Nicole Noutsios, Investor Relations

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the third quarter, which ended March 31, 2022. 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 fourth quarter of fiscal year 2022 and the full fiscal year 2022, our long term revenue goals, 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, our 10-Q filings made thereafter, 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, President & Chief Executive Officer

Thank you, Nicole, and good afternoon, everyone.

Today, I am pleased to announce our quarterly revenue of $1.36 billion for fiscal Q3 2022, which was 51% year-over-year growth and 16% quarter on quarter growth sequentially. These results are well above our guidance given 3 months ago and above our recently updated range given two weeks ago. The continued 5 quarters of strong earnings indicate our Total IT Solutions growth strategy is working well, and we are only at the very beginning of the breakout.

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

- Again, our fiscal third-quarter net revenue totaled $1.36 billion, up 51% year-on-year and up 16% quarter-on-quarter, well above our guidance range of $1.1 to $1.2 billion. It's Supermicro's fifth consecutive quarter of fast revenue progression, and we continue to execute our strong growth trajectory at 3 to 4 times higher than the overall industry's growth rate.
- Our fiscal third quarter non-GAAP earnings per share was more than tripled year over year and was $1.55 compared to $0.50 a year ago. This 210% growth was well above the higher end of our guidance range of $0.70 to $0.90, demonstrating strong operating leverages and customer accepting the value of our Total IT Solutions.
- Growth in our major geographies was well balanced, and our recent Taiwan expansion has contributed to our better operation margin and meeting our growing customer demands.

Our results in the past 5 quarters are showing that we are ahead of our $10 billion annual revenue target that we shared last year March, and our profitability has been improving greatly as well since then. Based on our current demand and capacity, we are forecasting at least $1.45 billion revenue for the coming June quarter to end the fiscal 2022 on a strong note at about $5B yearly revenue. Looking further ahead I believe we will continue to have a strong FY 23 in the range of $6 billion to $7 billion annually and expect to reach our $10 billion yearly revenue at least one year sooner than the original plan we shared back in March 2021.

The fuels that accelerated our revenue came from our successes with our Total IT Solutions in AI, enterprise, cloud, Edge/telco and customers from many key verticals. Riding on the strength and foundation of Supermicro's Optimized Building Block Architecture, our Total IT solutions allow customers to quickly deploy without going through the complications of design, validation, sourcing and integration. This strategy also positions Supermicro very favorably amidst the ongoing supply chain challenges compared to competition. With our building blocks and fast growing economy of scale, we can create and

deliver workload-optimized solutions to customers with time to market, quality, performance, cost and TCO advantages.

To grow our solutions and customer base faster and more efficiently, we are on track with our Command Center-based auto-configurator and B2B/B2C automation platforms. Many customers have tried and liked this intelligent database and web-based service for many quarters. This represents our next opportunity to scale up and scale out our application optimized solutions to many more customers 24/7 with no downtime and no man power bandwidth limitation. The B2B/B2C automation program will be greatly launched nationwide in this month. It will dramatically improve our engineering, operations, sales and service effectiveness and customer satisfaction while accelerating our market-share gains.

To enrich our Total IT Solutions product portfolio, we have doubled our software engineering resources in the past few years to build new features to power our enterprise, Data Center and OEM customers. Our SuperCloud Composer and other software products manages GPU, compute, storage and network building blocks at cloud scale, including rich analytics, so datacenter operators can make critical data-driven decisions to improve workload efficiencies. In middle and Longer term we see our investments in full datacenter management software stacks will enable future infrastructure as a service and monitoring as-a-service functionalities and that will further enhance our Total IT solutions capabilities and value.
Our recent Taiwan and US expansions are focusing on delivering L10, L11 and L12 rack scale Total IT Solutions in volume, capable of shipping thousands of racks per month directly from Supermicro campuses. Designed with green computing in mind, these energy saving rack scale solutions leverage our latest free-air cooling and liquid cooling technologies. More and more of our customers are able to run their data Center with PUE close to1.06 or even better.

