Michael Staiger, Vice President Corporate Development

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the fourth quarter and full fiscal year, which ended June 30, 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 first quarter of fiscal year 2024 and the full fiscal year 2024.

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 a new record fiscal result of $7.12 billion annual revenue, a 37% year-over-year growth rate. We have also achieved our first landmark $2.18 billion quarter, which is 34% growth year-over-year and 70% quarter-on-quarter. We are continuing to exceed both top and bottom-line results and performing well beyond our previously guided ranges.

It’s no secret that our strong growth has been driven by the demand for our leading AI platforms in plug-and-play rack-scale, especially for the LLM-optimized NVIDIA HGX-based Delta Next solution. Our engineering capability enabled us to deliver optimized, first-to-market AI products and solutions to our customers, distinguishing us from the competition and empowering us to take market share. I am also proud of our logistics and production teams’ execution to maintain our TTM advantage and deliver our total solution to our key partners much sooner than competition. Our investment of 4,000 racks-per-month state-of-the-art validation and production facility in Silicon Valley is one of the major factors in delivering high-performance AI racks quickly with both air-cooled and liquid-cooled options.

Let's go over some key financial highlights:

- We enter FY24 with record-high backorders, many more new design wins and new customers.
- Again, our fiscal year 2023 net revenue totaled $7.12 billion, up 37% year-on-year, above our mid-point guidance range of $6.7 billion.
- Fiscal year 2023 non-GAAP earnings per share grew 109% year-over-year to $11.81, compared to $5.65 a year ago, exceeding the higher end of our revised guidance range of $10.50 to $11.00.
- Fiscal Q4 net revenue totaled $2.18 billion, up 34% year-on-year and up 70% quarter-on-quarter, above our guidance range of $1.7 billion to $1.9 billion.
- Fiscal Q4 non-GAAP earnings of $3.51 per share grew 34% year-over-year compared to $2.62 a year ago, and it was well above the high end of our guidance range of $2.21 to $2.71, demonstrating strong operating leverage and continued customer preference towards our rack-scale Total IT Solutions.

For 30 years, we have been diligently building our company strength and foundation. As the only US-based scale AI platform designer and manufacturer, we have been shipping our winning products in volume to our partners for more than a quarter. Couple of months ago, I was honored to have my close friend, NVIDIA CEO Jensen Huang, join me on stage at Computex to highlight our optimized new generation GPU solutions for this AI era. We are deploying not just systems, but complete rack-scale total solutions to large generative AI innovators. Supporting HGX H100 Delta-Next, H100 PCIe GPUs, and the just-announced L40S GPUs; our Delta-Next, Redstone-Next, and 8-GPU OVX systems have become the benchmarks of excellence for the industry. We are also getting good traction on Intel's Gaudi 2 and PVC, as well as AMD's MI-250 accelerator solutions.

The demand for artificial intelligence infrastructure is perfectly addressed by our building block server architecture, and due to our BBS, we have the best and broadest application-optimized GPU solutions on the market. We plan to extend this leadership with the upcoming MGX platforms that we announced at Computex, bringing modular flexibility on acceleration with X86, Grace (C2), and Grace-Hopper (CG1) Superchip. The MGX platform is a shared vision of AI computing between NVIDIA and Supermicro, designed to be open, flexible and future proof for multiple generations of GPUs, CPUs, and DPUs. We already have many customers engaged with these new MGX platforms as we speak, and soon they will be in volume production. With nearly half of our revenues this quarter based on AI-related designs, I expect this AI growth momentum to continue expanding our TAM across all customer types from major AI innovators, super large CSPs, Tier 1 DCs, Tier 2 cloud, and to the general enterprise market.

As the performance of GPU, CPU, DPU and memory technologies increase, enhanced storage performance is also necessary to feed massive data sets to the applications without becoming a bottleneck that slows the entire system down. Supermicro's new PCIe Gen 5 based E1.S and E3.S Petascale All-Flash storage servers offer industry-leading storage performance and capacity. Together, with our U.2 NVMe, top-loaded scale-out and traditional storage platforms, we are fulfilling customers' AI, compute, and storage needs with a one-stop total solution shopping experience, with the best optimization in performance, time-to-online, and cost.

With accelerated computing and storage, the power consumption and thermal challenges of these new technologies have risen dramatically. 40KW or even 100KW rack solution demand is rapidly expanding and required for compute-intensive DC, CSP, and other verticals. Having high power efficiency, free-air and liquid cooling expertise has become one of our key differentiators of success. We have made major investments across a variety of technologies to drive adoption of direct liquid cooling in datacenters to address the thermal challenges. In addition to increasing computing density and reducing TCO, liquid cooling reduces the environmental

impact of datacenters dramatically, aligning with our green computing mission. Similarly, our liquid immersion solution is making good progress, and we will be happy to provide that option to interested partners soon.

