# SECOND QUARTER FY23
# SGH FINANCIAL RESULTS

APRIL 4, 2023

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# 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 future events and SGH's future financial or 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; statements regarding the deployment of SGH's products and services and SGH's ability to meet customer commitments; statements regarding the effects of the ongoing COVID-19 pandemic and macroeconomic events, including supply chain challenges, foreign currency fluctuations and interest rate changes, upon SGH's and SGH's customers' respective businesses; statements regarding the anticipated benefits to be realized from the acquisition of Stratus Technologies; statements regarding the estimations of future payouts under SGH's equity plans and in connection with the acquisition of Stratus Technologies; statements regarding SGH's expected capital expenditures and SGH's estimates regarding SGH's capital requirements; statements regarding restructuring activities and charges; statements regarding the impairment of goodwill; and statements regarding SGH's reliance on third parties. 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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 for the fiscal year ended August 26, 2022, Quarterly Report 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.

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

# Q2 FY23 Highlights

- Record Non-GAAP Gross Margin of 28.9%*
  - GAAP gross margin of 25.7%, up 60 bp vs. Q2 FY22
  - Non-GAAP gross margin of 28.9%, up 290 bp vs. Q2 FY22
- Non-GAAP EPS of $0.76*
  - Above the high-end of guidance range of $0.45 - $0.75
- Revenue of $429 Million
  - Within guidance range of $410-$460 million
  - Services ~13% of total SGH revenue, vs. ~8% in Q2 FY22, reflecting consolidation of Stratus Technologies
- Strong Balance Sheet
  - Cash and Cash Equivalents of $376 million, up 16% vs. Q1 FY23
  - Cash Flow from operating activities totaled $100.5 million



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- Guidance provided on Q1 FY23 earnings call which, took place on January 3, 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.

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# OUR BUSINESS LINES


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# Intelligent Platform Solutions

- Revenue of $222 Million
  - Record revenue performance; up 170% vs. Q2 FY22
  - Represents 52% of total SGH revenue
  - Services revenue doubled vs. Q2 FY22
- Industry Recognition
  - Penguin Computing's JADE system was one of two supercomputers that powered the recent nuclear fusion ignition breakthrough at Lawrence Livermore National Labs*
  - The Stratus ztC Edge Computing Platform won *Processing Magazine's* 2022 Breakthrough Product Award in the Edge Computing category

*Source: insideHPC https://insidehpc.com/2022/12/due-credit-sierra-jade-and-hpcs-role-in-livermores-fusion-ignition-breakthrough/

# LED Solutions

- Revenue of $56 Million
  - Continued macroeconomic headwinds impacted Q2 FY23
  - We believe our outsourced manufacturing model and continued innovation position us well for a recovery in the sector
  - Expect modestly higher Q3 FY23 based on improving customer demand

- Continued Customer-Focused Innovation
  - Introduced three new high-brightness LEDs targeted for large-format video displays
  - Announced release of new XLAMP® Pro9™ high efficiency, high CRI (or color rendering index) LEDs with the industry's highest operating temperature rating
  - CreeLED remains a brand leader with strong IP



