Super Micro Computer, Inc.

1 Mar 2024

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ULTIMATE INVESTORS PLAYBOOK

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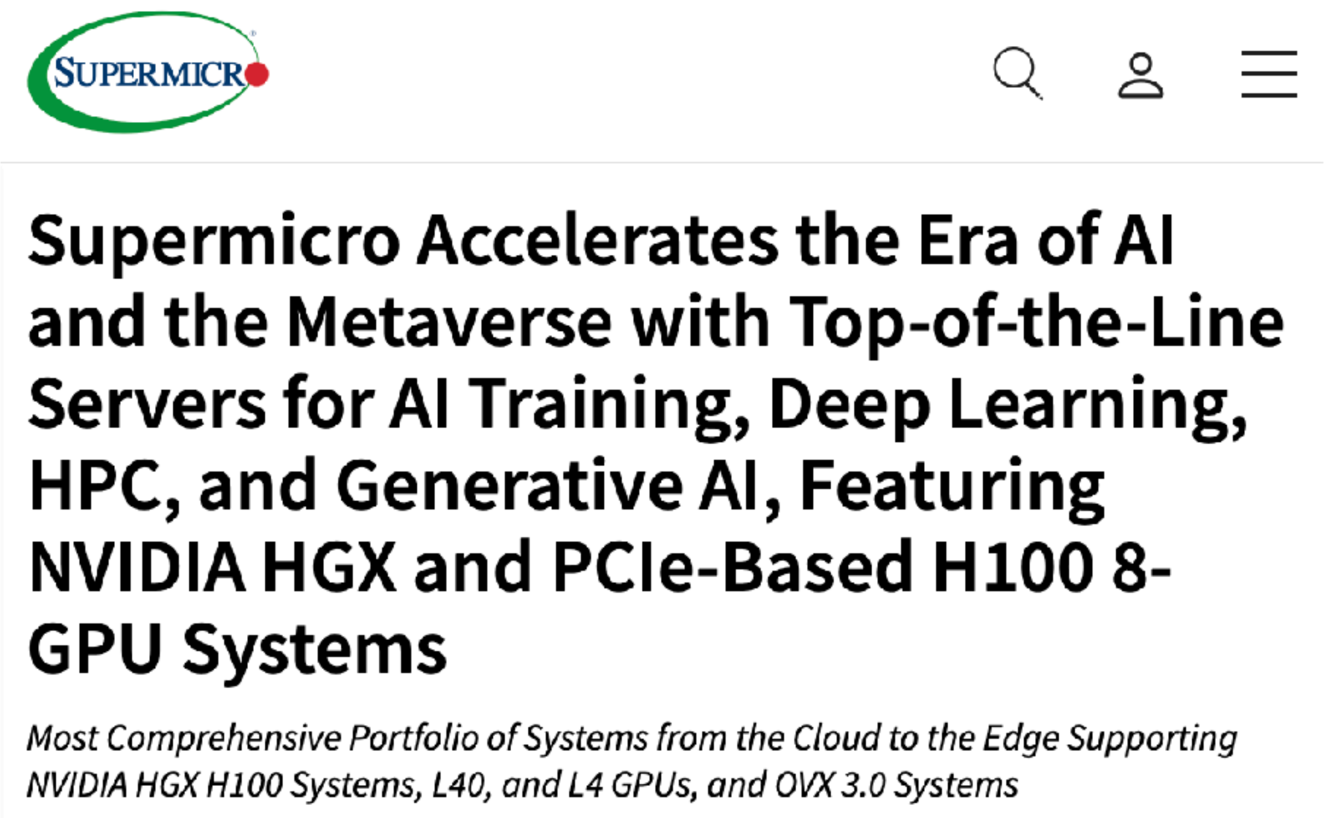
STOCK PROFILE

Ticker Symbol	: SMCI
Exchange	: NASDAQ (US)
Sector / Industry	: Technology / Computer Hardware
Stock Category	: Large Growth

INVESTMENT THESIS

Taking advantage of the exponential growth of Artificial Intelligence (AI).

- SMCI is one of the leading high-performance computing (HPC) solutions and is well-positioned to take advantage of this AI revolution by supplying the necessary server technology to run complex AI models efficiently.



SUPERMICRO

Supermicro Accelerates the Era of AI and the Metaverse with Top-of-the-Line Servers for AI Training, Deep Learning, HPC, and Generative AI, Featuring NVIDIA HGX and PCIe-Based H100 8-GPU Systems

Most Comprehensive Portfolio of Systems from the Cloud to the Edge Supporting NVIDIA HGX H100 Systems, L40, and L4 GPUs, and OVX 3.0 Systems

BUSINESS OVERVIEW

BUSINESS OVERVIEW

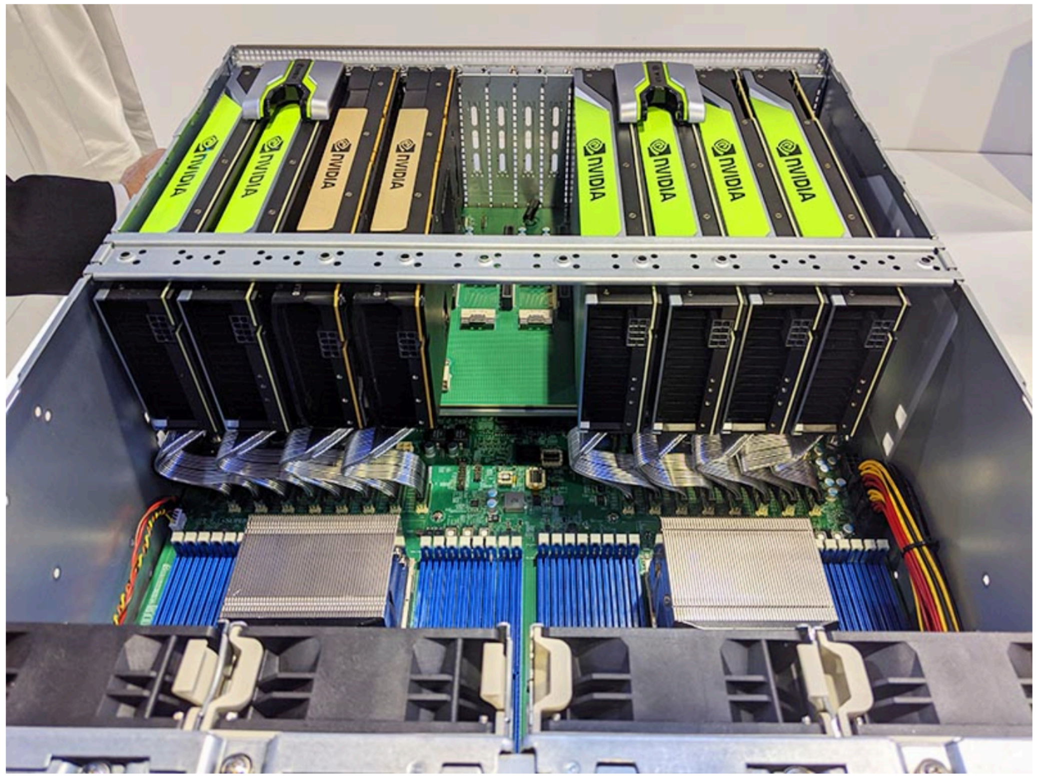
- Super Micro Computer Inc. (SMCI) Super Micro Computer, Inc. designs, develops, manufactures and sells server solutions that are used for deploying AI Chips from NVDA, AMD,INTC etc…
- Solutions include a range of rack mount and blade server systems, as well as components.
- SMCI produces serverboards, chassis and server systems. These Server Building Block Solutions provide benefits across many environments, including data center deployment, high-performance computing, high-end workstations, storage networks and standalone server installations.

BUSINESS OVERVIEW

- SMCI works closely with Intel, NVIDIA, AMD, and other partners to develop products compatible with the latest cutting-edge technologies that are still under development, allowing the company to coordinate product launches.
- SMCI serves a variety of markets, including enterprise data centres, cloud computing, artificial intelligence (AI), 5G and edge computing.

Supermicro AS-4124GS-TNR GPU Compute Server

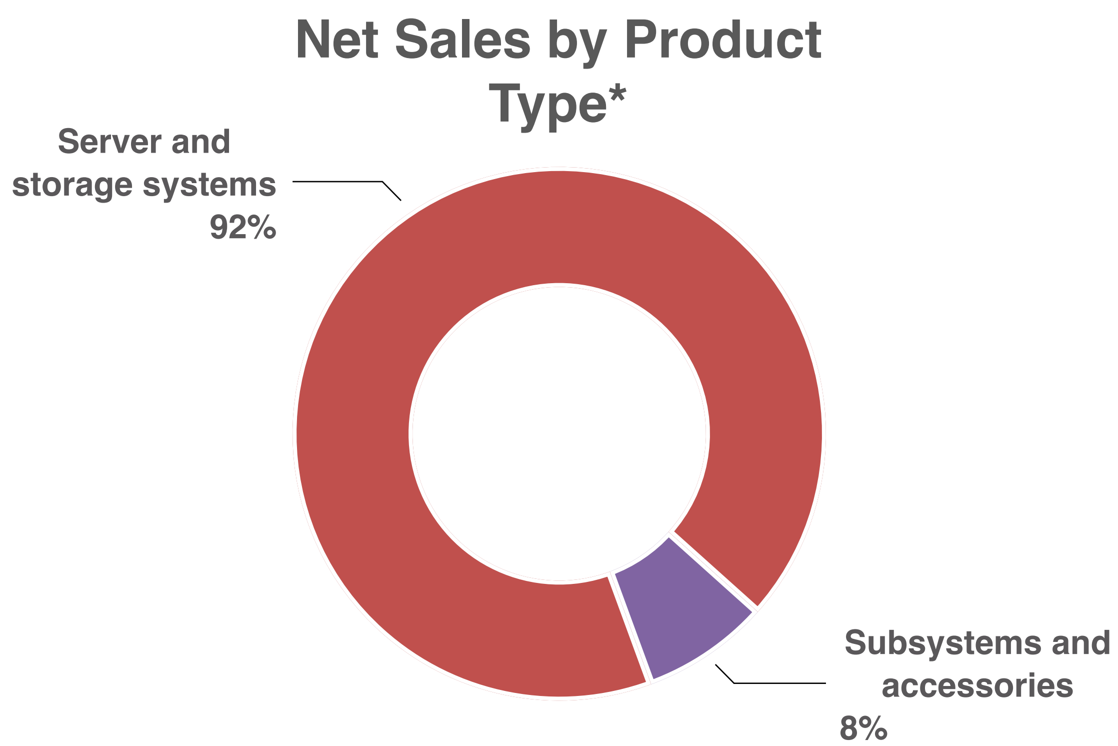
The first system we wanted to highlight is the Supermciro AS-4124GS-TNR server. This utilizes Supermicro's traditional 4U GPU compute server design, with a few twists.

