

APRIL 6, 2021

Q2 FY2021 Financial Results Conference Call

SMART GLOBAL HOLDINGS

Disclaimer

This presentation and oral communications made during the course of this presentation contain "forward-looking statements" including among other things, statements regarding future events and the future financial performance of SMART Global Holdings, Inc. (“SGH), including the business outlook for the next fiscal quarter, and statements regarding growth drivers in SGH’S industries and markets. These statements are only predictions and may differ materially from actual future events or results due to a variety of factors, including but not limited to: business and economic conditions and growth trends in technology lighting industries, our customer markets and various geographic regions; global economic conditions and uncertainties in the geopolitical environment; disruptions in our operations, our supply chain or in global markets as a result of the outbreak of COVID-19; changes in trade regulations or adverse developments in international trade relations and agreements; changes in currency exchange rates; overall information technology spending; appropriations for government spending; the success of our strategic initiatives including additional investments in new products, additional capacity and acquisitions; unforeseen issues in completing the carveout of Cree LED from Cree, Inc. and in the integration of the Cree LED into SMART; unforeseen issues in the execution of Cree LED’s margin expansion plans; changes in the availability of supply of materials and components; fluctuations in material costs; negative reaction to the acquisition of Cree LED by customers, suppliers and other business partners; the DRAM market and the temporary and volatile nature of pricing trends; deterioration in customer relationships; production or manufacturing difficulties; competitive factors; technological changes; difficulties with or delays in the introduction of new products; slowing or contraction of growth in the memory market in Brazil; reduction in or termination of incentives for local manufacturing in Brazil; changes to applicable tax regimes or rates; prices for the end products of our customers; fluctuations in material costs and availability; strikes or labor disputes; deterioration in or loss of relations with any of our limited number of key vendors; changes in the availability of supply of materials, components or memory products; the inability of our Penguin Computing subsidiary to obtain and retain security clearances to expand its government business; and other factors and risks detailed in SGH’s filings with the Securities and Exchange Commission. Such factors and risks as outlined above and in such filings may not constitute all factors and risks that could cause actual results of SGH to be materially different from the historical results and/or from any future results or outcomes expressed or implied by such forward-looking statements. SGH and its subsidiaries operate in a continually changing business environment and new factors emerge from time to time. SGH cannot predict such factors, nor can it assess the impact, if any, from such factors on SGH or its subsidiaries’ results. Accordingly, investors are cautioned not to place undue reliance on any forward-looking statements. Forward-looking statements should not be relied upon as a prediction of actual results. Forward-looking statements are based on available information as of the day made, and SGH does not intend, and has no obligation, to update or revise any forward-looking statements in order to reflect events or circumstances that may arise after the date made, except as required by law.

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, out-of-period adjustments related to import taxes, loss on extinguishment of debt/revolver, capped call mark to market (MTM) adjustment, convertible debt original issue discount (OID), restructuring expenses, 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, out-of-period adjustments related to import taxes, loss on extinguishment of debt/revolver, capped call MTM adjustment, convertible debt original issue discount (OID), restructuring expenses, 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 SGH’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 and in our earnings release for more detail on non-GAAP calculations.

Speakers



Mark Adams

President and CEO
SMART Global Holdings



Jack Pacheco

EVP and COO
SMART Global Holdings
President, Memory Solutions Group



Ken Rizvi

SVP and CFO
SMART Global Holdings

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Entering A New Chapter

❖ Strengthened Management Team

- Ken Rizvi, CFO
- Bruce Goldberg, Chief of Staff
- Thierry Pellegrino, President, IPS
- Claude Demby, President, LED Solutions
- Anne Kuykendall, General Counsel
- Valerie Sassani, VP Marketing and Comms
- Jean McDaniel, VP Office of Transformation

❖ Completed Acquisition of Cree LED

- Expands served addressable market with specialized LED focus
- Integration activities on schedule
- Transition to sapphire from silicon carbide and outsourced wafer model on track

❖ Three Key Businesses – poised for profitable growth

- Intelligent Platform Solutions (IPS): Penguin Computing + SMART Embedded/Wireless
- Memory Solutions: SMART Modular Technologies (Specialty Memory + Brazil)
- LED Solutions: Cree LED

Q2 FY2021 Exceeded Expectations

Net Sales	**$304.0 M**
Non-GAAP Gross Margin	**19.5%**
Non-GAAP EPS	**$0.87**

Intelligent Platform Solutions Group

❖ Revenues up almost 30% sequentially

- Growth across HPC, embedded computing, edge computing, and AI
- Demand driven by key customers in: cloud, financial services, federal, telecom and energy
- New products for edge/AI analytics slated for introduction in 2H FY21, targeted for military, retail, transportation and 5G applications

