22-Oct-2021

Seagate Technology Holdings Plc (STX)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Seagate Technology's Fiscal First Quarter 2022 Financial Results Conference Call. My name is Julienne 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.

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

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 fiscal 2022 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 or cannot be reasonably predicted, therefore a 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, including our December 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, and should not be relied upon as of any subsequent date. 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 Investors section of our website. As always, following our prepared remarks, we'll open the call for questions.

Let me turn the call over to Dave for opening remarks.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Thank you, Shanye, and hello to everyone joining us on today's call. Seagate had an outstanding start to fiscal 2022, underscored by our September quarter results. Revenue of $3.1 billion was spot on with our expectations, and reflects robust growth of 35% year-over-year and 3% above a very strong June quarter. Non-GAAP gross

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margin expanded to 31%, well inside of our multiyear target range; and non-GAAP operating margin increased to 20.1%, the company's highest level in nearly a decade.

Overall, our results reflect record demand for our industry-leading mass capacity products and solid execution on cost reduction plans and our ongoing focus of balancing supply with demand. We are confident in our ability to deliver excellent results for the fiscal year. And based on our current view, we are raising our fiscal 2022 revenue growth outlook from the high-single-digit percentage range to the low-double-digit range. Further, reflecting on our long-term confidence in the business, I'm delighted to announce that our board has once again approved an increase to the quarterly dividend by 4.5%.

I've been very proud of our teams ability to post consistent financial results through an industry environment that remains very dynamic. We are seeing a confluence of factors creating inflationary pressures and acute supply chain disruption. These include semiconductor component shortages and freight logistics challenges that are creating cost pressures, and are impacting critical end product assemblies for certain customers. Notwithstanding these obstacles, underlying demand remains solid for Seagate's products, particularly in the mass capacity market, which is why we maintain a high level of confidence in our fiscal year growth outlook.

Revenue from the mass capacity markets exceeded $2 billion for the first time, reflecting broad-based growth across each of the end markets. The cloud is the strongest contributor to the mass capacity markets and Seagate's revenue growth. Ongoing investments to build and equip new data centers have translated into stable, healthy demand for multiple quarters now, and we expect this trend to continue.

Over the past five years, the number of hyperscale data centers has more than doubled to nearly 600 worldwide, with approximately 200 more on the way. Many of these planned data centers are being built by large cloud customers, but the timing of their investments and infrastructure build-out is not synchronized, which supports a more stable long-term growth outlook for hyperscale investment.

Seagate's high capacity drives are essential to the world's largest data centers. We have very close relationships with our cloud customers to ensure our manufacturing and technology roadmaps continue to enable their investment plans and performance requirements at a favorable total cost of ownership.

In the enterprise and OEM markets, we achieved a fourth consecutive quarter of sales growth, supported by increasing IT hardware spending. Over the near term, the broader supply constraints that I've highlighted may delay some of our customers' new product builds due to non-HDD shortages. However, based on customer conversations, we believe any pause would be temporary until shortages are alleviated.

Demand for video and image applications increased significantly during the quarter, supported in part by a broadening of use cases that extend beyond traditional security and surveillance application. The combination of high-definition cameras and data analytics enabling productivity gains, cost savings, and revenue generation opportunities are actually driving adoption by a wide range of industries, including retail, manufacturing, and healthcare. High capacity HDDs play a crucial role in helping businesses economically manage and extract value from an ever-increasing growth in data across a more distributed enterprise.

Without question, the HDD industry has been driven by long-term secular demand for mass capacity storage, a market that we expect to more than double by calendar 2026 to $26 billion; and Seagate is well equipped to answer the call. We continue to leverage our strong arsenal of innovative technologies, manufacturing agility, and industry expertise to deliver attractive total cost of ownership solutions aligned with our customer's roadmap.

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Our common platform approach illustrates these points well. We have been able to seamlessly transition from 16-terabyte to 18-terabyte drives, and are now offering multiple varieties of 20-terabyte drives to meet the breadth of customer demand. We began ramping 20-terabyte products in the September quarter, and I'm thrilled with the strong customer interest. I'm equally excited by customer reception for our MACH.2 dual actuator drives, which are now shipping at large scale.

As we were anticipating a few months ago, we are seeing greater adoption of our MACH.2 drives for core and edge applications that benefit from the read and write performance gains that we deliver with these products. We expect dual actuator products to become more mainstream as capacities increase beyond 30 terabytes to support both cost and performance requirements. I'm also confident in achieving 30-terabyte capacities and beyond.

We continue to execute our research and development roadmaps and have recently achieved great HAMR test results in staging areal density growth that supports future product launches. Based on these demonstrations, our product development plans are on track, but our product introduction strategy has not changed. We will leverage HAMR's areal density gains to offer customers step function capacity increases that deliver a strong TCO proposition and enhance value for both our customers and Seagate.

Our focus on total customer experience is top-of-mind for the Lyve Cloud business. Our simple, secure, and cost-efficient mass data storages and service platform is resonating well among customers, particularly for backup solution. Today, Lyve Cloud is certified with majority of the vendors identified by Gartner's Magic Quadrant Leaders for enterprise backup and recovery software.

This quarter, we announced a multiyear deal with leading video communications provider. I am excited by this partnership and recognize the trust all our Lyve customers are placing in Seagate. We will continue to be deliberate in scaling infrastructure and developing an ecosystem to ensure that we delight our customers.

Wrapping up, Seagate continues to deliver consistent financial results underpinned by strong operational discipline, focus on profitability, and growing demand for mass capacity storage. We believe these trends reflect the healthy structural changes that have taken place in the industry in recent years. Seagate is poised to benefit with our technology leadership position and strong track record of execution.

