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Seagate Technology Holdings Plc (STX)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Seagate Technology's Fiscal Second Quarter 2026 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, 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.

Shanye Hudson

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

Thank you. And hello, everyone. Welcome to today's call. Joining me are Dave Mosley, Seagate's Chair and Chief Executive Officer; and Gianluca Romano, our Chief Financial Officer. We've posted our earnings press release and detailed supplemental information for our December quarter results on the Investors section of our website.

During today's call, we'll refer to GAAP and non-GAAP measures. Non-GAAP figures are reconciled to GAAP figures in the earnings press release posted on our website and included on our Form 8-K. We have 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 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. They 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 are subject to risks and uncertainties associated with our business. To learn more about these 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 open the 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 re-entering the queue.

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

William David Mosley

Board Chair & Chief Executive Officer, Seagate Technology Holdings Plc

Thanks, Shanye. And hello, everyone.

Seagate closed out calendar 2025 with a record-breaking quarter, driven by sequential revenue growth across nearly all end markets. December quarter financial results exceeded both top and bottom line expectations, and set new company records for exabyte shipments, gross margin, operating margin, and non-GAAP earnings per share. We expanded non-GAAP gross margin above 42%, supported by the execution of our pricing strategy, along with an improving mix of our high-capacity drives as HAMR shipments ramp.

Looking at the entire calendar year, 2025 marked a transformational period for Seagate, both financially and operationally. Over the calendar year, we increased revenue by over 25%, improved gross margins by nearly 740 basis points, and expanded operating margins by an even greater amount, demonstrating the profitability leverage in our financial model. 2025 also solidified HAMR technology as the long-term enabler of mass-capacity storage.

We entered the year shipping 3 terabyte per disc Mozaic-based HAMR products to our first CSP customer; and by year's end, quarterly HAMR shipments exceeded 1.5 million units and have continued to ramp. Mozaic 3 HAMR drives are now qualified, with all of the major US CSP customers; and qualifications for our second-generation Mozaic 4 terabyte per disc products are tracking well to plan. These developments align with our long-term areal density roadmap that extends to 10 terabytes per disc, which we expect to deliver early in the next decade.

I want to thank our Seagate teams around the world for exceeding our performance expectations and delivering outstanding value to our global customers. We continue to operate in an exceptionally strong demand environment, particularly within the data center end markets. In the December quarter, we saw sustained demand growth for our high-capacity nearline drives across global cloud data centers, as well as continued improvement from the enterprise Edge. Based on our build-to-order pipeline, we anticipate these positive demand trends will continue for some time.

Our nearline capacity is fully allocated through calendar year 2026, and we expect to begin accepting orders for the first half of calendar year 2027 in the coming months. Further out, demand visibility is strengthening based on the long-term agreements in place with major cloud customers through calendar 2027. Additionally, multiple cloud customers are discussing their demand growth projections for calendar 2028, underscoring that supply assurance remains their highest priority. We will continue to meet strengthening demand through our strategy to maintain supply discipline and satisfy exabyte growth through areal density and advancements, and without increasing unit production volume.

In the December quarter, our average nearline line drive capacities rose by 22% year-over-year, approaching 23 terabytes per drive, with those sold to cloud customers averaging significantly higher. This trend underscores the strong adoption of our higher capacity drives to support demand growth. At the same time, revenue per terabyte sold has remained relatively stable, reflecting the effectiveness of our pricing strategy.

Seagate is well-positioned to continue benefiting from the combination of powerful secular tailwinds and supply discipline. Video applications continue to drive significant demand for hard drives, with platforms like YouTube witnessing 20 million video uploads daily, up from just 2 million three years ago. This staggering pace of growth extends to other cloud video platforms and doesn't yet include the full surge in content generation expected from emerging AI-driven video applications. These applications are not only fueling social media uploads, they're also transforming how organizations turn their data into tangible value, enabling personalized marketing, interactive education and advanced simulations capable of training manufacturing, engineering, healthcare and other professionals.

The strategic value of data is further underscored as new applications and use cases emerge across Cloud and Edge workloads. Among the most promising of these is agentic AI, which relies on persistent access to large volumes of historic data to enable effective planning, reasoning and independent decision-making. Adoption is already gaining momentum, with one recent survey conducted by a leading cloud service provider reporting more than half of participating customers were actively using AI agents. Early adopters are already realizing measurable returns, with benefits ranging from lower costs to increased revenue opportunities.

With the deployment of AI agents at the Edge, where untapped data often resides, we believe the stage is set for a sustained and meaningful increase in data generated and stored that will support inferencing, continuous training, and also maintain model integrity. Modern data centers have evolved to address the complexity and scale that massive workloads bring through sophisticated data tiering architectures, ensuring that the right data is available at the right time and place.

