

# **SMA Solar Technology AG (SMTGF) Q2 2024 Earnings Call Transcript**

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**Body**

SMA Solar Technology AG (SMTGF)

Q2 2024 Results Conference Call

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Company Participants

Barbara Gregor - Chief Financial Officer

Jurgen Reinert - Chief Executive Officer & Chairman of Managing Board

Conference Call Participants

Lasse Stuben - Berenberg

Sebastian Growe - BNP Paribas Exane

Constantin Hesse - Jefferies

Anis Zgaya - ODDO BHF

Nikolas Demeter - Bankhaus Metzler

Presentation

Operator

Ladies and gentlemen, welcome, and thank you for joining the SMA Conference Call for the First Half Financial Results 2024. [Operator Instructions].

I would now like to turn the conference over to Barbara Gregor, CFO. Please go ahead, madam.

Barbara Gregor

Thank you, operator, and welcome, everyone. We very much appreciate that you are taking the time for this investor and analyst call on our first half year 2024 results.

Today, my colleague and SMA's CEO, Jurgen Reinert, joins to provide us insights into the most important current business developments. Welcome to the call, Jurgen.

Jurgen Reinert

Thanks.

Barbara Gregor

This conference call is scheduled for up to 60 minutes and will be recorded. After the management presentation, we will be happy to answer your questions. Today's presentation is available on our Investor Relations website. The replay will also be available on Investor Relations website as of tomorrow.

Our agenda for today. First, I will give a review of our 6 months 2024 figures. And after that, Jurgen will walk you through the current developments on innovations, the latest solutions and our platform strategy. Last but not least, we will have a look on our order backlog as well as our outlook for the fiscal year 2024. I expect the presentation part of the call to last about 30 minutes. After the presentation, we are happy to answer your questions.

I refer to the disclaimer on Page 2. So let's move to Page 4, financial highlights of the first half 2024. Group sales reached €759 million and was slightly below last year with €779 million. Large Scale continues to perform strongly, while Home and C&I revenues are still affected by high stock levels at distributors and installers. This situation is also influenced by postponement of investments from households and companies due to the high interest rates and the hope that prices for complete installed PV systems continue to fall. I will provide more insights on the individual segments in a moment.

EBITDA came in at €81 million, after €125 million in the first half 2023. And free cash flow reached minus €203 million, resulting from an increase of net working capital related to the reduced sales in Home and C&I. Order backlog stood at €1.35 billion end of June.

Now let's go to Page 5, sales by regions and by segments. On the left-hand side, you can see that EMEA is still our biggest region, but came down to 50% from 75% last year due to the soft sales development in Home and C&I from January to June. Americas' revenue share increased from 20% to 41%, mainly driven by the Large Scale segment. The Large Scale segment remains the strongest in this region with more than 90% and C&I contributed with 6%.

The APAC region's share of SMA's sales increased from 5% to 9%, also from strong growth of the Large Scale business, which more than doubled in this region. Here, Australia again showed a very strong development. The top 3 markets for the SMA Group in the first 6 months 2024 were U.S., Germany and Australia.

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Now let me walk you for the sales per segment on the right side of the slide. As you all know, the sales development in Home and C&I is still driven by a delayed increase in order intake due to the slower-than-expected reduction of inventories at distributors and installers. Additionally, the lower electricity prices, persistently high interest rates and customers' expectations that prices from small and medium-sized PV systems will continue to fall have also led to a postponement of investments. Against this backdrop, revenues in Home segment decreased by 66% from €327 million last year to €110 million at the end of June.

EMEA remained the biggest region for this segment. The segment's share of total sales thus came down to 15% compared to 42% in the first half year 2023. C&I achieved €150 million compared to €194 million in the first half of last year. EMEA remained the strongest region for this segment with 77% share of total revenues. Large Scale again showed a strong revenue development, more than doubling the sales from €257 million compared to the first 6 months of 2023 to €536 million end of June this year.

Americas remains the strongest region, marking at 54% of the segment sales. As expected, the strong project pipeline built up since H2 of last year is now being realized in our release.