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

Gianluca Romano

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

Thank you, Dave. Our September quarter results highlights solid growth across nearly all financial metrics and demonstrates Seagate's disciplined execution and ongoing focus on driving profitability and free cash flow generation.

Revenue was $3.12 billion, up 3% sequentially. Non-GAAP operating margin expanded to 20.1% of revenue, up 200 basis points quarter-over-quarter. And non-GAAP EPS was $2.35, up 18% sequentially and at the high end of our guidance range.

We grew total hard disk drive revenue to $2.9 billion, up 5% sequentially and 34% year-over-year. HDD capacity shipment increased 4% sequentially to 159 exabyte, up 39% relative to the prior year period. Growth was driven by increasing demands for our mass capacity products which contributed 71% of total HDD revenue and 83% of HDD exabyte shipment.

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Revenue from the mass capacity market increased to $2 billion, supported by growth across each of the underlying end markets, which include nearline, VIA, and NAS products. Mass capacity revenue was up 8% sequentially and up 51% compared with the prior year period, while capacity shipment into this market were up 7% sequentially and 53% year-over-year. Based on our current outlook, we expect mass capacity exabyte shipment to remain strong in the December quarter, with calendar year 2021 annual growth slightly above our long-term CAGR forecast of about 35%.

In the September quarter, nearline revenue demand was driven by improving enterprise spending and healthy growth from cloud data center customers. Nearline shipment total 106 exabyte, up 5% sequentially and 65% year-on-year, reflecting demand for our high capacity drives, strong growth for dual actuator drives, and ongoing market momentum for our common platform products, spanning 16-terabyte through 20-terabyte drive. Robust demand in the VIA market led to sequential revenue growth that was above the average for the mass capacity market, and we expect solid demand to continue in the December quarter.

The legacy markets made up the remaining 29% of HDD revenue holding relatively stable at $831 million, down 3% sequentially and up 5% year-over-year. Improving enterprise demand boosted sales for mission critical drives, which partially offset the decline in consumer drives, following a strong June quarter. We are starting to see a moderation in the pace of annual revenue decline, following the significant market disruption brought on by the pandemic. While we could see some fluctuations in a given quarter, we believe the most pronounced impact are behind us.

Finally, turning to our non-HDD business, revenue came in at $251 million, down 9% sequentially of record June quarter level. Our system business have been partially impacted by some of the supply constraint that Dave discussed. We are working closely with our suppliers to mitigate risk and we continue to gain new customer wins to support longer-term growth in the business.

Overall, strong demand trends combined with positive industry dynamics led to a non-GAAP gross profit of $966 million in the September quarter, up 8% sequentially and 57% year-over-year. Costs relating to freight and logistics are continuing to increment higher. While we will continue to take steps to reduce the impact of this cost, we believe that will remain a headwind to the business through the fiscal year.

Our resulting non-GAAP gross margin expanded by about 140 basis points to 31%, well inside our long-term target range of 30% to 33% including higher freight and logistic cost and component prices. HDD margins are now in the upper half of the range, reflecting better alignment in supply and demand, and the transition to higher capacity drives. We anticipate continued [ph] solid (00:14:25) gross margin performance with the opportunity to increment higher as we ramp our cost optimized product. Additionally, as COVID cost headwinds abate, we would expect margin to expand into the upper half of our target range over time.

Non-GAAP operating expenses decreased to $339 million, reflecting certain one-time saving. Disciplined expense management combined with higher revenue and margin expansion resulted in non-GAAP operating income of $627 million, up 15% sequentially and more than doubled the year-ago period. Non-GAAP operating margin expanded to 20.1% which is at top end of our long-term target range of 15% to 20% of revenue. Importantly, the September performance demonstrated our ability to grow profits faster than revenue, supporting our strategy of long-term value creation.

Based on diluted share count of approximately 231 million share, non-GAAP EPS for September quarter was $2.35, the highest level in close to a decade. While the inventory is relatively flat with days inventory outstanding at 50 days. We are working with suppliers and managing strategic inventory levels to mitigate the risk to the

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business while we continue to monitor this dynamic situation. Capital expenditures were $117 million for the quarter. We currently expect fiscal year CapEx to be at the low end of our long-term target range of 4% to 6% of revenue, which is sufficient to support our future product roadmap while maintaining expense discipline.

Free cash flow generation increased to $379 million, up 7% quarter-over-quarter and more than doubled year-over-year. We delivered strong performance in the September quarter and expect to improve free cash flow generation through the fiscal year, enabling us to fund our growth opportunity and return capital to our shareholders. We used $153 million to fund the quarterly dividend and $425 million to repurchase 4.9 million ordinary shares, exiting the quarter with 225 million shares outstanding and approximately $3.8 billion remaining in our authorization.

As Dave mentioned earlier, the board approved a $0.03 increase to our quarterly dividend raising the quarterly payout to $0.70 per share. We ended the September quarter with cash and cash equivalents of nearly $1 billion; and total liquidity was approximately $2.7 billion, including our revolving credit facility. Adjusted EBITDA was $724 million for the quarter, and $2.4 billion for the 12 month-period ending in September.

Total debt balance at the end of the quarter was $5.1 billion with a leverage ratio of 2.2 times. In early October, we took advantage of the current attractive market environment to raise $725 million in capital through a new $600-million 6-year term loan; and upsized our existing term loan due in fiscal 2026. These actions are consistent with our growing business and provides opportunity to repay $230 million in debt coming due in March. We reduced our average interest rate by 25 basis points and expect interest expenses for the December quarter to be approximately $66 million.

