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IDEA

*June 15, 2026 07:26 AM GMT*

## IT Hardware | North America

# HDDs – The Next Leg Higher

| WHAT'S CHANGED | | |
|---|---|---|
| **Seagate Technology (STX.O)** | **From** | **To** |
| Price Target | $767.00 | **$1,035.00** |
| **Western Digital (WDC.O)** | | |
| Price Target | $488.00 | **$650.00** |

Our Asia checks from the last 3 weeks make clear the HDD cycle is elongating – with greater shortages now expected through at least CY28 – while also illustrating that HDD pricing is clearly, and meaningfully, strengthening. Raising ests/PTs meaningfully. STX PT to $1,035; WDC to $650.

## Key Takeaways

- Our checks from Asia over the last 3 weeks highlight strengthening (and broadening) HDD demand and the potential for material pricing upside.
- We believe HDD demand is growing 40-50% annually while supply (EB) growth is closer to 30-35%. We are hearing of shortages through at least CY28.
- Current nearline price/TB is <$15. Our Taiwan checks indicate HDD vendors are targeting $25-30 Price/TB over the next 2-3 years.
- Despite our base case forecasts being far more conservative than our checks (i.e., <$20/TB pricing) our FY28 EPS ests are now ~70% above Street for STX and WDC.
- STX still 'Top Pick' given greater relative margin expansion oppt'y in next 3-6mo, but pounding the table on both our STX and WDC Overweights.

**The drivers of HDD demand are broadening, visibility is elongating, pricing is strengthening, and our *new* bull cases are coming closer into play – STX and WDC remain our most-favored Overweights.** We have learned 2 important pieces of information while spending time in Asia over the last 3 weeks (2 in Taiwan, 1 with WDC mgmt) that build conviction in our bullish HDD industry call – (1) HDD demand is strengthening due to core cloud services outperformance + growing inferencing/agents demand, resulting in even greater HDD supply shortages than we had expected through at least CY28; and (2) stronger demand, higher capacity drive introductions, and parabolic NAND price hikes are leaving HDD vendors with greater conviction to meaningfully increase prices over the next 2-3 years – though in a more controlled/predictable way than memory peers. When combined, we believe that the market continues to underestimate the longevity of this HDD cycle, as well as the potential earnings power of both STX and WDC. **In fact, not only are our base case FY28 EPS estimates now 70% above consensus – if we were to take the most bullish of our pricing checks as truth, both STX and WDC could 10x EPS between CY25 and CY28.** Either way, we believe HDD EPS are clearly biased upwards and that valuation multiples remain undemanding at 11-18x our base/bull

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| IT HARDWARE | |
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| Industry View | **Cautious** |

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case CY27 EPS, leaving HDDs as our still-most-preferred area of AI exposure within our IT Hardware universe, with STX remaining our 'Top Pick'.

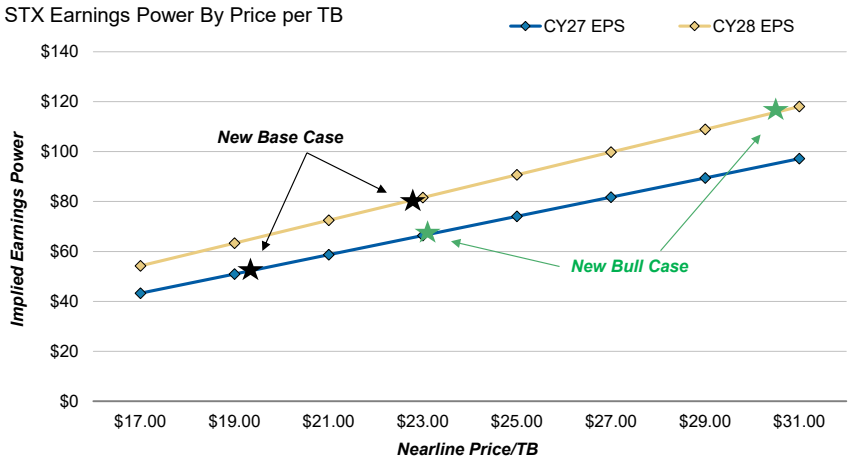
**What we've learned about HDDs over the last 3 weeks during our Taiwan AI Summit, COMPUTEX, and WDC Asia Roadshow.** A few very important, new datapoints:

- **Demand is strengthening.** We are now hearing that nearline HDD supply will be 300EB's short of demand in CY26 (10-15% shortage), 400EB's short of demand in CY27, and 400EB's short of demand in CY28. Why? Core cloud services growth is outperforming and AI inferencing/agents are driving upside to general-purpose server shipments and HDD demand. For reference, we are hearing hyperscalers are deploying HDDs at close to a 100% rate vs. ~70% historically, suggesting limited inventory build at CSPs. Further, HDD inventory at ODMs is only 1-2 weeks currently. Overall, we believe HDD demand is growing closer to 40-50% annually, while supply growth is closer to 30-35%.
- **HDD pricing is strongly biased upwards.** Today, STX's and WDC's blended nearline price per TB is $14.30-14.90. In April, we learned HDD vendors could capture $20/TB for nearline capacity in CY27/CY28. During our time in Taiwan this month, we learned that HDD vendors are targeting up to $25-30/TB for blended nearline pricing in CY27/CY28 (targeting, not already negotiated… we want to be clear). Furthermore, current "spot" HDD prices (i.e., what is charged for customers not on LTAs) are ~30% higher than previously captured, with some distributors selling HDDs for up to $30-35/TB today. It's our understanding that pricing changes for hyperscalers are still communicated well in advance, and typically captured through prescriptive Q/Q pricing escalators within contracts.
- **HDD vendors are limiting their use of 12+ month LTAs to capture more favorable commercial terms.** While hyperscalers are asking for LTAs out to 2032, HDD vendors are less willing to sign deals this long. Why? Because applications for HDDs / cold storage are broadening, shortages are growing, the TCO vs. NAND is significantly improving, and HDD replacement technology remains non-existent. To be clear, STX/WDC want to provide their customers with 5 years of visibility on capacity and technology introductions, but are just less eager to attach commercial terms 12+ months out.

**We want to put some of these pricing data points in context.** We, by no means, want to minimize checks that point to a strengthening HDD demand environment. But the HDD vendors are very disciplined on supply (i.e., no greenfield capacity buildouts), and thus nearline EB growth over the next 2-3 years will be dictated by supply, which we believe is growing at a 30-35% CAGR. Conversely, we want to be very clear on exactly how impactful these pricing checks *could* be to STX/WDC's financial model. This is because any incremental pricing upside is effectively all profit (tax effected). As seen in Exhibit 1 and Exhibit 2 below, **if we were to assume blended nearline price per TB reached $25 in CY27 and $30 in CY28 – in line with our Taiwan checks – STX could generate >$70 of EPS in CY27 and > $100 of EPS in CY28, while WDC could do >$40 of EPS in CY27 and >$70 of EPS**

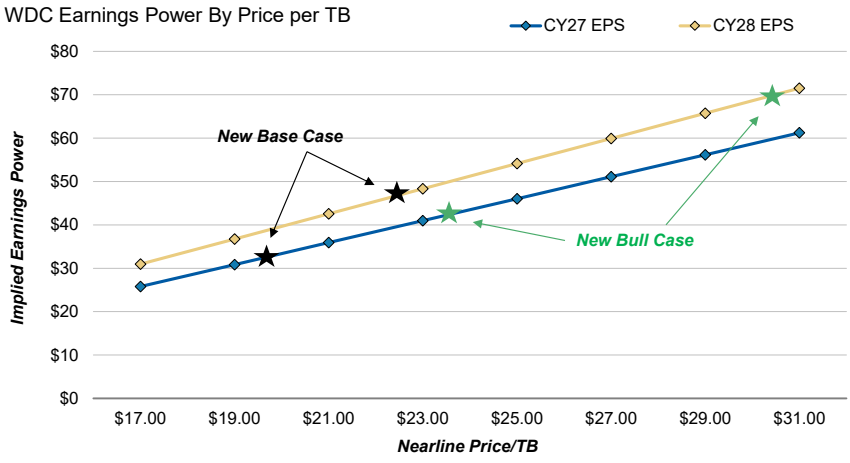
**in CY28**. For reference, STX/WDC did $10.24 / $6.95 of EPS in CY25, **implying a 10x-ing of EPS over 3 years**. To be clear, we don't want to imply this is the market base case today – our new CY27 STX base case EPS is $51, while our CY27 WDC base case EPS if $32. But if these checks prove accurate, our bull case valuations of ~$1,446 for STX and $920 for WDC are clearly in play.

**Exhibit 1:** Our new base case STX forecast implies nearline price/EB of $19 in CY27 and $22 in CY28 vs. $22/$29 in our new bull case forecasts




Source: Morgan Stanley Research estimates

**Exhibit 2:** Our new base case WDC forecast implies nearline price/EB near $19.50 in CY27 and $22 in CY28 vs. $22.50/$29 in our new bull case forecasts




Source: Morgan Stanley Research estimates

**Furthermore, HDDs are in the midst of a 10-year technology transition, and the risk of new entrants is limited, in our conversations.** Outside of a reversal in cloud capex – which is a risk much broader than HDDs – the most significant risk to our HDD forecasts would be a new entrant that disrupts the powerful, rational HDD oligopoly. During our time with WDC management last week, CEO Irving Tan contextualized this risk for us, explaining that the challenges with becoming competitive as a new entrant are not about capital, but rather: (1) the time it takes to move to the next generation leading-edge node – it's taken over 10 years to qualify HAMR; (2) the ability to internalize/vertically integrate technology across disparate fields of knowledge such as magnetics, material science, photonics, nano-

fabrication, etc.; and (3) a lack of broad supply chain capacity – the HDD supply chain is very consolidated with limited under-utilization today. Mr. Tan noted Chinese players have tried to create cold-storage alternatives recently (Huawei's Magneto-Electric Disk, for example) but found little success. Overall, we feel comfortable with this risk today.

**How our estimates and PTs are changing.** With this report, we are only making one significant change in our STX/WDC models – adjusting nearline price per TB higher. We don't make any material changes to EB growth, annual cost declines, or opex. But with modest pricing upside (10-20% higher price/TB in 2027-2028), we now forecast stronger revenue growth, higher gross/operating margins, and stronger buybacks. We also tweak each model for recent convertible debt exchanges. **For STX,** this means our FY26 EPS doesn't change, but our FY27 EPS increases 11% to $35.38 (from $31.75) and our FY28 EPS increases 30% to $70.64 (from $53.95). Subsequently, this drives our PT to $1,035 (from $767) or 20x CY27 EPS of $51.67, and our bull case valuation to $1,446 (22x bull case CY27 EPS of $65.74). **For WDC,** our FY26 EPS is also unchanged, while our FY27 EPS increases 13% to $22.40 (from $19.89) and our FY28 EPS increases 25% to $43.47 (from $34.87). Our PT is now $650 (from $488) or 20x CY27 EPS of $32.29, and our bull case valuation is now $920 (22x bull case CY27 EPS of $41.80).

**Exhibit 3:** Compared to our new base case forecasts, our bull cases assume slightly higher EB shipments, larger price hikes, similar cost-downs, stable opex spend, and stronger buybacks

| CY27 | STX | | WDC | |
|---|---|---|---|---|
| | Base Case | Bull Case | Base Case | Bull Case |
| Revenue Y/Y | 57% | 79% | 57% | 81% |
| EB Y/Y | 27% | 31% | 28% | 30% |
| Nearline EB Y/Y | 31% | 35% | 31% | 33% |
| Price Per EB Y/Y | 23% | 37% | 23% | 39% |
| Cost Per EB Y/Y | -13% | -13% | -13% | -13% |
| Gross Margin | 66.1% | 70.4% | 67.7% | 72.1% |
| Opex ($B) | $1.23 | $1.23 | $1.76 | $1.76 |
| EPS ($) | $51.67 | $65.74 | $32.29 | $41.80 |
| Diluted Shares (M) | 226 | 225 | 388 | 386 |

Source: Company data, Morgan Stanley Research estimates

**Exhibit 4:** STX: We raise our FY26-FY28 EPS estimates 11-31%, primarily by incorporating higher $/TB

| | FY26E | | | FY27E | | | FY28E | | |
|---|---|---|---|---|---|---|---|---|---|
| ($M) | New | Old | Diff. | New | Old | Diff. | New | Old | Diff. |
| Revenue | 12,040 | 12,040 | 0% | 18,603 | 17,470 | 6% | 27,878 | 22,980 | 21% |
| Gross Profit | 5,442 | 5,442 | 0% | 11,046 | 9,978 | 11% | 19,909 | 15,386 | 29% |
| Opex | (1,173) | (1,173) | 0% | (1,217) | (1,216) | 0% | (1,267) | (1,266) | 0% |
| Operating Profits | 4,268 | 4,268 | 0% | 9,829 | 8,762 | 12% | 18,642 | 14,120 | 32% |
| Profit Before Tax | 4,013 | 4,013 | 0% | 9,663 | 8,593 | 12% | 18,499 | 13,972 | 32% |
| Net Income | 3,385 | 3,385 | 0% | 8,117 | 7,218 | 12% | 15,539 | 11,736 | 32% |
| **EPS** | **$14.91** | **$14.92** | **0%** | **$35.38** | **$31.75** | **11%** | **$70.64** | **$53.95** | **31%** |
| Gross Margin | 45.2% | 45.2% | 0bps | 59.4% | 57.1% | 230bps | 71.4% | 67.0% | 450bps |
| Operating Margin | 35.4% | 35.4% | 0bps | 52.8% | 50.2% | 270bps | 66.9% | 61.4% | 540bps |
| Diluted Shares (M) | 227 | 227 | 0% | 229 | 227 | 1% | 220 | 218 | 1% |

Source: Company data, Morgan Stanley Research estimates

**Exhibit 5:** STX: Our EPS estimates are 31-74% higher than consensus due to larger revenue base and higher gross margin estimates

| | FY26E | | | FY27E | | | FY28E | | |
|---|---|---|---|---|---|---|---|---|---|
| ($M) | MS | Cons | Diff. | MS | Cons | Diff. | MS | Cons | Diff. |
| Revenue | 12,040 | 12,044 | 0% | 18,603 | 16,492 | 13% | 27,878 | 20,925 | 33% |
| Gross Profit | 5,442 | 5,427 | 0% | 11,046 | 8,486 | 30% | 19,909 | 10,965 | 82% |
| Operating Profits | 4,268 | 4,284 | 0% | 9,829 | 7,595 | 29% | 18,642 | 10,712 | 74% |
| Profit Before Tax | 4,013 | 3,986 | 1% | 9,663 | 7,291 | 33% | 18,499 | 10,400 | 78% |
| Net Income | 3,385 | 3,331 | 2% | 8,117 | 6,220 | 30% | 15,539 | 8,851 | 76% |
| **EPS** | **$14.91** | **$14.88** | **0%** | **$35.38** | **$26.97** | **31%** | **$70.64** | **$40.60** | **74%** |
| Gross Margin | 45.2% | 45.1% | 10bps | 59.4% | 51.5% | 790bps | 71.4% | 52.4% | 1900bps |
| Operating Margin | 35.4% | 35.6% | -10bps | 52.8% | 46.1% | 680bps | 66.9% | 51.2% | 1570bps |
| Diluted Shares (M) | 227 | 224 | 1% | 229 | 231 | -1% | 220 | 218 | 1% |

