

21-Jul-2021

# Seagate Technology Holdings Plc (STX)

Q4 2021 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, and welcome to the Seagate Technology Fourth Quarter and Fiscal Year 2021 Financial Results Conference Call. My name is Tabitha, and I will be your coordinator for today. At this time, all participants are in a listen-only mode. Following the prepared remarks, there will be a question-and-answer session. As a reminder, this conference is being recorded for replay purposes only.

At this time, I would like to turn the call over to Shanye Hudson, Senior Vice President-Investor Relations and Treasury. Please proceed, Shanye.

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### Shanye Hudson

*Senior Vice President-Investor Relations and Treasury, Seagate Technology Holdings Plc*

Thank you. Good afternoon, 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've posted our earnings press release and detailed supplemental information for our June quarter and fiscal year 2021 on the Investors section of our website.

During today's call, we will 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, a reconciliation to the corresponding GAAP measures is not available without unreasonable efforts.

As a reminder, this call contains forward-looking statements, including our September quarter financial outlook and expectations about our financial performance, market demand, industry growth trends, planned product introductions, ability to ramp production, future growth opportunities, possible effects of the economic conditions worldwide resulting from the COVID-19 pandemic and general market conditions. These statements are based on management's current views and assumptions. And information available to us as of today should not be relied upon as of any subsequent dates. Actual results may vary materially from today's statements.

Information concerning our 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 Investor section of our website. As always, following our prepared remarks, we'll open the call for questions.

I'll now turn the call over to you, Dave.

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### William David Mosley

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

Thank you, Shayne; and a warm welcome to everyone joining us today. Seagate ended fiscal 2021 on a strong note, delivering outstanding June quarter performance and fiscal year revenue that exceeded expectations. These results reflect broad-based demand across the mass capacity end markets and incredible execution by our global team, which together, led to faster than anticipated progress towards our long-term financial targets.

In the June quarter, revenue topped the \$3 billion mark for the first time in six years. And we delivered non-GAAP EPS of \$2 per share, which was at the topmost end of the upwardly revised guidance range that we provided in early June. Additionally, we expanded non-GAAP gross margin to 29.6% and expect to be inside our long-term target range of 30% to 33% ahead of schedule. The demand strength and favorable mix has accelerated the timeframe to achieve better supply/demand equilibrium, which is supporting firmer pricing conditions.

We are reporting these exceptional results at a time of optimism in parts of the world, as vaccinations progress and economies begins to reopen. In fact, we are hosting today's call from Dublin for the first time in six quarters. While the pandemic remains a difficult reality for many parts of the world and we remain vigilant and continue to manage the business through this period, it is clear, at the macro level, that recovery is underway in the markets that we serve. Seagate is entering this recovery period in a very strong position, helped by the fact that we executed incredibly well throughout the crisis.

For fiscal year 2021, we generated nearly 2% year-over-year revenue growth, exceeding our expectations. We grew operating profits faster than sales and achieved operating margin of 15.4% for the year, showing the leverage in the business. And we returned substantial amount of capital to shareholders, including \$2.7 billion of dividends and share repurchases, retiring more than 13% of our outstanding shares in fiscal 2021.

In addition to recording strong financial results, our innovation engine has not slowed down. We extended our HDD technology leadership, as evidenced by Seagate being the first company to commercialize HAMR technology and the first to deliver dual-actuator performance drives, which are now shipping in high volume to support multiple customers.

We leveraged our areal density gains to streamline our product road map, making us better able to meet changing customer demand requirements, while maintaining an attractive cost profile. We also leverage the strength of our common mass capacity platform to execute our 18-terabyte ramp plans to meet customer demand. We expect to begin shipping 20-terabyte PMR drives in the second half of this calendar year.

Finally, we expanded our product and service offerings with the launch of Lyve edge-to-cloud platforms and remain on track with the build of our four Lyve Cloud metro edge locations by calendar year-end.

A year ago, when the business challenges posed by the pandemic were very acute, I made the statement that Seagate would emerge from the crisis stronger than ever. With the financial performance and innovations that I just highlighted, I believe that our team has delivered on that claim, and that Seagate is stronger than ever. We're continuing to focus on unlocking more value for our customers and shareholders.

For example, last month, we introduced CORVAULT to our family of cost-efficient, high-density storage systems. CORVAULT combines Seagate's internally designed storage systems' ASICs with our intelligent self-healing software and data security technologies, which results in a high-reliability storage solution at petabyte scale, ideal for private cloud and macro edge data centers.

We are also working directly with customers to unlock value. Many of our hyperscale customers already employ AI and machine learning to reduce the amount of human intervention necessary to maintain and repair their large fleets of storage drives. We recently teamed with Google Cloud to take data intelligence one step further. Together, we developed models that helped predict drive failures before they occur. These models promised to lower operational costs and prevent potential problems to their end users, a clear win-win.

Let's turn now to the current market environment, starting with an area that is garnering significant interest in recent weeks. Storage-centric blockchains such as those used by FileCoin for decentralized storage applications; or Chia cryptocurrency, which is considered an environmentally friendly alternative to other blockchains that utilize energy-intensive computational power to validate transactions have significant interest.

During the June quarter, we saw a meaningful increase in the HDD demand due in part to the initial build out of the Chia netSpace, which is comprised of both new and repurposed HDDs.

By our estimation, new Chia demand represented, at most, a mid-single digit percentage of total industry exabyte shipments during the quarter, primarily into the distribution channel. This incremental demand served to tighten HDD supply dynamics in an increasingly robust demand environment. While the future growth outlook in this space remains unclear, we are excited by the potential applications associated with innovations in decentralized file storage.

