Michael Staiger, Senior 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, 2025.

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 and full fiscal year 2025.

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 year 2024, 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 thanks to everyone for joining us.

As previously announced, our fiscal Q3 net revenue totaled $4.6 billion, coming in lower than our original forecast. This decline was primarily due to customers waiting and evaluating AI platforms between the current Hopper and the upcoming Blackwell GPUs, leading to delayed commitments. We expect many of these engagements to materialize in the June and September quarters, strengthening our confidence in meeting our long-term growth targets as we close out this eventful fiscal year. Despite macroeconomic conditions and tariff impacts, our ability to expand market share in IT and AI remains strong. On the earnings front, our fiscal Q3 non-GAAP EPS stood at $0.31 per share, compared to $0.66 last year. This decline was largely driven by a one-time inventory write-down of older-generation GPUs and related components, while the new platforms are finally ramping quickly now.

Although our quarterly performance did not align exactly with our expectations, we successfully fulfilled our commitment to regaining financial regulatory compliance. At the same time, we continue to enhance technological innovation and development, which resulted in the successful high volume delivery of our new generation AI products at the end of March. Looking ahead, some major groundbreaking new innovations are set to service the market in this quarter and the new fiscal year especially with our coming soon DCBBS.

With a clear time-to-market advantage, Supermicro once again leads the AI infrastructure technology and DLC solutions. This strong position enables us to explore new opportunities and expand market share. During the quarter, we achieved volume shipments of air-cooled 10U and liquid-cooled 4U NVIDIA B200 HGX systems, both are exactly the first to market again, as well as GB200 NVL72 racks. Additionally, we started to offer AMD MI-325X solutions to further broaden our AI portfolio. Leveraging our system building blocks, we will again offer time-to-market on the upcoming new platforms, such as NVIDIA B300, GB300 and AMD MI-350 platforms this summer, for customers seeking leading technology, more optimized, higher-density, and greener AI solutions.

Built on our strong foundation of technology leadership, building block solutions, and green computing DNA, we have been deeply focused on developing the industry's first end-to-end AI/IT datacenter total solution. We are now about fully ready to share this exciting news with the market in the coming days by launching our brand-new Datacenter Building Block Solutions, we call it "DCBBS", featuring our second-generation system liquid cooling technology, we call it "DLC-2".

With DCBBS, we are able to dramatically shorten customers' efforts to build a datacenter, reduce their cost, and most importantly make their datacenter better quality and performance, greener and with higher availability. DCBBS consolidates critical components — including (AI) server systems, storage, rack PnP, all different kinds of switches, DLC systems, water tower or dry tower, chilled door, power shelf, battery backup unit (BBU), onsite deployment, networking design, cabling, and datacenter end-to-end management software and all different scopes of services — into a streamlined process.

The true value of DCBBS lies in its ability to reduce power consumption, optimize space, and decrease water usage, delivering up to 30% lower TCO. More importantly, it

accelerates new datacenter deployments and upgrades existing datacenters in a matter of months or even weeks, rather than many quarters or years — driving significant improvements in datacenter time-to-deployment (TTD) and time-to-online (TTO).
One of the key components of DCBBS is our industry-leading DLC solutions. Supermicro remains at the forefront of driving industry adoption of DLC technology, setting new standards for performance, efficiency and sustainability. Last year, we shipped 4,000 100kW AI racks equipped with DLC, helping our customers reduce energy costs by up to 25%. We are committed to doubling this volume in the coming year, further amplifying the impact of green computing.

With the upcoming DLC-2 technology, Supermicro will be able to deliver even greater savings and benefits to our customers. For example, it saves power and water up to 40% and reduces data center noise levels down to about 50 dB…. that is almost as quiet as a library. We are going to announce the details in the coming days. Green computing can be everywhere, and with our DLC-2 solutions, we are making that vision a beautiful reality. Our long-term investments and leadership in DLC have solidified a sustainable competitive edge, providing economies of scale and keeping us far ahead of the competition.

Our global operations continue to expand, with our new Malaysia campus begin shipping products to partners. Meanwhile, our facilities in Taiwan and Europe are scaling up their capabilities and capacity, providing customers with flexible options for their logistic choice and minimizing their cost during these market uncertainties. To further strengthen support for key partners and align with government initiatives, we continue to expand our US domestic manufacturing capacities including new facilities in the Midwest and other locations. These strategic expansions will allow us to meet rising demand while continuing to enhance our commitment to quality, security, and TCO, TTD, and TTO.

In summary, fiscal Q3 was dynamic and productive. We successfully navigated financial challenges while continuing to strengthen our leadership in product and technology innovation. Our first-to-market advantage in AI infrastructure, along with the expanded reach of DCBBS and advancements in DLC technology, further solidifies our industry position. I remain highly confident and optimistic about our long-term strong growth and market share gain. However, near-term macroeconomic and market uncertainties make it difficult to precisely forecast the pace of technology adoption. Despite this, I am confident that we will close the fiscal year on a strong note. Given the current conditions, we anticipate Q4 revenues of at least $6 billion and will resume providing a broader forecast range once we have more clear visibility.

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

Thank you, Charles.

