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DRIVING THE ENERGY FUTURE

Quarterly Statement January to September 2019
SMA Solar Technology AG

SMA SOLAR TECHNOLOGY AG
AT A GLANCE

SMA Group		Jan – Sep Q1 – Q3 2019	Jan – Sep Q1 – Q3 2018	Change	Full Year 2018
Sales	€ million	630.8	575.1	9.7%	760.9
Export ratio	%	74.6	80.2		80.6
Inverter output sold	MW	7,494	6,216	20.6%	8,449
Capital expenditure	€ million	19.9	27.9	–28.7%	40.3
Depreciation and amortization	€ million	34.5	39.5	–12.7%	82.6
EBITDA	€ million	25.7	50.5	–49.1%	–69.1
EBITDA margin	%	4.1	8.8		–9.1
Net income	€ million	–10.5	8.5	n. a.[1]	–175.5
Earnings per share[2]	€	–0.30	0.24		–5.06
Employees[3]		3,066	3,417	–10.3%	3,353
in Germany		2,145	2,205	–2.7%	2,212
abroad		921	1,212	–24.0%	1,141

SMA Group		2019/09/30	2018/12/31	Change
Total assets	€ million	1,014.9	989.3	3%
Equity	€ million	411.4	424.5	–3%
Equity ratio	%	40.5	42.9	
Net working capital[4]	€ million	206.9	177.4	17%
Net working capital ratio[5]	%	25.3	23.3	
Net cash[6]	€ million	259.1	305.5	–15%

1 Not applicable
2 Converted to 34,700,000 shares
3 Reporting date; without temporary employees
4 Inventories and trade receivables minus trade payables and liabilities from advanced payments received for orders
5 Related to the last twelve months (LTM)
6 Total cash minus interest-bearing financial liabilities to banks

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ECONOMIC REPORT

RESULTS OF OPERATIONS

Sales and Earnings

SMA POSTS STRONG THIRD QUARTER WITH POSITIVE OPERATING RESULT

From January to September 2019, the SMA Group sold PV inverters with accumulated power of 7,494 MW (Q1 – Q3 2018: 6,216 MW). In the reporting period, sales increased by 9.7% to €630.8 million (Q1 – Q3 2018: €575.1 million). Year-on-year sales growth is attributable in particular to the extremely good business performance of all segments in the third quarter. In this period, sales in all segments were up significantly on the previous year's figures.

In the reporting period, SMA generated 54.2% of external sales in European countries, the Middle East and Africa (EMEA), 25.8% in the Asia-Pacific (APAC) region and 20.0% in the North and South American (Americas) region calculated before sales deductions (Q1 – Q3 2018: 48.8% EMEA, 33.4% APAC,17.8% Americas).

The Large Scale & Project Solutions segment made the largest contribution to sales in the reporting period, accounting for 39.1% (Q1 – Q3 2018: 37.9%). The Business Solutions segment generated 33.1% of the SMA Group's sales, while the Home Solutions segment contributed 27.8% (Q1 – Q3 2018: 38.4% Business Solutions, 23.7% Home Solutions).

As of September 30, 2019, SMA continued to have a very large order backlog of €797.0 million (September 30, 2018: €549.3 million). Of this amount, €428.7 million is attributable to product business (September 30, 2018: €163.2 million). The product-related order backlog is thus 144% higher than at the end of the previous year (December 31, 2018: €175.4 million). €368.3 million of the order backlog is attributable to service business. Most of this share will be implemented over the next five to ten years.

In the reporting period, earnings before interest, taxes, depreciation and amortization (EBITDA) fell to €25.7 million (EBITDA margin: 4.1%; Q1 – Q3 2018: €50.5 million; 8.8%). The previous year's earnings included positive one-time items overall. Earnings before interest and taxes (EBIT) was –€8.8 million (Q1 – Q3 2018: €11.0 million). In the third quarter of 2019, SMA generated positive EBIT again for the first time since the second quarter of 2018. In the reporting period, the EBIT margin was –1.4% (Q1 – Q3 2018: 1.9%). Net income amounted to –€10.5 million (Q1 – Q3 2018: €8.5 million). Earnings per share thus amounted to –€0.30 (Q1 – Q3 2018: €0.24).

Sales and Earnings per Segment

As of January 1, 2019, the Storage and Digital Energy segments were reclassified to the Home Solutions (formerly Residential), Business Solutions (formerly Commercial) and Large Scale & Project Solutions (formerly Utility) segments, with the effect that there is no longer any separate reporting for the Storage and Digital Energy segments in the 2019 fiscal year. The figures for the previous year for the Home Solutions, Business Solutions, and Large Scale & Project Solutions segments were adjusted accordingly.

HOME SOLUTIONS SEGMENT POSTS SALES GROWTH AND POSITIVE OPERATING RESULT

In the Home Solutions segment, SMA caters to global markets for small PV systems with and without connection to a smart home solution. The portfolio comprises smart module technology, compatible single- and three-phase string inverters of the Sunny Boy and Sunny Tripower product families in the lower output range of up to 12 kW, integrated services, energy management solutions, storage systems of the Sunny Island and Sunny Boy Storage product families, communication products and accessories. SMA's Home Solutions segment also offers services, such as extended warranties, spare parts and modernization of PV systems (Repowering), to enhance performance as well as digital energy services.

External sales in the Home Solutions segment rose by 28.3% to €175.1 million in the first nine months of 2019 (Q1– Q3 2018: €136.5 million). Its share of the SMA Group's total sales was 27.8% (Q1– Q3 2018: 23.7%). The EMEA region made up 74.3% (Q1– Q3 2018: 66.2%) of gross sales, the Americas region 15.1% (Q1– Q3 2018: 15.5%) and the APAC region 10.6% (Q1– Q3 2018: 18.3%).

