

# WESTERN DIGITAL FQ2'24 EARNINGS

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## CONTEXT

Western Digital's fiscal year 2024 second-quarter results have spotlighted the company's strategic maneuvers in a turbulent technology landscape.

### Non-GAAP Financial Results

(\$ in millions, except for EPS)

	Q2 2023	Q1 2024	Q2 2024	QoQ	YoY
<b>Revenue</b>	\$ 3,107	\$ 2,750	\$ 3,032	up 10%	down 2%
<b>Gross Margin %</b>	17.4%	4.1%	15.5%	up 11.4 ppt	down 1.9 ppt
<b>Operating Expenses</b>	\$ 659	\$ 555	\$ 561	up 1%	down 15%
<b>Operating Loss</b>	\$ (119)	\$ (443)	\$ (91)	*	*
<b>Interest and Other Expense, net</b>	\$ 64	\$ 86	\$ 94	up 9%	up 47%
<b>EPS – Diluted</b>	\$ (0.42)	\$ (1.76)	\$ (0.69)	*	*
<b>Operating Cash Flow</b>	\$ 35	\$ (626)	\$ (92)	*	*
<b>Free Cash Flow</b>	\$ (240)	\$ (544)	\$ (176)	*	*

See Appendix for GAAP to Non-GAAP Reconciliations.  
 \* Not a meaningful figure.

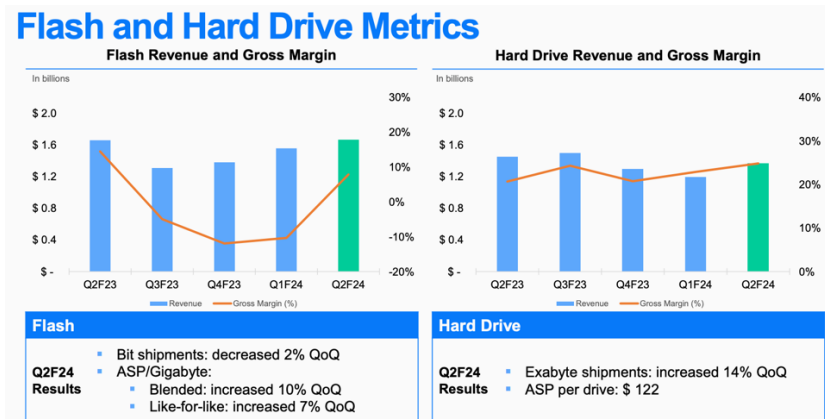
Reporting a revenue of \$3 billion and facing a non-GAAP loss per share of \$0.69, Western Digital finds itself at a crucial crossroads. This Research Note delves into the dynamics of Western Digital's performance, particularly focusing on its Flash and HDD businesses.

## PERFORMANCE

During the fiscal second quarter of 2024, Western Digital demonstrated a notable improvement in its performance, driven by strategic changes and focused execution across its Flash and HDD (Hard Disk Drive) businesses.

Here are the critical aspects of its performance:

1. **Financial Metrics:** Western Digital reported \$3 billion in revenue, a non-GAAP gross margin of 15.5%, and a non-GAAP loss per share of \$0.69. These figures met or exceeded the non-GAAP guidance ranges provided earlier, indicating a solid performance against their forecasts.
2. **Flash Business:** The company successfully navigated business cycles in the Flash segment by proactively managing inventory and offering a broad range of products. They highlighted their joint venture partnership with Kioxia as a factor in optimizing capital efficiency. The Flash business demonstrated best-in-class gross margin throughout the cycle, reflecting successful efforts in managing bit shipments and achieving an upside in Average Selling Prices (ASPs) and gross margin.
3. **HDD Business:** In HDD, Western Digital's ePMR platform and UltraSMR technology enabled them to provide high-capacity drives for mass market deployment. This technological edge allowed them to offer competitive Total Cost of Ownership (TCO) to cloud customers and outperform peers throughout the cycle.



