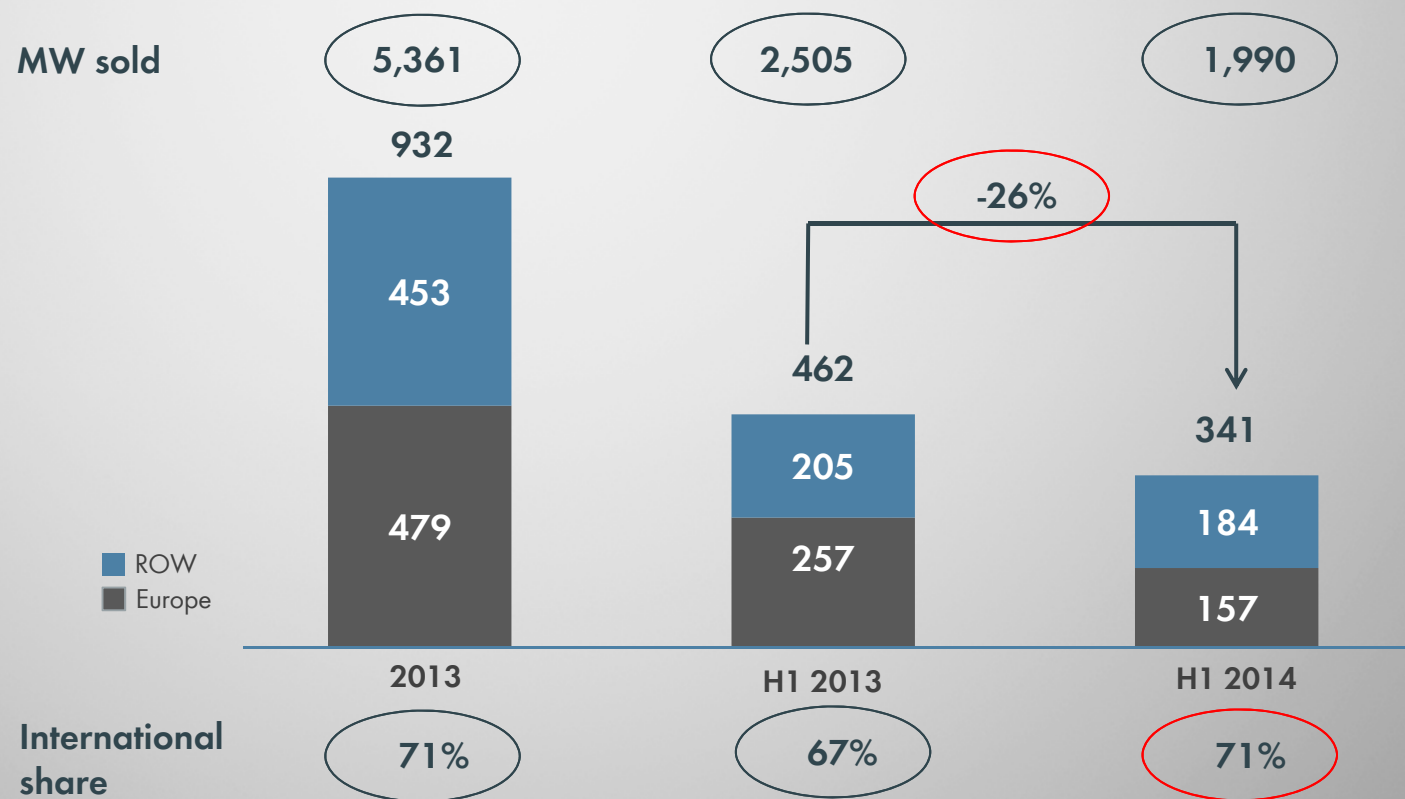
**SALES ARE 25% BELOW PREVIOUS YEARS FIGURE  
DUE TO WEAK DEMAND IN EUROPE (-40%)**