Now let me provide you with some more information on the first 6 months 2024 profitability. Profitability for the group was affected by product mix, lower utilization of production capacities as well as increased cost factors, including effects from inflation. EBITDA came in with €81 million compared to €125 million last year. EBITDA includes a positive onetime other income which was booked in Q1 from the sale of SMA elexon stake in the amount of €19 million. EBITDA margin reached 11% compared to 16% last year, while last year's margin was strongly influenced by a positive product mix. With about €24 million, depreciation was slightly above last year's level of €19 million.

Now let's have a look at the segments in detail. Home Solutions EBIT was minus €22 million in the first 6 months 2024 due to the low level of sales, changes in product mix and higher fixed costs. This led to an EBIT margin of minus 20% compared to a positive margin of 29% last year. C&I Solutions EBIT declined sharply from €7 million in the first half 2023 to minus €45 million this year, also due to the lower sales level, a lower utilization of production capacities and the corresponding lack of fixed cost coverage. EBIT margin, therefore, came in at about minus 40% compared to 3% last year.

Our Large Scale segment showed the biggest earnings improvement in the first half year 2024, reaching €101 million compared to €9 million in 2023. The increase in sales and the associated fixed cost degression combined with a profitable product mix contributed to this very positive margin development. Thus EBIT margin increased to 19% compared to 3% last year. The overall EBIT margin for the SMA Group amounted to 7% compared to 14% in 2023.

Now I will move on to the balance sheet and the net working capital development on the next slide. Net working capital, which is shown on the top left of the page, reached €588 million and is above the 2023 year-end figures of €392 million. This resulted in a ratio of 31%, which is slightly above the upper end of the management's target corridor of 27% to 30%.

Let me explain the net working capital development in the period under review. Inventories end of 2023 were at €559 million and increased in the first 6 months to €712 million due to purchasing commitments above our current demand in Home and C&I resulting from the high inventory level on our customer side. As the turnaround in Home and C&I, which was anticipated for the second half of the year will not materialize, we are focusing on measures to reduce our inventories for finished products and raw materials as quickly as possible to free up cash. For this, we have implemented several sales activities to stimulate the pull from the distributors, installers and end users, including additional bonus programs for existing and new customers as well as several additional activities to win new customers.

Trade receivables decreased in line with the lower revenues in the first half of the financial year. Trade payables also decreased, as usual, compared to year-end also reflecting our lower purchasing volume for Home and C&I. Advanced payments received from our customers decreased slightly compared to year-end 2023. But with a good level of incoming customer orders currently in our Large Scale segment, we expect this to increase above the 2023 level in the second half of the year 2024.

Net cash came down from €283 million end of 2023 to €66 million, mainly as a result of the buildup of net working capital in the first 6 months.

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Now let's have a look at the group balance sheet on the right side of the slide. And as I have already explained the changes in the net working capital positions, I will now focus on the significant changes in the other balance sheet positions. As I just explained, the change in net cash, I would start by explaining the changes in total cash and financial liabilities. In order to ensure that we constantly have a sufficient cash for our running operational activities, we have utilized €120 million from our revolving credit facility. This revolving credit facility has been negotiated with our banks last year as short-term financing for changes in net working capital, so exactly for our current situation. This is the €120 million, which you see in the financial liabilities and also explain the difference of our net cash of €66 million and our total cash of €186 million in the balance sheet.

Regarding the other balance sheet items, noncurrent assets increased to €460 million, mainly reflecting investments into our product pipeline in the form of capitalized R&D project costs. Shareholders' equity increased from €606 million to €715 million as per our net profit in the first half of the year. Provisions decreased from €201 million at the end of 2023 to €175 million, mainly as a result of the payment for performance-related bonuses in the second quarter. Other liabilities decreased slightly to €420 million with the main effect being the slight decrease of advanced customer payments in H1.

That concludes my explanation of the balance sheet. So let's now have a look at our summary of cash flow on the next slide. In the period under review, gross cash flow came in at €53 million compared to €143 million in the first half 2023, as our operating result was below the extraordinary level of the first 6 months last year. Given the lower gross cash flow and the increase of net working capital, cash flow from operating activities amounted to minus €174 million compared to plus €130 million last year. The group invested €47 million in net CapEx in the first 6 months, was mainly composed of investments in our product portfolio, including capitalized R&D project costs and investments in fixed assets. The increased level of investment spending was mainly related to our new platform in Large Scale and Project Solutions. For this new platform, we are expanding our production capacities and capabilities here in Germany.

