

# NINGI RESEARCH

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## Our response

Yesterday after market close, SMA Solar reacted to our report and stated that our findings were not valid and misleading. Here is the full press release:<sup>1</sup>

***SMA responds to inaccurate and misleading report by NINGI Research***

***Niestetal, December 18, 2023*** – With this statement published today, SMA Solar Technology AG (SMA/ISIN: DE000A0DJ6J9/FWB: S92) comments on a report issued by NINGI Research (“Ningi”).

*The report contains a number of inaccurate allegations about SMA’s reporting practices. Ningi’s assertions completely lack merit and are misleading to the public and in particular investors and analysts. As a short seller, Ningi stands to profit from a decline in SMA’s stock price.*

*SMA reports its financial figures in accordance with international reporting standards (IFRS) and adheres to the highest standards of corporate governance.*

We would like to respond word for word to SMA's answer, but it is easier to show **that SMA Solar's statements are misleading and inaccurate.**

**First**, our research doesn't lack merit. Our report, published on December 18, 2023, is backed up with dozens of sources and **any reader can verify all of our findings for themselves by examining the footnotes. It's as simple as that.** And as we found out yesterday, we aren't the first to point out the problems at SMA Solar. Last week, an award-winning journalist from the German newspaper 'Wirtschaftswoche' published an article with almost the same findings.<sup>2</sup>

**Second**, our report isn't misleading to the public, investors, and analysts. We do not believe that SMA Solar is not in a position to make such a claim. **Especially because SMA Solar had to restate its entire financial statements for 2021!** However, instead of disclosing the restatement prominently, SMA Solar has used an asterisk with the following wording: *“The comparative values were adjusted according to IAS 8.42 (see Chapter 2.2).”*<sup>3</sup> What does IAS 8.42 state?

Subject to **paragraph 43**, an entity shall correct material **prior period errors** retrospectively in the first set of financial statements authorised for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

*Figure 1 IFRS standard about material errors and restatements, source: IFRS*

Yes, you have read correctly. Material errors! On page 124 of the 2022 annual report, SMA Solar reports that the company had to adjust its financial figures, which led to a decrease in retained earnings and an increase in long-term contract liabilities.<sup>4</sup> **In our opinion, it is misleading to the public, investors, and analysts that SMA Solar has not prominently referred to the restatement. We believe that SMA Solar has material weaknesses in its financial reporting.**

<sup>1</sup> <https://www.eqs-news.com/company/sma-solar-technology-ag/news/5b877162-ea7c-11e8-902f-2c44fd856d8c>

<sup>2</sup> <https://www.wiwo.de.translate.goog/my/unternehmen/energie/solaraktie-sma-erstaunliche-vermehrung-des-vermoegens/29559050.html? x tr sl=de& x tr tl=en& x tr hl=en& x tr pto=wapp>

<sup>3</sup> [https://cdn.sma.de/fileadmin/content/global/Investor\\_Relations/Documents/Publications/Finanzberichte/2022/Annual-Financial-Report-SMA-Group-2022.pdf](https://cdn.sma.de/fileadmin/content/global/Investor_Relations/Documents/Publications/Finanzberichte/2022/Annual-Financial-Report-SMA-Group-2022.pdf), pg. 117

<sup>4</sup> [https://cdn.sma.de/fileadmin/content/global/Investor\\_Relations/Documents/Publications/Finanzberichte/2022/Annual-Financial-Report-SMA-Group-2022.pdf](https://cdn.sma.de/fileadmin/content/global/Investor_Relations/Documents/Publications/Finanzberichte/2022/Annual-Financial-Report-SMA-Group-2022.pdf), pg. 124

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The most important statement in SMA Solar’s response to our report is the following:

*“[...] SMA reports its financial figures in accordance with international reporting standards (IFRS) [...]”*

In our opinion, this is a bold statement for a company that has published the following FCF method in recent years, which also includes the statement that they also comply with IFRS.<sup>5 6 7 8</sup>

#### IFRS Foundation:

**Free cash flow is not defined in IFRS Standards.**  
In most cases, this measure (let’s call this version FCF1) is calculated as cash flow from operating activities (CFO) less capital expenditure (or capex).

