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# Super Micro Computer, Inc. (SMCI)

Q1 2021 Earnings Call

## CORPORATE PARTICIPANTS

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*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

**Kevin S. Bauer**

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## OTHER PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Super Micro Computer, Inc. First Quarter Fiscal 2021 Financial Results Conference Call. A press release issued earlier today is available on Supermicro's website at [www.supermicro.com](http://www.supermicro.com). During the presentation, all participants will be in a listen-only mode. Afterwards, securities analysts will be invited to participate in a question-and-answer session. The entire call is open to all participants on a listen-only basis. As a reminder, this call is being recorded, Tuesday, November 3, 2020. A replay of the call will be accessible via webcast at [ir.supermicro.com](http://ir.supermicro.com). A replay of the webcast will be available online for 12 months following the call. An investor presentation and a transcript of management commentary related to Q4 results will also be posted at [ir.supermicro.com](http://ir.supermicro.com).

With us today are Charles Liang, Chairman and Chief Executive Officer; Kevin Bauer, Senior Vice President and Chief Financial Officer; and James Kisner, Vice President of Investor Relations.

I would now like to turn the conference over to Mr. Kisner. Mr. Kisner, please go ahead, sir.

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**James Kisner**

*Vice President-Investor Relations, Super Micro Computer, Inc.*

Thank you. Good afternoon and thank you for attending Supermicro's call to discuss financial results for the first quarter of fiscal 2021, which ended September 30, 2020. 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 the potential impact of COVID-19 on the company's business and results of operations. 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 2020, 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 Liang, Chairman and Chief Executive Officer. Charles?

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## Charles Liang

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

Thank you, James, and good afternoon, everyone. Today, we had released our fiscal 2021 first quarter financial results. Now let's take a look at some highlights from the quarter. Our fiscal first quarter net sales totaled \$762 million, down 5% year-over-year and 15% sequentially. Our fiscal Q1 non-GAAP earnings per share was \$0.55 compared to \$0.68 in both the same quarter of last year and in fiscal Q4 of 2020.

As we expected, Q1 had been our seasonally low quarter after a traditionally strong quarter in June. This year, despite the continued challenges from COVID-19, we were pleased to deliver revenue and earnings above the midpoints of our guidance ranges.

We have been efficiently adjusting to the new normal as a business deemed essential by the State of California, although there are still lots of area can be and will be further improved regarding COVID-19 impact. At the same time, we have been aggressively growing our operations, R&D and sales functions in Taiwan where the COVID-19 impact is much less than that in our US and EMEA headquarters.

During last September quarter, we continued to serve our current customers while enhancing our Taiwan headquarters capacity and capability in production, operation, and sales force in order to support our global growth strategy.

To sum up, we now have a much bigger and lower cost campus in Taiwan, with better productivity for revenue and profitability growth. This is just the beginning of our turnover effort after recent challenges that I will discuss later. I believe, as our Taiwan campus starts to reach higher [ph] economical (06:08) of scale, combined with our cost reduction efforts, revenue and profitability growth will be getting much stronger in the coming quarters and years. I have confidence in capitalization on many new market opportunities in our approximately \$100 billion TAM, especially in APAC, EMEA and the US East Coast. We have been pretty successful at achieving a greater market share in the US West Coast. And we aim to duplicate this success in other geographic territories.

Let me spend a minute to review traditional business and the three new growth drivers that I stated in the past two quarter end conference calls. First, our organic enterprise and channel business. Second, our new large data

center, public cloud and OEM business. Third, our new 5G, Edge and Telco business. And fourth, our software and global service business. We have made good progress in each of the four growth drivers. We have added more new enterprise customer to our accounts and gained a couple of top scale cloud companies.

We also have won a couple of top telco partner in each of the EMEA, Asia and USA territories. Moreover, we see our software and service business continues to gain more adoptions worldwide. With the business foundation we have built and the customer pipelines we have nurtured, continued progress is expected in each of these growth area going forward. Especially in the new large cloud and OEM and the 5G and telco markets, I believe the growth will be a big extra revenue to us.

