Michael Staiger, Senior Vice President Corporate Development

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the fourth quarter fiscal 2026, which ended June 30, 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 first quarter of fiscal year 2027 and the full fiscal year 2027. 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 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.

Our first quarter fiscal 2026 quiet period begins at the close of business, Friday, September 11th, 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.

Fiscal 2026 was a historic milestone for Supermicro as we nearly doubled our revenue year-over-year, growing from $22 billion last year to $39 billion FY26. The world is being transformed by AI, and Supermicro is transforming as well from a US-based server manufacturer into a leading AI/IT datacenter total solution company. We design and manufacture our total datacenter building block solutions (DCBBS) in the USA, with main facilities in USA, Taiwan, Malaysia and the Netherlands. The demand for our AI/IT solutions is even stronger than ever before as we are transforming into a total DCBBS company: A one stop shop company for customers who want to build their Data Center or AI factory quicker and better.

In our preannouncement, we disclosed over $60 billion in new orders, driving our order book and backlog to a new record levels as we enter fiscal 2027. While Q4 revenue came in at $11.1 billion due to some short-term customer delays in power, cooling, and networking, we know this is purely a timing story. The good news is that, now, our customers can easily leverage our unique DCBBS total solution advantages and upcoming new technology and product lines to accelerate their time-to-deployment (TTD) and time-to-online (TTO), ensuring strong future growth and long-term value for Supermicro for many years to come.

Most importantly, our focus on profitability is yielding clear results. For the fourth quarter, I am happy to report a non-GAAP gross margin of 17.6% and $1.70 in non-GAAP diluted earnings per share. This margin expansion mainly came from our strategic focus on balancing customer mix and product mix while having few one-time positive contributions for the quarter. Since early FY2026, we added dedicated departments and resources to focus on growing enterprise customer base and have expanded our enterprise CPU-based server, storage, and IoT product lines. Our quick growing inference and Agentic AI-centric products are also driving healthier profit margins for the company going forward.

Another key to this margin expansion is our DCBBS, which delivers total-solution value by seamlessly integrating GPU and CPU servers, enterprise storage, Direct Liquid Cooling solutions, CDU, Chilled Door, Water Tower, high speed data switch, and networking, datacenter management software, and full lifecycle services. This turnkey ecosystem enables customers to build and scale AI datacenters in quarters rather than years, dramatically reducing TCO and accelerating time-to-online and time-to-revenue for customers.

We are further elevating this value proposition with our new proactive service model, where our Datacenter management software and field teams will automatically alert and be ready immediately to fix or maintain the failed unit, preventing reduction of computing power at customer Datacenter. As the new software with powerful management features and automated services, attach to our hardware builds, they deepen customer trust and drive long-term value. Our DCBBS is getting very powerful and it will soon contribute significant net income to our business. By early next quarter, more of those software features and service products will be online.

On the operational side, we are complementing this high-value strategy by driving higher manufacturing yields through factory automation, design optimization, and our highly versatile building block architecture. At the same time, we remain very focused on logistics and inventory management, significantly reducing inventory reserves and expedite charges. Together, these operational disciplines will help moderate quarter-to-quarter margin fluctuations driven by uneven customer and product mix, supporting our goal of consistent, growing gross margins.

Turning to our key product roadmap: our system building blocks allow us to quickly optimize every major silicon platform. Through our long term NVIDIA partnership, we are shipping volume SKUs across the GB300 NVL72, HGX B300, B200 NVL4, and RTX 6000 Pro lines, while preparing first-to-market Vera Rubin VRNVL72, Rubin HGX, and Vera C1 and other high density Vera systems. With AMD, we launched complete new Helios product line and MI450 Total Solution alongside strong EPYC CPU, MI350 and MI355X momentum. Working with Intel, we brought Panther Lake Edge AI systems to market and are Shipping Xeon 6+ platforms in volume. We also dedicate on developing product for the strong demand of ARM AGI processor-based (code name Phoenix) architectures optimized for high performance-per-watt inference workloads, demonstrating our silicon partners' deep confidence in our engineering excellence.

To support the massive demand, we continue to expand our physical footprint. In Silicon Valley, we recently announced our new 32-acre DCBBS campus featuring advanced optical photonics networking labs and DC scale manufacturing, which brings our USA footprint to nearly 4 million square feet. Globally, our facilities in Taiwan, Malaysia, and the Netherlands are also ramping strongly to meet demand, putting our total manufacturing capability on track to exceed 6,000 racks per month, including more than 3,000 direct liquid-cooled racks per month. Especially, most of our DLC rack production lines support the most dense, latest 250KW rack platform.

