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Seagate Technology Holdings Plc (STX)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Seagate Technology Fiscal Third Quarter 2026 Conference Call. All participants will be in 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 of Investor Relations. Please go ahead.

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 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 March 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 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, a reconciliation to the corresponding GAAP measures is not available without unreasonable effort.

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

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

William David Mosley

Chairman & Chief Executive Officer, Seagate Technology Holdings Plc

Thanks, Shanye, and hello, everyone. Seagate delivered a very strong March quarter, underscoring both the durability of demand and the leverage in our model. We grew revenue 44% year-over-year, achieved record gross margins, more than doubled non-GAAP operating income, and generated one of our highest ever levels of free cash flow at close to \$1 billion. Momentum continues to build for our Mozaic HAMR-based platforms, with two of the world's largest CSPs now qualified on our 4-plus terabyte per disk product. For both of these customers, qualification timelines were in line with PMR products, underscoring the maturity of the platform and our team's outstanding execution as we work to meet customers' accelerated demand requirements. Our strong FQ4

guidance issued today demonstrates our growing conviction in the business and future opportunities. As we look ahead, we see Seagate now entering a period of structural growth.

Our belief is rooted in three pillars. First is the sustainability of rising storage demand. AI-enhanced applications are accelerating data creation, expanding retention and increasing reliance on historical data sets for advanced reasoning. Extending beyond cloud data centers to the enterprise edge, these trends require storage solutions that deliver cost and energy efficiency at scale, making high-capacity hard disk drives essential to modern data center architectures.

Second is our strategic technology roadmap. Anchored by the Mozaic platform and HAMR innovation, we are delivering critical technology breakthroughs at the right time to support our customers' rising demand now and into the future.

Third is our proven strategy focused on converting demand into profitable growth and value creation. Our build-to-order model enhances demand visibility and supports pricing and supply discipline. Our HAMR-based product roadmap enables margin expansion as we scale, and our capital allocation framework enables us to leverage our earnings growth and cash flow generation into strengthening our balance sheet and enhancing shareholder returns over the long term.

The combination of these pillars, robust market demand, a proven technology roadmap and disciplined operational execution, is already driving performance ahead of the financial targets outlined at our analyst event a year ago. The progress we have made gives us confidence to significantly increase our annual revenue growth target from the low to mid-teens to a minimum of 20% over the next few years.

This confidence is reinforced by the strength of the current demand environment shaped by ongoing momentum from cloud investments. The March quarter marked our 10th consecutive period of revenue growth from cloud customers who have committed hundreds of billions of dollars in infrastructure CapEx investment to support their own long-term growth and AI transformations.

Using remaining performance obligations, or RPO, as a proxy for future revenue potential, the top three global CSPs alone have nearly doubled their RPO to a staggering \$1.1 trillion, a clear indicator of sustained growth ahead. Assurance of reliable supply is our customers' highest priority, particularly for nearline products, which accounted for close to 90% of total exabyte shipments in the March quarter. We have exabyte scale supply agreements in place with nearly all major cloud and hyperscale customers, with nearline capacity almost fully allocated through calendar 2027.

At the same time, we are finalizing build-to-order contracts with these customers through the end of fiscal 2027, which defines specific configuration and pricing. Our value-based pricing approach enables customers to plan with confidence while contributing to sustained profit growth for Seagate, and we are actively engaged in strategic planning discussions now reaching into calendar 2028 and beyond.

Today, AI sits at the center of nearly all customer demand conversations. We are in the midst of an inference inflection where compute infrastructure is shifting from periodic training to becoming engines that continually generate mass capacity data. Leading AI chat bots now handle billions of user prompts daily each consuming and producing multimodal outputs that fuel an unprecedented surge in data creation.

Agentic AI pushes this even further, transforming sporadic engagements into autonomous workflows that continuously ingest inputs, generate reasoning and store durable outputs that are dramatically increasing data

intensity and long-term storage requirements. AI is amplifying demand across existing applications such as video, where large cloud providers are integrating AI into platforms to boost user engagement and revenue opportunities, driving new video creation and the need to store it. We believe demand will further accelerate as AI applications move beyond the data center into the physical world, powering manufacturing systems, autonomous vehicles and robotics.

These physical AI deployments generate massive data streams from sensors, cameras and telemetry, with a single autonomous vehicle producing up to 4 terabytes per hour. A portion of this data is reused for simulation, validation and retraining, with retention requirements stretching 5 to 10 years to meet compliance standards. These inference-based applications are creating a growing need for both cloud and local storage. We have started to see interest from sovereign and neocloud data centers for our enterprise nearline drives and system solutions.

