



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, 2024.

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 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 2023, 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.

We achieved another record-breaking quarter with revenues of \$3.85 billion, a **200%** increase from same time last year, and non-GAAP earnings per share of \$6.65, up **308%** YoY.

Supermicro is at the forefront of the current AI revolution. These strong results reflect the continued demand for our Rack-Scale PnP Total AI Solutions. We continue to face some supply chain challenges due to newer products that require new key components, especially DLC related components, and believe this situation will gradually improve in the coming quarters.

To sustain this rapid growth, we are making significant investments in production, operations, management software, cloud features and customer service to further increase our customer base and bring more value to them. To support this scale-up, we raised an additional \$3.28 billion through a convertible note and follow on equity offering in the quarter. We like to support strong short and long-term growth with minimal equity dilution. Overall, I remain optimistic that AI growth will continue for many quarters, if not many years to come.

We have long recognized that AI is accelerating the need for liquid cooling, and we have invested heavily into high quality, optimized Direct Liquid Cooling (DLC) solutions for high-end CSPs and NCPs. With GPUs reaching 700W and soon more than 1000W, efficiently managing the heat from these AI systems has become critical for many customers, especially at the new datacenters. I am pleased to announce that our new DLC building blocks and rack scale total solution technology is finally ready for high volume production. With our DLC technology, customers can reduce their expense on cooling energy, save data center space, and allocate a greater portion of their finite power resources to computing instead of cooling – which aligns with our green computing DNA.

Now let's go over some key financial highlights:

- Supermicro is pleased to be included in the prestigious S&P 500 Index last quarter.
- Fiscal Q3 net revenue totaled \$3.85 billion, up **200%** year-on-year, within our aggressive original guidance of March quarter. If not limited by some key component shortages, we could have delivered more.
- Fiscal Q3 non-GAAP earnings of \$6.65 per share were well above \$1.63 last year, which was **308%** year-on-year growth. Our increasing economies of scale contributed to better net profit.
- Our Year-over-Year Operating Margin and Net Income both continue to improve, and we continue to expect further benefits as we bring our Malaysia facility online later this calendar year.



This fast-growing quarter was driven by end users wanting to accelerate their deployment of the latest generation AI platforms. Through our Building Block Solutions, we provided optimized AI solutions at scale, offering a time-to-market advantage and shorter lead time over our competition. Additionally, our rack-scale PnP total solutions, especially with DLC, ensure optimal system performance while saving energy cost up to 40% at datacenter scale, delivering much more value to customers.

We are leading the AI revolution by deploying NVIDIA HGX H100 SuperCluster solutions to our customers, housed in our new 100KW racks, with 2-3X higher power density than traditional racks from others. At NVIDIA GTC last month, we unveiled our next-gen Blackwell products, including the GB200 NVL72 solution. To further bolster our AI portfolio, we are now strongly focused on developing new generative AI and inference-optimized systems based on the upcoming next-gen NVIDIA H200, B100, B200, GH200 and GB200 GPUs as well as Intel Gaudi2/3 and AMD MI300X/A GPUs. Most of them support both Air cooling and DLC.

As Supermicro is transitioning to our next generation of X14/H14 product lines featuring the industry's broadest SKUs of Intel XEON 6 processor-based and AMD Turin-based platforms, we are fully ready for high volume production and offer early online access for testing and validation through our JumpStart cloud service. Meanwhile, our X14 and H14 storage solutions are addressing the specific requirements of accelerated AI data pipelines with partners like Weka, VAST Data, and many others.

The rapid growth of our business is raising the complexity to scale our capacity. Our production teams are making aggressive progress on retrofitting the new Silicon Valley facilities and scaling up our Taiwan and Malaysia factories. We have secured the parts and acquired additional warehouses for our next phase of enterprise and datacenter businesses. We are currently on track to produce over two thousand DLC racks per month of AI servers with volumes steadily increasing. Each DLC rack supports up to 100KW or even 120KW.