❖ Industry recognition:

- Penguin named one of “10 Hottest New Enterprise Servers of 2020” by CRN, a top technology news and information source, for its Highly Dense Tundra AP Platform for HPC and AI workloads

Memory Solutions Group

❖ Demand for Memory Solutions business returning and new designs gaining traction

- Demand returning from industrial customers previously impacted by Covid
- Design wins in new verticals including transportation, hyperscale, cloud and data centers.
- Controller-based memory products (NVDIMM and DDIMM) gaining traction with cybersecurity, surveillance. HPC and data center applications
- Overall Brazil revenue up 5.6% compared with year ago, and up 12% from year ago excluding battery business (discontinued in Q4 FY20)
- Growth in Brazil due to increasing memory densities in sales of mobile products and stronger unit sales of notebook-related memory.
- Strong demand for mobile phones and notebooks should drive increasing sales next quarter.

LED Solutions Group

- **Cree LED acquisition closed March 1, 2021; integration underway**
- **Transition to sapphire from silicon carbide on track**
- **Transition to outsourced wafer model on track**
- **Over next 18 months:**
  - Substantially complete transition to sapphire process and outsourced wafers
  - Creating a platform for accelerating technology leadership
- **The path forward**
  - Newly energized team continuing to deliver best-in-class technology and solutions for key focus areas



CFO Financial Review

KEN RIZVI

SVP and CFO
SMART Global Holdings

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Q2 FY2021 Financial Highlights: Exceeded Expectations

	Net Sales	Non-GAAP Gross Margin	Non-GAAP EPS
Actuals	$304.0 M	19.5%	$0.87
Guidance on Q1 FY2021 Earnings Call	$295.0 M	19.0%	$0.80

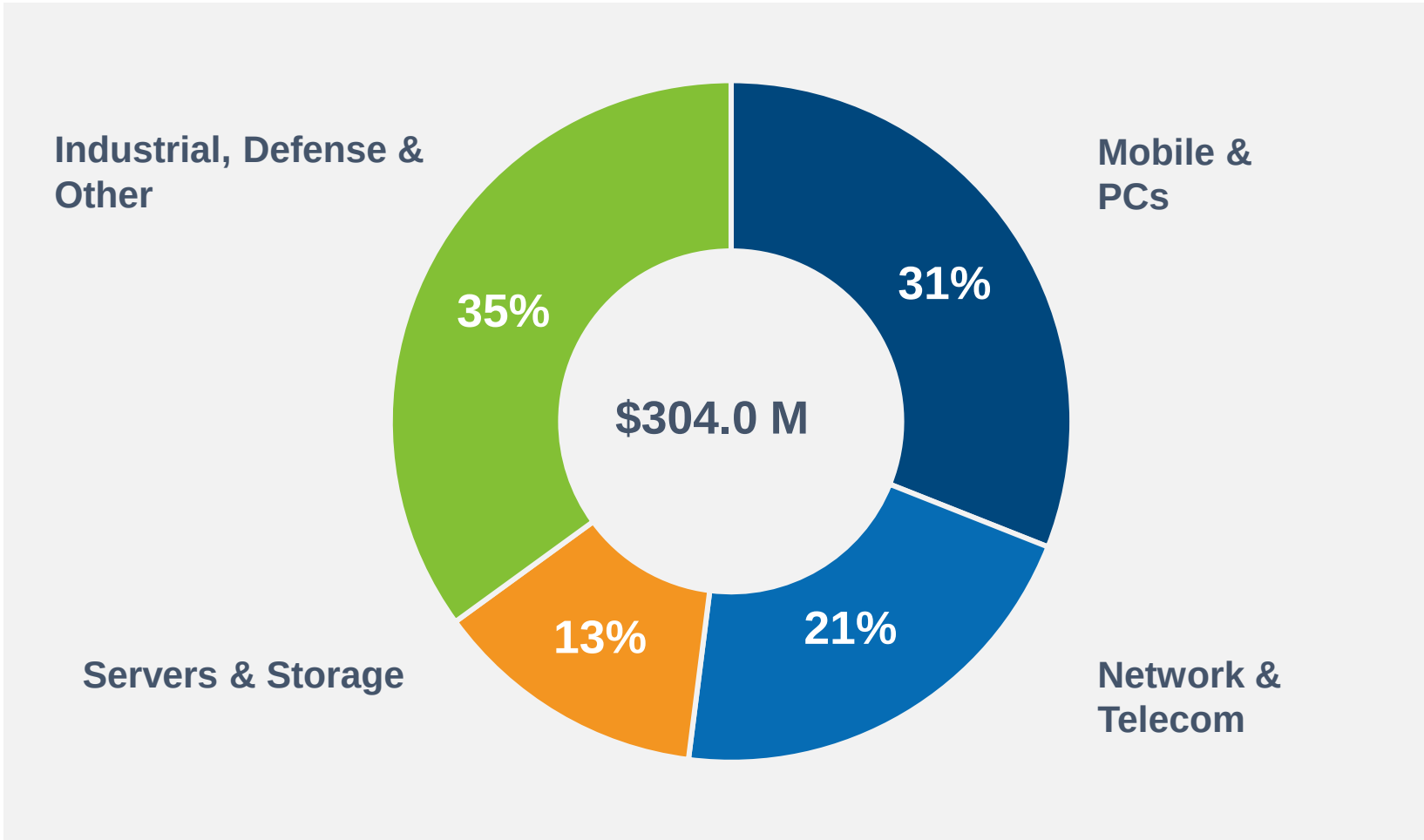
- Intelligent Platform Solutions sales drove strength in the quarter
- Gross margin improvement due primarily to mix
- Continued focus on financial discipline resulted in strong bottom-line results

