

20-Apr-2023

Seagate Technology Holdings Plc (STX)

Q3 2023 Earnings Call

CORPORATE PARTICIPANTS

Shanye Hudson

Senior Vice President-Investor Relations & Finance Strategy, Seagate Technology Holdings Plc

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Gianluca Romano

Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

OTHER PARTICIPANTS

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Thomas O'Malley

Analyst, Barclays Capital, Inc.

Wamsi Mohan

Analyst, BofA Securities, Inc.

Timothy Arcuri

Analyst, UBS Securities LLC

Aaron Rakers

Analyst, Wells Fargo Securities LLC

C.J. Muse

Analyst, Evercore ISI

Krish Sankar

Analyst, TD Cowen

Toshiya Hari

Analyst, Goldman Sachs & Co. LLC

Sidney Ho

Analyst, Deutsche Bank Securities, Inc.

Ananda Baruah

Analyst, Loop Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Seagate Technology Fiscal Third Quarter 2023 Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Shanye Hudson, Senior Vice President of Investor Relations. Please go ahead.

Shanye Hudson

Senior Vice President-Investor Relations & Finance Strategy, Seagate Technology Holdings Plc

Thank you. Hello, everyone, and welcome to today's call. Joining me are Dave Mosley, Seagate's Chief Executive Officer, and Gianluca Romano, our Chief Financial Officer. We posted our earnings press release and detailed supplemental information for our fiscal third quarter 2023 results on the Investors section of our website.

During today's call, we'll refer to GAAP and non-GAAP measures. Non-GAAP figures are reconciled to GAAP figures in the earnings press release posted on our website and included in our Form 8-K that was filed with the SEC. We've not reconciled certain non-GAAP outlook measures because material items that may impact these measures are out of our control and/or cannot be reasonably predicted. Therefore, reconciliation to the corresponding GAAP measures is not available without unreasonable effort.

Before we begin, I'd like to remind you that today's call contains forward-looking statements that reflect management's current views and assumptions based on information available to us as of today and should not be relied upon as of any subsequent date. Actual results may vary materially from today's statements. Information concerning risks, uncertainties and other factors that could cause results to differ from these forward-looking statements are contained in our most recent Form 10-K and 10-Q filed with the SEC, our Form 8-K filed with the SEC today and the supplemental information posted on the Investors section of our website. As always, following our prepared remarks, we'll open the call up for questions.

With that, I'll now turn it over to you, Dave.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Thanks, Shanye. And hello, everyone. Seagate's March quarter revenue came in at \$1.86 billion, just above the low end of our guidance range, while we reported a non-GAAP loss of \$0.28 per share. These results reflect rising economic uncertainties and an elongated inventory correction that impacted demand among a few large customers late in the quarter. As a result, we've altered our outlook regarding the timing and trajectory of recovery to now begin later in the calendar year.

In response to the current market environment, we are taking aggressive actions to further reduce cost and right size the business to navigate this downturn and position Seagate to thrive when recovery ultimately comes. Beyond this cycle, we remain excited about the long-term opportunities presented by the secular growth of data and the relevance of mass capacity storage as new data-centric applications emerge and more workloads migrate to the cloud. We continue to make strong progress on our industry-leading technology roadmap, including launching HAMR-based products this quarter, which we believe put us in an outstanding longer-term position.

In my remarks today, I will share some perspectives on the current market dynamics, provide greater context on our restructuring initiatives and update you on our product plans. First, let me address the settlement we announced with the US Department of Commerce, Bureau of Industry and Security or BIS. The agreement resolves BIS' allegations regarding Seagate's sales of hard disk drives to a certain customer between August 2020 and September 2021.

Under the terms of the settlement agreement, Seagate has agreed to pay a total of \$300 million in \$15 million quarterly installments that will take place over the course of five years. I want to emphasize that Seagate maintains its strong commitment to export compliance and we believe that we complied with all export regulations at the time we made the shipments. However, in working toward a mutually-acceptable solution with BIS, we balance factors such as the risks and costs of protracted litigation involving the US government, the size of a potential penalty, which could have been a significant multiple of the settlement amount, and our desire to focus on current business challenges and our long-term business goals. We believe the outcome we have reached in putting this matter behind us is in the best interest of our customers, shareholders and other stakeholders.

Turning now to the near-term business environment, for the past year, Seagate has been navigating a complex market shaped by a few primary factors: inventory digestion among our large cloud customers that is impacting our nearline business; lower economic activity in China owing to the country's COVID lockdown policy; and weakening macro conditions that initially impacted consumer demand and is now affecting all end markets.

These pressures have been compounded recently and weighed on our end-of-quarter core dynamics. In the nearline markets, CIOs are now facing constrained IT hardware budgets, which has raised the bar for projects to get funded and resulted in efforts to optimize existing workloads both on-prem and in the cloud.

In turn, cloud service providers have focused on maximizing utilization of their existing infrastructure rather than deploying new capacity. The combination of these factors dramatically slowed the pace of cloud customer inventory consumption and led to the pronounced slowdown in cloud and enterprise storage demand that we experienced exiting the March quarter. However, we don't foresee a strategic shift in customer spending patterns or a change to what remains a robust long-term outlook for cloud storage.

Digital transformation trends will continue as enterprises realize significant cost benefits and operational efficiencies by transitioning workloads to the cloud. Industry analysts have observed that once applications and workloads are moved to the cloud, they generally stay there and grow. Digital workloads rely on data, which bodes well for mass capacity storage as the number of new cloud workloads multiply every year.

Within the China markets, customers remain constructive on their end-market demand outlook as the economy continues to reopen. However, rising macro uncertainties are pushing timing for a recovery to begin later in the calendar year. Despite the push-out, we are seeing some positive demand movement in the consumer and service sectors after COVID lockdown restrictions were lifted. These trends support a digital economy growth that bodes well for China cloud demand, as growth in consumer demand has historically led to revenue growth for regional cloud customers.