Before I close, a quick update on our capital structure: following our $5.6 billion financing in June, our balance sheet fully supports our component supply and business needs. Thanks to our strong cash position and more favorable customer and product mix, we currently have no plans to utilize our ATM program which we initiated a few months ago. At the same time, we remain focused on building financial efficiency.

Building on all of these operational and product advancements, I want to emphasize that our growth momentum is accelerating where it matters most. By expanding hundreds of new enterprise customers and leading the transition into agentic and specialized AI workloads, Supermicro has become a foundational architect of today's AI backbone. Our DCBBS total solution—spanning CPU and GPU computes, storage, 800G and 1.6T high-speed switching, upcoming optical networking, and our management software suite including SCM, SDM, and SOM—delivers the complete, one-stop shop experience that modern enterprises, NEO Cloud and any other DC customers needs.

Looking to fiscal 2027, our momentum gives us strong confidence to target our revenue in the range of $65 billion to $72 billion as we are in the process of a historic infrastructure buildout. We are balancing top-line expansion with bottom-line profitability by focusing on growing enterprise customer base, customer mix, DCBBS solutions, and operational discipline. We are shaping the future of AI technology while delivering true technology value to our customers. I am very confident that fiscal 2027 will be our strong and fast growth year again!

Thank you, and I will now turn the call over to David.

David Weigand, Senior Vice President and Chief Financial Officer

Thank you, Charles.

We are pleased to report record FY26 revenue of $39.1 billion, up 78% over FY25 revenues of $22 billion and record non-GAAP fully diluted EPS of $3.63, up 76% over FY25 EPS of $2.06. Our FY26 ending backlog was at record levels with over $60 billion in new orders received during Q4 FY26, which we expect to fulfill over the coming quarters. Non-GAAP gross margins for FY26 were 10.9% versus 11.2% in FY25. Our FY26 non-GAAP operating margins expanded to 8.1% from 7.1% in FY25. Our customer base is diversifying, and we had 9 customers in FY26 with revenues greater than one billion each versus 4 such customers in FY25.

Turning to Fiscal Q4 FY26 results, we achieved revenue of $11.1 billion, up 93% year over year and up 9% quarter over quarter. Revenue was near the low end of our guidance range of $11.0 billion to $12.5 billion due to delays in customer readiness. AI solutions contributed approximately 60% of total revenue in Q4 versus over 80% in Q3 due to the timing of some large AI project ramps. Based on our backlog, we believe greater than 80% of revenues will be AI-related solutions.

During Q4, enterprise and channel revenue was $5.6 billion, representing 50% of total revenue, compared with 28% in the prior quarter. Revenue in this segment increased 172% year over year and 98% quarter over quarter. During Q4, we saw a pickup in demand from enterprise and channel customers which are upgrading their compute, storage and network infrastructure with more efficient CPU platforms.

OEM appliance and large data center revenue was $5.5 billion, also representing 50% of total revenue, compared with 72% in the prior quarter. Revenue in this segment increased 50% year over year and decreased 26% quarter over quarter.

For FY26, enterprise and channel revenue grew 39% and represented 31% of total revenue. The OEM appliance and large data center revenue grew 104% and represented 69% of total revenue. For FY26, we had one large data center/CSP customer representing 28% of revenue.

By geography, the U.S. represented 71% of Q4 revenue, Asia represented 11%, Europe represented 8%, and the rest of the world represented 10%. On a year-over-year basis, revenue in the U.S. grew 259%, Asia decreased 50%, Europe increased 4%, and the rest of the world increased 296%. On a quarter-over-quarter basis, revenue in the U.S. grew 12%, Asia decreased 13%, Europe increased 25%, and the rest of the world increased 1%.

Q4 non-GAAP gross margin was 17.6% versus our guidance of 8.2 to 8.4%, up from 10.1% in Q3. Gross margins improved by 750 bps sequentially due to a better-than-anticipated customer and product mix, including the deferral of several contracts from Q4FY26 to Q1FY27. This favorable mix contributed approximately 75% of the gross margin improvement. Lower tariff costs and lower inventory reserves drove the remaining 25% of the gross margin improvement.

Q4 GAAP operating expenses were $455 million, up 44% year over year and 16% quarter over quarter. On a non-GAAP basis, operating expenses were $357 million, up 49% year over year and 28% quarter over quarter. The sequential increases in both GAAP and non-GAAP operating expenses primarily reflected higher headcount-related expenses and sales and marketing expenses. Non-GAAP operating margin was 14.3% in Q4, compared with 7.2% in Q3.

