

Super Micro Computer Inc.

Takeaways from management meetings

Reiterate Rating: BUY | PO: 1,280.00 USD | Price: 1,188.07 USD

Opportunity to expand revs across multiple customer sets

We hosted investor meetings in NYC on Mar 13th, with Michael Staiger, VP of Corporate Development and Strategy, and Krishna Shankar, VP of Finance. We came away confident in SMCI's opportunity to grow its revenues over the next several years across customer types including CSPs, Enterprise, Hyperscale and Sovereigns. We see SMCI well positioned to grow revs from emerging CSPs who are better structured to run Generative AI models faster, as well as workloads such as Microsoft Co-Pilot. Today, SMCI is under-indexed to hyperscale customers, and the potential opportunity with them is for higher value-added workloads which meet SMCI's business model (and higher margin criteria). As new accelerator platforms get released over the next few years, we see opportunity for SMCI to gain project-based work from Hyperscale customers. We also expect SMCI to grow its revenue from Enterprise customers as AI inferencing becomes more popular. Countries around the world are focusing on domestic computing capacity in order control their own data and to take advantage of AI. We see opportunity for SMCI to grow revenues over the next few years with Sovereigns. Maintain Buy.

Expanding capacity to capture the AI server opportunity

The AI server market is poised to grow to be a multi-hundred billion dollar market, and to take advantage of that SMCI is adding manufacturing capacity. SMCI's backlog is growing. SMCI's existing infrastructure can support \$20-22bn of annual revenue (exited December at a rate of \$1.8-1.9bn revenue per month). SMCI's new facility in Malaysia can potentially double that capacity to \$40bn in 2-3 years (production starts C2H24). SMCI is looking beyond that and bought a 20 acre campus in San Jose (some U.S. companies prefer manufacturing in the U.S.), and is looking at opportunities to expand manufacturing in Texas and Mexico. The company targets 70-75% capacity utilization in order to have flexible capacity to handle additional design wins.

Risk factors unchanged, no change to ests, PO \$1280

Downside risk factors are availability of GPUs what can limit revenue growth, price pressure from operating in a competitive market, gross margin drifting lower to support revenue growth and share gains, and richer valuation. If growth fails to materialize, or if Super Micro mis-executes then the trading multiple could re-rate lower as growth is a primary driver of the earnings multiple.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.65	11.81	21.73	35.66	44.67
GAAP EPS	5.32	11.43	20.14	33.67	42.27
EPS Change (YoY)	127.8%	109.0%	84.0%	64.1%	25.3%
Consensus EPS (Bloomberg)			21.75	29.82	35.88
DPS	0	0	0	0	0
Valuation (Jun)					
P/E	210.3x	100.6x	54.7x	33.3x	26.6x
GAAP P/E	223.3x	103.9x	59.0x	35.3x	28.1x
EV / EBITDA*	163.3x	78.5x	41.0x	24.8x	19.9x
Free Cash Flow Yield*	-0.7%	0.9%	-0.5%	0.5%	0.5%

* For full definitions of *IQmethod*SM measures, see page 10.

14 March 2024

Equity

Ruplu Bhattacharya

Research Analyst
BofAS
+1 646 855 0315
ruplu.bhattacharya@bofa.com

Wamsi Mohan

Research Analyst
BofAS
+1 646 855 3854
wamsi.mohan@bofa.com

Joseph Leeman

Research Analyst
BofAS
+1 646 855 1262
joseph.leeman@bofa.com

Nathawan Asdornwised

Research Analyst
BofAS
+1 646 855 1848
nathawan.asdornwised@bofa.com

Stock Data

Price	1,188.07 USD
Price Objective	1,280.00 USD
Date Established	13-Mar-2024
Investment Opinion	C-1-9
52-Week Range	87.25 USD - 1,229.00 USD
Mkt Val (mn) / Shares Out (mn)	66,453 USD / 55.9
Free Float	85.0%
Average Daily Value (mn)	17519.49 USD
BofA Ticker / Exchange	SMCI / NAS
Bloomberg / Reuters	SMCI US / SMCI.OQ
ROE (2024E)	44.5%
Net Dbt to Eqty (Jun-2023A)	-7.6%
ESGMeter™	Medium

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AI: Artificial Intelligence,

CSP: Cloud Service Provider

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iQprofileSM Super Micro Computer Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	17.6%	29.3%	31.7%	31.2%	28.5%
Return on Equity	24.7%	39.6%	44.5%	43.7%	36.7%
Operating Margin	7.2%	11.4%	10.8%	10.4%	10.7%
Free Cash Flow	(486)	627	(356)	318	354