Considering all these effects, our free cash flow decreased from €81 million last year to minus €203 million in the first half 2024, mainly driven by higher net working capital. This is it for the moment from my side, and I would like to hand over to Jurgen for the current developments and innovations going forward. Jurgen?

Jurgen Reinert

Thank you, Barbara, and a warm welcome also from my side.

Now that Barbara has reported on the half year figures, I would like to take this opportunity to say a few words about SMA's new product and market launches. So innovation has been SMA strategy since the company was founded. This year, we celebrated the company's 1,000th invention. And since our first patent, which was dating from 1997, 320 researchers have contributed to the current total of around 1,600 patents and utility models, which we hold in 21 countries.

Our high standards of data security and the demands we place on the sustainability and longevity of our products and solutions set us apart from other market players as well as the fact that the majority of our devices is designed and manufactured entirely in Germany. By the way, all the products you see on this page are designed and manufactured in Germany and are successful building blocks for our long-term platform strategy. These were, are and will be decisive arguments when it comes to the sustainability of a reliable and above all, secure energy supply from nonfossil sources.

To show you that we will continue on this path, I would like to take the opportunity to report on the past year in which there were once again a number of SMA innovations on the global market. Let me give you a brief overview, starting with the Home Solutions segment. As announced in 2023, the new SMA eCharger is now available. So is the SMA home energy solution consisting of the Sunny Boy Smart Energy hybrid inverter and the SMA home storage battery. At the end of this year, we will launch a dynamic electric tariff together with a green energy provider, LichtBlick, which enables flexible tariffs for customers and will be a requirement for electricity providers planned for next year.

The cooperation with Samsung, which started in 2023, is gaining momentum and now includes the integration of the Sunny Home Manager 2.0 and the integration of solar systems with SMA inverters in Samsung Smart Home World SmartThings. Perhaps you will have the opportunity to experience this at the road show that we will be conducting together with Samsung through German cities starting in September.

This year, we have extensively updated the SMA 360-degree app and the SMA Energy app to improve customer experience and convenience. Our global monitoring portal, Sunny portal powered by ennexOS now works with all home inverters. In addition, we have qualified further batteries that are now compatible with the hybrid inverter Sunny Tripower Smart Energy

And, of course, Sunny Boy Smart Energy.

We are also expanding our portfolio in the Commercial and Industrial Solutions segment, offering our customers even more comprehensive solutions for their individual energy needs. The SMA commercial solar solution now also includes the Sunny Tripower 125 cell inverter and the new SMA Data Manager M, which prepares solar and storage systems with the ennexOS energy management platform for the next generation of energy management. In addition to the high performance, the Sunny Tripower 125 also complies with a new SMA design, it's slightly curve covered, cover is fastened with the single central screw instead of the 6 individual screws of the previous model. In addition, it can handle higher currents and is, therefore, able to cope with the increasing output of modern PV modules.

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As the latest generation of all well-known SMA battery inverters for off-grid solutions, the new Sunny Island X supports power classes up to 60 kilowatts and thus also enables larger systems such as those required for the electrification of entire villages, once again, the product fully being designed in Germany and produced here.

We are also pleased that SMA commercial services now also includes planning, certification and commissioning services, enabling us to offer our customers a complete range of solutions. These services will initially be introduced in Germany and will be expanded to other countries depending on the market situation.

Let me now turn to our highly successful segment, Large Scale and Project Solutions. Our flexible and integrated platform solution, which we call Sunny Central FLEX has the potential to change power generation worldwide. This was also recognized by the expert jury at this year's Intersolar Europe. They honored the Sunny Central FLEX with a prestigious the Smarter E Award in the photovoltaic category. I'm particularly pleased about this prestigious award, which once again demonstrate SMA's innovative strength. After the great success of the U.S. premium of this impressive platform solution, I'm convinced that Sunny Central FLEX will transform large-scale energy projects in Europe and beyond in the future.

Sunny Central FLEX is a comprehensive and flexible solution for all power plant applications from solar power generation to battery-based grid stabilization and hydrogen production. The system has also been specifically developed to improve the integration of renewable energies into power grids. At Intersolar, we also presented the CAMOPO software. which was very well received. It automates the optimization of hybrid power plants based on market prices, weather and plant conditions. In contrast to manual planning, CAMOPO's SaaS model increases profitability under changing conditions and simulate different strategies to determine the optimal plant size. CAMOPO is integrated as an independent product into the overall solution in the Large Scale segment and as well as the SMA grid-forming solutions, ensuring grid security plays a key role in shaping the energy transition worldwide.

