

# THIRD QUARTER FY23 SGH FINANCIAL RESULTS

JUNE 29, 2023



# Disclaimer

This presentation and the oral communications made during the course of this presentation contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, statements concerning or regarding future events and SGH's future financial and operating performance; statements regarding the extent and timing of and expectations regarding SGH's future revenues and expenses and customer demand; statements regarding SGH's business strategies, investments and growth drivers in SGH's industries and markets, and statements regarding the business and financial outlook for the next fiscal quarter. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "anticipate," "target," "expect," "estimate," "intend," "plan," "goal," "believe," "could" and other words of similar meaning. Forward-looking statements provide SGH's current expectations or forecasts of future events, circumstances, results or aspirations and are subject to a number of significant risks, uncertainties and other factors, many of which are outside of SGH's control, including but not limited to, issues, delays or complications in integrating the operations of Stratus Technologies; global business and economic conditions and growth trends in technology industries, SGH's customer markets and various geographic regions; uncertainties in the geopolitical environment; the rapidly evolving nature of the COVID-19 pandemic; disruptions in SGH's operations or supply chain as a result of the COVID-19 pandemic or otherwise; the ability to manage SGH's cost structure, including SGH's success in implementing restructuring or other plans intended to improve SGH's operating efficiency; workforce reductions; uncertainties in the global macro-economic environment; changes in demand for SGH's segments; changes in trade regulations or adverse developments in international trade relations and agreements; changes in currency exchange rates; availability of our cash and cash equivalents; overall information technology spending; appropriations for government spending; the success of SGH's strategic initiatives including additional investments in new products and additional capacity; acquisitions of companies or technologies, the failure to successfully integrate and operate them or customers' negative reactions to them, including any resulting impairment of goodwill or gain (loss) on extinguishment of debt; limitations on, or changes in the availability of, supply of materials and components; fluctuations in material costs; the temporary or volatile nature of pricing trends in memory or elsewhere; deterioration in customer relationships; production or manufacturing difficulties; competitive factors; technological changes; future cash flows of the Penguin Edge business; difficulties with, or delays in, the introduction of new products; slowing or contraction of growth in the memory market in Brazil or in the LED market; reduction in, or termination of, incentives for local manufacturing in Brazil; changes to applicable tax regimes or rates; prices for the end products of SGH's customers; strikes or labor disputes; deterioration in or loss of relations with any of SGH's limited number of key vendors; the inability to maintain or expand government business; and the continuing availability of borrowings under term loans and revolving lines of credit and SGH's ability to raise capital through debt or equity financings. These and other risks, uncertainties and factors are described in greater detail under the sections titled "Risk Factors," "Critical Accounting Estimates," "Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk" and "Liquidity and Capital Resources" contained in SGH's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q and SGH's other filings with the U.S. Securities and Exchange Commission. In addition, such risks, uncertainties and factors as outlined above and in such filings do not constitute all risks, uncertainties and factors that could cause actual results of our company to be materially different from such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on any forward-looking statements.

Any forward-looking statements that we make in this presentation speak only as of the date of this presentation. Except as required by law, we do not undertake to update the forward-looking statements contained in this presentation to reflect the impact of circumstances or events that may arise after the date that the forward-looking statements were made.

