Nicole Noutsios, Investor Relations

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the fourth quarter, which ended June 30, 2022. With me today are Charles Liang, Founder, Chairman and Chief Executive Officer, 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 first quarter of fiscal year 2023 and the full fiscal year 2023, 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, President & Chief Executive Officer

Thank you, Nicole, and good afternoon, everyone.

Today, I am pleased to announce record year end results with annual revenue surpassing a milestone of $5.2 billion, growing 46% year over year. We ended the year with another great quarter with fiscal Q4 2022 revenues of $1.64 billion, growing 53% year-over-year and 21% quarter on quarter, surpassing both top and bottom-line estimates. Our quarterly and year-end results were above our guidance given three months ago and exceeded our recently updated range given several weeks ago.

Our strong growth is fueled by recent ramp in design wins based on our rack-scale Total IT Solutions, especially on GPU solutions and AI platforms. And I believe our solutions will continue to drive plenty of new design wins and further accelerate our strong growth in the coming quarters and years. More customers are also recognizing and adopting the value of our Green Computing Solutions due to the rising environmental challenges and energy cost. The Total IT Solution strategy and Green Computing Solution value have resulted in four consecutive quarters of growth, at minimum three times faster than competitors' growth rate.

Now, let's look at some of the key highlights from the year and quarter.

- Our fiscal FY 2022 net revenue totaled $5.2 billion, up 46% year-on-year, above our guidance range of $5 billion.
- Our fiscal year non-GAAP earnings per share of $5.65, grew 128% year over year, compared to $2.48 a year ago. This exceeded the higher end of our guidance range of $4.53 to $4.71.
- Our fiscal fourth-quarter net revenue totaled $1.64 billion, up 53% year-on-year and up 21% quarter-on-quarter, above our guidance range of $1.4 billion to $1.48 billion.
- Our fiscal fourth quarter non-GAAP earnings per share tripled year over year and was $2.62 compared to $0.81 a year ago and was well above the high end of our guidance range of $1.51 to $1.69. It demonstrates the strong operating leverage and customer preference towards our rack-scale Total IT Solutions.

- While our Total IT Solutions business has experienced a robust growth in the US this year, we will continue to gain even greater domestic traction going forward. We will also expand our Total IT solution to both Europe and Asia markets in the coming quarters and years.

Our robust fiscal year results reinforce our confidence in achieving the $10 billion in annual revenue target much sooner than we guided last year, and we are now preparing for our $20 billion midterm goal that we disclosed last quarter. We are excited at this generational opportunity to become the global leader of rack-scale plug and play IT solutions. Based on current supply and capacity, at the midpoint of our guidance range, we are forecasting $1.57 billion in revenue for the coming September quarter. I am also confident that our full fiscal 2023 revenue will be above the low end of the prior guidance range of $6 billion and we now expect revenue to be in the range of $6.2 billion to $7.0 billion and Non-GAAP earnings per share of at least $7.50. Although the macroeconomic conditions are uncertain, we are optimistic that some of the supply chain and logistics issues will begin to subside.

From a market perspective, we continue to see increasing demand for accelerated compute and AI platforms. We are meeting this demand at both system and rack-scale level with our Total IT Solutions, supported by over twenty years of system building block development. These building blocks allow us to create highly optimized rack scale plug-and-play datacenter solutions for our customers with lower infrastructure cost and increase in significant TCO savings. Our Total IT Solutions approach streamlines design, validation, sourcing and integration, resulting in much shorter lead times for our customers with optimized quality and performance. Moreover, our Total IT Solutions simplifies the intricacies of firmware, management software and revision control.

In addition, our SuperCloud Composer, Orchestrator, security and other software products can optimally manage compute, acceleration, storage and network building blocks at cloud scale, including rich analytics. Datacenter operators can easily leverage this information to make critical decisions that improve workload efficiencies. Soon, we are expanding our investments in full datacenter management software stacks that will enable future infrastructure as-a-service and secure monitoring as-a-service functionalities, further enhancing our Total IT Solutions capabilities and value. This one-stop-shop

approach is well-aligned with emerging growth markets across AI/ML, software-defined storage/networking, public/hybrid cloud, and 5G/IoT/Telco.