**PROJECT BUSINESS EXPERIENCED SIGNIFICANT  
SALES DECLINE COMPARED TO PREVIOUS YEAR  
(-40%)**

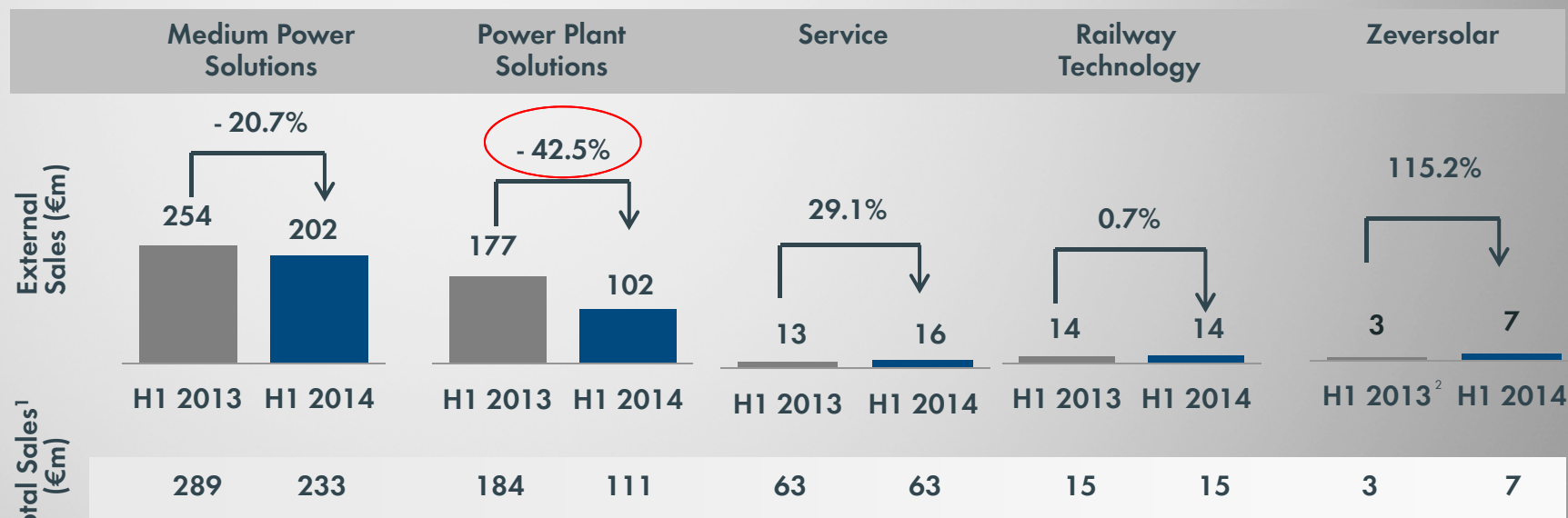
**LOSS OF €62 MILLION INCLUDES ONE-OFFS FOR  
WRITE-DOWNS (€ 7 MILLION)**

# POLITICAL HEADWINDS IMPACTED SALES - SMA MAINTAINED ITS HIGH INTERNATIONAL SHARE IN H1 2014

Sales in € million



# PROJECT BUSINESS DECLINED BY MORE THAN 40% COMPARED TO LAST YEAR DUE TO MANY **PROJECT DELAYS IN H1-2014**



## Highlights

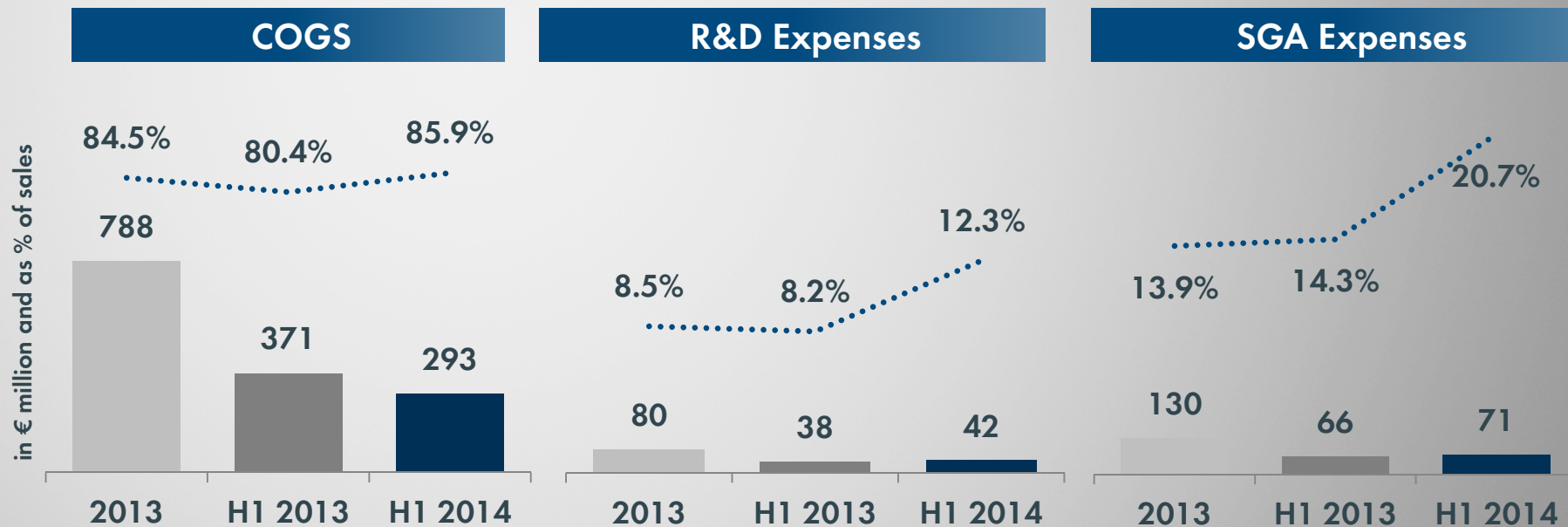
- > Sales decline in many European markets, due to reduced subsidies, was partially offset by strong sales in Japan, U.S. and U.K.
- > Sales with energy management systems increased nicely
- > Trend towards smaller power classes, especially in Europe
- > Slow project business in North America
- > Growth in Australia and Chile; decline in Germany, Eastern Europe and Thailand compared to last year
- > Strong project pipeline
- > Sales drivers were maintenance and service contracts, 50.2 Hz modifications and chargeable repairs
- > SMA was chosen to provide O&M services for 200 MW in the last 12 months
