

# SuperMicro Computer, Inc.:

NASDAQ: **SMCI**



Jose Valcourt



Rachel Zarembo



Alec Small





RECOMMENDATION:

Buy

Target Price:  
\$316  
Upside: 29%

AI Industry Momentum

Increasing Clientele & Strategic Partnerships

Robust Sales Forecast &  
High Revenue Expectations



— SMCI: Daily Adj. Closing Price







# Show of Hands 🖐



## Who Has Not Heard of AI?



Investment  
Summary

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ESG

Industry  
Analysis

Financial  
Analysis

Valuation

Investment  
Risks



*SuperMicro is a specialist in high-efficiency server and storage systems serving diverse sectors....*

## Product Examples



8U SuperBlade®



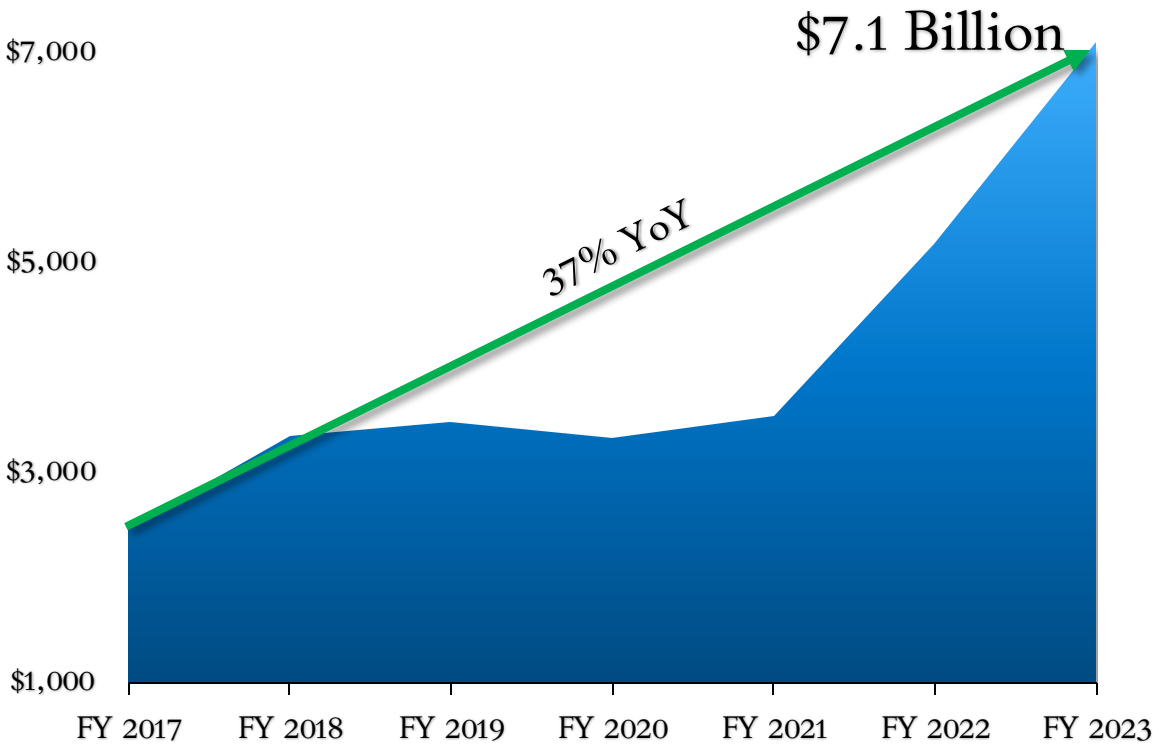
SSG-620P  
SuperStorage  
Rackmount®



Rackmount Tower &  
Workstation®

*...including enterprise data centers, cloud computing, AI, 5G, and edge computing.*

## Net Income Performance



Source: SuperMicro 10-K

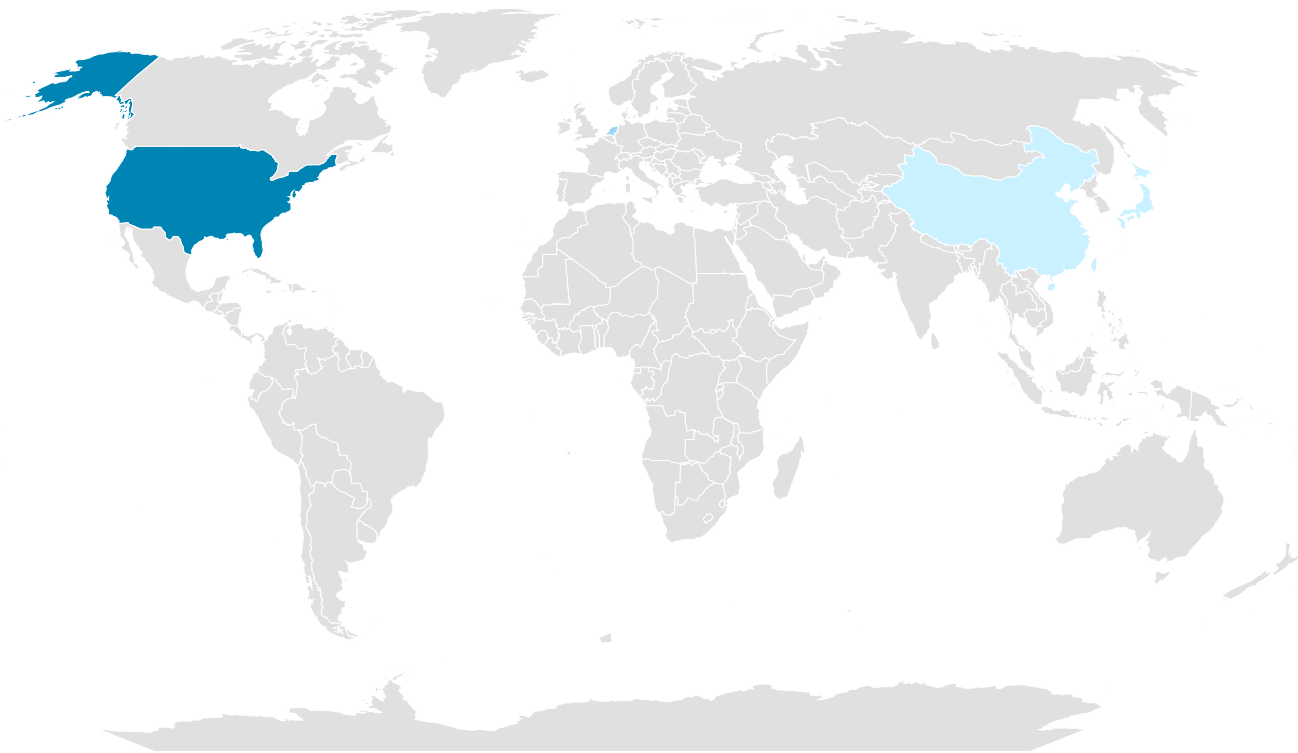
Source: SuperMicro's Company Website





*~58% of their revenue comes from the U.S and the remaining ~42% concentrated in Asia and The Netherlands.*

*Geographic Revenue Breakdown*



Source: Bloomberg

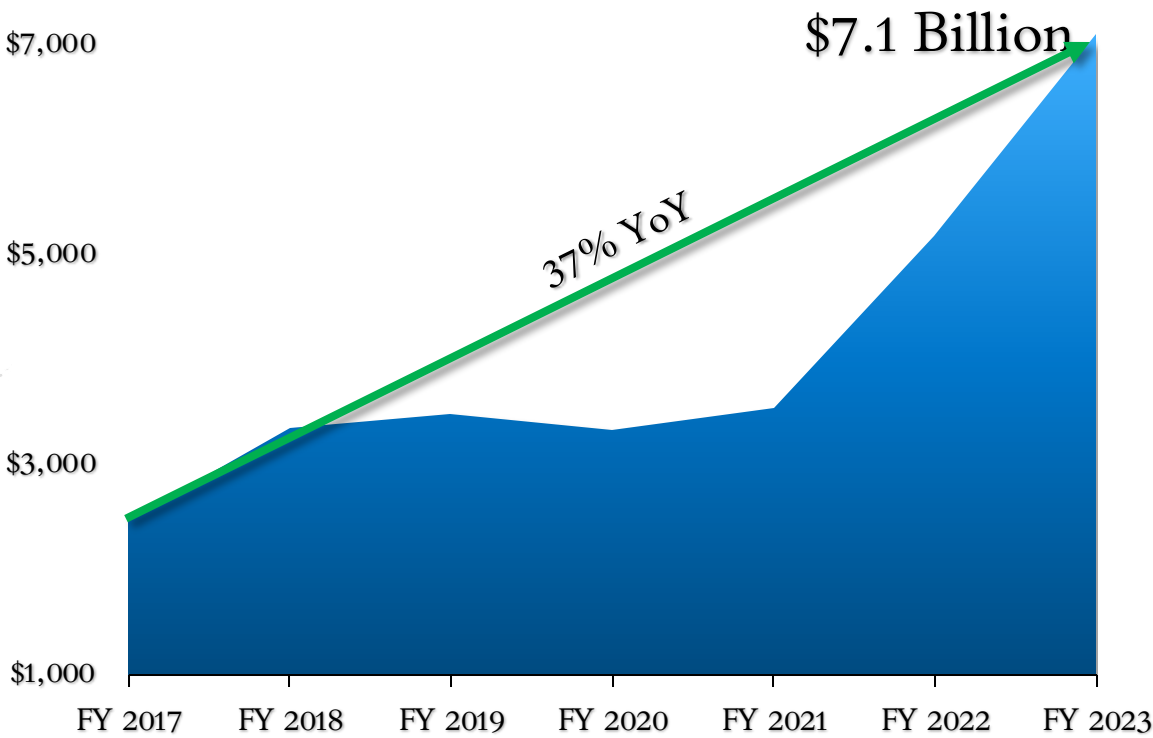


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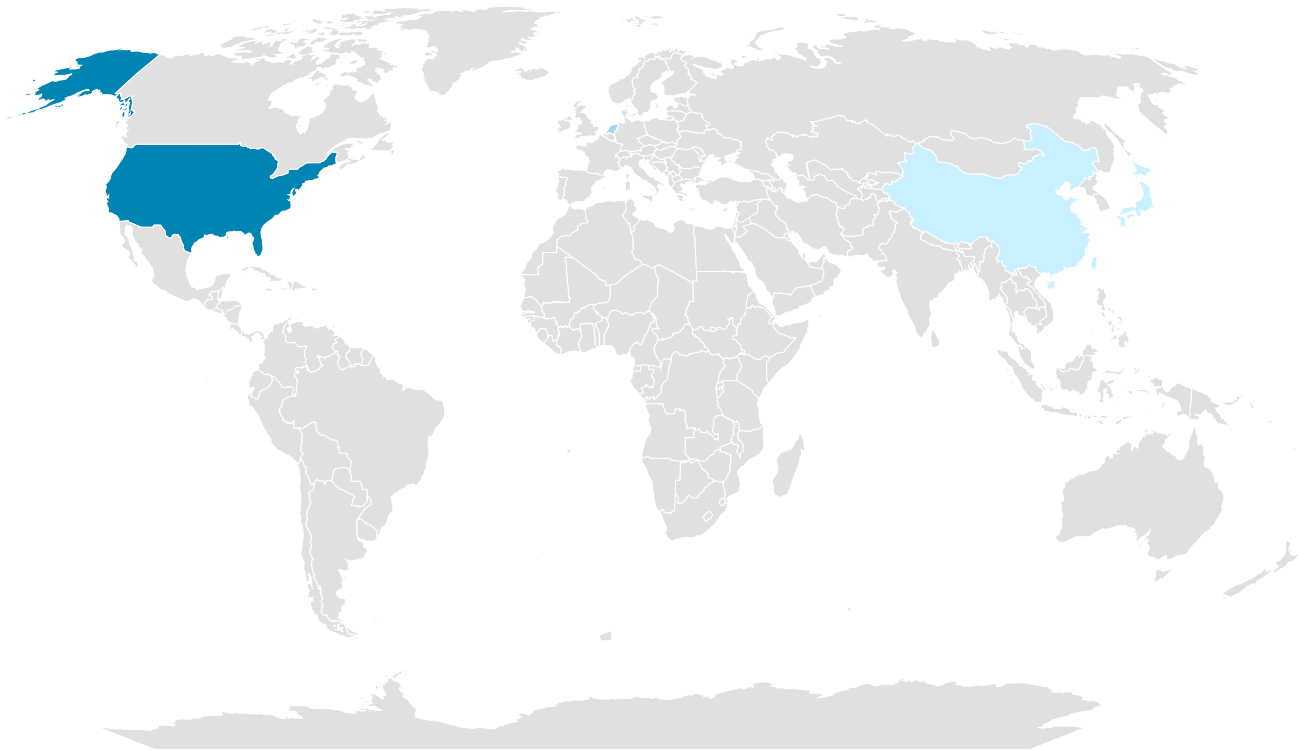
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## Geographic Revenue Breakdown