For Seagate, strong growth in the traditional mass capacity market remains the primary driver of HDD demand. In the June quarter, mass capacity represented close to 70% of Seagate's HDD revenue, supported by broad-based demand for our nearline drives and the third consecutive quarter of sales growth into both cloud and enterprise customers.

Cloud data center demand has remained healthy and steady for the last 18 months, and current indicators suggest that trend will continue. While it's clear that the pandemic played a big role in accelerating digital transformation, hyperscale industry leaders expect the digital adoption curve to continue accelerating, even as COVID recedes.

At the same time, businesses are preparing for employees to return to the workplace, which is reinvigorating on-prem IT infrastructure investments and supporting ongoing recovery in the enterprise markets. We also experienced stronger than anticipated recovery in the VIA markets during the quarter due in part to tighter supply conditions. We currently foresee relatively stable demand through the second half of calendar year.

Looking ahead, secular demand for mass capacity data, combined with signs of macro recovery, represents significant opportunities for Seagate and set the stage for continued strong financial performance and cash flow generation. These factors, combined with our broad product portfolio, underpin our forecast to grow revenue in the high-single digit percentage range or more in fiscal 2022, which is well above our long-term financial model range.

I'll now hand the call over to Gianluca to cover the financial results.

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## Gianluca Romano

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

Thank you, Dave. Seagate executed extremely well in the June quarter, delivering very strong top and bottom line growth that was fueled by accelerating demand in the mass capacity market and distribution channel.

Revenue was \$3.01 billion, up 10% sequentially and 20% year-over-year. Non-GAAP operating margin expanded to 18.1%, in the upper end of our long-term target range of 15% to 20% of revenue. And non-GAAP EPS was \$2 per share, up 35% sequentially and 67% year-over-year.

Ongoing demand momentum for our mass capacity products supported a third consecutive quarter of record hard disk drive capacity shipments, totaling 152 exabytes, up 9% sequentially, and 30% year-on-year. More than 80%

of total exabytes were shipped into the mass capacity market, which include nearline, VIA and NAS products. Mass capacity shipment reached a record 123 exabytes in the June quarter, up 11% sequentially and 36% year-over-year.

We're continuing to leverage our manufacturing agility and drive operational efficiencies to meet our customer's timing. Mass capacity now represents close to 70% of total HDD revenue. Further demand for our nearline drive and strong recovery in the VIA market saw record mass capacity revenue of \$1.9 billion, up 16% sequentially and up 29% compared with the prior-year period.

Sales of our nearline product grew strongly quarter-over-quarter, reflecting the rapid uptick in demand from storage-centric blockchain that's layered on top of healthy cloud data center demand and improving enterprise OEM customer trend that we discussed last quarter. We attribute the incremental sales of our mid to high capacity nearline products in distribution channels to Chia farmers; while our cloud and OEM customers consumed a majority of our high-capacity supply, including our 18-terabyte drive, which are shipping in high volume.

Overall, nearline shipments increased to 101 exabytes, up 6% sequentially and 28% year-on-year from the record levels in each of the comparable quarters. Stronger than expected demand in the VIA market led to a sharp sequential increase in revenue, as planned projects got underway and customers invested to support in future demand. Looking ahead, we expect relatively stable demand into the second half of the calendar year. The legacy market has done well in the June quarter with a revenue of \$854 million compared with \$864 million in both the prior quarter and the prior-year periods.

Exabyte shipments remained relatively flat quarter-over-quarter at roughly 29 exabytes. Ongoing demand for our mission-critical drives and better than expected sales of our consumer product partially offset the anticipated declines for PC drives. We expect relatively stable demand for both mission-critical and consumer drives over the next couple of quarters, which would result in more moderate year-over-year revenue decline for the overall legacy market.

Finally, turning to our non-HDD business. Revenue increased 16% sequentially and 42% year-over-year to a record \$276 million. We continue to drive momentum in our system business, which offers simple and scalable petabyte solutions targeted for enterprise and private cloud customers.

In the June quarter, non-GAAP gross profit increased to \$892 million compared with \$749 million in the March quarter, and \$686 million in the prior-year period. We incurred \$32 million of COVID-related costs during the quarter. Calendar year-to-date, the vast majority of these costs are attributed to elevated freight charges, which we expect to persist through fiscal 2022.

However, given the uncertainty around when or – if these costs will abate, starting fiscal Q1, we plan to stop calling them out. Our resulting non-GAAP gross margin expanded by 218 basis points to 29.6%, including slightly more than 1% headwind from COVID-related cost.

Total HDD margin are already inside our target range of 30% to 33%, and we now expect total company non-GAAP gross margin to be at the low end of the range in the September quarter, reflecting better alignment in supply and demand and the transition to mass capacity products that has taken place.

Non-GAAP operating expenses came in at \$346 million, up 5% sequentially, reflecting higher variable compensation associated with the strong performance. We are tightly managing expenses and expect to maintain OpEx at approximately the same level for the next few quarters. The combination of higher sales and margin

expansion resulted in non-GAAP operating income of \$546 million, up 30% sequentially and over 46% year-over-year.

Non-GAAP operating margin was 18.1%, up 274 basis points sequentially and 330 basis points year-over-year and solidly inside our long-term target range of 15% to 20% of revenue. Based on the dilutive share count of approximately 233 million shares, non-GAAP EPS for the June quarter was \$2 per share, the highest level since fiscal 2012.