Hard drives are essential to these architectures. Anchoring the mass capacity data tier that stores the vast majority of exabytes, from storing the checkpoint data sets used to train and maintain model integrity to supporting vector databases that provide the context necessary for accurate inference results and agentic AI performance. By leveraging hard drives, data center operators, whether in the cloud or on-prem, can achieve the optimal balance of performance, capacity and cost efficiency at scale.

Against this transformational backdrop, Seagate's HAMR technology roadmap positions us to meet growing demand and deliver ongoing TCO improvement for our customers. HAMR is a proven technology with large volumes of drives running in cloud production environments for more than three quarters now, and performing well across a broad spectrum of use cases. We are systematically ramping our Mozaic 3 HAMR products to qualified customers, while maintaining focus on optimizing the profitability of our available supply.

As noted earlier, Mozaic 3 is now qualified with all major US CSP customers and remains on track to have all global CSPs qualified within the first half of calendar 2026. Additionally, qualifications of our second-generation Mozaic 4 products are progressing well. We expect to begin the ramp of Mozaic 4 later this quarter and have multiple CSPs qualified in the coming months, in line with our plans. We continue to set the pace for the industry, recently demonstrating 7 terabytes per disc capability in our labs.

As one of our largest CSP customers recently aptly described, hard drives are engineering marvels, a sentiment that we obviously share. Our deep expertise across mechanical engineering, material science, nanoscale fabrication and, now, advanced photonics not only enables Seagate to deliver on the HAMR roadmap, but also creates a durable competitive mode for hard drive technology well into the future.

Wrapping up, 2025 was a milestone year for Seagate in every respect: financial performance, operational execution, and technology leadership. We are carrying this momentum into calendar 2026, supported by a powerful demand backdrop as new AI applications start to complement traditional workloads. We will remain highly disciplined and focused on expanding profitability through our higher capacity product mix, underpinned by the strong economics of HAMR.

Our areal density roadmap positions Seagate to sustain the core TCO and efficiency advantages of hard drives as data creation and storage requirements accelerate in the AI era. We believe this foundation creates a compelling long-term value proposition for the company, our customers, and our shareholders.

I'll now turn the call over to Gianluca to cover our results in greater detail.

Gianluca Romano

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

Thank you, Dave. Seagate delivered another quarter of strong year-over-year revenue growth and set new record profitability metrics in the December quarter, underscoring the durability of data center demand trends. Additionally, we strengthened our financial position by retiring $500 million in gross debt and generating over $600 million in free cash flow, marking the highest level in eight years.

December quarter revenue came in at $2.83 billion, up 7% sequentially and up 22% year-over-year. We achieved non-GAAP gross margin of 42.2%, up 210 basis points sequentially. And we expanded non-GAAP operating margin by 290 basis points sequentially to 31.9%. Our resulting non-GAAP EPS was $3.11, up 19% quarter-over-quarter.

These strong financial results demonstrate our ability to execute our strategic objectives, including leveraging our technology roadmap to support demand growth. To that end, we shipped 190 exabytes in the December quarter, up 26% year-over-year, while keeping overall unit capacity relatively flat. The data center market accounted for 87% of our shipment volume, supported by ongoing demand momentum from global cloud customers and sequential growth across the enterprise OEM market.

We shipped 165 exabytes in the data center markets, up 4% sequentially and 31% year-on-year. Data center revenue grew at roughly the same pace, totaling $2.2 billion for the quarter, up 5% sequentially and 28% year-on-year. Against the strong demand backdrop, both cloud and enterprise customers are transitioning to higher capacity drives. Average cloud nearline capacity increased to nearly 26 terabytes in the December quarter, and will continue to grow with the ramp of HAMR-based Mozaic products.

As Dave highlighted, Mozaic drives are running very well in production environment and meeting all performance, reliability and integration expectations. In the enterprise OEM market, we are benefiting from slight improvement in traditional server units, along with increasing demand for storage servers, driven in large part by the adoption of AI applications and need to store data as enterprise Edge. The Edge IoT markets made up the remaining 21% of revenue at $601 million, supported by anticipated seasonal improvement for consumer products and the VIA client market. We project the broader VIA market to grow over time, with the largest growth contribution coming from VIA nearline products that are captured as part of our data center end market.

Moving on to the rest of the income statement. Non-GAAP gross profit increased to $1.2 billion, up 13% quarter-over-quarter and 44% compared with the prior year period, significantly outpacing revenue growth. Non-GAAP gross margin expanded to 42.2% in the December quarter, up from 40.1% in the prior period. This improvement reflects the ongoing execution of our pricing strategy and the growing adoption of our latest generation high-capacity products, which collectively drove a modest sequential increase in revenue per terabyte, a trend we expect to continue into the March quarter.

