Michael Staiger, Vice President Corporate Development

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the third quarter, which ended March 31, 2023.

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 fourth 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.

Our revenue for the third quarter of FY23 totaled $1.28 billion, down 5% year-on-year and below our initial guidance range as we previously announced, but our non-GAAP earnings per share grew over 5% year-on-year to $1.63 compared to $1.55 a year ago. While the quarter did not unfold as we expected, I am strongly encouraged by our current business momentum as we navigate market uncertainties with our new generation X13, H13 and H100 leading-edge products, especially in artificial intelligence. These new AI product demands from top-tier companies have led us to challenges in terms of new key components availability. Compounded with the economic headwind, our Q3 results were reflective of these difficult yet opportune conditions. The good news is that we have already started to address these component shortage pressures over the past few months, and we are in a much-improved situation going forward. We have started to produce and ship some back orders since April.

Here are a few highlights for the quarter:

- Record pace of GPU leading-edge design wins and growing back order, including winning at least two new global top 20 customers.
- We refreshed our entire product portfolio based on new CPU, GPU, Storage and Fabric technologies from key partners including NVIDIA, Intel, AMD and others.
- Increased customer demands of our rack scale PnP solutions and continued expansion and transition from a server/storage hardware manufacturer to a Total IT Solutions provider.

With applications like ChatGPT that heavily count on large language models (LLM) and generative AI, the state of AI infrastructure business has grown rapidly. This AI momentum has

benefited Supermicro greatly as we are deploying many of the world's leading and large-scale GPU clusters. In addition, we have built a close and collaborative relationship with NVIDIA over the years by co-developing and offering the most optimized and the fastest time-to-market GPU platform on the market. Aligning new generation product designs with partner ecosystems is highly complex. As I mentioned earlier, multiple key component shortages delayed our ability to manufacture and deliver the new systems like the Delta Next GPU system last quarter. With the improving components availability this quarter, the new GPU system shipments will ramp significantly. Indeed, we continue to scale up our manufacturing campus in US, Taiwan, Netherland and Malaysia, so that we can support our revenue growth in a much larger scale in the coming quarters and years.

By leveraging our in-house Building Block design and manufacturing, we are well equipped to navigate through the current economic headwinds. With our building block solutions architecture, we always deliver workload optimized new products to market faster than competitors, like with the recent NVIDIA H100, Intel Sapphire Rapids and AMD Genoa releases. The power consumption and thermal challenges of these new technologies have risen dramatically, and 40KW or even 80KW rack solution demands are getting stronger and popular for computing hungry DC and industries. Having high power efficiency and air/liquid thermal expertise has become one of our key differentiators of success. Combined with our proven green computing pedigree that saves customers much TCO costs, our time-to-market advantage and solution optimization via building block solutions; we anticipate to continue to gain many more new design wins with these new generation products in the quarters ahead.

We have made solid progress in our Total IT Solutions initiative by advancing our rack-scale solutions capability. Provided there are no supply constraints, we can design, build, validate full systems and deliver turn-key rack level solutions to customers within a few weeks of placing an

order instead of months from competitors. Supermicro's one-stop shop Total IT Solutions strategy includes AI, servers, storage, networking, software, racking, cabling, power, cooling, integration, validation, and management features plus services. The idea is to let our customers focus more on their applications and new software functions, leaving the IT hardware solutions to Supermicro, from cloud to edge. Currently, we are on track to support up to 4,000 racks per month of global manufacturing capacity by the calendar year end.

Our business is maintaining a growth rate that is multiples of the overall IT growth rate worldwide in the same period. We are doing so by efficiently taking market share in the new and fastest growing markets. AI, Storage, on-prem Cloud, Embedded and 5G Edge are all verticals we see potential to greatly increase our TAM. We are well positioned to support these highly specialized markets by optimizing our technology, design and business automation at our US, Asia and EMEA campuses. The recently added liquid-cooled rack-scale solutions and production lines, product auto configurator and online business automation will bring more value to customers quicker with better quality. We are also improving our cost structure by scaling our Taiwan and upcoming Malaysia campuses, which will be online soon with some of our key partners.

