

# Q2 FY2022 SGH FINANCIAL RESULTS

APRIL 5, 2022

**SGH**

# Disclaimer

This presentation and oral communications made during the course of this presentation will contain "forward-looking statements," including, among other things, statements regarding future events and the future financial performance of SGH (including the business outlook for the next fiscal quarter) and statements regarding growth drivers in SGH's industries and markets. These forward-looking statements are based on current expectations and preliminary assumptions that are subject to factors and uncertainties that could cause actual results to differ materially from those described in these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and other factors, many of which are outside SGH's control, including, among others: global business and economic conditions and growth trends in technology and lighting industries, our customer markets and various geographic regions; uncertainties in the geopolitical environment; disruptions in our operations or our supply chain as a result of COVID-19 pandemic or otherwise; changes in trade regulations or adverse developments in international trade relations and agreements; changes in currency exchange rates; overall information technology spending; appropriations for government spending; the success of our strategic initiatives including additional investments in new products and additional capacity; acquisitions of companies or technologies, the failure to successfully integrate and operate them, or customers' negative reactions to them; limitations on or changes in the availability of supply of materials and components; fluctuations in material costs; temporary or volatile nature of pricing trends in memory or elsewhere; deterioration in customer relationships; production or manufacturing difficulties; competitive factors; technological changes; difficulties with or delays in the introduction of new products; slowing or contraction of growth in the memory market in Brazil; reduction in or termination of incentives for local manufacturing in Brazil; changes to applicable tax regimes or rates; prices for the end products of our customers; strikes or labor disputes; deterioration in or loss of relations with any of our limited number of key vendors; the inability to maintain or expand government business; and other factors and risks detailed in SGH's filings with the U.S. Securities and Exchange Commission, which include SGH's most recent reports on Form 10-K and Form 10-Q, including SGH's future filings.

Such factors and risks as outlined above and in such filings do not constitute all factors and risks that could cause actual results of SGH to be materially different from our forward-looking statements.

Accordingly, investors are cautioned not to place undue reliance on any forward-looking statements. These forward-looking statements are made as of today, and SGH does not intend, and has no obligation, to update or revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this presentation, except as required by law.

## Statement Regarding Use of Non-GAAP Financial Measures:

SGH management uses non-GAAP measures to supplement SGH's financial results under GAAP. Management uses these measures to analyze its operations and make decisions as to future operational plans, and believes that this supplemental non-GAAP information is useful to investors in analyzing and assessing the Company's past and future operating performance. These non-GAAP measures exclude certain items, such as share-based compensation expense, amortization of acquisition-related intangible assets, acquisition-related inventory adjustments, acquisition-related expenses, restructure charges and integration expenses, changes in the fair value of contingent consideration, (gains) losses from changes in currency exchange rates, COVID-19 expenses, amortization of convertible debt discount and other costs and other infrequent or unusual items. Management believes the presentation of operating results that exclude certain items provides useful supplemental information to investors and facilitates the analysis of the Company's core operating results and comparison of operating results across reporting periods. Management also uses adjusted EBITDA, which represents GAAP net income (loss), adjusted for net interest expense, income tax expense, depreciation and amortization expense, share-based compensation expense, acquisition-related inventory adjustments, acquisition-related expenses, restructure charges and integration expenses, changes in the fair value of contingent consideration, COVID-19 expenses and other infrequent or unusual items.

Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP, as they exclude important information about our financial results, as noted above. In addition, adjusted EBITDA does not purport to represent cash flow provided by, or used for, operating activities in accordance with GAAP and should not be used as a measure of liquidity. Investors are encouraged to review the "GAAP to Non-GAAP Reconciliations" in the appendix at the end of this presentation.

Fiscal year ends in August.

# SPEAKERS



**Mark Adams**

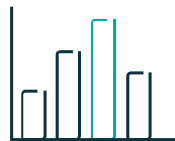
President and CEO  
SMART Global Holdings



**Ken Rizvi**

SVP and CFO  
SMART Global Holdings

# SGH Q2 FY22 Highlights



## Revenue up 48% YoY

- Revenue of \$449M
- 8<sup>th</sup> consecutive quarter of YoY growth



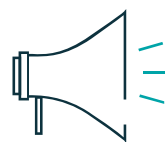
## Strong Gross Margin

- GAAP gross margin of 25%, up ~750 bp YoY
- Non-GAAP gross margin of 26%, up ~660 bp YoY