Source: Company data, FactSet, Morgan Stanley Research estimates

**Exhibit 6:** WDC: We raise our FY26-FY28 EPS estimates by 13-25%, primarily due to higher $/TB

| | FY26E | | | FY27E | | | FY28E | | |
|---|---|---|---|---|---|---|---|---|---|
| ($M) | New | Old | Diff. | New | Old | Diff. | New | Old | Diff. |
| Revenue | 12,857 | 12,857 | 0% | 19,663 | 18,378 | 7% | 29,976 | 25,494 | 18% |
| *Total HDD EB* | *880* | *880* | *0%* | *1,129* | *1,130* | *0%* | *1,376* | *1,388* | *-1%* |
| *Nearline EB* | *789* | *789* | *0%* | *1,036* | *1,036* | *0%* | *1,283* | *1,295* | *-1%* |
| *HDD Price per EB* | *$14.6* | *$14.6* | *0%* | *$17.4* | *$16.3* | *7%* | *$21.8* | *$18.4* | *19%* |
| *HDD Cost per EB* | *$7.5* | *$7.5* | *0%* | *$6.7* | *$6.7* | *0%* | *$6.0* | *$5.9* | *1%* |
| Gross Profit | 6,229 | 6,229 | 0% | 12,055 | 10,778 | 12% | 21,769 | 17,288 | 26% |
| Opex | (1,544) | (1,544) | 0% | (1,668) | (1,643) | 2% | (1,853) | (1,778) | 4% |
| Operating Profit | 4,684 | 4,684 | 0% | 10,387 | 9,136 | 14% | 19,916 | 15,510 | 28% |
| Profit Before Tax | 4,565 | 4,565 | 0% | 10,392 | 9,123 | 14% | 19,943 | 15,506 | 29% |
| Net Income | 3,783 | 3,783 | 0% | 8,730 | 7,664 | 14% | 16,753 | 13,025 | 29% |
| **EPS** | **$9.97** | **$9.97** | **0%** | **$22.40** | **$19.89** | **13%** | **$43.47** | **$34.87** | **25%** |
| Gross Margin | 48.4% | 48.4% | 0bps | 61.3% | 58.6% | 270bps | 72.6% | 67.8% | 480bps |
| Operating Margin | 36.4% | 36.4% | 0bps | 52.8% | 49.7% | 310bps | 66.4% | 60.8% | 560bps |
| Diluted Shares (M) | 379 | 379 | 0% | 390 | 385 | 1% | 385 | 373 | 3% |

Source: Company data, Morgan Stanley Research estimates

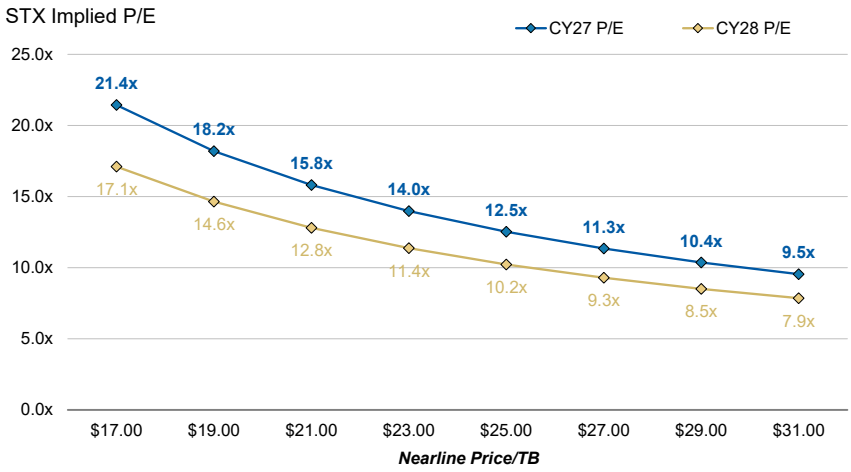
**Exhibit 7:** WDC: Our EPS estimates are 28-66% higher than consensus due to larger revenue base and higher gross margin estimates

| | FY26E | | | FY27E | | | FY28E | | |
|---|---|---|---|---|---|---|---|---|---|
| ($M) | MS | Cons | Diff. | MS | Cons | Diff. | MS | Cons | Diff. |
| Revenue | 12,857 | 12,860 | 0% | 19,663 | 17,711 | 11% | 29,976 | 22,701 | 32% |
| Gross Profit | 6,229 | 6,171 | 1% | 12,055 | 9,584 | 26% | 21,769 | 12,567 | 73% |
| Opex | (1,544) | (1,543) | 0% | (1,668) | (1,384) | 21% | (1,853) | (929) | 99% |
| Operating Profit | 4,684 | 4,627 | 1% | 10,387 | 8,200 | 27% | 19,916 | 11,638 | 71% |
| Profit Before Tax | 4,565 | 4,556 | 0% | 10,392 | 8,175 | 27% | 19,943 | 11,621 | 72% |
| Net Income | 3,783 | 3,755 | 1% | 8,730 | 6,829 | 28% | 16,753 | 9,713 | 72% |
| **EPS** | **$9.97** | **$9.97** | **0%** | **$22.40** | **$17.52** | **28%** | **$43.47** | **$26.20** | **66%** |
| Gross Margin | 48.4% | 48.0% | 50bps | 61.3% | 54.1% | 720bps | 72.6% | 55.4% | 1730bps |
| Operating Margin | 36.4% | 36.0% | 50bps | 52.8% | 44.6% | 820bps | 66.4% | 45.7% | 2080bps |
| Diluted Shares (M) | 379 | 377 | 1% | 390 | 390 | 0% | 385 | 371 | 4% |

Source: Company data, FactSet, Morgan Stanley Research estimates.

**How we think about valuation today – our new base and bull case EPS estimates imply HDD stocks could still double from here.** On our CY27 base case EPS, STX and WDC currently trade at 18x and 17x P/E, respectively. For a >75% 3-year EPS CAGR (FY26-FY29), we don't believe valuation is demanding, even if clearly a premium to history (HDDs also didn't post >50% GMs historically either). However, on our new bull case CY27 EPS, STX and WDC trade at just 11.5x P/E, implying these stocks haven't really re-rated despite material EPS revisions over the last 18 months. Given the upside we see to consensus EPS – we're 70% above consensus in our FY28 base case EPS – which imply recent quarterly EPS beats sustain or even get larger, and the potential for our bull case forecasts to become a reality, we continue to believe HDDs represent the cleanest estimate revision and re-rating story within our IT Hardware coverage.

**Exhibit 8:** STX currently trades at 18x our CY27 base case EPS, though just 11.5x our new CY27 bull case EPS




Source: Morgan Stanley Research estimates

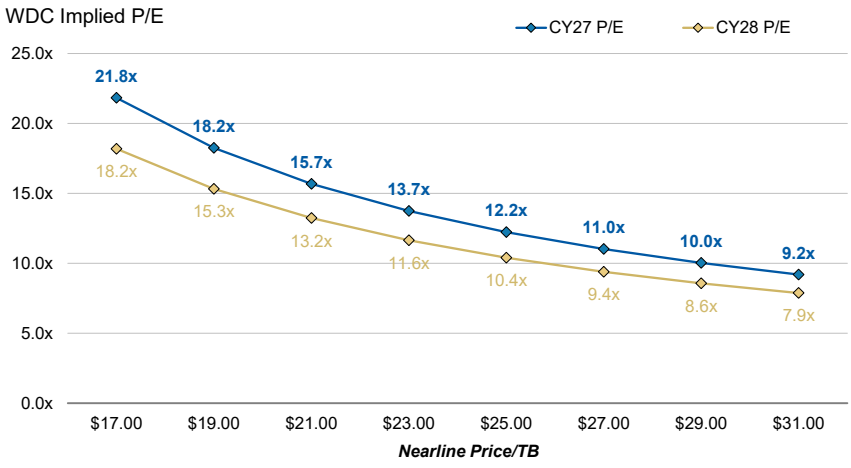
**Exhibit 9:** Our new $1,035 PT implies 20x CY27 EPS of $51.67, though should we be too conservative on pricing, there is nearly 80% upside to our $1,446 bull case valuation

| STX CY27-Based Price Target | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Target P/E Multiple | | | | | | |
| $/TB | EPS | 18.0x | 20.0x | 22.0x | 24.0x | 26.0x | 28.0x | 30.0x |
| $19.18 | $43.27 | 779 | 865 | 952 | 1,039 | 1,125 | 1,212 | 1,298 |
| $19.00 | $50.97 | 917 | **1,019** | 1,121 | 1,223 | 1,325 | 1,427 | 1,529 |
| $21.00 | $58.67 | 1,056 | **1,173** | 1,291 | 1,408 | 1,525 | 1,643 | 1,760 |
| $23.00 | $66.37 | 1,195 | 1,327 | **1,460** | 1,593 | 1,726 | 1,858 | 1,991 |
| $25.00 | $74.07 | 1,333 | 1,481 | **1,630** | 1,778 | 1,926 | 2,074 | 2,222 |
| $27.00 | $81.77 | 1,472 | 1,635 | 1,799 | 1,963 | 2,126 | 2,290 | 2,453 |
| $29.00 | $89.47 | 1,610 | 1,789 | 1,968 | 2,147 | 2,326 | 2,505 | 2,684 |

| STX CY27 Price Target (% Upside) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Target P/E Multiple | | | | | | |
| $/TB | EPS | 18.0x | 20.0x | 22.0x | 24.0x | 26.0x | 28.0x | 30.0x |
| $19.18 | $43.27 | -16% | -7% | 3% | 12% | 21% | 31% | 40% |
| $19.00 | $50.97 | -1% | **10%** | 21% | 32% | 43% | 54% | 65% |
| $21.00 | $58.67 | 14% | **27%** | 39% | 52% | 64% | 77% | 90% |
| $23.00 | $66.37 | 29% | 43% | **57%** | 72% | 86% | 100% | 115% |
| $25.00 | $74.07 | 44% | 60% | **76%** | 92% | 108% | 124% | 140% |
| $27.00 | $81.77 | 59% | 76% | 94% | 112% | 129% | 147% | 164% |
| $29.00 | $89.47 | 74% | 93% | 112% | 132% | 151% | 170% | 189% |

Source: Morgan Stanley Research estimates

**Exhibit 10:** WDC currently trades at 17x our CY27 base case EPS, though just 11.5x our new CY27 bull case EPS




Source: Morgan Stanley Research estimates

**Exhibit 11:** Our $650 PT implies 20x CY27 EPS of $32.29, though should we be too conservative on pricing, there is nearly 90% upside to our $920 bull case valuation

| WDC CY27-Based Price Target | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Target P/E Multiple | | | | | | |
| $/TB | EPS | 18.0x | 20.0x | 22.0x | 24.0x | 26.0x | 28.0x | 30.0x |
| $17.00 | $25.79 | 464 | 516 | 567 | 619 | 671 | 722 | 774 |
| $19.00 | $30.85 | 555 | **617** | 679 | 740 | 802 | 864 | 926 |
| $21.00 | $35.91 | 646 | **718** | 790 | 862 | 934 | 1,006 | 1,077 |
| $23.00 | $40.98 | 738 | 820 | **901** | 983 | 1,065 | 1,147 | 1,229 |
| $25.00 | $46.04 | 829 | 921 | **1,013** | 1,105 | 1,197 | 1,289 | 1,381 |
| $27.00 | $51.10 | 920 | 1,022 | 1,124 | 1,226 | 1,329 | 1,431 | 1,533 |
| $29.00 | $56.16 | 1,011 | 1,123 | 1,235 | 1,348 | 1,460 | 1,572 | 1,685 |

| WDC CY27 Price Target (% Upside) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Target P/E Multiple | | | | | | |
| $/TB | EPS | 18.0x | 20.0x | 22.0x | 24.0x | 26.0x | 28.0x | 30.0x |
| $17.00 | $25.79 | -18% | -8% | 1% | 10% | 19% | 28% | 37% |
| $19.00 | $30.85 | -1% | **10%** | 21% | 32% | 43% | 53% | 64% |
| $21.00 | $35.91 | 15% | **28%** | 40% | 53% | 66% | 79% | 91% |
| $23.00 | $40.98 | 31% | 46% | **60%** | 75% | 89% | 104% | 118% |
| $25.00 | $46.04 | 47% | 64% | **80%** | 96% | 113% | 129% | 145% |
| $27.00 | $51.10 | 63% | 82% | 100% | 118% | 136% | 154% | 172% |
| $29.00 | $56.16 | 80% | 100% | 119% | 139% | 159% | 179% | 199% |

Source: Morgan Stanley Research estimates

**Our latest views on STX vs. WDC.** We are Overweight both stocks and see them as our most-preferred OWs within our IT Hardware coverage. That said, we have a tactical bias towards STX, as we see: (1) the ability to re-price early HAMR customers in the September '26 quarter; and (2) the ability to cost down slightly faster than WDC in C2H26 given a higher cost/TB starting point as creating more material gross margin tailwinds for STX vs. WDC over the next 3-6 months. This is why STX is our current 'Top Pick'. However, on a longer-term basis, WDC screens as modestly more attractive given: (1) greater relative upside to our bull case valuation; and (2) a slightly less-levered balance sheet. In reality, we believe clients would benefit from exposure to each stock.

**What are the most notable risks to owning HDDs at this point?** The key risks to

HDDs remain: (1) the durability and magnitude of this cycle; and (2) the potential for new entrants. On the former, our Asia checks give us comfort in HDD utilization/ customer inventory, and the broadening of demand + growing supply shortages suggest there is durability to this cycle. On the latter, as we discussed above, we see limited risk of new entrants to the HDD market, and/or of a strategic consortium propping up the distant 3rd player in HDDs. However, these remain the two areas we continue to track most closely as we constantly stress-test our theses.

