

Western Digital FQ4 2024 Earnings

STEVE MCDOWELL, CHIEF ANALYST
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CONTEXT

Western Digital Corporation (WDC) reported strong [financial results](#) for its fiscal fourth quarter and full fiscal year 2024, highlighting robust performance across its product segments and strategic advancements in the storage market, mainly driven by AI data demands.

FISCAL PERFORMANCE

Western Digital Corporation reported a solid financial performance for the fiscal fourth quarter of 2024, showcasing significant growth in revenue and profitability, driven by strategic focus and innovation in its product offerings.

Non-GAAP Financial Results

(\$ in millions, except for EPS)

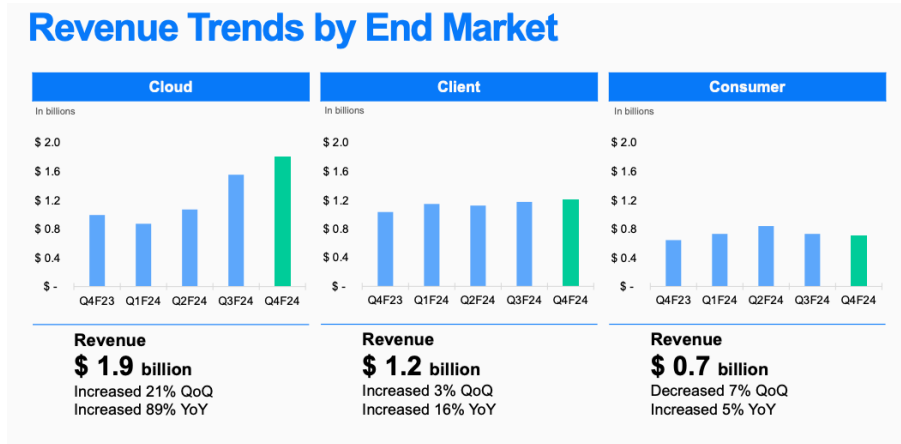
	Q4 2023	Q3 2024	Q4 2024	QoQ	YoY
Revenue	\$ 2,672	\$ 3,457	\$ 3,764	up 9%	up 41%
Gross Margin %	3.9%	29.3%	36.3%	up 7.0 ppt	up 32.4 ppt
Operating Expenses	\$ 582	\$ 632	\$ 700	up 11%	up 20%
Operating Income (Loss)	\$ (478)	\$ 380	\$ 666	up 75%	*
Interest and Other Expense, net	\$ 90	\$ 92	\$ 114	up 24%	up 27%
EPS – Diluted	\$ (1.99)	\$ 0.63	\$ 1.44	up 129%	*
Operating Cash Flow	\$ (68)	\$ 58	\$ 366	up 531%	*
Free Cash Flow	\$ (219)	\$ 91	\$ 282	up 210%	*

Key Financial Metrics:

1. Revenue:

- **Total Revenue:** \$3.8 billion, a 9% sequential increase and a 41% year-over-year increase.

○ **Segment Performance:**



- **Cloud:** Represented 50% of total revenue at \$1.9 billion, a 21% sequential growth due to higher nearline shipments and pricing in HDD and increased bit shipments and pricing in enterprise SSD.
- **Client:** Represented 32% of total revenue at \$1.2 billion, a 3% sequential increase driven by higher flash ASPs, offsetting a decline in flash bit shipments.
- **Consumer:** At \$0.7 billion, consumer revenue represented 18% of total revenue, a 7% sequential decrease due to lower flash and HDD bit shipments, partially offset by higher ASPs.

