Charles Liang, Founder, Chairman, President & Chief Executive Officer

Thank you, Nicole, and good afternoon, everyone. Last quarter we have performed our growth strategy well by winning new key customers, expanded our global operations and introduced a whole new generation of products. Today we have released our fiscal 2021 third quarter financial results. Let's take a look at some highlights.

- Our fiscal third-quarter net sales totaled $896 million, up 16% year-over-year and up 8% sequentially. For the first time in our company history since IPO, the revenue from seasonally-weak March quarter significantly surpassed that of the December quarter.
- Our fiscal third-quarter non-GAAP earnings per share was $0.50, above the midpoint of our previously guided range of $0.37 to $0.57.
- In this quarter, we also generated record revenue from the Asia Pacific region, demonstrating our continued and expanding traction in Asia.

We continue to execute our three-year growth strategy highlighted in our recent investor update on March 4th. Our progress, judged by historical industry growth rates, has propelled us to resume the position of the fastest growing US-based server/storage manufacturer. More importantly, we achieved all this despite so much of our focus having been on growing the company's long-term foundation.

Earlier this quarter, we introduced the industry's most comprehensive server portfolio leveraging the latest processors from both Intel and AMD. Our application-optimized solutions are gaining traction among the world's most advanced datacenters and enterprises. We have several committed early ship customers that have deployed thousands of server units, led by our SuperBlade. We also seeded out optimized systems for many verticals such as artificial intelligence, telco, cloud and more. One successful example is our collaboration with Osaka University with our liquid-cooled HPC solution, which takes full advantage of the new powerful Ice Lake processors. Hundreds of other customers have already utilized our early sampling program or accessed the new systems online through our JumpStart program. These activities should accelerate the deployment ramp of this new generation of products and propel growth for this calendar year.

In addition to the systems based on the new CPUs, we released an innovative new GPU system architecture last quarter with resource savings in mind. With very strong global demand, the optimized 2U 2-node GPU solution delivers great cost savings, utilizing shared power and cooling. This 2U 2-node system supports three double-width or six single-width PCIe Gen-4 GPUs, and is the best platform for video streaming, high-end cloud gaming, and countless social networking applications.

We have been executing a robust manufacturing plan in Taiwan for a few years. With attractive new product lines and strong customer demand, we recognize the importance of optimizing operational efficiency and reducing cost, especially with a tighter supply chain. As one of the key elements of our strategy, our Taiwan campus expansion will increase our capacity and capabilities in production, operation, engineering, and sales to deliver more cost-optimized offerings. Manufacturing cost has been our painful challenge since company was founded 27 years ago. Now with the new one-million square feet of manufacturing and office space added to our Taiwan campus this summer, we will become more profitable by having more control over our global supply chain and manufacturing cost. The US campus expansion, which will be online shortly after the completion of the Taiwan expansion, will focus on similar operational goals but with more emphasis on security and Made-In-America initiatives. Again, these expansions will position us well to handle the ongoing logistics challenge and rising costs while further improving our time-to-market advantages and production scale and agility.

We are making progress in the key growth factors I mentioned in our recent investor event, and we are getting great traction within the critical segment of Cloud Datacenter and Enterprise accounts. We are securing new design wins and seeing expanded orders from certain high-profile customers. These customers are choosing Supermicro based on the breadth of our portfolio and our ability to deliver the best optimized system for their 5G, Telco, AI, and both public and private cloud workloads. We have been efficiently growing our high-profile accounts worldwide, and we aim to double these accounts in the coming 2 years. Our high-profile customer initiative is a part of our greater organic growth strategy that has evolved and been fine-tuned over time.

We also continue our sales transformation effort to broadly launch our B2B/B2C automation with the auto-configurator tool, which is already in use with select customers. This tool will make it much easier to share communication and product configurations among our sales, engineers, and customers, which I believe will accelerate revenue and reduce fulfillment time and cost.

Strong positive momentum is building again at Supermicro. I believe our Q3 growth is just the beginning of our journey to gain more market share again. We are returning to our hallmark of consistent growth. To align my interest with the company's growth strategy, the board of directors accepted the proposal of reducing my annual salary to $1 and added an equity compensation package tied to very aggressive revenue and stock price targets. Also in our recent investor update, I talked about our path to $10 billion in annual sales in 3 to 6 years. Now I have even stronger confidence to achieve this goal.

Over the past year, Supermicro has had successes in various market segments such as Storage, HCI, Cloud, AI, Machine Learning, 5G/Telcom and others. We have established our technology leadership through optimized server and storage solutions. I am excited that our recent booking activities, along with our capacity expansion initiatives and improving COVID outlook give us the confidence to provide a strong Q4 guidance. Our coming fiscal Q4 revenue should surpass $1B, in the range of $980M to $1.08B. Supermicro is finally back on track for growth, and I am confident that our growth rate will be getting faster and faster in the coming quarters and years.

