Michael Staiger, Vice President Corporate Development

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the second quarter, which ended December 31, 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 third 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 pleased to announce another outstanding quarterly result for Supermicro, driven by contributions across our diversified customers, end markets and strong products. No single customer contributed more than 10% of our revenue. This is the eighth consecutive quarter of outstanding growth that effectively doubled our annual revenue. Let me share some key highlights for the quarter:

- Revenue for the second quarter of Fiscal Year 2023 totaled $1.803B, up 54% year-on-year, above our guidance range of $1.7B to $1.8B.
- Our fiscal second quarter non-GAAP earnings per share grew over 271% year-on-year at $3.26 compared to $0.88 a year ago, far exceeding the high end of our guidance range of $2.64 to $2.90. This great achievement is made possible by our much-improved operational and financial discipline, including our Taiwan campus that contributed lower operation and production cost.
- With the increase of AI applications, our Plug-n-Play Rack-Scale Total IT products and GPU based systems continue to be strong contributors with more than 100% year-on year growth. Storage products are also gaining significant traction with 41% YoY growth as we continued to grow market share.

We are mindful that many of our partners and customers have become increasingly more cautious with respect to macro-economic headwind, and we are prepared to deal with these uncertainties as we always have in the past. The strength of our products and business fundamentals keeps us confident in our ability to continue gaining market share from competition given in the traditionally soft Q3 quarter. We expect the headwind may persist

in the first half of calendar 2023, but we believe our business will recover quickly in the second half of the year as our new Sapphire Rapids, Genoa product and H100 product lines start to ramp in high volume. Having said that, our fiscal year 2023 revenue YoY growth should be in the middle 30% compare with last year without changing our business plan for strong growth in the coming years. For fiscal year 2024, we are targeting YoY revenue growth of at least 20%.

We continue to see new customers and increase demands for energy efficient rack-scale plug-n-play solutions across the tier-1, tier-2 datacenter ecosystems as well as other enterprise customers. Some of them are highly interested in our liquid cooling at the rack and system level for their green computing HPC, datacenter and cloud installations. In addition, our continuous investment in software, switch and service are paying dividends to our Total IT strategy as they grow. Our Silicon Valley and Taiwan campuses continue to optimize their rack-scale production processes, ready to deliver L10, L11 and L12 systems in volume with software, networking and services. Our US facility still has 40% capacity while Taiwan still has 50% capacity headroom to grow for the next one to two years. To accommodate stronger growth in the near and midterm future, our recently broken-ground Malaysia new campus will start to contribute even better profit margin through economy of scale with our more and more new high-volume customers. I am very glad that the lower operation and production cost from our new Malaysia campus will be ready in just 4 to 5 quarters away.

When the time gets tough, customers are looking for tangible value from their IT investment. With the power requirements rising with each new generation of technology, now up to 400W on the CPUs and 700W on the GPUs, we are seeing the true value of our Green Computing effort. We have added both high ambient temperature operation and liquid

cooling support for the new portfolio to reduce environmental impact, cooling-related infrastructure costs and OPEX. We are happy to see many more cloud total solutions customers speeding up their deployments with our Green Computing methodology. Many of them have already saved tens of millions of dollars in electricity cost as a direct result. We expect them to grow even faster by the coming quarters and years as we deliver superior performance, performance per watt and per dollar through new generations of products. As I have shared in the past, when the IT industry adopts our Green Computing solutions or develop green solutions like ours, it's possible to save close up to $10B in electricity costs per year, which is equivalent of eliminating about 30 fossil fueled power plants and equating to the preservation of up to 8B trees for our planet.

As we approach the 2nd half of our fiscal 2023, we see opportunities for diversified growth across more Large Datacenters, Enterprise, AI/ML, Storage, Cloud, 5G/Telco and IOT markets. Our online B2C and B2B programs have finally started to ramp up and offers the convenience and quicker service of direct support from Supermicro to many customers around the world. With all the online automation and intelligent database-driven tools, we see many new customers that are really happy to order from our new platform. 24-hour around-the-clock services, real time responses, precise communication, and cost efficiencies are just some of the advantages this program offers.

