

22-Oct-2024

# Seagate Technology Holdings Plc (STX)

Q1 2025 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the Seagate Technology Fiscal First Quarter 2025 Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please note this event is being recorded.

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

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### Shanye Hudson

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

Thank you. Hello everyone and welcome to today's call. Joining me are Dave Mosley, Seagate's Chief Executive Officer; and Gianluca Romano, our Chief Financial Officer.

We've posted our earnings press release and detailed supplemental information for our September quarter results 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.

We've not reconciled certain non-GAAP outlook measures because material items that may impact these measures are out of our control and/or cannot be reasonably predicted. Therefore, reconciliation to the corresponding GAAP measures is not available without unreasonable effort.

Before we begin, I'd like to remind you that today's call contains forward-looking statements that reflect management's current views and assumptions based on information available to us as of today, 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.

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.

Following our prepared remarks, we'll the open call up for questions. In order to provide all analysts with the opportunity to participate, we thank you in advance for asking one primary question and then reentering the queue.

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

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### William David Mosley

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

Thank you, Shanye, and hello, everyone. Seagate delivered a strong start to the fiscal year with revenue growing nearly 50% and non-GAAP gross profit increasing over 150% compared with the prior year period.

These results demonstrate our ability to drive profitable growth, which is the outcome of sustained supply discipline and the strategic cost efficiencies that we have built into our operations.

Fiscal first quarter revenue came in at \$2.17 billion and non-GAAP EPS was \$1.58, both were above the midpoint of our guidance range, benefiting from a better-than-anticipated mass capacity product mix and an improved pricing environment.

Continuing cloud demand strength coupled with improvement in the enterprise and OEM markets, drove top line growth and also contributed to enhanced profitability. Company non-GAAP gross margin expanded by 240 basis points sequentially to 33.3%, the highest level in over a decade. This impressive performance was driven by our HDD business, with non-GAAP gross margins now in the mid-30% range.

Amid a healthy industry supply/demand environment, we anticipate further margin expansion opportunities as we ramp our portfolio of high-capacity nearline drives, including our Mozaic based HAMR products, which I'll discuss shortly. The increasingly favorable business landscape combined with our industry-leading technology road map, lends growing confidence in Seagate's future opportunities. Reflecting this confidence, we are increasing our quarterly dividend by nearly 3%.

Our optimism is reinforced by our build-to-order model, which provides us with good demand visibility over the next few quarters. We see the potential for significant revenue growth for fiscal 2025, inclusive of the seasonal demand fluctuation that is typical for the March quarter. We are maintaining supply discipline, and we'll address near-term exabyte demand growth by efficiently leveraging our available capacity. Beyond that, we are well-positioned to support further demand growth, mainly through technology node transitions with HAMR playing a vital role, as we complete qualifications and ramp shipments.

Turning to the mass capacity market trends. Cloud demand for our nearline drives remains robust, and we believe customers are managing their inventory levels well. In the September quarter, revenue growth was driven by US cloud providers, though we continue to see positive demand trends globally. For instance, some customers have highlighted the growing use of video content on e-commerce and social media platforms. Data indicates that video is the most effective format for engaging digital audiences.

Furthermore, research suggests that longer-form video content and personalization through AI technology can significantly enhance revenue generation opportunities for our customers. These trends bode well for mass capacity HDDs, which are ideally suited for storing large and diverse data-intensive video content. HDDs comprise close to 90% of bytes stored in public cloud environments and we are confident that proportion will hold for the foreseeable future.

Among the enterprise and OEM customers, we observed the first meaningful uptick in nearline demand following a multi-quarter period of stability. This increase reflects an improvement in traditional server demand, as well as higher storage content per unit, pushing the average capacity per enterprise drive to a new record high. In the VIA markets, sales remained stable in the September quarter and slightly ahead of our expectations. We are witnessing a shift towards more cloud-like storage solutions that utilize higher capacity drives.

This transition is due in part to longer data retention needs and increased video analytics. Our HDD solutions, including Mozaic HAMR products, provide cost efficiency and scalability to our VIA customers' evolving demands. These same advantages are also crucial for generative AI applications, which is why we continue to believe gen AI will be a driver of mass capacity storage simply by being a powerful catalyst for data creation. HDDs provide a trusted, economical and secure platform to host data that feeds into AI engines and preserves the content produced by AI-powered applications.

This data is ultimately fed back into the AI training models in a continuous cycle. As data center architects prepare for gen AI to move into the widespread adoption phase, they continue to grapple with cost, scale and power challenges. Seagate's product road map is addressing each of these key challenges. Compared with NAND-based storage alternatives, our HDD solutions offer approximately 6 times lower cost per terabyte, and HDDs are roughly 9 times more capital efficient, delivering the economies of scale necessary to support the anticipated surge in data demand. And according to cloud customers, HDDs have 10 times lower embodied carbon per terabyte relative to NAND, which can translate into a much lower carbon footprint, very important given the world's growing number of data centers.