To manage these intensifying workloads, cloud and edge data centers deploy storage tiers that work in concert to optimize performance, cost, energy efficiency and data durability. Hard drives are critical to these modern data center architectures, delivering scalable capacity along with energy and cost efficiencies that form the foundation of the mass data storage tier.

Seagate's proven product portfolio makes us well-positioned to address this broadening opportunity set. Our technology strategy prioritizes areal density innovation over increasing unit volumes to address rising demand. Leveraging our technology strengths, we provide the most capital and manufacturing efficient path to scale while delivering improved cost and power efficiency per terabyte for our customers. This approach supports our goal to supply data center exabyte growth in the mid-20% range.

Our Mozaic 4+ platform is a prime example. As our second generation HAMR-based product, Mozaic 4 can deliver up to 44 terabytes per drive, over 30% more capacity compared to the first-generation Mozaic drives, which we achieved with the same number of disks and heads with minimal change to the bill of materials. Mozaic 4 also incorporates our internally designed laser and integrated photonic circuitry into the recording head. This innovation enables high volume, extreme precision manufacturing that enhances our ability to increase drive capacity and cost efficiency. We began revenue shipments for Mozaic 4 in late March, and based on current ramp plans, we expect Mozaic 4 to represent a majority of our HAMR exabyte shipments exiting calendar 2026.

We have shipped millions of HAMR-based drives, highlighting our ability to engineer with atomic level precision and then integrate that innovation into high volume exabyte scale. We work closely with customers to ensure our technology roadmap aligns with their future storage capacity and performance needs. Customer feedback consistently indicates that tiered storage architectures and software solutions meet their performance needs over the next few years. Capacity scaling remains their top priority and we are executing to plan.

Our Mozaic 5 product development is progressing well to plan to deliver capacities at 50 terabytes, with qualification shipments targeted for late calendar 2027. These drives leverage our advanced photonics expertise, internally designed laser and mature 10-disk platform to extend areal density capabilities. This approach offers customers a predictable path for addressing their future exabyte growth needs, as well as upgrade the storage capacity of their installed base while using the same power budget and floor space. And the momentum we've seen in qualifying Mozaic products continues to validate this approach.

Today, the vast majority of HAMR supply is allocated to cloud and hyperscale customers. However, as production scales, we expect to leverage 4 and 5 terabyte per disk capabilities to produce cost efficient, lower capacity products for enterprise data centers and edge IoT applications. This unified platform approach will simplify our

product portfolio, and enable manufacturing, supply chain and cost efficiencies to deliver strong economics for Seagate over the long term.

In summary, Seagate is entering a period of structural growth powered by durable demand, increasing adoption of our Mozaic-based products, and continued execution against the strategy designed to drive margin expansion, cash flow and long-term value creation. I want to thank our global team for delivering another strong quarter and recognize our suppliers, customers and shareholders for their ongoing support.

With that, I'll turn it over to Gianluca.

Gianluca Romano

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

Thank you, Dave. Seagate posted very strong results for the March quarter, exceeding our expectation for revenue, operating margin and earning per share, while setting new profitability records that reflects sustained data center demand. Additionally, we further strengthened our balance sheet by retiring \$641 million in gross debt and achieved free cash flow margin of 31%.

Revenue for the March quarter was \$3.1 billion, up 10% sequentially and up 44% year-over-year. We achieved non-GAAP gross margin of 47%, up 480 basis points sequentially, and we expanded non-GAAP operating margin by 560 basis points sequentially to 37.5%. Our result in non-GAAP EPS was \$4.10, up 32% quarter-over-quarter and 115% year-over-year. We shipped 199 exabytes in the quarter, up 39% year-over-year.

The data center market accounted for 88% of exabyte shipments and 80% of revenue, with strong demand contribution from both global cloud and enterprise customers. We shipped 175 exabytes into the data center market, up 6% sequentially and 47% year-on-year. Data center revenue increased even faster over the same period, up 12% sequentially and 55% year-on-year, totaling \$2.5 billion.

Cloud makes up the vast majority of data center revenue and capacity shipments. We are focused on ramping Mozaic to address growing cloud customer demand. In the March quarter, we shipped Mozaic drives for revenue to 75% of the leading global cloud customers. And we remain on track to complete qualification with the remaining two customers in the current quarter.

In the enterprise OEM data center market, we saw a notable sequential revenue increase, reflecting growing deployment of AI application along with renewed demand for hybrid and tiered storage architectures. This proven strategy, widely adopted by cloud and hyperscale customers, provides scalable and efficient infrastructure solution across all market conditions.

Our edge IoT market made up the remaining 20% of revenue at \$612 million, up 2% sequentially. In the client and consumer markets, tight supply and higher NAND cost offset the typical seasonal demand slowdown in the March quarter.

