Quarterly Statement

January to March 2023 | SMA Solar Technology AG

SMA Solar Technology AG at a glance

SMA group		Q1 2023	Q1 2022	Change	Full Year 2022
Sales	€ million	367.2	220.6	66.5%	1,065.9
Export ratio	%	59.3	72.4		68.8
Inverter output sold	MW	3,236	2,788	16.1%	12,225
Capital expenditure [1]	€ million	17.1	12.6	35.7%	65.8
Depreciation	€ million	9.6	9.3	3.2%	38.1
EBITDA	€ million	60.0	14.8	305.4%	70.0
EBITDA margin	%	16.3	6.7		6.6
Net income	€ million	51.7	3.0		55.8
Earnings per share [2]	€	1.49	0.09		1.61
Employees [3]		3,786	3,525	7.4%	3,635
in Germany		2,665	2,517	5.9%	2,610
abroad		1,121	1,008	11.2%	1,025

SMA group		2023/03/31	2022/12/31	Change
Total assets	€ million	1,264.8	1,110.0	13.9%
Equity	€ million	513.1	463.5	10.7%
Equity ratio	%	40.6	41.8	
Net working capital [4]	€ million	236.2	238.5	–1.0%
Net working capital ratio [5]	%	19.5	22.4	
Net cash [6]	€ million	270.0	220.1	22.7%
Adjusted free cashflow	€ million	49.9	–20.0	

1 Investments including additions of rights of use in accordance with IFRS 16
2 Converted to 34,700,000 shares
3 Reporting date; including trainees and learners; excluding temporary employees
4 Inventories and trade receivables minus trade payables and liabilities from advanced payments received for orders
5 Relating to the last twelve months (LTM)
6 Total cash minus interest-bearing financial liabilities to banks

CONTENT

ECONOMIC REPORT

Results of operations

Sales and earnings

SIGNIFICANT INCREASE IN SALES AND PROFITABILITY

The SMA group's sales increased by 66.5% to €367.2 million from January to March 2023 (Q1 2022: €220.6 million). In the reporting period, inverter output sold amounted to 3,236 MW (Q1 2022: 2,788 MW). Sales in all three segments were up significantly on the previous year, sales in the Home Solutions segment more than doubled. There is ongoing strong demand for SMA products, with the improved delivery situation translating into increased sales.

The SMA group is well positioned internationally and generates sales in all relevant regions. In the reporting period, the company generated 72.9% of external sales in European countries, the Middle East and Africa (EMEA), 22.4% in the North and South American (Americas) region and 4.7% in the Asia-Pacific (APAC) region (Q1 2022: 54.1% EMEA, 24.7% Americas, 21.2% APAC). In the reporting period, the main markets for SMA were Germany, the U.S., the Netherlands and Belgium.

The Home Solutions segment made the largest contribution to sales in the first quarter of 2023, accounting for 44.5% (Q1 2022: 28.4%). In the reporting period, the Large Scale & Project Solutions segment generated 33.7% of the SMA group's sales, while the Commercial & Industrial Solutions segment generated 21.8% (Q1 2022: 46.0% Large Scale & Project Solutions, 25.6% Commercial & Industrial Solutions).

As of March 31, 2023, the SMA group had a large order backlog of €2,468.2 million (March 31, 2022: €1,047.4 million). At €2,097.2 million, more than three-quarters of this is attributable to product business (March 31, 2022: €572.1 million). The order backlog in the service business amounts to €371.0 million (March 31, 2022: €475.3 million). The order backlog in the service business is realized, in particular, from extended warranties against payment over a period of five to ten years.

In the reporting period, earnings before interest, taxes, depreciation and amortization (EBITDA) rose to €60.0 million (EBITDA margin: 16.3%; Q1 2022: €14.8 million; 6.7%). Earnings before interest and taxes (EBIT) increased to €50.4 million (Q1 2022: €5.5 million). This equates to an EBIT margin of 13.7% (Q1 2022: 2.5%). Net income amounted to €51.7 million (Q1 2022: €3.0 million). Earnings per share thus amounted to €1.49 (Q1 2022: €0.09). The year-on-year increase in profitability is attributable to the increase in sales along with positive capacity utilization effects and the advantageous product mix (high proportion of sales generated by Home Solutions).

Sales and earnings per segment

HOME SOLUTIONS SEGMENT AS EARNINGS DRIVER IN THE FIRST QUARTER

In the Home Solutions segment, the SMA group caters to global markets for small PV systems with and without storage systems and connections to a smart home solution. The SMA Energy System Home is an end-to-end, single-source system package featuring all the hardware, software and service components required for an independent household electricity supply. It comprises single- and three-phase string inverters with power of up to 12 kW, integrated services, storage systems and charging solutions for electric vehicles. Communication products and accessories, services, such as extended warranties, spare parts, modernization of PV systems (Repowering) to enhance performance and digital energy services complete the offering.

In the first quarter of 2023, external sales in the Home Solutions segment rose by 160.9% to €163.3 million (Q1 2022: €62.6 million) as a result of the improved delivery situation combined with ongoing strong demand. Its share of the SMA group's total sales was 44.5% (Q1 2022: 28.4%). The EMEA region accounted for 94.5% (Q1 2022: 83.8%) of the segment's gross sales, the Americas region for 3.9% (Q1 2022: 9.6%) and the APAC region for 1.6% (Q1 2022: 6.6%).