Source: Bloomberg



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*Direct sales cater to the big players, while collaborations with partners, ranging from distributors to resellers, ensure market coverage.*

## Direct Strategy



Source: Various SMCI Earnings Call Transcripts

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*Solar Panel-Powered  
Taiwan Campus*



*48% Emissions  
Reduction since 2021*



*~\$10B in Energy Savings*



*~8 Billion Trees Saved*

Source: SuperMicro's ESG Fact Sheet

All icons are AI-generated



ESG

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*Over 60% Employee Access to Restricted Stock*



*“Targeted Recruitment” - Veterans &  
Underrepresented Ethnicities*

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*Charles Liang*  
CEO & Founder

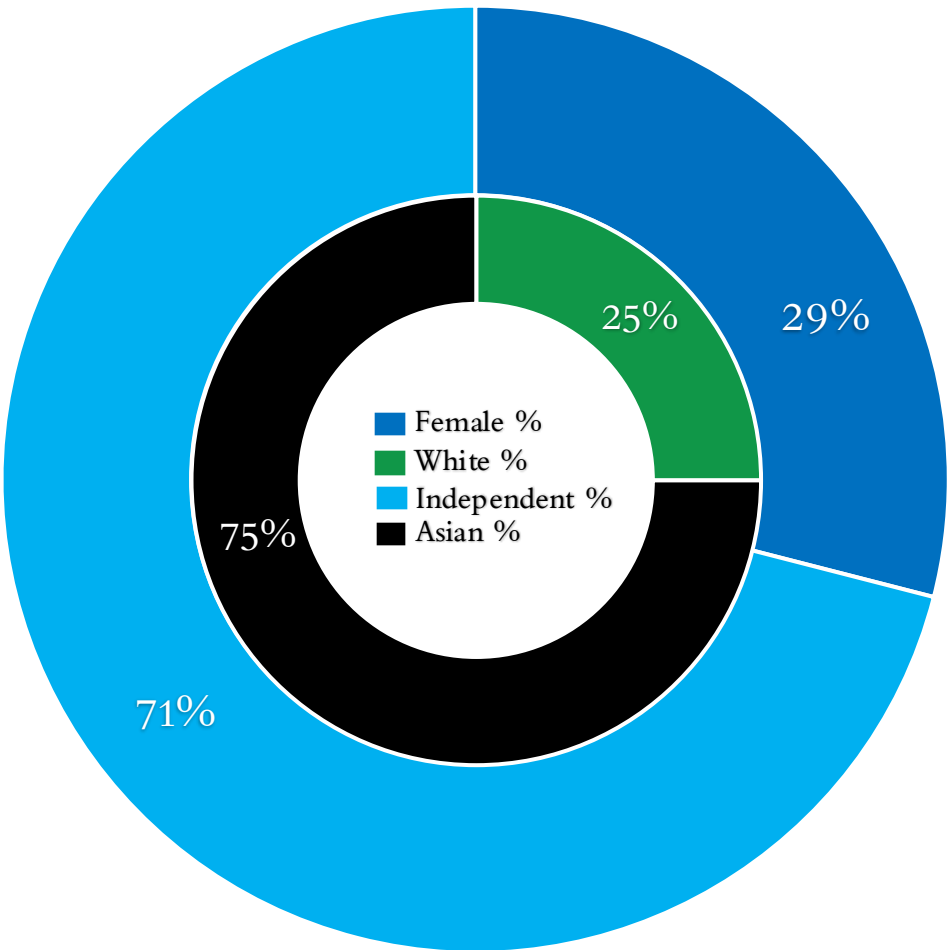


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Co-Founder & Vice President

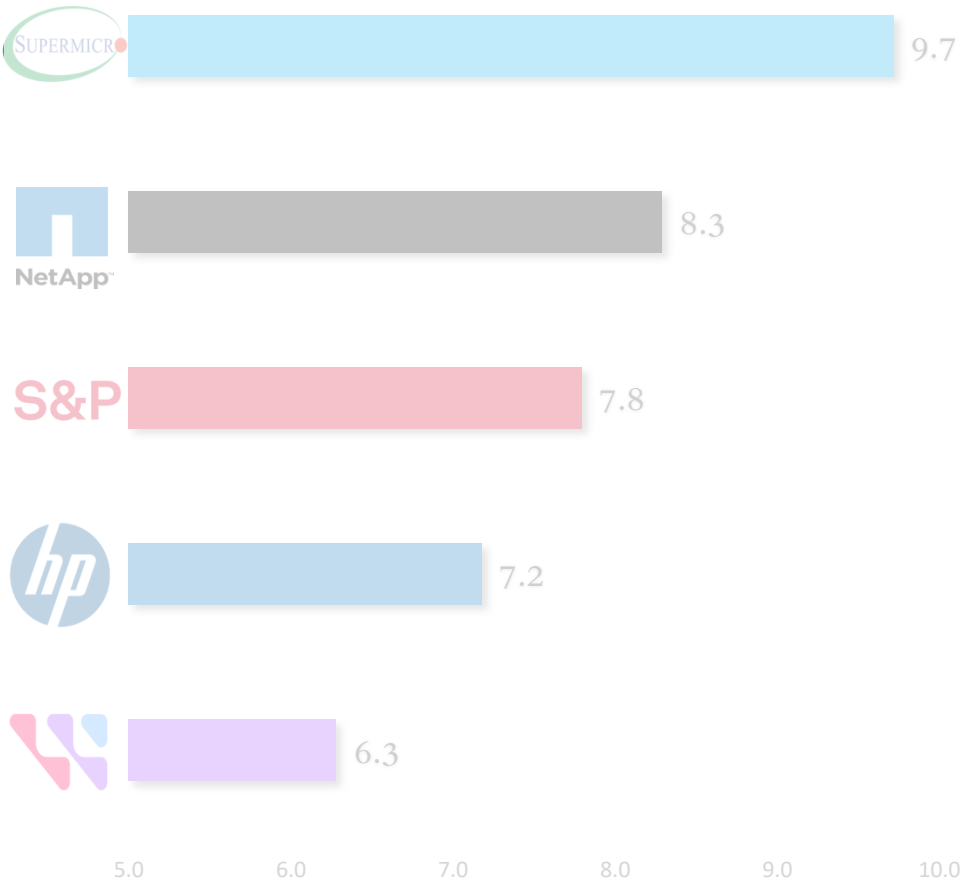


*David Weigand*  
CFO

## Board of Directors Governance



## Average Board of Directors Tenor



Source: Bloomberg

Source: SuperMicro's Company Website



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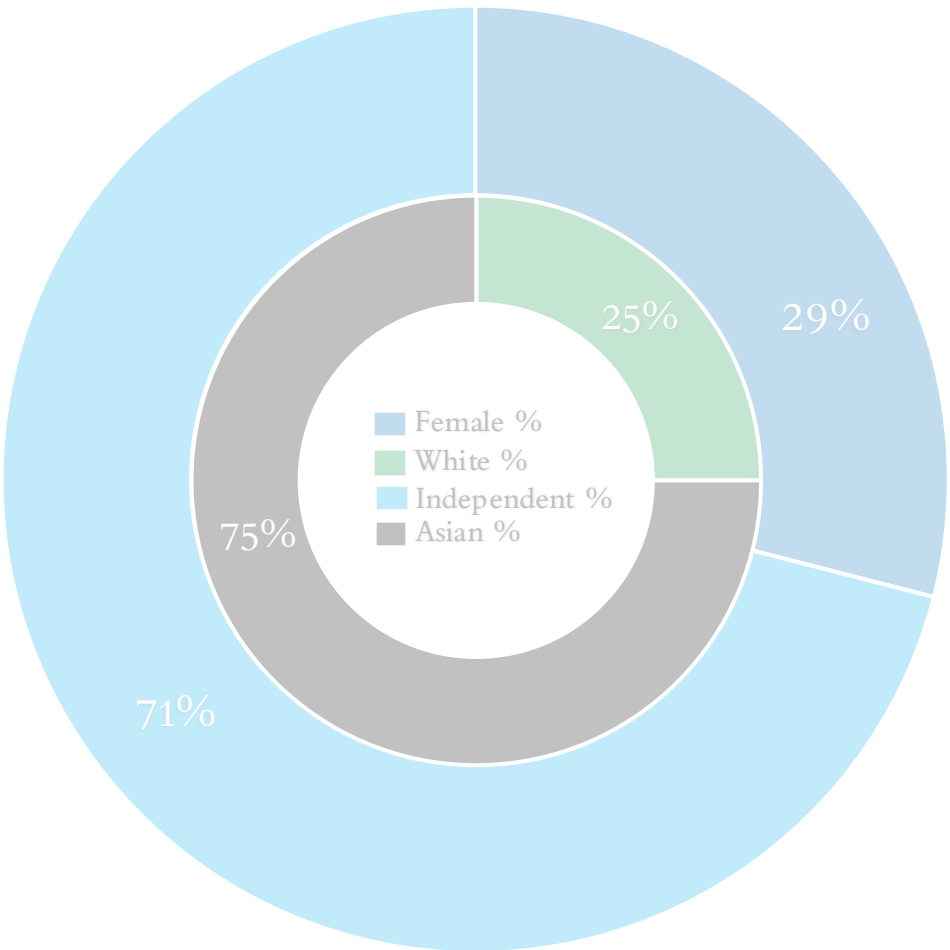


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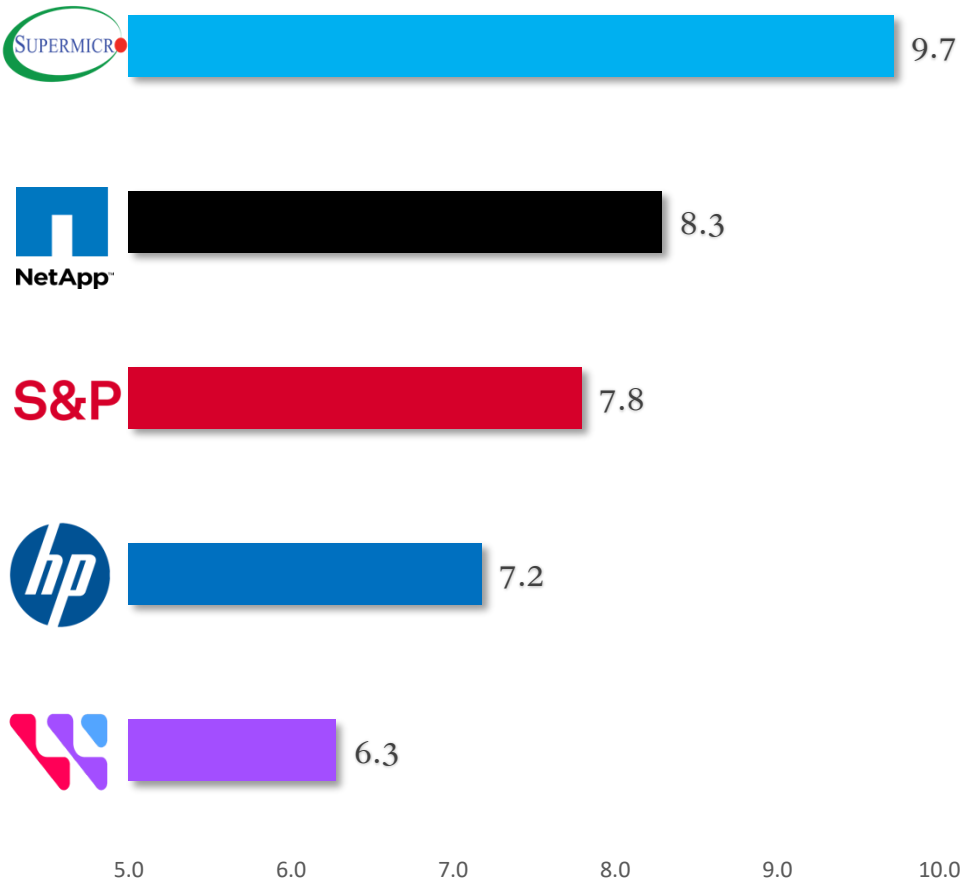