That provides a good segue into our product ramp and qualification plans. We have three primary areas of focus for fiscal 2025 aimed at driving profitable growth over the long term, and we're progressing on all of them. They include ramping the company's last PMR platform, expanding Mozaic adoption and executing our Mozaic product road map that will enable Seagate to address the breadth of customers' mass capacity storage needs.

Consistent with our plans, we began to aggressively ramp our final PMR platform in the September quarter, which is currently up to 28 terabytes in capacity. We are very pleased with the pace of customer adoption. These drives have quickly catapulted to our second-highest revenue product, and we're continuing to both ramp volume and broaden our customer base in the December quarter.

We've expanded customer qualifications on our 3+ terabyte per disk Mozaic HAMR-based platform with a few customer quals already completed, spanning the enterprise nearline, VIA and NAS market segments. The qualification with our lead CSP customer is progressing well through what has been a very intensive and thorough testing process. The learnings that we have gained are already being leveraged in the future customer qualifications and product generations. To that end, HAMR qualification drives are now in the hands of multiple global cloud and enterprise customers.

Our expectation for shipment and revenue ramp timing across the broader customer base still points to mid-calendar 2025. Our confidence in HAMR technology remains strong, and customer feedback has reinforced our value proposition that the Mozaic platform provides the foundational technologies required to satisfy high-capacity storage requirements at the lowest total cost of ownership.

We expect to extend our technology leadership as we deliver on the next stage of our HAMR road map, the 4+ terabyte per disk platform. As a reminder, the step function capacity increase to 4 terabytes per disk is being achieved entirely through areal density gains, supporting our cost per terabyte reduction path, with additional benefit to both customer TCO and Seagate's structurally improved margin profile.

In closing, Seagate is performing well amid an improving demand backdrop with healthy industry supply dynamics. We are at an exciting inflection point rooted in the structural changes we've made to our business and with our compelling technology road map. These factors underpin our ability to build on the last four quarters of strong sequential performance and drive future profitable growth to create long-term value for our customers and stakeholders.

Thank you. And I'll now hand it off to Gianluca.

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## Gianluca Romano

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

Thank you, Dave. Seagate started fiscal 2025 delivering strong revenue and profitability growth for a fourth consecutive quarter. September quarter revenue was \$2.17 billion, up 15% sequentially and 49% year-over-year.

We increased non-GAAP operating income 35% sequentially to \$442 million, translating to a non-GAAP operating margin of 20.4% revenue. And our non-GAAP EPS was \$1.58 at the high end of our guidance range and reflecting improving demand trends, ongoing price adjustment and continued cost discipline.

Within our hard disk drive business, exabyte shipments grew 20% sequentially to 138 exabytes, and revenue increased 16% to \$2 billion. Mass capacity revenue grew for the fifth consecutive quarter, more than offsetting the expected decline in the legacy business. Mass capacity revenue was \$1.7 billion, up 21% sequentially, driven by continued strength in nearline cloud demand along with a significant uptick in nearline enterprise sales.

Mass capacity shipments totaled 128 exabytes compared with 104 exabytes in the June quarter, up 23% sequentially. Mass capacity shipments now represent a record 93% of total HDD exabyte, reflecting the continued long-term secular growth for cost-efficient scalable storage.

As planned, we began to ramp our 24 terabytes and 28 terabytes PMR, which helped to boost Seagate nearline shipment to 109 exabytes in the quarter, up from 84 exabytes in the prior period. As Dave highlighted earlier, customer reception for this product has been strong and represented more than 20% of our nearline revenue in the September quarter. We expect nearline demand will continue to improve in the December quarter, as shipment for our latest high-capacity products broaden across global CSP and enterprise customers.

Demand for our VIA products remained relatively stable in the September quarter, and we currently project similar revenue in the December quarter. Smart city project remain a key demand driver for VIA products worldwide, and regional economic conditions play a key factor in budget decision for the new projects. The ongoing, economic uncertainties in China has been a headwind for the VIA business in that market. We are cautiously optimistic that recently announced stimulus plan in China would positively impact on VIA demand over time.

Sales of our legacy products totaled \$270 million, representing roughly 12% of total revenue. The remaining 8% of revenue was derived from our other businesses, which held steady at \$164 million. The other businesses include system, SSD and refurbished drives, a business that has grown by about 25% year-over-year and includes drives under our circularity programs.

Moving on to the rest of the income statement. Non-GAAP gross profit increased 24% sequentially in the September quarter to \$723 million. This significant increase reflects a favorable mix shift to our mass capacity products, continued price adjustment and ongoing cost efficiency in improving demand environment.

Our resulting non-GAAP gross margin was 33.3% at the company level. Overall non-GAAP gross margin expanded by 240 basis points quarter-over-quarter, which was slightly more than we had originally anticipated. Non-GAAP gross margin for the HDD business and mass capacity, in particular, remains significantly higher than the corporate average.

Non-GAAP operating expenses totaled \$281 million, up 10% quarter-over-quarter and above our original plan, largely due to higher variable compensation commensurate with improved profitability levels. Other income and expense were \$86 million, and we project similar levels in the December quarter.