Earnings before interest and taxes (EBIT) improved year on year to €50.3 million (Q1 2022: €8.3 million) driven by increased sales and a favorable product mix. In relation to external sales, the EBIT margin was 30.8% (Q1 2022: 13.3%).

COMMERCIAL & INDUSTRIAL SOLUTIONS SEGMENT SIGNIFICANTLY INCREASES SALES

In the Commercial & Industrial Solutions segment, the focus is on global markets for medium-sized PV systems with and without energy management, battery storage and electric vehicle charging solutions. SMA Energy System Business, featuring matched hardware, software, tools and services, gives small and medium-sized commercial enterprises and the housing sector the option of producing, storing and selling solar power themselves. The application shows the companies' energy flows in a transparent way and thus contributes to cost savings. It comprises three-phase inverters, storage solutions and holistic energy management solutions for smaller and medium-sized PV systems. Solutions for charging management and billing of electric vehicle fleets complete the offering. Additionally, the SMA group offers services up to and including system modernization and operational management of commercial PV systems (O&M business) as well as digital services.

External sales in the Commercial & Industrial Solutions segment increased to €80.2 million in the first quarter of 2023 (Q1 2022: €56.5 million) as a result of the improved delivery situation and ongoing strong demand. Its share of the SMA group's total sales was 21.8% (Q1 2022: 25.6%). 77.4% of gross sales were attributable to the EMEA region, 14.6% to the Americas region and 8.0% to the APAC region (Q1 2022: 77.1% EMEA, 13.7% Americas, 9.2% APAC).

Earnings before interest and taxes (EBIT) amounted to –€1.2 million in the first quarter of 2023 (Q1 2022: –€4.4 million), higher than the previous year's level as a result of the growth in sales. In relation to external sales, the EBIT margin was –1.5% (Q1 2022: –7.8%).

LARGE SCALE & PROJECT SOLUTIONS SEGMENT INCREASES SALES AND EARNINGS

The Large Scale & Project Solutions segment focuses on complete solutions on international PV power plant markets that perform grid service and monitoring functions on the basis of central inverters and system controllers. The outputs of string and central inverters in this segment range from 100 kW to the megawatts. Another focus is on storage solutions for large-scale PV and storage power plants and on solutions for the hydrogen production. The portfolio is supplemented by services, for example, for the modernization and functional enhancement of PV power plants (Repowering), and operation and maintenance services (O&M business). In addition, the SMA group implements PV diesel hybrid and large-scale storage projects in this segment worldwide.

External sales in the Large Scale & Project Solutions segment increased by 21.9% to €123.7 million in the first quarter of 2023 (Q1 2022: €101.5 million). Its share of the SMA group's total sales was 33.7% (Q1 2022: 46.0%). The Americas region accounted for 53.0% (Q1 2022: 41.1%) of the segment's gross sales, the EMEA region for 40.3% (Q1 2022: 21.3%) and the APAC region for 6.7% (Q1 2022: 37.6%).

Earnings before interest and taxes (EBIT) improved to €2.3 million (Q1 2022: €0.9 million) despite projects being delayed until subsequent quarters. Increased sales and cost-related price adjustments were both contributing factors. In relation to external sales, the EBIT margin was 1.9% (Q1 2022: 0.9%).

Development of significant income statement items

SIGNIFICANT INCREASE IN SALES AND PROFITABILITY

Cost of sales increased by 44.5% year on year to €252.9 million (Q1 2022: €175.0 million). The main reason for the increase is growth in sales as a result of the improved material supply combined with ongoing strong demand for SMA products across all segments. In the reporting period, the gross margin was 31.1% (Q1 2022: 20.7 %). This was driven primarily by improved capacity utilization including fixed cost savings and the high proportion of sales generated by the high-margin Home Solutions segment. SMA is continuously working on cost optimization of existing products and the introduction of new, more cost-effective products in all segments.

Personnel expenses included in cost of sales increased by 33.1% to €39.8 million in the reporting period (Q1 2022: €29.9 million). This was due to an increase in personnel driven by greater production volumes and cost increases by the recognition of provisions for performance-related variable remuneration, among others. Material costs, including changes in inventories, amounted to €190.5 million (Q1 2022: €130.1 million).

From January to March 2023, depreciation and amortization included in cost of sales amounted to €8.3 million (Q1 2022: €7.9 million). This comprises scheduled depreciation on capitalized development costs of €2.0 million (Q1 2022: €1.5 million). Other costs increased to €14.3 million (Q1 2022: €7.1 million). This mainly includes increased additions to provisions for warranty services during the warranty period, given the higher sales volumes.

Selling expenses increased to €29.4 million (Q1 2022: €21.6 million). This was predominantly due to the increase in headcount resulting from the business expansion and the recognition of provisions for performance-related variable remuneration. The cost of sales ratio was 8.0% in the reporting period (Q1 2022: 9.8%).