Looking ahead to our outlook for the December quarter, we anticipate a continuation of the strong demand environment that we experienced in the September quarter. We expect revenue to be in a range of $3.1 billion, plus or minus $150 million. We expect non-GAAP operating margin to remain around the top end of our long-term range of 15% to 20% of revenue; and we expect non-GAAP EPS to be in the range of $2.35, plus or minus $0.15.

In summary, we had an outstanding September quarter placing us on solid footing to deliver a strong top and bottom line growth in calendar year 2021, as well as fiscal 2022.

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. Fiscal 2022 is off to a tremendous start and I feel positive about the current healthy demand environment which is reflected in our increased revenue growth outlook for the fiscal year. I'm equally bullish on Seagate's longer-term growth opportunities, supported by secular demand for mass capacity storage.

Our mass capacity innovation roadmap puts Seagate in excellent position to thrive in this environment and continue to deliver revenue growth beyond fiscal 2022, in line with our long-term target of 3% to 6%. We are in the right place with the right technology and innovative customers with whom we are partnering closely to enable their roadmaps. Further, our robust capital returns program, including today's dividend increase, round out what we believe is a compelling investment story.

With the UN Climate Change Conference scheduled to begin in less than two weeks, I wanted to highlight Seagate's commitment to ESG. Starting in fiscal 2022, we have incorporated sustainability into our executives'

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long-term compensation plans, based on the achievement of specific quantitative environmental and social targets.

Our environmental goal is linked with established plans to reduce the company's carbon footprint in support of achieving our science-based targets, from harnessing renewals at our California and Northern Ireland campuses to installing solar capacity at our facilities in Thailand, Seagate continues to put our commitment to the planet into action.

We have also incorporated an executive compensation goal to increase gender diversity in the leadership as we strive to cultivate a more diverse, equitable, and inclusive workplace. For the third consecutive year, Seagate is among Best Companies for Women, according to social media platform Fairygodboss; as well as one of the Best Places to Work for LGBTQ+ Equality by The Human Rights Campaign.

In closing, I'd like to thank the Seagate team for their tireless efforts, our customers and suppliers for their continued support, and our shareholders for placing their trust in Seagate. Gianluca and I are now happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question will come from Karl Ackerman from Cowen & Company. Please go ahead. Your line is open.

Karl Ackerman
Analyst, Cowen & Co. LLC

Q

Yes, thank you. I have two questions, please, one for Dave and one for Gianluca. Dave, it's great to see that over two-thirds of your business has now transitioned away from consumer toward enterprise, as you know, which tends to be higher margin, [ph] get (00:21:58) influenced by data center CapEx. There have been some recent concern by investors that cloud spending will moderate after being robust the last six quarters. So, I was hoping you could discuss how you see the demand trajectory playing out for nearline both in the December quarter and also into the second half on your fiscal 2022? Thank you.

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

A

Yeah. Thanks for the question, Karl. And I think you – if you have another one, you could pull up with Gianluca as well.

Karl Ackerman
Analyst, Cowen & Co. LLC

Q

Sure, [indiscernible] (00:22:34)...

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

A

The way I look at it – oh, sorry, go ahead.

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Karl Ackerman
Analyst, Cowen & Co. LLC

Q

Sorry. I was going to say, and for second one then, Dave, the improvement in your profitability has been impressive. In our own [indiscernible] (00:22:46), you have been successful in passing along these rising input costs. Some investors have been saying that margins might moderate as the enterprise is also moderating, but I was hoping you might discuss why that might not be the case [ph] for (00:22:59) some high capacity offerings and what initiatives you have at your disposal to support profitability regardless of demand? Thank you.

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

A

Okay, good. Yeah, thanks. So, Gianluca will catch that. Relative to cloud, the demand's been steady now since the beginning of calendar 2020. So, as we talked about in the prepared remarks, there's a broadening of the customer's base, not just a few hyperscalers, that's actually benefiting us tremendously, as well as the transition – the product transitions that we've talked about for higher and higher capacity points which have better TCO proposition for the end customer as well.

I think these macro trends, whether it's digitization, AI, multi-cloud, the move to the cloud, were all accelerated tremendously during the pandemic, work-from-home and all the other things that caused people to push into the cloud. Not all these cloud customers are all synced up but we think the demand picture right now is an aggregate of all of that behavior. And we, at the same time, have had longer product cycles so we have great visibility. We have strategic long-term agreements.

We're showing people what we can do two, three, four quarters out; and then we're asking them what exactly they need. And I think the economics play is happening now well that way, and I think that's why we're seeing the kind of stabilization that we are and why we can reinforce the fact that the back half of this fiscal year and even into the next fiscal year, we'll continue to see exabyte growth and we'll be able to turn that into revenue. Gianluca, you want to kind of add...?

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

A

Yeah. On the profitability question, I would say, we are executing well on our plan. We discussed few quarters ago how we could improve our profitability quarter after quarter. Even in the last quarter, we improved our gross margin by 140 basis points and we are at the top of the operating margin range. So, we are happy with the performance but of course we are always looking at opportunity for improvement.

As we were saying in the prepared remarks, there are some costs that are increasing and we are looking it to that, how to moderate that impact and continue to improve our gross margin and operating margin in the next few quarters. So, we are positive that we'll continue that trajectory, and demand is strong so – which is helping. Now, when we have a good alignment between supply and demand, then usually we come out with a good profitability. So, we are happy with the situation.

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

A

Thanks, Karl.