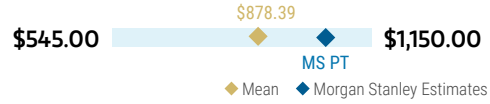
# Risk Reward – Seagate Technology (STX.O) Top Pick

Once in a Generation Data Center Buildout and Tech Leadership Supports OW Rating

## PRICE TARGET $1,035.00

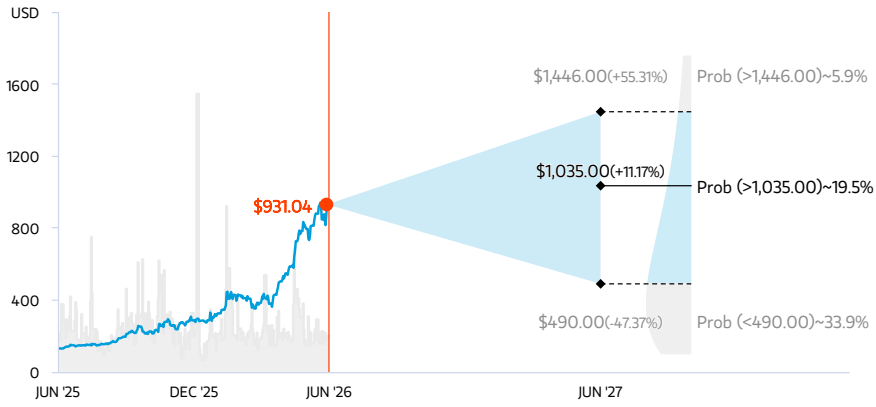
Our PT implies 20.0x our CY27 EPS of $51.67, as we expect earnings upward revisions by the Street with shares trading 6.0x turns above the peak multiples in the previous industry upcycle.

**Consensus Price Target Distribution**




Source: Refinitiv, Morgan Stanley Research

## RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



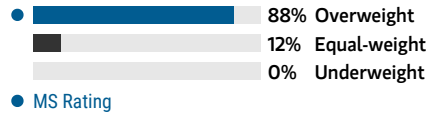

Key: Historical Stock Performance Current Stock Price Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 12 Jun 2026. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

## OVERWEIGHT THESIS

STX benefits from accelerating data growth, which drives storage demand in the cloud and on-prem. We are entering a period of AI-driven storage demand growth, benefitting both HDDs and flash shipments. We believe the HDD industry supply discipline has made the industry more profitable, and that HAMR and STX's cost/pricing actions will provide a tailwind to the company's gross margin profile in the long term, which continues to be underestimated by the market. Combined with opex discipline, we expect a decent multi-year earnings story ahead. As a result, we are Overweight rated on STX.

**Consensus Rating Distribution**




Source: Refinitiv, Morgan Stanley Research

**Risk Reward Themes**

| | |
|---|---|
| **New Data Era:** | *Positive* |
| **Pricing Power:** | *Positive* |
| **Technology Diffusion:** | *Positive* |

View descriptions of Risk Rewards Themes here

## BULL CASE $1,446.00

**22.0x CY27 Bull-case EPS of $65.74**

**Cloud storage demand surprises positively, gross margins expand more quickly due to HAMR mix, and STX sees a greater AI-driven demand uplift.** Cloud demand further accelerates into CY26, and HAMR's launch is successful, putting upward pressure on margins amidst market share gain. Gross margins approaching mid-60% levels in FY27-28. STX sees incremental HDD demand from AI in FY26 and it is more material than expected. $1,446 represents 22.0x P/E on CY27 bull-case EPS of $65.74.

## BASE CASE $1,035.00

**20.0x CY27 EPS of $51.67**

**Gross margins expand to 60% levels and AI drives HDD demand, creating a compelling EPS story in FY26-28.** The HDD market remains healthy in CY26, and AI drives a modest HDD demand uplift in FY26-28. HAMR drives gross margins to 60% levels and continued opex discipline, along with share buybacks, supports EPS. Our PT assumes 18.0x CY27 EPS of $51.67, with STX stock multiples trading 6.0x turns above the peak of previous HDD industry upcycle in 2021-22.

## BEAR CASE $490.00

**14.0x CY27 Bear-case EPS of $35.00**

**HDD growth decelerates, gross margins struggle to further expand, and AI-driven demand doesn't materialize.** HDD demand growth turns out to be milder than expected, keeping gross margins from further expanding. eSSD starts to replace some of the HDD demand in cloud storage environments for cold data, while the HDD industry becomes less irrational and starts expanding capacity, which weigh on valuation multiples. Our bear case assumes shares trade at 14.0x on CY27 bear-case EPS of $35.00.

# Risk Reward – Seagate Technology (STX.O)

## KEY EARNINGS INPUTS

| Drivers | 2025 | 2026e | 2027e | 2028e |
|---|---|---|---|---|
| Revenue Growth (Y/Y) (%) | 38.9 | 32.4 | 54.5 | 49.9 |
| HDD Exabyte Growth (Y/Y) (%) | 49.5 | 32.0 | 29.6 | 20.2 |
| Capacity Optimized Revenue Growth (Y/Y) (%) | 57.4 | 0.0 | 0.0 | 0.0 |
| Non-GAAP Gross Margin (%) | 35.8 | 45.2 | 59.4 | 71.4 |
| Non-GAAP Operating Margin (%) | 23.4 | 35.4 | 52.8 | 66.9 |

## INVESTMENT DRIVERS

- Positive EPS revisions as cycle strength persists and margins ramp to high-40%
- Stronger for longer cloud capex growth
- New CSP qualifications on HAMR platform
- Management accelerates buybacks

## GLOBAL REVENUE EXPOSURE



- 0-10% India
- 0-10% Japan
- 0-10% MEA
- 0-10% UK
- 10-20% Europe ex UK
- 10-20% Mainland China
- 20-30% APAC, ex Japan, Mainland China and India
- 40-50% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

## MS ALPHA MODELS

| | | | |
|---|---|---|---|
| 5/5 BEST | 24 Month Horizon | 2/5 MOST | 3 Month Horizon |

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

## RISKS TO PT/RATING

**RISKS TO UPSIDE**

- Demand accelerates
- AI drives incremental HDD demand
- GM expands to high-50% range
- Smoother/stronger cloud cycles drive multiple expansion
- STX exhibits more pricing power
- HAMR drives share gains

**RISKS TO DOWNSIDE**

- Qualifications for high-capacity drives take longer than expected
- Steeper declines from cyclical markets
- GM doesn't further expand
- Pricing normalizes more than expected
- Geopolitical tensions & tariff costs

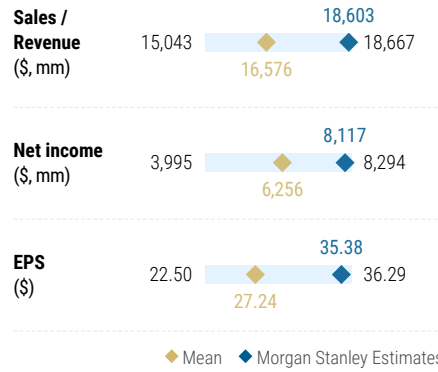
## OWNERSHIP POSITIONING

| | |
|---|---|
| **Inst. Owners, % Active** | 54.7% |
| **HF Sector Long/Short Ratio** | 2.1x |
| **HF Sector Net Exposure** | 29.5% |

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

## MS ESTIMATES VS. CONSENSUS

*FY Jun 2027e*




Source: Refinitiv, Morgan Stanley Research

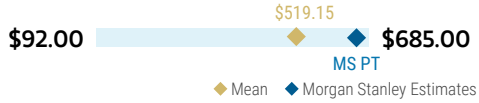
# Risk Reward – Western Digital (WDC.O)

An Undervalued Special Sit Tied To Once In a Generation Data Center Buildout

## PRICE TARGET $650.00

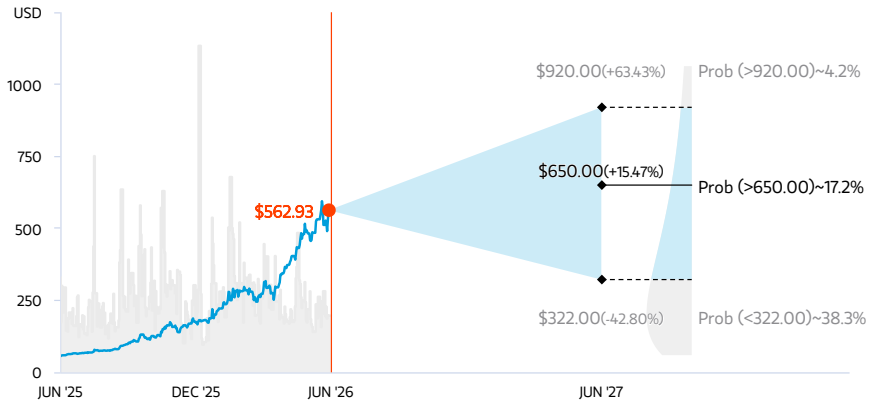
Our PT implies 20.0x CY27 EPS of $27.12, as we expect earnings upward revisions by the Street with shares trading on par with STX at 6.0x turns above the peak multiples (14.0x) in the previous industry upcycle.

**Consensus Price Target Distribution**




Source: Refinitiv, Morgan Stanley Research

## RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



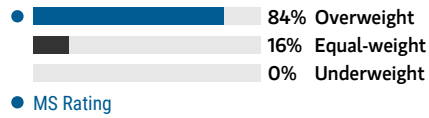

Key: Historical Stock Performance Current Stock Price Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 12 Jun 2026. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

## OVERWEIGHT THESIS

WDC benefits from accelerating data growth, which drives storage demand in the cloud and on-prem. We believe that the HDD cycle is 'Stronger for Longer' – demand outstrips supply with continued upward pressure in HDD pricing – and entering a period of AI-driven storage demand growth, which will benefit both HDDs and SSDs shipments. While WDC is behind STX in HAMR timeline, we believe WDC will retain its leading HDD revenue and profits market share in the near term with its competitive UltraSMR solutions for high-capacity drives before the industry shifts to wider adoption of HAMR. Accelerated mix shift toward higher-capacity drives lowers cost per TB, supporting continued margin expansion.

**Consensus Rating Distribution**




Source: Refinitiv, Morgan Stanley Research

**Risk Reward Themes**

| | |
|---|---|
| New Data Era: | *Positive* |
| Pricing Power: | *Positive* |
| Secular Growth: | *Positive* |

View descriptions of Risk Rewards Themes here

## BULL CASE $920.00

**22.0x CY27 Bull-case EPS of $41.80**

**Cloud storage demand surprises positively, gross margins expand more quickly due to much higher high-capacity mix, and WDC sees a greater AI-driven demand uplift.** Gross margins approaching 60%+ range in FY27-28. Incremental HDD demand from AI in CY26 is more material than expected. Pricing environment remains healthy into CY27, driving mid-20s % Y/Y price per EB growth. HAMR timeline accelerates, with earlier-than-expected qualification completion and volume shipment timing.

## BASE CASE $650.00

**20.0x CY27 EPS of $32.29**

**GMs approach 50% range and AI drives HDD demand, creating a compelling EPS story in FY26-27.** The HDD market remains healthy in CY26, and AI drives a HDD demand uplift in FY26-28. Increase in high-capacity drive mix expand GMs to 60% levels, and continued opex discipline supports EPS. Our PT assumes 20.0x - in line with our target multiple for STX - which is 6.0x turns above where STX stock multiples traded up to during the previous HDD industry upcycle in 2021-22.

## BEAR CASE $322.00

**14.0x CY27 Bear-case EPS of $23.00**

**HDD growth decelerates, gross margins struggle to further expand, and AI-driven demand doesn't materialize.** Our bear case assumes the HDD demand growth turns out to be milder than expected. Despite market share leadership in high-capacity drives, headwinds such as underutilization, production charges, and tariffs keep GM depressed and lead to fixed cost deleverage. Our bear case assumes shares trade at 14.0x on our CY27 bear-case EPS of $23.00.

# Risk Reward – Western Digital (WDC.O)

## KEY EARNINGS INPUTS

| Drivers | 2025 | 2026e | 2027e | 2028e |
|---|---|---|---|---|
| Revenue Growth (Y/Y) (%) | 50.7 | 35.1 | 52.9 | 52.5 |
| HDD Exabyte Growth (Y/Y) (%) | 57.8 | 26.2 | 28.4 | 21.9 |
| Nearline HDD Exabyte Growth (Y/Y) (%) | 72.2 | 29.3 | 31.3 | 23.8 |
| Non-GAAP Gross Margin (%) | 39.4 | 48.4 | 61.3 | 72.6 |
| Non-GAAP Operating Margin (%) | 24.4 | 36.4 | 52.8 | 66.4 |

## CATALYST CALENDAR

Source: Refinitiv, Morgan Stanley

| Date | Event |
|---|---|
| 20 Nov 2026 - 24 Nov 2026 | Western Digital Corp Annual Shareholders Meeting |

## INVESTMENT DRIVERS

- Positive EPS revisions as cycle strength surprises to upside
- Gross margins approaching mid-50s %
- CSPs qualify on HAMR platform, signaling imminent volume shipments
- Further de-leveraging
- Dividend increase / acceleration of buybacks

## GLOBAL REVENUE EXPOSURE



- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 10-20% Europe ex UK
- 10-20% Mainland China
- 40-50% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

## MS ALPHA MODELS

| | | | |
|---|---|---|---|
| 5/5 BEST | 24 Month Horizon | 3/5 MOST | 3 Month Horizon |

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

## RISKS TO PT/RATING

**RISKS TO UPSIDE**

- Demand accelerates
- AI drives incremental HDD demand
- Smoother cloud cycles drive multiple expansion
- WDC exhibits more pricing power
- HAMR qualification/volume shipment timeline earlier than expected

**RISKS TO DOWNSIDE**

- GM doesn't further expand
- Pricing normalizes more than expected
- Geopolitical tensions & tariff impacts
- Competitive pressures & HAMR timeline delays
- Dilution from converts more significant than expected

## OWNERSHIP POSITIONING

| | |
|---|---|
| **Inst. Owners, % Active** | 52.3% |
| **HF Sector Long/Short Ratio** | 2.1x |
| **HF Sector Net Exposure** | 29.5% |

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

## MS ESTIMATES VS. CONSENSUS

*FY Jun 2027e*

| | | | |
|---|---|---|---|
| **Sales / Revenue** ($, mm) | 16,750 | 18,002 | 19,663 / 20,841 |
| **EBITDA** ($, mm) | 7,810 | 9,059 | 10,842 / 11,650 |
| **Net income** ($, mm) | 6,045 | 7,006 | 8,730 / 9,299 |
| **EPS** ($) | 11.53 | 17.83 | 22.40 / 24.51 |

