



Michael Staiger, Vice President Corporate Development

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the first quarter, which ended September 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 second quarter of fiscal year 2023 and the full fiscal year 2023.

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 2022, 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, Michael, and good afternoon, everyone.

Today, I am very pleased to announce another fast growing quarter and a great start to our fiscal 2023. Supermicro is finally ready to do a big jump, for Green Computing and for being the best IT Total Solution company! Here are some key highlights for the quarter:

- Revenue for the first quarter of Fiscal Year 2023 totaled \$1.85 billion, up 79% year-on-year, above our guidance range of \$1.52B to \$1.62B with growth rate at about 10 times greater than the overall IT industry.
- Our fiscal first quarter non-GAAP earnings per share grew over 490% year over year at \$3.42 compared to \$0.58 a year ago. It was well above the high end of our guidance range of \$2.07 to \$2.32. It was achieved by our leading designs, innovative products, our IT Total Solution, and our strong global operations. Especially, the growing utilization of our Taiwan facility is improving our ability to meet demand and making higher operating margin.
- Our PnP Rack-Scale Total IT products and GPU based systems have resulted in triple-digit percentage growth year over year. Along with excellent results from storage and 5G verticals, we are making solid market share gains.
- Growth in our major geographies skewed to the US at 70% of total sales this quarter, driven by ongoing design wins from some of the top tier technology leaders. They recognize and accept the strong value proposition of our Green Computing technology and Total IT Solutions.

We are off to a great start for fiscal 2023, and we expect our unprecedented growth momentum to continue. We are comfortably delivering quarterly revenue in the multibillion-dollar range, supporting our ambition of reaching \$20 billion in the near distant future with a focus on



increasing our profitability. Based on our current demand and capacity, we are forecasting \$1.75 billion revenue for this December quarter, supporting our \$7B annual revenue target for FY2023.

We continue see opportunities for share gains across our TAM, especially with strong demands for our rack-scale Total IT Solutions and accelerated compute platforms. Despite already having the broadest server and storage portfolio in the industry, we are expanding our product lines by 25% in supporting our future growth. These additional new products will specifically be optimized for:

1. High-end AI workloads
2. 5G Telco applications
3. Accelerated storage systems
4. Specific technology partner and top tier customer engagements.

For the first time, we are offering standard OCP-optimized platforms and rack products. We are able to leverage our unique building block solution designs instead of spending huge additional engineering, production resources and hardware/software investment. Combining our hardware Building Block Solution, advancing software, security and service features, our Total IT Solutions are getting ever stronger.

To address this growing demand of Total IT Solutions, our manufacturing capacity in both Silicon Valley and Taiwan campuses continues to gear toward delivering more L10, L11 and L12 rack scale systems, including our new liquid cooled solutions. We are on target to scale our rack production capabilities to 3000 racks per month in US in the near future. We are also preparing to expand our rack scale Plug-and-Play solution in Europe and in Asia soon. Furthermore, as the component shortages start to ease, our ability to deliver our best-in-class



solutions will begin to accelerate, giving our customers even greater confidence in our ability to service their IT needs.

From a systems level perspective, we are ready to launch a full line of next generation products with technologies across our key partner ecosystem. For Intel, we are engaged with many large opportunities with Intel's upcoming Gen 4 scalable CPU codenamed Sapphire Rapids. We now have hundreds of early seeding engagements including several dozen early shipments. Similar programs have been executing with AMD, and we have seen very strong demand for our upcoming Genoa CPU based platforms. With respect to NVIDIA, not only do we have the most complete portfolio of systems supporting H100 GPUs, but we have also developed many brand new architectures for the leading Metaverse and Omniverse partners. At the upcoming Super Computing event, we will be showcasing many new systems supporting these latest CPUs and GPUs, including our next generation water-cooled rack scale PnP solutions.

We work closely with our customers, designing solutions that are both optimized for performance and efficiency, putting them on the path of Green Computing. From a financial perspective, Supermicro's Green Computing solution lowers customer datacenter TCO while maximize performance per kilowatt, increase compute capacity per rack, lower facilities costs while add location flexibility - in particular to power constrained regions with higher power cost. We expect to see elevated demand for energy efficient rack scale solutions across the tier-1 and tier-2 datacenter ecosystems. Thus, we now have enabled our popular SuperBlades, Twin product lines and some of GPU product lines to be fully optimized for liquid-cooling solutions and free-air cooling datacenter environment. Soon, we will start to offer fully redundant liquid cooling on the system level similar to its air-cooled counterparts for even more peace of mind. If half of the IT industry adapts Supermicro's Green Computing solutions or develops solutions as green as ours, together we can potentially save the industry up to \$10B in electricity costs per year, which is equivalent of eliminating about 30 fossil fueled power plants. That is also



equivalent to preserving 8B trees for our planet. With planning in advance for green computing, indeed Green Computing can be free, with bonus!

