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MANAGEMENT DISCUSSION SECTION

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

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

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 second quarter fiscal 2023 on the Investors section of our website.

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

Before we begin, I'd like to remind you that today's call contains forward-looking statements that reflect management's current views and assumptions based on information available to us as of today and should not be relied upon as of any subsequent date. Actual results may differ materially from those contained in or implied by these forward-looking statements as they are subject to risks and uncertainties associated with our business.

Regarding the matter raised by the proposed charging letter from the US Commerce Department's Bureau of Industry and Security, or BIS, Seagate maintains that it has complied with all relevant export control laws and regulations. We've been cooperating with BIS and engaging in discussions with BIS to seek a resolution. Please note that we won't be addressing questions regarding this matter on today's call, but we'll provide additional updates as appropriate moving forward.

To learn more about the risks, uncertainties and other factors that may affect our future business results, please refer to the press release issued today and our SEC filings, including our most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q, as well as the supplemental information, all of which may be found on the Investors section of our website. As always, following our prepared remarks, we'll open the call up for questions.

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

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

Thanks, Shanye. Good afternoon, everyone, and thanks for joining us today. Seagate delivered on what we set out to do in the December quarter, and I'm proud of our team's accomplishments amid this tough business environment.
Revenue and non-GAAP EPS came in slightly above the midpoint of our guidance range and free cash flow generation increased by more than 50% quarter-over-quarter. We are managing well what is in our control and executed on the actions we outlined on our October call. We retired more than $200 million in debt, strengthening our balance sheet. We lowered operational costs by realizing a meaningful portion of the expected savings from our restructuring efforts. We reduced capital expenditures by more than 40% sequentially while still accelerating the launch and development schedules for new mass capacity products, and we adjusted our factory production output to support strong supply discipline as demand recovers.

These actions, we believe, put Seagate on solid footing to weather the near-term industry dynamics while continuing to make the technology investments to meet our customers’ evolving needs and thrive over the long term.

Relative to market conditions, three primary external factors have been impacting our business over the past several months: the COVID-related economic slowdown in China; the work down of nearline HDD inventories among US cloud and global enterprise customers under a more cautious demand environment; and macro related disruptions primarily impacting our consumer-facing markets. These factors remained at play during the December quarter and weighed heavily on the mass capacity markets, resulting in a 10% sequential decline in mass capacity revenue.

Having said that, we are already seeing some encouraging indicators. Within China, we believe first steps toward recovery are being implemented through government policies aimed at improving economic conditions including the faster than expected reversal of zero COVID restrictions. In a show of confidence following the policy shift, several major banks raised their 2023 outlook for China's GDP.

We expect it will take time for consumers and businesses to work through disruptions related to the COVID policy pivot and for the economy to fully reopen. Based on our customer conversations, we anticipate regional sales into the VIA and nearline markets to remain subdued in the March quarter and gradually improve as the calendar year unfolds. We will continue to monitor demand signals and expect to gain a better picture following the Lunar New Year celebrations.

Turning to the US cloud and enterprise markets. Customers have focused on working down the HDD inventory levels that were built up during the pandemic as non-HDD component shortages created inventory imbalances. We believe some progress has been made in recent months supported by an improvement in non-HDD component availability.

While inventory adjustments are a customer-by-customer event and ongoing macro uncertainties have led to more cautious near-term buying decisions, we expect nearline sales will improve slightly in the current quarter, particularly for our high capacity drives. Our view is supported by the ongoing adoption of our 20-plus terabyte family of nearline products, which represented close to 60% of nearline exabyte shipments in the December quarter and is expected to trend even higher in the current quarter.

Relative to our products, we are seeing a wider variety of nearline capacity points and configurations being adopted across our customer base, depending on their specific data center architectures, workloads and application needs. Seagate is well-equipped to address these individual unique requirements with our deep customer relationships and broad technology portfolio, spanning traditional perpendicular recording technology or PMR drives to performance-oriented dual actuator products to TCO enhancing SMR technology.
In addition to our device portfolio, Seagate's Systems business offers cost-efficient, scalable petabyte solutions for both enterprise and cloud customers. While system sales were down sequentially off of a very strong September quarter, we captured a record number of new customer wins with our CORVAULT products. CORVAULT offers features such as self-healing autonomous drive regeneration, which increases productivity while reducing electronic waste. The momentum that we're seeing across the systems business supports revenue to move higher in fiscal 2023.

Our strong product pipeline is underpinned by the technology advancements we're bringing to market. We are leveraging our technology leadership to scale drive capacities through aerial density gains rather than additional heads and disks. As a result, we can deliver our trademark TCO advantages to customers with attractive margin opportunities for Seagate.

Our 20-terabyte product features two terabyte per disk capacities and we have started to ramp the volume of 22 terabyte products deployed on 2.2 terabyte per disk capacities. The 20-plus terabyte platform is based on traditional PMR technology. And some customers are choosing to enable SMR technology as an additional feature that slightly increases the drive's capacity for certain applications. In the December quarter, about 35% of our nearline exabyte shipments were deployed as SMR drives. We are executing plans to deliver another 10% gain in per disk capacity for this PMR platform to offer drives in the mid to upper 20 terabyte range.

However, I'm most excited by the advances we made on our HAMR technology. It was nearly four years ago to the day that I first shared our lab results demonstrating 3 terabyte per disk capacities. And today, we have demonstrated capacities of 5 terabytes per disk in our recording physics labs.

In the current market environment, we've been taking advantage of our reduced factory utilization to accelerate cycles of learning around HAMR productization. We are meeting or exceeding all product development milestones and reliability metrics, and we will be shipping prequalification units to key cloud customers in the coming weeks. As a result of this progress, we now expect to launch our 30-plus terabyte platform in the June quarter, slightly ahead of schedule.