Adjusted EBITDA continued to improve and was up 23% sequentially in the September quarter to \$498 million. Non-GAAP net income increased to \$337 million, resulting in non-GAAP EPS of \$1.58 per share based on a diluted share count of approximately 213 million shares.

Moving on to cash flow and the balance sheet. Free cash flow generation was \$27 million, reflecting our initial steps to normalize working capital to support our supply chain while at the same time, meeting increasing mass capacity demand. It will take a couple of more quarters for working capital to fully adjust, which will have some impact to free cash flow generation. Even so, we expect free cash flow to improve in the December quarter and through the rest of the fiscal year.

Capital expenditures for the quarter were \$68 million for fiscal 2025. We will maintain capital discipline and continue to expect CapEx to be at the low end of the long-term target range of 4% to 6% of revenue. We returned \$147 million to shareholders through the quarterly dividend exiting the quarter with 211 million shares outstanding. As Dave mentioned earlier, the company approved an increase to our quarterly dividend, raising the quarterly payout to \$0.72 per share, reflecting our long-term confidence in the business.

We closed the September quarter with \$2.7 billion in available liquidity, including our undrawn revolving credit facility. Inventory increased to \$1.4 billion including material that we are staging in support of improving mass capacity demand.

Our debt balance was \$5.7 billion at the end of the September quarter, with more than 90% of our long-term debt obligation maturing in fiscal 2027 and beyond. We exited the quarter with a net leverage ratio of 3.2 times and expect to see further reduction in the coming quarters.

Turning now to our outlook. Mass capacity revenue continue to trend higher, with growth driven by global cloud customer demand for our high capacity nearline drives, along with ongoing improvement in the enterprise and OEM markets. These positive trends are expected to more than offset lower sales into the legacy and other markets, we anticipate profit to further expand from the richer mix of mass capacity revenue that I just described and ongoing pricing actions.

With that as a context, December quarter revenue is expected to be in the range of \$2.3 billion, plus or minus \$150 million. At the midpoint, this represent an increase of 6% sequentially and 48% year-over-year. Non-GAAP operating expenses are expected to be in the range of \$285 million. At the midpoint of our revenue guidance, we expect non-GAAP operating margin to expand into the low 20s percentage range. We expect our non-GAAP EPS to be \$1.85 plus or minus \$0.20 based on a diluted share count of approximately 214 million shares and a non-GAAP tax expense of about \$20 million.

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

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## William David Mosley

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

Thanks, Gianluca. In closing, Seagate is achieving significant profitability expansion in a favorable demand environment. I'm confident that the structural improvements we have implemented and our differentiated technology road map will further enhance said profitability and meet the evolving requirements of our customers. Demand for our high capacity nearline drives remained strong and we will build on that momentum to deliver scalable, cost-efficient storage solutions to support the anticipated growth in data demand, including from GenAI applications.

Seagate's dedicated global team, strong business model and technology leadership form a winning combination that positions us well for future success and underscores our confidence in deploying capital and enhancing value for our shareholders.

Operator, let's now open up the call for questions.

## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] And our first question today comes from Wamsi Mohan with Bank of America. Please go ahead.

**Wamsi Mohan**

*Analyst, Bank of America Merrill Lynch*

Q

Yes. Thank you so much. Dave, I was wondering if you could flesh out a little bit your commentary around this build to order and very good demand visibility into this fiscal year. You noted significant demand growth, including some seasonality that you typically expect around March quarter. I was wondering if you could maybe elaborate a bit on maybe some bookends around what you're thinking around demand growth as March quarter seasonality going to be different from what you've experienced before.

And I'd be curious to also hear your thoughts around, if I could, how you're expecting to compete versus your competitors' products, which have slightly higher capacities currently as you're ramping HAMR. It sounds like HAMR gets there sort of mid next year in volume. Thank you so much.

**William David Mosley**

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

A

Thanks, Wamsi. So, a couple of things. If I go back at six months ago or a year ago, we instilled these build-to-order models largely to get predictability, and I think it's working well. As we look into the next year, we're confident that we booked those quarters pretty well. So, I'm very happy the way we're running the business given that predictability. And we're only going to build what we need to build.

We're still not fully recovered as an industry from what we just went through a couple of years ago. So, I'm quite pleased with how the build-to-order models have gone. There is some seasonality in some markets as you allude to, and we'll watch that carefully. But I think everyone is a little cautious on next year. From a cloud perspective, I don't think inventory is built up any, I think the buffers are still low from my perspective. And so, I think we are happy with the cloud predictability, the mass capacity predictability from here.

On the second part, I think from a capacity point leadership perspective, we're shipping the leading products. From a CMR perspective, no one else is shipping over 30 terabytes for sure. And as we mentioned in the prepared remarks, there's capacity points even higher net going up. And if we put SMR on top of that, we can qual even higher. So, I'm very comfortable with our positions there. So, I'm not quite sure exactly what you're referring to on capacity leadership or lack of leadership. I mean, from our perspective, we've got to get all the quals and all the ramps done, and so on. And then we get on to 4 terabytes of disk and so on. We're very comfortable with our technology portfolio that way.

