

WESTERN DIGITAL FQ4 2024 EARNINGS RESULTS

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CONTEXT

Western Digital released its [FQ4 2024 financial results](#). The company exceeded expectations with revenue of \$3.5 billion, a non-GAAP gross margin of 29.3%, and non-GAAP earnings per share of \$0.63. The success was attributed to a diversified portfolio of products and structural changes to the business that improved profitability.

Non-GAAP Financial Results					
(\$ in millions, except for EPS)					
	Q3 2023	Q2 2024	Q3 2024	QoQ	YoY
Revenue	\$ 2,803	\$ 3,032	\$ 3,457	up 14%	up 23%
Gross Margin %	10.6%	15.5%	29.3%	up 13.8 ppt	up 18.7 ppt
Operating Expenses	\$ 602	\$ 561	\$ 632	up 13%	up 5%
Operating Income (Loss)	\$ (304)	\$ (91)	\$ 380	*	*
Interest and Other Expense, net	\$ 62	\$ 113	\$ 92	down 19%	up 48%
EPS – Diluted	\$ (1.36)	\$ (0.75)	\$ 0.63	*	*
Operating Cash Flow	\$ (381)	\$ (92)	\$ 58	*	*
Free Cash Flow	\$ (527)	\$ (176)	\$ 91	*	*

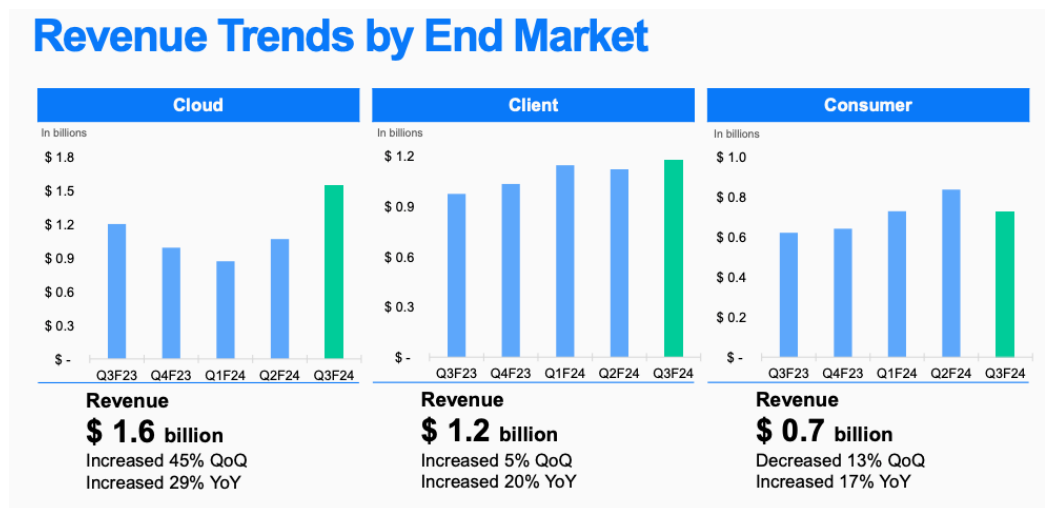
Let's take a deeper look at what Western Digital announced.

FISCAL PERFORMANCE

Western Digital's financial performance for fiscal Q3 2024 was strong, with revenue, gross margin, and earnings per share all exceeding expectations:

- **Revenue:** Western Digital generated \$3.5 billion in revenue, a 14% sequential increase and a 23% year-over-year increase.

- Gross Margin:** The non-GAAP gross margin for the quarter was 29.3%, an improvement from previous quarters due to better pricing, ongoing cost reduction, and lower underutilization charges. Flash gross margin was 27.4%, while HDD gross margin was 31.1%.
- Earnings Per Share:** Non-GAAP earnings per share reached \$0.63, beating expectations.
- Operating Income:** Western Digital reported an operating income of \$380 million, which included a \$17 million underutilization charge for HDD.
- Operating Expenses:** Operating expenses were \$632 million, a 13% sequential increase and a 5% year-over-year increase. The sequential increase was mainly due to higher variable compensation from improved financial results.
- Inventory:** The company's inventory was steady at \$3.2 billion, with an increase in flash inventory offset by a decrease in HDD inventory.
- Cash Flow and Debt:** Western Digital generated an operating cash flow of \$58 million and a free cash flow of \$91 million. Cash and cash equivalents were \$1.9 billion, with a total liquidity of \$4.1 billion, including revolver capacity. The company's gross debt outstanding was \$7.8 billion.
- End Markets:**
 - Cloud:** Contributed 45% of total revenue, with \$1.6 billion in revenue, reflecting 45% sequential growth and 29% year-over-year growth.
 - Client:** Accounted for 34% of total revenue, with \$1.2 billion, representing a 20% year-over-year increase.
 - Consumer:** Contributed 21% of total revenue, with \$0.7 billion, showing a 7% year-over-year increase.



