Nicole Noutsios, Investor Relations

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the second quarter, which ended December 31, 2021. With me today are Charles Liang, Founder, Chairman and Chief Executive Officer, Patrick Wang, President, East Coast & SVP, Strategy and Corporate Development, and David Weigand, Chief Financial Officer.

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 third 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.

Charles Liang, Founder, Chairman & Chief Executive Officer

Thank you, Nicole, and good afternoon, everyone. Today, I am pleased to announce our quarterly revenue of $1.17 billion for fiscal Q2 2022, which was 41% year-over-year growth, and our sequential growth was 14%. We have seen strong growth in all our key verticals and geographies despite challenges from global component shortage and COVID impact. More importantly, our Total IT Solutions strategy has been empowering us to continuously gain market share - all thanks to our dedicated employees, powerful server building block solutions, and, finally, our fast growing software products. With the bigger TAM and potential from Total IT Solutions, I believe our growth trend will continue for many years to come and getting stronger quarter after quarter.

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

- Again, our fiscal second-quarter net revenue totaled $1.17 billion, up 41% year-on-year and up 14% quarter-on-quarter, at the higher end of our guidance range of $1.1 to $1.2 billion. It's Supermicro's fourth consecutive quarter of fast revenue progression as we continue our growth trajectory at multiple times the industry's growth rate.
- Our fiscal second quarter non-GAAP earnings per share was $0.88, compared to $0.63 in the same period one year ago, which was 40% growth and at the higher end of our guidance range of $0.70 to $0.90.
- All our major geographies contributed significantly to our year-over-year growth, especially in the APAC region which grew 76% year-over-year. The Taiwan expansion boosts our APAC and EMEA growth momentum by providing additional capacity and lowering operational cost.
- We continued to expand the B2B Auto-configurator program to service significantly more customers during the quarter. Our innovative command-center based on-line business system has been improving our sales, FAE, PM team's efficiency as well as our key customer's satisfaction.
- Recent market conditions have presented us with better opportunities to accelerate our business transition from a hardware company to a Total IT Solutions company. The transition

has enabled Supermicro to offer customers higher value and product availability with optimal hardware, software, services, switches and more.

Our results have shown that we outperform our previous $10B annual revenue target timeline we shared in the last couple of quarters. More encouragingly, we are observing a diversified growth across our target verticals, which are large enterprise, AI/ML, Cloud, 5G/Telco and IOT. Our design wins and engagements with Fortune-listed customers continue to grow quickly with our Total IT Solutions. Our push towards Total IT Solutions is benefiting Supermicro and our customers in multiple ways. Most notably, our customers will receive higher-quality, plug-and-play ready products that are fully optimized, integrated and validated in-house. This effort is also helping Supermicro and our customers mitigate the impact of the global supply chain disruptions by accurately forecasting, building inventories in scale and prioritizing with our strategic partners. As a result, our Total IT Solutions dramatically improve our customer's time-to-market and increase Supermicro's value.

Our Total IT Solutions are built upon a robust knowledge of system architecture and building blocks that can be optimized for most market verticals. With the rise of Omniverse and Metaverse, we have recently introduced several new architectures to enhance our GPU product offerings. Our new Universal GPU architecture allows customers to choose the best CPUs, GPUs, switches, and I/O configurations to truly optimize their applications and workloads, leveraging either Intel Xeon Scalable processors or AMD EPYC processors. The Universal GPU system enables customer to standardize configurations in their clusters for the desired workloads on a single platform. This unique, versatile system supports various GPUs, including NVIDIA A100 GPUs, the newly announced AMD MI200 series accelerators, many FPGA products from different companies and others. I am glad to announce that we already have many major customers and industry leaders committing to this new platform, and the only limitation is the supply chain challenge.

Partnering closely with leading technology providers in the emerging Metaverse and Omniverse ecosystems, Supermicro has doubled our GPU product lines to support these 3D and immersive workloads. Our 2U 2-node GPU system provides an optimal mix of CPU-to-GPU ratio with resource-saving features. Our high performance and highly configurable Hyper and Hyper-E servers support

multiple GPUs in a single system and are ideal for use cases such as distributed AI inferencing applications, content delivery, telco micro datacenters, 5G core and many other mission critical enterprise workloads. Along with our NVIDIA A100 Delta and Redstone platforms, Supermicro's comprehensive AI system building blocks support everything from inference at the edge to high-performance computing in the Metaverse/Omniverse datacenters and everything in between.

Last quarter we have redefined our growth drivers to speed up our growth strategies, which include: Sub-system and Components, Complete Systems, Total IT Solutions, and 5S's. Our building blocks and complete systems business have been steadily growing over the decades with the help of our partners, and they still serve as the backbone of our revenue growth. With more large enterprise customers, top technology-leading companies, and appliance partners engagements, I would like to emphasize again that Total IT Solutions business is our new major growth driver now. Going forward, our investments in software products, service, and networking will be the keys to improve our margins and profitability in the coming quarters and years.

In summary:

1. Supermicro is rapidly growing and transforming into a Total IT Solutions company from a server hardware company.
2. We are accelerating our design wins and market share gains at key large global customers including enterprise, AI/ML, 5G/Telco and Edge/IoT.
3. We are improving our profitability and replicating our market share success in the US to APAC and EMEA with the completion of our APAC expansions and rapid production ramp in Taiwan.
4. Our new Command Center Based Auto-configurator and B2B Automation platforms are improving our operations effectiveness and customer satisfaction while accelerating our market-share gains.

In closing, our 41% year-over-year revenue growth is a solid proof that Supermicro's business is taking off quickly now. I am confident that our market presence, TAM, and profitability will continue to increase

strongly as we invest more resources as a Total IT Solutions company. My team and I have been diligently executing our growth strategies and accelerating the timeline to pull in our $10 billion revenue goal.