## Statement Regarding Use of Non-GAAP Financial Measures:

SGH management uses non-GAAP measures to supplement SGH's financial results under GAAP. Management uses these measures to analyze its operations and make decisions as to future operational plans and believes that this supplemental non-GAAP information is useful to investors in analyzing and assessing the Company's past and future operating performance. These non-GAAP measures exclude certain items, such as share-based compensation expense, amortization of acquisition-related intangible assets (consisting of amortization of developed technology, customer relationships, trademarks/trade names and backlog acquired in connection with business combinations), acquisition-related inventory adjustments, acquisition-related expenses, restructure charges and integration expenses, impairment of goodwill, changes in the fair value of contingent consideration, (gains) losses from changes in currency exchange rates, amortization of debt discount and other costs, gain (loss) on extinguishment of debt, other infrequent or unusual items and related tax effects and other tax adjustments. While amortization of acquisition-related intangible assets is excluded, the revenues from acquired companies is reflected in SGH's non-GAAP measures and these intangible assets contribute to revenue generation. Management believes the presentation of operating results that exclude certain items provides useful supplemental information to investors and facilitates the analysis of SGH's core operating results and comparison of operating results across reporting periods. Management also uses adjusted EBITDA, which represents GAAP net income (loss), adjusted for net interest expense, income tax expense, depreciation and amortization expense, share-based compensation expense, acquisition-related inventory adjustments, acquisition-related expenses, restructure charges and integration expenses, impairment of goodwill, changes in the fair value of contingent consideration, gain (loss) on extinguishment of debt and other infrequent or unusual items.

Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP, as they exclude important information about SGH's financial results, as noted above. The presentation of these adjusted amounts varies from amounts presented in accordance with GAAP and therefore may not be comparable to amounts reported by other companies. In addition, adjusted EBITDA does not purport to represent cash flow provided by, or used for, operating activities in accordance with GAAP and should not be used as a measure of liquidity. Investors are encouraged to review the "Reconciliation of GAAP to Non-GAAP Measures" in the appendix at the end of this presentation.

SGH's fiscal year is the 52 or 53-week period ending on the last Friday in August.

# SPEAKERS



**Mark Adams**

President and CEO  
SGH



**Ken Rizvi**

SVP and CFO  
SGH

# Q3 FY23 Highlights

- Non-GAAP Gross Margin of 28.0%\*
  - Up 230 bp vs. year-ago quarter
- Non-GAAP EPS of \$0.66\*
  - Q3 FY23 guidance range of \$0.30 - \$0.50
- Revenue of \$383M
  - Above mid-point of guidance range of \$355-\$395M
  - Services ~15% of total SGH revenue, vs. ~13% in prior quarter
- Strong Balance Sheet
  - Cash Flow from operating activities totaled \$41M
  - Cash and Cash Equivalents of \$401M, up 7% vs. Q2 FY23



■ Guidance provided on Q2 FY23 earnings call which, took place on April 4, 2023.  
\* For the definitions of non-GAAP Gross Margin and Non-GAAP EPS and reconciliations to the most directly comparable financial measures prepared in accordance with GAAP, please see the appendix.



■ All share measures reflect the February 2022 two-for-one share split.  
See appendix for GAAP to non-GAAP reconciliation.



# OUR BUSINESS LINES

Mark Adams, President and CEO



# Intelligent Platform Solutions

- Revenue of \$171 Million; 45% of total SGH revenue
  - Up 79% vs. Q3 FY22
  - Up 31% vs. Q3 FY22 *excluding* Stratus Technologies, which was acquired August 2022
- New Technologies and Capabilities
  - Penguin releases new version of its flagship Scyld ClusterWare® Software Platform, empowering customers to manage and expand their HPC clusters
  - Stratus announced next generation fault tolerant computing platform for edge-core-cloud data architectures
- Key Customer Engagements
  - Meta completes second-phase buildout of their AI Research SuperCluster, with Penguin Solutions as implementation partner
  - The Navy DoD Supercomputer completes final testing in April with a Penguin TrueHPC system featuring 48 GPU nodes



# Memory Solutions

- Revenue of \$148 Million; 39% of total SGH revenue
  - Relatively flat sequentially
  - Achieved Q3 FY23 segment operating margin of ~8%, representing solid performance in a challenging pricing environment
- Specialty Memory
  - Business stable due to specialty nature of our value-add business model
  - Remain focused on enterprise applications in the data center; especially CXL
  - Began shipments of DDR5 Zefr™ modules
- Brazil
  - On June 13, announced agreement to divest an 81% interest, which aligns with overall strategy to shift SGH business towards high-performance, high-availability solutions for enterprise customers