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

# STX: Financial Model

More reports@wechat: Hillwood2024

**Exhibit 12:** Seagate Technology Income Statement

| | F2025A | | | | F2026E | | | | F2027E | | | | Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *($ in millions)* | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | 2024A | 2025A | 2026E | 2027E | 2028E |
| **Revenues** | **2,168** | **2,325** | **2,160** | **2,444** | **2,629** | **2,825** | **3,112** | **3,474** | **3,806** | **4,353** | **4,865** | **5,578** | **6,551** | **9,097** | **12,040** | **18,603** | **27,878** |
| Data Center | 1,582 | 1,736 | 1,615 | 1,863 | 2,114 | 2,224 | 2,500 | 2,774 | 3,100 | 3,567 | 4,106 | 4,741 | | 6,796 | 9,612 | 15,514 | 24,548 |
| Edge IoT | 586 | 589 | 545 | 581 | 515 | 601 | 612 | 701 | 706 | 786 | 759 | 837 | | 2,301 | 2,429 | 3,089 | 3,330 |
| **Cost of Revenue** | **1,445** | **1,500** | **1,379** | **1,518** | **1,575** | **1,634** | **1,649** | **1,741** | **1,780** | **1,884** | **1,901** | **1,992** | **4,881** | **5,842** | **6,599** | **7,557** | **7,969** |
| **Gross Profit** | **723** | **825** | **781** | **926** | **1,054** | **1,191** | **1,463** | **1,734** | **2,027** | **2,468** | **2,964** | **3,587** | **1,670** | **3,255** | **5,442** | **11,046** | **19,909** |
| *Gross Margin* | *33.3%* | *35.5%* | *36.2%* | *37.9%* | *40.1%* | *42.2%* | *47.0%* | *49.9%* | *53.2%* | *56.7%* | *60.9%* | *64.3%* | *25.5%* | *35.8%* | *45.2%* | *59.4%* | *71.4%* |
| *Incremental Margin* | *60.9%* | *59.5%* | *69.1%* | *61.6%* | *71.8%* | *73.2%* | *71.6%* | *78.4%* | *82.6%* | *83.6%* | *85.6%* | *88.1%* | *NM* | *62.3%* | *74.3%* | *85.4%* | *95.6%* |
| **Operating Expenses** | **281** | **287** | **274** | **286** | **291** | **290** | **296** | **296** | **303** | **304** | **304** | **307** | **993** | **1,128** | **1,173** | **1,217** | **1,267** |
| Product development | 181 | 184 | 180 | 179 | 186 | 187 | 194 | 195 | 198 | 199 | 199 | 201 | 654 | 724 | 762 | 798 | 835 |
| SG&A | 100 | 103 | 94 | 107 | 105 | 103 | 102 | 102 | 105 | 104 | 105 | 106 | 339 | 404 | 412 | 420 | 432 |
| **Income from Operations (PTOP)** | **442** | **538** | **507** | **640** | **763** | **901** | **1,167** | **1,437** | **1,724** | **2,165** | **2,660** | **3,280** | **677** | **2,127** | **4,268** | **9,829** | **18,642** |
| *PTOP Margin* | *20.4%* | *23.1%* | *23.5%* | *26.2%* | *29.0%* | *31.9%* | *37.5%* | *41.4%* | *45.3%* | *49.7%* | *54.7%* | *58.8%* | *10.3%* | *23.4%* | *35.4%* | *52.8%* | *66.9%* |
| **Total Interest Income (expense), net** | **(87)** | **(86)** | **(80)** | **(73)** | **(74)** | **(70)** | **(62)** | **(50)** | **(45)** | **(41)** | **(40)** | **(39)** | **(31)** | **(326)** | **(256)** | **(166)** | **(144)** |
| **Operating Income Before Taxes** | **355** | **452** | **427** | **567** | **689** | **831** | **1,105** | **1,388** | **1,679** | **2,124** | **2,620** | **3,241** | **333** | **1,801** | **4,013** | **9,663** | **18,499** |
| GAAP Income Tax Provision | 11 | 14 | 15 | 4 | 65 | 114 | 116 | 222 | 269 | 340 | 419 | 519 | 110 | 44 | 517 | 1,546 | 2,960 |
| Recurring Tax Provision | 19 | 19 | 20 | 11 | 106 | 129 | 171 | 222 | 269 | 340 | 419 | 519 | 61 | 69 | 628 | 1,546 | 2,960 |
| *Effective Tax Rate* | *5.4%* | *4.2%* | *4.7%* | *1.9%* | *15.4%* | *15.5%* | *15.5%* | *16.0%* | *16.0%* | *16.0%* | *16.0%* | *16.0%* | *18.3%* | *3.8%* | *15.7%* | *16.0%* | *16.0%* |
| **Operating Net Income** | **336** | **433** | **407** | **556** | **583** | **702** | **934** | **1,166** | **1,411** | **1,784** | **2,200** | **2,722** | **272** | **1,732** | **3,385** | **8,117** | **15,539** |
| *Operating Net Income Margin* | *15.5%* | *18.6%* | *18.8%* | *22.7%* | *22.2%* | *24.8%* | *30.0%* | *33.5%* | *37.1%* | *41.0%* | *45.2%* | *48.8%* | *4.2%* | *19.0%* | *28.1%* | *43.6%* | *55.7%* |
| **One-Time Charges/ Adjustments** | **31** | **97** | **67** | **68** | **34** | **109** | **186** | **64** | **70** | **80** | **88** | **101** | **207** | **263** | **393** | **339** | **500** |
| Total One-time, gross | **39** | **102** | **72** | **75** | **75** | **124** | **241** | **64** | **70** | **80** | **88** | **101** | **158** | **288** | **504** | **339** | **500** |
| Reported Income Before Taxes | 316 | 350 | 355 | 492 | 614 | 707 | 864 | 1,323 | 1,609 | 2,044 | 2,531 | 3,140 | 488 | 1,513 | 3,508 | 9,324 | 17,999 |
| **GAAP Net Income** | **305** | **336** | **340** | **488** | **549** | **593** | **748** | **1,101** | **1,341** | **1,704** | **2,112** | **2,621** | **378** | **1,469** | **2,991** | **7,778** | **15,039** |
| Stock Option Expense | 38 | 49 | 54 | 59 | 52 | 53 | 54 | 60 | 66 | 76 | 84 | 97 | 127 | 200 | 219 | 323 | 484 |
| Tax Benefit on Stock Option Expense | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 5 | 6 | 10 | 11 | 16 | 24 |
| Stock Option Expense Per Share | $0.17 | $0.22 | $0.24 | $0.26 | $0.22 | $0.22 | $0.23 | $0.25 | $0.27 | $0.31 | $0.35 | $0.41 | $0.57 | $0.89 | $0.92 | $1.34 | $2.09 |
| **Operating Net Income (pre-stock options)** | **372** | **480** | **458** | **612** | **632** | **752** | **985** | **1,223** | **1,473** | **1,856** | **2,281** | **2,814** | **393** | **1,922** | **3,593** | **8,424** | **15,998** |
| **Fully-diluted EPS** | | | | | | | | | | | | | | | | | |
| **EPS - ModelWare** | **$1.58** | **$2.03** | **$1.90** | **$2.59** | **$2.61** | **$3.11** | **$4.10** | **$5.05** | **$6.11** | **$7.73** | **$9.60** | **$11.99** | **$1.29** | **$8.10** | **$14.91** | **$35.38** | **$70.64** |
| EPS - Reported | $1.43 | $1.58 | $1.59 | $2.27 | $2.46 | $2.62 | $3.28 | $4.77 | $5.80 | $7.39 | $9.22 | $11.55 | $1.79 | $6.87 | $13.18 | $33.90 | $68.37 |
| EPS - ModelWare excl. Stock Option Exper | $1.75 | $2.25 | $2.14 | $2.85 | $2.84 | $3.33 | $4.32 | $5.30 | $6.38 | $8.04 | $9.95 | $12.40 | $1.86 | $8.99 | $15.83 | $36.71 | $72.73 |
| Dividend Payment | 148 | 153 | 153 | 153 | 158 | 161 | 166 | 167 | 173 | 171 | 170 | 168 | 585 | 606 | 668 | 673 | 655 |
| Dividend Per Share | $0.70 | $0.72 | $0.72 | $0.72 | $0.74 | $0.74 | $0.74 | $0.74 | $0.76 | $0.76 | $0.76 | $0.76 | $2.79 | $2.86 | $2.96 | $3.05 | $3.14 |
| Period Ending Outstanding Shares | 211 | 212 | 212 | 212 | 214 | 218 | 224 | 226 | 226 | 225 | 223 | 221 | 210 | 212 | 226 | 221 | 208 |
| Avg Shares (Basic) | 211 | 212 | 212 | 212 | 214 | 216 | 221 | 225 | 226 | 226 | 224 | 222 | 210 | 212 | 219 | 224 | 215 |
| Avg Shares (Fully Diluted) | 213 | 213 | 214 | 215 | 223 | 226 | 228 | 231 | 231 | 231 | 229 | 227 | 211 | 214 | 227 | 229 | 220 |

Source: Company data, Morgan Stanley Research estimates

More reports@wechat: Hillwood2024

**Exhibit 13:** Seagate Technology Income Statement Analysis

| ($ in millions) | F2025A Sep-24 | F2025A Dec-24 | F2025A Mar-25 | F2025A Jun-25 | F2026E Sep-25 | F2026E Dec-25 | F2026E Mar-26 | F2026E Jun-26 | F2027E Sep-26 | F2027E Dec-26 | F2027E Mar-27 | F2027E Jun-27 | Fiscal Year 2024A | Fiscal Year 2025A | Fiscal Year 2026E | Fiscal Year 2027E | Fiscal Year 2028E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Margin Analysis** | | | | | | | | | | | | | | | | | |
| **Gross Margin** | **33.3%** | **35.5%** | **36.2%** | **37.9%** | **40.1%** | **42.2%** | **47.0%** | **49.9%** | **53.2%** | **56.7%** | **60.9%** | **64.3%** | **25.5%** | **35.8%** | **45.2%** | **59.4%** | **71.4%** |
| Data Center | 39.5% | 40.5% | 41.3% | 42.8% | 43.7% | 45.5% | 50.2% | 52.8% | 55.8% | 59.2% | 63.2% | 66.6% | | 41.1% | 48.4% | 61.8% | 73.5% |
| Edge IoT | 16.7% | 20.7% | 21.1% | 22.1% | 25.4% | 29.7% | 33.9% | 38.5% | 42.0% | 45.5% | 48.5% | 51.5% | | 20.1% | 32.4% | 47.1% | 56.1% |
| Product Development | 8.3% | 7.9% | 8.3% | 7.3% | 7.1% | 6.6% | 6.2% | 5.6% | 5.2% | 4.6% | 4.1% | 3.6% | 10.0% | 8.0% | 6.3% | 4.3% | 3.0% |
| SG&A | 4.6% | 4.4% | 4.4% | 4.4% | 4.0% | 3.6% | 3.3% | 2.9% | 2.8% | 2.4% | 2.2% | 1.9% | 5.2% | 4.4% | 3.4% | 2.3% | 1.5% |
| Operating Expenses | 13.0% | 12.3% | 12.7% | 11.7% | 11.1% | 10.3% | 9.5% | 8.5% | 8.0% | 7.0% | 6.3% | 5.5% | 15.2% | 12.4% | 9.7% | 6.5% | 4.5% |
| EBITDA Margin | 23.3% | 25.8% | 26.4% | 28.7% | 31.8% | 34.3% | 39.6% | 44.4% | 47.3% | 51.7% | 56.6% | 60.9% | 14.4% | 26.1% | 38.0% | 54.8% | 68.1% |
| PTOP Margin | 20.4% | 23.1% | 23.5% | 26.2% | 29.0% | 31.9% | 37.5% | 41.4% | 45.3% | 49.7% | 54.7% | 58.8% | 10.3% | 23.4% | 35.4% | 52.8% | 66.9% |
| Pretax Margin | 16.4% | 19.4% | 19.8% | 23.2% | 26.2% | 29.4% | 35.5% | 39.9% | 44.1% | 48.8% | 53.8% | 58.1% | 5.1% | 19.8% | 33.3% | 51.9% | 66.4% |
| Net Income | 15.5% | 18.6% | 18.8% | 22.7% | 22.2% | 24.8% | 30.0% | 33.5% | 37.1% | 41.0% | 45.2% | 48.8% | 4.2% | 19.0% | 28.1% | 43.6% | 55.7% |
| **Year-Over-Year Growth (%)** | | | | | | | | | | | | | | | | | |
| **Revenue** | **49.1%** | **49.5%** | **30.5%** | **29.5%** | **21.3%** | **21.5%** | **44.1%** | **42.2%** | **44.8%** | **54.1%** | **56.3%** | **60.6%** | **-11.3%** | **38.9%** | **32.4%** | **54.5%** | **49.9%** |
| Data Center | | | | | 33.6% | 28.1% | 54.8% | 48.9% | 46.6% | 60.4% | 64.2% | 70.9% | | | 41.4% | 61.4% | 58.2% |
| Edge IoT | | | | | -12.1% | 2.0% | 12.3% | 20.6% | 37.1% | 30.8% | 24.1% | 19.5% | | | 5.5% | 27.2% | 7.8% |
| Gross Margin | 151.0% | 124.8% | 80.8% | 58.8% | 45.8% | 44.4% | 87.3% | 87.2% | 92.3% | 107.3% | 102.6% | 106.9% | 6.9% | 94.9% | 67.2% | 103.0% | 80.2% |
| Product Development | 5.8% | 14.3% | 9.8% | 13.3% | 2.8% | 1.6% | 7.8% | 8.7% | 6.4% | 6.6% | 2.8% | 3.2% | -17.9% | 10.7% | 5.2% | 4.7% | 4.7% |
| SG&A | 29.9% | 30.4% | 10.6% | 9.2% | 5.0% | 0.0% | 8.5% | -4.9% | -0.3% | 1.4% | 2.5% | 4.1% | -3.4% | 19.2% | 1.9% | 1.9% | 2.9% |
| **Operating Expenses** | **13.3%** | **19.6%** | **10.0%** | **11.7%** | **3.6%** | **1.0%** | **8.0%** | **3.6%** | **4.0%** | **4.8%** | **2.7%** | **3.5%** | **-13.5%** | **13.6%** | **4.0%** | **3.7%** | **4.1%** |
| PTOP | 1005.0% | 323.6% | 177.0% | 95.7% | 72.6% | 67.5% | 130.2% | 124.6% | 126.0% | 140.2% | 127.9% | 128.2% | 63.6% | 214.2% | 100.7% | 130.3% | 89.7% |
| EBT | NM | 976.2% | 335.7% | 130.5% | 94.1% | 83.8% | 158.8% | 144.7% | 143.7% | 155.5% | 137.1% | 133.6% | 321.7% | 440.8% | 122.8% | 140.8% | 91.4% |
| Net Income | NM | 1632.0% | 473.2% | 150.5% | 73.5% | 62.1% | 129.5% | 109.6% | 141.9% | 154.1% | 135.6% | 133.6% | 580.4% | 536.8% | 95.4% | 139.8% | 91.4% |
| **ModelWare EPS** | **NM** | **1615.7%** | **467.9%** | **147.0%** | **65.7%** | **52.8%** | **115.4%** | **95.3%** | **133.6%** | **148.9%** | **134.4%** | **137.4%** | **570.7%** | **527.8%** | **84.1%** | **137.2%** | **99.7%** |
| **Sequential Growth (%)** | | | | | | | | | | | | | | | | | |
| **Revenue** | **14.9%** | **7.2%** | **-7.1%** | **13.1%** | **7.6%** | **7.5%** | **10.2%** | **11.6%** | **9.6%** | **14.4%** | **11.8%** | **14.7%** | | | | | |
| **Data Center** | | 9.7% | -7.0% | 15.4% | 13.5% | 5.2% | 12.4% | 11.0% | 11.8% | 15.0% | 15.1% | 15.5% | | | | | |
| **Edge IoT** | | 0.5% | -7.5% | 6.6% | -11.4% | 16.7% | 1.8% | 14.5% | 0.8% | 11.3% | -3.4% | 10.3% | | | | | |
| Gross Margin | 24.0% | 14.1% | -5.3% | 18.6% | 13.8% | 13.0% | 22.8% | 18.5% | 16.9% | 21.8% | 20.1% | 21.0% | | | | | |
| Product Development | 14.6% | 1.7% | -2.2% | -0.6% | 3.9% | 0.5% | 3.7% | 0.3% | 1.7% | 0.7% | 0.1% | 0.7% | | | | | |
| SG&A | 2.0% | 3.0% | -8.7% | 13.8% | -1.9% | -1.9% | -1.0% | -0.2% | 2.8% | -0.2% | 0.1% | 1.3% | | | | | |
| **Operating Expenses** | **9.8%** | **2.1%** | **-4.5%** | **4.4%** | **1.7%** | **-0.3%** | **2.1%** | **0.1%** | **2.1%** | **0.4%** | **0.1%** | **0.9%** | | | | | |
| PTOP Margin | 35.2% | 21.7% | -5.8% | 26.2% | 19.2% | 18.1% | 29.5% | 23.2% | 19.9% | 25.6% | 22.9% | 23.3% | | | | | |
| Pretax Margin | 44.3% | 27.3% | -5.5% | 32.8% | 21.5% | 20.6% | 33.0% | 25.6% | 21.0% | 26.5% | 23.4% | 23.7% | | | | | |
| Net Income | 51.4% | 28.9% | -6.0% | 36.6% | 4.9% | 20.4% | 33.0% | 24.8% | 21.0% | 26.5% | 23.4% | 23.7% | | | | | |
| **ModelWare EPS** | **50.6%** | **28.9%** | **-6.4%** | **36.0%** | **1.1%** | **18.8%** | **31.9%** | **23.3%** | **20.9%** | **26.6%** | **24.2%** | **24.9%** | | | | | |