Moving on to the rest of the income statement, non-GAAP gross profit increased to \$1.5 billion, up 23% quarter-over-quarter and 87% compared with the prior year period, growing roughly twice the rate of revenue. Non-GAAP gross margin expanded to 47% in the March quarter from 42.2% in the prior period. This improvement reflects continued execution of our long-term pricing strategy along with improving product mix. Together, we drove a mid-single digit increase in year-over-year data center revenue per terabyte. We expect this trend to continue, support by a strong demand environment.

Non-GAAP operating expenses were in line with our expectation at \$296 million or 9.5% of revenue. The combination of higher revenue and expense discipline enable us to achieve our long-term target earlier than originally planned. As we effectively execute our strategy around advancing areal density, supply discipline and pricing, we delivered a 30% sequential improvement in non-GAAP operating profit to \$1.2 billion or 37.5% of revenue. Other income expense were \$62 million, reflecting lower interest expense on the reduced outstanding debt balance. We expect other income expense to remain relatively flat in the June quarter.

Non-GAAP net income grew to \$934 million with corresponding non-GAAP EPS of \$4.10 per share based on tax expenses of \$171 million and a diluted share count of approximately 228 million shares, including the net impact of our 2028 convertible notes.

Turning now to cash flow and the balance sheet, we invested \$161 million in capital expenditures for the March quarter or roughly 4% of revenue year-to-date. We expect capital expenditure for fiscal year 2026 to be inside our target range of 4% to 6% of revenue, with investments aimed at the ongoing transition and ramp of HAMR-based products.

Free cash flow generation expanded significantly to \$953 million, up 57% from the prior quarter, representing our highest level in over a decade. We expect free cash flow generation to improve further through the remaining quarter in calendar 2026, supported by sustained demand trends, operational efficiencies and capital discipline.

Cash and cash equivalents increased to \$1.1 billion at the end of March quarter, with ample liquidity of \$2.4 billion, including our undrawn revolving credit facility. During the March quarter, we returned approximately \$191 million to shareholders through dividend and share repurchases. We also retired \$641 million in debt, including over \$600 million of exchangeable senior note due 2028 using cash on hand. Our resulting gross debt balance was approximately \$3.9 billion exiting the March quarter. Year-to-date fiscal 2026, we have reduced gross debt by approximately \$1.1 billion.

Net leverage ratio improved to 0.7 times based on our adjusted EBITDA of \$1.2 billion for the March quarter, up 28% quarter-over-quarter and more than doubled year-on-year. We expect the net leverage ratio to continue declining as profitability and cash generation increase while we plan to further reduce debt. I'm pleased to share that Fitch recently upgraded Seagate's credit to investment grade, recognizing our strengthening balance sheet and profitability expansion.

Turning now to the June quarter outlook. Despite rising geopolitical tensions, including the ongoing conflict in the Middle East, we do not currently expect material impacts to the business. Our teams acted quickly to mitigate supply and logistic disruption, and we will continue to monitor this dynamic situation. Underlying demand fundamentals have not changed. AI is reshaping data into a strategic asset, accelerating our customer need for storage capacity at scale. We see strengthening exabyte demand and continue to execute our Mozaic product qualification alongside our pricing strategy.

With that as the context, we expect June quarter revenue to be in a range of \$3.45 billion, plus or minus \$100 million, which represents a 41% year-over-year improvement at the midpoint. Non-GAAP operating expenses are expected to be approximately \$295 million. Based on the midpoint of our revenue guidance, non-GAAP operating margin is expected to be in the lower 40% range. Non-GAAP EPS is expected to be \$5, plus or minus \$0.20, based on a tax rate of about 16%, and non-GAAP diluted share count of 231 million shares, including estimated dilution from our 2028 convertible notes of approximately 3 million shares.

Our financial performance and guidance demonstrate our focus on profitable revenue growth, alongside a product strategy designed to capture the significant opportunities ahead. Combined with the visibility gained through our customer agreements, we are confident in delivering quarterly revenue growth and margin expansion through fiscal 2027, positioning Seagate 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: We will now begin the question-and-answer session. [Operator Instructions] Our first question today is from Erik Woodring with Morgan Stanley. Please go ahead.

Erik W. Woodring

Analyst, Morgan Stanley & Co. LLC

Q

Awesome. Good evening, guys. Thank you. Thank you very much for the question and congrats on the results and guide. Dave, I was wondering if you could go a bit more into the detail on specific tailwinds to HDDs from agentic AI and, I guess, meaning like the broad tailwinds to HDD storage demand for multimodal models and physical AI is pretty clear, but it's less clear exactly what parts of the agentic workflow are ripe for HDDs. So, I guess my question is specifically how does agentic AI benefit HDD demand? And does that have any impact on how you think about that mid-20% nearline exit by CAGR you provided at Investor Day a year ago? Thank you.