# LED Solutions

- Revenue of \$64 Million; 17% of total SGH revenue
  - Q3 FY23 sales up 15% sequentially; believe recovery is underway
  - Outsourced manufacturing model and continued innovation position us well as the sector recovers
  - Expect modestly higher Q4 FY23 based on improving customer demand
- Recognized for Customer-Focused Innovation
  - XLAMP® Element G and Pro9™ LEDs, and Photophyll™ recognized with BrightStar Awards for “Innovative LED Products” by LEDs Magazine
  - CreeLED remains a brand leader with strong IP





# FINANCIAL REVIEW

Ken Rizvi, SVP and CFO

# Strong Non-GAAP Quarterly Results

Key financial metrics  
within or above  
guidance range

## Q3 FY23 REVENUE

**\$383M**

Q3 FY23 Guidance \$375M +/- \$20M

## Q3 FY23 NON-GAAP GROSS MARGIN\*

**28.0%**

Q3 FY23 Guidance 28% +/- 1%

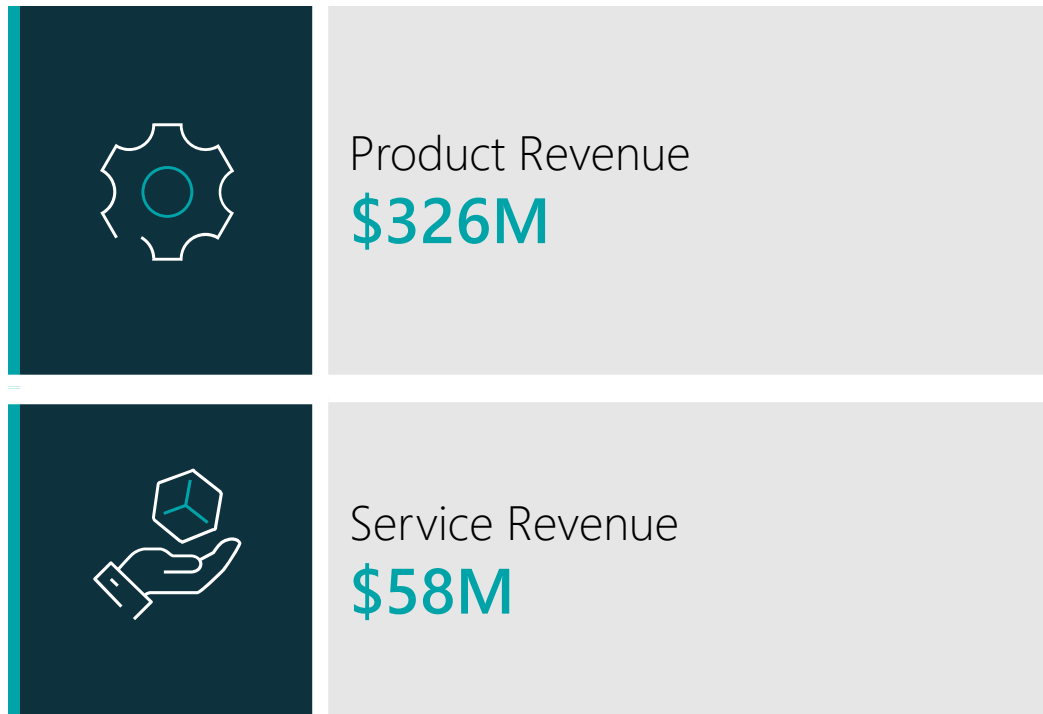
## Q3 FY23 NON-GAAP EPS\*

**\$0.66**

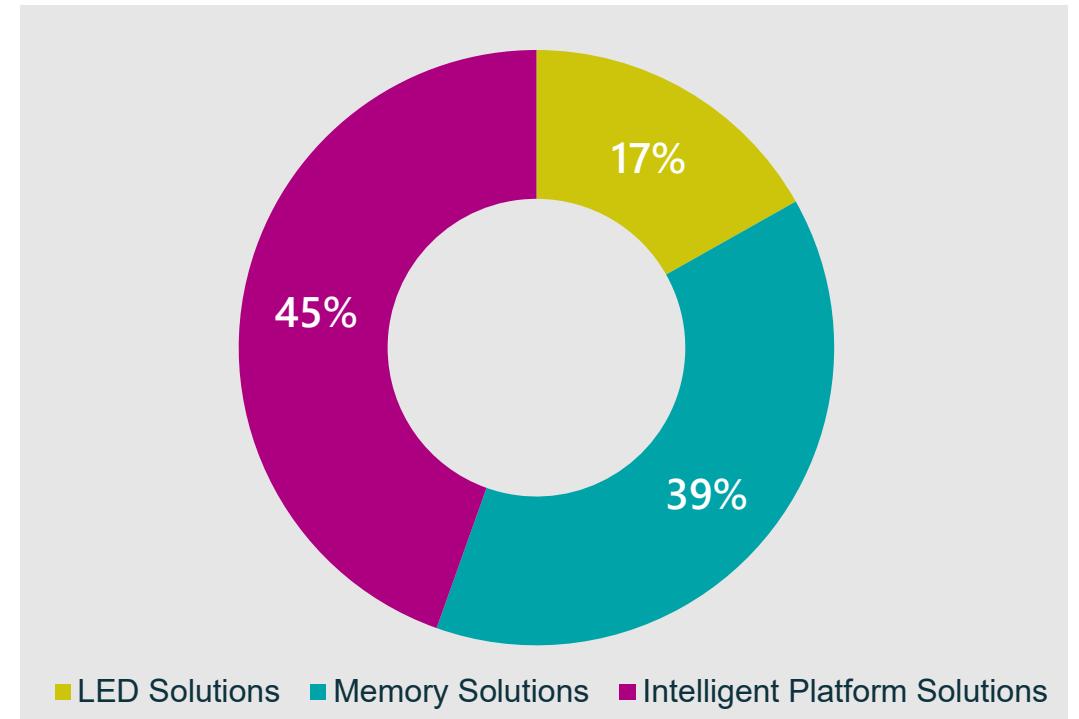
Q3 FY23 Guidance \$0.40 +/- \$0.10

# Q3 FY23 Revenue Detail

## Revenue Breakdown – Total \$383M



## Revenue Mix by Business



# Q3 FY23 Non-GAAP Operating Results

(\$M)	Q3 FY23	Q2 FY23	Q3 FY22