The speed of the initial HAMR volume ramp will depend on a number of factors, including product yields and customer qualification timelines. However, we plan to use our systems business to quicken the pace of learning and time to yield. Our tremendous progress reinforces my confidence in HAMR products and our ability to execute. These innovations were only possible through the hard work and dedication of our global team, and I would like to thank them for their many efforts.

Our multi-decade focus on HAMR R&D and our innovation across all facets of drive production have resulted in a development advantage that we believe is measured in years, and we're excited by our collaborations with cloud customers on HAMR capabilities. The technology innovations driving aerial density higher will deliver strong and consistent cost reductions at the highest drive capacities and enable future cost-efficient refreshes of our midrange capacity drives. We believe these products serve as the foundation to expand our margin profile back into and possibly beyond the long-term target range.

Wrapping up, Seagate is executing with speed and agility through the near-term macro challenges. We've made meaningful improvements to our cost structure and balance sheet while steadily advancing our product and technology road maps. With signs starting to emerge that market conditions could improve as we progress through the calendar year, Seagate is well-positioned with an industry-leading mass capacity portfolio that we believe supports the return to our long-term financial model over time.
Gianluca Romano  
Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

Thank you, Dave. Seagate is navigating through the near-term macroeconomic cross currents and executed to plan in the December quarter. We delivered top and bottom line results that came in slightly above the midpoint of our guidance ranges – revenue of $1.89 billion and non-GAAP earnings of $0.16 per share.

Our actions to reduce costs, strengthen the balance sheet and improve long-term profitability have yielded desired outcomes, including a continuation of positive free cash flow generation, without sacrificing investment necessary to extend our technology leadership.

Total hard disk drive shipments were 113 exabytes in the December quarter, down 5% quarter-over-quarter, with HDD revenue declining 6% sequentially to $1.7 billion. Multiple factors led to an expected decline in the mass capacity business, including the inventory correction among cloud and enterprise customers, COVID-related disruption in China, and Seagate's own action to reduce production.

Mass capacity sales were offset by a slight seasonal improvement in the legacy market. Shipment into mass capacity markets totaled 97 exabytes, down 7% quarter-over-quarter. Of this total, roughly 82% were derived from nearline products, shifting to cloud and enterprise OEM customers.

Nearline shipments of 80 exabytes were down 6% sequentially, and roughly 30% of our recent high. We believe the actions we have taken to quickly adjust our production output have aided customers to start making progress in working down their inventory levels. The degree of progress vary from customer to customer, and notwithstanding the current macroeconomic uncertainties, we would expect it will take a few more months to reach more normalized inventory level across the customer base.

On a revenue basis, mass capacity sales were down 10% sequentially to $1.2 billion, reflecting the nearline trend that I just described as well as lower demand in the VIA market. As we expected, the prolonged economic slowdown in China continued to impact sales of our VIA products, and we did not see the typical seasonal pickup in sales during the December quarter.

As Dave mentioned earlier, the Chinese government has taken action to boost the country economy, including the rapid reversal of COVID policy restriction. It will take time for these changes to take effect. And while still early, emerging customer dialogue support VIA's encouraging leading indicators. As a result, we anticipate conditions to gradually improve over the next couple of quarters.

Within the legacy market, revenue was $421 million, up 8% sequentially, primarily driven by a seasonal uptick in consumer demand, although a more subdued level compared to prior year.

Finally, revenue for our non-HDD business was $224 million, down 15% sequentially, reflecting the expected decline in our enterprise system business, following a very strong September quarter.

Overall, we are making great strides in growing the system business, increasing sales of our branded channel products and building customer momentum with our CORVAULT self-healing technology.

While we are continuing to navigate lingering supply constraints for a couple of system components, we expect non-HDD revenue to improve through the remainder of the fiscal year.
Moving to our operational performance, non-GAAP gross profit in the December quarter was $403 million. Embedded in that figure are the underutilization costs associated with lowering production output to support inventory reduction, both as a customer and on our own balance sheet. Underutilization costs of $79 million were somewhat higher than we had projected at the onset of the December quarter and translated into a 420 basis point of margin headwind. Accounting for these costs, non-GAAP gross margin was 21.4%, down from 24.5% in the prior quarter.

Based on our current outlook, we are planning to begin ramping production output in the March quarter, sometime after the Lunar New Year. Cost and efficiencies associated with restarting and ramping of production are expected to largely offset the benefit of lower underutilization costs for the March quarter.

However, as demand recovers in the coming quarters, we expect both gross profit and gross margin to move higher.

We significantly reduced non-GAAP operating expenses to $294 million, down $20 million quarter-over-quarter, due to savings associated with our restructuring plans and proactive expense management. We expect quarterly non-GAAP OpEx to remain around the $300 million level through the balance of the fiscal year 2023. Based on the diluted share count of approximately 207 million shares, non-GAAP EPS for the December quarter was $0.16.

Moving on to the balance sheet and cash flow, we executed plan and actions to strengthen our balance sheet over the near-term. We ended the December quarter with a liquidity level of approximately $2.5 billion, including our revolving credit facilities, flat with the prior quarter. We believe these levels are sufficient to support our strategic plans and meet customer demand.

We drove a significant reduction in inventory to approximately $1.2 billion, down $400 million from the prior quarter, reflecting our effort to work down strategic inventory and finished goods. We expect inventory to remain around this level over the next couple of quarters, but we'll continue to focus on aligning our supply chain and finished good level to the prevailing demand environment.

We reduced capital expenditures to $79 million, down 41% quarter-over-quarter. CapEx is expected to trend lower through the second half of the fiscal year, with total fiscal year expenditure below the long-term target range of 4% to 6% of revenue.