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Operator: Your next question comes from Wamsi Mohan from Bank of America. Please go ahead. Your line is open.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Yes, thank you. Congrats on the strong results and outlook. I had two as well. You're returning cash well above 100% of free cash flow and you just raised your dividend as well. I know you spoke about the very strong capital return program at your Analyst Day earlier. Just wondering, as you are thinking about the outlook here, anything that has changed in the market that – from a pricing or demand standpoint that is sort of bolstering that confidence? And secondly, last night, Intel spoke about China cloud slowdown, given regulatory pressures over there. Are you seeing any of that and is that contemplated in your raised fiscal year guide? Thank you.

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

A

Thanks, Wamsi. I think it's part and parcel with Karl's question. There's both of the – your questions kind of tie back to that same visibility that we have. So, yes, we do have a longstanding track record of returning cash to shareholders and we remain committed to the dividend. As a matter of fact, we upped for the first time – or for the third time in a row, third year in a row. That is really confidence in the long-term free cash flow generation, and that gets then to our – like Gianluca was just saying, our balancing supply and demand against the growth of data that's out there in the world.

So, we'll continue to be opportunistic on share buybacks. And you look at the track record over the last 10 years or the last 10 quarters of the company, you can see who we are relative to returns. We continue to budget, so we'll look at investing in ourselves, we'll focus on optimizing the use of our capital to generate the best value we can over the long-term. And we've been pretty good stewards of cash even on the tough times that happened in the pandemic, so I'm pretty confident in that.

Relative to the China and the cloud slow down, I would say there's a couple of things. We have good customer relationships and, therefore, we get out in front of the 16s and 18s and 10 – 20 terabytes that they're going to need, and that's the same kind of question that Karl asked. I think also that, the way I see it is, not all infrastructure investment that people are making sync up necessarily when it comes to memory and compute and networking and storage. And so, you may make one type of investment for a while and then pivot to another type of investment against the overall strong investment thesis that's going on in the cloud.

So, I think that that maybe – may explain why certain people see different things over the next two or three quarters. And we don't really – we don't see any inventory build up substantial. We see that people, when they need the disk drives to actually populate the data centers and get those – that mass capacity storage online, we see that trend going far out and the customers being very predictable in it. So, that kind of explains our confidence. We don't really see the slowdown in exabyte growth at all.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Things, Dave.

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

A

Yeah. Thanks, Wamsi.

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

A

Do you have a follow-up Wamsi? Okay, operator, go ahead.

Operator: Your next question comes from Timothy Arcuri from UBS. Please go ahead. Your line is open.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Hi. Thanks a lot. I had a question about CapEx discipline and supply/demand balance. There's been a lot of structural changes in the industry that seem like they could be pretty significant longer-term margin tailwinds, in some ways maybe similar to what's happened in DRAM. And I guess my question is, as we sort of enter a new cycle of CapEx, how do you ensure CapEx discipline and how do you think about that in the context of overall supply/demand balance? I mean, the old axiom is that it only takes one supplier to sort to tip the apple cart. So, I'm wondering if you could talk about CapEx discipline? Thanks.

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

A

Yeah. Thanks, Tim. I mean, it is good to reflect back on where we've come from. So, if I look at the peak of client-server, the drive types that we were making typically had one disk and two heads in them there – and there were a lot of those drives from our factories. We're very focused on flexibility, back-end capacity for notebook drives, for example, now that we have mass capacity drives that have a lot of discs and a lot of heads in them.

So, that's much more like a semiconductor process. I mean, the – there's significant differences in the processes themselves, but the lead times for wafer were quite long, quite specialized for us; and that's where a lot of the CapEx is actually being deployed now. That pivot has happened over the last 10 years. We're now fully enjoying as we – as you can see from our numbers in heads and media investment land not in drive, not having overcapacity for drive anymore. So, kind of interesting how we've made that pivot.

We talked about the strong secular demand for mass capacity storage going all the way through 2026. It'll keep going after that, of course, but we point – we tag the TAM at $26 billion five years from now. We are trying to balance supply and demand against that. And I think, exactly to your question, the governors are the lead times for wafer and also the lead times for the capital equipment to actually increase. And so, as long as we continue to make those smart investments, we should be able to keep supply and demand in balance.

And that – you could read that as a form of our CapEx discipline. Obviously, if we see, for example, on the HAMR transition we want to accelerate it all, we can invest a little bit more. We have a lot of cash to be able to do that, but we'll continue to really watch that supply and demand balance well, and deploy like that. And we're working a lot with the customers on their specific needs, that's why I talked about the LTAs when Karl asked his question. So, we know what roughly the build-outs are going to happen over time, so we can do that very judiciously.

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

A

Yeah, Tim, on the CapEx, we have a guidance range of 4% to 6% of revenue. We have also said that, for this year, we will be probably in the low part of that range, we are very happy with the supply and demand alignment at this point and the utilization of our factories; and of course, we want to keep this good alignment for the future.

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Timothy Arcuri
Analyst, UBS Securities LLC

Q

Thanks a lot. I guess, as my follow-up, can you talk about channel inventory? Where does channel stand at this point and did your pricing in your mass capacity segment, did that benefit at all from channel refill in the third quarter, calendar third quarter? Thanks.

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

A

I think, simply put, the answer is no. We have multiple channels, of course, I'd – in this case, we're talking about distribution channel largely for legacy products. There's some small channel for mass capacity, but I think a lot of people are focused on legacy products. And – but we love those legacy products, we love the customers, we're not really investing there. And so, we make sure that we keep those channel inventories properly balanced. And the swings that we might have seen, say, two quarters ago due to cryptocurrency or something like that, that re-equilibrated very, very quickly and it doesn't impact the mass capacity channels at all, so.