Before moving on to technology and products, I want to take a moment to recall and share the cause of our business slowdown and disruption over the past three years. First, our 10-K delay in June 2017 followed by our delisting was a significant distraction to management and employees for over three years. Although all the concern and issue were resolved a few months ago, this disruption had a lasting effect on our business and employee morale. However, we are recovering quickly now.

Unfortunately, just as we emerged from our stock delisting and resumed growth in December 2019, COVID-19 came to US and has slowed down enterprise and channel spending badly, and that was our traditional focus. Our sales, operations and production performance have been impacted since the end of this March.

Regardless of this challenge and disruption, I want to share with you that Supermicro is still very strong. Our strong foundation allow us to find ways to overcome these challenges. We stand alone as the only US server hardware solution company with the longest record of faster and uninterrupted growth since inception. In the 10 years between our IPO in calendar 2007 and 2017, we grew at a 20% compound annual growth rate, well above that of the industry at about 3% compound annual growth rate over the same time period. Our investors should keep these facts in mind. We will prove that we are able to recreate the same growth trajectory or even better very soon.

Moving on to technology and products, our unique Building Block Solution R&D organization is strong and smart at work to expand our product lines with extensive growth in our NVIDIA, AMD, and Intel portfolios. Our broadest leading AI platforms and the coming soon new Intel Ice Lake product lines will prove that Supermicro again will be the true hardware industry leader.

Some technology highlights in the quarter include the following. First, we introduced end-to-end PCI-E Gen4-based 1U, 2U and 4U AI systems that deliver 6x AI training and 7x inferencing performance improvement over previous generation. These AI systems are available with either the latest AMD EPYC processor or the upcoming Intel Ice Lake processor.

Second, most importantly, we believe our upcoming X12 Ice Lake product line is absolutely going to be the strongest product line in our history. It will be ready to ship as soon as Intel's new CPU is available. True to our application optimization product strategy, our X12 product line will provide exactly the best hardware [ph] performance (12:45) for 5G, AI and Telco, as well as mega data center application.

Third, we were also the first to market with a 1U NEBS Level 3 Certified NVIDIA V100 GPU accelerated server, a key enabler for the transition to 5G. And we also delivered [ph] the world's (13:15) most green efficient supercomputer recently. By collaborating with preferred networks, our system achieved number 1 in the Green500 with a record-breaking 21.11 Gigaflops per watt, which is 15% higher than the previous worldwide record.

Given our leadership in green IT, this is reflective of the deeper mission of our company to have preserve our only planet for future generations with products that offer unbeaten energy efficiency.

Other than the four business growth drivers, our big production and operation capacity program in Taiwan and our new strong product pipeline and our new product – strong product pipeline, the company is also investing in business automation branch, which is our B2B and B2C online business transaction system. We started designing this system five years ago and had recently put extra efforts to finish the phase one milestone. Now, we are able to help our sales and our customer to easily select the product configurations and order quickly online. This phase one will be open to our sales this November. After that, we aim to open it up to some of our customers in a few weeks.

While we continue to fine-tune phase one features and configuration optimization, phase two have already been kicked off with a command center-based structure to further speed up and optimize sales performance and customer satisfaction. This innovative sales and services software program will dramatically improve our business efficiency, scale, and quality.

In summary, we are back and we will be soon much stronger than ever before. We believe that the big challenges in the past three years that badly hurt Supermicro are totally behind us now. As we continue to build a much stronger foundation globally, including the much larger new campus in Taiwan, we will leverage these investments to efficiently reaccelerate our business growth and profitability in the coming quarters and years.

I appreciate the patience that investors and our employee have shown to our company during the difficult time, and we aim to reward your support with our faster growth in the near future and long-term success. And I believe that we will become one of the top IT infrastructure provider very soon.

At the upcoming investor event and analyst day, we will share more details about our scale, scope and schedule for the new Supermicro progress that we have been developing to grow into a top player. The key topics will include: A, four business drivers; B, our unique technology and new product lines for AI, 5G, telco and large cloud and our organic business; C, our new campus in Taiwan to lower our business cost; D, our software and service business status; and E, our B2B and B2C business automation program. Welcome to join us at that time.