Within the VIA markets, future demand pickup is based on two factors. First, you will recall that several existing VIA projects were delayed during COVID lockdowns. Customers expect these projects to gradually resume as the economy reopens in the coming months, which will consume the existing HDD inventory that was earmarked for these projects.

Second, we expect new smart city and smart manufacturing initiatives to build momentum as government funding and enterprise budgets free up when the global economy improves. In this dynamic environment, we are continuing to manage what is within our control.

In late March, we extended the first phase of our restructuring efforts to adjust our factory head count to align with lower production volumes, realized efficiencies across various operational and support functions and reset our Lyve edge-to-cloud business plans. We are scaling back new investments in Lyve Cloud as we focus on filling our existing infrastructure.

We expect to drive operational and cost synergies across all platforms to accelerate time-to-profitability while growing the business over the long term. Since fiscal Q1, we've taken more than \$150 million out of our cost structure, lowered debt by 5% and significantly reduced manufacturing capacity. Given the prevailing market conditions and our reduced near-term demand outlook, we are undertaking the next phase of restructuring actions targeted to yield at least an additional \$200 million in annualized savings from both COGS and OpEx as well as implementing temporary cost savings measures, including salary reductions.

We're taking a programmatic approach focused on three key areas. First, we are reassessing the levels of production output and functional support required to meet both near and long-term business needs. These actions are intended to ensure that supply and demand are appropriately balanced.

Second, we are simplifying our product roadmap to create operational efficiencies. We plan to reduce the number of drive configurations and major capacity node transitions to lower supply chain and manufacturing costs and complexity. We're taking these actions in concert with our customers, who can also capture cost benefits from fewer product qualifications.

Finally, we will continue prioritizing resources towards higher-return products and end markets, while rationalizing support levels in investments aimed at non-core businesses. Our goal is to emerge a stronger, more agile company able to navigate well in all demand environments, return to profitable growth, and preserve our technology leadership momentum.

To that end, we have not let up on executing our HAMR-based product roadmap to preserve our significant time-to-market advantage. We are tracking well to our stated plans and achieved the key milestone last week of shipping initial qualification units to a cloud launch partner. And we expect to recognize initial revenue from 30-plus terabyte platforms this quarter as part of our CORVAULT system solutions.

The decades of development that have led us to HAMR productization are even more important today as highly cost-efficient mass capacity storage will be a competitive enabler in a world where data is rapidly growing and increasing in value. We believe HAMR will further extend the large and sustainable cost advantage multiple compared to other storage media, even with current market prices.

Additionally, Seagate's ability to service this growing demand through areal density gains by increasing capacities from 3 terabytes to 4 terabytes to 5 terabytes per disk or more provides far greater capital efficiencies compared with current PMR technology over time. We are confident in Seagate's ability to translate areal density leadership into the most advantaged TCO across a broad range of customers, from the highest capacity drives used in cloud data centers to lower and mid-cap drives more typically used by enterprise and VIA customers.

We currently expect the high-volume ramp to begin in early calendar 2024, depending on customer qualification timelines and prevailing macro conditions at that time. Tactically, we are very focused on realizing our targeted

savings, which, along with an improved demand environment, should create the foundation to move towards our targeted financial model. And as we transition to our strategically vital HAMR platform, we believe that we are positioning the company to drive differentiated financial performance for Seagate over the long term.

Thanks. And now I'll turn the call over to Gianluca.

Gianluca Romano

Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

Thank you, Dave. Amid the intensifying economic uncertainties, we saw a rapid decline in demand in certain parts of the business over the last couple of weeks of the quarter, pressuring supply/demand balance. This factor, along with underutilization charges and tax expenses, weighed unfavorably on profitability.

For the March quarter, we reported revenue of \$1.86 billion and non-GAAP losses of \$0.28 per share. Despite these conditions, we generated free cash flow of \$174 million, demonstrating our ability to maintain discipline and strong cost control measures. In response to the near-term business environment, we have and we will continue to evaluate and take steps to improve our cost structure and strengthen our balance sheet, as evidenced by the expansion of our restructuring effort, which we announced in the late March.

Exiting the June quarter, the action that we committed to and taken charges for are expected to deliver cost saving of \$40 million to \$45 million annually, with roughly 60% realized in cost of goods sold. As Dave described in his comments, we are taking additional actions to further improve our cost structure, targeting at least \$200 million of annualized saving exiting fiscal Q1 2024.

Now turning to the end markets, total hard disk drive revenue declined 4% sequentially to \$1.6 billion. Mass capacity revenue remained essentially flat quarter-over-quarter at \$1.2 billion, but lower than our expectation due to more prolonged cloud customer inventory adjustment and slower demand recovery in China. Shipments into the mass capacity market totaled 104 exabyte, compared with 97 exabyte in the December quarter. Consistent with the prior quarter, roughly 83% were derived from nearline products shipped into cloud and enterprise OEM customers.

Nearline shipments of 87 exabyte were up 9% sequentially, driven by growth in 20-plus terabyte drives. As percentage of our nearline exabyte shipments, 20-plus terabyte capacity drives has grown from high-single digit to approximately two-third of our nearline exabyte year-over-year, reflecting our customer pursuit of higher-density storage for their data center needs.

Looking ahead, we expect nearline exabyte shipments to decline over the next couple of quarters as cloud customers intensify their efforts to reduce inventory and improve the productivity of their existing infrastructure.

Specific to the VIA market, revenue declined sequentially, largely as expected. As we outlined earlier, based on interaction with customers, we expect gradual recovery in the second half of the calendar year.