<b>Revenue</b>	<b>\$383.3</b>	<b>\$429.2</b>	<b>\$462.5</b>
Intelligent Platform Solutions	\$170.9	\$222.5	\$95.3
Memory Solutions	\$148.4	\$151.1	\$265.8
LED Solutions	\$64.1	\$55.6	\$101.3
<b>Non-GAAP Gross profit*</b>	<b>\$107.2</b>	<b>\$123.9</b>	<b>\$118.9</b>
<b>Non-GAAP Operating expenses*</b>	<b>\$70.9</b>	<b>\$72.5</b>	<b>\$64.6</b>
<b>Non-GAAP Net income*</b>	<b>\$33.1</b>	<b>\$37.6</b>	<b>\$45.9</b>
<b>Non-GAAP Diluted earnings per share*</b>	<b>\$0.66</b>	<b>\$0.76</b>	<b>\$0.87</b>
<b>Adjusted EBITDA*</b>	<b>\$45.1</b>	<b>\$63.5</b>	<b>\$64.0</b>

# Q3 FY23 Balance Sheet Highlights

Working Capital	Q2 FY23	Q3 FY23	Cash Flow	Q2 FY23	Q3 FY23	Capital Expenditures	Q2 FY23	Q3 FY23
Net Accounts Receivable	\$229M	\$244M	Cash & Equivalents (at period end)	\$376M	\$401M	CapEx	\$12.6M	\$13.3M
Days Sales Outstanding	36 days	42 days	CF from Operations	\$100.5M	\$41.0M	Depreciation	\$9.0M	\$9.5M
Inventory	\$294M	\$226M	LTM CF from Operations	\$84.2M	\$88.5M			
Inventory Turns	6.3X	7.6X						