We previously shared that we will soon be deploying our Command Center-based intelligent business automation. This new B2B/B2C automation platform is being used and validated by some of our customers as we speak. This intelligent auto-configurator will leverage our system building block methodology, scaling out application-optimized solutions to a much broader customer base. We expect this tool will dramatically improve our go to market initiatives, product designs, operations, and service effectiveness. Most importantly, the automation process will considerably grow our customer base and improve customer satisfaction starting from this fiscal year.

Our current manufacturing scale and capacity is built to support between $10 billion to $12 billion in annual revenue as we continue to ramp up our rack-scale capabilities in our global facilities. During the June quarter, we shipped over a thousand plug-and-play racks. Today, in the September quarter, we have doubled our rack-scale capacity with enhanced features at our new Building 23. Overall we have scaled our rack capacity to six thousand racks per quarter now. Our product development activities continue to grow stronger with close partners like NVIDIA, expanding our GPU system product lines including the new Delta Next, Redstone Next and Grace Hopper product lines. Our early deployment programs with the upcoming Intel Sapphire Rapids and AMD Genoa product lines are mostly ready, just awaiting for the official release of the new Intel and AMD processors.

Switching gears, we stay committed to lead the market in Green Computing Solutions with our resource saving designs, both to reduce environmental impact and the cost of customers' operations. As we apply our green computing solutions at rack-scale level, we can bring even better quality and time-to-market value to our customers. Higher energy costs and limitations on electricity usage will continue to strain many companies. We saw this dynamic and challenges since a decade ago, and we have been at the forefront with technologies and solutions that help customers operate their datacenters in high temperature through free-air cooling or liquid cooling. Many of our customers have achieved significant TCO and PUE reduction in their data centers, down to 1.05 from industry average of 1.57 or higher. By our calculations, worldwide adoption of our green computing solutions, or other suppliers' solutions with

similar energy efficiency, would potentially save the IT industry more than $10 billion in electricity costs yearly or eliminating the need of more than 30 fossil-fueled power plants. That equates to saving 8 billion trees on our planet. Personally, I am very glad to see increased demand for energy efficient solutions for cost savings, but more importantly, we must do this for our Mother Earth.

In closing, we are focused on building and delivering much more greener, rack-scale Total IT Solutions. From an industry perspective, this is the greatest opportunity Supermicro has ever seen since our founding 29 years ago. Our year-over-year top and bottom-line performance is evidence that our Total IT Solutions strategy is accelerating. I see our room to grow is at least another 4X in the coming years while we believe that our TAM will continue to expand with new applications. We will continue to address this technology intersection by enhancing our Total IT Solutions capabilities with more software and services. By that, we will continue to gain market share and expand to new verticals while increasing our business scale and operating profits. My teams and I will continue to execute our growth strategies and are accelerating the timeline to our $10 billion revenue target in short term and $20 billion midterm mission.

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.

I am pleased to report fiscal fourth quarter revenues of $1.64 billion, a 53% year-on-year and 21% quarter-on-quarter increase. Our revenues exceeded our initial guidance range of $1.4 to $1.48 billion and our recently updated range of $1.58 to $1.63 billion. For Fiscal 2022, we reported revenues of $5.2 billion, representing 46% growth over FY21 revenues of $3.56 billion. Our growth initiatives are gaining momentum with our Total IT Solutions targeting fast-growing markets and customers with accelerated GPU/AI workloads, software-defined storage and networking, public and hybrid cloud, and 5G/edge/IOT platforms. These new growth drivers complement our traditional strength with enterprise/channel and OEM customers, leading to accelerated revenue growth, expanding margins and operating leverage.