Free cash flow generation was $172 million, up 54% sequentially with lower capital expenditure and a $51 million improvement in working capital. We expect free cash flow to remain positive throughout calendar year 2023 and more than sufficient to support our dividend program. We used $145 million for the quarterly dividend, and as previously communicated, we paused our share repurchase program, exiting the quarter with 206 million shares outstanding. We are not currently planning to repurchase any share for the balance of the fiscal year, consistent with our near-term focus on optimizing cash flow through the current macro environment. Returning capital to shareholders remain an important aspect of our financial model, and we will assess resuming our program in fiscal 2024, depending on business conditions. We lower overall debt by approximately $220 million, largely through a debt exchange, requiring minimal cash outlay.

Additional, we successfully renegotiated our debt covenants to temporarily increase the leverage ratio to 5 times. Our debt balance exiting the quarter was $6 billion, and adjusted EBITDA for the last 12 months totaled $1.6 billion, resulting in a gross debt ratio of 3.8 times.
Interest expense in the December quarter was $77 million and is expected to be approximately $82 million for the March quarter, reflecting higher interest rate associated with the new debt. We continue to evaluate options related to debt structure and reducing interest expense.

Turning to our outlook for the March quarter. The broader macroeconomic and geopolitical uncertainties continue to impact the business environment and shape of recovery. However, as indicated earlier, we are encouraged by the action being taken to improve economic condition in Asia and the early indication with cloud and enterprise customer inventory levels are trending lower.

As a result, we expect March quarter revenue to be in the range of $2 billion, plus or minus $150 million, up about 6% quarter-over-quarter as a midpoint. We project incremental improvement in the mass capacity business from cloud and enterprise customers and higher system sales to offset seasonally decline in the legacy market.

At the midpoint of our revenue guidance, we expect non-GAAP operating margin to be in the mid to upper single-digit range, which includes both underutilization costs and inefficiencies associated with the resuming production output. And we expect non-GAAP EPS to be in the range of $0.25 plus or minus $0.20.

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

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

Thanks, Gianluca. Seagate continues to demonstrate resilience in the most dynamic of times. We are executing on what is within our control, generating positive free cash flow and advancing our product road map.

As I indicated earlier, we expect mass capacity market conditions to gradually improve as we progress through the calendar year, which supports stronger revenue and profitability in the back half of 2023. Longer term, we remain excited by the secular trends driving demand for mass capacity storage, and Seagate's unique capabilities to capture these future growth opportunities. We are leveraging our aerial density leadership to increase capacity per disk, which we believe enables the most cost-efficient product solutions for mass capacity storage.

We will begin shipping products based on 3-plus terabyte per disk capacities in the coming months, which is up to 35% more than comparable drive capacities available today. Amid a challenging macro and industry backdrop, I'm incredibly proud of the partnerships and hard work from our suppliers, customers and our employees.

Earlier this week, we published our fourth annual diversity, equity and inclusion report, which highlights how Seagate aims to build and support its global team. The principles outlined in this report are foundational to Seagate's technology innovations and long-term success. I encourage you to read the report in full on our website.

I will conclude by thanking our shareholders for your ongoing support. Our objective remains taking the decisive steps to best position Seagate for long-term value creation. Gianluca and I will now take your questions.
QUESTION AND ANSWER SECTION

Operator: And we will now begin the question-and-answer session. [Operator Instructions] And our first question today will come from Thomas O'Malley with Barclays. Please go ahead.

Thomas O'Malley
Analyst, Barclays Capital, Inc.

Hey, good evening guys, and thanks for taking my question. My first question is just on the nearline market. You're talking about a slight recovery from a unit perspective in the March quarter, you may refer to exabytes. I guess you could clarify that first?

And then can you just talk about what you're seeing there that gives you the confidence that, that's inflecting. In the December quarter, clearly, you saw other mass capacity accelerate pretty robustly based on the numbers you gave. But what are you seeing on the nearline side? And what gives you the confidence that the March and June quarters are going to be sequentially higher? Thank you.

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

Yeah. Thanks, Tom. So, it's fairly tricky math, I think, is coming off of the back of last summer, where things were going down, we actually turned off our factories and in particularly biased ourselves against the older generation programs, and we're really more biased towards the higher capacity points of 20 terabytes and so on, right?

So there is – I won't talk about units, but we'll talk about exabytes. We think that there's going to be some exabyte growth and that will flow through into revenue. It's still a fairly low time right now, historically, of course, but we are seeing traction, and we are having discussions with customers about what exactly they need.

I think the way I think about the CSPs is there's very different business models across the CSPs. And even within each CSP, there's different application spaces and workloads and therefore, inventory, I'd say it that way. So, it's fairly tricky. But what we really want to do is make sure that we're not building too much of the old products and really biasing towards the new products.

I think to the extent that we have good visibility into the stuff that the CSPs are actually building through, then that's what gets us the confidence towards a recovery in the second half of the calendar year.

Thank you. And then my second one is for Gianluca. You described, I think, $79 million of underutilization cost in the December quarter. When you look at the midpoint, I kind of know where guidance is, I'm getting gross margins slightly up, but you would expect with a better revenue, maybe a little more leverage. Can you just talk – you talked about some costs associated with ramping up the factory post Lunar New Year. Would those costs kind of offset the comedown in underutilization costs? Just walk me through the puts and takes there, so I understand the gross margin implication. Thank you.