## Non-GAAP EPS Up Significantly

- GAAP EPS of \$0.04, down 67% YoY
- Non-GAAP EPS of \$0.87, up 98% YoY

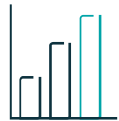


## Announced \$75 million Share Repurchase Authorization

*Note: all per share measures reflect the February 2022 two-for-one share split*



# Intelligent Platform Solutions



## PERFORMANCE HIGHLIGHTS

YTD FY22 revenue of \$201M

- YTD FY22 revenue up 33% vs. year ago
- Q2 FY22 services revenue up 41% vs. Q2 FY21



## SOLUTIONS HIGHLIGHTS

Announced key engagement with Meta

- Providing AI-optimized architecture and managed services for Meta's ultra-scale AI supercomputer
- Multi-year engagement resulting in world's fastest and largest supercomputer in the world

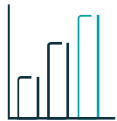
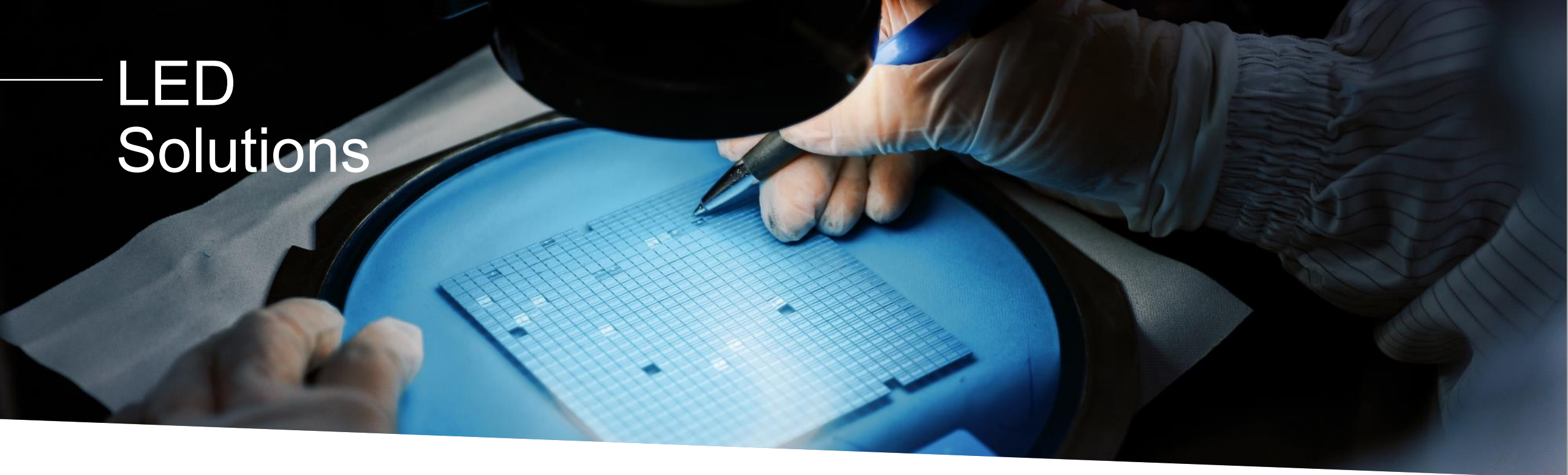


## BRAND LAUNCH

New umbrella brand: Penguin Solutions

- To showcase the full breadth of our capabilities that span the continuum of Edge, to Core, to Cloud

# LED Solutions



## PERFORMANCE HIGHLIGHTS

Q2 FY22 revenue of \$107M

- In line with expectations, with Q2 product revenues up ~5% vs. year ago quarter
- Revenues driven by higher sales of high-brightness products into video, architectural, and landscape specialty lighting markets



