

# Q3 FY2022 SGH FINANCIAL RESULTS

JUNE 29, 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: inability to obtain or delays in obtaining regulatory approvals and otherwise completing all steps required to close on the acquisition of Stratus; issues, delays or complications in completing the acquisition of Stratus; incurring unanticipated costs in completing the acquisition of Stratus; the ability of Stratus to generate anticipated revenue and profits post-transaction close; risks associated with integration or transition of the operations, assets, systems, and personnel of Stratus; unfavorable reaction to the sale by customers, competitors, suppliers and employees of Stratus, global business and economic conditions and growth trends in technology industries, SGH's or Stratus' 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.

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Fiscal year ends in August.

# SPEAKERS



**Mark Adams**

President and CEO  
SMART Global Holdings



**Ken Rizvi**

SVP and CFO  
SMART Global Holdings

# SGH Q3 FY22 Highlights



## 9th Consecutive Quarter of YoY Revenue Growth

- Revenue of \$463M
- Up 6% vs. year-ago quarter



## Strong Gross Margin

- GAAP gross margin of 25%, up ~540 bp YoY
- Non-GAAP gross margin of 26%, up ~380 bp YoY



## Non-GAAP EPS Up Significantly YoY

- GAAP EPS of \$0.44, vs. GAAP loss of \$(0.15) per share
- Non-GAAP EPS of \$0.87, up 24% YoY



## Announced Acquisition of Stratus Technologies

- \$150M+ in annual revenue, including \$80M+ of higher-margin services revenue
- Expected to close by calendar year-end 2022



Note: all per share measures reflect the February 2022 two-for-one share split  
See appendix for GAAP to non-GAAP reconciliation





# SGH Transformation Highlights

In less than two years we have:

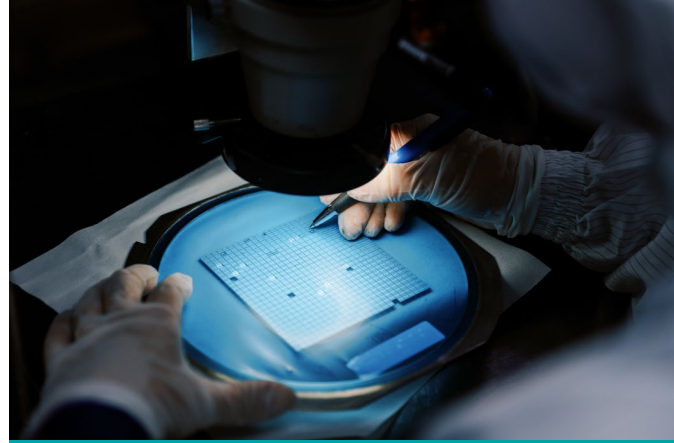
- Grown revenue from \$1.1 billion to > \$1.8 billion
- Expanded non-GAAP gross margins from 19.8% to 25+%
- Diversified revenue with organic growth and acquisition of Cree LED
- Strengthened the balance sheet, leveraging strong cash flow generation, and
- Continued to invest in our long-term success, as demonstrated by our announcement today of the planned acquisition of Stratus Technologies

# Business Line Highlights



## Intelligent Platform Solutions

- Q3 FY22 revenue up 16% sequentially to \$95M
- Services revenue up 61% sequentially to record \$34M<sup>(1)</sup>
- Record backlog supports 30%+ sequential revenue growth from Q3 to Q4 FY22



## LED Solutions

- Q3 FY22 revenue of \$101M vs. \$102M in year-ago quarter
- Strong performance from Americas & EMEA despite supply chain challenges
- XE-G LED product family garners industry recognition from the Edison Report<sup>(2)</sup>



## Memory Solutions

- Q3 FY22 revenue of \$266M up 11% vs. year-ago quarter
- Demand driven by core DDR3, DDR4 and Flash products
- Focused on strong cash flow generation, OpEx and CapEx management in Brazil



# FINANCIAL REVIEW

KEN RIZVI, SVP AND CFO

# Non-GAAP Quarterly Results

9th consecutive quarter of year-over-year growth

	Net Sales	Non-GAAP Gross Margin	Non-GAAP EPS
Q3 FY22 Change vs. Q3 FY21	\$463M up 6%	26% up ~380 bp	\$0.87 Up 24%
Q3 Guidance*	\$435-\$475M	24-26%	\$0.75 +/- \$0.08