The Home Solutions segment's EBIT fell to €1.0 million (Q1– Q3 2018: €18.3 million). The previous year's earnings included a positive one-time item from the change in estimates and recalculation of general warranty obligations amounting to €17 million. In relation to external sales, the EBIT margin was 0.6% (Q1– Q3 2018: 13.4%).

BUSINESS SOLUTIONS SEGMENT WITH BALANCED RESULT

In the Business Solutions segment, the focus is on global markets for medium-sized PV systems with and without an energy management solution. Here SMA offers solutions based on the three-phase Sunny Tripower inverters with outputs of more than 12 kW as well as on inverters from the Sunny Highpower and Solid-Q product families. The Sunny Tripower inverters are compatible with the smart module technology from Tigo Energy, Inc. Storage systems and holistic energy management solutions for medium-sized PV systems based on the ennex-OS platform, medium-voltage technology and other accessories, services up to and including system modernization and operational management of commercial PV systems (O&M business) as well as digital energy services round off SMA's offering.

External sales in the Business Solutions segment decreased to €209.1 million in the first nine months of 2019 (Q1– Q3 2018: €220.6 million). Here, the extremely good business performance in the third quarter could not completely compensate for the weak development in the first half of the year. The segment's share of the SMA Group's total sales was 33.1% (Q1– Q3 2018: 38.4%). 59.5% of gross sales were attributable to the EMEA region, 28.0% to the APAC region and 12.5% to the Americas region (Q1– Q3 2018: 56.0% EMEA, 32.8% APAC, 11.2% Americas).

In the first nine months of the fiscal year, the Business Solutions segment's EBIT amounted to –€0.3 million (Q1– Q3 2018: €24.4 million). The previous year's earnings included a positive one-time item from the change in estimates and recalculation of general warranty obligations amounting to €24 million. In relation to external sales, the EBIT margin was –0.1% (Q1– Q3 2018: 11.1%).

SALES GROWTH IN LARGE SCALE & PROJECT SOLUTIONS

The Large Scale & Project Solutions segment focuses on international PV power plant markets with its powerful string inverters in the Sunny Highpower product family, the central inverters in the Sunny Central product family as well as the battery inverters in the Sunny Central Storage product family. The outputs of inverters in this segment range from 150 kW to the megawatts. In addition, the SMA portfolio of this segment includes complete solutions comprising central inverters with their grid service and monitoring functions as well as all medium- and high-voltage technology and accessories. The portfolio is supplemented by services, such as for the modernization and functional enhancement of PV power plants (Repowering), and operation and maintenance services (O&M business).

As a result of the strong third quarter, external sales in the Large Scale & Project Solutions segment rose by 13.1% to €246.6 million in the first nine months of 2019 (Q1– Q3 2018: €218.0 million). Its share of the SMA Group's total sales was 39.1% (Q1– Q3 2018: 37.9%). The Large Scale & Project Solutions segment thus accounted for the largest share of the SMA Group's total sales. The EMEA region accounted for 35.3% (Q1– Q3 2018: 30.5%) of the segment's gross sales, the APAC region for 34.8% (Q1– Q3 2018: 43.5%) and the Americas region for 29.9% (Q1– Q3 2018: 26.0%).

In the first nine months of 2019, the Large Scale & Project Solutions segment's EBIT amounted to –€8.9 million (Q1– Q3 2018: –€24.5 million). This included a reversal of deferred revenue from prior periods of €3.5 million due to the cancellation of a service and maintenance contract in the U.S. In the same period of 2018, earnings were negatively impacted by individual warranty-related items in the upper single-digit millions and by a negative one-time item from the change in estimates and recalculation of general warranty obligations. In relation to external sales, the EBIT margin was –3.6% (Q1– Q3 2018: –11.2%).

Development of Significant Income Statement Items

Since January 1, 2019, the business units' costs have been shown under selling expenses, as they are increasingly focused on customers and markets. In previous years, they were included in research and development expenses. The previous year's figures have been adjusted accordingly.

GROSS MARGIN DOWN YEAR-ON-YEAR

The cost of sales amounted to €512.5 million in the reporting period (Q1– Q3 2018: €442.1 million). The gross margin was 18.8% (Q1– Q3 2018: 23.1%). In addition to continuing price pressure, this decrease was attributable to the positive one-time item in the same period of 2018 from the recalculation of general warranty risks, which more than compensated for the individual warranty-related items and impairment on inventories that were also included.

Personnel expenses included in cost of sales decreased by 6.7% to €79.1 million in the reporting period (Q1– Q3 2018: €84.8 million). In addition to further productivity increases, this features a pro-rata portion of the effects of the cost-reduction measures being implemented. Due to increased output sold, material expenses rose to €377.2 million (Q1– Q3 2018: €314.9 million). SMA is continuously working on its product portfolio in all segments to tackle price pressure by optimizing the cost of existing products and introducing new and less expensive products.

From January to September 2019, depreciation and amortization included in the cost of sales amounted to €30.9 million (Q1– Q3 2018: €35.3 million). This includes scheduled depreciation on capitalized development costs of €6.6 million (Q1– Q3 2018: €15.7 million). Other costs amounted to €25.3 million (Q1– Q3 2018: €7.2 million). The comparative figure included a positive one-time item from the change in estimates and recalculation of general warranty obligations.

Selling expenses rose to €55.4 million (Q1– Q3 2018: €50.4 million). This increase was mainly due to internal relocation of sales-related departments. The cost of sales ratio was 8.8% in the reporting period (Q1– Q3 2018: 8.8%).

Research and development expenses, excluding capitalized development projects, amounted to €37.9 million in the first nine months of 2019 (Q1– Q3 2018: €33.6 million). This put the research and development cost ratio at 6.0% (Q1– Q3 2018: 5.8%). Total research and development expenses, including capitalized development projects, amounted to €46.4 million (Q1– Q3 2018: €47.7 million). The slight decrease was mainly attributable to the implementation of consolidation measures in the second quarter. Development projects were capitalized in the amount of €8.5 million (Q1– Q3 2018: €14.1 million).

