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Q2 FY25 Financial Results

Nasdaq: PENG

April 2, 2025

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Statement Regarding Use of Non-GAAP Financial Measures:

This presentation contains the following non-GAAP financial measures: non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, non-GAAP effective tax rate, non-GAAP net income, non-GAAP weighted-average shares outstanding, non-GAAP diluted earnings per share and Adjusted EBITDA. Penguin Solutions' management uses non-GAAP measures to supplement Penguin Solutions' 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 Penguin Solutions' 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 and trademarks/trade names acquired in connection with business combinations), cost of sales-related restructuring, diligence, acquisition and integration expense, redomiciliation costs, restructuring charges, impairment of goodwill, changes in the fair value of contingent consideration, (gains) losses from changes in foreign currency exchange rates, amortization of debt issuance costs, gain (loss) on extinguishment or prepayment 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 Penguin Solutions' 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 Penguin Solutions' 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 provision (benefit), depreciation and amortization of intangible assets, share-based compensation expense, cost of sales-related restructuring, diligence, acquisition and integration expense, redomiciliation costs, restructure charges, 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 Penguin Solutions' 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 “GAAP to Non-GAAP Reconciliations" in the appendix at the end of this presentation.

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

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Speakers



Mark Adams
President and CEO



Nate Olmstead
SVP and CFO

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Q2 FY25 Financial Highlights



Revenue

Revenue of $366M, up 28% vs. Q2 FY24; fifth consecutive quarter of sequential revenue growth



Gross Margin

Non-GAAP gross margin of 30.8%



EPS

Non-GAAP Diluted EPS of $0.52; up 97% vs. year-ago quarter



Balance Sheet

Strong balance sheet with cash, cash equivalents, and short-term investments of $647M

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Non-GAAP Gross Margin and Non-GAAP Diluted EPS are non-GAAP measures. For reconciliations to the most directly comparable financial measures prepared in accordance with GAAP, please see the appendix.

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Trusted Advisor for AI Infrastructure

Enabling Our Customers to Harness the Power of Accelerated Computing

With over two decades of experience as trusted advisors, **Penguin Solutions** designs, builds, deploys, and manages high-performance, high-availability enterprise solutions, supporting customers in achieving breakthrough innovations.



