Super Micro Computer, Inc. – First Quarter Fiscal 2027 Earnings Call, November 3rd, 2026

Michael Staiger, Senior Vice President Corporate Development

Thank you. Good afternoon, and welcome to Supermicro's conference call for the first quarter of fiscal 2027.

With me today are Charles Liang, Founder, Chairman and Chief Executive Officer, and Mark Long, Chief Financial Officer and former CFO David Weigand.

By now, you should have received a copy of the press release from the Company that was distributed at the close of regular trading and is available on the Company's website. Our call is being webcast live on Supermicro's Investor Relations website and will be available for replay until the conference call to discuss our financial results for the second quarter of fiscal 2027. The content of today's call is Supermicro's property. It can't be reproduced or transcribed without our prior written consent.

During this call, we may make forward-looking statements based on current expectations, including with respect to our business plans and performance, ongoing market trends, and future financial results. These are subject to a number of significant risks and uncertainties, and our actual results may differ materially. For a discussion of factors that could affect our future financial results and business, please refer to the disclosure in today's earnings release, our most recent Forms 10-K and 10-Q, and the reports that we may file on Form 8-K with the Securities and Exchange Commission.

All our statements are made as of today, November 3, 2026, and are based on information currently available to us. Except as required by law, we assume no obligation to update any such statements. During this call, we will discuss non-GAAP financial measures. You can find a reconciliation of these non-GAAP financial measures to GAAP financial measures in our prepared remarks, which is posted on our website.

Our second quarter fiscal 2027 quiet period begins at the close of business, Friday, December 11th, 2026. With that, let me turn the call over to Charles.

Charles Liang, Founder, Chairman, and Chief Executive Officer

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Thank you, Michael, and thank you all for joining our call today.

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Following Fiscal 2026 where we nearly doubled our annual revenue, Fiscal 2027 is off to a record start! Q1 revenue reached $19.9 billion, beating the high end of our pre-announcement and well ahead of our original outlook of $15 billion. This is a great achievement, and it shows more and more customers prefer our AI and IT total solutions. Most importantly, our Data Center Building Block Solutions (DCBBS) are central to this growth, driving deep customer trust and preference, enhancing our profitability, and creating sustainable long-term shareholder value.

For over 30 years, Supermicro's focus has always been on delivering optimized total-solution value to our customers. We will continue leveraging our engineering technology, global resources, and manufacturing capacity with high yield to accelerate customer deployments. Moreover, I am glad that not just large cloud and neoclouds, but also companies and organizations across enterprise, storage, IoT, and both country and corporate sovereign verticals are relying on and adopting Supermicro's total solutions every day.

We have executed our commitment to drive higher bottom-line profitability in Q1. Non-GAAP gross margin expanded by 330 basis points year-over-year to 12.8%. This expansion was driven by a healthier customer mix across enterprise AI and IT accounts, a diverse product line built on our system building blocks, and growing revenue contribution from our higher-margin DCBBS moat, including our DCBBS hardware, software, and unique service stack. This directly aligns with our strategic roadmap to build a sustainable double-digit gross margin model by delivering superior technology innovation, faster TTM/TTD, and total-solution value.

Proven over more than two years in real-world customer deployments, DCBBS delivers four key values that no traditional server OEMs and overseas CMs can match:

1) Optimized TTD by delivering factory-tested, plug-and-play rack-scale systems and DCBBS building blocks complete solution including DC management software directly to customer sites.
2) Optimized TTO by shortening live compute readiness from quarters to months and further down to weeks.
3) DCBBS maximizes system uptime through building blocks that eliminate thermal, power, software and service bottlenecks. And…
4) Lower TCO by slashing energy consumption and facility downtime to accelerate and improve datacenter profitability.

Whether our customers are building gigawatt-scale AI Factories or deploying rapid single-container POD solutions, Supermicro's DCBBS helps build AI infrastructure faster, better, greener, and at a lower cost to our customers.

Because optimized hardware alone cannot run an efficient AI datacenter, managing thousands of liquid-cooled GPU racks require intelligent, real-time software orchestration. SuperCloud Composer (SCM) delivers seamless rack-scale management and full-stack hardware facility integration; Supermicro Datacenter Manager (SDM) provides complete power and thermal control from individual nodes up to full building infrastructure for end-to-end hardware lifecycle management; and our Supermicro Operations Manager (SOM) suite, featuring Director and Developer Console modules, enables bare-metal, model, and token-as-a-service with ease for LLM and agentic AI workloads.