From my perspective, all the inventory levels that we have are quite good. From – inside Seagate, our inventory actually went down quite a bit and that's a function of kind of how tough it is to manage supply and demand right now because the end customers are having trouble getting the right parts. And what we want to make sure we do is don't push too much into some of those temporary problems that they might have as they're trying to build the final kits, right? That – it doesn't help us, I think, to your point of long-term economics and industry structure and things like that. So, we have to make sure that we balance our supply and demand even tactically really well, and I think we're doing a good job with it.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Thanks a lot.

Operator: The next question comes from Patrick Ho from Stifel. Please go ahead. Your line is open.

Patrick J Ho
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you very much and congrats on the nice quarter and outlook. Dave, maybe, first, a big picture question. It was really encouraging to hear about the efforts on the multi-actuator drives, the MACH.2. I was just wondering if you could give a little more color on the HAMR side of things? You mentioned the progress there, that continues to be on track. But can you talk about, I guess, customer discussions and when you believe the inflection point will be when customers transition over to the HAMR drives?

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

A

Yeah. Thanks for the question, Patrick. I think – I'm glad you took away the optimism. The team's definitely feeling it with the results that we have. These are not just science projects any more, this is product development, full-blown product development now. And we've talked a lot about HAMR in the past. We've built a lot of parts. We've given drives to customers. They can see how those drives will behave in their infrastructures. And we're locked in with customers, talking to them, specifically about even the recent results that we have.

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But just to be super clear, HAMR's really the pathway to get to 30 terabytes and beyond; and we're very confident about that right now and we expressed that in the prepared remarks. There's a lot of things we have to get together on. So, there, you've got the manufacturing capability. There's other parts of the recording chain that we have to make work – the readback process of HAMR's usually about writing; get the media right. HAMR enables a – HAMR actually starts from a new material set in the disk. The ability to write dense bits comes from the media technology [indiscernible] (00:36:21) we have to get all that right as well, but we're super encouraged by the results.

And I think the best way to say this – I think the industry probably hasn't done a great job of making things really clear but I think the best way to say it is that, we are feeling confident in capacity points, not only at 20TB and 22TB and 23TB and 24TB and things like that, but significantly higher than that based on what we're seeing right now, and we are working really hard to make sure we get that done, our customers know it, they've seen samples of that and we're going to continue to race to get there. I don't want to really announce any new products just yet, but we'll let you know when they come.

Patrick J Ho
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great, that's helpful. And maybe as my follow-up for Gianluca. Obviously your results highlighted strong execution and, given the supply constraints that are in the industry today, again, the results were really strong. I was just wondering, in terms of your Malaysia operations and just some of the labor constraints, are you seeing that abating right now and how did you manage through that – how did you manage through the September quarter, given that there were some issues on that front in the country itself with COVID? What efforts do you think continued to deliver the strong results you delivered in September and the outlook for December?

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

A

Yeah. I would say – no, first of all, thank you for the congratulation. I think the quarter actually came out a little bit better than how we guided at the beginning but, in term of revenues, very well aligned and the profitability is a bit better. I would say, in term of the legacy part of the business, right now, we are seeing a better trend compared to maybe a year ago, two years ago.

Of course, not all the segments are the same inside legacy. In the last quarter, sequentially, consumer was a little bit down compared to June, but June was an extraordinary quarter for the consumer business. Now, we see consumer coming back fairly strong in December but, at the same time, we see compute little bit weak. So, it's – now, it's always difficult to look in the – into all the details but, again, we're seeing better trends. And if – also, when you look at the volume, not only the revenue, we think, in the future, you will see maybe some more reduction and then a good stabilization of the business. And Dave, you want to add something?

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

A

Yeah. Patrick, just to your comment about supply chains and being disrupted, people – supply chains are all about people after all. So, making people safe, safe to come to work, safe at home, the neighborhood around. We've been working very hard on that with our employees and our suppliers and customers and, I think everyone has the right perspective on this up through the supply chain. And there have been challenges, indeed, like you said, but I think we're managing through them pretty well. I mean, people want their factories to run as well. There's – they have an economic incentive to do that, so we have all have to stay in touch with each other, treat

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each right, and make sure we're managing for the long haul certainly at the scale at which we need out of our supply chain.

Patrick J Ho
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you.

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

A

Thanks, Patrick.

Operator: Your next question comes from Katy Huberty from Morgan Stanley. Please go ahead. Your line is open.

Katy L. Huberty
Analyst, Morgan Stanley & Co. LLC

Q

Thank you. Dave, just given it's such an important driver of gross margins. Can you talk about what percentage of mass capacity is now coming from the common platform drives, and where you think that the revenue mix might exit the year, and how the margins differ for the common platform drives versus the rest of the mass capacity portfolio? Then, I have a follow-up.

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

A

Yeah. Thanks Katie. I don't know that I know the number off the top of my head actually. We – so the common platform being 16-terabyte, 18s, and 20-terabyte there are some 14s and things like that in there as well. We also have the midcap nearline drives that are very strong performers right now, and we've just done a product refresh on, which is actually going to help us as well. So, what I would say is that we continue to take cost out of the common platform, right, so that even as we transition from 18s to 20s, there are ways we can take cost out of component – new components that are in there, and we continue to amortize over the tooling set for what we've already installed so that the – all those things are serving us really well from a margin perspective.

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

A

Yes, Katy. I note, with that that 83% of the exabyte volume is in mass capacity right now and I would say the majority of that volume is from the common platform.

Katy L. Huberty
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. And Gianluca, it was three months ago you talked about gross margins improving every quarter of this year even with some expected seasonality as you go into the back half of fiscal 2022. Can you just talk about how, if at all, those assumptions have changed? Obviously, you're coming from a very impressive gross margin performance in September so you're starting from a higher base. But just any update as to whether we should be modeling gross margin improvement every quarter, and how you're thinking about revenue seasonality as you go into the March and June quarter? Thank you.