#### SMA Solar’s investor presentation:

	Q1-Q3 2021	Q1-Q3 2022
Net Income	15	11
Gross Cash Flow	48	21
Cash Flow from Operating Activities	22	10
Net Capex	-29	-42
<b>Free Cash Flow (Adj.)</b>	<b>-7</b>	<b>-32</b>
Cash inflow from divestments	0	38 <sup>1</sup>
Net Investments from Securities and Other Financial Assets	21	62 <sup>2</sup>
<b>Free Cash Flow (IFRS) ??</b>	<b>14</b>	<b>68</b>

Figure 2 FCF is not defined by IFRS Standards but SMA Solar claims IFRS compliance, source: NINGI Research, IFRS Foundation, company filings

SMA Solar invented its own free cash flow metric and claimed it as in accordance with IFRS, see Figure 2.<sup>9 10</sup> **As we highlighted in our initial report, that’s no small blunder but a lie of commission. A lie that was just repeated in a regulatory filing.<sup>11</sup> Oof.**

With regard to the highest standards of corporate governance. In our opinion, it would be helpful if SMA Solar would answer our questions (see next page) instead of rejecting our findings across the board.

**In order for SMA Solar to regain the trust of investors, we suggest that the company engage an unaffiliated special auditor to carry out a forensic audit of the financial statements.**

**For all information herein, we are short SMA Solar Technology AG.**

<sup>5</sup> [https://cdn.sma.de/fileadmin/content/global/Investor\\_Relations/Documents/Publications/Praesentationen/2022/20221110\\_Analyst-Investor-Presentation-Quarterly-Financial-Statement-Q3-2022.pdf](https://cdn.sma.de/fileadmin/content/global/Investor_Relations/Documents/Publications/Praesentationen/2022/20221110_Analyst-Investor-Presentation-Quarterly-Financial-Statement-Q3-2022.pdf), pg. 8

<sup>6</sup> [https://cdn.sma.de/fileadmin/content/global/Investor\\_Relations/Documents/Publications/Praesentationen/2023/20231109\\_Analyst-Investor-Presentation-Quarterly-Financial-Statement-Q3-2023.pdf](https://cdn.sma.de/fileadmin/content/global/Investor_Relations/Documents/Publications/Praesentationen/2023/20231109_Analyst-Investor-Presentation-Quarterly-Financial-Statement-Q3-2023.pdf), pg. 8

<sup>7</sup> [https://cdn.sma.de/fileadmin/content/global/Investor\\_Relations/Documents/Publications/Praesentationen/2020/20201112\\_Analyst-Investor-Presentation-Quarterly-Statement-Q3-2020.pdf](https://cdn.sma.de/fileadmin/content/global/Investor_Relations/Documents/Publications/Praesentationen/2020/20201112_Analyst-Investor-Presentation-Quarterly-Statement-Q3-2020.pdf), pg. 8

<sup>8</sup> [https://cdn.sma.de/fileadmin/content/global/Investor\\_Relations/Documents/Publications/Praesentationen/2020/20200814\\_Analyst-Investor-Presentation-virtual-Roadshow-H1-2020.pdf](https://cdn.sma.de/fileadmin/content/global/Investor_Relations/Documents/Publications/Praesentationen/2020/20200814_Analyst-Investor-Presentation-virtual-Roadshow-H1-2020.pdf), pg. 8

<sup>9</sup> [https://cdn.sma.de/fileadmin/content/global/Investor\\_Relations/Documents/Publications/Praesentationen/2022/20221110\\_Analyst-Investor-Presentation-Quarterly-Financial-Statement-Q3-2022.pdf?v=1668075175](https://cdn.sma.de/fileadmin/content/global/Investor_Relations/Documents/Publications/Praesentationen/2022/20221110_Analyst-Investor-Presentation-Quarterly-Financial-Statement-Q3-2022.pdf?v=1668075175), pg. 8

<sup>10</sup> <https://www.ifrs.org/content/dam/ifrs/resources-for/investors/the-essentials/the-essentials-feb-2019.pdf>, pg. 3

<sup>11</sup> <https://www.eqs-news.com/news/corporate/sma-responds-to-inaccurate-and-misleading-report-by-ningi-research/1962487>

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## Questions for SMA Solar and its management that are of interest to the public:

- Why did SMA Solar discontinue amortization and impairment testing of the subaccount "Intangible assets in progress" from 2019?
- Why does SMA Solar capitalize development costs in a separate subaccount instead of in the "Development projects" subaccount?
- What was the reason for removing the wording related to the impairment testing?
- What was the reason for removing several subparagraphs of IAS 38 from SMA Solar's annual reports?
- Why does BDO not examine management's assumptions and rationale for capitalizing development costs?
- Why is the long-term variable remuneration of SMA executives based on a single target?
- Why was an EBIT margin of 3% chosen as the target?
- Why did SMA sell its stake in Tigo even though SMA relies on Tigo's intellectual property?
- If SMA Solar applies IAS 36 and 38, why did the company remove certain wording from its annual reports?
- Why did SMA Solar exempt its UK subsidiary from disclosing the reconciliation based on IAS 38:118(e)?
- Do any of the SMA founders, their families, or trusts have pledged SMA shares for share-backed loans?