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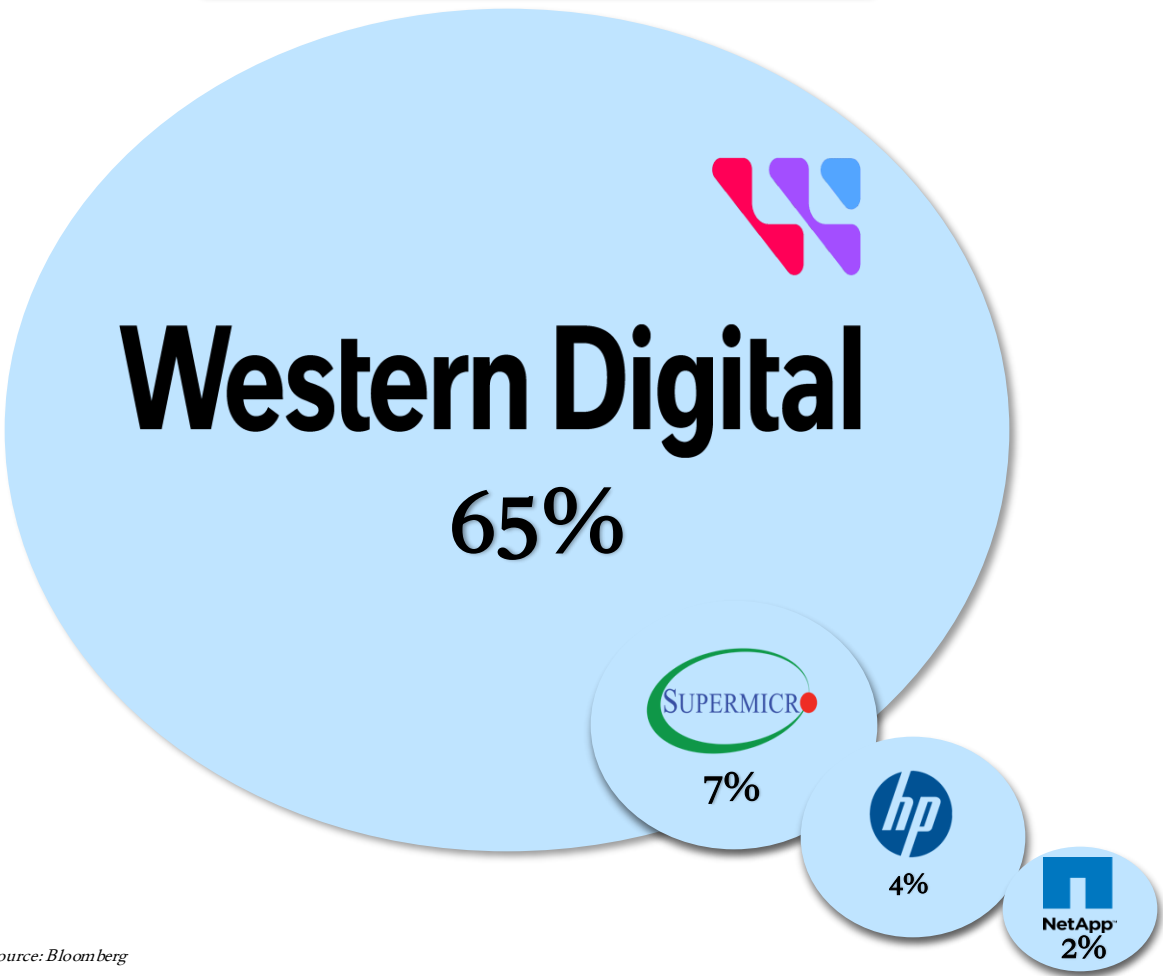




# Competitive Positioning

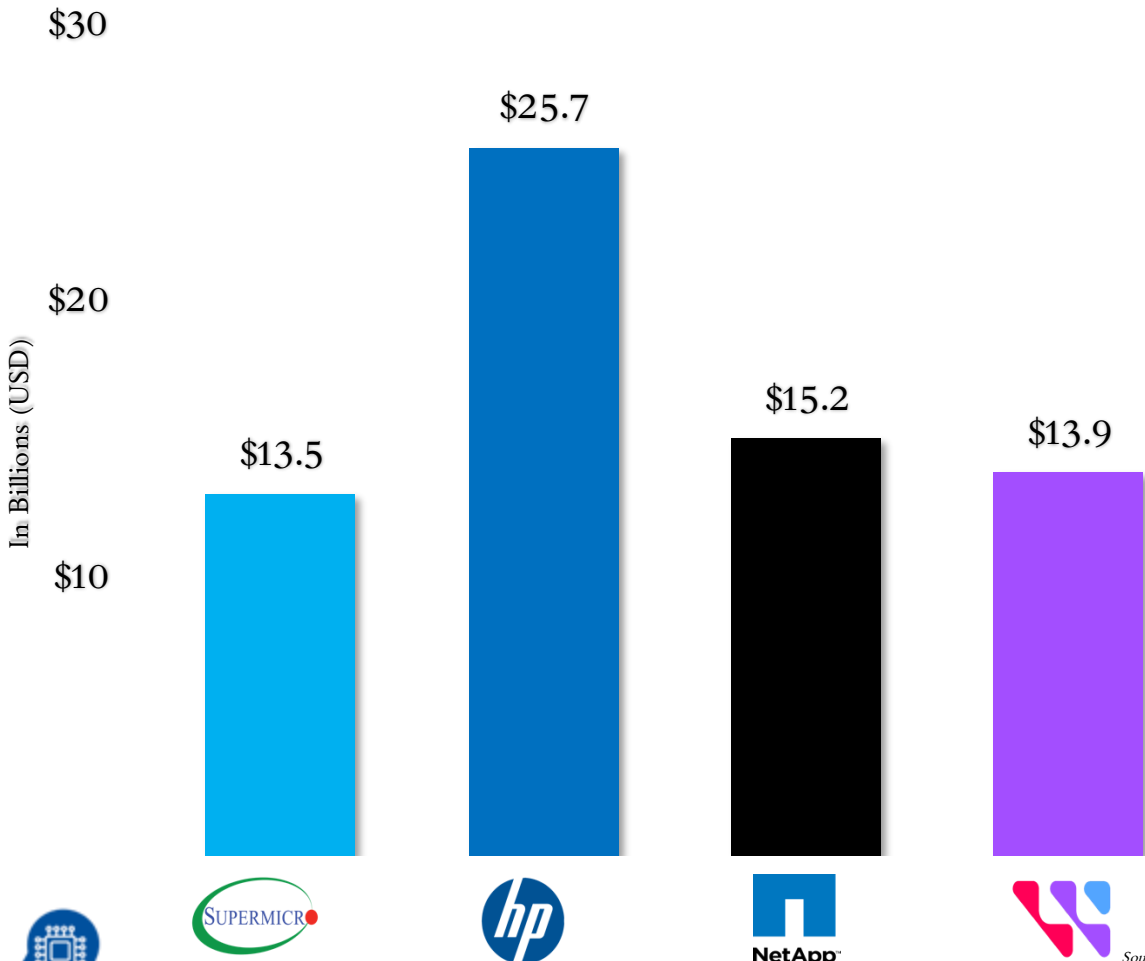
*SuperMicro recently announced support of next-generation 5th Gen Intel Xeon Processors...*

SuperMicro vs Peers: Market Share



*...and their new processors will integrate into existing X13 servers, implying no added costs for software redesign.*