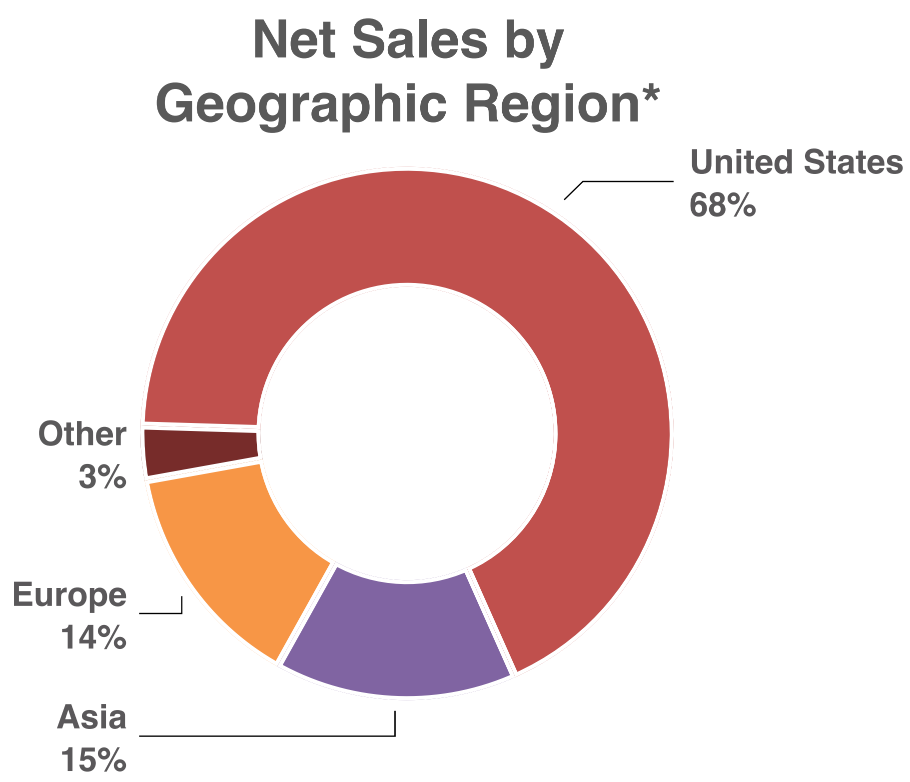


Supermicro AS 4124GS TNR At SC19 GPU View

BUSINESS OVERVIEW

- Server and storage systems makes up over 90% of the company's revenue mix and its customers are mainly in the US.



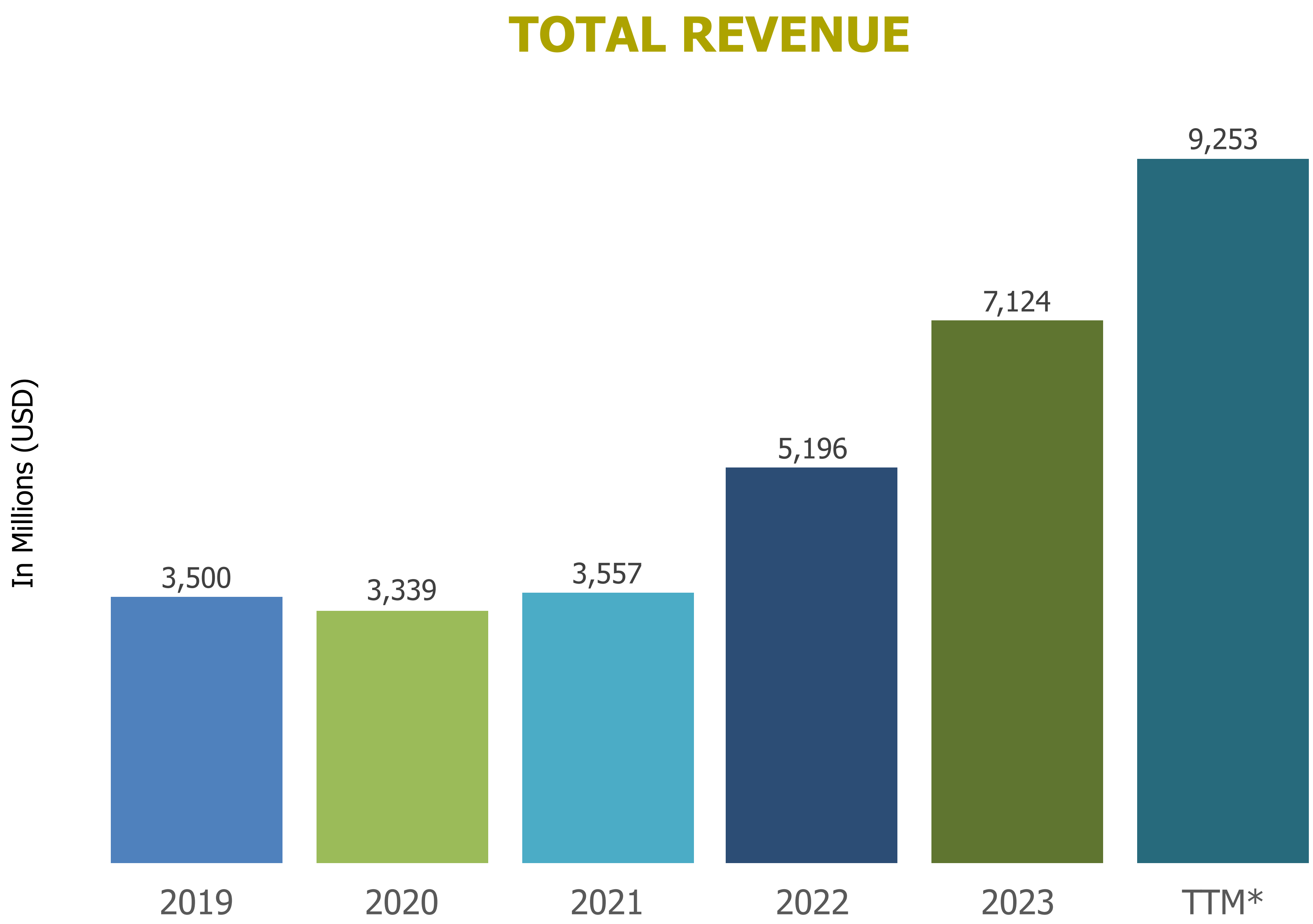


* FY 2023, ended Oct 2023.

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

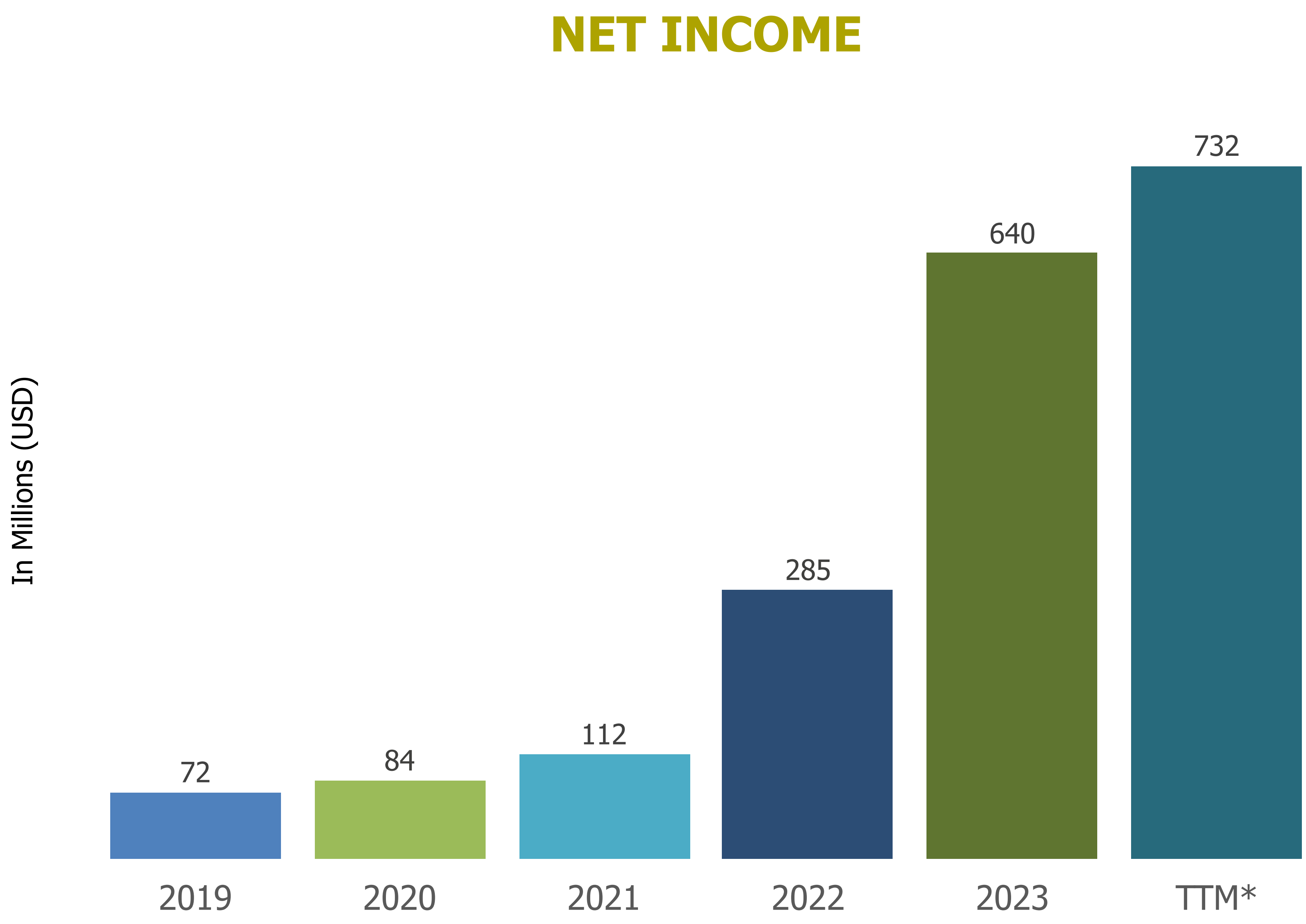
Total revenue continues to increase over the years.



* TTM = Trailing Twelve Months, ended Dec 2023.

FINANCIAL HIGHLIGHTS

Net income continues to increase over the years.