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

Thank you. And then my second one is for Gianluca. You described, I think, $79 million of underutilization cost in the December quarter. When you look at the midpoint, I kind of know where guidance is, I'm getting gross margins slightly up, but you would expect with a better revenue, maybe a little more leverage. Can you just talk – you talked about some costs associated with ramping up the factory post Lunar New Year. Would those costs kind of offset the comedown in underutilization costs? Just walk me through the puts and takes there, so I understand the gross margin implication. Thank you.
Thank you, Tom. Yes, the March quarter is a bit complicated from a cost standpoint because we are starting the quarter with a fairly low level of production, so we will generate underutilization cost for the month of January and maybe also a little bit of February.

After that, we will start ramping production. That is the good news. But for who is familiar with manufacturing, they know that ramping production has some inefficiencies. Now, you need to restart the line, you need to recalibrate the equipment, you have some additional scrap, lower yield. So for the first few weeks of a reramp has some costs associated.

So, when we put the two costs together, right now, we are assuming to come out fairly similar in term of additional onetime cost of what we had in December. The improving the gross margin, of course, is coming from the higher revenue and a little bit better level of production.

**Operator**: And our next question will come from Krish Sankar with Cowen. Please go ahead.

**Eddy Orabi**

*Analyst, Cowen & Co. LLC*

Hey guys, this is Eddy for Krish. Congrats on the strong results [Technical Difficulty] (26:19-26:36)?

**William David Mosley**

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

Sorry, Eddy, you're breaking up just a little bit. Could you repeat your question? We'll give it another try.

**Eddy Orabi**

*Analyst, Cowen & Co. LLC*

[indiscernible] (26:45) year-over-year and [ph] in Q4 (26:50). At what point do you expect that growth rate to turn positive year-over-year?

**William David Mosley**

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

Okay. Thanks. I think I understood, and we'll go forward here. The underutilization charges are the ones that are hurting us the most, I'll say, relative to turning of our factories and things like that.

From my perspective, we're going to – we took down the factories intentionally to make sure that we didn't build too much of the old stuff. So it's a 16 terabytes or 18 terabytes that – where people were still consuming – and then we're focused more on 20s and 22s and 24s and 30s and so on and so forth, like we talked about in the script. And that fills back up the factory. So, I think that's the answer. You get more exabytes out and it's a better financial return as well. I think that answers your question.
Eddy Orabi
Analyst, Cowen & Co. LLC

Yes. And do you guys have any view on when HAMR manufacturing yields to become close to corporate average? Is second half of calendar 2023 reasonable?

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

Yeah. I won’t speculate on that right now other than I'll say that we're now in a position on HAMR that, that's exactly the problem we’re working. No longer is it a question of whether or not the technology is viable, the parts that are out of the oven. And from our perspective, this is what we do really well as well, which has ramped high-volume production. We've got everybody and the team is focused on it, and we'll get there as fast as we possibly can.

Eddy Orabi
Analyst, Cowen & Co. LLC

[indiscernible] (28:21).

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


Operator: And our next question will come from Erik Woodring with Morgan Stanley. Please go ahead.

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

Hey, good afternoon guys. Thanks for taking the question. Dave, just for you, great to see you have continued confidence in the June HAMR launch. I'd love to know just what the feedback is that you're getting from prospective customers. Clearly, we're in a more cautious macro environment, we've heard the term like optimizing cloud spend more often. And so, is this a technology and a capacity size that they're really pushing for now despite the slowdown that we're seeing in the market? Or are there other factors driving the timing of the launch? I would just love if you could unpack that question. Thanks.

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

Yeah. Thanks, Erik. I would say that the onus is really on us. It's a control of ours to make sure that we can drive the transition exactly to [ph] Hadi’s (29:14) question about get the yields up and get the production capability to where we want it. I like to think that somebody making a decision to build out a data center would much rather have a drive with 3x terabytes instead of 2x terabytes. And because that's such a great TCO proposition for them over the long haul. We have deep customer relationships, obviously, on this front. This is not a surprise to them. The results that we're showing in our labs are not a surprise either.

So, they're very well connected with us on it. Where their spending profile might be muted, say, in the first half of this year because of all the issues that CSPs are going through, and they've shared some of those with us and they're tough problems themselves, I do think that the secular demand for mass capacity in those data centers is still going to be huge. And we want to make sure that we're staging the absolute best value proposition for us and them for when we get there. So it's really ours to go drive.
Erik W. Woodring  
*Analyst, Morgan Stanley & Co. LLC*

Super. That's really helpful. And then Dave or Gianluca, I'm not sure. Can you just remind us exactly how we should think about the potential margin impact of launching HAMR and ramping that platform just as we think about, again, the next 12 months? And that's it for me. Thanks.

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

Yeah. Thanks, Erik. I'll pass it over to Gianluca in a second, but it really does come down to yields and scrap. I mean, we're going to be targeting most of this at the highest capacity points, although, there are opportunities in lower capacity points if we can take disks and heads out of already existing platforms in the 20s or teens, then we'll go do it. And we have to go work that through qualifications with our customers. That's how we get margin oxygen, if you will, back into the system. And that's - so yields, scrap, our ability to go through the cycles inside of our factory – that's the relevant parameters.

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

Yeah, HAMR is a new product. So, we need to go through a little bit of the learning curve, something different from what we have done in the last several years. But as Dave said, Seagate is very good in the operation, in manufacturing. And therefore, we are very confident now we can have very good results, results that at a certain point will be similar to the PMR, but exactly, it's a bit difficult to say right now. So, we are going step by step. But we are actually going faster than what we were expecting. And as Dave said, we are ready for launching the product in the June quarter, that is a little bit before what we were discussing just three months ago.

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

Yeah, I think the data coming out of – just to pile on a little bit – the data coming out of the labs is really good, really encouraging. And to stave off some other comments or something that I would say that there's – while there's added features in a HAMR drive versus a garden variety PMR drive – even PMR drives are fairly complicated themselves. There's no tectonic shift that causes major cost resets or things like that. There's things we have to go work, and that's what we do really well. We've worked these kinds of things over time to make sure we can stage other technology transitions, and we're all over this. We've been planning this for a long time.