- > A more efficient platform to supply energy to local trains was developed
- > Flat sales development due to customers' project postponements
- > Zeversolar doubled sales due to the successful implementation of restructuring measures and an optimized sales strategy
- > Strong demand expected for the second half of the year.

<sup>1</sup> Incl. Internal sales

<sup>2</sup> 2013 sales only from March 12, 2013 to March 31, 2013



# HIGHER PERSONNEL EXPENSES OFFSET THE IMPLEMENTED COST-OUT-MEASURES AND PRODUCTIVITY GAINS



> Personnel cost savings were offset by collectively agreed salary increases and the recognition of provisions for Christmas and vacation pay. The expansion of the foreign locations increased cost base as well

> Investments of €58.3 million in R&D in H1 2014 (incl. capitalized R&D projects) are according to plan

> High number of capitalized projects (€16.1 million) reflects activity in the development of new devices

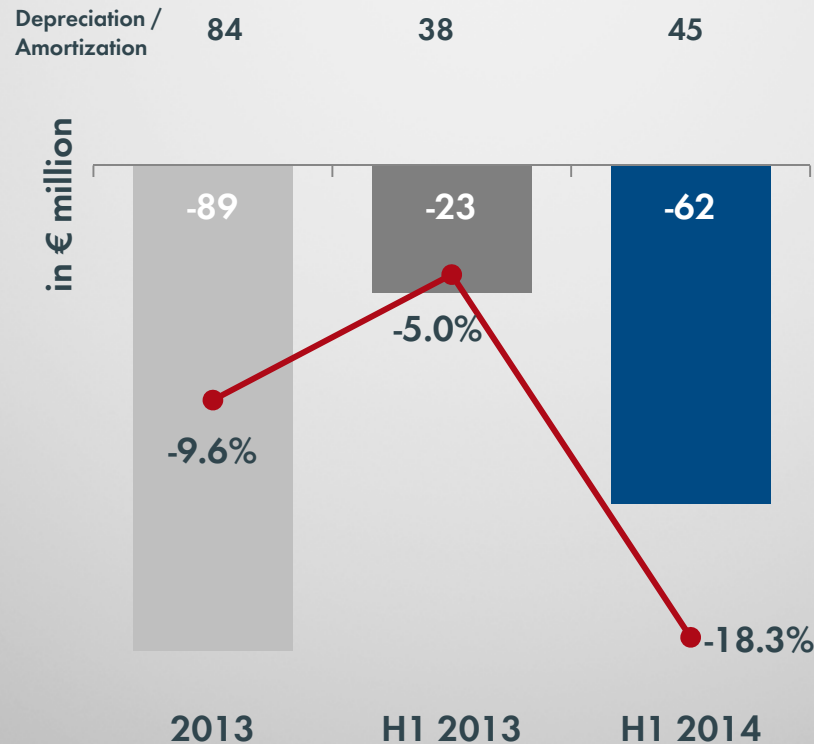
> Higher personnel expenses in R&D included the expansion of research competencies in USA and China