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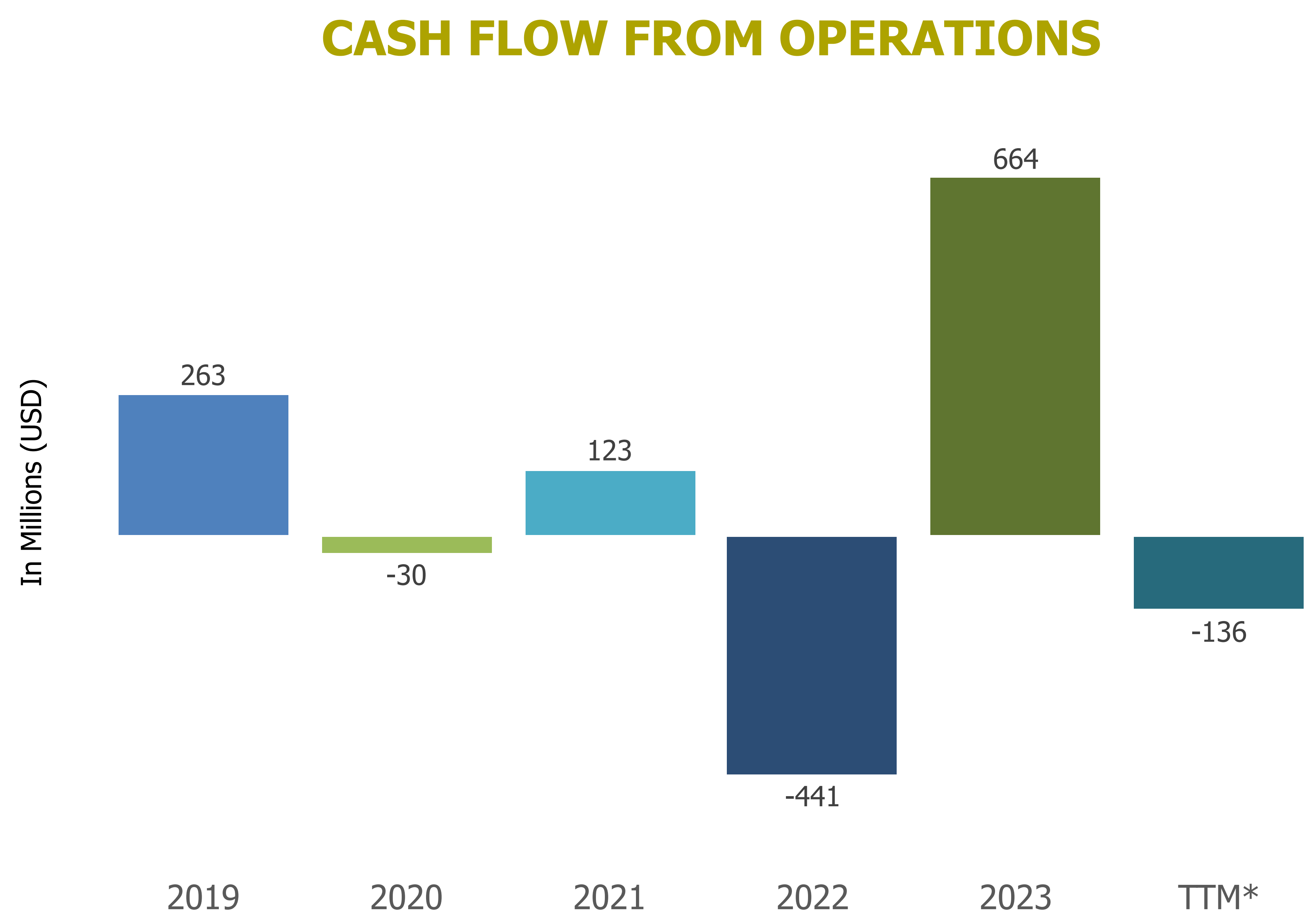
FINANCIAL HIGHLIGHTS

Cash flow from operations are inconsistent.



* TTM = Trailing Twelve Months, ended Dec 2023.

Chart Selected Items

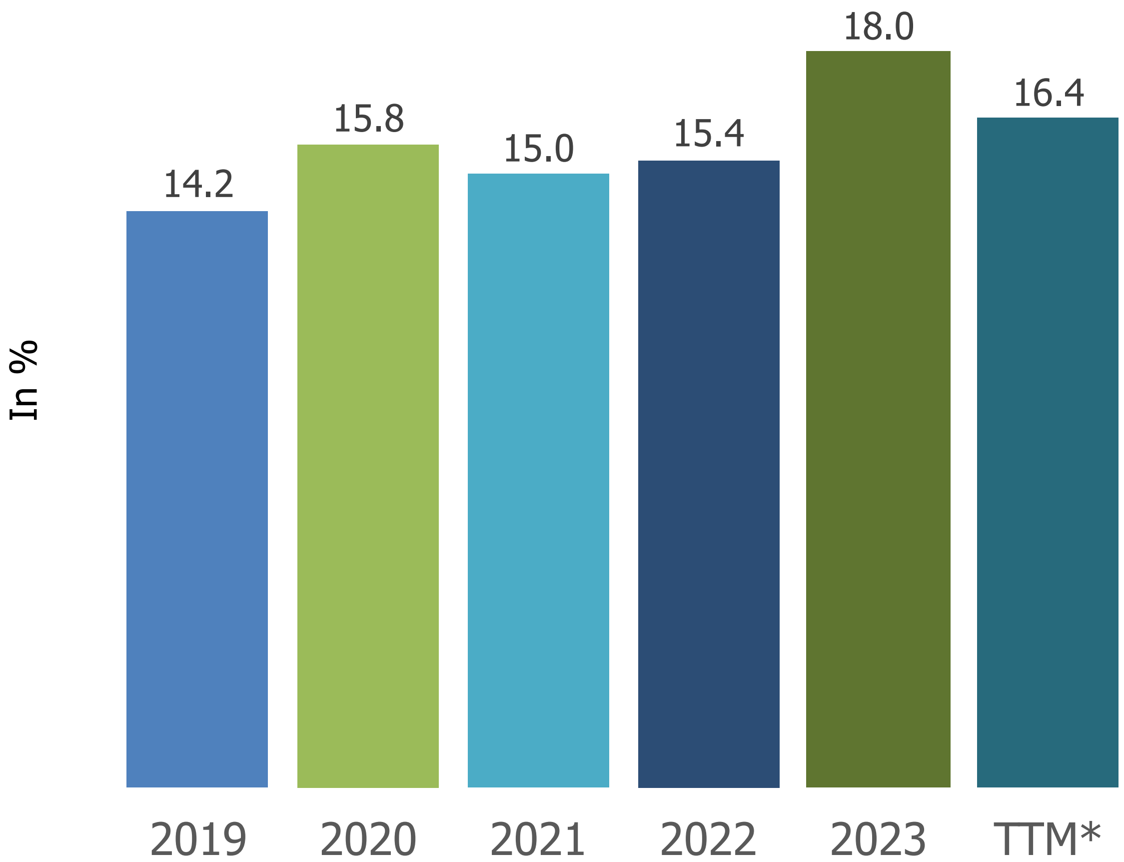
For the Fiscal Period Ending	12 months Jun-30-2019	12 months Jun-30-2020	12 months Jun-30-2021	12 months Jun-30-2022	12 months Jun-30-2023	LTM 12 months Dec-31-2023
Currency	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*
Net Income	**71.9**	**84.3**	**111.9**	**285.2**	**640.0**	**732.4**
Depreciation & Amort.	24.2	28.5	28.2	32.5	34.9	36.5
Depreciation & Amort., Total	**24.2**	**28.5**	**28.2**	**32.5**	**34.9**	**36.5**
(Gain) Loss On Sale Of Invest.	2.7	-	-	-	-	-
(Income) Loss on Equity Invest.	2.7	(2.4)	(0.2)	(1.2)	3.6	(0.6)
Stock-Based Compensation	21.2	20.2	28.5	32.8	54.4	126.9
Provision & Write-off of Bad debts	7.1	(3.1)	-	-	-	-
Other Operating Activities	16.3	7.0	(7.0)	(20.2)	(96.3)	(112.6)
Change in Acc. Receivable	85.0	(7.0)	(60.1)	(372.4)	(311.9)	(734.6)
Change In Inventories	119.3	(199.7)	(189.5)	(504.6)	100.0	(1,045.2)
Change in Acc. Payable	(173.4)	59.9	189.3	50.1	127.1	697.7
Change in Unearned Rev.	59.8	0.4	(1.5)	31.5	70.6	103.6
Change in Inc. Taxes	5.8	(8.3)	8.0	29.0	87.4	7.7
Change in Other Net Operating Assets	20.0	(10.0)	15.2	(3.5)	(46.4)	52.6
Cash from Ops.	**262.6**	**(30.3)**	**123.0**	**(440.8)**	**663.6**	**(135.7)**
Capital Expenditure	(24.8)	(44.3)	(58.0)	(45.2)	(36.8)	(33.5)

FINANCIAL HIGHLIGHTS

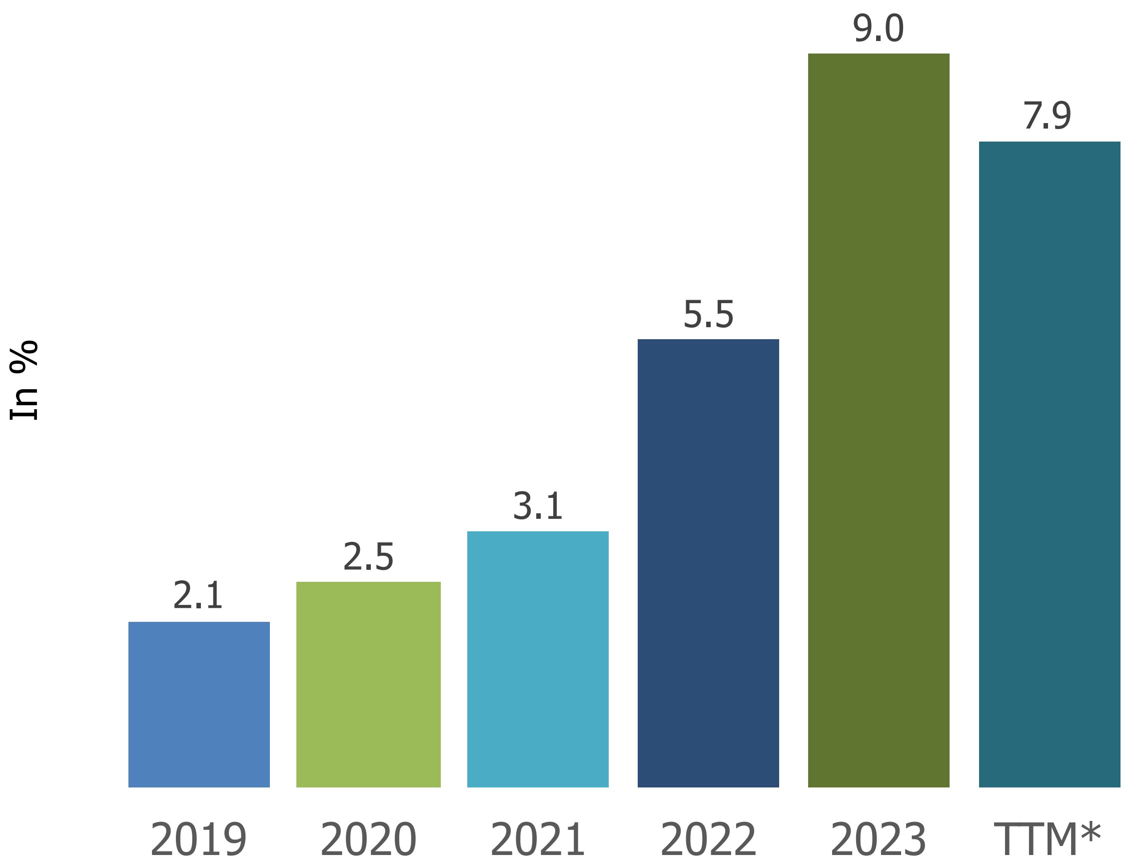
Gross Profit Margin (GPM) averages at 15.8% (vs Industry 24.3%).

Net Profit Margin (NPM) averages at 5.0% (vs Industry 2.9%).