William David Mosley

Chairman & Chief Executive Officer, Seagate Technology Holdings Plc

A

Thanks, Erik. Yeah, we are picking up confidence because of some of these new applications. I think it's important to realize that some of the applications, while important, are fairly small data applications. Some drive enormous data sets. And so when I think about agentic AI, I think about frequently asked questions. You're – rather than just periodically querying something, you're doing as part of workflow. And when you do that, you may actually reference enormous data sets to draw your conclusion and you may actually create new data that needs to be propagated out in the world. To the extent that that's unstructured data, video data, that's where it's actually hitting the storage tiers fairly hard. So, not entirely related to mass capacity storage but we're starting to see a lot of this pick up.

Operator: The next question is from Asiya Merchant with Citigroup. Please go ahead.

Asiya Merchant

Analyst, Citigroup Global Markets Canada, Inc.

Q

Great. Thank you for taking my questions and great set of numbers here. Congratulations. If you could just talk a little bit about cost reductions. Pretty impressive here. You guys are on the second generation Mozaic now. How should we think about these cost reductions. And if you could just update where you think you would be for HAMR. I think you said majority of them exiting, I think, fiscal 2026 if I heard that correct. But if you could just update us on where you are with the HAMR targets and the blended cost reductions we should expect as you ramp into the second generation. Thank you.

William David Mosley

Chairman & Chief Executive Officer, Seagate Technology Holdings Plc

A

Yeah, thanks. So, that's one of the reasons we try to change as little as we can platform to platform. It just – it de-risks the product transition but it also allows ourselves and our suppliers to leverage all the installed base as well. So, we're trying not to change as many parts as we possibly can.

Obviously, there are technology changes. Most of those are under our control in the heads of media. But right now, because of the momentum that we're seeing with the HAMR roadmap, we're seeing that we can get more areal density for fairly small changes inside of our portfolio. Most of it affects the laser and the photonic circuitry and the material set on the media like we talked about. So, all of this is not netting out to much of a bill of materials change, and therefore, we're getting a lot of the cost leverage.

Gianluca, do you want to expand on that?

Gianluca Romano

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

A

Yeah, I would say if you look our last several quarters, the cost reduction was coming from mainly two items. One is, for sure, the mix going to higher capacity drive, and second was the full utilization of our manufacturing. When they look into the future, of course now, we are full. So, that part maybe will not be so important in term of cost reduction, but our mix change continue to be very fast. We are going faster than what we were thinking on the transition to HAMR. And now that we have second-generation HAMR, now we have a very good increase in terabyte per unit, and of course, this is the driver not adding more bill of material to the hard disk. This is a main driver for the future cost reduction.

Shanye Hudson

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

A

And I think, Asiya, your second question was around where we stand in terms of HAMR. Dave had mentioned on the call that we would expect towards the end of this calendar year for Mozaic 4 to crossover with Mozaic 3, and then we remain on track for overall HAMR exabyte crossover at that time as well.

Asiya Merchant

Analyst, Citigroup Global Markets Canada, Inc.

Q

Great. Thank you.

Operator: The next question is from Samik Chatterjee with JPMorgan. Please go ahead.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Q

Hi, guys. Thanks for taking my question. Maybe on the pricing side, pretty strong price increase both on a year-over-year and quarter-over-quarter basis here. I know you sort of expect these pricing trends to continue. But just trying to think through why shouldn't we [ph] see (27:52) pricing maybe accelerate a bit as more new contracts come into play. As you go through sort of end of 2026 into 2027, why should – sort of how should we think about pricing and why should it sort of accelerate more as more new contracts come into the P&L from here on? Thank you.

William David Mosley

Chairman & Chief Executive Officer, Seagate Technology Holdings Plc

A

Yeah, thanks. The first way I think about it is what is the true demand, and I think the demand is rising, to your point, further out in time as we roll out of one LTA and into the next, then the market demand dictates what the economics. We talked about this a little bit in the prepared remarks about when we set exact capacity configurations, what products are qualified with what customers, and therefore, what price. As we've been rolling forward, though, we have the ability to out just a few more drives out of manufacturing or whatever. So, we can always test what that demand is and the demand keeps going up. And so, we're seeing what the market price, if you will, is. Our goal still is to try to lock in with our customers and give them predictability so that they have a great economics plan to build their data centers out, and we know what we're going to get paid for for what we start in our factories.