Attaching SCM, SDM, and SOM directly to our DCBBS portfolio eliminates software fragmentation for our customers while driving high-value software attach rates. Furthermore, SCM's enhanced call-home service now features AI-driven root cause diagnostics, significantly improving datacenter uptime and giving our customers complete operational confidence.

Equally critical to our total-solution advantage is our new expanded global datacenter service organization. Here, our onsite deployment teams, backed by R&D engineers, and well-trained post-deployment service staff work directly alongside customer teams through tiered service offerings to efficiently maximize cluster uptime. By using automated telemetry, our service team continuously monitors thermals, power delivery, and node health in real time to resolve potential problems before they cause downtime, while our dedicated onsite engineers handle deployment validation and immediate hardware maintenance. This proactive, high-touch service model builds deep customer trust, drives high-value recurring service revenue, and fulfills our highest commitment: bringing complete peace of mind to our customers through high-quality infrastructure total solutions.

To realize this unmatched breadth of solutions efficiently, our global manufacturing footprint and scale are ramping rapidly.

We are actively expanding our physical footprint, with major projects underway in Silicon Valley and Taiwan that will add millions of square feet of fully automated production space and proactive service bandwidth. Furthermore, we are accelerating our containerized datacenter production in Asia and U.S. Together, our global manufacturing and service network puts us on track to produce more than 8,000 of the world's most powerful racks per month, including over 4,000 DLC racks by this December.

On the technology front, Supermicro continues to lead the market across major silicon platforms:

We are among the first to market shipping NVIDIA Vera Rubin NVL-72 racks with our DCBBS and DLC-2 liquid-cooling stack. We recently have also launched the NVIDIA Rubin and Vera CPU rack with optimized DSX-POD solutions coming soon. For AMD, MI-350 and MI-355X platforms have good demand momentum as we advance to Helios and MI-450 total solutions. Additionally, we are progressing Intel Xeon 6+ platforms alongside our new ARM AGI CPU-based solutions optimized specifically for agentic AI market. At the same time, we continue to expand our comprehensive Edge and IoT product portfolio while consistently growing our storage product lines, bringing real-time complete package of inference capabilities directly to the intelligent edge.

These new products accelerate our strategic focus on enterprise customers as companies expand toward scaling agentic models, enterprise data governance, and high-throughput inference workloads. We recently announced several major strategic partnerships combining Supermicro's DCBBS with the world's leading technology organizations—including Cisco, NetApp, Nutanix, and others. With additional tier-one partnerships coming soon, we are embedding Supermicro's DCBBS footprint deeply into the world's most trusted enterprises.

I know some investors and market experts have recently raised questions about AI capital expenditure efficiency and return on investment.

Let me be clear: Supermicro is uniquely positioned to thrive in this environment. For over 30 years, we have been focusing on the server and storage industry right here in the U.S.—longer than almost all of our competitors—building a mature, well-established domestic manufacturing and engineering footprint that our competition simply hard to match.

This deep U.S. heritage, combined with our unique DCBBS hardware, software, and service total solution, directly solves the ROI challenge for our customers by optimizing TTD, TTO, solution uptime, and energy efficiency. Whether our customers are building massive tier-one AI factories or deploying enterprise agentic AI workloads, Supermicro ensures their capital investments convert into revenue faster and more cost-effectively than anyone else we believe.

We are driving strong internal discipline through continuous operational optimization, factory automation, and skill development through technology, process refinement and training. We have successfully reduced our inventory turnaround time from about 100 days down to 74 days over the past two quarters. Looking ahead, our target is to further streamline our inventory and production cycle down to 50 days over the coming quarters. This ongoing efficiency optimization will continue to strengthen Supermicro's cash flow, working capital cycle, and drive higher bottom-line

profitability. Doesn't matter how competitive the market gets, more customers will love Supermicro DCBBS, that includes DC end-to-end hardware, Management software and end-to-end DC services.