Capital expenditure were \$124 million in the June quarter and just under \$500 million for the fiscal year, which represents 4.7% of annual revenue, in line with our long-term target range. Through strong expense discipline and efforts to improve manufacturing efficiencies, we reduced CapEx by about 15% in fiscal 2021, exiting the year with better supply/demand balance.

The inventory was \$1.2 billion, down 6% sequentially with days inventory outstanding declining for the third consecutive quarter to 51 days. Our teams have done an outstanding job of working with our suppliers and partners to manage strategic inventory level and mitigate supply chain disruption, including the recent COVID-related restriction in Asia which we continue to be closely monitor.

In the June quarter, we increased free cash flow to \$354 million, up 29% both quarter-over-quarter and year-over-year. Our focus on optimizing profitability and cash generation provides flexibility to invest in the business and return capital to our shareholders. We used \$154 million to fund the quarterly dividend and \$228 million to repurchase 2.6 million ordinary shares, exiting the quarter with 227 million shares outstanding and approximately \$4.2 billion remaining in our authorization.

We retired 34 million shares during fiscal year 2021 and returned a total of \$2.7 billion through dividends and share repurchases. Based on our current outlook, we expect to maintain a robust capital return program in fiscal 2022, while maintaining a strong balance sheet and liquidity profile.

Cash and cash equivalents remain relatively stable at \$1.2 billion. And total liquidity was approximately \$3 billion, including our revolving credit facility. These levels are more than adequate to support our operation and business needs. As we enter fiscal 2022, the demand environment remains strong, and we continue to execute our product and technology roadmap to deliver on our customer requirement while driving value for Seagate.

Looking ahead to our outlook for the September quarter, we expect revenue to be in the range of \$3.1 billion plus or minus \$150 million. We expect non-GAAP operating profit to grow faster than sales, resulting in non-GAAP operating margin at the upper end of our long-term range of 15% to 20% of revenue. And we expect non-GAAP EPS to be in the range of \$2.20 per share plus or minus \$0.15, representing a sequential growth of 10% at midpoint.

In summary, we continue to achieve outstanding results supported by our unwavering focus on operational execution and the strength of our product and technology portfolio. We're already demonstrating performance consistent with our financial target and enter fiscal 2022 well-positioned for top and bottom line growth.

I know turn the call back Dave for final comments.

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**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

Thanks, Gianluca. Seagate is executing well, delivering financial performance at or above our commitments, maintaining a relentless focus on total customer experience and deploying capital to enhance value for all stakeholders. We capped fiscal 2021 with our strongest performance of the year, and we expect that positive momentum to continue moving forward.

We've demonstrated strong leverage in our business model to grow operating profits faster than revenue, and in turn, drive free cash flow generation. Our ability to consistently generate free cash flow provides the flexibility to fund future growth and employ a robust shareholder return program as well. Based on our current outlook, we expect to grow free cash flow appreciably in fiscal 2022.

Our employees have been crucial to Seagate's current success and key to driving our future. For over our 40-year history, Seagate has transitioned many times to address the evolving storage industry landscape. For example, we have recently pivoted our factories and technology to deliver mass capacity solution and emerge the leader. Now, we are focused on addressing the next mass data challenge with our Lyve product platform.

To keep pace with these changes, we're investing to rescale and redeploy Seagate employees as needed to support our future growth and respond to the changing demands of the business. For example, we launched a tool called Career Discovery earlier this year, which has already helped Seagate to establish networking and mentor connections as well as redeployment opportunities for hundreds of employees.

Seagate has a broad bench of talent with decades of hardware and software experience, formidable supply chain management and manufacturing skills, and deep knowledge of chip design and the data analytics. This expertise and strong customer relationships allow Seagate to understand the global mass capacity ecosystem and its architecture better than anyone.

Tools such as Career Discovery are helping us deploy our diverse resources to support our future needs while enabling Seagate to maintain OpEx efficiency. We're confident that this focus on people will put us on a firm footing for continued growth and success.

As we close, I want to thank both Seagate employees and those in our supply chain, whose efforts enable our ongoing leadership in mass data solutions. Our customers and our shareholders are equally deserving of thanks for their ongoing trust and support in Seagate.

Gianluca and I are now happy to take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question comes from the line of Karl Ackerman with Cowen & Co. Karl, your line is open.

Q

Hi. Can you hear me okay? My first question – this is [ph] Lennie (00:23:35) on for Karl Ackerman. I have two questions. My first question, what sort of feedback have you received from current hyperscalers, who have qualified your 20-terabyte nearline drive?

I'm asking because you've previously indicated it is not a cost-effective node, yet this is a critical step function until you reach the 20-terabyte HAMR. When should we expect 20-terabyte HAMR to reach – crossover for nearline shipments? Is that something that could occur in fiscal 2022?

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Yeah, so thanks, [ph] Lennie (00:24:05). I don't think we ever said that 20 terabyte would be a crossover point for HAMR, to your point. So, we have a number of different 20-terabyte platforms coming, PMR, SMR, HAMR. There's a lot of different flavors of them. And they're targeted at different customers, so different qualification schedules for each.

We're very aggressive with the 20-terabyte qualification because the heads and media for the PMR version that we referenced in the prepared remarks is already in the high-volume manufacturing for 18 terabytes and the capacity points below as well, 16 terabytes, and so on, so we're very confident in that. And we're ramping aggressively with customers, giving them samples, getting through qualifications. And I'm fairly optimistic about that for the back half of the year.

**Shanye Hudson**

*Senior Vice President-Investor Relations and Treasury, Seagate Technology Holdings Plc*

A

Do you have a follow-up question?