The reality is that datacenter infrastructure is getting more complex, especially with the unprecedented demand for AI. The design complexity and integration skills, along with the requirement to deploy in a timely fashion are heavy burdens to many end customers. Supermicro Total IT Solutions approach saves them from the complications of design, validation, sourcing, and integration. It also streamlines network switching, firmware and software management in datacenter scale. Customers' peace of mind is topped off by the value of our 24/7 Global Service tiers.

Given the current infrastructure demand, we have been continuing to evaluate our footprint beyond our recently announced Malaysia expansion. We have recently added another new building close to our Silicon Valley HQ and are aiming to further increase our current 4000 rack-per-month capacity in this fiscal year. To further support demand from key domestic partners, we are also planning to build another manufacturing campus in North America. At this moment, our US HQ and Taiwan facility can support at least $15 billion in revenue while the new Malaysia facility will further increase our total revenue potential by serving scale builds on a reduced cost structure in the coming CY24.

In closing, Supermicro is in a great position to continue our growth momentum with our leading AI portfolio, our infrastructure readiness, and our ability to deliver products in a timely manner. Due to the current key components supply shortages, we forecast revenue in the range of $1.9 to $2.2 billion for the September quarter. However, given the record high backlog, we see fiscal year 2024 revenue between $9.5 to $10.5 billion with room to deliver more depending on availability of supply. Our role as the leader of rack-scale Total AI and IT Solutions has only just

begun. We are ready to deliver optimized AI infrastructures to existing and emerging markets, along with our value-added software and services. To say it plainly, our foundation and capacity are fully ready, and our demand is growing strongly. With LLM and other AI applications booming, I now expect the $20 billion annual revenue target to be just a couple of years away.

Before passing the call to David Weigand, our Chief Financial Officer, I want to say thank you to our partners, customers, Supermicro employees and to our shareholders for your continued support. David.

David Weigand, Senior Vice President and & Chief Financial Officer

Thank you, Charles.

Fiscal fourth quarter revenues were $2.18 billion, up 34% year-over-year (YoY) and up 70% quarter-over-quarter (QoQ). Q4 revenues exceeded initial guidance range of $1.7 to $1.9 billion and were at the high end of the recently updated range of $2.15 to $2.18 billion. For Fiscal 2023, we reported revenues of $7.12 billion, representing 37% growth over FY22 revenues of $5.20 billion. Next generation CPU and AI platforms continue to drive record levels of design wins and orders. Exiting fiscal year 2023 with a record backlog, we are well positioned for FY24 with an outlook for continued revenue growth and profitability. We expect diversified growth driven by top-tier datacenters, emerging CSPs, enterprise AI build-outs, CPU upgrades, and edge/IOT/telco markets. We are also targeting new opportunities in adjacent markets such as Storage, Switches, Software & Services. We note that our shipments against a record backlog may continue to be constrained by supply chain bottlenecks for key new components for our advanced AI server platforms**.**

Q4 results were driven by our high-growth AI/GPU and rack-scale solutions which represented 52% of our total revenues. We had two 10% customers for Q4 and did not have any 10% customers for FY23.

During Q4, we recorded $976 million in the Enterprise and Channel vertical, representing 45% of revenues versus 50% last quarter, up 19% YoY and up 51% QoQ as we ramped several key enterprise programs**.** The OEM appliance and large datacenter vertical achieved $1.17 billion in revenues, representing 53% of Q4 revenues versus 47% last quarter, up 59% YoY and up 94% QoQ as we gained momentum with existing and new datacenter, CSP, and OEM cloud appliance customers. Our emerging 5G/Telco/Edge/IoT segment achieved $43 million in revenues, representing 2% of Q4 revenues versus 3% last quarter.

For the fiscal year 2023, Organic (Enterprise and Channel) and AI/ML revenues grew 10% to represent 48% of total revenues. The OEM appliance and large datacenter segment grew 102% and represented 49% of total revenues. The emerging 5G/Telco/Edge/IOT segment decreased 36% and represented 3% of total revenues.

The mix of complete systems and rack-scale Total IT Solutions has increased over the last two years. Server and Storage Systems comprised 93% of Q4 revenue and Subsystems and Accessories represented 7%. ASPs continued to increase on a QoQ and YoY basis driven by the value and complexity of our rack-scale Total IT Solutions.

By geography, US represented 76% of Q4 revenues, Asia 11%, Europe 10%, and Rest of World 3%. On a YoY basis, US revenues increased 55%. Asia decreased 17%, Europe increased 1%, and Rest of World increased 12%. On a QoQ basis, US revenues increased 112%, Asia increased 10%, Europe decreased 1%, and Rest of World increased 11%.