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	-1.4x	1.0x	-0.2x	0.2x	0.2x
Asset Replacement Ratio	1.4x	1.1x	3.0x	1.7x	1.4x
Tax Rate	17.7%	15.9%	16.4%	16.0%	15.9%
Net Debt-to-Equity Ratio	23.1%	-7.6%	-8.8%	-11.1%	-11.9%
Interest Cover	NA	NM	NM	NM	NM

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,196	7,123	14,697	25,172	30,648
% Change	46.1%	37.1%	106.3%	71.3%	21.8%
Gross Profit	802	1,288	2,232	3,642	4,374
% Change	49.6%	60.5%	73.3%	63.2%	20.1%
EBITDA	407	847	1,621	2,683	3,342
% Change	119.3%	107.9%	91.4%	65.5%	24.6%
Net Interest & Other Income	2	(7)	(29)	(40)	(32)
Net Income (Adjusted)	311	673	1,303	2,174	2,723
% Change	128.1%	116.5%	93.5%	66.8%	25.3%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	285	640	1,185	2,023	2,540
Depreciation & Amortization	32	35	37	58	75
Change in Working Capital	(784)	27	(1,590)	(1,808)	(2,305)
Deferred Taxation Charge	(7)	(93)	(56)	0	0
Other Adjustments, Net	32	55	179	146	148
Capital Expenditure	(45)	(37)	(111)	(101)	(103)
Free Cash Flow	-486	627	-356	318	354
% Change	NM	NM	NM	NM	11.3%
Share / Issue Repurchase	0	(150)	583	0	0
Cost of Dividends Paid	NA	NA	NA	NA	NA
Change in Debt	513	(301)	1,296	(43)	(43)

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	267	440	1,934	2,223	2,546
Trade Receivables	835	1,148	2,159	3,914	4,997
Other Current Assets	1,704	1,591	3,603	5,661	7,648
Property, Plant & Equipment	286	290	373	416	444
Other Non-Current Assets	113	205	264	265	265
Total Assets	3,205	3,675	8,334	12,479	15,900
Short-Term Debt	449	170	43	43	43
Other Current Liabilities	1,021	1,205	2,459	4,215	4,848
Long-Term Debt	148	120	1,548	1,506	1,463
Other Non-Current Liabilities	162	208	396	646	777
Total Liabilities	1,779	1,703	4,446	6,409	7,130
Total Equity	1,426	1,972	3,888	6,070	8,770
Total Equity & Liabilities	3,205	3,675	8,334	12,479	15,900

* For full definitions of iQmethodSM measures, see page 10.

Company Sector

IT Hardware

Company Description

Super Micro is a silicon-valley based provider of accelerated, high-performance & high-efficiency server and storage systems for a variety of markets including enterprise data centers, cloud computing, artificial intelligence ("AI"), 5G and edge computing. The company reports revenues under two categories: Server & Storage systems, and Subsystems & Accessories. Majority of its fixed assets are in the U.S. In F23, 68% of its revenue was from the U.S., 15% from Asia, and 14% from Europe.

Investment Rationale

Our Buy rating is based on Super Micro's strategic position in the growing AI server market and its competitive advantage in being able to customize designs and be an early launch partner for companies releasing CPUs and GPU accelerators. Our estimates are meaningfully above Street and we expect positive estimate revisions as we see continued revenue growth and share gains for the company.

