Michael Staiger, Vice President Corporate Development

Good afternoon and thank you for attending Supermicro's call to discuss financial results for the first quarter, which ended September 30, 2023.

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 second quarter of fiscal year 2024 and the full fiscal year 2024.

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 2023, 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 good afternoon, everyone.

Today, I am pleased to announce that we are off to a good start for fiscal 2024, with first quarter revenues of $2.12 billion. We navigated tight AI GPU and key components supply conditions to deliver total solutions and large compute clusters, especially for generative AI workloads where our backorders continue to expand faster than our forecast.

During the first quarter, demand for our leading AI platforms in plug-and-play rack-scale, especially for the LLM-optimized NVIDIA HGX-H100 solutions, was the primary growth driver. Many customers have started to request direct-attached cold-plate liquid-cooling solutions to address the energy costs, power grid constraints, and thermal challenges of these new GPU infrastructures. In some cases, customers are able to double their datacenter AI computing
capacity using our DLC solution due to lower system power requirements, lower PUE and higher computing density per cluster. To meet this strong demand, we have been continuously expanding our validation and production facilities. By the coming March quarter, we expect to complete a dedicated capacity for manufacturing 100KW racks with liquid-cooling capabilities, that will further expand our total rack production capacity to 5,000 racks per month in full-speed mass production.

The increased AI business also includes our new inferencing platforms and telco-optimized Edge products based on the L40S, L40 and L4 AI product lines. Furthermore, the upcoming Grace Hopper Superchip-based MGX products for both generative AI and inferencing AI are just ready for volume production. Our broadest AI solution portfolio also includes Intel Gaudi 2, PCIe Flex, PVC (Ponte Vecchio) as well as AMD MI250 and MI300X and MI300A based platforms. We fully expect many of these products to gain broad adoption and expand our share in the accelerated compute market.

Let's go over some key financial highlights:

- Fiscal Q1 net revenue totaled $2.12 billion, up 14% year-on-year and down 3% quarter-on-quarter, towards the high end of our guidance range of $1.9 billion to $2.2 billion despite the GPU and key component shortages during our traditionally soft September quarter.
- Fiscal Q1 non-GAAP earnings of $3.43 per share were in line with $3.42 a year ago, and towards the high end of our guidance range of $2.75 to $3.50, demonstrating continued strong operating leverage during a traditional soft quarter.
- We launched and are delivering end-to-end Liquid-Cooled Data Center Solutions. We foresee up to 20% of our data center deployments will move to liquid-cooling and for the
first time, customers can get a complete rack scale liquid-cooling solution from a single source with a minimum lead time of two weeks.

Supermicro is working hard to fully take the current AI growth opportunity by speeding up the development of more new AI optimized platforms. Supermicro is utilizing its Building Block Architecture to continue our first to market tradition with the launch of NVIDIA CG1, CG2 Grace™ Hopper™ Superchip and NVIDIA Grace™ CPU Superchip as we speak. Supermicro's latest MGX systems provide groundbreaking computing densities, energy efficiency and ease of datacenter deployment and serviceability; ideal for hyperscale and edge data centers...

I believe this ongoing AI revolution will impact all industries, and the world, possibly much more impactful than the Industrial revolution over 200 years ago.

As most people know, the power consumption and thermal challenges of these new AI technologies have risen dramatically. We are now shipping up to 80KW rack solutions, with 100KW just around the corner, for compute-intensive datacenter, CSP, and other industries. Our high power efficiency systems, free-air and liquid-cooling expertise has become one of our key differentiators of success. I anticipate that up to 20% or more of global data centers will transition to liquid-cooled solutions in just a few years. In addition, the combination of increasing computing density, reducing TCO, and liquid-cooling reduces the environmental impact of datacenters significantly. This is well-aligned with Supermicro's green computing mission as we improve datacenter performance-per-watt, per square foot and per dollar.

To better support traditional datacenter, enterprise and IoT/Telco industry, we have begun the seeding and early ship of the upcoming 5th gen Intel Xeon processor (codenamed Emerald Rapids) and shipping 4th gen AMD EPYC processor (codenamed Genoa and Bergamo) with more computing cores, PCIe Gen 5, CXL and many other workload-optimized features. For customers that want to test drive these latest systems, we offer our JumpStart program with
remote access to our high-end X13, H13 and GPU systems for qualified customers’ workload validation, testing, and benchmarking before volume deployments.