Research and development expenses, excluding capitalized development costs, amounted to €12.7 million in the first quarter of 2023 (Q1 2022: €10.2 million). The ratio of the research and development expenses amounted to 3.5% (Q1 2022: 4.6%). Total research and development expenses, including capitalized development costs, were above the previous year's level at €22.2 million (Q1 2022: €20.0 million). Development costs were capitalized in the amount of €9.5 million in the reporting period (Q1 2022: €9.8 million).

General administrative expenses totaled €17.1 million in the first quarter of 2023 (Q1 2022: €15.0 million). The ratio of administrative expenses amounted to 4.7% in the reporting period (Q1 2022: 6.8%).

The balance of other operating income and expenses resulted in a negative effect on earnings of –€4.7 million in the reporting period (Q1 2022: €6.7 million). The previous year's figure was positively impacted by a compensation payment in the mid single-digit million range as a result of a contract termination by a customer. This balance also comprises expenses and revenue from the rental of own buildings, for financial assets measured at fair value through profit or loss, as well as expenses from the recognition and income from the reversal of specific valuation allowances on receivables. Furthermore, it includes effects from exchange rate differences, foreign currency valuation and foreign currency hedging.

Financial position

Positive cash flows driven by strong earnings

Gross cash flow reflects operating income prior to commitment of funds. It amounted to €75.6 million in the first quarter of 2023 (Q1 2022: €14.2 million), primarily driven by the positive earnings trend.

In the first three months of the reporting year, net cash flow from operating activities amounted to €65.1 million (Q1 2022: –€7.9 million). The SMA group increased its investments in inventories to ensure delivery capacity for anticipated and already agreed customer projects.

The aforementioned stockpiling strategy meant that inventories, at €376.8 million, were once again considerably higher than at the end of the previous year (December 31, 2022: €308.7 million). There was a cash effect of €22.2 million from the increase in trade receivables compared with the end of the previous year. This was counterbalanced by an increase of €43.5 million in trade payables and €47.3 million in liabilities from prepayments. This led to a stable level of net working capital compared with the figure at the end of the previous year (March 31, 2023: €236.2 million, December 31, 2022: €238.5 million). At 19.5%, the net working capital ratio in relation to sales over the past 12 months was lower than the figure at the end of the previous year (December 31, 2022: 22.4%) and was thus below the range of 20% to 23% targeted by management.

In the first quarter of 2023, net cash flow from investing activities amounted to –€15.1 million after €13.3 million in the previous year. The previous year's figure was significantly impacted by the disposal of securities amounting to €25.4 million. The outflows of funds for investments in property, plant and equipment and intangible assets amounted to €15.2 million in the reporting period (Q1 2022: €12.1 million). At €9.5 million (Q1 2022: €9.8 million), capitalized development costs accounted for a large part of these investments.

As a result, adjusted free cash flow increased to €49.9 million in the first quarter of 2023 (Q1 2022: –€20.0 million). This was due mainly to the positive development in gross cash flow on the back of good operating earnings.

As of March 31, 2023, cash and cash equivalents totaling €214.2 million (December 31, 2022: €165.4 million) included cash on hand, bank balances and short-term deposits with an original term to maturity of less than three months. Net cash is made up of cash and cash equivalents as well as of time deposits that have a term to maturity of more than three months, fixed-interest-bearing securities and liquid assets pledged as collateral minus interest-bearing financial liabilities to banks. This item increased to €270.0 million as of March 31, 2023 (December 31, 2022: €220.1 million).

Investment analysis

In the first quarter of 2023, investments in property, plant and equipment (including additions from rights of use under IFRS 16) and intangible assets amounted to €17.1 million and were thus above the previous year's figure of €12.6 million. The significant increase in sales compared with the first quarter of the previous year lowered the investment ratio to 4.7% (Q1 2022: 5.7%).

€4.6 million was invested in property, plant and equipment (Q1 2022: €2.2 million), primarily for technical equipment and machinery. The investment ratio for property, plant and equipment was 1.3% in the first quarter of the fiscal year (Q1 2022: 1.0%). Additions of rights of use under leases amounted to €1.9 million (Q1 2022: €0.5 million). Depreciation of property, plant and equipment, including depreciation of rights of use under leases, totaled €7.1 million (Q1 2022: €7.2 million).

Investments in intangible assets totaled €10.5 million (Q1 2022: €9.9 million). These largely related to capitalized development costs. Amortization of intangible assets amounted to €2.5 million and was thus slightly above the previous year's figure of €2.1 million.

Net assets

Total assets went up by 13.9% to €1,264.8 million as of March 31, 2023 (December 31, 2022: €1,110.0 million). At €401.6 million, non-current assets were above the level observed at the end of 2022 (December 31, 2022: €386.6 million).

Compared to the end of 2022, net working capital slightly decreased to €236.2 million (December 31, 2022: €238.5 million). This put the net working capital ratio in relation to sales over the past twelve months at 19.5%. Trade receivables increased by 13.3% compared to December 31, 2022, to €173.9 million as of the end of the first quarter of 2023 (December 31, 2022: €153.5 million). Days sales outstanding came to 49.3 days and were lower than at the end of the previous year (December 31, 2022: 50.7 days). Inventories grew to €376.8 million (December 31, 2022: €308.7 million) as a result of increased stockpiling to ensure delivery capacity. Trade payables rose by €43.5 million to €176.9 million (December 31, 2022: €133.4 million). At 14.0%, the share of trade credit in total assets was slightly higher than at the end of the previous year (December 31, 2022: 12.0%). There was also an increase in customer prepayments driven by the strong project pipeline in the Large Scale & Project Solutions segment.