**Wamsi Mohan**

*Analyst, Bank of America Merrill Lynch*

Q

Thanks, Dave.

**Operator:** Our next question comes from Krish Sankar with TD Cowen. Please go ahead.

**Krish Sankar***Analyst, TD Cowen*

Q

Yeah. Hi, thanks for taking my question. Dave, I have a question on your market share. Historically, you're more in the mid-40s, but last few quarters, it's kind of dipped down to a 30% to high 30% range. Can you talk about the factors that are behind the low share? Is it potential disruption from HAMR causing temporary share loss? Is it customer specific where WD customers are ordering more than yours? And along the same path, how to think about the industry pricing in calendar 2025? It's been extremely rational in HDD. How do you think about it in 2025? Thank you.

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

A

Thanks, Krish. Yeah, for market share, I've said a number of times, market share is an outcome of running your play. And exactly to Wamsi's question, we changed our plays a year ago when we said we want this build to order. So, we said, I want predictability, longer time horizon rather than we're building a bunch and then hoping to push it into a channel and going for market share or something like that. I think when we were at the bottom of the demand cycle, market share doesn't really matter. It's more the predictability of the cash that you're generating and so on.

As we get back into things, obviously, we're taking – now that the margins are higher, we're getting rewarded for the money that we extend and the investments we've made and so on. Then we'll clearly take more of that demand our way. And so, I think the market share will re-equilibrate. From an exabyte share perspective, I think we'll be just fine because as customers want to continue to push the TCO proposition going to higher and higher capacity points, I think we're going to be fine there. On the pricing side, I think I'll let Gianluca answer the question there.

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

A

Yeah. Thank you, Dave. Yeah, I think the pricing environment continue to be positive for the industry. Every quarter we have seen a little bit of improvement and this is what is also driving our gross margin higher a little bit, every quarter. As you know, on the cost side, we still had some unused capacity in the June quarter. And in September quarter, we don't have any of those extra costs. So we also had a little bit of that help in the gross margin.

And going into December, if you look at how we guided, we expect further improvement in gross margin, further improvement in operating margin, which is, of course, very important to us. And that is coming from the mix, ramping more of our latest PMR product. Of course, we also have a certain volume of HAMR in our December quarter and the pricing action that is still ongoing and we have a good balance between supply/demand in general for Seagate and I think for the industry, and we are continuing for our long-term strategy.

**Krish Sankar***Analyst, TD Cowen*

Q

Thanks, Dave. Thanks, Gianluca.

**Operator:** And our next question comes from Amit Daryanani with Evercore. Please go ahead.

**Amit Daryanani***Analyst, Evercore ISI*

Q

Good afternoon. Thanks for taking my question. I guess, the question really, Dave, is around there's always this fear that the HDD industry broadly, Seagate specifically, are sitting at these cyclical peak levels. I'd love to get your perspective, as you look at the exabyte shipment that you have right now, how do you get confidence that what you're shipping is actually getting deployed by your customers versus, perhaps, ending up in inventory for them? How do you kind of gain that confidence?

And then, really related to that cyclical fear, I would say, you folks sound very confident that there's a lot more upside to gross margins versus where you are today, which is actually above your long-term target. What do you think is the appropriate margin frame for Seagate as you go forward now?

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

A

Thanks, Amit. Yes, we have run a cyclical business over the many, many years. I think it's changed quite a bit as we came down from client server. There used to be lot of seasonality in that market. And now, as we're in the cloud, the cyclical, I'm not sure it's totally periodical, but the pandemic, in particular, caused a very big bubble and then a big crash on the back side of it. So I think that's kind of an anomaly there.

How do we know what customers actually have? We have to triangulate ourselves, and I think we've really improved our processes for being able to do that. But we're also not pushing in nearly as many drives, total units or exabyte points. And some of that's – the build-to-order model, actually, helps us with quite a bit. So that we know that we're not overbuilding if you were planning to overbuild.

Exactly to your point on upsides to gross margin, I mean, we believe that the way we bring on more capacity is to drive for more areal density gains, and we have to go work the cost on those platforms. And that's what we're really focused on doing, making sure that we can introduce terabytes in the 20s and 30s and 40s with lower and lower costs to be able to serve the market. A good TCO proposition for our customers who are building data centers, and we want to support data centers for a long time, is to put more capacity online because it's so much more efficient for them. But we need to be able to get that efficiency through our continued cost reduction also. So I do think there's significant upside to gross margin still. But it all starts, to your point, with supply and demand – managing supply and demand properly.

**Operator:** And our next question today comes from Erik Woodring with Morgan Stanley. Please go ahead.

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

Q

Great. Thank you, guys, for taking my question. Gianluca, maybe if we just stay on the theme of gross margins here. I think your guidance for the December quarter implies about a 34% gross margin, up roughly 70 basis points sequentially. You've been growing gross margins by about 2 to 4 points sequentially over the last four quarters. And so, I'm just wondering, if pricing and mix are still favorable. And obviously, Dave just made some positive comments on gross margins. Can you help me understand why we might not be seeing more gross margin expansion in the quarter, again, relative to the multiple points of gross margin expansion you've been able to drive over the last 12 months? Thanks so much.