Customers can expect lower TCO by saving energy cost while increase performance per megawatt in their facilities substantially (in some of the cases, our customers increase computing capacity up to 50% with the same energy budget). Many Fortune-listed customers are quite happy to receive higher-quality, plug-and-play ready products that are fully optimized, integrated and validated by Supermicro.
Our R&D organizations are happy and hard at work to expand our new technology product lines. With the upcoming new Intel Sapphire Rapids and AMD Genoa processors, we again are ready to bring time-to-market advantage to our customers. We are pleased to see a strong trend in terms of customer seeding and early deployment requests. We have especially partnered closely with Nvidia and other leading technology partners in the emerging Metaverse and Omniverse ecosystems and doubled our GPU product lines to support these 3D and immersive workloads. With all of the new technologies including PCI-e Gen5, CXL, DDR5, the new 350W CPU and 700W GPU, our portfolio of new platforms for rack scale total IT solution will continue to evolve and become key growth drivers for our coming quarters and years.

In closing, our 51% year-over-year revenue growth and non-GAAP EPS of $1.55 quarterly proves that our total IT solution strategy has been gaining customer's preference and trust in this growing TAM. We will continue to enhance our Total IT Solutions capabilities and value, while continue to lower our operation cost by leveraging our Taiwan production capacity. With our strong technical foundation, dedicated employees, server building block solutions and application optimized Green Computing products, we are quickly and consistently winning new customers and their satisfaction now. More importantly, our investments in Command Center based B2B and B2C platforms will help us to much efficiently increase our customer base and market share. I and My teams will continue to execute our growth strategies and accelerating the timeline to reach $10 billion revenue target in short term and start to plan for our new $20 billion middle term goal as well.

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

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Thank you, Charles.

I am pleased to report solid fiscal third quarter revenue of $1.36 billion, a 51% year-on-year increase and 16% quarter-on-quarter increase. Our revenue exceeded our initial guidance range of $1.1 to $1.2 billion and our recently updated range of $1.3 to $1.35 billion. This was our fourth consecutive quarter of revenues exceeding $1 billion. Year to date revenue through our fiscal third quarter increased 43% year over year. Our growth initiatives with total IT solutions targeting fast-growing markets and customers with accelerated GPU/AI workloads, software-defined storage and networking, public and hybrid cloud, and edge/IOT platforms are gaining momentum. These new growth drivers complement our traditional strength with enterprise/channel and OEM customers, leading to accelerated revenue growth, expanding margins and operating leverage. Revenues for the trailing 4 quarters (Q4FY21 through Q3FY22) totaled $4.63B.

In the third fiscal quarter, Supermicro recorded balanced revenues across all three of our market verticals demonstrating the resilient nature of our diversified end markets. We achieved $846 million in Organic (Enterprise and Channel) and AI/ML revenues, representing 62% of Q3 revenues (versus 64% last quarter), up 44% YoY and 12% QoQ with growth driven both by our growing list of large enterprise customers and new product offerings. Our OEM appliance and large datacenter segment achieved $423 million in revenues, representing 31% of Q3 revenues (versus 23% last quarter), up 54% YoY and up 54% QoQ with strong growth driven by large new and existing datacenter customers and OEM appliance

customers. Our 5G/Telco/Edge/IoT segment achieved $86 million in revenues, representing 7% of Q3 revenues (versus 12% last quarter) and was up 159% YoY and down 39% QoQ. This emerging segment represents a fast-growing long-term opportunity for us and our design win momentum and backlog continues to grow but short-term quarter-to-quarter results can fluctuate depending on the timing of new customer adoptions and qualification cycles. Systems comprised 85% of total revenue and subsystems/accessories represented 15% of Q3 revenues. On a year-over-year basis, the volume of systems and nodes shipped as well as System node ASPs increased. On a quarter-over-quarter basis, the volume of systems shipped and system node ASP's increased, while nodes shipped were lower due to product mix.

We had a balanced distribution of revenues across geographies, with US representing 56% of revenues, Asia (including Japan) 23%, Europe 15%, and Rest of World 6%. On a year-on-year basis, US revenues increased 53%, Asia (including Japan) increased 50%, Europe increased 27%, and Rest of World increased 184%. On a sequential basis, US revenues increased 19%, Asia (including Japan) increased 9%, Europe decreased 5%, and Rest of World increased 124%.