General administrative expenses totaled €36.9 million in the first nine months of 2019 (Q1– Q3 2018: €37.8 million). This reflected the implementation of restructuring measures starting in the second quarter. The ratio of administrative expenses amounted to 5.8% in the reporting period (Q1– Q3 2018: 6.6%).

The balance of other operating income and expenses resulted in a positive effect on earnings of €3.3 million in the reporting period (Q1– Q3 2018: –€0.2 million). This includes income from renting the Group's own buildings as well as foreign currency valuation effects and expenses for assets measured at fair value through profit or loss.

FINANCIAL POSITION

SMA Continues to Have High Liquidity

Gross cash flows reflect operating income prior to commitment of funds. This item amounted to €19.1 million from January to September 2019 (Q1– Q3 2018: €9.9 million).

In the first nine months of the reporting year, net cash flow from operating activities amounted to –€59.6 million (Q1– Q3 2018: –€38.9 million). It was impacted significantly by a substantial rise in inventories.

Compared to the end of the previous year, inventories increased by 29.9% to €251.8 million (December 31, 2018: €193.8 million) in order to support delivery capacity. Combined with the changes in trade payables and trade receivables, this resulted in a significant increase in net working capital to €206.9 million (December 31, 2018: €177.4 million). The net working capital ratio in relation to sales over the past 12 months climbed to 25.3% (December 31, 2018: 23.3%). The net working capital ratio therefore was still above the range of 19% to 24% targeted by management.

In the reporting period, net cash flow from investing activities amounted to €55.3 million after –€13.4 million in the previous year. The balance of cash inflows and outflows from financial investments was €74.9 million (Q1– Q3 2018: €13.6 million). The outflows of funds for investments in fixed assets and intangible assets amounted to €19.9 million in the reporting period (Q1– Q3 2018: €27.9 million). With €8.5 million (Q1– Q3 2018: €14.1 million), an essential part of the investments was attributable to capitalized development projects.

As of September 30, 2019, cash and cash equivalents amounting to €131.6 million (December 31, 2018: €142.6 million) included cash on hand, bank balances and short-term deposits with an original term to maturity of less than three months. Together with time deposits that have a term to maturity of more than three months, fixed-interest-bearing securities, liquid assets pledged as collateral and after deducting interest-bearing financial liabilities this resulted in net cash of €259.1 million (December 31, 2018: €305.5 million).

Investment Analysis

From January to September 2019, investments in fixed assets and intangible assets amounted to €19.9 million and were thus clearly below the previous year's figure of €27.9 million. This equates to an investment ratio in relation to sales of 3.2% compared with 4.9% in the first nine months of 2018.

€10.6 million was invested in fixed assets (Q1– Q3 2018: €13.2 million), predominantly for conversions and extensions of existing buildings and for machinery and equipment. The investment ratio for fixed assets was 1.7% in the first nine months of the 2019 fiscal year (Q1– Q3 2018: 2.3%). Scheduled depreciation of fixed assets decreased to €20.5 million (Q1– Q3 2018: €22.0 million).

Investments in intangible assets amounted to €9.3 million (Q1– Q3 2018: €14.7 million). These largely related to capitalized development projects. Amortization of intangible assets amounted to €8.3 million and was significantly below the previous year's figure of €17.5 million.

NET ASSETS

Sound Balance-Sheet Structure

Total assets increased by 2.6% to €1,014.9 million as of September 30, 2019 (December 31, 2018: €989.3 million). At €295.9 million, non-current assets were also above the level observed at the end of 2018 (December 31, 2018: €283.4 million) due to the implementation of the new standard for the recognition of leases. The rights of use of leases to be recognized under IFRS 16 for the first time in the 2019 fiscal year are included in the amount of €18.6 million as of the reporting date.

Net working capital went up significantly to €206.9 million (December 31, 2018: €177.4 million) mainly as a result of increased inventories. This put the net working capital ratio in relation to sales over the past 12 months at 25.3%. Compared to December 31, 2018, trade receivables increased by 26.2% to €136.8 million as of the end of the reporting period (December 31, 2018: €108.4 million), chiefly due to strong sales in the Large Scale & Project Solutions segment in the third quarter. Days sales outstanding came to 54.8 days and were considerably lower than at the end of the previous year (December 31, 2018: 64.4 days). Inventories increased by 29.9% to €251,8 million (December 31, 2018: €193.8 million). At –€152.4 million, trade payables were well above the level reported at the end of 2018 (December 31, 2018: –€110.9 million). This increase particularly resulted from the higher level of inventories to support delivery capacity. The share of trade credit in total assets also increased to 15.0% as against the end of the previous year (December 31, 2018: 11.2%).

The Group's equity capital base decreased to €411.4 million (December 31, 2018: €424.5 million) as a result of the development of earnings and the increase in total assets due to the rights of use of leases to be recognized starting from the 2019 fiscal year. With an equity ratio of 40.5%, SMA has a sound equity capital base and a solid balance sheet structure.

FORECAST REPORT

PREAMBLE

The Managing Board's forecasts include all factors with a likelihood of impacting business performance that were known at the time this report was prepared. Not only general market indicators, but also industry- and company-specific circumstances are factored into the forecasts. All assessments cover a period of one year.

THE GENERAL ECONOMIC SITUATION

Downturn in Global Growth

In the current World Economic Outlook (WEO) from October, the International Monetary Fund (IMF) once again lowered its guidance for global economic growth in the current year, which had already been revised downward in April and July. The experts now anticipate global growth of only 3.0% for 2019 (2018: 3.6%). At the start of the year, the IMF expected growth of 3.5% in 2019. This significant decline in growth is attributable both to industrialized countries and to developing and newly industrialized countries. Among the industrialized countries, the eurozone, the U.S. and Asian economies are all affected. The weakness of the economy is even more noticeable in developing and newly industrialized countries, including Brazil, China, India, Mexico and Russia.