To summarize, we are emerging as one of the largest global suppliers of Total IT Solutions. There are some key factors that enable Supermicro to continue with its ability to make strong market share gains. First, our unique building block solution design methodology enables us to create optimized products from system level to rack-scale. Second, our Total IT Solutions strategy, including DC management software, security features, cloud stack and service, offers customers a peace of mind and quicker time to market while expanding our TAM. Our unique operation model, with business headquarters and campuses in US, Asia and Europe is pivotal in supporting these key growth drivers. Third, our Green Computing DNA helps our customers achieve much lower TCO while saving the Mother Earth. As I have mentioned earlier, Green Computing can be free with proper advanced planning, with a bonus that keeps paying back.

With that, I expect our fiscal Q2 revenue will be in the range of \$1.7B to \$1.8B, and our FY23 should reach \$6.5B to \$7.5B. Looking ahead, I anticipate FY24 revenue may reach the range of \$8B to \$10B considering the current economic headwind may last for many quarters. As we continue to gain IT market share with the best rack-scale Plug-and-Play Total Solutions, I believe we will soon become a \$20B revenue company. Our business model has been optimized, our engineering teams are fully ready, and our worldwide campus production capacity and efficiency are now second to none.

Let me not forget, I want to take a moment to thank our Supermicro employee teams, our suppliers, and our partners for their continued dedication to making Supermicro a market leader.

Now I will 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 Q1, Fiscal 2023 revenues of \$1.85 billion, a 79% year-on-year and 13% quarter-on-quarter increase. Revenues exceeded our initial guidance range of \$1.52 to \$1.62 billion and our recently updated range of \$1.78 to \$1.82 billion. Our growth momentum continued with our rack-scale Total IT Solutions targeting growing markets and customers with accelerated GPU/AI workloads, software-defined storage and networking, public and hybrid cloud, and 5G/edge/IOT platforms. Our Green Computing Solutions helped us gain market share as customers valued both generating less carbon in our environment and reducing their operating costs. These growth drivers have resulted in accelerated revenues with expanding margins and operating leverage.

In fiscal Q1, Supermicro again recorded strong revenues across all three of our market verticals demonstrating the value we bring to our end markets and customers. We achieved \$840 million in our Enterprise and Channel vertical, representing 45% of Q1 revenues (versus 51% last quarter), up 16% YoY and up 1%QoQ. The YoY growth in this segment was driven by new product offerings. Our OEM appliance and large datacenter segment achieved \$921 million in revenues, representing 50% of Q1 revenues (versus 44% last quarter), up 268% YoY and up 28% QoQ with strong growth coming from design wins from datacenter and OEM appliance customers. Our 5G/Telco/Edge/IoT segment achieved \$90 million in revenues, representing 5% of Q1 revenues (versus 5% last quarter) and was up 58% YoY and up 9% QoQ.

Our mix of complete systems and rack-scale Total IT Solutions has been increasing steadily. Systems comprised 92% of total revenue and was up 102% YoY and up 16% QoQ as we saw growing success with our high-value rack-scale Total IT Solutions for emerging applications. Subsystems/accessories represented 8% of Q1 revenues and was down 24% YoY and down 9% QoQ as we prioritized our key customers with high-growth rack-scale applications. On a year-over-year basis, the volume of systems



and nodes shipped as well as System node ASPs increased due to product and customer mix. On a quarter-over-quarter basis, the volume of systems shipped decreased while nodes shipped and System node ASPs increased due to product and customer mix.

During fiscal Q1, we observed strength in the US market with US representing 70% of revenues, Asia 14%, Europe 13%, and Rest of World 3%. On a year-on-year basis, US revenues increased 131% as we gained market share with our advanced, rack-scale Total IT Solutions for high-growth server workloads. Asia increased 3%, Europe increased 31%, and Rest of World increased 78%. On a quarter-over-year basis, US revenues increased 21%, Asia decreased 4%, Europe increased 5%, and Rest of World decreased 5%.

The Q1 non-GAAP gross margin was 18.8%, up 120 basis points QoQ from Q4 and up 540 basis points YoY due to price discipline, lower freight costs and leverage from higher factory utilization. Our Q1 gross margin demonstrates the success of our high-value rack-scale Total IT Solutions.