Now, let's turn to our outlook for Fiscal Year 2027:

While overall demand and our growth momentum remain very strong across every front, we must also recognize that key component shortages continue to impact delivery timelines across the IT industry, especially even GPU. New customer programs and strategic ecosystem partnerships are ramping strongly, but we want to remain prudent about some key component availability and volatile pricing. Based on what we see today, we anticipate our Fiscal 2027 revenue target will be in the range of $72 billion to $82 billion. That is about 12% higher than the target we set one quarter ago.

Before I turn the call over, I want to highlight a few important leadership updates:

First, we are pleased to welcome a long-time industry technology leader Shesha Krishnapura to our Board of Directors, bringing deep datacenter operational expertise to support our scaling. Second, my sincere thanks to David Weigand for his six years of CFO leadership during our period of massive growth; we look forward to his ongoing support and contribution in optimizing our operations to a much bigger scale. Finally, I am delighted to introduce Mark Long as our new CFO, whose decades of tech and financial leadership will be a strong help for our next phase of growth.

Now, I will transfer the call to Mark.

Mark Long, Senior Vice President and Chief Financial Officer

Thank you, Charles, and good afternoon, everyone.

This is my first call with you, so let me take two minutes before we get to the numbers.

I have spent much of my career in technology infrastructure finance, including as chief financial officer of a public company in this industry. What brought me to Supermicro is that the hardest part is already built — deep engineering advantage, a real lead in liquid cooling and rack-scale integration, and a key position in the largest infrastructure build-out of our careers.

What this company needs now is financial capability that matches its engineering and operating capability. I am excited to join Supermicro at this pivotal time and look forward to helping Charles and the team continue to deliver an expanding portfolio of innovative solutions to a growing global customer base, including some of the largest, most demanding customers who are shaping the future of the AI era. To do that will require continued financial discipline, transparency, deeper engagement with stakeholders, working capital management and capital structure optimization, which will be my areas of focus.

Now to the quarter.

Total revenue was $19.9 billion, up 298% year over year and 79% sequentially. That is above our guidance range of $14.5 billion to $15.5 billion, and above the preliminary range of $18.5 billion to $19.5 billion we provided on October 20.

As Charles noted, approximately $2.3 billion represented deployments originally scheduled for earlier periods due to customer and data center readiness. Excluding that, underlying revenue was approximately $17.6 billion.
AI solutions contributed approximately 71% of revenue, compared with 59% in Q4. Based on our current backlog, we expect AI-related solutions to represent approximately 70% to 80% of revenue for fiscal 2027.

Enterprise and channel revenue was $4.9 billion, or 25% of revenue, up 229% year over year and down 12% sequentially. OEM appliance and large data center revenue was $14.7 billion, or 74%, up 321% year over year and 167% sequentially, driven by production ramps on several large AI data center design wins. The 5G, telco and edge segment, while still small in relative terms, grew significantly both year over year and sequentially.

By geography, the United States represented 80% of revenue, Europe 11%, Asia 6%, and the rest of the world 3%. The United States grew 771% year over year and 103% sequentially. While the U.S. remains the largest market for large-scale AI datacenters, we are seeing growing momentum in other regions as large customers expand globally and governments and enterprises plan and fund significant AI datacenters in Europe, Asia and the Middle East.

In the quarter, one large data center customer represented 44% of revenue, compared with 28% for fiscal 2026 as a whole. In our 10-Q you will also see that two customers accounted for 49% and 17% of accounts receivable at quarter end. I want to provide more context for this.

Concentration at this level is a consequence of the scale at which AI infrastructure is now being built. A single deployment today can exceed our total quarterly revenue from just one year ago. We expect concentration to stay elevated while these build-outs run, and to moderate as our enterprise and sovereign business scales.

What matters alongside the concentration is the quality of the exposure, so let me give you that. Deferred revenue increased by approximately $3.1 billion during the quarter, an overwhelming majority of which reflects customers paying in advance of delivery. Days sales outstanding improved from 59 days to 36 days. We recorded no material credit losses in the quarter. On large deployments we frequently require deposits and often bill against delivery milestones, we evaluate counterparty credit before committing manufacturing capacity and critical components, and we maintain a $1.8 billion receivables purchase facility that gives us flexibility on both cash timing and credit exposure.

We have declined business in this market on terms we were not comfortable with, and in the current environment I expect we will continue to make that choice.