As the performance of CPU, GPU, and memory technologies increase, enhancing storage performance is also necessary to feed massive datasets to the applications without becoming a bottleneck that slows the entire system or cluster down. Supermicro’s new PCIe Gen 5 based E1.S and E3.S Petascale All-Flash storage servers offer industry-leading storage performance and capacity. Together, with our U.2 NVMe, top-loaded system and traditional storage platforms, we are fulfilling customers’ AI, compute, and storage needs with one-stop total solution shopping experience.

Supermicro’s Total IT Solutions is being recognized as saving customers from the complications of design, validation, sourcing, integration and onsite deployment. We are also streamlining their network switching, firmware, and software management challenges, topping it off with our 24/7 Global deployment and service tiers. Essentially, our customers are now incorporating our capabilities into their long-term infrastructure plans, entrusting Supermicro provides them with fully optimized solutions and with scale capacity to fit their long-term needs.

Given our current customers infrastructure demands, we have continued to evaluate our footprint beyond our ongoing expansion in Malaysia. We are adding several new buildings close to our Silicon Valley HQ campus and on track to surpass our current capacity of 4000 racks per month. Today, with utilization at about 60%, our US HQ and Taiwan facility can easily support at least $18 billion in revenue. The new Malaysia facility will serve building blocks with high volume scale and improved cost structure while pushing our total revenue capacity to a much higher scale than $20B. We are also continuing to work with some of our key partners and are deep in the planning process of adding a new manufacturing campus in North America, outside of California.
We have just celebrated our 30th anniversary in September. For the past 30 years, we have been working tirelessly towards gaining industry leadership position with a best-in-class product portfolio, global scale capacity, and the best time to market, distinguishing ourselves from the competition. Our IT industry leadership position will be even stronger in the near future. The pipeline of new products in the coming quarters has never been stronger. We are gaining market momentum that I expect to build deep into 2024, giving me confidence that Fiscal Q2 revenue will be in the range of $2.7 to $2.9 billion dollars. Additionally, we are expecting continued strength for the second half of Fiscal 2024, and now forecast revenue in the range of $10B-$11B.

Our position as a leading supplier of rack-scale PnP Total AI and IT Solutions has just begun. Our growth will accelerate as we deliver more optimized AI infrastructure to existing and emerging markets, along with our growing software and services value. I also look forward to providing more updates on our product lines in the coming quarters that will continue to extend our datacenter technology leadership for years to come. With that in mind, I expect our $20 billion annual revenue target to be just a couple of years away.

Before passing the call to David Weigand, our Chief Financial Officer, I want to again thank our partners, our customers, our Supermicro employees and our shareholders for your continued support. David.

David Weigand, Senior Vice President and & Chief Financial Officer

Thank you, Charles.

Fiscal Q1 2024 revenues were $2.12 billion, up 14% year-over-year (YoY) and down 3% quarter-over-quarter (QoQ). Revenues were towards the upper end of our guidance range of
$1.9 to $2.2 billion, driven by AI-related platforms despite supply-chain challenges and summer seasonality. Next generation AI and CPU platforms continue to drive strong levels of design wins, orders and backlog. We expect diversified growth in FY24, driven by top-tier data centers, emerging CSPs, enterprise investments in new AI/CPU servers, and edge/IOT/telco markets. We are also enhancing our offerings in Storage, Switches, Software & Services to strengthen our Total Solutions offerings.

During Q1, we recorded $917 million in the Enterprise and Channel vertical, representing 43% of revenues versus 45% last quarter, up 10% YoY and down 6% QoQ due to seasonally lower enterprise spending as customers focus on AI investments. The OEM appliance and large data center vertical revenues were $1.17 billion, representing 55% of Q1 revenues versus 53% last quarter, up 26% YoY and flat QoQ. One existing CSP/large data center customer represented 25% of total revenues for Q1. Our emerging 5G/Telco/Edge/IoT segment revenues were $31 million, which represented 2% of Q1 revenues. AI/GPU and rack-scale solutions again represented over 50% of our total revenues this quarter with AI/GPU revenues in both the enterprise/channel and the OEM appliance and large data center verticals.