Q

Yes, thank you. Just one more follow-up, if I may. On the demand outlook and CapEx, how are you thinking about adding incremental heads in digital capacity relative to your fiscal 2022 outlook? Chia cryptocurrency has clearly led to a supply shortage of mid and high-capacity drives to data center, yet the postponement of the JEDI contract by the Department of Defense appears to weaken the CapEx spend for the next few quarters. I'm hoping you may address your view of capacity or the outlook for data centers demand over the next few quarters?

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Yeah, I'd say, within the head factory, for example, which is the longest lead time part, we have well over 100 million heads per quarter going out. So, we have the ability to change the mix as we see fit. So, some of the

demand changes that we saw are fairly easy inside of our portfolio, which has been really trimmed down, made very efficient especially with the common platform. We have the ability to change from one to the other.

We're always bringing on more capacity by putting new tools online to get the new technology nodes that's within our CapEx envelope all the time and we'll just continue to watch this. I think we can continue to grow more exabyte supply with technology transitions, more exabytes with areal density, so to speak. And we'll continue to watch and be nimble in the market as well.

Gianluca, you want to add something?

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**Gianluca Romano**

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

A

Yeah, we discussed in the last few quarters about the need to realign supply and demand, and we're getting closer and closer every quarter. For overall CapEx, fiscal 2022, we think, we will have the same target of fiscal 2021, between 4% and 6% of revenue. So, we will add capacity, but we will also be looking at and keeping this alignment between supply and demand.

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**Operator:** Your next question comes from the line of Katy Huberty with Morgan Stanley.

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**Katy L. Huberty**

*Managing Director-Research, Morgan Stanley*

Q

Yes. Thank you. As you walked through the various segments nearline, VIA, mission-critical, consumer, you talked about stable trends across the board, yet the full-year revenue growth guidance assumes that there will be a revenue run rate reduction from the \$3.1 billion September guide. So, can you just talk about what will drive lower revenue as you move through the year? And maybe what sort of the first half versus second half looks like? And then I have a follow-up.

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**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Thanks, Katy. Yeah. I think we are chasing the demand right now, obviously. And so, we think that the front half is a little stronger. In the back half, there will be a more muted seasonality that we're normally accustomed. We do – there's also – that's three quarters away, there may be some variability there.

So, we do have good relationships with all of our customers across all these product sets now. And they give us pretty strong sense of what their demand profile is going to be through the year. So, I would characterize this as muted seasonality for now, but significantly up with at least high-single digits in revenue growth year-over-year. So, it's still significantly up. And we're still chasing it.

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**Gianluca Romano**

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

A

Yeah, we think we will have a very strong second part of the calendar 2021. Last quarter, I think we said, at least 10% increase year-over-year. Right now, we think, it will be at least 15%. So for sure, another couple of quarter, very strong. And then, as usually, we have in our plans some seasonality for the legacy market and some of the mass capacity, like surveillance. But it could be different as we have seen last year, for example.

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

I think the other thing is we're running – to the earlier question, we're running in high volume the heads and media that we already need to make more 18s or 20s or whatever, so that if some of the cloud markets were to take up above our plan, we can stretch there, I think, in the back half of the year as well.

**Katy L. Huberty**

*Managing Director-Research, Morgan Stanley*

Q

Okay. Then, the pricing environment, as you said, has firmed up faster than you expected. What will determine whether those prices can hold? And what are you assuming for price change in that full-year guidance for high-single digit growth?

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Across the whole portfolio, it's really the balance of supply and demand. So, it's not just about the exabytes at the highest capacity points. There's strong demand in the VIA market. There's strong demand for 8-terabyte families this quarter. Strong demand for even some of the high-end desktop products.

So, I think we're trying to balance all these things for the customers. They're giving us predictability. And they need predictability in the time of disrupted supply chain. Everybody is trying to get the complete kits to attack all these market opportunities that they have. So, that's really what's firming it up.

And I'll let Gianluca kind of quantify it through the course of the fiscal year.

**Gianluca Romano**

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

A

Yeah, for the time being, I would say, in the plan, we have a fairly strong pricing environment, especially for the mass capacity, the legacy is still expected to decline a little bit. But in general, as we were discussing before, it all depends from these alignments between supply and demand. But right now, it's fairly good, we want to give it a bit later.

**Katy L. Huberty**

*Managing Director-Research, Morgan Stanley*

Q

Thank you, congrats on the quarter.

**Gianluca Romano**

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

A

Thank you, Katy.

**Operator:** Your next question comes from the line of Sidney Ho with Deutsche Bank.

**Sidney Ho**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Great, thanks. And thanks for taking my question. My first question is on the nearline drives. Given how strong nearline exabyte shipments have been in the past two quarters – I think it's up 40% in the past two quarters. I know crypto is a factor but you also mentioned, cloud is strong as well.

Are you concerned that we'll see an inventory digestion in space soon, or maybe how slightly differently? Do you have a sense as to how much inventory is filled in the channel or like your customers especially cloud and enterprise guys at this time?

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**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

**A**

Yeah. Thanks, Sidney. I don't think there's too much inventory out there, by any stretch of imagination. It's a little bit different if you look at the enterprise channels. They're relatively lower inventory. And we did see growth in the enterprise quite a bit quarter-over-quarter.

As far as the cloud is – goes from worldwide, I think it's fairly healthy demand. It's fairly well distributed. This is what we've been talking about the last couple of years. We've always wanted a lot of different customers pulling at these levels, and we've seen that. So, we're fairly happy with the demand outlook.

And what we've got in the build plan right now for the next couple of quarters because the lead time is so long, as we've said before, that's really what builds our confidence – is these great conversations we're having with customers worldwide.