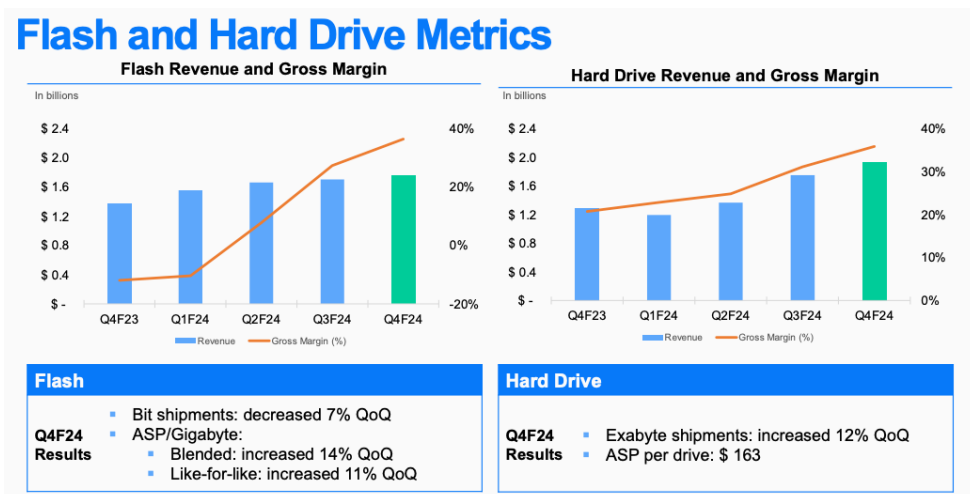
2. **Profitability:**

- **Non-GAAP Gross Margin:** 36.3%, up 7 percentage points sequentially and 32.4 percentage points year-over-year, driven by better pricing, cost reductions, and higher volumes.
- **Non-GAAP EPS:** \$1.44, exceeding the high end of the guidance range.

3. **Operating Metrics:**

- **Operating Expenses:** \$700 million, above the guided range, primarily due to higher variable compensation associated with better-than-expected profitability.
- **Operating Income:** \$666 million.
- **Operating Cash Flow:** \$366 million.
- **Free Cash Flow:** \$282 million.

4. Segment-Specific Highlights:



- **Flash Revenue:** \$1.8 billion, a 3% sequential increase and a 28% year-over-year increase. Flash ASPs were up 14% on a blended basis and 11% on a like-for-like basis, while bit shipments decreased 7% sequentially and 3% year-over-year.
- **HDD Revenue:** \$2 billion, a 14% sequential increase driven by a 12% increase in exabyte shipments and a 12% increase in average price per unit. HDD revenue grew 55% year-over-year, with exabyte shipments and average price per unit up 72% and 64%, respectively.

NON-FINANCIAL PERFORMANCE

Strategic Focus and Market Positioning:

- Western Digital maintained its strategic focus on aligning its portfolio of industry-leading products with growth opportunities across a broad range of end markets.
- The company emphasized its strong positioning to capitalize on emerging growth opportunities in the storage market, mainly driven by the AI data cycle, which increases the need for both Flash and HDD storage solutions.

2. Product Innovation and Development:

- Western Digital introduced several high-performance products to address the growing performance, power, and capacity requirements driven by advancements in AI technologies:

- **PCIe Gen 5 SSD:** Designed to support AI training and inference with industry-leading performance.
- **64TB SSD:** Optimizes the build-out of rapid AI data lakes.
- **32TB UltraSMR HDD:** Provides cost-effective and deep content storage at scale.
- The company showcased its commitment to innovation by unveiling the world's highest capacity BiCS8 2-terabyte QLC memory die, specifically designed to meet the growing needs of data centers and AI storage.

3. AI Data Cycle:

- The AI data cycle has become a significant incremental growth driver for the storage industry. Western Digital highlighted the role of AI in processing, analyzing, and generating data, which in turn creates substantial demand for storage solutions.
- Western Digital's products are well-positioned to deliver the capacity and performance necessary to support the computational demands of large AI models while managing vast volumes of data. Flash storage is expected to benefit from AI training and inference, while HDD is poised to help at both the input and output stages of AI models.

4. Separation Plans:

- Western Digital made notable progress in its plans to separate the company by the end of the calendar year. This separation aims to create two focused, world-class companies that are competitive in their respective markets.
- As part of the preparation for the separation, the company anticipates incurring some separation dis-synergy costs in the second half of the calendar year. These costs are expected to be addressed and managed effectively to minimize their impact on overall performance.

5. Operational Efficiency and Structural Changes:

- The company continued to implement structural changes to strengthen its operations, enabling it to benefit from the broad recovery across its end markets.
- Significant improvements were made in the manufacturing footprint and cost structure, particularly in the HDD segment. These changes

resulted in better operational efficiency and a notable increase in profitability.

6. Industry Leadership and Market Leadership:

- Western Digital reinforced its market leadership through continuous innovation and the introduction of cutting-edge products that set new industry standards.
- The company's leadership in SMR technology and lean cost structure enabled it to surpass its target gross margin range and deliver highly innovative, high-capacity products.

GUIDANCE & OUTLOOK

Western Digital's forecast and outlook for fiscal 2025 reflect strong growth prospects driven by innovation, market leadership, and strategic focus on high-demand segments such as enterprise SSD and AI-driven storage solutions.

The company is well-positioned to capitalize on emerging opportunities while managing operational efficiency and preparing for its planned separation to enhance long-term competitiveness and value creation.