GROSS PROFIT MARGIN



NET PROFIT MARGIN



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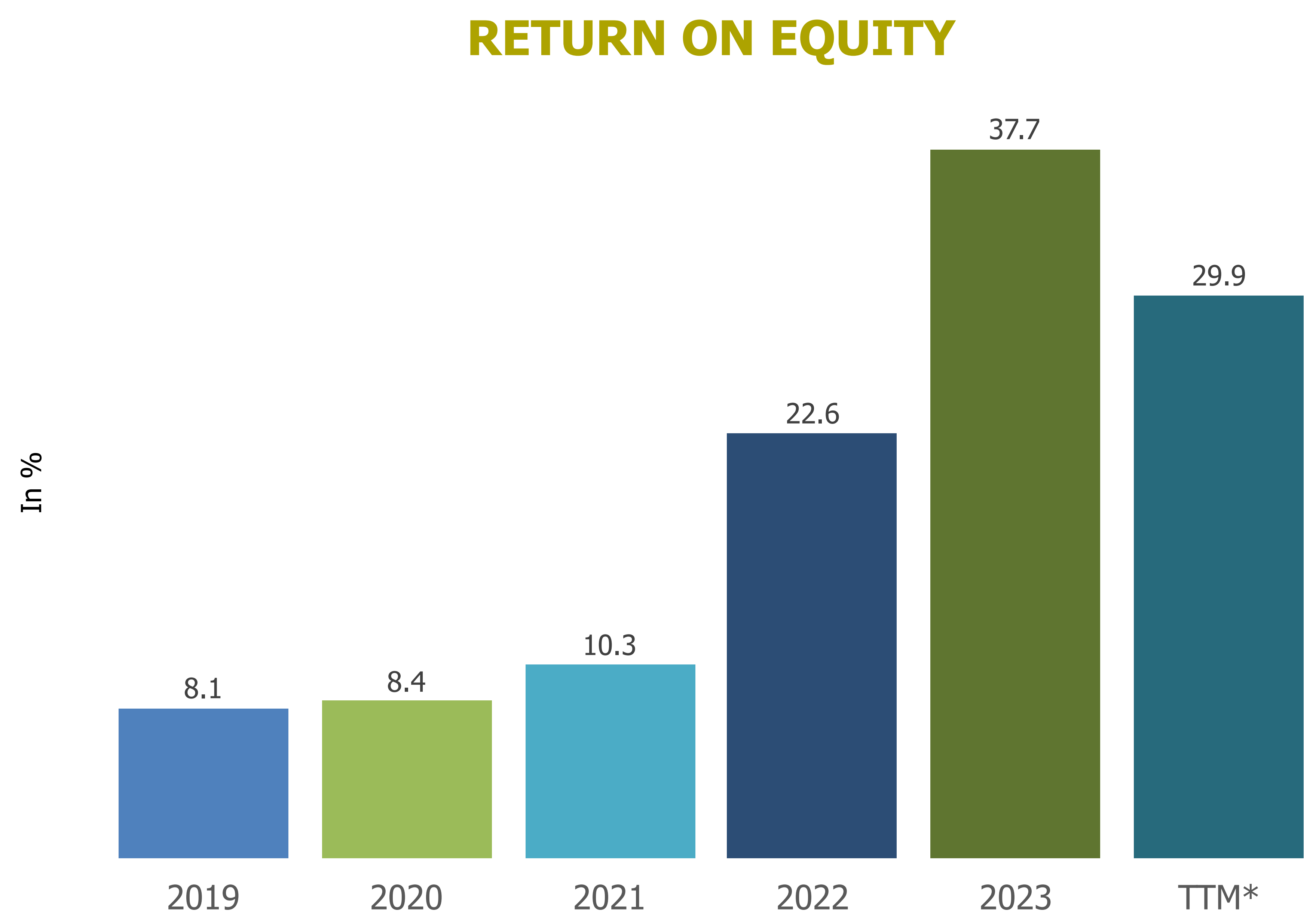
FINANCIAL HIGHLIGHTS

Return on Equity (ROE) is averages at 19.5%.



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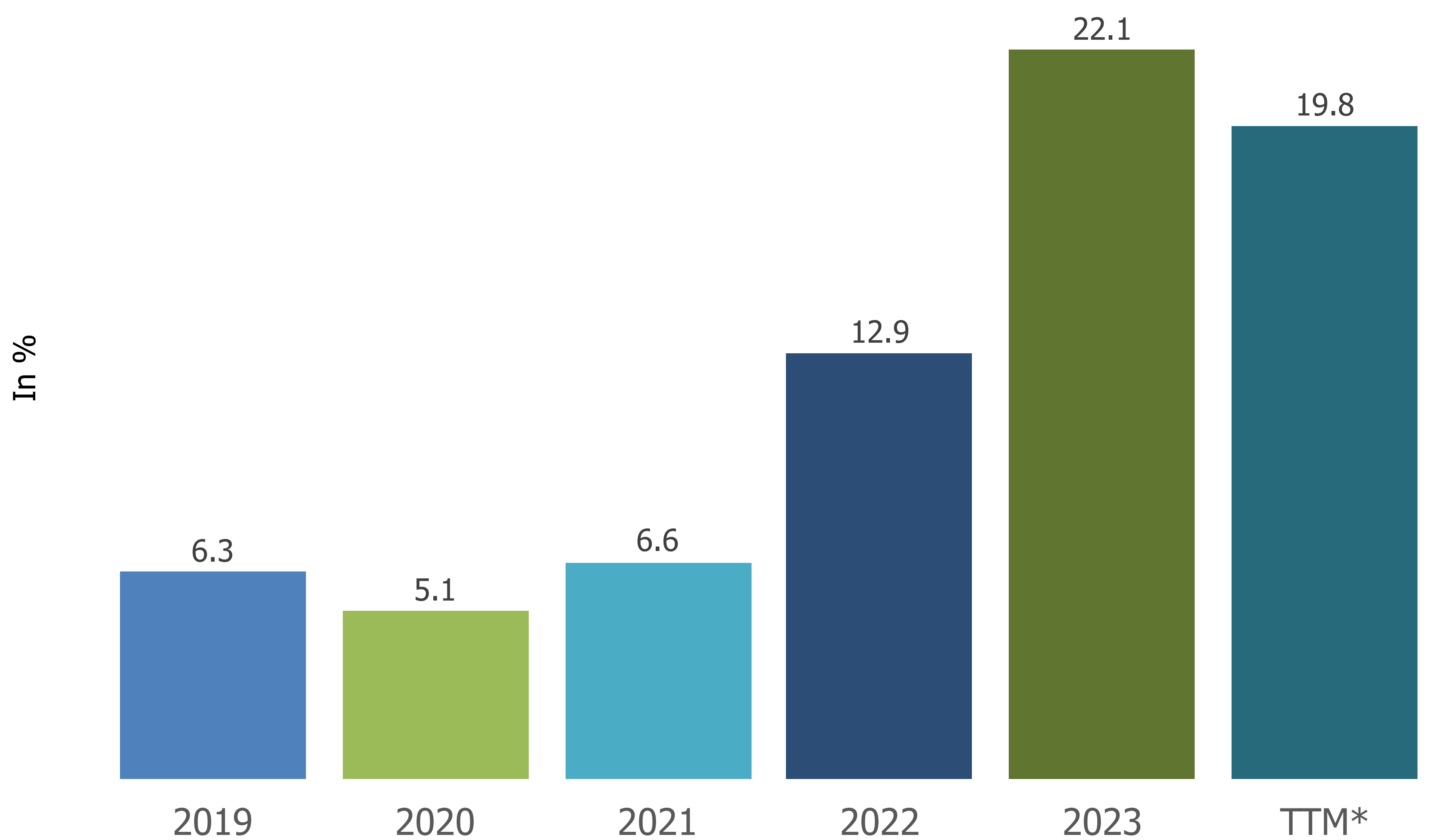
FINANCIAL HIGHLIGHTS

Return on Invested Capital (ROIC) averages at 12.2%.

RETURN ON INVESTED CAPITAL



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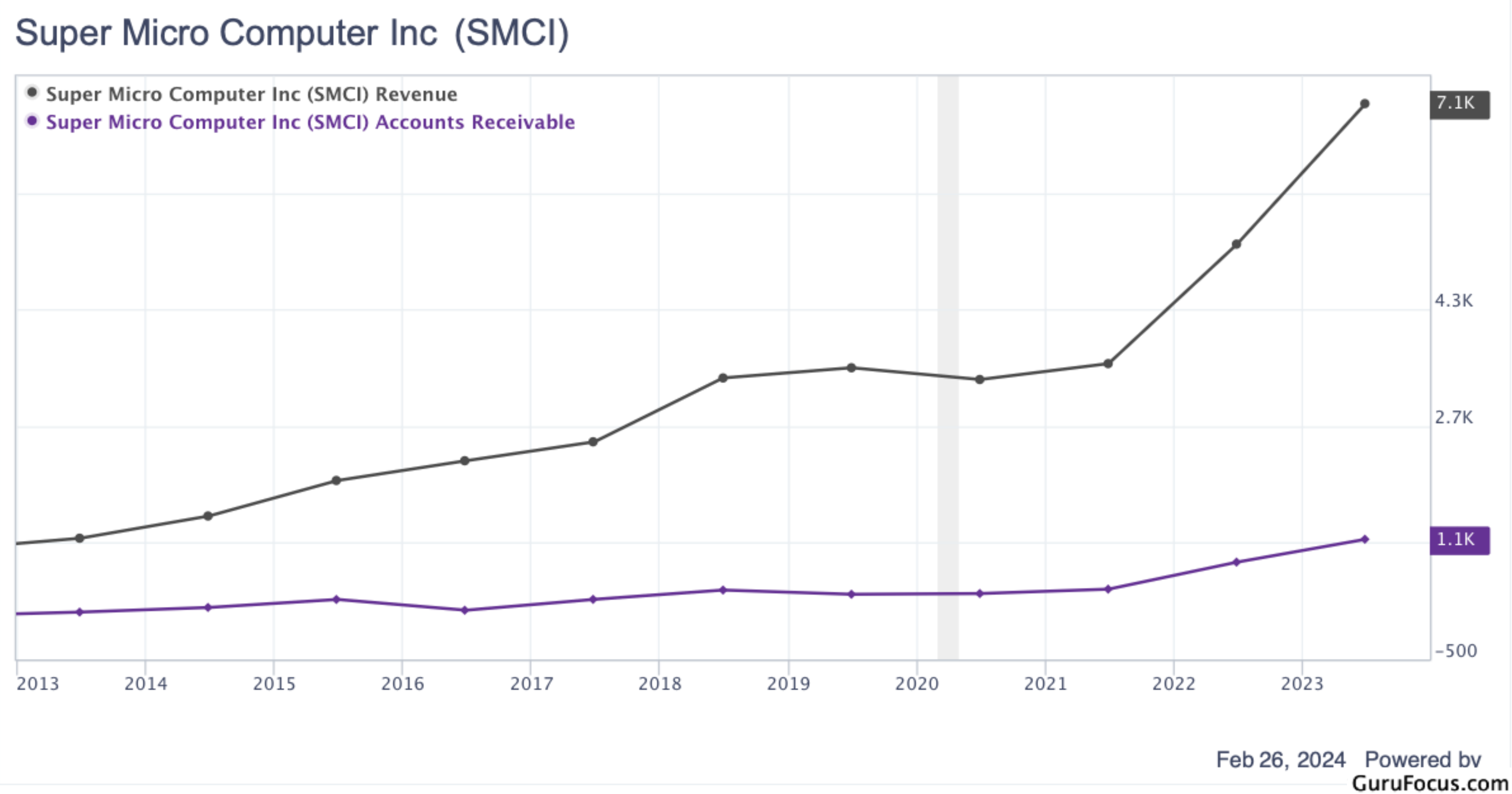
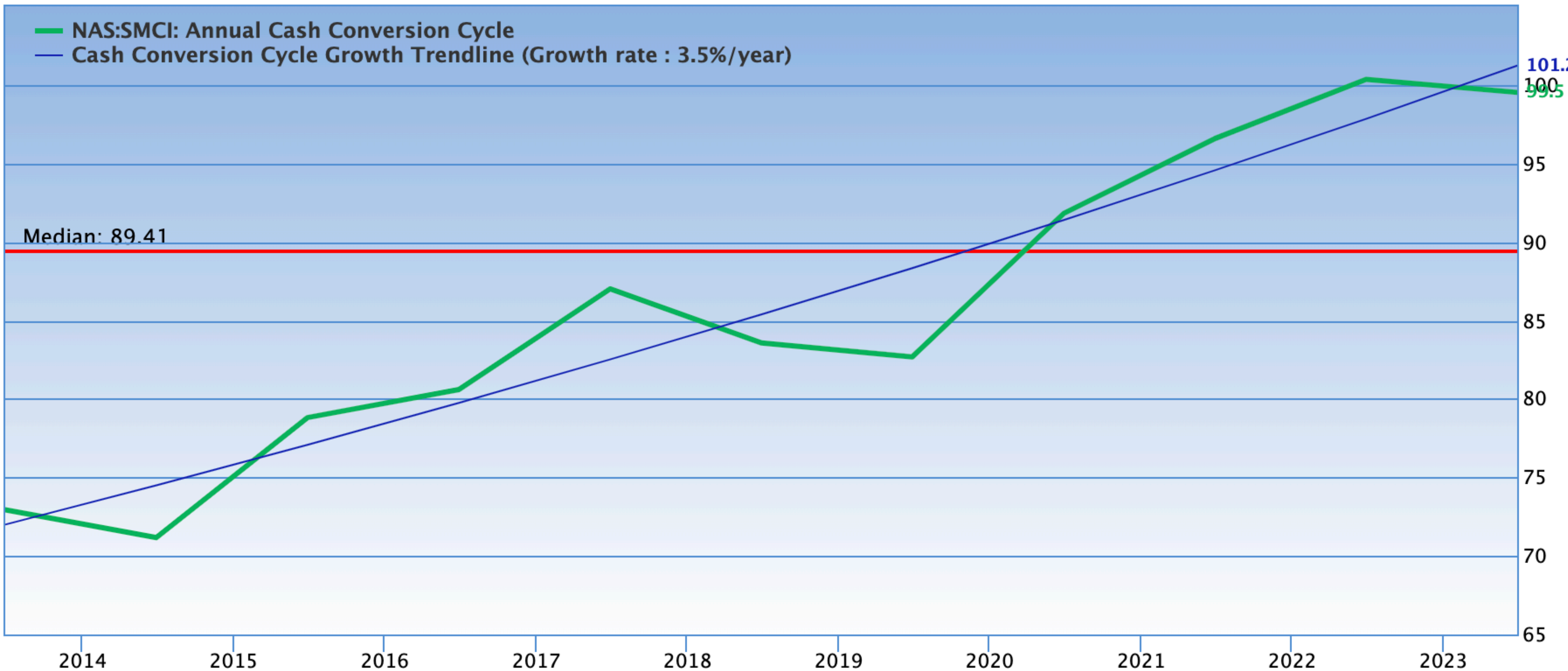
FINANCIAL HIGHLIGHTS