I will now pass the call to Kevin Bauer, our Chief Financial Officer, to provide additional details on the quarter.

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## Kevin S. Bauer

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

Thank you, Charles. Our fiscal first quarter revenue totaled \$762 million. This reflects a 5% year-on-year decrease from the same quarter of last year and a 15% decline from the fourth quarter of fiscal year 2020. Systems comprised 81% of total revenue and volumes of systems and nodes shipped were down sequentially and year-over-year. System ASPs increased quarter-on-quarter and year-over-year.

Turning to geographic performance, on a year-over-year basis, the US increased 6%, EMEA declined 12%, and Asia declined 22%. On a sequential basis, US sales declined 8% quarter-on-quarter, EMEA declined 32%, and Asia declined 22% sequentially.

From a customer point of view, we saw pauses at OEM, cloud service provider, and Internet commerce customers following strong demand in the June quarter coupled with the normal down cycle of demand from large

enterprise customers. This was offset by first-time business at the new high-profile customers that Charles referred to earlier.

From this point forward unless otherwise noted, I will be discussing financial metrics on a non-GAAP basis. Working down the P&L, Q1 gross margin was 17.1%, up 70 basis points year-on-year and 310 basis points quarter-on-quarter. Recall on our August earnings call, we stated that we expected gross margin to improve by 75 basis points to 125 basis points on a sequential basis chiefly due to a reduction in what were highly elevated commodity and freight costs. As anticipated, we did see improvement from these factors but also, we accrued for a recovery of costs paid in prior periods that benefited this quarter by roughly 130 basis points.

Turning to operating expenses, Q1 OpEx on a GAAP basis decreased 13% quarter-on-quarter to \$99 million. Recall last quarter's GAAP operating expenses included \$16.2 million in one-time incentive awards to our employees. On a non-GAAP basis, operating expenses increased 4% quarter-on-quarter and 10% year-on-year to \$95 million. The sequential increase in non-GAAP OpEx was primarily due to the fact that Q4 operating expenses benefited from a bad debt recovery of \$4.8 million.

Other income and expense, including interest expense, was a \$1.5 million loss as compared to a \$1.3 million loss last quarter. This quarter, our tax expense was \$3.7 million on a GAAP basis and \$4.8 million on a non-GAAP basis. In both cases, this quarter benefited from larger tax deductions related to stock-based compensation. Our non-GAAP tax rate was 14.1% for the quarter. We expect our tax rate to approximate 16%, slightly below our prior expectation of an 18% rate.

Lastly, our joint venture contributed income of \$1.3 million this quarter as compared to income of \$3.5 million last quarter and income of \$1 million the same quarter a year ago. Q1 non-GAAP diluted earnings per share totaled \$0.55 as compared to \$0.68 in both the same quarter of last year and in the fourth quarter of fiscal 2020.

Cash flow from operations totaled \$120 million, driven from an improvement from cash flow from operations of negative \$96 million in the June quarter, driven largely by changes in working capital. CapEx totaled \$12 million, resulting in free cash flow of \$109 million.

Our closing balance sheet cash position, which excludes restricted cash, was \$300 million while bank debt was \$36 million, resulting in a net cash balance of \$264 million. And I'll remind everyone that we completed our previously announced \$30 million share repurchase program before the quarter end when we purchased 1.14 million shares at a weighted average price of \$26.24.

In our earnings release today, we concurrently announced that our board of directors has authorized the company to repurchase up to another \$50 million of its common stock in a new share repurchase program. The program is effective until October 31, 2021 or until the authorized funds are exhausted under a 10b5-1 plan, whichever occurs first. We are currently taking a tactical and opportunistic approach to share repurchase as we fine-tune our longer term capital allocation strategy.