HPC & AI Infrastructure Experts

25 years of experience



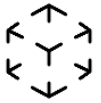
Exceptional Professional Services

End-to-end solutions support



AI Cluster Management

Software suite



Innovative Solutions

Delivery that spans core, cloud, and edge

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Business Review

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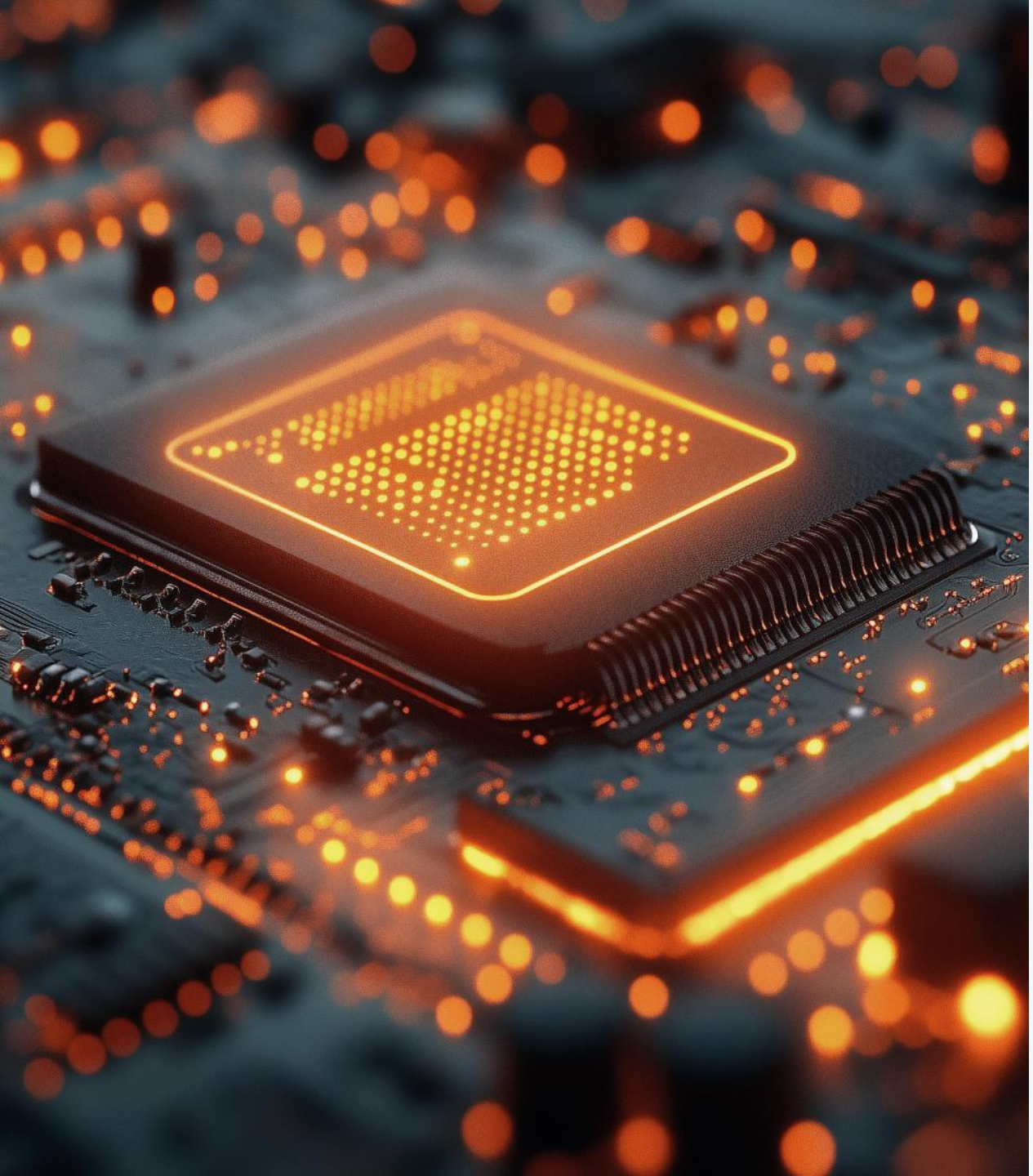
Advanced Computing

- **Strong revenue and pipeline growth**
  - $200M of revenue, up 42% YoY; 55% of total company revenue
  - Driven by demand for large-scale AI infrastructure deployments
  - Expanding pipeline with focus on converting into future bookings
- **AI infrastructure expertise**
  - Custom-built and pre-configured solutions integrating computing, networking, memory, storage and cooling
  - ICE ClusterWare™ software stack is designed to optimize AI performance
  - Trusted advisor to enterprise customers
- **End-to-end execution and support**
  - Proven track record in large-scale AI deployments for enterprises
  - Post-deployment services ensure performance and uptime
  - Full lifecycle support for long-term AI infrastructure growth



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Integrated Memory

- **Continued improvement in revenue**
  - $105M of revenue, up 26% YoY; 29% of total company revenue
    - Driven by enterprise demand for high-performance, high-reliability memory solutions
  - AI workloads accelerating need for advanced memory solutions
- **CXL (Compute Express Link) market expansion**
  - Launching CXL memory products to support next-gen AI
  - Dell added SMART Modular's CXL add-in card to server configuration options
  - CXL adoption expected to drive AI and datacenter growth
- **Robust backlog and market positioning**
  - Entering Q3 with AI-driven backlog strength
  - Inventory stability across datacenter, networking and telecom
  - Positioned to capitalize on continued AI infrastructure growth