Stock Data

Average Daily Volume 14,343,492

Quarterly Earnings Estimates

	2023	2024
Q1	3.42A	3.43A
Q2	3.26A	5.59A
Q3	1.63A	5.68E
Q4	3.51A	7.03E

Other takeaways from the meetings

- SMCI has the capacity to manufacture 4000 server racks per month, and that capacity increases to 5000 racks per month by the end of FY24 (end of June). 1000 of those could be liquid cooled racks.
- The company is seeing strong revenue growth and needs working capital to support that growth. It exited the Dec quarter with about 2.5bn of inventory. As availability of components in the supply chain improves, the company may need to hold less inventory and free cash flow can improve. However, management sees working capital as a strategic asset which is needed to support the strong revenue growth.
- SMCI's capex requirements are relatively modest compared to revenues. Management has guided capex to \$105-115mn for FY24. This compares to our FY24 revenue estimate of \$14.7bn (~1%).
- Management believes that the server market can grow to be multi-hundred billion dollars (\$300-500bn) over the next several years. The market is now growing faster than historical. SMCI has historically had 6-7% of the overall server market and if the company can capture 10% of the future market TAM, then its revenues would be significantly higher than today.
- SMCI differentiation vs ODMs and OEMs is that it has a strong engineering staff that is able to customize configurations and optimize them to specific customer applications. The company's focus has always been on providing systems that have high density, high performance and low power requirement.
- Another strategic advantage is SMCI's quick time to market. From the time it gets components, the company can build, test and ship racks in 3-4 weeks. The company not only configures the racks, but tests them as well in order to provide systems that are plug-and-play for end customers. SMCI can add a new server production line to an existing factory in 1-2 months.
- SMCI has good visibility into the future datacenter requirements of its customers. It also has good visibility into the plethora of new accelerator platforms that are expected to be released over the next few years.
- The existing global x86 server installed base is getting old and as enterprises upgrade these systems, they could equip them with GPU cards to run some inferencing on smaller models.
- Repeat business with existing customers is high.
- The new facility in Malaysia will initially manufacture mother boards, chassis, power supplies. Rack scale capacity will be installed, as needed.
- Levers for gross margin improvement include ability to charge more, over time, for liquid cooling solutions once the cost benefits are proven. Adding more manufacturing capacity in Malaysia and Taiwan can lower manufacturing costs. Gross margins can also improve as SMCI sells more value-added software, and services.
- While Nvidia provides the DGX server reference specification, Super Micro can help customers who need to use different components in order to optimize the system to their own needs (such as a different CPU, memory, networking card, etc.).
- SMCI is investing more in sales and distribution and is seeking to expand customers across the U.S., Europe and Asia.



- SMCI's guidance for FY24 does not factor in additional new wins with Hyperscale customers. The company feels that it has enough opportunity to grow revenue with CSPs, Enterprise and Sovereign customers, and so will be selective pursuing only those opportunities that meet its margin criteria.
- In terms of capital allocation, the company is primarily focused on internal investment as it needs working capital to support strong revenue growth. In the past, the company has been opportunistic with buybacks. We do not see large transformative M&A in the near-term.

Model

Figure 1: Supermicro Income Statement

We model F24E revenue/EPS of \$14.7bn/\$21.73

(\$ in millions except EPS)