Revenue has been increasing faster than accounts receivable in the past ten years.



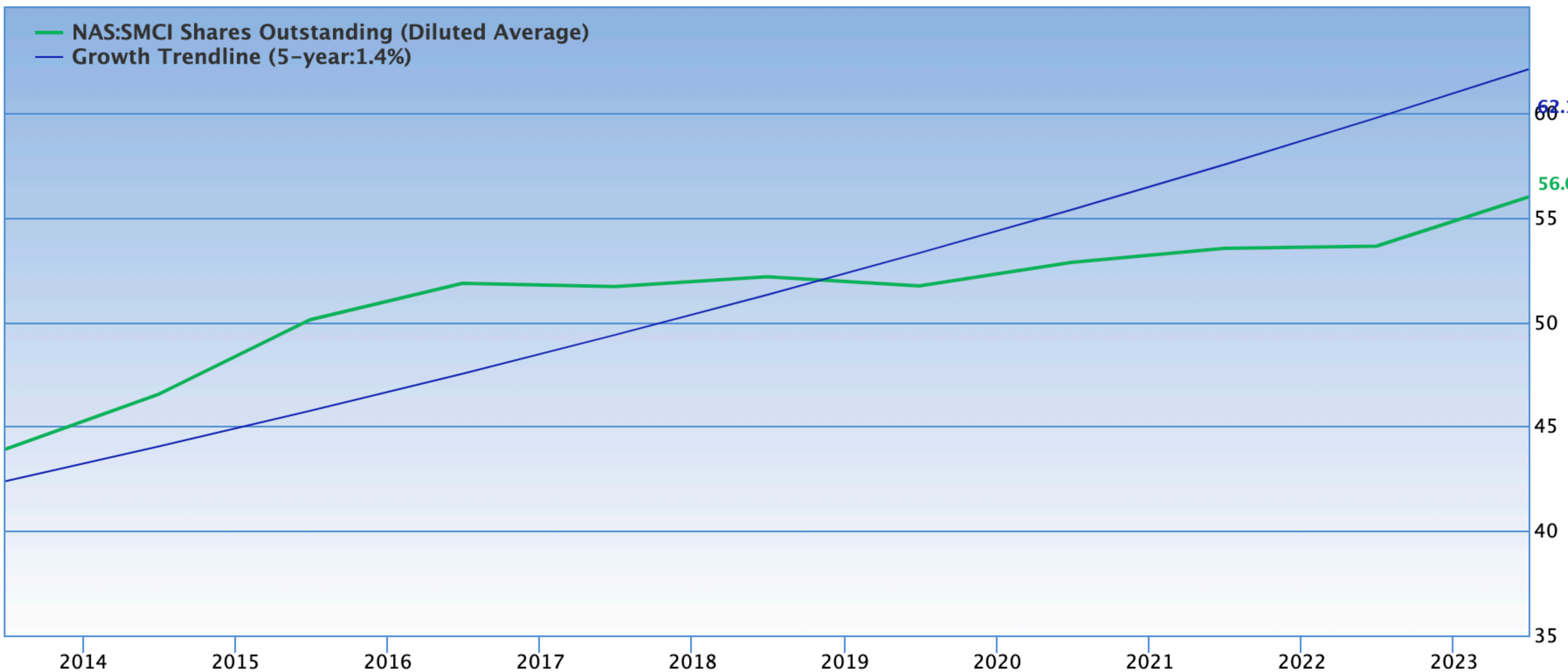
FINANCIAL HIGHLIGHTS

The Cash Conversion Cycle has been increasing.



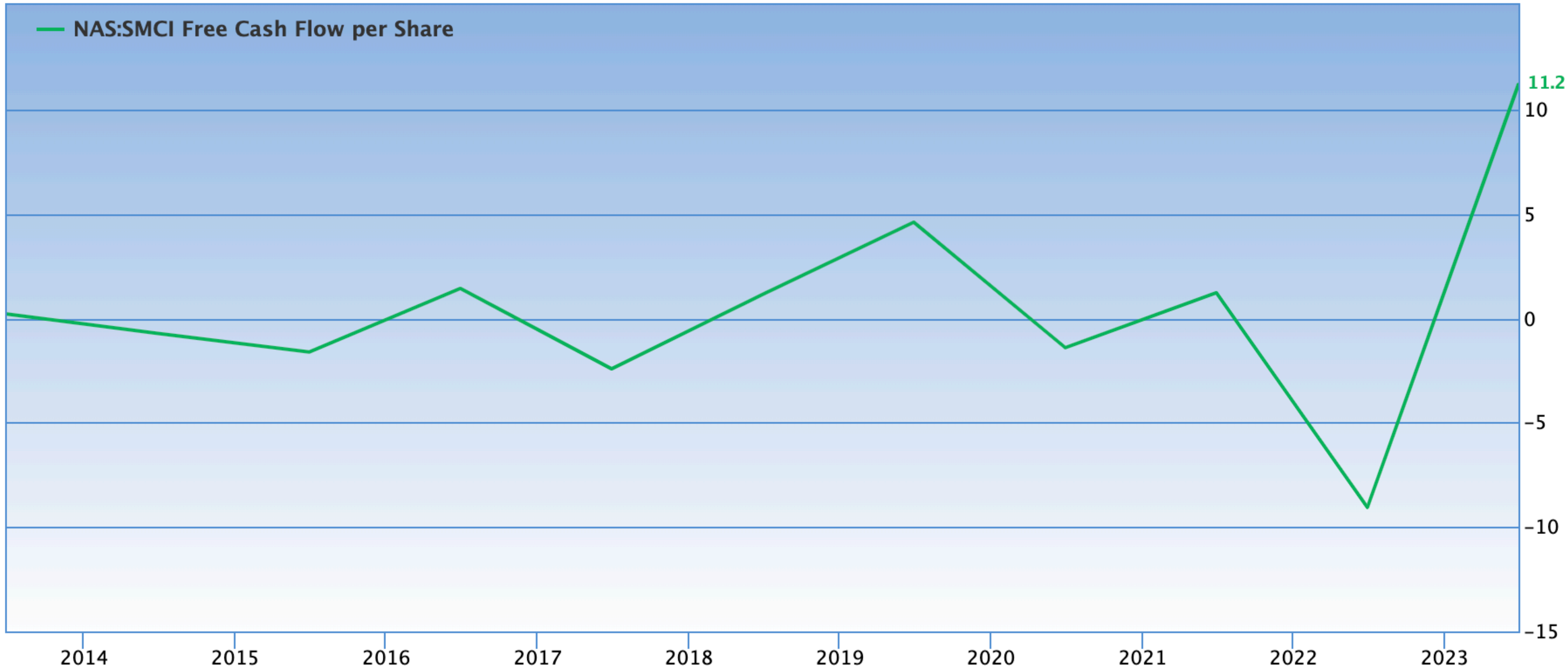
FINANCIAL HIGHLIGHTS

The Shares Outstanding has been increasing.



FINANCIAL HIGHLIGHTS

The Free Cash Flow per Share not increasing consistently.



ECONOMIC MOAT

ECONOMIC MOAT

Super Micro Computer, Inc. has a **NARROW** economic moat.

TECHNOLOGICAL ADVANTAGE

- SMCI tends to prioritise high-density, performance-driven solutions (optimised for AI), while competitors Dell and HPE cater to a broader range of needs and price points.
- SMCI has intellectual property in denser server configurations for HPC and catering to AI and cloud needs.