Now I would like to hand back to you, Barbara, for some words on order backlog and the outlook for 2024.

Barbara Gregor

Thank you, Jurgen. So looking at the left side of the slide, you can see that our order backlog reached a level of about €1.3 billion at the end of June 2024. Product order backlog stood at €988 million. On the right side of the page, you can see that Large Scale product order backlog remains very strong with €816 million, followed by C&I with about €92 million and Home with €80 million.

Order intake for Home and C&I is still very soft. But nevertheless, for the group in total, order intake in Q2 was higher than Q1 2024, driven by a very positive Large Scale development. However, the visibility for the rest of the year is still limited. Therefore, it would be unrealistic to give any time line today when and how much the order intake will take off.

With this, let's turn to the last page, our guidance for 2024. As communicated on June 18, we had to adjust our sales and EBIT guidance and now expect the group sales to be between €1.55 billion and €1.7 billion in 2024. Our planning is based on the assumption that sales in Large Scale will remain strong as a result of the existing high order backlog with a softer market demand in Home and C&I than initially expected. Reasons for the lower sales development in these 2 segments are, first of all, the clearance of inventory challenge at distributors and installers will take longer than originally assumed. And second, lower energy cost, potential price reductions and uncertainties regarding the potential situation, end of future subsidies leads to postponement of investments in the segments Home and C&I globally. Against this backdrop, and given the product mix towards Large Scale, we expect group's EBIT to reach between €80 million and €130 million with an EBITDA margin between 5% and 8%.

After an exceptional strong year 2023, the solar industry totally is currently facing a challenging year 2024 in the residential and commercial segments. With our diversified product portfolio covering 3 segments and our system approach, SLA group is well positioned, more flexible and more resilient compared to other market players also in this challenging market environment.

Last but not least, a note on our upcoming events. 9 months results will be published on November 14. Please mark this date in your calendar. We will also attend the German equity program in Frankfurt on November 25. And our next Capital Markets Day will be held in 2025, where we will also offer a guided tour in our new gigawatt factory in Niestetal.

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With this, we conclude the presentation, and we are happy to take your questions.

Question-and-Answer Session

Operator

Ladies and gentlemen, at this time, we will begin the question-and-answer session. [Operator Instructions] The first question comes from Lasse Stueben from Berenberg.

Lasse Stueben

I'll have 2 questions, if possible. The first is whether you could comment on the development of demand or order intake within the quarter because particularly in Home and C&I, as it seems Home and C&I was slightly better quarter-on-quarter in the second quarter of the year. So I'm just wondering if you're seeing early signs of recovery? Or you're expecting this to last until the start of 2025?

And then the second question I would have is if there's any update on your U.S. manufacturing facility?

Jurgen Reinert

And let me come back to the first one, the way you asked about the order intake. So you're fully right. As Barbara said it also, so our Large Scale segment, we see on a continued good and constant high-level order intake. So it's good to see that there's no reduction as yet as some have also anticipated, but there's a good order intake continuing on the Large Scale. The Home and C&I have actually improved from, you know that we had cancellations accepted in quarter 1, so from a negative point of view to a positive point of view. So the change of nearly €100 million in order intake from quarter 1 to quarter 2 comes actually mainly from Home and C&I. But as Barbara mentioned, it's not on a high level, it's still soft. But we do see that this has improved, meaning from getting from cancellations into small positives, still too small. And we see by that, as I've also mentioned, we are introducing new products. And for example, the eCharger, our own batteries, et cetera, of course, are not in the stock either at us or at the distributors or installers and we do see that we have the possibility to take it up, but we want to rephrase that the market is still soft and we see that for some products still continuing for quite some time.

Second question was on the U.S. manufacturing. And of course, we are looking at the situation in detail when it comes to the elections in 80 days, and we are also looking at the market. And we are in the phase of looking into the final decision of contract manufacturing or own production. So we cannot give you a decision on that right now. But the market is very important for us.

Operator

The next question comes from Sebastian Growe from BNP Paribas.