	2024E			2025E									
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	2022A	2023A	2024E	2025E	2026E
Revenue	\$2,119.7	\$3,664.9	\$4,055.3	\$4,857.4	\$4,802.5	\$6,227.9	\$5,949.1	\$8,192.5	\$5,196.1	\$7,123.5	\$14,697.3	\$25,172.1	\$30,647.9
Non-GAAP Cost of Sales	1,760.1	3,097.0	3,463.2	4,145.4	4,120.5	5,312.4	5,092.4	7,004.6	4,393.9	5,835.9	12,465.7	21,530.0	26,274.2
Non-GAAP Gross Profit	359.6	567.9	592.1	712.1	682.0	915.5	856.7	1,187.9	802.2	1,287.6	2,231.6	3,642.0	4,373.7
Sales & Marketing	31.6	42.5	47.9	48.0	46.5	61.7	61.2	79.3	88.0	110.4	169.9	248.7	263.6
G&A	22.8	27.5	34.5	33.4	30.3	39.2	37.5	51.6	84.9	88.8	118.1	158.6	168.6
R&D	75.3	83.4	89.2	111.7	115.3	143.2	154.7	196.6	254.5	276.5	359.6	609.8	674.3
Other adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-GAAP operating expenses	129.7	153.4	171.5	193.1	192.0	244.2	253.4	327.5	427.4	475.8	647.7	1,017.1	1,106.4
Non-GAAP Operating Income	229.9	414.5	420.5	519.0	489.9	671.3	603.3	860.4	\$374.8	\$811.8	\$1,583.9	\$2,625.0	\$3,267.4
Interest and other, net	4.8	(16.0)	(9.2)	(8.5)	(9.6)	(10.3)	(10.2)	(10.0)	1.7	(6.8)	(29.0)	(40.1)	(32.3)
Effective Tax Rate	15.5%	17.8%	15.8%	16.1%	16.3%	16.2%	15.8%	15.8%	17.7%	15.9%	16.4%	16.0%	15.9%
Pretax Income	234.6	398.5	411.3	510.5	480.3	661.0	593.1	850.4	376.5	805.0	1,554.9	2,584.8	3,235.0
Non-GAAP Taxes	36.3	71.1	64.9	82.2	78.3	106.9	93.7	134.5	66.6	127.9	254.4	413.4	514.1
Share of (loss) income from equity investee, net of taxes	(0.1)	2.0	0.1	0.4	0.6	0.8	0.5	0.6	1.2	(3.6)	2.6	2.6	2.5
Non-GAAP Net Income	\$198.3	\$329.5	\$346.5	\$428.7	\$402.7	\$554.9	\$499.9	\$716.5	\$311	\$673	\$1,303	\$2,174	\$2,723
Non-GAAP EPS - Diluted	\$3.43	\$5.59	\$5.68	\$7.03	\$6.61	\$9.10	\$8.20	\$11.75	\$5.65	\$11.81	\$21.73	\$35.66	\$44.67
GAAP EPS - Diluted	\$2.75	\$5.10	\$5.54	\$6.65	\$6.22	\$8.61	\$7.73	\$11.11	\$5.32	\$11.43	\$20.14	\$33.67	\$42.27
Average Shares (MM Diluted) - GAAP	57.2	58.1	60.1	60.1	60.1	60.1	60.1	60.1	53.6	56.0	58.9	60.1	60.1
Avg Shares (Basic) - GAAP	53.1	54.1	54.1	54.1	54.1	54.1	54.1	54.1	51.5	52.9	53.9	54.1	54.1
Diluted shares outstanding - non-GAAP	57.8	59.0	61.0	61.0	61.0	61.0	61.0	61.0	55.0	57.0	60.0	61.0	61.0
Basic shares outstanding - non-GAAP	53.1	54.1	54.1	54.1	54.1	54.1	54.1	54.1	51.5	52.9	53.9	54.1	54.1
As a % of Revenue													
Gross Profit	17.0%	15.5%	14.6%	14.7%	14.2%	14.7%	14.4%	14.5%	15.4%	18.1%	15.2%	14.5%	14.3%
Sales & Marketing	1.5%	1.2%	1.2%	1.0%	1.0%	1.0%	1.0%	1.0%	1.7%	1.6%	1.2%	1.0%	0.9%
G&A	1.1%	0.7%	0.9%	0.7%	0.6%	0.6%	0.6%	0.6%	1.6%	1.2%	0.8%	0.6%	0.6%
R&D	3.6%	2.3%	2.2%	2.3%	2.4%	2.3%	2.6%	2.4%	4.9%	3.9%	2.4%	2.4%	2.2%
Operating Income	10.8%	11.3%	10.4%	10.7%	10.2%	10.8%	10.1%	10.5%	7.2%	11.4%	10.8%	10.4%	10.7%
Pretax Income	11.1%	10.9%	10.1%	10.5%	10.0%	10.6%	10.0%	10.4%	7.2%	11.3%	10.6%	10.3%	10.6%
Non-GAAP Net Income	9.4%	9.0%	8.5%	8.8%	8.4%	8.9%	8.4%	8.7%	6.0%	9.5%	8.9%	8.6%	8.9%
Net Income Incl FAS 123 All Periods	7.1%	8.0%	7.6%	8.1%	7.6%	8.3%	7.8%	8.3%	5.4%	8.8%	7.8%	8.1%	8.4%
Year-Over-Year Growth													
Revenue	14%	103%	216%	122%	127%	70%	47%	69%	46%	37%	106%	71%	22%
Gross Profit	3%	68%	160%	91%	90%	61%	45%	67%	50%	61%	73%	63%	20%
Sales & Marketing	11%	57%	99%	56%	47%	45%	28%	65%	5%	26%	54%	46%	6%
G&A	11%	33%	51%	35%	33%	43%	9%	55%	0%	5%	33%	34%	6%
R&D	11%	36%	29%	44%	53%	72%	73%	76%	21%	9%	30%	70%	11%
OpEx	11%	41%	47%	45%	48%	59%	48%	70%	13%	11%	36%	57%	9%
Operating Income	-1%	80%	278%	117%	113%	62%	43%	66%	138%	117%	95%	66%	24%
Pretax Income	0%	80%	275%	114%	105%	66%	44%	67%	147%	114%	93%	66%	25%
Net Income	3%	77%	271%	113%	103%	68%	44%	67%	128%	116%	94%	67%	25%
Non-GAAP EPS - Diluted	0%	72%	248%	100%	93%	63%	44%	67%	128%	109%	84%	64%	25%