Gianluca Romano

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

A

Yeah, we have now finalized our build-to-order for our fiscal 2027. So, we see how the pricing is trending, I will say there are no changes to our pricing strategy. We are continuing to execute this strategy that allowed us to increase profitability for the last 12 consecutive quarters. And based on those orders that we have now finalized in term of mix, in term of pricing, in term of volume, we said that for the next four quarters or for the entire fiscal 2027, we are confident in saying that we have a good opportunity to increase our profit and our revenue sequentially through the fiscal 2027.

Samik Chatterjee

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: The next question is 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. I guess another question on agentic AI, and particularly as you think about the need for large scale data lakes and overall demand for persistent memory, is this changing perhaps your product structure roadmap? I know you announced a partnership with NVIDIA. Curious how this is augmenting kind of your product roadmap. And also, does this change kind of your thinking around supporting demand via only areal density improvements? Thanks so much.

William David Mosley

Chairman & Chief Executive Officer, Seagate Technology Holdings Plc

A

Yeah, it's an interesting question, C.J. I think architectures still are largely driven the same way they were a couple of years ago, which is – and we said this before, our customers want more capacity per spindle, and that's their highest priority. And so, we're still racing on areal density exactly to your point. There are a lot of conversations about performance tiers, can we get a little bit more performance out of the drive. And so for example, we've talked about this in the past. We had stacked actuator designs. In the past, we've shipped millions of those drives in the tens of exabytes range for performance tiers. And we can certainly pull those designs back down off the shelf. But I would still say, while those discussions are happening, the biggest driver for us is to get more capacity per drive.

Gianluca Romano

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

A

Yeah, on agentic AI, well, you need historical data for agents to reason and you need to store that data for compliance. So, we see those as huge benefit to our business.

C.J. Muse

Analyst, Cantor Fitzgerald & Co.

Thank you.

Q

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

Wamsi Mohan

Analyst, BofA Securities, Inc.

Hi. Yes, thank you so much. So, you generated almost \$1 billion in free cash flow, so over 30%-plus free cash flow margins in the quarter. And given your view that you're entering a new era of structural growth, how should we think about how you're going to deploy this cash beyond sort of the next 12 months, where I think you've said you're going to retire debt?

Q

And a quick clarification around pricing. When you say you have pricing locked in for fiscal 2027, how much of the capacity for fiscal 2027 has pricing been locked in and how much is sort of floating at the moment? Thank you.

Gianluca Romano

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

Yeah, we said the vast majority of our nearline capacity is allocated during the next four quarters. So, of course, it's not 100%, but is a very high percentage. On capital allocation, so in the last few quarters, we have focused a lot on reducing our debt, especially our convertible, because somehow that would have created even more dilution. We still have about \$400 million of the convertible that is open, but we will probably address this quarter or next. So, a little bit of reduction in debt, and then I would say the majority will probably go to share buybacks. Now we are active already today in the market and we will probably do more in the next few quarters.

A

William David Mosley

Chairman & Chief Executive Officer, Seagate Technology Holdings Plc

Yeah, Wamsi, I would say that last year, we were focused very much on working capital and just getting the supply chain back healthy again from what we went through. Now to Gianluca's point, we have to take care of some of the debt that we have. And I think the next place that we go to – exactly to your point, is back to where we were before, which is returning value to shareholders.

A

Wamsi Mohan

Analyst, BofA Securities, Inc.

Thanks, Dave.

Q

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

Krish Sankar

Analyst, TD Cowen

Yeah, hi. Thanks for taking my question. Dave and Gianluca, on the mid-20% exabyte growth, are you just increasing capacity per unit or are you actually increasing the units of head capacity? Thank you.

Q

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

A

Yeah. I would say capacity per unit is where our focus is. If you think about it, and a lot of people get this wrong in the – when thinking about hard drives, it's a very complex supply chain with many different suppliers coming in, and then there's our critical components that we control but they have very long lead times, not just for the capital to build more, but also for the product themselves – itself when it's inside the machines. And so therefore, it really needs to be well orchestrated in our supply chain. It's not like just plugging in a few more machines to get more capacity out.

Our people are very much focused on increasing the areal density, the amount that comes out of the entire fleet. That's the way we believe gets the most exabytes into the world. And if we took those people off and had them make more parts, to your point, we would probably net-net fewer exabytes over the next few years. So, we're very focused on, with the technology innovation that we see coming in front of us, continuing to drive those efficiencies. The customers benefit from those with energy efficiency and space efficiency and scale as well. So, this is in concert with our customers. This is the way we're driving and trying to be as aggressive as we can.

