Nicole Noutsios, Investor Relations

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the fourth quarter and full year fiscal 2021, which ended June 30, 2021.

By now, you should have received a copy of the news release from the Company that was distributed at the close of regular trading and is available on the Company's website.

As a reminder, during today's call, the Company will refer to a presentation that is available to participants in the Investor Relations section of the Company's website under the Events & Presentations tab. We have also published management's scripted commentary on our website.

Please note that some of the information you'll hear during our discussion today will consist of forward-looking statements, including without limitation those regarding revenue, gross margin, operating expenses, other income and expenses, taxes, capital allocation, and future business outlook, including guidance for the first quarter of fiscal year 2022 and the full fiscal year 2022, and the potential impact of COVID-19 on the Company's business and results of operations.

There are a number of risk factors that could cause Supermicro's future results to differ materially from our expectations. You can learn more about these risks in the press release we issued earlier this afternoon, our most recent 10-K filing for fiscal 2020, and our other SEC filings. All of these documents are available on the Investor Relations page of Supermicro's website. We assume no obligation to update any forward-looking statements.

Most of today's presentation will refer to non-GAAP financial results and business outlook. For an explanation of our non-GAAP financial measures, please refer to the accompanying presentation or to our press release published earlier today. In addition, a reconciliation of GAAP to non-GAAP results is contained in today's press release and in the supplemental information attached to today's presentation. At the end of today's prepared remarks, we will have a Q&A session for sell-side analysts to ask questions.

I'll now turn the call over to Charles Liang, Founder, Chairman and Chief Executive Officer.

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

Thank you, Nicole, and good afternoon, everyone. I am pleased to announce that for the first time our quarterly revenue has exceeded $1B. For fiscal Q4 2021, we delivered year-over-year revenue growth of 19.3%. For the whole fiscal year 2021, our revenue grew 6.5%. We have gained market share and finally resumed fast growth starting from March quarter this year, after the impact from 10K delay and COVID19 challenges. The revenue growth was driven by some wins from large enterprise customers and large multi-nation high-tech companies. These customers choose Supermicro because of our green computing technology, faster time-to-market, and plug-and-play total IT solutions, especially in appliance, Cloud, AI and 5G markets.

Now, let's look at some key highlights from the quarter:

- Our fiscal fourth-quarter net sales totaled $1.07 billion, up 19.3%, both year-over-year and quarter-over-quarter, at the top end of our guidance range. This growth rate, I believe, is much higher than that of the industry.
- All our major geographies contributed double-digit year over year quarterly growth.
- Our fiscal fourth-quarter non-GAAP earnings per share was $0.81, up from $0.68 same period one year ago.
- We saw a significant increase in sales from new and existing large, high-profile customers.

Our strong momentum is mainly driven by our business expansion from hardware solution to total IT solution that consists of hardware, software, and services. We have doubled our software engineering resources in the past 24 months to allow us to swiftly execute this plan. Through engagement and close collaboration with strategic leading hardware and software partners, we have provided our customers fully optimized, tested, certified, and ready-to-deploy reference architectures. As a result, large volume orders are deployed timely without customers' having to go through complicated processes of hardware validation, software compatibility, and supply chain disruption. It's a win-win for everyone.

Earlier in fiscal Q4, we successfully executed the launch of Intel Ice Lake, AMD Milan and NVIDIA A100 GPU based product lines and began to ship more than 200 application-optimized product solutions. They are all based on the strong foundation of our Server Building Block Solution. These optimized systems are created in-house, leveraging close to three decades of subsystem innovations, including motherboards, enclosures, power supplies, and cooling technologies. What's more, our security and management software empower customers to deploy, manage and scale in a timely manner, from Enterprises to hyperscalers.

On the product side, our new Ice Lake-based X12 generation multi-node solutions have gained great tractions among customers who are looking to scale out their enterprise and cloud datacenters. From SuperBlade, MicroBlade to BigTwin, FatTwin and the upcoming GrandTwin, all these resource-saving product lines support dense NVMe and Optane persistent memory, flexible GPU and FPGA configurations, providing optimal performance and the best TCO to a variety of customer workloads.

