



Michael Staiger, Vice President Corporate Development

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

With me today are Charles Liang, Founder, Chairman and Chief Executive Officer, and David Weigand, Chief Financial Officer. At the end of today's prepared remarks, we will have a Q&A session for sell-side analysts.

Our press release was issued after close of market and is posted on our website, where this call is being simultaneously webcast.

The slides that accompany this webcast can be downloaded at ir.supermicro.com. These include statements r``

Any forward-looking statements that we make are based on facts and assumptions as of today, and we undertake no obligation to update them.

Our actual results may differ materially from the results forecasted, and reported results should not be considered as an indication of future performance.

A discussion of some of the risks and uncertainties relating to our business is contained in our filings with the SEC, and we refer you to those public filings, including our most recent annual report on Form 10K. During this call, all financial metrics and associated growth rates are non-GAAP measures other than revenue, and cash and investments. Reconciliations to the most directly comparable GAAP measures are provided in our earnings press release and slides.



This call is being broadcast live on the Supermicro Investor Relations website and is being recorded for playback purposes. An archive of the webcast will be available on the IR website and is the property of Supermicro.

Our first quarter fiscal 2025 quiet period begins at the close of business, Friday, September 13th, 2024.

With that, I will turn it over to Charles.

Charles Liang, Founder, President & Chief Executive Officer

Thank you, Michael. Today, I am pleased to announce another record quarterly result of \$5.31 billion, a 143% year-over-year growth. For fiscal 2024, we have achieved \$14.94 billion in revenue, a 110% year-over-year growth rate. To put this in perspective, our Q4 revenue has exceeded the full year revenue of fiscal 2022. Our robust growth is driven by our technology and product leadership in the AI infrastructure market, especially with generative AI training and AI inferencing. We have been scaling quickly to secure a large share of AI CSP opportunities, deploying some of the largest AI SuperClusters in the world. Leveraging our system building blocks, we build and optimize rack-scale plug and play solutions with the latest DLC liquid cooling technology, helping our customers achieve the best TTD (time-to-deployment), TTO (time-to-online) and lowest TCO with their AI solutions.

Here are some key quarterly highlights:

- Supermicro is pleased to be included in the NASDAQ 100 Index last quarter.
- Fiscal Q4 net revenue totaled \$5.31 billion, up 143% year-on-year with a strong record high backlog. We could ship more if not for DLC component shortage.
- Fiscal Q4 non-GAAP earnings of \$6.25 per share were well above \$3.51 last year, which was 78% year-on-year growth.
- Our Q4 Operating Margin is 7.8%, which is lower than what we expected due to the higher mix of hyperscale Datacenter business and expedited costs of our DLC components in June and September quarters.



- Some key new components shortage delayed about \$800 Million of revenue shipments to July, which lowered our EPS and will be recognized in our September quarter.
- The availability of our Malaysia facility later this calendar year and our dominating position in DLC total solutions will be instrumental in increasing our profitability.

Supermicro is powering the largest AI factories around the world today. We believe more and more datacenters will be opting for our latest DLC solutions, which dramatically improves TCO relative to traditional air-cooled datacenters and is less environmentally taxing. We have proved that DLC solutions also offer higher performance and better uptime, with advantage to support the upcoming new AI chips.

At Computex Taipei, I shared that “Green Computing can be free with a big bonus” this means the cost of deploying liquid cooling is on par with traditional datacenter construction and significantly lowers the operational power cost. Since then, we have been delivering over 1,000 highly reliable DLC racks to multiple customers. Our goal is to quickly make DLC to be a mainstream solution for most datacenters and AI factories that focus on increasing efficiency and performance while reducing OPEX. We are targeting 25%-30% of the new global datacenter deployments to use DLC solutions in the next 12 months, with most deployments coming from Supermicro. We are happy to help any customers transform and adapt their existing air-cooled datacenters to DLC in the coming years for four major reasons:

1. It helps customers save energy costs up to 40%
2. It boosts datacenter computing performance
3. It helps pull in customers’ datacenter lead times, or to be more precise, reduces their “time to on-line” because of less electrical power required
4. It reduces carbon footprint for our one-and-only Mother Earth

As an end-to-end IT infrastructure solutions company, our customers’ experience is our #1 priority. By leveraging our system building block and rack scale PnP solutions, we help our customers achieve the best time-to-market advantage with new and



performance optimized technologies. Now, we are further expanding this solution to the entire datacenter. With rapid deployment of large-scale AI infrastructure, datacenters worldwide are facing power shortages and cooling inefficiency challenges. Building these new AI-ready datacenters traditionally takes a long time, averaging 3 years. Our upcoming Supermicro 4.0 DCBBS (Datacenter Building Block Solutions) will reduce customers' new datacenter build time from about 3 years to 2 years. For smaller facilities or old datacenter transformation, DCBBS can enable an optimized, cost-effective datacenter in less than one year or even just 6 months. This new offering will significantly improve datacenters' TTO (Time to Online) and cost, with full integration of AI Compute, Server, Storage, Switch, networking, rack, cabling, DLC, facility water tower, end-to-end management software, onsite deployment services, and maintenance. We will start offering it later this calendar year.

