

JULY 7, 2020

Q3 FY2020 Financial Results Conference Call

SMART GLOBAL HOLDINGS

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Non-GAAP Information

Certain non-GAAP financial measures are contained in this presentation or will be discussed on our conference call, including non-GAAP gross profit, non-GAAP operating income, Adjusted EBITDA, non-GAAP net income, and non-GAAP net income per diluted share. We define Adjusted EBITDA as GAAP net income (loss) plus net interest expense, income tax expense, depreciation and amortization expense, share-based compensation expense, loss on extinguishment of debt/revolver, capped call mark to market (MTM) adjustment, integration expenses, COVID-19 expenses, acquisition-related expenses and other infrequent or unusual items. Adjusted EBITDA is not a measure of financial performance calculated in accordance with U.S. GAAP and should be viewed as a supplement to, not a substitute for, our results of operations presented on the basis of U.S. GAAP. Adjusted EBITDA also does not purport to represent cash flow provided by, or used in, operating activities in accordance with U.S. GAAP and should not be used as a measure of liquidity.

The non-GAAP financial results presented herein exclude share-based compensation expense, intangible amortization expense, loss on extinguishment of debt/revolver, capped call MTM adjustment, convertible debt original issue discount (OID), integration expenses, COVID-19 expenses, acquisition-related expenses and other infrequent or unusual expenses, and with respect to non-GAAP diluted EPS, foreign currency gains (losses). These non-GAAP financial measures are provided to enhance the user's overall understanding of our financial performance. By excluding these charges, as well as any related tax effects, our non-GAAP results provide information to management and investors that is useful in assessing SMART's core operating performance and in evaluating and comparing our results of operations on a consistent basis from period to period. These non-GAAP financial measures are also used by management to evaluate financial results, to plan and forecast future periods, and to assess performance of certain executives for compensation purposes. The presentation of this additional information is not meant to be a substitute for the corresponding financial measures prepared in accordance with U.S. GAAP. In addition, these measures may not be used similarly by other companies and therefore may not be comparable between companies.

Investors are encouraged to review the "Reconciliation of Non-GAAP Financial Measures to GAAP Results" and "Reconciliation of GAAP Net Income (Loss) to Adjusted EBITDA" tables in the appendix for more detail on non-GAAP calculations.



CEO Overview

AJAY SHAH

Chairman and CEO

SMART Global Holdings

Q3 FY2020 Highlights

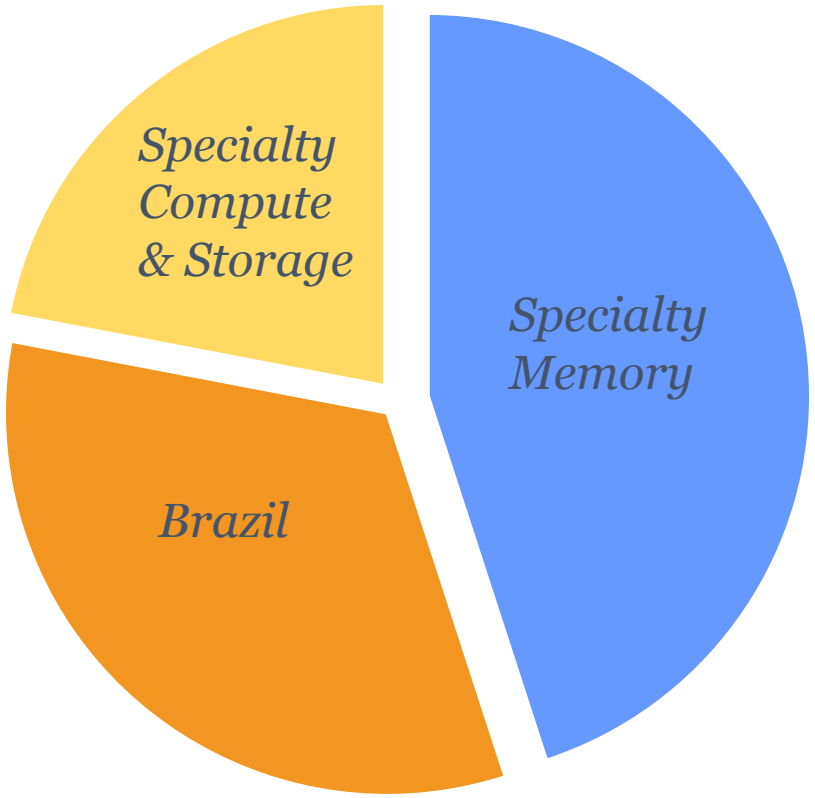
$281.3 M	$17.1M	$0.70	$91.0M
Net Sales Up 19% YoY	*Non-GAAP Net Income Up 116% YoY*	*Non-GAAP EPS Up 106% YoY*	*LTM FCF Up 23% YoY*

