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 fiscal 2026, which ended March 31, 2026.

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 fourth 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 today, 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 fourth quarter fiscal 2026 quiet period begins at the close of business, Friday, June 12th, 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.

We have significant business value growth with our technology leadership and market expansion. However, before I discuss the specifics of the quarter, I want to provide an update on the recent developments regarding the Indictment of certain individuals formerly associated with the Company. I must be clear: Supermicro is NOT a defendant nor a target of the grand jury investigation, and Supermicro has zero tolerance to any employee who violates federal law and regulation. I am personally shocked and saddened by these alleged actions, which in no way represent the values or ethics of this company. We took immediate action by terminating our relationships with the defendants and are helping and cooperating fully with the US government. Additionally, our independent directors have launched a thorough independent investigation with top forensic and legal firms to ensure we continue to maintain the highest standards of integrity.

We are not waiting for this process to finish; we are further strengthening our Global Trade Compliance Program under expert leadership. Not only is Supermicro fully committed to protecting advanced American technology and following the highest ethical and business standards but continues to expand our manufacturing footprint right here in United States. Again, the alleged actions of a few individuals do not define us. Our focus remains on doing extraordinary work for our customers and partners and leading the industry with transparency and excellence.

Now let's talk about the quarter.

This was a quarter defined by value and focus for Supermicro. Despite industry-wide shortages of key components, including CPU, GPU and memory, our business continues to grow and expand. We advance and optimize the world's datacenter infrastructure using our leading Direct Liquid Cooling (DLC) technology. Our focus remains on delivering the fastest Time-to-Online (TTO) in the industry, ensuring our customers can scale their AI factories quickly and efficiently. While our fiscal Q3 revenue of **$10.2B** was impacted by customers' site-readiness delays, our business fundamentals are stronger than ever. This is purely a short-term delay; several customer sites were not yet equipped with the power and networking required for their cloud deployments and we expect to capture this revenue in the coming quarters.

One of the most significant achievements this quarter was our gross margin recovery, which increased significantly to **10.1% non-GAAP**, representing a 58% improvement over the 6.4% non-GAAP reported in the previous quarter. We are committed to achieving a sustainable double-digit gross margin model by increasing our refocus on enterprise market, and our DCBBS business. Here are some key growth drivers:

- **Market Strength:** Business remains very strong in the Neocloud, sovereign AI and agentic AI segment. We have been aggressively fostering the traditional Enterprise and Storage businesses for about one year. And we start to see strong growth.
- **Growing Opportunities:** Our Datacenter Building Block Solutions (DCBBS) continue to attract old and new customers' interest and create new profit streams. By offering a total datacenter solution that includes complete liquid cooling facilities, management software, networking, and services, we are providing much more value to our customers as they commit to our total solutions.

- **Product Mix and Efficiency:** We improved our product mix with some more unique value products in this quarter. We also advanced our Design-for-Manufacturing (DFM) and more automation in our factories to build products faster with higher yield rate and quality.
- **Supply Chain:** We successfully managed inventory through a dynamic supply environment and took actions to reduce tariff-related cost pressures. These efforts helped improve flexibility, protect margin, and support customer delivery timelines.

Here is the bigger story: Supermicro is evolving from a US-based server designer and manufacturer into a total datacenter solution provider. We expand our business to help customer planning, building, deploying and servicing datacenter infrastructure for global enterprises and Neocloud providers. Our DCBBS business is central to this transformation, providing almost everything a customer needs to build an AI factory—including cooling units, networking, power shelves, battery backups, management software and many other datacenter subsystems. Our DCBBS business continues to grow exactly as planned, showing a consistent and accelerating contribution to our top and bottom-line quarter-over-quarter, and DCBBS will soon contribute more than 25% of our total profit in the coming few years. As an IT technology leader for more than 30 years, we have consistently turned industry disruption into innovation and new strong opportunities.