After subsiding temporarily, trade tensions have flared up again, resulting in a sharp increase in customs duties among the U.S., China and the EU. Sentiment on the global economic and financial markets has consequently deteriorated. The U.S. and other major industrialized and newly industrialized countries are countering this with loose monetary policy.

For 2019 as a whole, the IMF experts anticipate economic growth of 1.7% for the industrialized countries and 3.9% for the developing and newly industrialized countries. The growth projections for the U.S. are 2.4%. For the eurozone, the IMF anticipates growth of 1.2%. For China, the experts expect weaker growth of 6.1% year on year in 2019. They estimate that the Indian economy will also grow by 6.1%. The expectation for India is thus considerably lower than the July forecast of 7.0%. For 2020, the IMF experts anticipate a recovery in global economic growth and a growth rate of 3.4%. This recovery is expected to come entirely from developing and newly industrialized countries.

FUTURE ECONOMIC CONDITIONS IN THE SECTOR

Renewable Energy Will Supersede Conventional Energy Carriers

Renewable energy is quickly becoming the preferred energy source worldwide. This is the statement made by Deloitte experts in their Global Renewable Energy Trends Report, which was published in September 2018. Solar and wind power are already among the world's most cost-effective energy sources and their potential is far from exhausted given the continuing decline in production costs, ever better system integration and development of additional new technologies.

Experts at Bloomberg New Energy Finance (BNEF) emphasize good prospects for renewable energy and photovoltaics in the medium term. In their New Energy Outlook 2019, they forecast that by 2050, photovoltaic and wind turbine systems will account for around 50% of global power generation. The share of photovoltaics will increase from 2% now to 22%. According to the BNEF experts, wind and photovoltaics are already the most cost-effective energy sources in more than two-thirds of all countries and will also beat the production costs of existing coal and gas power stations almost everywhere by 2030.

Besides the low production costs of photovoltaics, other growth drivers include increasing public awareness of effective climate protection and growing demand for electricity, for example, due to increasing digitalization and ongoing electrification of additional sectors, such as transport and heating. This will lead to an accelerated expansion of renewable energies. Photovoltaics will benefit the most from this trend as solar power is generated in the vicinity of the consumer. In its Renewables 2019 market report, the International Energy Agency (IEA) forecasts a 50% increase in renewable power capacity by 2024. Photovoltaics are expected to see the strongest growth. Here, the experts anticipate additional installation of around 700 GW worldwide over the next five years, half of which is expected to relate to commercial and industrial roof systems.

Thanks to technological advancements, the consumer cost of electricity from PV systems will decrease further and their appeal will grow as a result. The increasingly affordable storage systems and modern communication technologies combined with services for cross-sector energy management will harmonize energy production and demand. The SMA Managing Board is therefore convinced of the market appeal and has thus positioned SMA to ensure it benefits from future developments.

Global New PV Installations Decrease Slightly to 100 GW because of China

The SMA Managing Board anticipates a slight decrease in newly installed PV power worldwide of around 1% to approximately 100 GW in 2019. The expected decrease is exclusively caused by China. In the regions outside of China however, the Managing Board expects a market increase. Global investments in system technology for traditional photovoltaic applications will decline due to the lower amount of new installations in China, where SMA is not doing any business, and to the downward development of prices. In all regions outside of China, the Managing Board expects investments to be on a par with last year. In addition, investments in system technology for storage applications (excluding investments in batteries) will increase by approximately €50 million compared to the previous year. Overall, the SMA Managing Board therefore expects investment in PV system technology (including system technology for storage systems) of around €4.7 billion in 2019 (2018: €4.9 billion). The Managing Board rates the medium-term prospects for the PV industry as positive. This is due to the lower costs of photovoltaics and the accelerating transformation of the energy sector toward decentralized, digital and connected energy generation.

Growth Markets in the EU and in Africa Drive Demand in EMEA

The SMA Managing Board anticipates an increase in newly installed PV power of approximately 36% to around 22 GW in the Europe, Middle East and Africa (EMEA) region in 2019. In addition to growth in Africa, this is mainly due to the positive development in European markets, such as Germany, the Netherlands and Spain. According to SMA estimates, investments in PV and storage system technology will grow more slowly as a result of price development and are expected to total €1.4 billion (2018: €1.3 billion). Battery-storage systems are gaining importance in European countries, especially in Germany, the UK and Italy. In addition to business involving new systems for consumption of self-generated energy, retrofitting of existing systems with new inverters and storage systems will yield high potential in the medium term. For many PV systems, government subsidization will end in the years to come. Self-consumption of solar power is a particularly attractive option for the operators of these systems.

South American Markets Gain Importance in the Americas Region

For the Americas region, the SMA Managing Board anticipates growth in newly installed PV power of around 19% to 20 GW. Roughly 15 GW of this amount is attributable to the North American markets. Inverter technology investments are expected to increase slightly to almost €1.0 billion in the Americas region (2018: €900 million). While the Managing Board forecasts growth in South American markets, it expects marginal downturns in the investments in North American markets as a result of high price pressure. Here the residential and commercial segments are currently influenced by strict regulations set forth in the National Electrical Code (NEC). Medium-term prospects are positive for manufacturers such as SMA that can offer products that comply with the new standard.