As a result of the anticipated positive development in earnings, the SMA group's equity capital base increased to €513.1 million (December 31, 2022: €463.5 million). With an equity ratio of 40.6%, SMA continues to have a solid equity capital base.

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. General market indicators and industry- and company-specific circumstances are factored into the forecasts. All assessments cover a period of one year.

The general economic situation

Inflation slows economic growth

The International Monetary Fund (IMF) has revised its guidance for global economic growth downward slightly. In its April World Economic Outlook, the IMF projects that global growth will slow to 2.8% this year (2022: 3.4%). As recently as January, the IMF had forecast global growth of 2.9%. The main reason for the change is the ongoing high level of inflation.

According to the experts, the economy in industrialized countries will be particularly impacted, with only slow growth of 1.3% (2022: 2.7%). On the other hand, the outlook for newly industrialized and developing countries is considerably more positive with projected growth of 3.9% (2022: 3.9%). The IMF has also revised its forecast for Germany downward slightly by 0.2 percentage points compared with January. Now it anticipates a decline of 0.1% (2022: 1.9%).

Overall, economic growth remains low by the standard of previous years. Financial risks have increased and inflation is declining at a slower rate than initially forecast. For the experts, this means a balancing act worldwide: on the one hand, restoring price stability and, on the other hand, avoiding a slide into recession. The IMF, however, does not currently anticipate a global downturn. The IMF expects a global rate of price increases of an average of 7.0% in 2023, 0.4 percentage points higher than was forecast as recently as January.

The IMF believes that the high level of inflation poses considerable risks that could jeopardize economic recovery and assesses the current situation as fragile. If there is further instability in the financial sector, for example, global economic growth could even fall as low as 2.5% this year. According to the IMF, this would be the weakest growth on record since the global downturn in 2001, with the exception of the onset of the coronavirus pandemic and the 2009 financial crisis.

Future general economic conditions in the photovoltaics sector

Solar energy to become largest source of energy supply [1]

The fight against climate change is now one of the most central issues in the public, politics and economics. The global Fridays for Future movement and, more notably, unusual weather phenomena, such as severe storms, heat waves, droughts and flooding in various regions of the world, not to mention the unprecedented bushfires in South Europe, Australia and the U.S. in the past two years, have helped raise public awareness.

Greater efforts to expand renewable energies are widely regarded as the central pillar in the response to climate change. Politicians are taking account of this with action plans, such as the European Green Deal to achieve climate neutrality within the EU by 2050 and by appointing top-class teams of experts to tackle climate change, like the U.S. government is doing. These attitudes will further expedite expansion of renewable energies over the coming years and decades. The experts at the analysis company Wood Mackenzie describe the solar industry as “highly investable” because it is increasingly able to meet both economic and political targets.

The experts at the International Energy Agency (IEA) emphasize the major role of solar energy in combating the climate crisis: In their “Net Zero by 2050 – A Roadmap for the Global Energy Sector” study, they explain that by 2050, the global energy supply will need to be based largely on renewables, with solar energy the single largest source of supply. The experts at the Potsdam Institute for Climate Impact Research (PIK) forecast that green electricity could cover three-quarters of global energy use in the long term, given a consistent climate policy.

In this context, the electrification of other sectors, such as mobility and heat, and the production of green hydrogen will additionally drive electricity demand as further important elements in achieving climate protection targets. In its Energy Transition Outlook 2022, the consulting company DNV predicts that electricity's share of global total energy demand will almost double from 19% to 36% within the next 30 years. By 2050, experts estimate that solar and wind energy together could account for 69% of grid-connected

[1] Source: IEA “Net Zero by 2050 – A Roadmap for the Global Energy Sector”

power generation, with solar energy alone accounting for 38%. Connectivity, storage and demand response would be critical factors in a decarbonized power system.

According to Bloomberg New Energy Finance's New Energy Outlook 2022, global CO_2 emissions will need to drop by an average of 6% per year to realize the goal of global carbon neutrality by 2050. Decarbonizing the power sector will require such actions as trebling the current level of new PV capacity installations. Global investment in climate-friendly technologies for power generation and storage would need to increase to a total of about $35 trillion to achieve the goal of carbon neutrality by 2050.

Along with climate change targets, further decreases in its costs are contributing to the anticipated rapid growth of solar and wind energy. According to the PIK, the cost of solar power generation has fallen by 85% over the past ten years alone and further cost reductions can be expected in the future thanks to rapid technological progress. The experts at Bloomberg New Energy Finance classify newly installed wind or PV power plants to be already the most cost-effective form of electricity generation in almost all major markets. These markets cover two-thirds of the world's population, about 77% of global GDP and 91% of total power generation. Moreover, in a growing number of countries, including China, India and a large part of Europe, it is now more cost-effective to build new renewable energy capacity than to operate existing coal- and gas-fired power plants.