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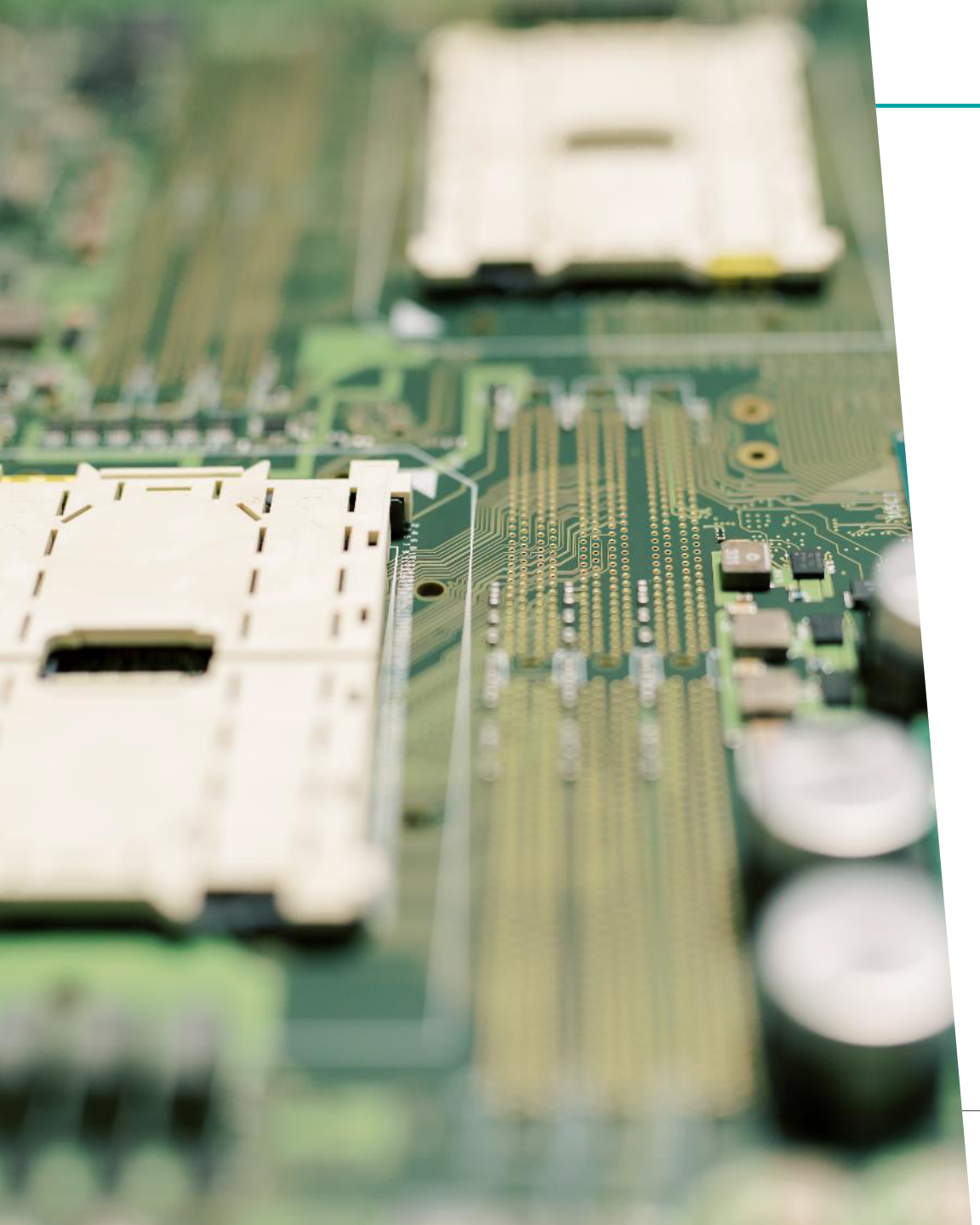

# Memory Solutions

- Revenue of $151 Million
  - Lower sequentially due to decline in both worldwide memory pricing and demand for PCs and mobile phones
  - Achieved Q2 FY23 segment operating margin of ~10%, representing a good performance in a challenging pricing environment
  - Expect sales to stabilize in Q3 FY23 from Q2 FY23 levels
- Specialty Memory
  - Business relatively stable, led by strength in Flash products
  - Remain focused on enterprise applications in the data center; primarily DDR5 and CXL
- Brazil
  - Q2 FY23 impacted by continued challenges in demand for PCs and mobile phones
  - –Growth from SSDs, 5G and DDR5 applications should drive our recovery over the coming quarters

# FINANCIAL REVIEW

Ken Rizvi, SVP and CFO


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# Strong Non-GAAP Quarterly Results

## Key financial metrics within or above guidance range

### Q2 FY23 REVENUE

**$429M**

Q2 FY23 Guidance $410-$460M

### Q2 FY23 NON-GAAP GROSS MARGIN*

**28.9%**

Q2 FY23 Guidance 26-28%

### Q2 FY23 NON-GAAP EPS*

**$0.76**

Q2 FY23 Guidance $0.60 +/- $0.15

- Guidance provided on Q1 FY23 earnings call which, took place on January 3, 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.