Playing a significant role in realizing our DCBBS and providing additional economies of scale, our new Malaysia campus will start production this November. With its geographic advantages, I expect it to quickly ramp up ship volume and improve our cost structure. In the US, we are adding new buildings and production/POC provisioning capacity near our Silicon Valley headquarters as well, which will further boost our monthly DLC rack capacity and value this fiscal year. Moreover, we are on track to expand to a few other global manufacturing locations, leveraging our strength in product design, build quality, supply chain, and deployment, positioning Supermicro as one of the largest IT infrastructure company.

In summary, we are entering fiscal 2025 with record-high backorders, winning products, large volume DLC capacity, DCBBS and more new customers. While our long-term investments impact short-term profitability, they position us well for future success by providing a sustainable competitive advantage and necessary economies of scale. This gives me confidence to forecast the September quarter revenue between \$6.0 billion to \$7.0 billion, and fiscal 2025 revenue between \$26 billion to \$30 billion. Again, we anticipate that the short-term margin pressure will ease and return to normal ranges



before the end of fiscal 2025, especially when our DLC and DCBBS start to ship in high volume.

Lastly, I'd like to announce a 10-for-1 forward stock split of Supermicro's common stock to make ownership of Supermicro stock more accessible. We are targeting trading on a split adjusted basis commencing at market open on October 1, 2024.

Before passing the call to David Weigand, our Chief Financial Officer, I want to say thank you to our partners, customers, Supermicro employees on an incredible year where we were able to bring AI @ scale to the world and to our shareholders for your continued support. David.

David Weigand, Senior Vice President and Chief Financial Officer

Thank you, Charles.

We had robust growth in the fiscal year, and I am pleased with the progress we made on our strategic initiatives. For FY24, we reported revenues of \$14.9 billion, representing 110% growth over FY23 revenues of \$7.1 billion. FY24 non-GAAP diluted EPS of \$22.09 grew 87% over FY23 non-GAAP diluted EPS of \$11.81. Between FY22 and FY24, we achieved significant operating leverage with revenues growing at a compound annual growth rate of 61% per year while non-GAAP operating expenses only grew at 19% per year. Between FY22 and FY24, gross margins have met or exceeded the target range of 14 to 17%. Non-GAAP operating margins were above the target range of 5 to 8% between FY22 and FY24 and more than doubled from 4.4% in FY22 to 10% in FY24 due to strong revenue growth and operating leverage.

Q4 revenues were \$5.31 billion, up 143% year-over-year and up 38% quarter-over-quarter, and above the midpoint of guidance of \$5.1 to \$5.5 billion. Growth was driven by strong demand for next generation air-cooled and direct liquid-cooled (DLC) rack-scale AI GPU platforms, representing over 70% of revenues across enterprise and cloud service provider markets where demand remains strong.



We exited the year with an acceleration in innovative DLC products, a large design win pipeline and a strong backlog, positioning us for continued growth in fiscal 2025. We expect gross and operating margins to gradually increase in the year driven by product and customer mix, manufacturing efficiencies in new DLC AI GPU clusters, and new platform introductions. As Charles discussed, shipments may continue to be constrained in the short term by supply chain bottlenecks for key new components for advanced platforms. However, long-term gross margins will benefit from lower manufacturing costs as we scale up production in Malaysia and Taiwan, in addition to expansion in the Americas and Europe.

During Q4, we recorded \$1.83 billion in the enterprise/channel vertical, representing 34% of revenues versus 49% in the last quarter, up 87% year-over-year and down 3% quarter-over-quarter. The OEM appliance and large data center segment revenues were \$3.41 billion, representing 64% of Q4 revenues versus 50% in the last quarter, up 192% year-over-year and up 76% quarter-over-quarter. Emerging 5G/Telco/Edge/IoT revenues were \$75 million or 2% of Q4 revenues.

For FY24, enterprise/channel revenues grew 79% to represent 41% of total revenues. The OEM appliance and large datacenter segment grew 149% and represented 58% of total revenues. The emerging 5G/Telco/Edge/IOT segment represented 1% of total revenues. One CSP/large datacenter customer represented approximately 20% of revenues for FY24.

Server and Storage Systems comprised 95% of Q4 revenue and Subsystems and Accessories represented 5%. ASPs increased on a year-over-year and quarter-over-quarter basis driven by the value and complexity of rack-scale Total IT Solutions.