In addition to the ever-decreasing consumer cost of electricity from PV systems and decentralized generation in the vicinity of residential, commercial and industrial consumers, the combination with storage systems makes photovoltaics particularly attractive. DNV's experts see photovoltaics combined with battery-storage systems as a separate power plant category that can supply electricity reliably and on demand, just like conventional power plants. According to their projections, combined PV and storage power plants will have a storage capacity of more than 20 TWh by 2050, accounting for around two-thirds of the world's electricity storage capacity.

In the energy system of the future, cutting-edge communication technologies and services for cross-sector energy management will represent key building blocks for the modernization and expansion of the power grid infrastructure. In its World Energy Outlook 2022, the IEA states that, in conjunction with the increasing electrification of the transportation and heating sectors through renewable energies, modern utility grids and smart energy management, there is great potential to sustainably reduce both the high cost of electricity and CO_2 emissions.

The SMA Managing Board is therefore convinced of the market appeal and has thus positioned SMA to ensure it benefits from future developments in the fields of photovoltaics and storage technologies as well as in the markets for e-mobility, digital energy services and green hydrogen production, which experts predict will experience exponential growth in the future.

Global new PV installations increase to more than 233 GW

The SMA Managing Board anticipates growth in newly installed PV power worldwide to approximately 233 GW to 241 GW in 2023. The growth is expected to be driven by almost all regions. The Managing Board estimates that global investments in system technology for traditional photovoltaic applications will increase by around 15%. Investments in system technology for storage applications (excluding investments in batteries) will rise by approximately €400 million to €500 million compared to the previous year. Overall, the SMA Managing Board therefore expects investments in PV system technology (including system technology for storage systems) of around €11.5 billion to €12.3 billion in 2023 (2022: €10.3 billion). Whether the expected market development can actually be implemented that way is heavily dependent on the further development of supply bottlenecks of electronic components as well as additional challenges in global supply chains.

Considerable increase in demand in the EMEA region

The SMA Managing Board expects a significant increase in newly installed PV power to around 58 GW to 60 GW in the Europe, Middle East and Africa (EMEA) region in 2023 (2022: 51 GW). In addition to growth in the countries in the Middle East and Africa, this is due to the positive development in markets, such as Germany and Italy, as well as in East European countries. According to SMA estimates, investments in PV and storage system technology will grow to approximately €3.9 billion to €4.1 billion (2022: €3.3 billion). Battery-storage systems are gaining importance in European countries, especially in Germany, the UK and Italy. Self-consumption of solar power is a particularly attractive option for the operators of these systems.

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 more and more PV systems, government subsidization will end in the years to come.

Strong growth in the Americas region

For the Americas region, the SMA Managing Board anticipates an increase in newly installed PV power to approximately 41 GW to 43 GW (2022: 36 GW). Roughly between 27 GW and 29 GW of this amount is attributable to the North American markets. The U.S. market in particular is currently exhibiting a dynamic environment. The temporary suspension of import duties on PV modules from certain Asian countries of origin has eased the shortage of modules that was seen last year. However, in view of the current political situation, we cannot, for the time being, rule out the possibility that import duties may be reintroduced from mid-2024 onward. Moreover, there are high inflation and thus rising capital costs. At the same time, the Inflation Reduction Act (IRA) passed by the U.S. Congress in August 2022 and the extension of the Investment Tax Credit (ITC) for PV systems as well as the decarbonization goals of politics and business are providing positive impetus. Inverter technology investments are expected to amount to around €3.4 billion to €3.6 billion in the Americas region (2022: €2.3 billion).

Investments in the Asia-Pacific region increase

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 increase to 95 GW to 97 GW in 2023 (2022: 87 GW). Investments in inverter technology are expected to rise to approximately €2.4 billion to €2.6 billion (2022: €2.3 billion). For the APAC region, excluding China, the SMA Managing Board expects newly installed PV power to grow to around 39 GW to 41 GW in 2023 (2022: 36 GW). This growth is in particular attributable to the positive development in India. The SMA Managing Board expects slightly increasing investments of approximately €1.8 billion to €2.0 billion in inverter technology for the region as a whole (2022: €1.7 billion).

Growth markets: storage technology, digital energy services and operational management

The trend to decentralize power supplies is progressing. 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. Furthermore, 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 an essential pillar of these new energy supply structures. Integration of a prospectively large number 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, the SMA 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 and commercial 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 lay the foundation for new business models. Demand for solutions that increase self-consumption of solar power is likely to continue 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, electric utility 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 still fairly new storage market to grow to approximately €1.4 billion to €1.6 billion in 2023 (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 connecting them to the energy market are becoming increasingly significant. The SMA Managing Board expects this area to represent an addressable market of approximately €2.0 billion in 2023. The market will record strong growth in the medium and long term.