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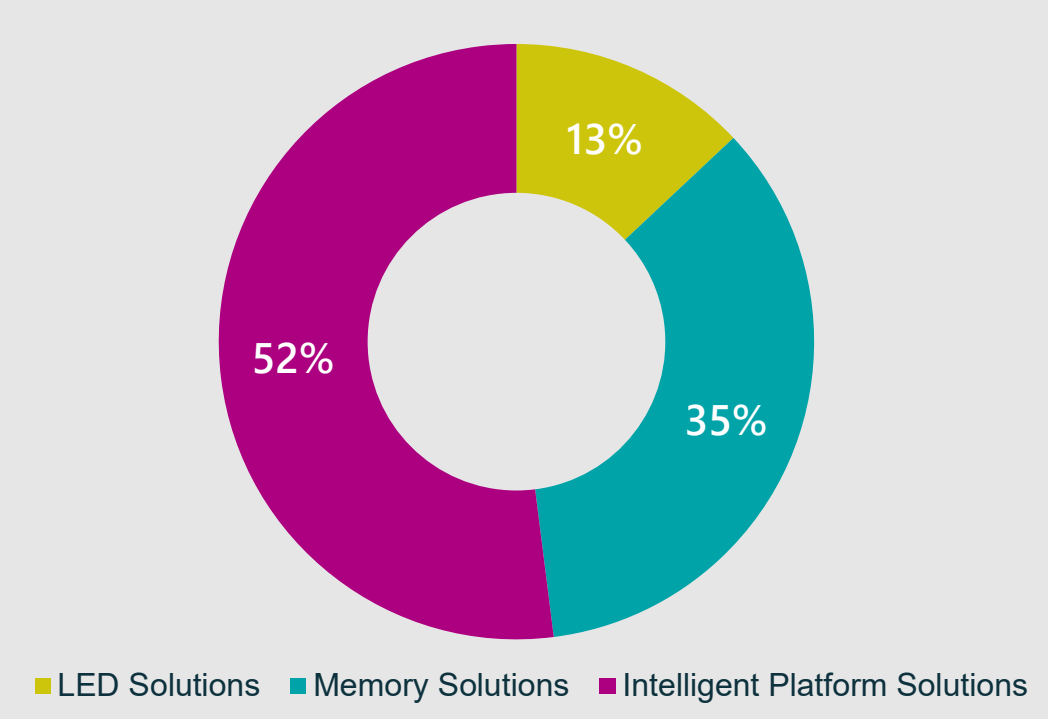
# Q2 FY23 Revenue Detail

## Revenue Breakdown – Total $429M

Product Revenue
**$374M**

Service Revenue
**$55M**

## Revenue Mix by Business





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# Q2 FY23 Non-GAAP Operating Results

| ($M) | Q2 FY23 | Q1 FY23 | Q2 FY22 |
|---|---|---|---|
| **Revenue** | **$429.2** | **$465.5** | **$449.2** |
| Intelligent Platform Solutions | $222.5 | $211.0 | $82.3 |
| Memory Solutions | $151.1 | $192.0 | $260.1 |
| LED Solutions | $55.6 | $62.5 | $106.8 |
| **Non-GAAP Gross profit*** | **$123.9** | **$129.2** | **$116.9** |
| **Non-GAAP Operating expenses*** | **$72.5** | **$74.4** | **$59.5** |
| **Non-GAAP Net income*** | **$37.6** | **$39.5** | **$47.6** |
| **Non-GAAP Diluted earnings per share*** | **$0.76** | **$0.79** | **$0.87** |
| **Adjusted EBITDA*** | **$63.5** | **$63.3** | **$66.0** |

- Summations may not compute precisely due to rounding
* 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.


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# Q2 FY23 Balance Sheet Highlights

| Working Capital | Q1 FY23 | Q2 FY23 |
|---|---|---|
| Net Accounts Receivable | $306M | $229M |
| Days Sales Outstanding | 33 days | 36 days |
| Inventory | $416M | $294M |
| Inventory Turns | 7.0X | 6.3X |

| Cash Flow | Q1 FY23 | Q2 FY23 |
|---|---|---|
| Cash & Equivalents (at period end) | $325M | $376M |
| CF from Operations | ($74.0)M | $100.5M |
| LTM CF from Operations | $15.8M | $84.2M |

| Capital Expenditures | Q1 FY23 | Q2 FY23 |
|---|---|---|
| CapEx | $11.6M | $12.6M |
| Depreciation | $8.9M | $9.0M |

- Net accounts receivable, days sales outstanding and inventory turns are calculated on a gross sales and gross cost of goods sold basis, which were $843M and $725M, respectively, for Q1 FY23, and $573M and $463M, respectively, for Q2 FY23