Within the legacy market, revenue was \$371 million, down 12% sequentially, reflecting a steeper-than-anticipated decline in mission-critical sales amid a more cautious spending environment and weakening server demand, while the client and consumer market reflected typical seasonal demand patterns.

Finally, revenue for our non-HDD business increased 14% sequentially to \$256 million, a bright spot for the quarter. As anticipated, we grew sales for our enterprise system as component supply constraints continue to improve, and we expand our market coverage.

Moving to our operational performance, non-GAAP gross profit in the March quarter was \$347 million, reflecting lower revenue and a less favorable mix than what we anticipated. Underutilization cost of approximately \$75 million, similar to the prior quarter, but higher than we were originally forecasting, as we delayed the start in production to later in the quarter as noted at a recent investor conference.

[ph] Accounting for recent (00:16:26) underutilization cost, which translates into more than 400 basis point of margin headwind, we recorded non-GAAP gross margin of 18.7% compared with 21.4% in the prior quarter. Based on our current outlook, we expect underutilization cost to improve in the June quarter, even if production output remain well below the year-ago level.

We expect both gross profit and gross margin to move higher as demand recover toward the end of calendar year 2023 and our cost structure improvements are fully realized. We reduced non-GAAP operating expenses to \$282 million, down \$63 million year-over-year and \$12 million sequentially.

The year-on-year decline reflect our cost structure improvement actions to-date, lower variable compensation as well as disciplined cost management. We expect non-GAAP OpEx in the June quarter to be similar to the March quarter. I would point out that our GAAP operating expenses for the March quarter included the \$300 million reserve associated with the BIS settlement agreement and will be paid in quarterly installments of \$15 million over the course of five years, starting in fiscal Q2 of 2024.

We incurred non-GAAP tax expenses of \$36 million in the March quarter. Our tax expense is largely based on our full-year GAAP forecast by geography and allocated between the quarter based on expected profitability. We expect total non-GAAP tax expenses for fiscal year 2023 to be approximately \$45 million to \$50 million.

Based on diluted share count of approximately 207 million shares, GAAP loss per share for the March quarter was \$2.09, which reflects the reserve that I mentioned earlier. Non-GAAP loss per share was \$0.28.

Moving to balance sheet and cash flow, we ended the March quarter with liquidity level of approximately \$2.5 billion, including our revolving credit facilities. Inventory was relatively flat sequentially at \$1.2 billion, consistent with our plan. We reduced capital expenditure to \$54 million in the March quarter, down 32% sequentially. We expect CapEx to remain relatively flat in the June quarter.

Free cash flow generation was \$174 million, up slightly quarter-over-quarter, reflecting our ongoing focus to optimize free cash flow. We currently expect to generate positive free cash flow through calendar year 2023, dependent on the timing of restructuring costs. We used \$145 million for the quarterly dividend and exited the quarter with 207 million shares outstanding.

We are not currently planning to repurchase any share in the next several quarters, consistent with our near-term focus on optimizing cash balances. Our debt balance exiting the quarter was just below \$6 billion, down \$71 million quarter-over-quarter.

Adjusted EBITDA for the last 12 months totaled \$1.3 billion, resulting in gross debt leverage ratio of 4.5 times. Since fiscal Q1 of 2023, we have reduced debt by approximately \$290 million. In fiscal Q4, we plan to further reduce debt by approximately \$560 million. Interest expense in the March quarter was \$81 million and is expected to be similar in the June quarter.

Turning to our outlook, in the context of the market challenges that we have outlined today, we expect June quarter revenue to be in the range of \$1.7 billion, plus or minus \$150 million. We project incremental decline in the mass capacity business, mainly driven by customer focus on inventory drawdown in our nearline cloud market.

At the midpoint of our revenue guidance, we expect non-GAAP operating margin to be in the low-to-mid single-digit range, which include between \$50 million and \$60 million in under-utilization cost. And we expect a non-GAAP loss in the range of \$0.20 plus or minus \$0.20.

I will now turn the call back to Dave for final comments.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Thanks, Gianluca. The past year has presented a set of challenges that have impacted Seagate and our industry to a degree not seen for more than a decade. As our outlook and commentary today demonstrate, we believe that we are still a couple of quarters away from seeing a positive turn in demand for data storage.

However, there are a few key takeaways that underpin our confidence in the business and our long-term potential. We are aggressively managing through this environment and taking appropriate actions to generate positive free cash flow, strengthen our balance sheet and enhance future profitability, all the while executing our technology roadmap.

To that end, we have continued to prioritize investments on our HAMR product roadmap. These drives offer the highest density, most cost-efficient mass capacity drive storage, which we believe translates into a competitive advantage for our customers and we are focused on driving appropriate returns for the value we are delivering. And we continue to receive indications from our customers the demand will pick up as the global economy improves. The secular drivers powering long-term demand for storage are intact. And this fact is at the root of the conversations we're having with customers across our key markets and geographies.

I'd like to thank and recognize our global team for your resilience and perseverance through this challenging period. We are keeping our heads down and aim to make continued progress towards our goal as we move closer to market recovery.

Thanks again for joining and let's open up the call for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Erik Woodring of Morgan Stanley. Please go ahead.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Thank you so much. Good morning. Good morning, guys. Dave, can you maybe help us understand kind of, as we sit here today, what gives you the confidence to kind of talk about a recovery towards the end of the calendar year? I guess what I'm hearing from you is a worsening of demand in the last few weeks of the quarter, greater macro concerns amongst customers. Obviously, challenges in the nearline market.

And so, like, what data points are you seeing today or what are customers saying to you that gives you the confidence that the recovery will happen towards the end of the year as we sit here today? And then, I have a follow-up. Thanks.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yeah. Good. Thanks, Erik. As you alluded to, we've been anticipating return to exabyte demand growth in nearline for a few quarters. But what we saw coming out of the last quarter still reflects that there's too much inventory against just a very slow near-term mass capacity demand. I would say that the customers are spending money. They're not necessarily spending money on mass capacity storage right now. They may be spending on compute or other investments that they're choosing to make.