Technical management of commercial PV systems and large-scale PV power plants is another segment. This includes a range of services, such as repairs and device replacements as well as visual inspections and maintenance of entire systems. The market in these segments had an accumulated installed capacity of over 960 GW at the end of 2022 and will have an expected capacity of more than 1,100 GW by the end of 2023. The SMA Managing Board estimates the addressable market share, which is not yet or no longer under contract, at more than 220 GW in 2023, which corresponds to a potential of approximately €1.2 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

Improved delivery situation yields positive sales and earnings development

On March 29, 2023, the Managing Board of SMA Solar Technology AG revised the sales and earnings guidance for the current fiscal year published on March 9, 2023. The raised sales and earnings guidance is based on ongoing strong demand and the associated high order backlog, the improved supply of electronic components, including the related improvement in delivery capacity, and increased capacity utilization in production, as well as the very good sales and earnings performance in the first quarter of 2023. In the further course of the fiscal year, the company intends to increase its investments as planned in order to take maximum advantage of the ongoing positive market environment and will post increased expenses on a seasonal basis. As a result, it will likely not be possible to continue the good profitability of the first quarter on a linear basis.

Against this backdrop, the new guidance projects sales of between €1,450 million and €1,600 million (previously: €1,350 million and €1,500 million; ACTUAL 2022 figure: €1,065.9 million) and earnings before interest, taxes, depreciation and amortization (EBITDA) of between €135 million and €175 million (previously: €100 million and €140 million; ACTUAL 2022 figure: €70.0 million).

Depreciation and amortization are expected to come to approximately €45 million in 2023. On this basis, the Managing Board expects an EBIT of €90 million to €130 million. In 2023, capital expenditure of approximately €85 million (including capitalized development costs and lease investments) will be above the level of 2022 (ACTUAL 2022: €65.8 million). The SMA group is investing in the future to benefit from the significant potential arising from the megatrends of decarbonization, decentralization and digitalization of the energy supply worldwide, and is developing highly integrated and digitalized solutions that precisely meet the resulting requirements. Against this background, investments, especially in new products, land and buildings, technical equipment and machines, as well as the capitalization of research and development expenses are planned for 2023.

For details regarding risks, please refer to the Risks and Opportunities Report in the SMA Annual Report 2022 starting on page 83.

SMA group guidance for 2023 at a glance

Key figure	Guidance 2023	Actual 2022
Sales in € million	1,450 to 1,600	1,065.9
Inverter output sold in GW	16 to 18	12.2
EBITDA in € million	135 to 175	70.0
Capital expenditure in € million	approx. 85	65.8
Net working capital in % of sales	20 to 23	22.4
Net cash in € million	approx. 200	220.1
EBIT in € million	90 to 130	31.9

The SMA group's sales and earnings depend on global market growth, market share, price dynamics and the supply of electronic components. Our global presence and our comprehensive portfolio of products and solutions for all segments (Home Solutions, Commercial & Industrial Solutions and Large Scale & Project Solutions) enable us to respond quickly to changing market conditions, offset fluctuations in demand and take advantage of developments in global photovoltaic and storage markets. Its broad product and solution portfolio in all market segments is a major distinguishing feature for the SMA group. The Managing Board of SMA Solar Technology AG forecasts the following performance for individual SMA segments in the 2023 fiscal year:

Segment guidance for 2023 at a glance compared to previous year

Segment	Sales	EBIT
Home Solutions	Up significantly	Up
Commercial & Industrial Solutions	Up significantly	Up significantly
Large Scale & Project Solutions	Up significantly	Up significantly

Strategic areas of action strengthen long-term competitiveness

After completely overcoming the shortage of components, the Managing Board sees excellent growth prospects for the SMA group. Significant impetus will be generated by the anticipated continuing positive development of the global PV market and by growth in major future fields such as storage systems, e-mobility, digital energy services and green hydrogen. With its Strategy 2025, its global presence with experts in 20 countries on six continents and its products and solutions, the SMA group is well positioned to benefit from this market growth and consolidate its market position. The ongoing development of the portfolio into a system landscape for decentralized energy supply is progressing steadily.

The goal of the SMA Strategy 2025 is to develop the SMA group into an innovative and sustainable “energy transition company” that offers appropriate solutions for all essential areas of future energy supply. We are leveraging our systems expertise to develop complete, future-proof solutions of significant customer benefit in close collaboration with our strong partners and to tap into new business areas.

In 2021, we successfully started implementing our Strategy 2025. Strategic areas of action were developed that will strengthen the competitiveness of the SMA group in the long term. They will be pressed ahead by corresponding business initiatives and address key trends and growth segments with high future potential. These include PV and storage solutions, energy market integration, e-mobility and future business fields. They bundle the business initiatives that are essential for achieving the strategic objectives. The extent to which our objectives have been achieved and the progress within the areas of action are made transparent in quarterly strategy reviews. Management derives appropriate courses of action from the results. In addition, the SMA group has undergone an organizational restructuring with a strong focus on the three business segments. The aim is to create even greater customer focus. The new structure will enable the company to identify customer needs even more quickly and deliver appropriate solutions. This approach is underpinned by a process-driven workflow.

SMA group will reap the benefits of megatrends

The expansion of renewable energies and storage systems and the electrification of other sectors, such as mobility, heating and air-conditioning, will further accelerate the increased fight against climate change and the striving for an energy supply that is largely independent from imports of raw materials. At the same time, there will be a further continuation of the global PV market consolidation, which has already started. This is releasing market shares and is also expected to slow down the decline in prices of PV inverters over the coming years.