> Sales expenses increased 3% due to the trade shows in H1 and the international expansion of the sales organizations

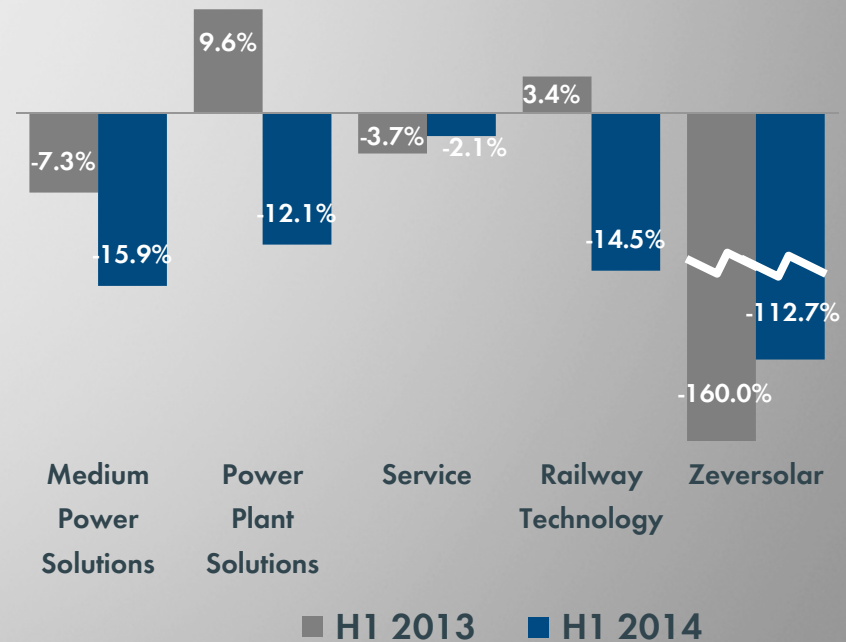
> Personnel expenses also included the collectively agreed salary increases, the build up of salary provisions and the first-time full consolidation of Zeversolar

# SMA'S **EARNINGS** ARE IMPACTED BY ONE-OFFS FOR WRITE DOWNS<sup>1</sup>

## EBIT and EBIT Margin SMA Group



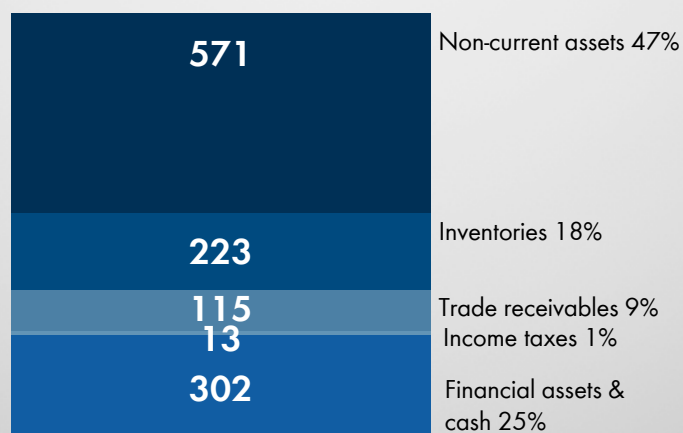
## EBIT Margin by Segment



<sup>1</sup> Unscheduled depreciation of capitalized development projects and intangible in progress