**Gianluca Romano**

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

A

Yes, Erik. Well, as I said before, in the September quarter, we also had the support from better cost structure because of higher capacity and the elimination of the underutilization charges. That was about 100 basis points in our gross margin improvement. We are not going to have that improvement in the December quarter because now we don't have any other underutilization charges anymore.

But we are still progressing with our pricing structure, and we are making a good ramp of our latest PMR product, and we will see some volume on HAMR. So all those are positive. And as you know, we guide based on forecast that we have at the beginning of the quarter, and then we execute during the quarter as best as we can. And our focus is to keep improving quarter-after-quarter. We are not trying to increase too much at one time. We want be consistent and keep this cycle up for as long as we can.

**Operator:** And our next question today comes from Toshiya Hari with Goldman Sachs. Please go ahead.

**Toshiya Hari**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Thank you so much for taking the question. I had a multipart one on HAMR. I think on the last call or at a conference, you guys talked about your expectation around getting qualification at your lead customer in Q3, I believe. Is that now Q4? Is that early 2025? Any thoughts on that would be helpful.

And then, Dave, you talked about additional cloud companies – or customers having qualification products on hand. Should we expect the qualification process at some of those customers to be smoother than your lead customer, given sort of the debugging process that you've been through over the past year or so? Thank you.

**William David Mosley**

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

A

Yeah. Thanks, Toshiya. Yeah, the failure mode that slowed us down as we ramp to high volume this spring and summer is behind us. The teams worked really hard to make sure we get all the process improvements that we talked about last time in.

I did speak on last earnings call about the – our confidence was based on the test beds that we have running that are all designed to detect these fail modes with intense stresses that are way beyond our spec. And here we are another quarter later, we have more drives, more configurations, running more modes of tests, and we haven't seen hide nor hair of the failure mode. So we're confident that it's behind us. That's that initial learning that we get relative to proving it. Sometimes it takes a little bit of time with the customers to prove it, but I'm confident we're going to be able to prove it right now, and those tests are ongoing.

The customers know exactly where we are. When we think about qualifications, there is a lot of different facets to quals, it's interoperability and different data center applications and so on and so forth. No significant concerns there. It really does come down to this one last issue. And that's why we have confidence that no one else is going to see it because as we ramp to high volume, those other customer – we've got this problem fixed, I'd say, those other customers wouldn't. Some multiple non-cloud customers have already qualified the product and we're already getting volume shipments there. They run tough quals themselves, but may not have these same kinds of stresses. But now that we have the recipe, I think we're going to apply it to everyone.

**Toshiya Hari***Analyst, Goldman Sachs & Co. LLC*

Thank you.

Q

**Operator:** And our next question today comes from Asiya Merchant with Citigroup. Please go ahead.

**Asiya Merchant***Analyst, Citigroup Global Markets Canada, Inc.*

Great. Thank you very much. As you guys ramp HAMR and you start to see more qualifications and more shipments, let's say, your December and into the March, how – is that a negative to gross margins, just given the shipment volumes are lower, there might be some ramp issues there. How should we think about overall impact to margins as HAMR ramps? And I get the sense that, obviously, once you guys are much further along, that's a margin driver. But near term, how should we think about the impact to margins from HAMR ramping? Thank you.

Q

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

Asiya, yeah, near term, we don't want to give it away. Long term, we don't want to give it away. So, we definitely want HAMR to be accretive to gross margin. And we think it does add benefit to our customers as well. So there's a trade-off. Do they want to increase the higher – the capacity for the data center build-outs that they're doing. And then we have to say – you have to make sure you pay for it to replace the drives. As we said before, our factories are largely full, so to take drives out of those – or take the supply out and turn it over to HAMR, we have to make sure we're getting paid for it. And I'm confident we can do that in the near term as well. It's just a matter of managing the supply and demand picture properly.

A

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

Yeah. I'll say on the cost side, a similar level of volume. HAMR cost per terabyte is below the PMR cost per terabyte. So, for sure, there is an advantage on HAMR. And the pricing, of course, depends on the timing and where we are in the cycle. But at this point, in the short term, there is no reason why HAMR should not be accretive to our gross margin.

A

**Operator:** And our next question today comes from Aaron Rakers with Wells Fargo. Please go ahead.

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

Yeah. Thanks for taking the – thanks for taking the question. So, a couple of just real quick model questions. It looks like your OpEx was a little bit higher than you expected in this quarter. I'm curious, relative to the \$285 million guide, how do we think about the trajectory of operating expenses as we look out into the March quarter beyond any kind of framework of what kind of we could think about from a normalizing operating expense perspective?