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

Great. Thanks, guys. Congrats.

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

Thank you.

Operator: And our next question will come from Karl Ackerman with BNP Paribas. Please go ahead.

Karl Ackerman  
*Analyst, BNP Paribas Exane*
Yes, thanks, everyone. Good afternoon. Two questions, if I may. As it relates to the March quarter guide, it's great to see an improvement in revenue in March because seasonality is usually down a few points. But, of course, nothing is seasonal at this point in time. But I guess, as it relates to that, you spoke about improvement within nearline. And so, two-part question to that. I guess, are cloud customers increasing their LTA baseline orders today, going in March?

And then second, are you beginning to see cloud customers procure orders for HAMR with a new or existing LTAs, because I'm also curious how you look for signposts regarding the uplift of HAMR demand in anticipation of your launch?

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

It's a really interesting question, Karl. Let me try it this way. Usually, when supply is behind demand considerably, then you're having LTA discussions. But I think in the case of this, obviously, our suppliers have got challenges, we've got challenges. Even our customers have challenges. So, I think it's really an entire supply chain that needs to co-plan together. And we've – demand is low right now – there's plenty of supply. But I think we're all very mindful of cash and mindful of the financial outcomes that we want.

Indeed, we are having LTA discussions still. The levels of the LTAs may not be reminiscent of what they were when you had demand far above supply. But I think the predictability is what we need to keep our factories running, to keep our people employed, getting paid, and actually keeping the reinvestment so that we're out there with the right products and the right costs in those right times.

Specifically to your HAMR question, I would say the answer is no at this point, but I think we could get there soon where we say HAMR is -- this is the volume ramp of HAMR at this customer – and then that becomes part of the LTA, but we're not there yet.

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

We will have to go through the qual. And then after the qual, we start discussing about volumes with customers and eventually doing LTAs.

Karl Ackerman  
Analyst, BNP Paribas Exane

Understood. Thank you. If I may ask one more, I was under the impression your SMR drives were closer to 25% of your mix, and you're suggesting it's closer to 35% of your mix today, which is quite impressive. So, I'm hoping you could discuss what sequential improvement you've seen in SMR drives this quarter and whether you are seeing better economics within this area of mass capacity? Thank you.

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

Yeah, thanks. I think there's a lot of confusion in the space on this, so let me try this. We've been shipping SMR since, I think, 2014 into the cloud. We also have shipped hundreds of millions of SMR drives on the client side. So, SMR is a great technology add if you can adopt it. For very specific cloud applications, it can be quite complex. And so some places, people choose not to do it, redeployment of drives, for example, from application to application becomes limited or there's a lot of inertia around it if you try to do that.
So, we have great SMR solutions. We've been working on this for years and years and years. If customers ask and their applications desire, then we'll go there for them. And so, I really look at this as a customer by customer, sometimes application by application, specific ask for, say, a business unit or something like that, and we just react to it.

And that's – I don't think there's any big shift towards more SMR out of the Seagate portfolio. I think there are customers who, over time, are adopting more SMR, so that may be part of the reason for the trend that you talked about. But it's not something that's, I'll say, deliberately being pushed on our front. We look at it more as, does it solve the problem for the customer.

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

Yeah, I would say on a quarterly basis, the percentage change based on the mix of our customers. So depending in which quarter, one customer can be a little bit higher than another one. We can have a little bit more SMR or less. But for us, as Dave said, we have both, is actually a fairly easy way for us to convert the PMR into an SMR. So, just a matter of where the demand is in the specific quarter.

Karl Ackerman
Analyst, BNP Paribas Exane

Thank you.

Operator: And our next question will come from Aaron Rakers with Wells Fargo. Please go ahead.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Yeah, thanks for taking the question. Two if I can as well. I guess the first question, you mentioned, obviously, in the numbers that you're shipping about 30% below what was the peak level seen a year or so ago. As we think about the efforts that you've made on rationalizing your production capacity, is there any way to gauge how we could think about what kind of fully utilization looks like on an exabyte ship basis as we look forward? Just trying to think about the trajectory based on that number relative to gross margin? What's kind of the capacity footprint that you guys have normalized to now?

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

Yeah, hi, Aaron, I think there's a couple of different answers to that question. Obviously, from an equipment perspective, all the equipment is still there. As a matter of fact, as we go through transitions, say, a 2.2 terabyte per disk or 2.4 terabyte per disk to a 3 terabyte per disk, we get a lot more efficient out of our parts that we have accessible to us and out of that same equipment. Some penalties with process content, but generally speaking, our capacity footprint goes up.

In the current – to directly answer your question in the current state, we did have to scale back in our factories, and that will take just a little bit of time, not a lot of time to scale back up because that's about people. It's been a tremendously painful time for our people, for the people in the supply chain, for the people and the customers for that matter.
So I would say that our theoretical capacity is still as high as it is, but we can't react on a dime to go get there. We need to plan for it. And once upon a time, we did 165 exabytes. We could get back there fairly easily. With all the technology transitions we can also go beyond.

Aaron Rakers  
Analyst, Wells Fargo Securities LLC

Yeah, yeah. That's helpful. And then as a quick follow-up. I think last quarter with the head count reduction effort, you had talked about I think it was getting to realizing the annualized expense savings of about $110 million starting in this current quarter. How do we think about the effect of that on a net basis in this current fiscal quarter?