# Transaction Overview

## Agreement to Divest SMART Modular Brazil



### Agreement to Sell 81% Interest

- Based on enterprise value of \$205M; valuing 81% disposition at \$166M
- Up-front cash payment: approx. \$138M
- Deferred cash payment of approx. \$28M to be paid 18 months post-closing

### Retention of 19% Interest

- Put/call option exercisable between 2027 and 2029
- Strike price equal to 7.5x net income from most recently completed fiscal year, as adjusted for purchase accounting adjustments and unusual or one-time items

### Transaction Timing and Expected Financial Impact\*:

- Expected to close by the end of calendar year 2023
- Immediately accretive to non-GAAP gross margins by ~200+ basis points
- Neutral to slightly positive to non-GAAP EPS



# OUR GUIDANCE

# Q4 FY23 Guidance

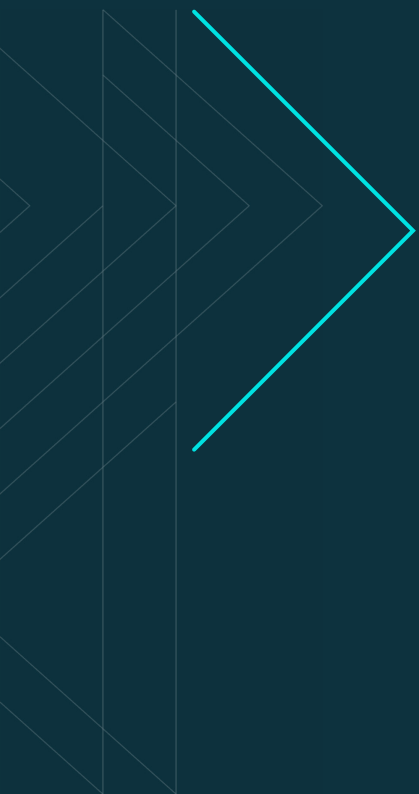
	GAAP Outlook	Adjustments	Non-GAAP Outlook
Net Sales	\$375 million +/- \$25 million	—	\$375 million +/- \$25 million
Gross margin	26% +/- 1%	2% (A)	28% +/- 1%
Operating expenses	\$87 million +/- \$2 million	(\$16) million (B)(C)	\$71 million +/- \$2 million
Diluted earnings per share	\$0.02 +/- \$0.15	\$0.43 (A)(B)(C)(D)	\$0.45 +/- \$0.15
Diluted shares	54.5 million	(2) million	52.5 million

## Non-GAAP adjustments: (in millions)

(A) Share-based compensation and amortization of acquisition-related intangibles included in cost of sales	\$	8
(B) Share-based compensation and amortization of acquisition-related intangibles included in R&D and SG&A		13
(C) Other adjustments		3
(D) Estimated tax effects		(3)
	<b>\$</b>	<b>21</b>

The background features a dark teal color with several thin, light-colored lines. These lines originate from various points and extend across the frame, creating a sense of depth and movement. Some lines are straight, while others are slightly curved. A prominent line runs diagonally from the top left towards the center. Another line runs horizontally across the middle, intersecting with a vertical line on the right side. The overall effect is a modern, architectural feel.

POWERING GROWTH.  
EXPANDING POSSIBILITIES.