In the fourth fiscal quarter, Supermicro recorded balanced revenues across all three of our market verticals demonstrating the resilient nature of our diversified end markets. We achieved $835 million in Organic (Enterprise and Channel) and AI/ML revenues, representing 51% of Q4 revenues (versus 62% last quarter), up 24% YoY and flat QoQ. The YoY growth in this segment was driven by our growing list of large enterprise customers and new product offerings. Our OEM appliance and large datacenter segment achieved $717 million in revenues, representing 44% of Q4 revenues (versus 32% last quarter), up 95% YoY and up 67% QoQ with strong growth driven by large new and existing datacenter customers and OEM appliance customers. Our 5G/Telco/Edge/IoT segment achieved $83 million in revenues, representing 5% of Q4 revenues (versus 6% last quarter) and was up 172% YoY and down slightly by 4% QoQ.

For the full FY2022, our Organic (Enterprise and Channel) and AI/ML revenues grew 40% to represent 61% of FY22 revenues. Our OEM appliance and large datacenter segment grew 44% and represented 32% of total revenues. Our emerging 5G/Telco/Edge/IOT segment grew 163% and represented 7% of total revenues.

Our mix of complete systems and rack-scale Total IT Solutions has been increasing steadily. Systems comprised 91% of total revenue and subsystems/accessories represented 9% of Q4 revenues. On a year-over-year basis and also on a quarter-over-quarter basis, the volume of systems and nodes shipped as well as System node ASPs increased due to product and customer mix.

We had a balanced distribution of Q4 revenues across geographies, with US representing 66% of revenues, Asia 17%, Europe 14%, and Rest of World 3%. On a year-on-year basis, US revenues increased 65% as we gained market share with our advanced, rack-scale Total IT Solutions for emerging high-growth server workloads. Asia increased 38%, Europe increased 21%, and Rest of World increased 84%. On a quarter-over-year basis, US revenues increased 41%, Asia decreased 9%, Europe increased 9%, and Rest of World decreased 30%.

The Q4 non-GAAP gross margin was 17.6%, up 200 basis points quarter-over-quarter from Q3 and up 390 basis points year-on-year due to price discipline, lower freight costs, leverage from higher factory utilization, operating efficiencies and a continually improving product/customer mix. While the supply-chain disruptions continued, we achieved some success in controlling freight and other logistics costs through disciplined execution. Our Q4 gross margin was above the high end of our long-term target model range of 14 to 17% and demonstrates the success of our new, high-value Total IT Solutions.

Turning to operating expenses, Q4 Opex on a GAAP basis increased slightly by 1% quarter-on-quarter and 15% year-on-year to $122 million. On a non-GAAP basis, operating expenses increased 4% quarter-on-quarter and increased 15% year-on-year to $113.5 million. Our non-GAAP operating margin increased significantly to 10.7% for the quarter versus 7.5% last quarter and 4.4% a year ago, demonstrating both improvements in gross margins driven by new product and customer mix and operating leverage driven by higher revenues along with disciplined expense controls. Our non-GAAP operating margin of 10.7% for Q4 was above our target model range of 5 to 8%.

Other Income & Expense was approximately $1 million in income consisting of $4 million in foreign-exchange gains offset by interest expense of $2.9 million as compared to $4.7 million in FX gain and $1.5 million in interest expense last quarter. Our interest expense increased sequentially as we utilized our short-term credit lines for financing higher inventory and accounts receivables. We also experienced higher short-term interest rates on our borrowings driven by recent Fed actions.

This quarter the tax provision was $25.8 million on a GAAP basis and $29.9 million on a non-GAAP basis. Our GAAP tax rate for Q4 was 15.5% and our non-GAAP tax rate was 17.1%. Our GAAP and non-GAAP tax expenses increased due to higher level of pre-tax profits; but the tax rates were lower sequentially.

