Nicole Noutsios, Investor Relations

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the first quarter, which ended September 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 second 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 2021, 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 our quarterly revenue exceeded $1B even during a traditionally weak September quarter. For fiscal Q1 2022, we delivered strong year-over-year revenue growth of 35%. We continued to gain market share and are executing well against our plan to achieve $10 billion in annual revenue. The revenue growth was driven by strong progress across many key customers with our Total IT Solution strategy.

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

- Our fiscal first-quarter net revenue totaled $1.03 billion. It's our second consecutive quarter of $1 billion+ in revenues, up 35% year-on-year and down 3% quarter-on-quarter, exceeding our guidance of $900 to $980 million. Our efforts continue to enable our growth trajectory at multiple times the average industry growth rate.
- Our fiscal first-quarter non-GAAP earnings per share was $0.58, compared to $0.55 in the same period one year ago and higher than our guidance of $0.28 to $0.48
- All our major geographies contributed significant year over year growth with the APAC region including Japan doubling YoY. The newly completed Taiwan expansion at Bade will greatly help our Asia and EMEA growth momentum by providing additional capacity and lowering operational cost.

These results show that we remain on track to achieve our $10B annual revenue target as we previously shared. We started our business with the best system building block solutions on the market 28 years ago. After many years of servicing the System Integrators and Value-Added Resellers, we began to offer application-optimized complete systems to direct partners including many appliance partners, OEM and large enterprise accounts. In the past 10 years, we have continued to expand and began our business transition from a hardware solutions company to a Total IT Solutions company that combined hardware, software, services and more. With application optimized total IT solutions for many vertical markets and a much broader technology footprint today, we are redefining our growth drivers to speed up our growth strategies.

1. Sub-system and Components: We will continue to offer server motherboards, enclosures, barebones and accessories to the market to continue help growing our market share.
2. Complete Systems: We will continue to fully focus and expand on growing our complete hardware systems with technologies co-developed with our key partners including Intel, AMD, NVIDIA, Broadcom, and others.
3. Total IT Solutions: We are accelerating our development of Appliance and Plug-n-Play (PnP) Rack-Scale Solutions for AI/ML, Industry Automation, IoT, 5G/Telco and Cloud products
4. 5S's: We are finally ready to aggressively promote our Software, Service and Switch Product lines. And I will share more about the other two S's when they are ready.

Our building blocks and complete systems business have been steadily growing over the decades, and they serve as the backbone of our revenue growth. With more enterprise customers and appliance partners engagements, our Rack Scale, Total IT Solutions business is our new major growth driver now. To make our Total IT Solutions a seamless experience for our customers, we have been increasing our R&D resources to focus on many software products, service, and networking for about ten years. These products, as higher value parts of our Total IT solutions, will be the keys to improve our margins and profitability in the coming quarters and years.

Our new online auto-configurator together with new B2B program are now driving our business growth more efficiently than ever before. Our innovative new command-center based customer service system have been greatly helping our sales, FAE, PM teams as well as our key customers. They are dramatically improving our business interactions with customers—much faster, much accurate, more optimized and more customer friendly while reducing manpower, human delay and error. Our new intelligent database driven tools are indeed performing much smarter and faster than human efforts in most areas. This automated-intelligent system is servicing our salesforce and customers to their great satisfaction now, and it will be constantly upgraded and updated.

Our push toward Total IT Solutions is benefiting Supermicro and our customers in multiple ways. Most importantly, our customers will receive higher-quality products that are fully optimized, integrated and validated in house. For the PnP rack-scale products, our customers just need to connect network and

power cables. This shrinks their deployment time from many weeks to a few hours. The total IT solution is also helping Supermicro and our customers to mitigate the impact of the global supply chain disruptions by accurately forecasting, building inventories in scale and prioritizing with our strategic partners. The system building block solution allows us to utilize sets of common sub-systems and components to create, design and deliver first-to-market products with reduced manufacturing and supply chain complexity and risk. This will dramatically improve our customer's time-to-market, which is critical to their success. The total IT Solution is indeed a win-win-win proposition for Supermicro, our customers and our supply chain partners.

Customers can get a taste of our Total IT Solutions now by signing up for our new JumpStart Program. They can remotely run their software and applications on our custom, preconfigured, pre-validated racks powered by the latest generation of Intel, AMD processors and NVIDIA GPUs. We are also providing hosted instances of PnP Cloud Infrastructure with operating systems and other tools that can be accessed remotely for development and testing. The program will instill more confidence in Supermicro customers as it delivers the convenience, faster time to market, performance optimization, cost savings and security.

In summary:

1. Supermicro is rapidly growing and is transforming into a Total IT solution company from a server hardware company. In addition to providing the greenest hardware total solution, our software, switch and service products are now ready for any large enterprise, cloud, AI and Telco customers.
2. We are building on and expanding our successful product and technology leadership. Our new growth factors, including the Total IT Solutions and the fast-growing 5S product lines, are keys to achieving our $10B revenue target and higher profitability.
3. Replicating our market share success in the US to APAC and EMEA with the completion of our new APAC campus in Taiwan.