Turning to working capital metrics, our Q1 cash conversion cycle was 170 days, up from 87 days last quarter and outside of our target range of 85 to 90 days. While the absolute level of our inventory declined, days of inventory at 118 days remains elevated relative to history given the lower sales level quarter-on-quarter. And day sales outstanding was 44 days while days payable outstanding totaled 55 days.

Now, turning to the outlook for our business, the company expects net sales for the quarter ending December 31, 2020 in the range of \$780 million to \$880 million. We expect gross margins to decline approximately 160 basis

points to 200 basis points sequentially due to the cost recovery discrete event mentioned earlier and higher overhead costs driven by an expected increase in freight.

We expect non-GAAP operating expense level to be flattish quarter-on-quarter. While we're selectively investing in R&D, this was offset by lower audit costs and actions we took very late in the quarter to selectively reduce head count. We anticipate the GAAP and non-GAAP tax rate to be 16% going forward. We fully expect GAAP – diluted GAAP EPS to be in the range of \$0.25 to \$0.47 to fully diluted non-GAAP EPS to be in the range of \$0.35 to \$0.58.

We now expect our CapEx for fiscal 2021 to be in the range of \$55 million to \$60 million, inclusive of the acceleration of the Taiwan building project mentioned earlier by Charles. In the meantime, we remain focused on guiding the company through the volatility presented by this resurgence in COVID-19 and ardently rebuild our business momentum, as described by Charles.

With that, I'll turn the call back to James for Q&A.

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## James Kisner

*Vice President-Investor Relations, Super Micro Computer, Inc.*

Thank you, Kevin. Operator, we are ready to take questions.

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## QUESTION AND ANSWER SECTION

**Operator:** Certainly. [Operator Instructions] Your first question comes from the line of Jon Tanwanteng with CJS Securities. Your line is open.

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### Jon Tanwanteng

*Analyst, CJS Securities, Inc.*

Q

Hi. Good afternoon, everybody, and thank you for taking my questions. My first one is I think you guys mentioned Internet and cloud as a source of strength in your Q1 results. Can you talk a little bit more about that end market, the margin profile and the revenue impact of these customers and how they're affecting your guidance for the next quarter?

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### James Kisner

*Vice President-Investor Relations, Super Micro Computer, Inc.*

A

We're having some trouble hearing the question. I don't know if – whose line it is. We can barely hear Jon. Jon, can you speak up a little bit please and repeat the question?

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### Jon Tanwanteng

*Analyst, CJS Securities, Inc.*

Q

Yeah. Is this better?

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### James Kisner

*Vice President-Investor Relations, Super Micro Computer, Inc.*

A

Yes. Much better.

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**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

A

There we go.

**Jon Tanwanteng**

*Analyst, CJS Securities, Inc.*

Q

Okay. Great. I was saying you mentioned cloud and Internet as a source of strength in the quarter. I was just wondering if you could talk about the margin profile of those customers and how they factor into your guidance going forward.

**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

A

Sure. So this was kind of our first taste of some of these customers. I would say that fortunately, as opposed to what some might think, our margin profile was not appreciably different from the margin profile of our other customers. So we expect and hope that that will hold true on a go forward basis as well.

**Jon Tanwanteng**

*Analyst, CJS Securities, Inc.*

Q

Got it. Thank you. And then can you talk about maybe the – how you see market demand developing over the next two quarters with the relative puts and takes whether it'd be COVID, election concerns, and [ph] new (27:27) launches and new product launches that you're doing internally?

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yeah. It's hard to predict but as you may know, right, enterprise and channel [ph] billings (27:38) may continue to decline gently. And at the same time, the cloud, social networking communication, video streaming demand, still keep strong and that's why we have created some [indiscernible] (27:55) in large cloud and video streaming territory. So we start to gain some demand from that territory and that's why our Taiwan operation, manufacturer in Taiwan, especially for [indiscernible] (28:10) will help us a lot.

**Jon Tanwanteng**

*Analyst, CJS Securities, Inc.*

Q

Great. That's a good lead off into my next question. I was going to ask about the talent acceleration and how it better positions you both strategically and maybe if you go into it. How much – can you quantify the expected benefit from moving there over maybe the nearer term?