The SMA group is well positioned to benefit from these trends in all market segments and regions. With our products and solutions, we actively contribute to combating the global climate crisis. In addition, we have an international sales and service organization and more than four decades of experience and technological expertise in all PV and storage applications as well as key future fields for energy supply. Our total installed inverter output of approximately 125 GW worldwide is a particularly good foundation for databased business models, as valuable energy data can be compiled by the inverter. Our extensive knowledge of managing complex battery-storage systems and linking solar power systems to other energy sectors, such as heating, ventilation and cooling technology as well as e-mobility, is an excellent basis for developing future growth potential for digital energy solutions. Plus, the SMA group has already positioned itself in the high-margin business field of green hydrogen production, which is expected to see strong growth in the future. We will continuously expand our range of solutions for optimized hydrogen production.

SMA group will take advantage of the potential of digitalization

Thanks to its extensive knowledge and experience in PV system technology, the ability to quickly implement changes, alignment of the subsidiaries toward future business areas and its numerous strategic partnerships, the SMA group is well prepared for the digitalization of the energy industry and will take advantage of the opportunities that it yields. As a specialist in holistic solutions in the energy sector, we will help shape the energy supply of the future, launch a number of innovations and establish further strategic partnerships as part of our centralized and focused partner management. In the process, we will build on our strengths to design additional system solutions for the conversion to a cost-effective, reliable and sustainable energy supply that is based on decentralized renewable energy. We will be helped in this endeavor by SMA’s corporate culture and our motivated employees who make a decisive contribution to the company’s long-term success.

Niestetal, May 3, 2023

SMA Solar Technology AG
The Managing Board

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Income statement SMA group

in €'000	Jan – Mar (Q1) 2023	Jan – Mar (Q1) 2022
Sales	**367,178**	**220,562**
Cost of sales	252,906	174,976
Gross profit	**114,272**	**45,586**
Selling expenses	29,384	21,564
Research and development expenses	12,727	10,213
General administrative expenses	17,103	14,997
Other operating income	7,917	18,241
Other operating expenses	12,569	11,515
Operating profit (EBIT)	**50,406**	**5,538**
Financial income	2,231	76
Financial expenses	1,237	1,561
Financial result	**994**	**–1,485**
Profit before income taxes	**51,400**	**4,053**
Income taxes (expense (+) / income (–))	–286	1,098
Net income	**51,686**	**2,955**
of which attributable to shareholders of SMA AG	51,686	2,955
Earnings per share, basic (in €)	1.49	0.09
Earnings per share, diluted (in €)	1.49	0.09
Number of ordinary shares (in thousands)	34,700	34,700

Statement of comprehensive income SMA group

in €'000	Jan – Mar (Q1) 2023	Jan – Mar (Q1) 2022
Net income	**51,686**	**2,955**
Unrealized gains (+) / losses (–) from currency translation of foreign subsidiaries	–1,389	1,400
Changes recognized outside profit or loss (currency translation differences)	**–1,389**	**1,400**
Overall result	**50,298**	**4,355**
of which attributable to shareholders of SMA AG	50,298	4,355

Balance sheet SMA group

in €'000	2023/03/31	2022/12/31
ASSETS		
Intangible assets	97,408	88,932
Property, plant and equipment	193,191	191,845
Investment property	11,588	14,274
Other financial assets, non-current	5,946	6,170
Deferred tax assets	93,448	85,427
Non-current assets	**401,581**	**386,648**
Inventories	376,758	308,668
Trade receivables	173,902	153,528
Other financial assets, current (total)	61,346	57,688
Cash equivalents with a duration of more than 3 months and asset management	38,706	38,290
Rent deposits and cash on hand pledged as collaterals	17,121	16,436
Remaining other financial assets, current	5,519	2,962
Income tax assets	8,072	11,096
Value added tax receivables	14,819	18,548
Other non-financial assets, current	14,097	8,493
Cash and cash equivalents	214,203	165,355
Current assets	**863,197**	**723,376**
Total assets	**1,264,778**	**1,110,024**
LIABILITIES		
Share capital	34,700	34,700
Capital reserves	119,200	119,200
Retained earnings	359,168	309,623
SMA Solar Technology AG shareholders' equity	**513,068**	**463,523**
Provisions, non-current	94,105	92,692
Financial liabilities, non-current	15,291	16,356
Contract liabilities, non-current	150,367	152,926
Other non-financial liabilities, non-current	1,636	1,845
Deferred tax liabilities	612	442
Non-current liabilities	**262,011**	**264,261**
Provisions, current	73,787	66,454
Financial liabilities, current	8,352	7,307
Trade payables	176,941	133,449
Income tax liabilities	11,178	4,162
Contract liabilities (advances)	137,509	90,219
Other contract liabilities, current	43,533	42,160
Other financial liabilities, current	820	568
Other non-financial liabilities, current	37,579	37,921
Current liabilities	**489,699**	**382,240**
Total equity and liabilities	**1,264,778**	**1,110,024**