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Optimized LED

- **Stable revenue with improved margins**
  - $60M revenue flat YoY; 16% of total company revenue
  - Q2 seasonally softer due to US holidays and Chinese New Year holiday
- **Capital-lite model driving profitability**
  - Outsourced manufacturing model remains a competitive advantage
  - Contributed to improved profitability in 1H FY25; supports cost-effective scaling and LT margin expansion
- **Strategic IP and customer growth**
  - New patent license agreement with Daktronics, a leader in large-scale LED displays
  - Strong IP portfolio attracting new customer design wins
  - Increasing traction with large LED lighting customers in the US and Western Europe



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Investing in Innovation & Growth

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Expanded Software and Services for AI Optimization

Enhanced ICE ClusterWare™ Platform

- Multi-tenancy support for improved resource management
- Streamlined workflows for enhanced controls and efficiency

New ICE ClusterWare AIM™ Service

- New AIM service using prediction automation designed to maximize AI performance
- Ability to support complex AI deployments



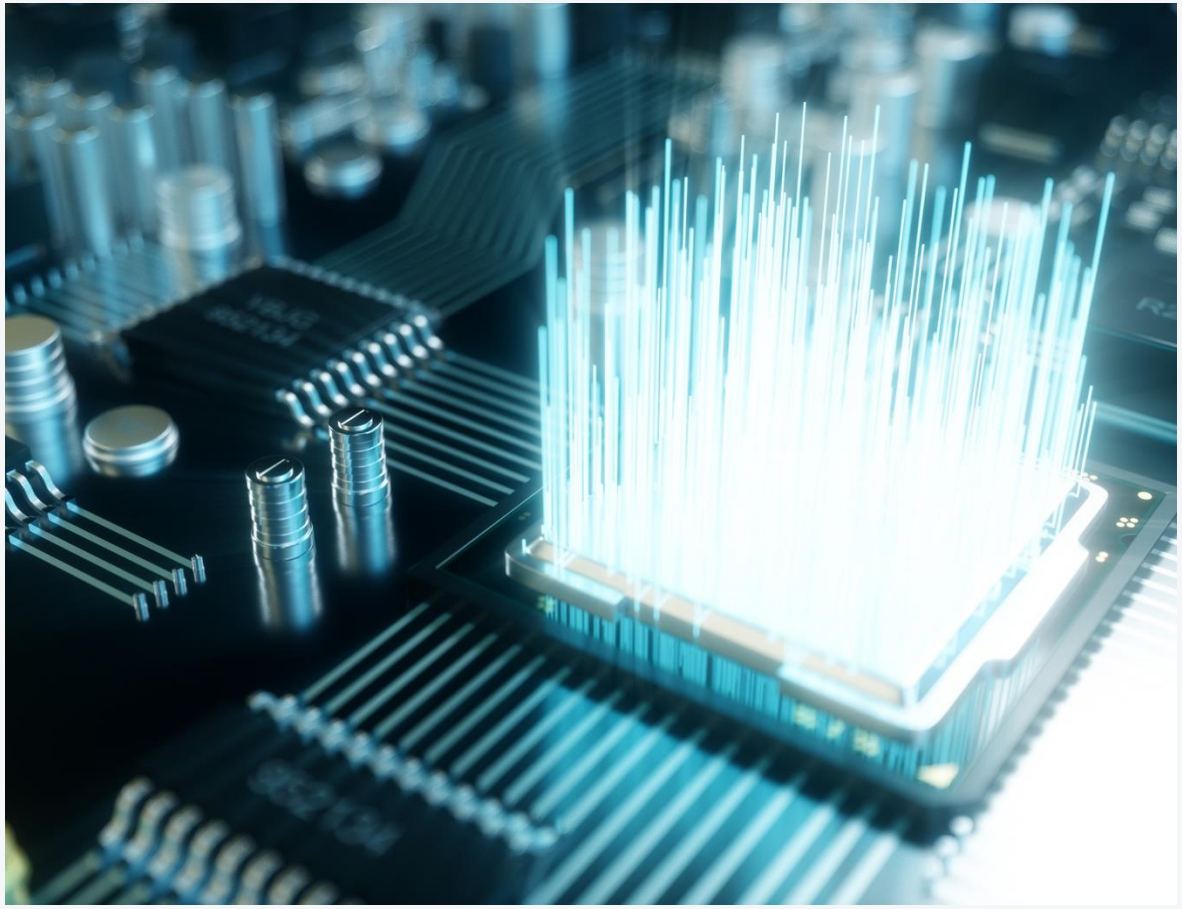
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Advancing Memory Solutions for AI