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



# Q3 FY2022 Non-GAAP Operating Results

(\$ M)	Q3 FY22	Q2 FY22	Q3 FY21
Net sales	\$462.5	\$449.2	\$437.7
Intelligent Platform Solutions	\$95.3	\$82.3	\$95.8
Memory Solutions	\$265.9	\$260.1	\$240.1
LED Solutions	\$101.3	\$106.8	\$101.8
Gross profit	\$118.9	\$116.9	\$95.7
Operating expenses	\$64.6	\$59.5	\$52.4
Net income	\$45.9	\$47.6	\$35.5
Diluted earnings per share	\$0.87	\$0.87	\$0.70
Adjusted EBITDA	\$64.0	\$66.0	\$51.4

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

# Q3 FY2022 Balance Sheet Highlights

Working Capital	Q2 FY22	Q3 FY22	Cash Flow	Q2 FY22	Q3 FY22	CapEx	Q2 FY22	Q3 FY22
Net Accounts Receivable	\$386M	\$357M	Cash & Equivalents (at period end)	\$366M	\$387M	CapEx	\$7M	\$9M
Days Sales Outstanding	45 days	31 days	CF from Operations	\$32M	\$37M	Depreciation	\$10M	\$11M
Inventory	\$334M	\$365M	LTM CF from Operations	\$145M	\$132M			
Inventory Turns	8.1X	10.1X						

# Q4 FY 2022 Guidance

	GAAP Outlook	Adjustments	Non-GAAP Outlook
Net Sales	\$420 to \$460 million	–	\$420 to \$460 million
Gross Margin	22.5% to 24.5%	1% (A)	23.5% to 25.5%
Diluted EPS	\$0.22 +/- \$0.10	\$0.43 (A,B,C)	\$0.65 +/- \$0.10
Diluted Shares	55 million	(2) million	53 million

## Non-GAAP adjustments (in millions)

(A) Share-based compensation and amortization of acquisition-related intangibles included in cost of sales	\$	5
(B) Share-based compensation and amortization of acquisition-related intangibles included in R&D and SG&A		12
(C) Amortization of debt discount and other costs		5
	\$	<u>22</u>



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EXPANDING POSSIBILITIES.



# APPENDIX



# GAAP to Non-GAAP Reconciliations

(dollars in thousands)	Q3 FY22	Q2 FY22	Q3 FY21
GAAP gross profit	\$ 114,463	\$ 112,713	\$ 84,487
Share-based compensation expense	1,724	1,648	1,166
Amortization of acquisition-related intangibles	2,696	2,582	2,937
Flow-through of inventory step up	—	—	7,090
Non-GAAP gross profit	<u>\$ 118,883</u>	<u>\$ 116,943</u>	<u>\$ 95,680</u>
GAAP operating expenses	\$ 79,154	\$ 95,908	\$ 81,593
Share-based compensation expense	(8,823)	(8,325)	(7,215)
Amortization of acquisition-related intangibles	(3,247)	(3,247)	(3,247)
Change in fair value of contingent consideration	(124)	(24,000)	(16,400)
Other	(2,349)	(828)	(2,356)
Non-GAAP operating expenses	<u>\$ 64,611</u>	<u>\$ 59,508</u>	<u>\$ 52,375</u>
GAAP operating income	\$ 35,309	\$ 16,805	\$ 2,894
Share-based compensation expense	10,547	9,973	8,381
Amortization of acquisition-related intangibles	5,943	5,829	6,184
Flow-through of inventory step up	—	—	7,090
Change in fair value of contingent consideration	124	24,000	16,400
Other	2,349	828	2,356
Non-GAAP operating income	<u>\$ 54,272</u>	<u>\$ 57,435</u>	<u>\$ 43,305</u>