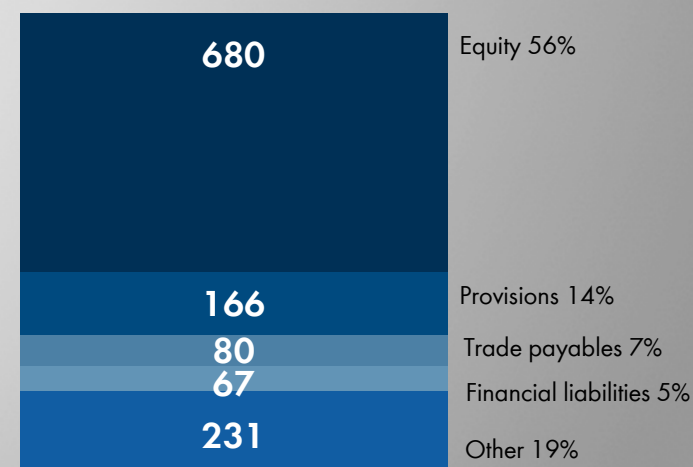
# SMA HAS A **SOLID BALANCE SHEET STRUCTURE** WITH AN EQUITY RATIO OF 56% AND EXCELLENT CASH RESERVES

Σ €1,224 million



Assets

Σ €1,224 million



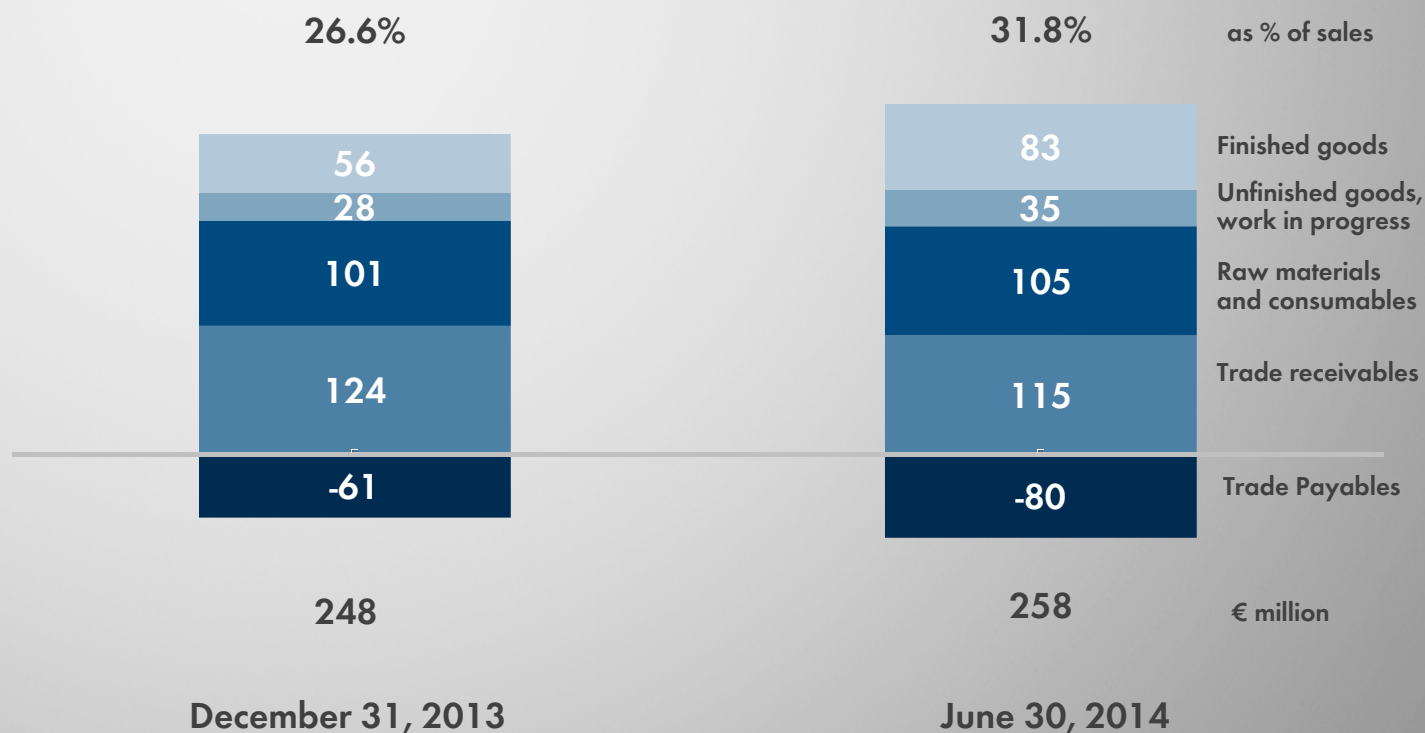
Liabilities

Differences due to rounding.

► Net cash amounted to €245 million at the end of H1, 2014 (total liquidity > € 300 million).

# INVENTORIES INCREASED BECAUSE OF EXPECTED YEAR-END RALLY AND WERE PARTIALLY OFF-SET BY HIGHER ACC. PAYABLES

## Net Working Capital<sup>1,2</sup>



▶▶ The Net Working Capital Ratio amounts to 31.8%<sup>2</sup>.

<sup>1</sup> Net Working Capital = Inventory + Trade Receivables - Trade Payables (no advanced payments included)