- *Revenues grew sequentially and year over year with new products and customers*
- *Non-GAAP EPS more than doubled year over year, demonstrating strong operating leverage*
- *Better than expected performance from Specialty Memory and solid performance in Brazil given the macro issues*
- *Significantly improved capital structure with minimal current debt and strong operating cash generation*

Well-positioned to weather upcoming challenges and take advantage of opportunities

Note: LTM = Last Twelve Months; FCF = Free Cash Flow

Q3 FY2020 Revenue Mix



Specialty Memory (45%)

- *Benefitting from increases in memory demand & stable market prices*
- *New DDR4 Module-in-a-Package™ (MIP™) expands memory within a minimal footprint*
- *Began production shipments of new DDR4 module for edge and cloud access applications*
- *New design wins for Ruggedized products to Industrial/Defense customers*

Brazil (33%)

- *Strength in DRAM unit sales and ASPs driven by early work-from-home effect on notebook sales, stable memory market pricing*
- *Mobile memory business in recovery, with new product introductions and higher densities resulting in higher ASP's in a stable pricing environment*
- *Introduced new 7 die-based eMCP (multi-chip package) with 64GB Flash and 4GB LPDRAM for major mobile customers*

Specialty Compute & Storage (22%)

- *Launched new System-on-Module based on Qualcomm Snapdragon processors targeted for AI/ML related use cases*
- *Expanded partnership with Intel to provide reference designs for HPC and AI/ML applications*
- *Partnered with AMD to deliver HPC systems for Covid-19 related research*

Note: Net sales by business unit

SMART's Business Update

Strong Financial Performance & Position

- *Cash position of $130M+ with minimal current debt*
- *LTM ROIC of 16%*
- *LTM Free Cash Flow of $91M*

Favorable longer-term underlying business trends

- *Need for more Edge computing, HPC, and AI-related computing, communications and storage*
- *Greater requirements for specialized, application specific memory solutions*

Positioned well in stronger end markets

- *Enterprise end markets for Networking and Storage*
- *Edge Computing and Embedded Computing for Industrial, Healthcare, Transportation and Communications*
- *Government/Defense end markets*

Note: LTM = Last Twelve Months; ROIC = Return on Invested Capital; FCF = Free Cash Flow