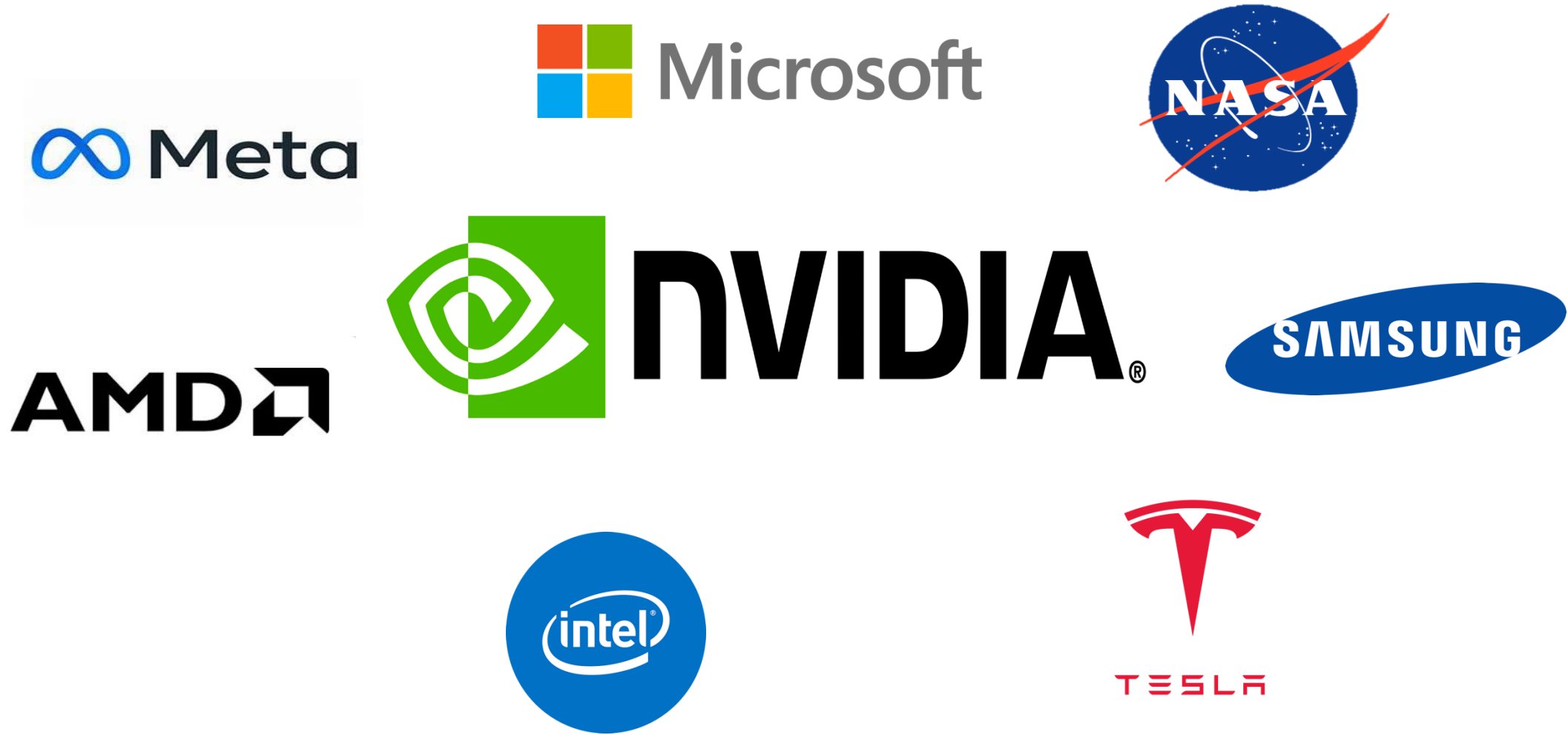
SuperMicro vs Peers: Market Cap







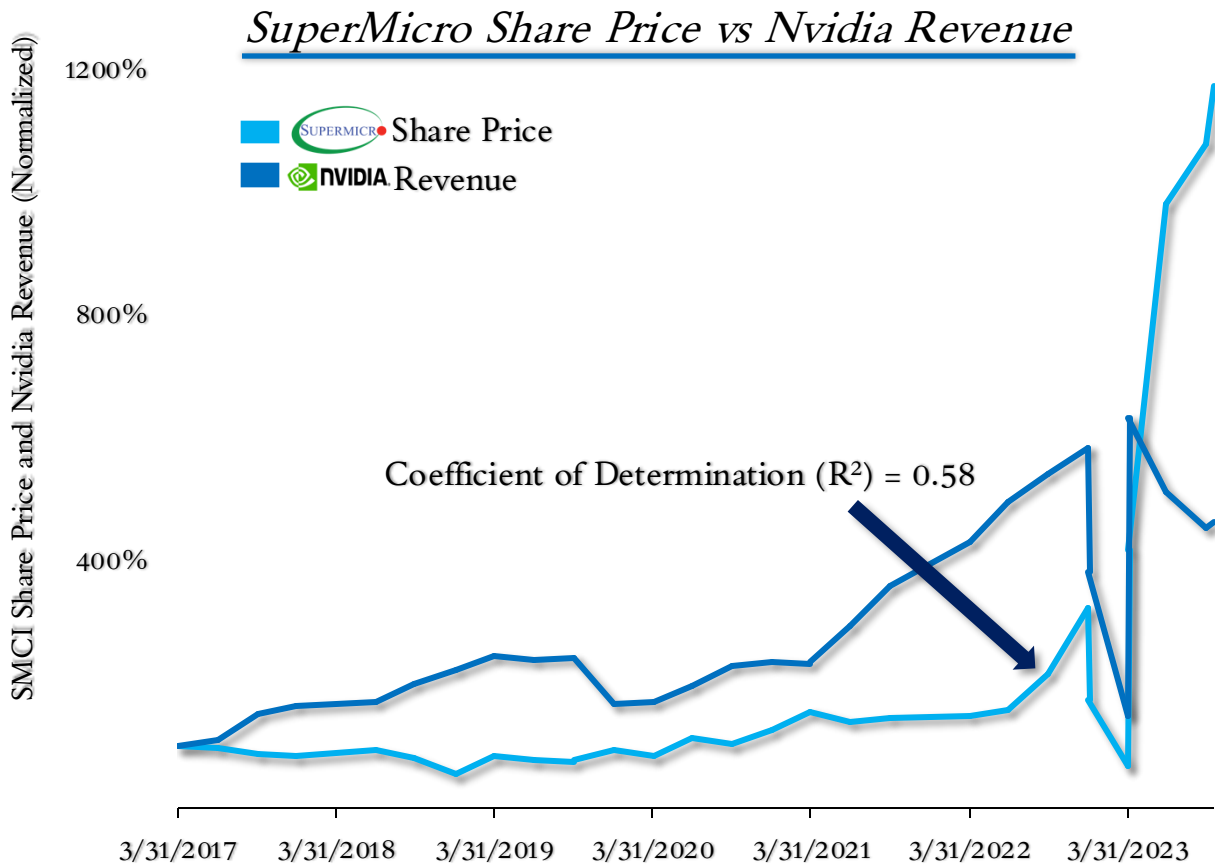
## Notable Partners of SuperMicro You May Have Heard Of



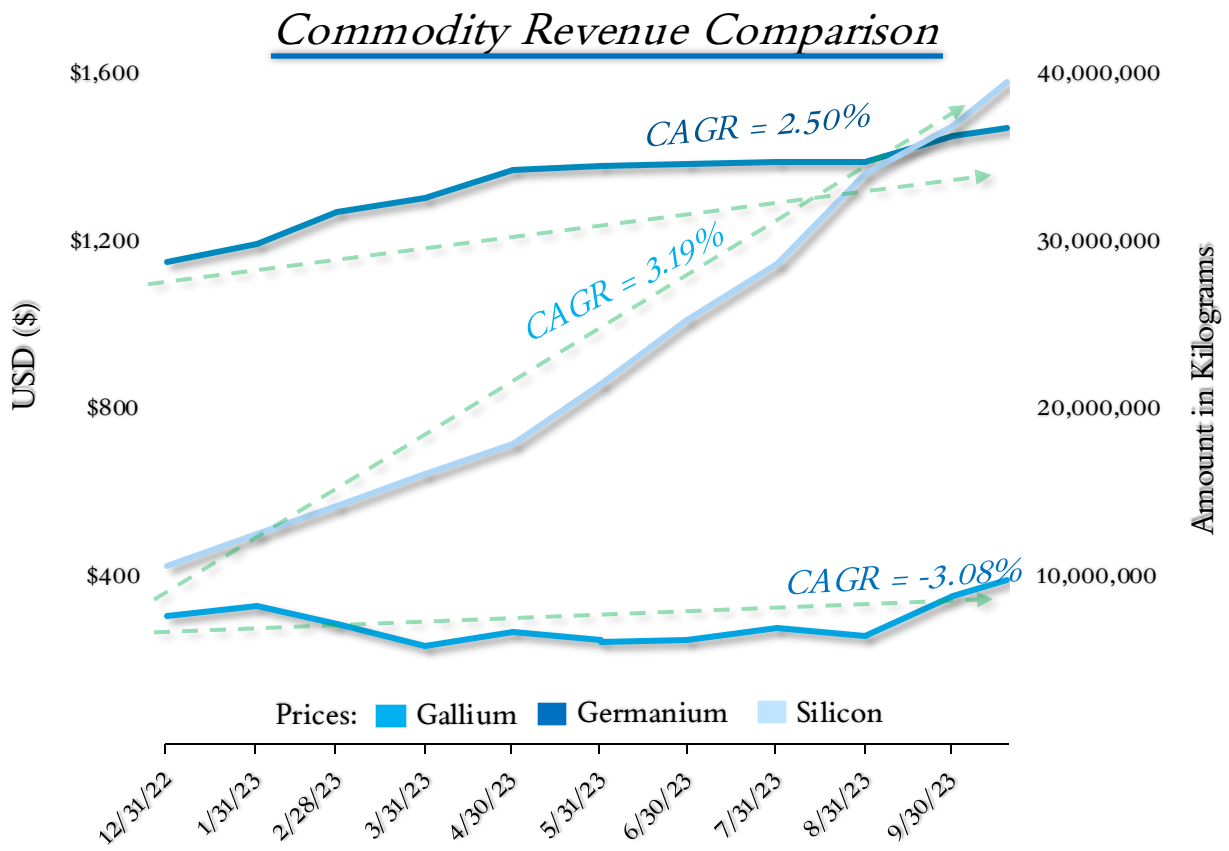


# External Impacts

*SuperMicro's strategic partnership with Nvidia accounts for 3% of Nvidia's revenue and 18.06% of COGS for SuperMicro...*



*...and commodities to create semiconductors are often supplied by China.*



Source: Research Calculations

Source: Bloomberg

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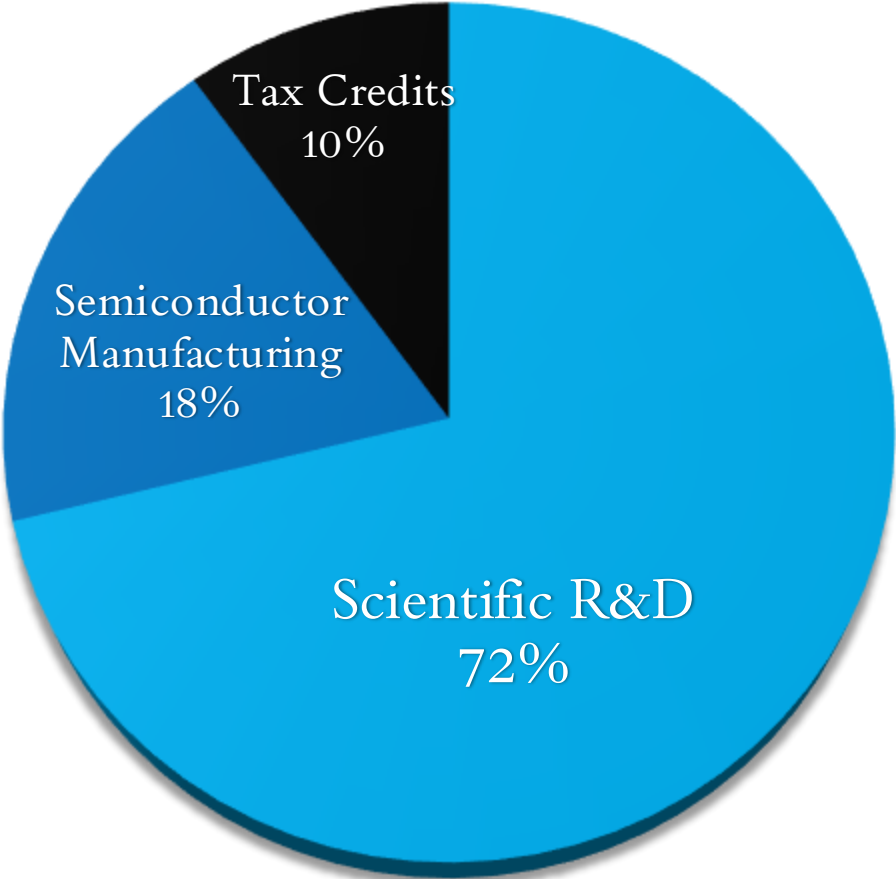
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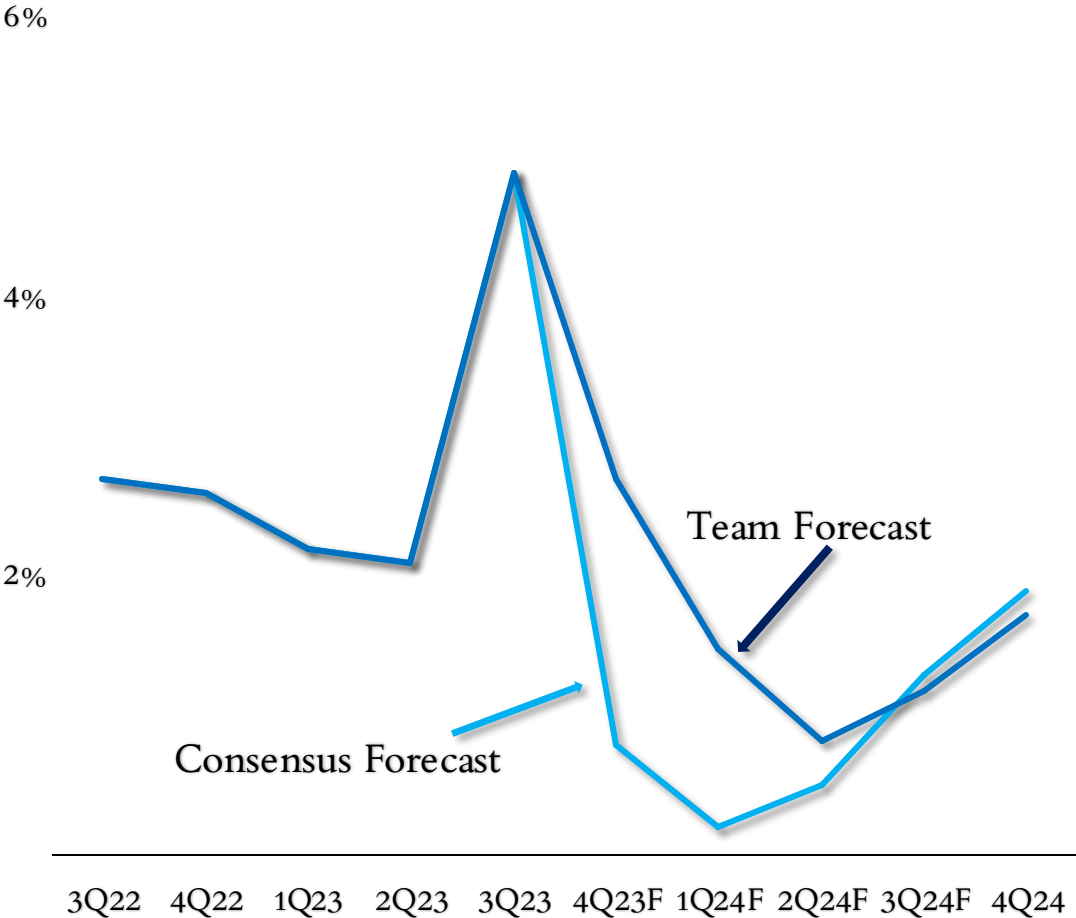