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**Sidney Ho**

*Analyst, Deutsche Bank Securities, Inc.*

**Q**

Great. Maybe a follow-up question. On the gross margin side, you talked about gross margin to be within the long-term target range of 30% to 33% in the September quarter. Curious, if you have to unpack the gross margin guidance, what are some of the key components for this margin uplift? What is like-for-like pricing, product mix, yield improvement and whatnot? And how should we think about those factors that are playing out beyond the September quarter? Thanks.

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**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

**A**

Yes. Thanks, and I'll let Gianluca chime in here, too. The first thing I would say is that there were a lot of swaps during the quarter from maybe some of the things we had planned into things that were actually moving faster. And like I said, when you have demand everywhere, the swaps actually reflect a better supply and demand balance than what we had forecasted. That's probably the biggest thing. Inventories came down. Our factories are very full. The heads and media factories of course are being staged for the next couple of quarters as well. So, all that benefits us financially.

There's the mix up as well. And we're going to more cost-optimize drives in the next few quarters as well. So, we've started into the family of 18s that we talked about we like the cost on. We have a lower-capacity nearline drive that's actually mixing in as well that we've launched. So, those are all the positives.

There still are headwinds from freight and logistics around the world. It's still there. It's still an overhang. And there's obviously component prices in various sectors that are happening because of shortages worldwide that are affecting us a little bit. So, those are the headwinds.

**Gianluca Romano**

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

A

Yeah. We had a very good quarter in FQ4. And we're already guiding FQ1 at higher level. I would say one of the major reason is this pricing environment that is improving. The second reason is the mix that keeps shifting more and more to the mass capacity. In fiscal Q4, 70% of the revenue was already on mass capacity, and we expect that to continue to increase.

The other major reason that you will see throughout the fiscal year 2022 is increase of our cost-optimized drives, so the drive that are built on 2-terabyte per disk. And that will stay with us through the fourth quarter. And we'll continue to bring improvement to our gross margin.

**Sidney Ho**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you.

**Operator:** Your next question comes from the line of Wamsi Mohan with Bank of America.

**Wamsi Mohan**

*Analyst, BofA Securities, Inc.*

Q

Yes, thank you. Dave, you said mid-single digit percent of HDD exabyte demand from Chia in the June quarter for the industry. So, if I map that to Seagate, it looks like Chia contributed maybe 60% of the incremental sequential exabytes. So, if you see this demand flatten out, how comfortable are you that supply/demand will continue to be tight enough to keep pricing favorable? And I have a follow up.

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Yeah. Thanks, Wamsi. It's really hard to forecast exactly what's going on in Chia, not just because of Chia itself because they are fairly transparent with their numbers, but because of the entire space that's developing. We did say that the growth in the netspace we've seen, to-date, there's probably a fair amount of refurbished drives or drives that have been purchased one or two quarters ago. So, it's a relatively small contribution as of yet to Seagate's overall revenue. And even in the exabyte growth perspective, I don't think it's very big. So, we said, maybe mid-single digits, like what you've referenced.

I think it's a space to watch. We love it because it's very innovative, not just in Chia and those applications, but also in the IPFS applications that we talked about last quarter. The big takeaway is if it continues to grow and fast, it'll have to grow with more newbuild. So, that's something for us to watch. But we're not really forecasting very much of that into our guide right now, because it's – we're going to wait and see a little bit. And we'll react to customers who are trying to drive more demand in the channel as it happens.

Mass capacity is still our business. I mean that's what I would take away. And that's how we plan our exabytes, and that's how we have our customer relationships across the breadth of our portfolio. And so, I don't think Chia was that impactful from that perspective last quarter. And looking forward, we're not really forecasting it very much. We'll just react to it.

**Wamsi Mohan**

*Analyst, BofA Securities, Inc.*

Q

Okay that's helpful. And then as a follow up, you've guided gross margins for next quarter within your long-term range. What would need to happen for you to fall out of that range as you go through the course of the year?

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Yeah. I think that will be all about cost and maybe some kind of disruption to the overall supply/demand picture that we've been working on if you go back six quarters, eight quarters when we decided to make some of the investments that we did for the mass capacity platform on 16s and transitioning to 18s and everything else, we put on capacity for that. We pivoted our lines for that. And that's when the pandemic hit and the supply chain was so disrupted. That's the thing that really hurt us.

So, it took a lot for us to climb back into the model, as the exabyte demand has grown, I think we'd be a lot more resilient this time at this higher level, so that will still be the watch item. We don't forecast that, by the way. We think that the Exabyte curve is still going up. And over the next few years, we know our thesis is going to grow very big. And so, we're still fairly bullish on exabyte growth without this thing taking a backseat or a U-turn. But in these environments, we're always – everybody's careful. So, that's the way I'd characterize it.

**Wamsi Mohan**

*Analyst, BofA Securities, Inc.*

Q

Okay. Thank you so much.

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Thanks.

**Operator:** Your next question comes from the line of Thomas O'Malley with Barclays.

**Thomas O'Malley**

*Analyst, Barclays Capital, Inc.*

Q

Hey, guys. Thanks for taking my question. I just wanted to follow up on Katy's earlier question talking about the seasonality for the year. Gianluca, I believe you said that for the second half of the calendar will be very strong. And I think you mentioned, 15% year-over-year. That would imply you're a down December. Can you talk about what you're seeing in the December quarter that's weakening, or can you clarify that 15% year-over-year comment?