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yeah. Let me start and Kevin may follow. So, I mean, it's an investment for I would say short-term, mid-term and long-term. So, [indiscernible] (28:46) in Taiwan, [indiscernible] (28:48) much lower mainly in our USA operation. Basically, it's about 35% to 50%.

So, for [ph] mature (28:57) product, [indiscernible] (29:00) we should gradually leverage the possibility, that capacity in Taiwan. And with COVID-19 hit USA much worse than in Taiwan, in Taiwan, indeed, almost no impact. And that's why we are quickly leveraging our Taiwan operation advantage. And I believe it will be good for



our short-term and gradually eventually it will become much clear and much more significantly in mid-term and long-term.

**Operator:** Your next question comes from the line of Nehal Chokshi with Northland Capital Markets. Your line is open.

**Nehal Sushil Chokshi**

*Analyst, Northland Capital Markets*

Q

Oh, yeah. Thanks and congratulations on great results all around, especially a strong free cash flow and executing on the share buyback. You guys mentioned that you noticed areas of recent improvement that gives you confidence that year-over-year growth is bottoming here. Can you discuss exactly which areas are you seeing that recent improvement in? And from what point in time are you referencing as well where that demand profile has improved?

**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

A

So, I think we just navigated a period that was challenging. We kind of gave some guidance in terms of how we think that it is gently going to improve in the December quarter here based upon visibility that we have.

I think also when we talked about some of those new customers, some of the lead times for their materials are longer in length such that we get a little bit better visibility as to their plans for the March quarter. And so therefore, I think some of those feeds of information that make us believe that as we continue to accelerate quarter by quarter that there is some tangible evidence of people's plans. Not perfect visibility, but there's some that's out there to be able to latch on to.

I don't know if you have anything else in addition to that, Charles.

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yeah. [ph] Likewise (31:09), just mentioned, I mean in last quarter, I mean especially after the impact of COVID-19, we start to focus on large accounts, high-profile, high-volume accounts for large cloud – large data center and video streaming customer, for example, 5G telco.

And we start to gain some very good partnership and we [indiscernible] (31:38). And however, very high volume and it takes some time to ramp up. So like Kevin say, I mean December quarter, we will see some help, March quarter and next year June quarter, I believe we will see a much bigger help.

**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

A

Yeah. I thought of [indiscernible] (31:56) that investment community understand that a little bit better is that some of these new customers are actually ordering rack-scale products from us that with that longer lead time give us some visibility.

**Nehal Sushil Chokshi**

*Analyst, Northland Capital Markets*

Q

I see. Okay. And the second question I have is that nice slide here on your key vertical markets and growth drivers. I think this is a bit of an evolution of the Supermicro 3.0 vision that you guys had previously talked about. And within that Supermicro 3.0 vision, implied in that was a potential for margin expansion. In this new way of presenting it, does that opportunity still present itself and can you talk a little bit about how that might actually look in terms of the long-term margin profile?

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**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yeah, very good question. I mean we mentioned of our Supermicro 3.0 about three years ago, unfortunately, [ph] I think that delay, that delay is also for our project (32:53).

The good thing is now it's all over, right? So we start to execute our Supermicro 3.0 now [ph] stronger (33:04). For example, the 5G [ph] age (33:07) and telco business software and global service, so that has been helping our business and will become a much significant help quarter-over-quarter.

As to our large data center and cloud, even private cloud business have been growing and we will continue to invest in that area. So, it should be a very significant business driver for us in short-term, mid-term and even long-term, especially long-term, I would like to say.

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**Operator:** Your next question comes from the line of Aaron Rakers with Wells Fargo. Your line is open. Aaron Rakers with Wells Fargo, your line is open.

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**Aaron Rakers**

*Analyst, Wells Fargo Securities LLC*

Q

Sorry, James, I was on mute. I just wanted to ask a question about server cycle. You referenced in your prepared remarks Intel's Ice Lake. You also have AMD's Milan processors. It sounds like you guys continue to see overall ASP increases in your system sales. How are you thinking about like Intel with eight channels of memory from six? How do you think about the ASP trend relative to unit growth as you think about the setup in the calendar 2021?