Source: Company data, Morgan Stanley Research estimates

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**Exhibit 14:** Seagate Technology Balance Sheet

| ($ in millions) | F2025A | | | | F2026E | | | | F2027E | | | | Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | 2024A | 2025A | 2026E | 2027E | 2028E |
| **Assets** | | | | | | | | | | | | | | | | | |
| **Current Assets:** | | | | | | | | | | | | | | | | | |
| Cash and cash equivalents | 1,239 | 1,238 | 814 | 891 | 1,112 | 1,046 | 1,146 | 1,005 | 1,196 | 1,302 | 1,453 | 1,451 | 1,358 | 891 | 1,005 | 1,451 | 2,754 |
| Short-term investments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Accounts receivable, net | 628 | 587 | 622 | 959 | 1,073 | 1,246 | 1,197 | 1,260 | 1,283 | 1,609 | 1,892 | 1,962 | 429 | 959 | 1,260 | 1,962 | 2,822 |
| Affiliate accounts receivable | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Inventories | 1,383 | 1,473 | 1,472 | 1,440 | 1,496 | 1,498 | 1,530 | 1,569 | 1,722 | 1,761 | 1,753 | 1,795 | 1,239 | 1,440 | 1,569 | 1,795 | 1,849 |
| Other current assets | 358 | 364 | 374 | 363 | 351 | 419 | 426 | 382 | 419 | 479 | 535 | 614 | 306 | 363 | 382 | 614 | 934 |
| **Total Current Assets** | **3,608** | **3,662** | **3,282** | **3,653** | **4,032** | **4,209** | **4,299** | **4,216** | **4,619** | **5,151** | **5,634** | **5,821** | **3,332** | **3,653** | **4,216** | **5,821** | **8,359** |
| Property, equipment and leasehold improvements, ne | 1,599 | 1,595 | 1,613 | 1,657 | 1,688 | 1,771 | 1,852 | 1,919 | 2,031 | 2,162 | 2,311 | 2,475 | 1,614 | 1,657 | 1,919 | 2,475 | 3,309 |
| Goodwill | 1,219 | 1,219 | 1,219 | 1,221 | 1,221 | 1,221 | 1,221 | 1,221 | 1,221 | 1,221 | 1,221 | 1,221 | 1,219 | 1,221 | 1,221 | 1,221 | 1,221 |
| Intangible assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Assets, net | 1,546 | 1,483 | 1,450 | 1,492 | 1,501 | 1,507 | 1,520 | 1,520 | 1,520 | 1,520 | 1,520 | 1,520 | 1,574 | 1,492 | 1,520 | 1,520 | 1,520 |
| **Total Assets** | **7,972** | **7,959** | **7,564** | **8,023** | **8,442** | **8,708** | **8,892** | **8,876** | **9,391** | **10,054** | **10,686** | **11,036** | **7,739** | **8,023** | **8,876** | **11,036** | **14,409** |
| **Liabilities** | | | | | | | | | | | | | | | | | |
| **Current Liabilities:** | | | | | | | | | | | | | | | | | |
| Accounts payable | 1,778 | 1,567 | 1,467 | 1,604 | 1,673 | 1,771 | 1,694 | 1,875 | 1,857 | 1,966 | 2,049 | 2,123 | 1,786 | 1,604 | 1,875 | 2,123 | 2,187 |
| Affiliate accounts payable | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Accrued employee compensation | 148 | 204 | 242 | 352 | 212 | 253 | 308 | 102 | 104 | 109 | 110 | 115 | 106 | 352 | 102 | 115 | 65 |
| Accrued deferred compensation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Accrued expenses | 685 | 656 | 642 | 632 | 673 | 673 | 771 | 784 | 788 | 811 | 793 | 801 | 654 | 632 | 784 | 801 | 716 |
| Accrued warranty | 71 | 63 | 61 | 60 | 63 | 66 | 70 | 174 | 190 | 218 | 243 | 279 | 74 | 60 | 174 | 279 | 401 |
| Accrued income taxes | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Current portion of l-t debt & s-t debt | 479 | 479 | - | - | 1,496 | 998 | 398 | 398 | 398 | 398 | 398 | 398 | 479 | - | 398 | 398 | 398 |
| **Total Current Liabilities** | **3,161** | **2,969** | **2,412** | **2,648** | **4,117** | **3,761** | **3,241** | **3,332** | **3,338** | **3,502** | **3,594** | **3,716** | **3,099** | **2,648** | **3,332** | **3,716** | **3,767** |
| **Long Term Liabilities** | | | | | | | | | | | | | | | | | |
| Accrued warranty | 70 | 73 | 73 | 77 | 83 | 94 | 109 | 116 | 228 | 261 | 292 | 335 | 75 | 77 | 116 | 335 | 482 |
| Other liabilities | 844 | 796 | 762 | 756 | 807 | 893 | 982 | 672 | 729 | 788 | 772 | 758 | 861 | 756 | 672 | 758 | 784 |
| Long-term debt, less current portion | 5,197 | 5,200 | 5,146 | 4,995 | 3,498 | 3,501 | 3,465 | 3,065 | 3,065 | 3,065 | 3,065 | 2,915 | 5,195 | 4,995 | 3,065 | 2,915 | 2,715 |
| **Total Long Term Liabilities** | **6,111** | **6,069** | **5,981** | **5,828** | **4,388** | **4,488** | **4,556** | **3,853** | **4,022** | **4,114** | **4,129** | **4,008** | **6,131** | **5,828** | **3,853** | **4,008** | **3,981** |
| **Total Liabilities** | **9,272** | **9,038** | **8,393** | **8,476** | **8,505** | **8,249** | **7,797** | **7,185** | **7,360** | **7,616** | **7,723** | **7,724** | **9,230** | **8,476** | **7,185** | **7,724** | **7,748** |
| **Total Stockholder's Equity** | **(1,300)** | **(1,079)** | **(829)** | **(453)** | **(63)** | **459** | **1,095** | **1,691** | **2,031** | **2,439** | **2,964** | **3,312** | **(1,491)** | **(453)** | **1,691** | **3,312** | **6,661** |
| **Total Liabilities and Stockholder's Equity** | **7,972** | **7,959** | **7,564** | **8,023** | **8,442** | **8,708** | **8,892** | **8,876** | **9,391** | **10,054** | **10,686** | **11,036** | **7,739** | **8,023** | **8,876** | **11,036** | **14,409** |

Source: Company data, Morgan Stanley Research estimates

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**Exhibit 15:** Seagate Technology Statement of Cash Flows

| ($ in millions) | F2025A | | | | F2026E | | | | F2027E | | | | Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | 2024A | 2025A | 2026E | 2027E | 2028E |
| **Cash Flow Statement (Non Cumulative)** | | | | | | | | | | | | | | | | | |
| Operating activities: | | | | | | | | | | | | | | | | | |
| Net Income / (Loss) | 305 | 336 | 340 | 488 | 549 | 593 | 748 | 1,101 | 1,341 | 1,704 | 2,112 | 2,621 | 335 | 1,469 | 2,991 | 7,778 | 15,039 |
| Depreciation and Amortization | 64 | 63 | 63 | 61 | 72 | 68 | 66 | 107 | 78 | 87 | 94 | 116 | 264 | 251 | 313 | 374 | 351 |
| Stock based compensation incl. accelerated vesting charges | 38 | 49 | 54 | 59 | 52 | 53 | 54 | 60 | 66 | 76 | 84 | 97 | 127 | 200 | 219 | 323 | 484 |
| Deferred income taxes | (3) | 8 | 3 | (16) | (25) | 3 | (11) | - | - | - | - | - | 78 | (8) | (33) | - | - |
| In-process research and development charge | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Non-cash portion of restructuring charge | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Deferred compensation charge | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt refinancing charges | - | - | - | 7 | - | - | - | - | - | - | - | - | 7 | 7 | - | - | - |
| Excess tax benefit from stock options | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other, net | 23 | 73 | 17 | 16 | 15 | 86 | 84 | - | - | - | - | - | (279) | 129 | 185 | - | - |
| Changes in Operating Assets and Liabilities: | | | | | | | | | | | | | | | | | 0 |
| Accounts receivable | (199) | 41 | (35) | (320) | (114) | (173) | 49 | (63) | (23) | (326) | (283) | (70) | 192 | (513) | (301) | (702) | (861) |
| Inventories | (144) | (90) | 1 | 32 | (56) | (2) | (32) | (39) | (153) | (40) | 8 | (41) | (99) | (201) | (129) | (226) | (54) |
| Accounts payable | 10 | (200) | (141) | 89 | 84 | 78 | (73) | 181 | (18) | 109 | 83 | 74 | 227 | (242) | 270 | 248 | 64 |
| Accrued employee compensation | 37 | 48 | 31 | 91 | (140) | 32 | 46 | (393) | 193 | 147 | 24 | 78 | 6 | 207 | (455) | 441 | 160 |
| Accrued expenses, income taxes and warranty | 16 | (58) | (30) | (23) | 119 | (149) | 376 | - | - | - | - | - | (138) | (95) | 346 | - | - |
| Accrued deferred compensation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other assets and liabilities | (52) | (49) | (44) | 24 | (24) | 134 | (193) | 44 | (37) | (60) | (56) | (78) | 198 | (121) | (39) | (231) | (321) |
| **Net Cash Provided by Operating Activities** | **95** | **221** | **259** | **508** | **532** | **723** | **1,114** | **999** | **1,447** | **1,696** | **2,066** | **2,796** | **918** | **1,083** | **3,368** | **8,005** | **14,862** |
| Investing activities: | | | | | | | | | | | | | | | | | |
| Acquisition of property, equipment and leasehold improvement | (68) | (71) | (43) | (83) | (105) | (116) | (161) | (174) | (190) | (218) | (243) | (279) | (254) | (265) | (556) | (930) | (1,185) |
| Proceeds from sale of PPE | - | 1 | - | - | 15 | - | - | - | - | - | - | - | 40 | 1 | 15 | - | - |
| Maturities and sales of short-term investments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Purchases of short-term investments | - | - | - | - | - | - | (2) | - | - | - | - | - | - | - | (2) | - | - |
| Acquisition, net of cash and cash equiv. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Purchase of rigid disc drive operating assets and liabilities, net | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Restricted cash (TRA) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Proceeds from sale of certain investments | - | - | 10 | 41 | - | - | - | - | - | - | - | - | 14 | 51 | - | - | - |
| Sale of XIOtech, net of repayment of intercompany debt | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sale of Reynosa facility | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other, net | - | - | 25 | (88) | - | - | - | - | - | - | - | - | 326 | (63) | - | - | - |
| **Net cash used in investing activities** | **(68)** | **(70)** | **(8)** | **(130)** | **(90)** | **(116)** | **(163)** | **(174)** | **(190)** | **(218)** | **(243)** | **(279)** | **126** | **(276)** | **(543)** | **(930)** | **(1,185)** |
| Financing activities: | | | | | | | | | | | | | | | | | |
| Issuance of long-term debt, net of issuance costs | - | - | - | 400 | - | - | - | - | - | - | - | - | 1,500 | 400 | - | - | - |
| Repayment of long-term debt, including extinguishments of de | - | - | (531) | (547) | (11) | (489) | (642) | (400) | - | - | - | (150) | (1,288) | (1,078) | (1,542) | (150) | (200) |
| Redemption premium on 12½% senior notes | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Issuance of common shares (2003 - in initial public offering) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Cash used to repurchase stock | - | - | - | - | (29) | - | (30) | (400) | (900) | (1,200) | (1,500) | (2,200) | - | - | (459) | (5,800) | (11,500) |
| Proceeds from exercise of employee stock options and emplo | 29 | 3 | 24 | 16 | 22 | 5 | 27 | 0 | 0 | 0 | 0 | 0 | 66 | 72 | 54 | 1 | 1 |
| Distributions to shareholders | (147) | (148) | (152) | (153) | (153) | (154) | (161) | (166) | (167) | (173) | (171) | (170) | (585) | (600) | (634) | (681) | (675) |
| Excess tax benefit from stock options | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other, net | (28) | (7) | (16) | (17) | (50) | (35) | (46) | - | - | - | - | - | (166) | (68) | (131) | - | - |
| **Net Cash used in Financing Activities** | **(146)** | **(152)** | **(675)** | **(301)** | **(221)** | **(673)** | **(852)** | **(965)** | **(1,067)** | **(1,372)** | **(1,671)** | **(2,520)** | **(473)** | **(1,274)** | **(2,711)** | **(6,630)** | **(12,374)** |
| **Increase/(decrease) in Cash and Cash Equivalents** | **(119)** | **(1)** | **(424)** | **77** | **221** | **(66)** | **99** | **(141)** | **190** | **106** | **151** | **(3)** | **571** | **(467)** | **113** | **445** | **1,303** |
| Cash and Cash Equivalents at Beginning of Period | 1,360 | 1,241 | 1,240 | 816 | 893 | 1,114 | 1,048 | 1,147 | 1,006 | 1,197 | 1,303 | 1,454 | 789 | 1,360 | 893 | 1,006 | 1,452 |
| **Cash, Cash Equivalents & Restricted Cash at End of Period** | **1,241** | **1,240** | **816** | **893** | **1,114** | **1,048** | **1,147** | **1,006** | **1,197** | **1,303** | **1,454** | **1,452** | **1,360** | **893** | **1,006** | **1,452** | **2,755** |
| Restricted Cash | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 1 | 1 | 1 |
| Change in Restricted Cash | - | - | - | - | - | - | (1) | - | - | - | - | - | (1) | - | (1) | - | - |
| Cash and Cash Equivalents at End of Period | 1,239 | 1,238 | 814 | 891 | 1,112 | 1,046 | 1,146 | 1,005 | 1,196 | 1,302 | 1,453 | 1,451 | 1,358 | 891 | 1,005 | 1,451 | 2,754 |