Q

And then as the – kind of quick follow-on. As you get the, I think, it's \$480 million of debt maturing in January, from that level, how are you thinking about the possibility of reentering share repurchase activity going forward?

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

A

Yes. On the OpEx, the increase between June and September is only due to variable compensation. So, we are not hiring more people. It's just a matter of – last year, we didn't have variable comp. And this year, we have variable comp at a fairly good level. So, from here, I would say, probably we stay fairly flat through the rest of the fiscal year, around \$280 million to \$285 million, I think that is the new range.

The debt, as you said, is maturing in beginning of January. So, as we said before, we are going to address that with cash on hand. So we start reducing our debt. We want to be even little bit lower before we'll start share buybacks. So I'll say, as you know, we have increased dividend that is a top priority for the company, and then we want to take care of the debt. And then after that, we will look at share buyback, probably a little bit further in time.

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

Q

Yes. Thank you

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

A

Thank you.

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

**Timothy Arcuri***Analyst, UBS Securities, LLC*

Q

Thanks a lot. I had a question about the capacity outlook now given that you're just kind of bumping up against your max today. So, unless you decide to add more, you're – I mean you're going to ship close to that 130 exabyte of nearline, probably not in December, but quite soon. So, I mean you're growing nicely off the bottom on mix and on exabytes coming back. But if you're not going to expand capacity, should we think of things starting to flatten off from here? And I realize that pricing is going to go up. But it seems like you kind of lose a degree of freedom in the model unless you start to expand exabyte capacity. Thanks.

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

A

Yeah, Tim, I think exactly to your point, we'll expand exabyte capacity by transitioning to new products. And so, if you think about it, as I go to from 20 terabytes-ish to 30 terabytes-ish to even 40 terabytes someday, we'll be able to expand exabyte capacity without adding significant capacity from a driver heads or media perspective. We'll just use it much more efficiently on an exabyte basis. And that's where we're confident that we'll be able to also take out cost at those higher capacity points, which is what builds into the margin proposition into the model.

**Operator:** And our next question today comes from C.J. Muse with Cantor Fitzgerald. Please go ahead.

**C.J. Muse***Analyst, Cantor Fitzgerald & Co.*

Q

Yeah. Good afternoon. Thank you for taking the question. Dave, in your prepared remarks, you talked about good visibility for growth in fiscal 2025 notwithstanding seasonality for March. So, I was hoping you could kind of speak

to where your visibility is today for nearline? Is it three, six, nine months? And then, based on that backdrop, how should we be thinking about, at least for mass capacity, what seasonality will look like into the March quarter?

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

A

Yeah. I think mass capacity is pretty full, and it goes out that nine-month period that you talked about, C.J. And that's a virtue of the build-to-order model that we've actually established on. I think customers understand that. They get predictable economics. And we're all going through these qualification processes so they get access to that technology as well. That's all serving as well.

I think right now, I would say the total demand is not significantly higher than historical demands. And I certainly don't think there's inventory buildup going in or anything. So, I don't think there's a cycle coming. I think we're running a fairly predictable business. And we'll get better visibility as we get through, obviously, early next year. People are re-upping, if you will, the build-to-order configurations. But right now, I feel fairly confident certainly through the front half of the year and probably even into the back half of the year.

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

A

Yeah. On the seasonality, C.J., usually, the majority of the seasonality is on the legacy part of the business where the March quarter is a lower quarter -slowest quarter in the year. But we also have part of mass capacity, in particular, VIA, so the surveillance part of the business, that is usually fairly weak in March and they start to grow in June and is fairly strong in September and December. So, when you model your four quarters for calendar 2025 or consider that there is seasonality not only in the legacy part, but also in some of the mass capacity products.

**C.J. Muse***Analyst, Cantor Fitzgerald & Co.*

Q

Very helpful. Thank you.

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

A

Thank you.

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

A

Thanks.

**Operator:** And our next question today comes from Steven Fox with Fox Advisors LLC. Please go ahead.

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

Q

Thanks for taking my question. Good afternoon, guys. I guess just following up on the point on how much capacity you have available. I think I understand how you create capacity when you go from like 3 terabytes per platter to 4 terabytes per platter. But from here, going over, say, the next 12 months, I think last quarter you talked about debottlenecking. There's a potential that maybe you do get a better cycle in enterprise and VIA next year. Like,

how do we get comfortable with the idea that you can manage all that and still satisfy all your customer needs? Or any further color on that would be helpful.

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

A

Yeah. I think that's a – it's a question – good question about how big could things get. If the edge really turns on, if gen AI turns on, which I would say is still very, very early innings of that, if there's some kind of macro recovery in all the markets. And we're not there yet. We're still being very cautious on any supply. And any additional supply we would have to put on would be very long lead time. So, we can satisfy more exabytes exactly as you described, and we've talked about earlier. But additional drive demand, if you will, I think we'd have to add supply, which would be much longer lead time.

As we spend 4% of our revenue on CapEx, we do add technology transition capacity, so you get some small capacity adds because of that. As you're buying new tools, they tend to be more efficient. But the growth would be necessarily slow, I think.