I will now pass the call to David Weigand, our Chief Financial Officer, to provide additional details on the quarter and our outlook.

David Weigand, Senior Vice President and & Chief Financial Officer

Thank you, Charles. Since moving to the CFO role at Super Micro last quarter, I am even more excited about the future of the company than when I joined in 2018. We continued to execute in all major areas of the company this quarter and are pleased with our results and outlook.

Our fiscal third quarter revenue totaled $896 million. This reflects a 16% year-on-year increase from the same quarter of last year and an 8% increase from the second quarter of fiscal year 2021.

Systems comprised 77% of total revenue and the volume of systems and nodes shipped were up sequentially and year-over-year. System ASPs increased year-over-year and quarter-on-quarter.

Geographic performance was strong across all major geographies. On a year-on-year basis, the US increased 18%, Europe increased 3%, Asia increased 29%, and Rest of World decreased 12%. On a sequential basis, US sales increased 8% quarter-on-quarter, Europe increased 5%, Asia increased 28%, and Rest of World decreased 46%.

From a customer point of view, we saw increases in sales to large data center and AI customers.

From this point forward, unless otherwise noted, I will be discussing financial metrics on a non-GAAP basis.

Working down the P&L, Q3 gross margin was 13.8%, down year-on-year and quarter-on-quarter. In our February earnings call, we stated that we expected gross margin to decline approximately 120 to 160 basis points sequentially due to the lack of a discrete cost recovery event and product mix. Due to high demand in our supply chain, we incurred higher transportation and other additional costs. I will further address this in the outlook, as we do expect some of these cost headwinds to abate in the coming quarter.

Turning to operating expenses, Q3 opex on a GAAP basis increased 7% quarter-on-quarter and decreased 10% year-on-year to $106 million. On a non-GAAP basis, operating expenses increased 6% quarter-on-quarter and increased 9% year-on-year to $95 million. Recall, last year operating expenses were offset by $9.5 million related to a joint product development related settlement fee; removing this benefit, Q3 opex would have been down 1% year-on-year. As outlined on the February earnings call, the sequential increase

in non-GAAP opex was primarily due to higher payroll taxes and increased R&D product development costs due to heightened new product activity from Intel (Ice Lake), AMD (Milan), and Nvidia (A100).

Other Income & Expense including interest expense was a $1.4 million gain as compared to a $3.1 million loss last quarter. The sequential change is mostly related to FX.

This quarter our tax gain was $0.2 million on a GAAP basis and an expense of $2.2 million on a non-GAAP basis. Our non-GAAP tax rate was 7.6% for the quarter.

Lastly, our Joint Venture incurred a loss of $0.3 million this quarter as compared to a loss of $1.5 million last quarter.

Q3 non-GAAP diluted EPS totaled $0.50 as compared to $0.63 in Q2 of fiscal 2021 and $0.84 in the same quarter of last year.

Cash Flow used in Operations totaled $124 million compared to cash flow from operations of $63 million in Q2. Capex totaled $19 million resulting in free cash flow used of $144 million. Key uses of cash during the quarter included increases to inventory and receivables, as well as capital return to stockholders through $43 million in share repurchases. Our closing balance sheet cash position was $179 million, while bank debt was $85 million, resulting in a net cash balance of $94 million.

Turning to working capital metrics compared to last quarter, our Q3 cash conversion cycle was 86 days, down from 92 days, and within our target range of 85 to 90 days. While the absolute level of our inventory increased, days of inventory at 99 days decreased. Days Sales Outstanding was 37 days while Days Payables Outstanding totaled 50 days.

Now turning to the outlook for our business. We expect net sales for the fiscal fourth quarter ending June 30, 2021 in a range of $980 million to $1.08 billion. We expect gross margins to increase approximately 70 basis points sequentially due to product mix and improved management of our supply chain costs.

GAAP operating expenses are expected to be approximately $108 million and include $7 million in stock option compensation expenses and $2 million in other expenses not included in non-GAAP operating expenses. We expect our Non-GAAP operating expenses to be up modestly quarter-on-quarter driven by lower NRE and continued investment in R&D with the rollout of new product activity from AMD, Intel and Nvidia. We expect our GAAP and non-GAAP Q4 tax rate to be approximately 13% and approximately 16% thereafter. We expect other income and expense, including interest expense, to total roughly $1.0 million and expect a nominal contribution from our JV. We expect fully diluted GAAP EPS to be in the range of $0.56 to $0.77 and fully diluted non-GAAP EPS to be in the range of $0.70 to $0.90.

We expect CapEx for the fiscal fourth quarter of 2021 to be in the range of $15 to $20 million dollars inclusive of our ongoing Taiwan building project.