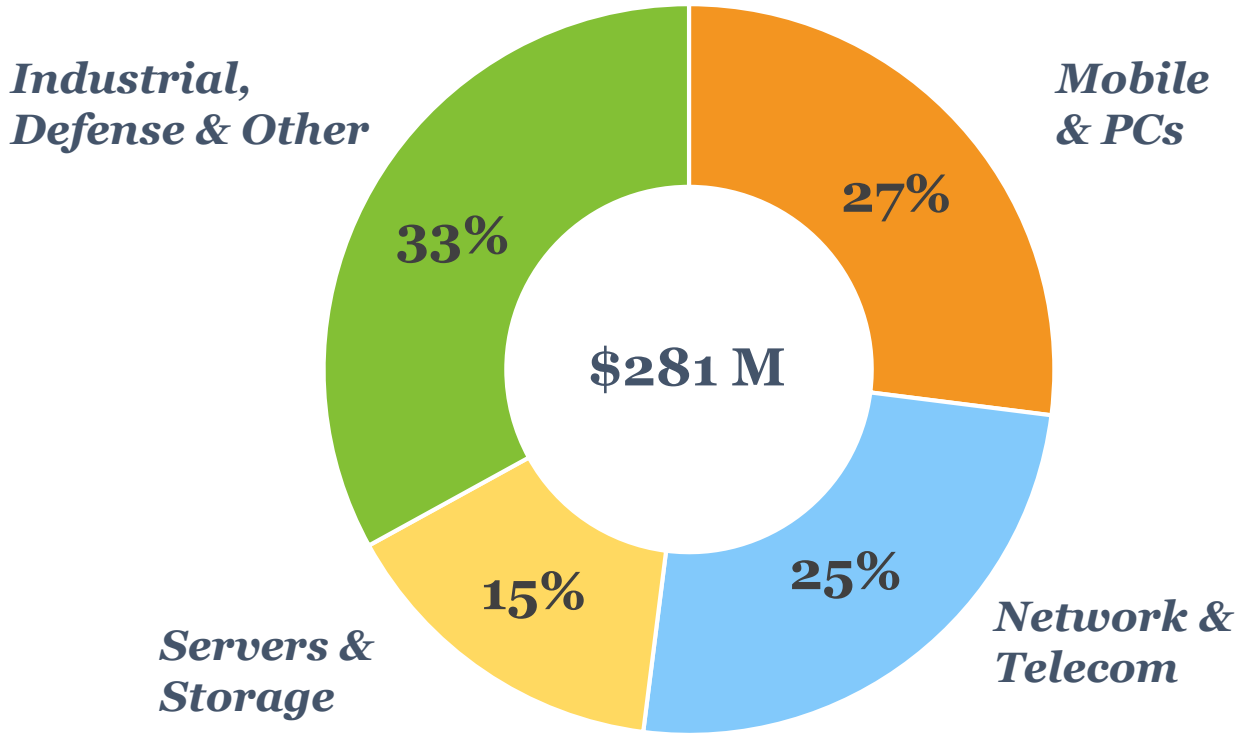
CFO Financial Review

JACK PACHECO

COO and CFO

SMART Global Holdings

Q3 FY2020 Net Sales by End Market



Strength in Servers, Networking and Telecom end markets drove the quarter

Q3 FY2020 Income Statement Highlights – Non-GAAP

	Q3 FY19	Q2 FY20	Q3 FY20	vs. Prior Q
Gross profit	$43.7 M	$52.9 M	$55.9 M	↑ 6%
Operating expenses	$30.5 M	$35.6 M	$35.5 M	↔ 0%
Net income	$7.9 M	$12.8 M	$17.1 M	↑ 34%
Earnings per Share	$0.34	$0.52	$0.70	↑ 35%
Adjusted EBITDA	$19.2 M	$22.3 M	$25.4 M	↑ 14%

SMART continues to show sequential growth despite the challenging COVID environment.

Q3 FY2020 Balance Sheet Highlights

Working Capital	Q2 FY20	Q3 FY20
Net Accounts Receivables	$217.4 M	$223.2 M
Day Sales Outstanding	47 days	45 days
Inventory	$161.4 M	$180.6 M
Inventory Turns	9.2X	8.8X

Cash Flow	Q2 FY20	Q3 FY20
Cash & equivalents	$141.9 M	$131.8 M
CF from Operations	$22.3 M	$13.6 M
LTM CF from Operations	$143.9 M	$111.2 M

CapEx	Q2 FY20	Q3 FY20
CapEx	$4.2 M	$7.5 M
Depreciation	$6.0 M	$5.4 M

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Note: Accounts receivable, days outstanding and inventory turnover are calculated on a gross sales and cost of goods sold basis, which were $449.9M and $395.7M respectively, for the third quarter of fiscal 2020

Q4 FY2020 Guidance

Net Sales	*$290M to $310M*
Gross margin	*20% to 22%*
*GAAP EPS**	*$0.34 +/- $0.08*
*Non-GAAP EPS**	*$0.78 +/- $0.08*
Income tax provision	*16% to 20%*
Capital expenditures	*$6M to $10M*

