Michael Staiger, Senior Vice President Corporate Development

Good afternoon and thank you for attending Supermicro's Second Quarter Fiscal 2025 Business Update Conference Call for the second quarter, which ended December 31st, 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. Additionally, the Company will not address any questions regarding the delay in the filing of the Company's FY2024 10-K and 10Qs due thereafter.

During today's conference call, Supermicro will address business and market trends from the second quarter of fiscal 2025, including our financial outlook and operations, our strategy, technology and its advantages, our current and new product offerings, and competitive industry and economic trends

We will discuss estimated financial results, but reference to any financial results are preliminary and subject to change based on finalized results contained in future filings with the SEC.

By now, you should have received a copy of today's news release that was issued after close of market and is posted on our website, where this call is being simultaneously webcast

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.

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 third quarter fiscal 2025 quiet period begins at the close of business, Friday, March 14th, 2025.

With that, I will turn it over to Charles.

Charles Liang, Founder, President & Chief Executive Officer

Thank you, Michael, and thank you to everyone for joining us. We have some important updates today on our financial filings, operational progress, technology innovation, and business opportunities as we cross the midpoint of the fiscal 2025.

I'll begin by reviewing some key financial highlights from the December quarter:

- Our preliminary fiscal Q2 net revenue is projected to range between $5.6 and $5.7 billion, marking a 54% year-on-year increase at the midpoint. Despite some negative impacts on cash flow and market misperception due to the 10-K delay, we achieved an average market quarter. Driven by sustained AI demand from both existing and new customers, our growth trajectory for FY25 remains promising. Highlighted by the beginning of our transition from Hopper to Blackwell GPUs, we expect the growth in new generation platforms to accelerate as supply ramps this quarter and beyond. We have confidence that our CY25 growth could be a repeat of CY23 if not better, assuming the supply chain can keep pace with demand.

- Our preliminary fiscal Q2 non-GAAP earnings was in the range of $0.58 to $0.60 cents per share, vs. $0.56 cents last year, representing approximately a 5% year-on-year growth.
- Non-GAAP gross margin was approximately 11.9%, and non-GAAP operating margin was approximately 7.9%. Margin was temporarily under pressure due to the 10K delay disruption, the new product R&D investment and customer and product mix.
- In a separate press release issued today, we announced a private placement of $700 million in new 2.25% convertible senior notes due in 2028 to support our rapid business growth immediately. We have also privately amended a portion of our existing convertible notes due in 2029, with all investors participating in the amended notes. This will support our growth including Supermicro 4.0 initiatives, Datacenter Building Block Solutions (DCBBS) and brand-new GPU platform architectures.

Before diving into the details of our operational progress, let me begin by sharing an update regarding our financial filings. Our finance team and our new auditor BDO have been fully engaged in completing the audit process. Based on our progress to date, we are confident that our FY24 form 10-K and the first two quarters of FY25 form 10-Q will be filed by Feb 25th, 2025.

As previously stated, the Special Committee found no evidence to support the former auditor's reasons for resignation. However, over the past two quarters, we have added senior leaders in corporate communication, operations, finance, legal and compliance departments. We will continue to add more top experienced leaders to build a stronger corporate foundation for our rapidly growing and expanding global business, including the CFO, CCO and other positions. As you know when a company quickly grow 4X business in 3 years like Supermicro, adding more sr. leaders is also a natural requirement. Especially, we know, we will continue to grow strongly in the future.

Moving on to our technology progress, we are excited to announce that our NVIDIA Blackwell products are shipping now. We have begun volume shipments of both air-cooled 10U and liquid-cooled 4U NVIDIA B200 HGX systems. Meanwhile our NVIDIA GB200 NVL72 racks are fully ready as well. Utilizing our system building blocks, we are going to soon offer more brand new platforms for customers seeking further optimized, higher-density and even greener AI solutions. While most key component are ramping at full speed, it will take some time to fulfill our current AI solution backlogs. Some customers also need more time to finish their DLC data centers build out. At the same time, we see strong new demands keep coming in from enterprises, CSPs, sovereign entities, and hyperscalers.