And as we look through into their data center behaviors, if you will, we're somewhat encouraged that the data continues to grow. So, in the data centers, the drives that are in there are being strongly utilized. There are some drives that are living a little bit longer in data center applications, but there's also really compelling value propositions we're putting in front of them with higher capacity drives, like 30-plus terabytes and new features that are coming that should drive adoption and we should get a refresh.

So, as always, things need to be factored into our planning. They're all important, but the most important thing right now is this reflects kind of our sentiment coming out of last quarter as we don't want to push too much in, especially the older technology products. We want to really stage ourselves for the new technology products and make sure that that inventory flows through.

Timing is everything, exactly to your point. But I do think with the way data is growing, the evidence that we have that data is growing, even anecdotally I can talk about Seagate's IP, we can see the data growing in the cloud much further than our projections were a long time ago. And this was fairly consistent with discussions that I had with CIOs and other fellow travelers.

I do think that we're not at peak cloud or anything like that. I think the cloud applications are growing tremendously in data size and it's just a prioritization issue that we're in the middle of right now. So, we just focus on taking actions to further manage the downturn like cost and footprint and still keep driving the technology leadership so that we're there when markets recover. That's how we think we can create the best foundation to quickly move back into the targeted financial range when the demand resumes.

Erik W. Woodring*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Thank you for that color. And then, I guess, Luca, I know you mentioned talking about paying down the \$540 million maturity in June, but can you maybe just help us understand some of your sources and uses in cash over the next, let's call it, 6 to 12 months? How you're thinking about your liquidity situation just given your leverage is kind of quickly kind of creeping up towards that 5 times number?

And then, for example, how are you thinking about the stability of your dividend, any your potential drawdown of your revolver, adjustments to covenants? Maybe if you could just unpack that a bit, that would be helpful for us. Thanks so much.

Gianluca Romano*Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc*

A

Yeah. Thank you, Erik. We renegotiated our covenants in the December quarter. We have paid down already a big part of our debt between December and even the March quarter. As you said, we already discussed about the repayments coming in June, about \$560 million. So, we are very focused on reducing the debt.

So, as with the leverage, we are generating free cash flow, positive free cash flow, every quarter until now. So, part of that free cash flow is also going to add to the repayment of the debt. We have other sources that we are looking at. One of those that we discussed in the past is some sales and leaseback of non-manufacturing buildings that we are working on right now. So, all these will help with our debt covenants. And if we need to do more, we can do more.

Erik W. Woodring*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Thanks for the color.

Gianluca Romano*Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc*

A

Thank you.

Operator: The next question comes from Tom O'Malley of Barclays. Please go ahead.

Thomas O'Malley*Analyst, Barclays Capital, Inc.*

Q

Hey, guys. Thanks for taking my question. I just wanted to dive a little bit into the dynamics of the full year. I think you just said that you expect some declines in nearline for the next several quarters. Just given the size of how big that end market is for you guys, do you expect any sequential growth for the remainder of this calendar year? And if so, are you getting that with about a VIA market or recovery in legacy? Can you just walk through the puts and takes of total revenue and when you may see that inflection given the new outlook? Thank you.

William David Mosley*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Sure. Thanks, Tom. So, a few points. I would say that the next quarter will be fairly muted as what we just described. I do think that there will be exabyte growth, I'll say, late in this calendar year, as we get towards the end of the calendar year. That comes from many cloud service providers of the world that are getting through their

digestion phase, if you will, because, again, there's a lot of data that we get from them about utilization rates being high inside the data centers and data continuing to grow. So, I do think this is going to be over at some point.

Relative to the VIA markets and maybe the broader macro, we're not really calling the end of any macro uncertainty as part of this, but we do think that some of the investments that have been put off and put off for quite some time may actually come back towards the back half of the year. So there's positive sentiment, hasn't translated into POs yet, but that's the way we're feeling about it.

And only one other point that I would make there is that inside of the cloud workloads that we see, the data growth is actually fairly profound. So, I think people can make trade-offs with older drives that they have running and throwing data away and things like that, but at some point, the world runs out of gas. We all know we're creating more and more data all the time in the form of videos and communications and AI and things like that are all going to need the data.

So, we're just really focused on making the space for it. I don't think the world can deal with this kind of supply and demand imbalance for very long, but we need to take the actions that we are taking on the supply side to make sure that we're not waiting too long.

Thomas O'Malley

Analyst, Barclays Capital, Inc.

Q

Got it. And then the second one is for Gianluca. Just on the gross margin side, underutilization charges went up slightly quarter-over-quarter, and you kind of laid out what the charges would be for the guided quarter. But in terms of the impact to gross margin, gross margins are down substantially more than the impact on the math that I'm doing for underutilization. Obviously, there's some revenue impact as well. But could you talk to is it just mix with VIA being a bit higher in mass capacity? Is there any pricing pressure that you're seeing from the nearline customers? Could you just walk through why you're seeing more gross margin pressure than just the other utilization charges? Thank you.

Gianluca Romano

Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

A

Yeah. Thanks. And so, I would say the March quarter, of course, had some mixed impact also. For example, mission-critical was sequentially down, and as you know, it has a good gross margin generation. VIA was also sequentially down. So we had a couple of segments that are, let's say, above-average gross margin there in March because of seasonality, where we're down. So we see that recovering actually in the June quarter. As you said, there is also some pricing pressure, especially through the end of the quarter with certain customers.