Investments in the APAC Region Outside of China on Previous Year's Level

The most important markets in the APAC region include China, India, Japan and Australia. In Japan and Australia, the installation of PV systems combined with battery-storage systems to supply energy independently of fossil energy carriers offers additional growth potential. The SMA Managing Board estimates that new PV installations in China will decline by around 32% and reach 30 GW in 2019 (2018: 44 GW). Investments in inverter technology are expected to fall to €900 million (2018: €1.2 billion). For the APAC region, excluding China, the SMA Managing Board expects newly installed PV power to increase by approximately 16% to around 28 GW in 2019 (2018: 24 GW). The growth will be driven, in particular, by the Indian and Australian markets. However, high price pressure will largely erode volume growth. The SMA Managing Board therefore expects investments of approximately €1.5 billion in inverter technology for this region, as in the previous year (2018: €1.5 billion).

Growth Markets: Energy Management, Digital Energy Services and Operational Management

The trend to regionalize power supplies is gaining momentum. More and more households, cities and companies are becoming less dependent on energy fuel imports and rising energy costs by having their own PV systems. This will lead to a rise in demand for energy storage solutions in the residential, commercial and industrial sectors. In addition, energy will be increasingly distributed via smart grids to manage electricity demand, avoid consumption peaks and take the strain off utility grids. E-mobility is also expected to become an important pillar of these new energy supply structures a few years from now. Integration of electric vehicles will help increase self-consumption of renewable energies and offset fluctuations in the utility grid. Using artificial intelligence, the behavior of decentralized energy consumers and storage systems can be adapted to the fluctuating production of electricity from renewable energies, thus enabling the overall system to be optimized.

In this context, SMA's Managing Board holds that innovative system technologies that temporarily store solar power and provide energy management to private households and commercial enterprises offer worthwhile business opportunities. Rising prices for conventional domestic power and many private households and companies wanting to drive forward the energy transition by making their contribution to a sustainable and decentralized energy supply are the basis for new business models. Demand for solutions that increase self-consumption of solar power is likely to rise, particularly in European markets, the U.S., Australia and Japan. In these markets, renewable energies are already taking on a greater share in the electricity supply. In addition, power supply companies are increasingly using battery-storage systems to avoid expensive grid expansions, stabilize grid frequency and balance fluctuations in the power feed-in from renewable energy sources. The SMA Managing Board expects the volume of the still fairly new storage market to grow by approximately €50 million to around €600 million in 2019 (excluding investments in batteries). Estimated demand is already included in the specified development projections for the entire inverter technology market.

In addition to storage technology, digital energy services aimed at optimizing household and commercial enterprises' energy costs and their connection to the energy market are becoming increasingly significant. The SMA Managing Board expects this area to represent an addressable market of approximately €300 million in 2019. The market will then grow exponentially in subsequent years.

Technical management of commercial systems and large-scale PV plants is another growth segment. This includes a range of services, such as repairs, device replacements as well as visual inspections and maintenance of entire systems. The market in these segments had an accumulated installed capacity of over 440 GW at the end of 2018 and will have an expected 540 GW by the end of 2019. The SMA Managing Board estimates the addressable market share, which is not yet or no longer under contract, at 140 GW in 2019, which corresponds to a potential of at least €1.1 billion. Prices are calculated yearly per MW and vary significantly depending on the regions and services included.

OVERALL STATEMENT FROM THE MANAGING BOARD ON EXPECTED DEVELOPMENT OF THE SMA GROUP

Managing Board Anticipates Sales and Earnings Growth

The SMA Managing Board is confirming the sales and earnings guidance for the current fiscal year, which was published for the first time on January 24, 2019. It predicts a sales increase to between €800 million and €880 million (2018: €760.9 million). The good level of incoming orders since the start of the year, particularly in the Large Scale & Project Solutions segment, resulted in a significant increase in sales in the third quarter as compared to the first half of the year. In this context, the Managing Board expects SMA to reach the top quarter of its sales guidance. At the same time, the Managing Board is implementing further cost reduction measures and thus expects a significant year-on-year increase in earnings in 2019. The Managing Board estimates that operating earnings before interest, taxes, depreciation and amortization (EBITDA) will amount to between €20 million and €50 million (2018: –€69.1 million). Depreciation and amortization are expected to amount to approximately €50 million. On this basis, the Managing Board expects to break even in terms of EBIT at best.

SMA's business model is not capital-intensive. Capital expenditure (including capitalized development costs) will increase to up to €60 million in 2019 (2018: €40.3 million), of which roughly €10 million will be attributable to capitalized development costs. The increase in capital expenditure is mainly attributable to the rights of use under leases to be applied for the first time from the 2019 fiscal year in accordance with IFRS 16. SMA is investing in testing and production facilities for new product generations and building maintenance again in 2019. The SMA Group's net working capital is expected to amount to between 19% and 24% of sales (December 31, 2018: 23.3% of sales). Net cash is expected to be less than €300 million (December 31, 2018: €305.5 million).

For details regarding risks and opportunities, please refer to the Risks and Opportunities Report on pages 58 et seq. in the SMA Annual Report 2018.

SMA Group Guidance for 2019 at a Glance

Key Figure	Guidance 2019	2018
Sales in € million	800 to 880	760.9
EBITDA in € million	20 to 50	–69.1
Capital expenditure in € million	approx. 60	40.3
Net working capital in % of sales	19 to 24	23.3
Net cash in € million	< 300	305.5
EBIT in € million	Break-even at best	–151.7

SMA's sales and earnings depend on global market growth, market share and price dynamics. Our global presence and our extensive portfolio of products and solutions for all segments enable us to offset fluctuations in demand better than many competitors and also give us the opportunity to take advantage of arising growth opportunities quickly at all times. The SMA Managing Board forecasts the following performance for individual SMA segments in fiscal year 2019:

Segment Guidance for 2019 at a Glance [1]

Segment	Sales	EBIT
Home Solutions	Up significantly	Up significantly
Business Solutions	Constant	Up
Large Scale & Project Solutions	Up significantly	Up significantly

[1] The overview is based on the reporting structure applicable from 2019. The comparison includes future sales and earnings growth in the Home Solutions, Business Solutions and Large Scale & Project Solutions segments from the transfer of sales and earnings from the former Storage and Digital Energy segments.