# APPENDIX

# GAAP to Non-GAAP Reconciliations

	Three Months Ended			Nine Months Ended	
	May 26, 2023	February 24, 2023	May 27, 2022	May 26, 2023	May 27, 2022
<i>(dollars in thousands, except per share data)</i>					
<b>GAAP gross profit</b>	<b>\$ 98,643</b>	<b>\$ 110,381</b>	<b>\$ 114,463</b>	<b>\$ 327,434</b>	<b>\$ 349,377</b>
Share-based compensation expense	1,655	1,369	1,724	4,732	5,103
Amortization of acquisition-related intangibles	6,704	6,615	2,696	19,785	8,374
Flow-through of inventory step up	—	—	—	2,599	—
Cost of sales-related restructure	211	5,552	—	5,763	—
<b>Non-GAAP gross profit</b>	<b>\$ 107,213</b>	<b>\$ 123,917</b>	<b>\$ 118,883</b>	<b>\$ 360,313</b>	<b>\$ 362,854</b>
<b>GAAP gross margin</b>	<b>25.7 %</b>	<b>25.7 %</b>	<b>24.7 %</b>	<b>25.6 %</b>	<b>25.3 %</b>
Effect of adjustments	2.3 %	3.2 %	1.0 %	2.6 %	1.0 %
<b>Non-GAAP gross margin</b>	<b>28.0 %</b>	<b>28.9 %</b>	<b>25.7 %</b>	<b>28.2 %</b>	<b>26.3 %</b>
<b>GAAP operating expenses</b>	<b>\$ 107,445</b>	<b>\$ 117,548</b>	<b>\$ 79,154</b>	<b>\$ 325,812</b>	<b>\$ 262,469</b>
Share-based compensation expense	(8,376)	(9,026)	(8,823)	(26,106)	(25,192)
Amortization of acquisition-related intangibles	(4,905)	(4,200)	(3,247)	(13,497)	(9,741)
Acquisition and integration expenses	(8,637)	(2,824)	(2,181)	(18,193)	(3,470)
Impairment of goodwill	—	(17,558)	—	(17,558)	—
Change in fair value of contingent consideration	(14,800)	(6,400)	(124)	(24,900)	(41,324)
Restructure charge	186	(4,154)	(249)	(6,009)	(249)
Other	—	(900)	81	(1,800)	(496)
<b>Non-GAAP operating expenses</b>	<b>\$ 70,913</b>	<b>\$ 72,486</b>	<b>\$ 64,611</b>	<b>\$ 217,749</b>	<b>\$ 181,997</b>
<b>GAAP operating income (loss)</b>	<b>\$ (8,802)</b>	<b>\$ (7,167)</b>	<b>\$ 35,309</b>	<b>\$ 1,622</b>	<b>\$ 86,908</b>
Share-based compensation expense	10,031	10,395	10,547	30,838	30,295
Amortization of acquisition-related intangibles	11,609	10,815	5,943	33,282	18,115
Flow-through of inventory step up	—	—	—	2,599	—
Cost of sales-related restructure	211	5,552	—	5,763	—
Acquisition and integration expenses	8,637	2,824	2,181	18,193	3,470
Impairment of goodwill	—	17,558	—	17,558	—
Change in fair value of contingent consideration	14,800	6,400	124	24,900	41,324
Restructure charge	(186)	4,154	249	6,009	249
Other	—	900	(81)	1,800	496
<b>Non-GAAP operating income</b>	<b>\$ 36,300</b>	<b>\$ 51,431</b>	<b>\$ 54,272</b>	<b>\$ 142,564</b>	<b>\$ 180,857</b>