SMART Modular Developing Optical Memory Appliance (OMA)

- Addresses bandwidth and availability challenges for next-gen AI compute
- Supports growing AI memory demands with high-performance solutions



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Strategic Collaborations & Go-to-Market Expansion

SK Group

- In discussions with SK Telecom regarding potential collaborations related to their AI strategy, including AI data center infrastructure initiatives
- Strengthening SMART Modular & SK hynix collaboration to address custom, high-mix memory markets

Dell Technologies

- Penguin's AI software and managed services now sellable via Dell's global salesforce
- Ongoing sales training and co-marketing driving early enterprise engagement

Expanding Go-to-Market Strategy

- Prioritizing relationships with global infrastructure leaders
- Evaluating domestic and international GTM opportunities

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Financial Review

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Non-GAAP Q2 FY25 Results

Revenue

$366M

Non-GAAP
Gross Margin

30.8%

Non-GAAP
Operating Margin

13.4%

Non-GAAP Diluted
EPS

$0.52

Non-GAAP Gross Margin, Non-GAAP Operating Margin and Non-GAAP Diluted EPS are non-GAAP measures. For reconciliations to the most directly comparable financial measures prepared in accordance with GAAP, please see the appendix.

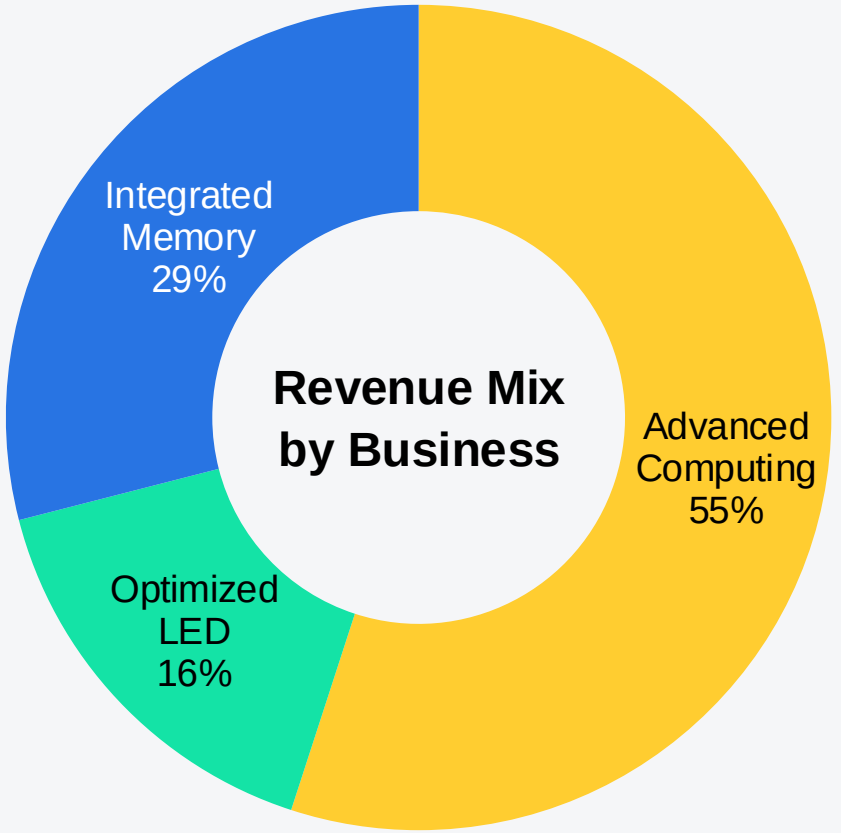
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Q2 FY25 Revenue Detail