One of the key values and drivers of our DCBBS business is our datacenter end-to-end management software. We see significant demand for the Supermicro Datacenter and Cloud Software suite. Including our Supercloud Composer that manages tens of thousands of systems or racks in real time. It provides comprehensive control over system and rack-level power usage, cooling status, safety conditions, and device utilization, alongside many other critical features. Our management feature also includes advanced CPU and GPU workload orchestration, which is a critical function for AI Datacenter.

The revenue from this new software product line is finally growing at a tremendous pace—increasing from less than $10M revenue just a few quarters ago to $34M last quarter, and more than $46M booked for this quarter. By bundling subscription-based software and services alongside our hardware, we are strengthening our customer relationships and improving our long-term profitability. We expect DCBBS including software and services to continue its rapid growth and to become a major part of our key value very soon.

We continue to grow and expand our partnership with many key suppliers. With NVIDIA, we are currently shipping many SKUs of the latest rack-scale systems, including the GB300 NVL72, B300 HGX, B200 NVL4, and the inferencing application optimized RTX product lines, and we are preparing to be among the first to market with the new Vera Rubin systems, including the NVL72 Super Cluster.

We continue to build on the strong momentum of our AMD MI355 platforms as we prepare for the next generation of AMD Helios solutions, featuring EPYC Venice and the MI400 series. In addition, we are working closely with Intel and ARM on the development of upcoming Xeon 6+ platforms and a new addition to our portfolio: ARM AGI CPU-based solutions. These systems will deliver exceptional performance-per-watt, specifically optimized for the growing demand of agentic AI workloads. By leveraging Supermicro’s system, rack and datacenter scale building block architecture, we can efficiently support a wide variety of compute platforms and optimize them for different business verticals.

Moving on to our footprint, we are expanding our global production capacity with new facilities to better support AI demand across the world. Our sites in Taiwan, Malaysia, and the Netherlands are all ramping up aggressively. Domestically, we recently announced our largest US site to date—a new DCBBS campus in Silicon Valley just one mile from our headquarters. This brings our total Bay Area footprint to nearly 4 million square feet, featuring eight new buildings optimized for innovation, design, production and validation of the next-generation end-to-end datacenter solutions.

Within this new campus, we are building multiple large-scale validation and production facilities; several will include clean rooms specifically to support our new DLC2 subsystems and next-generation networking solutions, including advanced optical photonics-based devices. With these expansions, we are on track to produce more than 6,000 of the world's most powerful, state-of-the-art racks per month.

In closing, Supermicro continues to scale out revenue and scale up value. We have strengthened our governance, delivered a meaningful margin recovery, and expanded DCBBS, growing in both volume and value through software, networking, services and more. Our leadership in DLC technology paired our ability to deliver rack-scale total solutions at the industry's fastest time-to-online will continue to fuel our strong growth--keeping Supermicro at the center of the AI revolution.

With that, I remain very bullish about our growth in the AI and datacenter market. For the fourth quarter, we target $12 billion given stable supply conditions. For the full year, we target $40 billion.

I will turn this over to David.

David Weigand, Senior Vice President, and Chief Financial Officer

Thank you, Charles.

Fiscal Q3 FY26 revenue was $10.2 billion, up 123% year-over-year and down 19% quarter-over-quarter. As Charles mentioned, Q3 revenue was impacted by datacenter and customer readiness together with industry-wide supply chain constraints. We expect to recognize the deferred revenue in the upcoming quarters. Orders and backlog remain strong across our customer base driven by AI infrastructure demand, with AI GPU related platforms contributing over 80% of revenue.

During Q3, the enterprise/channel revenue totaled $2.8 billion, representing about 28% of revenue versus 15% in the prior quarter, up 46% year-over-year and up 45% quarter-over-quarter. The OEM appliance and large data center segment revenue was $7.4 billion, representing approximately 72% of Q3 revenue versus 85% in the last quarter, up 183% year-over-year and down 31% quarter-over-quarter. For Q3FY26, we had two existing customers, each representing more than 10% of revenues: one large datacenter customer at 27% and one enterprise customer at 10%.