4. Our new Command Center Based Auto configurator and B2B Automation platforms are getting broadly used by customers around the world now, and they are accelerating our market-share gains and customer satisfaction.

In closing, I am getting much happier with the progress of our business transformation, which is resulting in an acceleration of our business in FY22 and beyond. As a Total IT Solutions company, our TAM continues to increase as we invest our resources for growth, and I am optimistic about achieving our $10B annual revenue goal on a much sooner schedule.

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 & Chief Financial Officer

Thank you, Charles. We continued to experience diversified growth across our key market verticals, exceeding $1B in revenue for the quarter, above the high end of our guidance range. This is the second consecutive quarter that revenues have exceeded $1 billion. Revenue growth was driven by sales to large enterprise, cloud, AI, and Telco markets, continued strength across all geographies and strong demand for our products and services.

Our fiscal first quarter revenue totaled $1.03 billion, reflecting a 35% year-on-year increase and a 3% decrease on a quarter-over-quarter basis.

Looking at Supermicro's Q1 revenue in our three market verticals, we achieved $725 million in the Organic (Enterprise and Channel) AI/ML vertical, $250 million in the OEM appliance and large data center vertical and $58 million in the 5G/Telco and Edge/IoT vertical. Systems comprised 82% of total revenue and the volume of systems and nodes shipped were up year-over-year. System node ASPs increased year-over-year and quarter-on-quarter.

On a year-on-year basis, Asia increased 108% as we saw continued growth with both existing and new customers, Europe increased 60%, US increased 13% and Rest of World increased 6%. On a sequential basis, Asia increased 29%, US sales decreased 14%, Europe decreased 3%, and Rest of World decreased 1%.

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

Working down the P&L, the Q1 gross margin was 13.4%, down 30 basis points quarter-over-quarter from Q4 due to higher freight and supply chain costs as was also reported by many other companies around the world. On a year-over-year basis gross margins were down 370 basis points due to a discrete cost

recovery event in Q1 of last year, while also incurring higher freight, supply chain and other costs in Q1 fiscal year 2022.

Turning to operating expenses, Q1 opex on a GAAP basis increased 2% quarter-on-quarter and 10% year-on-year to $109 million. On a non-GAAP basis, operating expenses increased 2% quarter-on-quarter and increased 7% year-on-year to $101 million. The year-on-year and quarter-on-quarter increases on a GAAP and non-GAAP basis were driven primarily by higher personnel expenses due to increased headcount, especially in Asia.

Other Income & Expense including interest expense was a $0.8 million expense as compared to a $2.1 million expense last quarter. The sequential change is mostly related to FX.

This quarter the tax provision was $3.3 million on a GAAP basis and $6.2 million on a non-GAAP basis. Our non-GAAP tax rate was 16.6% for the quarter.

Lastly, our share of income from our JV was $0.4 million this quarter as compared to $0.6 million last quarter.

Q1 non-GAAP diluted EPS totaled $0.58 which was higher than our mid-point guidance of $0.38 due to higher revenues, and lower operating expenses, offset by lower gross margins.

Cash flow used in operations was $134.6 million compared to cash flow generated from operations of $63.6 million in Q4 as we built inventory ahead of a seasonally strong December quarter and positioned ourselves to mitigate the impact of supply chain disruptions. Capex totaled $11.9 million resulting in free cash flow consumption of $146.5 million. Key uses of cash during the quarter included increases to inventory, payments made to reduce accounts payable offset by an increase in deferred revenue. We did not repurchase any shares in the quarter. Our closing balance sheet cash position was $270 million,

while bank debt was $279 million as we drew down on our bank lines of credit to increase inventory as we ramped production of new platforms globally.

Turning to the balance sheet and working capital metrics compared to last quarter, our Q1 cash conversion cycle was 94 days, up from 80 days, above our target range of 85 to 90 days due to higher inventories. Days of inventory was 114, representing an increase of 18 days versus the prior quarter. Days Sales Outstanding was up by 4 to 41 days while Days Payables Outstanding was up by 8 to 61 days.

Now turning to the outlook for our business. We expect net sales in the range of $1.1 billion to $1.2 billion, GAAP diluted net income per share of $0.60 to $0.80 and non-GAAP diluted net income per share of $0.70 to $0.90 for the second quarter of fiscal year 2022 ending December 31, 2021. We expect gross margins to improve as we manage supply chain costs and maintain price discipline. Over the upcoming quarters, we continue to 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 expected to be approximately $112 million and include $7 million in stock option 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 be a net expense of roughly $1.5 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 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 53.5 shares for GAAP and 55 million shares for non-GAAP. The outlook for Q2 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 are raising our guidance for the fiscal year 2022 ending June 30, 2022, and now expect net sales in a range of $4.2 billion to $4.6 billion versus our prior forecast of $4.1 to $4.5 billion, GAAP diluted net income per share of at least $2.77 (versus our prior forecast of $2.60) and non-GAAP diluted net income per share of at least $3.20 (versus our prior forecast of $3.00). 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 54.1 million shares for GAAP and 55.6 million shares for non-GAAP. The outlook for fiscal year 2022 GAAP diluted net income per common share includes approximately $33 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 second quarter of 2022 to be in the range of $3 to $5 million dollars

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