Sebastian Growe

I hope you can hear me well. The first one would be on working capital and the comments you made around the procurement commitments going above demand. Can you comment Ms. Gregor, if these are still continuing these procurement commitments or has been reached by now? And as both the raw materials and also the finished goods up by about €100 million year-to-date. How should we think about the production, are you continuing production, especially then in Home Solutions and C&I? Or are you stopping production to just sell from inventory? That will be my first question around working capital. And then I would have one more around the cost measures.

Barbara Gregor

As you can assume, working capital management is one of our main tasks currently. And from the development, we have seen that for sure, we have to do a lot of discussion and negotiation with our suppliers. And we remain this and they are ongoing. So this is a still fluid situation currently. And you can also ensure that from the past, we have very important and strategic suppliers where we always have to find a common solution between 2 of us. So that means, on the one hand, we see our financial development. On the other hand, we also see our strategic approach, learning from the past that it is important to have strong partnerships to have a good supplier base and to have also sufficient strategic products in our portfolio. And therefore, we take the best balance we can do to have and to reduce our net working capital, and we are expecting to reduce our inventories within the next months between €80 million and €100 million. This is our internal current target. And we do everything in doing this and in achieving this by negotiations, stop supplying into everything to finance or to stabilize our financial situation, but always is the best view on our strategic supplier situation, which will help us also to grow in the future. And we do not want to destroy this very good relationship. And on the other hand, we do all the best to reach and to achieve a financial stable situation for the company.

Sebastian Growe

Okay, then I would take the next month as to, by end of this year, I would assume or how should I read that comment?

Barbara Gregor

So we are expecting to reduce inventories between €80 million and €100 million until end of the year. Will it happen rapidly or will it happen steadily? This really depends on the different supplier situation, but the target is to reduce it significantly until the end.

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Sebastian Growe

Okay. Understood. And the next one on the cost measures. Sorry for phrasing like this, but the operating earnings at Home Solutions and C&I, they are nonstandard pressure, not in free fall. At the same time, however, your operating expenses and also the number of employees is still rising. So you pointed to cost measures at Intersolar. I recall, obviously, it was June, so it's not a lot of time ago, but what are the cost measures really that you're applying as we speak? And then what could be the related savings potential?

Jurgen Reinert

Yes. Let me start, and then Barbara will probably take over from there. So what the good thing is, of course, that we have said at Intersolar also is that we have the very good situation compared to some of our competitors that we really have the 3 segments. And as you know, after the growth of over 90% for Large Scale last year, we are continuing to grow, as you see in the figures. And therefore, we are in the good situation when I start with, for example, operations that we can flex down to the absolute minimum of production on Home and C&I, while we have the possibility to shift over the people into Large Scale, just to give you a glimpse of that even with having that done fully, we have the situation that we still have some temps in the organization when it comes to the production. So Large Scale is there to help us flex a lot when it comes to operations. But we do actually do the same on R&D, as you can imagine. So yes, we have implemented stringent cost measures, especially for Home and C&I and corporate. And we can do a big extent of that actually by shifting people towards the Large Scale segment meaning we can fulfill the demands of increasing manpower that is needed for Large Scale while not employing so many new people, but reducing the cost at the same time for Home and C&I by having this flexibility in R&D and in different functions. And this is, of course, a big difference. But as you can imagine and you're fully right on that we have several measures to improve our cost situation when it comes to the use of external resources, when it comes to traveling and when it comes to every single thing that has an importance in our balance sheet. We look at that very carefully, and we implement those very rigidly.

Barbara Gregor

I can only add that not only from the cost position but also from the balance sheet position as we start CapEx or try to reduce CapEx, this will also reduce our depreciation for this year and for the next years. And so from the balance sheet side and also from the P&L side, we do everything to stabilize the current situation and to bring down fixed and also variable costs as much as possible.

Sebastian Growe

Understood. And the last question that I would have, it's a bit provocative I believe. But if one really goes back like 10, 15 years, there have been a few years where Home Solutions and C&I was a profitable business. So mostly, that was the case when there was either a very, very strong demand, if not say, heated demand or when there was over subsidies. Against that, you have LSPS, which looks far more protected in a way, much less competition. So what does this do in your assessment of looking at the businesses also then structurally and going forward?