Source: Company reports, BofA Global Research estimates

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Figure 2: Supermicro Segments

We model server and storage systems revenue of \$13.7bn in F24

(\$ in millions except EPS)	2024E				2025E								
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	2022A	2023A	2024E	2025E	2026E
Supermicro Segments													
Revenue Detail													
Server and storage systems	1,966.6	3,435.6	3,705.3	4,551.9	4,582.2	5,943.5	5,669.1	7,874.8	4,463.8	6,569.8	13,659.4	24,069.6	29,637.2
Subsystems and accessories	153.1	229.4	350.0	305.5	220.3	284.4	280.0	317.7	732.3	553.7	1,037.9	1,102.4	1,010.7
Total Revenue	\$2,119.7	\$3,664.9	\$4,055.3	\$4,857.4	\$4,802.5	\$6,227.9	\$5,949.1	\$8,192.5	5,196.1	7,123.5	14,697.3	25,172.1	30,647.9
YoY growth													
Server and storage systems	15%	107%	218%	124%	133%	73%	53%	73%	60%	47%	108%	76%	23%
Subsystems and accessories	10%	61%	193%	100%	44%	24%	-20%	4%	-5%	-24%	87%	6%	-8%
Total Revenue	14%	103%	216%	122%	127%	70%	47%	69%	46%	37%	106%	71%	22%
% of revenue													
Server and storage systems	93%	94%	91%	94%	95%	95%	95%	96%	86%	92%	93%	96%	97%
Subsystems and accessories	7%	6%	9%	6%	5%	5%	5%	4%	14%	8%	7%	4%	3%
Total revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Sequential growth													
Server and storage systems	-3%	75%	8%	23%	1%	30%	-5%	39%					
Subsystems and accessories	0%	50%	53%	-13%	-28%	29%	-2%	13%					
Total revenue	-3%	73%	11%	20%	-1%	30%	-4%	38%					

Source: Company reports, BofA Global Research estimates

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Figure 3: Supermicro Balance Sheet

We model cash and equivalents of \$1.9bn in F24

(\$ in millions except EPS)