By geography, US represented 61% of Q4 revenues, Asia 24%, Europe 10%, and Rest of World 5%. On a year-over-year basis, US revenues increased 94%, Asia increased 437%, Europe increased 128%, and Rest of World increased 386%. On a quarter-over-quarter basis, US revenues increased 20%, Asia increased 66%, Europe increased 74%, and Rest of World increased 187%.



The Q4 non-GAAP gross margin was 11.3% versus 15.6% in Q3 due to product and customer mix, focus on winning strategic new designs with competitive pricing, and higher initial costs in ramping production of new DLC AI GPU clusters. For FY24, the non-GAAP gross margin was 14.2% versus 18.1% for FY23. We have a path to improve gross margins to the target range of 14 to 17% as we introduce innovative platforms based on multiple new technologies from our strategic partners and improved manufacturing efficiencies on our DLC solutions.

Q4 operating expenses on a GAAP basis increased by 15% quarter-over-quarter, and 75% year-over-year to \$253 million driven by higher compensation expenses and headcount. On a non-GAAP basis, operating expenses increased 11% quarter-over-quarter and 39% year-over-year to \$185 million. Q4 non-GAAP operating margin was 7.8% versus 11.3% in Q3, due to the lower gross margins.

Other Income and Expense for Q4 was \$11 million, consisting of \$3 million in interest expense and \$14 million from interest income on higher cash balances offset by a loss from foreign exchange and other investments. Interest expenses decreased sequentially as we paid down short-term bank credit facilities.

The tax provision for Q4 was \$1 million on a GAAP basis and \$21 million on a non-GAAP basis. The GAAP tax rate for Q4 was 0.3% and the non-GAAP tax rate was 5.0%. The GAAP tax rate was 4.9% for FY24 versus 14.7% in FY23 and the non-GAAP tax rate was 10.4% in FY24 versus 15.9% in FY23.

Q4 GAAP diluted EPS of \$5.51 was below the guidance of \$7.20 to \$8.05 and non-GAAP diluted EPS of \$6.25 was below the guidance of \$7.62 to \$8.42 due to lower gross margins and higher operating expenses in the quarter. The GAAP fully diluted share count increased quarter-over-quarter from 61.4 million to 64.2 million and the non-GAAP share count increased sequentially from 62.0 million to 64.8 million shares reflecting the effects of the two recent stock offerings and the convertible bond offering.

Q4 cash flow used in operations was \$635 million compared to \$1.52 billion in the previous quarter, as inventory and accounts receivable grew due to higher levels of business and the timing of shipments. For FY24, cash used in operations was \$2.5 billion due to strong revenue growth of 110% and working capital



needs to support large customer design wins. Q4 closing inventory was \$4.4 billion in anticipation of future growth. Capex for Q4 was \$27.0 million resulting in negative free cash flow of \$662 million for the quarter. Capex for FY24 was \$137 million; up from \$37 million in FY23 as we invested in new property, plant, and equipment globally, including our greenfield Malaysia plant.

The Q4 closing balance sheet cash position was \$1.7 billion, while bank and convertible note debt was \$2.2 billion resulting in a net cash position of -\$504 million versus a net cash position of \$252 million last quarter.

Turning to the balance sheet and working capital metrics compared to last quarter, the Q4 cash conversion cycle was 94 days versus 96 days in Q3. Days of Inventory decreased by 10 days to 82 days compared to the prior quarter of 92 days. Days Sales Outstanding was unchanged at 37 days while Days Payables Outstanding decreased by 8 days to 25 days.

Now turning to the outlook for Q1 FY25, we expect strong growth as we ramp new air-cooled and DLC AI GPU design wins with new and existing customers. For the first quarter of fiscal 2025, we expect net sales in the range of \$6.0 billion to \$7.0 billion, GAAP diluted net income per share of \$5.97 to \$7.66 and non-GAAP diluted net income per share of \$6.69 to \$8.27. We expect gross margins to improve sequentially due to product and customer mix and improving manufacturing efficiency. GAAP operating expenses are expected to be approximately \$282 million and include \$84 million in stock-based compensation expenses that are not included in non-GAAP operating expenses. The outlook for Q1 of fiscal year 2025 fully diluted GAAP EPS includes approximately \$48 million in expected stock-based compensation expenses, net of tax effects of \$35 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 \$20 million.



The company's projections for Q1 FY25 GAAP and non-GAAP diluted net income per common share assume a GAAP tax rate of 9.9%, a non-GAAP tax rate of 14.6%, and a fully diluted share count of 65 million for GAAP and 66 million shares for non-GAAP. We expect capex for Q1 to be in the range of \$45 to \$55 million.

For fiscal year 2025, we are introducing guidance for revenues from \$26 billion to \$30 billion.

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