Our GPU product lines are continuing their strong growth with the explosion of AI/ML application demands. These new Ice Lake and Milan-based GPU product lines support larger on-GPU memory and accelerate compute intensive applications. Our 2U 2-node GPU system has proven to be a top-seller since its introduction, thanks to its optimal mix of CPU-to-GPU ratio and resource-saving features. Later this year, we'll be introducing a brand-new Universal GPU product line that will provide even more flexible configurations for many different CPU and GPU modules, further push the limit of system density and performance up to 50% when compared to competition.

Announced in June during Computex 2021, the Plug & Play Rack product line is an integral part of our complete solution strategy going forward. These turn-key racks have undergone a thorough, solution-level design and validation process and built securely for our AI, 5G/Telco, enterprise, cloud, and storage customers. Upon receiving these total IT solutions, customers only need to connect power and networking, then they are immediately ready to run their applications, shortening the time from making decisions to seeing results.

To further improve sales and operations efficiency, we will launch our auto-configurator tool to enable B2B/B2C automation, which will be broadly ready to service our customers in the coming few weeks. This tool makes it faster to achieve product optimization and more efficient to leverage configurations among our sales, engineers, and customers.

We recently completed our Taiwan campus expansion. Now with the total 3M sq ft campus in Taiwan, we are equipped to deliver not only sufficient capacity, supply chain resilience, but also lower cost structure. Combined with manufacturing facilities in Silicon Valley and the Netherlands, Supermicro is well positioned to grow market share with economy of scale, agility, quality and rapid delivery time. To satisfy our customers' fast-growing demands, we are working aggressively across our global supply chain to mitigate critical parts shortage.

In summary:

1. Supermicro has been solidly transforming into a total IT solution company from a server hardware company. In addition to providing the greenest hardware total solution, our software and service products are now ready for large enterprise, cloud, AI and Telco customers.
2. Our Taiwan campus expansion doubles our solution capacity and lowers our cost structure. Now if we decide to do so, we can start to reduce our expense in Silicon Valley HQ.
3. Our business automation program, including the auto-configurator and B2B/B2C systems, will significantly improve customer experience by streamlining customer configuration and order process, resulting in shortened solution delivery time with better quality and optimization.

In closing, I am pleased with the progress of our business transformation, which has started to speed up our business execution in FY21. As a total IT solution company, we are now able to grow business much more efficiently and achieve our $10B revenue goal quicker, perhaps pull-in from 2026 to 2025 or even sooner.

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

David Weigand, Senior Vice President and & Chief Financial Officer

Thank you, Charles. We continued to accelerate in all major areas of the company and exceeded $1B in revenue for the quarter, at the high end of our guidance range. Growth was driven by wins from large enterprise customers and key high-tech companies worldwide, continued strength across all major geographies and solid demand for our products and services.

Our fiscal fourth quarter revenue totaled $1.07 billion, reflecting a 19% increase both on a year-on-year and quarter-on-quarter basis.

Looking at Supermicro's Q4 revenue in our three market verticals, we achieved $672 million in Organic (Enterprise and Channel) AI/ML, $366 million in OEM and large data center and $31 million in 5G/Telco and Edge/IoT. Systems comprised 78% of total revenue and the volume of systems shipped was up year-over-year, while the nodes shipped were down year-over-year. System ASPs increased year-over-year and quarter-on-quarter.

Performance was strong across all major geographies this quarter. On a year-on-year basis, Asia increased 25%, US increased 21%, Europe increased 13%, and Rest of World decreased 3%. On a sequential basis, US sales increased 30%, Europe increased 14%, Asia decreased 1%, and Rest of World increased 7%.

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

Working down the P&L, Q4 gross margin was 13.7%, down 30 basis points year-on-year and 10 basis points quarter-on-quarter. We expected Q4 gross margin to improve 70 basis points due to discreet costs incurred in Q3. As expected, those costs did not repeat in Q4, however expedite fees and shipping costs

increased by 50 basis points quarter-over-quarter. As reported by many other companies around the world, supply chain pressures related to the resurgence of variants of COVID-19 persist.