Revenue Breakdown – Total $366M

Product Revenue
$302M

Services Revenue
$64M



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Q2 FY25 Non-GAAP Operating Results[1]

($M)	Q2 FY25	Q1 FY25	Q2 FY24
Revenue	**$366**	**$341**	**$285**
Advanced Computing	$200	$177	$141
Integrated Memory	$105	$97	$83
Optimized LED	$60	$67	$60
Non-GAAP gross profit[2]	**$112**	**$105**	**$90**
Non-GAAP operating expenses[2]	**$63**	**$64**	**$63**
Non-GAAP operating income[2]	**$49**	**$41**	**$27**
Non-GAAP net income[2]	**$34**	**$27**	**$14**
Non-GAAP diluted earnings per share[2]	**$0.52**	**$0.49**	**$0.27**
Adjusted EBITDA[2]	**$54**	**$45**	**$33**

1. Summations may not compute precisely due to rounding.
2. Non-GAAP gross profit, Non-GAAP operating expenses, Non-GAAP operating income, Non-GAAP net income, Non-GAAP diluted earnings per share, and Adjusted EBITDA are non-GAAP measures. For reconciliations to the most directly comparable financial measures prepared in accordance with GAAP, please see the appendix.

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Q2 FY25 Balance Sheet and Cash Flow Highlights

($M)	Q2 FY25	Q1 FY25	Q2 FY24
Working Capital			
Net Accounts Receivable	$330	$276	$170
Days Sales Outstanding	50 days	45 days	41 days
Inventory	$200	$247	$173
Days of Inventory	37 days	49 days	54 days
Accounts Payable	$238	$244	$148
Days Payable Outstanding	44 days	49 days	46 days
Cash Conversion Cycle	43 days	46 days	49 days
Cash Flow			
Cash, Cash Equivalents and Short-Term Investments (at period end)	$647	$394	$181
Cash Flows from Operations	$73	$14	$(22)
Capital Expenditures & Depreciation			
CapEx	$2	$2	$5
Depreciation	$5	$5	$7

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Net accounts receivable, days sales outstanding, days of inventory and days payable outstanding are calculated on a gross sales and gross cost of goods sold basis, which were $596M and $492M, respectively, for Q2 FY25, $554M and $456M, respectively, for Q1 FY25, and $375M and $294M, respectively, for Q2 FY24.