(\$ in millions except EPS)	2024E				2025E								
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	2022A	2023A	2024E	2025E	2026E
Supermicro Balance Sheet													
ASSETS													
Cash & cash equivalents	543.2	725.7	1,903.0	1,934.2	1,746.3	1,585.1	2,116.1	2,222.5	267.4	440.5	1,934.2	2,222.5	2,546.3
Short-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivables	845.7	1,503.0	1,789.3	2,158.9	2,241.2	2,975.6	2,842.3	3,914.2	834.5	1,148.3	2,158.9	3,914.2	4,996.6
Inventories	2,052.8	2,467.0	3,166.4	3,462.7	4,118.4	4,733.8	5,046.2	5,520.5	1,545.6	1,445.6	3,462.7	5,520.5	7,506.9
Prepaid income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses & other current assets	129.1	146.7	140.5	140.5	140.6	141.2	140.8	140.9	158.8	145.1	140.5	140.9	140.9
Total Current Assets	3,570.8	4,842.4	6,999.1	7,696.3	8,246.4	9,435.6	10,145.4	11,798.1	2,806.3	3,179.4	7,696.3	11,798.1	15,190.8
Property, plant & equipment, net	291.7	297.1	308.6	373.0	380.5	390.3	401.8	416.1	286.0	290.2	373.0	416.1	444.3
Restricted assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred income taxes non current	185.7	218.3	218.3	218.3	218.3	218.3	218.3	218.3	69.9	162.7	218.3	218.3	218.3
Long term investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	47.8	47.3	45.6	46.2	46.4	46.3	46.2	46.3	42.9	42.4	46.2	46.3	46.3
Total Assets	4,096.0	5,405.0	7,571.6	8,333.7	8,891.6	10,090.5	10,811.7	12,478.8	3,205.1	3,674.7	8,333.7	12,478.8	15,899.6
LIABILITIES AND SHAREHOLDER EQUITY													
Current portion of long-term debt	40.8	276.3	159.5	42.6	42.6	42.6	42.6	42.6	449.1	170.1	42.6	42.6	42.6
Accounts payable	1,084.1	1,261.5	1,462.2	1,796.3	1,785.6	2,302.1	2,263.3	3,113.2	655.4	776.8	1,796.3	3,113.2	3,516.7
Accrued liabilities	152.5	214.5	283.9	338.1	358.6	462.2	515.6	579.0	212.4	163.9	338.1	579.0	705.0
Accrued litigation loss	-	-	-	-	-	-	-	-	-	-	-	-	-
Advances from receivable financing arrangements	-	-	-	-	-	-	-	-	-	-	-	-	-
Current portion of capital lease obligations	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	166.0	193.3	272.1	277.8	390.4	416.7	494.1	475.9	111.3	134.7	277.8	475.9	579.4
Income Tax Payable	161.4	46.5	46.5	46.5	46.5	46.5	46.5	46.5	41.7	129.2	46.5	46.5	46.5
Total Current Liabilities	1,604.8	1,992.1	2,224.2	2,501.3	2,623.7	3,270.1	3,362.1	4,257.2	1,470.0	1,374.7	2,501.3	4,257.2	4,890.2
Deferred Tax liability-non current	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term debt	105.4	99.3	1,558.3	1,548.3	1,510.3	1,505.7	1,505.7	1,505.7	147.6	120.2	1,548.3	1,505.7	1,462.7
Long-term capital lease obligations	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue, non-current	174.5	190.3	294.8	350.3	410.3	410.3	535.4	600.0	122.5	169.8	350.3	600.0	730.5
Other long term liabilities	45.7	46.2	46.2	46.2	46.2	46.2	46.2	46.2	39.1	37.9	46.2	46.2	46.2
Total Liabilities	1,930.4	2,327.9	4,123.5	4,446.1	4,590.4	5,232.2	5,449.3	6,409.0	1,779.3	1,702.6	4,446.1	6,409.0	7,129.5
Total Stockholder's Equity	2,165.4	3,076.9	3,447.9	3,887.5	4,300.9	4,858.1	5,362.2	6,069.6	1,425.6	1,972.0	3,887.5	6,069.6	8,769.9
Total Liabilities & Stockholder's Equity	4,096.0	5,405.0	7,571.6	8,333.7	8,891.6	10,090.5	10,811.7	12,478.8	3,205.1	3,674.7	8,333.7	12,478.8	15,899.6
Trade Accounts Receivable Days	36	37	40	40	42	43	43	43	58	58	53	56	59
Accounts Payable Days	55	37	38	39	39	39	40	40	54	48	52	52	48
Inventory Turns	3.0	3.1	3.2	3.6	3.6	3.6	3.7	3.9	2.8	4.0	3.6	3.9	3.5
Inventory as % of Sales	27.8%	26.7%	26.3%	23.6%	23.7%	23.7%	23.1%	21.9%	29.7%	20.3%	23.6%	21.9%	24.5%
Accrued liabilities as % of LTM Sales	2.1%	2.3%	2.4%	2.3%	2.1%	2.3%	2.4%	2.3%	4.1%	2.3%	2.3%	2.3%	2.3%
Deferred revenue (current) as a % of LTM Sales	2.2%	2.1%	2.3%	1.9%	2.2%	2.1%	2.3%	1.9%	2.1%	1.9%	1.9%	1.9%	1.9%
Deferred revenue (non-current) as a % of LTM Sales	2.4%	2.1%	2.5%	2.4%	2.4%	2.1%	2.5%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%

Source: Company reports, BofA Global Research estimates

Figure 4: Supermicro Cash Flow Statement

We model free cash flow of \$318mn in F25

(\$ in millions except EPS)