Other income and expense for Q4 was a net expense of $19 million, consisting of $61 million in interest and other income, offset by $80 million in interest expense related to our convertible notes and revolving credit facilities.

The Q4 tax provision was $290 million on a GAAP basis and $316 million on a non-GAAP basis. The Q4 GAAP tax rate was 19.7%, while the non-GAAP tax rate was 20.1%. For FY26, the GAAP tax rate was 19.9%, compared with 12.9% in FY25. The non-GAAP tax rate was 20.4%, compared with 15.4% in FY25.

Q4 GAAP diluted earnings per share was $1.62, compared with our guidance range of $0.53 to $0.67. Non-GAAP diluted earnings per share was $1.70, compared with our guidance range of $0.65 to $0.79. The results exceeded our guidance primarily due to higher gross margin. For FY26, GAAP diluted earnings per share was $3.26, compared with $1.68 in FY25. Non-GAAP diluted earnings per share was $3.63, compared with $2.06 in FY25.

The GAAP diluted share count increased sequentially from 692 million shares in Q3 to 705 million shares in Q4. The non-GAAP diluted share count increased from 709 million shares to 721 million shares over the same period.

Cash provided by operating activities in Q4 was $747 million, compared with cash used in operating activities of $6.6 billion in the prior quarter. For FY26, cash used in operating activities was $6.8 billion, compared with cash provided by operating activities of $1.66 billion in FY25.

Q4 closing inventory was $12.9 billion, up from $11.1 billion at the end of Q3. Capex totaled $28 million in Q4, resulting in free cash flow of $722 million. For FY26, Capex was $162 million, compared with $127 million in FY25 as we invested in expanding capacity globally.

During the quarter, we completed public equity offerings, raising $5.6 billion after offering expenses, comprising $1.4 billion of common stock and $4.2 billion of mandatory convertible preferred shares. The proceeds from these offerings will be used primarily to support increased working capital needed to support our new orders.

At quarter-end, cash and cash equivalents totaled $7.5 billion. Bank borrowings and convertible note debt totaled $8.7 billion, resulting in net debt of $1.2 billion, compared with net debt of $7.5 billion at the end of the prior quarter.

Turning to the balance sheet and working capital metrics, the cash conversion cycle increased by 43 days, from 106 days in Q3 to 149 days in Q4. Days of inventory increased by 13 days to 119 days from 106 days in the prior quarter, as we built inventory in anticipation of higher revenues in FY27. Days sales outstanding decreased by 26 days to 59 days from 85 days in Q3 as we realized collections from some large customers. Days payables outstanding decreased by 56 days to 29 days versus 85 days in Q3 due to a significant reduction in our Average Days Payables between Q3 and Q4 due to the completion of a large AI GPU project and timing of payments to suppliers. Going forward, we expect the Cash Conversion Cycle to normalize based on terms in the current backlog.

Now turning to our outlook for Q1 FY27, we expect net sales to be in the range of $14.5 billion to $15.5 billion, GAAP diluted net income per share to be between $0.89 and $0.98, and non-GAAP diluted net income per share to be between $1.01 and $1.10. Based on the expected customer and product mix, we expect gross margin to be in the range of 10.4% to 10.8%. Please note that due to the issuance of the mandatory convertible preferred shares in Q4, our GAAP and non-GAAP EPS is computed based on the two-class method in which we allocated a portion of our net income for the participating convertible preferred shares. This impacts our Q1FY27 EPS guidance and should be considered in all EPS calculations. Please see the earnings release tables for further details.

GAAP operating expenses are expected to be approximately $453 million, including approximately $127 million in stock-based compensation expenses, which are excluded from non-GAAP operating expenses. The outlook for Q1 of fiscal year 2027 fully diluted GAAP EPS includes approximately $106 million in expected stock-based compensation expenses, net of tax effects of $32 million, which are excluded from non-GAAP diluted net income per common share.

We expect other income and expense, including interest expense, to result in a net expense of approximately $45 million.

The company's projections for Q1 FY27 GAAP and non-GAAP diluted net income per common share assume a GAAP tax rate of 20.1%, a non-GAAP tax rate of 20.5%, and a fully diluted share count of 745 million for GAAP and 761 million for non-GAAP. Capital expenditure for Q1 is expected to be in the range of $50 to $60 million.

For the full fiscal year 2027, we expect net sales to be in the range of $65 billion to $72 billion.

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