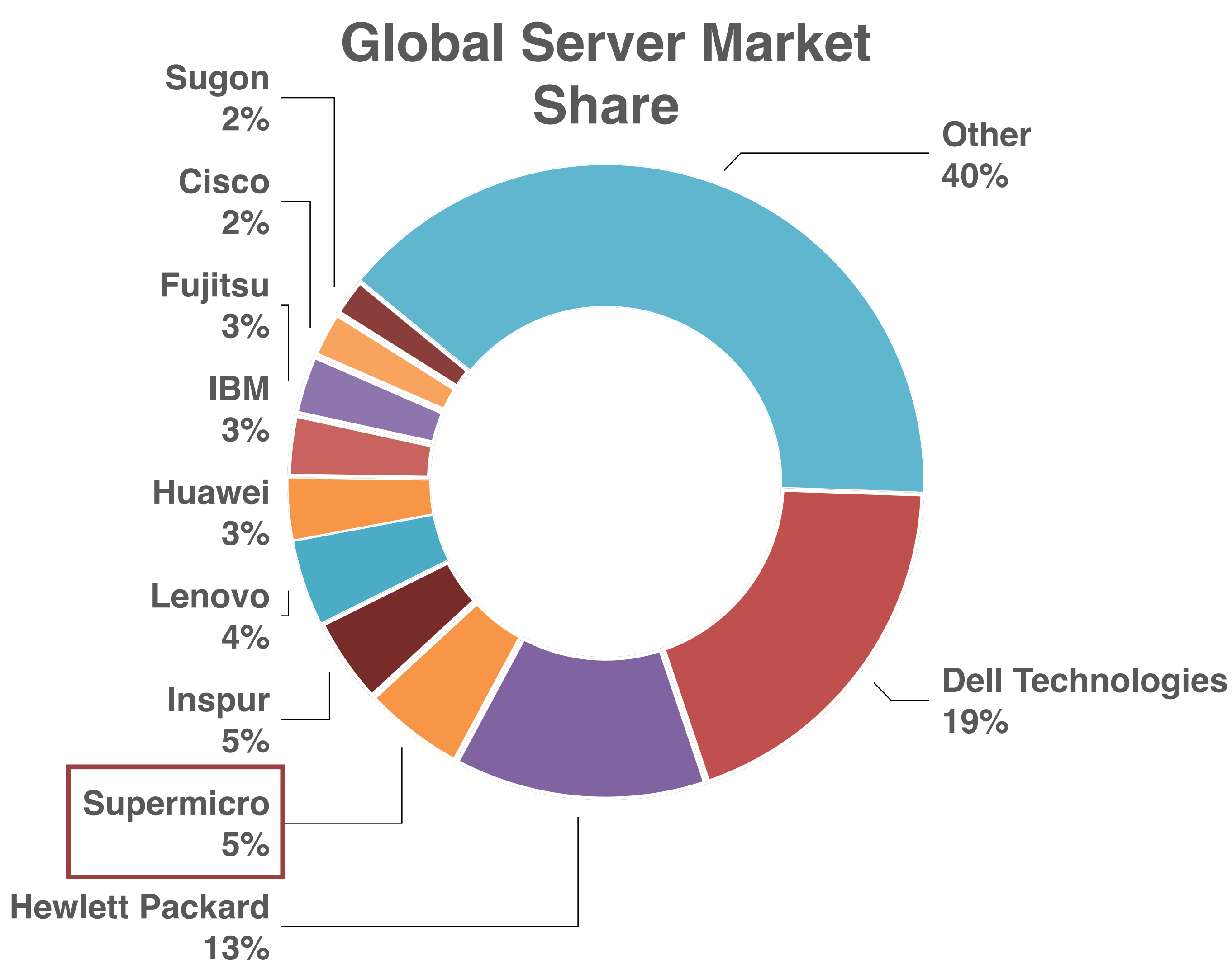
CLOSE RELATIONSHIP WITH KEY SUPPLIERS

- SMCI has a close relationship with NVIDIA, Intel, and AMD, allowing SMCI to develop products compatible with the latest generation technologies that are under development.
- As such, SMCI can coordinate the release of its products with the vendors' product release schedule and will help cement SMCI as the preferred choice for companies that would like to gain access to the most cutting-edge technologies.

COMPETITOR STUDY

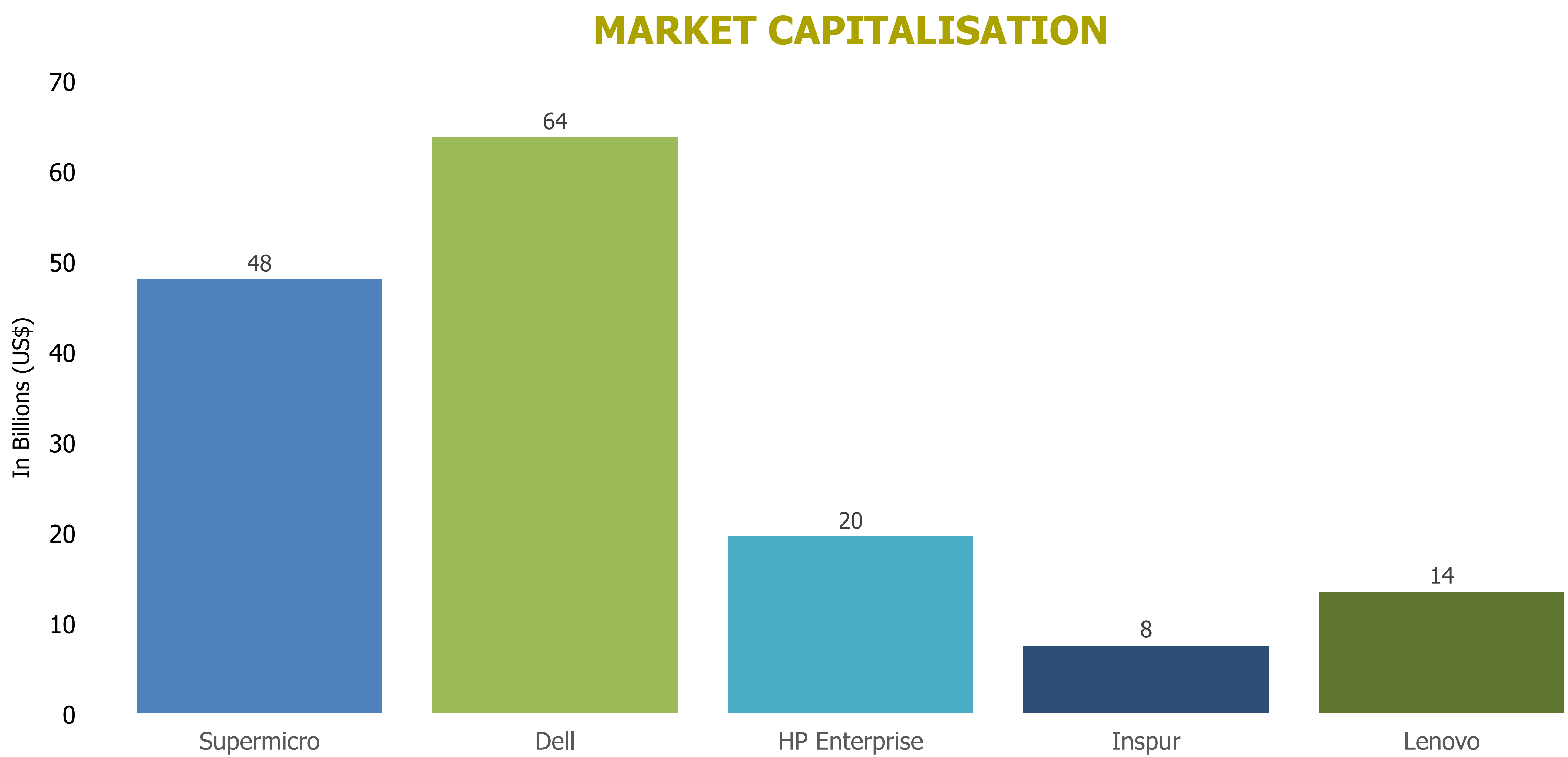
COMPETITOR STUDY

- The market for servers is both competitive and fragmented, with many players vying for a share of the pie.
- SMCI, with ~5% of the market share, is the third-largest server company.
- Ahead of it are Dell Technologies (DELL) with ~19% and Hewlett Packard Enterprise (HPE) with ~13%.
- Other notable players include Inspur, Lenovo, Huawei, IBM, Fujitsu, Cisco, Sugon and more.



Source: History Computer

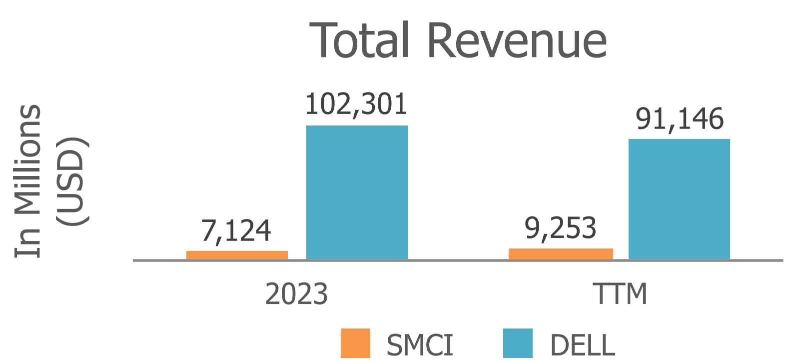
COMPETITOR STUDY

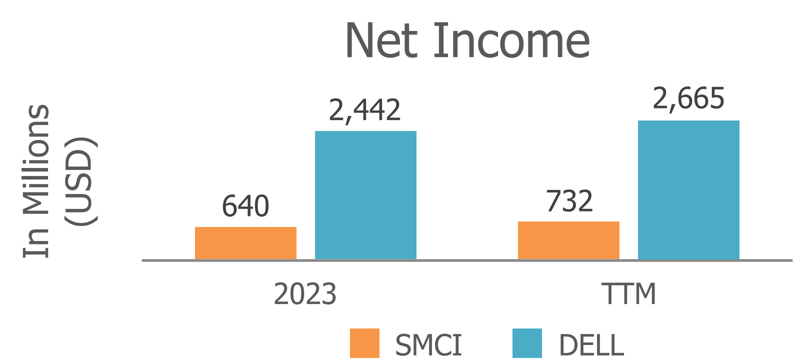


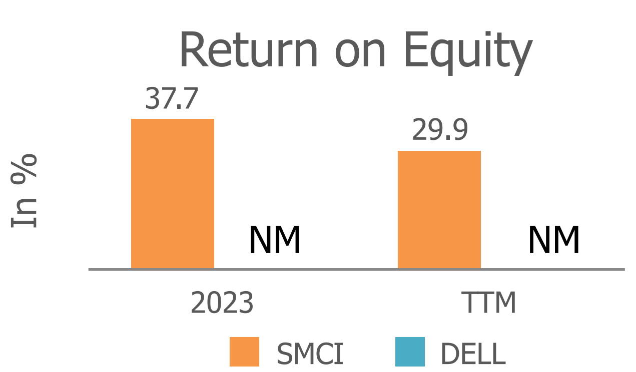
COMPETITOR STUDY

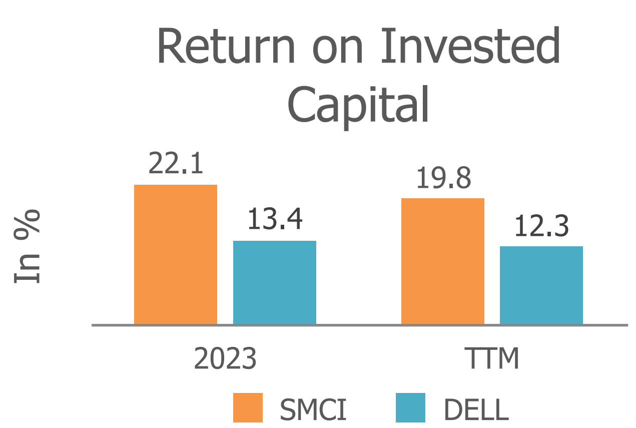
1) vs Dell Technologies (DELL).