Extensive Measures to Reduce Costs and Increase Sales Implemented

The SMA Managing Board still expects increased price pressure in 2019. In this context, the Managing Board decided at an early stage on measures to reduce costs and increase sales and started implementing these at the beginning of the year. We were able to execute the unfortunate but necessary reduction of approximately 100 full-time positions at our headquarters in Niestetal/Kassel, Germany, in a socially responsible manner with a voluntary severance program in the first half of the year. We have concluded the sale of the Chinese subsidiaries to the local management there. This measure will significantly reduce fixed costs and increase capacity utilization at the Niestetal/Kassel headquarters. Other cost-cutting measures include outsourcing activities that are not part of SMA's core competencies, increasing automation and reducing product platforms to shorten development cycles and increase the proportion of components used across the portfolio. Another focus will continue to be on further reducing the sales costs of existing products and introducing new products to markets at significantly lower costs. The implementation of the measures is going according to plan.

As a result of an even closer collaboration between Development, Sales and Service, SMA will focus more closely on meeting customers' needs in the future. We provide the important customer group of installers with optimal support in their end customer business by means of targeted partner programs and the delivery of complete system packages, which, in addition to solar and battery inverters, include battery storage, energy management and design software as well as customized service components. The first packages for private residential PV systems and commercial applications were already introduced in the target markets of Germany and Italy, where they have been met with a positive response. We will continue to expand our range in this area and further develop SMA into a provider of systems and solutions.

SMA Positions Itself in Key Future Fields

SMA also continues to drive forward its position as a leading provider in other important future fields, such as energy management, storage integration, PV system repowering and digital business models. As a result of the megatrends of climate change, decentralization and digitalization, these areas will become increasingly important in the years to come.

SMA is well positioned to benefit from these trends in all market segments and regions. In addition, our total installed inverter output of around 75 GW worldwide is a particularly good foundation for data-based business models, as inverters are the most suitable sensors for compiling valuable energy data. Our extensive knowledge of managing complex battery-storage systems and linking solar power systems with other energy sectors, such as heating, ventilation and cooling technology, and e-mobility, is an excellent basis for developing future growth potential for digital energy solutions.

Our subsidiary coneva develops white label solutions for public utility companies, which integrate both prosumers and traditional energy customers of utility companies into the world of digital energy and enable them to use energy simply and cost-effectively. The individual solutions for commercial customers range from monitoring energy flows and optimizing energy costs across all sectors to matching supply and demand on the energy management platform ennexOS developed by SMA. In both segments, coneva has already launched and implemented its first successful projects, such as a cooperation with Stadtwerke München for jointly developing an integrated energy management system and equipping supermarkets with cross-sector energy management.

The range of services offered by SMA Energy Data Services was presented at the E-world trade fair in February 2019. Based on real-time data from more than 1.5 million devices registered on the SMA energy data platform, SMA offers customized solutions in the areas of grid operation and planning, marketing of solar power and energy management for grid operators, energy traders, direct sellers and forecasting service providers.

We Will Take Advantage of the Opportunities Posed by Digitalization

Thanks to our extensive experience in PV system technology, our ability to quickly implement changes and our numerous strategic partnerships, SMA is well prepared for the digitalization of the energy industry. As a specialist in complete solutions in the energy sector, we will launch a number of innovations and establish new strategic partnerships to take advantage of opportunities that arise from business models as part of the digitalization of the energy industry. With the ennexOS energy management platform, we can master the complexity of the energy system of the future and create considerable added value for our customers. We will build on our unique strengths and design additional system solutions for decentralized energy supplies based on renewable energy. We will be helped in this endeavor by SMA's extraordinary corporate culture and our motivated employees who make a decisive contribution to the company's long-term success and are therefore also given a share in SMA's financial success.

Niestetal, October 29, 2019

SMA Solar Technology AG
The Managing Board

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT SMA GROUP

in €'000	July – Sep. (Q3) 2019	July – Sep. (Q3) 2018	Jan. – Sep. (Q1 – Q3) 2019	Jan. – Sep. (Q1 – Q3) 2018
Sales	**268,100**	**180,453**	**630,753**	**575,100**
Cost of sales	221,942	144,315	512,547	442,094
Gross profit	**46,158**	**36,138**	**118,206**	**133,006**
Selling expenses [1]	18,900	15,724	55,401	50,364
Research and development expenses [1]	11,930	11,258	37,922	33,659
General administrative expenses	12,592	12,252	36,928	37,793
Other operating income	10,735	5,541	26,771	26,316
Other operating expenses	7,848	6,156	23,513	26,525
Operating profit (EBIT)	**5,623**	**–3,711**	**–8,787**	**10,981**
Result from at equity-accounted investments	0	–478	0	–1,455
Financial income	301	797	1,808	2,460
Financial expenses	262	506	864	1,324
Financial result	**39**	**–187**	**944**	**–319**
Profit before income taxes	**5,662**	**–3,898**	**–7,843**	**10,662**
Income taxes	1,981	–1,150	2,680	2,164
Net income	**3,681**	**–2,748**	**–10,523**	**8,498**
of which attributable to shareholders of SMA AG	3,681	–2,748	–10,523	8,498
Earnings per share, basic/diluted (in €)	0.11	–0.08	–0.30	0.24
thereof from continuing operations (in €)	0.11	–0.08	–0.30	0.24
Number of ordinary shares (in thousands)	34,700	34,700	34,700	34,700

1 Since January 1, 2019, the business units' costs are shown under selling expenses. In previous years, they were included in research and development expenses. The previous year's figures have been adjusted accordingly.