## MANUFACTURING TRANSFORMATION

Transition to Sapphire + fab-lite model

- Progress continues
- Expected completion by end of calendar 2022

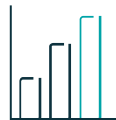
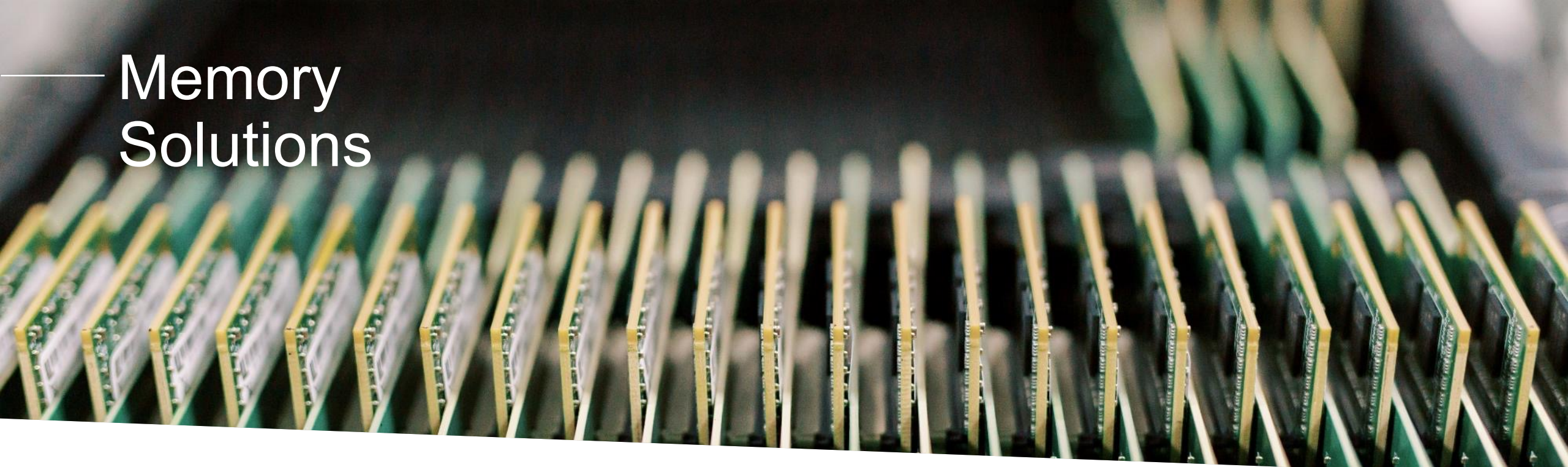


## PRODUCT/TECHNOLOGY HIGHLIGHTS

Delivering innovative, application-optimized LEDs

- Good traction with new CV94D products in the video display market
- New design wins for horticulture, indoor sports lighting and road signage applications

# Memory Solutions



## PERFORMANCE HIGHLIGHTS

Q2 FY22 revenue of \$260M

- Up 9% vs. Q1 FY22; up 19% vs. Q2 FY21
- Growth driven by sales of core DDR3, DDR4 and Flash products for the networking, telecom and storage end markets



## PRODUCT HIGHLIGHTS

New products; new vertical markets

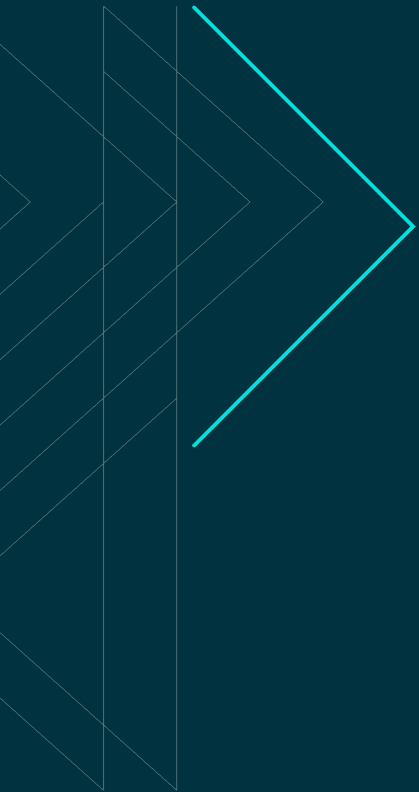
- NV-CXL and CXL Add-in Card solutions for data center and cloud applications
- Selected as a validation partner for CXL E3.S memory module for their next-gen CPU
- SSDs tracking to plan; ramp expected later in 2022



## TECHNOLOGY HIGHLIGHTS

Developing solutions for the Edge of the network

- Specialized solutions addressing ruggedness, lower power and smaller form factors
- Custom encrypted SATA product in a USB form factor targets applications in networking



# FINANCIAL REVIEW

KEN RIZVI, SVP AND CFO

# Non-GAAP Quarterly Results

8th consecutive quarter of year-over-year growth

	Net Sales	Non-GAAP Gross Margin	Non-GAAP EPS
Q2 FY22 Change vs. Q2 FY21	\$449 M up 48%	26% up ~660 bp	\$0.87 Up 98%
Q2 Guidance*	\$415-\$455 M	24-26%	\$0.73 +/- \$0.08