Jurgen Reinert

Yes, Sebastian, as I've been there, that period that you mentioned, I would not entirely agree with your assessment. So Home has quite often have very good years and Large Scale had tough times as well. But I would agree with you on C&I. So you can imagine we are even thinking beyond what we just mentioned of normal measures, of course, in looking into what additional synergies we want to implement over the segment structure, and we are basically doing exactly that. So yes, we are visiting into the long-term profitability of the segments and what we need to do on the cost structure as well as, of course, on the growth scenarios and product developments in order to achieve that. And that we cannot talk about today. But of course, we are looking into and working on these items.

Operator

The next question comes from Constantin Hesse from Jefferies. A

Constantin Hesse

Can you hear me?

Jurgen Reinert

Yes.

Constantin Hesse

Can I just continue on question specifically now related to the order momentum. Jurgen, I think you said before that the Large Scale segment sees continued good constant high level of order intake. Just wanted to basically talk to you about the development into future quarters because I wasn't sure if that comment was related to Q2 only or if that's actually what you're seeing into Q3 into Q4, the sustainability of the current order momentum in Large Scale. That will be kind of the first part of the question.

The second part of the question is, when we look at Home and C&I and just maybe adding into what Sebastian had asked before, is there anything structural that could impact the future flow of orders here in Home and C&I. So for example, if we take the Netherlands, right, everyone's talking about the Netherlands, having achieved a very high level of penetration where growth is probably going to be minimal in the future. So are there any things like that, that you're seeing that could potentially impact growth in C&I and in Home. So more on the structural side? That's the first question.

Jurgen Reinert

Yes. So when it comes to the Large Scale order momentum, of course, we have different cycles in Large Scale than in the other 2 segments, and you've seen that over the last quarters. So my explanation was mainly on the difference between quarter 1 and quarter 2, which is rather stable. And this is also what we see at least in the current quarter we are in. But of course, we cannot say in either the one or the other direction going beyond quarter 4 or next year, but I know that there were some questions even in Munich, whether we don't expect a soon drop in Large Scale and that we cannot confirm. We cannot say that it's increasing. We cannot say that it's dropping. But at least for the time being, and we're very happy about that we maintain a very good market share, and we do see a very comfortable, good and stable situation.

And when it comes to the Home and C&I. Of course, we are thinking about that a lot, you can imagine, Constantin, is there anything structural of TPOs getting stronger than America or here, Balcony, solar, whether that's a threat or not? Of course, we are thinking into that. But there's nothing particular we would like to highlight in the one or the other direction when it comes to Home and C&I, where we see a structural problem or a structural change. Of course, the Netherlands, you mentioned is a market that is low right now as we can also say for Austria and Poland, for example, as has, of course, for Germany and U.S. But we do not see major structural things that will influence our longer-term view, if that is your question.

Constantin Hesse

Understood. Okay. Just on the large scale then, I mean, obviously, I know you're not seeing it. Can you maybe just discuss kind of the main drivers as to why demand continues to be so good in Large Scale? Is it simply because you have a healthy PPA market. Just wondering what kind of the main drivers here for Large Scale are?

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Jurgen Reinert

Yes. There are some times. I would first start with that we have really done our strategic homework, which we depicted in the SMA 2025 strategy that we want to go to much more systems and especially much more solutions regaining into the direction of grid stability and grid functionality. And that's really the case Constantin that we have projects more and more evolving into that direction, part fine projects in the U.K. or in Germany, where it's much more than just PV. It's PV and storage, it's the grid stability. And especially in all those instances, we think we are very, very good positioned and we continue to position us into that direction. Also CAMOPO that I mentioned is going into that direction. So we think we have done our homework, and we will continue doing that, and I think Barbara and I can also say we are happy with the changes we did with the segment structure, especially for Large Scale that the team has become very self-going and very focused on not only being able to deliver and doing fancy innovations but also to have a very good look at the whole balance sheet cash as well as, of course, the result. So we're happy with the team, and we're happy with the directions we took in the direction of much more going from a pure PV to a whole system and especially solution approach for grid stability and grid functionality. And that's why we don't see that this is a onetime effect or a short-term effect. We see this as a good positioning.