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

Yes. I would say, probably, compared to what we were discussing three months ago or six months ago, I see the COVID cost a little bit higher than what we were expecting, in particular for freight and logistics. At the same time, demand is maybe a little bit stronger so our utilization rate is really good; this is helping our unit cost to decrease quarter after quarter.

So, until we can keep this good alignment within supply and demand, I'm fairly confident we can do further improvement in the gross margin, as we were discussing. And I know every quarter is a bit different, so it's difficult to be very precise for the next few quarter, but we are confident we can do some more progress in the marginality.

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

Yeah. I think, Katy, that demand is obviously the main driver of what's happening and we see that persisting out well through the back half of this fiscal year, and even into the next fiscal year. The exabyte trends continue really well. I think, tactically, what's going on with some of the costs or freight logistics things, even if the customer said I want to do a swap in three weeks at the end of the quarter, it might be really hard to get them the product, given where we are.

But none of that's really going to contribute to any demand destruction. So, if demand is a front-end driver for us, then we think that that's the story we want. And, I guess, the other thing I would say is that we believe that, right now, that as we get out into Q3, that there's a little – some lulls at the end of the year and Chinese New Year and things we typically see that should allow some people to start rebuilding their positions in the supply chain, so that's yet another reason why we're confident.

Katy L. Huberty
Analyst, Morgan Stanley & Co. LLC
Q

Great. Thank you. Congrats on the quarter.

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

Thanks.

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

Thank you.

Operator: Your next question comes from Toshiya Hari from Goldman Sachs. Please go ahead. Your line is open.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC
Q

Hi. Good morning. Thank you for taking the question and congrats on the strong execution. I wanted to follow-up on your fiscal 2022 revenue guide. I guess, now, low double-digit growth relative to fiscal 2021. If we take that and your December quarter guide, I think it's pretty clear that, implicitly, you're assuming a down quarter sequentially

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in March and/or June. Just curious what's embedded there? Is it seasonality in your legacy business? Is it something is nearline? Conservatism, supply chain, all of the above? Any context, any color there would be helpful, and then I've got a quick follow-up.

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

A

Yeah. Thanks, Toshiya. So, I think if you go back to last quarter, it would have been seasonality and it would have been more biased towards the legacy business. Obviously, the the VIA markets are seasonal as well. And I would say, now, it's even more muted seasonality in some of the strength in the exabyte growth that we see in the cloud, particularly at the top end of the mass capacity markets. So, that kind of explains what's changed, I think, in the last three months.

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

A

Yeah. Yeah, we think the nearline is still very strong and, of course, now every quarter we will update on our visibility on the fiscal year.

Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Got it. That's helpful. And then, my follow-up is on the long-term model, guys. And I realize it is, only been, what it is, eight months since you announced the update. And I certainly wouldn't expect you to update your long-term model every six to nine months, but it does look like, from a gross margin perspective, from an operating margin perspective, gross margins, despite all the challenges, you're comfortably in that range. Operating margins, you're guiding to the second consecutive quarter of you guys being at the high end of that range. So, I guess, my question is, should we be thinking about a positive bias to what you presented earlier this year or is this as – kind of as good as it gets and we should expect some sort of normalization or reversion over the coming quarters? Thank you so much.

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

A

Thanks. Yes, we've been looking at exactly what you're talking about. I don't think we're prepared to say anything about it today. Although, I will say that it's all – it all is predicated upon supply and demand balance, and demand continues to be strong. When you look back that eight months or nine months or whatever, we were still kind of the front-end of the pandemic; there were a lot of challenges that were going on that, then, we didn't have greater visibility into. So, I think the further time marches along and we see how much data have moved to the cloud, and we see how much the edge is growing, and all these new business models and things like that, we can look at demand versus our supply picture, and then – and see whether we update those models. So, we'll keep you posted.

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

A

Yeah. I would just add that we are encouraged by the gross margin level that we generate in our mass capacity part of the business, and we need to see how this will continue to develop in the next quarters, and then in the next fiscal year. But so far, we are very confident.

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Toshiya Hari
Analyst, Goldman Sachs & Co. LLC

Q

Very helpful. Thank you.

Operator: Your next question comes from Ananda Baruah from Loop Capital. Please go ahead. Your line is open.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Hey, guys. Yes, thanks for taking the questions. I have two, if I could. I guess, the first is, Dave, you had mentioned in one of your remarks a little earlier about seeing demand sort of strength into fiscal year 2023. And so, I guess, really what I'd love to – what I think we all would love to get from you is, how are you guys thinking and how would you like us to think about sort of the context of this cycle? Does it need to fall off, like past cycles have at times, and do you see it extending into kind of second half of calendar 2022, first half of calendar 2023? And then, I have a follow-up as well? Thanks.

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

A

Yeah. I think that the fundamental trends for the secular growth, especially in mass capacity cloud, are not changing from my perspective. If you think about it on a 20-terabyte drives next year, late in the year versus when people were buying 16 terabytes or 14 terabytes or whatever they were a couple years ago, the TCO proposition for that in a new data center [ph] building (00:48:55) is still big and our replacement cycle is still big. That capacity point, those matter.

There's also other feature sets that are coming with these new drives that allow people to manage their data centers in a different way, more efficiently for power and reliability and all these other things, too. So, that's – it's a package that says that these investments that people are making will be a lot more programmatic, and we're having those kinds discussions with customers worldwide. So, that what builds strength in our visibility.