Fiscal First Quarter Guidance⁽¹⁾		
	GAAP	Non-GAAP⁽²⁾
Revenue (\$ B)	\$ 4.00 - \$ 4.20	\$ 4.00 - \$ 4.20
Gross Margin %	36.5% - 38.5%	37.0% - 39.0%
Operating Expenses (\$ M)	\$ 845 - \$ 885	\$ 695 - \$ 715
Interest and Other Expense, net (\$ M)	~ \$ 110	~ \$ 110
Tax Rate %⁽³⁾	N/A	15% - 17%
EPS - Diluted	N/A	\$ 1.55 - \$ 1.85
Share Count - Diluted (in millions)	~ 360	~ 360

Revenue and Profitability Outlook:

- **Q1 Fiscal 2025:**
 - **Revenue:** Expected to be in the range of \$4.0 billion to \$4.2 billion.
 - **Gross Margin:** Anticipated to be between 37% and 39%.

- **Operating Expenses** are expected to increase slightly to a range of \$695 million to \$715 million, partly due to separation dis-synergy costs estimated at \$15 million to \$25 million.
- **Earnings Per Share (EPS):** Forecasted to be between \$1.55 and \$1.85 based on approximately 360 million shares outstanding.

2. Flash Business Outlook:

- **Enterprise SSD Growth:** The continued ramp of new enterprise SSD offerings and seasonal strength in mobile are expected to drive mid- to high-teens bit growth on a sequential basis.
- **Revenue Mix:** Enterprise SSDs are projected to represent a double-digit percent share in the portfolio mix for the full fiscal year 2025.
- **Market Dynamics:** Despite some softness in consumer markets, Western Digital anticipates strong demand in enterprise SSD and other sectors, contributing to revenue growth and higher profitability.

3. HDD Business Outlook:

- **Revenue Growth:** Expected to see further growth driven by increased demand and favorable pricing.
- **SMR Technology Adoption:** Cloud customers are continuing to transition to SMR, and a third major cloud vendor is anticipated to adopt SMR technology in the fiscal first quarter.
- **Product Innovations:** Ongoing introduction of high-capacity, high-performance products such as the 32-terabyte UltraSMR/ePMR nearline hard drives, enhancing competitiveness and profitability.
- **Operational Efficiency:** Emphasis on maintaining supply-demand balance and operational excellence to sustain profitability improvements.

4. AI Data Cycle as a Growth Driver:

- **Increased Storage Demand:** The AI data cycle, which includes the continuous generation, processing, and consumption of data, is expected to be a significant incremental growth driver for both Flash and HDD segments.
- **Capacity and Performance:** Western Digital's product roadmap is designed to meet the growing performance, power, and capacity

requirements of AI technologies, positioning the company well to capture long-term growth opportunities in data storage.

5. Separation Plans:

- **Progress and Costs:** Western Digital is on track to complete the company's separation by the end of the calendar year, with anticipated dis-synergy costs being managed to minimize impact.
- **Post-Separation Strategy:** The creation of two focused companies is expected to enhance competitiveness and market responsiveness, with each entity optimizing its strategies and capital structures to drive growth and profitability.

6. Strategic Focus:

- **Innovation and Market Leadership:** Continued commitment to innovation and market leadership through the development of industry-leading products and technologies.
- **Operational Improvements:** Focus on improving through-cycle profitability and operational efficiency across Flash and HDD segments.
- **Customer Relationships:** Strengthened customer relationships and visibility into future demand to better align manufacturing and supply chain operations with market needs.

ANALYSIS

Despite some softness in consumer demand, the Flash segment benefitted from the recovery in cloud, gaming, and mobile markets. Notably, introducing high-performance PCIe Gen 5 SSDs and 64TB SSDs positions Western Digital to capture significant market share in AI and enterprise storage.

The HDD segment showed remarkable performance, driven by nearline demand and strategic pricing improvements. The 32TB UltraSMR HDD's introduction and the SMR technology focus have solidified Western Digital's leadership in high-capacity storage solutions.

Western Digital's strategic initiatives are clearly aligned with the burgeoning demand from the AI data cycle. The company's innovative product roadmap, which includes the highest capacity SSDs and HDDs in the market, is well-positioned to meet AI technologies' growing performance and capacity needs.

Operationally, the company has made significant strides in improving efficiency and profitability, particularly in the HDD segment, where structural changes have led to higher gross margins and better cost management. The company's planned separation into two focused entities by the end of the calendar year is expected to further enhance its strategic agility and market competitiveness.

Western Digital demonstrated impressive financial and operational performance, underpinned by strategic market positioning and product innovation. The company's proactive approach to capturing AI-driven demand and its commitment to operational efficiency provide a strong foundation for future growth. As the company moves towards its planned separation, it is poised to enhance its competitive edge and deliver long-term value to shareholders.



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