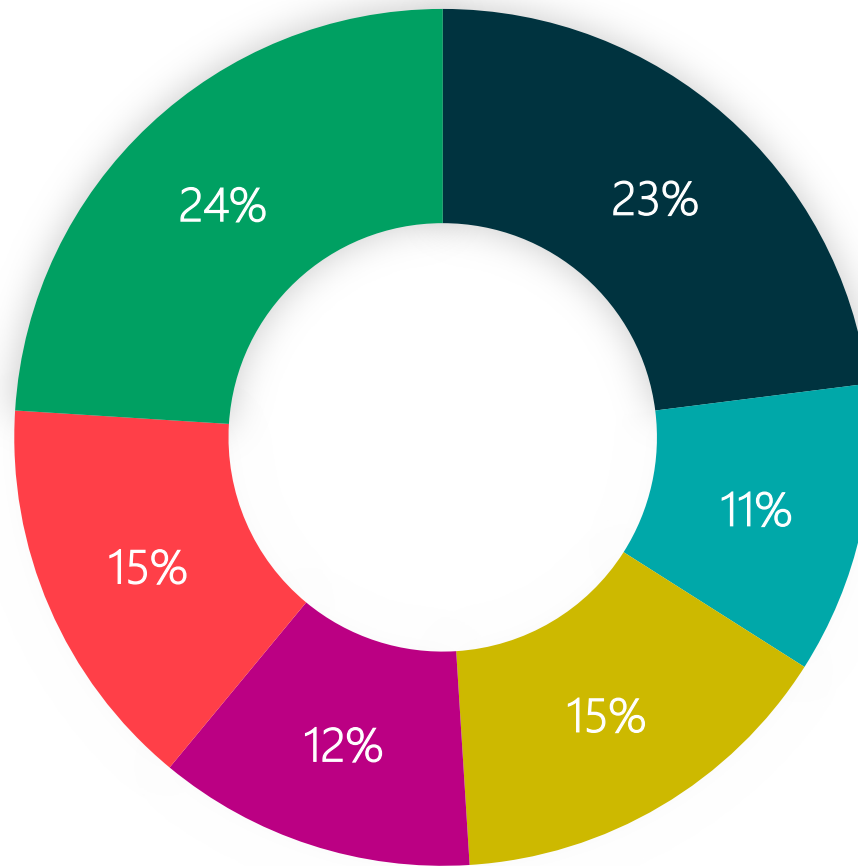
*Note: all per share measures reflect the February 2022 two-for-one share split*

# Q2 FY2022 Non-GAAP Operating Results

(\$ M)	Q2 FY22	Q1 FY22	Q2 FY21
Net sales	\$449.2	\$469.9	\$304.0
Intelligent Platform Solutions	\$82.3	\$118.7	\$85.4
Memory Solutions	\$260.1	\$239.4	\$218.6
LED Solutions*	\$106.8	\$111.9	\$--
Gross profit	\$116.9	\$127.0	\$59.3
Operating expenses	\$59.5	\$57.9	\$32.1
Net income	\$47.6	\$56.3	\$21.9
Diluted earnings per share	\$0.87	\$1.08	\$0.44
Adjusted EBITDA	\$66.0	\$76.7	\$31.0

*Note: all per share measures reflect the February 2022 two-for-one share split*

# Q2 FY2022 Net Sales by End Market



- Mobile & PCs
- Network & Telecom
- Servers & Storage
- AI/Data Analytics/Machine Learning
- Industrial, Defense & Other
- Advanced Lighting

# Q2 FY2022 Balance Sheet Highlights

Working Capital	Q1 FY22	Q2 FY22	Cash Flow	Q1 FY22	Q2 FY22	CapEx	Q1 FY22	Q2 FY22
Net Accounts Receivable	\$344.1M	\$385.9M	Cash & Equivalents (at period end)	\$233.1M	\$365.8M	CapEx	\$12.8 M	\$7.4M
Days Sales Outstanding	39 days	45 days	CF from Operations	\$15.1M	\$32.2M	Depreciation	\$9.5 M	\$10.2 M
Inventory	\$317.9M	\$334.1M	LTM CF from Operations	\$132.9M	\$144.7M			
Inventory Turns	8.6X	8.1X						

# Q3 FY 2022 Guidance

	GAAP Outlook	Adjustments	Non-GAAP Outlook
Net Sales	\$435 to \$475 million	–	\$435 to \$475 million
Gross Margin	23% to 25%	1% <sup>(A)</sup>	24% to 26%
Diluted EPS	\$0.35 ± \$0.08	\$0.40 <sup>(A,B,C)</sup>	\$0.75 ± \$0.08
Diluted Shares	57 million	(3) million	54 million

## Non-GAAP Adjustments (in millions):

(A) Share-based compensation and amortization of acquisition-related intangibles included in cost of sales	\$	4
(B) Share-based compensation and amortization of acquisition-related intangibles included in R&D and SG&A		11
(C) Amortization of debt discount and other costs		5
	\$	<u>20</u>



POWERING GROWTH.  
EXPANDING POSSIBILITIES.