On the VIA markets as well, I think the application space of the edge is just propagating really quickly. So, there's things like retail consumer behavior, there's healthcare which we all see and can kind of feel what – how important mass capacity data is there. So, there's a lot of edge applications that are just growing year-over-year as well, so that's why we continue to feel strengthened. And that's why we put out – to the earlier question that Toshiya asked, we included that kind of revenue growth in our long-term models.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

That's great context and super helpful. And then, I guess, just one on – you guys have talked of certain lead times. You guys have talked in the past on these calls about sort of what lead times would look like to get sort of the highest capacity of the nearline drives. I think, at some point, [ph] you implied a bit (00:50:23). I think, in the spring, you were saying December, so kind of six months, like that.

And so, would love to get just an update on what the lead times look like. How long is it taking you to get those high cap drives out this door? And then, along with that, a pricing question. Is the price – when guys take orders in, the pricing that you guys end up selling the drives at, is it at the point of order taking or is it where the price would be, say, six months from now when you ship it? Would love context around this. That's it for me. Thanks.

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

There's so many different types of customers that I don't think I'll comment on the pricing. But I will say that, your first question was really about, how do you know these long-term agreements? And some of it is exactly – you remember the comment I made nine months ago roughly, which was, if you want something for Christmas, you better tell me now. I mean, that's the kind of lead time we're talking about. We're doing starts in our wafer factory right now for capacity points that are out there in time and we're saying to people, this is how we're – roughly, we're going to be able to build in that timeframe, let's just make sure our plans are aligned.

It's not just about capacity points, though. It's also about all the other things architecturally that they're changing to make sure that we have the best value prop to put into their data center that intercepts that architecture. And so, it's a big planning exercise for our customers inside their supply chain. If you wanted one drive, then yes, we have one extra drive laying around. But if you want hundreds of thousands or millions or something, then we need to be talking with a lot of lead time and that's, I think, what – that's what's bringing the stability to the business. So, if that helps you.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

Yeah, it's very helpful. I appreciate it. Thanks a lot, guys.

Operator: Your next question comes from Tom O'Malley from Barclays. Please go ahead. Your line is open.

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

Good morning, guys, and congrats on the nice results. Dave, I want to kind of double click into the non-HDD business. Obviously, you're raising the full year guide here. Can you talk about the contribution that the non-HDD business has to that growth rate? What do see that kind of growing this fiscal year?

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

Yeah, Tom, thanks. It's – the non-HDD business has been a little choppy. I mean, there's certain places where we can use our brand for continued strength, but there's opportunities and we take advantage of them and sometimes those opportunities wax and wane a little bit. I think, relative to the profitability of the non-HDD business, it's actually climbing. So, we believe we're using our brand appropriately to get some more revenue and it's not so dilutive as it used to be in the past.

And especially on the systems business, you got to be a little bit careful because there's so many more components in such lower volumes that we're accustomed to dealing with in the HDD business that that's where supply chain stuff gets really tough. And then, those systems themselves are very large, right, so shipping and freight logistics are being challenged. And we still want to bring the same brand proposition to the customers, the same predictability that I just talked about on Ananda's question. So, from – but from a revenue perspective, I think there's more opportunity for us out there but it's actually challenging to run some of those businesses as well, given the supply chain challenges.

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

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Yeah. I would say, from a financial standpoint, even if the non-HDD business has a lower gross margin, it is a very good contributor for our free cash flow. So, we are happy now keeping the effort on the non-hard disk drive business.

Thomas O'Malley
Analyst, Barclays Capital, Inc.

Q

That's helpful. And then, Dave, to your point earlier, I just had a follow-up on the systems business. You called it out in your preamble as particularly being impacted by supply chain, and I think you just reiterated that. Can you talk about what products that is? Obviously, these are big complex machines that you're selling here, I mean, systems that you're selling here. Where are the constraints, where are you seeing that supply chain hold up? Any kind of particular examples would be helpful.

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

A

Yeah I think, all things silicon, all things power, all things – kind of the things that we typically don't control very much are tight. And I would say, it's not only a matter of being able to actually procure something, it's also a matter of getting it through all of the factories that it needs to get to to be finally consumed for us. So, that's been the complexity.

So, we have tried really hard with our systems business over the years to reduce the complexity of our offerings so we could go a little longer on inventory positions and be more flexible for our customers. But it is a challenge right now, as you can well imagine.

Thomas O'Malley
Analyst, Barclays Capital, Inc.

Q

Thanks. Congrats again.

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

A

Okay. Thanks.

Operator: Your next question comes from Sidney Ho from Deutsche Bank. Please go ahead. Your line is open.

Sidney Ho
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks for taking my questions. I have two questions, too. The first one is on pricing. How would you characterize the current pricing environment, maybe you can parse out the crypto impact? Also interested in where – whether you're able to pass on the high cost to your customers, how much of a tailwind is that to your gross margin forecast over the next few quarters?

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

A

For the pricing, I would say, the pricing environment is still very favorable, similar to the prior quarter, I would say. And now, we expect this to last even now in the current quarter and, hopefully, even in the future. Passing the cost, I don't think it's so automatic. We negotiate pricing based on demand and alignment between supply and demand and not too much on passing specific cost to our customers.

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Sidney Ho
Analyst, Deutsche Bank Securities, Inc.

Q

Okay, that's fair. Maybe my follow-up question is on the technology roadmap a little bit. Obviously, you're starting to ramp up the 20-terabyte now. But with HAMR not likely being a high-volume until, it sounds like later, maybe 30-terabyte, how confident are you that you can accomplish the cost reduction improvement you talk about at your Analyst Day, not just the magnitude but also within the timeframe you talked about?