While our March quarter results had some challenges, our new generation of products are in high demand, especially for AI, and we anticipate more customers deploying our products in rack-scale PnP. We continue to emerge as one of the largest global suppliers of Total IT Solutions and continue to gain market share. The strength of our products and technology keeps us confident of delivering Q4 revenues in the range of $1.7 to $1.9 billion. If supply conditions improve sooner, we expect to be above that range, despite some economic headwinds ahead. In other words, I continue to expect our fiscal year 2024 revenue to be at

least 20% year-over-year growth, and we are accelerating to reach our mid-to-long-term growth objectives of $20B annual revenues.

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.

Fiscal Q3, 2023 revenues were $1.28 billion, down 5% Year-over-Year (YoY) and down 29% Quarter-over-Quarter (QoQ), below our initial guidance range of $1.42 to $1.52 billion. The shortfall was primarily due to key new component shortages for Supermicro's new generation server platforms which have been mostly resolved to date. Our next generation AI platforms are driving record levels of design wins along with strong orders from top-tier customers and a record backlog. We are well positioned for a strong finish to our fiscal year 2023 as we ramp up deliveries of our new platforms to key customers. We note that our shipments against a record backlog may be constrained by supply chain bottlenecks due to high demand for our advanced AI server platforms**.**

Q3 results were driven by our high-growth AI/GPU and rack-scale solutions which represented approximately 29% of our total revenues and we expect significant, future growth. An existing Cloud Service Provider (CSP) customer represented more than 10% of revenues for the first time.

On a QoQ basis, key new platform component shortages and seasonality impacted our three end market verticals. On a YoY basis, we had growth in our OEM appliance and large datacenter vertical reflecting momentum with new datacenter and CSP customers.

We recorded $646 million in the Enterprise and Channel vertical, representing 50% of Q3 revenues (versus 53% last quarter), down 22% YoY and down 32% QoQ due to new platform component shortages**.** The OEM appliance and large datacenter vertical achieved $601 million

in revenues, representing 47% of Q3 revenues (versus 43% last quarter), up 37% YoY as we gained momentum with existing and new datacenter, CSP, and OEM cloud appliance customers and down 23% QoQ due to new platform component shortages. Our emerging 5G/Telco/Edge/IoT segment achieved $36 million in revenues, representing 3% of Q3 revenues versus 4% last quarter.

Systems comprised 91% of total revenue and was up 2% YoY and down 30% QoQ. Subsystems/accessories represented 9% of Q3 revenues and were down 43% YoY and down 16% QoQ.

On a year-over-year basis, the volume of systems and nodes shipped decreased while System node ASPs increased due to higher product ASPs, especially for AI product offerings. On a quarter-over-quarter basis, the volume of systems and nodes shipped decreased due to lower shipments from component shortages while system node ASPs increased.

Geographically, during Q3 the US market represented 61% of revenues, Asia 17%, Europe 18% and Rest of World 4%. On a YoY basis, US revenues increased 3%, Asia decreased 31%, Europe increased 11% and Rest of World decreased 29%. On a QoQ basis, US revenues decreased 28%, Asia decreased 35%, Europe decreased 27%, and Rest of World decreased 20%.

The Q3 non-GAAP gross margin was 17.7%, down 110 basis points QoQ and up 210 basis points YoY The QoQ decline in non-GAAP gross margin was due to 1) our efforts to gain market share in the rapidly growing AI server platform market with aggressive pricing targeting strategic large enterprises, data center and CSP customers, 2) lower factory efficiency from smaller sales volume and a learning curve in the production ramp of new platforms. The company’s

mainstream server business margin profiles were generally on par with last quarter. As we focus on gaining market share with our new AI platforms, we will target the optimal mix of revenue growth, gross margin, and operating profit growth to create long-term value for our shareholders.

Turning to operating expenses, Q3 Opex on a GAAP basis increased by 4% QoQ and increased 5% YoY to $127 million. On a non-GAAP basis, operating expenses increased 7% QoQ and increased 6% YoY to $116 million. Opex increased sequentially due to lower NRE and marketing credits for new platform launches and higher headcount. The non-GAAP operating margin was 8.7% for the quarter versus 12.8% last quarter and 7.5% a year ago due to lower revenues and lower gross margins.