Non-GAAP operating expenses were $290 million, relatively flat quarter-over-quarter, and in line with our expectations. Operating expense as a percent of revenue declined to 10.3%, rapidly trending towards our long-term target of 10%. The combination of strong top line growth and significant financial leverage drove an 18% sequential improvement in non-GAAP operating profit to $901 million, almost 32% of revenue. Other income and expenses were $70 million, reflecting slightly lower interest expenses on the reduced outstanding debt balance. We currently project other income and expenses to remain relatively flat in the March quarter.

We grew non-GAAP net income to $702 million, with corresponding non-GAAP EPS of $3.11 per share, based on tax expenses of $129 million and a diluted share count of approximately 226 million shares, including the net impact of our 2028 convertible notes.

Turning now to cash flow and the balance sheet. We invested $116 million in capital expenditures for the December quarter, or roughly 4% of revenue. We are maintaining capital discipline while we continue to transition and ramp HAMR technology. To support these objectives, we anticipate capital expenditures for fiscal year 2026 to be inside our target range of 4% to 6% of revenue.

Free cash flow generation was strong at $607 million, up 42% from the prior quarter. Looking ahead, we expect free cash flow generation to further expand in the March quarter, supported by sustained demand trends, operational efficiencies and capital discipline. These factors position us well for durable long-term cash flow generation.

Cash and cash equivalents totaled just over $1 billion at the end of December quarter, with ample liquidity of $2.3 billion, including our undrawn revolving credit facility. During the December quarter, we returned $154 million to shareholders through dividends. We retired approximately $500 million of Exchangeable Senior Notes due 2028, which serves to limit further dilutive impact from these notes, and optimizes cash deployed for future share repurchases.

Our resulting gross debt balance was approximately $4.5 billion exiting the quarter. Net leverage ratio improved to 1.1 times based on adjusted EBITDA of $962 million for the December quarter, up 16% quarter-over-quarter and up 63% year-on-year. We expect the net leverage ratio will trend lower as profitability and cash generation increase, while we continue to evaluate opportunities to further reduce debt.

Turning now to the March quarter outlook. The demand environment remains strong, particularly amongst global cloud customers. As a result, we expect data center demand will more than offset typical March quarter seasonality in the Edge IoT market. We expect March quarter revenue to be in a range of $2.9 billion, plus or minus $100 million, which represents a 34% year-over-year improvement at the midpoint.

Non-GAAP operating expenses are expected to be approximately $290 million. Based on the midpoint of our revenue guidance, non-GAAP operating margin is expected to approach the mid-30s percent range. Non-GAAP EPS is expected to be $3.40, plus or minus $0.20, based on a tax rate of about 16% and non-GAAP diluted share count of 230 million of shares, including estimated dilution from our 2028 convertible notes of approximately 7.6 million shares. Seagate's strong December quarter performance and March quarter guidance underscore our continued focus on driving growth, enhancing profitability, and optimizing cash generation.

Based on our current outlook, we expect to deliver sequential improvement to both the top and bottom line throughout calendar 2026, and remain in a strong position to enhance value for both customers and shareholders over the long term.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question today will come from C.J. Muse with Cantor Fitzgerald. Please go ahead.

C.J. Muse
Analyst, Cantor Fitzgerald

Q

Yeah, good afternoon. Thank you for taking the question. Given the supply demand dynamics, you're obviously in the catbird seat, and wanted to really try to get some more detail on gross margins going forward. Your philosophy, historically, has been to share the gains, both your customers and yourselves. But at the same time, given this tight environment, you are raising like-for-like pricing. So, curious, is there a framework to think about in terms of the incremental gross margins that we should model from here? And then I guess maybe bigger picture, as you think about overall average pricing per exabyte. We've gone from kind of down double digits to high single digits. And I think we just exited the quarter down 4% year-on-year. Do you see a world where pricing could flat or even move positive year-over-year? Thanks so much.

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

A

Yeah, thanks, C.J. I'll let Gianluca chime in here as well. But the pricing will be dictated by the demand. Right now, the demand is really strong. So, I think as we roll through into 2027 and 2028, we look at how much capacity we're having, we're bringing online by virtue of the fact that we're making all these aggressive product transitions, we'll bring more exabytes to bear. And then, people go out there and renegotiate for those. I think flat to slightly up is certainly possible, and that's the way we're really managing it as we talk to our customers, the value proposition of the new drives as they go up 5 terabyte, 10 terabytes at a time is pretty strong.

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

A

Thanks, C.J. So, on the gross margin, we are executing very well, but executing a little bit better than what we discussed at our Investor Day, where we presented the model with a 50% incremental margin above $2.6 billion of revenue. We have done better every quarter; of course, is our objective to continue to optimize what we produce, what we sell, and find the profitability that we can get from the product. So the model cover over a longer period of time, now two or three years, not two or three quarters, but I'm positive we are continuing to progress in the right direction.