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**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yes, more and more customer now really appreciate our Total Solution, not just [indiscernible] (34:43) by the CPU memory hard drive and Total Solution, including management software, including some even applications [ph] all the way up (34:51). So, including special memory, right? [indiscernible] (34:55) you mentioned kind of SSD NVMe. And Total Solution has been our long-term goal and [ph] complete direct (35:08) solution. And very soon, we will share with you even more of our private cloud Total Solution. But it's a little bit too early to say too much but, yes, we are moving forward to a Total Solution.

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**Aaron Rakers**

*Analyst, Wells Fargo Securities LLC*

Q

Okay. And then maybe sticking on a similar topic, gross margin was very strong this quarter, up quite a bit on a sequential basis. So I'm just curious if what you're seeing on a component pricing environment, what do you – what are you embedding in your current quarter expectations as far as DRAM and flash pricing trends and any thoughts on how that sets up into next year. Thank you.

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yeah. I mean economic of scale will help us. So, we are growing global now and with new business drive that will grow our revenue, our economies of scale and that will help our gross margin and then the margin for sure. And the same time, the service business, the software value is getting helpful to our profit as well.

**Operator:** Your next question comes from the line of Nick Heisler with SIG. Your line is open.

**Mehdi Hosseini**

*Analyst, Susquehanna International Group*

Q

Thank you. It's actually Mehdi Hosseini. I have a couple of follow-ups. Kevin, can you help us understand how OpEx is going to play out for the rest of the fiscal year 2021?

**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

A

Hello, Mehdi. So I think we said that we took some actions in this quarter. We trimmed some head count. We actually did a similar kind of trim at the end of September that kind of bore fruit here in the December quarter. I think as we look forward in terms of the pace of our hiring, as Charles has mentioned earlier, if we're going to appreciably hire anyone, it's going to be Taiwan-based over the course of time. I think our views of OpEx now on a non-GAAP basis is that I think we said quarter-on-quarter somewhat flat may drift a little bit in the March or June quarter if COVID lifts and we feel that it's appropriate to give merit increases. But I think we're trying to hover in the mid-90s for a period of time here and I think that's what you were looking for.

**Mehdi Hosseini**

*Analyst, Susquehanna International Group*

Q

Yes. Got it and then two more questions, one for Charles. Given your expansion in Taiwan and how CapEx has effectively increased by two to three times over a two-year period, at – in the meantime, you have been able to diversify and target a wider range of end market, how should we think or envision opportunities? In the past, you used to give us a \$3 billion revenue target. You're already there. I'm not asking you if you're going to double your revenue given the increase in capacity. But in the longer term, it seems to me that you can hit a revenue CAGR that could be more of a double-digit growth given the two to three time increase in CapEx over the last two years. Is that the right way to think about opportunities in the next one or two years?

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yeah. I mean, a very good question. I mean, as you may know, right, I mean, our [indiscernible] (39:05) I mean, since 2000 – year 2000 to 2017, pretty much, our yearly compound growth have been about 20% yearly, right. So I don't believe we won't return to that [ph] growth rate or better, right. We've taken today behind us (39:20-39:26) and although COVID-19 is challenging us, but now we enable Taiwan operation. The opportunity in Taiwan [indiscernible] (39:37) with almost no COVID-19 impact, I feel very confident we will get back to [ph] a two-digital growth here (39:47) very soon. Hopefully, not just [ph] two digital (39:51), hopefully, we can have – no reason we cannot get back to more than 20% or 30% growth yearly. So I have a very good feeling and very excited to – in the next few years at least.

**Mehdi Hosseini**

*Analyst, Susquehanna International Group*

Q

Okay. And hopefully, you will be with a higher margin business. And in that context, Kevin, how should I think about either absolute utilization rate for US San Jose versus Taiwan? Or if you don't want to disclose a specific utilization rate, which region is higher? I'm comparing US San Jose to Taiwan.