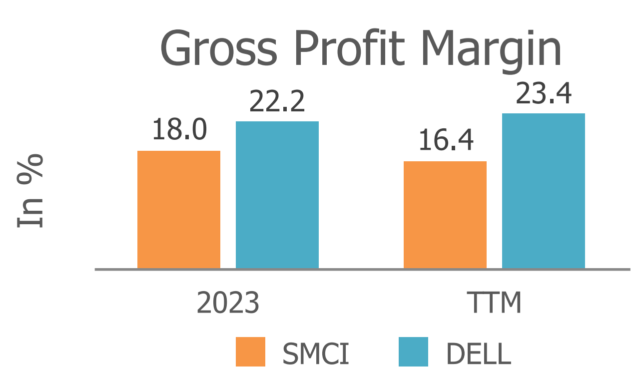
- DELL provides many IT solutions, products, and services, such as personal computers, smartphones, televisions, and computer hardware.
- DELL is the market leader in the server industry, with a ~19% share.
- DELL's Infrastructure Solutions Group portfolio (~37% of its total revenue) competes with SMCI offerings.
- SMCI has invested significantly in developing AI, cloud computing, and 5G/edge computing systems, enabling it to expand rapidly.

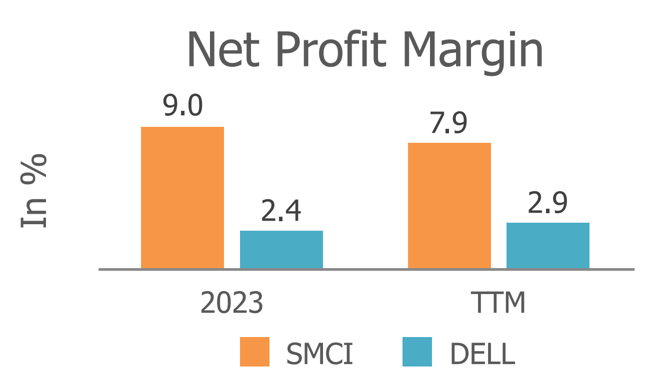










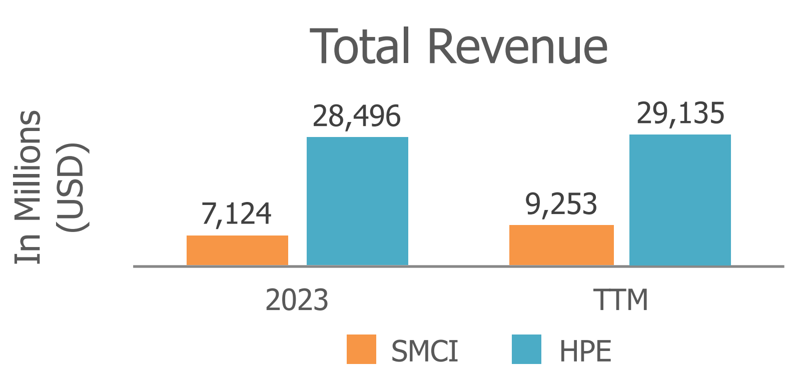


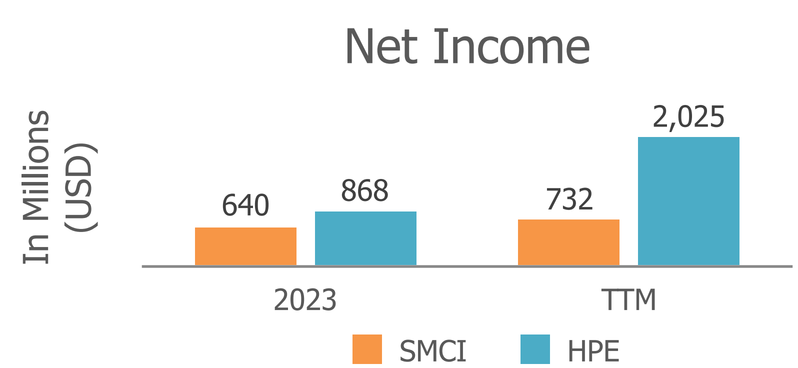
* TTM = Trailing Twelve Months, SMCI ended Dec 2023, DELL ended Nov 2023.

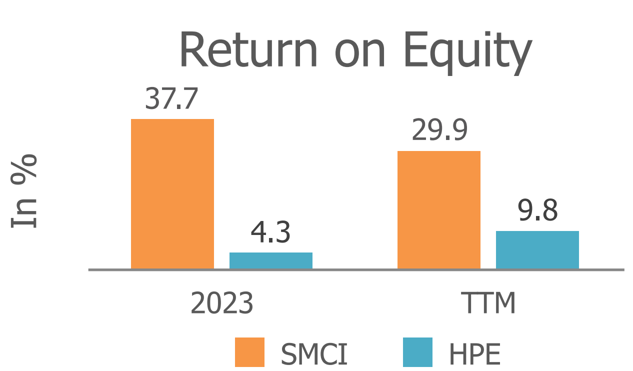
COMPETITOR STUDY

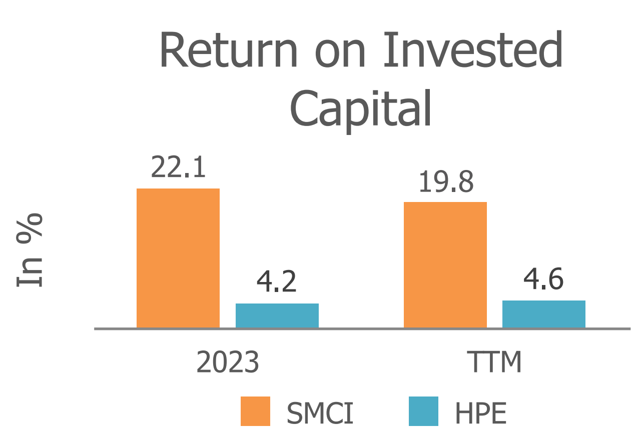
2) vs Hewlett Packard Enterprise (HPE).

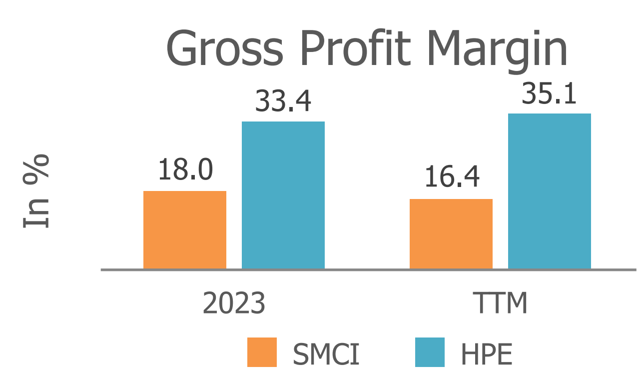
- HPE offers Compute solutions, HPC & AI, Storage, Intelligent Edge, Financial Services, Corporate Investments and Other products and services.
- HPE leads the server market with ~13% share, and the Compute, HPC & AI, and Storage portfolio competes with SMCI's offerings.
- HPE has higher revenue, net income, gross margin, and comparable net margin as SMCI, while SMCI leads in ROE and ROIC.

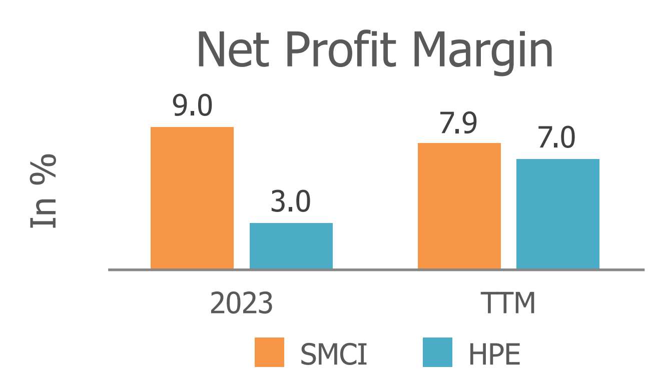












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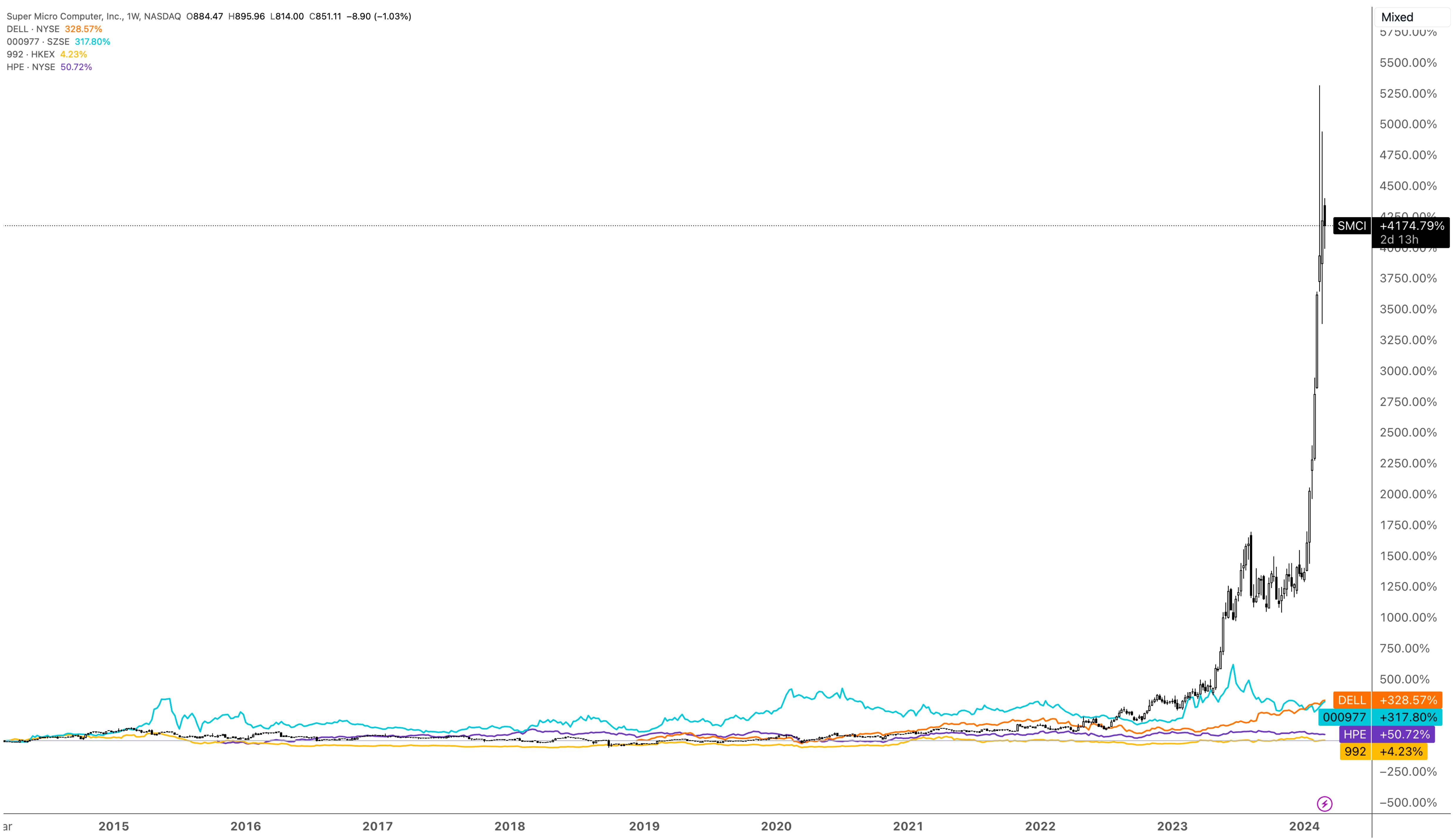
COMPETITOR STUDY