Constantin Hesse

The last 2 very quick ones. One, you mentioned a more intense competition, I would assume from China. Can you give us just an update on pricing here? And the last one is Barbara, if you could provide us with the free cash flow bridge for the remainder of the year, given that you have the net cash target of €100 million, you already answered Sebastian before on inventories. Anything else you could comment here would be great.

Jurgen Reinert

Yes. I think we have said that and you see that from [indiscernible] during with our competition, the market, depending on market, depending on product is, of course, partly still saturated. I also try to explain that, that of course, we have difference between, for example, battery applications, even in Home and C&I and pure PV applications we have differences between e-charging energy management, functionality, et cetera. But there is a soft market. We've compared it to a sponge that is still full. And you cannot put a new water into it. And of course, what is being done then, and this is what we mean with competition that especially the competition from Far East is more inclined to sell off the inventory by clear reductions and strong reductions in price. We have not done this to that extent apart from, of course, that we've mentioned the cashback vouchers. We are looking at different sales strategies in order to, of course, enhance ourselves, but we are not doing it by just bluntly pushing down prices. And this is, of course, partly being done, and that's what we mean with the competition. And this is still to continue for some time on some of the products. Others, we are not in a problem, but for some of the products, this will definitely lead into a saturated situation still into the next year, definitely.

Constantin Hesse

Understood. Then just on free cash flow, Barbara?

Barbara Gregor

Yes, the second question, Constantin. We have ended up end of June with €66 million net cash and our current estimation is that we will achieve €100 million at the end of the financial year. So the main driver is the net working capital reduction. What I have already said is inventories. So they are the main driver where we expect between €85 million and €100 million reduction within the next month. We have positive additional EBITDA, which we assume on a lower level than in the first half of the financial year, but positive contribution. And we've reduced our CapEx spending and R&D spending at the possible lowest level. And then we have extraordinary salary payments, et cetera, et cetera, but then we came in with around about €100 million end of the year. We're creating day by day or week by week, best case worst-case scenario. So we're monitoring this very, very deeply as you can assume under the current circumstances, and we are still fine with our current expectations.

Operator

The next question comes from Anis Zgaya from ODDO.

Anis Zgaya

Yes. So my first question is on EBITDA guidance. You have confirmed your forecast with a low point at €80 million, which is already reached in half 1. Should we consider this to be exaggerated caution for half 2 or earlier risk of seeing an even weaker half 2 in the Home Solution and C&I segments because at the Q2 EBITDA level of €30 million, it's more likely that we reach the top end of the guidance or even high. So this is my first question. I'll let you answer my first question, and I have 2 other questions.

Barbara Gregor

And you can understand that on the current circumstances, there are a lot of uncertainties in the market. So operationally, you can see that we will have a good run rate in the second half of the financial year, more or less in line with our current first half, but with some margin decline, which we see in the market. And based on the market situation in total, we expect that there are certain risks for our financials, which will definitely materialize in the second half of the year. So this mainly includes additional inventory allowance, potential extraordinary write-off effect for capitalized development assets for our new products. risks are raising from the development of customer and supplier side. So all this does lead to customer insolvencies can ensure and selections can ensure further postponement. We closely monitor all this risk, but we have to take adequate measures and the subjects do not even know this play. We continue to have some uncertainties. And therefore, we took a short amount also in our estimation to be sure that our guidance is protected by ourselves, by our measures but also to protect extraordinary external circumstances.

Anis Zgaya

So it's a rather exaggerated question than a real risk on half 2. It's my question...

Barbara Gregor

Sorry.

Jurgen Reinert

No, we have never even exaggerated because of the fact that, as Barbara said, there are some risks evolving. We see that with bankruptcies on the customer side, on the supplier side. And some of them do happen, but we are making very sure we are not falling into that trap, sometimes need to refrain from selling products in order to know that we have our money. So we see this as a good middle of the road, neither in overly precautious or neither too optimistic.

Anis Zgaya

So my second question is on CapEx. There were only about €15 million in half 1 and you are still expecting €200 million for the full year. Is this an acceleration expected in half 2? Or can we expect maybe a lower CapEx for the full year?