Turning to operating expenses, Q1 Opex on a GAAP basis increased by 4% quarter-on-quarter and 17% year-on-year to \$127.4 million. On a non-GAAP basis, operating expenses increased 3% quarter-on-quarter and increased 16% year-on-year to \$117.3 million. Our non-GAAP operating margin increased significantly to 12.5% for the quarter versus 10.7% last quarter and 3.7% a year ago, demonstrating both improvements in gross margins and operating leverage.

Other Income & Expense was approximately \$4.1 million in income primarily consisting of \$7.8 million in foreign-exchange gains offset by interest expense of \$3.9 million as compared to \$4 million in FX gain and \$2.9 million in interest expense last quarter. Interest expense increased sequentially as we reduced short-term credit lines while interest rates increased.



The tax provision for Q1 was \$38.9 million on a GAAP basis and \$42.1 million on a non-GAAP basis. The GAAP tax rate for Q1 was 17.4% and non-GAAP tax rate was 17.9%. Our GAAP and non-GAAP tax expenses increased due to the higher level of pre-tax profits.

Lastly, our share of income from our JV was a loss of \$0.9 million this quarter as compared to gain of \$0.3 million last quarter.

We delivered strong Q1 non-GAAP diluted EPS of \$3.42 which was up 490% YoY and up 31% QoQ and exceeded the high end of the original guidance range of \$2.07 to \$2.32 and the recently updated range of \$3.05 to \$3.20. The increases to EPS were due to a combination of higher revenues, higher gross margins from manufacturing efficiency, price discipline and operating leverage.

Turning to the balance sheet and working capital metrics compared to last quarter, our Q1 cash conversion cycle improved to 95 days versus 100 days in Q4 but still above our target range of 85 to 90 days. Days of Inventory was 100, representing a decrease of 6 days versus the prior quarter of 106 days as we managed our inventory more efficiently. Accounts Receivable decreased sequentially by \$98 million from strong collections, while Accounts Payable increased sequentially by \$130 million due to the timing of payments to our vendors. Days Sales Outstanding was down by 3 days quarter-on-quarter to 39 days while Days Payables Outstanding came down by 4 days to 44 days.

For fiscal Q1, we generated positive cash flow from operations of \$314 million versus cash used in operations of \$25 million last quarter. The positive operating cash flow was due to higher profitability along with better management of inventory and working capital. Revenue growth was 79% YoY and 13% QoQ, while inventory grew 47% YoY and 12% QoQ. Capex was \$10.8 million for Q1 resulting in positive free cash flow of \$303 million versus negative free cash flow of \$36 million last quarter. The closing balance sheet cash position was \$238 million, while bank debt was reduced to \$250 million as we paid down \$347 million in short-term debt during the quarter. We did not buy back any shares during the quarter and have \$200 million in share repurchase authorization until January 31, 2024.



Now turning to the outlook for our business, we are carefully watching the global macro-economic situation and supply-chain dynamics. For the second quarter of fiscal 2023 ending December 31, 2022, we expect net sales in the range of \$1.7 billion to \$1.8 billion, GAAP diluted net income per share of \$2.54 to \$2.81 and non-GAAP diluted net income per share of \$2.64 to \$2.90. We expect gross margins to be down 75 to 100bps due to competition from a strong US dollar and macro-economic conditions.

GAAP operating expenses are expected to be approximately \$133 million and include \$11.8 million in stock-based compensation that is not included in non-GAAP operating expenses. GAAP and non-GAAP operating expenses are expected to increase in Q2 due to continued investments in R&D and higher personnel costs.

We expect other income and expense, including interest expense, to be a net gain of approximately \$1.6 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 17.4%, a non-GAAP tax rate of 17.9%, and a fully diluted share count of 55.7 million for GAAP and 57.0 million shares for non-GAAP. We expect CapEx for the fiscal second quarter of 2023 to be in the range of \$7 to \$10 million dollars.

For the fiscal year 2023 ending June 30, 2023, we are raising our guidance for revenues from a range of \$6.2 to \$7.0 billion to a range of \$6.5 to \$7.5 billion, GAAP diluted net income per share from at least \$7.27 to a range of \$8.50 to \$11.00, and non-GAAP diluted net income per share from at least \$7.50 to a range of \$9.00 to \$11.30. The company's projections for GAAP annual net income assumes a tax rate of 19.2% and a rate of 19.8% for non-GAAP net income. For FY23, we are assuming a fully diluted share count of 57.0 million shares for GAAP and 58.4 million shares for non-GAAP. The outlook for fiscal year 2023 fully diluted GAAP EPS includes approximately \$32.7 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.

As we look ahead to the rest of fiscal 2023, we expect that our improved profitability together with good working capital management will lead to operating cash flow in line with net income. 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.

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