Source: Company data, Morgan Stanley Research estimates

# WDC: Financial Model

**Exhibit 16:** Western Digital Income Statement

| ($ in millions) | F2025A Sep-24 | F2025A Dec-24 | F2025A Mar-25 | F2025A Jun-25 | F2026E Sep-25 | F2026E Dec-25 | F2026E Mar-26 | F2026E Jun-26 | F2027E Sep-26 | F2027E Dec-26 | F2027E Mar-27 | F2027E Jun-27 | Fiscal Year 2024A | Fiscal Year 2025A | Fiscal Year 2026E | Fiscal Year 2027E | Fiscal Year 2028E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | **2,212** | **2,409** | **2,294** | **2,605** | **2,818** | **3,017** | **3,337** | **3,685** | **4,046** | **4,616** | **5,164** | **5,837** | **6,317** | **9,520** | **12,857** | **19,663** | **29,976** |
| Cloud | 1,909 | 2,096 | 2,007 | 2,329 | 2,510 | 2,673 | 2,970 | 3,288 | 3,645 | 4,187 | 4,757 | 5,401 | 5,052 | 8,341 | 11,441 | 17,991 | 28,204 |
| Non-Cloud | 303 | 313 | 287 | 276 | 308 | 344 | 367 | 397 | 401 | 429 | 407 | 436 | 1,265 | 1,179 | 1,416 | 1,672 | 1,772 |
| **Cost of Revenue** | **1,387** | **1,483** | **1,374** | **1,528** | **1,581** | **1,626** | **1,653** | **1,769** | **1,808** | **1,894** | **1,924** | **1,983** | **4,506** | **5,772** | **6,629** | **7,608** | **8,207** |
| **Gross Profit** | **825** | **926** | **920** | **1,077** | **1,237** | **1,391** | **1,684** | **1,917** | **2,238** | **2,723** | **3,240** | **3,854** | **1,811** | **3,748** | **6,229** | **12,055** | **21,769** |
| *Gross Margin* | *37.3%* | *38.4%* | *40.1%* | *41.3%* | *43.9%* | *46.1%* | *50.5%* | *52.0%* | *55.3%* | *59.0%* | *62.7%* | *66.0%* | *28.7%* | *39.4%* | *48.4%* | *61.3%* | *72.6%* |
| *Incremental Margin* | *56.1%* | *57.9%* | *72.3%* | *61.7%* | *68.0%* | *76.5%* | *73.3%* | *77.7%* | *81.5%* | *83.3%* | *85.2%* | *90.0%* | *617.7%* | *60.5%* | *74.3%* | *85.6%* | *94.2%* |
| **Operating Expenses** | **420** | **335** | **324** | **345** | **381** | **372** | **397** | **394** | **409** | **415** | **418** | **426** | **1,468** | **1,424** | **1,544** | **1,668** | **1,853** |
| Research and development | 262 | 225 | 245 | 262 | 294 | 289 | 294 | 306 | 316 | 314 | 315 | 321 | 950 | 994 | 1,183 | 1,266 | 1,391 |
| SG&A | 158 | 110 | 79 | 83 | 87 | 83 | 103 | 88 | 93 | 102 | 103 | 105 | 518 | 430 | 361 | 403 | 461 |
| **Income from Operations (PTOP)** | **405** | **591** | **596** | **732** | **856** | **1,019** | **1,287** | **1,522** | **1,829** | **2,307** | **2,822** | **3,428** | **343** | **2,324** | **4,684** | **10,387** | **19,916** |
| *PTOP Margin* | *18.3%* | *24.5%* | *26.0%* | *28.1%* | *30.4%* | *33.8%* | *38.6%* | *41.3%* | *45.2%* | *50.0%* | *54.6%* | *58.7%* | *5.4%* | *24.4%* | *36.4%* | *52.8%* | *66.4%* |
| **Total Interest Income (expense), net** | **(85)** | **(90)** | **(84)** | **(52)** | **(44)** | **(45)** | **(24)** | **(7)** | **1** | **1** | **1** | **2** | **(395)** | **(311)** | **(120)** | **6** | **27** |
| **Operating Income Before Taxes** | **320** | **501** | **512** | **680** | **812** | **974** | **1,263** | **1,516** | **1,830** | **2,308** | **2,823** | **3,430** | **(52)** | **2,013** | **4,565** | **10,392** | **19,943** |
| GAAP Income Tax Provision | 90 | - | (698) | 95 | 155 | 120 | 154 | 242 | 293 | 369 | 452 | 549 | 26 | (513) | 671 | 1,663 | 3,191 |
| Recurring Tax Provision | 48 | 70 | 12 | 63 | 139 | 147 | 202 | 242 | 293 | 369 | 452 | 549 | (8) | 193 | 730 | 1,663 | 3,191 |
| *Effective Tax Rate* | *15.0%* | *14.0%* | *2.3%* | *9.3%* | *17.1%* | *15.1%* | *16.0%* | *16.0%* | *16.0%* | *16.0%* | *16.0%* | *16.0%* | *15.0%* | *9.6%* | *16.0%* | *16.0%* | *16.0%* |
| *Statutory Tax Rate* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *15.0%* |
| Amount allocated to preferred shareholder | 6 | 11 | 13 | 17 | 18 | 20 | 13 | - | - | - | - | - | 54 | 47 | 51 | - | - |
| **Operating Net Income** | **266** | **420** | **487** | **600** | **655** | **807** | **1,048** | **1,273** | **1,537** | **1,939** | **2,372** | **2,881** | **(98)** | **1,773** | **3,783** | **8,730** | **16,753** |
| *Operating Net Income Margin* | *12.0%* | *17.4%* | *21.2%* | *23.0%* | *23.2%* | *26.7%* | *31.4%* | *34.5%* | *38.0%* | *42.0%* | *45.9%* | *49.4%* | *-1.6%* | *18.6%* | *29.4%* | *44.4%* | *55.9%* |
| **One-Time Charges/ Adjustments** | **(221)** | **35** | **(20)** | **335** | **(509)** | **(1,015)** | **(2,144)** | **55** | **61** | **69** | **77** | **88** | **695** | **129** | **(3,613)** | **295** | **450** |
| Reported Income Before Taxes (GAAP) | 245 | 268 | 74 | 347 | 1,337 | 1,962 | 3,359 | 1,460 | 1,769 | 2,239 | 2,746 | 3,343 | (681) | 934 | 8,118 | 10,097 | 19,494 |
| GAAP Net Income including discontinued | 493 | 396 | 520 | 282 | 1,182 | 1,842 | 3,205 | 1,218 | 1,477 | 1,870 | 2,294 | 2,794 | (740) | 1,691 | 7,447 | 8,435 | 16,303 |
| GAAP Net Income reported (continuing op | 155 | 268 | 772 | 252 | 1,182 | 1,842 | 3,205 | 1,218 | 1,477 | 1,870 | 2,294 | 2,794 | (707) | 1,447 | 7,447 | 8,435 | 16,303 |
| **GAAP Net Income (common shareholde** | **149** | **257** | **759** | **235** | **1,164** | **1,822** | **3,192** | **1,218** | **1,477** | **1,870** | **2,294** | **2,794** | **(761)** | **1,400** | **7,396** | **8,435** | **16,303** |
| Numerator for Diluted EPS | 149 | 257 | 759 | 235 | 1,164 | 1,822 | 3,192 | 1,218 | 1,477 | 1,870 | 2,294 | 2,794 | (761) | 1,400 | 7,396 | 8,435 | 16,303 |
| Stock Option Expense | 57 | 30 | 35 | 45 | 53 | 53 | 53 | 55 | 61 | 69 | 77 | 88 | 202 | 167 | 214 | 295 | 450 |
| Tax Benefit on Stock Option Expense | 3 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 10 | 8 | 11 | 15 | 22 |
| Stock Option Expense Per Share | $0.15 | $0.08 | $0.09 | $0.12 | $0.14 | $0.13 | $0.13 | $0.14 | $0.15 | $0.17 | $0.19 | $0.21 | $0.59 | $0.44 | $0.54 | $0.72 | $1.11 |
| **Operating Net Income (pre-stock option** | **320** | **449** | **520** | **643** | **705** | **857** | **1,098** | **1,326** | **1,595** | **2,005** | **2,445** | **2,965** | **94** | **1,932** | **3,987** | **9,010** | **17,180** |
| **Fully-diluted EPS** | | | | | | | | | | | | | | | | | |
| **EPS - ModelWare** | **$0.75** | **$1.20** | **$1.36** | **$1.66** | **$1.78** | **$2.13** | **$2.72** | **$3.30** | **$3.96** | **$4.96** | **$6.08** | **$7.41** | **($0.30)** | **$4.97** | **$9.97** | **$22.40** | **$43.47** |
| EPS - Reported | $0.42 | $0.73 | $2.12 | $0.65 | $3.15 | $4.82 | $8.29 | $3.16 | $3.80 | $4.78 | $5.88 | $7.18 | ($2.33) | $3.92 | $19.50 | $21.64 | $42.30 |
| EPS - ModelWare excl. Stock Option Ex | $0.90 | $1.28 | $1.45 | $1.78 | $1.91 | $2.27 | $2.85 | $3.44 | $4.10 | $5.13 | $6.26 | $7.62 | $0.29 | $5.41 | $10.51 | $23.11 | $44.57 |
| Dividend Payment | - | - | - | 35 | 35 | 43 | 52 | 55 | 64 | 67 | 76 | 76 | - | 35 | 183 | 282 | 376 |
| Dividend Per Share | $0.00 | $0.00 | $0.00 | $0.10 | $0.10 | $0.13 | $0.15 | $0.15 | $0.18 | $0.18 | $0.20 | $0.20 | $0.00 | $0.10 | $0.50 | $0.74 | $1.01 |
| Period Ending Outstanding Shares | 357 | 347 | 349 | 348 | 345 | 340 | 345 | 364 | 363 | 382 | 381 | 379 | 326 | 348 | 364 | 379 | 373 |
| Avg Shares (Basic) | 357 | 346 | 348 | 348 | 345 | 341 | 342 | 364 | 364 | 382 | 381 | 380 | 326 | 350 | 348 | 377 | 376 |
| Avg Shares (Fully Diluted) | 357 | 350 | 358 | 362 | 369 | 378 | 385 | 385 | 389 | 391 | 390 | 389 | 326 | 357 | 379 | 390 | 385 |