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# OUR GUIDANCE


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# Q3 FY23 Guidance

| | GAAP Outlook | Adjustments | Non-GAAP Outlook |
|---|---|---|---|
| **Net Sales** | $375 million +/- $20 million | — | $375 million +/- $20 million |
| **Gross margin** | 26% +/- 1% | 2% (A) | 28% +/- 1% |
| **Operating expenses** | $90 million +/- $3 million | $18 million (B)(C) | $72 million +/- $3 million |
| **Diluted earnings (loss) per share** | $(0.03) +/- $0.10 | $0.43 (A)(B)(C)(D) | $0.40 +/- $0.10 |
| **Diluted shares** | 50 million | — | 50 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 | | 5 |
| (D) Estimated tax effects | | (5) |
| | **$** | **21** |

# POWERING GROWTH.
# EXPANDING POSSIBILITIES.


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# APPENDIX


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# GAAP to Non-GAAP Reconciliations

| *(dollars in thousands, except per share data)* | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | February 24, 2023 | November 25, 2022 | February 25, 2022 | February 24, 2023 | February 25, 2022 |
| **GAAP gross profit** | **$ 110,381** | **$ 118,410** | **$ 112,713** | **$ 228,791** | **$ 234,914** |
| Share-based compensation expense | 1,369 | 1,708 | 1,648 | 3,077 | 3,379 |
| Amortization of acquisition-related intangibles | 6,615 | 6,466 | 2,582 | 13,081 | 5,678 |
| Flow-through of inventory step up | — | 2,599 | — | 2,599 | — |
| Cost of sales related restructure | 5,552 | — | — | 5,552 | — |
| **Non-GAAP gross profit** | **$ 123,917** | **$ 129,183** | **$ 116,943** | **$ 253,100** | **$ 243,971** |
| | | | | | |
| **GAAP gross margin** | **25.7 %** | **25.4 %** | **25.1 %** | **25.6 %** | **25.6 %** |
| Effect of adjustments | 3.2 % | 2.4 % | 0.9 % | 2.7 % | 1.0 % |
| **Non-GAAP gross margin** | **28.9 %** | **27.8 %** | **26.0 %** | **28.3 %** | **26.5 %** |
| | | | | | |
| **GAAP operating expenses** | **$ 117,548** | **$ 100,819** | **$ 95,908** | **$ 218,367** | **$ 183,315** |
| Share-based compensation expense | (9,026) | (8,704) | (8,325) | (17,730) | (16,369) |
| Amortization of acquisition-related intangibles | (4,200) | (4,392) | (3,247) | (8,592) | (6,494) |
| Acquisition and integration expenses | (2,824) | (6,732) | (252) | (9,556) | (1,289) |
| Impairment of goodwill | (17,558) | — | — | (17,558) | — |
| Change in fair value of contingent consideration | (6,400) | (3,700) | (24,000) | (10,100) | (41,200) |
| Restructure charge | (4,154) | (2,041) | — | (6,195) | — |
| Other | (900) | (900) | (576) | (1,800) | (577) |
| **Non-GAAP operating expenses** | **$ 72,486** | **$ 74,350** | **$ 59,508** | **$ 146,836** | **$ 117,386** |
| | | | | | |
| **GAAP operating income (loss)** | **$ (7,167)** | **$ 17,591** | **$ 16,805** | **$ 10,424** | **$ 51,599** |
| Share-based compensation expense | 10,395 | 10,412 | 9,973 | 20,807 | 19,748 |
| Amortization of acquisition-related intangibles | 10,815 | 10,858 | 5,829 | 21,673 | 12,172 |
| Flow-through of inventory step up | — | 2,599 | — | 2,599 | — |
| Cost of sales related restructure | 5,552 | — | — | 5,552 | — |
| Acquisition and integration expenses | 2,824 | 6,732 | 252 | 9,556 | 1,289 |
| Impairment of goodwill | 17,558 | — | — | 17,558 | — |
| Change in fair value of contingent consideration | 6,400 | 3,700 | 24,000 | 10,100 | 41,200 |
| Restructure charge | 4,154 | 2,041 | — | 6,195 | — |
| Other | 900 | 900 | 576 | 1,800 | 577 |
| **Non-GAAP operating income** | **$ 51,431** | **$ 54,833** | **$ 57,435** | **$ 106,264** | **$ 126,585** |