4. **Market Segments:** The cloud end market returned to sequential growth for the first time in six quarters, primarily driven by increased near-line shipments. However, revenue slightly declined in the client segment as the increase in flash ASPs was offset by a decrease in bit shipments. There was sequential revenue growth in the consumer segment, led by seasonal strength in flash bit shipments.

## Revenue Trends by End Market



- Technology Developments:** Western Digital is on track to ramp up an array of QLC-based client SSDs using BiCS6 technology, and their BiCS8 yield is progressing well. These technological advancements are expected to lead the transition to QLC flash in the coming year.
- Outlook:** The company anticipates a multiyear growth period in storage, driven by generative AI and a resurgence in client and consumer device refresh cycles. They expect Flash ASP increases to be the primary revenue growth driver throughout the calendar year.

Western Digital's performance in this quarter reflected significant strides in their Flash and HDD businesses, underpinned by strategic product management, technological advancements, and effective market positioning.

## OUTLOOK

Western Digital's outlook, as discussed in its fiscal year 2024 second quarter results conference call, includes several key points:

- Sustained Growth in Flash and HDD Businesses:** Western Digital anticipates continued growth and improved through-cycle profitability in its Flash and HDD (Hard Disk Drive) businesses. The company expects to maintain its leadership in these segments through focused research and development, controlled product costs, and enhanced business agility.
- Flash Market Dynamics:** Western Digital plans to proactively manage the Flash market cycles, optimizing supply and capital investments. The company aims to align its supply and inventory with customer demand to improve profitability. They expect to continue managing bit shipments carefully and foresee flash Average Selling Price (ASP) increases as the primary revenue growth driver in the upcoming year.
- HDD Market Outlook:** In the HDD market, Western Digital's ePMR platform and UltraSMR technology are expected to keep them competitive, especially in providing high-capacity drives to cloud customers. They anticipate the demand

for nearline storage will pick up in the latter half of fiscal year 2024, leading to further financial outperformance.

4. **Generative AI as a Growth Driver:** Generative AI is seen as a transformative technology driving growth across various industries. Western Digital expects this trend to boost storage demand, especially in edge computing, where NAND bit shipments are significant.
5. **Client and Consumer Device Refresh Cycle:** The company predicts a refresh cycle in client and consumer devices, driven by generative AI, which will likely reaccelerate content growth in PCs, smartphones, gaming, and consumer devices.
6. **Technology Advancements:** Western Digital continues to advance in technology, particularly with the development of QLC-based client SSDs and the progress of BiCS8 yield. These innovations are expected to lead the transition to QLC flash in the upcoming year.
7. **Strategic Management of Inventory and Supply:** Western Digital intends to maintain disciplined management of inventory capacities and capital expenditures, aligning their supply with the end customer demand.

Western Digital's outlook focuses on leveraging technological advancements, strategic market positioning, and effective management of business cycles to drive growth and profitability in both its Flash and HDD segments.

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## ANALYSIS

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Western Digital's second-quarter fiscal year 2024 results show a company at a pivotal point in its journey, navigating a challenging tech landscape.

Despite achieving a revenue of \$3 billion and meeting their non-GAAP guidance, the company reported a non-GAAP loss per share of \$0.69. This loss underscores the ongoing financial challenges Western Digital faces amidst a highly competitive and volatile market for both Flash and HDD products.

The tech market's cyclical nature notably impacts the company's performance, particularly evident in the Flash segment. This cyclicity necessitates adept inventory and production management to meet fluctuating market demands.

The company's focus on managing capital expenditure and supply, especially in Flash, reflects a strategic approach to improving profitability. However, this strategy also risks lagging in market share if demand surges unexpectedly.

Furthermore, Western Digital's outlook, marked by an anticipation of continued demand in HDD and a cautious approach in Flash due to market uncertainties, suggests a period of recalibration.

The potential growth driven by generative AI and edge computing offers a silver lining, yet the company must navigate these opportunities carefully amidst existing challenges.



# RESEARCH NOTE

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