Super Micro Computer, Inc. – Second Quarter Fiscal 2026 Earnings Call, February 3rd, 2026

Michael Staiger, Senior Vice President Corporate Development

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the second quarter and full year fiscal 2026, which ended December 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 press 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 third quarter of fiscal year 2026 and the full fiscal year 2026. These statements and other comments are based on management's current expectations and assumptions and involve material risks and uncertainties that could cause actual results or events to materially differ from those anticipated and you should not place undue reliance on forward-looking statements.

You can learn more about these risks and uncertainties in the press release we issued earlier this afternoon, our most recent 10-K filing for fiscal 2025, and 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. The non-GAAP measures are presented as we believe that they provide investors with a means of evaluating and understanding how the Company's management evaluates the Company's operating performance. These non-GAAP measures should not be considered in isolation from, as substitutes for, or superior to financial measures prepared in accordance with US GAAP.

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.

Our third quarter fiscal 2026 quiet period begins at the close of business, Friday, March 13th, 2026.

I will now turn the call over to Charles.

Charles Liang, Founder, Chairman, and Chief Executive Officer

Thank you, Michael, and thank you all for joining today's call.

Supermicro delivered a strong fiscal Q2 as AI infrastructure demand continues to accelerate across every major customer segment. For the quarter, we achieved a record $12.68 billion in revenue—including $1.5 billion deferred from a couple of accounts last quarter—representing 123% year-over-year growth. This strong performance reflects the sustained momentum of our AI solutions and rack-scale systems as customers build out next-generation AI factories. Supermicro has been deploying some of the largest and most complex AI clusters ever built, highlighting our unmatched capability in large-scale manufacturing, onsite deployment and integration.

Most notably, our Datacenter Building Block Solution (or DCBBS) has started to gain some key customers' preference as they look for quicker time-to-deployment (TTD) and quicker time-to-online (TTO). These pre-designed, pre-validated infrastructure building blocks not only speed up customers' datacenter builds, but they also save the cost with better workload optimization and with minimum power and water consumption.

DCBBS will significantly help us gain market share in large, medium and small AI infrastructure deployments with GB300, B200/B300, and MI350 platforms. We are also preparing for the upcoming NVIDIA Vera Rubin and AMD Helios solutions for the second half this year. While we continuously growing AI factory build out, customer and product mix are shifted more to large model builders who have pricing leverage, pressuring gross margin. In Q2 especially, the expedited transportation cost, ongoing components shortages and their volatile pricing, along with tariffs, have impacted our short-term gross margins. As such, I'd like to take a moment to highlight our key strategies to address this and efficiently strengthen our long-term profitability.

First and foremost, Supermicro undergoes its fourth phase of product evolution with DCBBS as its key focus. As these datacenter deployments scale, DCBBS is and will become an increasingly important part of our value. In the first half of FY26, DCBBS solutions accounts for 4% of our profit. We expect this part of our profit to grow and meaningfully contribute to the second half of FY26, and we see that growth accelerates to at least double digits contribution, by end of CY2026. With compressed GPU/CPU life cycles, DCBBS becomes critical helpful to the value of our server and storage products by enhancing the DC infrastructure TTD and TTO, reducing power and water consumption, and cost-efficiently simplifying datacenter management and maintenance.

In just about one year, our DCBBS product lines grew to more than ten key subsystems: including CDU, L2A heat exchangers, chilled doors, power shelves, battery backup, water towers, dry towers, high-speed switching, DC management software, and services. We are expanding this product line to include more new categories such as transformers, next generation power generators, device for energy backup and grid power replacement, further strengthening customer value, accelerating deployment, and supporting long-term profit margin improvement for Supermicro.

Other than developing DCBBS for better value and profitability, we are also sharpening our focus on traditional enterprise, cloud and edge/IoT customers to further diversify revenue with higher margins. In addition, we have introduced our X14 and H14 Gold Series solutions featuring pre configured systems that ship directly from our factories, enabling rapid deployment. Optimized for specific AI, cloud, storage, and telco/edge workloads, these servers are ready to power up immediately and reinforce Supermicro's core time to market advantage for enterprise customers, channel partners and SMB end users.

We are also driving meaningful, cost improvements through enhanced design-for- manufacturing (DFM) and quality-driven engineering. We have introduced more modularized subsystems, and expanded automation across our facilities. These efforts increase yield rates, reduce rework, and enable us to bring new platforms to volume even faster and with higher quality. As product cycles shorten and technical complexity increases, these DFM advancements are essential for scale, efficiency, and long-term margin improvement.

While executing these DFM initiatives, we are also continuing to expand our global manufacturing footprint aggressively and strategically. Our Silicon Valley facilities remain the cornerstone of our US operations, delivering fast time-to-market, strong security, and high-quality integration. Internationally, new production sites in Taiwan, Malaysia, the Netherlands, and soon the Middle East are ramping to increase capacity, support regional sovereign AI requirements, and—most importantly—optimize our overall cost structure.

In summary, as the only company with more than 32 years of robust server and storage focus, Supermicro is quickly evolving into a leading AI platform and datacenter infrastructure total solution provider. Strong Q2 performance, rapid expansion of DCBBS product lines, deeper and more customer engagements, and global capacity investments position us well for long-term growth. While near-term margin pressure from customer mix, tariff, international facility expansions and key components shortages (like Memory and Storage); our focus on enterprise business, DFM improvements, and fast growing DCBBS portfolio all helping us gain new customers, support a higher gross and net margin going forward.