<sup>2</sup> Relating to the last twelve months (LTM)

## **NEGATIVE OPERATING CASH FLOW** DUE TO HIGH LOSS AND INCREASED NET WORKING CAPITAL

	H1 2013 <sup>1</sup>	H1 2014 <sup>1</sup>
Gross Cash Flow	21	-42
Cash Flow from Operating Activities	5	-33
Net Capex <sup>2</sup>	-31	-32
Free Cash Flow (Adj.)	-26	-65
Acquisition <sup>2</sup>	-22	2
Net investments from securities and other financial assets	66	49
Free Cash Flow (IFRS)	18	-14

<sup>1</sup> In € million, with rounding difference

<sup>2</sup> Acquisition of Zegersolar / Cash inflow from Danfoss asset deal

# OUTLOOK

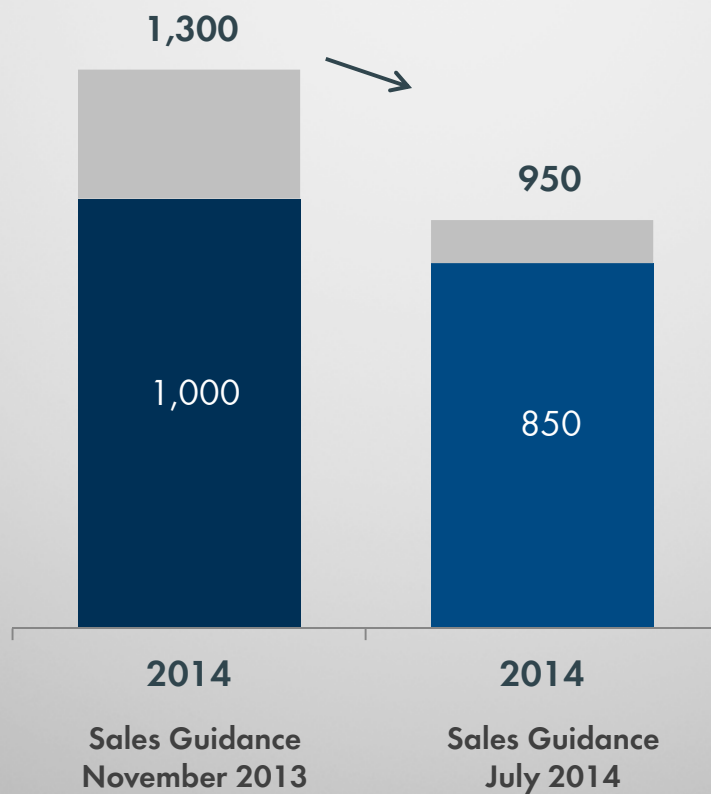
**NEW SALES GUIDANCE OF €850 MILLION TO €950 MILLION BASED ON STRONG SECOND HALF OF 2014**