STATEMENT OF COMPREHENSIVE INCOME SMA GROUP

in €'000	July – Sep. (Q3) 2019	July – Sep. (Q3) 2018	Jan. – Sep. (Q1–Q3) 2019	Jan. – Sep. (Q1–Q3) 2018
Net income	**3,681**	**–2,748**	**–10,523**	**8,498**
Unrealized gains (+)/losses (–) from currency translation of foreign subsidiaries	994	221	1,579	403
Changes recognized outside profit or loss (currency translation differences)	**994**	**221**	**1,579**	**403**
Overall comprehensive result [1]	**4,675**	**–2,527**	**–8,944**	**8,901**
of which attributable to shareholders of SMA AG	4,675	–2,527	–8,944	8,901

[1] All items of other comprehensive income may be reclassified to profit or loss.

BALANCE SHEET SMA GROUP

in €'000	2019/09/30	2018/12/31
ASSETS		
Intangible assets	37,393	36,351
Fixed assets	207,726	198,884
Investment property	15,604	16,212
Other financial investments	2	2
Investments in associates	8	0
Deferred taxes	35,144	31,928
Non-current assets	**295,877**	**283,377**
Inventories	251,772	193,795
Trade receivables	136,838	108,375
Other financial assets (total)	148,557	185,379
Cash equivalents with a duration of more than 3 months and asset management	106,938	177,509
Rent deposits and cash on hand pledged as collaterals	36,093	3,364
Remaining other financial assets	5,526	4,506
Receivables from tax authorities (total)	40,744	36,285
Claims for income tax refunds	22,399	20,637
Claims for VAT refunds	18,345	15,648
Other receivables	9,002	7,469
Cash and cash equivalents	131,572	142,637
	718,485	**673,940**
Assets classified as held for sale	500	31,952
Current assets	**718,985**	**705,892**
Total assets	**1,014,862**	**989,269**

in €'000	2019/09/30	2018/12/31
LIABILITIES		
Share capital	34,700	34,700
Capital reserves	119,200	119,200
Retained earnings	257,492	270,582
SMA Solar Technology AG shareholders' equity	**411,392**	**424,482**
Provisions [1]	70,642	65,657
Financial liabilities [2]	25,233	15,013
Other liabilities [1] (total)	159,880	163,835
Contract liabilities	157,910	161,769
Remaining other liabilities	1,970	2,066
Deferred taxes	805	10
Non-current liabilities	**256,560**	**244,515**
Provisions [1]	78,988	91,368
Financial liabilities [2]	11,892	5,402
Trade payables	152,369	110,851
Income tax liabilities	3,424	4,106
Other liabilities [1] (total)	100,237	77,220
Human Resources department	16,483	15,289
Contract liabilities (prepayments received)	29,276	13,928
Contract liabilities (other)	45,266	38,322
Other financial liabilities (current)	1,067	741
Remaining other liabilities (current)	8,145	8,940
Liabilities directly associated with assets classified as held for sale	0	31,325
Current liabilities	**346,910**	**320,272**
Total equity and liabilities	**1,014,862**	**989,269**
Total cash (in € million)	275	324
Cash and cash equivalents + cash equivalents with a duration of more than 3 months and asset management + rent deposits and cash on hand pledged as collaterals		
Net cash (in € million)	259	305
Total cash – current and non-current financial liabilities		

1 Not interest-bearing
2 Includes not-interest-bearing current and non-current derivatives amounting to €3.0 million (2018: €2.0 million)

STATEMENT OF CASH FLOWS SMA GROUP

in €'000	Jan. – Sep. (Q1 – Q3) 2019	Jan. – Sep. (Q1 – Q3) 2018
Net income	–10,523	8,498
Income taxes	2,680	2,164
Financial result	–944	319
Depreciation and amortization of fixed assets and intangible assets	34,474	39,526
Change in provisions	–7,396	–30,319
Result from the disposal of assets	731	359
Change in non-cash expenses/revenue	3,600	14,696
Interest received	174	490
Interest paid	–622	–839
Income tax paid	–3,079	–24,953
Gross cash flow	**19,095**	**9,941**
Change in inventories	–65,789	–65,478
Change in trade receivables	–28,999	40,629
Change in trade payables	41,518	–18,937
Change in other net assets/other non-cash transaction	–25,456	–5,054
Net cash flow from operating activities	**–59,631**	**–38,899**
Payments for investments in fixed assets	–10,564	–13,219
Proceeds from the disposal of fixed assets	97	813
Payments for investments in intangible assets	–9,280	–14,647
Payments for the acquisition of shares in associated companies	–8	0
Proceeds from the disposal of available for sale assets net of cash	127	0
Proceeds from the disposal of securities and other financial assets	128,973	84,943
Payments for the acquisition of securities and other financial assets	–54,052	–71,321
Net cash flow from investing activities	**55,293**	**–13,431**
Redemption of financial liabilities	–2,430	–1,970
Payments for finance lease liabilities	–5,591	0
Dividends paid by SMA Solar Technology AG	0	–12,145
Net cash flow from financing activities	**–8,021**	**–14,115**
Net increase/decrease in cash and cash equivalents	–12,359	–66,445
Changes due to exchange rate effects	1,294	184
Cash and cash equivalents as of January 1	142,637	234,853
Cash and cash equivalents as of September 30	**131,572**	**168,592**

STATEMENT OF CHANGES IN EQUITY SMA GROUP

in €'000	Share capital	Capital reserves	Difference from currency translation	Other retained earnings	Consolidated shareholders' equity
Shareholders' equity as of January 1, 2018	**34,700**	**119,200**	**3,680**	**453,936**	**611,516**
Consolidated net result				8,498	8,498
Other comprehensive income after tax			403	0	403
Overall result					8,901
Dividend payments of SMA Solar Technology AG				–12,145	–12,145
Shareholders' equity as of September 30, 2018	**34,700**	**119,200**	**4,083**	**450,289**	**608,272**
Shareholders' equity as of January 1, 2019	**34,700**	**119,200**	**4,277**	**266,304**	**424,481**
Consolidated net result				–10,523	–10,523
Other comprehensive income after tax			1,579	0	1,579
Overall result					–8,944
Change in the scope of consolidation				–4,145	–4,145
Shareholders' equity as of September 30, 2019	**34,700**	**119,200**	**5,856**	**251,636**	**411,392**