Lastly, based on our broad customer backorders, forecasts, and commitments, we believe demand for AI and IT infrastructure remains unprecedently strong. Our DCBBS solution is exactly what customers need to build out their AI and cloud much faster, greener and lower total cost. With that in mind, I am confident to guide at least $12.3 billion for Q3 and up our full-year revenue guidance back to at least $40 billion. I look forward to sharing our progress with you next quarter.

Thank you.

Now I’ll turn it over to David.

David Weigand, Chief Financial Officer

Thank you, Charles.

We achieved record Q2 FY26 revenue of $12.7 billion, up 123% year-over-year and up 153% quarter-over-quarter, compared to our guidance of $10.0 to $11.0 billion. Q2 revenue included approximately $1.5 billion in delayed Q1 shipments due to customer readiness. Growth was driven this quarter by the rapid ramp and deployment of our rack-scale AI solutions. Despite supply chain challenges in the industry, our global manufacturing team executed well in delivering record revenue. Order strength remains strong from large global datacenter and enterprise customers. AI GPU platforms, which represent over 90% of Q2 revenue, continue to be the key growth driver.

During Q2, the enterprise/channel revenue totaled $2.0 billion, representing about 16% of revenue versus 31% in the prior quarter, up 42% year-over-year and up 29% quarter-over-quarter. The OEM appliance and large data center segment revenue was $10.7 billion, representing approximately 84% of Q2 revenue versus 68% in the last quarter, up 151% year-over-year and up 210% quarter-over-quarter. For Q2 FY26, one large datacenter customer represented approximately 63% of total revenue.

By geography, the U.S. represented 86% of Q2 revenue, Asia 9%, Europe 3%, and Rest of World 2%. On a year-over-year basis, U.S. revenue increased 184%, Asia grew 53%, Europe decreased 63%, and Rest of World increased 77%. On a quarter-over-quarter basis, U.S. revenue increased 496%, Asia decreased 49%, Europe decreased 51%, and Rest of World increased 53%.

Q2 non-GAAP gross margin was 6.4% versus 9.5% in Q1. Gross margins were impacted by customer and product mix as well as higher freight, production and expedite costs, as we began to ship new platforms on a large scale.

We had significant operating leverage during the quarter with total non-GAAP operating expenses representing 1.9% of revenue versus 4.1% last quarter. Q2 GAAP operating expenses were $324 million, up 14% quarter-over-quarter and up 8% year-over-year. On a non-GAAP basis, operating expenses were $241 million, up 18% quarter-over-quarter and up 6% year-over-year. Operating expenses were up quarter-over-quarter largely due to higher sales expenses. Non-GAAP operating margin for Q2 was 4.5%, compared to 5.4% in Q1.

Other Income and Expense for Q2 totaled a net income of $26 million, reflecting $51 million in interest income on higher cash balances, partially offset by $25 million in interest expense primarily related to convertible notes.

The tax provision for Q2 was $99 million on a GAAP basis and $122 million on a non-GAAP basis, resulting in a GAAP tax rate of 19.8% and a non-GAAP tax rate of 20.6%.

Q2 GAAP diluted EPS was $0.60 compared to guidance of $0.37 to $0.45, and non-GAAP diluted EPS was $0.69 versus guidance of $0.46 to $0.54 due to higher revenue and operating leverage. The GAAP fully diluted share count increased sequentially from 663 million in Q1 to 694 million in Q2, and the non-GAAP share count increased from 677 million to 709 million over the same period.

Cash flow used in operations for Q2 was $24 million, compared to $918 million used in the prior quarter. On a quarter-over-quarter basis, Q2 operating cash flow reflected higher net income, offset by higher accounts receivable and inventory levels and aided by higher account payables. Q2 closing inventory was $10.6 billion, up from $5.7 billion in Q1 as we prepared for continuing strength in Q3 shipments. Capex for Q2 totaled $21 million, resulting in negative free cash flow of $45 million for the quarter.

During the December quarter, we expanded our access to working capital to fund growth, executing a $2 billion cash flow-based secured revolving credit facility in the U.S. In January, we also closed an approximately $1.8 billion secured Taiwan revolving debt facility.

At quarter-end, our cash position totaled $4.1 billion, while bank and convertible note debt was $4.9 billion, resulting in a net debt position of $787 million, compared to a net debt position of $579 million in the prior quarter.

Turning to the balance sheet and working capital metrics, the cash conversion cycle significantly improved from 123 days in Q1 to 54 days in Q2. Days of Inventory decreased by 42 days to 63 days, versus 105 days in the prior quarter. Days Sales Outstanding increased by 6 days to 49 days versus 43 days in Q1, while Days Payables Outstanding increased by 32 days to 58 days versus 26 days in Q1.

Now turning to the outlook for Q3 FY26, we expect net sales to be at least $12.3 billion, GAAP diluted net income per share of at least $0.52 and non-GAAP diluted net income per share of at least $0.60. We expect gross margins to be up 30 basis points relative to Q2 FY26 levels.

GAAP operating expenses are expected to be around $354 million, which include approximately $74 million in stock-based compensation expenses that are excluded from non-GAAP operating expenses. The outlook for Q3 of fiscal year 2026 fully diluted GAAP EPS includes approximately $62 million in expected stock-based compensation expenses, net of tax effects of $19 million, which are excluded from non-GAAP diluted net income per common share.

We expect other income and expenses, including interest expense, to result in a net expense of approximately $22 million.

The company's projections for Q3 FY26 GAAP and non-GAAP diluted net income per common share assume a GAAP tax rate of 19.6%, a non-GAAP tax rate of 20.2%, and a fully diluted share count of 684 million for GAAP and 699 million shares for non-GAAP. Capital expenditure for Q3 is expected to be in the range of $70 to $90 million. For the full fiscal year 2026, we expect at least $40 billion in net sales.

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