# GAAP to Non-GAAP Reconciliations

| *(dollars in thousands, except per share data)* | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | February 24, 2023 | November 25, 2022 | February 25, 2022 | February 24, 2023 | February 25, 2022 |
| **GAAP net income (loss) attributable to SGH** | **$ (27,219)** | **$ 4,992** | **$ 2,458** | **$ (22,227)** | **$ 22,485** |
| Share-based compensation expense | 10,395 | 10,412 | 9,973 | 20,807 | 19,748 |
| Amortization of acquisition-related intangibles | 10,815 | 10,858 | 5,829 | 21,673 | 12,172 |
| Flow-through of inventory step up | — | 2,599 | — | 2,599 | — |
| Cost of sales related restructure | 5,552 | — | — | 5,552 | — |
| Acquisition and integration expenses | 2,824 | 6,732 | 252 | 9,556 | 1,289 |
| Impairment of goodwill | 17,558 | — | — | 17,558 | — |
| Change in fair value of contingent consideration | 6,400 | 3,700 | 24,000 | 10,100 | 41,200 |
| Restructure charge | 4,154 | 2,041 | — | 6,195 | — |
| Amortization of debt discount and other costs | 1,048 | 1,069 | 2,296 | 2,117 | 4,506 |
| Foreign currency (gains) losses | 281 | 242 | 1,408 | 523 | 2,875 |
| (Gain) loss on extinguishment of debt | 16,691 | (767) | 653 | 15,924 | 653 |
| Other | 900 | 900 | 576 | 1,800 | 577 |
| Tax effects of above, other tax adjustments and the tax effect of capitalization of R&D expense | (11,753) | (3,300) | 126 | (15,053) | (1,626) |
| **Non-GAAP net income attributable to SGH** | **$ 37,646** | **$ 39,478** | **$ 47,571** | **$ 77,124** | **$ 103,879** |
| | | | | | |
| **Weighted-average shares outstanding - Diluted:** | | | | | |
| GAAP weighted-average shares outstanding | **49,116** | **49,791** | **57,636** | **49,039** | **56,135** |
| Adjustment for dilutive securities and capped calls | 726 | — | (2,759) | 777 | (2,670) |
| Non-GAAP weighted-average shares outstanding | **49,842** | **49,791** | **54,877** | **49,816** | **53,465** |
| | | | | | |
| **Diluted earnings (loss) per share:** | | | | | |
| GAAP diluted earnings (loss) per share | **$ (0.55)** | **$ 0.10** | **$ 0.04** | **$ (0.45)** | **$ 0.40** |
| Effect of adjustments | 1.31 | 0.69 | 0.83 | 2.00 | 1.55 |
| Non-GAAP diluted earnings per share | **$ 0.76** | **$ 0.79** | **$ 0.87** | **$ 1.55** | **$ 1.95** |



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# GAAP to Non-GAAP Reconciliations

| *(dollars in thousands, except per share data)* | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | February 24, 2023 | November 25, 2022 | February 25, 2022 | February 24, 2023 | February 25, 2022 |
| **Net income (loss) attributable to SGH** | **$ (27,219)** | **$ 4,992** | **$ 2,458** | **$ (22,227)** | **$ 22,485** |
| Interest expense, net | 8,006 | 8,037 | 4,462 | 16,043 | 9,568 |
| Income tax provision (benefit) | (1,716) | 4,890 | 7,586 | 3,174 | 15,341 |
| Depreciation expense and amortization of intangible assets | 19,931 | 19,789 | 16,077 | 39,720 | 31,890 |
| Share-based compensation expense | 10,395 | 10,412 | 9,973 | 20,807 | 19,748 |
| Flow-through of inventory step up | — | 2,599 | — | 2,599 | — |
| Cost of sales related restructure | 5,552 | — | — | 5,552 | — |
| Acquisition and integration expenses | 2,824 | 6,732 | 252 | 9,556 | 1,289 |
| Impairment of goodwill | 17,558 | — | — | 17,558 | — |
| Change in fair value of contingent consideration | 6,400 | 3,700 | 24,000 | 10,100 | 41,200 |
| Restructure charge | 4,154 | 2,041 | — | 6,195 | — |
| (Gain) loss on extinguishment of debt | 16,691 | (767) | 653 | 15,924 | 653 |
| Other | 900 | 900 | 576 | 1,800 | 577 |
| **Adjusted EBITDA** | **$ 63,476** | **$ 63,325** | **$ 66,037** | **$ 126,801** | **$ 142,751** |



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