Source: Company data, Morgan Stanley Research estimates

**Exhibit 17:** Western Digital Income Statement Analysis

| ($ in millions) | F2025A Sep-24 | F2025A Dec-24 | F2025A Mar-25 | F2025A Jun-25 | F2026E Sep-25 | F2026E Dec-25 | F2026E Mar-26 | F2026E Jun-26 | F2027E Sep-26 | F2027E Dec-26 | F2027E Mar-27 | F2027E Jun-27 | Fiscal Year 2024A | Fiscal Year 2025A | Fiscal Year 2026E | Fiscal Year 2027E | Fiscal Year 2028E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Margin Analysis** | | | | | | | | | | | | | | | | | |
| **Gross Margin** | **37.3%** | **38.4%** | **40.1%** | **41.3%** | **43.9%** | **46.1%** | **50.5%** | **52.0%** | **55.3%** | **59.0%** | **62.7%** | **66.0%** | **28.7%** | **39.4%** | **48.4%** | **61.3%** | **72.6%** |
| Cloud | 40.5% | 41.0% | 43.2% | 43.8% | 45.8% | 48.2% | 52.4% | 53.7% | 57.0% | 60.7% | 64.3% | 67.7% | 31.9% | 42.2% | 50.3% | 63.0% | 74.2% |
| Non-Cloud | 17.1% | 21.3% | 18.5% | 20.6% | 28.8% | 30.2% | 34.8% | 38.0% | 40.0% | 42.0% | 44.0% | 45.5% | 15.8% | 19.4% | 33.3% | 42.9% | 48.0% |
| SG&A | 7.1% | 4.6% | 3.4% | 3.2% | 3.1% | 2.8% | 3.1% | 2.4% | 2.3% | 2.2% | 2.0% | 1.8% | 8.2% | 4.5% | 2.8% | 2.0% | 1.5% |
| Operating Expenses | 19.0% | 13.9% | 14.1% | 13.2% | 13.5% | 12.3% | 11.9% | 10.7% | 10.1% | 9.0% | 8.1% | 7.3% | 23.2% | 15.0% | 12.0% | 8.5% | 6.2% |
| EBITDA Margin | 21.9% | 28.0% | 30.8% | 31.4% | 33.5% | 36.8% | 41.4% | 44.2% | 47.9% | 52.4% | 56.9% | 60.8% | 10.9% | 28.2% | 39.4% | 55.1% | 68.1% |
| PTOP Margin | 18.3% | 24.5% | 26.0% | 28.1% | 30.4% | 33.8% | 38.6% | 41.3% | 45.2% | 50.0% | 54.6% | 58.7% | 5.4% | 24.4% | 36.4% | 52.8% | 66.4% |
| Pretax Margin | 14.5% | 20.8% | 22.3% | 26.1% | 28.8% | 32.3% | 37.8% | 41.1% | 45.2% | 50.0% | 54.7% | 58.8% | -0.8% | 21.1% | 35.5% | 52.9% | 66.5% |
| Net Income | 12.0% | 17.4% | 21.2% | 23.0% | 23.2% | 26.7% | 31.4% | 34.5% | 38.0% | 42.0% | 45.9% | 49.4% | -1.6% | 18.6% | 29.4% | 44.4% | 55.9% |
| **Year-Over-Year Growth (%)** | | | | | | | | | | | | | | | | | |
| **Revenue** | **85.3%** | **76.2%** | **30.9%** | **30.0%** | **27.4%** | **25.2%** | **45.5%** | **41.5%** | **43.6%** | **53.0%** | **54.8%** | **58.4%** | **1.0%** | **50.7%** | **35.1%** | **52.9%** | **52.5%** |
| Cloud | 123.5% | 103.3% | 37.9% | 36.0% | 31.5% | 27.5% | 48.0% | 41.2% | 45.2% | 56.6% | 60.2% | 64.3% | | 65.1% | 37.2% | 57.2% | 56.8% |
| Non-Cloud | -10.9% | -6.8% | -3.4% | -5.5% | 1.7% | 9.9% | 27.9% | 43.8% | 30.1% | 24.8% | 10.8% | 9.7% | | -6.8% | 20.1% | 18.1% | 6.0% |
| Gross Margin | 224.8% | 186.7% | 74.2% | 52.5% | 49.9% | 50.2% | 83.0% | 78.0% | 80.9% | 95.7% | 92.4% | 101.1% | 26.8% | 107.0% | 66.2% | 93.5% | 80.6% |
| Product Development | 20.7% | 0.9% | 0.8% | -1.9% | 12.2% | 28.4% | 20.0% | 16.7% | 7.3% | 8.6% | 7.1% | 5.0% | -3.7% | 4.6% | 19.0% | 7.0% | 9.9% |
| SG&A | 23.4% | -4.3% | -40.2% | -42.0% | -44.9% | -24.5% | 30.4% | 6.6% | 7.0% | 22.4% | 0.3% | 18.8% | -35.8% | -17.0% | -15.9% | 11.5% | 14.4% |
| **Operating Expenses** | **21.7%** | **-0.9%** | **-13.6%** | **-15.9%** | **-9.3%** | **11.0%** | **22.5%** | **14.3%** | **7.2%** | **11.7%** | **5.4%** | **8.1%** | **-6.6%** | **-3.0%** | **8.4%** | **8.0%** | **11.0%** |
| PTOP | NM | NM | 289.5% | 147.3% | 111.4% | 72.4% | 115.9% | 108.0% | 113.7% | 126.4% | 119.3% | 125.2% | NM | 577.6% | 101.6% | 121.7% | 91.7% |
| EBT | NM | NM | 924.0% | 252.3% | 153.8% | 94.4% | 146.7% | 122.9% | 125.4% | 137.0% | 123.6% | 126.3% | 88.6% | NM | 128.8% | 127.7% | 91.9% |
| Net Income | NM | NM | 1670.9% | 289.5% | 146.2% | 92.1% | 115.2% | 112.2% | 134.7% | 140.3% | 128.3% | 126.3% | 76.1% | NM | 113.4% | 130.8% | 91.9% |
| **ModelWare EPS** | **NM** | **NM** | **1557.1%** | **250.8%** | **138.2%** | **77.9%** | **100.1%** | **99.3%** | **122.8%** | **132.2%** | **123.2%** | **124.3%** | **76.7%** | **NM** | **100.7%** | **124.6%** | **94.1%** |
| **Sequential Growth (%)** | | | | | | | | | | | | | | | | | |
| **Revenue** | **10.4%** | **8.9%** | **-4.8%** | **13.6%** | **8.2%** | **7.1%** | **10.6%** | **10.4%** | **9.8%** | **14.1%** | **11.9%** | **13.0%** | | | | | |
| Cloud | 11.5% | 9.8% | -4.2% | 16.0% | 7.8% | 6.5% | 11.1% | 10.7% | 10.8% | 14.9% | 13.6% | 13.5% | | | | | |
| Non-Cloud | 3.8% | 3.3% | -8.3% | -3.8% | 11.6% | 11.7% | 6.7% | 8.1% | 0.9% | 7.1% | -5.2% | 7.1% | | | | | |
| Gross Margin | 16.9% | 12.2% | -0.6% | 17.1% | 14.9% | 12.4% | 21.1% | 13.8% | 16.8% | 21.7% | 19.0% | 18.9% | | | | | |
| Product Development | -1.9% | -14.1% | 8.9% | 6.9% | 12.2% | -1.7% | 1.7% | 4.0% | 3.2% | -0.5% | 0.3% | 1.9% | | | | | |
| SG&A | 10.5% | -30.4% | -28.2% | 5.1% | 4.8% | -4.6% | 24.1% | -14.1% | 5.2% | 9.1% | 1.7% | 1.7% | | | | | |
| **Operating Expenses** | **2.4%** | **-20.2%** | **-3.3%** | **6.5%** | **10.4%** | **-2.4%** | **6.7%** | **-0.7%** | **3.6%** | **1.7%** | **0.7%** | **1.9%** | | | | | |
| PTOP Margin | 36.8% | 45.9% | 0.8% | 22.8% | 16.9% | 19.0% | 26.3% | 18.3% | 20.2% | 26.1% | 22.3% | 21.5% | | | | | |
| Pretax Margin | 65.8% | 56.6% | 2.2% | 32.8% | 19.4% | 20.0% | 29.7% | 20.0% | 20.8% | 26.1% | 22.3% | 21.5% | | | | | |
| Net Income | 72.7% | 57.9% | 16.0% | 23.2% | 9.2% | 23.2% | 29.9% | 21.5% | 20.8% | 26.1% | 22.3% | 21.5% | | | | | |
| **ModelWare EPS** | **57.7%** | **61.1%** | **13.4%** | **21.8%** | **7.1%** | **20.3%** | **27.5%** | **21.3%** | **19.7%** | **25.3%** | **22.6%** | **21.9%** | | | | | |

Source: Company data, Morgan Stanley Research estimates

## Exhibit 18: Western Digital Balance Sheet

| ($ in millions) | F2025A | | | | F2026E | | | | F2027E | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | 2024A | 2025A | 2026E | 2027E | 2028E |
| **Assets** | | | | | | | | | | | | | | | | | |
| **Current Assets:** | | | | | | | | | | | | | | | | | |
| Cash and cash equivalents | 1,383 | 1,487 | 3,477 | 2,114 | 2,048 | 1,975 | 2,050 | 2,500 | 2,600 | 2,748 | 3,096 | 3,621 | 1,551 | 2,114 | 2,500 | 3,621 | 8,158 |
| Short-term investments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Accounts receivable, net | 1,421 | 1,693 | 1,469 | 1,486 | 1,355 | 1,685 | 1,894 | 1,822 | 1,891 | 2,409 | 2,639 | 2,758 | 1,231 | 1,486 | 1,822 | 2,758 | 4,063 |
| Inventories | 1,315 | 1,248 | 1,311 | 1,291 | 1,393 | 1,349 | 1,357 | 1,458 | 1,533 | 1,564 | 1,625 | 1,612 | 1,387 | 1,291 | 1,458 | 1,612 | 1,723 |
| Other current assets | 403 | 403 | 417 | 611 | 514 | 454 | 423 | 737 | 809 | 923 | 1,033 | 1,167 | 360 | 611 | 737 | 1,167 | 1,720 |
| Retained interest in Sandisk | - | - | 1,412 | 354 | 965 | 2,068 | 1,187 | - | - | - | - | - | - | 354 | - | - | - |
| Current assets of discontinued operations | 4,420 | 4,541 | - | - | - | - | - | - | - | - | - | - | 3,531 | - | - | - | - |
| **Total Current Assets** | **8,942** | **9,372** | **8,086** | **5,856** | **6,275** | **7,531** | **6,911** | **6,517** | **6,833** | **7,644** | **8,392** | **9,159** | **8,060** | **5,856** | **6,517** | **9,159** | **15,664** |
| Property, equipment and leasehold improvements | 2,340 | 2,351 | 2,347 | 2,343 | 2,345 | 2,352 | 2,422 | 2,499 | 2,591 | 2,710 | 2,853 | 3,027 | 2,359 | 2,343 | 2,499 | 3,027 | 4,014 |
| Goodwill | 4,321 | 4,319 | 4,319 | 4,319 | 4,319 | 4,319 | 4,321 | 4,321 | 4,321 | 4,321 | 4,321 | 4,321 | 4,319 | 4,319 | 4,321 | 4,321 | 4,321 |
| Intangible assets | 77 | 77 | 76 | - | - | - | - | - | - | - | - | - | 78 | - | - | - | - |
| Other Assets, net | 890 | 835 | 1,540 | 1,484 | 1,420 | 1,409 | 1,391 | 1,391 | 1,391 | 1,391 | 1,391 | 1,391 | 759 | 1,484 | 1,391 | 1,391 | 1,391 |
| Non-current assets of discontinued operations | 8,201 | 8,502 | - | - | - | - | - | - | - | - | - | - | 8,613 | - | - | - | - |
| **Total Assets** | **24,771** | **25,456** | **16,368** | **14,002** | **14,359** | **15,611** | **15,045** | **14,728** | **15,136** | **16,066** | **16,957** | **17,897** | **24,188** | **14,002** | **14,728** | **17,897** | **25,390** |
| **Liabilities** | | | | | | | | | | | | | | | | | |
| **Current Liabilities:** | | | | | | | | | | | | | | | | | |
| Accounts payable | 1,281 | 1,307 | 1,287 | 1,266 | 1,533 | 1,497 | 1,587 | 1,497 | 1,729 | 1,750 | 1,860 | 1,678 | 1,054 | 1,266 | 1,497 | 1,678 | 1,793 |
| Accrued expenses | 1,071 | 1,140 | 774 | 719 | 703 | 771 | 766 | 779 | 798 | 831 | 843 | 867 | 1,053 | 719 | 779 | 867 | 933 |
| Income taxes payable | 390 | 400 | 373 | 800 | 298 | 459 | 501 | 501 | 501 | 501 | 501 | 501 | 471 | 800 | 501 | 501 | 501 |
| Accrued compensation | 398 | 360 | 322 | 407 | 413 | 223 | 202 | 519 | 532 | 554 | 562 | 578 | 435 | 407 | 519 | 578 | 622 |
| Short term debt | 1,750 | 150 | 2,426 | 2,226 | 2,226 | 2,226 | 1,581 | 723 | 723 | 723 | 723 | 723 | 1,750 | 2,226 | 723 | 723 | 723 |
| Current liabilities of discontinued operations | 1,201 | 1,349 | - | - | - | - | - | - | - | - | - | - | 1,324 | - | - | - | - |
| **Total Current Liabilities** | **6,091** | **4,706** | **5,182** | **5,418** | **5,173** | **5,176** | **4,637** | **4,018** | **4,283** | **4,359** | **4,489** | **4,347** | **6,087** | **5,418** | **4,018** | **4,347** | **4,572** |
| **Long Term Liabilities** | | | | | | | | | | | | | | | | | |
| Other liabilities | 796 | 724 | 873 | 559 | 612 | 666 | 728 | 606 | 621 | 647 | 656 | 674 | 1,002 | 559 | 606 | 674 | 726 |
| Long-term debt, less current portion | 5,650 | 7,216 | 4,907 | 2,485 | 2,457 | 2,429 | - | - | - | - | - | - | 5,684 | 2,485 | - | - | - |
| Non-current liabilities of discontinued operations | 362 | 464 | - | - | - | - | - | - | - | - | - | - | 368 | - | - | - | - |
| **Total Long Term Liabilities** | **6,808** | **8,404** | **5,780** | **3,044** | **3,069** | **3,095** | **728** | **606** | **621** | **647** | **656** | **674** | **7,054** | **3,044** | **606** | **674** | **726** |
| **Total Liabilities** | **12,899** | **13,110** | **10,962** | **8,462** | **8,242** | **8,271** | **5,365** | **4,624** | **4,904** | **5,005** | **5,145** | **5,021** | **13,141** | **8,462** | **4,624** | **5,021** | **5,297** |
| **Total Stockholder's Equity** | **11,872** | **12,346** | **5,406** | **5,540** | **6,117** | **7,340** | **9,680** | **10,104** | **10,233** | **11,061** | **11,813** | **12,876** | **11,047** | **5,540** | **10,104** | **12,876** | **20,093** |
| **Total Liabilities and Stockholder's Equity** | **24,771** | **25,456** | **16,368** | **14,002** | **14,359** | **15,611** | **15,045** | **14,728** | **15,136** | **16,066** | **16,957** | **17,897** | **24,188** | **14,002** | **14,728** | **17,897** | **25,390** |