# GAAP to Non-GAAP Reconciliations

(dollars in thousands, except per share data)	Q3 FY22	Q2 FY22	Q3 FY21
GAAP net income (loss) attributable to SGH	\$ 24,113	\$ 2,458	\$ (7,211)
Share-based compensation expense	10,547	9,973	8,381
Amortization of acquisition-related intangibles	5,943	5,829	6,184
Flow-through of inventory step up	—	—	7,090
Change in fair value of contingent consideration	124	24,000	16,400
Amortization of debt discount and other costs	2,705	2,296	2,088
Foreign currency (gains) losses	641	1,408	994
Other	2,349	1,481	2,356
Estimated tax effects of non-GAAP adjustments	(513)	126	(768)
Non-GAAP net income attributable to SGH	<u>\$ 45,909</u>	<u>\$ 47,571</u>	<u>\$ 35,514</u>
GAAP weighted-average shares outstanding – Diluted	54,998	57,636	48,071
Adjustment for capped calls	(2,063)	(2,759)	2,961
Non-GAAP weighted-average shares outstanding – Diluted	<u>52,935</u>	<u>54,877</u>	<u>51,032</u>
GAAP diluted earnings (loss) per share	\$ 0.44	\$ 0.04	\$ (0.15)
Effect of above adjustments	0.43	0.83	0.85
Non-GAAP diluted earnings per share	<u>\$ 0.87</u>	<u>\$ 0.87</u>	<u>\$ 0.70</u>

# GAAP to Non-GAAP Reconciliations

(dollars in thousands)	Q3 FY22	Q2 FY22	Q3 FY21
Net income (loss) attributable to SGH	\$ 24,113	\$ 2,458	\$ (7,211)
Interest expense, net	5,110	4,462	5,049
Income tax provision	5,154	7,586	4,010
Depreciation expense and amortization of intangible assets	16,571	16,077	15,308
Share-based compensation expense	10,547	9,973	8,381
Flow-through of inventory step up	—	—	7,090
Change in fair value of contingent consideration	124	24,000	16,400
Other	2,349	1,481	2,356
Adjusted EBITDA	<u>\$ 63,968</u>	<u>\$ 66,037</u>	<u>\$ 51,383</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.

# SGH TO ACQUIRE STRATUS TECHNOLOGIES

JUNE 29, 2022

SGH



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Fiscal year ends in August.

# Why Stratus

## Stratus Aligns with SGH's Acquisition Framework



### Competes in High-Value Specialty Market

Mission-critical solutions servicing large & fast-growing data center, IT & OT Edge markets



### Leadership Position

Industry leading high-availability, fault-tolerant solutions for data center and Edge environments with a 40-year track record of innovation



### Strengthens IPS Business

Expected to scale IPS business and extend capabilities in data center and Edge environments



### Increases Services Revenue

Expected to add \$80M+ of recurring, high-margin services revenue



### Large Enterprise Customer Base

Expected to add strong customer base including more than 1/2 of Fortune 100 companies