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

Yeah. We realized that, a big part of that saving already starting in the December quarter, as we we're discussing beginning of November, the majority of our restructuring actually happened at the beginning of November. So, we had basically two full months out of the three where we could take the benefit of the cost reduction. And now in OpEx, always few other items that impact the cost of the quarter. In the script, I said, we expect this quarter and even next quarter to still be around the $300 million.

Aaron Rakers  
Analyst, Wells Fargo Securities LLC

Thank you.

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

Thank you.

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

Thanks, Aaron.

Operator: And our next question will come from Timothy Arcuri with UBS. Please go ahead.

Hi, thanks a lot. This is [ph] Jason (40:10) on for Tim from UBS. I have a couple questions. So the first question is on December quarter. Sorry if I missed, but I see that there's about $100 million purchase order cancellation fees in December quarter. Could you guys help us understand what that line item really is? And also, would there be any possibility of this repeating in a similar magnitude next couple of quarters if demand remains weak? And I have a follow-up. Thank you.

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

Yeah. That is related to our reduction in production. Of course, we had some commitment with some of our suppliers. But, of course, we want to comply with. So on those cases, we had to stay for take-or-pay products that
we didn’t need, and we decided not to take based on our focus on reducing our own inventory on top of reducing customer inventory. I think we have taken all those liability into the December quarter. So, I don’t expect at this point those liability to come back in the March quarter.

Got it. Thank you. Yeah. My second question is on your debt pay down schedule and cash level. So on the back of your recent debt exchange, how are you guys thinking about the pace and magnitude of that pay down in the next few quarters? And in light of that, how can we think about the new cash level you guys are comfortable operating under going forward? Thank you.

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

Yeah, we are generating still a fairly strong free cash flow. In the December quarter, we generated $170 million. I think this quarter will be higher than that. We have note that will mature at the beginning of June that we want to repay and we will now refinance, that is about $540 million. So we will use our cash. We have actions going on to optimize our cash between now and June. But I would say, right now, our focus is actually on reducing the debt and reducing the full amount of those notes.

Thank you.

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

Thank you.

Operator: And our next question will come from Sidney Ho with Deutsche Bank. Please go ahead.

Sidney Ho
Analyst, Deutsche Bank Securities, Inc.

Great. Thanks for taking my question. Congrats on pulling in the launch schedule of HAMR drives. A couple of questions here. How are you thinking about the adoption of HAMR drives in the back half of the year into 2024? Is it more broad-based? Or is it focused on a few customers, and I know it's early, but do you expect – when do you expect unit or exabyte crossover for HAMR drives?

And lastly, on this subject, just to be clear, are you planning to dual track with PMR products in the 30-terabyte range? And then I have a follow-up question.

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

Thanks, Sidney. I appreciate all the positive momentum that's going on. It really – there's a lot of people inside of our company and outside of our company that deserve accolades here making this technology work, believed in it for the last 20 years and so on. And I think it's great that the world is going to be able to double the capacity points
and things like that over time. I’ve got a lot of confidence based on where we sit right now. We’re not talking about exactly what the schedule is going to be, but we’re going to be as aggressive as we possibly can.

Specifically to your question, I think the first drives will probably go out into a couple of different channels, some we can control like we’ve talked about maybe using our systems business in the prepared remarks. And then some big customers are – want to be early adopters so that they understand the technology and what to take. It’s I would say at the highest capacity point, the integration always the trickiest because these are things that the world has never seen before.

To the extent we can turn around and make cheaper capacity points that are midrange like 20s or 16s or whatever they happen to be, because we have fewer heads and disks in them. That’s a great answer for us as well, and we’ll get working on that. So I don’t think the – once we can out the heads and disks, I think we’ll be able to find homes for them, and we’re going to be very, very aggressive on the ramp over the next few years.

Sidney Ho
Analyst, Deutsche Bank Securities, Inc.

Okay. Maybe a follow-up question. You and your competitor have both in quite rationale in terms of production cost in this down cycle. Curious if you’re seeing any less rational behavior in terms of pricing given the high level of inventory in the channel and the customers in the December quarter, but more importantly, going forward. Do you think the pricing environment will still be okay? Thanks.

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

Yeah, I do think the way to control the long-term outcome, the best is to cut your production and make sure you’re not pushing out too much of the wrong stuff. I’m encouraged to see the way that the industry is actually behaving on that front. I don’t – to your point, I don’t look at things like market share and any individual deals as long-term trends at this point in time. I think it’s more just what discipline does the industry have. And I do think that over the long haul, especially for Seagate, I can speak, having the ability to go add a better value proposition, lower our costs and so on and so forth, I think we use that to think about how do we get back into our margin range or beyond.

Sidney Ho
Analyst, Deutsche Bank Securities, Inc.

Great. Thank you.

Operator: And our next question will come from Vijay Rakesh with Mizuho. Please go ahead.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Yeah. Hi, Dave and Gianluca. Great quarter and a good control on the inventory side. Just a quick question on how you see broad inventories in the channel. Like if you look at China and US enterprise hyperscale, any thoughts on where inventories are broadly?

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

...
Yeah, I think we said that we – from our vantage point, the inventories that hyperscalers generally went down or the right directions, and we were encouraged by it, I mean, obviously, we'd like to see it faster because we'd like to ramp our factories back up quicker. I think it would help us.

And then, of course, our owned inventory, what we were able to do by not putting anything out, especially the legacy capacity points, I'll say, in the nearline space, we're not putting anything else out into the market that's encouraging as well.

I think from a distribution weeks on hand, it's high, but not super high historically. And you all know that depending on how you're measuring it, 4 weeks or 13 weeks, it could be – it's really based on a baseline. And I think that, that baseline now has become this macroeconomic reality. I do think that as we started to see some kind of macroeconomic recovery in certain geos, Europe, Asia, so on, the absolute value of the inventory is not super high. And so it's not a whole lot of weeks on hand. And I think there, again, we could react to that. So I'm not super worried about the inventory there.