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

A

I would say the move to the second generation HAMR is giving us the opportunity to continue to grow and to achieve that target CAGR that we discussed about a year ago. And then after the second generation, we will have the third generation that Dave was mentioning in the prepared remark that is not too far in time from now. It's basically at the end of next calendar year. We will be already in qual with a 50-terabyte drive. So, that is our strategy and all based on technology transition and not on adding units.

Krish Sankar*Analyst, TD Cowen*

Q

Thank you.

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

Mark C. Newman*Analyst, Bernstein Institutional Services LLC*

Q

Hi. Thanks for taking my question and congrats on a great quarter. Just want to double click on pricing. It seems like on my math, your pricing per exabyte seemed to accelerate a bit something like mid-single digits Q-on-Q. And wanted to understand is that more from – is that more because you had a higher portion of new contracts signed this quarter versus previous quarters or was it just that the magnitude of the price increase on new contracts has gone up? I guess the reason for this question is we're just trying to get a sense of if this magnitude of price increase is going to continue every quarter going forward or was this because you had a number of new signs, and so perhaps, it was a bit higher than normal. We appreciate any kind of clarity you can give on the pricing dynamic. Thanks very much.

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

A

Yeah. We are not changing our pricing strategy. So as I said before, we have executed this strategy for a long time and we will continue to do the same. Every quarter is different. It depends on how many new contracts you have in the quarter, depend a lot from the mix also, how we move customers from one product to the next. But in

general, I'll say there are no changes in how we address our pricing strategy. So, we have done that for many quarters. And I said before, we have the same trend for the next four quarters for the entire fiscal 2027 and possibly even for longer.

Mark C. Newman

Analyst, Bernstein Institutional Services LLC



Thanks very much.

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

James Edward Schneider

Analyst, Goldman Sachs & Co. LLC



Good evening. Thanks for taking my question. I just wonder if you could just maybe frame for us a little bit – with a little more precision as we look out, say, towards the end of fiscal 2027, given your pricing visibility, would you characterize your price per exabyte growth year-over-year in those – for those longer-dated orders as sort of up low, mid or high-single digits year-over-year?

Gianluca Romano

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



Yeah, we probably don't guide so far in time. So as I said before, every quarter will be a little bit better, and we expect revenue improvement and we expect profitability improvement. A big part of the profitability improvement is coming from pricing but is also coming from the change in mix and the reduction costs that the 40-terabyte HAMR drive will give us.

William David Mosley

Chairman & Chief Executive Officer, Seagate Technology Holdings Plc



Yeah, Jim, that's the way I look at it, is there's new products coming, higher capacity products. And then we said this in the prepared remarks as well, the ability to address some of the lower price bands, if you will, with better products, fewer components in them, that's what areal density provides us and that's the way we think about it. So fundamentally, it will still come down to demand as we play out through 2027, to the extent that we can get up the ramp faster than we think on yields and get the scrap down and be able to address other people through completing the customer qualification of that products very – that allows us to get into those other markets very aggressively, and I think that's where we're focused.

And then whatever the ultimate demand is, we don't know, but we think it's pretty high relative to our supply as well. So, we'll continue to negotiate with customers to give them predictability and they'll determine what the price is.

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

Amit Daryanani

Analyst, Evercore ISI



Yes. Thanks for taking my question. I just have a question just on gross margins. And if I think about the Analyst Day, you folks talked about 50% incremental gross margin. It seems like a while back that happened. You folks are doing 70%-plus pretty consistently. Let's understand, is this outperformance kind of driven by pricing or mix or

shift to HAMR? And then importantly, is 70% incremental sort of the right framework to have as we go through the fiscal 2027 model?

William David Mosley

Chairman & Chief Executive Officer, Seagate Technology Holdings Plc

A

Yeah, I think it – I'll let Gianluca talk quantitatively here, but I think the – that strong demand is something that we even we weren't focusing on a year ago, to your point. And we've executed really well against that, maybe even better than I thought we would. We're pushing areal density really aggressively and the team has done a great job.

Gianluca Romano

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

A

Yes. No, we have executed better than what we were planning a year ago from different drivers. Now I say pricing was actually better. Mix was – mix transition was little bit faster. Now, we can leverage more on the 40-terabyte drive. So, I'll say, yeah, I'm looking at what we have done in the last few quarters and I don't see a reason why we should not do the same in the future, but of course, every quarter is different, so let's see what we can achieve.

Amit Daryanani

Analyst, Evercore ISI

Q

Perfect. Thank you, and congrats on a nice print.

Gianluca Romano

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

A

Thank you.