Source: Company data, Morgan Stanley Research estimates

## Exhibit 19: Western Digital Statement of Cash Flows

| ($ in millions) | F2025A | | | | F2026E | | | | F2027E | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | 2024A | 2025A | 2026E | 2027E | 2028E |
| **Cash Flow Statement (Non Cumulative)** | | | | | | | | | | | | | | | | | |
| Operating activities: | | | | | | | | | | | | | | | | | |
| **Net Income / (Loss)** | **493** | **396** | **520** | **282** | **1,182** | **1,842** | **3,205** | **1,218** | **1,477** | **1,870** | **2,294** | **2,794** | **(740)** | **1,691** | **7,447** | **8,435** | **16,303** |
| Depreciation and Amortization | 80 | 84 | 110 | 86 | 86 | 92 | 96 | 107 | 110 | 112 | 115 | 118 | 347 | 360 | 383 | 455 | 512 |
| Stock based compensation incl. accelerated vesting charges | 57 | 30 | 59 | 45 | 53 | 53 | 53 | 55 | 61 | 69 | 77 | 88 | 202 | 191 | 214 | 295 | 450 |
| Deferred income taxes | - | - | (708) | (63) | 55 | 29 | 47 | - | - | - | - | - | - | (771) | 131 | - | - |
| Gain on disposal of assets | - | - | 2 | 1 | (611) | (1,103) | - | - | - | - | - | - | - | 3 | (1,714) | - | - |
| Gain on business diversture | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Asset Impairment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Gain on repurchase of debt | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Amortization of debt issuance costs and discounts | - | - | 11 | - | - | - | - | - | - | - | - | - | - | 11 | - | - | - |
| Unrealized loss on retained interest in Sandisk | - | - | 606 | 166 | - | - | (2,734) | - | - | - | - | - | - | 772 | (2,734) | - | - |
| Other, net | - | - | 18 | 109 | 4 | 8 | 549 | - | - | - | - | - | - | 127 | 561 | - | - |
| Changes in Operating Assets and Liabilities: | | | | | | | | | | | | | | | | | |
| Accounts receivable | (190) | (272) | 527 | (17) | 131 | (330) | (209) | 72 | (69) | (518) | (231) | (119) | (149) | 48 | (336) | (936) | (1,305) |
| Inventories | 72 | 67 | (317) | 20 | (101) | 46 | (9) | (101) | (75) | (32) | (60) | 12 | 42 | (158) | (165) | (155) | (111) |
| Accounts payable | 227 | 26 | 114 | (34) | 248 | (29) | 70 | (90) | 233 | 20 | 110 | (182) | 95 | 333 | 199 | 181 | 115 |
| Accrued payable to related parties | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Accrued expenses, income taxes and warranty | (63) | 79 | - | 378 | - | - | - | 13 | 19 | 33 | 12 | 24 | (238) | 394 | 13 | 89 | 66 |
| Accrued employee compensation | (37) | (38) | - | 85 | - | - | - | 317 | 13 | 22 | 8 | 16 | 164 | 10 | 317 | 59 | 44 |
| Other assets and liabilities | (380) | (17) | (434) | (312) | (377) | 137 | 55 | (436) | (57) | (88) | (100) | (116) | (466) | (1,143) | (621) | (361) | (501) |
| **Net Cash Provided by Operating Activities** | **259** | **355** | **508** | **746** | **672** | **745** | **1,123** | **1,154** | **1,711** | **1,490** | **2,225** | **2,635** | **(743)** | **1,868** | **3,694** | **8,062** | **15,572** |
| Investing activities: | | | | | | | | | | | | | | | | | |
| Acquisition of property, equipment and leasehold improvements | (29) | (113) | (128) | (71) | (73) | (92) | (145) | (184) | (202) | (231) | (258) | (292) | (321) | (341) | (494) | (983) | (1,499) |
| Proceeds from sale of PPE | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Maturities and sales of short-term investments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Purchases of short-term investments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Acquisition, net of cash and cash equiv. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Restricted cash (TRA) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Proceeds from sale of certain investments | - | - | 210 | - | - | - | - | - | - | - | - | - | - | 210 | - | - | - |
| Other, net | - | - | 60 | 1 | 16 | (24) | - | - | - | - | - | - | - | 61 | (8) | - | - |
| **Net cash used in investing activities** | **(29)** | **(113)** | **142** | **(70)** | **(57)** | **(116)** | **(145)** | **(184)** | **(202)** | **(231)** | **(258)** | **(292)** | **(321)** | **(70)** | **(602)** | **(983)** | **(1,499)** |
| Financing activities: | | | | | | | | | | | | | | | | | |
| Employee stock plans, net | 66 | 62 | 5 | (13) | (55) | (8) | (102) | 55 | 55 | 56 | 56 | 58 | 261 | 120 | (110) | 225 | 240 |
| Issuance of long-term debt, net of issuance costs | (34) | (34) | 1,894 | - | - | - | - | - | - | - | - | - | 364 | 1,826 | - | - | - |
| Repayment of long-term debt, including extinguishments | - | - | - | (1,837) | (31) | (32) | (5) | - | - | - | - | - | - | (1,837) | (68) | - | - |
| Repayment of convertible debentures | - | - | - | - | - | - | - | (858) | - | - | - | - | - | - | (858) | - | - |
| Cash transferred to Sandisk related to Separation | - | - | (1,366) | - | - | - | - | - | - | - | - | - | - | (1,366) | - | - | - |
| Cash used to repurchase stock | - | - | - | (149) | (553) | (615) | (752) | (850) | (1,400) | (1,100) | (1,600) | (1,800) | - | (149) | (2,770) | (5,900) | (9,400) |
| Distributions to shareholders | - | - | - | (44) | (39) | (48) | (43) | (55) | (64) | (67) | (76) | (76) | - | (44) | (185) | (282) | (376) |
| Excess tax benefit from stock options | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other, net | (430) | (166) | - | 1 | - | - | - | 1,187 | - | - | - | - | 259 | (595) | 1,187 | - | - |
| **Net Cash used in Financing Activities** | **(398)** | **(138)** | **533** | **(2,042)** | **(678)** | **(703)** | **(902)** | **(520)** | **(1,408)** | **(1,111)** | **(1,620)** | **(1,818)** | **884** | **(2,045)** | **(2,803)** | **(5,957)** | **(9,535)** |
| Effect of changes in foreign currency exchange rates | - | - | 807 | 3 | (3) | 1 | (1) | - | - | - | - | - | - | 810 | (3) | - | - |
| **Increase/(decrease) in Cash and Cash Equivalents** | **(168)** | **104** | **1,990** | **(1,363)** | **(66)** | **(73)** | **75** | **450** | **100** | **148** | **347** | **525** | **(180)** | **563** | **386** | **1,121** | **4,537** |
| Cash and Cash Equivalents at Beginning of Period | 1,551 | 1,383 | 1,487 | 3,477 | 2,114 | 2,048 | 1,975 | 2,050 | 2,500 | 2,600 | 2,748 | 3,096 | 1,731 | 1,551 | 2,114 | 2,500 | 3,621 |
| **Cash, Cash Equivalents & Restricted Cash at End of Period** | **1,383** | **1,487** | **3,477** | **2,114** | **2,048** | **1,975** | **2,050** | **2,500** | **2,600** | **2,748** | **3,096** | **3,621** | **1,551** | **2,114** | **2,500** | **3,621** | **8,158** |
| Cash Flow From Discontinued Ops | - | - | (11,230) | - | - | - | - | - | - | - | - | - | - | (11,230) | - | - | - |
| **Cash and Cash Equivalents at End of Period** | **1,383** | **1,487** | **3,477** | **2,114** | **2,048** | **1,975** | **2,050** | **2,500** | **2,600** | **2,748** | **3,096** | **3,621** | **1,551** | **2,114** | **2,500** | **3,621** | **8,158** |

Source: Company data, Morgan Stanley Research estimates

# Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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(as of May 31, 2026)

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buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

| | Coverage Universe | | Investment Banking Clients (IBC) | | | Other Material Investment Services Clients (MISC) | |
|---|---|---|---|---|---|---|---|
| Stock Rating Category | Count | % of Total | Count | % of Total IBC | % of Rating Category | Count | % of Total Other MISC |
| Overweight/Buy | 1542 | 42% | 465 | 51% | 30% | 707 | 43% |
| Equal-weight/Hold | 1571 | 43% | 369 | 40% | 23% | 723 | 44% |
| Not-Rated/Hold | 3 | 0% | 0 | 0% | 0% | 1 | 0% |
| Underweight/Sell | 551 | 15% | 86 | 9% | 16% | 201 | 12% |
| Total | 3,667 | | 920 | | | 1632 | |

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

## Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

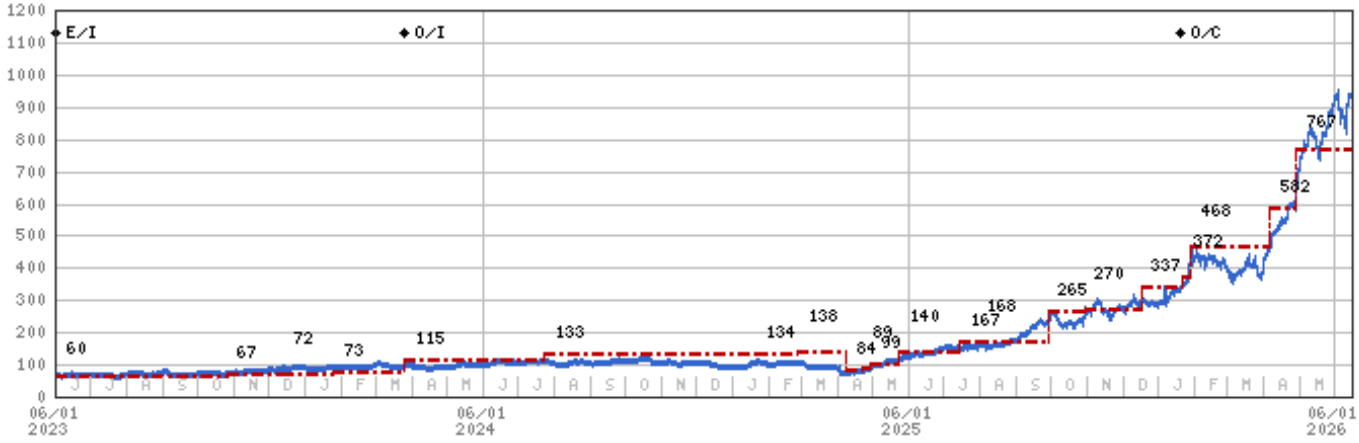
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Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

## Stock Price, Price Target and Rating History (See Rating Definitions)

Seagate Technology (STX.O) - As of 06/15/26 GMT in USD
Industry : IT Hardware



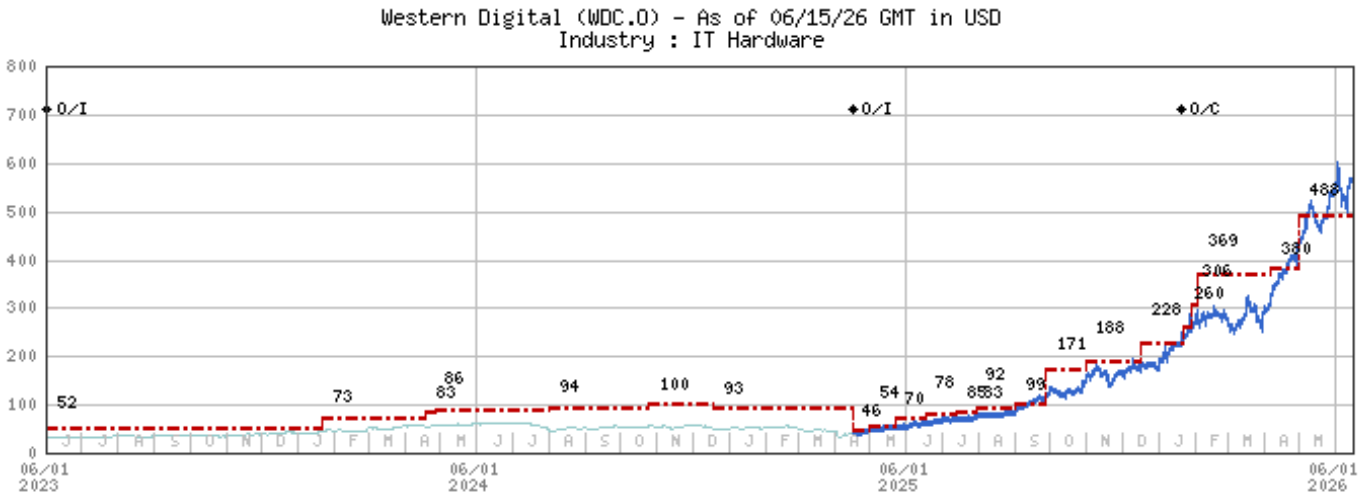

Stock Rating History: 6/1/21 : O/A; 6/10/21 : O/I; 10/5/21 : E/C; 1/18/23 : O/I; 4/21/23 : E/I; 3/26/24 : O/I; 1/20/26 : O/C

Price Target History: 4/22/21 : 98; 6/8/21 : 114; 7/21/21 : 118; 10/5/21 : 88; 10/22/21 : 94; 1/26/22 : 101; 3/30/22 : 99; 4/27/22 : 95; 7/14/22 : 89; 7/21/22 : 84; 8/31/22 : 70; 10/17/22 : 57; 10/26/22 : 54; 1/18/23 : 69; 1/26/23 : 72; 4/21/23 : 60; 10/26/23 : 67; 12/12/23 : 72; 1/25/24 : 73; 3/26/24 : 115; 7/24/24 : 133; 1/21/25 : 134; 2/26/25 : 138; 4/8/25 : 84; 4/22/25 : 89; 4/29/25 : 99; 5/23/25 : 140; 7/14/25 : 167; 7/29/25 : 168; 9/28/25 : 265; 10/29/25 : 270; 12/17/25 : 337; 1/22/26 : 372; 1/28/26 : 468; 4/6/26 : 582; 4/28/26 : 767

Source: Morgan Stanley Research  Date Format : MM/DD/YY  Price Target  No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst)  Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Stock Rating History: 6/1/21 : O/A; 6/10/21 : O/I; 10/5/21 : O/C; 1/18/23 : O/I; 4/16/25 : O/I; 1/20/26 : O/C

Price Target History: 4/30/21 : 88; 10/28/21 : 82; 1/28/22 : 71; 8/7/22 : 65; 10/24/22 : 52; 1/21/24 : 73; 4/18/24 : 83; 4/26/24 : 86; 8/1/24 : 94; 10/25/24 : 100; 12/19/24 : 93; 4/16/25 : 46; 5/1/25 : 54; 5/22/25 : 70; 6/17/25 : 78; 7/14/25 : 85; 7/28/25 : 83; 7/30/25 : 92; 9/2/25 : 99; 9/28/25 : 171; 10/31/25 : 188; 12/17/25 : 228; 1/22/26 : 260; 1/30/26 : 306; 2/3/26 : 369; 4/6/26 : 380; 5/1/26 : 488

Source: Morgan Stanley Research  Date Format : MM/DD/YY  Price Target  No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst)  Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

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## INDUSTRY COVERAGE: IT Hardware

| COMPANY (TICKER) | RATING (AS OF) | PRICE* (06/12/2026) |
|---|---|---|
| **Erik W Woodring** | | |
| Apple, Inc. (AAPL.O) | O (05/26/2009) | $291.13 |
| CDW Corporation (CDW.O) | E (01/20/2026) | $132.19 |
| Cricut Inc (CRCT.O) | U (08/12/2021) | $4.49 |
| Dell Technologies Inc. (DELL.N) | E (06/01/2026) | $395.57 |
| Everpure, Inc. (P.N) | E (06/11/2024) | $72.31 |
| Garmin Ltd (GRMN.N) | E (02/18/2026) | $238.10 |
| GoPro Inc (GPRO.O) | U (12/12/2023) | $0.77 |
| Hewlett Packard Enterprise (HPE.N) | E (11/16/2025) | $48.17 |
| HP Inc. (HPQ.N) | U (11/16/2025) | $25.24 |
| IBM (IBM.N) | E (01/18/2023) | $272.24 |
| Ingram Micro (INGM.N) | E (06/11/2025) | $29.75 |
| Kornit Digital Ltd. (KRNT.O) | E (11/06/2025) | $15.77 |
| Logitech International SA (LOGI.O) | U (01/20/2026) | $110.81 |
| NetApp Inc (NTAP.O) | U (01/20/2026) | $161.61 |
| Resideo Technologies Inc (REZI.N) | O (08/11/2025) | $31.66 |
| Seagate Technology (STX.O) | O (03/26/2024) | $931.04 |
| SmartRent, Inc. (SMRT.N) | ++ | $1.14 |
| Sonos Inc. (SONO.O) | E (11/06/2025) | $15.36 |
| TD Synnex Corporation (SNX.N) | O (06/11/2025) | $280.65 |
| Teradata (TDC.N) | O (04/08/2025) | $33.00 |
| Western Digital (WDC.O) | O (04/16/2025) | $562.93 |
| **Sanjit K Singh** | | |
| Nutanix Inc (NTNX.O) | E (01/12/2026) | $49.31 |

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* Historical prices are not split adjusted.

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