**TURNAROUND IS WITHIN REACH AT THE UPPER END OF GUIDANCE. A LOSS OF UP TO €45 MILLION CANNOT BE RULED OUT**

**THE MANAGING BOARD INITIATED FURTHER MEASURES TO RETURN TO PROFITABILITY**

# MANAGEMENT BOARD **ADJUSTED ITS GUIDANCE**

## SMA Sales Guidance 2014<sup>1</sup>



## SMA Earnings Guidance 2014<sup>1,2</sup>



<sup>1</sup> SMA estimates in € million

<sup>2</sup> 2014: Without one-offs from announced headcount reduction

# KEY ASSUMPTIONS: SMA REMAINS ROCK SOLID

## Growth of PV-market

- > SMA's financial performance is directly linked to the overall development of the PV-market.
- > In 2014 non-European solar markets are expected to compensate the decline in European demand. SMA expects a flat development in new PV-installations in 2014 compared to 2013.
- > According to the Energy Outlook 2012 the global PV-market is expected to grow by 10% p.a. until 2035.

## Market volatility

- > Considerable market volatility in overall growing markets due to
  - > Changes in/phase-outs of governmental support programs (e.g. Germany, Italy and China).
  - > Weather conditions impact ability to install PV-systems in countries like Germany, USA, etc.
  - > Tender processes (e.g. in South Africa, Chile).

## SMA's global market share/ Zeyversolar

- > SMA strives to increase global market share in 2014 to is approximately 15%.
- > International sales will account for approximately less than 80% in 2014.
- > The Managing Board adjusted the guidance for Zeyversolar due to the decline in European markets. A loss of up to €8 million is not ruled out.

## Capital structure

- > Net cash will amount to more than 250 million Euro in 2014. The net cash position and high equity ratio of between 55% - 60% underlines SMA's bankability and helps to generate sales.
- > Fixed assets amount to approximately more than €360 million in 2014. Capital expenditure will amount to €70 million - €90 million (including €20 million - €30 million for capitalized R&D).



# KEY ASSUMPTIONS: ADDITIONAL MEASURES ARE NECESSARY TO RETURN TO PROFITABILITY

## Technology Leadership

- > SMA's market leadership position is based on its technology leadership; SMA will invest more than 120 million Euro in R&D in 2014 (= 13% - 14% of Sales); >1,000 engineers.
- > Optimization of the product portfolio using the Zeversolar and Danfoss synergies started.
- > Reduction in the R&D budget from €120 million to max. €90 million by 2015 (<10% of sales) through use of natural employee turnover and reduction in the use of external service providers and consultants.

## Cost out program Operational excellence

- > Cost-out program and operational excellence initiative will lead to cost savings of approximately €65 million - €75 million in 2014. Reduced from €80 million - €100 million due to lower sales.
- > Target of Cost-out program and productivity measures of €50 million - €70 million in 2015. (including Danfoss synergies)

## Headcount reduction

- > More than 500 FTE participated in the job reduction program in Germany. At the end of 2014 SMA targets around 3,000 FTE (reduced from 3,100 FTE ) in Germany.
- > Savings from headcount reduction amount to approximately €40 million p.a. starting 2014, but mainly off-set by collectively agreed salary increase, Christmas payments (both not paid in 2013) and headcount increase outside Germany.
- > SMA plans to lay off further 600 FTE until late 2015. The fixed-term contracts that expire and the natural employee turnover are part of the downsizing plan. Additionally, measures will be defined for downsizing 400 employees (approx. 25% abroad) from Sales, Service, Operations and Administration. Will lead to further €40 million savings p.a. from 2016 onwards. Effect in 2015 around €10 million - €20 million.

# SMA IS THE **WORLD'S LEADING SPECIALIST** FOR PV SYSTEM TECHNOLOGY

- 1 Direct exposure to growing PV-market (all markets - all module types - all power ranges)
- 2 SMA - Specialist for system technology and global market leader
- 3 Proven technology leadership and high rate of innovation
- 4 Powerful global sales and service infrastructure
- 5 Flexible business model
- 6 Commitment to adjust organization and drive down product costs
- 7 Special corporate culture and strong balance sheet

ENERGY  
THAT  
CHANGES