With our industry's most extensive product portfolio supporting the recently launched Intel 4th Gen Scalable Xeon processors (Sapphire Rapids), 4th Gen AMD EPYC (Genoa) processors, and NVIDIA H100 (Hopper) GPUs, we are confident to maintain and enhance our market-leading growth momentum in the coming quarters and years. Unlike last few generation's steady product ramp up, we currently see many more customers taking samples and seeding units of these new solutions. This demonstrates our customer base is

strongly expanding now. We expect them to become a significant revenue stream by the June quarter and more so in the September quarter and thereafter. With market excited for the latest innovations from Intel, AMD, NVIDIA and Supermicro, we remain optimistic that the demand will expand as new architectures developed for AI, Metaverse, Omniverse and IoT/Edge applications will be strong in the foreseeable future.

We had a better than expected December quarter. With new generation of products in a strong position now, it will generate more demand, especially with our rack-scale solutions. Along with our getting stronger software, switch and service offerings, our potential to gain market share has never been stronger than today despite the macroeconomic headwind. With our strong cash position today, we have allocated $200 million dollars for stock buyback program. We continue to emerge as one of the largest global suppliers of Total IT Solutions with market share gains. We are a Silicon Valley company focusing on green innovation and system technology. Our efforts have saved our customers' OPEX tremendously. With our 50% still available capacity in Taiwan and the coming soon more cost-efficient campuses in Malaysia, we continue to expect a 20% to more than 50% year-over-year growth for the coming years, and we remain on track to reach our long-term growth objectives of $20B annual revenues in the long run.

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 & Chief Financial Officer

Thank you, Charles.

I am pleased to report Q2, Fiscal 2023 revenues of $1.8 billion, up 54% year-on-year and down 3% sequentially. Revenues were at the high end of our initial guidance range of $1.7 to $1.8 billion and our recently updated range of $1.77 to $1.80 billion. Our YoY revenue growth continued to be driven by new and existing customers widely adopting our GPU/AI systems and rack-scale Total IT Solutions which contributed to solid gross margins and record operating margins.

In fiscal Q2, we had good growth in our two largest verticals: enterprise/channel and OEM appliance/large datacenter, demonstrating the resilience of our business model. AI/GPU accelerated computing solutions represented more than 20% of our revenues over the past 4 quarters and is a significant growth opportunity based on our wide range of AI/GPU platforms. We achieved Q2 revenues of $1.8 billion with no customer representing more than 10% of revenues. We recorded $970 million in our Enterprise and Channel vertical, representing 54% of Q2 revenues (versus 45% last quarter), up 29% YoY and up 15% QoQ. The OEM appliance and large datacenter vertical achieved $766 million in revenues, representing 42% of Q2 revenues (versus 50% last quarter), up 172% YoY and down 17% QoQ. Our emerging 5G/Telco/Edge/IoT segment achieved $67 million in revenues, representing 4% of Q2 revenues versus 5% last quarter.

Systems comprised 92% of total revenue and was up 68% YoY and down 3% QoQ. Subsystems/accessories represented 8% of Q2 revenues and were down 24% YoY and up 2% QoQ.

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 increased while nodes shipped and System node ASPs decreased due to product and customer mix.

Geographically in fiscal Q2 the US market represented 61% of revenues, Asia 18%, Europe 17% and Rest of World 4%. On a year-on-year basis, US revenues increased 71%, Asia increased 16%, Europe increased 45% and Rest of World increased 98%. On a quarter-over-quarter basis, US revenues decreased 15%, Asia increased 23%, Europe increased 33% and Rest of World increased 33%.

The Q2 non-GAAP gross margin was 18.8%, unchanged QoQ and up 480 basis points YoY due to price discipline, lower freight costs and leverage from higher factory utilization.

Turning to operating expenses, Q2 Opex on a GAAP basis decreased by 4% QoQ and increased 8% YoY to $122 million. On a non-GAAP basis, operating expenses decreased 7% QoQ and increased 5% YoY to $109 million. Opex decreased sequentially due to higher NRE and marketing credits for new platform launches. The non-GAAP operating margin was 12.8% for the quarter versus 12.5% last quarter and 5.2% a year ago as we benefited from lower operating expenses.