The mix of complete systems, storage and rack-scale Total IT Solutions has increased over the last two years. Server and Storage Systems comprised 93% of Q1 revenue and Subsystems and Accessories represented 7%. ASPs increased significantly on a YoY basis and decreased slightly QoQ driven by product/customer mix.

By geography, US represented 76% of Q1 revenues, Asia 11%, Europe 9%, and Rest of World 4%. On a YoY basis, US revenues increased 25%, Asia decreased 17%, Europe decreased 19%, and Rest of World increased 63%. On a QoQ basis, US revenues decreased 3%, Asia decreased 4%, Europe decreased 16%, and Rest of World increased 38%.
The Q1 non-GAAP gross margin was 17.0%, down slightly QoQ from 17.1%. We continue to focus on winning strategic new designs and gaining market share.

Turning to operating expenses, Q1 Opex on a GAAP basis increased by 25% QoQ and 42% YoY to $181 million driven by higher stock-based compensation expenses and headcount. On a non-GAAP basis, operating expenses decreased 3% QoQ and increased 11% YoY to $130 million. Our Q1 non-GAAP operating margin was 10.8% versus 11% last quarter and 12.5% a year ago due to changes in revenues, gross margins and operating expenses.

Other Income and Expense for Q1 was approximately $4.7 million, consisting of $1.9 million in interest expense offset by a net gain of $6.6 million principally from foreign exchange. Our interest expense decreased sequentially as we paid down our debt during the quarter.

The tax provision for Q1 was $20.2 million on a GAAP basis and $36.2 million on a non-GAAP basis. The GAAP tax rate for Q1 was 11.4% and the non-GAAP tax rate was 15.5%.

We delivered strong Q1 non-GAAP diluted EPS of $3.43, which was at the high end of the guidance range of $2.75 to $3.50 due to revenues towards the higher end of guidance, stable gross margins, lower non-GAAP Opex, and foreign exchange gains.

Cash flow generated from operations for Q1 was $271 million compared to cash flow used in operations of $9 million during the previous quarter due to continued strong profitability offset by higher inventory requirements based on build plans for Q2. Capex was $3 million for Q1 resulting in positive free cash flow of $268 million versus negative free cash flow of $17 million last quarter. We have $50 million remaining under the authorized buyback program which expires on January 31, 2024.
The closing balance sheet cash position was $543 million, while bank debt was $146 million resulting in a net cash position of $397 million, up from a net cash position of $150 million last quarter. We generated $271 million in operating cash flow and paid down debt by $144 million in Q1.

Turning to the balance sheet and working capital metrics compared to last quarter, the Q1 cash conversion cycle was 86 days versus 77 days in Q4. Days of Inventory increased by 16 days to 91 versus the prior quarter of 75 days as we built inventory for a seasonally strong Q2. Days Sales Outstanding was up by 5 days QoQ to 43 days while Days Payables Outstanding increased by 12 days to 48 days.

Now turning to the outlook, we remain enthusiastic about our diversified business model covering a wide range of GPU/AI, core computing, storage, 5G telco/edge and IOT solutions. We expect a seasonally strong Q2 and are carefully observing the global macro-economic situation and continuing supply-chain constraints especially for leading AI platforms. For the second quarter of fiscal 2024 ending December 31, 2023, we expect net sales in the range of $2.7 billion to $2.9 billion, GAAP diluted net income per share of $3.75 to $4.24 and non-GAAP diluted net income per share of $4.40 to $4.88. We expect gross margins to be similar to Q1 levels. GAAP operating expenses are expected to be approximately $191 million and include $49 million in stock-based compensation expenses that are not included in non-GAAP operating expenses. The outlook for Q2 of fiscal year 2024 fully diluted GAAP EPS includes approximately $40 million in expected stock-based compensation expenses, net of tax effects of $13 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 $8 million.
The company’s projections for Q2 GAAP and non-GAAP diluted net income per common share assume a GAAP tax rate of 15.7%, a non-GAAP tax rate of 17.1%, and a fully diluted share count of 57.6 million for GAAP and 58.3 million shares for non-GAAP. We expect CapEx for the fiscal second quarter of 2024 to be in the range of $21 to $23 million and a range of $105 to $115 million for the fiscal year 2024.

For the fiscal year 2024 ending June 30, 2024, we are raising our guidance for revenues from a range of $9.5 to $10.5 billion to $10 to $11 billion.

Michael, we’re now ready for Q&A.