At this moment, we are focusing on delivering more than one thousand racks of NVIDIA HGX AI supercomputers (each rack supports 64 H100/H200/B200 GPUs) with the latest DLC technology to three industry-leading customers, from April to June of this quarter. These three deployments will be among the world's largest DLC liquid-cooled AI clouds, potentially saving our customers up to 40% of energy costs compared to standard air-cooled deployments by our competition. Special thanks to NVIDIA and our close technology partners for this fantastic collaboration. I believe this is just the beginning of our long-term high volume DLC mission--- Green Computing can be free with a big bonus. Let's go for Green!

In summary, we had a strong quarter with more to come. I believe Supermicro is uniquely capable of delivering new technologies to market faster with our integrated rack scale PnP solutions, in-house engineering, building block architecture, and green computing DNA. With a robust pipeline of new products in CY2024, we're confident fiscal Q4 revenue will be in the range of \$5.1 billion to \$5.5 billion. This will raise our fiscal revenue guidance to \$14.7 billion to \$15.1 billion, an increase to our previous fiscal 2024 guide. We continue to win market share



and remain committed to executing our growth plans across all verticals. This remains truly the most exciting time yet for Supermicro, and I believe this strong year-over-year growth will continue in our fiscal 2025, especially with our new, leading and ready-to-ship DLC rack scale PnP solutions and technologies.

Before passing the call to David Weigand, our Chief Financial Officer, I want to thank again our partners, our customers, our Supermicro employees, and our shareholders for their strong support. David.

David Weigand, Senior Vice President & Chief Financial Officer

Thank you, Charles.

Fiscal Q3 2024 revenues were \$3.85 billion, up 200% year-over-year (YoY) and 5% quarter-over-quarter (QoQ). Q3 growth was again led by AI GPU platforms which represented more than 50% of revenues with AI GPU customers in both the enterprise and cloud service provider markets. We expect strong growth in Q4 as the supply chain continues to improve with new air-cooled and liquid-cooled customer design wins.

During Q3, we recorded \$1.88 billion in the enterprise/channel vertical, representing 49% of revenues versus 40% last quarter, up 190% YoY and 26% QoQ driven by industry recognition of our solution price-performance metrics and reliability. The OEM appliance and large data center vertical revenues were \$1.94 billion, representing 50% of Q3 revenues versus 59% in the last quarter, up 222% YoY and down 10% QoQ. One existing CSP/large data center customer represented 21% of Q3 revenues and one existing enterprise/channel customer represented 17% of revenues. Emerging 5G/Telco/Edge/IoT revenues were \$37 million or 1% of Q3 revenues.

Server and Storage Systems comprised 96% of Q3 revenue and Subsystems and Accessories represented 4%. ASPs increased on a YoY and QoQ basis.

By geography, US represented 70% of Q3 revenues, Asia 20%, Europe 7%, and Rest of World 3%. On a YoY basis, US revenues increased 242%, Asia increased 257%, Europe increased 30%, and Rest of World increased 87%. On a QoQ basis, US revenues increased 3%, Asia increased 17%, Europe increased 3%, and Rest of World decreased 11%.

The Q3 non-GAAP gross margin was 15.6%, up slightly QoQ from 15.5% as we continued to focus on winning strategic new designs, gaining market share and improving manufacturing efficiencies.

Q3 Operating Expenses on a GAAP basis increased by 14% QoQ and 72% YoY to \$219 million driven by higher compensation expenses and headcount. On a non-GAAP basis, Operating Expenses increased 8% QoQ and 43% YoY to \$166 million. Q3 non-GAAP operating margin was 11.3%, which was in-line with Q2 levels.



Other Income and Expense for Q3 was \$3.8 million, consisting of \$6 million in interest expense and a gain of \$10 million principally from foreign exchange. Interest expenses decreased sequentially as we paid down short-term bank credit facilities.

The GAAP tax rate was -5.2% resulting in a tax benefit of \$20 million for Q3. The non-GAAP tax rate for Q3 was 6% resulting in Q3 tax expense of \$27 million. GAAP and non-GAAP tax rates were lower due to the impact of higher R&D tax credits and tax benefits from employee stock grants exercised.