Vijay Raghavan Rakesh  
**Analyst, Mizuho Securities USA LLC**

Great. And you mentioned HAMR ramping here. Good to see that. As you exit the year, any thoughts on what that mix would be of your mass capacity on nearline of revenues or units?

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

Yeah. We haven't really talked about it. I think this year, it will probably still be relatively low. And then the faster we can get the yields and scrap and all the costs that we can control down on the heads and media, then the faster we'll be accelerating. I think that will happen in calendar year 2024 and calendar year 2025 will just continue to accelerate. The highest capacity points will be addressed, but also these midrange capacity points. And how successful we are with all that stuff we'll determine how broadly we can penetrate all those different individual markets.

Vijay Raghavan Rakesh  
**Analyst, Mizuho Securities USA LLC**

Got it. Great. Thanks a lot.

Operator: And our next question will come from Ananda Baruah with Loop Capital. Please go ahead.

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

Hey, thanks, guys, for taking the question. Two quick ones, if I could. Just going back to Aaron's question, Dave and Gianluca, on the utilization. So, Dave, you said you're 30% below peak, your gross margins are actually down 30% from that same peak. Is that a coincidence because pricing has been stable or is it really that simple?

And then I guess the ramp back up kind of higher cap drive sort of takes up more capacity. And so is it really as simple as on sort of the ramp back up? So is the same indexing on capacity ship is like a little bit more of a slope up just given the mix? And I have a quick follow-up after that. Thanks.
Gianluca Romano

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

Well, I would say, for sure, the majority of the gross margin decline is coming from the underutilization charges. So the lower level of production that we have. Last quarter we're discussing it a bit about some price pressure in the low capacity drive that we have seen a little bit in the quarter of December. But in general, especially considering that we see a bit fairly strong down cycle, in terms of pricing stability, we see this as a positive. And we expect as soon as we are back into the same level of production and same level of revenue we had year ago, we think our gross margin will be at the same level or even better.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Gianluca, can we kind of model the gross margin more or less calibrated with what you see capacity increases to be going forward?

Gianluca Romano

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

I would say capacity mix, of course.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Okay. Cool. And then just a real quick follow-up. $300 million OpEx through the June quarter, how do you want us to think about modeling out past that, the puts and takes? Thanks.

Gianluca Romano

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

We are staring to discuss about next fiscal year, but I would say part of the lower OpEx is coming from variable compensation. That is very low in the current fiscal year. So you will have to think about adding some cost for variable compensation in the fiscal 2024.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Yeah. I think, Ananda, we reacted obviously very early on some of this when we saw it. And I think we're going to be asking the same kinds of questions throughout the course of this year, what's the new trajectory, the new normal, if you can. On some of the normal demand cycle comes back, where is the world from an economics perspective and we'll address factory footprint and things like that when those times come.

Ananda Baruah

Analyst, Loop Capital Markets LLC

Cool. Thanks, guys.

Gianluca Romano

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

Thank you.

Operator: And our next question will come from Wamsi Mohan with Bank of America. Please go ahead.
Wamsi Mohan
Analyst, BofA Securities, Inc.

Yes, thank you so much. I apologize jumping across calls if this has already been answered. I'm wondering if you could talk a little bit about the trajectory that you see in exabyte growth. It's kind of been a little bit all over the place given so many moving pieces with both demand slow down as well as inventory, and if you could maybe calibrate for calendar 2023, that would be great.

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

Yeah. I think it depends, Wamsi, on if you – where you reset to. I think we've taken a big step down, of course, and then we could talk our way back on the 30% growth. I think it's a little too early to tell that. But we do think that by the fact that we're putting out 24 terabytes and 30 terabytes and so on and so forth, that's going to help the exabyte growth substantially. I think a couple of years ago, we were at 80-some percent from nearline drive. So, that was reflective of not only a high – great value proposition from one capacity point to another, say, maybe 25% bump in capacity point – but also the fact that a lot of people are investing at the time.

I do think that the demand side for data is still there. There's AI, machine learning, a lot of new applications coming. I think we're going through something that's fairly temporary where people are just getting their legs underneath them and then they'll figure out what their investment profiles are. And our job is to go put a better value proposition from an exabyte perspective out there in front of them to kind of incentivize that. So, we do think the back half of this year gets better from an exabyte perspective. I don't – maybe a little early to tell exactly what the number is.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Thanks, Dave. And maybe you already covered this, but if you wouldn't mind, if you have covered it, then we don't need to go in. But I was wondering if you could address – if there's anything abnormal that you're seeing within pricing in the competitive environment. Is there, especially within the channel, anything that you're seeing that might be abnormal? And when do you think if there is something, when that would normalize?

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

At a macro level, no, I think everybody is seeing about the same demand environment and people are reacting fairly similarly, making sure they're preserving their cash, not building things that they're uncertain of going out into the market. And so, I think the industry has actually done a pretty good job of scaling way back over the last three, four, five months on our production capacity. It's very, very painful for ourselves and our suppliers, of course. But – and our customers, I think I said this earlier, our customers understand that. But at a macro level, I don't see that. I don't see people building too much of the wrong stuff and trying to get into the market. Maybe little pockets, but again, big picture, I don't think that's super relevant.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Okay. Thank you so much.

Operator: And our next question will come from Kurt Swartz with Evercore ISI. Please go ahead.
Hi. Thank you very much for taking the question. Maybe just first, within the context of recent export restrictions and macro headwinds in China, I'm curious if you can share any color on your TAM assumptions for the VIA market, both in the near term and longer term, which I believe you've previously said the longer-term market outlook remains intact, but just curious on those dynamics.