10 Years Performance



COMPETITOR STUDY

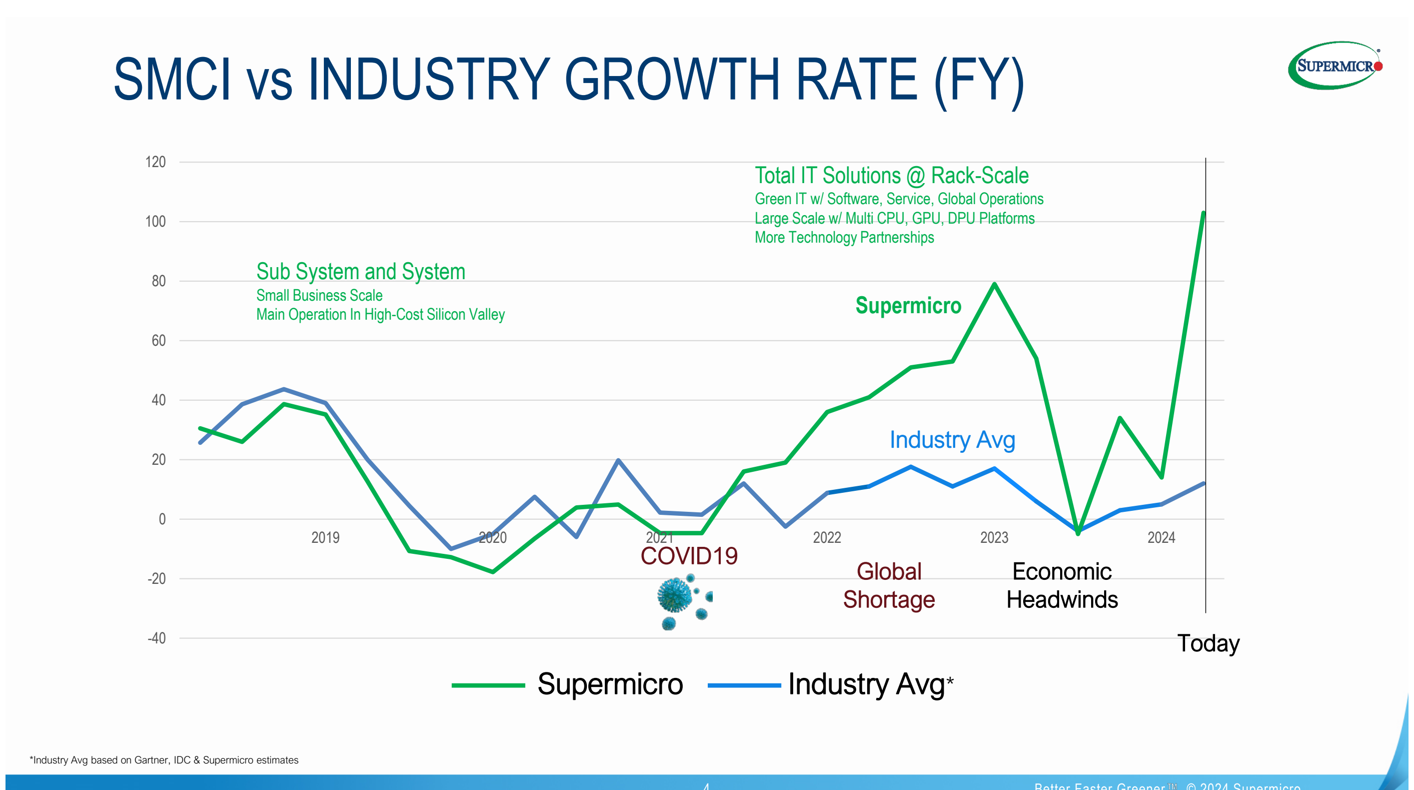
5 Years Performance

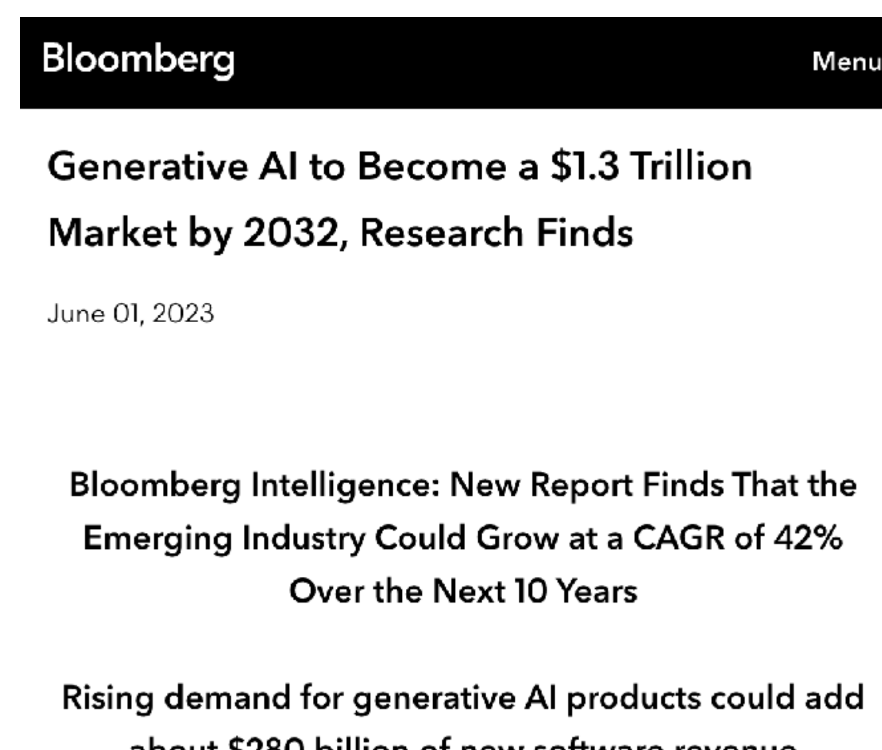
GROWTH DRIVERS

GROWTH DRIVERS

1) A new era of Generative AI will spur accelerated growth.

- Bloomberg Intelligence forecasts the Global Generative AI market to grow from just $40B in 2022 to $1.3T over the next ten years at a 42% CAGR.
- The rising demand for training infrastructure in the short term and a gradual shift to inference devices for large language models (LLM), specialised software, and services will drive the demand for more servers and related solutions.
- On top of the ever-expanding manufacturing capacity, critical partnerships with NVIDIA and AMD will make SMCI capable of being the preferred vendor for customers wanting the latest cutting-edge technologies in the shortest time possible, enabling higher growth than the industry average.




Bloomberg Menu

Generative AI to Become a $1.3 Trillion Market by 2032, Research Finds

June 01, 2023

Bloomberg Intelligence: New Report Finds That the Emerging Industry Could Grow at a CAGR of 42% Over the Next 10 Years

Rising demand for generative AI products could add about $280 billion of new software revenue

Super Micro Computer, Inc. HAS **CONSERVATIVE** DEBT STRUCTURE

CURRENT RATIO	TOTAL DEBT TO EBITDA	DEBT SERVICING RATIO
2.4x	**0.4x**	**NA**
		Operating Cash Flow is negative

VALUATION METHOD

VALUATION METHOD

1) **Historical Price to Earnings Comparison**
2) **Discounted Net Income (20 Years).**

VALUATION METHOD

1) Historical Price to Earnings Comparison.

- The current P/E is near its historical average.

VALUATION METHOD

Historical EPS Growth Rate (5Y)

66.8%

Growth Projection (5Y)

52.0% (CapitalIQ)
55.8% (FactSet)
48.2% (Finviz)
27.0% (Simplywall.st)

45.98% (Average)

VALUATION METHOD

2) Discounted Net Income (20 Years) — Base Case.

Intrinsic Value Calculator (Discounted Net Income Method 20 years)

(Be consistent with the denominations used. Usually Millions $)

KEY IN THE VALUES IN THE WHITE BOXES

Name of Stock		Super Micro Computer
Stock Symbol		SMCI
Valuation Method		Discounted Net Income
Net Income (Current)	USD$	732.40 millions
Total Debt (Short Term + LT Debt)	USD$	375.60 millions
Cash and Short Term Investments	USD$	725.80 millions
Net Income Growth Rate (Yr 1 - 5)		45.98%
Net Income Growth Rate (Yr 6 - 10)		15.00%
Net Income Growth Rate (Yr 11 - 20)		4.00%
No. of Shares Outstanding		55.9 millions
Discount Rate		6.6%
Beta:		1.17
Current Year		2024

NB: Take the last Fiscal Year as the Current Year

Financial Statement Currency		USD$
Stock Listing Currency		USD$
Exchange Rate 1 USD$ is equivalent to	1.0000	USD$
PV of 20 yr Net Income	USD$	77,736.9 millions
Intrinsic Value before cash/debt	USD$	1,390.64
less Debt per Share	USD$	6.72
Plus (+) Cash Per Share	USD$	12.98
Intrinsic Value Per Share *(based on Financial Statement Currency)*	USD$	1,396.91
Final Intrinsic Value Per Share *(based on Stock Listing Currency)*	USD$	1,396.91
(Discount)/Premium		-35.18%
Last Close	USD$	905.48

Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Net Income (Projected)	$1,069.16	$1,560.76	$2,278.39	$3,326.00	$4,855.29	$5,583.58	$6,421.12	$7,384.29	$8,491.93	$9,765.72
Discount Factor	0.94	0.88	0.83	0.77	0.73	0.68	0.64	0.60	0.56	0.53
Discounted Value	$1,002.96	$1,373.47	$1,880.86	$2,575.69	$3,527.19	$3,805.13	$4,104.97	$4,428.44	$4,777.40	$5,153.86

Year	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
Net Income (Projected)	$10,156.35	$10,562.60	$10,985.11	$11,424.51	$11,881.49	$12,356.75	$12,851.02	$13,365.06	$13,899.67	$14,455.65
Discount Factor	0.50	0.46	0.44	0.41	0.38	0.36	0.34	0.32	0.30	0.28
Discounted Value	$5,028.15	$4,905.51	$4,785.87	$4,669.14	$4,555.26	$4,444.15	$4,335.76	$4,230.01	$4,126.84	$4,026.18

INVESTMENT RISKS

INVESTMENT RISKS

1) **Reliance on few key suppliers.**
   - Two suppliers accounted for 44.2% of SMCI's total purchases in FY 2023.
   - SMCI relies on AI-related servers, mainly servers with NVIDIA chips, to sustain its current growth.

2) **Client concentration risk.**
   - A significant demand is from hyper scalers and cloud service providers owning large data centres.
   - META accounted for 21.9% of revenues in 2023

3) **Highly competitive market.**
   - SMCI prides itself on having intimate relationships with NVIDIA, AMD, and Intel, allowing them to offer many "firsts" using the latest technology from these companies, ahead of more prominent companies like Dell and HP Enterprise.
   - If Dell and HP Enterprise can forge deeper relationships with these suppliers, SMCI will no longer have much advantage over them.
   - While SMCI assembles servers, many core components are commodities, making it challenging to maintain significant price premiums compared to competitors.

PIRANHA
PROFITS

www.insight.piranhaprofits.com