

Super Micro Computer Inc.

Nvidia earnings showcases surging demand for accelerated computing

Reiterate Rating: BUY | PO: 1,040.00 USD | Price: 860.01 USD

Positive read through for Super Micro

Nvidia's (ticker: NVDA) F4Q24 highlighted two industry-wide transitions: 1) transition from general to accelerated computing, and 2) growth of Gen AI (for which general-purpose computing is not suited). As per Jensen Huang, CEO of Nvidia, "accelerated computing and generative AI have hit the tipping point. Demand is surging worldwide across companies, industries and nations." He also mentioned that fundamentally, conditions are excellent for its data center business's continued growth in C24, C25, and beyond. He made reference to OEMs like Dell, HP Enterprise, Lenovo and Super Micro, who are partnering with Nvidia to expand its AI solution to enterprises worldwide. We see Nvidia's results as a positive data point for SMCI which is one of the leading partners that designs and manufactures servers to rap around the GPUs and customizes racks to the specific needs of a customer, while trying to lower TCO by providing solutions like liquid cooling that help optimize a chip's performance and lower OpEx.

Growth drives need to raise capital

SMCI is seeing strong revenue growth and with that comes the need to support higher WC including holding more inventory. SMCI priced \$1.5bn of convertible senior notes due 2029 to institutional buyers. SMCI expects net proceeds of about \$1.47bn (or \$1.70bn if the purchasers exercise their option to buy additional \$225mn of the notes). Of that, \$123.6mn (or about \$142.1mn if additional notes are purchased) will be used to fund capped call transactions which SMCI expects to generally reduce potential dilution of shares upon conversion of the notes, or potential cash payments required in excess of the principal amount, subject to a cap. The remainder is for general corporate purposes, including funding WC for growth and business expansion. The convertible notes will not bear regular interest. The initial conversion rate is 0.7455 shares of CS per \$1,000 principal of convertible notes (initial conversion price of approx. \$1341.38 per share).

Restricted China sales – more GPUs for others?

Nvidia's Data Center revenues were strong across all regions, except for China following U.S. government export control regulations. We wonder if fewer GPU sales to China will drive more GPU availability for customers and partners in the West, including Super Micro. Mr. Huang mentioned that Nvidia tries to allocate GPU's fairly and to avoid allocating unnecessarily, especially if a customer's data center is not ready. GPU availability is a risk factor that can limit Super Micro's sales. Reiterate Buy rating.

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)			21.68	29.13	35.11
DPS	0	0	0	0	0
Valuation (Jun)					
P/E	152.2x	72.8x	39.6x	24.1x	19.3x
GAAP P/E	161.7x	75.2x	42.7x	25.5x	20.3x
EV / EBITDA*	118.2x	56.9x	29.7x	17.9x	14.4x
Free Cash Flow Yield*	-1.0%	1.3%	-0.7%	0.7%	0.7%

* For full definitions of *IQmethod*SM measures, see page 5.

26 February 2024

Equity

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Stock Data

Price	860.01 USD
Price Objective	1,040.00 USD
Date Established	15-Feb-2024
Investment Opinion	C-1-9
52-Week Range	87.25 USD - 1,077.87 USD
Mkt Val (mn) / Shares Out (mn)	48,103 USD / 55.9
Free Float	85.0%
Average Daily Value (mn)	12240.13 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 TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

TCO: Total Cost of Ownership

WC: Working Capital

CS: Common Stock

Gen AI: Generative Artificial Intelligence

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Timestamp: 26 February 2024 05:31AM EST

iQprofileSM Super Micro Computer Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	17.6%	29.3%	38.5%	39.4%	33.6%
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)	341	331

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%	-11.5%	-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	(813)	(61)	(1,507)	(1,785)	(2,328)
Deferred Taxation Charge	(7)	(93)	(56)	0	0
Other Adjustments, Net	61	142	97	146	148
Capital Expenditure	(45)	(37)	(111)	(101)	(103)
Free Cash Flow	-486	627	-356	341	331
% Change	NM	NM	NM	NM	-2.7%
Share / Issue Repurchase	0	(150)	583	0	0
Cost of Dividends Paid	NA	NA	NA	NA	NA
Change in Debt	513	(301)	(174)	(43)	(43)

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	267	440	464	775	1,076
Trade Receivables	835	1,148	2,159	4,005	4,997
Other Current Assets	1,704	1,591	3,603	5,392	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	6,864	10,853	14,430
Short-Term Debt	449	170	43	43	18
Other Current Liabilities	1,021	1,205	2,459	4,059	4,848
Long-Term Debt	148	120	78	36	18
Other Non-Current Liabilities	162	208	396	646	777
Total Liabilities	1,779	1,703	2,976	4,783	5,660
Total Equity	1,426	1,972	3,888	6,070	8,770
Total Equity & Liabilities	3,205	3,675	6,864	10,853	14,430

* For full definitions of iQmethodSM measures, see page 5.

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 14,232,547

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

Model

Figure 1: Supermicro Income Statement

We model F24 rev/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

BofA GLOBAL RESEARCH



Price objective basis & risk

Super Micro Computer Inc. (SMCI)

Our PO of \$1040 is based on 26x our C25 EPS estimate of \$39.28. Our target multiple compares to the median 10x of historical range 5x-31x. 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

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders’ Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders’ Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

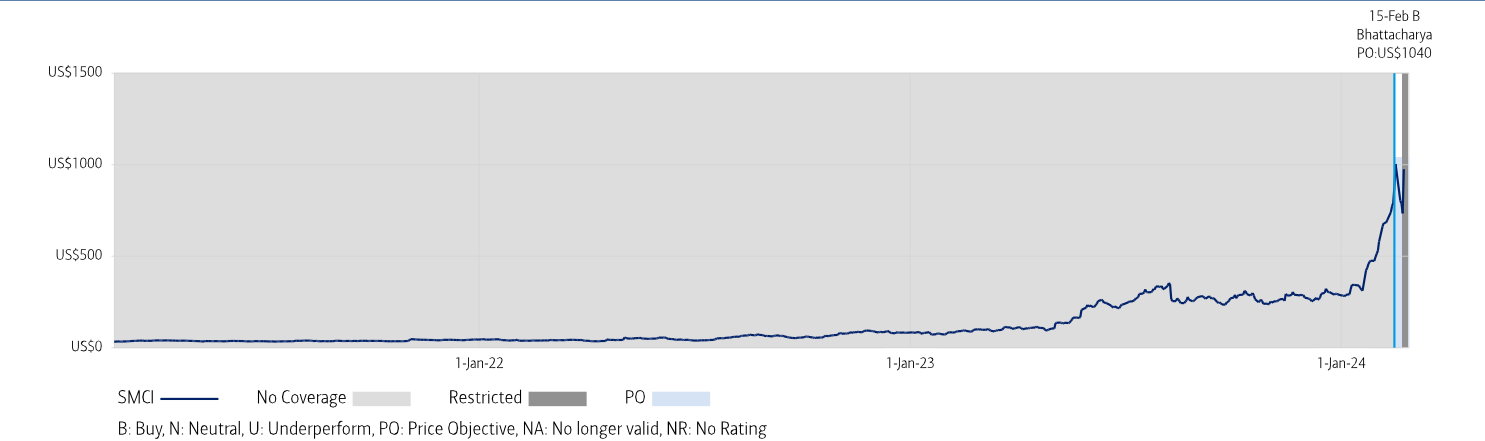
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Disclosures

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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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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