We decided to take some of those deals, and we decided not to take other deals. And so this is what we are focusing on, trying to keep a supply/demand balance where we can. This is why we are doing there another restructuring action. We want to keep the capacity that we have internally aligned to the short-term demand, and then, of course, in the longer term, keeping that balance in a way which is not too much pricing pressure to Seagate and to the industry in general.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yes. Tom, I would add on to that, just you can see the pricing stress fairly readily in the dollar per terabyte trends. And so that's why we have to be very discerning about what deals we're taking. But I think it's reflective of a world where manufacturers are just trying to convert inventory back to cash as quickly as they can.

And our answer long term has got to be don't build too much so that we don't get ourselves into that position and then focus on a transition to a more substantial value proposition like higher capacity or lower cost, like VIA, the areal density gains that we might have. And we apply that to lower capacity drives just in order to rebuild the margin for ourselves and for the industry.

Thomas O'Malley

Analyst, Barclays Capital, Inc.

Thank you.

Q

Operator: The next question comes from Wamsi Mohan of Bank of America. Please go ahead.

Wamsi Mohan

Analyst, BofA Securities, Inc.

Yes. Thank you. I was wondering if you could just maybe talk about the outlook and pricing as well. It seems like your timeline for nearline demand recovery is kind of late in the year, HAMR shipments starting like in volume maybe early next year. In the interim, certainly like memory pricing – NAND demand, NAND pricing has been also under significant pressure.

Q

So, would you say that, as you're thinking about this comment about gross margin improvement as you go through the course of the year, is that predicated on stable pricing, improving or worsening pricing, any color you can share? And do you think that that pricing environment could deteriorate a lot more as you go through the course of the year? And I have a follow-up.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

I'll let Gianluca talk about the restructuring, because I think that's a significant part of your question. But I would say relative to the pricing environment, this is really where we believe we have good products at 20 terabytes to mid-20 capacity points. And there's not great demand right now, but we have good products that we can yield and so on.

A

The way out of it, of course, is to continue the areal density gains into the mid-30s and get the chance to reset things a little bit. From my perspective, the demand environment is so low that the way pricing becomes more strained is when we overbuilt. And so that's what we have to make sure we don't do, because we can't continue to stress ourselves and our cash that way. So we just have to wait this thing out a little bit. So, Gianluca, if you want to talk about the first part.

Gianluca Romano

Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

Yeah. A good part of the improvement in our gross margin, starting fiscal Q1, is related to the restructuring actions that we are taking right now. We said it is about \$200 million annualized saving, and it will be fully realized probably through the end of fiscal Q1. The plan is based on the current visibility of pricing, as you know, that can change. And we are trying to reduce our capacity, so that we build the right level of products for the current demand and we take out some pressure from pricing.

A

Wamsi Mohan

Analyst, BofA Securities, Inc.

Q

Okay. Thanks for that color. And if I could follow up, Gianluca, on the comments around positive free cash flow for the remainder of the year, your free cash flow and EBITDA levels have the potential to deteriorate from current levels. And when we look at that on a LTM basis, it does get you pretty close to your existing covenants. I know you mentioned certain actions that you can take on sale leaseback and other elements, but how should investors think about the dividend in this context, given that you have some cash restructuring charges coming up, you do have other uses of cash as well.

I know you are paying down debt, but in the context of dividend, should investors think that's pretty secure as we go through the course of this year or is not going to be another lever to use to balance the cash sources and uses for you? Thank you.

Gianluca Romano

Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

A

Seagate has always been very focused on shareholder return. As you know, we have suspended share buyback based on the current economic situation, but we have protected our dividends. We think we can reduce our leverage in the next few quarters or already discussed that leverage level with our banks, but I'll say until now, we have always protected our dividend.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yeah. I'd say, Wamsi, that I'm proud of who we've been, if you look just over the last 15 years when we came up with some of the policies that we're talking about. I'm really proud of how we've been able to return value to shareholders. Times are tough right now. We have a lot of levers that we can look at, I think, over time. But we want to continue to be that company that we have been. So, we're factoring this into all of our discussions right now, what our priorities are? Trying to keep the exact same priorities that we've always had for shareholders. And one of the reasons why we're being really aggressive on the cuts that we are – we're also as aggressively trying to turn some of the assets that we have into cash. We'll continue to look at all those options.

Wamsi Mohan

Analyst, BofA Securities, Inc.

Q

Okay. Thank you so much.

Operator: The next question comes from Timothy Arcuri of UBS. Please go ahead.

Timothy Arcuri

Analyst, UBS Securities LLC

Q

Hi. Thanks. I had two. So, Gianluca, just on free cash flow, so are you implying that it's going to be positive for the June quarter, because you did extend payables a lot in March and you probably have to bring that down maybe 25 days or so? So, it seems like maybe June free cash flow could be quite a bit negative. So, what's the message on June in particular around cash flow?

Gianluca Romano

Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

A

No, we see June still have a positive free cash flow. Of course, we need also to look at the exact timing of their payment for the restructuring actions. But in our plan, we have positive free cash flow for June.

Timothy Arcuri*Analyst, UBS Securities LLC*

Q

You do. Okay. Okay. Then, I guess I had a bigger picture question. So, Dave, in your prepared remarks, you talked about some evaluation of the longer-term capacity needs for the business and that's kind of a new angle. And we've gone from a year ago thinking that the industry didn't have enough capacity and now we're thinking about having too much on a structural basis.

So, I guess can you talk about that? And maybe in the context of that, just given how low NAND pricing has gone, we're now basically at cash cost. Is there a risk that there's some cannibalization happening now in nearline? And sort of what's the TCO difference in eSSD and nearline now in data center? Is that part of what's driving you to talk about maybe rethinking what the longer-term capacity needs are for the business? Thanks.