*Chips Act 2022 Breakdown*



Source: SuperMicro 10k

*GDP Performance & Forecast*



Source: Research Calculations

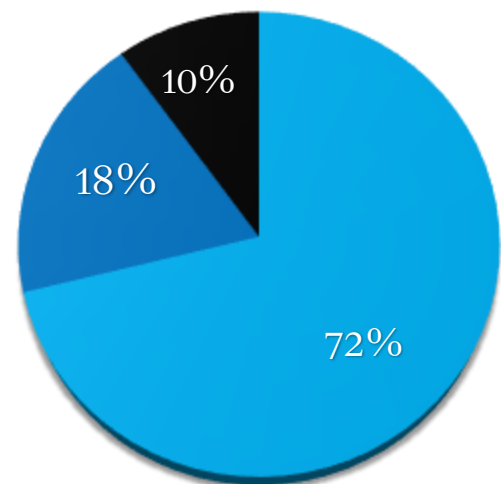






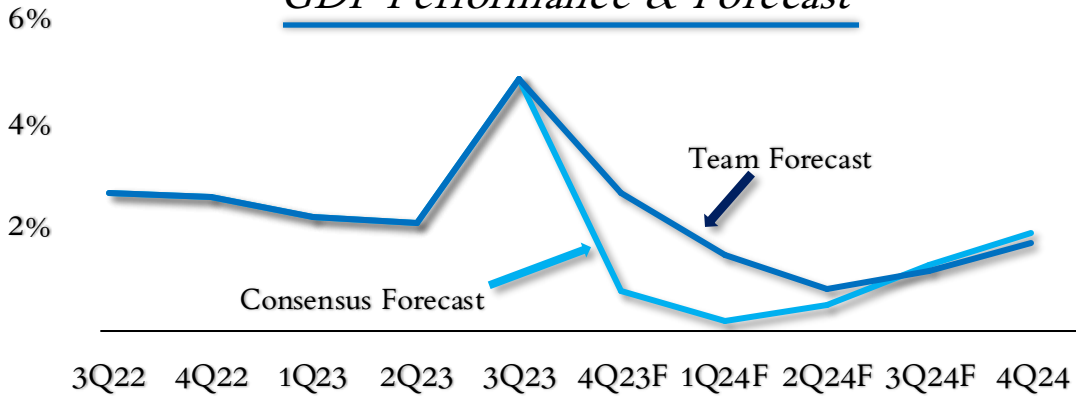
# Macroeconomic Breakdown

Chips Act 2022 Breakdown



Source: SuperMicro 10k

GDP Performance & Forecast



Source: Research Calculations

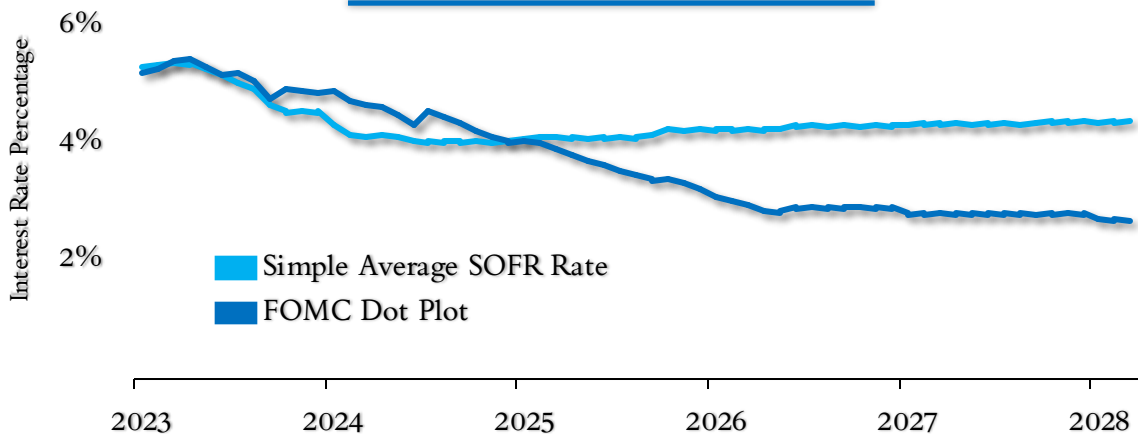
Economic Impact

- The CHIPS Act introduced \$280 billion in funding and research to the semiconductor industry
- The CHIPS Act will help to create more jobs within the industry and provide tax credits and outlays to companies
- Despite forecasted downturn, we remain more optimistic than consensus estimates
- B2B business so consumer spending habits & lowered sentiment are not a concern
- Expecting interest rates to decline starting in June 2024





## Forward Curve Analysis



Source: Bloomberg

## Fed Funds Rate Probability

DATE	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600
5/1/24						6.8%	38.6%	42.9%	10.9%	0.7%
6/12/24					3.7%	24.2%	41.0%	25.5%	5.4%	0.3%
7/31/24				2.3%	16.4%	34.6%	31.3%	13.0%	2.2%	0.1%
9/18/24			1.5%	11.3%	28.0%	32.5%	19.6%	6.1%	0.9%	
11/7/24		0.8%	6.7%	20.2%	30.4%	25.7%	12.5%	3.3%	0.4%	
12/18/24	0.5%	4.5%	15.1%	26.5%	27.5%	17.5%	6.8%	1.5%		

Source: CME FedWatch Tool – As of 11/01/2023

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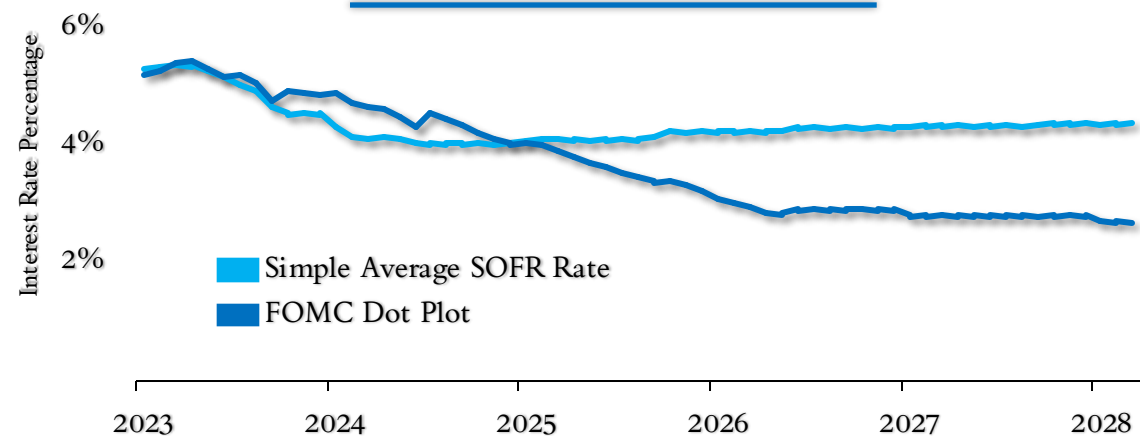
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## Producer Price Index by Semiconductor Industry



Source: Bloomberg

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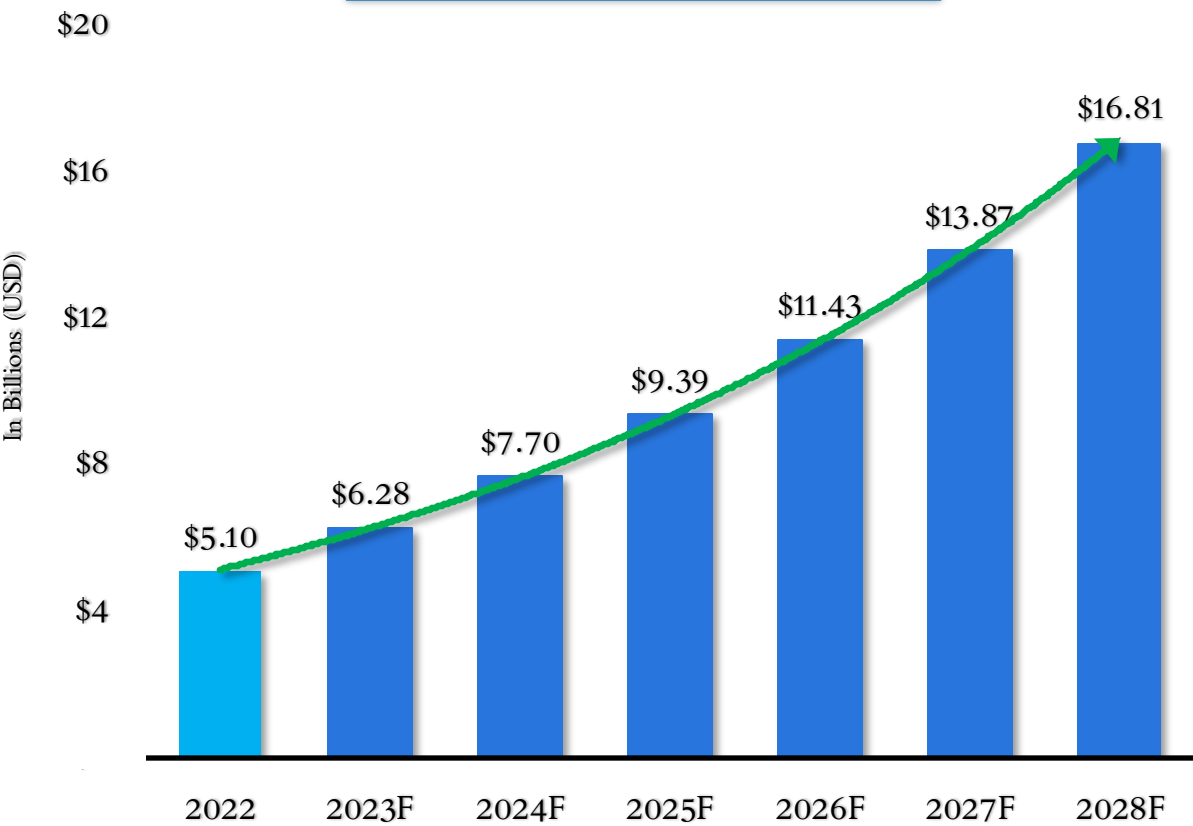


# AI Momentum



The AI industry is expected to grow twentyfold by 2030, up to nearly \$2 trillion U.S. dollars...