	2024E				2025E								
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	2022A	2023A	2024E	2025E	2026E
Supermicro Cash Flow Statement													
Operations:													
Net income	157.0	296.0	332.5	399.6	373.8	517.5	464.2	667.4	285.2	640.0	1,185.1	2,022.9	2,539.6
Adjustments:													
Depreciation and amortization	9.2	9.6	8.9	9.1	13.3	14.1	14.8	15.9	32.5	34.9	36.8	58.1	74.8
Stock based comp expense	57.4	43.1	36.3	36.3	36.3	36.4	36.7	36.8	32.8	54.4	173.1	146.2	147.7
Allowance for doubtful accounts	-	-	0.0	0.0	0.0	0.0	0.0	0.0	(0.8)	-	0.0	0.0	0.0
Allowance for sales returns	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss on disposal of property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on short term investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of deferred comp	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred income taxes	(23.0)	(32.6)	-	-	-	-	-	-	(6.8)	(93.0)	(55.6)	-	-
Provision for inventory	-	-	-	-	-	-	-	-	15.1	-	-	-	-
Share of loss (income) from equity investee	0.1	(2.0)	-	-	-	-	-	-	(1.2)	3.6	(2.0)	-	-
Foreign currency exchange (gain) loss	(6.2)	11.9	-	-	-	-	-	-	(13.7)	(2.6)	5.7	-	-
Other	2.7	0.0	-	-	-	-	-	-	0.4	(0.7)	2.7	-	-
Changes in operating assets and liabilities:													
Accounts receivable	302.5	(657.2)	(286.3)	(369.6)	(82.3)	(734.4)	133.2	(1,071.9)	(371.6)	(311.9)	(1,010.6)	(1,755.4)	(1,082.4)
Inventories	(607.2)	(414.2)	(699.4)	(296.3)	(655.7)	(615.4)	(312.4)	(474.4)	(519.7)	100.0	(2,017.1)	(2,057.8)	(1,986.4)
Prepaid expenses and other assets	20.0	(16.6)	6.3	(0.1)	(0.1)	(0.6)	0.4	(0.0)	(28.8)	8.3	9.5	(0.3)	(0.0)
Accounts payable	303.0	176.6	200.7	334.1	(10.8)	516.5	(38.7)	849.9	50.1	127.1	1,014.4	1,316.8	403.6
Accrued liabilities	(13.0)	62.0	69.5	54.2	20.5	103.6	53.4	63.4	35.9	(50.3)	172.6	241.0	126.0
Increase (decrease) in interest and income taxes payable	32.2	(114.9)	-	-	-	-	-	-	29.0	87.4	(82.7)	-	-
Increase (decrease) in litigation loss	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	36.1	43.2	183.2	61.3	172.6	26.3	202.5	46.4	31.5	70.6	323.7	447.7	234.0
Other LT liabilities	(0.0)	0.1	-	-	-	-	-	-	(10.6)	(4.4)	0.1	-	-
Net cash from operating activities	270.5	(595.1)	(148.2)	228.5	(132.3)	(135.9)	554.0	133.4	(440.8)	663.6	(244.3)	419.1	456.8
Investing:													
Restricted cash	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	(5.0)	(0.2)	(2.1)	(2.2)	(2.0)	(1.9)	(2.0)	(2.0)	(1.1)	(2.7)	(9.5)	(8.0)	(8.0)
Proceeds from short-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchases of property and equipment	(2.6)	(14.7)	(20.4)	(73.5)	(20.9)	(23.9)	(26.2)	(30.2)	(45.2)	(36.8)	(111.3)	(101.2)	(103.0)
Purchases of short-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash from investing activities	(7.6)	(14.9)	(22.6)	(75.7)	(22.9)	(25.8)	(28.2)	(32.2)	(46.3)	(39.5)	(120.7)	(109.2)	(111.0)
FREE CASH FLOW (CFO - Capex)	262.8	(609.8)	(168.7)	152.8	(155.2)	(161.8)	525.8	101.2	(487.1)	624.1	(365.0)	310.0	345.9
CASH FLOW AVAIL FOR FINANCING (CFO - CFI)	262.8	(610.0)	(170.8)	152.9	(155.2)	(161.8)	525.8	101.2	(487.1)	624.1	(365.0)	310.0	345.9
Financing:													
Issuance of long-term debt	-	857.7	1,342.2	-	-	-	-	-	1,153.3	1,093.9	2,199.8	-	-
Excess tax benefit from stock based comp	(25.3)	(15.6)	-	-	-	-	-	-	(10.1)	(28.2)	(40.9)	-	-
Proceeds from exercise of stock options	4.3	5.3	5.5	5.2	5.2	5.3	5.3	5.2	21.0	30.5	20.3	21.0	21.0
Proceeds from Issuance of stock	-	582.8	-	-	-	-	-	-	-	-	582.8	-	-
Repayment of long-term debt	(138.9)	(638.0)	-	(126.8)	(38.0)	(4.6)	-	-	(640.7)	(1,394.4)	(903.8)	(42.6)	(43.0)
Payment of obligations under capital leases	-	-	-	-	-	-	-	-	-	-	-	-	-
Advances (payments) under receivable financing arrangements	-	-	-	-	-	-	-	-	-	(150.0)	-	-	-
Stock repurchases	-	-	-	-	-	-	-	-	-	(0.0)	0.0	-	-
Payment of offering costs/Others	0.0	0.0	-	-	-	-	-	-	(0.7)	-	-	-	-
Net cash from financing activities	(159.9)	792.1	1,347.6	(121.6)	(32.8)	0.6	5.3	5.2	522.9	(448.3)	1,858.2	(21.6)	(22.0)
Effect of exchange rate on cash	(0.2)	0.4	-	-	-	-	-	-	(0.7)	(3.4)	0.2	-	-
Net change in cash and cash equivalents	102.7	182.5	1,176.9	31.2	(187.9)	(161.1)	531.0	106.4	35.1	172.4	1,493.3	288.3	323.8
Cash and cash equivalents at Beginning of Period	440.9	543.6	726.1	1,903.0	1,934.2	1,746.3	1,585.1	2,116.1	233.3	268.4	440.8	1,934.1	2,222.4
Cash and cash equivalents at End of Period	543.6	726.1	1,903.0	1,934.2	1,746.3	1,585.1	2,116.1	2,222.5	268.4	440.8	1,934.1	2,222.4	2,546.3