- Note: Guidance metrics calculated based on midpoint of ranges provided.

Q2 FY2021 Income Statement Highlights – Non-GAAP

	Q2 FY20	Q1 FY21	Q2 FY21
Gross profit	$52.9 M	$54.1 M	$59.3 M
Gross margin	19.4%	18.6%	19.5%
Gross Margin – Intelligent Platform Solutions	28.1%	27.3%	29.3%
Gross Margin – Specialty Memory	18.6%	15.1%	16.1%
Gross Margin - Brazil	14.8%	17.0%	15.2%
Operating expenses	$35.6M	$30.4 M	$32.1 M
Net income	$12.8 M	$19.6 M	$21.9 M
Earnings per share	$0.52	$0.78	$0.87
Adjusted EBITDA	$22.3 M	$29.5M	$31.0M
Effective Tax Rate	7.1%	14.1%	12.1%

Q2 FY2021 Net Sales by End Market



Strength in Network & Telecom and **Industrial, Defense & Other** more than offset lower sales in Servers & Storage, Mobile & PCs on a sequential basis

Q2 FY2021 Balance Sheet Highlights

Working Capital	Q1 FY21	Q2 FY21
Net Accounts Receivable	$212.9 M	$203.4 M
Days Sales Outstanding	46 days	41 days
Inventory	$147.2 M	$189.3 M
Inventory Turns	10.1X	8.3X

Cash Flow	Q1 FY21	Q2 FY21
Cash & Equivalents	$164.1 M	$139.8 M*
CF from Operations	$35.6M	$20.4M
LTM CF from Operations	$97.5 M	$94.6 M

** Includes $44M stock buyback*

CapEx	Q1 FY21	Q2 FY21
CapEx	$14.6 M	$20.0 M
Depreciation	$5.0 M	$5.4 M

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Note: Accounts receivable, days sales outstanding and inventory turns are calculated on a gross sales and gross cost of goods sold basis, which were $423.2M and $370.6M respectively, for Q1 FY21, and $448.1M and $394.7M respectively for Q2 FY21.

Q3 FY2021 Guidance

	Q3 FY21 Guidance
Net Sales	$400 to $430 M
Gross Margin	19% to 21%
Diluted EPS - GAAP	$0.64 ± $0.10
Shares-based compensation per share	$0.24
Intangible amortization per share	$0.14
Convertible debt discount OID and fees per share	$0.08
Diluted EPS – Non-GAAP	$1.10 ± $0.10
Expected diluted share count -GAAP	27.0 M
Capped call anti-dilution related to convertible	(1.0 M)
Expected diluted share count – Non-GAAP	26.0 M

Note: Guidance does not include any view on the foreign exchange gains or losses.

REMINDER

SGH Virtual Analyst Day

SMART Global Holdings will hold a Virtual Analyst Day on **April 20, 2021**.
To register for the event please review the event information below.

The event will include a live Q&A with members of SGH's executive leadership team.