By geography, the U.S. represented 69% of Q3 revenue, Asia 13%, Europe 7%, and Rest of World 11%. On a year-over-year basis, U.S. revenue increased 154%, Asia grew 1%, Europe grew 146%, and Rest of World increased nearly 500%. On a quarter-over-quarter basis, U.S. revenue decreased 36%, Asia increased 17%, Europe increased 105%, and Rest of World increased 392%.

Q3 non-GAAP gross margin was 10.1%, up from 6.4% in Q2. Gross margins were ahead of expectations, driven by customer and product mix, together with lower tariffs, expedite, and inventory reserve charges.

Q3 GAAP operating expenses were $393 million, up 34% year-over-year and up 21% quarter-over-quarter. On a non-GAAP basis, operating expenses were $278 million, up 29% year-over-year and up 16% quarter-over-quarter. Both GAAP and non-GAAP operating expenses were up quarter-over-quarter due to higher headcount-related expenses. Non-GAAP operating margin for Q3 was 7.3%, compared to 4.5% in Q2.

Other Income and Expense for Q3 totaled a net expense of $15 million, reflecting $49 million in interest and other income offset by $64 million in interest expense related to convertible notes and the revolving credit facilities.

The tax provision for Q3 was $127 million on a GAAP basis and $156 million on a non-GAAP basis, resulting in a GAAP tax rate of 20.8% and a non-GAAP tax rate of 21.1%.

Q3 GAAP diluted EPS was $0.72 compared to guidance of at least $0.52, and non-GAAP diluted EPS was $0.84 versus guidance of at least $0.60 due to higher gross margins. The GAAP fully diluted share count decreased sequentially from 694 million in Q2 to 692 million in Q3, while the non-GAAP share count was largely flat at 709 million in Q3 compared to Q2.

Cash flow used in operations for Q3 was $6.6 billion, compared to $24 million used in the prior quarter. Operating cash flow was impacted by a reduction of $10 billion in accounts payable, and by an increase in inventory of $581 million. These factors were only partially offset by higher net income and a reduction of $2.6 billion in accounts receivable. Q3 closing inventory was $11.1 billion, up from $10.6 billion in Q2. Capex for Q3 totaled $80 million, resulting in negative free cash flow of $6.7 billion for the quarter.

At quarter-end, our cash position totaled $1.3 billion. Furthermore, $2.7 billion of accounts receivable expected in March was received in early April. Bank and convertible note debt was $8.8 billion, resulting in a net debt position of $7.5 billion, compared to a net debt position of $787 million in the prior quarter. In addition to using our existing U.S. revolving credit facility and non-recourse AR sale facility, we set up and commenced usage of a $1.8 billion Taiwan revolving credit facility to further support working capital.

Turning to the balance sheet and working capital metrics, the cash conversion cycle increased from 54 days in Q2 to 106 days in Q3. Days of Inventory increased by 43 days to 106 days, versus 63 days in the prior quarter. Days Sales Outstanding increased by 36 days to 85 days versus 49 days in Q2, while Days Payables Outstanding increased by 27 days to 85 days versus 58 days in Q2.

Now turning to the outlook for Q4 FY26, we expect net sales in the range of $11.0 billion to $12.5 billion, GAAP diluted net income per share of $0.53 to $0.67 and non-GAAP diluted net income per share of $0.65 to $0.79. We expect gross margins to be in the range of 8.2% to 8.4% based on expected customer mix.

GAAP operating expenses are expected to be around $433 million, which include approximately $114 million in stock-based compensation expenses that are excluded from non-GAAP operating expenses. The outlook for Q4 of fiscal year 2026 fully diluted GAAP EPS includes approximately $95 million in expected stock-based compensation expenses, net of tax effects of $30 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 $36 million.

The company's projections for Q4 FY26 GAAP and non-GAAP diluted net income per common share assume a GAAP tax rate of 19.4%, a non-GAAP tax rate of 20.4%, and a fully diluted share count of 695 million for GAAP and 712 million shares for non-GAAP. Capital expenditure for Q4 is expected to be in the range of $30 to $50 million. For the full fiscal year 2026, we expect net sales to be in the range of $38.9 billion to $40.4 billion.

Michael, we are now ready for Q&A.