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

We delivered strong Q4 non-GAAP diluted EPS of $2.62 which exceeded the high end of the original guidance range of $1.51 to $1.69 and our recently updated range of $2.30 to $2.40. The increases to EPS were due to a combination of higher revenues, higher gross margins from manufacturing efficiency, price discipline, product & customer mix and operating leverage. For the full fiscal 2022, we reported non-GAAP diluted EPS of $5.65, up 128% YoY versus fiscal 2021 non-GAAP diluted EPS of $2.48 and higher than our initial guidance of $4.53 to $4.71.

Cash flow used in operations for Q4 was $25 million compared to cash flow used in operations of $228 million for Q3 due to our improved profitability along with better management of our inventory and working capital. Despite the 21% QoQ increase in revenues, we trimmed our inventory by 3% QoQ. Accounts Receivable increased sequentially due to higher revenues, while Accounts Payable decreased sequentially due to the timing of payments to our vendors. Our Capex was $11 million for Q4 resulting in negative free cash flow of $36 million versus negative free cash flow of $239 million last quarter. Our closing balance sheet cash position was $267 million, while bank debt was $597 million as we utilized our bank lines of credit to support higher revenues and accounts receivables as we ramped production of new design wins globally.

As we look ahead to fiscal 2023, we expect that our continued growth in revenue and profitability together with improved working capital management will lead to better operating and free cash flow. We are optimistic that some of the supply chain and logistics costs will begin to stabilize. We remain confident in our long-term outlook for robust revenue growth and profitability driven by our leading-edge new platforms, design wins, market share gains, and engagement with significant new global customers. We are announcing a new $200 million stock buyback program today that will be in effect through January 31, 2024.

Turning to the balance sheet and working capital metrics compared to last quarter, our Q4 cash conversion cycle was 100 days versus 98 days in Q3 and above our target range of 85 to 90 days. Days of Inventory was 106, representing a decrease of 11 day versus the prior quarter of 117 days as we

managed our inventory more efficiently. Days Sales Outstanding was up by 3 days quarter-on-quarter to 42 days while Days Payables Outstanding came down significantly by 10 days to 48 days.

Now turning to the outlook for our business, we remain enthusiastic about design wins in plug and play (PNP) rack-scale Total IT Solutions ramping in multiple end markets. We are carefully watching the global macro-economic situation and continuing supply-chain disruptions. For the first quarter of fiscal 2023 ending September 30, 2022, we expect net sales in the range of $1.52 billion to $1.62 billion, GAAP diluted net income per share of $2.01 to $2.27 and non-GAAP diluted net income per share of $2.07 to $2.32. We expect gross margins to be similar to Q4 levels. GAAP operating expenses are expected to be approximately $126 million and include $8.6 million in stock-based compensation and $0.5 million in other expenses that are not included in non-GAAP operating expenses. GAAP and non-GAAP operating expenses are expected to increase due to continued investments in R&D and higher personnel costs.

We expect other income and expense, including interest expense, to be a net expense of approximately $3.6 million and expect a nominal contribution from our JV.

The company's projections for GAAP and non-GAAP diluted net income per common share assume a GAAP tax rate of 19.4%, a non-GAAP tax rate of 20.3%, and a fully diluted share count of 54.8 million for GAAP and 56.2 million shares for non-GAAP. We expect CapEx for the fiscal first quarter of 2023 to be in the range of $6 to $8 million dollars.

For the fiscal year 2023 ending June 30, 2023, we are giving guidance for revenues in the range $6.2 billion to $7.0 billion, GAAP diluted net income per share of at least $7.27, and non-GAAP diluted net income per share of at least $7.50. The company's projections for GAAP annual net income assumes a tax rate of 20.3% and a rate of 21.1% for non-GAAP net income. For FY23, we are assuming a fully diluted share count of 55.6 million shares for GAAP and 57.0 million shares for non-GAAP. The outlook for fiscal year 2023 fully diluted GAAP EPS includes approximately $35.4 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.

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