Event Information:

Date: Tuesday, April 20, 2021

Time: 8:00 am PT – 10:30 am PT

Registration: click on the following link SGH 2021 Analyst Day to register

Questions: you may submit questions in advance by emailing ir@smartm.com

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Thank you

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Appendix:

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	Three Months Ended		
	February 26, 2021	November 27, 2020	February 28, 2020
Reconciliation of gross profit:			
GAAP gross profit	$ 53,456	$ 52,644	$ 51,506
GAAP gross margin	*17.6%*	*18.0%*	*18.9%*
Add: Share-based compensation included in cost of sales	804	838	731
Add: Intangible amortization included in cost of sales	647	647	647
Add: Import taxes - Out of period adjustment	4,345	—	—
Non-GAAP gross profit	**$ 59,252**	**$ 54,129**	**$ 52,884**
Non-GAAP gross margin	*19.5%*	*18.6%*	*19.4%*
Reconciliation of operating expenses:			
GAAP operating expenses	$ 40,516	$ 45,020	$ 43,350
Less: Share-based compensation expense included in opex			
Research and development	810	778	783
Selling, general and administrative	3,784	9,472	3,133
Total	4,594	10,250	3,916
Less: Amortization of intangible assets included in opex			
Selling, general and administrative	2,766	2,766	2,766
Total	2,766	2,766	2,766
Less: Acquisition-related expenses	1,064	1,617	—
Less: Integration/restructuring expenses	—	—	1,040
Non-GAAP operating expenses	**$ 32,092**	**$ 30,388**	**$ 35,628**

	Three Months Ended		
	February 26, 2021	November 27, 2020	February 28, 2020
Reconciliation of net income and earnings per share (diluted):			
GAAP net income (loss)	**$ 5,844**	**$ 2,027**	**$ (9,720)**
Adjustments to GAAP net income (loss):			
Share-based compensation	5,398	11,088	4,647
Amortization of intangible assets	3,413	3,413	3,413
Acquisition-related expenses	1,064	1,617	—
Integration/restructuring expenses	—	—	1,040
Import taxes - Out of period adjustment	3,358	—	—
Extinguishment of term loan	—	—	6,630
Capped call MTM adjustment	—	—	4,795
Convertible debt discount OID and fees	2,098	2,062	399
Goodwill tax credit	—	—	484
Foreign currency (gains)/losses	843	(642)	1,191
Tax effect of items excluded from non-GAAP results	(84)	64	(119)
Non-GAAP net income	**$ 21,934**	**$ 19,628**	**$ 12,760**
Shares used in computing earnings per share (diluted)	25,203	25,103	24,567
Non-GAAP earnings per share (diluted)	**$ 0.87**	**$ 0.78**	**$ 0.52**
GAAP earnings per share (diluted)	$ 0.23	$ 0.08	$ (0.41)

	Three Months Ended		
	February 26, 2021	November 27, 2020	February 28, 2020
GAAP net income (loss)	**$ 5,844**	**$ 2,027**	**$ (9,720)**
Share-based compensation expense	5,398	11,088	4,647
Amortization of intangible assets	3,413	3,413	3,413
Interest expense, net	4,365	3,154	4,150
Provision for income tax	1,200	3,275	1,340
Depreciation	5,378	4,954	6,021
Acquisition-related expenses[(1)]	1,064	1,617	—
Integration/restructuring expenses	—	—	1,040
Import taxes - Out of period adjustment	4,345	—	—
Extinguishment of term loan	—	—	6,630
Capped call MTM adjustment	—	—	4,795
Adjusted EBITDA	**$ 31,007**	**$ 29,527**	**$ 22,316**

(1) Amounts related to acquisitions of Cree LED (March 2021) and SMART EC & Wireless (July 2019).

Dilution Table	Convertible Share Dilution	Capped Call	Net Share Dilution to SGH
Stock Price			
$40.00	0.00	0.00	0.00
$42.50	0.27	0.27	0.00
$45.00	0.60	0.60	0.00
$47.50	0.89	0.89	0.00
$50.00	1.16	1.16	0.00
$52.50	1.39	1.39	0.00
$55.00	1.61	1.52	0.10
$57.50	1.81	1.45	0.36
$60.00	1.99	1.39	0.60
$62.50	2.16	1.33	0.82
$65.00	2.31	1.28	1.03
$67.50	2.45	1.23	1.22
$70.00	2.58	1.19	1.39
$72.50	2.71	1.15	1.56
$75.00	2.82	1.11	1.71
$77.50	2.93	1.08	1.86
$80.00	3.03	1.04	1.99