C.J. Muse
Analyst, Cantor Fitzgerald

Q

Thank you.

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

A

Thanks, C.J.

Operator: The next question will come from Wamsi Mohan with Bank of America. Please go ahead.

Wamsi Mohan
Analyst, BofA Securities, Inc.
Q

Yes, thank you. I have a similar type of question. I guess the gross margins in the guide and the incremental quarter-on-quarter gross margins in the guide are very strong. Can you maybe help bridge the drivers between mix and price? Obviously, you've got better mix of data center revenue next quarter, but just wondering if you can dimensionalize that. And the opportunity for pricing, David, you just said sort of flat to up as possible. But as we think about the pricing that might be getting embedded within these LTAs and sort of beyond 2026, why can't that be a lot higher just given the tightness in the supply-demand environment? Thank you.

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

Yeah. I think this gets into how persistent is the demand going to be, Wamsi, when you talk about two or three years from now. The one behavior change that I really like in the last year is that people are starting to say, if I can't get it now, I'll plan next year better and the following year better. So we're having great dialogues on that front. Of course, supply has risen quite a bit in the last year's supply of exabytes from the industry. The industry has reacted pretty well, but I think demand is still pretty strong. And my perspective on this is, I think, demand will stay strong for quite some time.

So in that kind of world, we're having great discussions with the customers further out in time. And the biggest part that helps us in our planning is through these product transitions. They know that's how they get more exabytes.

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

And Wamsi, we are saying in the script today that for the rest of the calendar year, and we expect revenue and profitability to continue to improve sequentially every quarter. So we are not implying in any way that this trend is changing, it's actually now getting better somehow.

Wamsi Mohan
Analyst, BofA Securities, Inc.
Q

Thank you.

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

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

Great. Good afternoon, guys. Thank you for taking my question, and congrats on these results, incredible. Dave, at your Analyst Day last year, you kind of pointed to a mid-20% exabyte growth CAGR. I'm just wondering where you think that supply growth can land this calendar year. And as you get closer to that HAMR crossover point later this year, like, does that pace of exabyte growth accelerate? And I'm just asking this because demand is clearly outpacing supply. So can you maybe just help us try to better understand the shape of your exabyte supply growth, because, obviously, it'll dictate kind of exabyte shipments for the year? Thank you very much.

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

Yeah. Thanks, Erik. So we are planning to transition to 4 terabytes per platter and fairly aggressively. But I think what people have to keep in mind is that we were fairly tight all throughout manufacturing. So we have products that are in the pipeline already that are committed to customers and so on. We don't just move very quickly to 3 terabytes or 4 terabytes per platter as things come. And it's a good problem to have actually, running manufacturing quite tight right now. So I think it'll be a fairly prescriptive ramp, to your point. It won't be as fast as maybe we've done some ramps in the past, but it'll be very profitable. And that's the way we look at it.

As we go further out in time, I'm very optimistic that the 4 terabytes per platter is a very strong product. It'll start to replace some of the other legacy products, I'll say that way, because it has so much better value proposition in a lot of those markets. And then, when that happens, then we see more opportunity.

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

Q

Great. Thank you, guys, and best of luck.

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

A

Thank you.

Operator: The next question will come from Asiya Merchant with Citi. Please go ahead.

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.

Q

Great. Thank you for taking my questions, and great results here. Just a couple that are related to the prior question. You guys get some projections on HAMR, not just for fiscal year 2026, but even into fiscal 2027. So if you could talk about upside to achieving those targets for the HAMR rollout. And related to that, how we should think about the blended cost reductions? Pretty impressive, again, margins here, and guiding for improved profitability. So if you could talk to us a little bit about the cost reductions going forward, especially as you ramp HAMR here with the Mozaic 4 for, that would be great. Thank you.

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

A

Yes, Asiya. So I would say, first of all, we are very happy with the transition to HAMR. We qualified the last big cloud service provider in US, and we have qualified six out of eight of the top cloud service providers. So the transition from PMR technology to HAMR technology is progressing very well, and we are now qualifying the new product, the 4 terabyte per disc or 40 terabyte per drive. Of course, this will help with the increase in exabyte in terms of mix. We gave a good indication, I think, at our Investor Day, and we want to be aligned to that. And the cost will be favorably impacted, especially when we start ramping high volume of the 40 terabyte drive. Of course, that will drive a fairly important reduction in cost per terabyte compared to the current HAMR, and, of course, will be a good contributor to further increase our gross margin.

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

Karl Ackerman
Analyst, BNP Paribas Securities Corp.