**Gianluca Romano**

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

A

Yeah, I said, at least 15%, so I don't think it implies really a decrease in the December quarter would be probably fairly close. I would say, the seasonality that is expected is more into the March and June quarter, as it was the case in the last few years. We have exception, in fiscal 2021, we think, in general, because this mix of mass capacities continue to improve. This is an idea – we'll be more muted in the future, maybe in this calendar year. But there's a little bit less visibility for us when we go into the March and June quarter.

**Thomas O'Malley**

*Analyst, Barclays Capital, Inc.*

Q

That's helpful. And then my follow-up is around nearline. I know that you guys don't like talk about share, but clearly, you've been in a really nice leadership position here. Can you talk about that leadership position? And how you feel like you're maintaining that lead in? For the remainder of the year, do you think that from a competitive perspective, you're going to see any change in that market? Thank you.

---

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Yeah. Thanks, Tom. We actually – well, we don't manage for market share. We've been talking about that for quite some time. We were very happy with this platform 16s, going to 18s, going to 20s and going beyond as well. And obviously, that's allowed us to be very flexible. And so, when people come in for a few more units, they want to swap something in their plan. They want to get that upside. We can actually get it done out of the factories. And that's probably the biggest reason for why we've done really well. And I think that back on the 16s, we have that leadership just in total capacity available.

As far as I'm concerned, we're executing the plan. So, while talking to customers, we tell them, what do you need? We plan that way in advance. We talked about just last quarter that if you want an 18 in December, you better tell me now. Because I'm starting the units for it now. And that is, I think, really resonating with customers right now. We can be predictable like this. So, that's the way we're planning the business, and we're fairly happy with the portfolio.

Again, not driving really for market share or anything like that. And I think that's how our customers are managing us as well, which is be predictable for me. And because these are massive investments that they have to make as well, so they need to know that the product's coming.

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**Thomas O'Malley**

*Analyst, Barclays Capital, Inc.*

Q

Thank you.

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**Operator:** Your next question comes from the line of Steven Fox of Fox Advisor LLC (sic) [Fox Advisors, LLC].

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**Steven B. Fox**

*Analyst, Fox Advisors LLC*

Q

So, thanks. Good morning. Just a follow-up on those last comments, Dave. Can you maybe talk about, with now, basically supply/demand balance, how you engaged differently with some of those customers? What would be the sort of incrementals that get you to add capacity going forward? And then, I had a follow-up.

---

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Yeah. I'll tell you, it's kind of more of the same really because if you think about it, if you were buying 16s before, and then you want to ramp to 18s or 20s, we're still having the same discussion, it's just a little bit different – they are different drive. And we're confident in our yields and throughput, and our ability to go hit those high volumes.

There's not much legacy business to take heads and media out of any more, to your point. But there's still, I said, well over 100 million heads per quarter to be able to do swaps in. The issue is just lead time. So, if the swaps are in the last two or three weeks of the quarter, there's no way, right? That's what's changing, I think, in the market.

I don't think we'll go back into a point to where we put over-capacity into that. I think we get into the stay inside of our financial model. We'll invest in the CapEx that we see for the demand. And then maybe as the demand goes even bigger, then we can up our investment. We can do that one tool at a time. We don't need to do it with the massive swings, I think.

**Steven B. Fox***Analyst, Fox Advisors LLC*

Q

That's helpful. And then just secondly, on the Lyve platform. It sounds like you're getting some more technology validation or at least proceeding like you expected to, is it changing any of your thinking for 2022 in terms of the non-HDD business? Thanks.

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

A

No, I don't think so, but the non-HDD business did grow as we talked about in the prepared remarks, so fairly happy with the breadth of our portfolio and how it's growing.

Relative to the Lyve business, the market is clearly out there, there are people who are struggling with the data that they have on the edge. Being able to move that into the cloud, find those temporary resting spots like we've talked about a lot of with Lyve, such that they can move it to its final destination into some cloud service provider or multiple cloud service provider's instances.

So, we are – I'm really encouraged by all the customer engagements that we have. We have to learn to serve this market really well, and then it will grow. So, I'm really pleased with what I see. And I hope to share that at some point in future with everyone.

**Steven B. Fox***Analyst, Fox Advisors LLC*

Q

Great. Thanks so much.

**Operator:** Your next question comes from the line of Ananda Baruah with Loop Capital.

**Ananda Baruah***Analyst, Loop Capital Markets LLC*

Q

Hey, Good morning, guys; or good afternoon to you guys. Thanks for taking the questions. Hey, Dave, how would you sort of describe your thoughts around the length of this hyperscale cycle at this point? And I guess what's sort of the personality of it is well? And I have a quick follow-up.

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

A

Yeah. Thanks, Ananda. It's interesting because I think the front end of this cycle, if you will, was not really about adding too much of mass capacity. It was more about just all the digital transformation that's going on during the pandemic. So, it was networking, and it was compute and was making sure the applications can run with much, much heavier workloads than they were necessarily designed for or that were contemplated six months earlier. I mean, it was tremendous stress on people.

It's been our thesis that the storage back-end to that will come, and it will come bigger. And I would say that even the signal that we've seen that's fairly steady growth of the cloud, I still think it's going to grow even bigger. So, it's a very different cycle, to your point.

It's not a matter of putting on excess capacity, I mean, learning some kind of way to use that capacity better out of the market. I think it's a matter of making sure you focus all your investment dollars on those applications, satisfying everyone on the front end, usually from performance perspective. And then the data will grow in the back of the cloud. It's clearly going to grow from here. So, we're very excited about that, making sure we our portfolio as clean as we can by the time that the really big numbers come.

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**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

And how do you want us to think about it as we get into sort of the March, June quarter? Typically the brakes would come up a little bit. Is that the appropriate way to think about it at this time?