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

Yeah, I'll start and I'll let Gianluca speak as well. I think the VIA market is changing quite a bit globally. There's a lot of applications. A few years ago we would have talked about surveillance. Now, there's a lot of applications about consumer behavior and inventory management. A lot of people are worried about inventory. And so, people are using all these new, say, smart edge applications in a very creative way. So, globally it's an exciting market. I think the drivers in China, in particular, over time has been very muted for the last year. And we were kind of waiting for a recovery. And I think the recovery just hasn't come. I think it will recover, but it's going to be slow. And I think there's new opportunities around the world in various geos as well happening.

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

In the very short term, we see possibly a decline in the March quarter, mainly because of seasonality. March is always the quarter where we have lower revenue from VIA and from some of the legacy markets also. So, not a lot of increase in the short term. But in our view, the rest of the calendar year, we should see sequential improvement. And VIA is an important segment for us and is a segment that is also generally generating a very good gross margin.

Kurt Swartz
Analyst, Evercore ISI

Great. That's very helpful, thank you. And then maybe just a follow-up. Within the context of the operating margin target that you outlined last year, 18% to 22%, assuming this is still the right framework, can you just walk us through some of the levers and the timeline for reaching that range, and maybe thoughts on medium to longer-term OpEx growth or intensity within that context?

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

Yeah. I think to find the long-term demand, we're still kind of assessing that. So I won't be – I won't predict it just yet. But I will say that this management team's goal to get back in those models as fast as we possibly can. Obviously, demand is the fundamental driver to that. We've made operational improvements by cost reductions and we've, unfortunately, had to cut some things that we're working on.

So, there is a reason to suggest that we have a little bit more oxygen than we had going into this thing. But I think fundamentally, it will still be the demand driver. And one of the reasons we're trying to transition products as aggressively as we can is because we think if we intercept that demand with a better value proposition it comes back to us faster, but we also go off and work our own internal operational metrics and then we get the best cost at the time, and that helps as well.
Kurt Swartz
Analyst, Evercore ISI

Great. Thank you very much.

Operator: And our next question will come from Ashley Ellis with Credit Suisse. Please go ahead.

Ashley Ellis
Analyst, Credit Suisse

Hi. Thank you for taking my questions. Gianluca, could you discuss how you're thinking about working capital for the second half of the year? Inventory days came down pretty substantially, obviously, if you took production down, but they're still above the year-ago levels. And then as you launch HAMR, is there anything we should consider within that number? And then I have a follow-up.

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

Yes. In the December quarter, our working capital was positive by about $50 million. We decreased our inventory by a lot, but we also paid a lot to our suppliers. So, I think that is part of the positive working capital that will actually impact the March quarter. And after that, probably it's fairly stable for at least a couple of quarters.

Ashley Ellis
Analyst, Credit Suisse

Okay. And then, Dave, you kind of touched on this in a prior question, but AI has become a much more common topic in the last few weeks. And I'm wondering how Seagate thinks about that opportunity, not just from data creation, but your product lineup? And is this coming up in customer conversations? Is it something that they're asking for your help on? Thanks.

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

Yeah. Thanks, Ashley. So it's underneath all of the demand for data growth that we see. I think this is one of the big trends that we're watching because it affects not only what's going on in the cloud, but it also affects what's happening at the edge.

And so I do think that over the long haul, we're very bullish on this. If you think about it, early days of AI, there were training models and things like that that needed access to big data sets. But I think as time goes on, big data sets have to be very real time to make decisions that are relevant in the moment. And sometimes they need to be kept at the edge because you have a lot of video data, for example, at the edge to make good decisions on consumer behavior or inventory like I talked about before, all these new applications that are coming.

So our customers are quite excited about it. The good news, and I've been saying this for the last couple of years, is that I see a lot of innovation that's happening on that front because of the unsure footing that a lot of people have in the macro condition, people aren't really leaning into it, but I really look forward to the days that they are and these applications come online because I think it's going to contribute a lot to the data growth.

Ashley Ellis
Analyst, Credit Suisse

Thank you.
Operator: And our next question will come from Tristan Gerra with Baird. Please go ahead.

Tristan Gerra
Analyst, Robert W. Baird & Co., Inc.

Hi. Good afternoon. Just following up on some of the questions on pricing. I understand that controlling production is a way to get back over time to your utilization rates and gross margin target. But is the price decline in NAND that we've seen recently impacting some of the pricing that you're looking at for HDDs or is there basically a possibility of share shift toward the NAND given the pricing that NAND is undertaking currently? And how do you react to that?

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

Tristan, I think that back in the day that the legacy markets were obviously -- went through some transitions because of this. There may be some happening in the consumer markets. That's relatively small. The impact is relatively small. I think we still have a pretty good value proposition in the consumer markets as well.

In the mass capacity markets, not really. I mean, I think the people running big mass capacity rigs either -- they understand both technologies and they use both technologies. They're not really making a trade-off of one versus the other. I think NAND, we can all see that the business is tough over there. I think everybody is in tough shape and I feel for some of those guys because the world needs their technology, I think we need their technology as well to make sure that they do their part and the layers they're relevant in, but I don't think it affects mass capacity long term.

Tristan Gerra
Analyst, Robert W. Baird & Co., Inc.

Great. Thank you.

Operator: And this will conclude our question-and-answer session. I'd like to turn the conference back over to management for any closing remarks.

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

Thanks, Cole. As you heard today, Seagate is acting with speed and agility to manage through a tough near-term market environment. At the same time we're executing our strong mass capacity product road map that makes us well-positioned to enhance customers' value and Seagate's financial performance. I'd just like to close by thanking all of our stakeholders for their ongoing support, and thanks for joining us today.

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