Non-GAAP gross margin was 12.8%. That is 200 to 240 basis points above our guidance range of 10.4% to 10.8%, and 330 basis points above the first quarter of last year. On a GAAP basis, gross margin was 12.7%.

It is also down 480 basis points from the 17.6% we reported in Q4, and I want to take that apart, because a single-factor explanation would be misleading.

The key factor impacting gross margin was the Q1 AI revenue mix which increased from 59% in Q4 to 71% in Q1. The customer and product mix within our Q1 business was weighted toward large-scale AI deployments, which carry lower gross margins than the more diversified enterprise and channel business. Benefits from tariff relief and lower inventory reserves during the quarter were largely offset by certain lower-margin deferred revenues which were recognized during the quarter.

I want to be precise about one point, because I know how the mix figures can be read. The sequential decline is not evidence that AI platform revenue lacks margin. It reflects which customers took delivery in which quarter. The clearest way to see the underlying trend is to look at the last two quarters together, which neutralizes the deferral timing. Across Q4 and Q1 combined, revenue was approximately $31.1 billion and non-GAAP gross margin was approximately 14.5%. For the same two quarters a year earlier, revenue was approximately $10.8 billion and gross margin approximately 9.5%. On that normalized basis, revenue nearly tripled and gross margin improved by roughly 500 basis points.

We continued to demonstrate significant operating leverage. Revenue grew 298% year over year against an 89% increase in non-GAAP operating expenses.

GAAP operating expenses were $477 million, up 67% year over year and 5% sequentially. Non-GAAP operating expenses were $384 million, up 89% year over year and 8% sequentially. The sequential increases reflect higher headcount costs and research and development spending as we invest in multiple new platforms for AI datacenter and enterprise applications. Non-GAAP operating margin was 10.9%, compared with 14.3% in Q4.

Here too, the two-quarter view is the more useful one. Across Q4 and Q1 combined, non-GAAP operating expenses were approximately $741 million, or about 2.4% of revenue, and non-GAAP operating margin was approximately 12.1% — compared with roughly 5.4% for the same two quarters a year earlier. We intend to keep investing in R&D, field service and our global footprint, and we expect operating expenses to keep growing well below the rate of revenue.

Other income and expense was a net expense of $34 million, consisting of $49 million of interest income and other expense offset by $83 million of interest expense on our convertible notes and revolving credit facilities.

The tax provision was $435 million on a GAAP basis and $455 million on a non-GAAP basis, with an effective tax rate of 21.4% on both bases.

I would like to expand on some points made on the last earnings call regarding earnings per share, because our capital structure now has a moving part that I do not think is well understood. We calculate earnings per share using the two-class method, which reflects the mandatory convertible preferred stock we issued in Q4. That instrument carries a fixed dividend of approximately $75 million per quarter and converts to common stock in June 2029. Between now and then, both the dividend and the allocation of earnings to that participating security reduce earnings available to common shareholders — this quarter by approximately $312 million in aggregate.

GAAP diluted earnings per share were $1.75, against guidance of $0.89 to $0.98. Non-GAAP diluted earnings per share were $1.81, against guidance of $1.01 to $1.10. GAAP basic earnings per share were $1.92.

The GAAP diluted share count rose from 705 million to 749 million, and the non-GAAP diluted count from 721 million to 764 million.

Now to working capital, which I think will help explain key elements of how we operate our business.

Our cash conversion cycle improved from 149 days to 97 days — a 52-day improvement in a single quarter. At our Q1 revenue run rate, that difference represents roughly $10 billion of working capital the business would otherwise have needed to fund.

The cash flow statement shows this. We used $434 million of cash in operations on $19.9 billion of revenue. For all of fiscal 2026 we used $6.8 billion on $39.1 billion of revenue. Capital expenditure in the quarter was $47 million, so free cash flow was negative $481 million, against negative $7.0 billion for fiscal 2026.

Let me break the 52 days down, including both the positives and the areas for potential improvement. Days of inventory improved 45 days to 74. Days sales outstanding improved 23 days to 36, helped by faster collections and by customer prepayments. Days payable outstanding moved against us, from 29 days to 13, which consumed roughly $3 billion and reflects timing of payments to suppliers in a supply constrained environment.