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Our Outlook

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FY 2025 Outlook

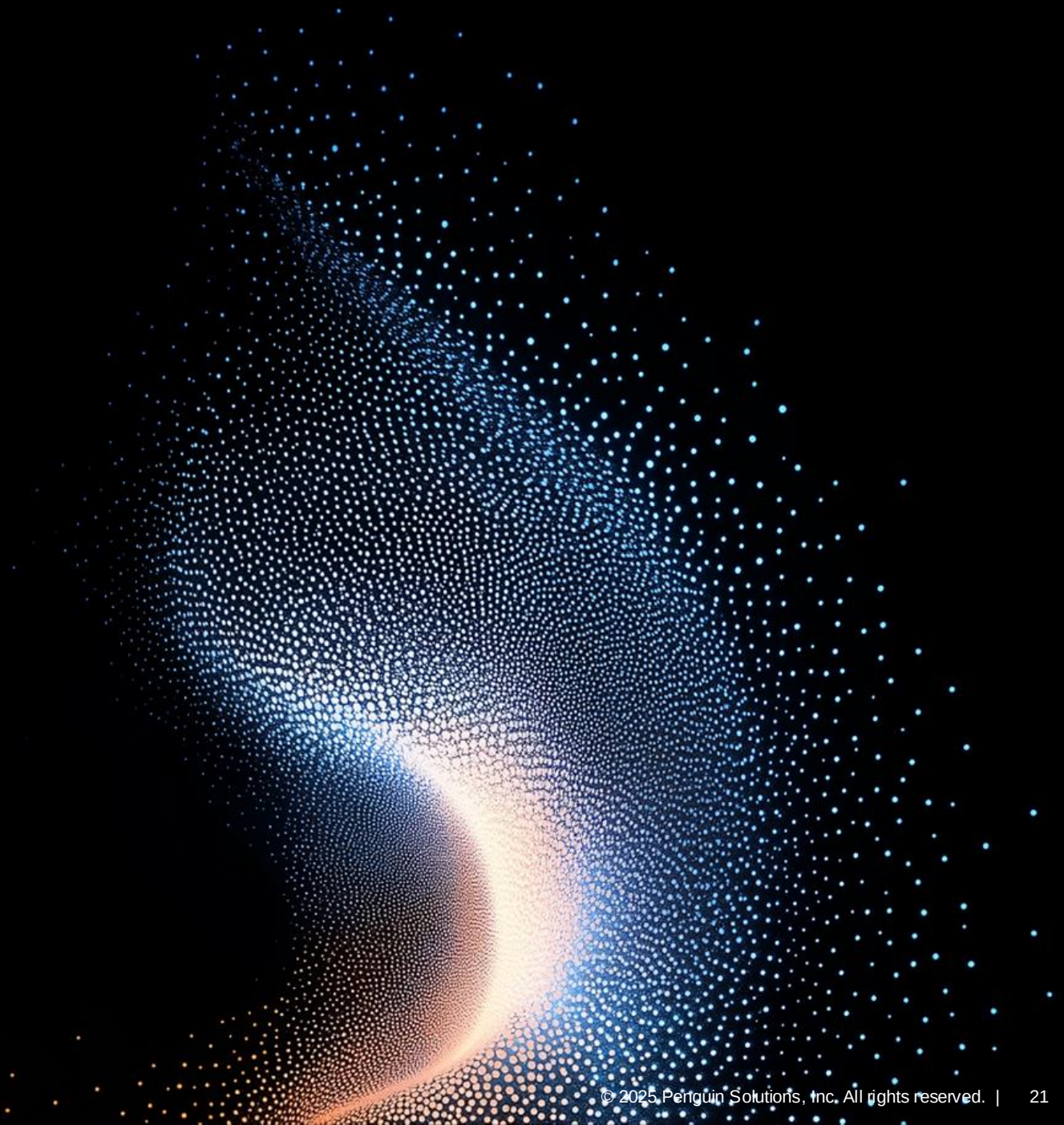
	GAAP Outlook	Adjustments	Non-GAAP Outlook
Net Sales	17% YoY Growth +/- 3%	—	17% YoY Growth +/- 3%
Gross margin	29% +/- 1%	2% (A)	31% +/- 1%
Operating expenses	$336 million +/- $5 million	$(71) million (B)(C)(D)	$265 million +/- $5 million
Diluted earnings per share	$-0.02 +/- $0.10	$1.62 (A)(B)(C)(D)(E)	$1.60 +/- $0.10
Diluted shares	54 million	1 million	55 million

Non-GAAP adjustments: (in millions)	
(A) Share-based compensation and amortization of acquisition-related intangibles included in cost of sales	$ 31
(B) Share-based compensation and amortization of acquisition-related intangibles included in R&D and SG&A	48
(C) Goodwill impairment	16
(D) Other adjustments	7
(E) Estimated income tax effects	(13)
	$ 89

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Solving complexity.
Accelerating results.