---

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Yeah, we said that there would be a more muted seasonality than normal, right, because we're not in the PC business or the legacy business anymore. Now, the cloud's a lot more steady. But, we'll let you know. I mean, if we start to see more recovery around the world then the cycle will – then the next cycle will be pulled in exactly to your point, right.

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**Ananda Baruah**

*Analyst, Loop Capital Markets LLC*

Q

Got it. That's helpful, and then just real quick. On the capacity, you guys are saying supply/demand – and Gianluca, feel free to jump in here as well, supply/demand balance. But are you full capacity right now? I mean, what's the right way in sort of the traditional capacity vernacular to think about where you guys are in terms of [indiscernible] (00:46:58)?

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**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Yeah. Thanks. Much more full than we were. But last year was painful in July, of course. But I would say, no, we're not full, and we can still do more. We can certainly still do more exabytes. I think the more we have to do, the more predictable we need it to be.

In this last quarter, we were actually challenged operationally to make a lot of these swaps because we saw upsides in many markets and we were moving materials from one market to another. Over the long haul, we can do more exabytes right now, but it has to be even long – more long-term predictability, I think, in order to achieve the exabytes. And we're very excited about it and we're telling everyone that's the way we were thinking about it.

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**Gianluca Romano**

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

A

Yeah. Last quarter we shipped a record of 152 exabytes. So, we are still growing. So, this means we have capacity. Some capacity still available based on our guidance. So, you can expect another increase in exabytes in FQ1. And as we discussed before, we are still planning to add some CapEx or some capacity through the year.

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

A

And as we ramp to 18s and 20s and things like that, we'll get more exabytes out, obviously, than the existing head/media footprint that we have.

**Ananda Baruah***Analyst, Loop Capital Markets LLC*

Q

That's helpful. That's great. Thanks a lot guys.

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

A

Thanks.

**Operator:** Your next question comes from the line of Mehdi Hosseini with SIG.

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

A

Mehdi, can you hear us?

**Operator:** Mehdi, your line is open.

Q

Hey. It's [ph] Tyler (00:48:33) on for Mehdi. Our question was answered. Thank you.

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

A

Thanks, [ph] Tyler (00:48:37).

**Operator:** Okay. Your next question comes from the line of Kevin Cassidy with Rosenblatt Securities.

**Kevin Cassidy***Analyst, Rosenblatt Securities, Inc.*

Q

Yeah. Thanks for taking my question. Just around your discussions with your customers. Are your long-term agreements being extended, or are you adding more long-term agreements? Maybe just can you give us an idea of what visibility your customer is giving?

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

A

Yeah, I think, the discussion around how things are going to go six months and nine months out just are continuing, and it's really good. I think everybody wants a certain amount of predictability right now. We certainly do, because we've got factories to run, parts to bring online and things like that. A lot of supply chains are tight. And so people want to make sure that if they're going to invest in those supply chains, they're going to have a full

kit together. So, I think the entire industry is behaving quite well for this perspective right now. It's helping us to quite a bit plan our business, Kevin.

**Kevin Cassidy***Analyst, Rosenblatt Securities, Inc.*

Q

Okay. Great. And maybe just as the comparison of hyperscale to enterprise. Is enterprise coming back stronger; or maybe just relative to hyperscale, how is it performing?

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

A

Yeah, we debate that a lot. And I would say, it's 50/50. It's always been kind of a toss-up. And sometimes, one races ahead of the other. Right now, as we said in the prepared remarks, there's clearly still growth in the cloud. And then as people are coming back on-prem, they're realizing the investments that they want to make, that perhaps they hadn't made six, or nine months ago, so they're continuing those investments. And so, I would say, there's growth in both. And it's not enough to knock it off the 50/50 split right now.

**Kevin Cassidy***Analyst, Rosenblatt Securities, Inc.*

Q

Thank you.

**Operator:** Your next question comes from the line of Aaron Rakers with Wells Fargo.

**Aaron Rakers***Analyst, Wells Fargo Securities LLC*

Q

Yeah. Thanks for taking the questions. Congratulations on the quarter as well. I'm just curious. Kind of a – first of all kind of a pointed question. Do you still think that your nearline capacity shift, underpinning your fiscal 2022 expectations would still going to grow in that 30% to 35% annual range?

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

A

Yeah, Aaron, we do. It's like I answered Kevin's question. Two years ago, it was at 80%. So, 35% last year was a little less. But we think 35% is a good model right now. This into – the wildcard on the upside, of course, is if we get a little bit more cloud six months, nine months from now, and we'll wait and see, we have capacity for it, but – then that'll be – and we actually are going to build the parts I think anyways for that.

So, I think, this 35% is a good number to model this year. It could – and Ananda asked this question, if the next cycle was actually pulled in a little bit, then it would grow pretty fast, because we have 18s and 20s coming. Those are [indiscernible] (00:51:51).

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

A

We have full visibility on the next two quarters. So, to now give you exactly the growth for the entire year will be difficult. But as a model for the long-term, we think that 35% CAGR is very valid.

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

A

And it's all the same in the media part, I guess, is the point, so we can be flexible.

**Aaron Rakers**

*Analyst, Wells Fargo Securities LLC*

Q

Right. Great. And then the follow-up question is, Gianluca, when you talk about the model and we now talk about 30% to 33% gross margin and confidence around that. I'm curious of how you're thinking about operating expense investments.

You talked about OpEx remaining kind of at similar levels these next couple of quarters. But if we start – should we start thinking about that you'd let that drop through above that, and driving above 20% operating margin; or would you start to reinvest that in cap op margin at that long-term high end of the target model?