Q

Yes, thank you, Gianluca and Dave. I was hoping you could clarify what portion of your LTAs or overall nearline AGV capacity has fixed or multi-quarter pricing agreements? I ask because as these LTAs roll off throughout 2026, any new agreements will be locked in at higher values, reflective of not only the [indiscernible] (00:29:56) use case, but also widening price for terabyte gap between enterprise hard [indiscernible] (00:30:02) HDDs? Thank you.

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

And Karl, the second part of your question was a little fuzzy. So we captured the first part, but might ask you for clarity on that second.

Karl Ackerman
Analyst, BNP Paribas Securities Corp.
Q

Sure, yes, I'll just repeat it if I could. As these LTAs roll off throughout 2026, I would imagine those new LTAs will be priced at perhaps a higher value or higher order value given the widening gap between hard drives and SSDs. So if you can comment on the mix of LTAs and how do you think that progresses throughout 2026 would be great? Thank you.

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

Yeah, thanks, Karl. So, as we roll off, say, for example, somebody might have been qualified on a 2.4 terabyte per platter product or something, and then they might be qualifying a 3.2 terabyte or even a 4 terabyte per platter as we roll forward. So, based on the demand that we see and our available supply, we changed the pricing dynamic there. I think that's one of the biggest things you're pointing out. I'll say that 2026 is fairly booked. We talked about that in the call, to the extent that we can out-execute our plan, it'll be marginal, like you saw last quarter. We get the qualifications done a little faster. We ship a few more drives. That's how we can do better than plan. But other than that, it's fairly predictable in 2026, and we're looking to start 2027 the same way.

Karl Ackerman
Analyst, BNP Paribas Securities Corp.
Q

Thank you.

Operator: The next question will come from Jim Schneider with Goldman Sachs. Please go ahead.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC
Q

Good afternoon. Thanks for taking my question. I was wondering if you can maybe address, given everything you just said about demand and about the mix effect from HAMR this year, maybe can you give us any kind of directional guidance about where you might expect exabyte shipments to end up on a calendar 2026 versus calendar 2025 basis relative to the sort of the long-term targets you've laid out previously. It seems like you could do materially better than that, but I just wanted to confirm what your expectations were if you give us a numerical range? Thank you.

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

Hey, Jim. Now, we are not guiding calendar 2026, but, in our financial model, we said that we expect nearline exabytes to grow in the mid 20%. We have done it to be better, if you look over the last few quarters. And as Dave said before, we always try to extract as many exabyte we can from our manufacturing. So, we are continuing this trend, but we don't guide calendar 2026.

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

But moving from 2.4 terabyte per platter to 3 terabyte per platter to 4 terabyte per platter, you can see that we're on a trajectory like you described. When it gets down to the individual customer level, obviously we have to be very predictable because they need what they need and what we've committed to in order to build out that data center. So, we'll continue to execute that plan and maybe we can do a little bit better as we transition to 4 terabyte per platter.

Operator: The next question will come from Amit Daryanani with Evercore. Please go ahead.

Amit Daryanani
Analyst, Evercore ISI
Q

Good afternoon, everyone. Thanks for taking my question. I guess, Gianluca, I'm hoping you can talk a little bit about the March quarter guide, because there seems to be a really sizable uptick in gross margins. I think it's up like 250 basis points or 100%-plus incremental. Is there anything you would call out in March quarter that's unique that's helping drive that kind of margin expansion? And is this really all coming from the core HDD business, or is there a potential benefit from the old systems business helping you as well? Thank you.

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

Hey, Amit. Well, I would say, we expect to be a very good quarter. I don't think it's different than what we've done before. Now, it's always based on the pricing strategy and the mix. As you know, we qualified another customer on HAMR, so we will ramp a little bit more volume on HAMR, which is helping us to get better margins. But fundamentally, it's not really a difference in how we think we are going to execute the quarter, and it's good. Now, I think the incremental margin was very good.

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

Yeah. And it's not the systems business. The systems business is doing well, but it's fairly small scale in comparison.

Amit Daryanani
Analyst, Evercore ISI
Q

Got it.

Operator: The next question will come from Mark Newman with Bernstein. Please go ahead.

Mark C. Newman
Analyst, Bernstein Institutional Services LLC
Q

Yeah, hi. Thanks for taking my question, and congrats on big numbers today. Just want to touch again on the LTAs and pricing arrangements you have. Just curious, do you think there's an opportunity here for more significant price increases? In NAND flash, we're hearing things like 40% to 100%, up Q-on-Q, for some contracts. I appreciate hard disk drives – you have very long-term agreements, but I think there's a lot of questions I'd like to just touch on this as well. As the LTAs roll off, is that an opportunity for some of those to be repriced at a more significantly higher price to change the trajectory? Certainly, numbers are great. You're printing. We're just trying to figure out, could you start to see more significant price increases rather than – at the moment, you're seeing kind of flattish, down a little bit, up a little bit, but overall your average prices are flat, which I understand is a mixture of like-for-like slightly up, offset by new products coming in at lower price. Just wondered if that may change.