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**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

A

Well, right now, the US utilization is higher. I think you heard in my prepared remarks that, at the current time, Europe and Asia are suffering a little bit more than the US because the US was the location where we got these new marquee customers. But I think on a go-forward basis, that capacity utilization needs to obviously increase and we'll get some leverage off of that. I think it's also fair to say that with the – the US building is not under active construction at the moment. We're taking a little bit of a pause with it while we're moving forward with the Taiwan building.

I think once those both get built out, we may have capacity to, on full-tilt basis, almost get to like \$6 billion. So we would be building that over the course of time as necessary. I'm just talking about the [ph] shell (41:29) and its capabilities. But that's the kind of profile I think that we're looking at, to answer your question.

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**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yeah. Indeed, it will reach \$6 billion [ph] our capital investment, only increasing too much (41:42).

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**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

A

Yeah.

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**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

For the facility capacity, pretty much ready here.

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**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

A

Yeah. So that kind of describes, Aaron (sic) [Mehdi] (41:52), in previous calls, I talked about how, after we get these buildings done, then our CapEx is going to go back to the modest maintenance. And now you have an understanding of where that's going to be.

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**Operator:** Your next question comes from the line of Ananda Baruah with Loop. Your line is open.

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**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

Hi, good afternoon, guys. Thanks for taking the questions. A few for me, if I could. Just to start, how should we think about the drivers in the December quarter? Could you tell us what you think the biggest [ph] aspects (42:29) of your business are that will influence the incremental sequential revenue in the December quarter?

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**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

With COVID-19, [indiscernible] (42:42) we try to be conservative. So, today, we give a range of \$780 million to \$880 million. I hope it's a conservative number. And again, that is why we just mentioned we are gaining a high-profile customer in a large cloud, 5G, telco and video streaming, all kind of business. So I believe next few quarters should be our good quarter to grow.

**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

A

Yeah. I think, Ananda, also, we're going to see some return of the customers that took a pause in September.

**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

Got it. Some of the more classic on-prem [indiscernible] (43:24), it sounds like. Is that right, Kevin? And, Charles, I appreciate your comment about [indiscernible] (43:30).

**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

A

Well, I gave a long list of types of customer including OEMs and such, so it's broad.

**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

Got it. And just with regards to Ice Lake, and I don't want to make – I don't want to stitch things together that aren't intended to be stitched together. But in the prepared remarks, I think it was Charles, you made mention of slight improvement December. And then it sounded like kind of in the first half of next year calendar or maybe in kind of in first half, a stairstep kind of [ph] tick-up. That – these are my words, so (44:07) that sounded like the spirit of it. And, I guess, the question is, to what degree does the availability of Ice Lake play in that relative to just demand you think can get better regardless of Ice Lake in that?

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yeah. As you may know, right, Intel Ice Lake now can be available very soon, end of this year or early next year. And we have the strongest product line ever all available now. [indiscernible] (44:40) ready to ship, [ph] a tenth of their product line. So we are all ready (44:43).

**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

And it sounds like you can get a lot of the pretty significant impact when availability occurs.

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yeah. We are waiting for the new CPU to be available.

**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

Okay. Great. And just to one of the earlier question, how did you guys experience it this quarter and what are you seeing in this month to start December quarter? So how did you experience in the September quarter and how does the – how do you feel about sort of November – sorry, October so far in the context of linearity?

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

You mean in terms of Ice Lake or overall business?

**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

Overall, overall. Thanks.

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Overall, I believe [ph] the period in will be (45:37) getting stronger, getting better for us for a couple reasons. Number one, we just [ph] created some (45:43) very high-profile customer in last few months. And those ramp-up is pretty predictable. And second is our current operation is getting ready and we just grow some strong team in Taiwan. Those team are ready to grow. So, we have a very good feeling in the near future especially next calendar year. It should be a strong year for us.

**Operator:** [Operator Instructions] Your next question comes from the line of Jon Lopez with Vertical Group. Your line is open.