Western Digital saw robust growth, improved profitability, and increased operational efficiency during the quarter.

QUARTER HIGHLIGHTS

Western Digital achieved several non-financial milestones and highlights that demonstrated the company's strategic focus, innovation, and operational efficiency.

CEO David Goeckeler highlighted the following on the earnings call:

- **Product Development and Innovation:** Western Digital started mass production of its QLC-based client SSD, leveraging BiCS6 technology. The company's progress with BiCS8 technology is also on track, further enhancing its market leadership in Flash technology.
- **Separation of Flash and HDD Businesses:** Western Digital continued its efforts to separate its Flash and HDD businesses. The separation is expected to be completed in the second half of the calendar year, allowing for more focused operations and improved agility.
- **Increased Demand for AI Solutions:** The rising demand for AI solutions across various end markets drives the need for more storage, benefiting both Western Digital's HDD and Flash segments. WD expects the adoption of AI to generate greater long-term growth and margin expansion opportunities.
- **Cloud Segment Growth:** Western Digital's cloud business revenue grew 29% year-over-year. This growth was driven by improved nearline demand and the company's strategy to bring innovative, high-capacity drives to market.
- **End Market Recovery:** Western Digital reported year-over-year growth across all major end markets, indicating a recovery in the demand for storage solutions. The cloud, client, and consumer segments all contributed to this growth, with flash-based solutions showing signs of recovery.

OUTLOOK & GUIDANCE

Western Digital's outlook and guidance for the fiscal fourth quarter and beyond indicate optimism for continued growth and a focus on operational efficiency.

Fiscal Fourth Quarter Guidance⁽¹⁾

	GAAP	Non-GAAP ⁽²⁾
Revenue (\$ B)	\$ 3.60 - \$ 3.80	\$ 3.60 - \$ 3.80
Gross Margin %	31.5% - 33.5%	32.0% - 34.0%
Operating Expenses (\$ M)	\$ 770 - \$ 800	\$ 670 - \$ 690
Interest and Other Expense, net (\$ M)	~ \$ 105	~ \$ 105
Income Tax Expense (\$ M) ⁽³⁾	N/A	\$ 30 - \$ 40
EPS - Diluted	N/A	\$ 0.90 - \$ 1.20
Share Count - Diluted (in millions)	~342	~342

The company's outlook and guidance are as follows:

- **Revenue Projections:** Western Digital expects revenue for the fiscal fourth quarter to be between \$3.6 billion and \$3.8 billion, driven by anticipated growth in both the Flash and HDD segments.
- **Gross Margin:** The expected gross margin for the fiscal fourth quarter is between 32% and 34%.
- **Operating Expenses:** The company forecasts operating expenses for the fiscal fourth quarter to be between \$670 million and \$690 million, primarily due to project-driven investments and higher variable compensation as the financial outlook strengthens.
- **Earnings Per Share:** Western Digital anticipates non-GAAP earnings per share for the fiscal fourth quarter to be around \$1.05, with a margin of error of plus or minus \$0.15.
- **Income Tax Expense:** Income tax expenses are expected to range from \$30 million to \$40 million for the fiscal fourth quarter and between \$130 million and \$140 million for the fiscal year 2024.
- **Flash Business Outlook:** Within the Flash segment, the company expects growth driven by increasing demand in the enterprise SSD market, especially for AI-related applications. Western Digital also anticipates flash ASP increases as the primary revenue growth driver in the fiscal fourth quarter.
- **HDD Business Outlook:** The HDD business is expected to benefit from continued growth in near-line demand and higher pricing. Western Digital's focus on high-capacity and high-performance drives is seen as a key factor in this growth.

Overall, Western Digital's outlook and guidance show a positive trend for revenue growth and margin expansion, with a focus on capital discipline and operational efficiency.

ANALYSIS

Western Digital's earnings report offers a mix of encouraging signs and cautionary notes.

Western Digital's financial performance exceeded expectations on several fronts. The company's focus on diversification and efforts to separate its Flash and HDD businesses are yielding positive results, with year-over-year growth across all major end markets.

However, it's worth noting that Western Digital's strong revenue growth is not without caveats. The sequential increase in operating expenses, driven by higher variable compensation and project-driven investments, shows that the company is investing heavily in its future. While this could lead to long-term growth, it could also impact short-term profitability.

The company's outlook for the fiscal fourth quarter indicates cautious optimism, reflecting an expected increase in both the Flash and HDD segments. However, it also underscores the importance of operational efficiency and cost control in maintaining profitability.

The Flash business outlook is positive, with growth driven by the return of demand in the enterprise SSD market, particularly for AI-related applications. The HDD business is also expected to benefit from increased nearline demand and improved pricing, which are key drivers for the company's continued success.

Western Digital's earnings and outlook suggest a company on a path toward steady growth but with a cautious approach to navigating market volatility. The company's strategic focus on innovation and operational efficiency, coupled with its commitment to capital discipline, keep it well-positioned over the coming quarters.



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