And then just a quick update on HAMR mix, if there's any update on the trajectory of the HAMR mix that you've outlined before? Thank you very much.

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

Thanks, Mark. A couple of points. On the HAMR mix, we necessarily constrained ourselves on the 3 terabyte per platter because the factories were fairly full, and we knew we would be going to the 4 terabyte per platter product. So, we have been leaning harder on that, making sure it gets to the development and qualification phases. As time goes on, then we'll move off and on to the 4 terabyte per platter very aggressively, so that helps you on the mix side. And the other thing about HAMR mix is it'll be necessarily mixed up. I think the demand for those products will be at the high-capacity points, not necessarily the lower capacity points just yet.

And then relative to pricing, I think I said before, as one long-term agreement rolls into the next year or the next year, we've satisfied our existing supply commitments, and people are looking at the new products, we have constrained supply of those new products, and we look at what the demand is, and we dictate where our pricing is. And one of the very first questions I said is it could be flat to up a little bit. That's the way I think about it right now, but it all depends on what the demand is. If demand continues very strong, that's great. And again, what we're seeing is people who can't get what they need today, they're saying, okay, I need to be able to plan my data center procurement out in the future. Let's get more predictable in the future. It's given us better visibility, helps us run our factories for better cost and so on, so that's great.

Mark C. Newman
Analyst, Bernstein Institutional Services LLC
Q

Thanks so much.

Operator: The next question will come from Krish Sankar with TD Cowen. Please go ahead.

Krish Sankar
Analyst, TD Cowen
Q

Hi. Thank you for taking my question. I had a question, I just want to put in two parts. One is, how much was your HAMR as a percentage of your exabyte shipment last year? How much do you expect it to be this year? The genesis of the question is I'm just trying to figure out, obviously, a lot of questions on the very strong gross margin. Is there a way to put it in three buckets, like how much of the gross margin upside is driven by pricing, how much is driven by product mix, how much is driven by cost reduction by offshoring manufacturing? Thank you.

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

Yeah, there's really no offshoring manufacturing or anything like that involved. Our manufacturing operations around the world are doing quite well and quite full. So, that's helping from a cost perspective, but really no change in any manufacturing strategy to speak of. Relative – I would say a lot of what the benefits we're seeing is mix, and mix not just because we're actually transitioning into better product over time, but also because the demand for those products is quite high. You think about it, if you're building a data center with a 3 terabyte per platter versus a 4 terabyte per platter, you're going to be running that data center for a long time. You want the higher capacity point. And to the extent that we can do that as predictably as possible, that mix is what's driving the stability out in the market for us and helping us plan.

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

Yeah, Krish, we don't give specific details on the impact of pricing mix and cost, but they're somehow interrelated. Now, the changing mix is helping with the cost reduction; and the supply-demand situation is, of course, supporting our pricing strategy. So, they are all very good contributor to the increase in gross margin. And as we said before, now this is going to continue through the calendar year.

Krish Sankar
Analyst, TD Cowen
Q

How much is HAMR as a percent of the mix?

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

Well, Dave gave an indication of the units that we shipped in last quarter, so I think you can fairly easily calculate that.

Krish Sankar
Analyst, TD Cowen
Q

Thank you very much. Thank you.

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

Thank you.

Operator: The next question will come from Steven Fox with Fox Advisors LLC. Please go ahead.

Steven B. Fox
Analyst, Fox Advisors LLC
Q

Thanks. Good afternoon. I guess I was just wondering on your mix question. Looking at your average capacity per drive being up 22%. Like, how much of that – like, obviously, the supply-demand environment has tightened over the last year. And in reaction to that, are you taking steps to accelerate that mix up as the customers pushed you that way? Like, I'm just curious how much you can control going forward now that we're here on even tighter supply to sort of help your customers in terms of absolute petabytes you're delivering?

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

Thanks, Steve. So yeah, the lead time out of the wafer fab is quite long. So we have to be predictable for our customers, say, six months, nine months later, so on and so forth. That's one of the reasons why we talk kind of a year at a time inside of these LTAs. So we start wafers based on what we know we're going to be able to deliver so that we're as predictable as we can be for our customers. If we're deploying manufacturing engineering resources, we're trying to get through these product transitions because that's what gets us the most exabytes after that. And so, mixing up is kind of our goal. So if that helps clarify what our strategy is.

Steven B. Fox
Analyst, Fox Advisors LLC
Q

It does. Dave. Just wondering, like, when you had your Analyst Meeting, you said that sort of a pretty well-defined timeline for node transitions. Maybe just can you give yourself a report card on how you're doing on some of those timelines if we look out now versus the next year or longer term?