**Jon D. Lopez**

*Analyst, The Vertical Trading Group LLC*

Q

Hi. Thanks so much. Can you guys hear me okay?

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yeah.

**Jon D. Lopez**

*Analyst, The Vertical Trading Group LLC*

Q

All right. Great. I just want one clarification, Kevin, if I could, which is deferred the last couple of years had trended up pretty nicely. It's kind of flattened out over the last couple of quarters. I'm wondering, is that just because unit volumes have dropped off? And is it just a function of attach or is there something else influencing that line item?

**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

A

Well, there's some attach but it's also true that contracts that we entered into in 2018 through early part of 2019, if you recall, had very elevated commodity costs. And that [ph] CAR (47:12) for the service is a percentage of revenue. So, we had some more expensive contracts historically. I think we do want to continue working on our attach rate. We do better in some regions than the other and we need to work on some offshore attach rates, to be frank.

**Jon D. Lopez**

*Analyst, The Vertical Trading Group LLC*

Q

Got you. Okay, that's really helpful. Secondly, I'm wondering if you could just rewind a little bit. My recollection as you guys exited the prior quarter, like calendar Q2, was that the bookings activity had slowed pretty sharply. Can

you just walk us from there to here, was there a pretty appreciable increase in bookings activity? Did that occur pretty linearly? How does that look exiting calendar Q3 versus, say, exiting calendar Q2?

**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

It's gotten healthier, I mean, hence, the guidance.

A

**Jon D. Lopez**

*Analyst, The Vertical Trading Group LLC*

Fair point. Okay. Two more quick ones, if I could. My recollection is cloud, if we look back a couple of years, I can't remember what you guys called it back then, maybe Internet data center. But it was around 20% of the business or oscillated around that level. Can you guys give us just a rough sense for where that sits now?

Q

**Kevin S. Bauer**

*Chief Financial Officer & Senior Vice President, Super Micro Computer, Inc.*

Yeah. We still are not splitting out our revenue segments right now. But I will tell you that the topography of it is quite different now. And that is, is that, back in the days that you're referring to, it was a pretty large, greater than 10% customer, although we're greater diversified in that segment right now.

A

**Jon D. Lopez**

*Analyst, The Vertical Trading Group LLC*

Got you. And just on that point, Kevin, is the right way to think about this that you guys are – I mean, for lack of a better term, kind of reentering that vertical? And maybe just talk a little bit about what you guys are perhaps doing differently now, are you – it sounds like perhaps diversifying the customer base is one thing. Are you guys pursuing different use cases? Is there maybe a bit more geographic spread here? Maybe just talk for a second about how you think about that vertical now versus perhaps how you did, say, two, three years ago.

Q

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

Maybe I can share. I mean...

A

**Jon D. Lopez**

*Analyst, The Vertical Trading Group LLC*

Please.

Q

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

...with our facility in Taiwan getting bigger, and of course, [ph] that is much lower than our operation in USA for sure. So, with that advantage, (49:34-49:41) now we will start to approach the market much more aggressively than the last few years. So, in [ph] other words, we are really focused on that vertical (49:52) very soon.

A

**Operator:** Your next question comes from the line of Jon Tanwanteng with CJS Securities. Your line is open.

**Jon Tanwanteng**

*Analyst, CJS Securities, Inc.*

Q



Hi. Just a quick follow-on to that question. Is it fair to say that it's the cost advantage of moving to Taiwan that's enabling you to win those customers at this point versus whatever else you may be bringing to the table?

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

A

Yeah. Because those large data center, they buy a lot, but they want a more aggressive price. So, with our Taiwan operation now we are much ready to serve this customer [indiscernible] (50:29).

**Operator:** There are no further questions at this time. I will turn the call back over to Charles Liang.

**Charles Liang**

*Founder, Chairman, President & Chief Executive Officer, Super Micro Computer, Inc.*

Thank you a lot for joining us today and looking forward to seeing you in person hopefully very soon, and have a great day. Thank you.

**Operator:** Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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