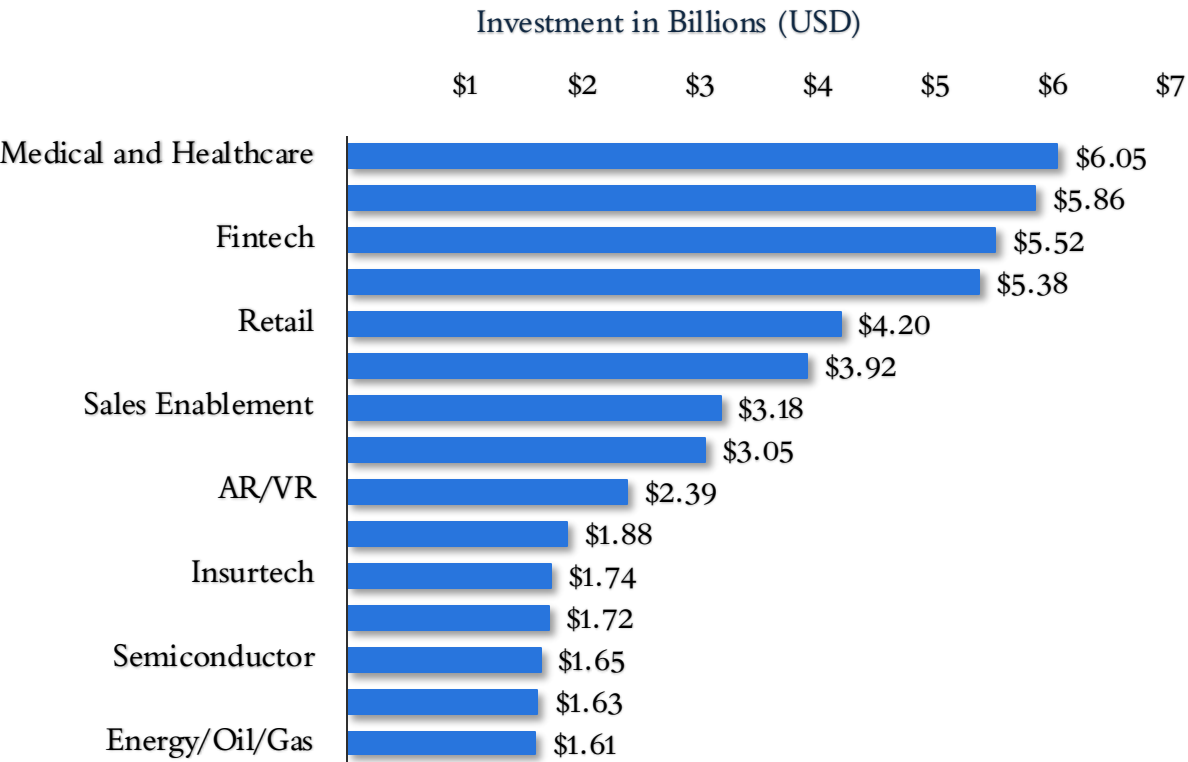
Global AI Market Forecast



Source: Next Move Strategy Consulting

...and the largest private investment in artificial intelligence (AI) companies was in the medical and healthcare field.

AI Private Investment by Industry



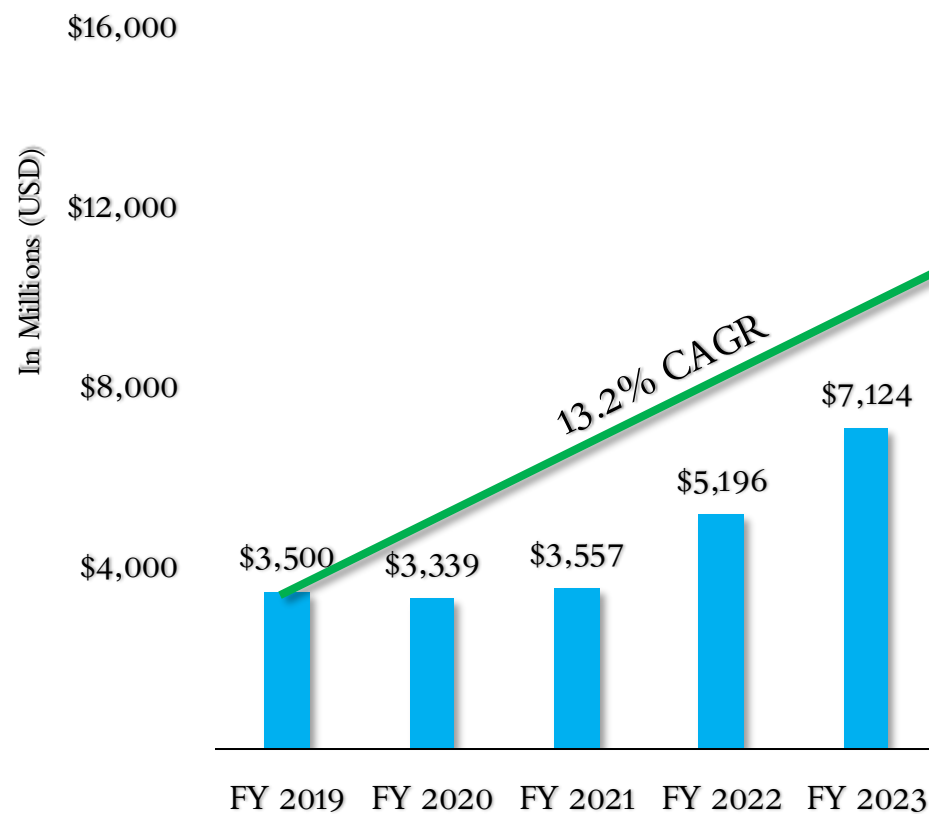
Source: Statista

# Financial Analysis



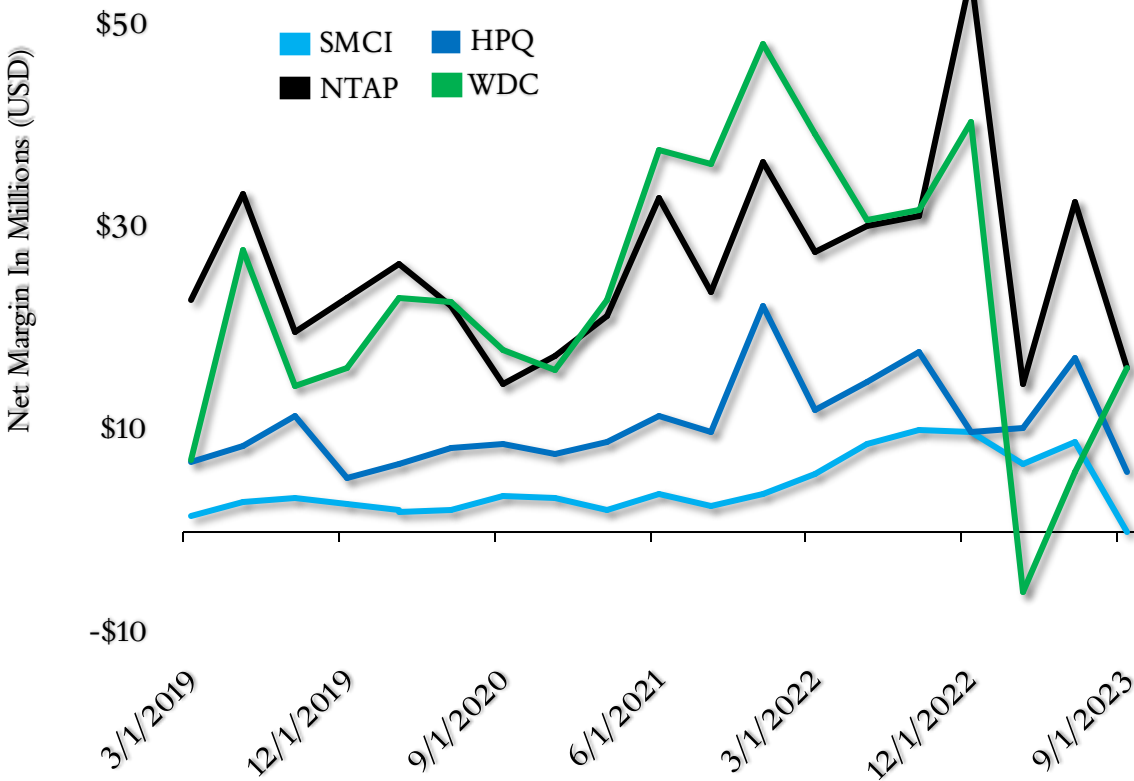
*We expect robust revenue growth over the next two years that are high-achieving and in-line with estimates...*

*SuperMicro Revenue Forecast*



*...and despite a lower net margin at 9% vs peers, this indicates growth investment into AI and their 5G wireless business.*