William David Mosley*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Oh, okay. Let me address that second problem or the second question first. No is the answer to that question. I think we believe that some of the SSD pricing that we're seeing is unsustainable, fundamentally unsustainable. It may go on for a while, but it's unsustainable. So, we're not really factoring that into our calculation for exabyte demand over time, I don't think. Even at the rates that we're seeing today, our ability to continue to take cost out and deliver more terabytes over time is going to keep us with a substantial gap to any competing technology.

I will say that your question is super appropriate. Over the last year, industry hasn't been putting on capacity. There're suppliers that we have that are unfortunately bearing the brunt of this and they're still assessing their own investments or consolidating factories and things like that. So, from an equipment perspective, there's less capacity than there was a year ago. But definitely from a people perspective, there's less capacity than where there was a year ago because of significant people takedowns, which we know is really hard and nobody wants to do. And that capacity can recover, but not quickly.

So, if you start staring out a year from now, does the industry have the same amount of capacity that did a year ago? The answer is no. Theoretically, it can grow back, but it's a matter of time and investment. And from my perspective, the biggest thing we're focused on is the lead times are so long on some of the starts, for example, wafer starts that we have for the new products that we're making sure the customers understand that it's not going to snap back and we better have discussions right now about what the true demand that they're going to need fulfilled out there a year from now.

In some sense, the kind of consumer behavior where you say, I don't need to buy any for a while and then I can go always go to the store and get some, that's the thing that will be challenged, because I think that's what a lot of enterprises are kind of assuming to make their models look okay right now. And that's why the factory workers are getting strained. But we're going to have to navigate our way through this and be as communicative as we can. I don't think the industry capacity is what it was a year ago. And I think if you don't tell us now, then it may actually be even more stressful for a year from now.

Timothy Arcuri*Analyst, UBS Securities LLC*

Q

Got it. Okay. Thank you.

Operator: The next question comes from Aaron Rakers of Wells Fargo. Please go ahead.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Aaron, we can't hear you.

Aaron Rakers

Analyst, Wells Fargo Securities LLC

Yeah. Sorry about that, guys. Can you hear me?

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Yeah. Yeah.

Aaron Rakers

Analyst, Wells Fargo Securities LLC

Yeah. Sorry about that. So, thanks for taking the question. I guess I got two real quick. Dave, just on the heels of that last question, I'm just curious of if you're asked kind of the longer-term growth of nearline capacity shift trends, where do you think that is today? Like as we come out of this, do you think we – maybe I'll stop there, what do you think that long-term capacity shift growth trend looks like now?

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Yeah. It's an interesting question, because I think if we go back a couple of years, you remember where there was a stall and then there was a enormous growth pop back. I think it's not going to happen like that again. I mean from an exabyte perspective, if – by that time we're on mid-3 terabytes per disk or even potentially 4 terabytes per disk, then our exabyte output is going to be significantly higher at better economics for us as well.

But will we have enough capacity for everyone all of the time? I think the answer to that is probably no. So – and I don't think we'll see the magnitude of the swing that we did before. Maybe we can from theoretical demand, but I don't think there's going to be supply right now because of the stresses that are going on in the industry and the fact that people just can't start materials, they won't have a whole lot of inventory, they won't have a whole lot of materials. They won't be leaning forward into some of those really great value propositions nearly as hard because they just can't do that speculatively on long lead time. So, it's actually an interesting problem set versus what it was a few years ago.

Aaron Rakers

Analyst, Wells Fargo Securities LLC

Yeah. And then, the follow-up question, just trying to think about gross margin kind of normalizing itself or I guess taken another way, if we kind of think about the progression of lifting out the underutilization charge, appreciating you're not guiding beyond this next quarter, but as I look back in time, what I look back and say, hey, if this model gets back to total capacity shipment levels of 150 exabytes a quarter, 130 exabytes a quarter, how do we think about that relative to lifting out the underutilization charges in the P&L?

Gianluca Romano

Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

Well, of course, depends what will be the capacity installed at that point. As you know, we are reducing capacity right now. So, gross margin, what we see today for the next several quarters is, despite the short-term decline in revenue, we guided in a way that is implying an improvement in gross margin already in the June quarter. So, I think that will continue for the next several quarters.

And of course, as Dave was saying before, demand will come back and capacity will be at a certain level, and hopefully supply and demand will be well-balanced, and [ph] Aaron (00:46:17), we have to manage this short-term demand decline. But again, we are ready to do it. We have done that in the past. And we think we know how to do it.

Aaron Rakers

Analyst, Wells Fargo Securities LLC

So, underutilization charges continue beyond the June quarter through the back half of the calendar year.

Gianluca Romano

Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

We will have some, I think, also in September, but is declining sequentially.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Yeah. And some of that is a preset to fix the variable cost as well, Aaron. And so, I think as we look forward, we have to project what we think the supply that will need to meet that demand is, of course, and we'll be adjusting and trimming as need be.

Aaron Rakers

Analyst, Wells Fargo Securities LLC

All right. Thank you.

Operator: The next question comes from C.J. Muse of Evercore ISI. Please go ahead.

C.J. Muse

Analyst, Evercore ISI

Yeah. Good morning. Thank you for taking the question. I was hoping to maybe drill down a little bit deeper on the nearline outlook. If you think about your vision three-months ago versus today, obviously a change and, I guess, was hoping you could kind of isolate between cloud enterprise and China and maybe rank order the change statements there in terms of the slowdown as well as from an end-demand overall perspective versus just realizing that there's just too much inventory downstream and that's what kind of got you by surprise. So, we'd love to hear kind of maybe the moving parts there and if you could prioritize what has really driven the change, that would be helpful.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Good. Thanks, C.J. I think it is good to break it down into a few different pieces. The most relevant obviously is the major cloud service providers around the world and there are a few different behaviors depending on geography and so on. I think if I think about the big applications in the cloud, they're growing a lot. I think, right now, there are priorities being made on compute and there're priorities being made on other investments. And

then, there's questionings – people questioning business models and all of that just takes time to sort out, but the data keeps growing.