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

Q

Okay. That's helpful. Thank you.

**Operator:** And our next question today comes from Ananda Baruha (sic) [Ananda Baruah] with Loop Capital. Please go ahead.

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

Q

Yeah. Good afternoon, guys. Thank you for taking the question. I guess, Dave, sort of sticking right there on the capacity question. If things progress as you anticipate with HAMR in the event that even with HAMR and areal density increases, sort of data increases, gen AI, video apps, et cetera, all of that were to put you in a position where you to want to be increasing capacity. You just mentioned long lead times, what is that process? Can you give us some sense of what that process could look like? We've also heard about just kind of the whole component change that you have also needs to be tended to, I guess, just what would be the ways that you guys could maybe generate that. That would be helpful. Thanks a lot.

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

A

Yeah. Thanks, Ananda. I think that we fixate in our industry on highest capacity point. And obviously, that's the – max capacity gets a lot of attention. But when you get into the growth of some of these other markets, we would be talking about 20 terabytes or maybe even less than that. What's your value prop at that level. And by pushing forward in areal density, we get to take components out of those capacity points. So, we can actually hit much more aggressive price trends if we want to and still maintain really good margins.

And then those components that are freed up go – you can make twice as many drives with half the components going – being dedicated to each drive, right? So, I think that's where if we saw resurgence, areal density helps solve a lot of problems because you can go address those markets that are half capacity, if you will, of the max capacity in a much more efficient way.

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

Q

I got it. That's super helpful. And just to complete that, does that mean like even in like a strong case with HAMR, you guys feel pretty good when you sort of map out ability to hit exabytes shipped for the industry for a good amount of time to come. I mean, measured in probably years, not months.

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

A

Well, it depends, right? We have our supply plan. If demand is much higher than our supply plan, of course, we will have a little bit of unbalance that we have time to address. But our focus is on technology transition, is not on more units. And we think this is the most profitable way for the industry to progress in this period of time, and this is what we want to do. So let's see where demand is in two or three quarters from now, but we know where our supply will be.

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

Q

Thanks, guys.

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

A

Thanks.

**Operator:** And our next question today comes from Vijay Rakesh with Mizuho. Please go ahead.

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

Q

Yeah. Hi, Dave. On the HAMR, just wondering if you can give – size the, what do you think unit shipments could be for calendar 2025. And Gianluca, I think in the past, you've talked about trying to bring on some of the idled fab capacity and head count as you start to bring some capacity back on. Can you lay out how that road map looks like? Thanks.

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

A

Thanks, Vijay. Yeah, we didn't speak specifically about how many units and how fast we'll push. We said that mass qualification will be done for all these customers that we just shipped to probably by mid-2025.

From my perspective, the factories are relatively full right now. And so, as we plan with those customers and they say, hey, I'd like the exabytes in this form rather than this form, we'll make the transition, but it will be probably less of a transition than we would have made, say, a year ago when we had empty factories, we would have ramped much more aggressively. This time, I think we'll make sure that we pivot accordingly and carefully.

It's very important to realize that the components that we use in our last generation of PMR product are very, very similar to the components we use in HAMR as well. So not the critical components, heads and media obviously, but all of the other components. And so, we feel very comfortable being able to pivot from one product to the other if we have to. The mechanics, the electronics, there's still much leverage there. So that's what allows us that flexibility.

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

A

Yeah. From a idle capacity standpoint, I would say at this point, we don't have much idle capacity anymore. So what we are doing is now moving faster into technology transition now with our latest PMR products that we are ramping very aggressively already in the September and December quarter. And then, the transition to HAMR will generate a certain level of additional exabytes that will support the increasing demand.

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

Q

Right. Thank you, Dave and Gianluca.

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

A

Thanks, Vijay.

**Operator:** And our next question today comes from Thomas O'Malley with Barclays. Please go ahead.

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

Q

Hey, guys. Thanks for taking my question. Dave, if you would just humor me as I try to clarify things, too. But just in the back half, it sounds like you are fully at capacity and technology transitions are getting you some growth; and it sounds like that looks really good. It's obviously been a couple of really good quarters for you guys. But let's just say we head out into fiscal year 2026, you're talking about more volume per HAMR kind of coming in the middle of the next calendar year. And so, you would imagine more substantially into the next fiscal year for you guys.

If you guys were to see further delays on the HAMR side, what actions would you guys take just given the fact that you're at capacity and from a factory perspective and you wouldn't see the technology transitions? Just walk me through what you would do in that instance. Obviously, that's not ideal and you're not planning for that, but we've seen the qualification slip a couple quarters with the largest guy. So just want to understand how you guys think about things if it's further delayed.

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

A

Yeah. I'm not really worried about it for exactly the reasons that you talked about. We see the how the test sets are running. We see how the qualifications are running, and we're very confident in being able to make the pivot. But exactly to the earlier question, I think it was Vijay's question, we can pivot from the last generation PMR to the HAMR technology very, very easily. And last generation PMR is a great product for us with really good margins that we're not fully ramped on yet either. So from that perspective, if it came out like one quarter of delay and some customers said I want like this rather than like this, we can very easily pivot back.