The largest single driver was customer prepayment. Deferred revenue increased approximately $3.1 billion in the quarter. Accounts receivable grew $3.6 billion and inventory grew $2.5 billion to support the revenue ahead of us, and prepayments funded most of that build.

We expect the cash conversion cycle for the current quarter to be within the band of plus or minus 10% versus Q1, which enables us to appropriately manage our working capital while also executing against attractive market opportunities.

We ended the quarter with $6.9 billion of cash and cash equivalents. Bank borrowings and convertible notes totaled $8.6 billion, for net debt of $1.7 billion, compared with $1.2 billion at the end of Q4. Inventory was $15.1 billion, up from $12.9 billion, built to support the revenue we expect in coming quarters. We were in compliance with all covenants at quarter end.

On capital structure more broadly: we are starting from a strong foundation. The $5.6 billion we raised in June was raised specifically to fund the working capital behind the orders we are now delivering.

As we identify high-quality growth opportunities, we will optimize our capital structure to support them — and we will do that in ways that fortify the balance sheet without taking on unnecessary cost. That means matching the duration and the form of our funding to the working capital and the assets it supports, and being deliberate about when and whether we access markets. I will be transparent with you every quarter about dilution, maturities and available capacity.

We ended the quarter with a record backlog providing stronger visibility for the current quarter and the remainder of the fiscal year.

Turning to guidance.

For the second quarter of fiscal 2027, we expect net sales of $19.5 billion to $21.5 billion, and gross margin of 12.0% to 12.5%. We expect GAAP diluted earnings per share of $1.59 to $1.83, and non-GAAP diluted earnings per share of $1.66 to $1.90.

That guidance assumes GAAP operating expenses of approximately $455 million, including approximately $102 million of stock-based compensation, which is excluded from non-GAAP. We expect other income and expense, including interest expense, to result in a net expense of approximately $58 million, GAAP and non-GAAP tax rates of approximately 21%, a GAAP diluted share count of approximately 753 million and a non-GAAP diluted count of approximately 769 million, preferred dividends of approximately $75 million, and capital expenditure of $70 million to $80 million.

For the full fiscal year, we are raising our revenue outlook to $72 billion to $82 billion, from $65 billion to $72 billion. We expect full-year gross margin of 11.8% to 12.2%.

Let me connect that to the quarter we just reported. Q1 included approximately $2.3 billion of catch-up from prior-period deployments, so underlying revenue was approximately $17.6 billion. The full-year range does not assume that catch-up repeats. It does assume continued sequential growth in underlying demand, and it reflects materially better visibility into customer deployment schedules than we had ninety days ago. Our business continues to strengthen and momentum is building for fiscal 2027, although we are gated by supply constraints and datacenter readiness, and we are focused on disciplined execution, credit-worthy counterparties and expanding our higher-margin revenue streams.

On margin, I want to be straightforward about what the full-year range implies. With Q1 at 12.8% and Q2 guided to 12.0% to 12.5%, the full-year range implies gross margin in the second half below the first half. That is a mix effect: we expect AI solutions to move toward the upper end of the 70% to 80% range as the large deployments in our backlog ship, and those carry lower gross margin than enterprise and channel verticals. Within each category we expect margins to hold or improve.

What governs the range is not demand and it is not our ability to build. It is the pace at which customer facilities become ready to receive what we have already manufactured, and the availability of key components. The binding constraints on AI build-outs across this industry right now are land, power and datacenter shells. We have better visibility into that than we did, and we will update you as the year progresses.

Let me close where I started.

This was a quarter of strong growth with high-quality customers. Revenue nearly quadrupled year over year, gross margin came in well above our guidance, and customer prepayments funded most of the working capital needed to deliver it. Behind those results is a broad and innovative portfolio — from DCBBS rack-scale and liquid-cooled systems to enterprise, storage, edge and software — that positions us for the most demanding workloads and the widest range of use cases in the AI build-out.

My focus going forward is the one I described at the outset. Financial discipline, so that growth is profitable growth. Transparency, so that you can see how this business works quarter to quarter, including the timing effects that move our numbers. Deeper engagement with all of our stakeholders. Working capital management, building on the improvement in our cash conversion cycle this quarter. And a capital structure optimized to support high-quality growth from a strong foundation.

I am looking forward to meeting many of you over the coming months.

Michael, we are ready for questions.