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

Yeah. I think that's good. We're on the plan or slightly ahead. And again, most of that's under our control. We execute well and we've been executing well. Some of it's under our customers' control as well. And the behavioral changes we've seen in the customer I made reference to earlier, they're really pulling hard because they need more exabytes. And so, that helps get the quals done quickly. It helps roadmap alignment and then specific supply alignment which helps our factories, so.

Steven B. Fox
Analyst, Fox Advisors LLC
Q

Great. That's helpful. Thank you.

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

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

Yeah. Thanks for taking the question. Also, congrats on the results. I want to go back to gross margin. I know you talked a lot about the pricing dynamics and the visibility you have, but the thing that stands out to me is you've been executing on like a cost per terabyte of like a mid-teens year-on-year decline these last several quarters. As we roll out the 4 terabyte per platter Mozaic drives, how do I think about that cost downcurve? Is it mid-single digit? Can you sustain a double-digit? And wouldn't we expect the 4 terabyte per platter HAMR drive to actually maybe accelerate the cost down, given the ability to bring that into lower end other outside of nearline platforms? I'm just curious how you think about that cost downcurve?

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

Yeah. We're very positive on the 4 terabyte per disc in term of impact on the cost, as we discussed before. The unit costs tend to be fairly similar, but, of course, we are adding a lot of content per unit. So that will be a good help to reducing the cost and improving profitability. As you know, we are qualifying two major customers on this new product. So the time to finalize the qual and then ramp probably through the end of the calendar year and, for sure, well into the – the impact will be strong, I think, in the next calendar year, too.

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

A

And we plan on making a big transition to 4 terabytes per platter over the coming few years, and then getting to 5 terabytes per platter as well. We do add complexity as we make those transitions. But I'd say the first order of the things that dictate the speed of the ramp are our ability to go work, scrap and yields all through our supply chain and so on, and we're working very hard on that. I like the product. So I think it provide for a bright and stable future for us. We just need to stay focused on it.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Thank you.

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

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Thanks a lot. I want to ask about LTSAs. I think you said nearline capacity is allocated through 2026. So it sounds like both pricing and exabytes are locked in this year. But for 2027, I think you said something that I took that exabyte and pricing is not locked in, but you have some sort of agreement. So I guess I had two questions. First of all, is it right to assume that pricing is also locked in for all 2026? And what sort of agreement are you referring to for 2027 if volume and pricing is not locked in next year? Thanks.

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

A

Yes. For this calendar year, we said basically we have PO in place for all the quarters, so volume and pricing is well-defined. As Dave said before, if in a quarter, we can produce little bit more, of course we will sell those exabytes in the open market at a good profitability. But I would say, the vast, vast majority of the volume is already allocated. Calendar 2027, we will start working on that fairly soon. Of course, we have very good indication and agreement on volumes, but we have not fixed the price yet.

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

A

Yeah. And Tim, if this helps, so we haven't really started the longest lead time parts, but we will very soon for the start of 2027. We need to start having those discussions with our customers, which quals are we going to get through together with – what exactly is the plan, because a lot of them need predictability as well. So we'll have to build in our factories what – based upon how hard they want to pull on those new products.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Okay. Thanks.

Operator: The next question will come from Mehdi Hosseini with Susquehanna Financial Group. Please go ahead.

Mehdi Hosseini
Analyst, Susquehanna Financial Group LLLP
Q

Yes. Just a quick housekeeping item. Gianluca, your CapEx has been increasing on a Q-over-Q basis. How should I think about depreciation, especially since it did dip in the December quarter? Any color here will be great, looking forward.

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

Our CapEx is aligned to our target of 4% to 6% of revenue. We are actually at the bottom of that range. So, it's not increasing in term of what we want to achieve or what we said, of course, comparing to a period where we were more into the down cycle in terms of dollars, of course, is higher. We are supporting our HAMR transition and HAMR ramp. So I would say there is nothing different than what we said.

Mehdi Hosseini
Analyst, Susquehanna Financial Group LLLP
Q

I was just...

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

Yeah. I think the way I think about it as well, maybe, is that if you go back two years ago and you use that as a baseline, we were still significantly lower revenue, but also we were challenged on the supply and demand balance. Right now, we're in a totally different environment, of course. So, we'll probably stay well within the 4% to 6% range. But, as the revenue goes up, we'll spend a little bit more and probably the first priority is maintenance tools and the things that we weren't doing a couple of years ago.

Mehdi Hosseini
Analyst, Susquehanna Financial Group LLLP
Q

Apologies, I may have confused that. I was focusing more on depreciation given this, several quarters of increasing CapEx, should I expect a step-up in depreciation looking forward?