Statement of cash flows SMA group

in €'000	Jan – Mar (Q1) 2023	Jan – Mar (Q1) 2022
Net income	51,686	2,955
Income taxes	–286	1,098
Financial result	–994	1,485
Depreciation and amortization of property, plant and equipment and intangible assets	9,601	9,343
Change in provisions	8,747	–1,488
Result from the disposal of intangible and fixed assets and non-current assets	187	265
Change in non-cash expenses / revenue	5,652	1,129
Interest received	34	30
Interest paid	–232	–209
Income tax paid	1,173	–415
Gross cash flow	**75,568**	**14,193**
Change in inventories	–69,555	–31,820
Change in trade receivables	–22,168	4,940
Change in trade payables	43,492	5,875
Change in other net assets / other non-cash transactions	37,762	–1,063
Cash flow from operating activities	**65,099**	**–7,875**
Payments for investments in property, plant and equipment	–4,645	–2,249
Proceeds from the disposal of property, plant and equipment	2	72
Payments for investments in intangible assets	–10,505	–9,888
Proceeds from the disposal of securities and other financial assets	3,911	25,358
Payments for the acquisition of securities and other financial assets	–3,845	0
Cash flow from investing activities	**–15,082**	**13,293**
Payments for lease liabilities	–2,051	–1,670
Redemption of financial liabilities	–2	–813
Cash flow from financing activities	**–2,053**	**–2,483**
Net increase / decrease in cash and cash equivalents	47,964	2,935
Changes due to exchange rate effects	884	–1,093
Cash and cash equivalents as of January 1	165,355	113,978
Cash and cash equivalents as of March 31	**214,203**	**115,820**

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, 2022[1]	**34,700**	**119,200**	**4,150**	**249,970**	**408,020**
Net income				2,955	2,955
Other comprehensive income after tax			1,400		1,400
Overall result					4,355
Shareholders' equity as of March 31, 2022	**34,700**	**119,200**	**5,550**	**252,925**	**412,375**
Shareholders' equity as of January 1, 2023	**34,700**	**119,200**	**3,836**	**305,787**	**463,523**
Net income				51,686	51,686
Other comprehensive income after tax			–1,389	–752	–2,141
Overall result					49,545
Shareholders' equity as of March 31, 2023	**34,700**	**119,200**	**2,447**	**356,721**	**513,068**

1 The comparative values were adjusted in accordance with IAS 8.42 (see Chapter 2.2 of annual financial report 2022).

Financial ratios by segments and regions

in € million	External product sales		External services sales		Total sales	
	Q1 2023	Q1 2022	Q1 2023	Q1 2022	Q1 2023	Q1 2022
Segments						
Home Solutions	161.1	61.7	2.2	0.9	163.3	62.6
C&I Solutions	78.7	54.0	1.5	2.5	80.2	56.5
Large Scale & Project Solutions	101.1	85.6	22.6	15.9	123.7	101.5
Total segments	**340.9**	**201.3**	**26.3**	**19.3**	**367.2**	**220.6**
Reconciliation	0.0	0.0	0.0	0.0	0.0	0.0
Continuing operations	**340.9**	**201.3**	**26.3**	**19.3**	**367.2**	**220.6**

in € million	Depreciation and amortization		Operating profit (EBIT)	
	Q1 2023	Q1 2022	Q1 2023	Q1 2022
Segments				
Home Solutions	0.3	0.1	50.3	8.3
C&I Solutions	1.8	1.1	–1.2	–4.4
Large Scale & Project Solutions	0.8	1.0	2.3	0.9
Total segments	**2.9**	**2.2**	**51.4**	**4.8**
Reconciliation	6.7	7.1	–1.0	0.7
Continuing operations	**9.6**	**9.3**	**50.4**	**5.5**

Sales by regions (target market of the product)

in € million	Q1 2023	Q1 2022
EMEA	276.6	122.7
Americas	85.0	56.1
APAC	17.8	48.0
Sales deductions	–12.2	–6.2
External sales	**367.2**	**220.6**
thereof Germany	154.6	62.7

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

in € million	Q1 2023	Q1 2022
Total segment earnings (EBIT)	51.4	4.8
Elimination	–1.0	0.7
Consolidated EBIT	50.4	5.5
Financial result	1.0	–1.5
Earnings before income taxes	**51.4**	**4.1**

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.

FINANCIAL CALENDAR

2023/5/24	Annual General Meeting 2023
2023/8/10	Publication of Half-Yearly Financial Report: January to June 2023 Analyst Conference Call: 13:30 p.m. (CEST)
2023/11/9	Publication of Quarterly Statement: January to September 2023 Analyst Conference Call: 13:30 p.m. (CET)

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Consulting, Concept & Design
Silvester Group, Hamburg
www.silvestergroup.com

Photos
Stefan Daub

CONTACT

SMA Solar Technology AG
Sonnenallee 1
34266 Niestetal
Germany
Tel.: +49 561 9522-0
Fax: +49 561 9522-100
info@SMA.de
www.SMA.de/en

Investor Relations
www.IR.SMA.de

Sustainability
sustainability@SMA.de
www.SMA.de/Sustainability

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SMA Solar Technology AG
Sonnenallee 1
34266 Niestetal
Germany

Tel.: +49 561 9522-0
Fax: +49 561 9522-100
info@SMA.de
www.SMA.de/en