*Margin Performance vs Peers*



Source: Research Calculations

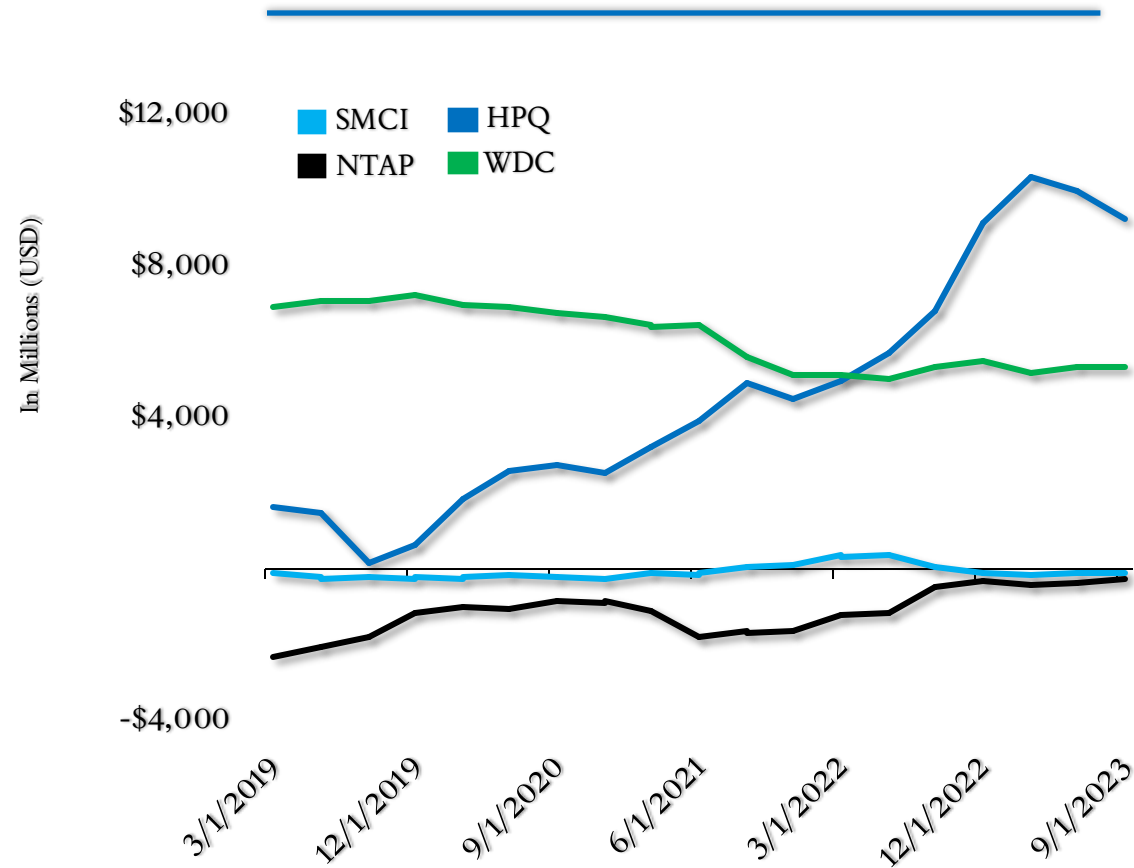
Source: Bloomberg

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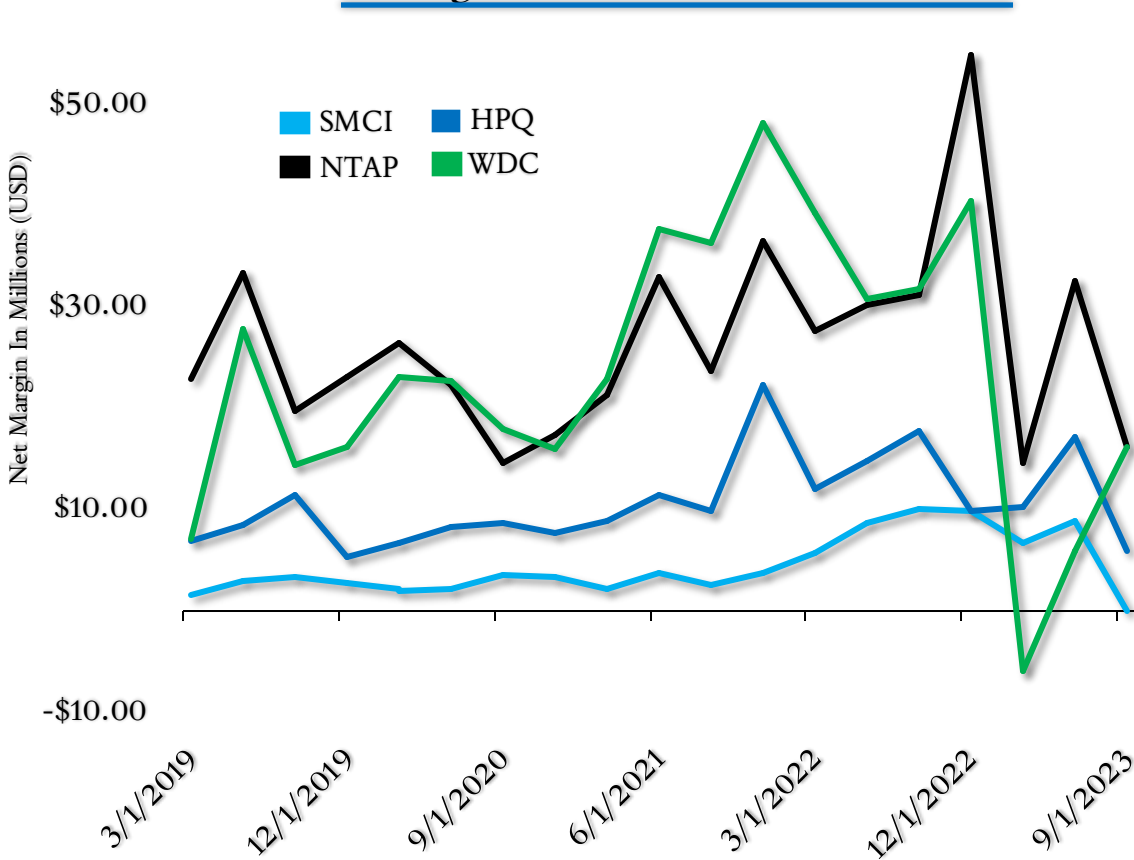
*The company's negative net debt suggests a significant financial cushion, with more cash reserves than total debt....*

*Net Debt vs Peers*



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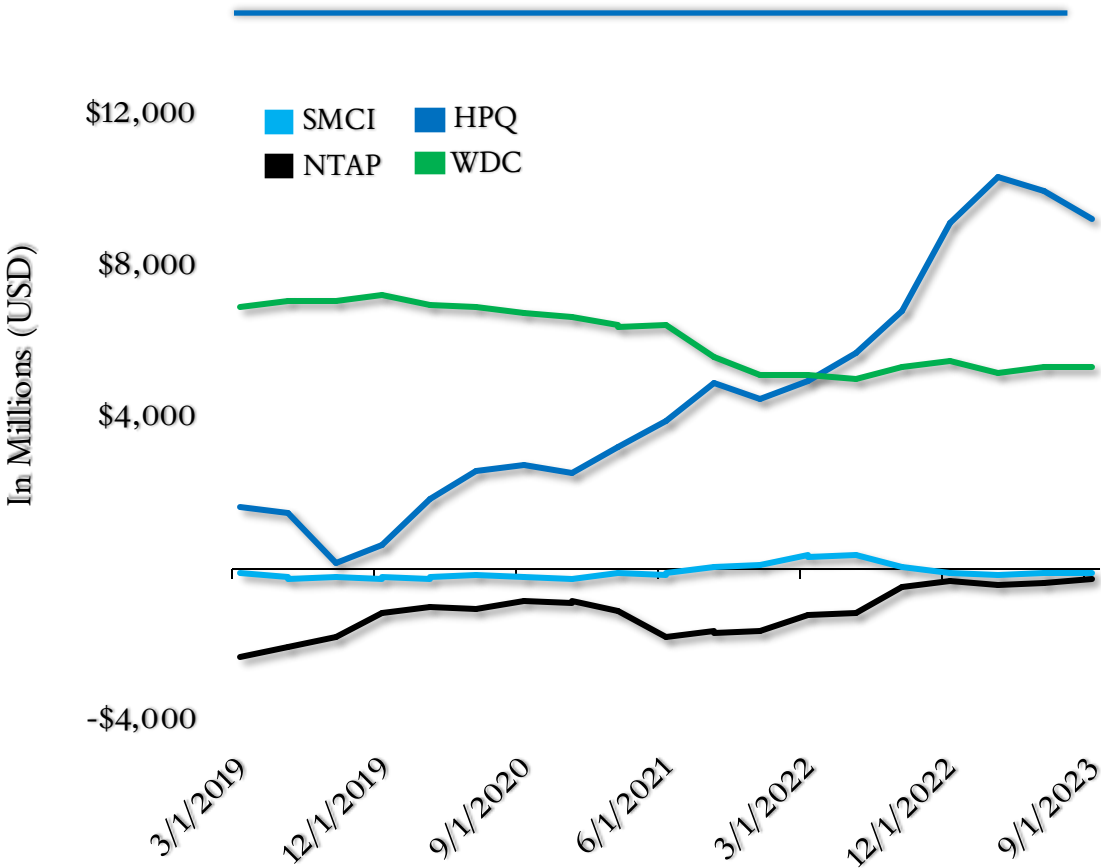


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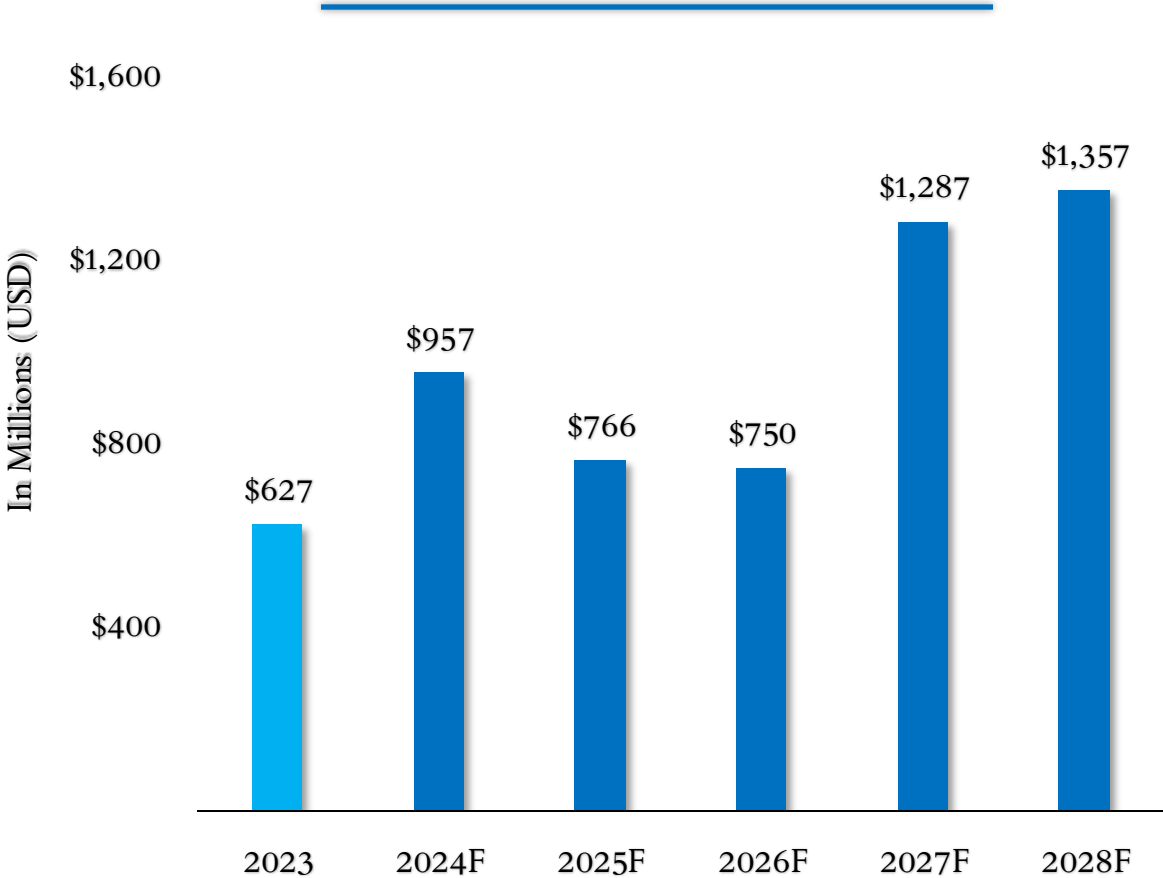
*The company's negative net debt suggests a significant financial cushion, with more cash reserves than total debt....*

Net Debt vs Peers



*...and AI-driven solutions are optimizing operations, reducing costs, and increasing free cash flow drastically.*

Cash Flow Forecast



Source: Research Calculations

Source: Bloomberg



# Valuation – Discounted Cash Flow Model

## DCF Price Model Inputs

Cost of Debt <b>5.8%</b>	Cost of Equity <b>9.3%</b>	WACC <b>10.5%</b>	Terminal Growth <b>2.5%</b>	EBITDA Exit Multiple <b>16.4x</b>
-----------------------------	-------------------------------	----------------------	--------------------------------	--------------------------------------

Perpetuity Price Target: **\$327**  
**33% Upside**

Exit Multiple Price Target: **\$305**  
**24% Upside**

### Terminal Growth Rate

	<b>\$327.04</b>	2.00%	2.25%	2.50%	2.75%	3.00%
WACC	9.50%	\$353.91	\$362.90	\$372.53	\$382.87	\$394.01
	10.00%	\$332.27	\$340.01	\$348.27	\$357.09	\$366.55
	10.50%	\$313.18	\$319.90	<b>\$327.04</b>	\$334.64	\$342.75
	11.00%	\$296.21	\$302.08	\$308.31	\$314.91	\$321.92
	11.50%	\$281.02	\$286.19	\$291.65	\$297.43	\$303.54

### EBITDA Exit Multiple

	<b>\$304.52</b>	15.4X	15.9X	16.4X	16.9X	17.4X
WACC	9.50%	\$303.77	\$310.03	\$316.28	\$322.54	\$328.79
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	10.50%	\$292.56	\$298.54	<b>\$304.52</b>	\$310.49	\$316.47
	11.00%	\$287.17	\$293.01	\$298.86	\$304.70	\$310.55
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Source: Research Calculations



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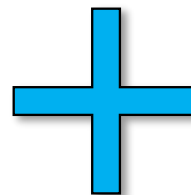
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Perpetual Growth Method  
**38% Upside**

Exit Multiple Method  
**28% Upside**

50%  
Weighting  
(\$327)



50%  
Weighting  
(\$305)

Source: Research Calculations





## DCF Price Model Inputs

Cost of Debt <b>5.8%</b>	Cost of Equity <b>9.3%</b>	WACC <b>10.5%</b>	Terminal Growth <b>2.5%</b>	EBITDA Exit Multiple <b>16.4x</b>
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Perpetual Growth Method  
**38% Upside**

Exit Multiple Method  
**28% Upside**

50%  
Weighting  
(\$327)

Final Price Target: **\$316**  
**29% Upside**

50%  
Weighting  
(\$305)