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

Aaron Rakers

Analyst, Wells Fargo Securities LLC

Q

Yeah. Thanks for taking the question. And maybe I'll stick with the P&L, kind of similar to Amit. When we think about the model you framed out at the Analyst Day, I'm curious, as we look into fiscal 2027 and given variable comp dynamics, how do we think about operating expenses? I think your prior target was to kind of maintain roughly 10% off extra revenue. Clearly, we're now breaking through that. So, I'm curious of how should we think about the OpEx trajectory going forward.

William David Mosley

Chairman & Chief Executive Officer, Seagate Technology Holdings Plc

A

I would say think about it as relatively flat. Obviously, if we see the need to go invest more for the technology to drive the technology even further, we can, but right now, I think our team is doing very well and we have a fairly big OpEx portfolio that we can readjust priorities inside of. So, I think the way I think about it is relatively flat.

Gianluca Romano

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

A

Yeah. Just to be sure, flat on a dollar basis, not as a percentage of revenue...

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

A

Right.

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

A

...as we discussed was in prior quarters. And as Dave said, no, this is a good level for us. And if we need to do something, we will do it, but right now, we don't see the need.

Aaron Rakers*Analyst, Wells Fargo Securities LLC*

Q

Yes. Thank you.

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

Timothy Arcuri*Analyst, UBS Securities LLC*

Q

Thanks a lot. I just wanted to clarify exactly what the message is on units. I know you and your peers stopped giving us units a few quarters back, but there was a big head supplier that did report last night. They guided heads up 40% year-over-year and they specifically indicated that it's demand from the US HDD guys. So, I know maybe some element of it is that you want to prioritize internal head capacity for HAMR, but how does that fit with the idea that you're not growing units or are you in fact beginning to grow units because of some of these new demand drivers? Thanks.

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

A

So, first quarter, Tim, no, we're still not growing units. I mean, inside of the mix, there may be more heads inside of the drives, right? So the average number of heads per drive, which we don't talk about very much, maybe increasing. It's not 20 heads, which is in the highest capacity drive that we have yet. And there's still quite a bit of the low capacity drives that are serving customers that are very important to us. So as we look across that blend, probably more heads and media going into the average drive is the way to think about it. The total number of units is not really increasing, and I don't think it will unless we see a resurgence at the edge, and so – and that may be over a long period of time.

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

A

Yeah. As you know, Tim, HAMR cycle time is a bit longer than PMR. So, we use a little bit of PMR heads just to keep the units as they are today. Otherwise, the units will actually go down.

Timothy Arcuri*Analyst, UBS Securities LLC*

Q

Thanks a lot.

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

Karl Ackerman*Analyst, BNP Paribas Securities Corp.*

Q

Yes, thank you. You spoke about how the Mozaic 4 platform will command 70% of your HAMR shipments by the end of fiscal 2027, but how quickly might HAMR exceed half of your total exabyte shipments? I ask because it seems to support favorable capital intensity. And as yields improve on HAMR, it seems easier and more economical for you to replace lower capacity data center edge hard drives with HAMR heads and media? Thank you.

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

A

Maybe let me clarify those percentages. Now, what we said is we will achieve 70% of exabyte, nearline exabyte built on HAMR drive by the end of calendar 2027 – actually by fiscal 2027, sorry. And by the end of this calendar 2026, we said the majority of HAMR exabyte, so inside the HAMR exabyte, will be 40-terabyte drives product versus a 30-terabyte drives product that we were building before. So, those are the percentages.

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

A

But still a quite aggressive ramp on Mozaic 4+, to your point. But I think the other way to think about it is our wafer fab is relatively full. And so therefore, everything spoken for, we're making sure we do that blend just right. We're not leaning too hard into the Mozaic 4 because the – some of the other product families are still doing quite well and needed for various customers.

Karl Ackerman*Analyst, BNP Paribas Securities Corp.*

Q

Thank you.

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

Vijay Raghavan Rakesh*Analyst, Mizuho Securities USA LLC*

Q

Yeah, hi. Thanks. Gianluca, just a quick question on the margins. Obviously, very solid margin pick-up in the quarter and the guide. Just wondering if there's a way to look at it on what's the impact from HAMR mix versus utilization or price, and how does – how this has changed with Mozaic 5, I guess? Thanks.

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

A

Yeah, I think as we continue to go up the curve and we can hold the line on new piece parts in the bill of materials, like we talked about before, and leverage as much technology that already exists, I think that's where we get the best cost leverage. And again, the technology and the heads of media are what fundamentally enables all of this. So, that's why we're investing very heavily. We get more exabyte output as well and that'll help drive margins. I think when you think about a 3-terabyte per platter or a 4-terabyte per platter or 5-terabyte per platter drive, that value into the data center is enormous. I mean, it's space efficiency, efficiency on all the parts around it for the – on a per terabyte basis, and then obviously, power and things like that. So, the customers lean very hard into those things. And that's why we – that's giving us great visibility, and as we drive that without adding too much incremental cost, I think that's why our margins are expanding.