Q3 GAAP diluted EPS of \$6.56 and Q3 non-GAAP diluted EPS of \$6.65 exceeded the high end of guidance through record revenues, stable gross and operating margins and lower tax rates. The GAAP share count increased from 58.1 million to 61.4 million and the non-GAAP share count increased sequentially from 59.0 million to 62.0 million shares as a result of the two stock offerings and, to a lesser extent, the convertible bond offering.

Cash flow used in operations for Q3 was \$1.5 billion compared to cash flow usage of \$595 million during the previous quarter as we grew inventory and accounts receivable for higher levels of business. Cash flows from strong profitability was offset by higher Inventory, a large portion of which was received late in Q3, and higher Accounts Receivable from increasing revenues. Our Q3 closing inventory was \$4.1 billion, which increased by 67% QoQ from \$2.5 billion in Q2 due to the purchase of key components. Capex was \$93 million for Q3 resulting in negative free cash flow of \$1.6 billion for the quarter.

During the quarter, we raised \$1.55 billion from a 0% coupon 5-year convertible bond offering due in 2029, net of underwriting discounts and offering expenses. We also raised approximately \$1.73 billion in net proceeds from the sale of 2 million shares at a price of \$875 per share. The proceeds from these transactions will be used to strengthen our working capital, enable continued investments in R&D and expand global capacity to fulfill strong demand for our leading platforms.

The closing balance sheet cash position was \$2.1 billion, while bank and convertible note debt was \$1.9 billion resulting in a net cash position of \$252 million versus a net cash position of \$350 million last quarter.

Turning to the balance sheet and working capital metrics compared to last quarter, the Q3 cash conversion cycle was 96 days versus 61 days in Q2. Days of Inventory increased by 25 days to 92 days compared to the prior quarter of 67 days due to key component purchases for higher expected Q4 revenues. Days Sales Outstanding increased by 8 days QoQ to 37 days while Days Payables Outstanding decreased by 2 days to 33 days.

Now turning to the outlook for Q4, we expect strong growth as the supply chain continues to improve with new air-cooled and liquid-cooled customer design wins. For the fourth quarter of fiscal 2024 ending June 30, 2024, we expect net sales in the range of \$5.1 billion to \$5.5 billion, GAAP diluted net income per share of \$7.20 to \$8.05 and non-GAAP diluted net income per



share of \$7.62 to \$8.42. We expect gross margins to be down sequentially as we focus on driving strategic market share gains. GAAP operating expenses are expected to be approximately \$226 million and include \$55 million in stock-based compensation expenses that are not included in non-GAAP operating expenses. The outlook for Q4 of fiscal year 2024 fully diluted GAAP EPS includes approximately \$30 million in expected stock-based compensation expenses, net of tax effects of \$28 million, which are excluded from non-GAAP diluted net income per common share.

We expect other income and expenses, including interest expense, to be a net expense of approximately \$8 million.

The company's projections for Q4 GAAP and non-GAAP diluted net income per common share assume a GAAP tax rate of -2.9%, a non-GAAP tax rate of 2.6%, and a fully diluted share count of 64.8 million for GAAP and 65.3 million shares for non-GAAP. We expect capex for Q4 to be in the range of \$55 to \$65 million.

For fiscal year 2024 ending June 30, 2024, we are raising our guidance for revenues from a range of \$14.3 billion to \$14.7 billion to a range of \$14.7 billion to \$15.1 billion and establishing guidance for GAAP net income per diluted share of \$21.61 to \$22.46 and non-GAAP net income per diluted share of \$23.29 to \$24.09. Our projections for GAAP and non-GAAP net income per diluted share assume a tax rate of approximately 3.6% and 9.2%, respectively, and a fully diluted share count of 61.2 million shares for GAAP and fully diluted share count of 61.8 million shares for non-GAAP. The outlook for fiscal year 2024 GAAP net income per diluted share includes approximately \$116 million in expected stock-based compensation, net of related tax effects of \$98 million that are excluded from non-GAAP net income per diluted share.

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