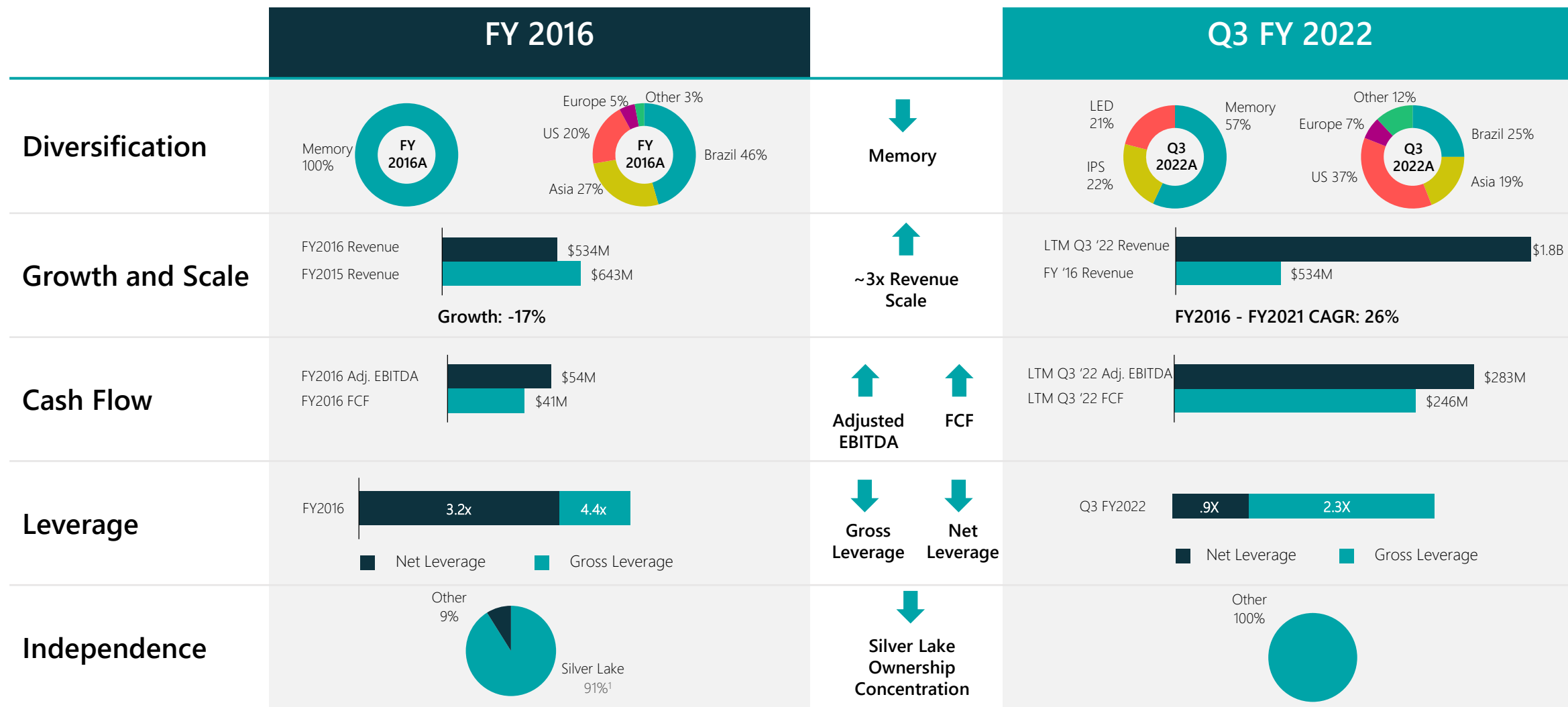
### Enhances Financial Profile

Expected to be immediately accretive to SGH non-GAAP GM, non-GAAP EPS and free cash flow

# A Strong Track Record of Successful Acquisitions



# The Proof: SGH Then and Now



# About Stratus

## Creating Edge and Core Computing Solutions to Simplify and Protect a Connected World

For more than 40 years, Stratus has provided high-availability, fault-tolerant computing to Fortune 500 companies and small-to-medium sized businesses enabling them to securely and remotely run mission-critical applications without downtime at the data center and Edge to turn data into actionable intelligence.

**1980**

Year Founded

**Maynard,  
MA**

Headquarters

**~500**

Employee count

**\$150M+**

Annual Revenue

**70+**

Patents & Applications

**17**

Worldwide Locations



# Stratus Business Overview

## Products

Data Center

Stratus V-Series



Stratus ftServer®



Information Technology ("IT") Edge

Stratus ftServer®



Stratus everRun®

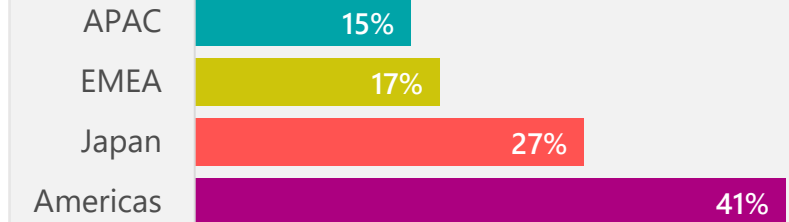


Operational Technology ("OT") Edge

Stratus ztC™ Edge



## Revenue Breakdown



## Large Customer Base Across Multiple Industries



3/4 Largest U.S.  
Credit Card  
Networks



5/10 World's  
Largest  
Retailers



6/10 Top Global  
Food & Beverage  
Companies



~4,000  
Active Customer  
on Support



11,000+  
Systems or  
Deployments



8/10 Largest  
Fortune 100 Energy  
Companies



6/10 World's  
Largest Global Oil  
& Gas Companies



More than Half of  
Fortune 100  
Companies

# Expands SGH's Platforms, Software, and Services Offerings

## Within Intelligent Platform Solution (IPS) Business Line

Stratus adds high-availability, fault-tolerant solutions in the data center and at the Edge, and \$80M+ of recurring, high-margin services revenue