# GAAP to Non-GAAP Reconciliations

	Three Months Ended			Nine Months Ended	
	May 26, 2023	February 24, 2023	May 27, 2022	May 26, 2023	May 27, 2022
<i>(dollars in thousands, except per share data)</i>					
<b>GAAP net income (loss) attributable to SGH</b>	<b>\$ (24,455)</b>	<b>\$ (27,219)</b>	<b>\$ 24,113</b>	<b>\$ (46,682)</b>	<b>\$ 46,598</b>
Share-based compensation expense	10,031	10,395	10,547	30,838	30,295
Amortization of acquisition-related intangibles	11,609	10,815	5,943	33,282	18,115
Flow-through of inventory step up	—	—	—	2,599	—
Cost of sales-related restructure	211	5,552	—	5,763	—
Acquisition and integration expenses	8,637	2,824	2,181	18,193	3,470
Impairment of goodwill	—	17,558	—	17,558	—
Change in fair value of contingent consideration	14,800	6,400	124	24,900	41,324
Restructure charge	(186)	4,154	249	6,009	249
Amortization of debt discount and other costs	937	1,048	2,705	3,054	7,211
Foreign currency (gains) losses	590	281	641	1,113	3,516
Loss on extinguishment of debt	—	16,691	—	15,924	653
Other	—	900	(81)	1,800	496
Income tax effects	10,900	(11,753)	(513)	(4,153)	(2,139)
<b>Non-GAAP net income attributable to SGH</b>	<b>\$ 33,074</b>	<b>\$ 37,646</b>	<b>\$ 45,909</b>	<b>\$ 110,198</b>	<b>\$ 149,788</b>
<b>Weighted-average shares outstanding - Diluted:</b>					
GAAP weighted-average shares outstanding	49,380	49,116	54,998	49,152	55,756
Adjustment for dilutive securities and capped calls	754	726	(2,063)	770	(2,468)
<b>Non-GAAP weighted-average shares outstanding</b>	<b>50,134</b>	<b>49,842</b>	<b>52,935</b>	<b>49,922</b>	<b>53,288</b>
<b>Diluted earnings (loss) per share:</b>					
GAAP diluted earnings (loss) per share	\$ (0.50)	\$ (0.55)	\$ 0.44	\$ (0.95)	\$ 0.84
Effect of adjustments	1.16	1.31	0.43	3.16	1.97
<b>Non-GAAP diluted earnings per share</b>	<b>\$ 0.66</b>	<b>\$ 0.76</b>	<b>\$ 0.87</b>	<b>\$ 2.21</b>	<b>\$ 2.81</b>

The non-GAAP adjustment for income tax effects for the three months ended May 26, 2023 includes a reduction in taxes of \$4.0 million, or \$0.08 per diluted share, for the retroactive effect of a revision in the amount of U.S. net operating losses expected to be utilized in 2023.

# GAAP to Non-GAAP Reconciliations

	Three Months Ended			Nine Months Ended	
	May 26, 2023	February 24, 2023	May 27, 2022	May 26, 2023	May 27, 2022
<i>(dollars in thousands, except per share data)</i>					
<b>Net income (loss) attributable to SGH</b>	<b>\$ (24,455)</b>	<b>\$ (27,219)</b>	<b>\$ 24,113</b>	<b>\$ (46,682)</b>	<b>\$ 46,598</b>
Interest expense, net	8,059	8,006	5,110	24,102	14,678
Income tax provision (benefit)	6,702	(1,716)	5,154	9,876	20,495
Depreciation expense and amortization of intangible assets	21,300	19,931	16,571	61,020	48,461
Share-based compensation expense	10,031	10,395	10,547	30,838	30,295
Flow-through of inventory step up	—	—	—	2,599	—
Cost of sales-related restructure	211	5,552	—	5,763	—
Acquisition and integration expenses	8,637	2,824	2,181	18,193	3,470
Impairment of goodwill	—	17,558	—	17,558	—
Change in fair value of contingent consideration	14,800	6,400	124	24,900	41,324
Restructure charge	(186)	4,154	249	6,009	249
Loss on extinguishment of debt	—	16,691	—	15,924	653
Other	—	900	(81)	1,800	496
<b>Adjusted EBITDA</b>	<b>\$ 45,099</b>	<b>\$ 63,476</b>	<b>\$ 63,968</b>	<b>\$ 171,900</b>	<b>\$ 206,719</b>

# Convertible Dilution

Stock Price	Convertible Share Dilution	Capped Call	Net Share Dilution to SGH
\$18	—	—	—
\$19	—	—	—
\$20	—	—	—
\$21	163	(163)	—
\$22	627	(627)	—
\$23	1,121	(1,121)	—
\$24	1,574	(1,574)	—
\$25	1,991	(1,991)	—
\$26	2,376	(2,376)	—
\$27	2,732	(2,732)	—
\$28	3,062	(2,899)	163
\$29	3,370	(3,043)	327
\$30	3,658	(2,974)	684
\$31	3,926	(2,878)	1,048
\$32	4,178	(2,788)	1,390
\$33	4,415	(2,703)	1,712
\$34	4,638	(2,624)	2,014
\$35	4,848	(2,549)	2,299