So, I think that's largely what we're seeing. We would have forecast six months ago that we would be coming out of it by now, just based on all these trends and run rates and I think people can always hold on for another three months or six months, they can't hold on much longer than that. So, that's the way I think about the major cloud service providers, the difference might – the subtle difference might be in China, where you've got cloud providers there that really have been kind of on a pause for quite a while and are starting to get a little bit more optimistic again, like I said, I alluded to earlier not necessarily purchase orders just yet. But get a little bit more optimistic about their investments. And so, that's a watch item for when that might come back.

On the enterprise side, I know there's a lot of discussion about servers and other componentry. From our perspective, data does continue to grow on-prem. There are stressed budgets in CIO, in the CIOs' world today. But I think some of the offerings are actually pretty efficient right now. So, I do think – for totally different reasons, unless you consider macro being the underlying driver of everything, I think the on-prem enterprise is going to take six months probably as well.

I do think that there's not too much inventory there. So we've got anecdotal evidence that that inventory has been well-managed. And so, if there's an opportunity to break north into some of those investments, we could go necessarily quicker.

C.J. Muse*Analyst, Evercore ISI*

Q

Very helpful. And I guess as my follow-up to Gianluca, thinking about liquidity, you talked about intention to pay down the debt that's coming due in June. Curious how you're thinking about gross cash. And is there a plan today to draw on the revolver or that's TBD, depending on kind of the free cash flow generation into June and September?

Gianluca Romano*Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc*

A

No, I think our cash balance will be fairly stable at the end of the quarter compared to the end of March. So, I don't think we need to use – we don't need to use the revolver. Sometimes, we use a revolver during the quarter to cover for few weeks. But in term of cash balance, I think will be fairly similar to what we had at the end of March.

C.J. Muse*Analyst, Evercore ISI*

Q

Thank you.

Operator: The next question comes from Krish Sankar of TD Cowen. Please go ahead.

Krish Sankar*Analyst, TD Cowen*

Q

Yeah, hi. Thanks for taking the question. My first one is for Gianluca. Just wanted to follow up on HAMR. How much of a drag is it on margins today, and when do you think it'll improve towards the corporate average? Is it just purely a function of volume and yields that can help you improve HAMR margins? And then is the long-term gross margin target still 30% to 33% baking in HAMR? And then I had a follow-up for Dave.

Gianluca Romano

Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

A

Yeah. Thank you. Well, I would say, right now, we are very happy with how we are progressing with HAMR. As we said in the prepared remarks, we are shipping products for [ph] qual (00:51:54). So, right now, we don't have revenue coming from HAMR. So it's not really impacting our gross margin. But we think, of course, in the future, 3 terabyte per disk or 3.5 terabyte per disk and 4 terabyte per disk, those are very interesting propositions for our customers and we think will be actually a very profitable gross margin improvement for Seagate. This is why this product is so important to us and in general in the longer term for the entire industry.

Krish Sankar

Analyst, TD Cowen

Q

Got it. Got it. Very helpful. And then a follow-up for Dave. Sorry, just to come back to this SSD versus HDD dynamic, I agree with you that the NAND prices are unsustainably low. But if you look at like last down-cycle, the SSD prices are almost 8x higher than HDD on a per gigabyte basis. Now it's more like 2 to 4 times. So that gap is definitely closing. So I'm kind of curious, when you talk to your cloud customers, is it a big – how does that discussion progress? And is that the [ph] second part of your lead (00:53:05) pricing per terabyte, or is it part of your big demand from cloud customers? I was just kind of curious about it. Thank you.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

No. I would say, when you get into mass capacity, the highest capacity points, I don't subscribe to the notion that's 2x to 4x, I think it's significantly higher than that. And we'll have an ability to continue to drive to better value propositions as we add more capacity per drive through the transitions that we're talking about.

So, what I would say is that right now, demand is low for everyone. And so, what you see, the dynamics you see is just manufacturers trying to take some of their cash that they've tied up in inventory and turn it back into cash as quickly as possible. And if you start to look and say that's below cost or something like that, hopefully people stop doing that and try to look for other options, and that's exactly how we're thinking about ourselves as well, right, to make sure you don't build.

So, I think in that kind of environment, it's really hard to extrapolate on trends. Exactly to your point, Krish, I think, some of these other things that we're comparing against are unsustainable, they're going to have to re-equilibrate at some point. Don't know exactly when that is. The more we push into the value chains, the more we push inventory in there, the more people will build buffers and then continue that. So I think that's one of the reasons why – from our [ph] knothole in the sense (00:54:37), we've decided to really pull back on our build and reduce our footprint.

Krish Sankar

Analyst, TD Cowen

Q

Very helpful. Thanks a lot, Dave.

Operator: The next question comes from Toshiya Hari of Goldman Sachs. Please go ahead.

Toshiya Hari

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. I had one for Dave and then one quick one for Gianluca as well. So, Dave, I know it's a bit of a black box, but I was hoping you could give kind of your assessment of nearline inventory or customer inventory in the nearline market relative to 6 months ago or 12 months ago. What's your view there? And when you compare and contrast what you're selling into the nearline space versus what's truly being consumed, what's the percentage delta at the moment?

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yeah. It's actually an interesting thing, because if I normally talk about inventory, like a distribution channel inventory, for example, I'll look at weeks of supply or something like that, but then is that based on the last 4 weeks or 13 weeks? I mean, if we base things on a couple of years ago, the demand is low and there's not too much inventory out there based on the run rate, the number of drives that were a few years ago. Even on exabytes, the demand is fairly low – or, sorry, the inventory is fairly low.