Barbara Gregor

Yes. If you see our CapEx was €200 million in our guidance. You have to take into consideration that €40 million of them are our R&D cost capitalization, €60 million of them are IFRS 16 leasing liabilities and then the resulting amount of €100 million CapEx in fixed assets in the property, and this €100 million CapEx, there could be some potential to be reduced, but we still can't stick on this amount. And then the €200 million came up. So what you have referred on the €40 million CapEx is only what we have currently seen in R&D and fixed assets. And the IFRS 16 liabilities will increase, especially where we take over the fabrication, which has been built up for our new Large Scale production site and then IFRS financial liabilities will also increase. And this all counts into the investment CapEx with €200 million in our guidance.

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Anis Zgaya

Okay. And my third question, please, is on prices. Could you give us an idea on the scale of the price cuts you are granting distributors to help clear stocks?

Jurgen Reinert

No, we cannot say much more than that we have said already here that we are not reduced, we have, as we've always said in the last analyst call also we have budgeted for price reductions, but we are not doing that on a bigger scale, apart from what I've already mentioned when it comes to cash back scenarios where we want to increase the pull from the installer to the distributor. And this is how we see it right now that it would not help, as I put it earlier, to put more of order into a still sponge by lowering prices. Others might do that, but we are sticking to our strategy of making sure we we increased the pool, but we don't see a big benefit of decreasing the prices right now heavily. So that is not something we intend to continue.

Barbara Gregor

And on the other hand, we do a lot of additional marketing and sales initiatives like cash pays and voucher programs like container selling. So this all reduces our margin but not destroy our price premium in the market. So we do this very carefully, and we do the best to secure our current price situation and more we cannot communicate on price.

Anis Zgaya

Very helpful. Maybe one quick one, last one on the subsidy mechanism because you rise at a risk about subsidy mechanism and in some countries, which country, in particular, where you were referring to?

Jurgen Reinert

Yes. I'm not 100% sure which expression you are going after there. But I mean, we have changes in the U.S.A. We've had developments in different countries in the European room, but this is a general statement that we said that the political climate is not that important as the other issues that we've mentioned before, like interest rate, like falling prices, low electricity prices. But it's one part of the whole equation also where we do see in some countries from time to time, unstability and not being so helpful on helping solar boost, but we would see that that's a minor effect, to be clear.

Operator

The next question comes from Nikolas Demeter from Bankhaus Metzler.

Nikolas Demeter

Just one left from my side. And unfortunately, again, on pricing, but maybe looking at it from another angle, I also remember Large Scale having real tough times just a few years ago, as you mentioned, I think it's Reinert. I'm actually positively surprised that the average selling prices, ASPs, keep staying on a relatively high level or a stable level at the moment. So looking at it from this angle, what do you think is responsible for the relatively high price discipline as I perceive it, reminding and recording prices from falling from cliff a few years ago under these circumstances. So what is the reason for the higher price discipline? Is it capacities? Or is it the new rationality of competitors? How do you see that?

Jurgen Reinert

Yes. No, we don't see it as a result of change in competition. So the same names, the same numbers from the competition are still active, so that we don't see as the reason. It's actually a staggered approach. I would agree with you, yes, we've had tough times, but that's what I mentioned with why we changed the strategy because if you look at pure PV projects, then we have a tougher situation and the margins are, as you can imagine, lower because then it's getting more a commodity offer. When it comes to batteries, we are not that far into commoditizing and the price stability and the price quality is normally higher. But we are not naive and thinking that over the years, also battery projects will be getting more under price pressure.

But we have the big ability and that is the good thing about it that we can offer more than just putting in a PV system together with a battery, but that we have the grid functionality. And this is really what I think is setting us apart to some extent, especially from lower-cost competitors and actually setting us apart from the whole pack, even from the big ones, some power electronics, et cetera. And we continue to develop that. So new approaches were different finance modelings also [Triad, triage], et cetera, and having the possibility to with software functionality have better use cases for the customer, we continue to develop. And that's why we don't see any rapid change on that. I would, of course, never say anything for the next years or all the future, but we see ourselves good positioned, and we see that there's no change coming for the time being, at least due to our good positioning when it comes to focus on solution providing.

Operator

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Barbara Gregor for any closing remarks.

Barbara Gregor

Thank you very much again for the interest, and please do not hesitate to contact us or the Investor Relations department in case of any further questions. We will be happy to see you again on our November's call or on our Capital Market Day in 2025. Goodbye [indiscernible] from Niestetal, Germany.

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Jurgen Reinert

Bye-bye. All the best.

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