### Edge

#### IPS Solutions



- Embedded & Rugged Edge

#### Stratus Solutions



- ftServer
- ztC™ Edge
- everRun®

#### Key Capabilities

- Application-specific embedded platforms for near and far Edge
- Solutions for industrial and consumer applications (IOT)

#### Key Differentiators

- Deep industry experience
- Custom and rugged design capabilities
- Full software and solution integration

### Core

#### IPS Solutions



- HPC and AI Solutions

#### Stratus Solutions



- V Series
- ftServer

#### Key Capabilities

- Complete design services
- Optimized solutions for HPC & AI
- Managed and professional services
- Software portfolio for deployment, provisioning and cloud integration

#### Key Differentiators

- Deep industry domain expertise
- Flexible/agile end-to-end design model
- Single point of ownership
- Flexible consumption models

Stratus customers benefit from IPS Cloud

### Cloud

#### IPS Solutions



- Cloud Solutions

#### Key Capabilities

- HPC and AI Cloud integration services (Private, Public)
- Cloud-native workload portability tools
- Data gravity solutions

#### Key Differentiators

- POD – Optimized Cloud Platform
- Ease of deployment and operation
- Hybrid Cloud offering

# Transaction Overview



## Transaction Structure and Purchase Price

- SGH to acquire Stratus for \$225 million and up to a \$50 million of earnout consideration
  - \$225 million cash consideration to be paid at closing
  - Earnout to be paid in cash, SGH stock, or a mix of cash and SGH stock, at SGH's election, if gross profit target is met in the 12 month period after close



## Transaction Financing

- SGH finances the transaction with cash from balance sheet and up to \$125 million drawdown on revolver
- Pro forma total leverage of ~2.5x and pro forma net leverage of ~1.6x



## Transaction Impact

- Expected to significantly increase IPS services revenue
- Expected to be immediately accretive to SGH non-GAAP gross margin, non-GAAP EPS and free cash flow



## Transaction Timing

- Expected to close by the second half of calendar year 2022

*(Subject to regulatory approvals and other customary closing conditions)*

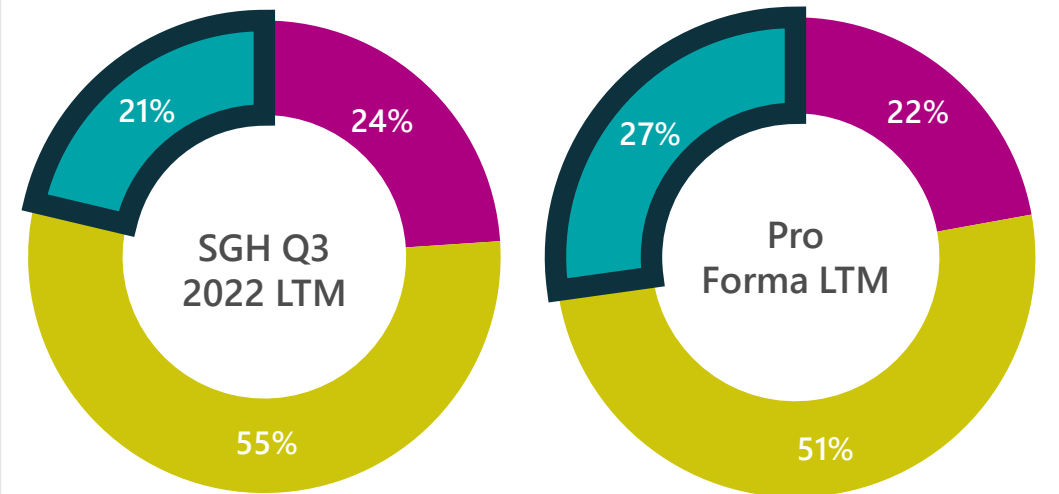


# Contributes to SGH's Growth and Diversification Strategy

## Financial Profile

Metric	Stratus Contribution
Revenue	\$150M+
Gross Margin <sup>1</sup>	150+ bps improvement
EPS <sup>1</sup>	Expected to be accretive to non-GAAP EPS immediately

## Diversification



Intelligent Platform Solutions

Memory Solutions

LED Solutions

# Positioned for Success



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