But I will say that most cloud service providers need to have some inventory around based on the data center population, the new data center build-outs they're doing, and the refresh, the spares that they need and things like that. So they normally need to have a few months of inventory anyway. It's more than a few months right now, but it's not significantly more. And the gross number of drives is not huge, I think. So that's the way I think about it.

The exabyte growth will be substantial coming sometime. And what we've got to do is just make sure we're not pushing any more into those chains. But I don't know of a good way to think about, it is really three months or six months like we might want to say, because if you go back two years historically and the number of drives that were being pulled by people, that it's not really six months. It's probably more like three.

Toshiya Hari

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then any view on sell-in versus end consumption? Or is that too hard to really see?

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yeah. Here's what I'd say is that we see a lot of the new drives, the higher capacity drives, going into replacing lower capacity drives. Obviously, the lower capacity drives get put into other purposed applications as well. So, I think drives are living longer. There's still going to be demand for higher capacity drives, especially just the efficiency as you get out of that in the data centers.

And then, there's new data center build-out as well. So, I actually think that this is not a problem of not needing any product, this is a problem of reshuffling priorities inside of the data centers and getting ready for the next level of data center expansion.

Toshiya Hari

Analyst, Goldman Sachs & Co. LLC

Q

That makes sense. Thank you. And then, Gianluca, on gross margins, longer term, obviously, you've had this target of 30% to 33% if I'm not mistaken. You're, obviously, significantly below that today. But as you think about the path toward your long-term model over the next four to eight quarters, given the reduction to manufacturing footprint that you're executing to, what sort of quarterly revenue run rate would you need to be at that, call it, 30% range? I assume it's lower than where you were about a year ago, which was \$3 billion – a little bit below \$3 billion?

Gianluca Romano

Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

A

Yeah. Of course, depend also from the mix and other factors, but as you said, we are taking a lot of cost actions. So, what we also said last quarter is when we go back to the prior level of revenue that we peaked at about \$3 billion, we expect gross margin to be actually better than what it was at that time. So, we are still confident in the medium and long term. We are taking our actions to be even stronger when we come out from this down-cycle and we are executing our roadmap, we are executing all our cost reviews and we think we are ready for the recovery of this up-cycle when it comes.

Toshiya Hari

Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Shanye Hudson

Senior Vice President-Investor Relations & Finance Strategy, Seagate Technology Holdings Plc

A

And, operator, I think we have time for two more questions.

Operator: The next question comes from Sidney Ho of Deutsche Bank. Please go ahead.

Sidney Ho

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks for taking the question. So, I have two quick ones. One on the HAMR side, sounds like high volume is starting in early 2024 to your plan. Can you give us any goalpost in terms of when you expect to hit a certain unit volume on a quarterly basis and maybe when you expect HAMR to be gross margin accretive and maybe at what kind of buying level? And I have a follow-up.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yeah. I think, Sidney, our gross margins are going to come back based on demand. So, I don't know that we can really break it out based on HAMR transition right now, because there's so many other dynamics. But we are aggressively filling the pipeline full of the product, working on the yields and the scrap that we need to get down very, very confident in the technology. So, thanks for the question. I would say we'll hit what I'll consider a significant volume ramp in early 2024 and then we're going to continue to ramp from there because we have that much confidence.

Sidney Ho

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That's helpful. Maybe a follow-up question is on the demand side, it seems like you're more optimistic about the enterprise market that's compared to the cloud market, do you expect further correction in the enterprise market or maybe just a U-shape recovery, considering comments from some of the storage OEM seems to be quite subdued and looks like they are just going through the demand correction and it's still in the early stages for them.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yeah. I think the only subtlety just to your comment is I would say that my comments earlier were about inventory. There's just not too much inventory out there in those chains. So, when we did start to see some recovery, I think there's room for the inventory to repopulate. To your point, I know that people are talking about fairly subdued, some are at least maybe no recovery until the back half in there and so we are watching that. I do think there's – unlike some of the other markets where we look at maybe too much inventory to be digested, I don't think that's necessarily the case. That has been managed better.

Sidney Ho

Analyst, Deutsche Bank Securities, Inc.

Okay. Thank you.

Operator: The next question comes from Ananda Baruah of Loop Capital. Please go ahead.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Hey. Thanks, guys. Thanks for taking the questions. Just two quick ones. I'll ask them at the same time here. One, maybe more of a clarification. Dave, when you talk about you believe it was just the question about, I think, sort of sequential growth at some point later in the year, when you say toward the end of the year, you think demand will pick up again, is that to say you think December quarter could see exabytes up sequentially? And I guess does that also mean the implication is you think the September quarter is a bit down sequentially? Actually and then I have a quick follow with that there. And I have a quick follow-up.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Yeah. I think – Ananda, thanks for the question. I think it's a little too early to guide. I mean, I think we're still frankly digesting. We're just telling people what we're building. I do think, at some point, exabytes pick up, of course, right. If we want to think about the December quarter or something like that, that's fine, because I think there should be some pickup barring any other macro issues or something. But it's too early to guide, I think, very specifics. What we're doing right now is curtailing the builds.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Thanks for that. And the quick follow-up is on the BIS dynamics, is there a revenue impact we should take into account now as well with that? And that's it. Thanks.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

No, no revenue impact.

Ananda Baruah

Analyst, Loop Capital Markets LLC

That's good. Thanks a lot.

Operator: This concludes our question and answer session. I would like to turn the conference back over to management for any closing remarks.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Thanks, Sandra. As you heard today, Seagate is acting with speed and agility to manage through a tough near-term market environment. At the same time, we're executing our strong mass capacity product roadmap that positions us to serve our customers and improve Seagate for financial performance.

I just want to close by thanking all of our stakeholders for their ongoing support. And thanks for joining us today.

Operator: The conference has now concluded. Thank you for attending today's presentation. And you may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.