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.

I am pleased to report our third consecutive quarter of revenues exceeding $1 billion. We are seeing continued strength across all geographies and strong demand for our products and services, resulting in fiscal second quarter revenue of $1.17 billion, a 41% year-on-year increase and up 14% quarter-on-quarter. Our Q2 revenues were at the higher end of our guidance range of $1.1 to $1.2 billion. Revenues for the trailing 4 trailing quarters (Q3FY21 through Q2FY22) totaled $4.17B.

Supermicro's Q2 FY22 recorded revenue growth across all three of our market verticals, achieving $756 million in Organic (Enterprise and Channel) and AI/ML, $274 million in OEM appliance and large data center, and $142 million in the 5G/Telco and Edge/IoT. The 5G/Telco/Edge/IOT vertical more than doubled sequentially as new designs went into production. Systems comprised 84% of total revenue and subsystems/accessories represented 16% of Q2 revenues. The volume of systems and nodes shipped as well as System node ASPs increased year-over-year and quarter-on-quarter.

On a year-on-year basis, Asia, including Japan, increased 76% as we saw continued growth with both existing and new customers, Europe increased 39%, US increased 38% and Rest of World decreased 32%. On a sequential basis, Asia including Japan increased 8%, US sales increased 14%, Europe increased 20%, and Rest of World increased 19%.

The Q2 gross margin was 14.0%, up 60 basis points quarter-over-quarter from Q1 due to price discipline and a better product/customer mix. This increase was achieved in spite of our increased use of air freight and higher supply chain costs. On a year-over-year basis gross margins were down 240 basis points due to a discrete cost recovery event in Q2 of last year and higher freight and supply chain costs.

Turning to operating expenses, Q2 OPEX on a GAAP basis increased 3% quarter-on-quarter and 14% year-on-year to $113 million. On a non-GAAP basis, operating expenses increased 2% quarter-on-quarter and increased 15% year-on-year to $103 million. The year-on-year and quarter-on-quarter increases on a GAAP basis were driven by higher personnel costs and increased headcount; higher stock compensation expense and lower research and development NRE credits. The year-on-year and quarter-on-quarter increases on a non-GAAP basis were driven primarily by higher personnel costs and increased headcount and lower research and development NRE credits.

Other Income & Expense including interest expense was a $1.8 million expense as compared to a $0.8 million expense last quarter. The sequential change is mostly related to loss from remeasurement of our Taiwan Dollar loans to a weaker U.S. Dollar.

This quarter the tax provision was $7.6 million on a GAAP basis and $10.9 million on a non-GAAP basis. Our non-GAAP tax rate was 18.5% for the quarter. Our tax rate for GAAP and non-GAAP purposes increased this quarter primarily due to a change in U.S. tax regulations.

Lastly, our share of income from our JV was $0.2 million this quarter as compared to $0.4 million last quarter.

Q1 non-GAAP diluted EPS totaled $0.88, which was near the high end of the guidance range due to higher revenues and higher gross margins partially offset by higher operating expenses.

Cash flow used in operations was $53 million compared to cash flow used in operations of $135 million in Q1 as we continued to build inventory to be in a position to meet the increasing levels of large orders from

our customers and to mitigate the impact of supply chain disruptions. Capex totaled $12 million for Q2 resulting in negative free cash flow of $65 million. Key uses of cash during the quarter included increases to inventory and accounts receivable, offset by cash provided from increased accounts payable, customer prepayments and deferred revenue. We did not repurchase any shares in the quarter. Our closing balance sheet cash position was $247 million, while bank debt was $316 million as we drew down on our bank lines of credit to increase inventory levels as we ramped production of new platforms globally.

Turning to the balance sheet and working capital metrics compared to last quarter, our Q2 cash conversion cycle was 98 days, up from 94 days in Q1, above our target range of 85 to 90 days due to higher inventories. Days of inventory was 118, representing an increase of 4 days versus the prior quarter. Days Sales Outstanding was down by 4 to 37 days while Days Payables Outstanding was down by 4 to 57 days.

Now turning to the outlook for our business, we note that our Q3 March quarter typically has some seasonal impact from the Lunar New Year holiday and we are also carefully watching impacts to the supply chain from Covid-19 related disruptions. We expect net sales in the range of $1.1 billion to $1.2 billion, GAAP diluted net income per share of $0.58 to $0.81 and non-GAAP diluted net income per share of $0.70 to $0.90 for the third quarter of fiscal year 2022 ending March 31, 2022. We expect gross margins to be up slightly from Q2 levels. GAAP operating expenses are expected to be approximately $118 million and include $8.5 million in stock-based compensation and $1.7 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 $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 and higher personnel costs. The company's projections for GAAP and non-GAAP diluted net income per common share assume a GAAP tax rate of 15%, a non-GAAP tax rate of 16.5%, and a fully diluted share count of 54.5 million for GAAP and 56 million shares for non-GAAP. The outlook for Q3 of fiscal year 2022 GAAP diluted net income per common share includes approximately $8.5 million in

expected stock-based compensation and $1.7 million in other expenses, net of tax effects, that are excluded from non-GAAP diluted net income per common share.

We are maintaining our revenue guidance range of $4.2 to $4.6 billion for the fiscal year 2022 ending June 30, 2022 and our GAAP diluted net income per share outlook of at least $2.77 and non-GAAP diluted net income per share of at least $3.20. The company's projections for GAAP net income assumes a tax rate of 15% and a rate of 17% for non-GAAP net income. For FY22, we are assuming 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 fully diluted GAAP EPS includes approximately $37 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 third quarter of 2022 to be in the range of $5 to $8 million dollars

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