The Q4 non-GAAP gross margin was 17.1%, down QoQ from 17.7% in Q3 as we focused on winning strategic new designs and market share. For FY23, the non-GAAP gross margin of 18.1% versus 15.4% for FY22 was driven by an increased rack-scale product/customer mix and higher manufacturing efficiencies.

Turning to operating expenses, Q4 Opex on a GAAP basis increased by 14% QoQ and 19% YoY to $145 million driven by headcount and related expenses. On a non-GAAP basis, operating expenses increased 14% QoQ and 17% YoY to $133 million. Our non-GAAP operating margin increased significantly to 11% for Q4 versus 8.7% last quarter due to operating leverage driven by higher revenues that outpaced increases in operating expenses. For FY23, we achieved a non-GAAP operating margin of 11.4% versus 7.2% in FY23 due to higher gross margins and operating leverage from higher revenues and expense controls.

Other Income & Expense for Q4 was an expense of approximately $1.5 million consisting of $3.5 million in interest expense offset primarily by a net foreign-exchange gain of $2.0 million. Our interest expense increased sequentially as we utilized our short-term credit lines for working capital requirements along with higher short-term interest rates on our borrowings.

The tax provision for Q4 was $31.3 million on a GAAP basis and $36.6 million on a non-GAAP basis. The GAAP tax rate for Q4 was 13.9% and the non-GAAP tax rate was 15.4%. The GAAP tax rate was 14.7% for FY23 versus 15.7% in FY22 and the non-GAAP tax rate was 15.9% versus 17.7% in FY22.

We delivered strong Q4 non-GAAP diluted EPS of $3.51 which exceeded the high end of the original guidance range of $2.21 to $2.71 and the recently updated range of $3.35 to $3.45. The increase in Q4 EPS was due to a combination of higher revenues and operating leverage. For the full fiscal 2023, we reported non-GAAP diluted EPS of $11.81, up 109% YoY versus

fiscal 2022 non-GAAP diluted EPS of $5.65 and higher than the FY23 guidance of $10.50 to $11.00.

Cash flow used in operations for Q4 was $9 million compared to cash flow generated by operations of $198 million in Q3 due to higher accounts receivable, offset by lower inventory and higher accounts payable from backend loaded shipments in the quarter due to supply constraints. Capex was $8 million for Q4 resulting in negative free cash flow of $17 million versus positive free cash flow of $190 million last quarter. For FY23, we had free cash flow from operations of $664 million, capex of $37 million resulting in free cash flow of $627 million. We have $50 million remaining under the authorized buyback program which expires on January 31, 2024.

The closing balance sheet cash position was $440 million, while bank debt was $290 million resulting in a net cash position of $150 million down from net cash position of $176 million last quarter as we utilized our bank lines of credit to support higher revenues and accounts receivable as we ramped up production of new AI/GPU design wins.

Turning to the balance sheet and working capital metrics compared to last quarter, the Q4 cash conversion cycle improved to 77 days versus 126 days in Q3. Days of Inventory was 75, representing a decrease of 51 days versus the prior quarter of 126 days. Days Sales Outstanding was down 13 days QoQ to 38 days while Days Payables Outstanding came down by 15 days to 36 days. Faster inventory turns contributed to the improvement in our cash conversion cycle.

Now turning to the outlook, we remain enthusiastic about our diversified business model covering a wide range of AI, core computing, storage, 5G telco/edge and IOT applications. Design wins span across enterprise/channel, large datacenter/emerging AI CSP, and Telco and

OEM customers. We are carefully observing the global macro-economic situation and continuing supply-chain constraints especially for leading AI platforms. For the first quarter of fiscal 2024 ending September 30, 2023, we expect net sales in the range of $1.90 billion to $2.20 billion, GAAP diluted net income per share of $2.02 to $2.80 and non-GAAP diluted net income per share of $2.75 to $3.50. We expect gross margins to be similar to Q4 levels. GAAP operating expenses are expected to be approximately $185 million and include $48 million in stock-based compensation and 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 adding to our great engineering teams. The outlook for Q1 of fiscal year 2024 fully diluted GAAP EPS includes approximately $44 million in expected stock-based compensation and other expenses, net of tax effects of $9 million, which are excluded from non-GAAP diluted net income per common share.

We expect other income and expense, including interest expense, to be a net expense of approximately $1.5 million.

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 15.4%, and a fully diluted share count of 56 million for GAAP and 57 million shares for non-GAAP. We expect CapEx for the fiscal first quarter of 2024 to be in the range of $10 million to $12 million dollars.

For the fiscal year 2024 ending June 30, 2024, we are giving guidance for revenues in the range $9.5 billion to $10.5 billion.

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