# APPENDIX

# GAAP to Non-GAAP Reconciliations

(dollars in thousands)	Q2 FY22	Q1 FY22	Q2 FY21
GAAP gross profit	\$ 112,713	\$ 122,201	\$ 53,456
Share-based compensation expense	1,648	1,731	804
Amortization of acquisition-related intangibles	2,582	3,096	647
Out of period import tax expense	—	—	4,345
Non-GAAP gross profit	<u>\$ 116,943</u>	<u>\$ 127,028</u>	<u>\$ 59,252</u>
GAAP operating expenses	\$ 95,908	\$ 87,407	\$ 40,516
Share-based compensation expense	(8,325)	(8,044)	(4,594)
Amortization of acquisition-related intangibles	(3,247)	(3,247)	(2,766)
Change in fair value of contingent consideration	(24,000)	(17,200)	—
Other	(828)	(1,038)	(1,064)
Non-GAAP operating expenses	<u>\$ 59,508</u>	<u>\$ 57,878</u>	<u>\$ 32,092</u>
GAAP operating income	\$ 16,805	\$ 34,794	\$ 12,940
Share-based compensation expense	9,973	9,775	5,398
Amortization of acquisition-related intangibles	5,829	6,343	3,413
Change in fair value of contingent consideration	24,000	17,200	—
Out of period import tax expense	—	—	4,345
Other	828	1,038	1,064
Non-GAAP operating income	<u>\$ 57,435</u>	<u>\$ 69,150</u>	<u>\$ 27,160</u>

# GAAP to Non-GAAP Reconciliations

(dollars in thousands, except per share data)	Q2 FY22	Q1 FY22	Q2 FY21
GAAP net income attributable to SGH	\$ 2,458	\$ 20,027	\$ 5,844
Share-based compensation expense	9,973	9,775	5,398
Amortization of acquisition-related intangibles	5,829	6,343	3,413
Change in fair value of contingent consideration	24,000	17,200	—
Out of period import tax expense	—	—	3,358
Amortization of debt discount and other costs	2,296	2,210	2,098
Foreign currency (gains) losses	1,408	1,467	843
Other	1,481	1,038	1,064
Estimated tax effects of non-GAAP adjustments	126	(1,752)	(84)
Non-GAAP net income attributable to SGH	<u>\$ 47,571</u>	<u>\$ 56,308</u>	<u>\$ 21,934</u>
GAAP weighted-average shares outstanding – Diluted	57,636	54,635	50,407
Adjustment for capped calls	(2,759)	(2,583)	—
Non-GAAP weighted-average shares outstanding – Diluted	<u>54,877</u>	<u>52,052</u>	<u>50,407</u>
GAAP diluted earnings per share	\$ 0.04	\$ 0.37	\$ 0.12
Effect of above adjustments	0.83	0.71	0.32
Non-GAAP diluted earnings per share	<u>\$ 0.87</u>	<u>\$ 1.08</u>	<u>\$ 0.44</u>

# GAAP to Non-GAAP Reconciliations

(dollars in thousands)	Q2 FY22	Q1 FY22	Q2 FY21
Net income attributable to SGH	\$ 2,458	\$ 20,027	\$ 5,844
Interest expense, net	4,462	5,106	4,365
Income tax provision	7,586	7,755	1,200
Depreciation expense and amortization of intangible assets	16,077	15,813	8,793
Share-based compensation expense	9,973	9,775	5,398
Change in fair value of contingent consideration	24,000	17,200	—
Out of period import tax expense	—	—	4,345
Other	1,481	1,038	1,064
Adjusted EBITDA	<u>\$ 66,037</u>	<u>\$ 76,714</u>	<u>\$ 31,009</u>

# Convertible Dilution

Share Price	Convertible Share Dilution	Capped Call	Net Share Dilution
\$20	-	-	-
\$21	0.41	(0.41)	-
\$22	0.95	(0.95)	-
\$23	1.44	(1.44)	-
\$24	1.90	(1.90)	-
\$25	2.31	(2.31)	-
\$26	2.70	(2.70)	-
\$27	3.05	(3.05)	-
\$28	3.38	(2.98)	0.40
\$29	3.69	(2.87)	0.82
\$30	3.98	(2.78)	1.20
\$31	4.25	(2.69)	1.56
\$32	4.50	(2.60)	1.90
\$33	4.74	(2.53)	2.21
\$34	4.96	(2.45)	2.51

Note: Dilution in millions of shares.