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

Q

Helpful. And then, in terms of just your outlook on AI, you obviously made some comments earlier on the call. You're saying it's still kind of on the common terms of initial conversations with customers, do you have a

timeframe of when you may start to see some contribution there? Is that something that would come as early as this next fiscal year?

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

A

Yeah. Thanks, Tom. This is a really complex topic because I think there's a lot of different things that are called AI. Some of them are traditional workloads that we've seen for years and years, and some of them are brand-new workloads. And we are seeing demand that's coupled to brand new workloads, right, with purchase orders that reference specifically things that people would identify as predictive AI or gen AI applications. What I would say is that the recent trends are really more towards video, which we talked about in our prepared remarks.

And that's the biggest thing that we're seeing right now grow, and I'll call that AI for a while because I think it is a much more efficient way to drive our customers' business models, and we see that demand flowing through right now. I don't think that there's a bubble going on in there. I think there is a continued value competition happening in a bunch of different vectors with new technologies, new applications coming that you could continue to drive video as a fundamental value store for our customers. That's why we're excited about it. And I know some people call those traditional workloads, but I'll give credit to AI because I think they're being used in very interesting, creative new ways.

**Operator:** Our next question today comes from Mark Miller with The Benchmark Co. Please go ahead.

**Mark Miller***Analyst, The Benchmark Co. LLC*

Q

Congratulations on your upside results and your good guidance. I just want to go back to AI and the opportunity there. Do you believe that PCs with AI chips will drive a major refresh cycle? And if so, when? Second half of next year?

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

A

Yeah. It's, Mark. I don't have a ton of visibility into that. Although I do talk to some of these customers that I grew up with about that exact topic. Look, I think that the PC space has been relatively slow to adopt new applications of late, and I think that's about to change. How quickly it will change is still anybody's guess. And of course, it's not about specking new hardware. It's about specking new applications that had come. And most of those applications are, to your point, they're video applications.

So, yes, I do think that when you can enable creative professionals certainly to do – to create especially video, but audio counts as well and all kinds of other analytical tools that happen at the edge, you allow them to create much more aggressively. I think they'll spin off more data. Some of that data will be serviced by the cloud service providers they already are. And so, we see those applications growing, but some of that may be closer to the edge, and we're really excited about that. It's still very early. But I can't really predict where AI PCs are going to be just yet. But I think from what I'm seeing from application development, I'm excited about it, I think it is going to be a driver in the near future.

**Mark Miller***Analyst, The Benchmark Co. LLC*

Q

Okay. Just one other question. You mentioned there's a little idle capacity at the moment. What is the factory utilization in your head and media fabs? Are they 85% or higher?

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

A

Yeah, fairly high in both. I think we do have capacity as we transition to HAMR, we can – because we've dedicated a lot of that space to experiments, if you will, in the last few years. And so, now, some of that can become production instead of experimentation, but I think very high, over 90% utilization right now. And that's the way we want to keep it. We don't want to dip down because, as you know, that has a lot of cost implications back into the business, and we want to make sure we maintain the staff running full.

**Mark Miller***Analyst, The Benchmark Co. LLC*

Q

So the greater 90% is both for head and media fabs, is that correct?

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

A

That's right.

**Mark Miller***Analyst, The Benchmark Co. LLC*

Q

Thank you.

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

**Karl Ackerman***Analyst, BNP Paribas Securities Corp.*

Q

Yeah. Thank you. I was hoping you could discuss your build-to-order visibility and whether it's based on take-or-pay contracts or if it would be better characterized as strong indications of interest, as you and customers plan their storage capacity additions over the coming quarters. And secondarily, if I may sneak in another one. I was just hoping you could also discuss the mix of SMR today, and perhaps going forward as we think about the mix of these higher capacity products going into December and into 2025. Thank you.

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

A

Yeah. Thanks, Karl. I'll let Gianluca do the build-to-order question. Just on the SMR, I say this many times, there's only a couple of cloud customers that really take SMR. There's a couple client server customers that take SMR as well, so we ship it into multiple markets. But we talk about SMR versus CMR, but I just look at it as drives, drives, how does the customer need them, and we can configure them for those applications for those particular customers, whether it's one or two people accordingly. From my perspective, we have a great technology set that we can deploy every place, and we'll try to keep those factories as full as we possibly can and maximize it. So that's how I think about the SMR mix.

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

A

On the build to order, we have different kind of agreements with different customers, but the vast majority are orders that are fully committed by customers out in time.

**Karl Ackerman**

*Analyst, BNP Paribas Securities Corp.*



Thank you.

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

**William David Mosley**

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

Well, thanks, Nick. Our strategic improvements and advanced technology road map position us well to meet evolving customer needs and drive future growth. We remain committed to delivering value and scalable storage solutions for our customers. I'd like to thank our dedicated team, our supply chain partners and our shareholders for your continued support. Thanks. Talk to you next quarter.

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

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