Source: Company reports, BofA Global Research estimates

Price objective basis & risk

Super Micro Computer Inc. (SMCI)

Our PO of \$1,280 is based on 26x our C26E EPS estimate of \$49.24. Our target multiple compares to the median 9x of historical range 6x-32x. In our opinion, a multiple at the high end of the range is warranted given strong, above market revenue growth, competitive advantage with its building block architecture which affords quick time-to-market, and anticipated share gain in a server market that is growing much faster than historical rate driven by the need for accelerated compute power to handle AI driven workloads. We see growth continuing over multiple years.

Downside risk factors are price pressure from operating in a competitive market, gross margins have drifted lower over the past several quarters, and we expect margins to remain towards the lower end of target range (14-17%) in order to support revenue growth and share gain. Availability of GPUs can limit revenue growth. Super Micro's trading multiple has re-rated much higher so far in 2024.

Upside risk factors are the AI server market being much larger than current expectations (hard to size as it is an emerging growth market), unexpected share gains, and competitive wins as new accelerator platforms are released over the next several years.

Analyst Certification

I, Ruplu Bhattacharya, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Super Micro Computer Inc.	SMCI	SMCI US	Ruplu Bhattacharya
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
UNDERPERFORM				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya



US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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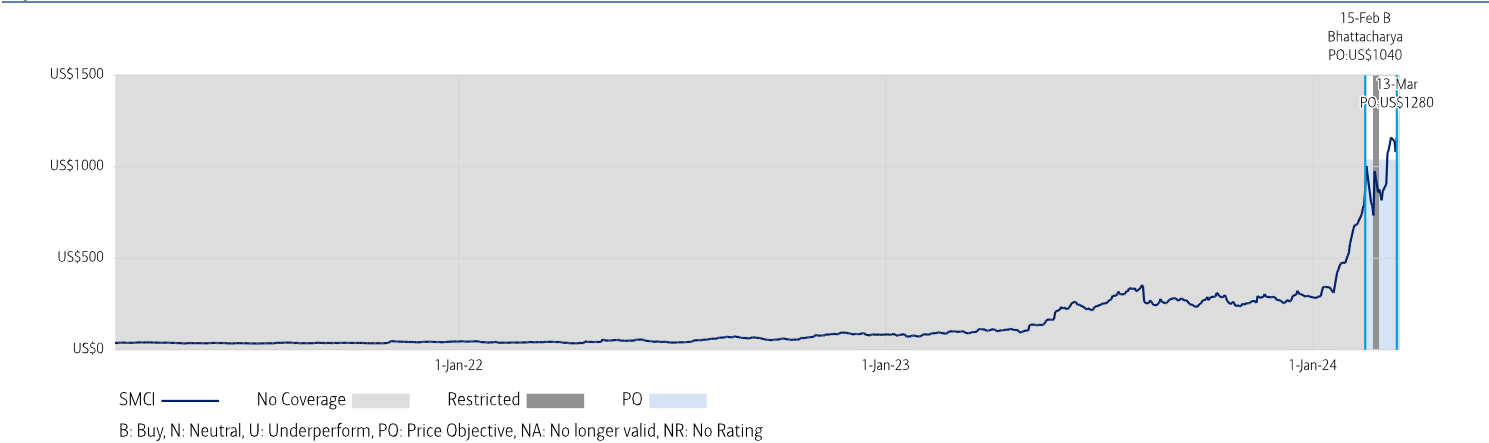
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Disclosures

Important Disclosures

Super Micro (SMCI) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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