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## SMCI: Short squeeze, Lateral to DELL

*In a dramatic move after regular trading hours yesterday, SMCI Board produced an independent audit firm at the eleventh hour and submitted a compliance plan to the NASDAQ, thus potentially averting stock delisting. There is still the formality of the NASDAQ accepting the plan and agreeing to an extension for filing 10-K, but we think it is just that – a formality.*

*In a note yesterday ([link](#)) we opined that SMCI is just too important a player in the AI data center space for it to be allowed to delist and go fallow. While we claimed no knowledge of the timing of regulatory filing, we opined that delisting, leading to loss of access to capital, was a low probability event. We opined the stock was trading as a deep discount. We set a PT of \$45.*

*With the filing of the 8-K last night and the probability of delisting melting away, we expect a vicious short-squeeze to ensue. The stock was up ~30% in the after-hours trading. We expect the stock to **make a run for our PT in the near term**. And with the possibility of delisting now reduced, hardware peers such as DELL, that investors had rewarded in anticipation of winning share from SMCI, stand in danger of a **stock fade**.*

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**SMCI- We reiterate our view:** We take the view that regardless of its regulatory woes (now receding in the rear-view mirror), SMCI maintains its leadership in the massive, scalable AI data center market for liquid-cooled server racks. SMCI has a **leadership position** in the rapidly expanding liquid-cooled GPU server data center market, a position it is unlikely to give up any time soon.

In the past few months, as SMCI's delisting drama played out, many on the Street believed that NVDA would act as a traffic cop and direct GPU server orders away from SMCI and to new players.

A potential beneficiary of potential share loss at SMCI that investors have been paying attention to is DELL.

We take a contrary view. We do not believe scalable liquid cooling technology is commoditized. We do not believe infrastructure vendors are interchangeable.

**Trading idea:** We expect the stock to make a run for our \$45 PT in the near term.

**Is DELL an interchangeable vendor?** Not so, in our view. DELL supplies air-cooled systems and not liquid-cooled systems, in our view. As such DELL is not a competitor to SMCI's liquid cooled infrastructure. A tweet from Michael Dell two days ago seems to claim otherwise. The tweet announced that the company is shipping liquid cooled GB200 Blackwell servers to CoreWeave.

On the face of it, the claim appears to place DELL's capability in the same category as SMCI. But here is the difference. The **scalable** solution SMCI build for **20K-100K** GPU class of data centers

involves a centralized HVAC system with a centralized water chiller supplying coolant across hundreds of racks. This requires a purpose-built data center built around the HVAC system.

To our understanding, CoreWeave does not have access to such purpose-built data center shells. CoreWeave rents data center floor space from 3<sup>rd</sup> party data center players such as DLR. In such a configuration, CoreWeave as a tenant shares the data center shell with other tenants.

**DELL's capability – our view:** DELL's solution at CoreWeave may not be able to support a massive, scalable liquid cooled system of 20+K GPUs cooled by a **centralized cooling system**. We suspect the best CoreWeave could accommodate would be a **handful** of NVDA's NVL72 racks, each rack cooled by a **stand-alone chiller**. The Dell/CoreWeave infrastructure system may not be scalable to the degree that SMCI has demonstrated – a 100K GPU system in one data center.

**Net/Net:** We do not believe DELL is a serious challenge to SMCI and is unlikely to poach large installations of the order of 20K GPUs and above.

**Trading idea:** While DELL is likely to show improved AI traction at its upcoming earnings event, we suspect the bulk of the AI growth at DELL is likely to come from **air-cooled servers** and not liquid-cooled servers. We expect the **DELL vs SMCI trade to unwind**.

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