The Q3 gross margin was 15.6%, up 160 basis points quarter-over-quarter from Q2 and up 180 basis points year-on-year due to price discipline, leverage from higher factory utilization and operating efficiencies and a continually improving product/customer mix. The quarter-on-quarter and year-on-year increase in gross margins was achieved despite continued elevated freight and supply chain costs.

Turning to operating expenses, Q3 OPEX on a GAAP basis increased 7% quarter-on-quarter and 14% year-on-year to $121 million. On a non-GAAP basis, operating expenses increased 6% quarter-on-quarter and increased 15% year-on-year to $110 million. Our non-GAAP operating margin increased significantly to 7.5% for the quarter versus 5.2% last quarter and 3.2% a year ago, demonstrating both improvements in gross margins and operating leverage. The year-on-year and quarter-on-quarter increases on a GAAP and non-GAAP basis were driven by higher headcount and personnel costs and lower research and development NRE credits.

Other Income & Expense was $3.1million in income consisting of $4.6 million in foreign-exchange gains offset by interest expense of $1.5 million as compared to a $1.8 million expense last quarter.

This quarter the tax provision was $16.2 million on a GAAP basis and $19.6 million on a non-GAAP basis. Our non-GAAP tax rate was 18.7% for the quarter. Our tax rate for GAAP and non-GAAP purposes increased again this quarter primarily due to a significant increase in pre-tax income in fiscal 2022.

Lastly, our share of income from our JV was $0.3 million this quarter as compared to $0.2 million last quarter.

The Q3 non-GAAP diluted EPS totaled $1.55 which exceeded the high end of original guidance range of $0.70 to $0.90 and our recently updated Q3 range of $1.40 to $1.50. The increases to EPS were due to a combination of higher revenues; manufacturing efficiency, price discipline, product & customer mix and operating leverage.

Cash flow used in operations for Q3 was $228 million compared to cash flow used in operations of $53 million in Q2 as accounts receivable and inventories grew due to increasing demand from our customers and to mitigate the continued impact of supply chain disruptions. Including Capex of $11 million, Q3 negative free cash flow totaled $239 million. Key uses of cash during the quarter included increases to inventory and accounts receivable and a reduction in customer prepayments, offset by cash provided from increased accounts payable and short-term debt. We did not repurchase any shares in the quarter. Our closing balance sheet cash position was $247 million, while bank debt was $547 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 Q3 cash conversion cycle was unchanged at 98 days relative to Q2 and above our target range of 85 to 90 days due to higher inventories. Days of inventory was 117, representing a slight decrease of 1 day versus the prior quarter. Days Sales Outstanding was up by 2 days quarter-on-quarter to 39 days while Days Payables Outstanding was up by 1 day to 58 days.

Now turning to the outlook for our business, we note that our Q4 June quarter is typically seasonally strong and we are enthusiastic about several new customers and innovative, new leading-edge total IT solutions ramping in multiple end markets. We are carefully watching the global macro-economic situation and impacts to the supply chain from continuing Covid-19 related disruptions. For the fourth quarter of fiscal 2022 ending June 30, 2022, we expect net sales in the range of $1.4 billion to $1.48 billion, GAAP diluted net income per share of $1.45 to $1.64 and non-GAAP diluted net income per share of $1.51 to $1.69. We expect gross margins to be similar or slightly up from Q3 levels. GAAP operating expenses are expected to be approximately $121 million and include $8 million in stock-based compensation and $1.0 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 approximately $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 17.4%, a non-GAAP tax rate of 19.4%, and a fully diluted share count of 54.3 million for GAAP and 55.7 million shares for non-GAAP.

For the fiscal year 2022 ending June 30, 2022, we are raising our revenue guidance range from $4.2 to $4.6 billion to a new range of $4.96 billion to $5.04 billion and raising our GAAP diluted net income per share outlook from at least $2.77 to a range of $4.16 to $4.35, and our non-GAAP diluted net income per share from at least $3.20 to a range of $4.53 to $4.71. The company's projections for GAAP annual net income assumes a tax rate of 16.5% and a rate of 18.7% for non-GAAP net income. For FY22, we are assuming a fully diluted share count of 53.6 million shares for GAAP and 55.1 million shares for non-GAAP. The outlook for fiscal year 2022 fully diluted GAAP EPS includes approximately $39 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 fourth quarter of 2022 to be in the range of $10 to $15 million dollars

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