Other Income & Expense was approximately $1.4 million in expense primarily consisting of interest expense of $1.3 million and a small FX loss as compared to $1.8 million in interest expense and $6.3 million in FX losses last quarter. Interest expense decreased sequentially as we paid down some working capital loans last quarter.

The tax provision for Q3 was $11 million on a GAAP basis and $15 million on a non-GAAP basis. The GAAP tax rate for Q3 was 11% and non-GAAP tax rate was 14%. Our tax rates were lower sequentially due to higher discrete tax benefits realized in Q3.

Lastly, our share of income from our JV was a loss of $1.0 million this quarter as compared to a loss of $1.4 million last quarter.

We delivered Q3 non-GAAP diluted EPS of $1.63 which was up 5% YoY and down 50% QoQ due to the lower revenues, lower gross margins and higher operating expenses QoQ.

Turning to the balance sheet and working capital metrics compared to last quarter, our Q3 cash conversion cycle was 126 days versus 95 days in Q2. Days of Inventory was 126 up by 27 as we built inventory to fulfill large new customer orders. Days Sales Outstanding rose 13 days QoQ to 51 days while Days Payables Outstanding increased by 9 days to 51 days. Working capital metrics were impacted by the new platform component shortages, which increased inventory and lengthened the cash conversion cycle as we could not fulfill all our sales demand.

In fiscal Q3, we generated positive cash flow from operations of $198 million versus $161 million in Q2. Despite our QoQ revenue decline, our operating cash flow benefited from continued profitability and the conversion of accounts receivables to cash. Capex was $8 million for Q3 resulting in positive free cash flow of $190 million versus positive free cash flow of $151 million last quarter. The closing balance sheet cash position was $363 million. Total bank debt increased to $187 million as we increased our debt by $17 million during the quarter, while net cash increased to $176 million in Q3 from $135 million in Q2 due to strong operating cash flow. During Q3 we repurchased 1.55 million shares of our common stock for approximately $150 million leaving $50 million remaining under our current $200 million share repurchase authorization until January 31, 2024. Our Board will determine the timing and amount of any future share repurchases.

Now turning to the outlook for our business, we have a strong backlog of orders for new platforms entering the seasonally strong June quarter. We are working diligently with our strategic partners and customers to fulfill their requirements and are making steady progress in easing key supply constraints. For the fourth quarter of fiscal 2023 ending June 30, 2023, we expect net sales in the range of $1.7 billion to $1.9 billion, GAAP diluted net income per share of

$2.13 to $2.65 and non-GAAP diluted net income per share of $2.21 to $2.71. We expect gross margins to be approximately 17% as we focus on gaining market share with our strategic new customers and platforms. As we improve our production efficiencies on the new platforms and gain scale with our customers, we expect our gross margins to improve. However, in the current high growth AI market environment, we will continue to balance market share gains with gross margins.

GAAP operating expenses are expected to be $145 million, which includes approximately $10 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 Q4 due to lower R&D NRE credits and higher personnel and marketing costs.

We expect other income and expenses, including interest expense, to be a net expense of approximately $4 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 14.7%, a non-GAAP tax rate of 15.7%, and a fully diluted share count of 56 million for GAAP and 57 million shares for non-GAAP. The outlook for the fiscal fourth quarter of 2023 fully diluted GAAP EPS includes approximately $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. We expect CapEx for the fiscal fourth 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 tightening our guidance for revenues from a range of $6.5 to $7.5 billion to a range of $6.6 billion to $6.8 billion which would represent YoY growth of 27% to 31%, GAAP diluted net income per share from a range of $8.50 to $11.00 to a range of $10.14 to $10.66 and non-GAAP diluted net income per share from a range of $9.00 to $11.30 to a range of $10.50 to $11.00. The company's projections for GAAP annual net income assume a tax rate of 14.9% and a rate of 16.0% for non-GAAP net income. For FY23, we are assuming a fully diluted share count of 56 million shares for GAAP and 57 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.

For fiscal year 2024 we are expecting revenue growth of at least 20% based on strong customer demand for our best-in-class new AI platforms and Total IT solutions.

We remain confident in our long-term outlook for robust revenue growth and profitability driven by our leading-edge new platforms, design wins with significant new customers, efficient global manufacturing capacity, and continuing market share gains.

Michael, we are now ready for Q&A.