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

A

Yeah. Thanks, Sidney. So, a couple of things. It's not always about the highest capacity point. If you think about it, we get to a point where we can take heads and disks out of the lower capacity points, that's a way to introduce margin back into the system as well, and then you fundamentally have more capacity that you don't have to install with CapEx, right, because you're being more efficient inside your own factories as well.

So, I know a lot – we do a lot of focus on 30-terabyte capacity points but there are a lot of opportunities to then go back and sell 16 terabytes with fewer heads and disks in them. And that's probably the way to think about the march that we're on towards higher capacity points, it introduces that kind of cost oxygen back into the system for efficiency.

If you compare ourselves again back to the ancient history of the peak of client-server, when there's one disk in two heads, you needed huge jumps in areal density to make these cost jumps. When you have eight or nine disks in a box and you can take one out and hit the same capacity point or two out or three out and take – hit the same capacity points, that's a lot of cost oxygen, relatively, and it's easier to transition through. So, if that helps you think about it.

Sidney Ho
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. That's helpful. Thanks.

Operator: Your next question comes from Aaron Rakers from Wells Fargo. Please go ahead. Your line is open.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thanks for letting me ask the questions, and congrats on the quarter. My first question is back to kind of the capital return strategy, the company's done a phenomenal job returning capital these past several quarters, but we have seen the net debt position continue to decline. So, I guess, the question is, Gianluca, how do you think about the appropriate level of either liquidity or cash in the balance sheet as we gauge your continued propensity to be active on share repurchase?

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

A

I think we discussed this little bit at our last Analyst Day and we said, no, we are comfortable with the liquidity level at least of $2 billion, and this include, of course, our credit revolver. So, we are still well above that level and so we have great opportunities. First of all, because we generate very strong free cash flow, we were talking about that before. The last quarter was very good almost $380 million. We had best free cash flow to continue to improve during the fiscal year. So, this will give us opportunities for further return to our shareholders.

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

And I think, Aaron, there's a lot of other levers that we have at our disposal. You see us managing our working capital really well. If you look at our inventory positions against what our final objectives are, that's part of how we get done what we need to get done to maintain the liquidity flexibility that we want.

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

Yes. And then, the quick follow-up, just kind of back on the pricing discussion, maybe a longer-term way of asking it is – the HDD industry is not just kind of concentrated from a competitive landscape but also now 65% plus nearline capacity shift, and maybe even more concentrated in the competitive dynamics in that vertical. It used to be thought of as kind of like a 10%, maybe 15% price per annum kind of decline, price per gig decline in hard disk drive. Do you think we should think differently about that? Do you think we should think about a much more disciplined flattening out price curve for hard disk drive we think about the long-term model implications.

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

I think as drives have changed towards content rich heads and media, then I think the lead times of your investment are going to be longer. And so, therefore, I think that you'll see less fluctuation in supply/demand misalignment. Now, you could still have demand shocks like we saw the front-end of the pandemic and there may be other supply shocks as well. But from my perspective, the industry is doing a good job of managing the supply/demand balance because the process content that's required to make a drive that's a mass capacity drive at the front-end of it is really – has a lot of long lead times and very complex parts. So, I think that's what's changing the behavior rather than anything else.

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

Yes. Thank you, very much.

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

Thanks, Aaron.

Operator: Your last question will come from Jim Suva from Citigroup. Please go ahead. Your line is open.

Jim Suva
Analyst, Citigroup Global Markets, Inc.
Q

Thank you and I just have one question, and that is on your cloud business that you're seeing. Some suppliers to the cloud customers see very, very lumpy business, a really strong quarter then a couple quarters of digestion. I'm wondering, now that you're seeing such strong strength in cloud, is it something that you anticipate some lumpiness? Or with the visibility you mentioned that they're kind of installing and using and ordering what their needs be, is there just less lumpiness for your products, compared to some other servers with just compute products out there? Thank you.

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

A

It's interesting, Jim, I will give you my perspective. I think it – we have to be very careful in the cloud of calling one size fits all because, obviously, there are so many different types of business models and different applications spaces; even inside the individual customers, they have multiple applications. I do think, like at the front-end of the pandemic when everything shifted to the cloud and work-from-home and these kinds of things, we were seeing massive investment that was happening in, what I would call, transactional architectures, so very compute-intensive, very memory-intensive, and so on.

I think as – that did not mean that mass capacity was not growing, but what did it mean was that the priority immediately, for some of those type of customers, was to make sure they could fulfill their service level agreements with their end customers who were pushing into the cloud. And that maybe – that's maybe why, as people look back over the last year, they start to talk about lumpiness. Just getting it all right can be hard, right, and you may invest for one architecture or application and then see opportunity somewhere else and pivot over there. And so, these are difficult problems, I'm sure, that people who have to build cloud data infrastructure and application layers are grappling with.

Relative to mass capacity, I think that the build out has been much more thoughtful, frankly, over time. And that's not to say that there aren't changes in strategies and opportunities as they see ways to go gain more efficiency at other places. But I think the market is now diversified sufficiently and our predictability with customers has matured to a point where I'm comfortable and that we're seeing a stronger demand picture that's more consistent like we talked about.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

Thank you so much for the details.

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

A

Thanks, Jim.

Operator: We have no further questions. I'd like to turn the call back over to presenters for closing remarks.

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

Thanks very much, everyone. I want to thank you for participating in this call and really thank our employees for all their hard work up and down the supply chain and the suppliers and customers. Many thanks from the Seagate team as well and, again, thank our shareholders for their continued support in Seagate. We'll talk to you next quarter.

Operator: This concludes today's conference call. You may now disconnect.

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