We are expanding and enhancing our total liquid-cooled datacenter infrastructure solutions featuring the latest DLC technology, exemplified by the xAI Colossus, the world's largest liquid-cooled AI Supercomputer. Supermicro is the undisputed leader in driving industry-wide adoption of DLC technology, which reduces customers' OPEX and achieves green computing. We expect more than 30% of new data centers WW to adopt liquid-cooled infrastructure within the next twelve months, driven by the rapid and continued growth of AI. Green Computing deserves to be everywhere! Our DLC long-term investment and leadership provide a sustainable competitive edge and economies of scale, far ahead of competition.

Supermicro's DCBBS consolidates servers, racks, networks, storage, water towers, software management, and service for an end-to-end solution. The true value of DCBBS is to save power, reduce space, and decrease water consumption, resulting in up to 40% lower TCO for our customers according to our calculation. It accelerates new datacenter deployments and helps modernize existing infrastructure in weeks or months, rather than quarters and years, significantly improves datacenter TTD and TTO. We are expanding our DCBBS to include more key subsystems quarter after quarter and will become a true one stop shop DC partner to the industry soon.

On the production front, our new Malaysia campus will soon ship products to our regional partners. Our Taiwan and European production facilities are also experiencing significant growth. In Silicon Valley, we are rapidly expanding our manufacturing sites to increase our DLC rack-scale production capacity. The US campuses boast an impressive 20 megawatts of power, enabling us to produce over 1,500 DLC GPU racks per month in the U.S. To better support our key partners and align with current government initiatives, we are planning substantial domestic manufacturing expansions in various regions across the U.S. These strategic expansions will ensure we meet the increasing demand for our products and services, while maintaining our commitment to key partners for quality, security, TCO, TTD and TTO.

To summarize, we have been a product and technology leader in the IT industry for over three decades. As we continue strengthen our internal operations and expand our U.S. and global manufacturing footprint, we aim to turn these progresses into value for shareholders, customers, and partners. Our first-to-market advantage of delivering the most innovative AI infrastructure technology with Blackwell, coupled with exceptional product quality, service, software, networking, and security with DCBBS, will continue to reinforce our leadership as the premier US-based datacenter infrastructure solution provider. With our expanding technology leadership and today's AI trend, We believe it will result in a similar growth trend for us like 2023. With that, I am confident we will finish this fiscal year strongly with revenue in the range of $23.5 billion to $25 billion and [I believe] we have potential to reach $40 billion for FY26.

Before passing the call to David for the financial overview, I want to thank all of our partners, customers, investors and Supermicro team members, and express my deep appreciation for their continued support. With that, I will now turn the call over to David.

David Weigand, Senior Vice President & Chief Financial Officer

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Thank you, Charles.

<u>Please note that these numbers are preliminary and unaudited, and subject to change upon completion of review by management and our audit committee. Additionally, our independent audit firm has not completed its review procedures with respect to such preliminary financial information.</u>

We expect Q2 FY25 revenues in the range of $5.6 billion to $5.7 billion, up 54% year-over-year. Growth was driven by demand for air-cooled and direct liquid-cooled (DLC) rack-scale AI GPU platforms. AI-related platforms again contributed over 70% of revenue for Q2 across enterprise and cloud service provider markets.

The Q2 non-GAAP gross margin is approximately 11.9% versus 13.1% last quarter due to lower margins from product and customer mix.

The non-GAAP operating margin is approximately 7.9% excluding $82 million in stock-based compensation expenses versus 9.7% in Q1 due to lower gross margins.

Other Income and Expense is approximately $8 million, consisting of $15 million in interest and other income offset by $7 million in interest expense.

The tax rate is approximately 15% for GAAP and 17% for non-GAAP.

GAAP net income is $315 to $325 million and non-GAAP net income is $375 to $392 million. Non-GAAP net income excludes $63 million in stock-based compensation expenses, net of the related tax effects of $19 million.

GAAP diluted EPS is approximately $0.50 to $0.52 versus prior guidance of $0.48 to $0.58. Non-GAAP diluted EPS is approximately $0.58 to $0.60 versus guidance of $0.56 to $0.65.