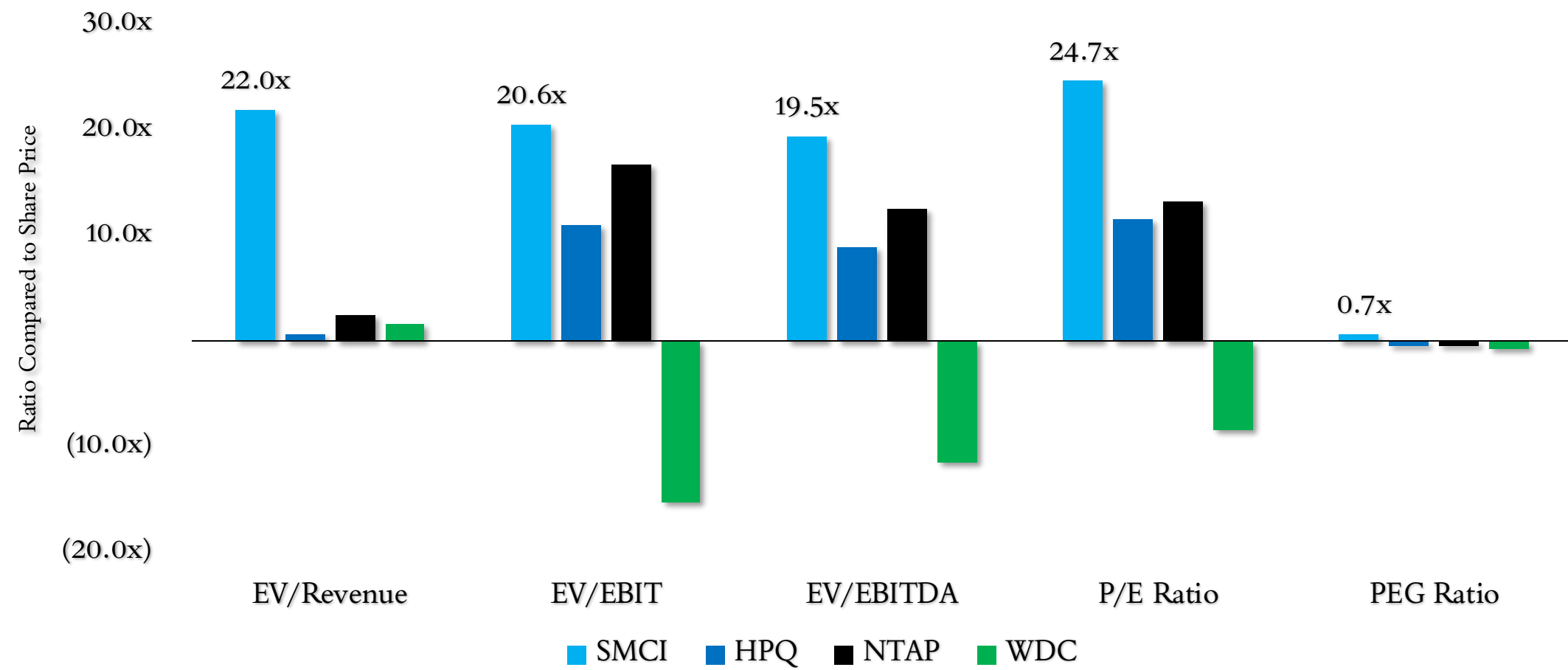
Source: Research Calculations







## Multiples Comparison

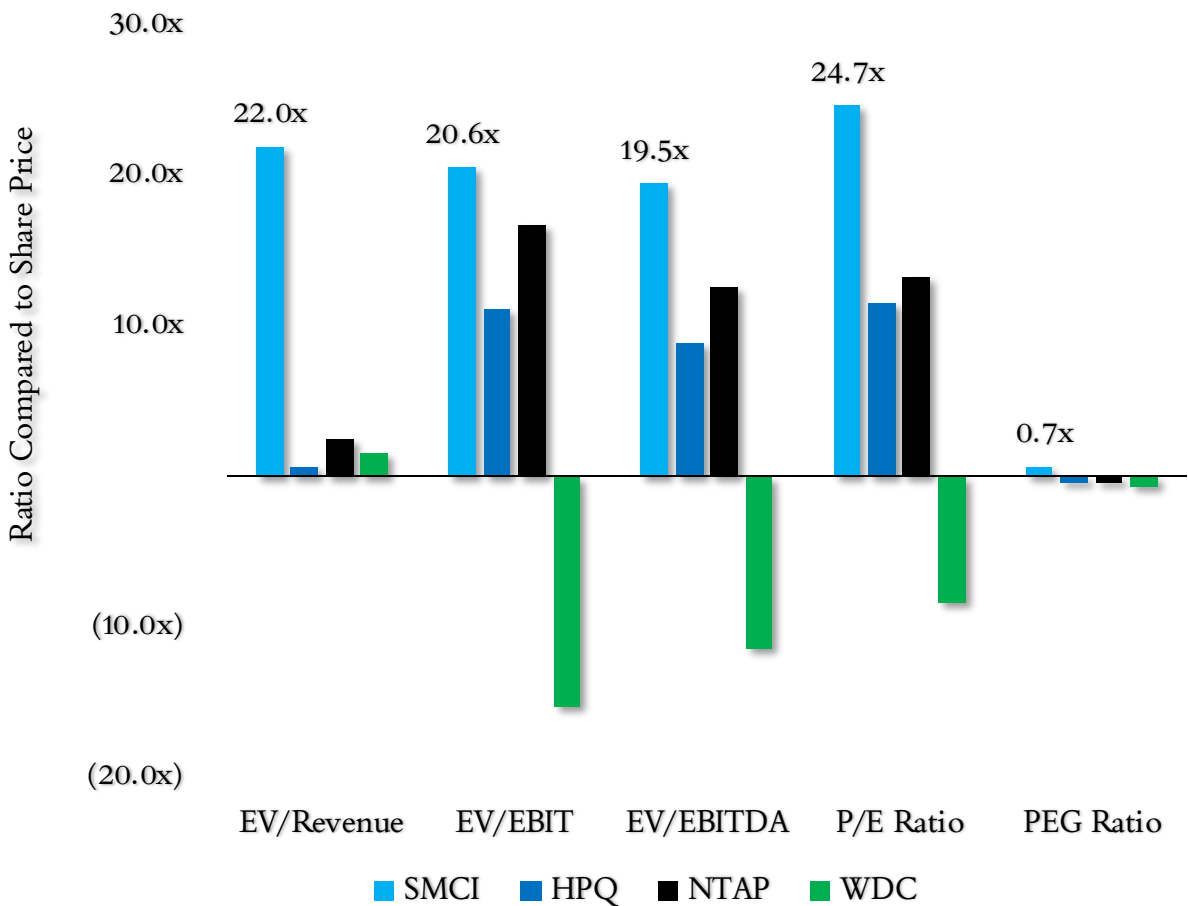


Source: Research Calculations





## Multiples Comparison



## What These Numbers Signify

- SuperMicro's valuation metrics show promising growth potential compared to peers
- Its elevated EV metrics are higher than HP, NetApp, and Western Digital Corp
- Expected EPS growth for Supermicro is 35.9%, surpassing even Western Digital Corp's projections
- Despite raw multiple comparisons, SuperMicro's equity is attractively valued on a growth-adjusted basis

Source: Research Calculations





Final Price Target: \$316  
29% Upside





\$327



\$400



\$375



\$300



\$316

Source: Research Calculations



Investment  
Summary

Business  
Description

ESG

Industry  
Analysis

Financial  
Analysis

Valuation

Investment  
Risks



# Getting AI's Opinion



ChatGPT

chatopenai.com

GPT-3.5

GPT-4

AI

AI

AI

ChatGPT PLUS

Plan a trip

to explore the rock formations in Cappadocia, Turkey

Come up with concepts

for a retro-style arcade game

Show me a code snippet

of a website's sticky header

Tell me a fun fact

about the Roman Empire

Send a message

Screen Recorder is sharing your screen.

Stop sharing

Hide

ChatGPT may pro

ember 25 Version

10:48 PM

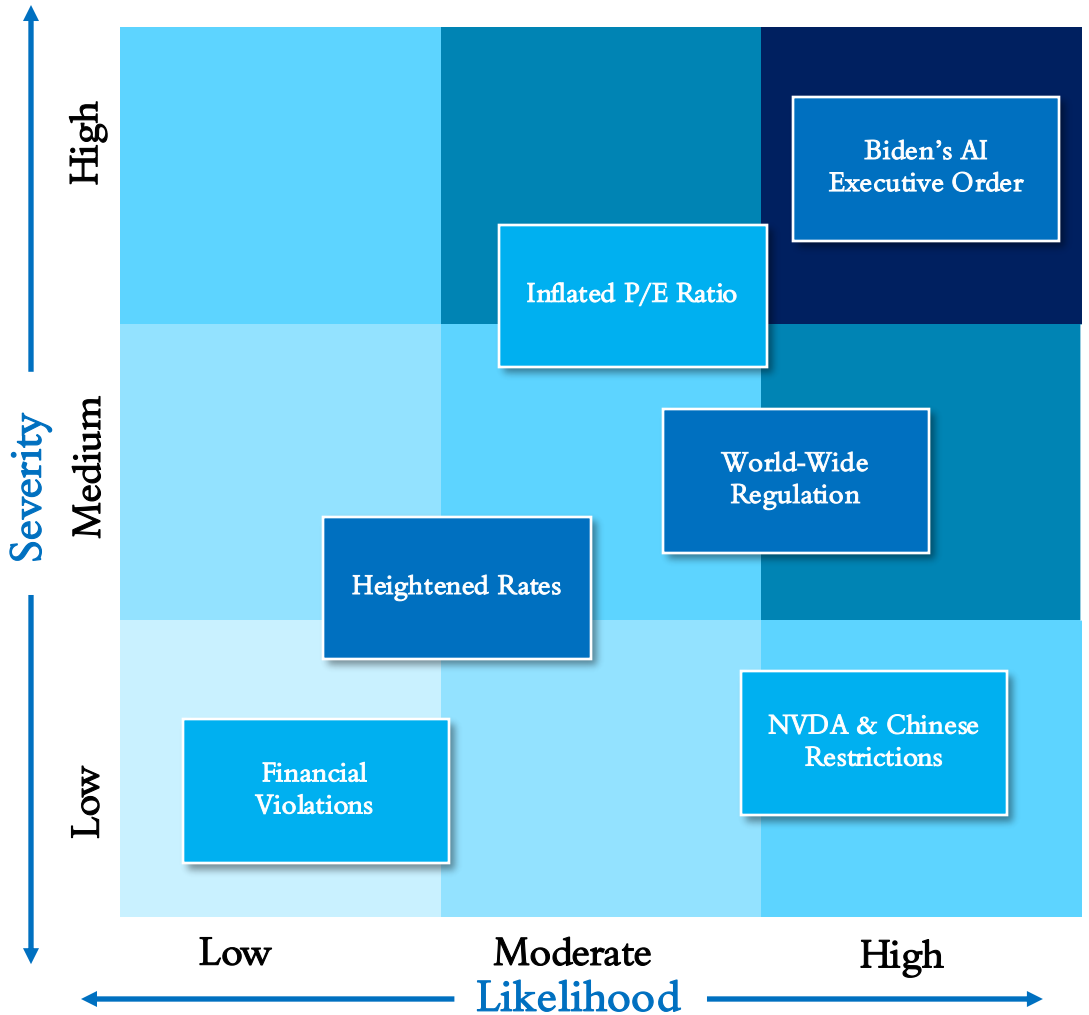
10/30/2023



# Investment Risks

## Macroeconomic

## Idiosyncratic



Source: Market Research

## Primary Risks

### Nvidia & Chinese Restrictions



- U.S. Tightened Restrictions on Exporting AI chips to China
- China Makes up 10%-20% of Nvidia's AI Sales
- Nvidia Sells A100 & H100 chips to China
  - SuperMicro **Only** Collaborates with Nvidia for their A800 & H800 chips

### Financial Violations



- 2006: Economic Sanction Violation (\$179,327)
- 2020: Accounting Fraud or Deficiencies (\$17,500,000)

### Biden's AI Executive Order



- Promotes Innovation and Competition
- Creates New Safety and Security Standards for AI
- Protects Consumers Overall

All icons are AI-generated

Investment Summary

Business Description

ESG

Industry Analysis

Financial Analysis

Valuation



Investment Risks



RECOMMENDATION:

Buy

Target Price:  
\$316  
Upside: 29%

AI Industry Momentum

Increasing Clientele & Strategic Partnerships

Robust Sales Forecast &  
High Revenue Expectations



— SMCI: Daily Adj. Closing Price



Any Questions?





# Any Questions?