Fiscal Q3 2025 revenues were $4.6 billion, up 19% year-over-year (YoY) and down 19% quarter-over-quarter (QoQ). Q3 revenues were down QoQ as certain new platform decisions by customers moved some sales into Q4 and later. AI GPU platforms represented more than 70% of revenues with AI GPU customers in both the enterprise and cloud service provider markets. Our design win pipeline remains robust, and we expect continued growth in Q4 as we ramp up production of our Data Center Building Block Solutions (DCBBS) based on new GPU platforms. As a leading US technology company, we focus on extensive rack-scale and DCBBS technology and capacity investments in the US which is complemented by our investments in Taiwan, Netherlands, and Malaysia. As Charles indicated, we have a flexible global manufacturing footprint to meet our customers' needs, and we continue to closely monitor the rapidly evolving macro and tariff environment.

During Q3, we recorded $1.9 billion in the enterprise/channel vertical, representing 42% of revenues versus 25% last quarter, up 3% YoY and up 38% QoQ as we see strengthened enterprise adoption of new AI and CPU platforms. The OEM appliance and large data center vertical revenues were $2.6 billion, representing 57% of Q3 revenues versus 75% in the last quarter, up 35% YoY and down 38% QoQ. Two existing CSP/large data center customers represented 22% and 14% of Q3 revenues. Emerging 5G/Telco/Edge/IoT revenues were $48 million or 1% of Q3 revenues.

Server and Storage Systems comprised 97% of Q3 revenue and Subsystems and Accessories represented 3%.

By geography, US represented 60% of Q3 revenues, Asia 30%, Europe 6%, and Rest of World 4%. On a YoY basis, US revenues increased 3%, Asia increased 77%, Europe decreased 3%, and Rest of World increased 83%. On a QoQ basis, US revenues decreased 28%, Asia increased 76%, Europe decreased 69%, and Rest of World increased 45%. China continued to represent less than 1% of sales in Q3.

The Q3 non-GAAP gross margin was 9.7%, down 220 bps QoQ from 11.9% in Q2 primarily due to higher inventory reserves for older generation products, lower volume and accelerated costs to enable time-to-market for new products.
Q3 Operating Expenses on a GAAP basis decreased 3% QoQ and increased 34% YoY to $293 million. On a non-GAAP basis, Operating Expenses decreased 5% QoQ and increased 30% YoY to $216 million. Q3 non-GAAP operating margin was 5.0% compared to 7.9% in Q2 due to the lower revenues and gross margins.
Other Income and Expense for Q3 was a net expense of $31.7 million, consisting of $13.4 million in interest expense principally from convertible bonds and other losses of $18.3 million principally from a non-cash $30.3 million loss on the amendment of the 2029 convertible bond and adverse foreign exchange impact and other miscellaneous expenses offset by higher interest income.

The GAAP effective tax rate was 5.1% resulting in a GAAP tax expense of $6 million for Q3. The non-GAAP effective tax rate for Q3 was 15.5% resulting in Q3 non-GAAP tax expense of $36 million.

Q3 GAAP diluted EPS of $0.17 and Q3 non-GAAP diluted EPS of $0.31 was lower than our guidance due to the lower revenues and gross margins. The GAAP fully diluted share count for Q3 was 622 million and the non-GAAP fully diluted share count was 636 million.

Cash flow generated from operations for Q3 was $627 million compared to cash flow usage of $240 million during the previous quarter. The Q3 closing inventory was $3.9 billion, which increased by 7.6% QoQ from $3.6 billion in Q2 as we prepare for higher shipments in Q4. Capex was $33 million for Q3 resulting in free cash flow of $594 million for the quarter.

During the quarter, we amended the terms of our existing 2029 convertible notes and raised $700 million in gross proceeds in a new 2028 convertible note from the existing convertible investor group. The proceeds from the new convertible note offering will be used to strengthen our working capital, enable continued investments in R&D and expand global capacity as needed.

The closing Q3 balance sheet cash position was $2.54 billion, while bank and convertible note debt was $2.49 billion resulting in a net cash position of $44 million versus a negative net cash position of $479 million last quarter.

Turning to the balance sheet and working capital metrics compared to last quarter, the Q3 cash conversion cycle was 124 days versus 104 days in Q2. Days of Inventory increased by 3 days to 81 days compared to the prior quarter of 78 days due to key component purchases for higher expected Q4 shipments. Days Sales Outstanding increased by 9 days QoQ to 56 days while Days Payables Outstanding decreased by 8 days to 13 days.

We are closely monitoring the macro environment, tariffs, and the technology transition to new platforms. The outlook for the fourth quarter of fiscal 2025 ending June 30, 2025, we expect net sales in the range of $5.6 billion to $6.4 billion, GAAP diluted net income per share of $0.30 to $0.40 and non-GAAP diluted net income per share of $0.40 to $0.50 Given the dynamic environment, we are being prudent and expect gross margins to be approximately 10%. GAAP operating expenses are expected to be approximately $319 million and include $74 million in stock-based compensation expenses that are not included in non-GAAP operating expenses. The outlook for Q4 of fiscal year 2025 fully diluted GAAP EPS includes approximately $63 million in expected stock-based compensation expenses, net of tax effects of $18 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 $16 million.

The company’s projections for Q4 GAAP and non-GAAP diluted net income per common share assume a GAAP tax rate of 14.9%, a non-GAAP tax rate of 16.5%, and a fully diluted share count of 628 million for GAAP and 642 million shares for non-GAAP. We expect capex for Q4 to be in the range of $45 million to $55 million.

For fiscal year 2025 ending June 30, 2025, based on the Q4 guidance above, we are expecting revenues of $21.8 billion to $22.6 billion.

Michael, we’re now ready for Q&A.