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GAAP to Non-GAAP Reconciliations

(dollars in thousands)	Three Months Ended February 28, 2025	Three Months Ended November 29, 2024	Three Months Ended March 1, 2024	Six Months Ended February 28, 2025	Six Months Ended March 1, 2024
GAAP gross profit	**$ 104,648**	**$ 97,812**	**$ 81,934**	**$ 202,460**	**$ 164,784**
Share-based compensation expense	1,776	1,643	1,691	3,419	3,506
Amortization of acquisition-related intangibles	5,907	5,909	5,894	11,816	11,838
Cost of sales-related restructuring	77	(42)	216	35	884
Other	—	(200)	—	(200)	—
Non-GAAP gross profit	**$ 112,408**	**$ 105,122**	**$ 89,735**	**$ 217,530**	**$ 181,012**
GAAP gross margin	**28.6 %**	**28.7 %**	**28.8 %**	**28.7 %**	**29.5 %**
Effect of adjustments	2.2 %	2.1 %	2.7 %	2.1 %	2.9 %
Non-GAAP gross margin	**30.8 %**	**30.8 %**	**31.5 %**	**30.8 %**	**32.4 %**
GAAP operating expenses	**$ 86,160**	**$ 80,456**	**$ 85,246**	**$ 166,616**	**$ 166,791**
Share-based compensation expense	(9,804)	(9,888)	(8,948)	(19,692)	(18,103)
Amortization of acquisition-related intangibles	(2,932)	(3,846)	(3,857)	(6,778)	(7,921)
Diligence, acquisition and integration expense	(567)	(833)	(5,885)	(1,400)	(6,674)
Redomiciliation costs (1)	(2,359)	(1,243)	—	(3,602)	—
Impairment of goodwill	(6,079)	—	—	(6,079)	—
Restructuring charges	(859)	(109)	(3,335)	(968)	(6,274)
Other (1)	(242)	(333)	—	(575)	—
Non-GAAP operating expenses	**$ 63,318**	**$ 64,204**	**$ 63,221**	**$ 127,522**	**$ 127,819**
GAAP operating income (loss)	**$ 18,488**	**$ 17,356**	**$ (3,312)**	**$ 35,844**	**$ (2,007)**
Share-based compensation expense	11,580	11,531	10,639	23,111	21,609
Amortization of acquisition-related intangibles	8,839	9,755	9,751	18,594	19,759
Cost of sales-related restructuring	77	(42)	216	35	884
Diligence, acquisition and integration expense	567	833	5,885	1,400	6,674
Redomiciliation costs (1)	2,359	1,243	—	3,602	—
Impairment of goodwill	6,079	—	—	6,079	—
Restructuring charges	859	109	3,335	968	6,274
Other (1)	242	133	—	375	—
Non-GAAP operating income	**$ 49,090**	**$ 40,918**	**$ 26,514**	**$ 90,008**	**$ 53,193**
GAAP operating margin	**5.1 %**	**5.1 %**	**(1.2)%**	**5.1 %**	**(0.4)%**
Effect of adjustments	8.3 %	6.9 %	10.5 %	7.6 %	9.9 %
Non-GAAP operating margin	**13.4 %**	**12.0 %**	**9.3 %**	**12.7 %**	**9.5 %**

(1) In the second quarter of fiscal 2025 we began breaking out redomiciliation costs from "Other." All periods presented have been adjusted to reflect this change.

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GAAP to Non-GAAP Reconciliations