Other Income & Expense was approximately $8 million in expense primarily consisting of $6 million in foreign-exchange losses as the dollar weakened during Q2 and interest expense of $2 million as compared to $8 million in FX gain and $4 million in interest expense last

quarter. Interest expense decreased sequentially as we reduced short-term credit lines partially offset by increased interest rates.

The tax provision for Q2 was $30 million on a GAAP basis and $34 million on a non-GAAP basis. The GAAP tax rate for Q2 was 14.3% and non-GAAP tax rate was 15.3%. Our tax rates were lower sequentially as we benefited from favorable discrete tax benefits.

Lastly, our share of income from our JV was a loss of $1.4 million this quarter as compared to a loss of $0.9 million last quarter.

We delivered strong Q2 non-GAAP diluted EPS of $3.26 which was up 271% YoY and down 5% QoQ and exceeded the high end of the original guidance range of $2.64 to $2.90 and our recently updated guidance of $3.07 to $3.22. Our EPS out performance was attributed to our ability to maintain gross margins, manufacturing efficiencies and higher NRE and marketing credits.

Turning to the balance sheet and working capital metrics compared to last quarter, our Q2 cash conversion cycle was unchanged at 95 days versus Q1. Days of Inventory was 99, down by 1 day sequentially due to a more stable supply-chain. Accounts Receivable increased sequentially by $32 million while Accounts Payable decreased sequentially by $225 million. Days Sales Outstanding was down by 1 day QoQ to 38 days while Days Payables Outstanding came down by 2 days to 42 days.

In fiscal Q2, we generated positive cash flow from operations of $161 million versus $314 million in Q1. Our operating cash flow continued to benefit from strong revenues and

margins and an improved supply chain. We note that Q1 operating cash flow benefited from $70 million in customer pre-payments recorded as deferred revenues. Capex was $10 million for Q2 resulting in positive free cash flow of $151 million versus positive free cash flow of $303 million last quarter. The closing balance sheet cash position was $305 million, while bank debt was reduced to $170 million as we paid down $80 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. Our Board will determine the timing and amount of share repurchases.

Now turning to the outlook for our business, we continue to watch the global macro-economic situation. Additionally, as the supply chain disruptions have eased and the industry transitions to new platforms from Intel, AMD, Nvidia during 2023, we anticipanormal seasonal patterns. For the third quarter of fiscal 2023 ending March, 2023, we expect net sales in the range of $1.42 billion to $1.52 billion, GAAP diluted net income per share of $1.75 to $2.02 and non-GAAP diluted net income per share of $1.88 to $2.14. We expect gross margins to be down 30 to 40 bps due to macro-economic conditions.

GAAP operating expenses are expected to be $139 million, which includes approximately $12 million in expected stock-based compensation and other expenses that are excluded from non-GAAP diluted net income per common share. GAAP and non-GAAP operating expenses are expected to increase in Q3 due to lower R&D NRE credits and higher personnel costs.

We expect other income and expenses, including interest expense, to be a net expense of approximately $3 million and expect a nominal loss from our JV.

The Company's projections for GAAP and non-GAAP diluted net income per common share assume a GAAP tax rate of 15.9%, a non-GAAP tax rate of 16.9%, and a fully diluted share count of 57 million for GAAP and 58 million shares for non-GAAP. We expect CapEx for the fiscal third quarter of 2023 to be in the range of $11 to $14 million dollars.

For the fiscal year 2023 ending June 30, 2023, we are maintaining our guidance for revenues from a range of $6.5 to $7.5 billion, GAAP diluted net income per share from a range of $8.50 to $11.00 and non-GAAP diluted net income per share from a range of $9.00 to $11.30. The company's projections for GAAP annual net income assume 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 million shares for GAAP and 58 million shares for non-GAAP. The outlook for fiscal year 2023 fully diluted GAAP EPS 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 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.