**Gianluca Romano**

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

A

Yeah, for the OpEx, we think the level of FQ4, we can maintain that level through the fiscal 2022. We are now started travelling more, but are a little bit more marketing expenses. The performance is very good. So comparing to maybe prior year, we will set it a bit higher, variable compensation. But at this level, we can keep it between \$340 million, \$345 million per quarter, I think we can do it.

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

But if we were to outstrip, I think, Aaron, the top of the end of the range, then we'd look at investment, because we have a number of different markets that are growing well right now. So, we'd look at what investments we have to make. I think, we've said this. We said this in the script, actually. We have a lot of flexibility inside of the \$340 million to \$350 million range, so that's – the first thing we would do is redeploy people inside of that, that we can still tolerate a little bit more investment if you grew up north of the top end of the range.

**Gianluca Romano**

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

A

Operating margin is already 18% right now. So, when you model the existing revenue and business of all things, and the gross margin you were mentioning before, you will see very good result in term of operating margin.

**Aaron Rakers**

*Analyst, Wells Fargo Securities LLC*

Q

Thank you very much.

**Gianluca Romano**

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

A

Thank you.

**Operator:** Your next question comes from the line of Patrick Ho with Stifel.

**Patrick J. Ho**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Thank you very much, and congrats on the nice quarter. Dave, maybe first off, in terms of the ramp of your 18-terabyte drives. Can you just give a little color on when you expect to see the crossover from 16 to 18, where you're shipping more exabytes from the 18-terabyte ramp?

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Yeah I don't think we've formally looked at it that way, or at least I don't have an answer. But I think it's pretty soon; it's in the next few quarters. From my perspective, it's the same product family. So, the heads and media are already in the pipeline. And some customers are asking for 16s. Some customers are asking for 18s. But I think it's very soon.

And then, same heads and media, will take it up to 20 terabytes on a PMR platform that we talked about. So, we may actually spend some of those heads and discs on 20s as well, for instance. But I do think we're growing significantly far north of 16 very, very soon.

**Patrick J. Ho**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Great. That's sounds helpful. And maybe as a follow-up, for you, Gianluca or Dave. In terms of the Lyve platform, obviously, we've seen now the rollout of several product iterations from that family. As it relates to OpEx, is a lot of that R&D spending done, or are you continuing to invest in Lyve, where we'll see future product introductions? Is that part of the, I guess, help in terms of maintaining OpEx at current levels?

**Gianluca Romano**

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

A

Yes, it's is part of the OpEx guidance we discussed before. And we are investing more in Lyve. And we think this is a bigger part of our future business. We are very positive on the possible outcome from that business, so we would invest. But we will stay around that level of OpEx that we discussed before.

**Patrick J. Ho**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Great. Thank you.

**Gianluca Romano**

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

A

Thank you.

**Operator:** And our last question will come from the line of Shannon Cross with Cross Research.

**Shannon S. Cross**

*Analyst, Cross Research LLC*

Q

Hi. Thank you very much. I was just wondering, can you talk about the materiality of the dual-actuator drives. It looks like you've extended access to certain other customers recently. And I'm just wondering how we should think about it in terms of ASP and benefit as we look forward? And then, I have a follow-up? Thank you.

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Hi, Shannon. It's growing quite nicely actually, growing volume in the factories. And it's not a small-volume product anymore. It's becoming a large-volume product. We'll be talking about it more and more over the quarters. This is a 14-terabyte drive right now. So, people are making trades for 18-terabytes. They may want to go to single actuator. But this is very specific to a few applications out in the cloud world that people need the dual-actuator already.

Remember, fundamentally, we believe that by the time you get to 30 or 40 terabytes, you can't have all that behind one actuator, you need to have dual actuator, at least. And we have to solve all the power problems and all the interface problems with our customers, and things like that to make that happen.

So, we're quite excited about getting learning on the technology, the fact that we have a platform, continuing in development, parallel drives that as we launch a new high capacity drive, we have the same capacity points on dual actuator.

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**Shannon S. Cross**

*Analyst, Cross Research LLC*

Q

Okay. Thanks. And then just a clarification. I think during the script, you mentioned strength in high-end desktops. And I'm not sure if you're mentioning – if that includes gaming, but I'm wondering, are you seeing benefit from customers coming back to the office and needing to refresh desktops that perhaps are 18-month old now at this point in time? Thank you.

---

**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Yeah, I wouldn't say, desktop is PC anymore. There is gaming that's happening. But I would say more distribution channel around things like crypto applications and things like that. There are people who are looking just for the absolutely lowest-cost per terabyte that they could find. And so that's one of the reasons why the average drive capacity is mixing up. It's going from two terabytes to four terabytes. And last quarter we were over five terabytes. And I expect that trend will continue. So it's happening certainly in consumer channels and things like that.

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**Shannon S. Cross**

*Analyst, Cross Research LLC*

Q

Okay. Great. Thanks for the clarification.

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**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

A

Thanks, Shannon.

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**Operator:** And at this time, I'll turn the call back over to management for closing remarks.

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**William David Mosley**

*Chief Executive Officer & Director, Seagate Technology Holdings Plc*

Okay. Thanks, Tabitha. Seagate's delivering strong performance, demonstrating financial results consistent with our long-term targets and executing our product and technology roadmap to capture long-term secular growth opportunities for mass data infrastructure.

I will close by expressing my appreciation for our customers, suppliers, our employees and our shareholders for your ongoing support of Seagate. Thanks, again, for joining us today.

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**Operator:** Thank you ladies and gentlemen. That concludes today's conference call. You may now disconnect.

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