Vijay Raghavan Rakesh*Analyst, Mizuho Securities USA LLC*

All right. Thanks.

Q

Operator: The next question is from Steven Fox with Fox Advisors. Please go ahead.

Steven B. Fox*Analyst, Fox Advisors LLC*

Hi. Congrats on the great quarter. I was just curious if this latest inflection point has anything to do with what seems like a rising cost differential between HDDs per gigabyte and NAND. And if it doesn't right now, could it, in the future, sort of help for a future inflection? Thanks.

Q

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

Thanks for your question, Steve. I say this all the time. NAND is a great technology. It has many niches that hard drives are not in. So, it's – and we need those niches to continue to grow because they serve data markets either on the ingest side or on the consumption side as well. But in the storage tiers that we largely talk about inside the data center, I don't see the architectures changing very much. If anything, because of the economics of what's going on right now, people are coming back to hard drives and saying what more can you do. And I think that was referenced to some of the earlier questions on the performance side. Is there something else that hard drives can do inside of their tier to make sure they're improving their performance. Again, we get driven very hard to just get more exabytes out. And I think the architects understand this really well. And I see these architectures pretty sticky for a long, long time into the future.

A

Steven B. Fox*Analyst, Fox Advisors LLC*

Great. Thank you.

Q

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

Ananda Baruah*Analyst, Loop Capital Markets LLC*

Yeah. Thanks, guys. Good afternoon. Appreciate you taking the question. Dave, I wanted to ask you, just going back to your remark a little while ago about using HAMR to go down to lower capacity points, is Mozaic 4, is that sort of the model that gets you to go down to 20-terabyte HAMR? And if so, like at what point of the Mozaic 4 ramp do you think that you guys might have an opportunity to do that? Thanks.

Q

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

Yeah, we had originally talked about it, Ananda, in that context, Mozaic 4 20-terabyte, if you will, with the 5 disk. I think the demand for Mozaic 4 at the high end is so high right now that as we look forward, I don't think you'll see very many of those. But we'll see how the market plays out over the next three, four quarters. Mozaic 5 obviously changes the economics again, and at some point, we're going to be able to readdress those markets in a very cost efficient way.

A

Gianluca Romano

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

Yeah, I will say...

A

Ananda Baruah

Analyst, Loop Capital Markets LLC

I got it.

Q

Gianluca Romano

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

... [indiscernible] (50:19) is a great strategy. The problem we have is demand is so strong in the public cloud that we don't have enough volume to also implement this lower capacity based – strategy based on the 4 terabyte per disk. So again, possibly, we will address it a bit later out in time.

A

Ananda Baruah

Analyst, Loop Capital Markets LLC

Yeah. So, the economics is so attractive at the higher end that it's not worth doing it yet. Got it.

Q

Gianluca Romano

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

Yeah. Yeah.

A

Ananda Baruah

Analyst, Loop Capital Markets LLC

Thank you, guys.

Q

Operator: The next question is from Tom O'Malley with Barclays. Please go ahead.

Tom O'Malley

Analyst, Barclays Capital, Inc.

Hey, guys. Thanks for taking my question. Reaching deep here, there's been a lot before here on the pricing and the contract side. But just if you look at the NAND industry and potentially DRAM as well, you're hearing more about potential prepayments over the course of a contract life. Are you guys seeing that in the market? And would you ever consider this as new contracts come up over the coming years and demand continues to grow, just given your production footprint? Would that be something you would consider in the future? Thank you.

Q

Gianluca Romano

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

Thank you, Tom. I will say right now, our free cash flow is very strong. So, we are not looking at prepayment in particular. I think we are mainly focused on predictability of the shipments and on optimizing our pricing strategy. Now, I don't exclude that in the future, we will maybe implement prepayments, but so far, we have not focused on that part.

A

William David Mosley

Chairman & Chief Executive Officer, Seagate Technology Holdings Plc

A

Yeah, Tom, we've really been going for demand predictability. The customers have to drive through important architectural transitions themselves. We have to drive through the product transitions. We have to make sure all that synced up. And so, that predictability is top of mind for us, not necessarily any other economics.

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

Chairman & Chief Executive Officer, Seagate Technology Holdings Plc

Thank you, Gary, and thanks to everyone who joined us on the webcast today. We're excited about the strong March quarter and the accelerating momentum building for our Mozaic technology platforms. As we enter this period of structural growth, we'll keep executing with discipline to expand margins, drive cash flow and build long-term value creation. Thank you for your continued support.

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

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