Turning to operating expenses, Q4 opex on a GAAP basis was essentially flat quarter-on-quarter and decreased 7% year-on-year to $106 million. The decrease year-on-year was caused by a decrease in incentive bonuses, offset by higher headcount this year, primarily in R&D. On a non-GAAP basis, operating expenses increased 4% quarter-on-quarter and increased 9% year-on-year to $99 million. The quarter-on-quarter and year-on-year increases were related to headcount and other personnel costs as we continue to invest in human capital to address our growth opportunities.

Other Income & Expense including interest expense was a $2.1 million loss as compared to a $1.4 million gain last quarter. The sequential change is mostly related to FX.

This quarter our tax benefit was $1.6 million on a GAAP basis and an expense of $1.8 million on a non-GAAP basis. Our non-GAAP tax rate was 4% for the quarter.

Lastly, our share of income from our JV was $0.6 million this quarter as compared to a loss of $0.3 million last quarter.

Q4 non-GAAP diluted EPS totaled $0.81 as compared to $0.50 in Q3 of fiscal 2021 and $0.68 in the same quarter of last year.

Cash flow from operations totaled $64 million compared to cash flow used in operations of $124 million in Q3. Capex totaled $13 million resulting in free cash flow of $50 million. Key uses of cash during the quarter included increases to inventory and receivables while key providers of cash included an increase of $144 million in accounts payable and $12 million in deferred revenues. The increase in deferred revenue was due to higher sales of service contracts. We also used $12 million to repurchase shares in the quarter. Our closing balance sheet cash position was $232 million, while bank debt was $98 million, resulting in a net cash balance of $134 million.

Turning to the balance sheet and working capital metrics compared to last quarter, our Q4 cash conversion cycle was 80 days, down from 86 day in Q3, beating our target range of 85 to 90 days. While the absolute level of our inventory increased, days of inventory at 96 days decreased. Days Sales Outstanding was 37 days while Days Payables Outstanding totaled 53 days.

Now turning to the outlook for our business. We expect net sales in a range of $900 million to $980 million, GAAP diluted net income per share of $0.16 to $0.36 and non-GAAP diluted net income per share of $0.28 to $0.48 for the first quarter of fiscal year 2022 ending September 30, 2021. We expect gross margins to remain at similar levels sequentially, with upside potential as we manage supply chain costs and maintain price discipline. Over the upcoming quarters, we expect to achieve margins within our target model as we further scale our Taiwan operations and begin to gain traction from our new product offerings and auto configurator B2B/B2C solutions. GAAP operating expenses are forecasted to be approximately $110 million and include $7 million in stock-based compensation expenses and $1 million in other expenses not included in non-GAAP operating expenses. We expect other income and expense, including interest expense, to total roughly $2.0 million and expect a nominal contribution from our JV. Non-GAAP operating expenses are forecasted to be up quarter-on-quarter from continued investment in R&D, lower NRE and higher personnel costs. The company's projections for GAAP and non-GAAP diluted net income per common share both assume a tax rate of approximately 16% and a fully diluted share count of 53.7 million shares for GAAP and 55.0 million shares for non-GAAP. The outlook for Q1 of fiscal year 2022 GAAP diluted net income per common share includes approximately $8 million in expected stock-based compensation and other expenses, net of tax effects, that are excluded from non-GAAP diluted net income per common share. We expect net sales in a range of $4.1 billion to $4.5 billion, GAAP diluted net income per share of at least $2.60 and non-GAAP diluted net income per share of at least $3.00 for fiscal year 2022 ending June 30, 2022. The company's projections for GAAP and non-GAAP diluted net income per common share both assume a tax rate of approximately 16% and a fully diluted share count of 55.3 million shares for GAAP and 56.5 million shares for non-GAAP. The outlook for fiscal year 2022 GAAP diluted net income per common share includes approximately $30

million in expected stock-based compensation and other expenses, net of tax effects, that are excluded from non-GAAP diluted net income per common share.

We expect CapEx for the fiscal first quarter of 2022 of approximately $14 to $16 million dollars.

Nicole, we're now ready for Q&A.