FINANCIAL RATIOS BY SEGMENTS AND REGIONS

The segment information [1] in accordance with IFRS 8 for the third quarter of 2019 and 2018 is as follows:

	Product sales		Services sales		Total sales	
in € million	Q3 2019	Q3 2018	Q3 2019	Q3 2018	Q3 2019	Q3 2018
Segments						
Home Solutions	68.3	45.4	4.6	6.5	72.9	51.9
Business Solutions	75.4	65.3	–1.3	2.0	74.1	67.3
Large Scale & Project Solutions	108.4	54.5	12.7	6.8	121.1	61.3
Total segments	252.1	165.2	16.0	15.3	268.1	180.5
Reconciliation	0.0	0.0	0.0	0.0	0.0	0.0
Continuing operations	**252.1**	**165.2**	**16.0**	**15.3**	**268.1**	**180.5**

	Depreciation and amortization		Operating profit (EBIT)	
in € million	Q3 2019	Q3 2018	Q3 2019	Q3 2018
Segments				
Home Solutions	1.0	1.1	4.5	4.8
Business Solutions	0.9	2.1	–1.0	–0.5
Large Scale & Project Solutions	1.5	3.0	2.2	–4.7
Total segments	3.4	6.2	5.7	–0.4
Reconciliation	8.2	7.1	–0.1	–3.3
Continuing operations	**11.6**	**13.3**	**5.6**	**–3.7**

Sales by regions (target market of the product)

in € million	Q3 2019	Q3 2018
EMEA	136.8	110.0
Americas	69.2	35.0
APAC	69.0	41.5
Sales deductions	–6.9	–6.0
External sales	**268.1**	**180.5**
thereof Germany	55.9	41.8

[1] Due to the reclassification of the Storage segments into the Home, Business und Large Scale & Project Solutions segments, the former Storage and Digital Energy segments are no longer valid. The previous year's figures were adjusted.

The segment information [1] in accordance with IFRS 8 for the first nine months of 2019 and 2018 is as follows:

in € million	Product sales Q1–Q3 2019	Product sales Q1–Q3 2018	Services sales Q1–Q3 2019	Services sales Q1–Q3 2018	Total sales Q1–Q3 2019	Total sales Q1–Q3 2018
Segments						
Home Solutions	165.5	121.5	9.6	15.0	175.1	136.5
Business Solutions	207.5	215.2	1.6	5.4	209.1	220.6
Large Scale & Project Solutions	209.5	193.6	37.1	24.4	246.6	218.0
Total segments	582.5	530.3	48.3	44.8	630.8	575.1
Reconciliation	0.0	0.0	0.0	0.0	0.0	0.0
Continuing operations	**582.5**	**530.3**	**48.3**	**44.8**	**630.8**	**575.1**

in € million	Depreciation and amortization Q1–Q3 2019	Depreciation and amortization Q1–Q3 2018	Operating profit (EBIT) Q1–Q3 2019	Operating profit (EBIT) Q1–Q3 2018
Segments				
Home Solutions	2.8	3.3	1.0	18.3
Business Solutions	2.6	5.9	–0.3	24.4
Large Scale & Project Solutions	3.8	8.6	–8.9	–24.5
Total segments	9.2	17.8	–8.2	18.2
Reconciliation	25.3	21.7	–0.6	–7.2
Continuing operations	**34.5**	**39.5**	**–8.8**	**11.0**

Sales by regions (target market of the product)

in € million	Q1–Q3 2019	Q1–Q3 2018
EMEA	349.4	287.3
Americas	128.5	104.7
APAC	165.9	196.9
Sales deductions	–13.0	–13.8
External sales	**630.8**	**575.1**
thereof Germany	160.6	116.6

[1] Due to the reclassification of the Storage segments into the Home, Business und Large Scale & Project Solutions segments, the former Storage and Digital Energy segments are no longer valid. The previous year's figures were adjusted.

Reconciliation of the segment figures to the correlating figures in the Financial Statements is as follows:

in € million	Q3 2019	Q3 2018	Q1–Q3 2019	Q1–Q3 2018
Total segment earnings (EBIT)	5.7	–0.4	–8.2	18.2
Elimination	–0.1	–3.3	–0.6	–7.2
Consolidated EBIT	5.6	–3.7	–8.8	11.0
Financial result	0.1	–0.2	1.0	–0.3
Earnings before income taxes	**5.7**	**–3.9**	**–7.8**	**10.7**

Circumstances are shown in the reconciliation, which by definition are not part of the segments. In particular, this comprises unallocated parts of Group head offices, including centrally managed cash and cash equivalents, financial instruments, financial liabilities and buildings, the expenses of which are allocated to the segments. Business relationships between the segments are eliminated in the reconciliation.

The additions resulting from the first-time application of IFRS 16 are recognized in the central corporate functions, as they mainly relate to buildings.

FINANCIAL CALENDAR

2020/03/26	Publication of Annual Report 2019 Analyst Conference Call: 09:00 a. m. (CET)
2020/05/14	Publication of Quarterly Statement: January to March 2020 Analyst Conference Call: 09:00 a. m. (CET)
2020/06/04	Annual General Meeting 2020
2020/08/13	Publication of Half-Yearly Financial Report: January to June 2020 Analyst Conference Call: 09:00 a. m. (CET)
2020/11/12	Publication of Quarterly Statement: January to September 2020 Analyst Conference Call: 09:00 a. m. (CET)

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