**Based upon ~24.5 million diluted shares*

Appendix: Non-GAAP Reconciliations

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	Three Months Ended		
	May 29, 2020	February 28, 2020	May 31, 2019
Reconciliation of gross profit:			
GAAP gross profit	$ 54,233	$ 51,506	$ 43,035
GAAP gross margin	*19.3%*	*18.9%*	*18.3%*
Add: Share-based compensation included in cost of sales	699	731	651
Add: Intangible amortization included in cost of sales	647	647	16
Add: COVID-19 expenses	282	—	—
Non-GAAP gross profit	**$ 55,861**	**$ 52,884**	**$ 43,702**
Non-GAAP gross margin	*19.9%*	*19.4%*	*18.5%*
Reconciliation of operating expenses:			
GAAP operating expenses	$ 44,169	$ 43,350	$ 35,636
Less: Share-based compensation expense included in opex			
Research and development	780	783	673
Selling, general and administrative	3,428	3,133	3,109
Total	4,208	3,916	3,782
Less: Amortization of intangible assets included in opex			
Selling, general and administrative	2,767	2,766	960
Total	2,767	2,766	960
Less: Legal fees - term loan (payment holiday)	—	—	—
Less: Acquisition-related expenses	—	—	431
Less: Integration expenses	1,432	1,040	—
Less: COVID-19 expenses	228	—	—
Non-GAAP operating expenses	**$ 35,534**	**$ 35,628**	**$ 30,463**

	Three Months Ended		
	May 29, 2020	February 28, 2020	May 31, 2019
Reconciliation of net income (loss) and earnings per share (diluted):			
GAAP net income (loss)	**$ 825**	**$ (9,720)**	**$ 1,945**
Adjustments to GAAP net income (loss):			
Share-based compensation	4,907	4,647	4,433
Amortization of intangible assets	3,414	3,413	976
Legal fees - term loan (payment holiday)	—	—	—
Acquisition related expenses	—	—	431
Integration expenses	1,432	1,040	—
COVID-19 expenses	510	—	—
Extinguishment of term loan/revolver	192	6,630	—
Capped call MTM adjustment	2,924	4,795	—
Convertible debt discount OID and fees	1,960	399	—
Goodwill tax credit	484	484	—
Foreign currency (gains)/losses	484	1,191	144
Tax effect of items excluded from non-GAAP results	(48)	(119)	(14)
Non-GAAP net income	**$ 17,084**	**$ 12,760**	**$ 7,915**
Shares used in computing earnings per share (diluted)	24,431	24,567	23,330
Non-GAAP earnings per share (diluted)	**$ 0.70**	**$ 0.52**	**$ 0.34**
GAAP earnings per share (diluted)	$ 0.03	$ (0.41)	$ 0.08

	Three Months Ended		
	May 29, 2020	February 28, 2020	May 31, 2019
GAAP net income (loss)	**$ 825**	**$ (9,720)**	**$ 1,945**
Share-based compensation expense	4,907	4,647	4,433
Amortization of intangible assets	3,414	3,413	976
Interest expense, net	3,094	4,150	5,001
Provision for income tax	2,700	1,340	550
Depreciation	5,405	6,021	5,841
Legal fees - term loan (payment holiday)	—	—	—
Acquisition-related expenses[1]	—	—	431
Integration expenses	1,432	1,040	—
COVID-19 expenses	510	—	—
Extinguishment of term loan/revolver	192	6,630	—
Capped call MTM adjustment	2,924	4,795	—
Adjusted EBITDA	**$ 25,403**	**$ 22,316**	**$ 19,177**

(1) Amounts related to acquisitions of new businesses, SMART EC & Wireless (July 2019).

($ in thousands)	Three Months Ended Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	LTM'Q320
Free Cash Flow - reconciliation:					
Net Cash From Operating Activities	$ 48,941	$ 25,267	$ 23,334	$ 13,626	
Cap Ex from Investing Activities	(3,321)	(5,158)	(4,210)	(7,521)	
Free Cash Flow	$ 45,620	$ 20,109	$ 19,124	$ 6,105	**$ 90,958**
Return on Invested Capital - reconciliation:					**16%**
Operating Income - Non-GAAP	$ 17,964	$ 18,248	$ 17,256	$ 20,327	$ 73,795
Total Debt	$ 206,504	$ 200,342	$ 193,139	$ 194,155	
Equity	$ 273,460	$ 271,784	$ 307,051	$ 264,519	