(dollars in thousands, except per share data)	Three Months Ended February 28, 2025	Three Months Ended November 29, 2024	Three Months Ended March 1, 2024	Six Months Ended February 28, 2025	Six Months Ended March 1, 2024
GAAP net income (loss) attributable to Penguin Solutions	**$ 8,082**	**$ 5,217**	**$ (13,620)**	**$ 13,299**	**$ (25,393)**
Share-based compensation expense	11,580	11,531	10,639	23,111	21,609
Amortization of acquisition-related intangibles	8,839	9,755	9,751	18,594	19,759
Cost of sales-related restructuring	77	(42)	216	35	884
Diligence, acquisition and integration expense	567	833	5,885	1,400	6,674
Redomiciliation costs (1)	2,359	1,243	—	3,602	—
Impairment of goodwill	6,079	—	—	6,079	—
Restructuring charges	859	109	3,335	968	6,274
Amortization of debt issuance costs	950	953	968	1,903	2,010
Loss (gain) on extinguishment or prepayment of debt	—	—	325	—	325
Foreign currency (gains) losses	24	1,028	182	1,052	(364)
Other (1)	242	133	—	375	—
Income tax effects	(5,822)	(4,242)	(3,540)	(10,064)	(5,099)
Non-GAAP net income attributable to Penguin Solutions	**$ 33,836**	**$ 26,518**	**$ 14,141**	**$ 60,354**	**$ 26,679**
Weighted-average shares outstanding - Diluted:					
GAAP weighted-average shares outstanding	**54,384**	**54,312**	**52,031**	**54,484**	**52,050**
Adjustment for dilutive securities and capped calls	—	—	1,043	—	1,128
Non-GAAP weighted-average shares outstanding	**54,384**	**54,312**	**53,074**	**54,484**	**53,178**
Diluted earnings (loss) per share from continuing operations:					
GAAP diluted earnings (loss) per share	**$ 0.09**	**$ 0.10**	**$ (0.26)**	**$ 0.19**	**$ (0.49)**
Effect of adjustments	0.43	0.39	0.53	0.82	0.99
Non-GAAP diluted earnings per share	**$ 0.52**	**$ 0.49**	**$ 0.27**	**$ 1.01**	**$ 0.50**

(1) In the second quarter of fiscal 2025 we began breaking out redomiciliation costs from "Other." All periods presented have been adjusted to reflect this change.

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GAAP to Non-GAAP Reconciliations

(dollars in thousands)	Three Months Ended			Six Months Ended	
	February 28, 2025	November 29, 2024	March 1, 2024	February 28, 2025	March 1, 2024
Net income (loss) attributable to Penguin Solutions	**$ 8,082**	**$ 5,217**	**$ (13,620)**	**$ 13,299**	**$ (25,393)**
Interest expense, net	2,183	4,396	7,249	6,579	16,808
Income tax provision (benefit)	7,643	6,360	2,198	14,003	5,732
Depreciation expense and amortization of intangible assets	14,037	14,961	17,156	28,998	34,810
Share-based compensation expense	11,580	11,531	10,639	23,111	21,609
Cost of sales-related restructuring	77	(42)	216	35	884
Diligence, acquisition and integration expense	567	833	5,885	1,400	6,674
Redomiciliation costs (1)	2,359	1,243	—	3,602	—
Impairment of goodwill	6,079	—	—	6,079	—
Restructuring charges	859	109	3,335	968	6,274
Loss on extinguishment of debt	—	—	325	—	325
Other (1)	242	133	—	375	—
Adjusted EBITDA	**$ 53,708**	**$ 44,741**	**$ 33,383**	**$ 98,449**	**$ 67,723**

(1) In the second quarter of fiscal 2025 we began breaking out redomiciliation costs from "Other." All periods presented have been adjusted to reflect this change.

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Convertible Dilution

Stock Price	Share Dilution	Capped Call	Dilution to SGH
$18	—	—	—
$19	—	—	—
$20	—	—	—
$21	33	(163)	(130)
$22	324	(627)	(303)
$23	660	(1,121)	(461)
$24	968	(1,574)	(606)
$25	1,251	(1,991)	(740)
$26	1,512	(2,376)	(864)
$27	1,755	(2,732)	(977)
$28	1,979	(2,899)	(920)
$29	2,433	(3,287)	(854)
$30	2,858	(3,448)	(590)
$31	3,256	(3,567)	(311)
$32	3,629	(3,679)	(50)
$33	3,979	(3,784)	195
$34	4,309	(3,882)	427
$35	4,620	(3,975)	645

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Note: Dilution in thousands of shares

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