We expect a GAAP diluted share count of 636 million and a non-GAAP diluted share count of 647 million.

The closing inventory was approximately $3.6 billion versus $4.9 billion last quarter. Capex was $28 million. Cash used in operations was $240 million versus cash generated from operations of approximately $409 million in Q1.

Super Micro began the quarter with approximately $2.1 billion in cash and recorded approximately $320 million in GAAP net income for the second quarter. Cash was provided from lower inventory and other sources totaling $1.5 billion. The company used cash to pay down accounts payable by $1.2 billion, realized higher other receivables from purchase rebates and prepaid inventory of $484 million, increased accounts receivable by $335 million, reduced bank loans by $346 million net, incurred capital expenditures of $28 million and had other uses of cash totaling $87 million. This resulted in a reduction in cash of $660 million, thereby ending the Company's 2QFY25 quarter with $1.4 billion in cash in December.

We have continued to prudently manage our working capital and ended January 2025 with approximately $2 billion in cash.

Turning to the balance sheet and working capital metrics compared to last quarter, the Q2 cash conversion cycle was 104 days versus 97 days in Q1. Days of Inventory was 78 days compared to the prior quarter of 83 days. Days Sales Outstanding for Q2 was 47 days versus 42 days last quarter while Days Payables Outstanding was 21 days compared to 28 days last quarter.

In a separate press release issued today, we announced a private placement of $700 million of new 2.25% Convertible Senior Notes due 2028, and privately amended our existing $1.7 billion Convertible Senior Notes due 2029.

FY24 and Q4FY24 Update

The Company is reconfirming that no previously issued financial statements require a restatement. The Company, however, made certain adjustments to the preliminary unaudited results for the fourth quarter of fiscal year 2024 that it announced on August 6, 2024. The adjustments recorded in the results for the fourth quarter of fiscal year 2024 include an increase in net sales of approximately $46 million, an increase in cost of sales of approximately $96 million, which includes a charge due to an increase in inventory reserves of approximately $45 million, and an increase in operating expenses of approximately $5 million. Until the Company's fiscal year 2024 financial statements are filed, the Company is required to reassess its accounting estimates for financial reporting. The charge for inventory reserves results from an unanticipated decline in the market value of certain components that were held in the Company's inventory or on non-cancellable purchase orders at the end of fiscal year 2024. Collectively, these changes resulted in a downward adjustment to the previously announced preliminary unaudited fiscal year 2024 and fourth quarter of fiscal year 2024 GAAP and non-GAAP diluted net income per common share of approximately $0.09 based on post-split diluted shares outstanding. The foregoing adjustments are to previously announced preliminary unaudited financial results and, as such, do not constitute a restatement.

Guidance

For the third quarter of fiscal year 2025, we expect net sales in the range of $5 billion to $6 billion. We expect the GAAP and non-GAAP gross margin to be approximately 12%. We expect GAAP and non-GAAP operating expenses to be up approximately $17 million sequentially and GAAP and non-GAAP other income and expenses to be a net expense of approximately $12 million. We expect GAAP net income per diluted share of $0.36 to $0.53, and non-GAAP net income per diluted share of $0.46 to $0.62. The company's projections for GAAP and non-GAAP net income per diluted share assume a tax rate of approximately 10.7% and 12.7% respectively, a diluted share count of approximately 642 million shares for GAAP, and a diluted share count of approximately 653 million shares for non-GAAP. The outlook for Q3 of fiscal year 2025 GAAP net income per diluted share includes approximately $65 million in expected stock-based compensation expense and other expenses, net of related tax effects of approximately $17 million, which are excluded from non-GAAP net income per diluted share.

For the full fiscal year 2025, we are updating our revenue guidance from a range of $26 billion to $30 billion to a new range of $23.5 billion to $25 billion.

The final financial results reported for this period may differ from the results reported here, based on the review by BDO, our new independent registered public accounting firm. We are working diligently with BDO to complete our fiscal year 2024 audit by the February 25th filing extension date that we have been granted by Nasdaq.

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