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

Depreciation will follow the CapEx. So, I guess you have your model on the revenue, so you can calculate the 4% to 6% of CapEx, and then depreciation for us is on a 10 years useful life, so you can probably model in that way.

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

It's not like some other fab. It's not necessarily the huge part of the cost drivers. There's a lot of other pieces of cost that we can go manage them.

Mehdi Hosseini
Analyst, Susquehanna Financial Group LLLP
Q

Got you. Thank you.

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

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Hi, guys. Good afternoon. Thanks for taking the question. Dave, while we have you, a little bit of a technical one. What kind of activity are you seeing at sort of the so-called warm tier of storage is the question that comes up a bunch in our conversations. We've heard that it's obviously growing. It's growing both hard drive and flash storage, is participating nicely, but would love to get your input on it because I think there's still – first of all, we'd love to know if what we're hearing is accurate. But secondarily, I think there's a lot of people that are assuming that really like it's becoming NAND tier and – largely a NAND tier in the Gen AI world. And anyway, just would love to get any context there that you have. Thanks.

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

A

Yeah. I think you have to be a little bit careful, Ananda. So, there are applications that are very memory-dependent that are attached to compute. And some of these applications are neat, I like them. When you start talking about big data storage, if you will, in data centers, the tiering architecture is fairly well set and probably won't change based on economics and also architectures that are well known, people know how to play. So, if the concept is that drives aren't working hard, they're in the background, just storing data, that's not a good way to think about it. That's not the way hard drives are being used right now. They're working 24/7. A lot of times they're optimized for performance themselves. Largely streaming performance, not random small block workloads. That's more of a memory thing. And so, if you had an application that's random small block, it's probably memory. If you have big data, it's probably a little bit of memory on the front end and a lot of hard drive on the back end.

There are applications across the entire spectrum, of course, but we think that in the future, when we start to talk about the concepts in their enormity about checkpoints and physical AI and video and things like that, it's large, large data, so that the architectural tier that stores the data will probably remain constant for the next decade.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

That's super helpful. I'll keep it there. Thanks a lot. That's great.

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

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Q

Yeah, hi. Thanks, Dave and Gianluca. Just a quick question on HAMR. I know you're ramping it faster in the March quarter. Should that drive a much better gross margin profile, I guess? And any thoughts on how we should see the margins improve, I guess, as HAMR starts to ramp? And I have follow-up.

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

A

Hi, Vijay. No, if you're referring to the March quarter, of course, a ramp of HAMR is included in our guidance, and our guidance is indicating a fairly good improvement in gross margin again. And then I said, for the rest of the calendar year, we expect both revenue and profitability to improve sequentially; and of course, part of that is coming from additional HAMR products.

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

A

We think demand will be strong for the 4 terabyte per platter, of course. And so, that's one of the reasons why we're making that a priority in the transition that we go through this calendar year and into next.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Q

Got it. Very helpful. And just a quick question also on the OpEx side, very nice, obviously, OpEx same time last year, somewhere in the 14% range, now is down to 10%. I know, Gianluca, you said probably that's a long-term target, but looks like, as Dave mentioned, with top line ramping up with all the design wins, it looks like OpEx could go down again. Is that fair, as a percentage of mix?

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

A

Well, I would say, no, we are getting closer and closer to our forced (sic) [forecast] target of 10% of revenue for OpEx. We are almost there. We should be there actually in the March quarter. And then, of course, we know that we (sic) [we won't] relax our cost control. We will continue to keep our cost control, and revenue is supposed to increase, so we can probably do a little bit better.

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

A

Yeah, I'm glad you asked that, Vijay, because obviously a few years ago, the tough times that we went through, we weren't investing in ourselves at the rate that I'd like. And of course, with the HAMR transition in front of us, that was a lot of work. Now that we've kind of cleared that HAMR transition, we can see the future fairly well. It's the clouds are parting, if you will, and we can see areal density opportunities in front of us and we will take that the money, such as it is, even staying within our same model. And we'll take that money and reinvest in ourselves so that we can continue to drive the areal density.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Q

Got it. Great. Thanks a lot, guys. Appreciate it.

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

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

Thank you, Nick. And thanks to everyone for joining us on the call. The Seagate team is executing very well, delivering on our financial targets and advancing areal density roadmaps, and successfully qualifying customers on our HAMR-based Mozaic products to address the sustained and growing demand for data storage. As data creation accelerates, driven by both traditional workloads and these emerging AI applications, Seagate's transformational technology positions us well to capture the significant demand opportunities ahead.

I'd like to thank our employees for their dedication and innovation, and our customers and suppliers for their trust and collaboration, and our shareholders as well for their continued support. Together, we're driving Seagate's ongoing success. Thank you.

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